

# SOCIAL PROTECTION FOR A CHANGING INDIA

## VOLUME II



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# Acronyms

AABY	Aam Aadmi Bima Yojana
AAY	Antyodaya Anna Yojana
ACA	Additional Central Assistance
APL	Above Poverty Line
BPL	Below Poverty Line
CAG	Comptroller and Auditor General
CBO	Community-based Organization
CCT	Conditional Cash Transfer
CSS	Centrally Sponsored Scheme
CSO	Civil Society Organization
DEA	Department of Economic Affairs
DPC	District Planning Committee
DRDA	District Rural Development Agency
EPFO	Employees Provident Fund Organization
FCI	Food Corporation of India
FM	Financial Management
FPS	Fair Price Shop
GDP	Gross Domestic Product
GoB	Government of Bihar
GoD	Government of Delhi
Gol	Government of India
GP	Gram Panchayat
GoR	Government of Rajasthan
GoUP	Government of Uttar Pradesh
HD	Human Development
HH	Households
IAY	Indira Awaas Yojana
ICDS	Integrated Child Development Scheme
ICRISAT	International Crops Research Institute for the Semi-Arid Tropics
ICT	Information and Computer Technology
IEC	Information and Education Campaign
IRDA	Insurance Regulatory and Development Authority

JBY	Janshree Bima Yojana
LIC	Life Insurance Corporation of India
LPG	Liquified Petroleum Gas
M&E	Monitoring and Evaluation
MDM	Midday Meal
MEGS	Maharashtra Employment Guarantee Scheme
MFI	Micro-finance Institution
MIS	Management Information System
MKSS	Mazdoor Kisan Shakti Sangathan
MOLE	Ministry of Labour and Employment
MoRD	Ministry of Rural Development
NCEUS	National Commission on Enterprises in the Unorganized Sector
NFFWP	National Food for Work Program
NGO	Non-governmental Organization
IGNOAPS/NOAPS	Indira Gandhi National Old Age Pension Scheme
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
NRLM	National Rural Livelihood Mission
NSAP	National Social Assistance Program
NSS	National Sample Survey
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
OBC	Other Backward Classes
PDS	Public Distribution System
PEM	Public Expenditure Management
PEO	Performance Evaluation Office
PFMA	Public Financial Management and Accountability
PMGY	Pradhan Mantri Gramodaya Yojana
PMT	Proxy Means Test
POS	Point-of-service
PRFDA	Pension Fund Regulatory and Development Authority
PRI	Panchayati Raj Institution
RBI	Reserve Bank of India
RSBY	Rashtriya Swasthya Bima Yojana
RD	Rural Development
SC	Scheduled Caste
SFC	State Food Corporation
SGRY	Sampoorna Grameen Rozgar Yojana
SGSY	Swarnajayanti Gram Swarozgar Yojana
SHG	Self-Help Group
SJSRY	Swarna Jayanti Shahari Rozgar Yojana
SP	Social Protection
SRM	Social Risk Management
ST	Scheduled Tribe
ULB	Urban Local Bodies
UTI	Unit Trust of India
UWEP	Urban Wage Employment Program
VAMBAY	Valmiki Ambedkar Awaas Yojana

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## Executive Summary



# Executive Summary

## A. THE SOCIAL PROTECTION CONTEXT IN INDIA

INDIA'S SURGE IN GROWTH AND RAPID EXPANSION IN PUBLIC SPENDING IN THE PAST DECADE HAS CREATED NEW POSSIBILITIES FOR ITS SOCIAL PROTECTION SYSTEM. The growing importance of social protection (SP) is reflected in the Government of India (GoI) Common Minimum Program and 11<sup>th</sup> Five Year Plan which commit to institutionalization of programs as legal rights (as in the case of public works, through the National Rural Employment Guarantee Act), continued upscaling of interventions (e.g., social pensions and midday meals), and proposals to expand new types of SP interventions to the large unorganized sector (e.g., social security). Increased resources and political priority for social protection are at the core of India's 11<sup>th</sup> Plan commitment to a more inclusive growth model.

IN ADDITION TO PRESENTING OPPORTUNITIES, INDIA'S GROWTH HAS RAISED EXPECTATIONS FROM THE POPULATION

OF THE SOCIAL PROTECTION SYSTEM. India's SP system is one which has the resource base and institutional capacity of a lower-middle income country, but expectations from its population and the political establishment that increasingly approach those of a middle income power. Matching fiscal and institutional capacity with societal expectations will be a major challenge for policy makers in the coming decade. While sustained spending increases on SP have been seen in recent years and should continue to be possible with robust growth, a challenge will be to avoid the growth dividend being diluted on programs which do not effectively address the needs of India's poor.

WHILE THE INDIAN ECONOMY HAS UNDERGONE A SEA-CHANGE SINCE THE 1970s, THE COUNTRY'S SOCIAL PROTECTION POLICIES AND IMPLEMENTATION PRACTICES HAVE ONLY IN VERY RECENT YEARS BEGUN AN OVERDUE TRANSITION. Social protection systems need to evolve to meet the needs of their populations and developments in the economy. In this respect, the policy mix of the SP system has until very recently been to a significant

extent founded on the needs of the India of the 1970s.<sup>1</sup> This was a period when around half the population was chronically poor, the country was in aggregate food deficit and importing grains, private market channels for grains were very under-developed, the financial and banking infrastructure had minimal rural penetration, growth was consistently low, technologies available for program administration were rudimentary, and only around one fifth of the population lived in urban areas. In much of the country, the scenario is quite different to the 1970s, which creates new opportunities to realize significant equity and efficiency dividends from SP reforms.

WHILE POVERTY HAS GRADUALLY REDUCED IN RECENT DECADES, VULNERABILITY REMAINS HIGH, NEW SOURCES OF VULNERABILITY HAVE EMERGED, AND THE DIVERSITY OF NEEDS AMONG THE POOR HAS INCREASED. Since the 1970s, the poverty headcount has fallen from around one half of the population to closer to one quarter, though poverty rates remain significantly higher in several lagging states. With increasing urbanization, the share of the urban poor in total has also increased, particularly in small and medium towns. In addition, a large proportion of households, both poor and non-poor, may be vulnerable to poverty even though they may not be currently poor. Variability of incomes and coping with recurring shocks are a common feature, especially among poor households. Despite these developments, SP spending remains focused on programs to alleviate chronic poverty, and focused overwhelmingly on rural areas. Divergence in income and social indicators across and within states has also increased the diversity of social protection needs in different parts of the country, including growing needs among the urban poor.<sup>2</sup> Basic subsistence needs and services remain the priority in some areas, while other areas are facing second generation challenges of expanding SP instruments to deal with economic modernization, and the new risks and vulnerability it brings.

THE AUTHORITIES AT CENTRAL AND STATE LEVELS RECOGNIZE THE NEED FOR A MORE EFFECTIVE AND RELEVANT SOCIAL PROTECTION SYSTEM, AND THERE HAS BEEN CONSIDERABLE INNOVATION ON SP POLICY AND DELIVERY SYSTEMS IN RECENT YEARS. The period since the mid-2000s has been

one of considerable dynamism in the SP arena in India when compared to the preceding decades. Notably, MGNREG represents a qualitative leap in the design and execution of public works, a commitment which has been matched with massive resources. While still in an earlier stage of development, the RSBY health insurance program for BPL households is path-breaking in its design and has pioneered approaches to delivery which provide a model for other public programs. There has also been overdue but increasing recognition that some parts of the SP system have serially under-delivered and need fundamental overhaul, as seen for example in the reforms of SGSY under the aegis of the National Rural Livelihoods Mission and the ongoing debate on the PDS in the context of the Food Security Bill.

HOWEVER, WHILE THE MOMENTUM OF SP REFORM HAS BEEN POSITIVE IN RECENT YEARS, THERE IS A STRONG NEED TO TAKE THE LESSONS OF SUCCESS FROM INDIVIDUAL PROGRAMS AND FROM THE EXPERIENCE OF STATES AS A BASIS FOR MORE FUNDAMENTAL TRANSFORMATION OF THE SP SYSTEM IN ITS RELEVANCE, EFFICIENCY AND WELFARE IMPACTS. Despite recent progress, India is not getting the “bang for the rupee” that its significant expenditure would seem to warrant, and the needs of important population groups remain only very partially addressed. This has several elements. Firstly, PDS continues its long term pattern of consuming large resources with huge inefficiencies and leakage, and “promotional” SP programs (e.g., SGSY) have not performed as expected in much of the country. Secondly, the needs of the growing number of urban poor remain inadequately addressed, and initiatives such as JNNURM have not proven effective in reversing the situation. Similarly, the system is largely unprepared to address the needs of mobile populations, a group which is likely to continue to grow as economic reforms deepen. Thirdly, identification of the poor people who the SP system seeks to prioritize remains problematic, with major issues in design and implementation of the BPL system. Fourthly, execution is a perennial challenge and one where progress is slow. Innovations in delivery systems in terms of ICT use, increased social and community engagement, and other features remain piecemeal, both in program terms and geographic penetration. However, this variable SP program

1 Saxena (2006) documents the evolution of programs since the 1960s.

2 See the World Bank's India Poverty Assessment (2011) for evidence on divergence across the country in key indicators.

implementation experience across states offers valuable lessons for the future.

IT THUS SEEMS TIMELY TO LOOK AT WHERE INDIA'S SP SYSTEM HAS COME FROM, WHERE IT STANDS, AND WHERE IT MIGHT BE EXPECTED TO MOVE IN THE COMING DECADE. The report deals with two key elements of India's social protection system: safety net policies and programs, and social security for the unorganized sector.<sup>3</sup> It has been prepared at the request of Government of India, which requested a review to assess which SP programs work best, which are less effective, identify gaps and overlaps, and suggest reform options. In response, the objectives of the report are to: (i) review trends in poverty, inequality and vulnerability in India; (ii) evaluate SP program performance – including both safety net programs and social security for the unorganized sector - according to: (a) a coherent social protection policy framework; (b) empirical indicators of performance, including awareness, coverage, adequacy and benefit incidence, and (c) financing, administrative, and institutional systems; and (iii) provide recommendations for improving the ability to reach the poor with more effective public spending, private participation and stronger administration.

THE REPORT DRAWS ON EXISTING AND NEW DATA SOURCES, including analysis of: (i) administrative data; (ii) several rounds of the National Sample Survey (NSS) data; (iii) the 2004/05 Human Development Profile of India survey (undertaken by NCAER and the University of Maryland), which included a World Bank-financed safety nets module and was representative nationally and for major states; (iv) a social protection survey (SPS) undertaken for this report in 2006 in rural areas of Orissa, Madhya Pradesh and Karnataka; (v) dedicated surveys on social pensions in Karnataka (KSPS) and Rajasthan (RSPS) in 2005 and 2006 respectively; (vi) a living standards survey conducted in Jharkhand in 2005 (JLSS).<sup>4</sup> In addition, the report incorporates a rich body of secondary sources on SP program performance and impact by national researchers and Government agencies.

## B. THE FRAMEWORK FOR LOOKING AT THE SP SYSTEM

THE REPORT ORGANIZES THE DISCUSSION OF SP POLICIES AND PROGRAMS ACCORDING TO TERMINOLOGY WIDELY USED IN INDIA.<sup>5</sup> THE THREE MAIN PILLARS OF SP PROGRAMS IN THIS TYPOLOGY ARE:

- ◆ **“promotional” measures**, which aim to improve incomes, both in the short to medium term (through livelihood interventions) and in the longer run (through human capital interventions). In the context of this report, the key programs in this area are SP interventions to support investments in human capital (e.g., stipends; midday meals; conditional cash transfers), and targeted credit and livelihood programs for the poor (see Chapter 4). Public works programs can be viewed as a hybrid of promotional and preventive measures.
- ◆ **“preventive” measures**, which seek to avert deprivation prospectively by supporting households to manage different risks and shocks ex ante. The main focus in the report (Chapter 5) in this pillar is on public social insurance programs for the unorganized sector.
- ◆ **“protective” measures**, which provide relief against deprivation ex post to the extent that the other two sets of measures fail to do so. This could address those falling into poverty as a result of shocks, and/or for the chronically poor. The main public programs within this pillar in the report are PDS, social pensions, and targeted housing programs for the poor (see Chapter 3). In the private arena, such strategies would include sale of household assets, reduction in consumption, running down savings, or taking children out of school.

THIS TYPOLOGY IS SIMILAR TO THE SOCIAL RISK MANAGEMENT (SRM) FRAMEWORK COMMONLY USED BY THE WORLD BANK

3 While labor market policies are an important element of social protection, they are not the focus of this report. For a recent study on labor market trends and policies in India, see Ahmed and Narain (2010).

4 Annexes 1 and 2 give details of the HDPI and the SPS surveys. The HDPI survey data is publicly available at <http://www.icpsr.umich.edu/icpsrweb/ICPSR/studies/22626>, see also Ajwad (2006) and Dev et al (2007).

5 Drèze and Sen (1989); Guhan (1994); See also Gentilini (2005) for a discussion of these concepts. In the following discussion, “social protection” refers to policies and programs under all three of these pillars; “safety nets” refer to protective and promotional measures largely; “social assistance” refers to protective programs only; and “social insurance” and “social security” are used interchangeably to refer to insurance-based programs.

AND FAMILIAR INTERNATIONALLY.<sup>6</sup> The SRM approach is based on the insight that individuals, households and communities are exposed to multiple risks, both covariate and idiosyncratic, and that the poor are particularly vulnerable to the manifestation of these risks in the form of shocks. Social risk management strategies can be grouped into three broad categories, each of which involves a mix of reliance on public interventions, informal arrangements, and market-based approaches: (i) risk prevention strategies, which seek to reduce the probability of adverse shocks occurring. Such strategies may be at the macro level, such as labor policies which increase employment growth, or investments at household level in human capital or livelihood promotion; (ii) risk mitigation strategies, which help to reduce the impacts of shocks ex ante when such shocks are unavoidable. The classic example of this is insurance against low income in old age, or health insurance in the inevitable event of serious health events; and (iii) ex post “risk coping” strategies, which seek to mitigate the impacts of shocks after they have occurred, which would classically be social assistance programs, whether in kind or cash.

## C. KEY FINDINGS

WHILE INDIA’S RANGE OF SOCIAL PROTECTION PROGRAMS IS IMPRESSIVE FOR A DEVELOPING COUNTRY, THE SP SYSTEM IN SPENDING TERMS AND PRIORITIES REMAINS STRONGLY FOCUSED ON PROTECTIVE PROGRAMS TO MITIGATE CHRONIC POVERTY, AND ON RURAL AREAS. This can be seen in Table 1. While a primary focus on protective interventions is understandable, the policy mix of the SP system has not to date responded to the evolution of living standards as much as might have been expected. There are three areas where the evolution of SP programs and spending has been less and/or later than one might have expected:

- ◆ *insurance-based interventions remain in their infancy in terms of coverage of the unorganized sector, though RSBY is an exciting and rapidly expanding initiative which can provide a way forward.* Expanding informal sector coverage of social insurance is a challenge that India has had relatively limited success with until very recently, despite a series of central and state-

**Table 1: Major central social protection schemes, 2009**

Scheme	Type	Description	Allocation (2009/10) (₹ crore)	Primary objective; benefit (cash/food)
Public Distribution System (PDS)	Subsidized food and fuel distribution	Subsidized wheat and rice, plus kerosene and sugar in most states. Level of subsidy varies according to whether APL, BPL, AAY or Annapurna household (see Chapter 3).	42,490 for food;  2,866 for kerosene/LPG	Protective  Food/fuel
Mahatma Gandhi National Rural Employment Guarantee (MGNREG)	Self-targeted public works	Unskilled and low skill public works. MGNREG guarantees 100 days employment per rural HH per year in all districts. SGRY had aimed for 100 (non-guaranteed) days in rural districts, with a cash and food component. After 2006 SGRY was limited to non-MGNREG districts, but was discontinued in 2008 (see Chapter 4).	MGNREG:  30,100	Protective (and preventative)  MGNREG: Cash (formerly food and cash under SGRY)
Swarnajayanti Gram Swarozgar Yojana (SGSY)	Targeted credit scheme for groups and some individuals	Subsidized lending from banks to groups of BPL people, with allowance for some individual lending, and small APL share in groups (see Chapter 4).	2,115	Promotional (short to medium term)  Cash (credit)

<sup>6</sup> See Holzmann and Jorgensen (2000) for an elaboration of the SRM framework.

Scheme	Type	Description	Allocation (2009/10) (₹ crore)	Primary objective; benefit (cash/food)
Indira Gandhi National Old Age Pension Scheme (IGNOAPS)	Non-contributory social pensions Annapurna	Monthly cash benefits for BPL elderly (originally called NOAPS until renaming to IGNOAPS and expansion in 2007), and state schemes for widows and disabled people (since 2007 also included in the central Indira Gandhi pensions program) (see Chapter 3).	5,109	Protective  Social pensions: Cash Annapurna: Food
Indira Awaas Yojana (IAY)	Targeted rural housing	Subsidies for rural BPL with inadequate housing for housing construction (see Chapter 3).	7,920	Protective  Cash for housing
Midday meals	School feeding program	Hot meal for children in grades 1-8 in government and aided schools (see Chapter 4).	8,000	Promotional (long term)  Food
Schools stipends	Stipends for school enrollment	Some central and some state schemes for various target groups, including SC, ST, some categories of girls, disabled	–	Promotional (long term)  Cash
Rashtriya Swasthya Bima Yojana (RSBY)	Subsidized and targeted health insurance	Subsidized health insurance for hospitalization for BPL households (and MGNREG) in 26 districts (see Chapter 5).	350*	Preventative  Cash
Aam Admi Bima Yojana (AABY)	Life/disability/accident insurance for BPL	Free insurance covers natural death, disability and accident for rural landless households (see Chapter 5).	–	Preventative  Cash
Social insurance for unorganized workers	Subsidized social insurance	Variable by state, though central welfare funds for select sectors (e.g. beedi workers) (see Chapter 5).	270	Preventative  Mixed
Specific urban anti-poverty programs	Targeted urban housing (VAMBAY) and employment for the poor (SJSRY)	Housing construction and upgradation for slum dwellers, and wage and self-employment programs for unemployed or underemployed urban poor (see Chapter 3).	535	Protective  Cash

Source: See Table 2.1, Chapter 2. \* RSBY allocation refers to 2008/09.

specific schemes. This has been a product of poor design, inadequate attention to institutional and implementation arrangements, and a “start-stop” approach to new initiatives. Of course, such expansion is not easy, and many developing countries have struggled to expansion social insurance coverage in the face of large informal sectors.<sup>7</sup>

◆ *promotional interventions in the public sector continue to receive relatively little emphasis, particularly given the continuing challenges in improving human capital outcomes.* Overall, safety nets in India remain primarily “nets” rather than “ropes” or “ladders” which seek to promote sustained movement out of poverty.<sup>8</sup>

<sup>7</sup> See O’Keefe and Palacios (2006) for a discussion of international experience.

<sup>8</sup> See Pritchett et al. (2002) for a discussion of these distinctions.

- ◆ **other than PDS, SP interventions in urban areas are negligible and even more strongly biased towards protective interventions.** With the combination of urbanization and slower rates of urban poverty decline, the urban poor are a growing share of all poor people. Despite this, per capita SP spending on the poor remain heavily biased towards rural areas, and the promise of JNNURM as a vehicle for transforming the situation in this regard has to date failed to be realized in any significant measure.
- ◆ **there remains a strong emphasis on food-based support** which is subject to major governance and implementation problems and which is of questionable relevance for many among the poor whose non-food spending needs are an increasing source of pressure. At the same time, food programs remain important for certain groups, in certain chronic food deficit areas and at certain times in other areas. These issues are currently being debated in the context of the Right to Food legislation.

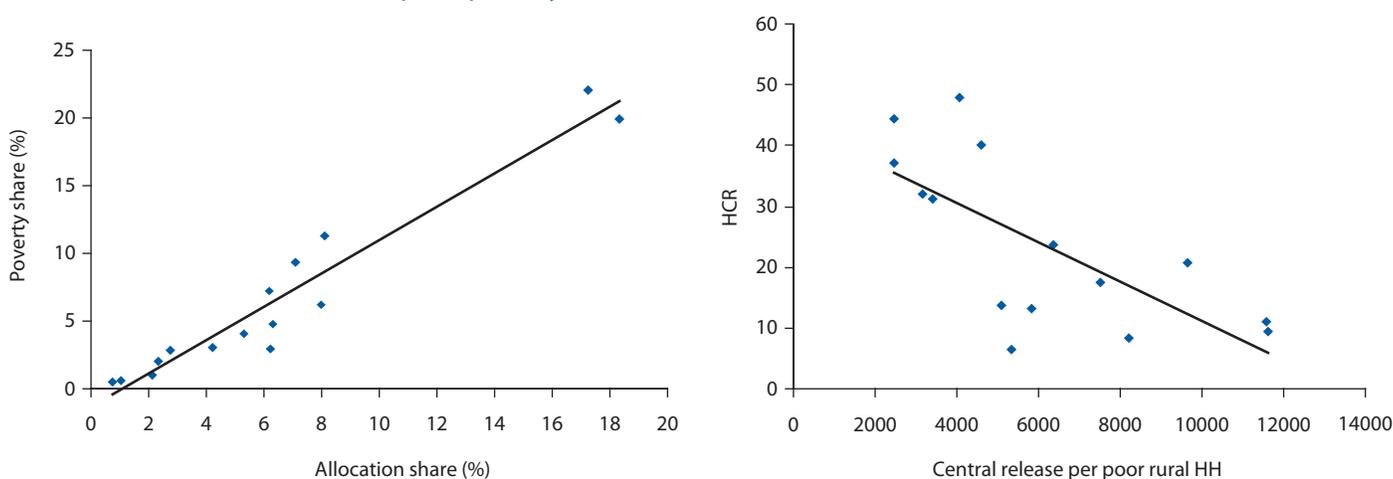
BE HOPED FOR A VARIETY OF REASONS. In household terms, in 2004/05, total spending allocated per poor rural household nationally on major CSS SP programs was significant, at around ₹9065 (about 40 percent of the annual rural poverty line) Despite this, impacts on the poor as measured by survey-data appear to be much lower. A first reason for this is that the absorptive capacity of poorer states is typically low. They are not able to utilize all funding available given limitations in administrative capacity. SP CSS allocation formulae are redistributive, however, providing more funds to states which have higher poverty, but which have the lowest capacity to spend effectively. This results in pro-poor allocations with regressive actual releases of SP funds across states (Figure 1). Such patterns are then exacerbated at the sub-state level in many cases, and finally at the household/delivery level through misidentification of beneficiaries, and a range of implementation problems.

IN PROGRAMMATIC TERMS, THE MAIN DRIVER OF POOR COST EFFECTIVENESS AND IMPACTS OF INDIA'S SAFETY NET IS ITS LARGEST PROGRAM – THE PUBLIC DISTRIBUTION SYSTEM (PDS). While it consumes almost 1 percent of GDP and has wider coverage than other safety net programs - between 20-25 percent of the population in the mid-2000s based on actual drawing of grains by beneficiaries, and closer to 40 percent based on administrative numbers on BPL households - its impact on the poor is very limited in many states, particularly a number of lagging states.

### (a) Safety nets

WHILE INDIA SPENDS SIGNIFICANT RESOURCES ON ITS CORE SAFETY NET PROGRAMS – OVER 2 PERCENT OF GDP IN RECENT YEARS – THE RETURNS TO SPENDING IN TERMS OF POVERTY REDUCTION HAVE BEEN MUCH LOWER THAN COULD

Figure 1: Correlation between major CSS SP program share in total allocations (LHS) and releases (RHS) by state and state share of total poor/poverty rate, 2004/05



Source: Gol, various years for program expenditure; Sen and Himanshu (2007) for poverty estimates.

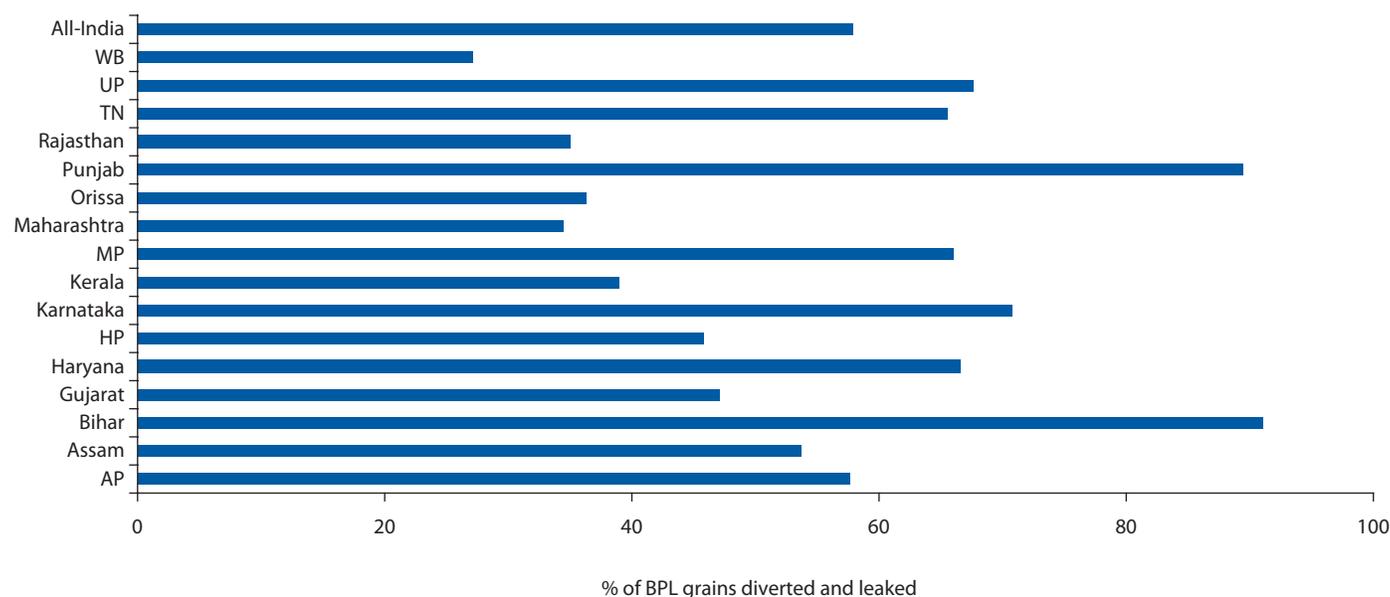
Notes: Programs included: PDS, SGRY/NFFW, SGSY and IAY. HCR refers to head count poverty rate.

This is due to a combination of high leakage of grains (estimated by the Planning Commission to be around 58 percent nationally in the early 2000s and even higher based on estimates using NSS data), a range of demand and supply side issues in program design and implementation, and considerable leakage of subsidies to the non-poor. Although many of the shortcomings of PDS and its very poor performance have been known for some time, it continues to absorb substantial public resources with limited benefits for the poor. This limits the fiscal options for more effective SP interventions in the absence of PDS reform (See Chapter 3). At the same time, there have been a range of state-level initiatives, national-level pilots, and proposals to improve the functioning of PDS which have merit. In recent years, there has been increasing recognition of the need for reforming the PDS as evident by the findings of the Wadhwa Committee report and the ongoing debate around the Right to Food legislation and the recent proposal in the 2010/11 Economic Survey in favor of direct subsidy (through food coupons) as opposed to the current indirect subsidy.

THE MOST HERALDED REFORM OF SP PROGRAMS IN RECENT YEARS HAS BEEN THE INTRODUCTION OF THE MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT

GUARANTEE ACT (MGNREGA) IN 2006. In philosophy, this is a major innovation in taking a rights-based and demand-driven approach, guaranteeing all rural households up to 100 days public works employment per year at the agricultural minimum wage. The program also has a host of implementation innovations (e.g., social audits by communities of performance; a structured role for PRIs in implementation; closer attention to the staffing needs at lower levels of the system) which provide a model for future reforms of other SP programs. Administrative data and field studies suggest both significant successes relative to previous public works programs (e.g., high coverage of rural households, with impressive inclusion of SC/ST and women workers) and many challenges in translating improved program design into outcomes for the poor, such as, matching demand for work with the administrative demands of opening worksites; aligning piece rate compensation with the minimum wage requirement; strengthening mechanisms for community participation in works identification and oversight. The diversity of implementation experience across states provides a rich opportunity for cross-state learning to achieve better and more transparent impacts. A number of innovations in MGNREG design – including social audits – seem worthwhile to mainstream in other anti-poverty programs.

Figure 2: Diversion and leakage of BPL PDS grains (as % of total) by state, early 2000s



Source: Planning Commission, Gol.

## (b) Social security for unorganized workers

INSURANCE AND PENSION PROGRAMS ARE LESS DEVELOPED RELATIVE TO SAFETY NETS AND COVER FEWER THAN TEN PERCENT OF THE LABOR FORCE. Despite repeated attempts to introduce new programs for unorganized sector workers over the years, insurance against life's major shocks such as health, old age, disability and death has not been available to the vast majority of the population. Recognition of this public policy gap led to the passage of framework legislation in December 2009 and the creation of a Social Security Board.

THE MOST PROMISING EFFORT IN THIS AREA IS THE TARGETED HEALTH INSURANCE SCHEME KNOWN AS RASHSTRIYA SWASTHYA BIMA YOJANA OR RSBY. This program now provides insurance for hospitalization for more than forty million poor people and is growing rapidly. The RSBY may be the first social sector program in India that simultaneously takes into account the perspective of the poor, focuses on getting the incentives of the various players that have to deliver the benefits right and encourages changes over time based on evidence. The experience of the first year or so has been positive, particularly in terms of demonstrating that the target population can be reached (despite the poor quality of the BPL list). However, in no country has such a large health insurance scheme operated without the oversight of a specialized agency. Setting up this agency is the key short run challenge for the RSBY.

IN ADDITION TO THE RSBY, A NUMBER OF IMPORTANT CHANGES TO THE SOCIAL SECURITY LANDSCAPE APPEAR TO BE UNFOLDING BOTH IN TERMS OF PROGRAM DESIGN AS WELL AS DELIVERY. The 2010 Budget includes a budget to finance a matching contribution of ₹ 1000 per annum to those workers that voluntarily choose to contribute at least that amount. This incentive, combined with the kind of outreach typical of the RSBY program, could generate a significant increase in pension coverage for the first time in India.

## (c) Administration and delivery of social protection programs

MOST SAFETY NET AND SOCIAL SECURITY PROGRAMS IN MOST STATES ARE CHARACTERIZED BY A RANGE OF PROBLEMS WHICH ALSO REDUCE THEIR POVERTY REDUCTION IMPACT. There are different experiences with implementation across SP programs and states. This includes programs which have wide coverage but are plagued by leakage of subsidies that limit the impact on the poor (e.g., PDS), others which are well targeted and increasingly well designed but face a range of implementation challenges (e.g., public works - MGNREG), and still others which appear to be well designed and with systems for better implementation (e.g., RSBY). Summary indicators of program performance are presented in Table 2, Chapters 3–5 provide discussion of programmatic performance and Chapters 7 and 8 examine some drivers of outcomes.

**Table 2: Summary of SP program performance (all-India)**

Program	Spending allocation rank 2008/09	Coverage (% of relevant population; 2004/05)	Bottom quintile as % of total beneficiaries (2004/05)	Benefit incidence (% to bottom quintile) (2004/05)	Awareness	Evidence of leakage outside beneficiaries	HH Targeting mechanism
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Public Distribution System (PDS)	1	23.3% of all HH (APL and BPL)	27%	29.7%	High	High	BPL
Mahatma Gandhi National Rural Employment Guarantee (MGNREG)	2	33% of rural HH (2008/09)	–	–	Substantial	–	Self-targeting

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Program	Spending allocation rank 2008/09	Coverage (% of relevant population; 2004/05)	Bottom quintile as % of total beneficiaries (2004/05)	Benefit incidence (% to bottom quintile) (2004/05)	Awareness	Evidence of leakage outside beneficiaries	HH Targeting mechanism
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Sampoorna Grameen Rozgar Yojana (SGRY)	5	1% of rural HH	43.4%	34.2%	Low	–	Self-targeting
Swarnajayanti Gram Swarozgar Yojana (SGSY)	7	0.8% of rural HH	32.9%	7.7%	Low	Intermediate	BPL
Indira Gandhi National Old Age Pension (NOAPS)	6	8.3 % HH with elderly	32.8%	31.1%	Substantial	Low	Mixed
Annapurna	–	1.7 % HH with elderly	51.9%	37.9%	–	Low	Mixed
Widow pension	–	6.2% HH with widows	43.2%	32.8%	Substantial	Low	Mixed
Disabled pension	–	14.1 % of HH with disabled	30.7%	27.6%	–	Low	Mixed
Indira Awaas Yojana (IAY)	4	12.8 % of rural HH	28.6%	24.6%	Substantial	High	BPL
Midday meals	3	–	–	–	High	–	Government/ aided schools only
Schools stipends	–	9.6 % of HH with children school age	22.6%	11.7%	Low	Low	Various; strong SC/ST focus

Source: Ajwad (2006) based on the 2004/05 HDPI, except for PDS based on Bank staff estimates from the 2004/05 NSS 61<sup>st</sup> round. Awareness based on 2006 SP survey in three states; Leakage based on HDPI survey and NSS (for PDS) and Gol and CAG reports.

**Notes:**

- Col. 2: Gol budget data for spending allocation rank (see Chapter 6)
- Col. 3-5: Coverage and targeting indicators are based on national household survey data, namely the 2004/05 National Sample Survey for PDS and the 2004/05 Human Development Profile of India survey (NCAER-University of Maryland) for all programs except PDS (see relevant tables in Chapters 3-5). The only exception is coverage rates for MGNREG – these are based on administrative data for 2008/09. See also Ajwad (2006) for coverage and targeting indicators based on the 2004/05 HDPI. Note that coverage refers to the share of beneficiaries in the relevant population. For instance, coverage of old age pensions are estimated for households with at least one elderly (65 years and above) member; PDS coverage for all BPL and APL households; MGNREG coverage for all rural households, etc.
- Col. 6-8: These are broadly summarized based on the findings of several Gol and other research studies, including those commissioned for this report. For instance, assessment of awareness among households of various SP programs draws on the Social Protection Survey in three states, the Jharkhand Living Standards survey, the Rajasthan social pensions survey, etc. Awareness levels: High = 70% + of population aware; Substantial = 40-70%; Low = < 40% aware. Assessment of leakage is based on comparisons of household survey data against administrative data as well as findings of CAG reports and other studies. These are documented in the relevant chapters (Chapters 3-5 for leakage; Chapter 7-8 for awareness and targeting mechanisms).
- Population coverage: For NOAPS as share of HH with member. 65+, for Annapurna, for HH with member 60+; for widow pension, for HH with a widow; for disabled pension, coverage as share of census PWD rate in state; Awareness levels: High = 70% + of population aware; Substantial = 40-70%; Low = < 40% aware.

DESPITE SUCH SPATIAL AND CROSS-PROGRAM DIVERSITY, A NUMBER OF COMMON CHALLENGES EMERGE, INCLUDING:

- ◆ *lack of coordination and overlap in delivery of programs (both within and across levels of government), reduces accountability of those*

**responsible for SP service delivery.** Lack of financial and human resource capacity - most notably at the block and GP level but also at higher levels in terms of functions like strategic planning - compounds the challenges of service delivery. As in many areas of service delivery in India, SP programs suffer from incomplete alignment of the “3 Fs” (functions, funds, and functionaries) for a variety of reasons. Even where there has been progress in specific programs (such as MGNREG) or states (such as Kerala), there remains a huge unfinished agenda in “squaring the circle” in a sector that is dominated by centrally sponsored schemes operating in a broader environment of constitutionally-mandated decentralization of service delivery (see Chapter 6).

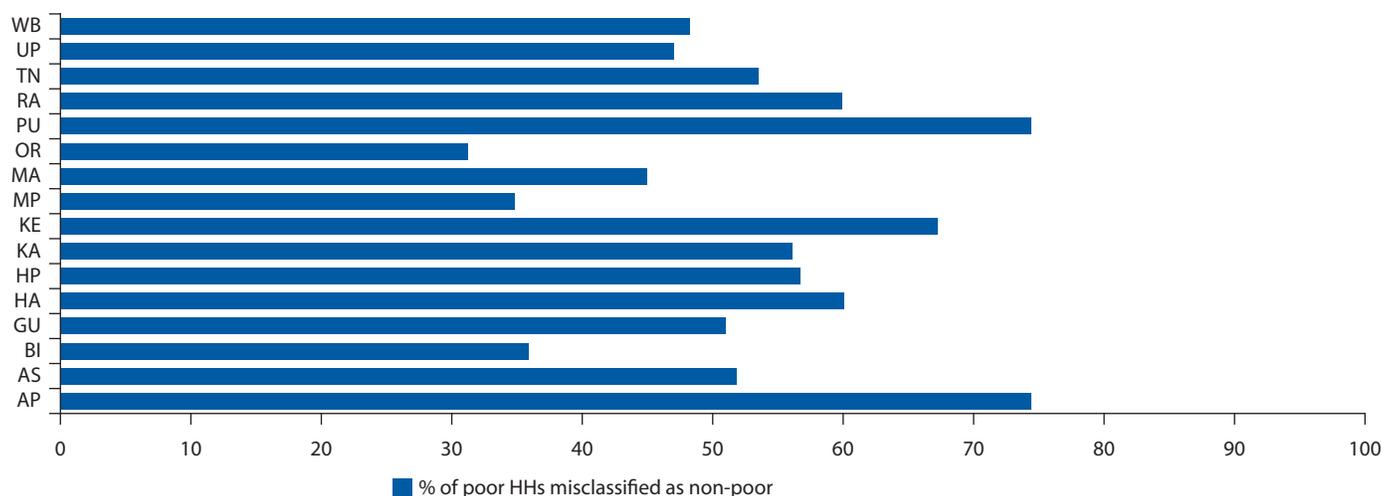
- ◆ ***maintenance of a “one size fits all” SP program and policy mix from the centre does not respond to the growing spatial diversity in living standards.*** While the insight that “India is a big and diverse country” is a truism in public policy, the CSS which continue to dominate SP policies give states limited flexibility to tailor central subsidies and programs to their diverse needs. While there has been progress in allowing states flexibility at the margin in adapting implementation specifics of some schemes, their overall SP policy mix remains largely determined on a uniform basis by the centre, more so in lagging states where own-resources are limited. (see Chapter 6).
- ◆ ***the basic “nuts and bolts” of program administration and procedures in most states are far below the standards that could be possible given India’s technological and human capital capacity.*** The report outlines a range of challenges where India has struggled to modernize SP program administration, including program outreach and awareness raising, the applications process, public expenditure and financial management, record keeping and payment systems, and monitoring and evaluation as well as public-private partnerships. At the same time, the progress made in modernizing program administration in states such as AP and under specific programs such as MGNREG suggests that a modern SP delivery system is an achievable goal for India with sufficient commitment and modest

investment. The RSBY program indeed provides a “state of the art” example of how a well thought-out and executed delivery model has the potential to be transformative and provide a backbone for other parts of the SP system to consolidate around robust systems (Chapter 7).

- ◆ ***for a number of programs, expansion of and innovation in the private sector has created possibilities for new modalities of Public Private Partnership (PPP) program delivery which have yet to be explored fully by the public sector.*** Most SP programs remain dependent on the traditional mode of publicly financed and delivered benefits. While for some programs (and/or in some geographic areas) market failures will continue to make this the appropriate delivery mode, the expansion of private sector players makes mixed delivery options more feasible than in the past. Some programs such as MGNREG have successfully partnered with civil society and communities for program execution and oversight. Similarly, RSBY has partnered with private sector providers for program delivery (see Chapter 5).
- ◆ ***a poorly designed and executed household targeting mechanism*** (the so-called BPL 2002 methodology). The BPL method does not reflect good practice in design of proxy means-testing mechanisms, and as a result in its design misidentifies almost half the poor as non-poor, and conversely almost half the non-poor as poor (Figure 3). In addition, empirical evidence on performance indicates that it typically performs worse in targeting terms than other methods. In contrast, methods such as self-targeting (in public works), mixed methods of identifying the poor (as in social pensions) have notably better targeting efficiency and inclusion of the poorest, while some states rely on community wealth ranking and verification (see Chapter 8).

THE EMERGING EXPERIENCE WITH SOME PROGRAMS SUGGESTS THAT PROBLEMS IN SP SERVICE DELIVERY CAN BE OVERCOME. Despite the significant policy and implementation challenges facing SP programs, experience with programs (such as MGNREG and RSBY) and/or in specific states across programs (e.g., AP, Kerala, Gujarat, TN) suggests that sufficient will and attention to incentive structures of different service

Figure 3: Share of poor household by state misclassified as non-poor by 2002 BPL method



Source: Jalan and Murgai (2008).

delivery agents can improve the implementation of programs. While the above problems have characterized the safety net system for some time, the last decade has witnessed much greater innovation and experimentation by states in addressing perennial challenges. The core challenges are therefore to create space for innovation by states *and* a feedback loop, via the systematic collection of evidence on implementation, to the design of central SP policies and programs from best practice in the states.

IN RECENT YEARS, INCREASING ATTENTION IS RIGHTLY BEING GIVEN TO IMPLEMENTATION, DELIVERY AND TRACKING OF BENEFITS. A Committee has been charged with improving the flawed methodology for determining the BPL list and at least one state has already implemented a new round. The Government of India is sponsoring an unprecedented scale of biometrically based, national ID through the Unique Identification Authority of India (UIDAI) which could facilitate everything from financial inclusion for direct payments of benefits to verification of identification for receipt of public transfers or MGNREGA wages. In parallel, many states are attempting to tighten verification and tracking of benefits in major programs such as PDS, NOAPS and MGNREG through the use of biometric identification and the creation of a back-end database that can track what happens on the ground. The challenge facing the country is to coordinate all of these good initiatives towards minimizing duplication, converging on national standards for interoperability and allowing for portability of benefits.

## D. SOCIAL PROTECTION FOR A CHANGING INDIA

THE REPORT FINDS THAT SIGNIFICANT REFORMS ARE NEEDED WITH BOTH RESPECT TO THE MEDIUM TERM SOCIAL PROTECTION STRATEGY AND IN IMPLEMENTATION ARRANGEMENTS OF CURRENT PROGRAMS. India needs to consider both the vision and policy mix of social protection programs, and how to improve implementation of its current and future programs. It suggests that India could significantly improve and modernize its social protection system - in both safety nets and social security – and in so doing help reduce chronic poverty and assist both poor and non-poor households to manage risk better. A more effective social protection system would allow India to promote greater equity, i.e., to ensure the benefits of growth are shared by the poor. It could also contribute to growth, by allowing individuals to make risk/return choices that contribute to higher productivity, enhancing dynamic efficiency. *Some of the key messages are:*

### (a) Policy reform in social protection

THERE IS A NEED TO DEEPEN THE ONGOING POLICY REORIENTATION OF THE INDIAN SOCIAL PROTECTION SYSTEM TO MEET THE CHANGING AND INCREASINGLY DIVERSE NEEDS OF ITS POPULATION. Marginal changes alone will not deliver the kind of safety net which a changing India needs for its poor and for its economy. This would involve several

elements: (i) a rebalancing of the policy mix across different types of public SP priorities; (ii) consolidation of the large number of central and state schemes to a core set of flagship programs; (iii) in the context of consolidation, introducing an element of choice and flexibility for states in the specific program mix of centrally-supported schemes that they operate; and (iv) in some areas and for some programs, actively exploring the possibilities for leveraging the role of private players (both non-governmental and for-profit) in delivery of interventions.

**IN TERMS OF REORIENTING THE POLICY MIX, THE REPORT SUGGESTS SEVERAL DIRECTIONS:**

- ◆ ***increasing the emphasis on preventive programs*** which help the poor and those vulnerable to poverty to manage risks and shocks better. This implies a significant expansion in coverage of different social insurance instruments, though in a phased manner consistent with institutional and fiscal capacity. Experience to date suggests that phasing would benefit from: (i) starting with simpler-to-administer insurance products such as life and permanent disability, while continuing to pilot and evaluate experience with more complex products such as health insurance; and (ii) for reasons of ease of worker mobilization and to control transactions costs, focusing initially on the “low hanging fruit” of unorganized workers who are members of groups (e.g., MFIs, cooperatives, trade union and worker associations, SHG federations) that could play an intermediary function between workers and the state/insurers.
- ◆ ***rethinking programs which seek to promote movement out of poverty in two ways:*** firstly, moving from administratively driven subsidized credit to public financing of a more diverse range of livelihood promotion approaches better suited to the labor market conditions of individual states as is currently being proposed under National Rural Livelihoods Mission (NRLM); and secondly considering the options for use of safety net transfers (see next bullet) to leverage participation in core education, health and possibly nutrition services, in order to promote long term movement out of poverty.
- ◆ ***moving to more consolidated and more cash-based social assistance programs for the chronically***

**poor.** The “big elephant in the room” in this respect is fundamental reform of PDS. The poor long run performance of the program in many states suggests that the medium term vision of a reformed PDS for most groups should be cash-based, though this would face substantial resistance in light of the ongoing debate around the Right to Food legislation. A reformed PDS could still provide food-based support for specially vulnerable groups (consistent with Supreme Court orders), and in specific areas facing chronic or acute food shortages, but for most areas and most people, a cash-based social assistance system seems a more efficient and transparent means of providing an income floor. An intermediate solution currently being mooted in the 2010 Economic Survey is to transfer the subsidy directly to households (rather than the PDS store owner) through food coupons with a lumpsum entitlement that can be exchanged at any PDS store.

- ◆ in the face of demographic change and slower rates of poverty reduction in urban areas, ***starting to address the neglect of urban social protection policy.*** While some of the needs of the urban poor are common to their rural counterparts, the possibilities (and constraints) of the urban environment suggest that simple mimicking of rural models of SP programs and service delivery mechanisms is unlikely to be an adequate response. For example, the options for “voice accountability” of service providers which can be mobilized in rural areas through collective community action are likely to be less possible in urban areas, while the possibilities for “choice accountability” (through income enhancement and offering options in service providers where possible) are likely to be greater. The JNNURM program offers a base for larger reforms affecting urban policy, however closer consideration may be needed regarding support to specific SP policy implementation.

THE SPECIFIC PROPOSAL OF THIS REPORT IS THAT CENTRAL SP PROGRAMS OVER TIME AIM FOR A “3 +BLOCK” STRATEGY. This would involve 3 core CSS SP programs or “pillars”, combined with an SP block grant from which states could finance other SP programs - or supplement benefits under the core pillar programs - more tailored to the poverty and vulnerability profile of the individual

state. This would also involve significant expansion in urban areas. This could promote both a more coherent and less duplicative SP system, but also give states more leeway to adapt the SP policy mix to the needs of the poor in individual states in light of available economic opportunities. The three core pillars proposed are:

- ◆ **a major social assistance program.** The obvious candidate for this is a significantly reformed PDS, merged for specific groups with existing social pension programs.<sup>9</sup> Chapter 3 give more details on the options for reform of PDS proposed by this report, with a preference for a predominantly cash transfer approach.
- ◆ **a public works program,** for which MGNREG would be the building block, as well as piloting expansion in urban areas. There are several benefits of a reliable public works program at this stage of India's development: (i) by its demand-driven nature, it can be responsive to shocks in a way that longer run programs typically can not. In this way, it functions as a "quasi-insurance" program for the extended period during which more structured insurance is expanded to the unorganized sector; (ii) the positive targeting outcomes of self-targeted works; and (iii) the potential for multiplier effects from asset creation and community mobilization distinguish public works from other SP programs. See Chapter 4 for a discussion.
- ◆ **a basic social security package for those outside the formal sector** which could be expanded in terms of coverage and scope of benefits as institutional capacity and fiscal space is developed. The core types of insurance which Gol aims to expand include life, disability, old age pension, and health, and the RSBY program is already an important step forward in this regard. Chapter 5 gives suggestions on institutional, financing, sequencing and other aspects of an expansion strategy.

BEYOND THE THREE "PILLARS", STATES COULD RECEIVE AN ADDITIONAL TRANSFER AND IMPLEMENT STATE-SPECIFIC SP INTERVENTIONS. How this is programmed could

vary according to state-level priorities, and include interventions such as livelihood support of different forms, targeted housing, interventions to incentivize use of basic social services, nutrition and/or early childhood care (e.g., through conditional cash transfers as being piloted in some states), specific urban SP programs, or other options as proposed by states. A secondary benefit of such an approach would be strengthening of complementarities between CSS and state-sponsored schemes in order to control unnecessary duplication. A common core national SP system under the three pillars could promote portability of basic entitlements, and be increasingly useful as mobility of workers and households increases.

IN TERMS OF PROMOTING BOTH MORE EFFECTIVE SPENDING ON SP, THE "3+BLOCK" PROPOSAL WOULD ALLOW MORE CROSS-PROGRAM FLEXIBILITY TO STATES – OR POSSIBLY DISTRICTS – IN DECIDING THEIR SP EXPENDITURE PRIORITIES, WHILE STILL MAINTAINING A COMMON NATIONAL CORE SP SYSTEM. It would also allow for greater adjustment in light of poverty levels and key vulnerabilities. This could be done in a variety of ways, possibly using a menu approach to SP programs, and a flexible form of social protection block or matching grant which consolidates resources from existing SP CSS.<sup>10</sup> This is an approach which has received increased attention in India in recent years as policymakers seek greater impacts from SP spending. Given current financing channels from the centre to states in India, a more flexible granting mechanism for SP programs to states could take different forms – as a more "bundled" anti-poverty CSS, as Additional Central Assistance (ACA) along the lines of programs like Pradhan Mantri Gramodaya Yojana (PMGY), or through a more fungible realignment of Gross Budgetary Support shares between the states and central Ministries which control CSS.<sup>11</sup>

THE ABOVE APPROACH WOULD REQUIRE CLOSE CONSIDERATION OF THE POLICY DESIGN OF EXISTING PROGRAMS. The findings of this and other reports suggest that the PDS require fundamental consideration of its current design, SGSY is currently undergoing significant change and attention to implementation under NRLM, while two others warrant experimentation to see whether

<sup>9</sup> This would be similar to the Chinese urban and emerging rural social assistance system, which is built around the "di bao" program which provides cash benefits to the poor, and has additional provision for specially vulnerable groups such as disabled and unsupported elderly. See World Bank (2009b).

<sup>10</sup> See de Neuborg (2002) for a discussion of the strengths and weaknesses of different block and matching grant mechanisms in the context of SP programs.

<sup>11</sup> See Saxena (2006) for a history of central transfers for anti-poverty programs since the 1960s.

innovative approaches can yield better outcomes than seen to date – IAY and school stipends. The other major programs – public works and social pensions – would also benefit from policy improvements but these are more in the nature of incremental policy reform which can be expected in the normal course of program evolution. Urban programs remain small, but pre-conditions suggest that merely transferring rural SP models to urban settings will limit potential impacts, and equally that the SP system needs to explore stronger linkages with the livelihood opportunities available to the poor in urban areas.

A NUMBER OF CROSS-CUTTING ISSUES IN POLICY EVOLUTION OF THE SP SYSTEM WILL ALSO BE IMPORTANT. These include cross-program convergence and consolidation, willingness to experiment with new types of programs and modes of delivery, and more structured efforts to build understanding of the benefits of reforms and manage the political economy of the reform process. An additional challenge will be ensuring increased attention in SP policies to the needs to the urban poor. These are discussed in turn below.

FIRSTLY, CENTRAL AND STATE-LEVEL POLICYMAKERS WILL NEED TO ACCELERATE CROSS-PROGRAM CONVERGENCE AND CONSOLIDATION IN POLICY AND ADMINISTRATION TO MAKE THE SYSTEM MORE UNDERSTANDABLE TO THE POPULATION, REALIZE ECONOMIES OF SCALE IN POLICY DEVELOPMENT AND ADMINISTRATION, AND SIMPLIFY ONGOING PLANNING AND EXECUTION OF SP PROGRAMS. This will require enhanced efforts of institutional coordination within and across levels of government and administration. Both at central and state levels, there seems a need for formation of an inter-departmental Task Force for Social Protection which would promote coordination (and possibly reduce duplication) across targeted programs, and promote more coherent strategy development on the medium term policy mix and priorities. This could in turn assist the transition from the current program-driven approach to SP to thinking in terms of a social protection *system* which is animated more by poverty outcomes and less in terms of scheme-based target fulfillment. Such institutional reforms have been important elements of successful SP reforms in a range of developing and developed countries. Some Indian states, notably Kerala and more recently Delhi, are also moving towards an integrated approach to SP delivery.

A SECOND OVERARCHING NEED IN SUCH POLICY REORIENTATION WILL BE GREATER WILLINGNESS TO EXPERIMENT IN PROGRAM DESIGN AND BASE REFORMS ON RESULTS OF EVALUATIONS. This will require changes in two tendencies of Indian SP policy since the 1970s: firstly, what CAG has called “rechristening and revamping” of programs at the expense of genuine experimentation and innovation, and secondly a limited willingness on the part of the central government to give states (and in some cases, the sub-state level) a freer hand in adapting their policy mix among programs, by allowing flexibility in adjustment of specific programs to suit their diverse circumstances. The experience of a number of developing countries including Bangladesh in recent decades provides a positive example of the social benefits of experimentation in SP policy. Closer to home, there is growing innovation at the state level in India which demonstrates the value of such an approach, and the increased buy-in among politicians and administrators for innovations which are “home grown”.

A THIRD OVERARCHING THEME OF POLICY REFORM IS THAT “GOVERNMENT CANNOT DO IT ALONE”, AND PROGRAMS WOULD BENEFIT FROM APPROPRIATE PARTNERSHIPS WITH THE NON-GOVERNMENT SECTOR. This partnership could be in both policy formulation and the specifics of policy design. The “non-government sector” in this respect could range from communities themselves (in the form of SHGs and other forms of CBOs), to the NGO sector, to the for-profit private sector in specific programs and functions. The design of MGNREG is a promising example of such a reorientation of policy formulation and program design, with its clear roles for community and NGO actors, and willingness to bring in private sector expertise and research institutions on areas such as M&E. But there is room for much more active engagement with the commercial private sector also, including in areas such as public grain distribution, targeted credit and livelihood interventions for the poor, and low-income urban housing.

## (b) Improving implementation of SP programs

EVEN IF THE NECESSARY REORIENTATION OF THE SP POLICY AND PROGRAM MIX CAN BE ACHIEVED, IT WILL NOT IMPROVE OUTCOMES FOR THE POOR UNLESS ACCOMPANIED BY A THOROUGH OVERHAUL OF SP PROGRAM ADMINISTRATION,

INCLUDING INSTITUTIONAL ARRANGEMENTS. Whatever the evolving mix of SP policies, there will be several key elements of administration and institutional arrangements which will need to be confronted if India is to achieve the poverty reduction outcomes that its significant spending on SP warrants, including:

- ◆ ***delineating clear lines of accountability accompanied by adequate staff and finances.*** Delineating appropriate institutional responsibilities for all links of the SP service delivery chain, and aligning the division of functions with assignment of personnel and allocation of resources for program implementation will be critically important for improved implementation of SP programs. This will require first and foremost greater proactivity on the part of states to approve policies and put into practice the PRI/ULB decentralization provided for under the 73<sup>rd</sup> and 74<sup>th</sup> constitutional amendments. This would need to be followed by a process-intensive reconciliation of central guidelines, state-level stances on service delivery decentralization, and capacities at sub-state levels to perform the required implementation functions in SP programs. Achieving this goal will require coordination and gradual convergence across the many departments of government responsible presently for different programs, and commitment to strengthening implementation capacities at the lower levels of the system, in particular at the block and GP levels. It will also mean building on innovations in institutional roles to promote greater accountability among SP service providers, as exemplified by social audits in MGNREG.
- ◆ ***rapid and substantial improvements in the basic “nuts and bolts” of program administration and procedures.*** The detailed suggestions in this regard are outlined in Chapter 7. Broadly, they would involve overhauling a range of bureaucratic procedures which impede funds flow, strengthening processes for administrative and social accountability of service providers, a through modernization of program record keeping and reporting arrangements (including computerizing systems and taking advantage of India’s ICT prowess to look for “technology leap-frogging” opportunities such as introduction of

smart cards and other innovations), building on improved rural banking infrastructure to overhaul payment systems, and building a strong culture of M&E. Recent reforms in RSBY and to a lesser extent MGNREG, together with a number of state-specific program pilots, provide many lessons in this area, and it is hoped that they can be systematically incorporated in other SP programs over time.

- ◆ ***overhauling existing targeting mechanisms, both at the household level and geographically.*** Any social protection system needs to be able to identify who are the poor with a reasonable degree of accuracy. Innovations already operating in India and good practice from other developing countries offer a range of options for significant improvements in targeting mechanisms. These include: (i) development of “poverty maps” at a sub-state (probably block) level which would allow more precise geographical allocation of SP funds to poor areas; (ii) overhaul of the BPL 2002 methodology in line with good practice in design of proxy means-tests (PMT) in other developing countries, including allowing for cross-state and urban/rural variations in the PMT formula; and (iii) in rural areas, continued piloting and strengthened evaluation of community-based beneficiary identification for SP programs with an eye to convergence with a reformed BPL system, and possibly – as has already happened in AP – its replacement in appropriate settings. While the new BPL methodology proposed by the Saxena Committee improves upon the 2002 system in several ways, several drawbacks of the previous method remain. Piloting the proposed methods and subjecting this methodology to the test using NSS data as done with the 2002 BPL method would yield interesting insights into how well the new *de jure* targeting design would perform.
- ◆ ***in the area of social security for unorganized workers, past experience suggests that direct public provision, financing and administration is neither feasible nor desirable.*** It seems more feasible to partner with existing non-governmental entities (for-profit, NGOs, and membership - based organizations) and restrict the role of government to: (i) providing targeted subsidies; and (ii) regulating these entities and setting basic standards. This model already exists in India in

several forms, such as the JBY scheme operated by Life Insurance Corporation of India (LIC) for life insurance, and more importantly the RSBY program. In addition, many other schemes falling into the community based or micro-insurance category could be incorporated under an umbrella program that provided matching contributions or premia but set certain standards in terms of benefit targets, eligibility conditions, investment policy and recordkeeping, among others.

IF SUCH A REFORM AGENDA CAN BE DELIVERED, THE BENEFITS FOR THE POOR OF INDIA COULD BE SUBSTANTIAL, AND MAKE GROWTH SIGNIFICANTLY MORE INCLUSIVE. In addition, there are likely to be positive impacts on growth itself from an SP system which more effectively addresses a range of market failures which result in poor and unproductive citizens. The traditional view of social protection systems and the redistributive objectives underlying them was that there was a clear growth versus equity trade-off. However, empirical evidence increasingly highlights that a well-designed and implemented SP system provides dynamic efficiency gains to the economy through positive impacts on productivity, and as an important tool for governments in managing the impacts of reforms in the wider economy.<sup>12</sup>

### (c) Political economy of SP reform

THE POLITICAL ECONOMY OF SP POLICY REORIENTATION IS COMPLEX, AND WILL REQUIRE INTENSIVE EFFORTS TO BUILD CONSENSUS ON REFORMS. In particular, it will be important to ensure that the interests of perceived “losers” of SP and broader economic reforms are taken into account. While reforms that involve expanded coverage or new types of interventions are unlikely to be controversial, there are strong interests in preserving the status quo in SP programs among a range of actors, including administrators, politicians, contractors and others. Simply cutting programs or excluding certain groups of beneficiaries or institutional players is therefore unlikely to be successful unless incentives for institutions and households which will be affected by reforms can be part of the reform package. The political economy of SP reform is challenging in all countries, and governments in India would benefit from more innovation in their efforts to create a

broader societal understanding of the need for and benefits of reforms.

SOME OF THE POLITICAL ECONOMY CHALLENGES THAT THE SP SYSTEM CONFRONTS IF IT IS TO BECOME MORE COHERENT AND MORE EFFECTIVE AS A TOOL FOR PROMOTING POVERTY REDUCTION AND INCLUSIVE GROWTH INCLUDE:

- ◆ *as in many areas of policy reform in India, consolidation and reform of the SP system within a coherent strategy will run counter to the past experience of scheme-driven initiatives* by a plethora of Ministries, and the observed tendency of each new government at both central and state levels to want new SP programs clearly distinguishable from their predecessors. Reducing these natural bureaucratic and political tendencies will be very challenging. A first step is obviously having an integrated SP strategy which is driven by the top politicians and bureaucrats at central and state levels, with strong inputs from civil society in its development, including opposition parties. However, even if such a strategy process can be developed, it will be important for it not to become a “one shot” exercise, but to have institutional coordination mechanisms in place which explore program duplication and exploit synergies.
- ◆ *giving states a more flexible hand in use of central SP resources will be a challenging transformation* both for central administrators (whose past tendency has been to define the parameters for use of central funds quite tightly) and politicians (who not unexpectedly seek political attribution for centrally-financed schemes implemented by states). The first of these challenges is perhaps easier to address through development of more outcome-based monitoring systems. The second is more difficult in a democracy.
- ◆ *in a number of programs, there are presently significant rent-seeking opportunities for a range of actors.* Such opportunities are facilitated by the current complexity of the SP program mix, but also by the number of intermediaries who often are involved in the interactions of poor people with the SP system. The generic identity of such

12 See World Bank (2004).

official intermediaries and unofficial middlemen is generally well-understood, but minimizing the potential avenues for their continued roles has only recently become a more explicit goal of SP policy design. While it is too early to say, even apparently naïve blanket bans on certain actors in legislation and/or guidelines (such as the ban on contractors under MGNREGA) do appear to help. However, a more comprehensive approach will require a more thorough modernization of SP business processes. Examples where such approaches already appear to be making headway include greater reliance on direct transfers to beneficiaries through banking and postal systems, and innovations in use of ICT in SP program delivery.

- ◆ ***it is increasingly important to understand how increased decentralization of responsibilities to panchayats generates different patterns of contention, cooperation and collusion*** between newly elected panchayat officials and traditional loci of influence among administrators and higher level politicians such as MLAs and MPs. An essential first step in promoting decentralization of SP service delivery as a tool for contestability and hence accountability will be getting a better empirical understanding of the diversity and evolution of experience. This would include how the gradual increase in the role of panchayats is proceeding (and what factors – such as limited control of resources and very low capacity), and the extent to which panchayats effectively promote accountability in SP service delivery are captured by local social, political and administrative elites.
- ◆ ***a more nascent, but powerful, element in the political economy of SP reform is the policy shift towards a rights based approach.*** Government of India is increasingly operationalizing such an approach in a number of areas through legislation and specific policies and programs. For instance, the Right to Information Act was passed in 2005 and mandates the government to release timely information demanded by citizens. It has been widely hailed as one of the most important drivers of governance reform and transparency in India. The Right to Food and Right to Livelihood movements are led by civil society, but have managed to influence government so that the

National Rural Employment Guarantee Act, (now renamed the Mahatma Gandhi Rural Employment Guarantee Act) was passed in 2005. Other similar Acts include the Right to Education Act (2009), the Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act (often called simply the “Tribal Rights Act”, 2006) while legislations such as for food security are on the anvil.

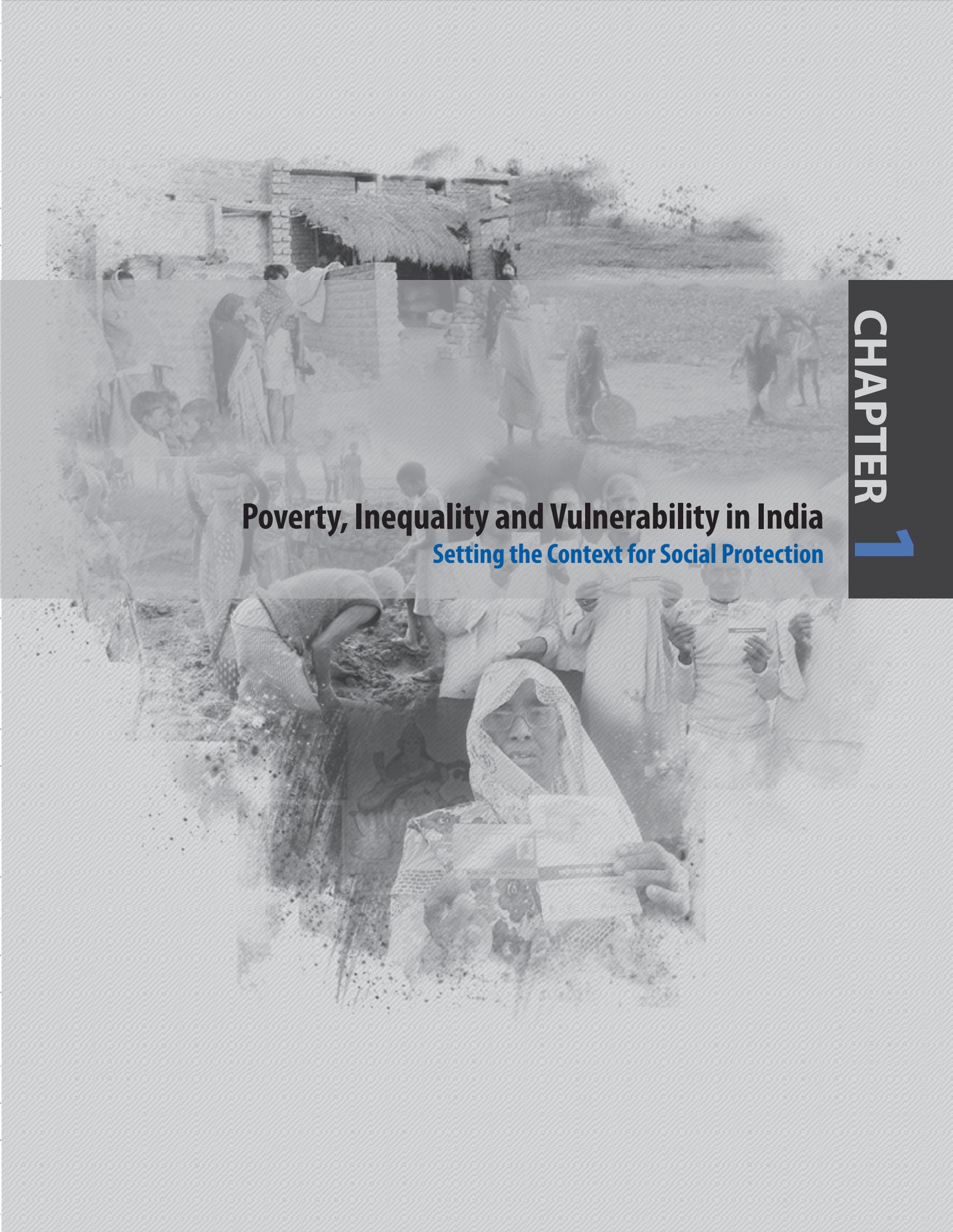
- ◆ ***a consequence of the above is the increasingly prominent role of communities and civil society in promoting more effective poverty reduction outcomes from spending.*** In this respect, the strengthening of the “authorizing environment” for communities in SP service delivery in recent years is encouraging. This is both cross-cutting, through reforms such as the Right to Information Act, and program specific, such as the anticipated role of social audits in MGNREGA, and new roles for community groups such as SHGs in delivery of some SP services (e.g., running Fair Price Shops). However, there is no guarantee of “trickle down” to citizens in terms of awareness of their emerging entitlements. The role of NGOs, media and other actors in this respect can not be under-stated, as various political and administrative actors at local level may not have strong incentives to promote such citizen-based accountability mechanisms. Notable examples such as Mazdoor Kisan Shakti Sangathan (MKSS) in Rajasthan demonstrate the potential impacts of such partnerships.

## E. THE STRUCTURE OF THE REPORT

THE STRUCTURE OF THE REPORT IS AS FOLLOWS: It starts with setting the context within which the SP system is operating, with respect to the evolution of poverty, inequality and vulnerability in India in recent decades, and insights on the patterns of risks, shocks and coping mechanisms of households. There is then a discussion of key performance indicators of the major SP programs in India, both protective, promotional and preventive, exploring coverage, adequacy of benefits, incidence of benefits across the income distribution and social groups, and determinants of the programs outcomes, and in the case of preventive programs, looking at Indian

experience and strategies for expanding coverage of different types of social insurance to unorganized workers. The following chapters then explore different aspects of program financing, program administration, and institutional arrangements that help to understand the observed outcomes. This is followed by a more detailed discussion of targeting mechanisms and

options for SP programs, in particular the BPL (Below Poverty Line) targeting method that acts as a backbone targeting mechanism for several key programs. The concluding chapter attempts to summarize recommendations with respect both to the overall SP system, and the specific aspects of policy and implementation discussed in individual chapters.



**Poverty, Inequality and Vulnerability in India**  
**Setting the Context for Social Protection**

**CHAPTER**  
**1**



# Poverty, Inequality and Vulnerability in India

## Setting the Context for Social Protection

IT IS INCREASINGLY CLEAR THAT THE SOCIAL PROTECTION POLICY DEBATE NEEDS TO BROADEN ITS FOCUS TO THE CURRENTLY POOR AS WELL AS THOSE VULNERABLE TO POVERTY. Fifty years ago, nearly half of India's population was poor, with high levels of chronic poverty. Today, this figure is closer to a quarter of the population. However, there are growing concerns that the figures of the official poor understate the true extent of the problem and Government is making serious attempts to revise these figures.<sup>13</sup> A changing external environment and improved living standards over time suggest that the focus of attention needs to move beyond the currently poor.

IN FACT, THERE IS CONSIDERABLE MOVEMENT IN AND OUT OF POVERTY IN RURAL INDIA AND EVEN HOUSEHOLDS NOT CURRENTLY POOR CAN BE IN DANGER OF FALLING INTO POVERTY. Households are exposed to risk and insecurity in many different ways. While perennial sources of

vulnerability such as natural disasters continue to remain important, new sources have emerged with the changing external environment. An increasingly important part of this story relates to shocks experienced by households, both idiosyncratic and covariate. As a result, volatility of household incomes and exposure to risks remains a serious concern, even in better-off areas and even as chronic poverty continues to decline.

THIS CHAPTER PROVIDES AN OVERVIEW OF POVERTY, INEQUALITY AND VULNERABILITY IN RECENT YEARS IN INDIA IN ORDER TO PROVIDE THE SOCIAL CONTEXT WITHIN WHICH SOCIAL PROTECTION PROGRAMS OPERATE. In doing so, the chapter draws on a vast literature on poverty and on the analysis of poverty and inequality trends in the World Bank's India Poverty Assessment (2011) as well as analysis of various rounds of the National Sample Surveys (NSS). The analysis of household level shocks and informal coping mechanisms draws primarily on two household

<sup>13</sup> *The Expert Group on poverty estimation, led by S. Tendulkar submitted its report with a revised methodology for the estimation of poverty lines and poverty rates to the Planning Commission. The committee's recommendations were accepted by Government shortly before the publication of this report. As a result, the analysis and discussion in this chapter and elsewhere in the report relies on previous official poverty statistics and not those proposed by the Tendulkar Committee.*

surveys: (a) the 2006 Social Protection Survey (SPS) covering 1,356 households in the states of Karnataka, Madhya Pradesh and Orissa undertaken specially for this report; and (b) the 2005 Jharkhand Living Standards Survey (JLSS) covering 2000 households in Jharkhand.<sup>14</sup>

#### SEVERAL KEY POINTS EMERGE FROM THE ANALYSIS:

- ◆ **Poverty has significantly reduced over time and gradual progress on poverty reduction continues.** As a result, the officially poor are closer to one quarter of the population than the one half of an earlier period. However, a large proportion of the population remains chronically poor.
- ◆ **However, inequality has risen since the 1990s.** While economic inequality remains moderate by international standards, sustained growth has increased the focus on the inclusiveness of growth and its distributional outcomes.
- ◆ **There are significant disparities in poverty, inequality and vulnerability across the country, and across groups.** As a result, there not only remain a large number of chronically poor people, but the factors that underlie their poverty may in some cases be less amenable to a simple growth-driven approach.
- ◆ **There is a growing urbanization of poverty.** Though the majority of India's poor continue to reside in rural areas, poverty rates in small and medium towns are comparable, and even higher, than rural poverty rates.
- ◆ **Poverty and vulnerability is likely to be far more widespread than the official poverty figures suggest.** This is both because communities' perceptions of poverty and what it means to be poor are typically higher than official estimates and due to the large proportion of households that remain vulnerable to poverty.
- ◆ **A significant majority of households experience serious crisis events.** Health problems are the most frequent idiosyncratic and natural calamities the most frequent covariate shock affecting households. Poor households experience more idiosyncratic shocks (primarily health-

related) while richer households suffer from more covariate shocks such as crop failures and livestock epidemics.

- ◆ **Coping strategies adopted by households in the face of shocks vary notably across states and income groups, and according to the nature of shock experienced.** There is some evidence that these informal coping mechanisms may have adverse long-term impacts and are unlikely to provide adequate protection.

The structure of the chapter is as follows. The first section presents poverty and inequality trends for India. Section B shifts the focus to vulnerability and poverty transitions. This section presents evidence on household shocks that often drive vulnerability and poverty, as well as findings on informal coping mechanisms adopted by households in the face of shocks. Section C concludes with implications for social protection policies and programs.

## A. POVERTY AND INEQUALITY<sup>15</sup>

INDIA HAS MADE STEADY PROGRESS IN POVERTY REDUCTION AND ABOUT A QUARTER OF THE POPULATION IS POOR TODAY. This improvement in living standards is evident not just in official poverty estimates but also in community perceptions of poverty and well-being. However, inequality has started to rise during the 1990s, particularly in urban areas. Structural inequalities also continue to persist, leading to the exclusion of certain groups from the development process. Inter-state disparities in poverty and human development outcomes also remain significant. Thus, rural poverty is concentrated in the seven poorest states of Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Uttarakhand and Uttar Pradesh. At the same time, urban poverty is starting to become more significant and poverty rates in small and medium towns are comparable or even surpassing rural poverty rates. There is a growing perception that poverty is likely to be more widespread than the official figures suggest and that a far larger proportion of the population is either currently poor or in danger of falling into poverty. This

<sup>14</sup> See Dev et al. (2007) and Balachander et al. (2009) for details.

<sup>15</sup> This section draws extensively on the analysis of poverty and inequality trends by the World Bank's recent India Poverty Assessment report. See World Bank (2011).

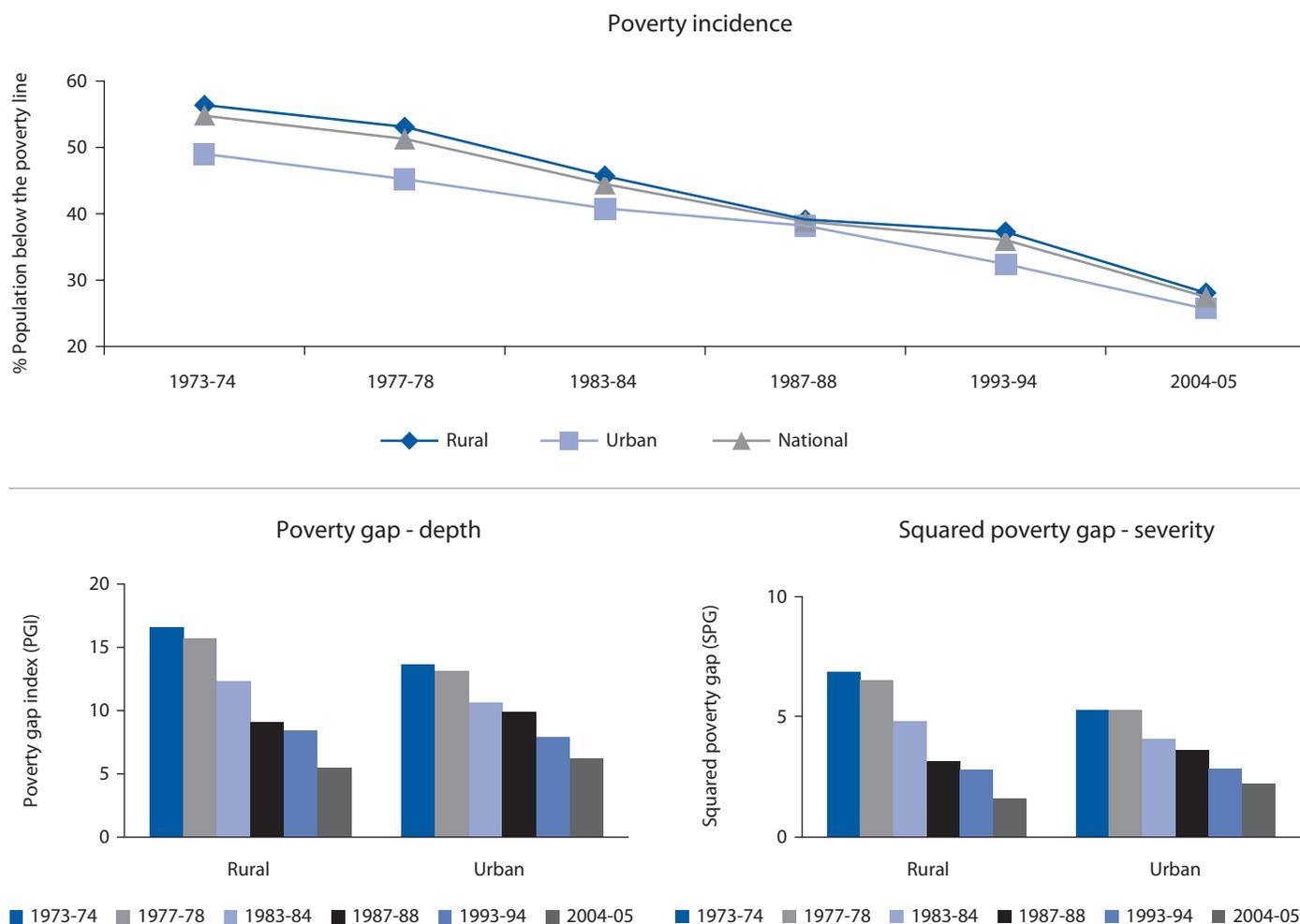
is both because communities' perceptions of poverty are typically higher than official estimates and because of the large proportion of households that remain vulnerable to shocks and hence, to falling into poverty.

percentage of population with consumption expenditure too low to purchase the basket of commodities (food and basic necessities) as measured by the poverty line - has fallen in both rural and urban areas.<sup>16</sup> In 2004/05, 28 percent of people in rural areas and 26 percent of people in urban areas lived below the poverty line, down from 56 percent and 49 percent respectively in 1973/74. The depth and severity of poverty declined even faster, suggesting that incomes gains leading to poverty reduction were experienced even by those well below the poverty line. Consistent with the decline in consumption

### (a) Trends in poverty and inequality, early 1970s to mid-2000s

INDIA HAS MADE STEADY PROGRESS IN POVERTY REDUCTION SINCE THE 1970s (SEE FIGURE 1.1). Poverty incidence – i.e., the

Figure 1.1: Evolution of poverty since the early 1970s



Notes: Based on uniform recall period consumption aggregates and official Planning Commission poverty lines.

Source: Gol official estimates, World Bank (2011).

<sup>16</sup> Official estimates of poverty are based on the "thick" rounds of the nationally representative National Sample Surveys (NSS). Changes in the questionnaire design of the 1999/2000 NSS round rendered consumption measures from this round non-comparable with previous (and later) rounds. This generated considerable debate on the precise extent of poverty reduction during the 1990s, though most analysis confirms a continued gradual reduction in poverty even in this period. See Deaton and Kozel (2005) for a summary of this debate. The most recent NSS round 2004/05 is comparable with pre-1999 NSS rounds, enabling analysis of poverty trends. The Tendulkar Committee's re-estimation of the poverty line and revised poverty estimates for 2004/05 is the most recent contribution to this debate.

poverty, communities also report improvements in well-being or declining perceived poverty.<sup>17</sup>

HOWEVER, POVERTY IN INDIA IS PERCEIVED TO BE MORE WIDESPREAD THAN THAT SUGGESTED BY OFFICIAL POVERTY FIGURES TO DATE. Several studies show that communities perceive the official poverty line threshold to be too low. Participatory methods including techniques such as the ladder of life and community wealth rankings have been used in a number of studies to elicit people's views about what it means to be poor and to specify a community poverty line—the threshold beyond which the community would consider households to no longer be poor.<sup>18</sup> For instance, the Moving Out of Poverty study (World Bank 2008b) finds that two-thirds or more of the sampled communities in the four states covered in the study—West Bengal, Assam, Andhra Pradesh, and Uttar Pradesh—felt that the official poverty lines were inadequate to meet basic needs. In these states, the levels of poverty based on community-defined poverty lines are much (10 to 20 percentage

points) higher than that obtained using official poverty lines. Spatial comparisons of poverty are more difficult and ambiguous using community-defined poverty lines as these typically measure relative poverty rather than absolute poverty. Nonetheless, these findings do suggest that until recently official poverty estimates did not adequately reflect people's notions of what it means to be poor (see Box 1.1 for a discussion of groups that are regarded as particularly poor or vulnerable).

IN CONTRAST TO THE STEADY REDUCTION IN POVERTY INCIDENCE, OTHER INDICATORS OF HUMAN DEVELOPMENT SUGGEST MUCH SLOWER IMPROVEMENT. For instance, the pace of progress in improving child nutrition in India has been slow, and much slower than would be expected given India's pace of GDP growth. In 2005/06, 43 percent of Indian children (aged below five years) were underweight, 48 percent stunted and 20 percent wasted (based on WHO standards). India's under-nutrition figures are among the highest in the world, making slow progress all the more troubling.<sup>19</sup> While outcomes are decidedly

### Box 1.1: Lost in translation – Invisible populations under - served by public programs

**Certain groups may be particularly disadvantaged in some way or systematically excluded from the development process and/or public programs and services.** For instance, low educational attainment, poor employment prospects and stigma mean that persons with disabilities and their households are notably worse off than average. While official estimates of disability (Census and NSS) are low (around 2 percent), there is growing evidence that people with disabilities comprise at least 5-8 percent of the Indian population. Even on the very conservative official definitions, about 6 percent of urban households reported having a person with a disability (PWD) compared to 8 percent of rural households in 2002. Estimates by WHO and others are far higher.<sup>1</sup> While programs exist for PWDs (notably disability pensions – see Chapter 3), these require a certification of disability in excess of 40 percent severity, leading to many being excluded from government programs.

**In urban areas, this could also include the 'floating' population, such as the homeless, street and pavement dwellers, commercial sex workers, and working children.** Working children constituted about 12.5 percent of the child population (aged 5-14 years) in 1995, of which about 21 percent were in urban areas.<sup>2</sup> Urban working children are more likely to work outside the household rather than as helpers in family work as in rural areas and are also more likely to be at risk of exploitation in an unfamiliar urban setting. Within urban centers, those living in slums (particularly non-notified or unrecognized slums), temporary settlements and "invisible slums" bound to specific industries (such as construction sites, leather, waste handling, jute, etc.) are likely to be poorer than the general population. Localized studies also suggest a high degree of homelessness in urban centers, with a large proportion of the homeless staying that way for long periods (over ten years).<sup>3</sup> The information base on these groups is extremely weak. In fact, it is likely that the scale of urban poverty is underestimated due to the exclusion of the poorest groups in the conventional household surveys. These groups form a part of the "invisible population" that are largely unrecognized and un-served by public programs and services.

**Seasonal migrants are also among the most vulnerable and least visible groups as far as public policy is concerned.** Migration is often also viewed as a problem and a potential threat to social and economic stability rather than an important livelihood and coping mechanism for the poor. In the destination villages or cities, migrants typically remain without an identity and hence are unable to claim state resources for education, health care, water and sanitation and other basic services.

Sources: 1. World Bank (2009a). 2. NIEPA (2001). 3. Mander (2009).

17 Improvements are seen in terms of an increase in incomes and purchasing power, in education and health, and an increase in personal freedom and choices (related to reduced dependence on patrons in rural areas and greater enterprise in urban areas). Based on findings reported in Praxis (1999), Jayaraman and Lanjouw (1999), Krishna (2004, 2006), Swaminathan (1995), Kozel and Parker (2005), World Bank (2008b).

18 See footnote 17 for sources. See also Chapter 8 on targeting of social programs for a discussion of these local indicators of poverty.

19 International Institute of population sciences (IIPS) and Macro International (2007).

worse for those below the poverty line, the burden of under-nutrition is not confined to the consumption poor.

AS A RESULT, THERE ARE DIVERGENT VIEWS ON THE EXTENT OF POVERTY IN INDIA. For instance, the Sengupta Commission on the unorganized sector estimated that about 77 percent of India’s population lives on less than ₹ 20 per day and could be considered poor. The World Bank’s international poverty line of \$1.25 per day suggests that poverty incidence in 2005 is as high as 42 percent in 2005.<sup>20</sup> More significantly, the recent re-estimation of poverty lines by the Tendulkar Committee implies a significant revision of poverty rates in the country to about 41.8 percent in rural and 25.7 percent in urban areas. This proposed methodology and consequent poverty headcount rates have recently been accepted by government, these estimates of poverty would be used for policy and planning, particularly the allocation of fiscal resources across states (see Chapter 6).

POOR HOUSEHOLDS TYPICALLY HAVE FEW RESOURCES AND FACE GREATER INSECURITY. Analysis of various rounds of the National Sample Surveys suggests that, predictably, households with high dependency ratios, low educational attainment, low physical resources, primarily dependent on casual labor, and belonging to scheduled castes or tribes are more likely to be poor.<sup>21</sup> Poverty profiles developed using participatory techniques also identify similar correlates of poverty.<sup>22</sup> Thus, communities identify poor households as those that are engaged primarily in casual work, have few assets and/or high debts, are unable to meet basic needs (particularly food), and are illiterate or poorly educated. An interesting point of departure from poverty profiles derived from quantitative survey data is the emphasis on volatility of incomes and insecurity in these local definitions of poverty. Thus, communities identify the poor as those facing insecurity of tenure (in urban areas) and insecurity of work and income; those that lack economic support (such as widows and elderly); and those that have suffered health-related shocks especially illness, disability or death of the bread-winner.

INEQUALITY IN INDIA IS MODERATE BY INTERNATIONAL STANDARDS BUT HAS INCREASED DURING THE 1990s. The secular trend in declining inequality of consumption

expenditure was reversed in the 1990s as inequality started to rise. This increase was particularly sizeable within urban areas with the Gini coefficient rising from 0.34 in 1993/94 (and 1983) to 0.38 in 2004/05 (see Table 1.1). Given the growing divergence between rural and urban consumption levels and rising urbanization, this is reflected in a rise in national inequality.

	Rural	Urban	National
1983	0.32	0.34	0.32
1987-88	0.30	0.35	–
1993-94	0.29	0.34	0.30
2004-05	0.30	0.38	0.33

Notes: Gini coefficients calculated using NSS data.

Source: World Bank (2011), Himanshu (2007).

HOWEVER, IT IS LIKELY THAT THE RISE IN INEQUALITY IS UNDERSTATED. This underestimation is likely due to measurement issues such as the understatement of rural-urban gaps and increases in the incomes at the top-end of the distribution in the NSS household surveys. In addition, estimates of economic inequality in India are likely to underestimate the true extent of inequality, such as that due to social stratification and segregation by caste, religion, gender or other sources of exclusion (see below). Though the rise in inequality appears modest, popular perception is of rapidly increased inequality. This perception is possibly driven by the observation that rich Indians have benefitted enormously from the economic boom of the 1990s. Though these movements in the very top end (99<sup>th</sup> percentile and above) of the distribution are unlikely to drive movements in the overall income distribution, such changes in the tails of the distribution are critical for societal perceptions of inequality.

OTHER STRUCTURAL INEQUALITIES CONTINUE TO PERSIST AND GENDER, CASTE AND TRIBAL IDENTITY REMAIN CRITICAL MARKERS OF WELL-BEING. Despite highly impressive growth rates and low levels of income inequality, India’s exclusionary social structures continue to place obstacles for several groups in access to key opportunities. While welfare indicators for scheduled castes and scheduled tribes are improving, the gap between them and the general population is large and persistent.<sup>23</sup> Today,

20 Down from 60 percent in 1981 (Chen and Ravallion, 2008).

21 See also Jayaraman and Lanjouw (1999) for similar findings based on a review of village studies.

22 See, for example, Krishna (2004, 2006), Swaminathan (1995), World Bank (2008b).

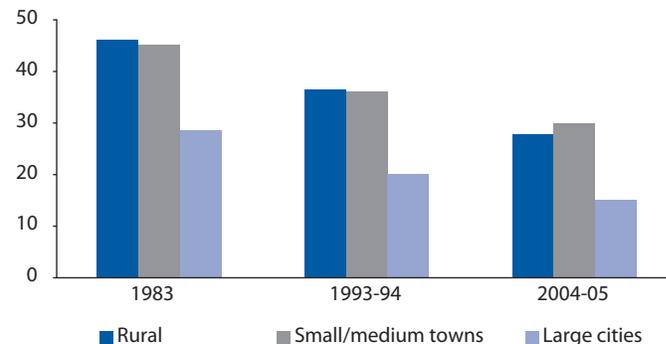
scheduled tribes still experience levels of poverty seen in the general population 20 years earlier; while scheduled castes lag 10 years behind the general population. Amongst the Scheduled Tribes and Scheduled Castes it is often women who experience the greatest disadvantage. Though there are positive signs of dynamism within the caste hierarchy, caste remains a potent indicator of social status and gaps between SC/STs and general caste groups persist with respect to educational attainment, earnings, poverty rates and other indicators of welfare. STs in particular remain the most disadvantaged and the remoteness of tribal habitations creates problems for service delivery.<sup>24</sup>

## (b) Urban poverty

THOUGH THE MAJORITY OF INDIA'S POOR CONTINUE TO RESIDE IN RURAL AREAS, THERE IS A GROWING URBANIZATION OF POVERTY IN INDIA.<sup>25</sup> Urban and rural poverty rates have been converging in recent years. Though rural poverty rates remain higher, the depth and severity of poverty in urban areas is higher than in rural areas (see Figure 1.1 above).<sup>26</sup> At the same time, India's urban population is growing faster than the rural population. In 2001, almost 28 percent of India's population resided in urban settlements, and this is expected to reach around 40 percent by 2020, of which about one-third are likely to be slum-dwellers and squatters.<sup>27</sup> This indicates a growing urbanization of poverty, albeit at a relatively slow rate compared to the historical experience of other developing countries.

**SIZE MATTERS: A LARGER PROPORTION OF THE URBAN POOR ARE CONCENTRATED IN SMALL AND MEDIUM TOWNS COMPARED TO LARGE METROPOLITAN CITIES.** Poverty rates in large cities (with population of one million or more) are dramatically lower than that in small and medium towns (see Figure 1.2). Thus, in 2004/05, only about 15 percent of people living in large cities were poor compared

Figure 1.2: Poverty rates - rural, small urban centers and large cities



Notes: Percentage of population with monthly per capita consumption expenditure below the poverty line, 2004/05. States sorted on overall urban poverty rate.

Source: Staff estimates using NSS. World Bank (2011).

to nearly 30 percent of people living in small and medium towns. By 2004/05, the poverty rate in small/medium towns had surpassed that in rural areas. As the majority of urban population (about 70 percent) is also concentrated in these smaller urban agglomerations, the bulk of India's urban poor (about 85 percent) are also to be found in these towns.<sup>28</sup>

THE COMPARATIVE PICTURE OF RELATIVE URBAN AND RURAL POVERTY ACROSS STATES IS ALSO OF INTEREST.<sup>29</sup> Urban poverty is estimated to be higher than rural poverty in the more urbanized and industrialized southern and western states, while rural poverty remains higher in northern and eastern states (Figure 1.3). Some of these states – such as Andhra Pradesh, Maharashtra, Tamil Nadu – also report the highest number of towns with slums in the 2001 Census. Approximately 23 percent of the urban population in these states lives in slums. The national pattern of higher inequality in urban areas, relative to rural areas, holds for all states.

THIS SUGGESTS THAT GREATER POLICY ATTENTION WOULD NEED TO BE PAID TO THE SOCIAL DIMENSIONS OF URBANIZATION.<sup>30</sup>

23 These terms are derived from a government schedule for positive discrimination and are the commonly used in administrative and survey documents. In this report, we follow this convention and use SC and ST. In recent years, Dalits and Adivasis are increasingly being used instead.

24 World Bank (2011).

25 This is a common pattern in the developing world (see Ravallion et al. 2007).

26 World Bank (2011).

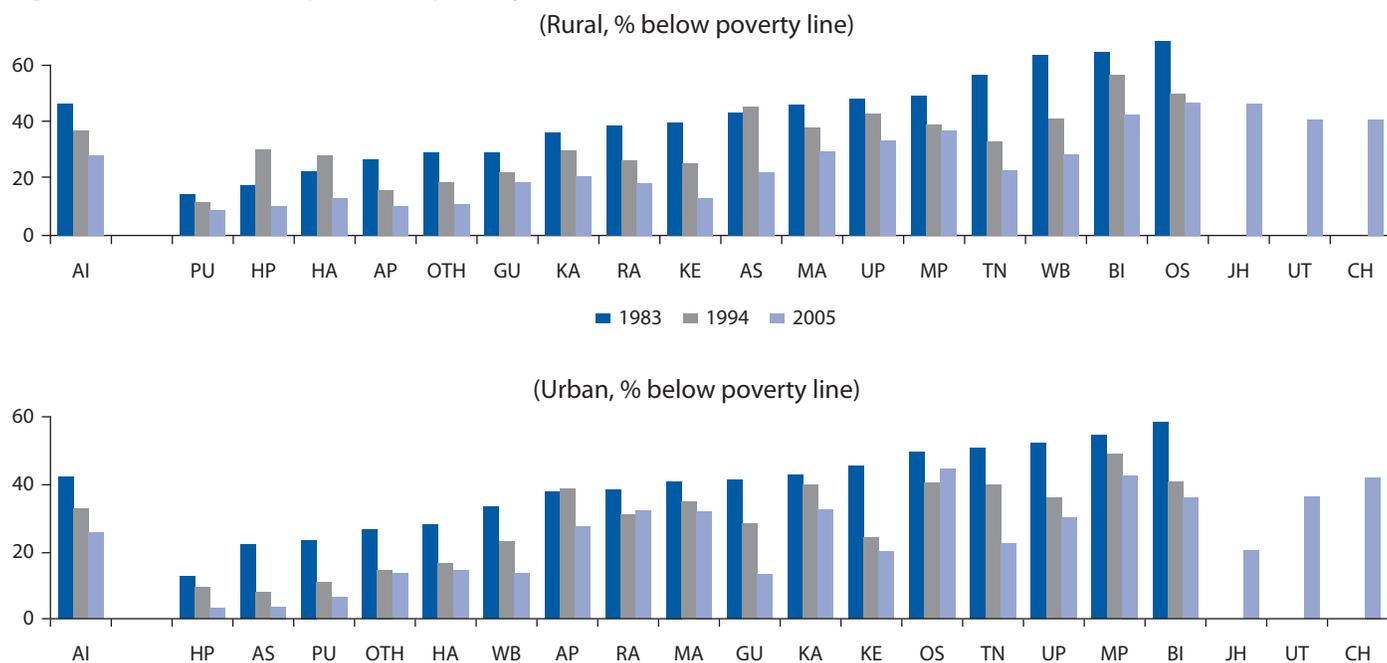
27 World Bank 2007.

28 World Bank (2011).

29 However, there are serious concerns about the urban to rural price differentials implicit in the official poverty lines that hamper comparisons between rural and urban poverty rates.

30 See the India Urban Poverty Report (Government of India 2009), India 2025: Inputs for an Urban Strategy (World Bank 2007) and Perspectives on Poverty in India: Stylized Facts from Survey Data (World Bank 2011) for a recent analysis of these issues.

Figure 1.3: Inter-state disparities in poverty



Notes: Poverty rates for the newly created states of Chhattisgarh, Jharkhand and Uttarakhand only reported after states were formed. For comparability over time, poverty trends reported for Madhya Pradesh, Bihar, and Uttar Pradesh in all three years are for the divided states. States sorted in ascending order of 1983 poverty rates.

Source: World Bank (2011) for poverty estimates.

Indian policy-makers have traditionally emphasized rural poverty alleviation in the past and though increasing urbanization and concomitant pressures has brought urban issues into focus, funding for urban poverty still lags behind the magnitude of the problem. The level of funding for anti-poverty programs in urban relative to rural areas was only 1:35 in the late 1990s, against a share of urban to rural poverty of 1:3.5.<sup>31</sup> In recent years, Government of India has initiated a comprehensive national urban reform through the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and the Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT). While social sectors are included as possible areas of support under these schemes, city development plans - the first step for cities to access the grant resources under JNNURM - typically have very little on social sectors. It is increasingly clear that an understanding of the spatial distribution of urban poverty and urban-specific strategies are needed for strengthening social protection, but equally that such distinct thinking from Governments has been lacking to date.

### (c) Disparities in poverty and human development across states

THERE ARE WIDE DISPARITIES ACROSS STATES AND SPATIALLY, POVERTY IS CONCENTRATED IN THE NORTHERN AND CENTRAL STATES. Urban poverty rates vary dramatically across states, ranging from a low of 3-4 percent in Assam and Himachal Pradesh to over 40 percent in Chhattisgarh, Madhya Pradesh and Orissa (see Figure 1.3). In rural areas, the seven poorest states—Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Uttarakhand and Uttar Pradesh—have poverty rates between 33 and 47 percent. The least poor rural states such as Punjab, Haryana, Kerala, Himachal Pradesh and Andhra Pradesh have poverty rates that are a third or a quarter of those in the poorest states.<sup>32</sup> Thus, in 1983, a group of the four poorest, and most populous, states – (undivided) Bihar, (undivided) Madhya Pradesh, Orissa and (undivided) Uttar Pradesh – accounted for 50 percent of the rural poor. By 2004/05, this share had increased to 61 percent.<sup>33</sup>

31 Lakdawala Committee Report and NIUA (1993). In addition, public service provision in urban areas has traditionally focused on economic services like infrastructure, transport, housing, sanitation and water supply to the relative neglect of social protection.

32 World Bank (2011).

33 World Bank (2008a).

THESE LAGGING STATES AND EVEN SOME REGIONS IN LEADING STATES (SUCH AS EASTERN MAHARASHTRA, NORTHERN KARNATAKA AND ANDHRA PRADESH) ARE BEING LEFT OUT OF THE GROWTH PROCESS. In particular, poor economic performance (except for Madhya Pradesh) may have exacerbated these disparities in household consumption expenditures incomes and human development outcomes. Households in these lagging regions lack access to adequate infrastructure, markets and social services, with corresponding fewer opportunities for employment and income diversification. While permanent migration, particularly across state borders, remains low, a common coping strategy is seasonal migration. Localized studies suggest that seasonal migration is particularly high from some of these distressed areas that have emerged as significant exporters of unskilled labor to urban centers and to relatively richer states (see Section B (a) below).<sup>34</sup>

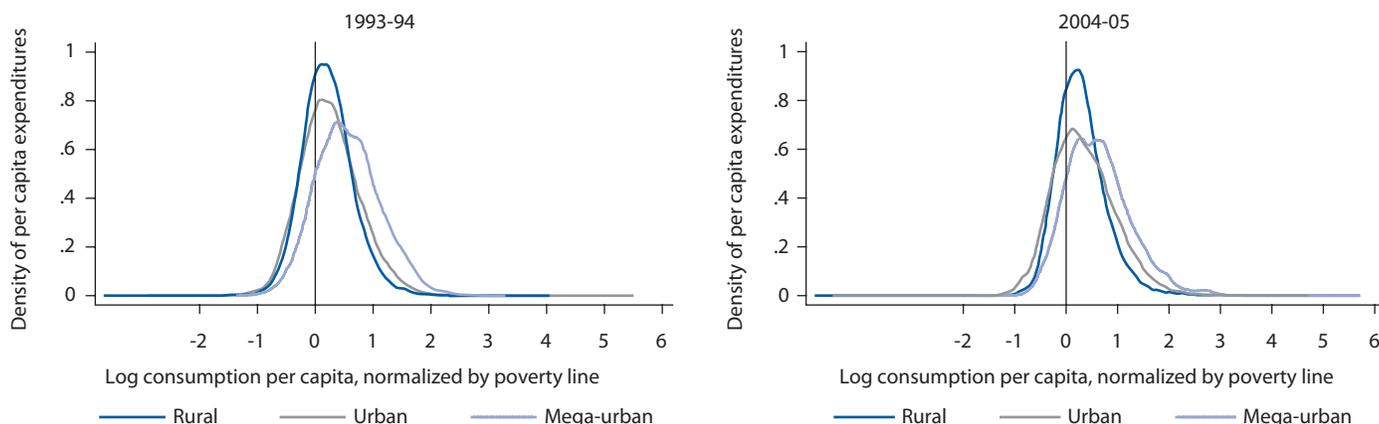
## B. VULNERABILITY

IT IS INCREASINGLY CLEAR THAT THE POLICY DEBATE NEEDS TO FOCUS NOT JUST ON THE INCIDENCE OF POVERTY, BUT ALSO ON VULNERABILITY TO POVERTY. Households are exposed to risk and insecurity in many different ways. As a

result, a large proportion of households, both poor and non-poor, may be vulnerable to poverty even though they may not be currently poor. Vulnerability is often thought of as “the existence and the extent of a threat of poverty and destitution; the danger that a socially unacceptable level of wellbeing may materialize.”<sup>35</sup> If the poverty line is taken as the threshold below which the level of wellbeing falls below a socially acceptable level, then vulnerability can be conceptualized as the threat of future poverty (see Box 1.2 for a description of approaches to assess vulnerability empirically).<sup>36</sup> As a result, volatility of household incomes and exposure to risks remains a serious concern, even in better-off areas and even as chronic poverty continues to decline.

A FAR LARGER PROPORTION OF THE POPULATION THAN THOSE CURRENTLY POOR IS IN DANGER OF FALLING INTO POVERTY. The literature on poverty dynamics and vulnerability in India suggests that there is considerable movement in and out of poverty. In other words, regardless of the current poverty status of a household, households may fall into poverty after exposure to large, severe and/or frequent shocks, especially when clustered close to the poverty line. Figure 1.4 shows a large majority of rural households clustering within one standard deviation of the poverty line, while urban and mega-urban households show greater dispersion (reflected

Figure 1.4: A large proportion of the population is clustered around the poverty line



Notes: Distribution of log monthly consumption per capita, normalized by the poverty line. Poverty lines in 1993/94: Rural areas = ₹ 205.84; Urban/ Mega-urban areas = ₹ 281.35. Poverty lines in 2004/05: Rural areas = ₹ 356.30; Urban/Mega-urban areas = ₹ 538.60.

Source: Jalan and Murgai (2008); Staff estimates using NSS.

<sup>34</sup> World Bank (2008a).

<sup>35</sup> Dercon (2005), pp. 3.

<sup>36</sup> Rigorous analytical work on these issues is limited by the lack of panel data in India to track consumption dynamics of households over time, with the notable exception of the ICRISAT surveys and the larger NCAER ARIS-REDS panel surveys.

## Box 1.2: Approaches to assess vulnerability empirically

As the notion of exposure to risk and insecurity underlies all definitions of vulnerability, incorporating this into an empirical assessment of vulnerability usually requires panel data with detailed information on exposure and response to shocks. There are very few panel datasets in India that track consumption dynamics of households over time, with the notable exception of the ICRISAT surveys and the NCAER ARIS-REDS panel surveys.

### Vulnerability as expected poverty (Chaudhuri 2000)

This approach defines vulnerability as the probability of a household falling below a specified welfare threshold. An attraction of the approach is that the econometric methodology does not require panel data with observed consumption distributions over time. However, this must then necessarily rely on stringent assumptions on how shocks evolve over time and space; the model also does not incorporate covariate risk. This approach develops a model to predict realized welfare, typically measured as consumption, over a specified time horizon. These predictions are used to generate the distribution of expected consumption and the predicted probability of being poor in the future. Households with probability of future poverty above an arbitrarily chosen vulnerability threshold, analogous to the poverty line, are classified as vulnerable, yielding an incidence measure that is analogous to the incidence of poverty.

### Vulnerability as low expected utility (Ligon and Schechter 2003)

This approach is similar to the first in that it also defines vulnerability in the context of expected future welfare. However, this approach also takes into account risk faced by households. Specifically, vulnerability is measured as the difference between a threshold level of certainty-equivalent consumption (analogous to the poverty line) and the household's expected utility of consumption. The attraction of this approach is that it decomposes overall vulnerability into a poverty term and two terms capturing covariate and idiosyncratic risk. As a result, it is possible to identify the link between vulnerability and poverty status (due to low resource base, poor returns to assets, unfavorable location, etc.) and between vulnerability and risk. One disadvantage lies in the fact that the unit of measurement of vulnerability are not easily amenable to policy dialogue.

### Vulnerability as uninsured exposure to risk (Tesliuc and Lindert 2002)

This approach explicitly focuses on household's exposure and response to risk. Unlike the previous two approaches that are essentially assessments of *ex ante* vulnerability to falling below a specified welfare threshold, this approach assesses the *ex post* realization of a negative shock that results in a household deviating from its expected welfare and leading to a socially unacceptable level of welfare. There are drawbacks in this methodology in that changes in consumption are treated as symmetric regardless of the household's position in the income distribution. Similarly, the impact of positive and negative shocks are assumed to have symmetric effects. These have largely been addressed in subsequent extensions to the original model. However, the data requirements are stringent – this methodology ideally requires several waves in the panel as well as information on both income and consumption.

### Vulnerability as the threat of future poverty (Calvo and Dercon 2005)

More recent work has formulated a concept of vulnerability that implies both the likelihood of falling into poverty in the future (as in the first approach mentioned above) and the severity of poverty in that case. These measures estimate individual household-level vulnerability using an axiomatic approach.

In all these approaches, there are problems in aggregating these household-level estimates of vulnerability that have not yet been addressed in the empirical literature.

*Sources:* See also Christiaensen and Subbarao (2005), Dercon (2005) and Hoddinott and Quisumbing (2003) for a methodological review.

in the higher inequality figures in Table 1.1).<sup>37</sup> A further implication of this clustering relates to the difficulty of achieving fine-tuned targeting in social protection programs in India (see Chapter 8 for a discussion). In fact, as noted previously, poverty profiles based on community perceptions of what it means to be poor

typically incorporate notions of insecurity and risk. This qualitative work finds that variability of incomes and coping with recurring shocks are a common feature, especially among poor households.<sup>38</sup> In addition, this exposure to risk leads households to adopt *ex-ante* coping strategies that may mitigate risk but often

<sup>37</sup> See World Bank (2011) for a detailed comparison of consumption and other socio-economic characteristics for different groups of the expenditure distribution.

<sup>38</sup> See World Bank (2008b) and other sources in footnote 17.

imply lower returns, while ex-post coping mechanisms can often have adverse long-term impacts, sometimes leading to poverty traps.

**POVERTY AND VULNERABILITY ARE SIMILAR BUT DISTINCT CONCEPTS.** Households that are currently non-poor can be vulnerable to the risk of falling into poverty as a result of a crisis event. At the same time, poverty and vulnerability can reinforce each other and poverty can be a source of vulnerability.<sup>39</sup> An application of the first method described in Box 1.2 on earlier rounds of NSS data for 1993/94 and 1999/2000 illustrates this point.<sup>40</sup> This method defines vulnerability as the probability of future poverty and estimates vulnerability as the probability of being poor at least once in the next three years. As noted in Box 1.2, this method relies on several stringent assumptions on how shocks evolve over time and space. Several empirical studies have adopted this methodology to assess vulnerability in developing countries.<sup>41</sup> Evidence from these studies suggest that this methodology, though imperfect, is useful in predicting the ordering of groups with respect to vulnerability to poverty. This analysis is illustrative of the patterns of vulnerability across socio-economic groups in India in the 1990s.

**IN MOST CASES, THE PROFILE OF VULNERABLE HOUSEHOLDS MIRRORS THAT OF POOR HOUSEHOLDS.** For instance, SC/ST households were found to be among the poorest and the most vulnerable groups. There was, however, one notable exception. Households headed by widows or with one or more widowed members were found to be highly vulnerable to poverty relative to other households, even though these households were not necessarily currently poorer. Widows represent about 6.5 percent of the total female population in India. Despite legal provisions, widows find it difficult to inherit property, have limited freedom to remarry, and are forced by social custom to reside in their husband's village. They also receive little economic support from the community or extended family, except possibly in the form of co-residence with an adult son. As a result, the common perception is that widow-headed households would tend to be poorer than the general population. Empirically, however,

there is little evidence of widows being predominantly in poor households in India (or only when economies of scale are incorporated).<sup>42</sup> Participatory research reveals that communities also consider widows as among the most vulnerable groups. In fact, most state governments have long-standing social assistance programs for widows (see Chapter 3 for a discussion).

## (a) Emerging sources of vulnerability

**A RANGE OF FACTORS CONTRIBUTE TO HOUSEHOLD LEVEL VULNERABILITY, SOME OF WHICH ARE MACRO- AND SOME MORE HOUSEHOLD SPECIFIC.** Perennial sources of vulnerability, such as climatic conditions, natural disasters, poor public health environment and household-level shocks, continue to be critical to household welfare. In recent decades, new sources of vulnerability have also emerged which are both significant in themselves and as factors which exacerbate perennial sources of household and community vulnerability. While by no means a comprehensive list, some of these old and new sources of vulnerability include:

- ◆ Weakening traditional support networks
- ◆ Declining common property resources
- ◆ Natural disasters
- ◆ Increasing stress on agriculture
- ◆ High and rising indebtedness
- ◆ Poor public health environment
- ◆ Rising urbanization
- ◆ Increasing casualization of the labor market
- ◆ Financial, food and fuel crises
- ◆ Mobile populations

**TRADITIONAL INFORMAL SUPPORT NETWORKS ARE BEING PLACED UNDER STRAIN IN THE FACE OF FACTORS SUCH AS DECLINING INTER-GENERATIONAL CO-RESIDENCE.** Several studies stress the inadequacies of familial support for elderly.<sup>43</sup> Similarly, there is some evidence that social family, kinship and community networks are under strain. Rising migration and urbanization put further

<sup>39</sup> Essentially, poverty is the ex post realization of a state while vulnerability is the ex ante probability of a household being in that state. While poverty is a function of the mean level of consumption and its distribution, vulnerability is a function of poverty as well as the inter-temporal variance in consumption.

<sup>40</sup> See Dutta (2006) for details.

<sup>41</sup> See for example, Chaudhuri (2000) for China, Indonesia and Philippines; del Ninno et al. (2006) for Pakistan.

<sup>42</sup> Drèze and Sen (2002), Drèze and Srinivasan (1997).

<sup>43</sup> Agarwal (1990) and Pal (2004).

stress on such networks. There is also some evidence of a decline in the traditional *jajmani* or patron-client relations (e.g. between the 1960s and early 1980s in Rajasthan).

COMMON RESOURCES ARE BEING LOST AS INCREASED DEMAND FOR LAND LED TO THE CONVERSION OF FORESTS AND NATURAL HABITAT INTO LAND USED FOR AGRICULTURAL, INDUSTRIAL OR URBAN USE. This has costs with respect to the loss of common property resources (CPRs), imbalances in the local ecosystems, and low yields as such marginal land is usually not very productive. Several studies have documented a decline in the access to CPR in rural areas, with the proportion of total geographical area under CPR declining between 1981 and 1991 in all states, by between 4 and 32 percent.<sup>44</sup> In addition, an estimated 41 percent of India's forest cover has been degraded to some degree in the past several decades.<sup>45</sup> At the same time, informal access rights to uncultivated private land have also declined during this period in all states primarily due to human and livestock population pressure and increased demand for land.<sup>46</sup> The effects of this decline and rising degradation of common property resources have disproportionate impacts on poor households with limited alternative resources, especially tribal communities. The latter depend on forests for livelihoods, seasonal subsistence and food security, so that infringement of these traditional rights and institutions could substantially increase vulnerability.<sup>47</sup>

INDIA IS PARTICULARLY PRONE TO NATURAL DISASTERS. Between 1990 and 2007, 249 natural disasters, leading to 102,313 deaths, were recorded in India. This accounted for 37 percent of all natural disasters (and 25 percent of deaths) in South Asia during this period. The most common types of disasters in India includes floods, wind storms and epidemics of various kinds. However, the highest death tolls are from

earthquakes, waves/surges (such as the 2004 Tsunami) and wind storms. Historically, it was droughts and slow onset disasters like famines that caused the highest death tolls in the region (including in India). In recent decades, however, it is these rapid onset disasters that lead to large casualties.<sup>48</sup> Recent research suggests increasing frequency and intensity of natural disasters such as cyclones, floods and droughts. A common response to such disasters is displacement and short-term migration. In addition, the strain on eco-system-dependent livelihoods, such as fishing and subsistence farming, could contribute to long-term migration. This adverse impact is likely to be higher for poor communities, who tend to be located in relatively high-risk areas rely on such livelihoods and also have limited resources to cope with disasters.<sup>49</sup>

THERE IS INCREASING STRESS ON AGRICULTURE IN THE FACE OF RISING SEASONAL CLIMATE VARIABILITY, SOIL DEGRADATION, DEPLETING WATER TABLE RESOURCES AND BREAKDOWN IN TRADITIONAL SYSTEMS OF WATER MANAGEMENT. There is still a high dependence of agricultural on rainfall as only about 40 percent of net sown area is irrigated.<sup>50</sup> Rising land fragmentation, unpredictable supply of rain or irrigation water can increase the vulnerability of resource-constrained farmers and the near landless.<sup>51</sup> However, though irrigation facilities have reduced variability in the annual growth rate of foodgrain output, there is a rising problem of depleting ground water resources as 62 percent of irrigated area comes from this source.<sup>52</sup> Falling water tables, in turn, force farmers to deepen wells frequently. This is a costly and often unsuccessful exercise if the groundwater level is very low, thereby pushing farmers into long-term debt traps.<sup>53</sup>

THERE IS HIGH AND RISING INDEBTEDNESS AMONG RURAL HOUSEHOLDS. By 2002, more than a quarter of rural households were in debt, increasing by four percentage

44 Chopra (2001). See also Jodha (1995) for Rajasthan.

45 World Bank (2005c).

46 Chopra (2001).

47 World Bank (2011) and World Bank (2005c). Jodha (1986) found that the share of income from these resources accounts for about 20 percent of total annual income for poor households (and only about 1-2 percent for non-poor households) in Rajasthan in the early (1980s).

48 Heltberg (2007) using EM-DAT data.

49 CIESIN (2009), IPCC (2007).

50 MSSRF and WFP (2004).

51 Brugere et al. (2003). There is some evidence of greater instability in food-grains output in the post-Green Revolution period. See Rao et al. (1988) and Ramaswami et al. (2003) for a review.

52 Ramaswami et al. (2003).

53 See World Bank (2006a).

points since 1991 even as the share of credit from institutional sources declined. As a result, the bulk of rural debt is from non-institutional sources and largely for household expenditure, particularly for poor households. Farmer households are even worse off, with nearly half reporting indebtedness - over 80 percent of these are marginal and small farmers owning two hectares or less of land. In absolute numbers, five states - Andhra Pradesh (as high as 82 percent), Madhya Pradesh, Maharashtra, West Bengal and Uttar Pradesh - account for half the indebted farmer households.<sup>54</sup> Farmer suicides in some parts of these states (notably AP and Maharashtra) have been widely reported in recent years, bringing the underlying issues of indebtedness, agrarian distress and vulnerability to the fore.<sup>55</sup> In response, the government announced a farmer debt waiver program (for institutional debt) in February 2008.

**PUBLIC HEALTH ENVIRONMENT REMAINS POOR, IMPLYING GREATER EXPOSURE TO HEALTH RISKS.** Despite significant improvements in recent years, improving access to basic amenities (including basic sanitation and adequate housing) remains a challenge. For example, three-quarters of rural households reporting no toilet facilities even in 2005/06.<sup>56</sup> Village-level surveys in four southern states provide strong evidence of capture of sanitation services along political and caste lines and a complete lack of awareness of the public health benefits of sanitation.<sup>57</sup> Urban areas are further characterized by traffic congestion, lack of green spaces and high levels of air and noise pollution. It is the urban poor who are primarily affected as they are unable to afford good quality housing in better served and safer localities. As a result, vulnerability to health risks remains high. A national study finds that self-reported morbidity is lower among households that use clean fuels (compared to biomass fuels), have piped indoor water and flush toilets. However, only 7 percent of Indian homes have access to all three amenities while nearly two-thirds do not have any of these.<sup>58</sup>

**INCREASED URBANIZATION IS LIKELY TO TRANSLATE INTO INCREASING PRESSURE ON BASIC AMENITIES AND SERVICES, PARTICULARLY FOR THE URBAN POOR.** India's urban population is growing faster than the rural population, while rural and urban poverty rates are converging. In 2001, about 28 percent of India's population resided in urban settlements. This is expected to reach around 40 percent by 2020, of which about one-third are likely to be slum-dwellers and squatters.<sup>59</sup> Low-income urban households often cite factors such as insecurity of land tenure, inadequate or lack of shelter and poor access to amenities as significant problems. Potentially weaker social networks, especially in non-slum settings, may make it harder for urban households to cope with shocks, insecurity and threat of crime. The greater commercialization of goods and services, implying a greater dependence on cash income, may further exacerbate vulnerability. Across the world, growing urbanization has usually been accompanied by rising deprivation in urban areas.<sup>60</sup> As mentioned earlier, Indian policy-makers have traditionally paid little attention to urban poverty and vulnerability.

**THE LABOR MARKET IS BECOMING INCREASINGLY INFORMAL.** In addition to the persisting dualism in the Indian labor market (approximately 90 percent of the labor force is employed in the informal labor market), recent trends have contributed to increasing vulnerability at the household-level. These include rising contractual and part-time subsidiary employment, slower wage growth and rising inequality during the last decade.<sup>61</sup> Household incomes, particularly those of poor households, are closely linked to the labor market. As a result, the nature of the work contract - with respect to regularity, security, benefits and remuneration - would be expected to have significant bearing on household vulnerability.<sup>62</sup> In addition, several studies suggest that access to jobs, land and other livelihood opportunities are strongly influenced by gender, caste, religion and neighborhood networks and are often mediated through local power brokers.<sup>63</sup>

54 NSSO (2005a).

55 See also Deshpande (2002).

56 International Institute of population sciences (IIPS) and Macro International (2007).

57 Ban et al. (2008).

58 Desai et al. (2009).

59 Supriti et al. (2002).

60 Haddad et al. (1999), Ravallion (2002).

61 See Ahmed and Narain (2010), Unni and Raveendran (2007) and Pais (2002) for detailed analysis.

62 See Drèze et al. (1992) and Pal and Kynch (2000) for an analysis for agricultural workers. Similarly, Harriss et al. (1990) find that 53 percent of households dependent on irregular and unprotected employment are poor in urban areas.

63 See for example, Iversen et al. (2009), Munshi and Rosenzweig (2006).

THE WORLD HAS RECENTLY WITNESSED A SEQUENCE OF FOOD, FUEL AND FINANCIAL CRISES. India has to some extent been relatively cushioned from the impact of these global crises, with the food and fuel crisis probably more important in the Indian context. Growth declined from an annual peak of about 9.7 percent in 2006-07 to 5.8 percent in the fourth quarter of 2008-09. The Indian economy stabilized fairly quickly and growth has picked up to 7.9 percent in the second quarter of 2009-10.<sup>64</sup> However, the impact of these crises was felt intensely, at least in specific sectors and geographical areas. Thus, in India, job losses occurred primarily in the gems and jewellery, transport and the auto industry, textiles (to a more limited extent) and mining. Adjustment to such shocks could take several forms: open unemployment, underemployment, sectoral shifts in employment, declining wages and earnings, changes in labor force participation, migration, and increased informalization. For instance, anecdotal evidence indicates that workers in mining and in ancillary jobs suffered, leading to an increased dependence on the Mahatma Gandhi National Employment Guarantee Scheme (MGNREG) in some (mineral-rich) parts of Orissa.<sup>65</sup> Both falling real wages and reallocation of labor are likely to come at a high social cost, especially as these crises are likely to affect groups that may not necessarily be poor and are typically not covered by safety net programs.

**MIGRATION AND INCREASINGLY MOBILE POPULATIONS:** Over a quarter of Indians were migrants in the early 2000s, more so in urban than rural areas.<sup>66</sup> There has been a marginal increase in the extent to which the Indian population has become more mobile over time (see Table 1.2). For men, the predominant reason for migration was employment – 30 percent of male migrants in rural and 52 percent in urban areas migrated in search of work. In contrast, women tended to migrate for marriage or when the entire household moved. Among migrants, the overwhelming majority (61 percent) was intra-district migrants, with about a quarter migrating across districts and only 13 percent across states (again, this figure was higher among urban migrants at 20 percent).

Year	Rural	Urban
1983	20.9	31.6
1987/88	23.2	32.9
1993	22.8	30.7
1999/00	24.4	33.4

Source: NSSO (2001).

Inter-state migration was much higher in certain states (Punjab, Haryana and Maharashtra) than the national average. The largest exporters of rural migrants were Uttar Pradesh, Madhya Pradesh, Bihar, West Bengal and Maharashtra, while Andhra Pradesh, Maharashtra and Uttar Pradesh were the largest exporters of urban migrants. However, the bulk of migration is within rural areas - only 5 percent of urban migrants are from rural areas. This relatively slow pace of rural-urban migration suggests that constraints to urban living could possibly be serving as disincentives to this process.<sup>67</sup>

HOWEVER, THESE FIGURES ARE LIKELY TO UNDERSTATE THE EXTENT OF SEASONAL AND CIRCULAR MIGRATION. A GROWING NUMBER OF MICRO-STUDIES HAVE ESTABLISHED THAT SEASONAL MIGRATION FOR EMPLOYMENT IS GROWING BOTH IN TERMS OF ABSOLUTE NUMBERS BUT ALSO IN RELATION TO THE SIZE OF THE WORKING POPULATION AS A WHOLE.<sup>68</sup> The National Commission on Rural Labour (NCRL) puts the number of circular migrants in rural areas alone at around 10 million (including roughly 4.5 million inter-state migrants and 6 million intra-state migrants). These localized studies also highlight the importance of earnings from migration – ranging from a sixth (in selected villages in Andhra Pradesh) to half (in selected villages in Madhya Pradesh) to over 60 percent (in selected villages in Rajasthan) of the annual income of migrant households.<sup>69</sup> However, the quality of employment is typically poor as these seasonal migrants are usually engaged in casual work in agriculture, construction, urban informal manufacturing and services.<sup>70</sup>

TEMPORARY MIGRATION FOR EMPLOYMENT IN RURAL AREAS IS HIGHER AMONG POORER QUINTILES WHEREAS THE PATTERN

64 CSO statistics (see [http://mospi.nic.in/press\\_note\\_gdp\\_2ndqr\\_30nov09.pdf](http://mospi.nic.in/press_note_gdp_2ndqr_30nov09.pdf)).

65 Das (2009).

66 The figures are 27 percent (as per NSS 1999/2000) and 31 percent (as per the 2001 Census) of the national population.

67 Kozel and Parker (2005).

68 Breman (1985, 1996), Rao (1994), Rogaly et al. (2001), Deshingkar and Start (2003), Haberfeld et al. (1999).

69 Deshingkar and Start (2003), Haberfeld et al. (1999).

70 Dev (2002), based on the National Commission on Rural Labour (NCRL) study.

IS MORE DIFFUSED IN URBAN AREAS.<sup>71</sup> This suggests that the poorest may not migrate as a minimum level of material assets may be required to make the investment for migration.<sup>72</sup> There is considerable debate on the contribution of rural-urban migration to urban poverty, based on the common perception that migration is the last resort for the rural poor. This is certainly true for those who migrate as a result of “push” factors—escaping debt traps, feuds or oppressive patron-client relationships. These people are likely to be among the poorest and most disadvantaged in urban areas. They are also likely to drive down urban wages and thus increase urban poverty in the short run. However, there is another class of migrants who are driven by the “pull” factors of more remunerative work or greater entrepreneurial opportunities. These migrants tend to be better off compared to the previous class and they often maintain social and economic links with their villages that enable them to cope with shocks better. These migrants can be viewed as rational actors responding to better economic incentives and could contribute to poverty reduction.<sup>73</sup>

THESE PERENNIAL AND EMERGING SOURCES OF VULNERABILITY REMAIN CRITICAL FOR HOUSEHOLD WELFARE. Poor and nearly-poor households are likely to be more vulnerable to these factors, potentially resulting in impoverishment.

## (b) Poverty dynamics

THOUGH A SUBSTANTIAL SUBSET OF RURAL HOUSEHOLDS REMAINS CHRONICALLY POOR, THERE IS CONSIDERABLE TRANSITION IN AND OUT OF POVERTY IN INDIA.<sup>74</sup> These estimates of chronic versus transient poverty vary widely depending on the location, time period, number of years and sample size of the panel data. However, all

studies confirm the importance of poverty transitions. For instance, between 1975 and 1985, 88 percent of households in the ICRISAT villages experienced poverty in at least one year, even though only 22 percent constituted the chronic poor.<sup>75</sup> Since then, living standards in these villages have improved substantially so that 57 percent of households moved out of poverty between 1984 and 2001, while only 3 percent fell into poverty.<sup>76</sup> Similarly, the larger NCAER ARIS/REDS panel of 250 villages indicates that 47 percent of households moved out of poverty between 1970/71 and 1981/82 while another 26 percent fell into poverty. Half the households in the sample remained chronically poor during this decade.<sup>77</sup> These findings are substantiated by qualitative work across four states – Assam, Andhra Pradesh, Uttar Pradesh and West Bengal.<sup>78</sup>

THE FACTORS ASSOCIATED WITH EMERGING FROM POVERTY ARE DISTINCTLY DIFFERENT FROM FACTORS ASSOCIATED WITH FALLING INTO POVERTY. Thus, factors such as income diversification, information, aspiration and empowerment are seen as critical for escaping poverty. On the flipside, health shocks, social obligations and associated indebtedness are the most commonly cited reasons for falling into poverty.

HOUSEHOLDS THAT SUCCEED IN ESCAPING POVERTY ARE OFTEN CHARACTERIZED BY A FAVORABLE INITIAL RESOURCE BASE (WITH RESPECT TO ASSETS, LITERACY, DECLINING FAMILY SIZE) AND A DIVERSIFIED PORTFOLIO OF ACTIVITIES. Though diversification of economic activity into non-agricultural activities might enable some households to escape from poverty, the majority of agricultural labor and cultivator households may not have the skills, knowledge and resources to take advantage of such opportunities so that mobility out of agriculture remains low.<sup>79</sup> The chronic poor, on the other hand, stay poor largely as a

71 NSSO (2001).

72 Deshingkar and Start (2003).

73 De Haan (1999), Loughhead et al. (2001), Kozel and Parker (2005).

74 Rigorous analytical work on these issues is limited by the lack of panel data to track consumption dynamics of households over time. As a result, this literature is largely limited to micro studies and research based on available panel data. This includes the extensive literature on the six ICRISAT villages in semi-arid rural South India originally between 1974 and 1985 and recently revisited between 2000-2004 (see for example Badiani et al. 2006a; Gaiha and Imai 2004; Walker and Ryan 1990) and the NCAER ARIS-REDS villages (see Bhide and Mehta 2004; Gaiha 1988) as well as village studies (see Jayaraman and Lanjouw 1999 for a review). More recently, there have also been micro studies based on cross-sectional data with recall questions (see for example Krishna (2004 and 2006). See Mehta and Shah (2003) for a review of some of these studies.

75 Gaiha and Deolalikar (1993).

76 Badiani et al. (2006a).

77 Bhide and Mehta (2004). See Gaiha (1988) for similar analysis of earlier rounds of the panel.

78 World Bank (2008b).

79 Drèze et al. (1992), Pal and Kynch (2000).

result of their low resource base (including no or bad quality land owned, low levels of skills, high dependency burden, illiteracy) and other structural factors (including social exclusion). These are typically casual agricultural laborers, small agricultural households, and scheduled caste and tribe households. The chronic poor also have a strong subsistence orientation which in turn implies that they are likely to have lower risk bearing capacity and are less inclined or able to undertake high-risk high-return activities that allow them to escape poverty. Thus, explicitly incorporating risk attitudes of households is an important step towards understanding the processes underlying vulnerability to poverty.<sup>80</sup>

THE SINGLE MOST IMPORTANT FACTOR DRIVING HOUSEHOLDS INTO POVERTY IS THE NEGATIVE IMPACT OF SHOCKS. These are chiefly health and social obligations (e.g., marriages and funerals) and severe crop shock, where the typical household response is greater indebtedness. Aggregate shocks such as drought (including both rainfall and irrigation failure) are also often associated with entry into poverty.<sup>81</sup> Qualitative work using life histories also finds that coping with recurring shocks are a common feature, especially among poor households.<sup>82</sup> We turn to the incidence of shocks and informal coping mechanism adopted by households next.

### (c) Vulnerability to shocks<sup>83</sup>

A range of sources contribute to household level vulnerability and can trigger shocks, some of them covariate impacting entire communities and others idiosyncratic impacting specific households. Uninsured shocks are costly to households in terms of loss of income, asset depletion, or reduced consumption that can perpetuate poverty. In addition, the threat of these adverse events could lead households to resort to options that mitigate risk but at the cost of income gains. Thus, examining the role of shocks and the coping strategies

adopted by households is an important step towards understanding the processes underlying vulnerability.

THE INCIDENCE OF SHOCKS IN RURAL INDIA IS HIGH AND MANY HOUSEHOLDS, EVEN NON-POOR HOUSEHOLDS, ARE VULNERABLE TO POVERTY AS A RESULT. Findings from surveys in four states – Jharkhand, Karnataka, Madhya Pradesh and Orissa - indicate that between one- and two-thirds of rural households report significant crisis events in recent years. Households in rural India are vulnerable to idiosyncratic shocks that impact particular households, such as ill health, death, loss of livestock, etc., as well as covariate shocks that impact the entire community, such as natural calamities, epidemics, etc.<sup>84</sup>

HEALTH PROBLEMS ARE THE MOST FREQUENT IDIOSYNCRATIC AND NATURAL CALAMITIES THE MOST FREQUENT COVARIATE SHOCK AFFECTING HOUSEHOLDS. Other common covariate shocks include severe crop shock (arising from a major pest attack or bad seed quality) in all four states and epidemics (human and livestock) for the three states where this question was asked. Figure 1.5 presents the incidence of particular shocks across households. In addition, there is some evidence that even health shocks may not necessarily be idiosyncratic - a small study in rural Andhra Pradesh finds that 29 percent (4 percent) of households report health (death) shocks as covariate, suggesting a link between health risks and community infrastructure. Similarly, the widespread prevalence of malaria in Orissa could explain the fact that the incidence of idiosyncratic (health) shocks is similar for poor and rich households.

UNSURPRISINGLY, POOR HOUSEHOLDS EXPERIENCE MORE HEALTH SHOCKS WHILE RICHER HOUSEHOLDS REPORT SHOCKS ARISING FROM CROP FAILURES AND LIVESTOCK EPIDEMICS (see Table 1.3). In general, the incidence of covariate shocks is much higher for the top quartile (i.e., the richest households). Only households with some cultivable land are likely to be impacted by a

80 For instance, the *Moving out of Poverty* study (World Bank 2008b) emphasizes the role of attitudes to risk and entrepreneurship among poor households that are successful in rising out of poverty.

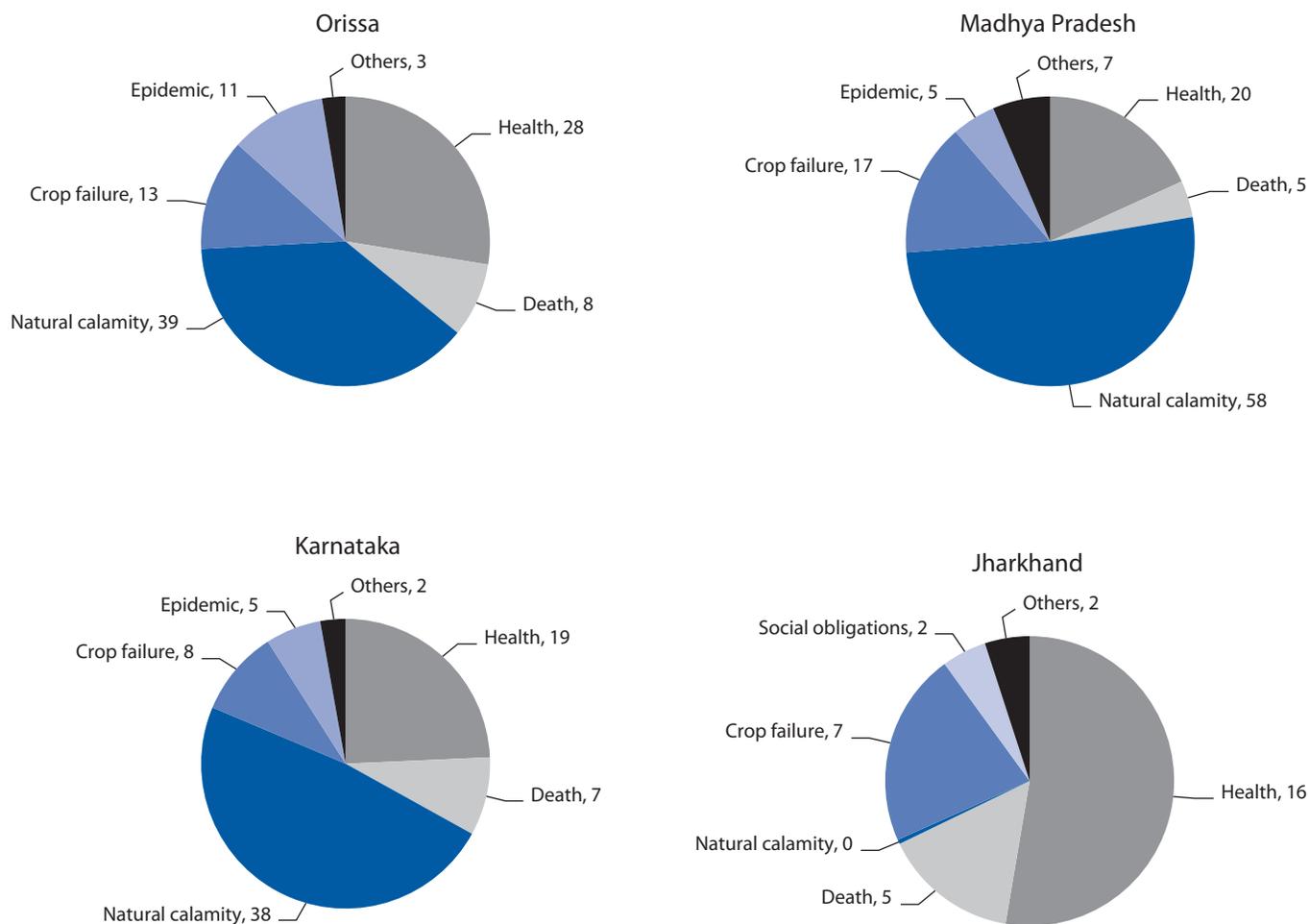
81 Badiani et al. (2006b), World Bank (2008b).

82 See, for example, Praxis (1999), Jayaraman and Lanjouw (1999), World Bank (2008b), Krishna (2004, 2006), Swaminathan (1995), Kozel and Parker (2005).

83 This section draws on primarily on two background papers for this report: Dev et al. (2007) and Balachander et al. (2009). These draw on two household surveys: the 2006 Social Protection Survey (SPS) which included rural areas of Orissa, Madhya Pradesh and Karnataka and the 2005 Jharkhand Living Standards Survey (JLSS). The dearth of panel data constrains analysis of the role of shocks in explaining vulnerability at the household level. Instead, we rely on cross-sectional data to examine the incidence of shocks.

84 Shocks leading to consumption shortfalls can be categorized on the basis of their level of impact, frequency and severity. See Dercon (2004) for a review of the literature on risks faced by rural households in developing countries and the strategies used by households to cope with consumption shortfalls caused by shocks.

Figure 1.5: Health problems and natural calamities are the most common shocks affecting households



Source: Dev et al. (2007) for the first three states (2006 Social Protection Survey - SPS); Balachander et al. (2009) for Jharkhand (2005) Jharkhand Living Standards Survey - JLSS).

Notes: 1. The data for Jharkhand is not strictly comparable for the other three states. The two surveys – JLSS and SPS – have differences in recall periods (three years preceding the survey in JLSS compared to one year in SPS); list of shocks (e.g., JLSS does not include a separate question on human or livestock epidemics, but does include one on social obligations unlike SPS); and comparable information on household welfare (SPS survey does not have household consumption or income information). 2. The figures in the graphs are the incidence of the particular shock in the state (i.e., not just among households that report a crisis event).

negative crop shock. These households are also likely to be in higher quartiles. Landless households, on the other hand, will be in the bottom quartile and will experience only the indirect effects of such shocks through changes in the demand for labor. In contrast, the incidence of idiosyncratic shocks (primarily health shocks) is higher for the bottom quartile (i.e., the poorest households), affecting them both directly through out-of-pocket expenses and indirectly through loss of earnings. In the case of Orissa, the incidence of health shocks is similar across quartiles, possibly due to higher overall poverty and/or the widespread prevalence of malaria in the state.

	Karnataka		Madhya Pradesh		Orissa	
	Q1	Q4	Q1	Q4	Q1	Q4
Natural calamities	50	38	34	89	18	48
Crop failure	3	18	1	30	2	21
Health, death	42	23	31	17	35	37
Livestock epidemic	2	4	0	7	6	11
Other	3	3	8	6	2	2

Source: Dev et al. (2007). Notes: Households are grouped into quartiles on the basis of their wealth ranking (as information on household consumption or income is not available).

The above findings are consistent with the literature on sources of risk and shocks in India.<sup>85</sup> These studies find that the incidence of shocks is high in rural India, the most common being health and natural disasters. Other significant sources of shocks include loss of assets, crop failure, loss of livelihoods (due to adverse market conditions, environmental degradation, death of livestock, etc.) and social obligations (including marriages and funerals). While there is some evidence that urban households face similar sources of vulnerability,<sup>86</sup> a significant gap in our knowledge relates to the household-level incidence of shocks in urban areas.

SUCH SHOCKS CAN HAVE AN OVERWHELMINGLY NEGATIVE IMPACT ON HOUSEHOLD WELFARE, OFTEN LEADING TO INDEBTEDNESS AND POVERTY. For instance, in the ICRISAT villages, crop failures result in a higher proportion of households falling into poverty, while consecutive crop shocks may result in chronic poverty.<sup>87</sup> Communities also cite health shocks or chronic ill-health as one of the main reasons for becoming, and often for staying, poor.<sup>88</sup> Ill-health implies expenditure on treatment, potential loss of work and often indebtedness. The poor in particular have little access to formal insurance and informal networks have only a limited ability to protect households against health risks. The coverage of health insurance in India, particularly among rural households, is extremely low with less than 3 percent of households reporting any form of health insurance. Coverage is negligible for the poorest at 0.4 percent compared to 7 percent of households in the richest quintile.<sup>89</sup> As a result, out-of-pocket private expenditure by households is estimated to be as high as 76 percent of total health expenditure.<sup>90</sup> This out-of-pocket expenditure imposes

a considerable financial burden on households and may even push households into poverty. Estimates of the impoverishing effect of such expenditure in India range from an overall poverty increase of 3.5 percent to 6.6 percent in rural and 2.5 percent to 5 percent in urban areas (depending on the methodology and survey used).<sup>91</sup> There is also some evidence that a large portion of farmer debt also tends to be for meeting social obligations including marriages and ceremonies.<sup>92</sup>

#### (d) Informal coping mechanisms

A COMMON COPING STRATEGY IN RESPONSE TO SHOCKS IS BORROWING; BUT POOR HOUSEHOLDS COPE SOMEWHAT DIFFERENTLY FROM BETTER-OFF HOUSEHOLDS. Besides borrowing, other common responses include increasing household labor supply (as in Karnataka and Madhya Pradesh), asset depletion (as in Jharkhand and Orissa), and reliance on familial and other social networks (as in Jharkhand), depending on the local context (see Table 1.4). For instance, the relatively low reliance on labor market adjustments in response to shocks in Jharkhand and Orissa could be a reflection of the relative lack of employment opportunities compared to Karnataka and Madhya Pradesh. However, poor households cope somewhat differently with shocks. Where labor supply adjustment is a significant coping strategy, a greater proportion of households in the poorest quartile respond to shocks by increasing their labor supply compared to the households in the richest quartile (see Table 1.4). In contrast, richer households tend to resort to borrowing or asset depletion.<sup>93</sup> Similarly, ease of access to credit may influence the extent to which poor households can use borrowing as a strategy.<sup>94</sup> For

85 These studies are typically based on localized surveys. For selected studies in rural areas see Subbarao et al. (2007) for rural Bihar; Gaiha and Imai (2002) for the ICRISAT villages; Duflo (2005) and Krishna (2004) for Rajasthan; Krishna (2006) for Andhra Pradesh; World Bank (2008b) for Andhra Pradesh, Assam, Uttar Pradesh and West Bengal.

86 Amis (1997), Benjamin (2000) and Supriti et al. (2002) for Bangalore and Noponen (1991) for Chennai.

87 Gaiha and Imai (2004).

88 See for example, World Bank (2008b).

89 Ajwad (2006). Note that this estimate is for 2004/05 before the introduction of the Rashtriya Swastha Bima Yojana aimed at providing subsidized health insurance to the poor. See Chapter 5 for a discussion.

90 Reported by Berman et al. (forthcoming) using WHO 2008 statistics. See also Government of India 2005. In fact, health expenditure constitutes about 6 percent of per capita household expenditure, but is likely to be highly variable and lumpy (especially in case of surgery). See Berman et al. (forthcoming) for an analysis of health expenditure using NSS data.

91 See Garg and Karan (2008), Gupta (2009) and Berman et al. (forthcoming).

92 World Bank (2008b).

93 Similarly, in Bihar, in addition to the coping mechanisms noted above, migration is also an important strategy, especially for poor households (14 percent of the bottom quintile as opposed to 7 percent of the top quintile) (Sen, 2008).

94 Bhandari and Shresth (2003) also find that the urban poor rely chiefly on borrowing to cope with health expenditures, while the urban rich rely on past savings.

**Table 1.4: The poor cope differently with shocks than the rich**

	Jharkhand			Karnataka			Madhya Pradesh			Orissa		
	All	Q1	Q4	All	Q1	Q4	All	Q1	Q4	All	Q1	Q4
Debt	27	18	22	34	33	35	17	13	25	25	27	26
Family support	35	34	36	3	4	0	5	3	4	9	11	8
Asset depletion	20	23	22	4	3	5	7	0	10	10	4	10
Labor adjustment	2	5	2	30	32	24	36	45	28	8	14	5
Other	6	7	7	5	2	13	12	21	7	12	6	15
None	11	13	11	25	26	23	23	18	27	36	38	36

See sources and notes to Figure 1.5.

instance, in states like Karnataka and Orissa that have a strong presence of self-help groups, households in the poorest and richest quartiles are equally reliant on borrowing. In Jharkhand and Madhya Pradesh, however, a greater proportion of households in the richest quartile resort to borrowing. A large proportion of households report no particular coping mechanism. One possible explanation, at least for Jharkhand, is that this entails cutting back on consumption (as these households also report no financial cost incurred due to the shock).<sup>95</sup>

THE MOST COMMON COPING STRATEGY IN RESPONSE TO HEALTH SHOCKS IS RELIANCE ON SOCIAL NETWORKS OR BORROWING, WHILE THE MOST COMMON RESPONSE TO CROP FAILURE IS TO ADJUST LABOR SUPPLY. Differences in the cost implications of these different types of shocks may be part of the reason for the differences in the strategy adopted. Small localized studies suggest that health shocks are frequent but relative low cost compared to shocks to livelihoods (such as crop failure). As a result, social networks of friends and relatives may be able to help one another with low-cost shocks but may not be able to cope with high-cost shocks or with covariate shocks that impact the entire group. Similarly, borrowing may not be feasible as the single coping strategy when the cost implications of a shock are high.

THOUGH THE EVIDENCE PRESENTED HERE IS BASED ON DATA FROM FOUR STATES, THESE FINDINGS ARE CONSISTENT WITH THOSE OF OTHER STUDIES IN DIFFERENT PARTS OF INDIA, GIVING US SOME CONFIDENCE THAT THE BROAD PATTERNS OUTLINED HERE MIGHT BE MORE WIDELY APPLICABLE. These

findings are also consistent with the literature on risk coping mechanisms in developing countries.<sup>96</sup> Ex-ante coping mechanisms intended to reduce exposure to risk include diversification of income sources and adoption of low-risk (though potentially low-return) activities. The most common ex-post mechanisms to cope with shocks and smooth consumption are the following: (a) indebtedness often at high-interest rates; (b) asset depletion in the form of spending from savings, reducing grain stocks, selling livestock, land and/or jewelry; (c) labor market adjustment by increasing number of hours worked and/or increased participation by women and children; and (d) support from family and/or community networks.

THERE IS SOME EVIDENCE THAT SUCH INFORMAL COPING MECHANISMS ARE UNLIKELY TO PROVIDE ADEQUATE PROTECTION. There is some evidence from the ICRISAT studies that consumption adjusts to income fluctuations indicating a less than perfect insurance function, especially among the poor and landless.<sup>97</sup> These mechanisms provide some measure of insurance, mainly in the face of idiosyncratic shocks. However, with the possible exception of high-interest debt, these strategies are likely to break down in the face of covariate shocks. Additionally, there are possible additional long-term adverse implications of these strategies, e.g., withdrawal of children from education.<sup>98</sup> Rising indebtedness in rural areas is a significant source of vulnerability among households, especially among marginal and small farmers. As much of the debt incurred is for unproductive purposes (health, household expenditure and social

<sup>95</sup> See also Behrman and Deolalikar (1990).

<sup>96</sup> See Dercon (2004) for a survey of common risk coping mechanisms adopted by households in developing countries, and Ramaswami et al. (2003) for review of the literature on India drawing on ICRISAT and other localized surveys. See also Duflo (2005); Krishna (2004, 2006) for more recent studies.

<sup>97</sup> See Morduch (1999, 2004); Ravallion and Chaudhuri (1997), and Townsend (1994). See also Dercon (2002).

<sup>98</sup> Jacoby and Skoufias (1998), Kochar (1995).

obligations among others) and is from non-institutional sources with very high rates of interest, it is likely to be unsustainable.<sup>99</sup> As a result, even transitory shocks can have permanent effects (sometimes leading to poverty traps), especially if coping mechanisms are inadequate.

## C. IMPLICATIONS FOR SOCIAL PROTECTION POLICY

THE TRENDS IN POVERTY, INEQUALITY AND VULNERABILITY REVIEWED IN THIS CHAPTER HAVE SIGNIFICANT IMPLICATIONS FOR SOCIAL PROTECTION (SP) POLICIES AND PROGRAMS. To the extent that SP policies and spending are responsive to this evolution, this analysis gives rise to some critical debates about potential trade-offs in policy making, including the following:

**WHAT IS THE APPROPRIATE MIX OF SP POLICIES AND PROGRAMS?** The analysis in this chapter indicates that while poverty has fallen steadily, deprivation along other dimensions and as perceived by communities remains high, particularly among certain groups. At the same time, households are increasingly vulnerable to the danger of falling into poverty. This indicates a need for a debate on the appropriate mix of SP policies and programs that could address these perennial and emerging concerns. Three issues emerge as significant:

- ◆ The primary function for SP policy and programs continues to be poverty mitigation for the chronically poor. A key concern would be to improve design and/or implementation of existing programs to reach particularly excluded groups.
- ◆ An increased emphasis on SP policies and interventions that promote *ex ante* management of household risk would also be expected. This would typically imply an increased emphasis on insurance-based interventions. In particular, given the especially high importance of health shocks as a source of vulnerability for the poorest households, efforts to assist the poor in managing these shocks would be desirable.
- ◆ The aggregate shift from food deficit to food surplus, and the extension of reliable food markets into many more parts of the country over time, combined with increased household spending

needs for health, education and other services, one would expect that the relative balance between food and cash in SP interventions would shift in favor of the latter.

- ◆ In addition, progress on some key human development outcomes, particularly nutrition, has been poor. At the same time, there is a significant share of spending on SP interventions. This begs the obvious question on whether India is using this spending as effectively as it could to leverage better human development outcomes in the way that developing countries internationally and in the region have done in recent years.

**WHAT IS THE APPROPRIATE ROLE OF STATES VERSUS THE CENTRE WITH RESPECT TO SP POLICY AND DELIVERY?** There remain wide inter-state disparities with respect to poverty and human development indicators. Poverty remains concentrated in the northern and central states – 61 percent of India's rural poor were accounted for by (undivided) Bihar, (undivided) Madhya Pradesh, Orissa and (undivided) Uttar Pradesh. The human development index in these states is also lower than other regions in the country. As a result, there is an increasing divergence of state-level needs, arising due to differences in demographics, poverty incidence, vulnerability and other factors, as well as differences in institutions and capacities. However, there remains a dissonance between the continued centralization of funding and (on paper, and, to a more limited extent, in practice) decentralization to district and gram panchayat levels that has occurred in recent years. At the same time, this very diversity of endowments and outcomes would seem to strengthen the case for central financing from an equity perspective. These issues suggest greater flexibility would be expected in the policy/spending mix and program design features available to states under centrally-sponsored social protection programs (see Chapter 6 for a discussion on financing and institutions, including the relative role of states in SP policy and delivery).

**WHAT DOES THIS MEAN FOR TARGETING OF RESOURCES?** The halving in absolute poverty rates since the 1970s imply a shift from SP policies which are untargeted to policies and programs which attempt to focus spending more on the still-significant share who remain in absolute poverty. At the same time, there is a high

99 NSSO (2005b), Dufflo (2005).

number of the “near poor” and vulnerable households, with considerable churning around the poverty line. This suggests a re-examination of the basic rationale for targeting, particularly with respect to geographic allocation of resources. In general, poverty estimates at the state level (through NSS poverty estimates) and sub-state level (through the primary administrative household targeting tool – the Below Poverty Line or BPL census) are used for fiscal allocation of resources across and within states. The basic principle is to increase the concentration of anti-poverty spending in those states and regions which have fallen further behind in terms of poverty reduction. The question is whether this purpose could be better served through other means. For instance, improved fiscal allocations could potentially be achieved through improved systems for more fine-tuned geographic targeting that take into account differences in endowments and opportunities across and within states.<sup>100</sup> However, it is not clear what the political economy ramifications would be on such potential over-concentration of anti-poverty spending combined with historically low execution in some of the lagging states in terms of funds utilization.

Similarly, the identification of households that qualify as beneficiaries of various SP programs could be achieved through various targeting tools. International experience suggests a mix of targeting tools, most commonly in combination with some form of geographic targeting, is most effective at targeting households. However, this is not a straightforward exercise for India given the clustering of households around the poverty line and the similarity in various characteristics of poor and near poor households. However, there is sufficient diversity of experience across states and it would be useful to draw on the lessons learnt from this range of experience of identifying poor households or areas through alternative methods. Not all methods would be equally relevant across states (for instance, community-based methods may not be appropriate in highly fragmented communities). Another important consideration is to examine options for building dynamism into the targeting system. This is necessary both for conceptual and practical reasons. Conceptually, households may

move out of or fall into poverty in the period between any form of identification exercise (e.g., the BPL censuses). Practically, there is a problem of database management when updating is decentralized with no provision for feeding into a centralized database of the updated list. See Chapter 8 for a discussion of the complexities and challenges of targeting in India.

#### WHAT ARE THE EMERGING AREAS FOR SP INTERVENTION?

The analysis also highlights several areas that do not currently have a significant place in India’s SP system but are increasingly demanding greater interventions in light of India’s changing economic conditions. Many countries have faced or are facing similar challenges with respect to urbanizing and increasingly mobile populations.

- ◆ ***A gradual increase in programs and spending targeted to the poor and vulnerable in urban areas, particularly small and medium towns, could be expected to increase over time as India urbanizes.*** The urban context suggests that it is not sufficient to simply transplant rural institutions and policies for effective service delivery in urban areas. Instead, given the specific challenges and opportunities, a general theme of urban development should be to address how public programs can leverage poor households in accessing opportunities for livelihoods and human capital acquisition.
- ◆ ***The increase in long duration migration rates since the 1980s combined with a continued reliance on seasonal migration as coping or livelihood strategies for households suggests the need for a significant departure from the current SP system.*** Essentially, even though people are becoming increasingly mobile, the SP system as it currently stands is designed for a static population. In the destination villages or cities, migrants typically remain without an identity and hence are unable to draw on their entitlements for SP programs or to claim state resources for education, health care, water and sanitation and other basic services. A critical challenge for SP policy is to design programs that offer portable benefits and can cater effectively to this increasingly mobile population.

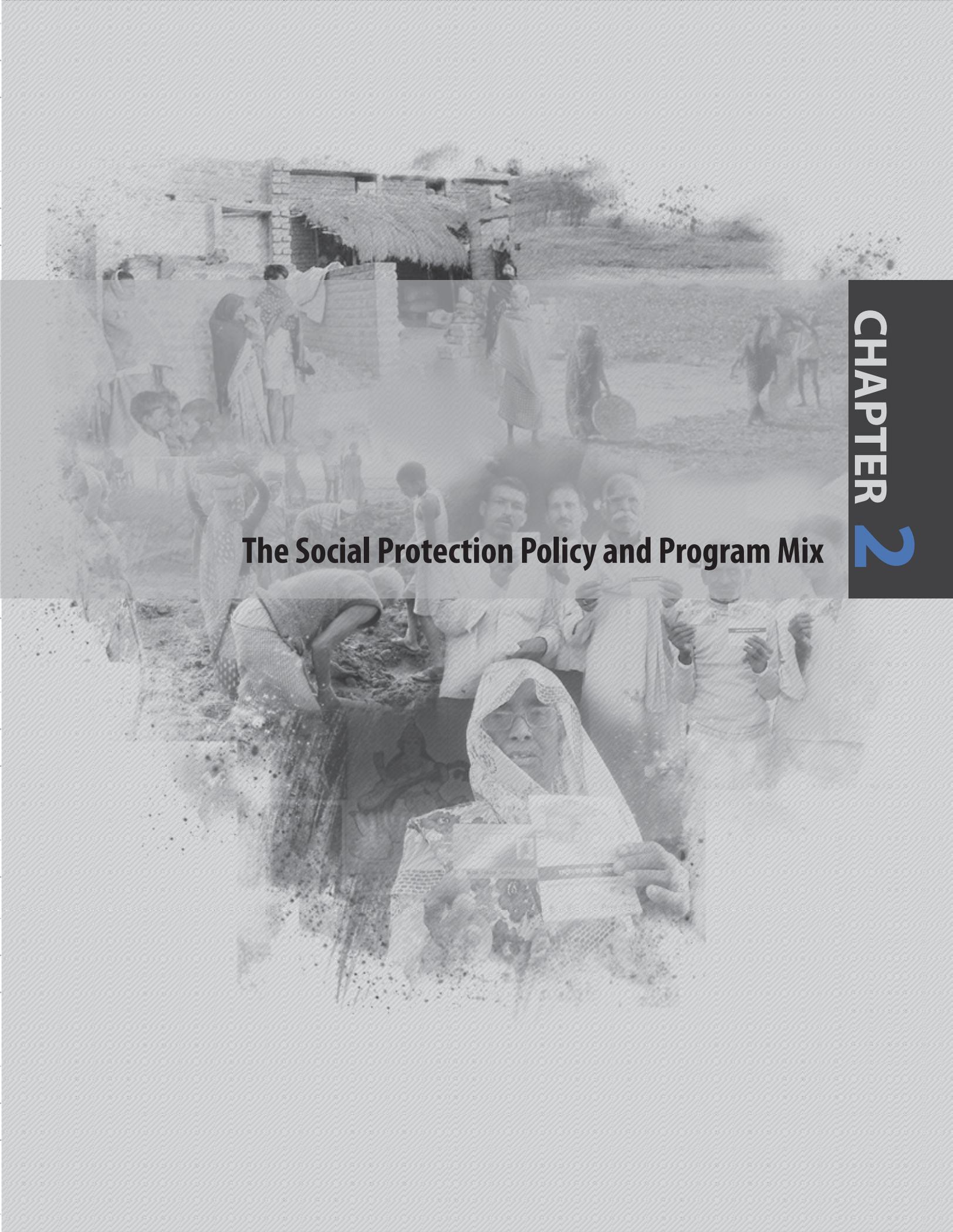
<sup>100</sup> The recently proposed methodology for the 2009 BPL census by the Saxena Committee poses a similar question by indicating that nearly all households in districts with 80 percent or more of the population below the poverty would be considered poor (see Chapter 8 for a detailed discussion).

THE FOLLOWING CHAPTERS ASSESS THE CURRENT STATUS AND TRENDS IN THE INDIAN SP SYSTEM TO EXPLORE THE EXTENT TO WHICH IT IS EFFECTIVELY RESPONDING TO THE CHALLENGES PRESENTED IN THIS CHAPTER. The rest of this report explores more fully some of these policy trade-offs paying particular attention to fiscal constraints, political economy considerations, administrative and capacity constraints. The objective is to assess the most binding constraints and examine the experience of delivering SP programs to derive lessons on striking these trade-offs most efficiently and equitably. Naturally, every public SP system has inertia and political economy challenges in reform. India is no exception, and indeed the political economy of reform in the Indian SP system is considerably more challenging than most.

THE SUBSEQUENT CHAPTERS FIND THAT CERTAIN ELEMENTS OF THE REFORM NEEDS OUTLINED ABOVE HAVE HAPPENED OR ARE IN THE PROCESS OF HAPPENING. These include, for example, the move to targeting of the Public Distribution System, the largest single SP program; an

increased focus on backward districts in anti-poverty and area development programs; a partial but notable recent shift in the spending mix towards cash benefits; and a sustained drive to provide subsidized health insurance to the poor. However, some of the core challenges remain to be met and policy development to this end is at best just beginning and in some cases under-developed. These include, for example, the need for new urban SP interventions; the need to further expand insurance-based interventions for the poor; the desirability of making centrally-sponsored anti-poverty spending more flexible and responsive to increasingly diverse needs of different states and social groups; and the requirement for effective targeting tool(s) at the household level. Many countries have faced or are facing similar policy issues and challenges as India. In this context, the lessons of other countries in dealing with some of the trade-offs described above may be informative, as would lessons within India from well-performing to lagging states.





## The Social Protection Policy and Program Mix

# CHAPTER 2



# The Social Protection Policy and Program Mix

INDIA HAS A VAST ARRAY OF ANTI-POVERTY PROGRAMS WHICH HAVE BEEN SUBJECT TO PERIODIC – AND ONLY PARTLY SUCCESSFUL – EFFORTS AT CONSOLIDATION AND/OR CONVERGENCE. There are hundreds of anti-poverty programs in India, both Centrally Sponsored Schemes, and state-specific programs.<sup>101</sup> Defining precisely where “area development programs” ends and “anti-poverty programs” start is not a science. This report therefore focuses on what can be considered the core anti-poverty or social protection programs which operate nationally. While state-specific programs are often significant in spending terms, they are typically less important in lagging states, and in other cases supplement central schemes by expanding coverage with state resources.

CENTRALLY SPONSORED SCHEMES (CSS) DOMINATE THE SOCIAL PROTECTION PROGRAM MIX, PARTICULARLY IN A

NUMBER OF POORER STATES, WHERE CSS ARE OFTEN THE ONLY SP SCHEMES OF ANY SIGNIFICANCE. With the exception of PDS, a number of the core SP programs had their origins as central schemes in the 1970s.<sup>102</sup> The momentum for major expansion of schemes and spending came from concern about spreading the benefits of the Green Revolution, an issue taken up by Mrs. Gandhi under the slogan of *Garibi Hatao* (eliminate poverty). While the names and some design elements of schemes have changed since the 1970s, the key elements of the main SP programs have not changed dramatically, though some new national programs such as midday meals and social pensions, have added to the policy mix.<sup>103</sup>

ON THE FACE OF IT, THE POLICY MIX IN SOCIAL PROTECTION IS IMPRESSIVE FOR A DEVELOPING COUNTRY. “On the books”, there is an impressive mix of SP programs which includes

<sup>101</sup> CSS have been subject to periodic expansion and consolidation, increasing from 65 in 1969 to 190 in 1978-79, before being reduced to 75 in 1980 and increasing again to 201 by 1985. During the Ninth Plan period, this rose to 360, before falling again by 2005 to just over 200 (see Saxena 2006 prepared as a background paper to this report).

<sup>102</sup> Though public works in India date back to the 12<sup>th</sup> century from leaders like Sher Shah Suri, and were used in the 19<sup>th</sup> century under famine relief codes, they continue to be significant source of spending particularly in drought-prone states.

<sup>103</sup> See Saxena (2006) on the evolution of Rural Development anti-poverty programs (APPs) since the 1970s.

traditional welfare/social assistance interventions which support ex post poverty mitigation (e.g., PDS; social pensions), those which seek to mitigate risks for households ex ante (e.g., social insurance), those which try to promote movement out of poverty in the short and long runs (e.g., SGSY and school stipends), and hybrid tools (public works). The main SP schemes dealt with in this report are outlined in Table 2.1.<sup>104</sup>

LOOKING AT THE POLICY MIX ACROSS MAJOR PROGRAMS IN LIGHT OF THEIR OBJECTIVES AND SPENDING RANK (TABLE 2.2), IT IS CLEAR THAT THE SP SYSTEM REMAINS LARGELY FOCUSED ON PROGRAMS WHICH DEAL EX POST WITH POVERTY MITIGATION,

AND ON RURAL AREAS. While a primary focus on ex post coping interventions is understandable, the policy mix of the SP system has only recently begun to respond to the evolution of living standards and needs in directions that might have been expected. There are three areas where the evolution of SP programs and spending has been less and/or later than one might have expected in the face of significant poverty reduction and gradual urbanization. They are:

- ◆ *insurance-based interventions remain in their infancy in terms of coverage in the unorganized sector, though the RSBY program is a significant*

**Table 2.1: Major central social protection schemes, 2009**

Scheme	Type	Description
Public Distribution System (PDS)	Subsidized food and fuel distribution	Subsidized wheat and rice, plus kerosene and sugar in most states. Level of subsidy varies according to whether APL, BPL, AAY or Annapurna household (see Chapter 3).
Mahatma Gandhi National Rural Employment Guarantee (MGNREG) and SGRY	Self-targeted public works	Unskilled and low skill public works. MGNREG guarantees 100 days employment per rural HH per year in all districts. SGRY had aimed for 100 (non-guaranteed) days in rural districts, with a cash and food component. After 2006 SGRY was limited to non-MGNREG districts, but was discontinued in 2008 (see Chapter 4).
Swarnajayanti Gram Swarozgar Yojana (SGSY)	Targeted credit scheme for groups and some individuals	Subsidized lending from banks to groups of BPL people, with allowance for some individual lending, and small APL share in groups (see Chapter 4).
Indira Gandhi National Old Age Pension Scheme (IGNOAPS)	Non-contributory social pensions	Monthly cash benefits for BPL elderly (originally called NOAPS until renaming and expansion in 2007), and state schemes for widows and disabled people (since 2007 also included in the central program) (see Chapter 3).
Indira Awaas Yojana (IAY)	Targeted rural housing	Subsidies for rural BPL with inadequate housing for housing construction (see Chapter 3).
Midday meals	School feeding program	Hot meal for children in grades 1-8 in government and aided schools (see Chapter 4).
Rashtriya Swasthya Bima Yojana (RSBY)	Subsidized health insurance	Subsidized health insurance for hospitalization for BPL households in selected districts, rolling out to national coverage by 2013 (see Chapter 5).
Aam Admi Bima Yojana (AABY)	Life/disability/accident insurance for BPL	Free insurance covers natural death, disability and accident for rural landless households (see Chapter 5).
Other social insurance for unorganized workers	Subsidized social insurance	Variable by state, though central welfare funds for select sectors (e.g. beedi workers) (see Chapter 5).
Specific urban anti-poverty programs	Targeted urban housing (VAMBAY) and employment programs for the poor (SJSRY), now merged under JNNURM	Housing construction and upgradation for slum dwellers, and wage and self-employment programs for unemployed or underemployed urban poor (see Chapter 3).

<sup>104</sup> The terminology for categorization of programs follows largely the Social Risk Management (SRM) framework: i.e., risk management strategies that mitigate the impact of a shock, reduce the chances of a shock occurring and help cope with the impact (see Holzmann and Jorgensen, 2000). The SRM categorization is quite close to categorization widely used in India. The concepts of “promotional” and “protective” effects on livelihoods stem from Drèze and Sen (1989). Guhan (1994) adds a third concept, “preventative”. While often blurred in practice, these terms have distinct analytical features: “promotional” measures aim to improve real incomes; “preventative” measures seek to avert deprivation; and “protective” measures provide relief against deprivation to the extent that the other two sets of measures fail to do so. See also Gentilini (2005) for a discussion of these concepts.

**Table 2.2: Major SP programs by objectives and spending rank**

Program	Ex post risk coping	Ex ante risk mitigation	Promotional	Spending rank
PDS	**	*		1
MGNREG + SGRY	**	*		2
SGSY			***	6
IAY	***			4
Social pensions	***			5
Midday meal	*	*	*	3
RSBY		***		8
AABY		***		7
Soc. insurance unorganized		**	*	9
Urban poverty programs	**	*		10

Source: Bank staff estimates and Government of India budget documents, 2008/09 (revised estimate)

**positive step in this regard and new legislation in 2008 commits to further expansion of coverage.**<sup>105</sup>

**The ex ante mitigation arm of the policy mix is therefore weak.** Expanding informal sector coverage of social insurance is a major challenge in many developing countries, and one that India has had relatively limited success with until very recently, despite a series of central and state-specific schemes.<sup>106</sup> Given the increased social importance of vulnerability in recent decades, it would be reasonable to expect significantly greater attention to ex ante mitigation policies over time.

- ◆ **promotional interventions in the public sector continue to receive relatively little emphasis, particularly given the continuing challenges in improving human capital outcomes.** Overall, safety nets in India remain primarily “nets” rather than “ropes” or “ladders” which seek to promote sustained movement out of poverty.<sup>107</sup> While designed with such an objective, SGSY and predecessors such as the Integrated Rural Development Program (IRDP) have generally been one of the weaker performing SP programs, and attract limited resources. The most important initiative in this area is the major expansion of midday meals in the early 2000s, the impacts of which suggest significant under-exploited potential for promotional/demand side SP interventions. Unlike social security for the

informal sector, this is an area where an increasing number of developing countries – including in the South Asia region – have had successes in promotional interventions which contribute to human capital development through conditional cash transfers (CCTs).

- ◆ **other than PDS, SP interventions in urban areas are negligible and even more strongly biased towards ex post risk coping.** Given the increasing importance of vulnerability in urban areas, this raises questions about the appropriateness of the current policy mix in urban areas. In resource terms, Table 2.2 indicates that the situation has not changed dramatically from the period of Lakdawala report in 1993, which found a rural to urban poverty ratio of 3.5:1, but a rural to urban anti-poverty scheme spending ratio of 35:1. While it is not suggested that an appropriate ratio would be parity, the differences are nonetheless stark.

ANOTHER IMPORTANT ASPECT OF THE SP POLICY MIX IS THE BALANCE BETWEEN FOOD-BASED AND CASH INTERVENTIONS. Food remains a very important element of SP programs in India, with the PDS still the single largest program, and the sharp recent increase in midday meal spending (see below). In addition, up to 75 percent of SGRY compensation to workers could be in food (and the estimate for this alone was ₹ 6,750 crore in 2008/09), and smaller programs such as Annapurna are also food-based. An important countervailing shift in recent years

105 See Chapter 5. The relevant legislation is The Unorganized Workers' Social Security Act, 2008.

106 See O'Keefe and Palacios (2006) for short review of developing country experience with expansion.

107 See Pritchett et al. (2002) and DFID on the terminological and practical distinctions.

is the policy reform from SGRY to MGNREG, which relies entirely on cash for wage payment to participants, and the introduction and likely future expansion of RSBY. Overall, however, the share of food in total SP spending remains high by international standards, and more so when one takes account of state level supplements on the central subsidy and coverage of distribution costs. With the 2009 proposals for Right to Food legislation, the spending share on food could increase further.

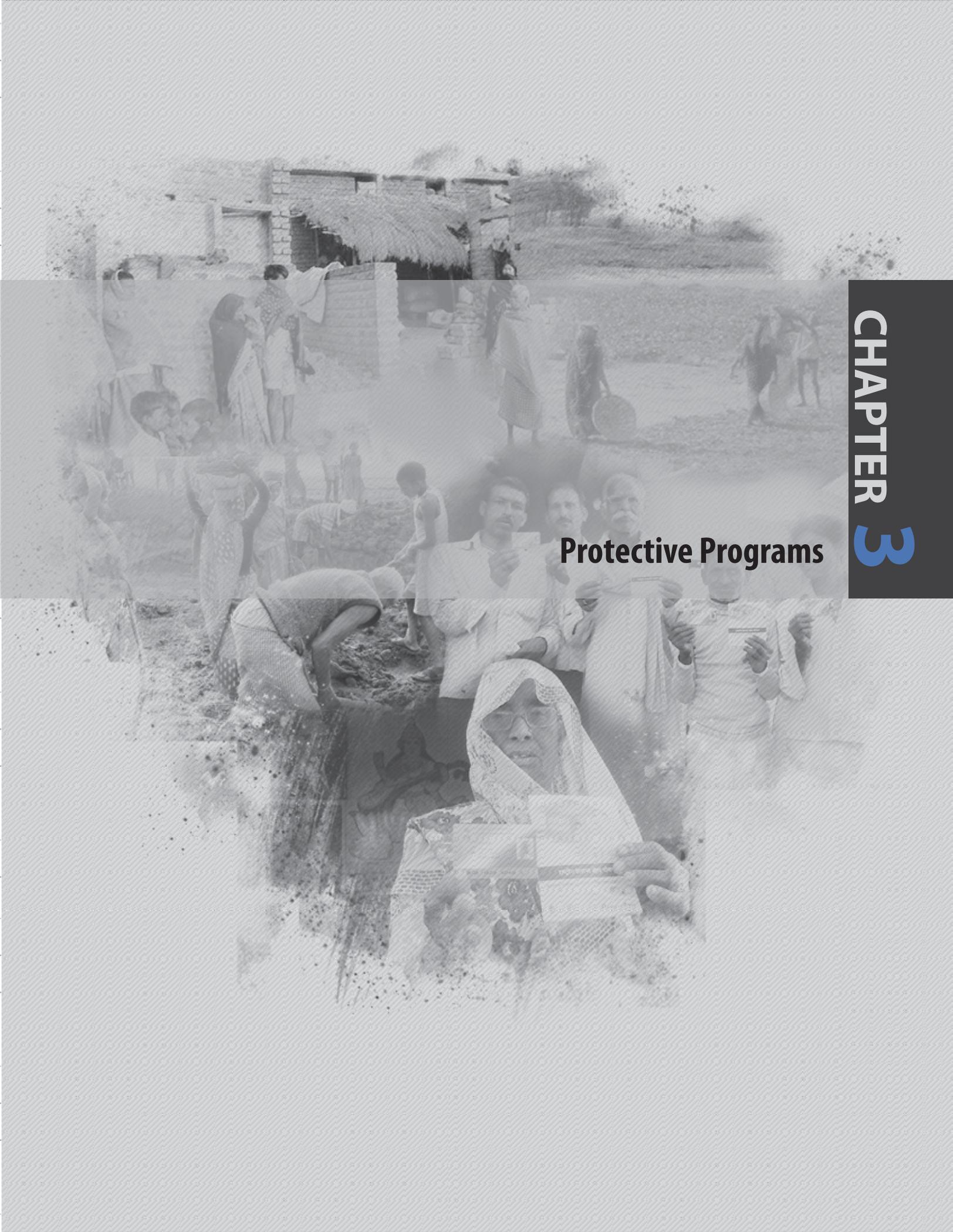
THE DEBATE IN INDIA ON THE RELATIVE MERITS OF FOOD VERSUS CASH IN SAFETY NET PROGRAMS IS AT TIMES INTENSE, WITH A STRONG EMPHASIS ON DIRECT FOOD SECURITY AS A KEY OBJECTIVE (RATHER THAN INDIRECT FOOD SECURITY THROUGH INCREASING HOUSEHOLD INCOMES). This is an important debate, but one on which hard evidence for India is almost absent on the relative impacts on household welfare and food security of food versus cash.<sup>108</sup> Despite this, the issue is assuming greater profile with the commitment of the Government to a Right to Food Act, which would enshrine in legislation various commitments on food and nutrition programs, including PDS. Evidence on relative program targeting and leakage performance in the following chapters suggests that – whatever the in-principle merits of food versus cash – India has struggled to operate its food-based programs in a sufficiently efficient and transparent

manner to realize the possible nutritional benefits of food programs. Equally, international evidence indicates that most developing countries have transitioned away from a strong emphasis on food in their safety nets as they reach lower-middle income levels.

THE LAST SEVERAL YEARS HAVE SEEN SEVERAL POSITIVE DEVELOPMENTS IN TERMS OF EVOLUTION TOWARDS A POLICY MIX IN SP INTERVENTIONS WHICH BETTER MATCHES SOCIO-ECONOMIC DEVELOPMENTS, AND IS SOMEWHAT CLOSER TO WHAT ONE WOULD EXPECT IN A LOWER-MIDDLE INCOME COUNTRY. At the same time, it remains unclear what will be the impact of a Right to Food Act on this evolution. The key trends include (see Chapter 6 on financing for details): (i) substantial increases in most SP programs in recent years, with an overall increase in terms of share of total central government spending; (ii) a real reduction in the mid-2000s and then a sharp increase in spending on PDS in response to the food and fuel crisis; (iii) a sharp increase in midday meal spending (which is a step in leveraging improved human capital outcomes from SP interventions), and (iv) massive expansion of public works through MGNREG. While the initiatives to expand social security coverage for unorganized sector workers are in their early days in terms of expenditure levels, they would be expected to grow notably as RSBY is rolled-out nationally in coming years.

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<sup>108</sup> An important study which should shed light on this question is underway by a team of Indian researchers with funding from the Australian government. The study seeks to compare the effects of PDS with the cash-based MGNREG on household nutrition as well as other aspects of the programs in three states of India. See Jha et. al. (2010) and Gaiha et. al. (2010).



CHAPTER  
**3**

**Protective Programs**



# Protective Programs

THIS CHAPTER LOOKS IN DETAIL AT THE DESIGN AND IMPLEMENTATION OF PROTECTIVE SOCIAL PROTECTION PROGRAMS AND SUGGESTS A RANGE OF REFORMS WHICH WOULD BE DESIRABLE FOR INDIA'S POOR. The programs covered include, the Public Distribution System (PDS), social pensions for elderly, widows and disabled people, and rural and urban housing schemes (Indira Awaas Yojana and Valmiki Ambedkar Awas Yojana respectively) for the poor. Overall, the need for reform appears to be most acute in the PDS, but more in the nature of incremental improvements for social pensions. For targeted housing programs, in particular urban housing programs, the options within the current paradigm are more in the nature of incremental reforms, but market-based innovations in models of low cost housing for the urban poor suggest that experimentation with new paradigms would be well worth considering. The recommendations for individual programs are discussed in Section C.

THE FOLLOWING SECTIONS LOOK AT PROGRAM PARTICIPATION AND ITS DETERMINANTS, TARGETING, AND BENEFIT INCIDENCE FOR MAJOR PROTECTIVE SP PROGRAMS, ACROSS STATES AS WELL AS MAJOR WEALTH AND CASTE GROUPINGS. These are classic social assistance programs that include Public Distribution System (PDS), social pensions, and Indira Awaas Yojana (IAY). In addition, it discusses operational features which may be contributing to the observed outcomes for several programs.

## A. PUBLIC DISTRIBUTION SYSTEM (PDS) AND ANTYODAYA ANNA YOJANA (AAY)<sup>109</sup>

THE PUBLIC DISTRIBUTION SYSTEM HAS BEEN SUBJECT TO SIGNIFICANT POLICY CHANGES OVER THE PAST 15 YEARS,

<sup>109</sup> This section draws largely on two background papers: (i) Ajwad (2006), which uses Human Development Profile of India survey data for 2004/05 (see Annex 1 for details); and (ii) Umali-Deininger and Deininger (2006), which uses National Sample Survey (NSS) data, together with updates from 2004-05 NSS 61<sup>st</sup> round) data by C. Ravi. It also draws from the extensive literature on the PDS by Indian researchers, including Radhakrishna and Subbarao (1997), Dutta and Ramaswami (2001), Swaminathan and Misra (2001), Dev et al. (2004), Jha and Srinivasan (2001), as well as the Planning Commission 2005.

MOVING FROM A UNIVERSAL ENTITLEMENT SCHEME, FIRST TO A GEOGRAPHICALLY TARGETED SUPPLEMENTAL SUBSIDY, AND SINCE 1997 TO A TARGETED APPROACH BASED ON HOUSEHOLD WELFARE LEVELS THAT IS INDEPENDENT OF LOCATION. Major developments in the evolution of PDS in the past 15 years, and key features of the Targeted Public Distribution System (TPDS) are outlined in Box 3.1. The evolution is set to take another turn with the commitment of the new Government to a Food Security Act intended to enshrine in law as the right to food

which was a key plank of Congress's electoral manifesto. The key features of the current draft legislation are also outlined in Box 3.1, together with some of the civil society views on the consultation draft.

### (a) Access to PDS – ration card holding

In relevance to the importance of Below Poverty Line (BPL) cards for PDS participation, and for beneficiary identification in several programs which are BPL

#### Box 3.1: Policy evolution of the PDS

The pre-reform PDS which was in operation till 1992, was criticized for its failure to effectively reach the poor, urban bias, substantial leakages, poor quality of grain supplied due to deficient inventory management and relaxed specification for procurement, lack of transparent and accountable delivery systems as well as negligible coverage and low off-take in states with high concentration of poor due to non-availability of stock. In 1992, Gol introduced the Revamped PDS (RPDS), which focused on giving higher subsidies primarily to drought prone, tribal, hilly and remote areas. Despite this, it is estimated that leakages at the national level during 1997-98 amounted to 31 percent for rice and 36 percent for wheat. The RPDS was replaced in mid-1997 by the Targeted PDS (TPDS), which used household poverty rather than location as the basis for targeting.

**The PDS is the largest safety net program in India (and indeed the world in terms of population covered), and operates by providing a price subsidy to consumers for essential commodities.** The most important of these are rice and wheat. TPDS supplies these commodities at prices below the Food Corporations of India's (FCI) "economic cost", which equals the sum of FCI's procurement, storage, and distribution costs. FCI is the implementing arm of the Government of India's food grain policy. TPDS has a 2-tiered pricing structure for Below Poverty line (BPL) and Above Poverty Line (APL) households.

**In addition, Gol introduced the Antyodaya Anna Yojana (AAY) in December 2000, as a sub-scheme to benefit the poorest of the poor.** AAY provides a larger price subsidy that received by BPL households. Each AAY household was made eligible for 25 kg of food grain per month at a Common Issue Price (CIP) of ₹ 2 per kg for wheat and ₹ 3 per kg for rice. In April 2002, the AAY and BPL household food grain allocation was increased to 35 kg per month. The AAY scheme has since been expanded to cover BPL households headed by widows or terminally ill, disabled or elderly with no assured means of support (2003-04) and all households at risk of hunger (2004-05). The total number of households identified under AAY was 243 lakhs in 2009. The total number of BPL households earmarked for PDS coverage is 652 lakhs – though several states cover a significantly higher number than the centrally determined number of BPL households. At inception, TPDS targeted the price subsidy exclusively to the poor, though this was later adjusted to provide a small subsidy to APL households. The allocation of rice and wheat stocks to APL households is linked to average offtake figures of previous years.

**The shift to the TPDS was a significant milestone in Gol's food security and social protection strategies.** TPDS is operated under the joint responsibility of Central and State Governments. The Central Government is responsible for procurement, storage, transportation and bulk allocation of food grains, while state governments are responsible for distribution to consumers through the network of Fair Price Shops (FPS), numbering nearly 500,000 nationally. Operational responsibilities including allocation within the State, identification of families below poverty line, issue of ration cards, supervision and monitoring the functioning of FPS, rest with the State Governments. Under TPDS, the states were requested to issue food-grains at a difference of not more than 50 paise per kg over and above the Central Issue Price (CIP) for BPL families. The CIP is the price at which TPDS food grains are issued or "sold" to state governments. More recently, however, States have been given flexibility in fixing the retail issue price for TPDS food grains, except for AAY.

The evolution of PDS is set to take a major turn with the proposed Food Security Bill. In the 2009 electoral campaign, Congress committed to right to food legislation, promising 25 kg of rice or wheat per month to all BPL households at ₹ 3 per kg, as well as subsidized community kitchens in all cities for homeless people and migrants. The main features of the Concept Note posted by the Ministry of Consumer Affairs in July 2009 for consultation are:

- ◆ the number of BPL families is based on poverty figures of the Planning Commission. While currently based on the 1993-94 poverty estimates, there are discussions for it to be based on 2004-05 estimates.
- ◆ the note acknowledges that there are state specific variations in the number of BPL ration cards issued, variations in issue price as well that in entitlements (in quantity and commodities) provided. It states that this variation should be eliminated and there should be a central order that should bind the states in the above issues.
- ◆ it proposes that there should be no sub-categorization of the BPL households into the AAY households.
- ◆ other schemes such as Annapurna, schemes for welfare institutions and hostels etc. may not be continued separately to avoid multiplicity. TPDS will cover beneficiaries of these programs using BPL cards.

### Box 3.1: Policy evolution of the PDS (Contd...)

- ◆ The BPL ration cards will be valid for 5 years, after which it automatically expires.
- ◆ the note estimates that with a central issue price of ₹ 3/kg of rice and wheat, the food subsidy bill would be ₹ 40,380 crores and annual requirement of food grains would be 277 lakh tonnes.
- ◆ states would pay food security allowance in case of failure to offer entitled quantities to eligible BPL families through their bank/post office accounts.
- ◆ for ensuring transparency and efficiency, it is mandatory for all state governments to computerize/digitize ration card database as well as TPDS transactions.
- ◆ states need to set up grievance redress mechanisms.
- ◆ food security tribunals should be set up at the tashil/taluka level for expedite adjudication of case against violation of this law.

Reactions to the consultation draft from civil society have been rather critical. Several critics (e.g. Khera (2009); Himanshu (2009) point to the fact that AAY households would have lower entitlements and that in eight major states the current price of BPL grains is below ₹ 3/kg. They also note the much wider coverage of subsidized rations in southern states already. On the face of it, there does not appear to be restrictions on top-ups from state resources, but this is not clear and is important in assessing the validity of these arguments. Beyond that, critics argue that the right to food goes well beyond PDS rations and should include other entitlements such as nutritional support to children, social assistance, and special provision for urban areas, in line with Supreme Court orders in the right to food cases. The Right to Food campaign has alternative legislation framed which incorporates this wider range of entitlements. On the other side of the argument, others argue just as strongly for transforming PDS from a food-based program to a direct cash transfer (e.g. Kapur, Mukhopadhyay and Subramanian (2008); Panagariya (2008). The 2010 Economic Survey of India proposes a move to direct subsidies to households through food coupons, with a lumpsum entitlement that can be encashed in a Fair Price Shop of their choice. There are also mixed views on the feasibility of the required grain procurement in drought periods such as presently being experienced.

**Sources:** Department of Food and Public Distribution (<http://fcamin.nic.in>), Gol Economic Survey (2010), Panagariya (2008), Kapur, Mukhopadhyay and Subramanian (2008), Khera (2009); Himanshu (2009), [www.righttofoodindia.org](http://www.righttofoodindia.org) and [http://www.righttofoodindia.org/data/concept\\_note\\_on\\_rtf\\_act\\_food\\_ministry\\_040709.pdf](http://www.righttofoodindia.org/data/concept_note_on_rtf_act_food_ministry_040709.pdf) for the concept note from the Department of Food and Public Distribution.

**Notes:** a. Ministry of Consumer Affairs, Food and Public Distribution (2000).

b. The program also supplies sugar nationally, and other commodities such as edible oils and coarse grains in some states. Kerosene is also provided through Fair Price Shops (FPS), but is not the focus of this chapter. A useful paper on LPG and kerosene subsidies and usage under PDS is Gangopadhyay et al. (2005), which finds the LPG subsidy to be poorly targeted, while kerosene is notably better targeted.

targeted, Table 3.1 presents findings on ration card possession. These findings are complemented by more detailed distributional analysis of ration card holdings in Chapter 8 on targeting of social protection programs. Several observations emerge:

- ◆ **states having among the highest poverty rates are also those with the highest rates of no ration card**, with more than one third of households in Jharkhand not having cards, a third of households in Chhattisgarh, and around 30 percent of households in Bihar.
- ◆ **possession of BPL/AAY cards across states also shows a clear pattern in terms of lagging states reporting BPL/AAY card rates which are in most cases below their poverty rates, and richer states having rates well above their poverty rates.** There are exceptions to this general pattern, such as Orissa and Rajasthan, but in general people in

better-off states are in better position to access subsidized rations.

- ◆ **there are variations across states in the share of households possessing an AAY card relative to the share with BPL cards, confirming differential efforts to identify their centrally-allotted AAY quotas.** The reasons for this varies, with states like Andhra Pradesh having low AAY holding due to very high BPL holding, while others such as Bihar and Assam had not done the AAY identification process thoroughly (e.g., as of late 2005, Bihar had identified only 40 percent of its AAY quota, against a national average of close to 75 percent).<sup>110</sup>
- ◆ **looking at rural and urban areas separately by state, holding of any ration card is somewhat higher in rural than urban areas, at 85 and just under 79 percent respectively.**<sup>111</sup> **The difference may in part reflect challenges in establishing**

<sup>110</sup> See Saxena (2006) for state-wise data as of late 2005 on state identification of AAY relative to quota.

<sup>111</sup> This more detailed analysis by urban and rural areas is in Ajwad (2006).

**Table 3.1: Possession of ration cards by type and state, 2004/05 (% of households)**

State	Any card	BPL card	APL card	AAY card
Andhra Pradesh	76.8	64.5	11.7	0.7
Assam	85.6	25	59.8	0.7
Bihar	67.4	33.5	32.4	1.4
Chattisgarh	69.4	37	23.1	9.3
Delhi	75.2	20.6	54.5	0.1
Gujarat	84.2	39.5	44.4	0.2
Haryana	93.6	16.4	76.4	0.7
Himachal Pradesh	96.6	17.3	72.4	6.9
Jammu & Kashmir	87.7	27.8	58.9	1
Jharkhand	62.1	37	22.7	2.4
Karnataka	72.4	52.8	16.6	3.1
Kerala	94.7	36	58.7	0
Maharashtra	90	25.8	61.9	2.3
Madhya Pradesh	75.8	26.6	44.9	4.2
Orissa	78	51.6	23.6	2.9
Punjab	90	4.6	85.3	0
Rajasthan	95.6	22.7	68.9	4
Tamil Nadu	93.8	47.7	45.9	0.1
Uttar Pradesh	83.2	18	60.2	5
Uttarakhand	92.1	27.9	57	7.3
West Bengal	94.1	24.9	66.7	2.6
Other	74.7	28.2	45.3	1.2
<b>Total</b>	<b>83.3</b>	<b>33.7</b>	<b>47.1</b>	<b>2.5</b>

Source: Ajwad (2006) based on 2005 IHDS data.

**proof of residency in urban areas among migrant households.** More noticeable is the share of households with BPL or AAY cards, which is around 42 percent in rural and 22 percent in urban areas.

2004-05 are broadly comparable with analysis from the 2005 IHDS data (both are nationally representative), which found that 26 percent of the households purchase PDS grains in the same year, and also found similar patterns across the states.<sup>112</sup>

## (b) Household purchases of PDS grains

IN PURCHASING PDS GRAINS AT THE NATIONAL LEVEL, BETWEEN ONE FIFTH AND ONE QUARTER OF HOUSEHOLDS (NUMBER VARIES DEPENDING ON THE DATA SOURCE) REPORTED PURCHASING PDS GRAINS IN THE MID-2000s, WHICH REPRESENTS A SIGNIFICANT DROP SINCE THE LATE 1990s. This can be seen in Table 3.2 using National Sample Survey (NSS) data from various rounds, which shows that there was a significant increase in household-level offtake or usage from the early to late 1990s, followed by a reversal in overall access by the mid-2000s. The NSS figures for

HOWEVER, THE MORE INTERESTING PART OF THE STORY IS THE DIFFERENCE IN TRENDS BETWEEN RURAL AND URBAN AREAS ACROSS THE DECADE. For urban areas, overall coverage in 2004-05 was half that of 1993-94, with the decline in coverage accelerating in the second half of the period. In contrast, in rural areas, while there was a sharp rise in coverage followed by a decline over the period, coverage was still one third higher than it had been in the early 1990s. In relative terms, rural coverage went from only 65 percent of urban in 1993-94 to over 180 percent by 2004-05. For a program which had been subject to urban bias, this is indeed a remarkable turnaround.<sup>113</sup>

112 See Annex 1 and Ajwad (2006) for details on IHDS data analysis. See Box 3.2 for terminology specific to the PDS literature.

113 See Howes and Jha (1992) on urban bias in the PDS, prior to TPDS.

**Table 3.2: Household-level offtake of PDS grains - All Households and rural/urban, 1993/94, 1999/00 and 2004/05 (% HH)**

State	All Households			Rural Households			Urban Households		
	1993-94	1999-00	2004-05	1993-94	1999-00	2004-05	1993-94	1999-00	2004-05
Andhra Pradesh	45.7	55.9	54.6	47	63.3	62.5	41.9	37.2	31.6
Assam	15.1	32.9	8.4	13.7	34.9	9.2	25.9	20	2.5
Bihar*	3	8.4	2.8	2.8	8.7	2.9	4.2	6.2	2.4
Gujarat	29.4	37.2	24	32.4	46.5	32.6	23.7	19.2	7.9
Haryana	3.3	2.9	4.4	2.7	3.2	4.1	4.8	2.1	5.3
Karnataka	44.8	63.8	47.1	41.7	71.2	59.8	51.8	46.5	21.8
Kerala	65.2	72.6	36.7	62.2	75	39.3	74.3	66.1	28.6
Maharashtra	26.1	36.3	21.1	27.3	48.7	30.5	24.4	17.3	7.9
Madhya Pradesh*	8.5	16.7	21.4	6.7	19	24	14.1	9.2	12.1
Orissa	4.7	47.7	19.4	2.9	50.2	21.6	16.6	35.5	6.7
Punjab	1.1	1.8	0.4	0.8	1.7	0.3	1.5	1.9	0.7
Rajasthan	12.6	5.6	10.1	13.4	6.3	12.8	10.2	3.3	2
Tamil Nadu	55	71.4	68.2	52	77.5	80	60.2	60.5	49.8
Uttar Pradesh*	2.9	8.3	6.5	2.6	9.2	7.5	5	5.2	3
West Bengal	14.3	20.8	12.7	7.6	20.8	15.1	32.3	21.1	6.6
Others (incl. UTs)	36.1	36.9	23.2	33.3	39.3	34.9	39.3	33.7	10.6
<b>All India</b>	<b>22.6</b>	<b>31.6</b>	<b>23.3</b>	<b>19.9</b>	<b>34.1</b>	<b>26.6</b>	<b>30.6</b>	<b>24.9</b>	<b>14.7</b>

Source: Umali-Deininger and Deininger 2006, estimated from NSS 1993-94 and 1999-2000, and report team estimates from the NSS 2004-05.

Notes: For comparability, 2004-05 figures for Bihar, Madhya Pradesh and Uttar Pradesh are for unsplit states.

SEVERAL FACTORS ARE LIKELY TO HAVE CONTRIBUTED TO THIS TREND. The first is obviously the targeting of PDS, and how that has played out in the early 2000s. In addition, there are a range of factors, including grain quality issues, higher transactions costs associated with procuring TPDS grains, increased Government of India (GoI) distribution of grains through other welfare schemes as well as good rice and wheat harvest in 2003-04 that have more likely influenced household participation rates in 2004-05. The factor which would require more detailed research to further understand this trend is the impact of rising incomes in this period and possible impacts on preferences for lower quality PDS grains.

HOUSEHOLD OFFTAKE OR USAGE IN SOME STATES – MOST NOTABLY BIHAR, UTTAR PRADESH, RAJASTHAN, AND MADHYA PRADESH - HAS REMAINED CONSISTENTLY VERY LOW, PARTICULARLY IN SEVERAL VERY POOR STATES. This can also be seen in Table 3.2, which reports the share of household by state that purchased PDS grains in the

previous month for 1993-94, 1999-00 and 2004-05.<sup>114</sup> The findings are supported by an earlier study of PDS food grains availability which found that Tamil Nadu and Andhra Pradesh were the only states where more than half of PDS users reported “regular” purchases of PDS grains, while the figure for Uttar Pradesh and Bihar was 1 percent.<sup>115</sup> This is probably due to the fact that Tamil Nadu and Andhra Pradesh are states where substantial state fiscal resources supplement the national subsidy in order to support state policies of more widespread access.

AN IMPORTANT EXPLANATORY FACTOR IN CROSS-STATE VARIATIONS (AND AGGREGATED DEMAND) IN DRAWING OF PDS GRAINS BY HOUSEHOLDS IS LIKELY TO BE THE GAP BETWEEN MARKET PRICES OF GRAINS AND THE PRICE OF PDS GRAINS FOR DIFFERENT RATION CARD CATEGORIES. The importance of this factor has been highlighted in previous analyses of PDS and confirmed in the Planning Commission evaluation of the program.<sup>116</sup> The Planning Commission

114 The NSS findings are broadly validated from the 2005 IHDS data. See Ajwad (2006).

115 Reported in Saxena (2006).

116 See for example Radakrishnan and Subbarao (1997) and Planning Commission 2005.

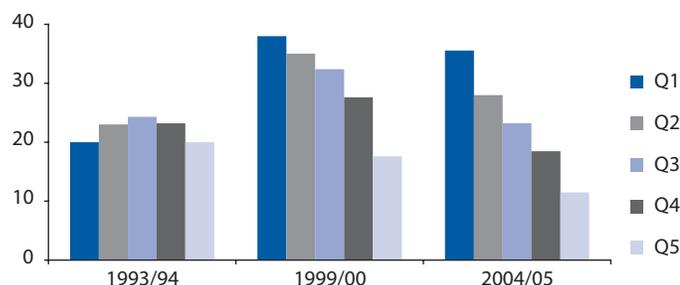
analysis indicates that in most states (with exception of Tamil Nadu, Himachal Pradesh and several North Eastern states) the BPL grain price moved close to the market price between 1999 and 2001, contributing to a general demand disincentive. The report also notes that states such as Bihar and Jharkhand with lower BPL offtake were those with among the lowest price differential between BPL and market grain prices, though many other inefficiencies are at work in those states which reduce offtake. Given the sharp increase in open market prices of grains in recent years, it will be important to see how the increased PDS/market prices differential for both BPL and APL has affected household offtake.

### (c) Distributional patterns of PDS grain offtake by households

WITH RESPECT TO COVERAGE OF PDS ACROSS THE INCOME DISTRIBUTION, THERE WAS SUBSTANTIAL IMPROVEMENT IN TARGETING PERFORMANCE WITH THE INTRODUCTION OF TPDS. This can be seen in Figure 3.1. All households except the richest quintile had higher coverage rates in 1999-00 than 1993-94, while only the bottom two quintiles had sustained higher coverage by 2004-05. The targeting reform of PDS in the late 1990s was thus unusual. The distributional pattern of public spending improved even though coverage among the non-poor overall increased, except among the richest. By 2004-05, this had become a more typical targeting outcome of lower coverage rates among all the non-poor.

DESPITE THE IMPROVEMENT IN COVERAGE AMONG THE POOREST AFTER THE INTRODUCTION OF TPDS, THE LARGE

Figure 3.1: Household-level offtake of PDS grains by quintile, various years



Source: Umali-Deininger and Deininger 2006, estimated from NSS for 1993-94 and 1999-2000, and report team estimates from NSS for 2004-05.

117 See Ajwad (2006) for detailed FPS to market prices by state.

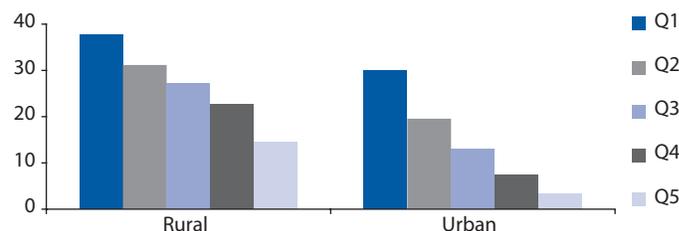
MAJORITY OF THE POOREST HOUSEHOLDS WERE NOT ACCESSING PDS GRAINS IN ANY OF THE YEARS SURVEYED. Even with the major reform of PDS, it has continued to fall substantially short of its stated aim of providing subsidized grain to the poor. It is difficult to disentangle the mixture of supply and demand factors in this situation, but the end result is clear and has been consistent over time.

THE DIFFERENTIALS IN ACCESS TO PDS GRAINS BETWEEN THE RICH AND POOR ARE FAR MORE PRONOUNCED IN URBAN THAN RURAL AREAS. As can be seen in Figure 3.2, the variation in access to PDS grains across the distribution is far greater in urban areas, in addition to the much lower overall coverage rate. While the ratio of access of poorest to richest quintiles in rural areas was around 2.6:1, in urban areas this was 8.9:1, probably reflecting much lower interest among better off people in urban areas for the lower quality grain supplied through the PDS.

LOOKING AT THE DISTRIBUTIONAL PATTERNS OF PDS OFFTAKE ACROSS STATES FOR 2004-05, THERE ARE NOT CLEAR PATTERNS ACROSS GROUPS OF STATES IN THE COVERAGE RATES AMONG THE POOREST RELATIVE TO THE RICHEST. This can be seen in Table 3.3, nonetheless, a few groupings emerge:

- ◆ *the states which did very poorly on average offtake/usage rates tend to do so virtually across the distribution, pointing to a generalized “system failure”.* They include Bihar (including Jharkhand), Uttar Pradesh, Rajasthan, and West Bengal. From survey-based data on relativities between PDS and market prices of rice and wheat, this appears to affect demand, with relative FPS rice and wheat prices in this group of states notably below all-India relativities.<sup>117</sup>

Figure 3.2: Household-level offtake of PDS grains by quintile and rural/urban, 2004/05



Source: Report team estimates from NSS for 2004-05.

**Table 3.3: Household-level offtake of PDS grain by quintile by state, 2004/05**

States	Quintiles					Poor/Rich ratio
	Q1	Q2	Q3	Q4	Q5	
Andhra Pradesh	66.3	68.5	58.8	48.8	30.3	1.7
Assam	18.5	11.4	5.2	3.0	3.7	4.4
Bihar	5.8	2.5	2.9	1.8	1.3	2.7
Gujarat	42.3	30.0	23.3	18.8	5.6	3.0
Haryana	10.2	6.6	3.3	1.6	0.5	8.1
Himachal Pradesh	63.3	52.1	48.3	45.5	25.6	1.6
Jammu & Kashmir	49.7	46.8	41.5	29.4	19.8	2.0
Karnataka	69.5	56.9	43.5	39.9	25.9	1.9
Kerala	60.0	44.7	34.5	25.3	19.1	2.4
Madhya Pradesh	37.6	24.5	21.2	14.4	9.2	2.6
Maharashtra	36.3	24.1	20.6	15.2	9.6	2.4
Orissa	42.1	24.6	15.3	10.2	5.1	4.4
Punjab	0.6	0.9	0.1	0.5	0.1	2.4
Rajasthan	16.8	13.8	9.6	5.9	4.4	3.0
Tamil Nadu	85.1	80.9	74.8	62.7	37.2	1.7
Uttar Pradesh	13.0	7.8	5.1	3.9	2.9	3.1
West Bengal	22.6	13.8	12.4	8.6	6.3	2.5
Other States/UT	31.1	14.0	11.0	9.8	7.2	2.7
<b>All India</b>	<b>35.6</b>	<b>28.0</b>	<b>23.2</b>	<b>18.5</b>	<b>11.5</b>	<b>2.1</b>

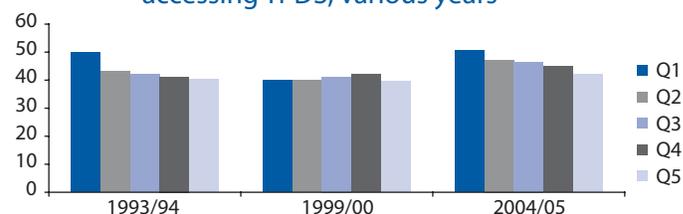
Source: Report team estimates from NSS 2004-05. Notes: Bihar, Madhya Pradesh and Uttar Pradesh refer to un-split states; Poor/rich ratios of coverage is of bottom two to top two quintiles.

- ◆ *in contrast, southern states sustain high offtake rates quite a way up the distribution*, with around half the third quintile purchasing PDS grains in the group of states.
- ◆ *Tamil Nadu provides an interesting case due to its universal access policy for subsidized grains even after introduction of TPDS*. It is interesting to note that the relative coverage rates between the richest and poorest quintiles are very close to the national average, indicating the power of self-targeting in the PDS system due to inferior grain quality and other factors. However, from a fiscal viewpoint, the very substantial state-level annual subsidy (of around just under ₹ 3,000 crore in 2008-09) suggests that such high coverage rates may not be fiscally replicable in most states.

FOR HOUSEHOLDS ACCESSING TPDS, THE SHARE OF PDS GRAINS IN TOTAL HOUSEHOLD FOODGRAIN CONSUMPTION IS SUBSTANTIAL AT AROUND HALF, AND INCREASED IN THE EARLY YEARS OF THE DECADE, REFLECTING IN PART THE INCREASED PER HOUSEHOLD ALLOCATIONS IN TPDS IN THOSE YEARS. This can be seen in Figure 3.3. PDS grains

comprised 47 percent of household grain consumption on average for all households that purchased PDS grain in 2004-05. Interestingly, the significance of PDS grains is true even for those in the upper reaches of the distribution who access the system, though that is also likely in part to be a product of total food grains consumption having a lower share in both food and total consumption for the rich. It is also significant that the share of TPDS grains in total among those purchasing grains was higher for all quintiles of the distribution in 2004/05 than in the late 1990s.

**Figure 3.3: Share of TPDS grains in total household grain consumption among households accessing TPDS, various years**



Source: Umali-Deininger and Deininger (2006), estimated from NSS for 1993-94 and 1999-2000, and report team estimates from NSS for 2004-05.

LOOKING AT BENEFIT INCIDENCE OF PDS GRAINS, THE SITUATION IS SOMEWHAT BETTER THAN FOR COVERAGE RATES ALONE, DUE TO HIGHER AVERAGE OFFTAKE IN THE LOWER QUINTILES. This is shown in Table 3.4. At the same time, the relatively similar average levels of offtake across quintiles among those accessing PDS is also notable.

**Table 3.4: Share of PDS grains captured by consumption quintiles, 2004/05**

Quintile	Average offtake (kg) By those accessing PDS	Share of total beneficiaries (%)	Share of total offtake captured (%)
Poorest	23.0	30.5	33.5
2	20.9	24.0	23.9
3	20.4	19.9	19.4
4	19.2	15.8	14.5
Richest	18.6	9.8	8.7

Source: Report team estimates from 2004-05 NSS data.

#### (d) Why are people not accessing PDS?

LOOKING AT REASONS FOR NOT ACCESSING PDS IN TERMS OF NATIONAL AVERAGES, UNSPECIFIED REASONS EMERGE AS THE MAIN REASON FOR NON-USE, FOLLOWED BY IRREGULAR SUPPLY OF GRAINS IN FPS. Interestingly, financial constraints are not cited as a major reason for not accessing the system, though states such as Jharkhand and several north-eastern states are an exception. The patterns across social categories and income levels are not dramatically different, though differences are notable:<sup>118</sup>

- ◆ *as one would expect, the poorest households (and SC and particularly ST) report financial constraints as a more significant reason*, with 12.5 percent of the poorest quintile citing financial constraints as the main reason for non-use. Also as expected, “no time to use FPS” (which can be interpreted as opportunity costs of the household time being too high relative to the benefit of the FPS subsidy) is over twice as high for the richest households as the poorest, and quality concerns are more notable among the better-off.
- ◆ *irregular supply is a significantly bigger problem in rural than urban areas, and among SC and ST*

<sup>118</sup> See Ajwad (2006) for detailed results by wealth, social category and rural/urban. The source for these findings is the 2005 IHDS data.

<sup>119</sup> Planning Commission (2005).

<sup>120</sup> Media reports on the Wadhwa Committee report.

*households relative to those from other social categories.*

THERE ARE ALSO SIGNIFICANT VARIATIONS ACROSS STATES IN THE MAIN REASONS FOR NON-USAGE OF PDS. For several states, the role of unspecified reasons (which could include price/quality differentials between market and PDS grains) are very important, while in others (e.g., West Bengal and Orissa), the irregularity of supply is a more major issue. Chattisgarh is also worth noting as a state where physical access to FPS appears to be a major problem. In addition, while poor quality of PDS grains is not a major reason for non-usage nationally, it is a significant factor in several states, including Karnataka, Gujarat and Bihar. As noted, the relative prices between BPL and market grains differ sharply across states (even not allowing for possible quality differentials between PDS and market grains), which is likely to be another important factor.

#### (e) Diversion and leakage in the PDS

THE VERY LOW HOUSEHOLD OFFTAKE RATES IN SOME STATES NATURALLY RAISE THE ISSUE OF LEAKAGE AND DIVERSION OF GRAINS. Gol itself confirms that leakage and diversion from the PDS are high, estimated in the most recent evaluation at 58 percent of BPL grains, though the data underlying that are from 2001.<sup>119</sup> The total is a combination of outright diversion of grains (due to ghost BPL cards, as well as due to diversion in the supply chain), and APL households benefiting from grains subsidized at BPL prices. Some of the relevant terminology is outlined in Box 3.2. The results for major states from the Planning Commission evaluation are shown in Table 3.5, also showing states with extremely high diversion such as Bihar and Punjab, where almost 82 and 76 percent of BPL grains respectively were estimated to have been diverted. These estimates are consistent with an earlier study by Tata Consultancy Services in 1999 which was endorsed by Gol in its Mid-Term Appraisal of the 9<sup>th</sup> Plan. More recently, the report submitted by the Supreme Court appointed vigilance committee is extremely critical of the PDS. According to this report, the PDS system has “collapsed” in some states (e.g., Rajasthan), working very poorly in others (e.g., Bihar, Jharkhand).<sup>120</sup>

### Box 3.2: Some PDS terminology

Discussions of PDS use a range of terms to describe different elements of the delivery chain. These include:

- ◆ **Allotment (or allocation)** of grains is the amount which the Food Corporation of India sets aside for each State/UT in quantity terms for rice and wheat, and includes allotments for BPL, APL and AAY.
- ◆ **State offtake or lifting** of grains is generally used to refer to the actual amounts that State/UTs draw down on their allotments from FCI. This is expressed in FCI statistics as a percentage of their allotment. Offtake is typically less than 100 percent of allotment for all India (e.g. it was 85.6 percent in 2008-09), but can in principle be above 100 percent, as it was for example for several north-eastern states in 2008-09.
- ◆ **Household offtake or lifting** of grains is a less official term but would generally refer to an individual household's drawdown against its monthly quota of grains.
- ◆ **Buffer stocks** are the reserve stocks which FCI and SFCs aim to keep in addition to the requirements of wheat and rice under the TPDS. These stocks form the so-called "Central Pool" which is kept to meet any emergencies like drought/failures of crop, as well as to enable open market intervention in case of price rise. The minimum stocks that are meant to be in the buffer stock are as follows (in lakh tones):

Date	Rice	Wheat	Total
1 <sup>st</sup> April	122.0	40.0	162.0
1 <sup>st</sup> July	98.0	171.0	269.0
1 <sup>st</sup> October	52.0	110.0	162.0
1 <sup>st</sup> January	118.0	82.0	200.0

- ◆ **Central Issue Prices.** Wheat and rice are issued to the States/UTs from the Central Pool at uniform Central Issue Prices (CIP) for distribution under TPDS. CIPs of wheat and rice are fixed for BPL and APL families separately. The CIPs of wheat and rice are subsidized and have remained unchanged for BPL families since July 2000.
- ◆ **Leakage** of PDS grains has a variety of meanings depending on the context. This could be due to factors such as ghost ration cards or false use of cards by others than the original owners. It may also in some contexts refer to when grains intended for BPL or AAY households are sold to households outside those categories. In the Planning Commission report, the term "leakage" includes both leakage in these terms and diversion as defined below when aggregate figures are provided.
- ◆ **Diversion** of PDS grains refers to grains which in effect disappear in the distribution channel, or are provided to illegitimate beneficiaries/claimants. The most worrying case of this is when grains disappear altogether from the PDS system, due to theft and other forms of illicit diversion. This could in principle happen at any stage of the delivery chain after grains are purchased by FCI, including within the FCI/SFC network, by distributors, by FPS owners et al.
- ◆ **Losses in handing and transport** refers to 2 percent of grain loss allowed by the FCI to handlers in the distribution chain, including those who load procured grain into goods train.
- ◆ **Wastage** results from storage for overly long periods or in sub-standard condition, often in FCI or SFC warehouses, but also potentially in Fair price Shops.

Sources: MCAFPD and FCI websites ([www.fcamin.nic.in](http://www.fcamin.nic.in); <http://www.fcweb.nic.in>); Planning Commission 2005.

**Table 3.5: Planning commission estimates of BPL grain leakage in PDS, early 2000s**

State	Diversion (% BPL grains)	APL share of BPL grains (%)	Total leakage of BPL grains (%)
Andhra Pradesh	20.6	37.0	57.6
Assam	41.7	12.0	53.7
Bihar	81.5	9.6	91.1
Gujarat	42.1	5.0	47.1
Haryana	55.7	11.0	66.7
Himachal Pradesh	31.4	14.5	45.9
Karnataka	43.4	27.5	70.9
Kerala	21.7	17.3	39.0
Madhya Pradesh	62.4	3.6	66.0
Maharashtra	26.5	8.0	34.5

State	Diversion (% BPL grains)	APL share of BPL grains (%)	Total leakage of BPL grains (%)
Orissa	23.4	13.0	36.4
Punjab	76.5	13.0	89.5
Rajasthan	32.0	3.0	35.0
Tamil Nadu	15.7	49.9	65.6
Uttar Pradesh	61.3	6.2	67.5
West Bengal	19.2	7.8	27.0
<b>All-India</b>	<b>36.4</b>	<b>21.5</b>	<b>57.9</b>

Source: Planning Commission 2005. Notes: Bihar, Madhya Pradesh and Uttar Pradesh refer to un-split states.

BOTH GOI AND NSS DATA CONFIRM WIDESPREAD LEAKAGE AND DIVERSION OF PDS GRAINS, THOUGH ALSO WITH SUBSTANTIAL VARIATIONS BETWEEN STATES. Using the 2004-05 NSS round and state-wise offtake data from the Food Corporation of India, it is also possible to compare officially reported wheat and rice offtake figures by state with reported purchases of PDS grains by households (Table 3.6) in order to get a more precise estimate of the gap between official grain releases from Food Corporation of India (FCI) and what households ultimately receive. It should be noted that this gap is not entirely explained by diversion of grains in the distribution channel, nor does

it reflect the leakage of subsidized grains to those not in the relevant BPL or AAY category. There will for example generally be some grains used to replenish buffer stocks, plus there will be some share of grains which are released but in transit at any point in time (e.g., in September 2009, the latter figure was 1.3 percent of all grains according to FCI's website). There is also a 2 percent allowance for "losses in handling and transport" which provides for grain lost along the distribution channel through whatever means.

BASED ON THE NSS DATA, ALMOST 60 PERCENT OF THE PDS GRAINS RELEASED BY FCI DO NOT REACH HOUSEHOLDS, WITH

**Table 3.6: Household PDS offtake as share of official offtake by state, 2004-05 (%)**

	Rice	Wheat	All
Andhra Pradesh	11.8	69.7	68.9
Assam	0.06	15.4	10.6
Bihar	6.9	14.1	9.1
Gujarat	43.0	44.1	43.3
Haryana	15.8	NA	15.8
Himachal Pradesh	55.2	90.0	72.7
Jammu & Kashmir	13.3	73.0	51.1
Karnataka	55.2	65.7	63.9
Kerala	20.8	94.4	70.7
Madhya Pradesh	41.2	62.2	49.2
Maharashtra	44.4	52.0	47.2
Orissa	1.3	26.8	24.2
Punjab	5.0	38.5	5.2
Rajasthan	40.7	51.8	40.7
Tamil Nadu	103.2	87.1	87.4
Uttar Pradesh	17.7	17.8	17.7
West Bengal	7.2	29.9	14.1
All Others (incl. UTs)	7.2	39.5	24.8
<b>India</b>	<b>24.8</b>	<b>54.4</b>	<b>41.4</b>

Source: Report team estimate from 2004-05 NSS data. Notes: Bihar, MP and UP refer to un-split states. State wise off take data for the matching period taken from Ministry of Consumer Affairs, Food and Public Distribution (<http://www.fcamin.nic.in>).

THE FIGURE VARIABLE BETWEEN RICE AND WHEAT, WITH WHEAT AROUND 45 PERCENT, AND RICE A MUCH HIGHER 75 PERCENT. Moreover, in several states – including Bihar, Assam, Punjab, Uttar Pradesh, West Bengal and Haryana – the gap between FCI releases and household receipts of PDS grains is over 80 percent.<sup>121</sup> In contrast, several states do considerably better than the national averages, most notably Tamil Nadu (with 13 percent leakage and Andhra Pradesh with 31 percent). Some of the factors driving such poor outcomes, and the political economy challenges of significant reform of the system, are discussed at the end of this section.

## (f) Implementation issues in the PDS

APART FROM THE GENERIC PROBLEMS OF PROGRAM ADMINISTRATION DISCUSSED IN CHAPTER 7, THERE ARE A RANGE OF IMPLEMENTATION PROBLEMS IN PDS WHICH CONTRIBUTE TO THE POOR OUTCOMES SEEN. These have been known for a long time, and include:<sup>122</sup>

- ◆ ***inadequate storage capacity with FCI and State Food Corporations in a number of states*** (e.g., in Bihar and Jharkhand, there are godowns in less than 50 percent of districts). This is one factor contributing to irregularity of supply to FPS in a number of states.
- ◆ ***the pricing margins for FPS owners, and a range of other factors such as transport costs from godowns, need for upfront payment on grains in most states, rental costs of premises etc. are such that they are in many states financially unviable if they operate the shop without diverting grains.***<sup>123</sup> The Planning Commission estimates that only around 23 percent of FPS are financially viable, and that they are concentrated in a few states (Andhra Pradesh, Tamil Nadu and Maharashtra). In addition, a full 44 percent of FPS owner costs of operation nationally are taken by transport and rental cost, a burden that makes financial viability very challenging.

- ◆ ***households in most states have to pay for their entire monthly ration in one shot, which imposes financial strain*** (though an increasing number of states have followed the lead of Kerala and allow for weekly lifting by households). Villagers are also often poorly informed of when stocks will be available, and certainly not in advance. This means that the poorest may not have sufficient cash ready available when the foodgrains arrive in the shop.
- ◆ ***allocations from Gol are valid only for a month, and if the state government is not able to lift within that time, its quota lapses. This timeframe could be increased to a quarter.***
- ◆ ***low quality of foodgrains, and differences in type of local consumption patterns.*** Earlier reports from 2000 found that half the stock of FCI is at least two years old, 30 percent between 2 to 4 years old, and some grain as old as 16 years.<sup>124</sup> While the data above indicate that the situation may have improved in the interim, there remain issues of grain type and the fact that it is in many states not of a type consumed (e.g., par boiled versus raw rice) as they are procured from distant states.
- ◆ ***weak monitoring, lack of transparency and inadequate accountability of officials implementing the scheme.*** While this is improving in a number of states with transfer of FPS to Panchayati Raj Institutions (PRIs), Self-Help Groups (SHGs) and cooperatives, State Food Corporation (SFC) and Departmental officials in many states exercise very weak oversight of the system.
- ◆ ***FPS in many areas do not open for more than 2-3 days in a month, and card holders are not allowed to lift their quota of previous months.***
- ◆ ***efforts to raise citizen awareness of their rights under PDS through reliance on a Citizen's Charter were very slow to take off, and field work indicates that their impact in many cases remains limited.***

<sup>121</sup> Note that Bihar from early 2007 has switched to a food coupon system for PDS which has also been implemented in states such as Andhra Pradesh which have done so previously has helped to control leakage to an extent. Initial review of the Bihar experience suggests that this has also been the case there. See Vashisht et al. (2009) and Box 3.3 in Section C.

<sup>122</sup> See Radakrishnan and Subbarao (1997) for a detailed discussion of many of these implementation challenges, most of which in most states are still very relevant.

<sup>123</sup> See Planning Commission 2005 for a detailed discussion.

<sup>124</sup> World Bank (1999).

For example, the Planning Commission PDS evaluation found that under 20 percent of GPs were aware of a Citizen's Charter, and that only 4 percent of APL card holders and under 1 percent of BPL card holders were aware of the Charter.<sup>125</sup>

DESPITE THESE MAJOR STRUCTURAL PROBLEMS, A NUMBER OF STATES ARE INNOVATING IN PDS IMPLEMENTATION, AND IMPROVED PERFORMANCE CAN BE SEEN IN SOME CASES. States have been implementing a nine point action plan for improving TPDS since 2006. The southern states as usual have led the way on many reforms intended to address the issues above, and increasingly even poorer states – e.g., Madhya Pradesh, Orissa and Bihar – have introduced changes in policies and implementation mechanisms to address the problems of PDS. These are taken up further in the conclusions and recommendations section.

## B. SOCIAL PENSIONS

AS WITH THE PDS, SOCIAL PENSIONS AIM TO ALLEVIATE CHRONIC POVERTY, THOUGH AMONG SPECIFIED SOCIAL GROUPS, I.E., destitute elderly, widows and disabled people.<sup>126</sup> The Indira Gandhi National Old Age Pension Scheme (IGNOAPS) is provided to applicants over 65 years of age who are below the poverty line, though several states provide pensions for those 60 and above who fulfill the criteria.<sup>127</sup> As of mid-2009, the central transfer was ₹ 200 per month. A number of states top up the benefit level from own resources, with the maximum benefit being ₹ 1,000 as of 2009. Supplementing IG/NOAPS since 2000-01 is the Annapurna scheme, which covers destitute elderly eligible for elderly social pensions but not receiving them. These households receive 10 kg of foodgrains per month free through FPS. Also supplementing this is the National Family Benefit Scheme, which pays a lumpsum of ₹ 10,000 to BPL families on the death of the primary breadwinner. NSAP was expanded in February 2009 with two new pension schemes for BPL

widows aged 40-64 years and persons with severe or multiple disability aged 18-64 years, providing ₹ 200 per person per month. There are known as the Indira Gandhi National Widow Pension Scheme (IGNWPS) and the Indira Gandhi National Disability Pension Scheme (IGNDPS). In addition, until the 2009-10 budget, nearly all states have operated a similar social pension scheme for destitute widows and disabled people, though financed from own resources.<sup>128</sup> Some states also operate state-specific old age social pensions which often pre-date the NOAPS, and allow for expanded beneficiary numbers beyond those financed by the central subsidy. In several states (e.g., Himachal Pradesh and Andhra Pradesh), the numbers under state-financed elderly schemes are significant.

IN 2009, GOI ANNOUNCED TWO NEW NATIONAL SCHEMES: THE INDIRA GANDHI NATIONAL WIDOW PENSION SCHEME, AND THE INDIRA GANDHI DISABILITY PENSION SCHEME. The former covers widows between 40 and 64 years of age, and the latter covers those with at least 40 percent disability between 18 and 64 years old. The centre is to provide ₹ 200 per month for both groups, estimated to include around 4.4 million widows and 1.56 million disabled people. States are encouraged to double the benefits from own resources. For orphans and children with disabilities, the Women and Child Development Ministry is expected to develop a scheme.

UNTIL THE SWITCH TO FULL CASH PAYMENT UNDER MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE SCHEME (MGNREG), SOCIAL PENSIONS WERE THE MOST SIGNIFICANT CASH-ONLY SOCIAL PROTECTION TRANSFER, AND REMAIN A KEY BENEFIT FOR SPECIALLY VULNERABLE GROUPS. They are also of interest in their reliance on a mixture of categorical targeting with household level BPL criteria. Social pensions have become more important as part of the overall SP program mix in recent years, as indicated both by the significant increase in central subsidies (from ₹ 75 to 200), and the expansion of coverage to BPL elderly, disabled and widow households.

<sup>125</sup> Planning Commission (2005).

<sup>126</sup> On National Old Age Pension Scheme (NOAPS), that was extant before IGNOAPS in 8 states, see ORG-MARG 1998 for a review of early experience and Irudaya Rajan (2001) for a useful discussion of the program. For detailed discussion of the operation of social pensions in specific states, see Murgai (2006) on Karnataka, and Dutta (2008) on Rajasthan, both commissioned for this report, Government of Himachal Pradesh (2005), Nayak et al. (2002), and Alam (2004).

<sup>127</sup> IGNOAPS was launched in November 2007 and replaced the National Old Age Pension Scheme (NOAPS), which was introduced in 1995. As much of the data underlying this section is from the pre-2007 period, the NOAPS acronym is used at points in the following analysis. The key difference between eligibility for NOAPS and IGNOAPS is that NOAPS was based on a destitution criterion (variably defined by state), while the IGNOAPS is BPL based. The former state-wise allocations to NOAPS were based on a formula of population over 65 times half the general poverty rate for the state.

<sup>128</sup> See World Bank (2009) for details on disability social pensions.

RELATIVE TO MOST SAFETY NET BENEFITS, THE COVERAGE RATES OF SOCIAL PENSIONS AMONG THE TARGET GROUPS ARE SIGNIFICANT AND ARE LIKELY TO HAVE EXPANDED FURTHER WITH THE RECENT POLICY AND FINANCING REFORMS. Table 3.7 presents coverage rates for NOAPS, Annapurna, for widows and disability pensions both for 2004-05, relying on the IHDS data. Social pensions account for a more significant share than most SP programs among their target groups (except for PDS), with over 8 percent of households with at least one member over 65 years receiving NOAPS (and just under 10 percent when Annapurna is added), 6.2 percent of all widows receiving that pension, and around 14 percent of households with a disabled member receiving a disability social pension.<sup>129</sup>

FOR SOCIAL PENSIONS, THE SURVEY-BASED COVERAGE RATES IMPLY UNDER-COVERAGE ACCORDING TO BOTH THE CENTRAL CEILINGS FOR ALLOCATIONS IN PLACE AT THE TIME OF THE IHDS DATA, AND ADMINISTRATIVE DATA ON PROGRAM COVERAGE. The IHDS survey-based all-household coverage rate of 0.5 percent implies 5.1 million NOAPS recipients, which is comparable with a MoF allocation number under NOAPS of just under 6.9 million, and an administratively reported beneficiary coverage of 6.1 million for 2004-05.<sup>130</sup> In addition, the reliance on 1998 population estimates and mortality rates, under-estimates the size of the elderly cohort who are the target group for the scheme. Rough estimates using 2001 census and assuming a 2 percent annual increase in the aged population, would suggest

**Table 3.7: Coverage rates of target group for NOAPS, Annapurna, widow and disability pensions by state, 2004-05**

State	% HH with 65+ receiving NOAPS	Median annual NOAPS benefit among receiving (Rs)	% HH with 65+ receiving Annapurna	% HH with a widow receiving WP	% of HH with disabled receiving DP
Andhra Pradesh	18.7	1,840	3.2	4	5.6
Assam	3	900	0	0	NA
Bihar	4.1	1,138	3.6	5	8.8
Chhattisgarh	9.3	1,870	0.3	8.8	14.9
Delhi	5.4	2,175	0	2.2	NA
Gujarat	0.9	2,696	0.6	2	NA
Haryana	67.1	3,088	0	16.4	37.2
Himachal Pradesh	13.2	2,690	0.3	25.7	42.9
Jammu & Kashmir	0.9	2,079	0	5.8	6.7
Jharkhand	2.2	1,047	0	8.3	12
Karnataka	6.4	1,218	0	13.9	44.9
Kerala	6.3	1,110	0.2	5	22.2
Maharashtra	2.3	2,111	2.4	2.3	6.2
Madhya Pradesh	6.4	1,758	0	6.3	21.4
Orissa	22.2	1,399	8.5	21.3	28.8
Punjab	14.8	1,645	0	4.3	17.2
Rajasthan	7.8	2,902	2.7	5.3	20
Tamil Nadu	2.9	2,254	0.8	5.3	3.8
Uttar Pradesh	5.2	1,943	1.6	4.2	14.4
Uttarakhand	8.4	1,358	0	11	8.7
West Bengal	2.6	1,113	0.9	1.8	4.3
Other (incl. UT)	20.8	2,979	1	5.5	NA
<b>All India</b>	<b>8.3</b>	<b>2,008</b>	<b>1.7</b>	<b>6</b>	<b>14.1</b>

Source: Ajwad (2006) based on 2005 IHDS data. Note: Disability pension coverage calculated from survey-based coverage for whole population and census-based state rate of disabled people.

<sup>129</sup> This cannot be calculated for disability social pensions from the survey source as disability information was not collected, but is based on the (conservative) census estimate of 2.13 percent of all households having a disabled member, and 0.3 percentage point coverage of the general population against that rate.

<sup>130</sup> See Saxena (2006) for detailed administrative data.

an updated figure for allocation purposes of closer to 9 million. There seems therefore a pressing need to revisit the population estimates upon which IGNOAPS allocations are based.

THERE WAS ALSO MAJOR VARIATION ACROSS STATES IN COVERAGE RATES, WITH SOME STATES HAVING QUITE SIGNIFICANT COVERAGE AMONG THE ELDERLY AND WIDOWS, THOUGH MOST STATES WITH A MUCH LOWER RATE FOR DISABILITY PENSIONS. Interestingly, this is not simply a rich and poor state story, as even some very poor states such as Orissa and Chhattisgarh had high coverage rates for elderly and widows pensions in 2004-05, reflecting in part their national funding quotas, but also a clear state-specific importance placed on social pension benefits.

NATIONALLY, THE TARGETING OF SOCIAL PENSIONS ACROSS WEALTH LEVELS AND SOCIAL CATEGORY WAS PROGRESSIVE IN 2004-05, WITH PARTICULARLY GOOD PERFORMANCE IN RELATIVE TERMS AMONG THE POOREST QUINTILE AND AMONG SC AND ST PEOPLE. In terms of targeting performance of social pensions, the smallish sample size allows for reliable estimates only on an all-India basis, with

the exception of results from state-specific surveys in Karnataka and Rajasthan, which confirm generally progressive targeting.<sup>131</sup> Nonetheless, it is clear that there remain significant inclusion errors, with not insignificant shares of elderly in better-off households receiving NOAPS benefits, and widows in even rich households receiving widow pensions. Interestingly, the coverage of disability pensions varies very little across welfare indicators, though this may be a product more of low coverage rates when measured against the whole population base.

IN TERMS OF BENEFIT INCIDENCE, BOTH ELDERLY AND WIDOW SOCIAL PENSIONS ARE ALSO PROGRESSIVE, THOUGH SOMEWHAT LESS SO THAN COVERAGE ALONE DUE TO THE HIGHER AVERAGE BENEFITS OF RECIPIENTS IN THE RICHEST QUINTILE, AND OTHER CASTES. This is also shown Table 3.8. Nonetheless, in terms of concentration of spending among the poorest quintiles, these can be considered among the better targeted programs in India. These findings are strongly supported by evidence from the Social Protection Survey (SPS) in three states (Orissa, Karnataka and Madhya Pradesh) which found that

**Table 3.8: Household coverage rates and benefit incidence of social pensions by wealth, location and social category, 2004/05 (%)**

	NOAPS - 65+ coverage	NOAPS-benefit incidence (%)	Annapurna coverage	Annapurna benefit incidence (%)	Widows coverage	Widows' benefits incidence (%)	DP benefit incidence (%)
Poorest	14.8	31.1	4.7	37.9	10.9	32.8	27.6
Q2	8.6	19.5	2.4	26.9	5.9	18.2	16.5
Q3	7.8	15.4	0.9	11.2	5.6	19.4	19.9
Q4	7.0	15.6	1.1	22.6	4.9	17.2	11.2
Richest	6.4	18.4	0.1	1.4	2.7	12.5	24.8
<b>Rural</b>							
Rural	9.4	86.2	2.0	92.0	6.2	70.4	88.1
<b>Urban</b>							
Urban	4.6	13.8	0.7	8.0	5.5	29.6	11.9
<b>OBC</b>							
OBC	7.0	34.6	1.9	49.6	6.0	38.2	48.9
<b>SC</b>							
SC	15.0	34.4	2.8	25.3	7.7	25.5	21.7
<b>ST</b>							
ST	11.6	5.4	3.6	11.3	10.3	10.9	6.4
<b>Other</b>							
Other	5.9	20.8	0.6	13.7	3.7	20.7	19.3
<b>All India</b>	<b>8.3</b>	<b>100</b>	<b>1.7</b>	<b>100</b>	<b>6.0</b>	<b>100</b>	<b>100</b>

Source: Ajwad (2006) based on the 2005 IHDS data. Note: Coverage rate for NOAPS among households with member 65 and above, for widows as share of households with a widow, and for disabled, as share of all households.

Note: Disability pension coverage calculated from survey-based coverage for whole population and census-based state rate of disabled people. Note that the other social group category excludes Brahmins.

131 See Murgai (2006) and Dutta (2008) using the KSPS (Karnataka Social Pensions Survey) and RSPS (Rajasthan Social Pensions Survey) respectively.

social pension coverage rates among SC households to be around 80 percent higher than for the overall population, and statistically significant.<sup>132</sup>

SOCIAL PENSION BENEFITS REPORTED BY HOUSEHOLDS INDICATE A VERY LOW LEVEL OF BENEFIT LEAKAGE AMONG THOSE RECEIVING BENEFITS. As the data in Table 3.7 reflect the level of social pensions before the 2006 hike to ₹ 200, they are not straightforward to interpret, given the variable top-up by states over the ₹ 75 base that the centre financed for NOAPS at the time of the survey. However, for most states, the reported annual benefits are close to the level of social pensions being paid in 2004-05. These findings are also supported by the dedicated Rajasthan and Karnataka surveys of social pensions, which find benefit payments over the previous year close to 100 percent of those due, and Himachal Pradesh where beneficiaries report timely and proper payment.

LIMITED WORK HAS BEEN DONE ON THE ADMINISTRATION OF SOCIAL PENSIONS, AND FACTORS DRIVING PERFORMANCE ACROSS STATES.<sup>133</sup> Given the increased central resources being devoted to social pensions, more research is needed on the factors driving program performance. In the meantime, dedicated studies in Karnataka, Rajasthan and Himachal Pradesh provide some insights, as do information from the Supreme Court Commissioners on scheme operation.<sup>134</sup> Some features of implementation include:

- ◆ ***there has been limited ministerial ownership of NOAPS at the central level, and weak reporting and monitoring by Gol*** with the transfer of program implementation to states from 2002-03 (and hence change from a Centrally Sponsored Schemes (CSS) to Additional Central Assistance (ACA) in budgetary terms). How this may change with recent policy and financing reforms remains to be seen.
- ◆ ***the transfer of NOAPS funds through state treasuries (in contrast to earlier transfer through DRDAs), combined with weak central monitoring, has resulted in some states in diversion of transfers***

***for other purposes, and in others in significant payment delays.*** Even rich states such as Gujarat have in the past used the NOAPS transfer for other purposes (and made no NOAPS payments at all in 2003-05), while poorer ones such as Jharkhand and Orissa in the early 2000s ceased to make social pension payments for whole budget years. Even states which have not used the transfer for other purposes frequently have had delays in payments of 2-6 months, as reports of states to the Supreme Court Commissioners in 2005 indicate for states such as Bihar, Jharkhand, West Bengal and Manipur.<sup>135</sup>

- ◆ ***there is no regular verification of beneficiaries in some states.*** While regular verification may be less necessary for widow or disabled pensions, evidence from some states indicates that elderly pensioners continue to “receive” transfers after death, or are otherwise untraceable. A survey in Delhi for example found around 6.5 percent of NOAPS “beneficiaries” were dead, and a further 17 percent untraceable. In the more detailed exercise conducted for Karnataka, around 6 percent of elderly and widow pension records were found to be likely duplicates (with wide variation across taluks), and 9 percent of pensioners could not be traced due to movement or death.<sup>136</sup>
- ◆ ***the documentary requirements for proving eligibility such as birth certificates, are often not available to beneficiaries or demanding in terms of time and sometimes cost to obtain.*** Survey and field work reveal that proof of eligibility is often cited as a burdensome process by potential beneficiaries with almost half of current social pension beneficiaries in Rajasthan reporting difficulties in documents and procedures in the application process, and a third of those who may have otherwise applied citing complex procedures as the main reason for not doing so.<sup>137</sup> While at the local level this is sometimes dealt with in a practical manner, this is often not the case.

<sup>132</sup> Dev et al. (2007).

<sup>133</sup> Though see the useful work of Nayak et al (2002), and Government of Himachal Pradesh 2005.

<sup>134</sup> Saxena (2006), Murgai (2006), Dutta (2008), Government of Himachal Pradesh 2005.

<sup>135</sup> Saxena (2006).

<sup>136</sup> See Murgai (2006) and Box 7.4 in Chapter 7 for details.

<sup>137</sup> Dutta (2008).

- ◆ *from field work, it seems that there has been in the past a lack of clarity in some states on what constitutes “destitute” for social pension eligibility purposes.* The centre and most states quite sensibly leave some degree of local discretion in the determination of destitution. At the same time, field work (e.g., in Rajasthan), revealed ad hoc criteria being applied at local levels which may unwittingly exclude some of the very poorest. The imposition of the BPL criteria under IGNOAPS has removed this local level discretion.
- ◆ *in a number of states, specific exclusion criteria have been overly stringent, and often applied in a mechanical manner.* A common example was that applicants for NOAPS and widow pensions were not allowed to have a living adult son, and this is often applied strictly, even where the son is absent or failing to support the parent (even if he is severely disabled and unable to work). Both the Karnataka and Rajasthan studies found that a high proportion of social pension beneficiaries did not qualify according to a literal application of all the exclusion rules, despite the fact that they were considerably poorer than average. While nearly all satisfied the strictly demographic criteria (of old age and widowhood), in Karnataka, only 9 percent of old age and 16 percent of widow pensioners met all demographic (including family support) and destitution criteria. The situation was not much different in Rajasthan, but the additional BPL criteria (over-riding all other family and destitution criteria) allowed a much higher share to be eligible. Only 26 percent of elderly pensioners and 9 percent of widowed pensioners would have been eligible in Rajasthan were it not for the BPL criteria. Even where discretion is applied in sensible ways, the necessity of such discretion naturally opens up possibilities of abuse. The findings strongly suggest a need in many states for an overhaul of their social pension rules to reduce exclusion errors. These family criteria no longer apply under new Indira Gandhi old age, widow and disabled pension schemes, but it is unclear whether these remain applicable for state pension schemes.

## C. TARGETED HOUSING PROGRAMS

### (a) Rural housing – Indira Awaas Yojana (IAY)

AS SEEN IN CHAPTER 2, TARGETED RURAL HOUSING PROGRAMS ARE A SIGNIFICANT ELEMENT OF THE INDIAN SAFETY NET. The main targeted rural housing program is IAY, which has been implemented as a stand-alone program since 1996, having been a sub-component of public works schemes prior to that. Its main objective is to provide dwelling units free of cost to the rural BPL population.<sup>138</sup> As of April 1, 2010, grants are provided to beneficiaries with a ceiling of ₹ 45,000 for new construction in plain areas and ₹ 48,500 for hilly/difficult areas. In addition, up to 20 percent of IAY funds are available for upgrading construction up to ₹ 15,000 for each dwelling unit. Beneficiaries can use up to ₹ 2,200 from Total Sanitation Campaign funds in addition to IAY assistance to construct sanitary latrines. Further, an IAY beneficiary can obtain a loan up to ₹ 20,000 under the Differential Rate of Interest scheme from any national bank at an annual interest rate of 4 percent. The house should be registered in the name of the female household member, or jointly in the name of husband and wife. More recently, the program has been dovetailed with the Rajiv Gandhi Gramin Vidhuyutikaran Yojana for rural electrification, allowing IAY beneficiaries to get a free electricity connection.

IT IS ESTIMATED THAT ON AN AVERAGE ABOUT 23 LAKH HOUSES ARE BUILT EVERY YEAR UNDER VARIOUS SCHEMES, WITH IAY ACCOUNTING FOR TWO THIRDS OF THE TOTAL, and other assistance provided by Housing and urban Development Corporation Limited (HUDCO), National Housing Bank, State Housing Boards and Commercial Banks the remainder.<sup>139</sup> IAY enjoys considerable support since it creates a valuable asset for beneficiaries, leading to improved economic and social status with minimal requirements on part of beneficiaries.

RESULTS ON COVERAGE OF IAY AND OTHER HOUSING SCHEMES ARE SHOWN IN TABLE 3.9, ALONG WITH MEDIAN AMOUNTS RECEIVED AS REPORTED BY HOUSEHOLDS. Several points are apparent:

<sup>138</sup> See Saxena (2006) for details and history of the scheme, the Comptroller and Auditor General evaluation (CAG 2003a), and the discussion in Dev et al. (2007).

<sup>139</sup> The 2001 Census estimated a housing shortage of 149.6 lakh, with eight states accounting for 81 percent of the shortage. The annual requirement is estimated at 30 lakh houses to meet the backlog, and about 10 lakh shelterless are added every year, suggesting a total shortfall of about 40 lakh houses per year.

**Table 3.9: Schemes to provide support for housing, latrine or chulha construction by state (rural only), 2004-05**

State	% HH ever received benefits	Median value of support received by households (₹)			
		Built house	Money to build house	Materials to build house	Sanitary latrines
Andhra Pradesh	28.6	20,236	19,048	14,688	1,836
Assam	1.4	14,667	22,849	8,833	1,964
Bihar	13.3	16,524	15,669	20,000	1,200
Chattisgarh	4	–	10,322	5,667	650
Goa	19.7	–	14,000	–	3,614
Gujarat	6.3	28,271	22,250	13,150	1,885
Haryana	2.9	31,200	14,625	19,344	1,775
Himachal Pradesh	8.5	18,000	14,804	8,240	1,338
Jammu & Kashmir	0.8	20,000	27,100	..	1,000
Jharkhand	9.1	16,925	18,559	12,000	2,000
Karnataka	14.6	22,043	15,994	6,662	1,789
Kerala	16.6	25,169	18,738	5,528	1,874
Madhya Pradesh	5.4	10,500	10,710	6,760	872
Maharashtra	7.2	23,991	22,272	7,442	2,123
Orissa	17.4	18,955	15,203	5,368	785
Punjab	2.4	24,039	9,357	6,400	2,423
Rajasthan	2.6	–	14,428	3,601	1,191
Tamil Nadu	7.2	27,654	17,127	13,774	779
Uttar Pradesh	5.3	13,318	14,449	12,718	1,650
Uttaranchal	14.6	5,000	15,188	22,000	1,253
West Bengal	7.2	13,944	7,767	2,452	1,030
<b>All India</b>	<b>9.6</b>	<b>21,604</b>	<b>15,861</b>	<b>11,822</b>	<b>1,731</b>

Source: Ajwad (2006) based on the 2005 IHDS data.

Note: Recall period is open-ended

- ◆ **housing-related support is quite significant**, with almost 13 percent coverage of rural households in the sample. However, this is somewhat misleading, as the recall period on assistance in the survey was open-ended, so that this is a cumulative figure representing in effect the share of rural households who have ever received housing support.
- ◆ **as with other schemes, there is substantial variation across states in coverage, though somewhat less so in terms of median benefit levels.** Some of this is likely to be driven by state-specific schemes (e.g., Himachal's state targeted rural housing scheme), but in others by more active use of IAY funds. The case of Bihar is of particular interest, as coverage under housing schemes is notably above the national average (in part due

to a special central package announced in 2004), despite much lower than average coverage on most SP schemes, and release to allocation in 2004-05 was almost double. The fact that several very low income states have healthy coverage rates may also be a reflection of the housing shortage criterion on scheme allocations, with eight states accounting for over 80 percent of housing shortage nationally, and Bihar alone nearly one third of housing shortage.<sup>140</sup>

- ◆ **while significant (as would be expected given the program policy), reported amounts receive indicate leakage between the program-sanctioned transfers and actual receipts by households.** While it is not possible to compare the survey results very precisely with IAY allocations, the results are

140 Saxena (2006).

consistent with field research for this report which found a fairly consistent “commission” being paid by beneficiaries to sarpanchs, MLAs or other intermediaries of ₹ 4,000-5,000 on IAY in order to access the program.<sup>141</sup>

TARGETING OF RURAL HOUSING TRANSFERS IS MILDLY PROGRESSIVE, THOUGH AS WITH OTHER PROGRAMS A SIGNIFICANT PROPORTION OF HOUSEHOLDS IN THE UPPER RANGE OF THE DISTRIBUTION RECEIVE SUPPORT. This can be seen in Table 3.10, which presents results by wealth, social category and location. While coverage rates in the top quintile are notably lower, they remain high even in the fourth quintile. This finding is mirrored by those from the three state SP study, which found similar coverage rates for IAY across the bottom three quartiles, but also coverage rates of SC and ST households which were 66 and 27 percent higher respectively than the overall population, and more than double those of backward and other castes.<sup>142</sup> A second – and more worrying – result is that the average level of benefits reported by the rich is considerably above that of the poor for most housing-related interventions. However, administrative indicate that nearly two-thirds of IAY houses since 1996 have been allotted to women.

THERE ARE A RANGE OF PROBLEMS IN IAY IMPLEMENTATION, CAUSED IN PART BY ITS DESIGN OF LARGE, UNENCUMBERED GRANTS.<sup>143</sup> The lump sum payment is large enough to attract substantial “attention” from local politicians, who may view this as an important mechanism for patronage for supporters and there is evidence of high proportion of benefits being manipulated towards this end.<sup>144</sup> These machinations are natural, since the total allocation of IAY grants - although substantial - is small relative to potential demand based on number of poor people without housing.

SAFEGUARDS BUILT INTO THE DESIGN OF THE SCHEME HAVE OFTEN BEEN INEFFECTIVE IN PRACTICE. 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 Comptroller and Auditor General (CAG 2003b) report on the scheme, almost one-third of IAY funds were misused. 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

**Table 3.10: Coverage and median benefits of targeted housing programs by wealth, location and social category (rural areas only), 2004-05**

Group	% HHs ever received benefits	Median of the value of support received by households (₹)				Benefit incidence (% benefits captured)
		Built house	Money to build house	Materials to build house	Sanitary latrines	
Poorest	15.6	20,946	14,010	8,170	1,448	24.6
Q2	13.3	18,420	15,210	11,073	1,751	18.5
Q3	15.1	20,736	16,312	13,537	1,727	24.9
Q4	13.9	24,329	19,692	14,994	1,637	22.7
Richest	5.7	20,269	18,810	13,802	1,935	9.3
OBC	9.9	19,294	17,476	13,721	1,664	32.7
SC	23.1	21,943	15,494	11,832	1,719	44.2
ST	13.3	21,466	15,292	10,835	1,919	10.4
Other	7.7	21,225	15,142	12,032	1,779	12.7

Source: Ajwad (2006) based on the 2005 IHDS data.

Note: Benefit incidence based on results on the question “Money to build a house”; Recall period open-ended. Note that the other social group category excludes Brahmins.

141 See qualitative findings in Dev et al (2007), discussion in Saxena (2006), and CAG (2003a) for IAY evaluation.

142 Dev et al. (2007).

143 See Saxena (2006) for a discussion.

144 See Planning Commission 2003, and qualitative findings of Dev et al. (2007) on the systematic necessity of large bribe payments.

was due to misappropriation, unapproved works, and unauthorized activities. Almost 20 percent of the audited money was spent on construction of houses through contractors, though the Ministry of Rural Development notes that this practice has stopped with the ban on contractors. Over-inflated expenditure combined with poor quality of dwellings was a natural outcome. Another example with implications for gender bias in the scheme is that the mandatory provision for joint registration of houses in the name of both husband and wife is flouted in most cases, and in many states, field-level functionaries are unaware of the existence of such a provision.

## (b) Targeted urban housing

IN ADDITION TO IAY, HOUSING SUPPORT FOR THE POOR HAS TRADITIONALLY BEEN ONE OF THE FEW DEDICATED URBAN SAFETY NET PROGRAMS, AND AROUND 2 PERCENT OF URBAN HOUSEHOLDS NATIONALLY HAVE RECEIVED SUCH SUPPORT.<sup>145</sup> The main central scheme has been Valmiki Ambedkar Awas Yojana (VAMBAY), which provided housing construction and shelter upgrading for BPL urban slum dwellers, with a focus on vulnerable categories such as SC and ST. VAMBAY was introduced in 2001, and presents a shift in emphasis from slum resettlement programs. The program operated on a 50/50 financing split between centre and states, with Gol funding routed through HUDCO. For the household, half of the Gol portion was provided as grant and half as loan. However, financing for VAMBAY has been sharply

scaled back in recent years, and has in effect been wound up with the advent of Jawaharlal Nehru Urban Renewal Mission (JNNURM). There are in addition various state-specific programs, e.g., Karnataka's Urban Ashraya Housing Program, and Kerala's Mythri Housing Scheme.

While these interventions are not a significant focus of this report, results in coverage of public housing program support by state indicate that 2 percent of all urban households have received such support at some point. Across states, the situation in 2005 based on analysis of the IHDS data was:<sup>146</sup>

- ◆ *coverage in all lagging states, with the exception of Orissa, does not exceed 1 percent of the urban population, and in several states is below half a percent (Uttar Pradesh, Rajasthan, Bihar, Madhya Pradesh).*
- ◆ *in contrast, and partly reflecting state programs, southern states have higher (though still low) coverage rates, ranging from around 3 percent in Tamil Nadu to over 10 percent in Kerala. These are also states with greater urbanization.*

IN DISTRIBUTIONAL TERMS, URBAN HOUSING SUPPORT IS PROGRESSIVELY TARGETED, THOUGH COVERAGE FOR ALL GROUPS IS RELATIVELY LOW. Given the focus on SC and ST, this is not surprising. However, it is notable that the program does considerably better at reaching SC households than ST households, for whom coverage is around half the average (Table 3.11).

**Table 3.11: Coverage rates and median benefits of urban housing by quintile and social category, 2004-05**

Group	% HHs ever received benefits	Median of the value of support received by households (₹)			
		Built house	Money to build house	Materials to build house	Sanitary latrines
Poorest	3.2	23,194	13,594	6,510	1,749
Q2	3.3	26,996	14,745	13,320	1,668
Q3	2.6	35,184	20,692	10,481	1,907
Q4	1.3	43,969	25,640	20,000	2,141
Richest	0.3	73,488	1,000	-	1,808
OBC	2.0	30,842	14,825	9,052	1,931
SC	5.1	30,020	19,982	14,138	1,792
ST	1.1	23,860	11,947	8,000	1,801
Other	1.0	27,319	14,577	6,298	1,882
<b>Total</b>	<b>2.0</b>	<b>30,062</b>	<b>17,122</b>	<b>10,333</b>	<b>1,863</b>

Source: Ajwad (2006) based on the 2005 IHDS data.

Notes: Recall period open-ended. Note that the other social group category excludes Brahmins.

<sup>145</sup> See Buckley et al. (2005) for a more detailed discussion.

<sup>146</sup> See Ajwad (2006) for a state-wise analysis.

WHILE MORE DETAILED ANALYSIS IS REQUIRED, AVAILABLE ASSESSMENTS POINT TO A RANGE OF IMPLEMENTATION CHALLENGES WITH VAMBAY, THOUGH STATE PROGRAMS SUCH AS THOSE OF KARNATAKA AND KERALA ARE SOMEWHAT BETTER (THOUGH AT BEST, ONLY RATES AS “FAIR”). Based on qualitative methods, VAMBAY has been assessed as poor in terms of program efficiency, administrative simplicity, and sustainability, and only fair in terms of transparency.<sup>147</sup>

URBAN HOUSING POLICY FOR THE POOR IS IN A DYNAMIC PHASE PRESENTLY, THOUGH IN PROGRAMMATIC TERMS IS YET TO CONSOLIDATE NEW APPROACHES, AND IT IS UNCLEAR HOW COHERENT OR STRATEGIC A VISION UNDERLIES THE CURRENT PROGRAMS. JNNURM is the umbrella vehicle of the GoI for urban renewal and low-income housing is part of its coverage. At the same time, initial efforts from states and cities have tended to focus on other types of urban infrastructure. The specific window of JNNURM under which housing for the urban poor falls is the Sub-Mission for Basic Services for the Urban Poor (BSUP) for cities over 1 million population, and Integrated Housing and Slum Development Program (IHSDP) for all other cities and towns. VAMBAY is subsumed within IHSDP except for ongoing projects pending their completion.<sup>148</sup> Both BSUP and IHSDP target slum dwellers and the urban poor. These beneficiaries are eligible for benefits up to ₹ 80,000 for building homes, improving water and sanitation etc., with at least 12 percent of the housing cost to be borne by the beneficiary, or 10 percent for SC/ST/OBC/BC and other “weaker sections”.

In parallel, GoI in the 2009 budget announced the Rajiv Awas Yojana which aims at promoting a slum-free India in five years and would focus on according property rights to slum dwellers. It is also meant to provide basic amenities such as water supply, sewerage, drainage, internal and approach roads, street lighting and social infrastructure facilities in slums and low income settlements adopting a ‘whole city’ approach, including providing subsidized credit. It is unclear how this scheme will interface with JNNURM. The final important development is increased efforts in the private sector to cater to the low income housing market as a commercial proposition, though with a focus on households who are low income but not

among the poorest most often. This is discussed in the recommendations section.

## D. DETERMINANTS OF PROGRAM PARTICIPATION

THIS SECTION PRESENTS RESULTS OF MULTIVARIATE ANALYSIS ON THE DETERMINANTS OF PROGRAM PARTICIPATION FOR SELECTED PROGRAMS.<sup>149</sup> The primary objective is to explore the impact of various factors on the probability of program participation holding all other variables constant using the 2004/05 IHDS data. While it is not possible to carry out such analysis for all programs, results are available for social pensions and Annapurna, PDS and housing support. One or more of the following are expected to impact the probability of program participation: location of the household (urban or rural), the position of the household on a relative welfare scale, caste of the household, household size, characteristics of the household head, participation of the household in agricultural or animal husbandry, and the state on which the household resides. Results are presented for each in turn.

LOOKING AT THE IMPACTS OF WEALTH ON PROGRAM PARTICIPATION, THE RESULTS ARE IN THE EXPECTED DIRECTION, WITH POORER QUINTILES MORE LIKELY TO PARTICIPATE THAN THE REFERENCE RICHEST QUINTILE (TABLE 3.12). While this is encouraging, several additional observations can be made which strongly caution against complacency:

- ◆ for several programs (NOAPS, housing, ration card usage by BPL households for purchasing PDS grains), the significance levels for the fourth quintile remain very high, and for all programs, significance levels for the third quintile are high or very high. Well targeted programs should not exhibit such patterns, given the overall poverty rate.
- ◆ for all programs, the strength of the effect in most quintiles is not very strong. Across all programs, the effect of being in the lowest quintile ranges from only 1.3 percent (widows and Annapurna) to 8.5 percent (housing).

<sup>147</sup> Buckley et al., *op.cit.*

<sup>148</sup> See <http://www.indiaurbanportal.in/JNNURM/2yrs-JNNURM.pdf>.

<sup>149</sup> See Ajwad (2006). A probit model with fixed effects was used.

**Table 3.12: Program participation determinants by wealth quintiles, 2004/05**

	NOAPS	Widow pensions	Annapurna	Housing support	BPL Ration card used last 6 months
Quintile 1	0.0341***	0.0133***	0.0126***	0.0845***	0.022***
Quintile 2	0.0279***	0.0079**	0.0157***	0.0988***	0.0207***
Quintile 3	0.0172***	0.0115***	0.0116**	0.0683***	0.0142**
Quintile 4	0.0105***	0.0037	0.0061	0.0453***	0.0126*

Source: Ajwad (2006) based on the 2005 IHDS data. Quintile 5 as reference group. \*\*\*=significant at a 1 percent level; \*\*=at 5 percent level; \*=at 10 percent.

- ◆ there is variation across programs in the strength of the impact of being in specific quintiles. The coefficients for quintiles across programs vary between evenly progressive (though small) variations as one moves up the distribution (e.g., NOAPS and PDS usage) and others where the gradient of coefficients between quintiles is less smooth (e.g., Annapurna and housing, where the second quintile is more likely to participate).

LOOKING AT THE IMPACTS OF CASTE ON PROGRAM PARTICIPATION, THE SITUATION IS MORE COMPLEX THAN FOR WEALTH. This can be seen from Table 3.13, from which several observations emerge:

- ◆ *caste is a significant determinant of participation in the programs listed for SC households, and for food programs and scholarships for ST households.* This is a positive result, though the relatively weaker position of ST households is also a cause of concern, and consistent with field work finding specific challenges in access for ST households. At the same time, for most programs, being an SC or ST household is less significant in statistical terms than wealth levels, though remains highly so for housing programs for SC and use of BPL ration cards to purchase PDS grain. At the same time, the positive feature of findings by caste is that being from “other” castes and OBC is generally not significant.

- ◆ *the strength of caste categories on participation is generally weak even where significant.*

LOOKING AT OTHER SOCIO-ECONOMIC CHARACTERISTICS, THE RESULTS ON PROGRAM PARTICIPATION ARE NOT STRONG, WITH THE EXCEPTION OF RURAL LOCATION (TABLE 3.14). Most of the indicators which are significant are in line with what would be expected, e.g., household size being relevant (though very weakly) for scholarships and social pensions. What is more remarkable perhaps is the “dog that does not bark”, i.e., that both land and animal ownership are not significant correlates of participation in most programs. In contrast, the results on rural location are more significant, though rather weak in terms of coefficients.

FINALLY, LOOKING AT PROGRAM PARTICIPATION STATE-WISE, IT IS CLEAR THAT LOCATION MATTERS AS FAR AS PROGRAM PARTICIPATION GOES, WITH “LOCATION” REFLECTING A RANGE OF STATE-SPECIFIC POLICY, INSTITUTIONAL AND OTHER FACTORS NOT DIRECTLY CAPTURED IN THE SURVEY. However, the strength of the locational impacts is not great for most programs and states. Observations on the state-level results include:

- ◆ *there are noticeable variations across states in whether the impact on specific program participation is positive or negative.* This is of course to be expected, but the findings present useful shorthand of institutional and

**Table 3.13: Program participation determinants by social category, 2004/05**

	NOAPS	Annapurna	Housing support	BPL card used last 6 months
Other caste	0.0033	-0.0018	-0.0193*	0.0132
OBC	0.0016	0.0014	-0.0154	0.0156
SC	0.0126**	0.0036	0.071***	0.0195**
ST	0.0058	0.0148**	0.0169	0.0196**

Source: Ajwad (2006) based on the 2005 IHDS data. Brahmin as the reference group (note that the other social group category excludes Brahmins). \*\*\*=significant at a 1% level; \*\*=at 5% level; \*=at 10 percent.

**Table 3.14: Program participation determinants by selected socio-economic characteristics, 2004/05**

	NOAPS	Widow pensions	Annapurna	Government assistance with housing	BPL card used in the last 6 months
Rural	0.0106***	0.0041	0.0019	0.0645***	0.0343**
HH size	0.0007**	0.0007***	0.0001	0	0.0012
Female HH head	0.0151***	0.0907***	0.0016	-0.0018	-0.001
Age of HH head	0.0009***	-0.0003***	0	0.0001	0
HH head literate	-0.004*	-0.0025	-0.0015	0.0049	0.0017
HH head completed primary education	-0.0027	-0.0006	0	-0.0044	0.0023
HH owns agricultural land	0.0000	0.0000	0.0000	0.0000	0.0002***
HH owns animals	-0.0033	-0.0051**	-0.0034	-0.0025	0.0169*

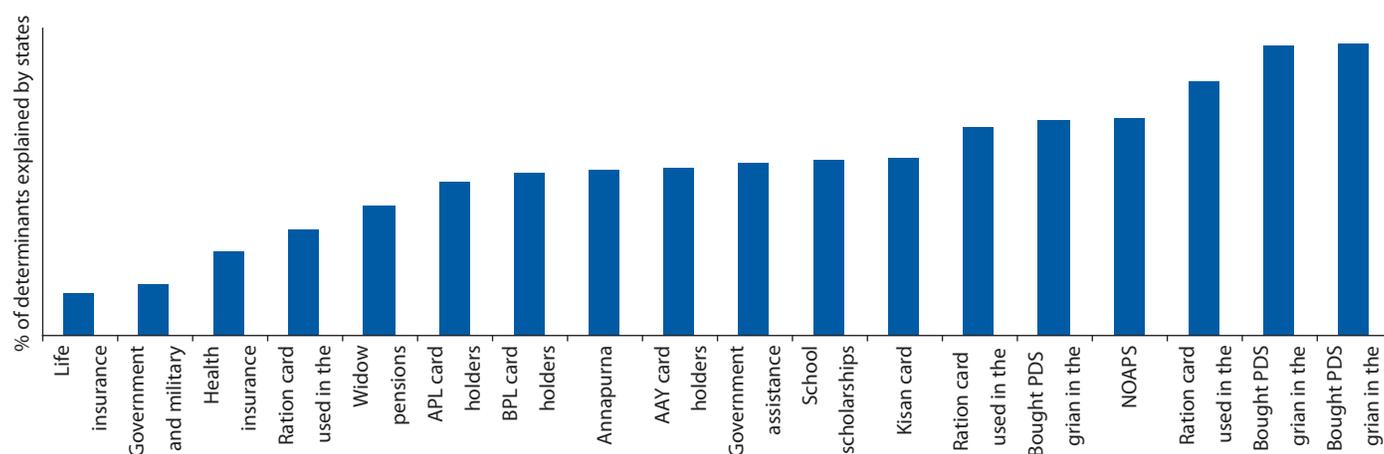
Source: Ajwad (2006) based on the 2005 IHDS data. \*\*\*=significant at a 1% level; \*\*=at 5% level; \*=at 10 percent.

policy factors in states on specific programs. The findings – and several relative outliers – are consistent with examples of high policy priority given in certain states to programs (e.g., Haryana offers a high elderly social pension due to supplementation from the state; UP has a strong emphasis on school stipends; Tamil Nadu has a universal PDS).

- ◆ *the within-state directions of the impacts on participation vary notably across programs.* For each state, the different directions of locational impacts reflect in part different policy stances, but also the relative demands of specific program implementation.

WHEN COMPARING ACROSS PROGRAMS NATIONALLY, STATE LOCATION – WHICH ACTS AS A PROXY FOR VARIOUS GEOGRAPHIC, POLICY AND INSTITUTIONAL FACTORS – HAS HIGHLY VARIABLE IMPACTS ON PARTICIPATION, AFTER CONTROLLING FOR ALL OTHER HOUSEHOLD CHARACTERISTICS (FIGURE 3.4). There is strong variation across programs in the importance of state location in explaining program participation. For most PDS-related variables, the state effect explains almost all that can be accounted for.<sup>150</sup> Other programs vary, but the effects of state location contribute substantially to the explained determinants of participation. There is also a general pattern of state factors mattering more in programs which are demanding in terms of institutional delivery arrangements.

**Figure 3.4: Proportion of explained program determinants accounted for by state location, various programs, 2004/05**



Source: Ajwad (2006) based on the 2005 IHDS data.

150 Though much remains unexplained, and more work is needed on institutions and policies to look further into the “black box” of the locational effect.

## E. CONCLUSIONS AND RECOMMENDATIONS

THE ANALYSIS OF THIS CHAPTER SUGGESTS A RANGE OF REFORMS WHICH WOULD BE DESIRABLE IN PROTECTIVE PROGRAMS FOR INDIA'S POOR. Overall, the need for reform appears to be most acute in PDS, but more in the nature of incremental improvements for social pensions, which appear to be performing already reasonably well (though it would be useful in the near future to assess the impacts of the changes introduced under IGNOAPS). For targeted housing programs, in particular urban housing programs, the options within the current paradigm are in the nature of incremental reforms. However, market-based innovations in models of low cost housing for the urban poor suggest that experimentation with new paradigms would be well worth considering, and recent moves by Gol and some states suggest that there is appetite for greater innovation. The options and recommendations for individual programs are discussed in turn below.

### (i) *The BPL system*

THE RESULTS IN THIS CHAPTER AND CHAPTER 8 INDICATE THAT THERE IS CONSIDERABLE SCOPE TO REFORM THE CURRENT BPL SYSTEM, BOTH THE BPL CENSUS AND RATION CARDS. This is a crucial cross-program reform, and Government of India is currently discussing a serious overhaul of the BPL system. Chapter 8 discusses in detail recommendations for revamping the "backbone" targeting mechanism for identifying poor households, offering both modest reform proposals which would retain the existing approach but with a range of possible improvements in design, and a more fundamental option for rural areas.

### (ii) *PDS*

CLEARLY THE "BIG ELEPHANT IN THE ROOM" AS FAR AS SAFETY NET REFORM IN INDIA IS CONCERNED IS TPDS. This is for a range of reasons which are presented in this and other reports. Firstly, it remains easily the largest safety net program. Secondly, it has poor targeting outcomes, and in many of the poorest states appalling levels of leakage which have persisted over many years. Thirdly, the procurement system on which it relies is becoming increasingly strained in the face of gradual liberalization of agricultural markets in India, both domestically and in terms of openness to trade.

LOOKING AT RESULTS FROM THE POOR STATES IN PARTICULAR, IT IS HARD TO ARGUE THAT PDS COMES ANYWHERE NEAR ACHIEVING ITS FOOD SECURITY AND POVERTY ALLEVIATION OBJECTIVES. HOWEVER, REFORM OPTIONS FOR PDS HAVE TO BE ASSESSED WITH A CLEAR ACKNOWLEDGEMENT OF THE CONTEXT: TECHNICAL, POLITICAL ECONOMY, AND POSSIBLY LEGAL. This context is of course strongly affected by also the commitment of Gol to the Food Security Bill which would convert PDS from a scheme to a legislated right. These include:

- ◆ ***reform of PDS is inextricably linked to the public procurement system.*** While the benefits of PDS to households are spread across India, the main beneficiaries of public procurement of grains to feed the PDS are concentrated among farmers in a few states: Punjab, Haryana, some parts of Uttar Pradesh, and Andhra Pradesh to a lesser extent. Without some reform of the public procurement system – in terms of pricing policy with respect to the Minimum Support Price and the control of government in grain procurement more broadly – there will continue to be large grain stocks purchased each year which need to be drawn down.
- ◆ ***there is a large internal bureaucracy running PDS which is likely to resist fundamental reform options which would undermine their role.*** The FCI alone employs around 450,000 people in India, and SFCs a further number. This in itself is a strong lobby which is likely to resist any changes in the PDS which would imply either a potential role for the private sector in grain provision, or more fundamentally a shift in use of the PDS subsidy from food purchase and distribution to cash for poor households.
- ◆ ***despite the shift at the aggregate level from food deficit to food surplus, there are – and will continue to be – areas of the country which are periodically food insecure.*** This reality will continue to support arguments for a direct food security role for the state. At the same time, penetration of private food markets has increased sharply in recent years, so that the actual availability of food is there with the exceptions of some tribal and dry land areas, and market infrastructure of well-developed and sub-markets are increasingly well-integrated. Thus, even with the food crisis of recent years, in most

areas the challenge is not so much availability per se as price and affordability.

- ◆ **the maturity of the PDS has naturally created social expectations that it is part of the fabric of social policy.** The results on awareness of PDS (see Chapter 7) are instructive in this respect, and the social constraints of any enforced fundamental change in PDS should not be under-estimated.
- ◆ **there may also be legal constraints on the ability of the state to withdraw from direct provision of grains through PDS.** The Supreme Court of India, in response to Public Interest Litigation take up by the People's Union for Civil Liberties in 2001 with Union of India, FCI and eventually all state governments as respondents, has clarified that Article 21 of the Constitution on the Right to Life also implies a right to live with dignity. The SC agreed that one aspect of this was a right to food, with the PDS a central plank of the right. The Court has made various orders subsequently in efforts to improve the functioning of food-based schemes.<sup>151</sup> A point of note is that the initial order from 2001 indicated that "what is of utmost importance is to see that food is provided to the aged, infirm, disabled, destitute women, destitute men who are in danger of starvation, pregnant and lactating women and destitute children, especially in cases where they or members of their family do not have sufficient funds to provide food for them."<sup>152</sup> The implications are taken up below.

IN LIGHT OF THIS CONTEXT, THREE REFORM OPTIONS ARE PRESENTED FOR PDS, WHICH COULD THEMSELVES HAVE VARIANTS BORROWING FROM THE APPROACHES OUTLINED. Each approach is outlined in detail below. It is stressed that none of the options assumes any necessary decrease in the aggregate level of public spending devoted to social assistance for the poor:

- ◆ **an incremental approach to reform which would retain the current PDS model but with a host of improvements in the policy and implementation systems to increase efficiency from its often very poor state.**

- ◆ **an intermediate reform option, which would retain a food-based entitlement program but introduce private sector participation in grain procurement and delivery and a more fundamental overhaul of the PDS administration through use of smart cards.**
- ◆ **fundamental reform which allows for cash transfers instead of food-based transfers, either when the state proves itself unable to fulfill its food transfer obligations or by offering households the choice of grain or the cash equivalent of the grain subsidy.**<sup>153</sup>

THE OVERALL POSITION OF THIS REPORT IS THAT FUNDAMENTAL REFORM OPTIONS FOR PDS SHOULD BE CONSIDERED AND THAT OFFERING HOUSEHOLDS THE OPTION OF A CASH TRANSFER - WHILE RETAINING THE CORE FOOD SECURITY AND BUFFER STOCK FUNCTIONS OF FCI, AND ENSURING PDS GRAINS IN AREAS WHERE ACCESS IS A GENUINE ISSUE - IS AN ATTRACTIVE OPTION. While there is certainly potential to improve PDS performance (as the case of Bihar in Box 3.3 shows), there remain a host of structural issues with a SP program so dependent on many intermediaries operating within such weak governance systems. In that light, the incremental approach represents a triumph of hope over experience which cannot be expected to resolve the situation of PDS in much of the country. The long term problems of PDS cannot be solved quickly or with a single prescription for all states and all time. However, offering options which allow households choices in how they benefit from the massive public subsidy of PDS could allow for flexibility, greater efficiency, and accountability for the system. While the proposed Food Security Bill will potentially have a major impact on the legally possible range of options, it is hoped that it is not too prescriptive, but leaves open approaches which would appear to have the possibility to improve the welfare of poor households. In this light, the default provided for in the consultation draft of the Bill for provision of cash where the PDS system is unable to provide adequate and decent quality grains seems sensible. The system has so clearly demonstrated its inability to do so for so long in so many places that ruling out such an option seems likely to leave many poor households with a stronger legal right but no better a real world situation.

151 A useful summary and background materials can be found at [www.righttofoodindia.org](http://www.righttofoodindia.org).

152 See Supreme Court Order, of 23<sup>rd</sup> July, 2001.

153 This option has been taken by a range of Indian commentators over the years, including most recently Kapur et al. (2008) and Panagariya (2008).

### Box 3.3: PDS food coupon reform in Bihar – Better results in a poor state

As noted earlier, Bihar has traditionally been one of the worst performing states in PDS, with very low coverage rates, extremely high leakage of grains and deep dissatisfaction among users. In response to this, the Government of Bihar in 2007 introduced food coupons in the PDS in an effort to generate greater awareness of rights, accountability and performance. It should be stressed that the program was not “state of the art”, either in the technical design of the coupon or in the policy framework (e.g., in terms of linking coupons from one period to releases of FPS for the next period). Despite this, initial evidence from a World Bank-financed before and after evaluation indicates significant improvements in PDS performance. A pre-reform baseline was carried out with the Institute of Human Development in early 2007 and a follow up survey in 2008 just over one year later with a panel design. The survey was done in one urban district (Patna) and three rural districts (Aurangabad, Purnea, and Siwan) and the sample size was 1,692 households. Surveys were also conducted with FPS dealers and village figures, as well as key informant interviews and focus group discussions. The key findings, presented in Vashisht et al. (2009) were:

- ◆ overall, around 59 percent of eligible BPL households had received coupons, ranging from 74 percent in Aurangabad to 50 percent in Purnea. This figure was higher (84 percent) among AAY households, who were prioritized in all districts.
- ◆ information was critical, and the major sources of information on the coupon scheme were local leaders (30 percent), PDS dealers (28 percent), officials (15 percent) and friends/family (9 percent).
- ◆ prior to the reform, only 2 percent of rural BPL households were accessing PDS rice and around 60 percent of Patna BPL households. Following the coupon introduction, this rose to nearly half of rural BPL households. Those who did not have coupons continued to have very low access.
- ◆ the effective transfer value to those with coupons was just under 5 percent of median per capita income for BPL and 12 percent for AAY households, based on the PDS and market price differential.
- ◆ for those accessing PDS, the grains now represent around 26 percent of total monthly rice purchases for BPL and 48 percent for AAY households.
- ◆ around 90 percent of BPL households rated the coupon system an improvement over the previous system, mainly due to the sense of reduced cheating of the system by FPS dealers.
- ◆ there was a secondary market for coupons due to the lack of name and beneficiary ID on the coupon, and there were issues for illiterate beneficiaries.
- ◆ the coupon system per se is unable to address the underlying issue of misidentification of households in the BPL identification process but was seen to have increased public scrutiny of that process.
- ◆ delivery of grain by SFC remained erratic even with the reform and problems such as low dealer official margins are as yet unresolved.

Source: Vashisht et al. (2009).

THE “INCREMENTAL APPROACH” TO REFORM LARGELY FOLLOWS THE LINE OF GOI IN ITS MOST RECENT EVALUATION AND THE NINE POINT ACTION PLAN, AND WOULD INCLUDE SEVERAL KEY ELEMENTS:

- ◆ **introducing a range of measures to make honestly operated FPS financially viable, so that leakage is not a financial inevitability of the PDS at that level.** The measures proposed – many of which are in practice in some states - include: (i) doorstep delivery of grains to FPS at the cost of the state (currently being done in 17 states/UTs); (ii) provision of rent-free premises by panchayats for FPS operations; (iii) allowing FPS to sell non-PDS commodities which will both increase their viability and increase the likelihood of being open

more days in a month. States such as Himachal Pradesh and Gujarat are already moving in this direction, which is supported by the Planning Commission in its PDS report; (iv) ensuring that FPS have a minimum catchment area and turnover of grain which allows for sufficient scale to ensure viability. The Planning Commission estimates that substantial share of FPS fail to meet this benchmark. There is an obvious challenge to enforce such a requirement in remote and inaccessible areas, which are likely to be those most reliant on FPS. One option for “squaring the circle” in this respect could be the use of mobile FPS vans such as Himachal Pradesh is already using in a number of remote districts; and (v) in line with Planning Commission suggestions,

increase the margin on grains for FPS to 2 percent of the economic cost.

- ◆ **deepening ongoing reforms in management of FPS.** States – both rich and poor - are increasingly moving from FPS operated by private operators to operation by community-based institutions, including PRIs, SHGs, and cooperatives (e.g., in Tamil Nadu in 2009, almost 90 percent of FPS are run by cooperatives). This seems eminently sensible in terms of having operators who are more accountable to their communities and more likely to operate the FPS on a regular basis. Results from the SPS surveys on safety nets are instructive in this respect. Despite kerosene distribution in PDS being notorious for being high leakage, the incidence of kerosene from PDS in Orissa is far more progressive than that of grains. A simple explanation appears to be that kerosene has been the first commodity transferred to operation by women's SHGs in the state.<sup>154</sup> By early 2009, about 83,000 FPS (out of the 4.98 lakhs shops across the country) had been allotted to cooperatives, women's and other SHGs, PRIs, etc.
- ◆ **decentralization of grain purchases.** This would have several possible advantages, and a number of states are increasingly exploring this option in their grain purchasing. Firstly, locally purchased grains are more likely to accord with local dietary preferences, and hence be in greater demand. Secondly, local procurement could spread the economic benefits of the procurement subsidy from the current concentration in a few states (two of which are very well-off) to farmers in all states. Thirdly, the costs of transportation and storage of grains are likely to be reduced considerably. A number of states have started to move in this direction, including lagging states such as Chhattisgarh and Orissa, though how far this can advance before hitting resistance on the supply side in traditional supply states such as Punjab and Haryana remains to be seen.
- ◆ **making options for household-level offtake from FPS more flexible.** The most obvious reform in this respect is obviously allowing, as a number of states already do, for weekly drawing of the household's allocation. The only constraint on this is the FPS being open on a more regular basis, but that should be addressed through the management reforms outlined above. A second measure which may be more challenging from a bureaucratic perspective – but seems desirable – would be allowing BPL and/or AAY households to carry over their monthly ration from one month to another in months when they had less need for their full ration. Given seasonal fluctuations in PDS to market prices, this could imply some lumpiness. A third option would be allowing households a more flexible mix of grains and other basic commodities up to the value of their ration subsidy, an approach which Gol plans to pilot in the coming year (see below).
- ◆ **strengthening monitoring of PDS operations.** A number of measures to increase transparency in the operations of PDS are feasible within the current framework and are indeed being implementing in several states. For instance, one element of management reform may be more direct community oversight in PDS operations, e.g., through community verification of PDS delivery quantities where they are not already operating the FPS and/or through the involvement of PRIs in vigilance committees to monitor FPS. Some states have made some progress in implementing a system of monthly certification by PRIs/vigilance committees for delivery of food grains to FPS and allocation to ration card holders on time. In addition, public display of BPL lists and of district and FPS-wise allocations of food grains for public scrutiny as proposed under the nine point action plan would improve transparency. The review of BPL/AAY lists in 14 states as part of this process has already led to the elimination of 100.51 lakh bogus/ineligible ration cards. Concurrent evaluations of PDS performance by NCAER and IIPA have been commissioned in recent years by the Department of Food and Consumer Affairs.
- ◆ **strengthening the use of Information and Communication Technology (ICT) in the PDS at the beneficiary end in order to promote more robust identification and in reducing leakage.** This can take a variety of forms, some – such as

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154 See Dev et al. (2007).

in Andhra Pradesh already – simple biometric identification but not fully integrated into a “smart” system, others involving bar coding and other applications. The range of options for greater ICT use in the PDS system have been exhaustively reviewed in a report for the Gol Ministry of Finance financed by the World Bank, which also conducted detailed feasibility assessments in Anand district in Gujarat and Thane district of Maharashtra in 2007.<sup>155</sup> In addition, the use of new technologies such as GPS for tracking movement of vehicles transporting PDS commodities. Funds for piloting this technology in Chhattisgarh, Delhi and Tamil Nadu were sanctioned in 2007-08. In addition, computerization of TPDS operations have been initiated in several states.

- ◆ **conducting an independent review of FCI’s pricing structure, with an eye to reducing the economic costs of grain procurement and handling.** It appears that FCI is inefficient in its handling of grains, and the costs of this are naturally borne by the budget and the end beneficiary. Despite this, previous reviews have not been very probing in their efforts to look at possibilities for improved efficiency in FCI. A truly independent review of their cost structure with a prior commitment by Gol to implement its findings would seem desirable (though the technical demands of “efficient” cost estimation in the face of such a dominant market position should not be under-estimated).
- ◆ **another option is introduction of food stamps or coupons, an approach that is prevalent in Andhra Pradesh and Rajasthan, and was introduced in Bihar in 2007.** The current food coupon approach involves coupons which are redeemable only in the FPS network, though there is no reason not to allow for a coupon which would be redeemable also in approved private food retailers (see below). Coupons may have attractions as a tracking and leakage-reduction tool if FPS owners are able to replenish their grain stock based strictly on the basis of redeemed coupons. In Andhra Pradesh, it is estimated that the introduction of coupons has reduced leakage in the PDS by up to 25 percent.

The system has some obvious risks, including forgery of coupons. Another issue may be the development of a secondary market for coupons (though how much of a concern this is if poor households place more value on the cash than grains is a question). The Bihar experience with food coupons has been closely assessed through a two round survey-based assessment (see Box 3.3).<sup>156</sup> While only around 60 percent of eligible households had been provided with food coupons in the first year of implementation, access among them dramatically increased as a result of the reform, rising from only 2 percent to around half of BPL households. Bar coded coupons/ration cards have been introduced under TPDS in six states.

THE ABOVE OPTIONS CAN BE CONSIDERED A MINIMALIST APPROACH TO PDS REFORM. THE OPTION OF ALLOWING GRAIN PURCHASES WITH COUPONS FROM APPROVED PRIVATE FOOD RETAILERS WOULD REPRESENT A MORE BOLD FORM OF PDS REFORM WHICH FEASIBILITY STUDIES INDICATE IS VIABLE. Some of the potential attractions of such an approach include competition between PDS and private traders (which could act as an accountability check and perhaps incentivize efficiency improvements in FCI and SFCs), greater frequency of availability in areas where FPS open irregularly, and possibly reduction in the transport and holding costs of PDS for the portion of grains purchases from private traders. The United Progressive Alliance (UPA) Government in 2007 announced plans to pilot such a reform in 20-50 districts, using coupons for beneficiaries which can be redeemed in neighborhood stores other than FPS (“kirana” stores), though there appears to have been limited progress. In addition, beneficiaries would be allowed to have a more flexible form of ration, allowing for purchase of any mix of grains, pulses or other household basics up to the value of the coupon. This reform option was also mentioned in the 2010 Economic Survey. While details remain to be worked out, the initiative seems worth pursuing and evaluating.<sup>157</sup>

A MORE TECHNICALLY ADVANCED FORM OF FOOD COUPONS COULD BE INTRODUCTION OF “SMART CARDS” IN THE PDS, WHICH COULD BE REDEEMABLE ALSO AT APPROVED PRIVATE

155 See Cal2Cal (2007) for a PDS smart card feasibility study produced at request of Ministry of Finance.

156 See Vashisht et al. (2009) which analyze surveys from a pre-reform baseline and a follow-up survey just over a year after the introduction of food coupons.

157 Times of India, July 3, 2007, “Food coupons to end PDS mess?”; see <http://timesofindia.indiatimes.com/news/india/Food-coupons-to-end-PDS-mess/articleshow/2165884.cms>, last accessed on September 22, 2009.

TRADERS AND/OR FPS.<sup>158</sup> A smart card system can facilitate two key functions: individual identification and remote transaction processing/storage. Smart cards have the ability to store and record a large amount of program and authorized biometric information (signature or fingerprint image) that can be matched to the actual fingerprint or signature of individual involved in a transaction. In the context of the food ration system, the card can store information on the identity of the individual, eligibility for rations, quantity, price and time intervals at which he/she could be supplied rations, etc. Point of Service (POS) terminals are simple machines that read the cards and have the capability of authorizing the transactions via phone lines or the internet or recording the transactions on the smart card itself. Further information on smart cards is in Box 3.4.

SMART CARD SYSTEMS ARE NOT NEW TO INDIA OR TO SOUTH ASIA. Several experiments are already in operation, and the Rashtriya Swasthya Bima Yojana (RSBY) health insurance program introduced by Gol in 2008 clearly demonstrates that smart card applications are very feasible for wide scale use even in poor and low capacity settings, provided the right mix of institutional players is involved and there is rigor in standard setting and implementation (see Chapter 5). Indeed, there is discussion presently of “piggy-backing” other programs on the RSBY cards, and this is technically possible. Another notable small scale private initiative is that of Swayam Krishi Sangam (SKS) in operation in one of the poorest districts of Andhra Pradesh (in Medak). The card is being used essentially as electronic passbook to record all the transactions for micro-finance loans. Recently, Gol has provided in the 2008 and 2009 budgets funds for piloting of a smart card-based reform in Haryana and Chandigarh which would also allow access to authorized private dealers. Box 3.4 gives details on other South Asian experiences.

THE PARLOUS STATE OF PDS AS REPORTED BY GOI, NATIONAL RESEARCHERS AND THIS REPORT, SUGGESTS HOWEVER THAT A MORE FUNDAMENTAL REFORM OF PDS IS WARRANTED WHICH

WOULD INTRODUCE THE OPTION OF CASH TRANSFERS.<sup>159</sup> The following paragraphs outline two variants of a fundamental reform option for PDS: (i) switching to a cash transfer for the poor, or offering options for poor households between food and cash; and (ii) switching to a conditional cash transfer, in order to leverage improved human capital outcomes from the huge spending on PDS.<sup>160</sup> Neither option would eliminate the need for food buffer stocks, nor for the continued use of food-based transfers for specific situations (e.g., where relief aid is needed due to climactic or other disasters) or specific areas (e.g., remote or dry land areas), and possibly specific population groups (e.g., those noted in the Supreme Court order above, which largely conform to the AAY category presently). Despite the ongoing debate around the Food Security bill, Indian policymakers appear to be willing to explore such options. For instance, Government of Delhi recently announced a “cash for ration” pilot in one district which would provide ₹ 1,100 per month to women in poor households (an amount which would purchase around 30 kg of rice at market price as of mid-2009).<sup>161</sup> The 2010/11 Economic Survey suggests that the Gol is considering the introduction of food coupons for households with a lumpsum entitlement (rather than specific amounts for rice, wheat, sugar, etc.) that can be encashed at a PDS store of their choice.<sup>162</sup>

THE ELEMENTS OF A TRANSITION FROM A FOOD TO CASH BASED PDS COULD BE THE FOLLOWING:

- ◆ **reform would have to start at the procurement end of the system if it is to be feasible, and involve a reorientation of FCI's functions.** This essentially involves a reduction in government controls over grain markets and procurement operations. Even in such a reformed system, FCI could still be expected to play important roles. Firstly, it could compete with private players in the market, relying on the economies of scale in operations, existing infrastructure, distribution networks and other advantages to be competitive. Secondly,

<sup>158</sup> Gol has launched its pilot of this approach in Haryana and Chandigarh. Andhra Pradesh has already gone some way in this direction by recording biometric (iris) identification of all BPL ration card holders in a central database. This allowed for significant reductions in duplicate and ghost ration card holders. See Cal2Cal (2007) for a detailed discussion of the technological options and feasibility of smart cards in PDS.

<sup>159</sup> See, for example, Radhakrishnan and Subbarao (1997).

<sup>160</sup> In essence, this is the strategy that Mexico followed in its transition from the so-called “tortilla subsidy” to the CCT program *Progresas* (now called *Oportunidades*).

<sup>161</sup> See *Hindustan Times*, August 27, 2009: Pro-poor schemes get the thumbs-up from plan panel, see <http://www.hindustantimes.com/Pro-poor-schemes-get-a-thumbs-up-from-plan-panel/H1-Article1-447365.aspx>, last accessed on September 22, 2009.

<sup>162</sup> Gol 2010.

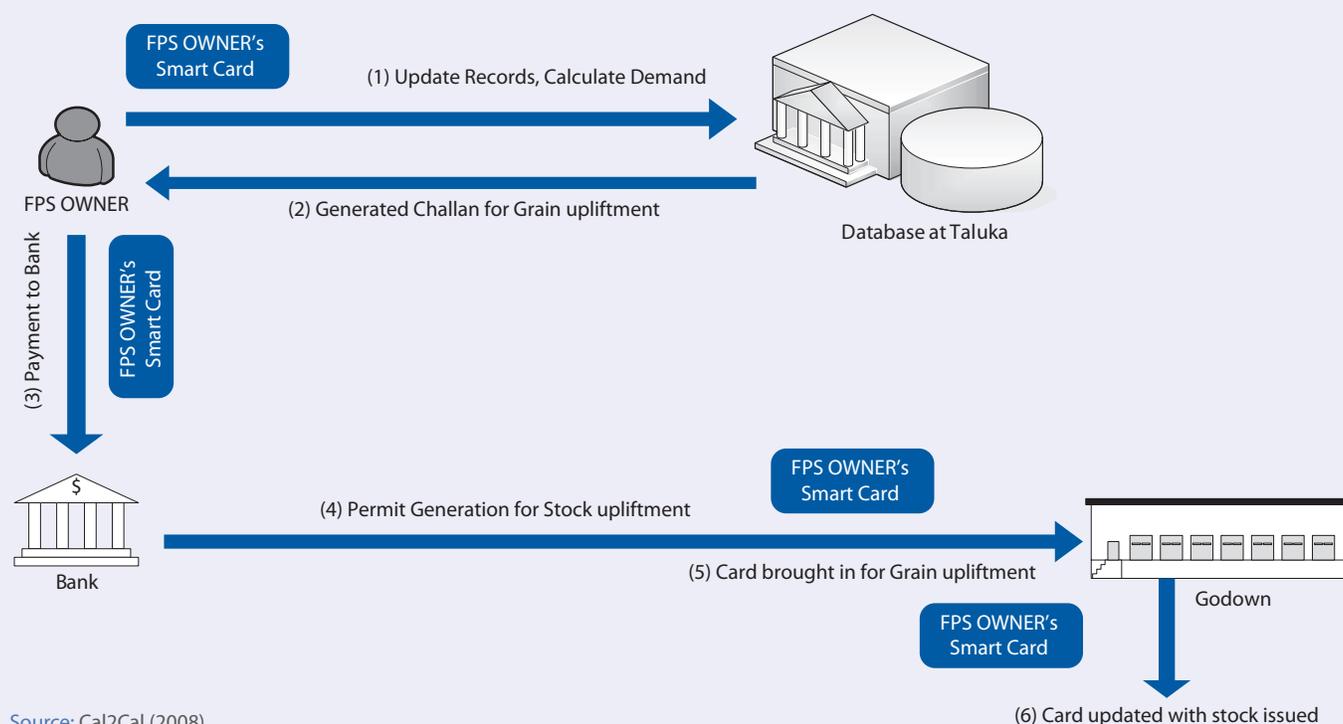
### Box 3.4: Smart cards in food programs

#### Existing systems in other developing countries make use of smart cards and POS in the following way:

- ◆ the individual beneficiary receives the card from the welfare/Ministry office where it is “recharged” with the relevant information and the amount of rations he/she is entitled to.
- ◆ once the individual goes to the shopkeeper – public or private - with the card, the transaction is promptly recorded both on the card and on the POS device that each shop keeper maintains.
- ◆ the transaction is backed up on the handheld device (Point of Service - POS) for upload on the central database and for being transmitted to the bank to reimburse the shopkeeper. Such duplicate storage is to ensure that data is not lost in the interim period. Such mechanism allows for a decentralized processing of transactions when there is no online access to the main database as would be the case in much of India.
- ◆ once every week or fortnight, the shopkeeper would take the handheld device (or the information contained in it) to a local agency (e.g., a bank or the concerned Ministry office) to upload all the transactions to the centralized system and to be compensated for the transactions undertaken during that period, preferably transferring money to the shopkeeper’s bank account.

**Smart card systems are not new to India or to the region.** Several experiments are already in operation, and RSBY is a major case of apparent success. For example, ICICI has instituted a smart card system for health insurance, and the Army uses smart cards for its health cards. One notable small scale private initiative is that of Swayam Krishi Sangam (SKS) in operation in one of the poorest districts of Andhra Pradesh (Medak). The card is being used essentially as electronic passbook to record all the transactions for micro-finance loans. Andhra Pradesh is also piloting smart cards in its social pension program, Kerala operated a PDS smart card pilot in Trivandrum during the first half of the 2000s, and states such as Gujarat already use smart cards on a wide scale for purposes such as drivers’ licenses. In neighboring Bangladesh, smart cards have been introduced by various institutions, notably Grameen Bank and BRAC, largely for channeling micro-finance activities, but also for other activities. In Pakistan, the National Identity Card is serving also as a smart card as it is used not only for casting votes, but for purposes such as scholarships.

The information flow of smart card use in PDS is reflected in the graphic below from the Cal2Cal report:



and very importantly, FCI could retain a role as manager of India’s buffer stocks of grain and perhaps their distribution in situations or areas where they were needed. Finally, to the extent that specific groups or areas continued to receive

PDS grains, FCI could continue to perform that distribution function in coordination with SFCs.

- ◆ **if procurement reform could be achieved, substantial resources would be freed up for use in a cash transfer program for the poor.** In essence,

public funds that are now spent on the large food subsidy bill of Gol would be freed up to be used for direct cash grants to the poor. The analysis of this report shows that regular cash grants are subject to less leakage than food in nearly all cases, are far easier to administer, and are highly valued by the poor. There is also no solid or systematic evidence from field work of the concern that cash grants are drunk or smoked by the men in recipient households, though of course that cannot be discounted as a possibility.

THERE ARE SEVERAL OBVIOUS CHALLENGES AND ISSUES IN SUCH A PROPOSAL. They include:

- ◆ **likely strong resistance from the stakeholders outlined above in the discussion of political economy constraints.** This is natural. The main way of managing this risk is to have a strategy for “reinvention” of the FCI along the lines outlined, so that it becomes an active player in the new system, with important residual functions like buffer stock management, rather than simply a “loser” in the reform process.
- ◆ **resistance from FPS owner groups.** Given the existence of over 400,000 FPS owners, thought would need to be given to how to manage this risk. The first element of a strategy would be continuing transfer of FPS functions to PRI/CBOs who are not “sole purpose” organizations in the way that FPS owners would be, and hence are less likely to resist changes that may be supported by their communities. Secondly, a sub-set of FPS would continue to be needed for the continued PDS functions which would continue even in a reformed system. Thirdly, the government could as necessary support transitional livelihoods support for FPS owners who lost their businesses as a result of reform (though this has not proven necessary to date in states which have transferred FPS ownership from private individuals to community groups).
- ◆ **legal implications with respect to existing Supreme Court decisions and the proposed Food Security Bill.** This is an important issue, as any reform must be consistent with the law of the land, more so when it flows from constitutional provisions. One

reading of the SC order is that Government may not be constrained if it provided sufficient cash transfers to the identified groups to allow them to purchase food. A more demanding reading suggests that a legal obligation directly to provide food may apply to the groups noted. At the same time, the expansion of midday meals and Integrated Child Development Scheme (ICDS), together with the existence of other programs for the destitute such as Annapurna (and of course social pensions) goes some way towards meeting such an obligation if supplemented by a cash transfer. Clearly, however, this would need close consideration of the legal issues and their implications for a reform strategy. Another way of approaching this may be to offer households the option of grains or cash and letting them decide. This would presumably meet the state’s legal obligations while offering choice to households in exercising their rights.

- ◆ **the existence of areas where food insecurity is chronic.** Despite the aggregate move to food surplus, there is a natural concern about ensuring food security in these areas. It may be that PDS continues in those areas until there is an assessment of the impact of transition to cash in other areas.

AGGREGATE EVIDENCE INDICATES THAT CALORIC INTAKES ARE FALLING IN INDIA, EVEN AMONG THE VERY POOR.<sup>163</sup> IN LIGHT OF THIS, MOVING TO CASH FOR PDS MAY SEEM COUNTER-INTUITIVE. However, the counter-balances to that in the above proposal would include: (i) buffer stocks remain an important part of the system, possibly with a “buffer stock plus” to allow a more generous provision for grains for emergency and special situations; (ii) the recent expansion of midday meals may for children provide a caloric floor (see below); and (iii) it is proposed that AAY continue to provide food for the poorest, as would Annapurna for a share of the elderly destitute; and (iv) ongoing efforts to improve the performance of the nutritional program under ICDS could – if effective – provide improved coverage of poor infants and pregnant/lactating women. Cumulatively, these by no means suggest a wholesale withdrawal from direct provision of food for the poor.

163 See Deaton and Drèze (2008).

THE SECOND VARIANT OF A CASH-BASED REFORM OF PDS WOULD BE INTRODUCING A CONDITIONAL CASH TRANSFER (CCT) RATHER THAN A SIMPLE CASH GRANT AS OUTLINED ABOVE. The basic arguments for such an approach – and the political economy and legal constraints – are similar to those for a simple cash grant, though conditionalizing transfers may face more legal complexities. The types of conditions that could be considered would vary according to household characteristics, but could include registration of girl births and school attendance for households with children. For other household types, conditionality may not be appropriate, especially those in the categories outlined above. The obvious attraction of a CCT approach relative to a simple cash grant would be that PDS spending could be used to leverage improved human capital outcomes, or other socially desirable goals such as better treatment of girl children. The additional challenges would include the administrative demands of operating a CCT, but the Janani Suraksha Yojana (JSY) institutional birth grant and other state-specific experience in India suggests that such demands can be dealt with.

IN LIGHT OF VARIOUS CONSTRAINTS AND GIVEN THE FUNDAMENTAL NATURE OF SUCH A REFORM, IT WOULD BE ADVISABLE TO EXPERIMENT WITH A CASH-BASED PDS, PERHAPS FOCUSING ON MORE FOOD SECURE STATES/DISTRICTS FIRST. It would also be sensible to ensure that the groups covered under the Supreme Court order continue to receive grains, possibly in addition to a cash transfer. Such a pilot would need careful monitoring and evaluation to assess impacts and ensure that food security was not compromised, but for poorer states in particular seems a more promising way of ensuring (albeit in an indirect manner) the right to food.

### *(iii) Social pensions*

THE EVIDENCE OF THIS CHAPTER SUGGESTS THAT SOCIAL PENSIONS ARE A REASONABLY EFFECTIVE PART OF THE INDIAN SP SYSTEM, AND THEIR ENHANCEMENT IN COVERAGE AND CENTRAL FINANCING IN RECENT YEARS IS WELL DIRECTED. In light of this, the reform options for social pensions are more of an incremental nature, both in terms of relative spending/coverage priority, and in terms of improvements in current policies and implementation. The main recommendations are:

- ◆ *there is a need in a number of states for better education of officials and other involved in social*

*pension administration on eligibility policies.* Field work in several states finds either partial knowledge or problematic interpretations of previous eligibility criteria on “destitution” (now modified to BPL) and even the reforms under NSAP are likely to face some continuing problems of identifying the poor. Following a review of policy, a more thorough awareness raising and perhaps development of implementation guidelines could help improve the situation.

- ◆ *more broadly, as progress is made on expansion of social security to the unorganized sector, it will be critical for those managing social pension policy development to be involved in thinking through options for pension expansion, and the complementarities with social pensions as a possible “zero pillar” of any contributory system for the unorganized sector.*
- ◆ *central monitoring of NSAP performance should be further strengthened, despite the reliance on ACA rather than CSS financing mode.* Social pensions are one of the few major national programs for which simple consolidated reporting on various performance indicators is not available in annual reports of the Ministry of Rural Development. At a minimum, this would be desirable. A welcome recent initiative is the computerization of NSAP beneficiaries that significantly increases transparency and enables the central Ministry to monitor outcomes. States are currently in the process of moving to a full-fledged MIS for NSAP. As importantly, the central Ministry could act as a more effective conduit for sharing of good state-level experience in different aspects of policy and implementation.
- ◆ *experience suggests that the previous fund flow model of sending social pension transfers directly to DRDA level is preferable to routing through state treasuries, and that its reintroduction should be considered.* The strongest argument for this is evidence of even rich states such as Gujarat diverting social pension transfers for other purposes, something that is less likely with DRDA routing. In addition, delays in on-payment by state treasuries could be avoided with such a model. However, this potentially entails a policy decision to make the program a centrally sponsored scheme.

- ◆ ***the verification process for current beneficiaries by states needs to be made regular, and a process for remedial action developed.*** Presently, simple checks such as comparison of census and beneficiary information by district is typically not done, and has proven very informative where has been done in identifying outliers on the up and downsides (e.g., in Karnataka). This would allow a more targeted process of performance audit. In addition to state departments, there may be a potential role in such an enhanced process for PRIs.
- ◆ ***a review of payment systems for social pensions would be desirable in a number of states, as would a through effort to reconcile sometimes divergent local level and state level reporting on beneficiary numbers and other information.***

#### (iv) Targeted housing programs

WHILE THERE ARE CLEARLY SOME SIGNIFICANT CHALLENGES IN MAKING THE TARGETING AND PERFORMANCE OF TARGETED HOUSING PROGRAMS MORE EQUITABLE AND EFFICIENT, SPECIFIC RECOMMENDATIONS ON IMPROVEMENT ARE MORE DIFFICULT TO SUGGEST. Nonetheless, some suggestions include:

- ◆ ***attempt to develop and implement mechanisms in states for minimizing the significant rent-seeking that appears to be happening in IAY.*** This is inherently challenging so long as benefits involve large lump sums. However, the nature of rural housing needs and behavior among the poor suggest that the program can be better adapted to needs.
- ◆ ***ensure that safeguards in current guidelines are actually enforced.*** The recent introduction of “permanent waiting lists” based on the BPL list and the requirement of displaying these waiting lists in a public area (e.g., the wall of the panchayat building) is the first step in increasing transparency in the program. In this respect, options such as social audits seen in the Mahatma Gandhi National Rural Employment Guarantee Scheme may offer an additional mechanism.

A second obvious improvement would be to provide for direct transfers to households via the banking system or post offices. Such a reform in IAY in Bihar has been introduced recently, and field visits indicate significant reductions in leakage of funds due to the reduction in intermediation by officials in the benefit payment process.

- ◆ ***conduct a detailed study on practices among the rural poor in housing improvement, to explore options for better matching scheme design with needs and practice.***

A LONGER TERM OPTION FOR TARGETED HOUSING REFORM MAY BE EXPLORING POSSIBILITIES FOR MORE MARKET-LED PROVISION OF HOUSING, PARTICULARLY IN URBAN AREAS. Experience in some metros may provide guidance here, and exploring the role of the private sector as financier and constructor but with subsidies to households seems warranted. There are a range of challenges in market-based solutions which are particularly acute for the informal and self-employed sectors of the workforce due to difficulties in credit assessment, the need to mitigate risks for lenders, and transactions costs. Nonetheless, small scale experiences of Micro Finance Institutions (MFIs) such as Swadhaar, Ujjivan and BASIX, and interest from small and medium housing finance companies indicate both interest in non-traditional market players in serving the urban poor for housing upgradation needs. Initial assessments indicate that market-based solutions may be possible for households with monthly incomes in the range of ₹ 4,500-8,000.<sup>164</sup> In addition, there is a need to integrate housing delivery under IAY into a larger process of facilitating access to safe, sustainable and adequate housing. This could include access to credit in order to meet the funding gap between the IAY subsidy and the cost of housing as well as access to environmentally sustainable technologies and building materials and services to assist people in construction.

THE MORE FUNDAMENTAL QUESTION ON HOUSING PROGRAMS FOR THE POOR IS THE EXTENT TO WHICH THEY SHOULD REMAIN AS STANDALONE CSS, OR MIGHT MORE USEFULLY BE ALLOWED FOR WITHIN AN SP (OR GENERALIZED) BLOCK GRANT SYSTEM.<sup>165</sup> The JNNURM approach of having an

<sup>164</sup> See Monitor Group (2007) for a useful market assessment of both demand and supply sides of low cost urban housing options.

<sup>165</sup> A proposal along these lines has been made by Kapur et al. (2008) using IAY and SGSY funds as part of an enhanced PRI block grant.

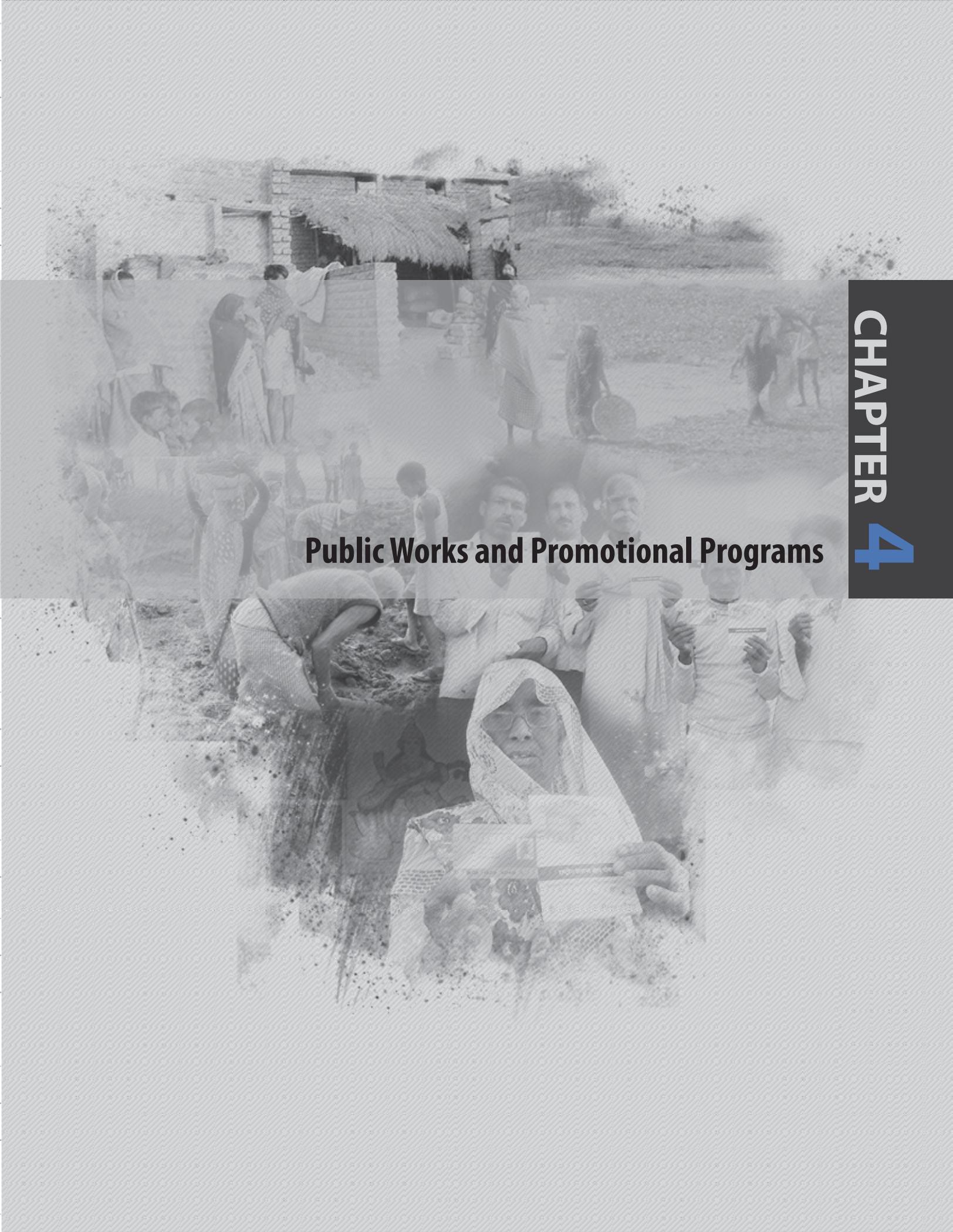
option within a larger program but requiring more pro-active proposal development and management on the part of local authorities in order to use central funds for low-income housing seems worth exploring in the context of IAY also. This would be more consistent with giving states/cities greater local determination in use of CSS resources. Whatever the approach, it would certainly seem that innovation is needed in the area of public subsidies for housing for the poor. It is also important to view these programs in the context of the larger housing and habitat policy for the country.

*(v) Conclusion*

THE RECOMMENDATIONS ABOVE LOOK AT EACH PROTECTIVE PROGRAM IN ISOLATION, BUT WOULD IN A MORE STRATEGIC FRAMEWORK ALSO NEED TO BE CONSIDERED JOINTLY. This overall interaction and framework for the social protection system is taken up in Chapters 6, 7 and 9. In short, it stresses the critical importance of a social assistance “pillar” of the Indian social protection system, but also the desirability of consolidation across programs, probably with certain categorical top-ups on benefits and possibly specific eligibility criteria.



**Public Works and Promotional Programs**





## Public Works and Promotional Programs

In addition to social assistance programs, India has had a long term emphasis on public works programs and programs which aim to help poor households move sustainably out of poverty. In recent years, both have been subject to increased political attention, funding, and efforts to improve poverty reduction outcomes. This chapter looks at the experience with public works in India. It also looks at three key promotional social protection programs: targeted subsidized credit for the poor, school stipends, and the midday meal program in schools.

The key findings of the chapter are:

- ◆ Administrative data indicate high coverage of the Mahatma Gandhi National Rural Employment Guarantee program (MGNREG) relative to previous public works programs, with impressive inclusion of SC/ST and women workers. While the design of MGNREG addresses some of the problems in previous public works programs, field studies highlight several challenges in MGNREG implementation. The uneven implementation experience across states provides a rich opportunity for cross-state learning to achieve better and more transparent impacts. A number of innovations in MGNREG design – including social audits – seem worthwhile to mainstream in other anti-poverty programs.
- ◆ Like its predecessors, the Swarnajayanti Grameen Swarozgari Yojana (SGSY) remains a poorly performing program, and is currently being significantly restructured under the National Rural Livelihood Mission (NRLM).
- ◆ While school stipends are expanding, their targeting performance remains modest, and there is a need to link their receipt more systematically to actual attendance rather than enrolment only.
- ◆ The recent expansion of the midday meal (MDM) program is warranted by the findings of positive impacts on enrolment, but more work is needed to understand their impact on both other educational indicators such as retention, and on nutritional outcomes. Government of

India studies also point to concerns on leakage common to other food-based SP programs which suggest a need for more careful monitoring and evaluation of the delivery mechanism.

Studies suggest that, at least prior to the National Rural Employment Guarantee Act (MGNREGA), top-down planning continued to dominate, leaving little scope for community participation.<sup>167</sup>

## A. PUBLIC WORKS PROGRAMS

SINCE THE 1970s, PUBLIC WORKS HAVE BEEN AN IMPORTANT COMPONENT OF THE INDIAN SAFETY NET, WITH A SUCCESSION OF PROGRAMS, BOTH CENTRALLY SPONSORED AND STATE-SPECIFIC. The assessment below focuses on the major centrally sponsored public works programs. Table 4.1 describes the evolution of public works programs in India since 1980. While changes in workfare programs have been frequent, much of the development has been rebranding rather than fundamental reform.<sup>166</sup> In the 1990s, the most significant policy shift was the increased role for PRIs. However, even this shift, which is clear in the guidelines of workfare programs, has been more mixed than policies might indicate.

THE MOST RECENT, AND FUNDAMENTAL, POLICY SHIFT IN 2006 HAS BEEN FROM SCHEME-BASED PROVISION OF RURAL WORKS TO A LEGISLATIVELY-BACKED 100 DAY EMPLOYMENT GUARANTEE UNDER NATIONAL RURAL EMPLOYMENT GUARANTEE ACT (SUBSEQUENTLY RENAMED MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE ACT OR MGNREGA).<sup>169</sup> The National Rural Employment Guarantee Act was notified by the Indian Parliament in September 2005 and became operational from February 2006. Initially it operated in 200 backward districts, expanded to an additional 130 districts from 2007 (called respectively the first and the second phase of implementation).<sup>169</sup> The remaining districts in the country were notified under MGNREGA with effect from April 1, 2008 (the third phase). Currently, the program covers the entire country with the exception of

**Table 4.1: Evolution of public works programs in India, 1980 to 2006**

Year	Scheme	Primary objective	Plan Period	Allocation (₹ cr)
1980	National Rural Employment Programme (NREP)	To employ unemployed and underemployed workers to build community assets	6 <sup>th</sup> 7 <sup>th</sup>	980 1,682
1983	Rural Landless Employment Guarantee (RLEG)	To provide 100 days of guaranteed employment to one member from each rural, landless household	6 <sup>th</sup> 7 <sup>th</sup>	500 2,412
1989	Jawahar Rozgar Yojana (JRY)	Merged NREP and RLEG	7 <sup>th</sup> 8 <sup>th</sup>	2,100 15,434
1993	Employment Assurance Scheme (EAS)	To provide employment during lean agricultural season	8 <sup>th</sup> 9 <sup>th</sup>	5,340 5,660
1999	Jawahar Gram Samridhi Yojana (JGSY)	To develop demand-driven rural infrastructure	9 <sup>th</sup>	6,267
2001	Sampoorna Gramin Rozgar Yojana (SGRY)	Merged EAS and JGSY	9 <sup>th</sup> 10 <sup>th</sup>	6,200 21,440
2004	Food for Work Programme (FFWP)	To generate additional supplementary wage employment and create assets	10 <sup>th</sup>	6,000
2006	National Rural Employment Guarantee Act (recently renamed Mahatma Gandhi National Rural Employment Guarantee Act MGNREGA)	To provide 100 days of legally guaranteed employment to all rural households; create community assets and empower communities	10 <sup>th</sup> 11 <sup>th</sup>	11,300 111,000

Source: CSE 2008 and Gol Expenditure Budget. Note the 11<sup>th</sup> Plan allocation for MGNREG is till 2010/11.

<sup>166</sup> CAG refers to this process as “revamping and rechristening” (see CAG 2000).

<sup>167</sup> Mehrotra (2008).

<sup>168</sup> This has recently been renamed the Mahatma Gandhi National Rural Employment Guarantee (MGNREG), to this report uses this acronym, MGNREG, to refer to the program.

<sup>169</sup> During the first two phases, districts that were not covered by MGNREG continued to be covered by SGRY and FFW.

districts that have a hundred percent urban population. MGNREGA guarantees up to 100 days of unskilled work per rural household per year on public works projects. The work is to be provided on demand and is paid on a piece-rate basis such that a normal worker can earn the state-specific minimum wage rate.

THE GUARANTEE MAKES MGNREG AN INNOVATIVE EXAMPLE OF A RIGHTS-BASED APPROACH TO POVERTY ALLEVIATION. A description of some of the basic design features of MGNREG is provided in Box 4.1. There are several aspects of the scheme that distinguish MGNREG from earlier public works programs like the Sampoorna Grameen

#### Box 4.1: Key features of MGNREG

**100 days of work per rural household per year guaranteed upon demand.** Each rural household is entitled to a free job card with photographs of all adult members living in it. A job card holder may then apply for employment and the government is liable to provide the same within 15 days, failing which a daily unemployment allowance has to be paid to the applicant. Furthermore, work must be provided within 5 km of the applicant's residence or there is a 10 percent premium on the scheme wage. How the household distributes the 100 days among its members is entirely the household's decision. The scheme is therefore completely self-targeted and follows a demand-driven, rights based approach.

**State specific agricultural minimum wages used as scheme wage rate, but based on Schedules of Rates which are output-based.** The central government in the Union budget of 2009-10 promised to provide a real wage of ₹100 per day for work done under MGNREG. Payment is based on a rural Schedule of Rates that depends on the amount of work done by a person. This SoR should be set such that an able-bodied worker should be able to produce the output which could earn him or her minimum wages. Wages are paid fully in cash; a departure from previous public works programs that typically had a food component.

**Wages paid directly into post office or bank accounts.** In a move to counter corruption in fudging job cards and muster rolls and improve transparency in wage payment, the Government of India announced that all MGNREG wages, with effect from April 1, 2008, should be paid directly into worker bank or post office accounts that will be opened free of charge. The intention is that this would help separate the implementing agency from the payment mechanism thereby reducing room for fraud and harassment.

**Provision of adequate worksite facilities.** The Act mandates provision of certain basic facilities at the worksite to facilitate manual labor. These include provision of shade; drinking water; crèches for women to leave their children; and first aid facilities to attend to the injured in case of an accident.

**Several provisions of the Act favor participation of women.** For one, the Act mandates that one third of the workers be women. Second, it ensures equal wages for both men and women, with the latter typically having to do less work to earn the minimum wage as set in the Schedule of Rates. Finally, the scheme provides for childcare facilities for children below the age of six (if more than five such children are present at a worksite). This in addition to the provision of work locally (within 5 km of one's residence) makes MGNREG work a feasible option for women.

**Focus on labor-intensive rural development works, with a heavy focus on water/irrigation activities as well as connectivity.** In addition to the list of specific types of works allowed under the Act, there is a provision for addition of other types of works based on consultations between the state and the central government. Overall the scheme maintains a 60/40 labor capital ratio. Contractors and machines are explicitly banned.

**PRIs and communities play a central role in MGNREG implementation.** Unlike previous public works and SP programs, PRI leaders and communities are meant to identify the shelf of works through discussions in the Gram Sabha. PRIs also participate in the execution (at least 50 percent of works by value are to be implemented through the Gram Panchayat), supervision and monitoring of works (including through social audits). This represents a significant shift from earlier public work schemes such as the SGRY which revolved around central rules, with PRIs only involved in supportive implementation or distribution functions.

**A dedicated administrative structure for MGNREG implementation.** Unlike previous public works programs, there is a specific provision of administrative costs, borne by the centre and supplemented by states. There is a dedicated cadre of MGNREG officials and functionaries at the district, block (program officer) and gram panchayat (employment secretary) level that are responsible for implementing the program.

**Emphasis on accountability through the use of ICT tools and by relying on communities and third party monitoring.** Management information systems (MIS) have been established for administrative data on employment generated and assets created at the lowest level. Field based monitoring is supposed to be done through national field-level monitors reporting to the central Ministry as well as local vigilance and monitoring communities. Community-based monitoring through social audits is also happening in some states.

**In terms of total expenditure on the program, the Central Government bears 90 percent of all the costs.** This includes wage costs and three quarters of the non-wage component (including materials and most administrative, subject to a maximum limit), working on an assumed 60:40 labor capital ratio. States are responsible for providing unemployment allowance should it fail to provide work within 15 days of it being demanded. This penalty creates a strong incentive for the State Government to provide work.

Source: MGNREG operational guidelines ([www.nrega.nic.in](http://www.nrega.nic.in)) and various government orders.

Rozgar Yojana (SGRY) and Food-for-Work (NFFWP). First, it recognizes the 'right to work' as a legal right. The state government is legally bound to provide employment to a household within 15 days of its demanding work. If it fails to do, the household is entitled to receive an unemployment allowance. In this the MGNREG is different from the supply based approaches adopted by earlier public work schemes and is closest in spirit to the Maharashtra Employment Guarantee Scheme (MEGS) initiated in the 1970s. Second, wage payments under MGNREG are entirely in cash, unlike previous programs that also had a food component. Third, MGNREG was the first social protection program that devolved significant resources to the gram panchayat level. Another key innovation was the detailed operational guidelines at the centre and state defining procedures and clear division of responsibilities for implementing the program (i.e., unbundling safety net service delivery). Finally, the design of MGNREG emphasizes to a greater degree than in previous public works (and other SP) programs transparency mechanisms and accountability.

The discussion below focuses on the performance of MGNREG as well as its main predecessor programs, i.e., the Sampoorna Grameen Rozgar Yojana (SGRY) and the National Food-for-Work Scheme (NFFW). The discussion examines the coverage and targeting of these programs and presents key challenges with respect to program implementation. The discussion draws on the extensive literature on public works in India, including a Ministry of Rural Development sponsored study of the Sampoorna Grameen Rozgar Yojana (CMD 2005) and concurrent evaluations by the Planning Commission (2000) and the Comptroller and Auditor General CAG (2000) for the Sampoorna Grameen Rozgar Yojana, CAG (2007) for the National Rural Employment Guarantee.<sup>170</sup> The analysis of coverage and targeting in public works programs prior to the introduction of the Mahatma Gandhi

National Rural Employment Guarantee is undertaken using administrative and household survey data from various rounds of the National Sample Surveys (NSS) and the 2005 India Human Development Survey (IHDS) survey. In the absence of nationally representative survey-based data for MGNREG, an important source of information on program performance is administrative data reported by the official website ([www.nrega.nic.in](http://www.nrega.nic.in)). The chapter also draws on the large number of studies on policy design and implementation experience of the program in the last four years.<sup>171</sup> This is not a comprehensive review; instead the discussion here focuses on performance and implementation challenges based on the experience to date. Though the majority of these studies are small-scale and based on purposively selected samples (typically poor and backward areas), a surprisingly consistent story emerges with respect to MGNREG's performance in the field.

### (a) Coverage of public works programs

PRIOR TO MGNREG (AND ITS IMMEDIATE PREDECESSOR - NFFW), ADMINISTRATIVE DATA INDICATE THAT PROVISION OF PUBLIC WORKS EMPLOYMENT UNDER SGRY HAD BEEN WELL BELOW THE TARGET 100 DAYS FOR THE RURAL POOR.<sup>172</sup> Aggregate employment generated by the main public works programs in the first half of the 2000s (prior to the advent of NFFW and MGNREG) was just 600 million person days – around half the level of the mid-1990s.<sup>173</sup> While not direct coverage rates, Figure 4.1 presents total number of "persondays" generated in public works by state (using administrative data) relative to BPL and agricultural households in 2003/04. The provision of employment on average was below 10 days per BPL household nationally and in most states, and less than 5 days looking at all agricultural laborer households in all states except Assam. There is also some cross-state variation in administrative persondays under public

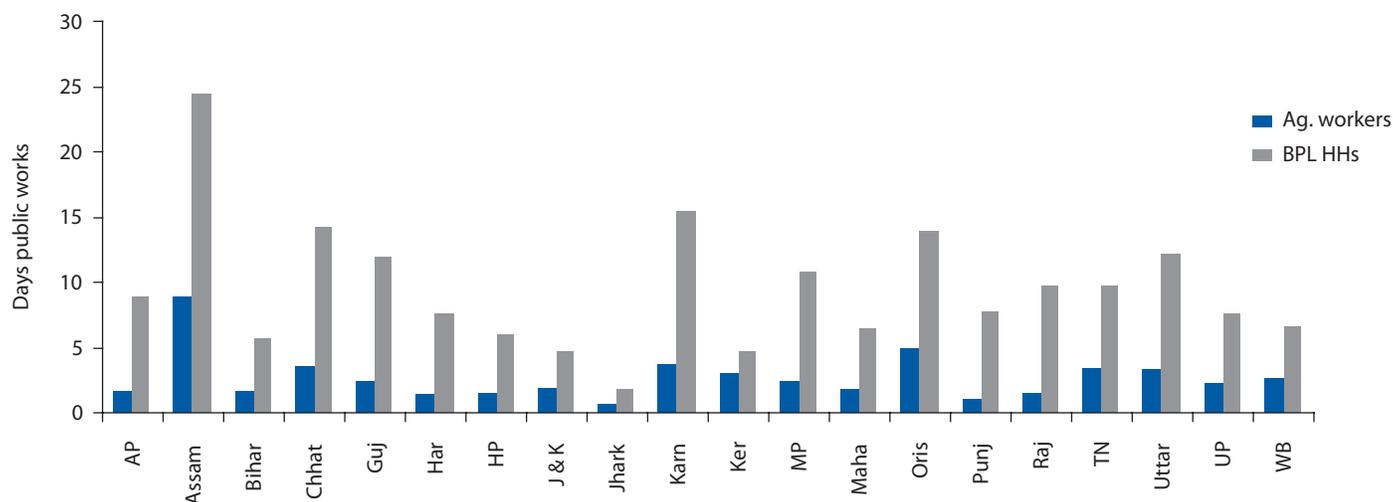
170 In addition, some of the earliest studies focus the Maharashtra Employment Guarantee program, including Acharya and Panwalkar (1988), Dev and Ranade (2001), Gaiha and Imai (2002), Gaiha (1997) and Ravallion and Datt (1995) on the Maharashtra Employment Guarantee program.

171 These include field studies on behalf of the Ministry of Rural Development by the Profession Institute Network (e.g., CBGA 2006 for Andhra Pradesh, Chhattisgarh, Jharkhand and Madhya Pradesh; IHD 2006, 2007 for Bihar, CDA 2006 for Gujarat, ISWSD 2006 and others – available at <http://www.nrega.net/pin/>) and the Comptroller and Auditor General's report on MGNREG in Phase I districts (CAG 2007). There is also an impressive body of research by the Right to Food movement (available at [www.righttofoodindia.org](http://www.righttofoodindia.org), see also Drèze and Oldiges 2009, Drèze and Khera 2009, Bhatia and Drèze 2006, Khera 2006, Sivakumar 2006) and others published in the *Economic and Political Weekly* (e.g., Mehrotra 2008, Ambasta et al. 2008, Shah 2007, Jha et al. 2008, Vijay Shankar et al. 2006, Aakella and Kidambi 2007a,b, Aiyar and Samji 2006, Narayanan 2008); and some other institutional studies (e.g., CSE 2008, PRIA 2006, 2007, 2008, Sharma et al. 2009). See for the references at the end of the report for full list of field studies and other papers consulted.

172 Despite commitments to full rural program coverage, the share of villages covered by employment schemes prior to MGNREG has been far less than complete. Analysis from 2002 NSS village data indicates that only 49 percent of villages (56 percent of population) reported any public employment program in the past year (O'Keefe and Palacios 2006). references at the end of the report for full list of field studies and other papers consulted.

173 O'Keefe and Palacios (2006) based on Ministry of Rural Development data.

Figure 4.1: SGRY workdays per agricultural worker and per BPL household by state, 2003/04

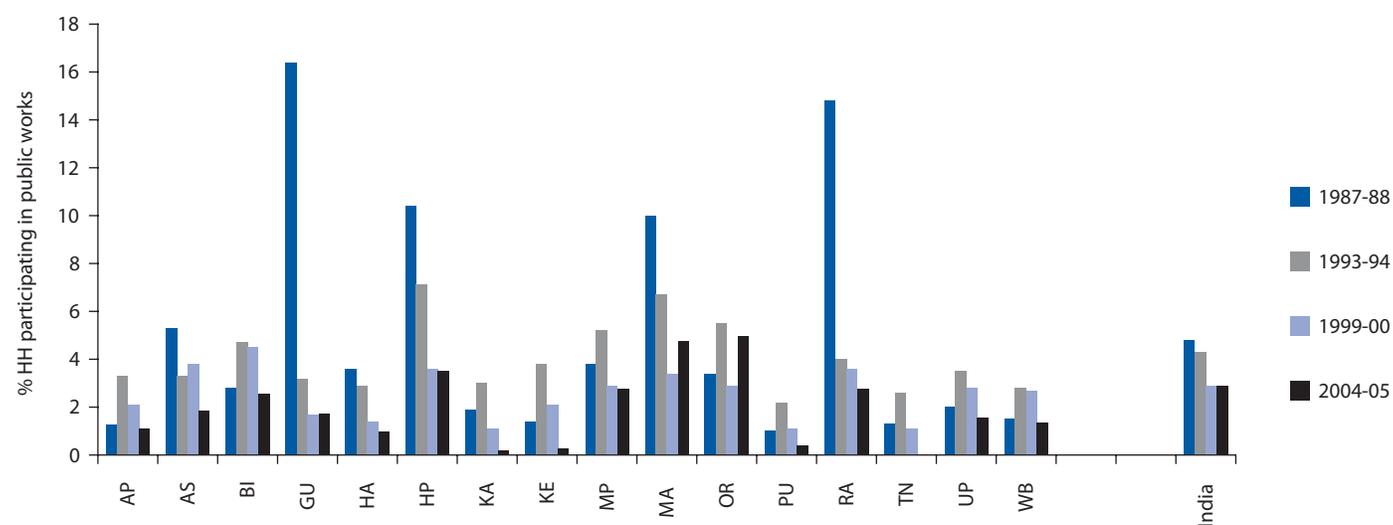


Source: O’Keefe and Palacios (2006) based on Ministry of Rural Development; Labor Year Book 2002-03; BPL from indiastat.com.

works. These figures are pure averages based on aggregate administrative figures, and so need a survey-based source for more focused information on target groups of interest.<sup>174</sup> However, they clearly indicate that the program commitment of up to 100 days employment per rural poor household in SGRY was never close to being met.

HOUSEHOLD SURVEY DATA CONFIRM LOW AND FALLING COVERAGE ON PUBLIC WORKS FROM THE LATE 1980s TO EARLY 2000s (PRIOR TO MGNREG). Figure 4.2 presents results from the last four large NSS rounds. At the all-India level, the coverage rate is lower in each subsequent period, falling from 4.8 percent in 1987/88 to 1.9 percent in 2004/05. Though works reliance is likely to vary by year depending

Figure 4.2: Household coverage rates of public works by state and all-India, 1987/88 to 2004/05



Source: O’Keefe and Palacios (2006) and report team estimates using various rounds of the NSS.

174 There are problems with administrative data with respect to employment generation and implied coverage of SGRY and NFFW. Calculation of “mandays” in administrative data has historically been done simply by taking total program expenditure, assuming a 60:40 labor to materials ratio, and backing out the number of work days generated. Survey results, and previous analysis of workfare schemes by the Comptroller Auditor General (CAG), Planning Commission’s Programme Evaluation Office (PEO) and others, indicate that this resulted in quite misleading administrative estimates of employment generated by public works (e.g., wage shares in total works spending in the late 1990s in Bihar and Orissa were 28 and 32 percent respectively according to PEO).

on exogenous factors, most states (except Maharashtra and Orissa) record much lower employment generated in 2004/05 compared to earlier years. In a number of cases, these state-specific coverage rates exhibit far more pronounced inter-temporal variance, sometimes with a different pattern to the all-India (see Figure 4.2). In addition, the NSS until recently only reported those households as covered where more than 60 days of public works was undertaken in the previous year, which suggests that such coverage figures are very much a lower bound in light of the much lower average employment estimated. This has been changed from the 62<sup>nd</sup> round in 2005/06 to a “how many days employed on public works” type question. Results from other state-specific surveys in fact indicate a significantly better coverage performance in poorer states (see Table 4.2).

THIS TREND HAS BEEN REVERSED WITH THE INTRODUCTION OF MGNREG WHICH HAS EMERGED AS AMONG THE LARGEST SAFETY NET PROGRAMS IN THE WORLD. Within the first year

of its implementation and covering just 200 districts, 38 million rural households had been issued with a job card (see Table 4.3). By 2008/09, this figure has more than tripled to 101 million rural households registered. In the same year, about 45 million households – a third of rural households – were provided employment. Assuming an average household size of five, the number of participating households was higher than the entire population of Bangladesh.<sup>175</sup> This is unprecedented scale when compared to any similar program in the world. In the Indian context too, this is a major achievement with respect to program coverage relative to prior public works schemes. For instance, SGRY and NFFW together generated 1,116 million person days in 2005/06. In comparison, MGNREG had generated 905 million person days in the first year of implementation alone, and with partial coverage of 200 districts.

ADMINISTRATIVE DATA INDICATE THAT EMPLOYMENT GENERATED UNDER MGNREG HAS BEEN MUCH HIGHER THAN IN PREVIOUS PUBLIC WORKS PROGRAMS, THOUGH STILL LESS THAN THE 100 DAY GUARANTEE. The average number of person days of employment generated per participating household has increased from 43 to 52 (48) person days for Phase I districts (all districts) between 2006/07 and 2008/09 (see Table 4.3). Although just 10 percent of participating households exhausted their 100 days entitlement in 2006/07, this figure rose to about 14 percent by 2008/09. Interpreting these numbers is not simple as they are likely to reflect a certain rationing of

**Table 4.2: Pre-MGNREG public works coverage rates from state-specific surveys**

	% HHs participating		
	Orissa	MP	Jharkhand
SGRY	22.9	4.0	9.7
FFW	6.3	17.8	4.4

Source: Dev et al. (2007) for Orissa and MP, based on the 2006 SP survey (the sample size of participating households in the Karnataka sample was too small); Balachander et al. (2009) for Jharkhand, based on 2006 JLS.

**Table 4.3: Coverage of MGNREG using administrative data, 2006/07 to 2008/09**

Phases	2006-07	2007-08			2008-09			
	I	I	II	I+II	I	II	III	I+II+III
Households issued job cards (mn)	38	44	21	65	47	25	27	100
Households demanded employment (mn)	21	..	..	34	..	..	..	45
Households provided employment (mn)	21	23	11	34	22	12	12	45
% Rural households provided employment	39%	43%	33%	39%	40%	35%	23%	33%
Number of person days emp. generated (mn)	905	1087	350	1437	1131	509	523	2163
Number of person days per HH employed	43	47	32	42	52	44	45	48
Number of person days per rural household	17	20	11	22	21	15	10	16
% Registered households provided emp.	56%	53%	52%	52%	46%	46%	43%	45%
HHs provided 100 or more days of emp. (mn)	2	3	1	4	3	1	2	7
% participating HHs provided 100 or more days of employment	10%	13%	5%	11%	15%	10%	18%	14%

Source: MoRD administrative data from the state-wise Monthly Progress Reports ([www.nrega.nic.in](http://www.nrega.nic.in)), last downloaded in January 2010. Data on number of rural households from 2001 Census.

175 Drèze and Oldiges (2009).

employment as field studies report widespread unmet demand for work. Secondly, state-level data indicates significant variation across states on employment days generated per household and the share of households exhausting entitlements, e.g., nearly half the households in Rajasthan as against negligible shares in most states (more on this below). However while the provision of 100 days of guaranteed employment remains a distant goal, employment generation under MGNREG has been much higher than under any other wage employment program in the past – it provided nearly 43 person days of employment per household in its first year (despite limited coverage) compared to 26 person days generated by the pan-India SGRY in 2005-06.<sup>176</sup>

EMPLOYMENT GENERATION IN PHASE I DISTRICTS IS HIGHER THAN THAT IN THE PHASE II AND PHASE III DISTRICTS, BUT HAS RECENTLY STALLED. The Phase I districts are not only among the poorest in the country (and hence one would expect higher demand for the scheme) but have also had relatively more time to build and establish processes for the smooth functioning of the program.<sup>177</sup> In consequence, a matter of some concern is the stalling of employment generation in Phase I districts between 2007/08 and 2008/09 at 21 person days per rural household (see Table 4.3).

DESPITE THE RISE IN REGISTRATION, THERE IS A SIGNIFICANT, AND INCREASING, GAP BETWEEN THOSE REGISTERED WITH MGNREG JOB CARDS AND THOSE ACTUALLY DEMANDING WORK (SEE TABLE 4.3). At the same time, the gap between those demanding and provided work is negligible. This indicates at least two likely features of demand manifestation. The first – and benign element of the gap – is that households may well register with no current intent to undertake public works, exercising an implicit insurance/guarantee function of the program, which has value even if not exercised (e.g., by possibly reducing need for seasonal migration, or by allowing riskier but higher yield cropping choice). The second – and more worrying – is the process through which work

is “demanded” under MGNREG. While the scheme is framed as an on-demand and rights-based one, in practice, worksites have to be opened in a locality before people are likely to come forward for work. This in turn requires a quorum of people expressing a demand for work. This “chicken and egg” issue suggests the importance of the supply side even in such a demand-driven program, a point reinforced by the fact that provision of employment is very high once workers have “demanded” employment in program terms. This is discussed further below.

IN ADDITION, WORK PROVISION IN MGNREG, LIKE PREVIOUS PUBLIC WORKS PROGRAMS, DOES NOT ADEQUATELY REFLECT SEASONALITY. At the national level, aggregate annual public works employment, prior to MGNREG, actually ran counter to expectations, with lower employment provision in years with lower than average rainfall for the most part (though this should be interpreted cautiously, as both rainfall and employment provision are highly variable locally). Evidence from the Maharashtra Employment Guarantee Scheme also confirms employment drops sharply during the monsoons when market-based work is also least likely to be available.<sup>178</sup> This seasonal pattern appears to have continued and employment in MGNREG is also seasonal, peaking roughly in February-June and reaching its lowest usually in July-October (see Figure 4.3).<sup>179</sup> This is partly because the majority of works allowed under MGNREG (more on this later) cannot be executed during the monsoons. This is reinforced by budgeting practices which concentrate disbursements for works in the final quarter of each fiscal.

PROGRAM OUTCOMES HAVE BEEN QUITE VARIABLE ACROSS STATES AND EVEN ACROSS DISTRICTS WITHIN STATES, REFLECTING BOTH DEMAND AND SUPPLY SIDE EFFECTS. Greater variability can be seen on the supply of actual employment to those registered.<sup>180</sup> States such as Andhra Pradesh, Chhattisgarh, Madhya Pradesh and Rajasthan stand out as high performers with respect to

176 Mehrotra (2008).

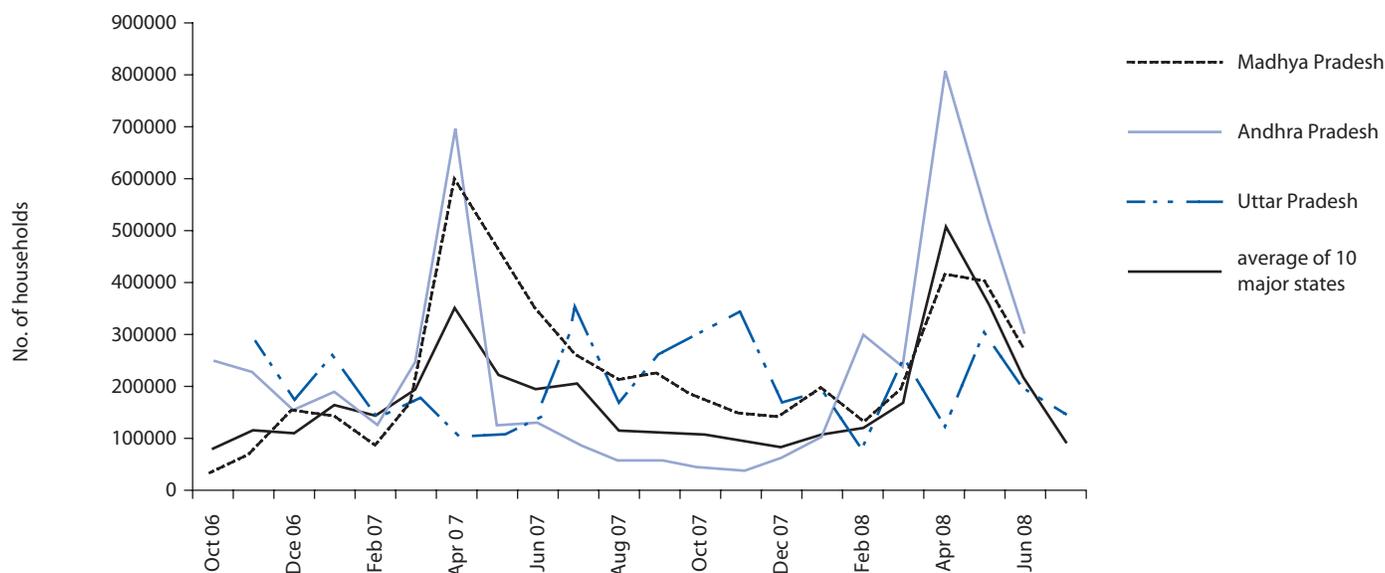
177 Drèze and Oldiges (2009).

178 See Acharya (2005) and Subbarao (2003) for seasonality in the Maharashtra Employment Guarantee Scheme.

179 See [www.nrega.nic.in](http://www.nrega.nic.in) for administrative data on employment generation by state and by month.

180 Similarly, in Orissa, employment generated per rural household declined between 2006-07 and 2007-08 after reports of embezzlement in 2006-07. This could have been because greater vigilance post social audits resulted in “real” reporting as opposed to inflated figures that were reported earlier (a supply side effect). Alternatively, this could have been because employment actually declined with corruption playing a “dampening” role on demand. Drèze and Oldiges (2009) suggest that both factors may have played a role. In some states, low demand may drive low participation; e.g., Kerala provides one example with youth turning up for MGNREG work but going away once they realized that it involved manual labour (Jacob and Varghese 2006).

Figure 4.3: Seasonality in MGNREGs work provision, 2006/07 to 2007/08

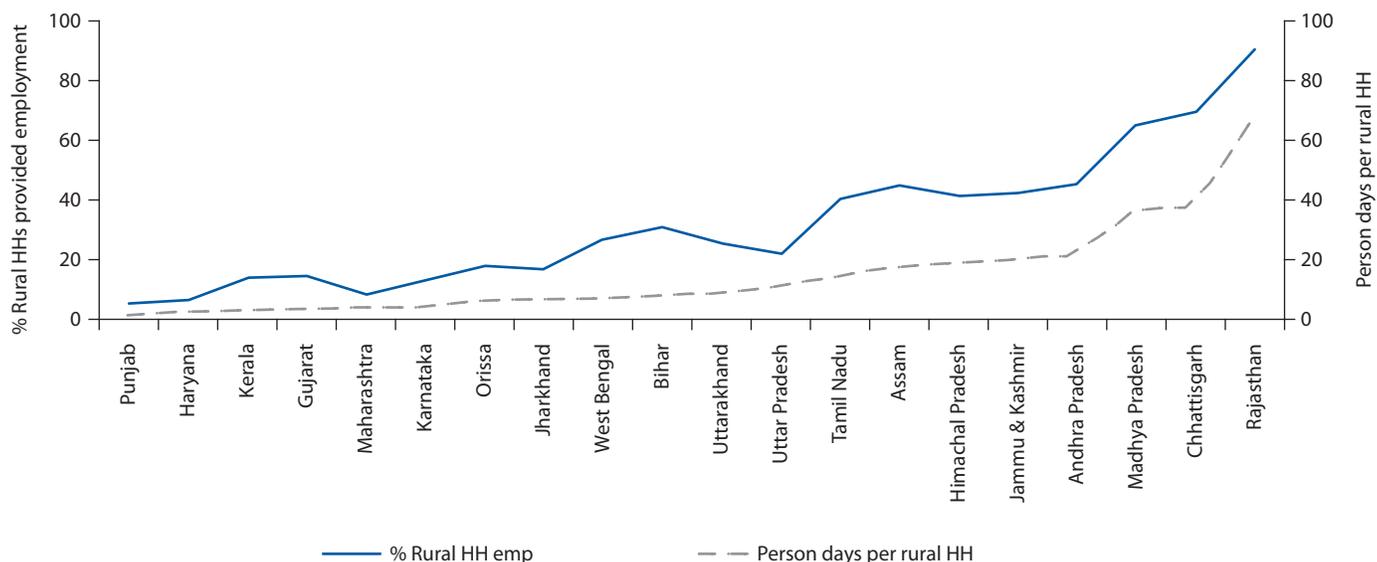


Source: Ravi and Engler (2009).

the percentage of participating households as a share of rural households as well as person days of employment generated per rural household (see Figure 4.4). However, the program is yet to make a dent in states like Bihar and Orissa where the incidence of poverty and hunger are high, indicating likely supply-side constraints in

the provision of work rather than a lack of demand. The contrasts are even sharper at the district level with Madhubani in Bihar generating only one person day per rural household in 2006-07 in contrast to 111 person days in Dungapur, Rajasthan.<sup>181</sup> Rajasthan, in particular, has easily the highest employment ratio among major

Figure 4.4: Coverage of MGNREG by state, 2008/09



Source: MoRD administrative data from the Monthly Progress Reports ([www.nrega.nic.in](http://www.nrega.nic.in)).

Notes: States sorted in ascending order of employment generated under MGNREG.

181 Drèze and Oldiges (2007).

states, reflecting partly its long history of public works as part of famine relief, a massive public awareness effort on the part of civil society in the state and focus on enforcing transparency mechanisms.

## (b) Targeting of public works programs

PRIOR TO MGNREG, THE TARGETING OF PREVIOUS PUBLIC WORKS PROGRAMS APPEARS TO BE HAVE BEEN MORE PROGRESSIVE THAN ALL OTHER SOCIAL PROTECTION PROGRAMS (EXCEPT ANNA PURNA), WITH THE COVERAGE RATE IN THE POOREST QUINTILE AND AMONG ST HOUSEHOLDS HIGH RELATIVE TO OTHER GROUPS.<sup>182</sup> Results from both IHDS and NSS for SGRY/FFW from 2004/05 are presented below. Analysis in Table 4.4 indicates very progressive coverage across expenditure (NSS) and wealth groups (NCAER), though overall coverage is low even for the poorest. Nonetheless, the high relative coverage rates in the bottom quintile and particularly among ST households places public works as the second best program performer in distributional

terms.<sup>183</sup> Like most programs, however, the considerably higher average benefits among the richest make the benefit incidence somewhat less progressive (though still the second best program on that indicator also - see Chapter 8 for a comparison of targeting outcomes across programs). Note that the two data sources are not directly comparable. As mentioned earlier, the NSS estimate only includes households where more than 60 days of public works was undertaken in the previous year. The IHDS estimate includes only households where at least one individual reported participating in public works as one of their *main* occupations in the previous year. As a result, both estimates are very much a lower bound estimate of coverage.

THE POSITIVE TARGETING PERFORMANCE OF PRE-MGNREG PUBLIC WORKS PROGRAMS FROM NATIONAL DATA IS SUPPORTED BY RECENT EVIDENCE FROM A THREE STATE STUDY OF SP PROGRAMS IN ORISSA, KARNATAKA AND MP. Particularly for the Food-for-Work program, coverage in the lowest quartile was relatively high (around 57 percent higher than the population average), while coverage among ST households was well above the population average, by almost 80 percent in the case of SGRY.<sup>184</sup> Similarly, Planning Commission reports find evidence of relatively good targeting in these programs - e.g., a large share of SGRY belonged to households below the poverty line, lived in kutcha houses and had received only a primary education or less.<sup>185</sup>

EARLIER ANALYSIS ON PUBLIC WORKS SCHEMES INDICATES THAT AVERAGE BENEFIT INCIDENCE (SUCH AS THAT PRESENTED ABOVE) UNDERESTIMATES THE GAINS TO POOR HOUSEHOLDS FROM INCREASED SPENDING ON WORKS.<sup>186</sup> The literature on public works schemes (and transfer schemes generally) typically assesses targeting in terms of average incidence. This may be misleading in cases where there are marginal adjustments in budgets (as is happening through MGNREG). Table 4.5 presents the results based on 1993/94 NSS. The marginal odds of participation are the highest for the poorest quintile, the probability of participation of those in the poorest quintile is higher than those in the richest quintile. As a result, expansion of

**Table 4.4: Coverage of SGRY/FFW by expenditure/ wealth and social group, 2004/05**

Group	% HH (NSS)	% HH (IHDS)	Benefit incidence (IHDS)
Poorest	2.8	1.5	34.2
Q2	2.4	0.9	17.5
Q3	2.0	0.8	16.2
Q4	1.3	0.5	15.3
Richest	1.1	0.2	16.9
OBC	1.4	0.7	36.3
SC	2.5	0.6	17.1
ST	3.5	2.8	33.8
Other	1.5	0.4	11.4
<b>Total</b>	<b>1.9</b>	<b>0.8</b>	<b>100</b>

Source: NSS: Bank staff estimates based on 2004/05 NSS; IHDS: Ajwad (2006) based on 2004/05 IHDS data.

Note: Estimates refer to coverage across quintiles based on monthly per capita expenditure (NSS) and asset ownership (IHDS). Benefit incidence refers to the percentage of benefits captured, estimated assuming equal number of work days across quintiles. The nature of the works question in NSS does not permit benefit incidence analysis.

<sup>182</sup> This finding is consistent with international evidence of targeting performance of public works programs. For example, in Argentina's Trabajar program, 80 percent of beneficiaries were from the poorest quintile, while in Chile the share was close to 100 percent. In Bangladesh, around 70 percent of beneficiaries of the Food-for-Work Program were in the lowest income bracket, while in Indonesia, the post-crisis than administrative targeting methods public works program was much more likely to reach household who had suffered large shocks. See Subbarao (2003) and del Ninno et al. (2009) for a summary of international studies.

<sup>183</sup> Note that the average hours worked per day and the median wage rates do not differ significantly across the lower four quintiles.

<sup>184</sup> Dev et al (2009).

<sup>185</sup> Planning Commission (2000).

<sup>186</sup> Lanjouw and Ravallion (1999).

**Table 4.5: Average and marginal odds of participation in Indian public works programs, 1993/94**

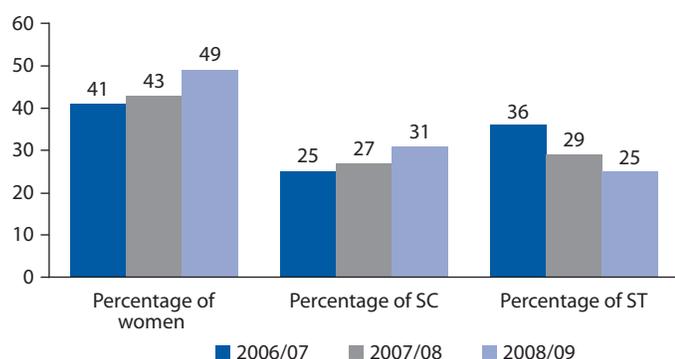
Quintile	Average odds of participation in workfare (A)	Marginal odds of participation in workfare (M)
Poorest	1.23	1.16
Q2	1.13	0.93
Q3	1.04	0.80
Q4	0.86	0.92
Richest	0.83	0.55

Source: Lanjouw and Ravallion (1999).

the program is likely to be pro-poor. This is a particularly important finding in terms of the potential of MGNREG for including the poor in a more intensive manner than previous public works schemes.

MGNREG IS A UNIVERSAL RIGHT RATHER THAN A TARGETED PROGRAM, BUT ADMINISTRATIVE DATA INDICATES IMPRESSIVE INCLUSION OF SC/ST HOUSEHOLDS AND OF WOMEN RELATIVE TO PREVIOUS PUBLIC WORKS SCHEMES (see Figure 4.5).<sup>187</sup> The share of SC households in MGNREG employment increased gradually while that of ST households fell during this period. This may be on account of a concentration of STs in phase 1 districts and a gradual decline thereafter as the program spread to other districts of the country. Nonetheless, the proportion of

**Figure 4.5: Participation of women, SC and ST workers in MGNREG, 2006/07 to 2008/09**



Source: www.nrega.nic.in.

Notes: This refers to the share in person days of employment provided for women, SC and ST workers.

participating SC and ST households was consistently higher than their share in the country's population (about 16 and 7 percent respectively). More encouraging were numbers on participation of women – nearly half the person days generated in MGNREG are for women. Only in five states (Assam, Jammu and Kashmir, Punjab, Uttar Pradesh and West Bengal) was the share of women lower than one-third. This is a major improvement in female participation relative to SGRY, estimated at only 12 percent all-India by a Government of India evaluation (similar to CAG findings on JRY and EAS of only around 16 percent female beneficiaries).<sup>188</sup>

EVIDENCE FROM FIELD STUDIES ALSO INDICATES THAT THE PROGRAM IS REACHING VULNERABLE HOUSEHOLDS, BUT FURTHER CONFIRMATION BY NATIONAL OR STATE-LEVEL HOUSEHOLD SURVEYS IS REQUIRED. Even in the initial stages of implementation in 2006, several studies indicate that coverage rate among SC/ST households was high in relative and absolute terms with respect to registration for work. In their survey of 100 MGNREG worksites spread across six northern states, Drèze and Khera (2009) find that a majority of those employed in the program belong to the most disadvantaged sections of society. SC/ST workers together accounted for over 70 percent of their sample, 81 percent of their sample workers lived in a kuccha house, 61 percent were illiterate and 72 percent had no electricity at home at the time of the survey. Shariff (2008) finds that holders of the Antodaya (AAY) ration card are more likely to participate. Gaiha et al. (2010) find in their study of Andhra Pradesh, Maharashtra and Rajasthan, that SC/ST and landless workers were more likely to participate in MGNREG. Despite this, benefit incidence in terms of days worked on the program is regressive in AP and Maharashtra, i.e., relatively better-off workers worked more days than acutely poor workers. This is in contrast to Rajasthan where poor participants benefitted disproportionately more than others. These nuances in the targeting performance of MGNREG point to the importance of household-survey based information for examining these issues nationally. A recent study using 2006/07 NSS data for Phase I districts in fact indicates that less than half the wages accrue to the officially poor.<sup>189</sup>

<sup>187</sup> Note that like most public works programs, the nature of the manual labor involved results in a low proportion of disabled program beneficiaries (less than one percent of total participants in 2008-09).

<sup>188</sup> See CMD study for Ministry of Rural Development on SGRY (2005); PEO EAS evaluation (2000).

<sup>189</sup> Bhalla (2010).

## (c) Implementation

PUBLIC WORKS PROGRAMS PRIOR TO MGNREG WERE PLAGUED BY MAJOR IMPLEMENTATION PROBLEMS RELATED LARGELY TO LACK OF ACCOUNTABILITY IN PUBLIC WORKS DESIGN, FINANCING AND MANAGEMENT. Several issues emerged from government and external assessments of public works prior to MGNREG.<sup>190</sup> These include issues such as top-down planning of works, with little community or PRI participation; poor quality of assets created; leakage of funds and parking of significant funds in deposit and other accounts (parked funds show up in public accounts as executed but in fact remain undisbursed - see Chapter 6); evidence of corruption in many forms (e.g., fudging of muster rolls, payment of lower than prescribed wages, presence of contractors, etc.); lack of reliable records, in particular muster rolls; and lack of both strong administrative M&E and absence of “bottom up” monitoring through mechanisms such as social audits.

THE DESIGN OF MGNREG ASSUAGES SEVERAL OF THESE CONCERNS. MGNREG was the first program in India that had an exceptionally detailed institutional architecture and implementation processes outlined in the operational guidelines issued by the Ministry of Rural Development.<sup>191</sup> This unbundling of service delivery and clear assignment of roles and responsibilities is critical for effective implementation. PRIs and communities are given a central role in planning, execution and oversight of MGNREG, signaling a significant shift in design. There is also a strong emphasis on transparency and accountability in MGNREG, a design feature that is highly relevant for other anti-poverty programs.

DESPITE THIS STRONG DESIGN, SOME OF THE CHALLENGES NOTED ABOVE REMAIN, WHILE THE DEMAND-DRIVEN DESIGN OF MGNREG HAS INTRODUCED NEW CHALLENGES IN ENSURING A RIGHT TO WORK. This requires a high degree of awareness of rights and entitlements under the program and the process through which to “demand” and apply for work. This also requires funds, institutional structures with adequate and appropriately skilled staff, and strong M&E systems to ensure adherence to operational guidelines

and transparency safeguards. Another challenge is that the program aims to not just generate short-term employment but also to create sustainable livelihoods for the future. This has implications for the quality and relevance of assets created.

PROGRESS IN IMPLEMENTING MGNREG HAS BEEN UNEVEN AND BOTH ADMINISTRATIVE DATA AND FIELD STUDIES NOTE THE HIGHLY VARIABLE ROLL-OUT PACE AND EFFECTIVENESS ACROSS STATES. This variation is attributable, at least in part, to differences in the level of preparedness and innovation by state governments. There has been considerable state-level innovation in the areas of accountability and community-based monitoring (e.g., social audits), use of technology for monitoring (e.g., a web-based Management Information System) and financial inclusion (e.g., biometric smart cards for payments through post office accounts). Many of these innovations have since been mainstreamed nationally into program design. States like Andhra Pradesh, Rajasthan and Tamil Nadu for instance have taken active steps to establish institutional structures and systems for monitoring and accountability (see Box 4.2).

A LARGE NUMBER OF FIELD STUDIES OF IMPLEMENTATION EXPERIENCE IN A NUMBER OF STATES PROVIDE USEFUL INSIGHTS ON THE IMPLEMENTATION EXPERIENCE OF MGNREG TO DATE.<sup>192</sup>

### *Demand for work*

THE NOTION OF “DEMANDING” AND APPLYING FOR WORK HAS NOT YET BEEN FIRMLY ESTABLISHED. In principle, people have to demand work in order for work to be provided. In practice, very few job card holders formally apply for work while the majority tend to wait passively for work to be provided. At the same time, there appears to be considerable latent demand for work – i.e., not all people who demand work are provided work, while even those who are provided work would like more days of employment. For instance, almost all workers interviewed at 100 MGNREG worksites in six northern states were ready to work for 100 days in a year, whereas only 13 percent had actually done 100 days of MGNREG work in the previous year.<sup>193</sup> Part of the reason is poor

190 See CAG (1997 and 2000); PEO (2000); Nayak et al. (2003), ARC (2006) and more recently, Mehrotra (2008).

191 The most recent version of these guidelines is available at [www.nrega.nic.in](http://www.nrega.nic.in); states have also issued state-specific guidelines following the central guidelines as a format.

192 See footnote 173 and the references at the end of the report for a detailed list of field studies consulted.

193 Drèze and Khera (2009).

## Box 4.2: Some state-level innovations in implementing MGNREG

### Rajasthan

According to official statistics, 90 percent of rural households in Rajasthan were provided MGNREG employment in 2008/09 of which 41 percent were provided 100 days of employment. While official figures may overestimate the coverage of the scheme, Rajasthan is also well known for implementation of various transparency safeguards – a fact corroborated by many localized surveys. Muster rolls are present at most worksites, daily attendance is taken in front of workers, wages are paid based on group work and measurement and job cards are updated at the time of payment. Awareness of entitlements and processes is high. An active civil society played an active role in the campaign for the right to work and the right to information and has strongly promoted community monitoring through social audits. In addition, the state government has put in considerable effort to improve worksite management practices. Mates (work site supervisors) are trained to maintain muster rolls; they assign tasks to workers; record their output; and ensure worksites facilities are available. All such activities help improve productivity and increase transparency, allowing the program to be scaled up. Some problems persist – e.g., Rajasthan continues to have a poor record on payment of minimum wages and has not yet revised its Schedule of Rates to make it MGNREG-friendly. On the whole, however, Rajasthan's success could be attributed to the long history of public employment programs in the state and more importantly to an active civil society that has for years worked on other related movements like the Right to Information.

### Andhra Pradesh

The movement here is driven by the government which has undertaken significant efforts to innovate and improve the delivery of the program, setting up administrative machinery and systems in readiness for MGNREG. Some of the best practices adopted by the government include a focus on monitoring and accountability by using ICT tools and relying on communities. The former included the development of a web-based Management Information System with a local language interface that handles registrations, work estimates, muster rolls and wages to ensure correct and timely payment of wages and allows open access to reliable, timely and comparable information from the field. AP was the first state to institutionalize social audits as early as 2006, with a focus on follow-up action by the administration in the aftermath of such audits. AP also undertook several time and motion studies to revise the rural SORs to reflect the higher labor intensity and regional variation in MGNREG work. In addition, AP was among the first states to introduce payment of wages directly into workers' post office or bank accounts (opened in the name of the women within the household).

### Tamil Nadu

The state of Tamil Nadu has used administrative monitoring effectively to increase transparency under MGNREG. In some districts, a daily audit is done of the nominal muster rolls (NMRs). All NMRs are closed by 11 am each day and the information is passed from village to block and then to the district level monitoring office through an SMS. Inspection officers visiting worksites then check details with entries in the NMRs. Regular monitoring in this way has helped reduced the scope for 'ghost workers'. Similarly, while only 50 percent of MGNREG works are mandated to be undertaken by the Gram Panchayat, Tamil Nadu makes it compulsory that all works are undertaken by the village body. Finally, the state (along with Kerala) has the highest proportion of women participating in MGNREG – about 4 out of every 5 beneficiaries are women, a number that is also confirmed by many social audits. However, lack of childcare facilities at the worksites continues to remain a problem.

awareness of the process of demanding work.<sup>194</sup> Some studies also note that there is little awareness that this is a universal right for rural households and not limited to specific groups. In consequence, potential applicants can be excluded based on certain characteristics (e.g., widowed, single women headed, elderly etc.) or documentation (e.g., ration card). In some cases, workers are deliberately mis-informed that work would be provided when available (i.e., not necessarily on demand). Awareness campaigns need to stress the fact that all are eligible for the program and that workers need to demand work, in quorum or individually, in order to get it.

AT THE SAME TIME, VERY FEW INSTANCES OF THE UNEMPLOYMENT ALLOWANCE BEING PAID ARE RECORDED. Often applications for work are not formally recorded, with the result that unemployment allowance is not paid out in the event work cannot be provided within the specified period. While failure to pay the unemployment allowance is perhaps excusable in the initial implementation period when the mechanism for timely opening of worksites was finding its feet, this is not the case as the program matures into its fourth year of operation. This is important for two reasons. The first and most obvious is that the "guarantee" of the Act is not as intended unless the allowance is paid in a timely manner. The second is that states – which have

<sup>194</sup> Basic awareness of the program's existence does not suffice; it is information about the program entitlements and the process by which to access these entitlements that matters. This is where awareness is lowest (see e.g., Drèze and Khera 2009). Studies that have revisited sample locations between 2006 and 2007 indicate that awareness, though still largely low, has increased over time (see for example CBGA (2006, 2007) and IHD (2006, 2007) for Chhattisgarh and Bihar). This is discussed in more detail for all SP programs in Chapter 7.

to finance the allowance from their own budgets – will have far stronger incentives to improve implementation of MGNREG if the unemployment allowance provision is made a reality.

### Funds and leakage

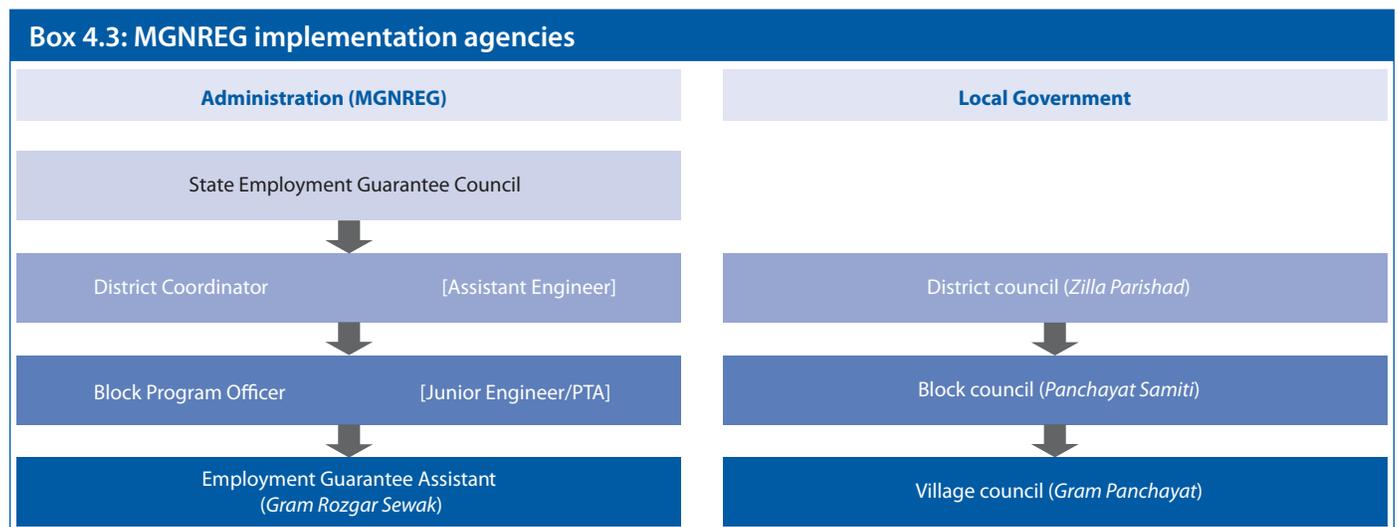
THE UTILISATION RATE FOR MGNREG FUNDS IS FAIRLY HIGH RELATIVE TO OTHER SP PROGRAMS, BUT FIELD STUDIES INDICATE DELAYS IN THE TRANSFER OF FUNDS TO GPS. In 2008/09, about 25 percent of MGNREG funds were unspent, but the ability of states to spend on MGNREG varies considerably, with fund utilization rates ranging from 56 percent in Tamil Nadu to 89 percent in Rajasthan. There are also significant variations across districts within states, with some districts (e.g., in Orissa and Karnataka) even reporting expenditure in excess of available funds.<sup>195</sup> Given the demand-driven nature of the program, funds are supposed to be released on the basis of state proposals (rather than pre-determined allocations). Each state is required to submit a state annual work plan and budget proposal (AWPB) to the Ministry of Rural Development. The release of funds depends on the actual utilization of funds previously released (including the balance left over from the previous financial year). Like other CSS, funds are released directly to the district. Additional funds can be requested only after 60 percent of the allocation to any administrative unit (GP, block or district) has been exhausted. In practice, some field studies point to delays

in the release of funds, partly due to failure to release the state’s matching share and limited capacity related to work provision as well as financial management (e.g., timely completion of utilization certificates, etc.). This in turn delays the opening of works, intermittent opening and closing of works and/or delays in wage payments.

THERE IS SOME EVIDENCE OF LEAKAGE OF FUNDS. Several field studies indicate evidence of leakage and report several ways through which accountability mechanisms are being subverted (more on this below), including through fudged muster rolls, misuse of job cards and account passbooks, wage payments below the program wage, etc. Though the CAG report on the 200 Phase I districts highlights several such irregularities, it does not present evidence of large-scale diversion of funds. However, a recent study compares the MGNREG administrative data with NSS household survey data (2006/07) for the Phase I districts and finds that 50 percent of funds allegedly spent on wages are in fact some form of leakage.<sup>196</sup>

### Staffing and capacity

KEY ADMINISTRATIVE AND TECHNICAL STAFF NEEDED FOR SCHEME FUNCTIONING HAVE STILL TO BE APPOINTED IN A NUMBER OF STATES. The sheer scale and the administrative-heavy design of the program<sup>197</sup> ideally require a dedicated cadre of professional administrative and technical staff to implement (see Box 4.3 for the structure proposed by the



195 Accountability Initiative 2010.

196 Bhalla (2010).

197 For example, households must be registered for the program, every subsequent work application must be recorded, and payment of wages is linked to measurement of work done every 15 days, and so on. Similarly, the program calls for participatory planning of works, a detailed process of administrative and technical sanction of works, and a heavy emphasis on reporting.

operational guidelines).<sup>198</sup> States were supposed to set up Employment Guarantee Councils and appoint these key officials – Program Officer at the block, Employment Guarantee Assistant at the GP level as well as a dedicated cadre of engineers at the district and block level. Many states experienced significant delays in appointment of these officers – e.g., the CAG audit in 2006-07 found that these POs had not been appointed in 70 percent of the blocks surveyed in 19 states. Instead, existing Block Development Officers (BDOs) were appointed as POs. The PO is a key player in administration of MGNREG, being the lynchpin linking the community and higher levels of the system in terms of planning, financing and other implementation aspects. The same report found that about 20 states had not appointed Employment Guarantee Assistants (EGAs) in half the panchayats surveyed and had not constituted the mandated panel of accredited engineers at the district and block level to assist in estimation and measurement of work. While field studies report progress in the appointment of POs and EGAs in recent years, the lack of adequate technical staff remains a critical constraint to opening worksites and contributes to delays in work measurement and wage payments as well as poor quality of assets. The increase in the administrative costs borne by the center – from 2 percent initially to 6 percent – may ease the pressure on states in this regard.

IN ADDITION, THE CAPACITY OF PRIS TO CONDUCT THEIR INTENDED FUNCTIONS IS VERY WEAK. The generally low capacity of PRIs to carry out a range of MGNREG functions – including planning, execution and oversight - expected of them is a more difficult challenge. Differences across states in the degree of devolution to panchayats are also a factor. Participatory planning by communities and facilitated by the panchayat officials happens only rarely. In principle, *gram sabhas* have a key role to play in identification of works to be undertaken under MGNREG. In practice, there is evidence that *gram sabhas* have difficulty carrying out these responsibilities in many states.<sup>199</sup> As a result, the MGNREG shelf of works continues to be identified either by the *Sarpanch* or key officials in the gram panchayat or by the block or district administration. Given inadequate technical

staff, this in turn implies poor selection of works and at least in the initial year of implementation, reliance on the shelf of works prepared for previous programs. In a radical shift, GPs are required to manage funds averaging ₹ 12 lakhs in 2008/09, with no previous experience. Training and technical support to PRIs, particularly at the gram panchayat level, for better financial management, participatory resource planning and project management functions are essential.

### *Program wages*

A COMMON CHALLENGE WITH RESPECT TO WAGES HAS BEEN THE TENSION BETWEEN THE PROGRAM COMMITMENT TO PAYMENT OF AGRICULTURAL MINIMUM WAGES AND THE RELIANCE ON PIECE RATES FOR WAGE PAYMENT. As per the operational guidelines, wages are to be paid either on a time-rate basis or a piece-rate basis. The former are based on daily minimum wages, where the implementing agencies are supposed to ensure productivity norms are met. The latter are based on the district rural Schedule of Rates (SoR) that determine the wage based on actual work done. The guidelines stress that these piece-rates should be such that an average worker is able to do the work required to earn the daily minimum wage. In practice, field studies note the prevalence of primarily piece-rate system,<sup>200</sup> with the actual wage payment often falling short of the official agricultural minimum wage. This is true even in otherwise well-performing states like Rajasthan, where even administrative data indicated an average MGNREG daily wage of ₹ 59 as opposed to the official minimum daily wage of ₹ 73 (see Table 4.6). Note however that administrative data are more accurately described as “wage cost per day” (i.e., total expenditure on unskilled wage divided by total persondays generated) rather than the actual wage received by households. The latter are possibly lower than that indicated by the administrative figures reported in Table 4.6.

THIS DISCREPANCY IS DUE IN SIGNIFICANT MEASURE TO THE EXACTING RURAL SCHEDULES OF RATES (SOR) THAT CALL FOR HIGH PRODUCTIVITY LEVELS. The existing SoRs assume a level of capital intensity and mechanization

<sup>198</sup> See, for example, Ambasta et al. (2008) for detailed suggestions on technical and administrative staff required to implement the program. In fact previous public works programs suffered from a serious shortage of qualified engineers/supervisors to monitor public works programs, as a result of widespread vacancies and without the sanction of additional positions to meet an increasing volume of works.

<sup>199</sup> See for example, Besley et al., PRIA (2007).

<sup>200</sup> There are some exceptions in states such as Bihar where the time-rate system was more prevalent IHD 2008.

**Table 4.6: Rural daily minimum and average agricultural wages and MGNREG average wage cost**

State	2004-05		2006-07		2007-08		2008/09	
	Ag wage - male	Ag wage - female	Min. wage	MGNREG "wage"	Min. wage	MGNREG "wage"	Notified wage	MGNREG "wage"
Andhra Pradesh	37	28	80	86	80	83	80	83
Assam	30	16	66	67	76	73	80	77
Bihar	45	26	77	70	81	80	89	85
Chhattisgarh	–	–	62	62	68	68	75	73
Gujarat	55	30	50	56	50	64	100	68
Haryana	58	23	97	97	135	124	141	120
Himachal Pradesh	13	–	73	69	75	75	100	99
Jharkhand	–	–	77	79	86	82	92	90
Jammu & Kashmir	32	–	70	69	70	70	70	68
Karnataka	49	28	66	67	74	72	82	81
Kerala	56	28	125	121	125	118	125	120
Maharashtra	53	32	69	104	–	90	69	75
Madhya Pradesh	41	27	62	60	67	64	91	73
Orissa	45	14	55	53	70	77	70	90
Punjab	32	–	98	94	102	101	98	111
Rajasthan	44	9	73	51	73	59	100	88
Tamil Nadu	61	31	80	80	80	77	80	80
Uttar Pradesh	48	26	58	56	100	93	100	99
Uttarakhand	–	–	73	73	73	74	100	85
West Bengal	45	32	68	70	72	79	75	78
<b>India</b>	<b>61</b>	<b>45</b>	–	<b>65</b>	–	<b>75</b>	–	<b>84</b>

Notes: Average daily wage rate in agricultural occupations (based on 2004/05 NSS) from Mehrotra (2008); minimum wages from MGNREG website ([www.nrega.nic.in/wages.pdf](http://www.nrega.nic.in/wages.pdf), [http://nrega.nic.in/Min\\_wages\\_new.pdf](http://nrega.nic.in/Min_wages_new.pdf)); MGNREG wage is calculated as "wage cost per day" (i.e., total expenditure on unskilled wage divided by total persondays generated) from Drèze and Oldiges (2009) for earlier years and report team estimates for 2008/09.

not appropriate to a labor-intensive scheme such as MGNREG. In addition, SoRs do not adequately allow for differences across areas (e.g., with respect to soil, typology or climatic conditions) or across groups (e.g., with respect to age, disability or gender). SoRs also often do not revise rates in line with the agricultural minimum wage.<sup>201</sup> With the current SoRs, workers (particularly women, elderly and disabled people) can find it difficult to earn the minimum wages. There is an urgent need to revise these SoRs for MGNREG. A number of states, including Andhra Pradesh, Bihar, Gujarat, Haryana, Karnataka, Orissa, Tamil Nadu and Uttar Pradesh, have indeed addressed this issue through revisions to the rural SoRs. These revisions are based on work, time and motion studies that, in some states, differentiate productivity norms by region (soil, typology), gender,

age, etc.<sup>202</sup> An additional problem commonly reported by field studies is delays in wage payments (beyond the prescribed 15 days of work completion), largely driven by the lag between work completion and measurement due to the shortage of technical manpower.

THE AVERAGE MGNREG WAGE HAS RISEN STEADILY IN MOST STATES SINCE THE INTRODUCTION OF THE PROGRAM. In some cases, this is the result of the revised time and motion studies that enable workers to earn at least the minimum wage. In others, it is the result of increases in the official agricultural minimum wage. Most recently, the 2009/10 budget revised the MGNREG wage upwards to at least ₹ 100 per day. In general, the official minimum wage, and in most cases, the average MGNREG wage rate, is much higher than the average agricultural wage

201 See Ambasta et al. (2008) and Vijay Shanker et al (2006) for a discussion.

202 AP for example undertook a specific time and motion study for disabled workers.

(particularly for women) (see Table 4.6).<sup>203</sup> Typically, several of the better targeted public works programs set program wages slightly below the prevailing wage rate for unskilled labor (e.g., Chile and Argentina). This is because the program wage vis-à-vis the market wage and the nature of the work are both commonly used elements of the self-targeting design of public works programs. Indeed, evidence from MEGS also suggests that the access to the program was heavily rationed and the targeting performance worsened when the minimum wage was doubled in the late 1980s.<sup>204</sup> However, MGNREG confers a right to work to *all* rural households (and not just poor households). As a result, the self-targeting element is limited to the expectation is that the nature of the work (unskilled manual labor) would attract mostly poor households. In this context, higher real program wages are seen as obvious advantages for participating households. There would be cause for concern only in the event the supply of worksites is inadequate to meet demand for work, leading to rationing of employment in a manner such that the poor are excluded.

### *Quality of assets*

A CONSISTENT CONCERN ON PUBLIC WORKS IN INDIA HAS BEEN THE QUALITY OF ASSETS CREATED; THIS CONTINUES TO REMAIN A CONCERN FOR MGNREG. It is very difficult to estimate the economic impacts from assets in Indian public works schemes. Given the importance of rates of return on assets in assessing total program impact, this is unfortunate, though a common problem in public works programs worldwide. A challenge for the MGNREG will be developing cost effective methods for estimating rates of return on assets.<sup>205</sup> Qualitative evidence is available from Government of India and other evaluations however, largely related to indicators of quality of assets rather than rates of return. A common criticism of public works is that they are “washed away the next monsoon”. One factor is that the objective of asset creation runs a very distant second to the primary objective of employment generation.

THERE IS INADEQUATE PLANNING OF WORKS BOTH WITH RESPECT TO TIMING AND RELEVANCE FOR LOCAL NEEDS AND LITTLE ATTENTION PAID TO MAINTENANCE OF THE ASSETS CREATED. Inadequate participatory planning of works above implies that works planned under the MGNREG are mostly not integrated with wider village level planning, most notably under the Backward Region Grant Fund (BRGF). As a result, the works selected may have little relevance or importance for the local community or may well be redundant. Recently, there are some efforts underway to promote greater integration in village planning. A key constraint to building high quality assets is the lack of technical support to communities as input to planning MGNREG works (e.g., through resource mapping exercises) as well as the shortage of technical staff in designing and supervising works. A large number of works, particularly those related to water conservation, remain incomplete, either due to lack of technical support to GPs or the onset of monsoons. For example, Orissa completed only 7 percent of MGNREG works in 2008/09, while Uttar Pradesh completed 61 percent of works.<sup>206</sup> In many cases, poor planning and lack of maintenance result in completed assets falling into disuse.<sup>207</sup> Realizing the objective of creating durable, productive rural assets will be key in ensuring broader rural development through increased agricultural productivity, with MGNREG essentially providing an insurance function.

SEVERAL OF THE WORKS ON THE APPROVED LIST OF WORKS ARE NOT UNIVERSALLY SUITED FOR ALL GEO-CLIMATIC ZONES AND SEASONS. Works allowed under MGNREG are largely related to water conservation and road connectivity. In 2008/09, nearly two-thirds of activities undertaken related to water and soil conservation activities (see Figure 4.6). While well suited to arid and drought-prone areas where such works can be undertaken practically throughout the year, some states (e.g., Assam, Bihar) are attempting to develop works that are suitable for flood-prone and water logged areas. There is also a proposal to expand the list to allow more forestry activities. Field studies also report the need for expanding the scope of

203 See for example Gaiha et al (2009) and Mehrotra (2008). However, this has generated debate at the minimum wage in venue states in above ₹ 100.

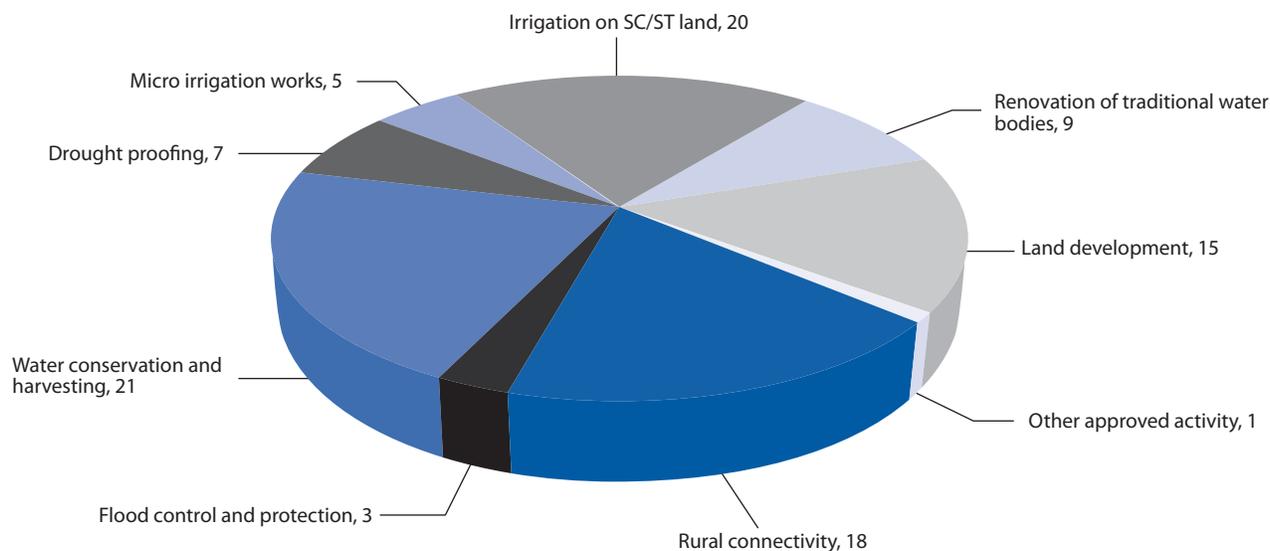
204 See Gaiha (1997) and Ravallion et al (1993).

205 Evidence from the Food for Work Program in Bangladesh provides a good example of efforts to calculate such rates of return. These found substantial broader economic gains from assets (e.g., the marginal productivity of both land and labour was around 27 percent higher in villages with the program relative to villages without the program).

206 Accountability Initiative 2010.

207 CSE 2008.

Figure 4.6: Main types of works under MGNREG, 2008/09



Source: www.nrega.nic.in.

approved works to those not capable of hard manual labor, e.g., to include more women- and disabled-friendly type of works.<sup>208</sup> In addition, in areas where such rural infrastructure is already well-developed, there is a case for expanding the permissible list of works to include social infrastructure development activities (these are also “softer” work options for vulnerable groups) like related to provision of social welfare or community services, etc. Work is also allowed on private lands of SC/ST and BPL households and some states have extended this to small and marginal farmers. Some new types of works, such as social forestry, have recently been added to the approved list and discussions on converging MGNREG with other government programs (e.g., Sarva Shiksha Abhiyan, ICDS, watersheds) are ongoing.

**MGNREG HAS DONE BETTER THAN PREVIOUS PROGRAMS WITH RESPECT TO MAINTAINING THE MANDATED LABOR INTENSITY OF WORKS.** In 2008/09, approximately 69 percent of expenditure was on wages and 27 percent on materials (the remaining 4 percent went towards administrative costs). There are wide variations in the labor share across states, ranging from 54 percent in Jharkhand to 100 percent in Tamil Nadu (not including administrative costs).<sup>209</sup> In fact, there is anecdotal evidence of attempts

to increase the 60:40 labor to material ratio or to maintain it for *each* work as opposed to an average across works undertaken.<sup>210</sup> The latter step could potentially restrict the range of productive assets of varying labor intensity that could collectively meet village-level infrastructure gaps. Higher labor intensity naturally increases the transfer to the poor in the short run, but an appropriate balance needs to be struck in order to ensure the long-term returns of high quality assets. International experience from Argentina and South Africa, suggests that large variations in labor intensity across sub-categories of works are not uncommon (e.g., in South Africa, the share of labor ranged from 6-86 percent according to the type of works undertaken, and in Argentina from 30-70 percent).<sup>211</sup>

### Adherence to guidelines

**EVIDENCE FROM THE FIELD SUGGESTS POOR ADHERENCE TO TRANSPARENCY SAFEGUARDS.** The operational guidelines provide for several transparency safeguards, including maintenance of muster rolls at the worksite, payment of wages in public in the first two years and through worker bank or post office accounts since (with pay slips to be distributed in public), and community oversight

208 Note that this can also be achieved by revising the rural Schedule of Rates through time and motion studies for different sub-groups of the population as discussed earlier.

209 Accountability Initiative 2010.

210 See for example, IHD 2006, IWDS 2006.

211 Subbarao (2003).

through village vigilance committees and social audits (more on this below). In practice, unavailable and fudged muster rolls continue to be a serious issue. Job card entries are rarely made. In fact, job cards are not always in the possession of the household; instead the *Sarpanch* or other local official may hold it. The problems are exacerbated by low awareness of processes as well as high levels of illiteracy among MGNREG workers.

IN AN ATTEMPT TO REDUCE CORRUPTION AND IMPROVE TRANSPARENCY IN WAGE PAYMENTS, FROM APRIL 2008 MGNREG WAGES ARE SUPPOSED TO BE PAID THROUGH HOUSEHOLD ACCOUNTS WITH BANKS OR POST OFFICES. Though a step in the right direction, several new implementation challenges emerge. The coverage of banks and post offices in rural areas is often patchy implying the need for banking correspondent or similar models to bring banking services to the household (see Chapter 7 for a discussion). In many states, the delays in wage payments are exacerbated. Some field studies also note that women may not have access to their earnings if the bank account is opened in the name of the male household head. Some field studies report instances of corruption where village leaders, officials, contractors or intermediaries manipulate even this system to siphon money from workers (e.g., through false entries in the account passbooks, withdrawing money directly from worker accounts, etc.).

DESPITE THE BAN ON CONTRACTORS, FIELD STUDIES INDICATE THE PRESENCE OF CONTRACTORS IN SEVERAL STATES. For instance, the Drèze and Khera (2009) study finds that more than a quarter of the 100 MGNREG worksites surveyed in six northern states were managed by contractors; in Jharkhand, this figure was more than half.<sup>212</sup> The survey also found that workers, especially women, reported lower harassment and greater adherence to the program's transparency norms in contractor-free worksites. As a result, corruption levels tended to be higher where contractors are involved, largely due to fudging of muster rolls. On the other hand, contractors can also bring with them project management expertise that could potentially result in better quality of assets. This project management expertise needs to be transmitted to the mates (worksite managers) that are appointed from the pool of MGNREG workers under the program.

FIELD STUDIES LARGELY INDICATE THE ABSENCE OF MANDATED FACILITIES AT WORKSITES. The guidelines provide for facilities such as first aid, shelter or shade, drinking water and crèches for children (provided there are at least five children below the age of six). The absence of the child care facilities at the worksite is a particularly critical gap as it potentially constrains the participation of women in MGNREG. Several studies note that women are discouraged from working on MGNREG as they either have to leave their children at home or unattended at the worksite.

### *Monitoring and evaluation*

The design of MGNREG makes huge additional administrative demands on the public works delivery system and requires a level of accountability which previous programs have failed to achieve. Intensive monitoring and evaluation of program outcomes is therefore critical to learn whether the strengthened provisions have had the intended impact.

THERE IS INDEED A STRONG EMPHASIS ON MONITORING IN MGNREG – A SIGNIFICANT DEPARTURE FROM PREVIOUS PUBLIC WORKS (AND OTHER SP) PROGRAMS. MGNREG has a management information system (MIS) for tracking all activities related to the program at the highest level of disaggregation, i.e., the household ([www.nreg.nic.in](http://www.nreg.nic.in)). Besides the usual information captured in previous program reports (such as financial and physical progress), the MGNREG MIS captures details on workers (i.e., registration, job cards, muster rolls, employment demanded and provided) as well as on works (shelf of works, work in progress). However, the large scale of the program, level of disaggregated information required, frequency of transactions to be recorded and limited infrastructure and connectivity at the village level all impose formidable challenges for keeping the MIS updated. In consequence, there are delays of as long as six months in some states in updating information in the MIS. In fact, in compiling the administrative data on program performance for this report, we have relied on the monthly progress reports (MPRs) rather than the MIS. These are based on the consolidated data entered at the district level and are relatively up to date, though with less depth of information than the MIS. This backlog of

212 Evidence on the extent of reliance on contractors in previous public works programs is somewhat mixed. A Ministry of Rural Development evaluation of SGRY CMD 2005 found contractors were reported to be involved in only 14 percent of assets. This is substantially lower than that reported by other studies (See for example, the AFC SGRY programme assessment for the Government of Orissa 2005, Planning Commission (2000), Deshingkar and Johnson (2003) for Andhra Pradesh and World Bank (2005a) Kerala, Karnataka, Rajasthan and West Bengal). In addition, the Andhra study found that, in the large majority of cases, Sarpanches were the contractors – a finding of some concern for MGNREG.

information weakens the transparency function of the MIS and reduces its relevance as a project management tool for real time decision making.<sup>213</sup> This backlog can be avoided using a transactions-based MIS as it makes data entry mandatory at the same time as the process (e.g., the job card is printed by the application as soon the information is entered at the time of registration, rather than a manual issuance of the job card, followed by entirely separate data entry).<sup>114</sup> MGNREG has also

systems for field monitoring of the program using national monitors as well as third party monitoring by independent agencies. A network of institutes has been established for independent concurrent monitoring of the program and has generated a body of research on the performance of MGNREG in the field across states.<sup>215</sup> However, there are no national or state-wide rigorous evaluations of impact (see Box 4.4 for potential channels of impact of the program).

#### Box 4.4: Potential channels of impact of MGNREG

**There is no rigorous national or state-level impact evaluation of the program, making it impossible to estimate the impact of MGNREG on key parameters such as poverty, labor markets, and the local economy.** Absent rigorous evaluation, some findings from early simulations of likely scheme impacts estimated prior to introduction of the program are of interest to look at the potential of MGNREG to impact various social outcomes.<sup>a</sup> These simulations suggested that the program could potentially increase casual labor supply during the lean season if the program wage rate was fixed at just over ₹ 60 (in 2005 prices). The incremental labor supply impact was negligible at wage rates above ₹ 60. Note that these estimates were based on an assumption of a full guarantee – i.e., every household who wanted work got it subject to a 100 day limit. This finding is of interest given the rise in the program wage rate since the introduction of the program and the evidence of rationing (i.e., rather than a guarantee). The simulations also predicted significant positive lean season poverty reduction impacts of MGNREG, with progressive distribution of gains. More recently, an evaluation of the impact of MGNREG in one district in Andhra Pradesh also suggests positive impact on food consumption and savings of participating households (Ravi and Engler 2009). Another, also in Andhra Pradesh, suggests positive impacts in terms of reducing child labor among participating households (Uppal 2009).

**In principle, MGNREG could be expected to have an impact on wages and employment of participating households as well as non-participating households.<sup>b</sup> A priori, it would appear that the insurance and associated productivity impacts would be stronger if households perceived MGNREG as here to stay and if local MGNREG work was available at scale.** If the program is seen as an unreliable source of employment, as field studies indicate is the case in some states, households would be less likely to change their labor supply decisions (e.g., with respect to migrating for work or doing other casual work). To the extent MGNREG does in fact provide a minimum floor for rural wages, it could also impact the private market for casual labor. This would imply gains/losses for those who do not participate in the program. However, in light of the widespread finding of excess demand and rationing of work, it seems likely that the bulk of these spillover effects to non-participants would be lost. Whether or not this impacts poverty would depend on whether it is mostly the poor who participate (on the assumption that the self-targeting mechanism works and only the poor turn up for work) and the opportunity cost of their participating in MGNREG (instead of doing some other work). Note that even among the poor, it is the able-bodied poor who will be in a position to participate. Also, depending on social norms and the extent households make joint labor supply decisions, impacts could vary between men and women.

**Anecdotal evidence from some field studies indicates some impact on local labor markets through rising casual wages and reduced migration.** For instance, the IIPA (2006) study finds slightly lower incidence of migration among MGNREG households than among non-MGNREG households, more so in Bihar than in Jharkhand (see also Drèze and Khera (2009) and Khera (2006)). There is anecdotal evidence that this constrains labor supply and affects agricultural wages in Punjab and Haryana (see for instance a series of articles by P. Sainath (2008) in *The Hindu* based on field visits to various states).

**There also several potential ways that MGNREG could impact future livelihoods and rural governance, but the evidence from field studies suggest these channels of impact might be weak as yet.** In addition to these direct income gains (or losses for those who hire casual labor), there are potential spill-over benefits through gains from the assets created, i.e., potential increases in future livelihood opportunities and incomes. Field reports of poor asset quality indicate that this second-order impact is unlikely to have made itself felt just yet. Finally, with its emphasis on empowering communities and local governments, MGNREG also has the potential to impact rural governance. In practice, however, this has been the hardest to operationalize, implying that it might be too early to see such impacts.

**Notes:** (a) See Murgai and Ravallion 2005. The simulations are based on the 1999/2000 round of the NSS. (b) Evidence from the MEGS in the 1980s suggests a positive insurance function of public works, with attendant impacts on production decisions - income variability among landless agricultural households in EGS villages was significantly lower than that of non-EGS villages (Walker 1986, Scandizzo et al 2007). Similarly, there is some evidence of private casual wages rising in response to MEGS (Gaiha 1996).

213 For instance, Drèze and Oldiges (2009) point out how program officers often do not have a list of active worksites in their block.

214 See Mehtrotra (2008) and Hirway and Singh (2006) for a discussion.

215 This Professional Institutional Network (PIN) includes Indian Institutes of Management (IIMs), Indian Institutes of Technology (IITs), National Institute of Rural Development (NIRD), Administrative Staff College of India (ASCI) and others.

THE USE OF SOCIAL AUDITS IS ONE OF THE MOST INTERESTING INNOVATIONS IN MGNREG PROGRAM DELIVERY AND CAN BE REPLICATED IN OTHER SOCIAL PROGRAMS, WITH THE POTENTIAL TO REDUCE FRAUD AND CORRUPTION AND TO MAKE PUBLIC DELIVERY SYSTEMS FROM ACCOUNTABLE. Social audits are mandated by the operational guidelines, but few states, with the notable exception of Andhra Pradesh and Rajasthan, have made progress in implementing these in the field. In Rajasthan the process was driven largely by high community-level activism that had its roots in the Right to Information movement.<sup>216</sup> In Andhra in contrast the government drove the process by establishing an independent social audit society and partnering actively with CBOs and NGOs to initiate audits in the field.<sup>217</sup> These two states represent very different successful models (see Box 7.5 in Chapter 7) that are of interest for other states attempting to institutionalize social audits. Besides initiating the process of social audits, it is also important to move from “answerability to accountability”, i.e., the district and block administration needs to be responsive to the issues raised at the public hearing at the end of a social audit.<sup>218</sup> Unsurprisingly, there is evidence of resistance, sometimes violent, to this process. An extreme manifestation was the murder of an activist while initiating a social audit in Jharkhand. There have been sporadic incidents even in Rajasthan. There remains, however, a strong case to continue to work towards greater transparency and accountability.

## B. PROMOTING MOVEMENT OUT OF POVERTY IN THE SHORT AND LONG TERM

AS NOTED IN CHAPTER 2, INDIA’S SAFETY NET PROGRAM MIX HAS HISTORICALLY EXHIBITED A RELATIVELY LOW EMPHASIS ON INTERVENTIONS WHICH SEEK TO PROMOTE SUSTAINED MOVEMENT OUT OF POVERTY, EITHER IN THE SHORT RUN (THROUGH LIVELIHOOD SUPPORT), OR THE LONG RUN (BY INCENTIVIZING HUMAN CAPITAL ACQUISITION). However, the situation has changed markedly in recent years with respect to long run programs. The major expansion in spending on midday meals in schools represents an

important development in strengthening such objectives in India’s safety net. In addition, there is a serious attempt to restructure the livelihood support programs under the aegis of the National Rural Livelihood Mission (NRLM). This section looks at three programs which seek to promote movement out of poverty: (i) targeted rural credit programs; (ii) school stipends/scholarships; and (iii) the midday meal program.

### (a) Targeted rural credit programs

AS WITH PUBLIC WORKS, INDIA HAS AN EXTENDED HISTORY OF TARGETED CREDIT SCHEMES FOR THE RURAL POOR. This began through the Integrated Rural Development Program (IRDP), which was universalized from 1980, and supplemented by various training and input schemes over the subsequent two decades. In 1999, all these schemes were merged into the Swarnajayanti Grameen Swarozgari Yojana (SGSY), which is conceived as an integrated micro-enterprise development program for the rural poor, emphasizing self-help group (SHG) formation, capacity building, and access to credit and markets.

WHILE IRDP CONCENTRATED ON INDIVIDUAL BENEFICIARIES, SGSY LAYS GREATER EMPHASIS ON SOCIAL MOBILISATION AND SHG FORMATION. SHGs are also given awareness training in the importance of regular savings and credit discipline in an attempt to build up mutual support systems and a greater sense of self-confidence. However, the district administrative offices (DRDAs) responsible for administering the programme generally lack the requisite skills in social mobilisation, and linkages with NGOs, which could have facilitated this process, have also been weak in many states. In addition, lending by banks is a major problem area, with both credit to subsidy ratios considerably below program norms (resulting in under 40 percent of the targeted credit amount being mobilized), as have been average loan sizes estimated at ₹ 22,995 in 2007/08.<sup>219</sup>

#### (i) Coverage

THE COVERAGE OF SGSY IS VERY LOW, A REFLECTION IN PART OF RELATIVELY LOW (AND FALLING REAL) SPENDING, AND OF

216 See for example Sivakumar (2007) and several associated articles (including a manual for conducting social audits) at the Right to Food website.

217 See Aakella and Kidambi (2007 a,b). Detailed guidelines are available online at the GoAP MGNREG portal.

218 See Sen (2007) for a discussion.

219 See Saxena (2006), Radhakrishna Committee report (2009).

A RANGE OF PROGRAM DESIGN AND IMPLEMENTATION ISSUES WHICH HAVE PLAGUED THE PROGRAM AND PREDECESSORS SINCE INCEPTION. Analysis of nationally representative data finds a coverage rate of 1 percent of households nationally for SGSY, with only a few states (Rajasthan, Himachal Pradesh, Maharashtra and Chhattisgarh) reaching 2 percent coverage.<sup>220</sup> Madhya Pradesh is the only state that stands out as having notably higher SGSY coverage (at over 4 percent), though generally the poorer states have somewhat higher coverage rates in relative terms. Just as interesting is the high variability in reported benefits from the program, and the fact that the median benefits are well below those suggested by administrative data. The last point is consistent with reports from qualitative work for this report and other studies which have noted regular payment of “commissions” by beneficiaries for bank officials and others (see below).

THE LOW COVERAGE RATES OF SGSY ARE CONFIRMED BY OTHER DATA SOURCES. The state-specific surveys undertaken for this report (2005 SPS and 2006 JLSS) find that only 3.3 percent of households were covered by SGSY in Karnataka, Madhya Pradesh (the highest coverage state nationally) and Orissa, and only 1.6 percent households in Jharkhand.<sup>221</sup> Beneficiary numbers reported by the Ministry of Rural Development also indicate low coverage. Though nearly 31 lakh SHGs were formed in the first ten years of the program, only about 22 percent were able to obtain credit to take up economic activities.<sup>222</sup> Assuming they were all from separate households, this would be around 0.35 percent of rural households.

### (ii) Targeting

EVIDENCE ON TARGETING IS MORE MIXED, DEPENDING ON THE DATA SOURCE AND WHETHER COVERAGE IS EXAMINED ACROSS THE DISTRIBUTION OF HOUSEHOLD WEALTH OR PER CAPITA EXPENDITURE. The IHDS data find coverage across wealth levels to be progressive (see Table 4.7), and SC coverage notably higher (though still low). Earlier data from NSS finds that coverage was progressive in the late 1990s, but very mildly so.<sup>223</sup> However, the state-specific surveys

	% HH	Median HH benefits (among SGSY HHs)	% of benefits captured
Poorest	1.3	1,712	7.7
Q2	1.0	5,430	15.4
Q3	0.9	3,685	10.4
Q4	0.6	10,025	16.7
Richest	0.7	26,430	49.7
OBC	1.0	11,001	62.6
SC	0.9	9,484	27.0
ST	2.5	1,560	5.2
Other	0.4	4,576	4.7
<b>All India</b>	<b>1.0</b>	<b>7,681</b>	<b>100</b>

Source: Ajwad (2006), based on 2005 IHDS data.

(SPS for Karnataka, Madhya Pradesh and Orissa and JLSS for Jharkhand) find that SGSY is regressive in coverage. In Karnataka, MP and Orissa, the coverage rate for SGSY in the top wealth quartile is over two thirds higher than for the poorest quartile, while more than 80 percent this coverage rate was more than 80 percent higher in the highest compared to the lowest per capita expenditure quintile. Of the range of safety net programs reviewed in the study, SGSY was found to be the least effective program in serving the poor, for a variety of reasons. Given that SGSY is targeted to below poverty line or BPL households, these results indicate that more research is needed on the distributional aspects of SGSY.

THE ANALYSIS ALSO GIVES CAUSE FOR CONCERN WITH RESPECT TO BENEFIT INCIDENCE ACROSS THE DISTRIBUTION AND SOCIAL CATEGORIES. Progressive coverage rates are more than offset in terms of benefit incidence by the much higher average benefits reported by the rich, and among OBC households. This can be seen in Table 4.7, where the richest quintile captures almost half of the program benefits, while the poorest quintile captures under 8 percent. In caste terms, OBCs capture over 60 percent of the total benefits. This is interesting in light of the 50 percent program reservation for SC and ST.

<sup>220</sup> In the NCAER survey, there was a combined question of SGSY or any insurance payout. Given the very low coverage of insurance, this is taken in attached as a close approximation of SGSY coverage, and in any event is at best an upper bound of SGSY coverage.

<sup>221</sup> See Dev et al (2007) and Balchander (2009).

<sup>222</sup> Radhakrishna Committee report (2009).

<sup>223</sup> See O'Keefe and Palacios (2006).

### (iii) *Implementation*<sup>224</sup>

THERE ARE A RANGE OF FUNDAMENTAL IMPLEMENTATION CHALLENGES FACED BY SGSY WHICH SUGGEST A SERIOUS ASSESSMENT IS NEEDED OF ITS POTENTIAL IN THE INDIAN SAFETY NET, AND THE CURRENT DELIVERY MODALITIES. The scope of poverty reduction through SGSY is limited both by the debt-capacity of the poor and by the high cost of appraising, monitoring and enforcing small loan agreements. The first limitation is in theory offset by subsidy, but it attracts rich borrowers to the scheme, and thus creates political and administrative problems. The subsidy element has led to large scale corruption on the part of lower level functionaries who certify non-eligible beneficiaries as being BPL. Even when the poor are selected there is often no intention on their part to create assets; the subsidy is the main attraction. It has also led to corruption on the part of bank staff, and on the part of borrowers themselves, some of who sell off their assets and pocket subsidy, or who borrow by proxy for non-target group borrowers. Because of the distortion of objectives, lending policy under SGSY tends to be driven by the availability of subsidised funds rather than by the effective demand for credit. Problems in the selection of viable activities and inadequate capacity building of beneficiaries combined with supply-side issues with the banking sector results in inadequate flow of credit under SGSY.<sup>225</sup>

APART FROM SUCH “BIG PICTURE” CONCERNS, THERE ARE A NUMBER OF OTHER FACTORS IN DESIGN AND IMPLEMENTATION OF SGSY WHICH HAVE, UNTIL RECENTLY, RECEIVED INADEQUATE ATTENTION IN POLICY EVOLUTION OF TARGETED CREDIT PROGRAMS. THEY INCLUDE:

- ◆ **Lack of markets and infrastructure.** Unless credit is accompanied with adequate infrastructural support by way of extension, marketing, etc. the result is infructuous lending. SGSY is generally successful where infrastructural and institutional support is available. These are the regions where many people even without the subsidy would have taken to entrepreneurial activities. However, the failure by the poor to use assets profitably stems from several factors, of which control over markets is an important factor. The poor are not able to secure economies of scale

because of indivisibilities in marketing costs and low risk bearing capacity. Low price received by poor for their products is also because of interlocked output and capital markets, lack of value addition technologies, poor organisational base and insensitive government policies. These problems need to be attacked by the same agency, which is not possible in government system. Whereas NGOs could take initiative in some of these sectors, they cannot change exploitative marketing infrastructure.

- ◆ **Lack of repeated contacts between lenders and borrowers.** SGSY suffers from a basic misconception that the provision of credit is a one-time event rather than a continuing relationship between lender and borrower. It is unrealistic to expect the larger share of borrowers to “graduate” just on the basis of an “injection” of credit (the medical terminology is significant), even if provided in sufficient “doses” (which was until now not usually not the case). Most loans in SGSY are a one-time affair, and the bank feels relieved when the file is closed. In the case of Grameen Bank of Bangladesh, most borrowers start with small loans, but as the relationship with the bank improves, more loan is given to the same person, thus making their interaction and relationship last for a long-term, recovery and fresh loans often go hand in hand. This also improves the capability of the poor to utilise the loan profitably. Their stake in repayment is also higher. In India, since loan is taken only once in a life time by most borrowers, the tendency is not to pay and become defaulter.
- ◆ **Over-focus on asset formation.** There is still an under-emphasis on activities which require no fixed assets at all such as a large number of trading, service and even simple processing activities. Thus the mix of activities in India is very different from other large micro-enterprise programmes in Bangladesh, the Philippines and Nepal for instance, which finance a much larger component of petty trading and service activities suitable to the poorest of the poor. Their discouragement in India (due to a preoccupation with asset formation) has restricted the type

<sup>224</sup> This section draws from Saxena (2006).

<sup>225</sup> This includes inadequate banking coverage in rural areas, shortage of manpower in rural bank branches as well as lack of professional project appraisal and monitoring teams in rural bank branches.

of livelihood activities that can be financed, and has led to overcrowding in those which are financed (milch animals for instance). Instead of responding to a demand-led pattern of lending opportunities, banks are still restricted to a list (albeit an expanding one) of “approved” activities. In practice the range of activities for which loans were available was quite narrow. On the demand side, certain profitable enterprises were quickly saturated because of too many loans for single professions and their profitability declined. Since indicators for monitoring are target and not achievement based, retention and profitability of assets purchased are never monitored.

- ◆ **Neglect of consumption and savings.** SGSY completely neglects savings, on the mistaken belief that the poor cannot save at all. The distinction made by banks between the acceptable use of credit for productive purposes and its unacceptable use in consumption is an artificial one in the context of poverty. About two thirds of the borrowing of the poor in India is for consumption purposes (all of it from the informal sector) of which three quarters is for illnesses and household needs in the lean season.<sup>226</sup> In the absence of any system for encouraging even minuscule but regular savings a great deal of SGSY credit gets diverted to emergency consumption needs.
- ◆ **Existing problems of micro-enterprises.** Designers of SGSY do not look into the existing problems of the already established micro-enterprises. Thus, how can one empower the rural poor to become tailors, weavers, shopkeepers, or cattle owners if the present problems faced by those already owning these assets are not looked into? Rather than give subsidy to new enterprises it would be far better to solve the problems faced by the existing units, whether these are in design, or in marketing or working capital.

IN LIGHT OF THESE PROBLEMS, SGSY IS NOW BEING RESTRUCTURED AS THE NATIONAL RURAL LIVELIHOOD MISSION (NRLM) FOR PROMOTING RURAL LIVELIHOODS. The Radhakrishna Committee report (2009) made several recommendations with respect to the design and implementation that signal a significant departure from

the old SGSY model. The NRLM aims to ensure greater coverage among BPL households by mobilizing at least one member from each BPL household into SHGs. Drawing on the experience of relatively successful models such as the Kudumbasree model in Kerala and the Indira Kranti Patham (IKP) model in Andhra Pradesh, the NRLM proposes to federate SHGs at the village and block level. NRLM also proposes enhancing the subsidy under the program and to introduce an interest subsidy for SHGs. Though the Radhakrishna report acknowledges the frequent misuse of both backend and front-end subsidies,<sup>227</sup> the report emphasises the need for retaining the subsidy in principle, both to incentivize poor households to enter the program and to insure against the associated risks of entering self-employment. The NRLM provides for an enhanced capital subsidy to cover the risk in the transition of poor households from wage to self employment. In addition, an interest subsidy for loans up to ₹ 1 lakh is also provided to poor households. The experience from SGSY indicates that the subsidy proved to be a major source of corruption and a disincentive to lend, on account of low recoveries.

IN ADDITION TO PROMOTING SELF-EMPLOYMENT, THE NRLM ALSO PROMOTES WAGE EMPLOYMENT FOR THE POOR THROUGH THE INTRODUCTION OF PLACEMENT-ORIENTED SKILL TRAINING MODEL FOR YOUTH AS “SPECIAL PROJECTS”. An example of such an approach is the training and job placement program under the Employment and Marketing Mission in Andhra Pradesh. This is an autonomous government agency which promotes employment for youth in remote areas by linking them with formal sector employers and financing short-course training (see Box 4.5). Given that the end objective of NRLM is productive employment opportunities, the proposal to direct a proportion of funds towards making young people employable in the growing range of employment opportunities provided by India’s economic growth is a welcome policy reform.

A MULTI-TIER DEDICATED IMPLEMENTATION STRUCTURE IS PROPOSED WITH A NATIONAL AGENCY AT THE CENTRE SUPPORTED BY AGENCIES FOR IMPLEMENTATION AT THE STATE, DISTRICT AND SUB-DISTRICT LEVELS. The NRLM at the national level is intended to serve as a financial and technical resource to the state organizations and its mandate includes facilitation of partnerships with civil society organizations and institutions, analysis and dissemination of best practices

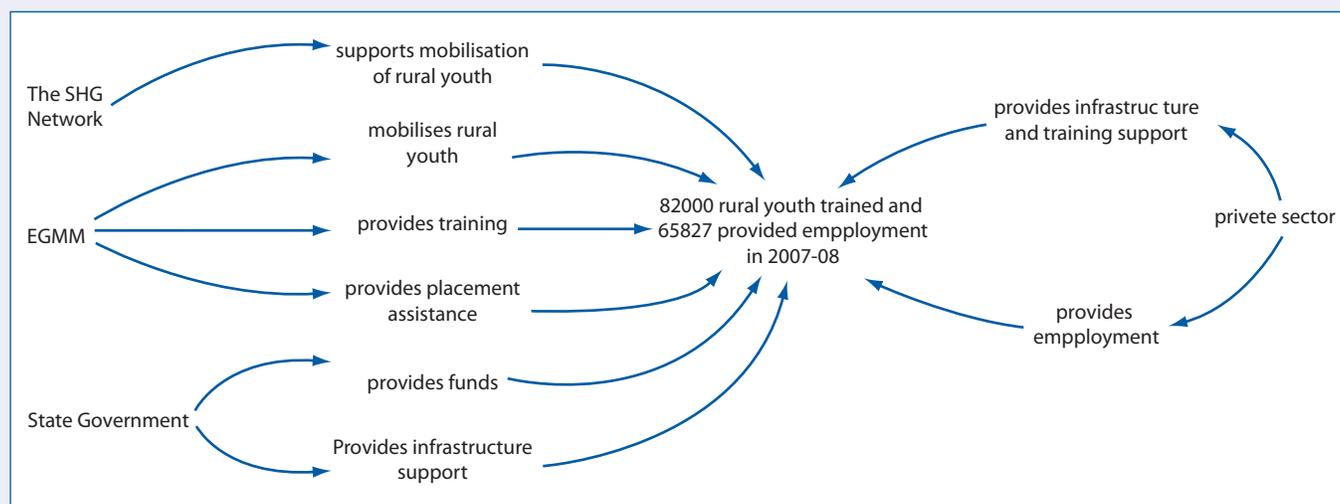
<sup>226</sup> Mahajan and Ramola (1995).

<sup>227</sup> The experience from SGSY indicates that the subsidy proved to be a major source of corruption and a disincentive to lend, on account of low recoveries.

## Box 4.5: Employment Generation and Marketing Mission (EGMM)

The Employment Generation and Marketing Mission (EGMM) is an initiative of the Department of Rural Development, Government of Andhra Pradesh that strives to provide employment to economically and socially underprivileged rural youth in Andhra Pradesh. With an objective of “one job for every rural family”, EGMM provides skills training to rural youth and finds employment for them in the organized sector. EGMM was originally set up as the Employment Generation Mission in 2002 under the Andhra Pradesh Societies Act 2001 and was later rechristened as Employment Generation and Marketing Mission, to bring within its scope marketing support to the self-help groups, women entrepreneurs and the non-farm sector.

The EGMM model works on a PPP mode with partnership between the public sector, private sector and the poor (see figure below). The state government mobilizes rural youth for general skill development, with some training programs tailored to specific industries or sectors. On completion of training, placement assistance is offered. These include the rural retail academy (with partners such as Reliance Fresh, McDonalds, Spencers, etc.), the security academy (partners include Group 4, Securicor, etc.) and a general training academy for English, soft skills and computer training. There are also models where private sector organizations partner in training as well as placement. These include Dr. Reddy’s Foundation and Tally in service sector, among others. The training modules in the EGMM are carefully chosen based on industry demand and specifically designed for certain sectors that have growth potential and capacity to provide employment.



The mission is headed by the district collector in each district. Each district also has a project director and the District Rural Development Agency (DRDAs) and Integrated Tribal Development Agency (ITDAs) are active partners. There is also a project management team comprising professionals recruited on a contract basis; this has a cell at the state level and a team of district managers for each district. At the grass root level, the mission is carried out by the district manager through Job Resource Persons (JRP) whose main job is to identify and motivate youth in opportunities from EGMM. Women Self Help Group (SHG) networks in the villages provide major impetus in this and often assist the JRPs in this process. The budget for EGMM is mainly from the state government Remote and Interior Areas Development (RIAD) budget and SGSY funds through the DRDAs.

From 2005-06 to 2008-09, over 226,000 youths have been trained out of which 183,000 have been placed in various organized sectors. Annual salaries range from ₹ 45,000 upwards in metros and ₹ 24,000 upwards in semi-urban areas. Absent rigorous impact evaluations, studies that quantify changes in the lives of the participating youth and their families are of interest. One such study in the districts of Karimnagar, Anantpur, and Chittoor where youth were trained by the security academy and subsequently placed as security guards in cities indicated reduced dependence on money lenders and increased ownership of assets by their families.

Source: Dutta (2008). See also EGMM website ([www.egmm.ap.gov.in](http://www.egmm.ap.gov.in)).

and technical and institutional innovations, training and capacity building, monitoring and evaluation, promoting convergence with other anti-poverty programs and other related functions. The state-level umbrella organizations are seen as critical in the formation of and hand-holding support for SHGs, given that DRDAs are ill-equipped for

such social mobilization. Unlike under SGSY, PRIs are given an active role in the mobilisation of communities and in exploring the possibility of giving the responsibility for the execution of selected panchayat activities (such as civil works, maintenance of common property etc.) to SHGs.

## (b) School stipends

INDIA HAS AN EXTENDED HISTORY OF PROVIDING SCHOOL STIPENDS FROM BOTH STATE AND CENTRAL LEVELS. MOST STATES HAVE SOME FORM OF SCHOOL STIPEND IN OPERATION, AT LEAST FOR SELECTED GROUPS SUCH AS TRIBAL CHILDREN. This combines a number of centrally-financed stipend schemes (e.g., for disabled children, ST girls), and state-specific schemes (e.g., Uttar Pradesh provides stipends to all SC, ST and OBC children in primary school). This school stipend program is intended to boost enrollment, attendance and retention in school.

COVERAGE OF SCHOOLS STIPENDS IS FAIRLY HIGH AT ALMOST 10 PERCENT NATIONALLY, BUT WITH LARGE INTER-STATE VARIATION. Table 4.8 presents results on coverage rates

**Table 4.8: School stipend coverage and receipts (rural and urban areas), 2004/05**

State	% HH with children aged 6-18 years	Median benefits (among HH with stipends, ₹ pa)
Andhra Pradesh	2.0	4,043
Assam	13.1	226
Bihar	0.6	2,563
Chhattisgarh	29.0	1,788
Delhi	0.5	1,243
Gujarat	10.9	423
Haryana	0.8	582
Himachal Pradesh	8.0	839
Jammu & Kashmir	0.8	4,023
Jharkhand	10.7	1,556
Karnataka	6.6	893
Kerala	0.6	1,040
Maharashtra	5.0	1,666
Madhya Pradesh	16.1	740
Orissa	3.4	2,606
Punjab	1.6	308
Rajasthan	1.1	1,200
Tamil Nadu	2.3	17,638
Uttar Pradesh	31.4	759
Uttarakhand	28.3	691
West Bengal	1.8	400
Other	7.2	1,652
<b>All-India</b>	<b>9.6</b>	<b>1,224</b>

Source: Ajwad (2006), based on IHDS data.

for school stipends for major states, using household survey data from the 2004/05 IHDS data. These rates are estimated among those with school age children (6-18), while the median stipend amount is the transfer received in the previous year among households receiving stipends. Coverage exhibits major variations across states, with several states covering up to one fifth of children. Some patterns stand out and are consistent with national and state policies:

- ◆ *several states with high tribal populations have expectedly higher than average stipend coverage, though Orissa is an exception.*
- ◆ *in contrast, several poorer states have very low stipend coverage, including Bihar, Orissa and Rajasthan.* Uttar Pradesh is a notable exception for a poor state with low tribal population, and this share is likely to have increased sharply since with the expansion of state-funded OBC stipends in recent years.
- ◆ *stipends stand out as one area where southern and richer states have lower than average coverage rates, in part perhaps because of higher private schooling rates but also driven by state-level policies.*
- ◆ *there is also significant variation in state levels of stipends reported paid.* In contrast to the pattern for many other programs, however, it is generally the poorer states (though with Madhya Pradesh and Assam as notable exceptions) which report higher median stipends receipts. More specifically, some of the more tribal states such as Jharkhand and Chhattisgarh continue to have a healthy picture, and both J&K and Tamil Nadu standing out with high median payments among those receiving the stipend. Note that these numbers need to be interpreted with caution as the median benefit amount does not distinguish between households that have a single or multiple children receiving a stipend.

LOOKING AT THE SAME FINDINGS IN DISTRIBUTIONAL TERMS, STIPEND COVERAGE IS QUITE PROGRESSIVE IN TERMS OF SIMPLE COVERAGE RATES, BUT EXPENDITURE INCIDENCE EXHIBITS A MUCH MORE MIXED PICTURE, AS THE MEDIAN ANNUAL LEVELS OF STIPENDS REPORTED VARY SHARPLY ACROSS THE DISTRIBUTION IN A REGRESSIVE MANNER IN TERMS OF BOTH WEALTH AND SOCIAL CATEGORY. This can be seen

in Table 4.9. In terms of benefit incidence, the poorest quintiles captured only 12 percent of total benefits, in contrast to the richest capturing 34 percent. Again, a caveat in the interpretation of these findings is that the median amount received per *child* in the household is not known. Interestingly, despite the prevalence of

SC/ST stipends, the share of total benefits captured by ST households is almost exactly the same as their share in the sample and for SC households it is less, while OBC households capture a higher share of total stipend spending than their share in sample. However, this needs to be interpreted in the light of state-specific schemes, in particular the major expansion to OBCs that was occurring in Uttar Pradesh during the period of the survey.

**Table 4.9: Coverage and receipts of school stipends by wealth, social category and location, 2004/05**

	% HH with children 6-18 receiving stipend	Median benefits for HH receiving stipend (₹ annual)	Share of total benefits captured (%)
Poorest	9.7	627	11.7
Q2	14.4	883	21.6
Q3	9.6	730	12.5
Q4	8.2	1,585	20.1
Richest	6.5	3,592	34.1
Rural	11.5	983	70.8
Urban	4.3	3,018	29.2
OBC	9.6	1,501	49.8
SC	14.6	860	24.3
ST	14.3	740	7.0
Other	4.2	1,349	11.6
<b>Total</b>	<b>9.6</b>	<b>1,224</b>	<b>100</b>

Source: Ajwad (2006), based on IHDS data.

AT ONE LEVEL, THESE SCHOOL STIPENDS CAN BE CONSIDERED CONDITIONAL CASH TRANSFERS, THOUGH THEY DIFFER NOTABLY FROM CCTS INTERNATIONALLY IN HAVING WEAK – OR IN MOST CASES, ABSENT – ENFORCEMENT OF ATTENDANCE REQUIREMENTS, BEING BASED LARGELY ON ENROLLMENT IN SCHOOL IN PRACTICE. In the past decade, there has been a growing reliance in developing countries on conditional cash transfers (see Box 4.6 for international experience with CCTs). These provide a cash transfer – often targeted to the poor or other specific groups – conditional upon households undertaking specified actions with respect to education, health, and in some case nutritional interventions. CCTs rely on two channels for affecting demand: (i) reducing the income constraint on households; and (ii) providing a specific incentive to undertake desired behavior. In this way, safety net transfers can become not only a short term

#### Box 4.6: International experience with Conditional Cash Transfers (CCTs)

The design of CCTs differs across countries, most notably in the scope of actions required by households to receive benefits. While several Latin American countries require education, health interventions and nutritional programs for children (and in some cases mothers and even elderly), others such as Bangladesh and Pakistan focus on educational attendance only. Despite the variation, the menu of actions from which countries choose their conditions for CCTs is similar, and includes:

- ◆ **education CCT** components typically require school enrollment and attendance around 80-85 percent of school days in 1-3 month period. Most countries cover primary and secondary levels, while some countries also target specific groups (e.g., girls in the Bangladesh secondary school stipend).
- ◆ **health/nutrition CCT** components typically focus on children up to 2-3 years of age, though in some countries up to primary start age. Several countries also include pregnant and lactating women, and Jamaica goes further to include also 65+, disabled and destitute adults < 65. Households are required to undertake a regular schedule of health care visits (for child and sometimes other family members), commonly including growth/development monitoring, vaccination, health/nutrition education in some countries.

With respect to **targeting of beneficiaries**, approaches also vary, but most programs have a combination of geographic and household level targeting (though Turkey, for example is nationwide, and Honduras uses geographic targeting only). With respect to geographic targeting, two main considerations are typical: (i) some indicator of locality marginality (e.g., malnutrition data in Honduras, marginality index in Mexico); and (ii) supply side capacity to deliver (e.g., Mexico and Nicaragua – within certain distance of education and health facilities, Colombia requires adequate services, a bank and database). With respect to household level targeting, proxy means testing has been most common (e.g., Mexico, Turkey, Jamaica, Colombia).

A challenge in cross-sectoral CCTs has been **institutional coordination**. Different countries have dealt with this in different ways, including: (i) Social line ministries: Brazil, Jamaica, Nicaragua, Kenya, Mexico; (ii) Presidency/social cabinet: Colombia; Dominican Republic; (iii) Specialized public agencies: Honduras, Sri Lanka, Pakistan; and (iv) Social Investment Funds: Chile, Turkey, El Salvador.

## Box 4.6: International experience with Conditional Cash Transfers (CCTs) Contd...

A number of CCTs have been subject to rigorous *impact evaluations*, and findings are as follows:

- ◆ on **household consumption**, the results are generally positive (especially where transfers are large), including: (i) in Mexico, households randomly assigned to the CCT program group had consumption that is 13-18 percent higher. In addition, households appear to invest about 25 cents out of every peso transferred by the CCT program in productive assets, so that, by investing transfers, beneficiary households increased consumption by about 24 percent after six years on the program; (ii) in Nicaragua, CCT households have 13 percent higher consumption, implying decreases in the extreme poverty rate of 15 percentage points, and in the poverty rate of 5 percentage points; (iii) in Colombia, CCT households have 15 percent higher consumption than matched set of comparison households; but (iv) in Ecuador, there was no significant program effect of the CCT on consumption, explained at least in part, by a massive 17 percentage point reduction in child labor
- ◆ on **educational outcomes**, evidence is generally positive with respect to improved utilization of services, though results on the end outcome of educational attainment remain very sparse. However, evidence from evaluations in 9 countries, finds: (i) positive program effects on enrollment, including those with the most robust evaluation strategies; (ii) impacts are larger among groups that had the lowest probability of enrollment at baseline: CCT programs may help reduce “inequality of opportunities”; (iii) Larger program effects in countries with lower baseline enrollment levels; (iv) Larger program effects in transition grades with high dropout rates; (v) with respect to learning outcomes, evidence is mixed, and draws primarily on Mexico, where the CCT increased years of schooling but did not lead to higher scores on standardized tests.
- ◆ on **utilization of health services and health outcomes**, evaluations have found increases in coverage of some services (for example, growth monitoring for children, preventive check-ups for adults), but not others (for example, immunization rates). Evidence from one country (Mexico) also suggests that CCT program reduced child morbidity and mortality, and improved adult health status
- ◆ on **child nutritional status**, the evidence is inconclusive. For example: (i) in Mexico, evidence on impacts on child height is mixed, in part due to technical issues in comparison over time; (ii) in Nicaragua, the CCT program reduced stunting by 5.3 percentage points, but result is only borderline significant; (iii) in Honduras, there was no significant effect of the CCT on child height; (iv) in Colombia, the CCT reduced stunting among children younger than 2 years of age by 6.9 percentage points, but had no effect on children aged 3-7 years at baseline; (v) in Brazil, the CCT appears to have had a negative effect on child height and weight, perhaps because households believed that their children needed to be malnourished to be eligible for transfer

A natural concern in considering CCTs is the *supply side*, and the extent to which it is reasonable to condition transfer receipt on use of absent or poor quality educational or health/nutrition services. Several countries have avoided this problem by requirements of minimal supply side presence; others have attempted to address it by building additional infrastructure or finding alternatives for delivery. Others such as Bangladesh (for girls' secondary education) and Pakistan Punjab (for female school stipends in grades 6-8) have not, and despite this the effects on enrollments appear to be positive, with for example a net program impact of 9 percentage points in Pakistan Punjab. A further point of interest on the supply side is inclusion of only public schools in the program (as in Punjab) or both public and private schools (as in Bangladesh). Some countries, like Bangladesh and Mexico, have also sought to improve quality through incentives (pay-for-performance schemes for providers in parallel with the CCT).

While strong universal conclusions are difficult on the CCT experience, several conclusions seem robust: (i) CCTs are well targeted to poor households and have helped provide a consumption floor; (ii) CCTs significantly increase the utilization of education and some health services; (iii) evidence on the impact of CCT programs on “final” outcomes in education, health and nutrition is less clear-cut; (iv) the institutional framework and administrative systems for implementation remains a big and country-specific issue; and (v) important knowledge gaps remain about “optimal” program design:

Source: Fiszbein and Shady (2009); de Janvry and Sadoulet (2006); Chaudhury and Parajuli (2006).

source of poverty mitigation, but also hopefully help leverage improved human capital acquisition, which could contribute to longer term and more sustained poverty reduction. While most widespread in Latin America (where both middle income countries such as Mexico and Brazil, and lower income countries such as Nicaragua and Peru use different forms of CCTs), CCTs are increasingly being tried or piloted by other developing countries, including Bangladesh, Pakistan, Kenya, Cambodia, Turkey and India (see Box 4.6).

AS A CONCEPT, CONDITIONAL CASH TRANSFERS ARE NOT A NEW TO INDIA. In fact, the first CCT scheme was introduced in India as early in 1994 (a Haryana government state scheme in 1994). Since then, many programs have been introduced both by the centre (primarily to promote positive human development outcomes for the girl child) as well as states, some of which are listed Box 4.7. However, in many ways, these programs function as cash transfers rather than *conditional* cash transfers and the implementation of these programs differ in many

## Box 4.7: Overview of Conditional Cash Transfers (CCTs) in India

Conditional cash transfer schemes in India are more than 15 years old, with the first scheme “*Apni Beti Apna Dhan*” started by the Government of Haryana as early as 1994. Some of the programs introduced both by the centre (primarily to promote positive human development outcomes for the girl child) as well as states since then are listed below.

### Key centrally sponsored CCT programs in India:

**Indira Gandhi Matrisahyog Yojana** was started in 2009 by the Ministry of Women and Child Development. This Conditional Maternity Benefit Scheme aims to provide cash to pregnant and lactating women in response to fulfilling specific conditions like registration of pregnancy, iron fortification during pregnancy, attendance at counseling sessions, registration of birth, immunization and fortification as well as exclusive breast feeding for the new born child. A budget allocation of ₹ 3.6 crores has been made for this scheme in 2009-10.

**Dhanalakshmi** was launched in March 2008 by the Ministry of Women and Child Development and covers 11 blocks across seven states. The scheme provides cash transfers (and insurance coverage in certain cases) to the family of the girl child (preferably to the mother) on fulfilling certain specific conditionality's for the girl child: registration of birth, immunization, enrolment and retention in primary and secondary school and marriage after the age of 18 years.

**Janani Suraksha Yojana** was launched under the National Rural Health Mission in 2005. The main objectives are to reduce maternal and neo-natal mortality by promoting institutional delivery and for making available medical care during pregnancy, delivery and post delivery period. All women receive cash assistance if they have their baby in a government health centre or accredited private institution. Eligibility criteria and incentives in rural and urban areas differ across low and high performing states (with respect to institutional delivery rates).

**Balika Samridhi Yojana** was started in 1997 and covers girl children (born on or after 15 August, 1997) in BPL families in rural and urban areas. An eligible girl child is entitled to a post-birth grant amount of ₹ 500/- and annual scholarships for each successfully completed year of schooling as long as she is unmarried and attends school regularly until the X<sup>th</sup> grade.

### Some state sponsored CCT programs

**Ladli** was launched in August 2005 in Haryana and Delhi. Parents are given ₹ 2500 per child per year for five years, on the birth of their second daughter. The transfer is invested in Kisan Vikas Patras or similar savings scheme. In addition to being unmarried at 18, the child must be enrolled in school/early child care centres and fully immunized as per age for her to receive regular payments.

**Devi Rupak Yojana** was introduced in Haryana. If parents undergo sterilization after the first or second child they are given a monthly pension for 20 years. The amount varies if the first child is a male or female.

**Kanya Jagrit Joti** was introduced in Punjab in 1996-97. An amount of ₹ 5000 is invested in the name of the beneficiary with the Life Insurance Corporation. The child gets a scholarship of ₹ 100 per month at the age of 6 to 12 years. The rate of scholarship is doubled at the age of 12 to 18/21 years. At the termination of the scheme, the beneficiary gets a lumpsum amount of ₹ 5000 plus bonus accrued thereon, provided the parents continue to follow the two child family norm and also the child passes at least Matriculation. This scheme has about 8000 beneficiaries every year.

**Kanya Vidya Dhan Yojana** was introduced in Uttar Pradesh in rural and urban areas. The scheme provides a sum of ₹ 20,000/- to each girl who passed intermediate examination from U.P Board and belongs to BPL families.

**Apni Beti Apna Dhan** was introduced in October 1994 in Haryana. This scheme pays mothers ₹ 500 within 15 days of the birth of a girl child, to meet her nutritional requirements. An amount of ₹ 2,500 is also invested, within 3 months, in an 'Indira Vikas Patra' or other similar savings scheme in the name of the new born baby. Eligibility is restricted to socio-economically disadvantaged families belonging to SC/ST and BPL families, and only if they have three or fewer children.

respects from the international experience noted above. This is largely due to the lackluster tracking and enforcement of the conditionality associated with the transfers. This in turn is partly due to supply-side constraints and partly the result of poor monitoring and evaluation systems. Another challenge in the effective implementation of these programs is that the institutional inter-ministerial framework for administering such cross-sectoral programs is still being established in India.

### (c) Mid-day meals

THE MIDDAY MEAL SCHOOL FEEDING PROGRAM IN SCHOOLS HAS EXPANDED RAPIDLY IN THE PAST DECADE, AND IS AN INCREASINGLY IMPORTANT PLANK OF EDUCATIONAL AND BROADER SOCIAL POLICY. WHILE MIDDAY MEALS HAVE BEEN DELIVERED IN SOME PARTS OF THE COUNTRY FROM AS EARLY AS THE 1950s (IN TAMIL NADU) AND 1980s (IN GUJARAT), THE MAJOR EXPANSION CAME ONLY AFTER 1995, AND MORE PARTICULARLY 2001. While cooked midday meals were

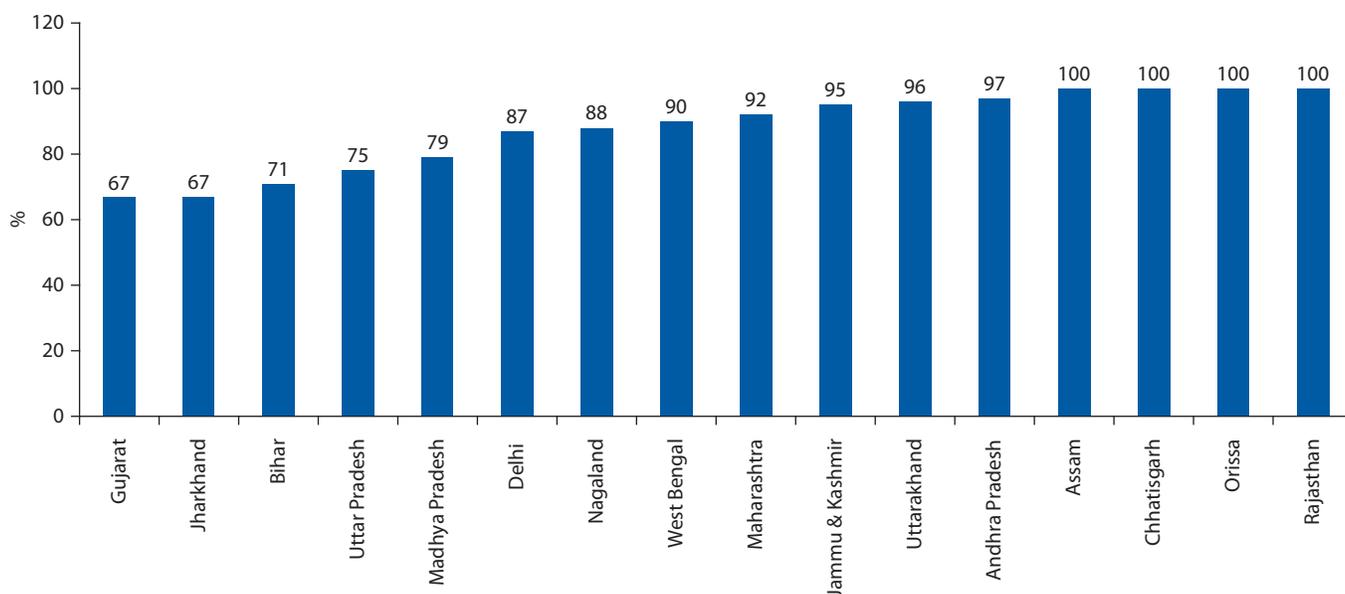
mandated from 1995 (with two years given to put the system in place), they remained the responsibility of states until 2001, and experience across states was very mixed in terms of performance. A key step towards expansion was the 2001 Supreme Court order, which ordered states to provide the meal with minimum caloric content in all government and aided primary schools.<sup>228</sup> Although initially only primary students were covered, in October 2007, the scheme was further revised to cover children in upper primary (classes VI to VIII) initially in 3479 Educationally Backwards Blocks (EBBs) and from 1<sup>st</sup> April, 2008 across the country. The scheme receives budgetary support from the centers as a CSS, for which the nominal GoI allocation has increased by more than six times between 2002/03 and 2008/09. While the center finances the grains and transportation, states retain the responsibility for several elements of implementation, including cooking infrastructure and provision of cooks.

AT PRESENT THE MIDDAY MEAL SCHEME IS THE WORLD'S LARGEST SCHOOL FEEDING PROGRAMME AND FEEDS ABOUT 118.46 MILLION CHILDREN IN OVER 9.5 LAKH SCHOOLS ACROSS THE COUNTRY. Administrative data suggests that

coverage of children as a proportion of those enrolled in schools is over 90 percent in most states (see Figure 4.7). This is however a likely overestimate of coverage as enrolment as the administrative data reported by schools and enrolment is a primary criteria for eligibility to receive grains to serve schools meals. Information from household surveys might be more informative in this regard.

HOUSEHOLD DATA FROM THE NSS SUGGESTS MUCH LOWER COVERAGE RATES, MORE SO IN URBAN AREAS, WITH WIDE VARIATIONS ACROSS STATES (SEE TABLE 4.10). Karnataka, Tamil Nadu, Himachal Pradesh and Chhattisgarh perform relatively well with over 70 percent of rural households reporting having received midday meals at-least once in the last year. Bihar, Jharkhand, Rajasthan and Uttar Pradesh however report less than one third the coverage (less than 20 percent) in these states. The situation in urban areas across India and in a majority of the states remains far worse with less than half the coverage rates in rural areas. It is possible that household survey-based data underestimates coverage as the estimates are for households with at least one child aged 6-10 rather than those where a child of that age is enrolled

Figure 4.7: Coverage of midday meals according to administrative Data (among children enrolled in primary school), 2007-08



Source: Ninth Report of the Food Commissioner's appointed by the Supreme Court 2009.

Note: States sorted in ascending order of coverage.

228 As per the recently revised nutritional norms for MDM, every primary child should receive 450 calories, 12 gm of proteins per day and adequate quantities of micronutrients like iron, folic acid, vitamin-A etc. and upper primary child should receive 700 calories and 12 gm of proteins with adequate micro-nutrients.

State	% HH among households with at least one child aged 6-10 years	
	Rural	Urban
Andhra Pradesh	54.8	26.2
Assam	32.9	7.7
Bihar	17.7	7.9
Chhattisgarh	77.4	30.9
Delhi	3.5	10.7
Gujarat	62.6	22.4
Haryana	36.5	7.2
Himachal Pradesh	73.2	32.4
Jammu & Kashmir	3.0	0.2
Jharkhand	19.6	5.6
Karnataka	77.0	34.8
Kerala	56.1	41.0
Maharashtra	66.7	27.9
Madhya Pradesh	61.8	21.7
Orissa	60.3	26.9
Punjab	7.0	1.2
Rajasthan	36.3	8.9
Tamil Nadu	77.4	44.6
Uttar Pradesh	27.0	7.2
Uttarakhand	52.7	11.7
West Bengal	63.9	31.8
<b>All-India</b>	<b>45.7</b>	<b>21.7</b>

Source: Staff estimates, based on 2004/05 NSS.

in a government/aided primary school. However, in states with relatively low rates of private schooling, this is unlikely to be a major concern since it is commonly known that children attending private school enroll in government school to avail of the MDM. One of the reasons for lower coverage in urban areas could be due to the relatively higher reliance on private schooling.

ALTHOUGH THE MIDDAY MEAL (MDM) PROGRAM IS UNIVERSAL IN COVERAGE (FOR ALL CHILDREN ENROLLED IN GOVERNMENT AND AIDED SCHOOLS), COVERAGE AMONG POORER SC/ST HOUSEHOLDS IS RELATIVELY HIGHER THAN THAT AMONG RICHER AND GENERAL CASTE HOUSEHOLDS, PARTICULARLY IN URBAN AREAS (SEE TABLE 4.11).<sup>229</sup> In urban areas, 41 percent of the poorest households reported children benefitting from midday meals compared to about 10 percent of the richest households. Given that the program is universal rather than targeted to the poor, the coverage

229 See also Gaiha et al (2007).

	% HH among households with at least one child aged 6-10 years	
	Rural	Urban
Poorest	51.7	41.5
Q2	48.7	35.9
Q3	46.8	31.3
Q4	42.9	28.0
Richest	30.9	9.9
OBC	42.8	25.4
SC	49.2	28.7
ST	55.0	26.9
Other	43.0	14.9
<b>Total</b>	<b>45.7</b>	<b>21.6</b>

Source: Staff estimates, based on 2004/05 NSS.

of children from households in the richest quintile is also quite high, at least in rural areas at over 30 percent of the richest households. Part of the reason for the sharp drop in coverage of children from the richest quintile in urban areas could be the fact that a much higher proportion of these children are enrolled in private rather than public schools. As expected there are state-wide variations. An analysis of the 3-state SP survey data finds that the proportion of participating ST households ranged from about 90 percent in Madhya Pradesh to 75 percent and 71 percent in Orissa and Karnataka. As far as the economically poor are concerned, the proportion of participating households from the poorest quartile was even more varied at 82 percent, 76 percent and 59 percent in the three states respectively.

MULTIVARIATE ANALYSIS OF DETERMINANTS OF MIDDAY MEAL COVERAGE FROM THE THREE STATE SP SURVEY ALSO CONFIRMS A RANGE OF FACTORS WHICH ARE POSITIVELY ASSOCIATED WITH TAKING OF SCHOOL MIDDAY MEALS BY CHILDREN. These include being from poorer households, being an SC household (though not ST), having higher social capital, and women's participation in community life. This can be seen in Table 4.12, which presents findings from a study of Orissa, Karnataka and Madhya Pradesh in 2006.

WHILE SYSTEMATIC, RELIABLE NATIONAL STUDIES ON THE IMPACT OF MIDDAY MEALS ARE NOT YET AVAILABLE, STUDIES FROM A VARIETY OF STATES CONSISTENTLY REPORT POSITIVE

**Table 4.12: Determinants of participation – Karnataka, Orissa and Madhya Pradesh (2006)**

HH characteristic	Coefficient
<i>Wealth level:</i>	
Poorest quartile	0.888**
Second quartile	0.484*
Third quartile	0.399*
<i>Social group:</i>	
SC	0.629**
ST	0.286
HH social capital index	0.687**
Women's participation in meetings and elections	1.502**
Household size	0.513**

Source: Dev et al (2007).

Notes: \*\* = significant at 5% level; \* = significant at 1% level. Reference categories are the richest quartile (for household wealth) and other castes (for social group).

**IMPACTS ON SCHOOL ENROLLMENTS, WITH PARTICULARLY POSITIVE IMPACTS ON GIRLS.** Drèze and Kingdon (2001) using the PROBE survey data find that school meals are associated with a 50 percent reduction in the proportion of girls who are out of school. Also female school (initial and current) enrolment is about 11 to 15 percentage points higher when the local school provides a mid-day meal than when it does not.<sup>230</sup> Equally, given the universal coverage of MDM, it is difficult even in dedicated studies to measure precisely the net impacts on enrollments. Nonetheless, all studies which have looked at the impact find increased enrollments which are attributed to the program. These findings are consistent with field work for this study.

**WHILE IMPACTS ON ENROLLMENTS APPEAR TO BE POSITIVE, RECENT FIELD REPORTS ALSO POINT TO POSITIVE OUTCOMES ON OTHER EDUCATIONAL OUTCOMES SUCH AS ATTENDANCE, RETENTION, AND ATTAINMENT. HOWEVER, MORE SYSTEMATIC WORK IS STILL NEEDED TO UNDERSTAND THESE IMPACTS.**<sup>231</sup> An important study that looked at this aspect comes

from the PROBE survey in India, which found that school meals have a positive and significant effect on girls' grade attainment. The probability of completing primary education was 30 percentage points higher for girls living in villages with a School Feeding Program than for other girls.<sup>232</sup> Another study using the longitudinal survey data in 2002 and 2007 in Andhra Pradesh using propensity score matching methods finds that there were significant impact of midday meals on test scores of older children of older cohort (born between January 1994 and June 1995).<sup>233</sup> Given the need to look over longer time periods for more complex outcomes, it will be important to continue studies of impacts on the above indicators. For instance, a study in Madhya Pradesh suggests that the enrollment impacts at grade 1 may not persist as strongly in higher grades, but generalizing from that experience would be unwarranted.

**EVEN LESS IS UNDERSTOOD ON THE NET NUTRITIONAL IMPACTS OF THE MIDDAY MEAL PROGRAM.** While impacts on education outcomes have been the focus of most studies to date, there are very few rigorous studies on the nutritional impact of the MDM scheme. There are two elements to consider on nutrition. The first is the nutritional content of the meal itself, over which there has been much debate in recent years with respect to the cost allowance per meal and the level of dietary variation provided for. The second is the extent to which school meals are complements to or substitutes for home meals. The two studies that look at the latter question find significant substitution effects in the home for midday meals.<sup>234</sup> However the net effect of having MDM might still be positive. Evidence from Madhya Pradesh suggests that school feeding reduces daily protein deficiency of participants by 100 percent and calorie deficiency by almost 30 percent, even after accounting for possible substitution effects at home.<sup>235</sup> The same study also finds that the daily nutrient intake of a child increases by 49 percent to 100 percent of the total transfers made. Another study using longitudinal data in Andhra Pradesh in 2001 and 2007 finds positive

<sup>230</sup> Drèze and Kingdon (2001).

<sup>231</sup> See Sen (2010) for a summary of the field studies on educational related outcomes of MDM. These are largely small-scale studies with the estimates of impact typically based on the perceptions (typically of parents and/or teachers) or on school-level administrative information (such as registers, etc.) rather than survey-based data. As a result, generalizations are difficult and point to the importance of rigorous assessments of performance and impact.

<sup>232</sup> Drèze and Kingdon (2001).

<sup>233</sup> Singh (2008).

<sup>234</sup> See Blue (2005) for study of Udaipur, and Afridi (2004) for MP.

<sup>235</sup> Afridi (2007).

changes in weight-for-age and height-for-age between these two years attributable to the MDM program among the younger cohorts (born between January 1994 and June 1995).<sup>236</sup> This effect is particularly strong for child groups whose families have been affected by drought. But there was no effect on nutritional outcomes among the older cohorts for both drought and non-drought affected groups. This suggests that more work would be desirable to understand the net impacts, and perhaps to think through how the content of school meals can be designed to take account of home feeding responses. The experience of states such as Tamil Nadu and Gujarat, which have provided meals over and above the minimum requirements, could provide useful lessons in this respect.

THE AVAILABLE STUDIES AND GOI ASSESSMENT OF THE PROGRAM POINT TO A NUMBER OF ONGOING CHALLENGES IN ENSURING EFFECTIVENESS. IMPLEMENTATION OF MDM HAS EXPERIENCED SEVERAL CHALLENGES RELATED TO TIMELY AND ADEQUATE PROCUREMENT, TRANSPORT, STORAGE, COOKING AND DISTRIBUTION OF FOOD.<sup>237</sup> The 2006 revised guidelines have introduced greater flexibility for states with respect to distribution channels, e.g., through SHGs, VECs, mothers' groups, etc.<sup>238</sup> There is significant variation among states in terms of infrastructure like kitchen sheds, cooking utensils and drinking water. Overall good performers are Tamil Nadu, Kerala and poor performers are Punjab, Mizoram, Tripura and Himachal Pradesh (see Table 4.13). Despite a decade having passed since the program was first introduced, a nationwide CAG audit found that in 11 Indian states, classrooms were still used to store grains and cook meals.<sup>239</sup> Ensuring hygiene and quality is another major challenge. The CAG audit for quality test of grain also revealed that in three of the four states surveyed, the rice served "was adulterated and not fit for human consumption". Of more concern is the finding that logistics of cooking and serving can be a source of distraction to school staff, leading to a reduction in teaching time. Government evaluations of their own program estimate a loss of about 11-30 hours per week in 6 states and up to 41 percent of teaching time

<sup>236</sup> Singh (2008).

<sup>237</sup> See for example CAG (2008).

<sup>238</sup> Prior to the new guidelines too, several states, including poor states such as Orissa, had experimented with different degrees of allowing local control over use of public funds to purchase the food for midday meals, primarily to this point in procuring supplemental items to the basic ration, such as eggs or some vegetables. This has obvious attractions from a nutritional viewpoint, but also possibly in terms of some local linkages to livelihood activities.

<sup>239</sup> CAG (2008).

<sup>240</sup> CAG (2008).

<sup>241</sup> World Bank (2007b).

States	% Schools with kitchen sheds	% Schools with cooking utensils	% Schools with storage for drinking water
Andhra Pradesh*	19.9	–	–
Assam	–	27.6	–
Bihar	–	25.6	–
Chhattisgarh	27.6	100.0	100.0
Gujarat*	32.4	93.2	0.5
Himachal Pradesh	–	0.0	–
Jharkhand	–	12.9	–
Karnataka*	54.5	–	–
Kerala*	88.2	100	–
Madhya Pradesh*	–	7.4	–
Maharashtra*	3.9	8.0	70.9
Punjab*	0.0	0.0	0.0
Rajasthan*	0.0	48.1	65.2
Tamil Nadu	96.3	80.8	83.7
Uttar Pradesh*	6.5	88.6	12.0
West Bengal	0.0	92.9	68.4

Source: Annual Work Plan & Budget documents, 2007–2008.

\* AWP&B of 2006–2007, quoted in Seventh Report of the Office of the Supreme Court Commissioners.

in Orissa.<sup>240</sup> A World Bank study in Rajasthan also found that 68 percent of sample teachers spent more than 1 hour or more than 17 percent of their allotted teaching time on preparing and serving the school meal.<sup>241</sup>

## C. CONCLUSIONS AND RECOMMENDATIONS

BOTH PUBLIC WORKS AND PROMOTIONAL SOCIAL PROTECTION PROGRAMS HAVE RECEIVED INCREASED POLITICAL AND BUDGETARY PRIORITY IN RECENT YEARS. This seems a sensible effort to get greater leverage on poverty reduction and human capital formation from the safety net. Given that significant spending on these programs, particularly

MGNREG and mid-day meals, can be expected to continue, it will be increasingly important to ensure that the desired equity and public expenditure efficiency objectives are achieved. The following sections provide some recommendations in this respect.

## (i) Public works

MANY OF THE APPROPRIATE REFORMS OF PUBLIC WORKS POLICY ARE ALREADY REFLECTED IN THE GUIDELINES OF MGNREG, WHICH IN SEVERAL WAYS REPRESENTS THE MOST SERIOUS EFFORT TO DATE TO ADDRESS MANY OF THE INSTITUTIONAL AND IMPLEMENTATION PROBLEMS ENCOUNTERED IN PREVIOUS WORKS (AND INDEED SEVERAL OTHER) PROGRAMS. In many states there has been greater political and institutional commitment to trying to “make the program work”. Examining the implementation experience of MGNREG in the last four years suggests some lessons for improving the delivery of the program in states that are not doing as well as others. It also identifies some areas that warrant increasing attention as the program matures.

THE VARIABLE IMPLEMENTATION EXPERIENCE ACROSS STATES OFFERS SEVERAL VALUABLE CROSS-STATE LEARNING. One of the biggest challenges in implementing MGNREG is to match the expression of demand with the supply of worksites and employment opportunities. It is vital to address the constraints – formal and informal – on this process. At the broadest level, this goes to the heart of what a rights-based, demand-driven approach means in practice. Some states have done better at establishing systems to improve the responsiveness of supply to the demand for work. This has typically involved attention to or innovations in the following areas:

- ◆ ***Establishing the implementation structure early in the game and ensuring adequate staff with the appropriate orientation and skills.*** This includes serious and sustained efforts at building capacity at all levels of the delivery process, often in partnership with the State Institute for Rural Development. Under the Act, a portion of funds are available for capacity building of those involved in MGNREG implementation, including PRIs. Using these funds effectively will be a critical element of program success over time.
- ◆ ***Generating awareness of the rights and entitlements under MGNREG as the first step towards establishing a right to work.*** Over time,

there has been some evolution of IEC campaigns in terms of moving from the dissemination of rights to an emphasis of the need to and the means by which individuals can demand that right. It is also necessary to make communities aware of the unemployment allowance provision in the Act for the guarantee function to be credible. It is vital to deepen awareness raising efforts on MGNREG entitlements, in close collaboration with civil society and using strategies that are tailored to a largely illiterate audience.

- ◆ ***Leapfrogging technical manpower constraints (e.g., the shortage of engineers at the block level) by developing detailed technical specifications of MGNREG works for different geo-climatic conditions as a preparatory stage.*** This minimizes the technical input required at the block and GP level at the planning stage and while starting a worksite. This can be done without the aid of technology (e.g., as in Madhya Pradesh) or with technology as an integral part of a transactions-based Management Information System (e.g., as in Andhra Pradesh).
- ◆ ***Streamlining the flow of funds in various ways so as to prevent funding delays to constrain opening of worksites or payment of wages.*** For instance, some states (e.g., MP) make available advance funds (linked to the volume of MGNREG work) with GPs that makes it easier to open worksites in response to demand. In addition, some states have reduced delays in payment of wages from the GP to worker post office accounts (e.g., by placing a “float” with post offices to make wage payments while waiting for funds transfer; and by mandating that the GP MGNREG account and accounts of MGNREG households to be in the same branch).
- ◆ ***Revising the rural schedule of rates (SoRs) through detailed time and motion studies for different locales and groups to enable a “normal” worker to earn the minimum wage at MGNREG worksites.***
- ◆ ***Partnering with civil society organizations to work as support agencies*** on a variety of areas, including orientation and capacity building of MGNREG staff, awareness generation and mobilization among workers, promoting participatory planning of works, and enhancing accountability.

- ◆ **Emphasizing the commitment to transparency and accountability.** While the design of MGNREG contains many safeguards in terms of transparency and accountability, actual implementation on this front has been highly variable. This includes institutionalizing social accountability mechanisms, making the MIS up-to-date, and a continued emphasis on monitoring and community mobilization.

IN ADDITION, INCREASED ATTENTION BY POLICY-MAKERS AND IMPLEMENTING AGENCIES ON IMPROVING THE QUALITY AND RELEVANCE OF ASSETS CREATED UNDER MGNREG IS WARRANTED AS THE PROGRAM MATURES. This is critical if MGNREG is to have any long-term impact on the rural economy and future livelihoods. In addition, the creation of appropriate, durable and productive assets could potentially help garner the support of non-MGNREG participants for the program and a stake in improving program outcomes. There are many elements to this increased focus on the second objective of the Act:

- ◆ **Explore options for a wider range of works authorized under MGNREG to reflect variable needs and to dovetail with other programs so as to contribute towards a coherent village development plan.** The list of eligible works needs to be flexible enough to incorporate seasonality, differences in geo-climatic conditions and the needs of specific groups, particularly those not capable of hard manual labor. As experience grows, this would be worth looking at from several perspectives, some of which are currently under discussion. The first is the range of works that could be implemented in flood-prone, water-logged, heavily forested or mountainous areas. The second is the range of possible works which could be offered to all MGNREG workers, and whether some “softer” work options – e.g., related to provision of social welfare or community services for vulnerable populations – could be introduced which have positive social externalities. The third is looking at the specific needs of sub-groups for whom special efforts may be needed to provide appropriate work, e.g., disabled people who may not be able to carry out hard physical labor. The fourth is exploring options for MGNREG to finance the labor component while the community (or other line departments) co-financing works that may not

be on the approved list of MGNREG works but are part of the larger village development plan.

- ◆ **Revitalize Gram Sabhas and institutionalize the direct involvement of communities in identification of works undertaken under MGNREG in a way that is integrated with the larger village development plan.** This has to date been the weakest element in the chain, largely because *gram sabhas* are often not held. If the Act’s objective of empowering communities and strengthening grassroots democracy is to be achieved, it will be important to ensure that the role of *gram sabhas* anticipated under the Act is made a reality. This includes ensuring *gram sabhas* are held regularly, building the capacity of *gram sabhas* in participatory planning, community oversight and other relevant areas and the mobilization of groups such as SHGs and CBOs to have their priorities reflected through the *gram sabha* process.
- ◆ **Establish systems for providing in-time technical inputs for asset planning and evaluation, beyond the currently mandated technical supervision during asset creation.** This includes providing technical inputs (e.g., through village-level resource mapping to ascertain the technical feasibility of different types of works) to the *gram sabha* during the planning process and development of shelf of works. Similarly, monitoring of the quality and durability of assets created will increasingly become important. In this respect, MGNREG could draw on international experience (e.g., Bangladesh’s Food For Work program) on developing cost effective methods for estimating rates of return on assets. In addition, the use of technology such as GIS in both planning and monitoring would be invaluable.

AN ADDITIONAL ISSUE FOR CONSIDERATION IS WHETHER ANY ELEMENT OF DIRECT HUMAN CAPITAL FORMATION CAN BE FACTORED INTO MGNREG AS IT MATURES. Presently there is no provision under MGNREG for skill formation among workers. This may be something that could be considered in due course with the view of enhancing not just current but also future livelihoods. One option to consider is the South African public works program which provides for two days training per month of work for those undertaking public works. While such an approach obviously requires a supply side

agency – probably on a contracted-out basis – which can provide useful training, it seems a useful option to consider in future development of MGNREG.

A FINAL ISSUE IS THAT PUBLIC WORKS FOR THE POOR REMAIN RESTRICTED TO RURAL AREAS. Recently, policy-makers have started to discuss the possibility of designing a self-targeted public works programs for the urban poor. Such programs already exist in the works schemes of a number of developing countries such as Ethiopia, Liberia, Colombia, and some other African and Latin American countries. Drawing on the experience of these countries, for example the role of urban communities in identification of beneficiaries, planning and execution of works, and oversight, would be useful in designing an urban public works program for Indian cities and towns. In fact, one of the north eastern states is planning to introduce an employment guarantee for urban areas as a state-funded scheme. Combining such a program with vocational or technical training would enable young participants to upgrade their skills and also compete in the labor market. An example of such an approach is being developed in Kenya for youths living in urban slums.<sup>242</sup>

## (ii) Programs to promote movement out of poverty in the short and long run

### (a) Targeted rural credit

THE GOVERNMENT HAS RECENTLY UNDERTAKEN A SIGNIFICANT OVERHAUL OF THE SGSY IN THE FORM OF THE NATIONAL RURAL LIVELIHOOD MISSION. The main reasons for SGSY's and predecessor programs' weak performance strongly suggested the need for a fundamental reform that went beyond marginal improvements. In many ways, the restructuring of the existing program into NRLM goes a long way in doing this.

THE NRLM MOVES AWAY FROM THE PRECISELY DEFINED CREDIT PROGRAM FOR THE POOR AS EXEMPLIFIED BY SGSY AND IRDP AND INSTEAD INCLUDES A RANGE OF LIVELIHOOD SUPPORT OPTIONS FOR THE POOR. THIS IS CONSISTENT WITH THE OPTIONS IN THE SP BLOCK GRANT PROPOSED WITHIN THE "3+2 STRATEGY" OUTLINED IN THE EXECUTIVE SUMMARY. The rationale behind such a restructuring and reorientation is necessary for a variety of reasons: (i) the nature of labor markets across

and within states varies sufficiently that a "one size fits all" credit program seems increasingly inappropriate; (ii) the livelihood support needs of individual groups and poor households that go beyond credit are also diverse, and uniform CSS have failed to respond to this; (iii) the growing penetration of both commercial banks and other non-bank players such as MFIs make the challenge for the poor making them "bankable" rather than being the sole source of formal credit.

SUCH AN APPROACH WOULD REQUIRE GREATER EFFORT BY STATES TO DEVELOP STATE SPECIFIC POVERTY REDUCTION STRATEGIES FOR THE EFFECTIVE USE OF CENTRAL SUBSIDIES FOR LIVELIHOODS PROMOTION. The NRLM design gives states a fair degree of flexibility in trying different approaches to livelihood support; some further options could be explored in this regard:

- ◆ **using reputable MFIs as a channel for credit delivery where they have a presence.** MFIs have a strong interest in developing a sustained relationship with BPL clientele, and more diverse and community-based sources of information on borrowers, allowing for a more informed assessment of risk in the lending transaction. They are also more likely to enforce repayment, reducing rent-seeking opportunities seen presently, and provide appropriate support services to their members. MFIs often have savings as an integral element of their relationship with clients, so that credit provision is reinforced by savings that can act as cushions against household shocks. At the same time, a significant issue would be the relative terms of SGSY lending and those of most MFIs to their existing clientele, and such an option would demand some degree of harmonization between MFI financial, reporting and other procedures and those of government.
- ◆ **where local labor markets are stagnant and/or migration is already significant, financing support services for poor migrant workers which would reduce some of the economic and social costs of migration, and increase its benefits.** There are already interesting small-scale examples of such initiatives, e.g., in southern Rajasthan with workers migrating to Gujarat. Some of the services that could be provided include: (i) reliable remittance mechanisms; (ii) support for children of migrating

242 See del Ninno et al. (2009).

workers either in situ or in destination sites to ensure that they do not drop out of school; and (iii) provision of reliable information on labor market conditions in destination areas, probably through a contracted-out service provider contract.

### (b) *School stipends*

WHILE THE EVIDENCE ON SCHOOL STIPENDS SUGGESTS THAT THEY ARE NOT AS WELL TARGETED AS MANY SAFETY NET SCHEMES, THEIR OBJECTIVE IS DISTINGUISHABLE. THE POSITION OF THIS REPORT IS THAT THEY WILL CONTINUE TO BE AN INTERVENTION WORTH EXPANDING, THOUGH WITH SERIOUS THOUGHT ABOUT SOME DESIGN ELEMENTS. The more pertinent concerns with school stipends seem to be two-fold: (i) in their current form, where stipends are based on enrollment and not attendance and thus with no assurance that the intended outcome is being promoted, stipends are less likely to achieve the goal of improved human capital acquisition among the poor; and (ii) stipend schemes do not provide choice for households in schooling, being linked to enrollment only in government and aided schools. This may reduce their potential welfare impacts not only for the household, but also for the education system, by increasing the marginal costs of private schooling and reducing the accountability of the public system that might otherwise be encouraged by households “voting with their feet”.

THERE SEEM SOLID ARGUMENTS FOR EXPLORING WAYS IN WHICH TO MAKE STIPEND RECEIPT CONDITIONAL ON A SPECIFIED LEVEL OF ACTUAL ATTENDANCE RATHER THAN SIMPLY ENROLLMENT, WHICH IN ITSELF MAY NOT CONTRIBUTE TO HUMAN CAPITAL INVESTMENTS. The obvious challenge that such a transition would present is operating an effective system to record and verify school attendance. However, evidence from a growing number of countries which have introduced conditional cash transfers based on a specified level of school attendance indicates a range of positive effects on attendance, and other household welfare indicators. Though several central and state-specific CCT programs exist in India, these operate more as cash transfers rather than *conditional* cash transfers. Key challenges in the effective implementation of these programs as CCTs include the monitoring and enforcement of the conditionality and a weak institutional framework for such cross-sectoral programs. In addition, supply-side

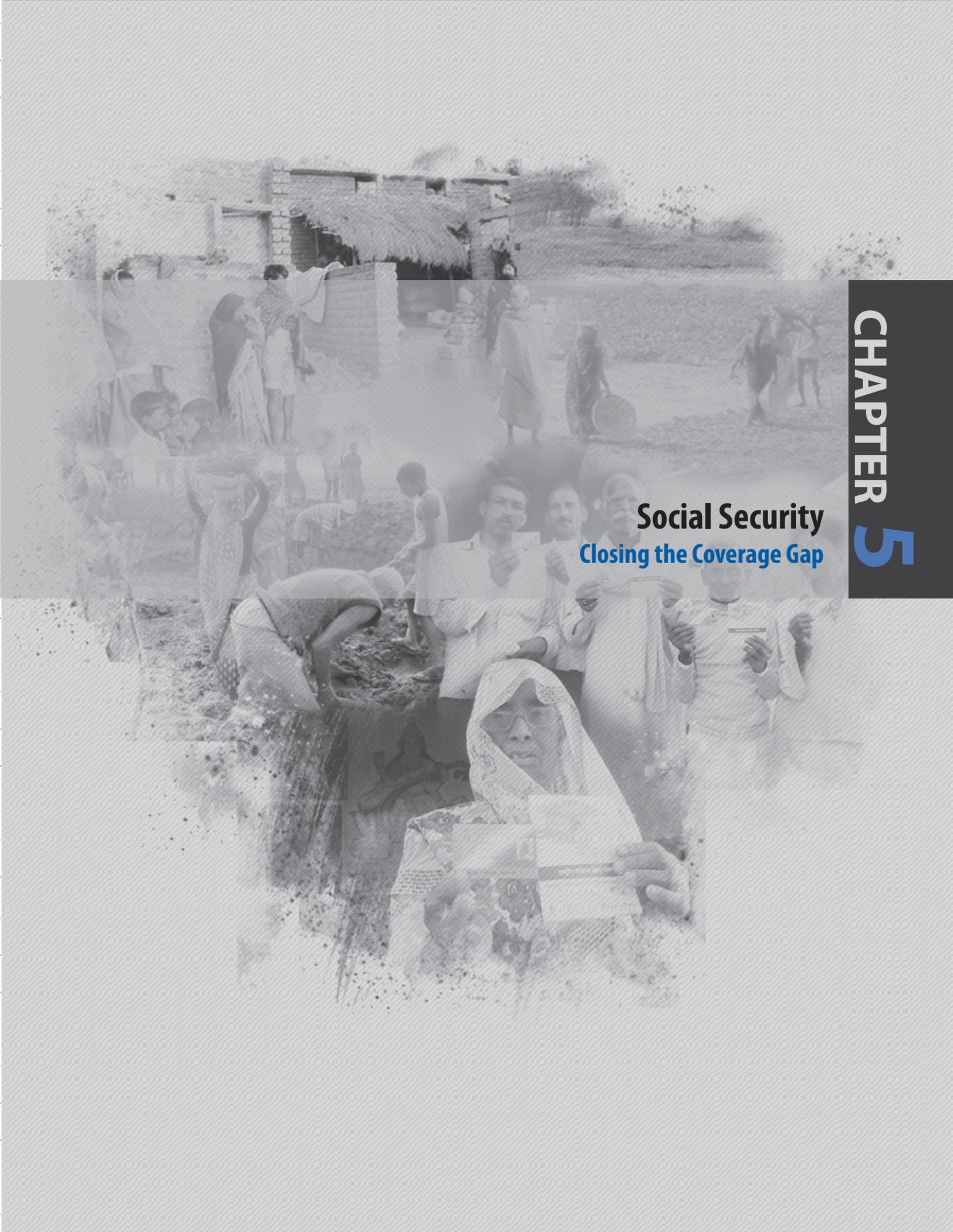
constraints in the provision of services, particularly in rural areas, could also play a role.

THE ARGUMENTS ON INTRODUCING A DEMAND SIDE ELEMENT TO STIPENDS THROUGH EITHER EXPANSION TO PRIVATE UNAIDED SCHOOLS OR USE OF EDUCATION VOUCHERS REDEEMABLE IN PRIVATE SCHOOLS ARE MORE COMPLEX. It is probably not possible to think about any wholesale shift to systems like vouchers which would be relatively new in the Indian context, and one where international experience – particularly in developing countries – is far more limited. However, this should not preclude piloting in states where the conditions are appropriate, or perhaps in areas in selected states where the participation in private schooling by poor households is more pronounced (e.g., in urban areas where the experience of a pilot in urban Delhi was fairly positive).<sup>243</sup>

### (c) *Midday meals*

Like MGNREGA, the mid-day meals program is also conceived as a universal right rather than a targeted program. Mid-day meals are a universal entitlement for all children enrolled in government or government aided schools. With the recent expansion, midday meals have become an increasingly important part of the Indian safety net. While the national level impacts of midday meals in educational, nutritional and other dimensions remains to be understood in depth, the evidence available suggests that MDM have had positive effects at least on enrolments. As a result, the MDM program provides an interesting example of a major demand side SP intervention which has great potential. In this context, a stronger focus on monitoring and evaluation is warranted. This requires establish systems to monitor the performance in the field with respect to inputs (such as already being done for example for school infrastructure for providing meals), outputs (besides administrative data on children availing of MDM) and outcomes. The latter requires conducting more widely representative studies on the various impacts of midday meals, in particular nutritional impacts. In addition, while several concerns on coverage and implementation have been addressed through the recent expansion and revised guidelines, more can be done to reduce the variability in performance across states.

243 CMS Social (2009). See also Shah and Braun-Munzinger (2006) for a critical review of the experience of eleven countries with education vouchers, with a discussion of lessons for India.



**Social Security**  
Closing the Coverage Gap

**CHAPTER 5**



# Social Security

## Closing the Coverage Gap

IN ADDITION TO SOCIAL ASSISTANCE PROGRAMS AIMED AT ALLEVIATING EXISTING POVERTY, MANY SOCIAL PROTECTION SYSTEMS INSURE AGAINST A RANGE OF SHOCKS THAT CAN OFTEN LEAD TO POVERTY.<sup>244</sup> These social security schemes generally include provisions for old age, disability and death of the breadwinner under the umbrella term, *pensions*.<sup>245</sup> Many countries have also tied *health insurance* coverage to membership in social security schemes which require contributions or premia while others have opted for general revenue financing.<sup>246</sup> This chapter is about the schemes that operate in India today for both organized and unorganised sector workers. In addition, based on recent experience, it outlines thinking about how to expand pension and health insurance coverage to the vast majority of India's unorganized labor

force. Closing the “coverage gap” is an important policy objective in India and many developing countries.<sup>247</sup>

EXPANDING COVERAGE OF SOCIAL PROTECTION PROGRAMS WAS A MAJOR PLANK OF THE COMMON MINIMUM PROGRAM (CMP) OF THE UPA GOVERNMENT AND REMAINS A PRIORITY. In 2006, a major report was produced by a special commission under the auspices of the Ministry of Labour and Employment (MOLE). The Commission provided a diagnosis of the situation of social insurance coverage among unorganized workers, laid out possible approaches to the problem, and set ambitious targets for coverage over a multi-year period. Framework legislation was passed in December 2008. In the last few years, the MOLE has achieved notable success

244 Other important sources of income protection such as crop and livestock insurance are not typically covered by social insurance programs, but are critical in terms of protection against covariate shocks in the rural sector in countries like India. It is also worth noting that lumpy expenditures for weddings are also important in the Indian context.

245 Unemployment and cash benefits for maternity (as opposed to medical insurance) are often covered by government sponsored social insurance schemes. There are moral hazard problems in both cases, especially with regard to unemployment. Moreover, the definition and monitoring of unemployment for unorganised sector workers is difficult to administer. ESIS offers an unemployment benefit.

246 See Wagstaff (2007) for a summary of the ongoing debate between these models.

247 For a detailed discussion of extension of social insurance coverage in the context of pensions, see Holzmann, Robalino and Takayama (2009).

in expansion of some forms of social insurance, in particular for health insurance for the poor under the Rashtriya Swasthya Bima Yojana (RSBY) program. RSBY offers many lessons on expanding social insurance coverage to unorganized workers.

THE STRUCTURE OF THE CHAPTER IS AS FOLLOWS: SECTION A PROVIDES A BRIEF DESCRIPTION OF THE LABOR FORCE IN THE UNORGANIZED SECTOR BASED ON SECONDARY MATERIAL AND ANALYSIS OF SURVEY DATA. It focuses on the factors that are likely to be important for any attempt to reach these workers through new programs, especially those that may require workers to help finance the scheme themselves. Section B then looks at pension and health insurance schemes in place prior to 2007. These can be separated into those that are mandated for organized sector workers, mostly public sector and large private firms, and those that are targeted to the unorganized sector – mostly small firms and the rural labor force. Section C then focuses on initiatives since 2007 to address the “coverage gap” in social insurance, in particular the design and initial experience with the RSBY health insurance scheme for BPL workers. Conclusions and recommendations follow.

THE KEY MESSAGES OF THIS CHAPTER ARE:

- ◆ ***despite general agreement on the size of the unorganized sector, there is less understanding of its heterogeneous nature***, especially as apply to the implications of these differences for initiatives to expand pension and health insurance coverage.
- ◆ ***the limited evidence available shows that coverage is closely correlated to income/consumption levels as would be expected***. Pension and health coverage has historically in India been extremely low in the bottom half of the income distribution, with life insurance moderately higher and higher overall than other types of insurance.
- ◆ ***there are many schemes directed at unorganized sector workers operating at present including national and state government programs and an increasing number of non-governmental programs, including microinsurance schemes. However, there is no overarching policy framework nor – with the notable exception of RSBY – systematic monitoring of their performance or impact.***

- ◆ ***there are important lessons to be taken from these programs which indicate that different approaches are needed to reach out to unorganized workers with social security***. For example, there is evidence that unorganized sector workers are willing to contribute for their insurance and pension coverage. In addition, effective outreach has been achieved usually as a product of collaboration between Government, insurers, and intermediary organizations of unorganized workers. More study is needed however, especially with regard to the role of intermediaries and the scalability of different schemes.
- ◆ ***large scale coverage expansion will require government subsidies to address the question of affordability and incentives for unorganized workers, and oversight in order to mitigate fraud and/or mismanagement***. However, the government can partner with market and non-governmental actors to avoid creating new layers of bureaucracy to implement schemes. On the other hand, given economies of scale, the need for portability of benefits and the exigencies of supervision, the government’s role can usefully include initiatives to create robust and harmonized systems for identification of beneficiaries, recordkeeping and benefit delivery.
- ◆ ***achieving critical mass and establishing the credibility of a new policy to expand coverage could be facilitated in the first stage by tapping into existing group arrangements (to keep transaction costs low) and focusing on households with some ability to smooth consumption (affordability) if provided access to the right instruments***. This approach recognizes the complementary roles of safety nets and insurance programs.
- ◆ ***the RSBY program is path-breaking, not only for social insurance expansion, but for the health system and social protection programs for the poor more broadly***. While it is relatively early days of implementation, the RSBY program has numerous design features and a learning-by-doing approach to implementation which reflects lessons of Indian and international experience. The program has the potential to help poor households mitigate the impacts of serious health shocks and the approach that has been taken with

regard to a variety of implementation challenges can be harnessed to improve other programs.

## A. SOCIAL PROTECTION COVERAGE AND THE NATURE OF THE UNORGANIZED LABOR FORCE

DEFINITIONS OF THE INFORMAL OR UNORGANIZED SECTOR VARY BUT THERE IS SOME CONSENSUS THAT APPROXIMATELY NINE OF TEN WORKERS IN INDIA BELONG TO THIS CATEGORY. The report of the National Commission for Enterprises in the Unorganized Sector (NCEUS) cites two definitions that result in estimates of the informal sector ranging from 85.8 to 91.3 percent of total employment. The World Bank has cited contrasting definitions yielding a range of 86 to 93 percent.<sup>248</sup> Jhabvala et. al. (2003) note that the System of National Accounts (SNA) definition results in significantly lower estimates of around 75 percent of the labor force.

SOCIAL SECURITY COVERAGE IS ALSO DIFFICULT TO MEASURE AND VARIES DEPENDING ON THE TYPE OF RISK COVERED. For example, there many more accounts open at the Employees' Provident Fund Organization (EPFO) than there are contributors in any given month. Some of these workers have changed jobs and are being double counted. Others have died and no one has closed their accounts. Still others have moved into the unorganized

sector but are still eligible for benefits at some point in the future. Finally, both in schemes for civil servants and the major formal sector schemes, recordkeeping has always been problematic. Aside from the problem that this causes for individual members, it makes it very difficult to assess trends in coverage or the impact of new policies.

SURVEY DATA PROVIDE EVIDENCE THAT UNORGANIZED SECTOR WORKERS ARE HETEROGENEOUS IN WAYS THAT WILL DIRECTLY INFLUENCE ANY ATTEMPTS TO EXPAND SOCIAL SECURITY COVERAGE. Table 5.1 shows that earnings vary widely. This information is important for policymakers seeking to expand coverage by showing that workers fall roughly into three categories:

- ◆ the first group is individuals with high incomes – professionals, large landowners etc. – that should be able to avail themselves of voluntary savings and insurance schemes already available in the market (typically with tax preferred status).
- ◆ the second group is the one for which anything other than very marginal expenditure on premia or contributions would likely be unaffordable and could actually reduce current welfare unduly by lowering consumption levels below subsistence.
- ◆ finally, there is a third group that may be in a position to benefit from insurance and pension coverage and could afford to pay for a significant portion of the required premia. The first group is not a public policy priority while inclusion of the

**Table 5.1: Distribution of unorganized sector workers aged 20-50, by earnings decile, 2004/05**

Income Decile	Income Range (Rs)	Share (%)	Cumulative Share (%)
1	<=11000	11.8	11.8
2	>11000 & <=16800	11.0	22.8
3	>16800 & <=21600	11.6	34.4
4	>21600 & <=27000	11.6	46.1
5	>27000 & <=35000	11.6	57.7
6	>35000 & <=42000	10.6	68.2
7	>42000 & <=54000	8.6	76.8
8	>54000 & <=72000	8.9	85.8
9	>72000 & <=105000	6.8	92.6
10	>105000	7.4	100

Source: Authors' calculations based on IRES survey data. Bank staff estimates.

<sup>248</sup> For example, different definitions are applied in Jhabvala et al. (2003), NCEUS (2006) and Ahmed and Narain (2010). These definitions revolved around variants of the legal definition of organized sector whereby enterprises with 10 or more workers were covered under particular labor statutes and, in theory, should be covered by certain social security programs.

second group, while desirable and high priority, is likely to require public subsidies to finance social insurance. The third group would also be a likely target of an attempt to expand insurance and pension coverage, and the relative use of public subsidies to incentivize participation is a key question.<sup>249</sup>

IN ADDITION TO DIFFERENCES IN ABILITY TO PAY, THE DATA SUGGEST OTHER DIFFERENCES THAT COULD AFFECT POTENTIAL COVERAGE EXPANSION PLANS, IN PARTICULAR MEMBERSHIP OF UNORGANIZED WORKERS IN GROUPS THAT COULD FACILITATE PROGRAM ADMINISTRATION. For example, the data allow for an estimate of membership in certain types of groups that can or already do offer some social security to their members (see Table 5.2). While the figures shown suggest perhaps only one in seven unorganized sector workers belongs to some kind of group, it is also the case that membership in MFIs and SHGs has been increasing geometrically in recent years and would already be higher today than these 2004 data suggest. Given the low coverage base, the inclusion of these groups within SP programs would be a significant increase in percentage terms. As discussed in the next section, one possible approach would involve encouraging existing groups such as microfinance institutions (MFIs), Self-help groups (SHGs), co-operatives or other organizations to 'plug in' to a well designed system in order reduce transaction costs.

THE SPONTANEOUS DEMAND FOR MICRO-INSURANCE AND PARTICIPATION IN LIC, UTI AND STATE WELFARE SCHEMES (DESCRIBED IN THE NEXT SECTION) DEMONSTRATES THAT SOME WORKERS ARE BOTH CAPABLE AND WILLING TO PURCHASE INSURANCE AND TO CONTRIBUTE FINANCIALLY TO THEIR OWN SOCIAL SECURITY. This revealed demand has been identified in other studies both for India and other countries with similar characteristics.<sup>250</sup> On the other hand, it is clear that formal sector schemes that are designed around stable wages that are relatively easy to monitor and employer mandates are not easily extended to these workers. A different approach is required at least until other factors that restrict the formalization of the labor markets are addressed.

AS ILLUSTRATED IN THE NEXT SECTION, SEVERAL RECENT INITIATIVES TO EXTEND COVERAGE IN INDIA ARE INTUITIVELY BASED ON A STRATEGY OF IDENTIFYING THOSE PARTS OF THE UNORGANIZED SECTOR LABOR FORCE THAT CAN PRACTICALLY BE ATTRACTED INTO PARTICIPATING IN SOCIAL SECURITY SCHEMES. Implicit in their design is the need to consider factors such as transaction costs, incentives for voluntary take up, and affordability. These initiatives are so far largely uncoordinated and are not part of a national strategy. Nevertheless, these innovations and experiments offer important insights into which approach may be saleable as well as negative lessons.

**Table 5.2: Unorganized sector workers that are members of groups by earnings decile**

Income Decile	Membership (% of Decile)					Total
	Trade Union	Welfare Fund	Trade Association	Coop Society	Self-Help Group	
1	0.10	0.10	0.23	0.78	8.27	9.49
2	0.33	0.08	0.64	1.25	4.56	6.87
3	0.93	0.24	0.95	1.91	2.54	6.57
4	1.05	0.11	1.05	1.71	2.77	6.70
5	1.50	0.24	1.08	2.69	2.53	8.04
6	1.83	0.58	1.39	2.56	1.89	8.25
7	1.53	0.25	1.53	3.75	1.25	8.32
8	1.47	0.34	1.09	3.90	2.19	9.00
9	1.59	0.68	1.50	5.21	2.49	11.47
10	2.29	0.69	2.52	5.91	1.22	12.62

Source: Bank staff estimates based on IRES survey data.

249 A similar categorization is made by Madheswaran et al. (2006).

250 For India, see Madheswaran et al. (2005a) and Dror (2006). For Indonesia, see Angelini and Hirose (2004).

TARGETED SUBSIDIES FOR SOCIAL INSURANCE EXPANSION THAT AIM TO IDENTIFY HOUSEHOLDS FALLING IN THE BOTTOM THIRD OF THE INCOME DISTRIBUTION CAN COMPLEMENT THESE INITIATIVES. The RSBY program is a promising example of such a program. However, the experience – described in detail below – shows that good recordkeeping, the right incentives and other design details are crucial in determining program success.

## B. SOCIAL SECURITY SCHEMES OPERATING IN INDIA

GOVERNMENT-SPONSORED AND ADMINISTERED PROGRAMS HAVE DOMINATED PENSION AND HEALTH INSURANCE PROVISION IN INDIA. The most extensive mandatory schemes for pension and health were both set up fifty years ago. In health, the Employees' State Insurance Scheme (ESIS) is the largest insurer, followed by schemes that cover central government, defense and railway employees.<sup>251</sup> Public sector health insurers cover ten times as many people as their private sector competitors. In pensions, formal sector employers with at least 20 employees are mandated to join the Employees Provident Fund Organization (EPFO).<sup>252</sup> Workers covered by this scheme have defined contribution and defined benefit pensions as well

as life insurance. The defined contribution scheme also functions as a forced savings mechanism for other purposes ranging from children's marriage to unemployment. The central government contributes 1.16 percent of the covered wage bill for these formal sector workers. Meanwhile, civil servants have a non-contributory, defined benefit pension scheme that is unfunded and has changed little in the last century (see Table 5.3).<sup>253</sup>

THE PROBLEMS WITH THESE SCHEMES HAVE BEEN WELL DOCUMENTED AND THE POTENTIAL FOR EXPANDING THEIR COVERAGE SIGNIFICANTLY APPEARS TO BE LIMITED.<sup>254</sup> Pension and health schemes for civil servants, for example, are essentially occupational schemes that have resulted in large unfunded liabilities. Meanwhile, the EPFO and ESIS have, among other problems, serious issues with evasion and arrears of employers that actually are mandated to participate. Like many schemes designed for formal sector workers, neither is well suited to incorporate most unorganized sector workers. In fact, coverage in the EPFO scheme has increased slowly since it was established by a special Act in 1952. Measured on the basis of affiliates, the share of the labor force (including the informal or unorganized sector) covered has increased from about one to five percentage points, or roughly one percentage point per decade.

**Table 5.3: Key indicators of mandated social security programs**

Program	Statutory coverage	Workers covered* (thousands)	Type of benefits	Payroll tax/contribution as % of wage
EPFO	Employees of registered firms with more than 20 employees	47,000	DC and DB pension, life, disability, withdrawals for other reasons	12 employer 12 employee
ESIS	Employees of firms using power with more than 10 employees or 20 without power	8,400	medical, sickness, maternity unemployment, funeral	4.75 employer 1.75 employee
Civil service pension	Civil servants at federal and state level	24,000	DB pension for those hired before; DC for new hires	None in old DB scheme; 10% each for employer and employee

\* Figure is for 2009 from EPFO Annual Report; note that independent survey data suggest that the figure for active contributors (as opposed to open accounts) is much lower than the number of affiliates. Figures for civil service are based on survey data; Figures for ESIS reported taken from website.

\*\*\* refers to total spending including administration for 2005-06.

<sup>251</sup> Gupta and Trivedi (2005), Table 2.

<sup>252</sup> Employer-administered provident funds that meet certain requirements, including benefits that are at least as generous as those offered by the EPFO, can receive an exemption. Currently about one quarter of affiliates belong to these exempt funds.

<sup>253</sup> A new, defined contribution scheme was introduced for federal government employees whereby workers contribute ten percent of basic wage plus dearness allowance and the government as employer matches this contribution. This replaces the old defined benefit scheme for federal civil servants hired after January 2004. Similar schemes have been adopted by seventeen Indian state governments to date, albeit with different starting dates. Important exceptions include West Bengal and Kerala.

<sup>254</sup> For the ESIS see, Gupta and Trivedi (2005). For the EPFO and civil servant pension schemes, see World Bank (2001).

THE FAILURE OF MANDATED SCHEMES TO REACH THE VAST MAJORITY OF WORKERS IS CLEAR. Workers covered by formal social security mandates for health insurance and pensions represent less than ten percent of the estimated labor force in India. Life insurance, much of it voluntary and subsidized through the LIC, is more prevalent with around one fifth of households reporting that they have some kind of policy.<sup>255</sup>

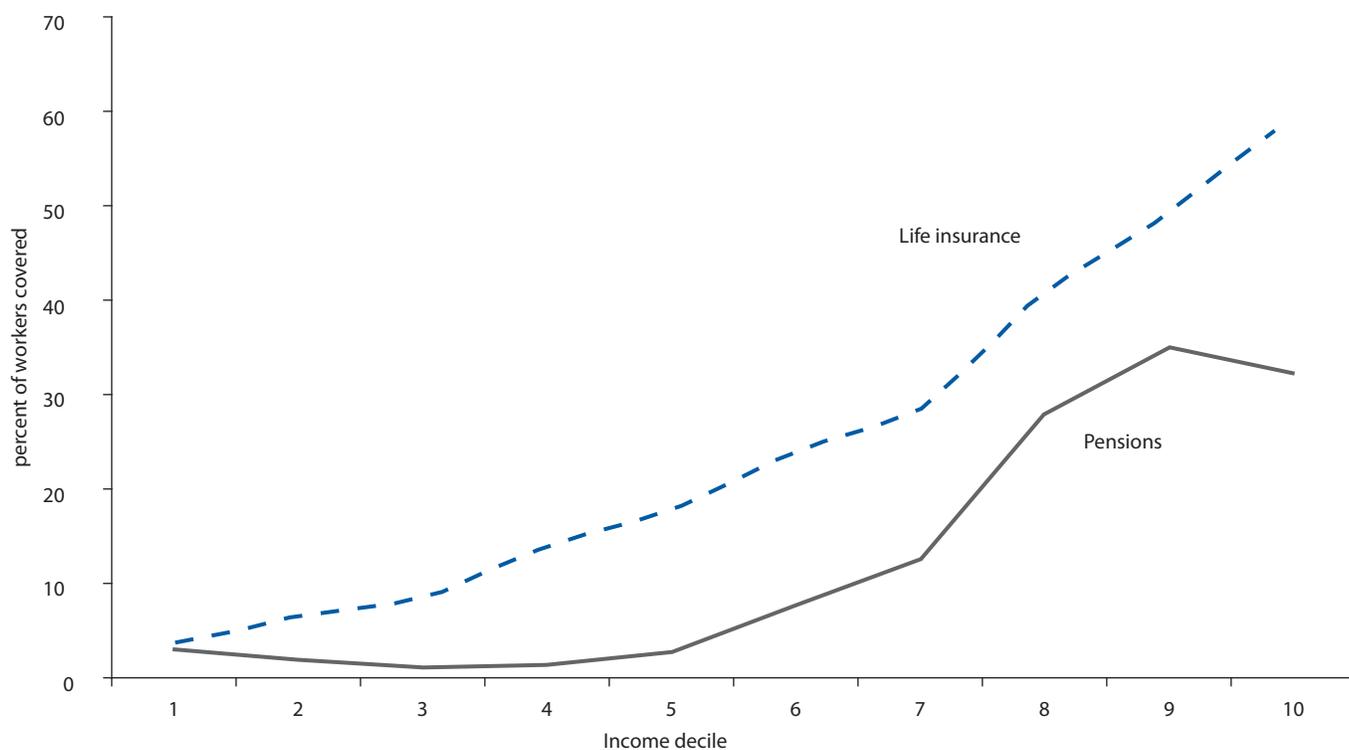
IN DISTRIBUTIONAL TERMS, SOCIAL SECURITY COVERAGE IS CONCENTRATED IN THE UPPER PART OF THE INCOME DISTRIBUTION. As shown in Figure 5.1, pension coverage is strongly concentrated in upper income groups and is only significant in the top half of the income distribution. Not surprisingly, it is also concentrated in urban areas and least prevalent among the backward castes.<sup>256</sup> In fact, survey data for 2004 shows that households from the richest quintile constitute more than half of all households with health insurance. As

discussed in the next section, the new RSBY health insurance program targeted at BPL households has started to change this picture.

LIFE INSURANCE COVERAGE IS ALSO CONCENTRATED AMONG THE BETTER-OFF, BEING BIASED TOWARDS URBAN AREAS AND WITH LOW PREVALENCE AMONG BACKWARD CASTES. Only 3.6 percent of households from the poorest quintile report that a member of the household has life insurance, while 48 percent households from the richest quintile report the same. Coverage rates in urban areas are more than double rates in rural areas. There is considerable variation in life insurance coverage rates across caste groupings.

IN ADDITION TO THE FORMAL SECTOR SCHEMES, THERE ARE A NUMBER OF CENTRAL AND STATE GOVERNMENT INITIATIVES AIMED AT THE INFORMAL SECTOR. These initiatives fall roughly into three categories – welfare funds, NGOs of various types and schemes offered by several large providers. There is some overlap between the last two

Figure 5.1: Life insurance and pension coverage by income decile



Source: 2004 IRES Survey.

255 The source of health insurance (public or private; provided through employer or purchased independently) is not known from the survey. This is also true for life insurance, though the Government-owned Life Insurance Corporation of India underwrote around three quarters of all life insurance policies at the time of the survey.

256 Ajwad (2006).

types since many micro-insurance schemes use the partner-agent model for microinsurance.<sup>257</sup>

WELFARE FUNDS INCLUDE THOSE ADMINISTERED CENTRALLY THROUGH THE MINISTRY OF LABOR AT THE GOI AS WELL AS A VARIETY OF STATE LEVEL SCHEMES. The centrally-sponsored schemes include welfare funds cover five occupational groups including three types of miners, cine workers and the largest group – beedi workers. They are financed by a cess on the particular commodity produced. The total number of workers actually covered is not known, but a rough estimate would be around 4-5 million. The Ministry of Labour and Employment reported spending in FY2004-05 of around one billion rupees.<sup>258</sup> The schemes provide a variety of services including medical services, life insurance, education and housing.<sup>259</sup>

THE STATE LEVEL SCHEMES FOR UNORGANIZED WORKERS VARY SIGNIFICANTLY BOTH IN TERMS OF COVERAGE AND BENEFITS PROVIDED AND IMPORTANTLY, NO AGGREGATE ESTIMATES OF MEMBERSHIP EXIST. For example, during the last decade, state governments in West Bengal, Andhra Pradesh and Rajasthan have introduced pension schemes to provide income in old age to unorganised sector workers. The first scheme was introduced in 1998 in West Bengal for landless rural workers followed by a scheme for certain occupational groups in the urban areas with incomes under 3500 per month in 2002. The schemes in Rajasthan and Andhra Pradesh are more recent having been established in 2008 and 2009, respectively. In AP, the program is available to members of SHGs. The parameters of the different schemes vary. The match is 20 rupees per month in West Bengal, 30 in Andhra Pradesh and up to 1000 per annum in Rajasthan. There are other important differences including the use of private asset managers and market investment returns in AP and Rajasthan while government manages the fund and determines the interest rate in West Bengal. The common feature is that they are defined contribution schemes where the subsidy from the government takes the form of a matching flat deposit into an individual account.

A PARALLEL INITIATIVE BASED ON THE SAME DEFINED CONTRIBUTION MODEL WAS ACTIVATED IN MAY 2009 BY THE PENSION FUND REGULATORY DEVELOPMENT AUTHORITY (PFRDA). The PFRDA has established an infrastructure and rules which allow any adult citizen to make voluntary contributions to the New Pension Scheme (NPS). This worthwhile initiative suffers however, from at least two design problems. First, up front costs for recordkeeping (paid to the Central Recordkeeping Authority (CRA)) are very high relative to the potential contributions of most unorganized sector workers.<sup>260</sup> Second, there is no obvious incentive to sacrifice liquidity and defer consumption until the specified retirement age of 60. The matching contribution schemes mentioned above would help address this issue but so far, the state schemes have not been linked to the NPS.<sup>261</sup>

A SMALL SCALE VERSION OF THE PRFDA SCHEME IS ALREADY OPERATING IN INDIA IN THE FORM OF THE 'MICRO-PENSION' PRODUCT OF THE UNIT TRUST OF INDIA (UTI). The first client in this partner-agent arrangement was SEWA, a well-known MFI that provides loans to low income women in the state of Gujarat (and is expanding into other states). In spring 2006, around 30,000 women joined their DC pension scheme where contributions of around 200 rupees per month are invested in a balanced fund invested in bonds and equities. Individuals must maintain a savings account with SEWA bank. (There are around 200,000 such accounts opened at present). Contributions are collected following the standard mechanism for saving account deposits. Appointed collectors (currently 75-80 individuals) accept cash contributions, issue deposit slips, and make record in each members' deposit book. Three times a month, a special script with standing instruction gets triggered to record debit on the member's savings account and credit on the side of the retirement savings scheme.<sup>262</sup> To simplify operation, subscription amounts may only be changed once a year. Corresponding data with the new contributions and details of the accounts is then exported to an excel spreadsheet and provided to the UTI-Ahmadabad office. Although an obvious

257 This model has been encouraged by the IRDA, especially through the issuance of its microinsurance regulations in 2005. See Roth et al. (2005).

258 NCEUS 2006, p.23.

259 Interestingly, the schemes do not offer old age pensions. However, there are special arrangements for including beedi workers in the EPFO scheme based on a kind of cess levied on the industry. One study found that there were many problems with compliance with this arrangement in practice. See Madheswaran et al. (2005b).

260 Recognizing this fact, the PRFDA recently requested that the Government of India cover these costs in the early stage of the program.

261 The central government has recently introduced a matching incentive of ₹ 1000 in the 2010-11 budget.

262 SEWA gets a commission of 3 percent of the total receipts from UTI (which supposedly gets netted out of the return in the process of unit price calculation). The commission is not likely to be sufficient to cover all operational expenses of the scheme – although it would be difficult to segregate the cost of the scheme from other administrative expenditures of SEWA – and it benefits from implicit operational cross-subsidies.

candidate, to date this scheme has not been integrated into the NPS.

**THE EXPERIENCE OF KERALA – THE STATE WITH THE HIGHEST LEVEL OF SOCIAL SECURITY COVERAGE THROUGH A VARIETY OF WELFARE FUNDS – IS ALSO INSTRUCTIVE.** There are an estimated 55 such schemes covering a wide variety of occupational groups ranging from headload workers to cashew nut farmers with different packages of benefits and contribution levels. Some have memberships that number only a few thousand. The success in terms of coverage (estimated to be 54 percent of informal sector workers) contrasts with the high level of administrative costs which, in some cases are many times the benefits paid out to workers. Even the larger schemes such as the Labor Welfare Fund and the Agricultural Workers Fund spent 61 and 44 percent of contributions on administration.<sup>263</sup>

**AN IMPORTANT SET OF PROGRAMS TO PROVIDE LIFE INSURANCE TO UNORGANIZED SECTOR WORKERS ARE OFFERED BY THE GOVERNMENT-OWNED LIFE INSURANCE CORPORATION (LIC).** The older of the two biggest schemes is called Janashree Bima Yojana (JBY).<sup>264</sup> A list of 44 occupational groups, chosen to target those living near the poverty line, determines the potential universe of eligible workers. The scheme pays rupees 20,000 in the case of natural death, 50,000 in the case of accidental death or permanent disability and 25,000 for partial permanent disability. There is also a scholarship of 300 rupees per quarter per child paid to workers who send their children (up to two) to grades 9-12 for a maximum of four years. The package is financed by a premium of 200 rupees collected through 'nodal' agencies, i.e., groups that must include at least 25 workers. A number of groups, ranging from SHGs to relatively small occupational groups, have signed up with JBY acting as 'nodal agencies' and reflecting a growing tendency to rely on the partner-agent model in this area. A second scheme, the Aam Aadma Bima Yojana (AABY) was introduced in October 2007 with similar life insurance coverage but

aimed at rural landless laborers. In both cases, there is an important subsidy element (half of the premium in JBY and the entire premium in AABY) that is financed from a central government grant to the LIC. A major problem with these schemes is that they are generally run as 'unnamed' policies with little or no direct contact with the beneficiaries. In one state-level survey of the JBY where BPL workers were supposed to be covered, the results revealed an extremely low awareness of the entitlement to these benefits and claims have tended to be much lower than what would be expected.

**IN HEALTH INSURANCE, THE MAIN INITIATIVES UNTIL RECENTLY WERE THOSE OF MICROINSURANCE AND MUTUALS.** The early success of the Karnataka's Yeshashvini scheme<sup>265</sup> – a mutual with state government financial support – is one of the largest rural health insurance programs in the world with around 2 million members, has led to great interest in other Indian states and beyond. It appears to owe much of its success to having been able to link to a network of reputable hospitals around the state. In addition, a number of microfinance institutions have set up such schemes including SEWA in Gujarat and SKS in Karnataka.<sup>266</sup> Box 5.1 outlines the main models of unorganized sector worker health insurance schemes operating in India presently. As mentioned above however, the scalability of disparate group and NGO-sponsored policies is questionable given their geographic concentration and limited coverage.

**EXPERIENCES WITH HEALTH INSURANCE IN RURAL INDIA HAVE RUN INTO MUCH GREATER SUPPLY SIDE CONSTRAINTS.**<sup>267</sup> Some of the recent experiences with national schemes are outlined in Box 5.2. Acharya and Ranson (2005), for example, point out that the state of Gujarat has more than three times the number of hospitals per population and twice as many beds compared to the average in India. In the same paper, the authors review four community-based health insurance schemes in the state. Even in this limited sample, the wide range of models and products is evident. Two of the schemes

263 The membership of the two funds in 2001 was roughly 500 thousand and 1 million, respectively according to Irudaya Rajan (2004). Kannan (2002) also indicts many of Kerala's welfare funds saying pointedly that "...a system that was established to serve the interests of workers...has ultimately turned out to be an exercise in self-serving for the bureaucratic interests."

264 For a description see ILO (2006).

265 See Roth et al. (2006) for a case study. It is worth noting that the IRDA has explicitly promoted rural insurance through regulatory mandates that require a certain share of insurance portfolios to be sold in rural areas.

266 ILO (2005) found that a dozen insurance companies – public and private – now offer 46 single risk products and 37 risk package products to 'disadvantaged groups' in India. The report cites a wide range of products including 42 for life, 9 for hospitalization, 5 for critical illness, 29 for accidental disability and 2 for pension.

267 See Duflou (2005) for an example in the case of the state of Rajasthan.

### Box 5.1: Main models of health insurance for unorganized workers in India

There are a few basic models of community-based social insurance: (Devadasan et al., gives a useful typology and overview, noting around 20 community-based health insurance schemes. See also Ahuja and Narang (2005).

- ◆ the insurer-agent model, where the NGO/MFI or other founder acts as intermediary between members and the insurer, in India typically one of the public insurance companies (though SEWA has in recent years also involved private commercial insurer in its social security scheme). This model has been relied on by large organizations such as SEWA and Buldhana, and much smaller ones such as Navsarjan in Gujarat and BAIF in Maharashtra. (Acharya and Ranson, 2005).
- ◆ the founding organization acting as the direct insurer, but is not the provider of the insured services. This applies both to some NGO schemes (Yeshasvini in Karnataka; Dhan in TN) and more occupationally-based programs (e.g., Tribhuvandas Foundation). (Kuruvilla et al., 2005, for a detailed discussion of Yeshasvini, and also ILO, 2005b).
- ◆ the founding organization is the direct insurer and the main provider of the insured services. Examples include ACCORD in TN, Kasturba Hospital scheme in Maharashtra; Students' Health Home in West Bengal.

operate with insurance company partners while two run the schemes internally. Reimbursement levels vary from ₹ 2000 to 15,000 and the services covered (in-patient versus outpatient etc.) differ. Premium levels vary widely as does the level of implicit or explicit subsidy. Finally, two of the four schemes operate computerized databases and two do not. In short, these and a series of other published case studies illustrate that many group schemes are being introduced to meet demand but that there has been little convergence on the

approach, much less coordinated efforts at the public policy level.<sup>268</sup>

THE RAJIV AAROGYA SRI SCHEME IN ANDHRA PRADHESH IS AN INNOVATIVE CASE OF LARGE SCALE HEALTH INSURANCE COVERAGE EXPANSION BY A STATE GOVERNMENT. Started in 2007, catastrophic health insurance for a limited range of hospital procedures are covered for all BPL workers in the state. The results have been impressive, with 800,000 operations documented and a nominal coverage of

### Box 5.2: Recent failed attempts to expand insurance coverage to unorganized workers in India

In just the last five years there have been a series of attempts to expand coverage that have failed to achieve their targets or have been abandoned.

In 2001, the Government piloted a new LIC program – Krishi Shramik Samajik Suraksha – in 50 districts. The scheme was operated through LIC and covered life, survivor and pension insurance for agricultural workers, based on a contribution from the worker of 1 rupee per day, with a ₹ 2 per day contribution from Gol. It aimed to achieve coverage of 1 million agricultural workers within three years, though had reached around a quarter of its target by the time of closure three years later. According to NCEUS (2006), the failure was in large part due to the unfunded mandate on local governments and lack of financing for administration.

In health, a major initiative was launched in 2003. The Universal Health Insurance Scheme (UHS) is a voluntary contributory scheme for BPL households, covering medical costs of hospitalization, loss of income during short term illness, and death. There is a contribution subsidy from Gol ranging from ₹ 200-400, so that the net contribution from the contributor ranges from ₹ 165 to ₹ 300, depending on household size. In parallel, a scheme for unorganized non-BPL households was introduced. Outcomes on UHS appear also to have been limited in the initial phases, with only around 400,000 households covered in the first year of operation (less than 5 percent of them BPL) and a further 31,000 households up to January 2005.

In 2004, Gol introduced a social insurance scheme for unorganized sector workers (excluding agriculture), intended to be piloted in 50 districts nationwide and targeting around 2.5 million workers. The scheme was to be managed by EPFO in collaboration with ESIS for provision of health services. It was voluntary and contributory for those with monthly incomes under ₹ 6,500 and provides for old age, medical, and accident insurance. Gol would contribute around ₹ 250 annually per worker. Premia for workers were ₹ 50 per month for workers to 35 years and ₹ 100 above that. Employers were meant to contribute a further ₹ 100 monthly. Workers cover the employer contribution themselves in addition to their basic contribution when no employer is identified. The scheme had negligible penetration, with an estimated enrollment in mid-2005 of less than 10,000.

<sup>268</sup> Case studies in micro-health insurance experiences in India include Acharya and Ranson (2005), Garand (2005), Radermacher et al. (2005). While the case studies are useful in themselves, the diversity of the packages offered by these schemes makes them difficult to compare. The analysis to date has not led to results that could be extrapolated for national policy or an attempt to scale up these programs. To our knowledge there have not been published case studies of contributory old age pension schemes or life insurance except descriptive accounts (e.g., the description of the LIC JBY scheme in ILO, 2005a).

more than three-quarters of the population.<sup>269</sup> The scheme owes its success to direct leadership by the State Chief Minister who has devoted significant human and financial resources to the implementation of the scheme as well as strong incentives for one of the country's most expansive hospital networks.

THIS BRIEF REVIEW REVEALS AN UNCOORDINATED SET OF INSURANCE AND PENSION SCHEMES AIMED AT EXPANDING COVERAGE BUT LACKING AN OVERARCHING POLICY FRAMEWORK. Table 5.4 presents a range of programs, by no means exhaustive, of programs aimed at the unorganized sector already. The total coverage of these schemes is not likely to exceed ten percent of the unorganized labor force for any given type of insurance, although presumably, it is growing. While some have been studied, there is a surprising dearth of information on what factors lead to success or could be scaled up under the right circumstances. Several things do seem clear however. First, demand exists. Second, lack of

coordination or harmonization of schemes leads to higher costs via duplication of administrative structures. Moreover, these schemes lack portability, an especially important feature in the context of rural to urban migration and an evolving labor market.

## C. RECENT INITIATIVES TO EXPAND SOCIAL SECURITY COVERAGE

SOCIAL SECURITY COVERAGE HAS BEEN LOW FOR DECADES IN INDIA, DUE LARGELY TO THE MORE GENERAL PHENOMENON OF INFORMALITY, THE CAUSES OF WHICH ARE BEYOND THE SCOPE OF THIS REPORT. What is clear, however, is that any large scale social security system will have to cope with the reality of the unorganized sector for decades to come. Recognizing this, the Government of India has introduced a number of important initiatives that have

**Table 5.4: Selected insurance and pension programs of the unorganized sector**

	Name of program	Estimated Membership (000s)**	Type of risk covered
<b>Government</b>	Universal Health Insurance	1000	Health
	Central Welfare funds (5)*	4500 (est.)	Health, education, housing, other
	Kerala Welfare funds (55)	4900	Varies, all kinds
	Karnataka Labor Welfare fund	675	Life, health
	Andhra Pradesh Labor Welfare fund	1000	Life
	Tamil Nadu construction worker welfare fund	631	Life, health, pension, other
	Tamil Nadu Voluntary Health Service	125	Health
	Maharashtra Mahadi workers fund	150	Life, health, other
	West Bengal Provident Funds (2)***	1800	Old age
<b>Non-governmental****</b>	LIC – JBY scheme	3570	Life
	UTI – pension scheme	100	Old age
	Yashivini – Karnataka	2100	Health
	Karuna Trust – Karnataka	14	Health
	Spandana	386	Life
	Shepherd	15	Life
	SEWA Gujarat	100	Life, health, pension, other
	People's Rural Health Promotion Scheme	75	
	ASA	66	Life and Health

\* includes beedie, mica, limestone, iron ore and cine workers funds. \*\* memberships are double counted in some cases since both groups and providers are shown here. \*\*\* includes both urban and rural provident funds. \*\*\*\* list is not exhaustive and excludes, among others, life and health insurance for ICICI clients.

Sources: Irudaya Rajan (2004); Roth et al., (2005); LIC 2006; NCEUS 2006.

269 This is due to two factors. First, in AP the eligibility for BPL status are lax resulting in a very high proportion of the population falling into this category. Second, BPL households are automatically eligible, i.e., there is no enrolment process.

broad political support. In October 2007, Prime Minister Manmohan Singh announced three major initiatives aiming to address the coverage gap. These included a new life insurance scheme for landless rural laborers, an expanded social pension scheme for the elderly, and a new health insurance scheme for households living below the poverty line (BPL). This section reviews these initiatives with a special emphasis on the most promising of the programs, the RSBY health insurance scheme.

THE SOCIAL PENSION SCHEME, A TRADITIONAL CASH TRANSFER SCHEME, ALREADY EXISTED AND IS DISCUSSED IN DETAIL IN CHAPTER 3.<sup>270</sup> It is administered by state governments which apply their own eligibility criteria and partly financed by the central government based on an estimate of the number of poor elderly persons in each state. The 2007 initiative modified this formula thereby increasing the overall central budget allocation for the program. As of early 2010, 18 state governments were making the full matching contribution and taking advantage of this additional allocation. Eleven states were contributing less than 200 rupees.

THE LIFE AND HEALTH INSURANCE PROGRAMS WERE NEW PROGRAMS, ALTHOUGH THERE HAD BEEN PREVIOUS ATTEMPTS (SEE BOX 5.2) AND SOME PARALLEL PROGRAMS ALREADY EXISTED. In the case of the life insurance scheme, the AABY followed the standard top-down approach used for other schemes: the benefit package was defined, the

premium set and a public insurance company was paid a lump sum amount based on the estimated number of beneficiaries. Implementation details were mostly left to state governments. This was an 'unnamed' policy in that there was no direct contact with beneficiaries and no list of policyholders. Not surprisingly, claims have been low. Estimates suggest that only one quarter of potential claims were ever made.

A very different and much more promising approach was taken with regard to the new health insurance program, known as Rastriya Swasthya Bima Yojana<sup>271</sup> or RSBY. The following section describes the RSBY, its design and the early experience of implementation.

## (a) Key parameters and operational design of RSBY

THE OBJECTIVE OF RSBY IS TO PROTECT BELOW POVERTY LINE (BPL) HOUSEHOLDS FROM MAJOR HEALTH SHOCKS THAT INVOLVE HOSPITALIZATION. This protection aims at making treatment more affordable so as to increase the amount of health care that a household can purchase but also to limit the disastrous financial impact that households often experience through out of pocket spending.<sup>272</sup> RSBY is a classic demand side intervention using a sophisticated version of a voucher combined with targeting. Table 5.5 shows the main parameters of the program.

**Table 5.5: Key parameters of RSBY**

Parameter	Description	Additional comments/caveats
Benefits covered	Cost of hospitalization for 700+ procedures at empanelled hospitals up to 30,000 rupees per annum per household plus 100 rupees transport cost per visit up to 1000 rupees.	Pre-existing conditions are covered; minimal exclusions; day surgeries covered;
Eligibility criteria	Must be on the official state BPL list; limited to five members of the household including household head, spouse and three dependents	All enrolled members must be present to be enrolled; infants are covered through mother
Premium and fees	30 rupee registration fee per household per annum paid by household; Per household premium payment determined through competitive bidding process;	Average premium for active districts is around 580 rupees
Policy period	One year starting the month after first enrolment in a particular district	Enrolment period is four months
Financing	75%/25% Government of India/State Government	The ratio is 90%/10% in Northeast states and Jammu and Kashmir

Sources: [www.rsby.gov.in](http://www.rsby.gov.in)

<sup>270</sup> The National Old Age Pension Scheme was renamed the Indira Gandhi National Old Age Pension Scheme in 2007.

<sup>271</sup> The English translation of the Hindi title is "National Health Insurance Scheme".

<sup>272</sup> According to the WHO, India has one of the highest rates of out of pocket health spending in the world at 78 percent of total health spending and 94 percent of private health spending. Data from the 60<sup>th</sup> National Sample Survey show that among the bottom two quintiles of the rural population, 47 percent were forced to borrow to finance hospitalization.

THE BENEFITS OF THE SCHEME ARE DELIVERED THROUGH A CONTRACTUAL ARRANGEMENT BETWEEN INSURANCE COMPANIES AND STATE GOVERNMENTS. The process is clearly spelled out<sup>273</sup>: State governments sign a memorandum of understanding with the central government, advertise, set up technical and financial review committees to assess tender documents, select an insurance company and sign the contract. The current policy period is one year, though it is under consideration whether a more extended period for each tender would be desirable.

THE INSURER MUST BE LICENSED TO PROVIDE HEALTH INSURANCE BY THE INSURANCE REGULATORY DEVELOPMENT AUTHORITY (IRDA) AND MUST MEET SEVERAL OTHER MINIMUM CRITERIA. The insurer must agree to cover the benefit package prescribed by Gol through a cashless facility that in turn requires the use of smart cards which must be issued to all members.<sup>274</sup> In practice, this makes it necessary for the insurer to contract a qualified smart card provider.

THE INSURER MUST ALSO AGREE TO ENGAGE INTERMEDIARIES WITH LOCAL PRESENCE SUCH AS NGOS, MFIS, ETC. IN ORDER TO PROVIDE GRASSROOTS OUTREACH AND ASSIST MEMBERS IN UTILIZING THE SERVICES AFTER ENROLMENT. It must also provide a list of empanelled hospitals that will participate in the cashless arrangement. These hospitals must conform to certain basic minimum requirements (e.g., size and registration) and must agree to set up a special RSBY desk with smart card reader and trained staff. The list should normally include both public and private hospitals.

THE FINANCIAL BID IS ESSENTIALLY AN ANNUAL PREMIUM PER ENROLLED HOUSEHOLD WHICH IS DETERMINED IN A COMPETITIVE BIDDING PROCESS. The insurer is compensated on the basis of the number of verified smart cards issued, i.e., households covered. Each contract is specified on the basis of an individual district in a state and the insurer agrees to set up an office in each district where it operates. While more than one insurer can operate in a particular state, only one insurer can operate in a single district at any given point in time. The hardware and software specifications laid down by Gol imply inter-operability across districts and states. In other words, an RSBY member from one

particular district can use his or her smart card at any RSBY empanelled hospital in the country.

THE OPERATION OF THE SYSTEM INVOLVES THREE STAGES – ENROLMENT, HOSPITAL TRANSACTIONS AND MONITORING, DISCUSSED IN TURN BELOW:

- ◆ **Enrolment.** State governments must provide an electronic list of eligible BPL households to the insurer in a pre-specified format. The list should be posted in each village prior to the enrollment and the date and location is publicized in advance. Mobile stations are set up at local centers and are equipped with the hardware required to collect biometric information (fingerprints) of the members of the household and to print smart cards with a photo. The smart card, along with an information pamphlet describing the scheme and the list of hospitals, should be provided on the spot once the beneficiary has paid the fee of 30 rupees.

Aside from the beneficiaries themselves, the insurance company's representative or contractor must be present. A district-level, state government officer, known as a Field Key Officer or FKO must also be present and must insert his or her own, centrally-issued, smart card to verify the legitimacy of the enrolment. (In this way, each enrollee can be tracked to a particular state government official). At the end of the day of enrolment, the list of households issued smart cards is downloaded from the FKOs card and centralized at the district level and eventually state level. This is the basis for the payment of the premium.

- ◆ **Transactions at hospitals.** The smart card entitles its bearer to a list of pre-specified in-patient services in the month following enrollment. So, for example, if enrolment in a particular district begins in February, the card can be used from March 1 until the end of February of the following year.

The transaction process begins when the member visits the hospital and her card is swiped. If a diagnosis leads to a procedure, the appropriate prescribed package is selected in

<sup>273</sup> The process flow document can be found on the RSBY website. It also lays out processes with regard to other details such as replacement of lost or damaged smart cards and other contingencies. The same site contains documentation on the different steps involved in implementing the scheme.

<sup>274</sup> The smart cards are nominally paid for by and belong to the Gol.

the software menu and the procedure is blocked. When the patient leaves the hospital, the card is again swiped and the pre-specified cost of the procedure is deducted from the 30,000 rupee total on the card. The transaction is recorded on the hospital's computer and on the card itself. A receipt is printed and provided to the member. Transport costs are to be paid by the hospital to the patient in cash.

- ◆ **Monitoring.** Data on enrolment is downloaded from the FKO cards and aggregated for each district. Insurers are also required to submit data to the Gol in a pre-specified format on regular basis. Payments of premium to the insurer are based on the FKO data. Transaction data is also submitted by the insurer which receives data from each hospital. A separate set of pre-formatted tables are generated for the insurer and for the government respectively. This allows the insurer to track and settle claims. It also helps the insurer as well as the government to identify anomalies and patterns that may lead to on-site audits. The state governments are able to monitor utilization of the program by members and to some extent, begin to measure the impact of the program. Periodic reports are to be made publicly available on the internet and through published reports.

## (b) Rationale behind the RSBY design

THE DESIGN OF THE RSBY IS BASED ON AT LEAST THREE KEY PREMISES:

- ◆ Program design must address the practical situation on the ground from the perspective of the beneficiary household.
- ◆ The design details must be allowed to adapt over time through “course corrections” based on evidence. This, in turn makes it necessary to have timely data on key indicators and concurrent evaluation.
- ◆ Sustainability of the program depends on incentives of the key players being aligned with the objectives of the program.

THESE PREMISES ARE REFLECTED IN EVERYTHING FROM THE USE OF TECHNOLOGY TO THE APPROACH TAKEN TO CONTRACTING INSURERS. From the perspective of the

beneficiary, for example, a number of design choices have made the system attractive and easy to use. For example, in contrast with most government schemes, households are not generally provided choice as to who provides services, especially with regard to private sector options. In addition, the ‘front end’ of the system is user-friendly. Enrolment is brought to the household's location even in remote villages. The thirty rupee cost is nominal and only one visit is generally required to receive a working smart card. There are no complicated exclusions and pre-existing conditions are covered and the only eligibility condition is to be on the BPL list. As far as hospitalization, the smart card allows for paperless, cashless transactions. The last point is crucial since raising a large amount of money and then waiting for claims to be reimbursed may simply not be possible for many BPL households.

AN IMPORTANT ELEMENT OF THE DESIGN IS THE DIRECT INTERFACE REQUIRED BETWEEN THE INSURER AND THE POLICYHOLDER. Experience with other schemes in India with ‘unnamed’ policies often result in low claims because individuals are not aware that they are covered. In this case, the need to obtain the household's biometric information forces the insurer to make direct contact. In addition, the 30 rupee payment cannot be made on behalf of the beneficiary. This not only makes it necessary to have direct contact, it is also thought to provide some level of ownership, despite the small amount involved.

ANOTHER IMPORTANT FEATURE OF THE SCHEME IS INTEROPERABILITY. By standardizing the specifications for software and hardware, the smart cards issued by a particular insurer in a particular district can be used in any RSBY hospital throughout the country. In contrast, other schemes targeted to BPL families are state-specific and benefits are not portable across state lines or between rural and urban areas in the same state. This is especially problematic for some of the poorest states such as Bihar where a significant proportion of the workforce is migrant labor.

ULTIMATELY, THE TRUE INDICATION AS TO WHETHER THE BENEFICIARIES CAN EFFECTIVELY PARTICIPATE IN THE PROGRAM WILL BE REENROLLMENT AND UTILIZATION RATES. At present, there are no data available on reenrollment rates, but one post-enrolment survey data found that all RSBY members intended to enroll again. The second year of enrolment is about just starting in several districts

and should be available by late 2009. Although it is premature to base any conclusions on early utilization data, the incidence of hospitalization will be crucial toward assessing performance.

THE APPROACH TO MONITORING RSBY IS DIFFERENT THAN THAT APPLIED TO MOST CENTRALLY-SPONSORED SOCIAL PROGRAMS, BOTH IN TERMS OF INTENSITY AND FOCUS. Monthly and sometimes weekly data on enrolment and utilization flows from insurers to state and central government. Reports based on these submissions will soon be available on a public website with information available at a highly disaggregated level. Types of medical procedures can be tracked by hospital and data are available down to the village level. Administrative data is an important element of program monitoring. In addition, continuous feedback is collected through field visits and spot audits, although levels of state government engagement vary widely. Finally, with technical support from the World Bank and GTZ, Gol is also planning a series of surveys that will capture important patterns not visible through the administrative data.

PERHAPS THE MOST IMPORTANT ELEMENT OF THE RSBY APPROACH IS THE ATTENTION GIVEN TO ALIGNING THE INCENTIVES OF THE STAKEHOLDERS. The business model applied relies on the different actors to pursue their interests in a way that contributes to the sustainability of the program.

THE MAIN PLAYERS ARE THE CENTRAL AND STATE GOVERNMENTS, THE INSURANCE COMPANIES, THE HOSPITALS AND THE BENEFICIARIES. As mentioned above, there is strong political support at all levels for the extension of social security coverage. For state governments, the fact that the central budget covers three-fourths of the cost of the program is a significant incentive to participate. Although some state governments considered the implementation requirements to be onerous, the fact that key processes had been worked out by the Gol helped make this more palatable. A vigorous campaign to explain the benefits of the scheme to each state government also proved crucial.<sup>275</sup>

INSURANCE COMPANIES HAVE AN INCENTIVE TO MAXIMIZE ENROLMENT SINCE THEIR MARKET-DETERMINED PREMIUM IS PAID ON THE BASIS OF THE NUMBER OF HOUSEHOLDS ENROLLED. Hospitals have an incentive to attract RSBY

members as a potentially major source of revenues. In principle, this can be the case even for public hospitals which can create societies that allow them to retain a share of the revenues that they collect. Insurers, in contrast, have an incentive to monitor participating hospitals in order to avoid excessive claims through fraudulent or unnecessary procedures.

SINCE THE CONTRACTING PROCESS IS REPEATED OVER TIME, INSURERS WOULD HAVE ADDITIONAL INCENTIVE TO MEET OTHER PERFORMANCE CRITERIA THAT WILL BE CONSIDERED IN FUTURE BIDDING ROUNDS. This behavior can be reinforced by proactive state governments that use the information gathered through monitoring in subsequent tender processes. For example, surveys of RSBY hospitals and post-hospitalization surveys of beneficiaries can be used to monitor quality and capacity of facilities over time. Other examples include adherence to guidelines for the enrolment process, the quality and timeliness of data submission and the alacrity of claims payments to hospitals.

TO SUMMARIZE, THE RSBY PROGRAM HAS BEEN DESIGNED TO RESPOND TO THE 'GROUND REALITIES' FROM THE PERSPECTIVE OF BPL HOUSEHOLDS, ALLOW FOR EVIDENCE-BASED ADAPTATION OF PROGRAM DETAILS AND, MOST IMPORTANTLY, ALIGN INCENTIVES FOR STAKEHOLDERS TO ENSURE SUSTAINABILITY. The early implementation experience has, to a large extent, validated this approach. At the same time, a number of problems were encountered and the program has not yet stabilized.

### (c) Early implementation experience

THERE WAS GREAT UNCERTAINTY DURING THE EARLY MONTHS OF THE PROGRAM. What would the insurers bid for the premium and would there be sufficient competition? Would the smart card technology that the program relied upon work as it should under difficult field conditions? Would state governments implement the scheme as intended? What other problems might arise?

THE LEVEL OF THE PREMIUM WAS ESPECIALLY IMPORTANT SINCE THE GOI HAD SET A CAP ON THE SUBSIDY. As it turned out, the winning bids in the first round were below this cap. In general, the software and hardware did operate as planned, although there were glitches such as the limited supply of smart card printers required for

<sup>275</sup> See Swarup (2009) for a detailed discussion.

enrolment and delays in procuring enough smart cards that met the required specifications. Another example was the difficulty of printing smart cards in the extreme summer heat of certain districts in Rajasthan.

**SOME STATE GOVERNMENTS WERE PROACTIVE AND DEVOTED ADEQUATE HUMAN RESOURCES TO THE VARIOUS TASKS WHILE OTHERS WERE QUITE PASSIVE.** There is some evidence that these differences were reflected in outcomes. Enrolment rates tended to be higher in states where steps were taken to ensure the presence of district level officers known as Field Key Officers (FKOs) – a requirement for enrolment software to operate – and in states where there was good logistical coordination between government and insurers.

**PERHAPS THE MOST PROBLEMATIC ASPECT OF THE ENROLMENT PROCESS WAS THE POOR STATE OF THE BPL DATABASE.** This was the list of potential beneficiaries of the program based on a 2002 census that collected information allowing state governments to determine whether a household would be considered BPL. The test that was applied in this regard has been criticized and empirical evidence has revealed large inclusion and exclusion errors (see Chapter 8).<sup>276</sup> This classification is also used for targeting benefits of a variety of social programs besides RSBY, but had never been subjected to the scrutiny required by the RSBY enrolment process. Errors were common and were caused by several factors including poor data entry, lost records and the lack of updates for deaths, births, marriages and migration.

**REPORTS FROM THE FIELD SUGGESTED THAT THE FLAWS IN THE BPL LIST LED TO RESENTMENT AT THE VILLAGE LEVEL AND ALSO REDUCED ENROLMENT RATES SIGNIFICANTLY.** The latter effect was the result of the need for rigorous biometric identification based on the BPL list which could not legally be corrected in the field. It was also necessary for the insurer to have a clearly defined list of potential enrollees authorized by the state government and approved by the GoI. In short, if the list did not include a BPL household, or more frequently, excluded certain members, those people could not be enrolled. For example, in one district half of the households did not have any dependents listed. This effectively excluded close to half a million individuals who should

have been able to enroll. On many occasions, this led to disruption of the enrolment process and even violence. The problems encountered have led at least one state to compile a new BPL list.<sup>277</sup>

**DESPITE THE PROBLEMS WITH THE BPL LIST AND OTHER MINOR PROBLEMS, THE FIRST ROUND OF ENROLMENT HAS EITHER STARTED OR BEEN COMPLETED IN MORE THAN ONE HUNDRED DISTRICTS.** Total enrolment as of June 2010 was reported at close to 17 million households or around 50 million individuals (See Figure 5.2).<sup>278</sup>

**OBVIOUSLY, ENROLLMENT IS NOT THE ULTIMATE OBJECTIVE OF THE SCHEME.** The real objectives of providing financial protection for households affected by major health shocks and improving health outcomes can only be achieved if the enrolled avail of the services covered. Early data on hospital claims is mixed and must be interpreted carefully. According to data from the 60<sup>th</sup> round of the National Sample Survey, the incidence of hospitalization is around 2 percent of the population. However, the same data also show that there is significant variation across states and, as would be expected, that the poor have lower utilization rates. It is important therefore, to take these and other factors into account when comparing utilization under RSBY.<sup>279</sup>

**IT IS TOO EARLY TO DETERMINE THE IMPACT OF THE SCHEME ON UTILIZATION RATES, BUT THE PRELIMINARY EVIDENCE SUGGESTS THAT IT IS INCREASING AMONG THE INSURED.** There are large variations across districts and even villages within the same district and most districts have not completed a full policy period. In the districts that have at least one year of experience with transactions, utilization rates vary widely. In the two districts where data were available for a full year, the rate of hospitalization among RSBY members reached around 2 percent.

**WHILE THESE FIGURES ARE SLIGHTLY HIGHER THAN THOSE REPORTED BY THE NATIONAL SAMPLE SURVEY FOR THE LOWER QUINTILES OF THE INCOME DISTRIBUTION, THE INTERPRETATION OF THESE INITIAL NUMBERS IS NOT STRAIGHTFORWARD.** To begin with, the monthly figures show that there is often very low utilization in the first months of the scheme. This could be due to inexperience of RSBY members on the demand side and lack of preparation on the

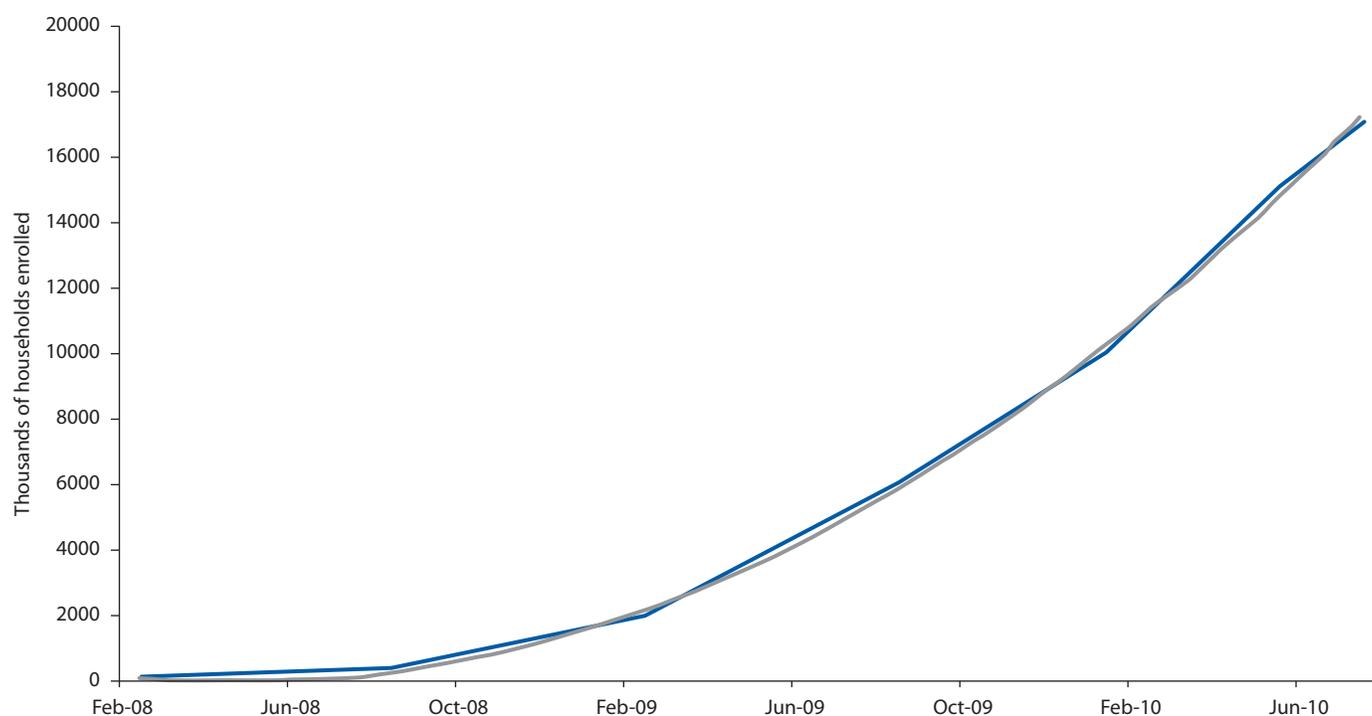
<sup>276</sup> See Murgai and Jalan (2008); and Mehrotra and Mander (2009).

<sup>277</sup> The state of Kerala implemented a new BPL census in May 2009.

<sup>278</sup> These figures are based on reports from insurance companies and not the interim MIS. See Sun (2010), for a detailed discussion.

<sup>279</sup> Hou and Palacios (2010) find preliminary evidence that utilization rates are higher than comparable NSS figures, with several caveats.

Figure 5.2: Household enrolment in RSBY by month, February 2008 – August 2009



Source: Administrative data from MOLE database. See [www.rsby.gov.in](http://www.rsby.gov.in) for state level figures.

hospital side. Second, modifications of the scheme that have been made during this period should increase utilization. These include a shorter enrolment period (from six to four months) and the addition of maternity benefits to the list of procedures covered. Finally, some state governments are now becoming proactive by sponsoring health camps or coordinating with hospitals to reach out to RSBY members.

UTILIZATION ALONE WILL NOT DELIVER POSITIVE RESULTS UNLESS HOSPITAL QUALITY MEETS CERTAIN STANDARDS. This is a medium term challenge for state governments and the GoI made more difficult by the dearth of information on hospital quality and lack of experience in this area.<sup>280</sup> Over time, a database that can be used to monitor progress could be developed and state governments could increasingly take the evidence produced into account in the bidding process or insist on certain thresholds for empanelment. To the extent that RSBY generates a significant revenue stream for both hospitals and insurers, there should be some leverage to promote better quality.

<sup>280</sup> Only recently has there been an effort to build a hospital accreditation process.

IN SUM, THE RSBY HAS DEMONSTRATED THAT IT CAN REACH THE TARGET POPULATION AND ATTRACT STATE GOVERNMENTS, INSURERS AND HOSPITALS TO ACTIVELY PARTICIPATE IN THE PROGRAM. Whether the program succeeds in the longer run however, depends on whether the millions that have enrolled are able to avail of the potential benefits in terms of higher utilization and lower out of pocket costs.

#### (d) Implications beyond the RSBY

IF THE RSBY ACHIEVES THE SCALE ENVISIONED BY THE GOI, THERE WOULD BE IMPORTANT IMPLICATIONS BEYOND THE BPL POPULATION AND EVEN BEYOND HEALTH INSURANCE. The RSBY approach can be used to cover workers beyond the BPL list. In several states non-BPL households that are the target of government programs such as construction workers, are receiving the same package as RSBY members. The 2010 budget reflected the decision to expand coverage to NREGA workers. The existence of processes and

technological infrastructure related to the smart card reduce the marginal cost of implementation to a level that makes these non-BPL group schemes feasible. Given the known exclusion errors of the BPL list, providing coverage to non-BPL households is an important step.<sup>281</sup>

**THE APPROACH AND PLATFORM OF RSBY MAY ALSO BE USEFUL IN DELIVERING OTHER SOCIAL PROGRAMS.** An obvious candidate is the Public Distribution System (PDS) which is one of India's largest and oldest schemes, but also one of the most corrupt. In principle, poor households are entitled to essential commodities such as subsidized rice, grain, sugar and kerosene. Massive leakages have been documented with as much as two-thirds of the rice and grain never reaching the beneficiaries. There have been several proposals to reform the scheme including shifting the huge budget for the scheme from in-kind to cash transfers. However, this proposal would run up against significant resistance from the bureaucracy and 400 thousand shop-owners that distribute these commodities.

**USING THE RSBY APPROACH IN PDS COULD LEAD TO IMPROVEMENTS THROUGH TWO CHANNELS – COMPETITION AND ACCOUNTABILITY.** This could be achieved by adapting the smart card technology used in the RSBY program to serve an analogous function for PDS (see Chapter 3). As in RSBY, smart cards would contain biometric information of the household in question in order to identify beneficiaries and would swipe the card at a reader in the ration shop. The card would be debited each time as per the price and amount of the commodity and data would be uploaded to a central server. Instead of an insurer, the PDS distributor would be compensated by the relevant government agency based on the uploaded records. These cards would work at any shop in the country, so beneficiaries of the program would have choice of provider, just as in the case of RSBY hospitals.

**IN OTHER CASES, THE IDENTIFICATION PROCESS EMBEDDED IN THE SMART CARD COULD SIMPLY BE USED TO VERIFY THAT A PARTICULAR INDIVIDUAL HAD RECEIVED THE INTENDED BENEFIT.** For example, pension receipt under the NOAPS could be biometrically verified periodically, reducing

the number of 'ghost pensioners'. Similar applications could be used in other programs such as conditional cash transfer programs that require verification at the provider end (including perhaps, private providers such as schools). For certain programs, the platform could allow for portability of benefits for migrants who are otherwise tied to the place where they appear on the BPL list until the next census. This feature is likely to become more important in the face of massive anticipated urbanization in the next few decades.

**FINALLY, IT IS IMPORTANT TO NOTE THAT THERE ARE EFFICIENCY GAINS TO BE ATTAINED IN CONVERGING ON A SINGLE PLATFORM RATHER THAN DUPLICATION ADMINISTRATIVE STRUCTURES FOR THE LARGE NUMBER OF SOCIAL PROGRAMS THAT INDIA EXTENDS TO POOR HOUSEHOLDS.** On the other hand, trying to stack too many programs and functions on the RSBY platform itself could be counterproductive. Piloting such ideas carefully rather than forcing the issue too quickly seems advisable.<sup>282</sup>

**THE RSBY MAY BE THE FIRST SOCIAL SECTOR PROGRAM IN INDIA THAT SIMULTANEOUSLY TAKES INTO ACCOUNT THE PERSPECTIVE OF THE POOR, FOCUSES ON GETTING THE INCENTIVES OF THE VARIOUS PLAYERS THAT HAVE TO DELIVER THE BENEFITS RIGHT AND ENCOURAGES CHANGES OVER TIME BASED ON EVIDENCE.** The experience of the first year or so has been positive, particularly in terms of demonstrating that the target population can be reached (despite the poor quality of the BPL list). However, the real success of the scheme will come only when RSBY members are shown to have increased access and affordability of decent hospital care. This outcome depends, in turn, on central and state governments ensuring that insurers perform and that obstacles are removed from the path of poor households that need hospitalization. It will be especially important in the next few years to monitor progress in this regard through MIS data, surveys and field reports. The oversight of a complex program like RSBY with tens of millions of members, two dozen state governments, a dozen insurers and thousands of hospitals will require a strong institutional presence at the center, probably in the form of a stand-alone agency. The faster this institutional capacity is developed, the more likely that the RSBY will succeed.

<sup>281</sup> In at least one state, Kerala, the government is extending the scheme to all households while only subsidizing those on the BPL list.

<sup>282</sup> In the context of the 2009 election campaign, one state government attempted to introduce a new cash transfer program onto a smart card along with a separate health insurance scheme after not having received permission to do so under RSBY. The effort was eventually abandoned.

## D. EXPANDING SOCIAL SECURITY COVERAGE IN THE COMING DECADE

THIS SECTION EXPLORES THE OPTIONS FOR INDIA AS IT SEEKS TO EXPAND SOCIAL SECURITY COVERAGE. It looks first at current proposals for expansion, before examining the range of factors that are relevant in determining a feasible expansion strategy. These include demand side issues, various aspects of program administration, and design elements of different types of social insurance.

The RSBY scheme aims to cover sixty million households. For a variety of reasons discussed above, this is unlikely to happen in the five year period originally envisioned. Nevertheless, at the current rate of increase, tens of millions of people that have never had health insurance will be covered in the next few years, a remarkable achievement. As the program is extended beyond the BPL population, its reach could be even greater. The RSBY scheme is likely to be the best opportunity for expanding social security coverage in the next decade.

IN CONTRAST, THE NASCENT EFFORT TO EXPAND PENSION COVERAGE REQUIRES MORE THINKING. Take up by unorganized sector workers is not likely to reach the magnitudes achieved by RSBY unless at least two of the latter programs distinctive features can be emulated. First, workers must be provided with direct incentives to give up their liquidity and save for old age. Since tax incentives reach very few people, only matching contributions can provide such an incentive. Second, incentives for providers (in this case pension fund managers) to attract clients is required. Group schemes that already exist and state sponsored schemes could usefully be integrated with the NPS while district level contracting of identified and targeted households could be attempted. In sum, while the NPS concept is sensible, its implementation to date has not taken the incentives to beneficiaries and providers fully into account.

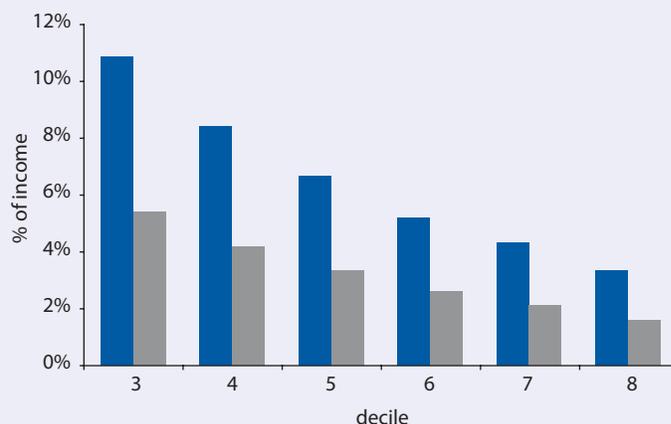
In the case of workers whose risks could effectively be insured, a target level of consumption smoothing could be defined, perhaps in relation to the poverty line. Through actuarial analysis, the cost of this insurance could be calculated and revised according to actual experience over time. Box 5.3 presents the example

### Box 5.3: Illustration of a contribution based old age pension scheme

The first step in designing a scheme is to set the benefit target and eligibility conditions. For example, an inflation indexed annuity of 6,000 rupees per year would be higher than the inflation adjusted national rural poverty line and slightly lower than the urban equivalent. In this example, we set the eligibility age for receipt of benefit at 60. (At 500 per month, the target benefit is 2.5 times the current social pension paid by NOAPS and the eligibility age is five years lower.)

The contribution rate required to generate this pension level depends on the rate of return on the invested funds after charges, the number of years of accumulation and life expectancy. Adapting the calculations of Shah (2005) for the case of a worker contributing from age 24 to age 60 and investing conservatively, a contribution of roughly 5 rupees per day or 1825 per annum would result in a high probability that the DC scheme would at least reach our lower target benefit. This calculation is based on historical returns for government bonds. A diversified portfolio that included other assets such as equities could yield a higher pension, but with correspondingly higher risk. (A maximum age of joining and vesting requirements could be incorporated.)

The final step in the design is to determine the incentives to participate in the scheme as well as its affordability. The figure below shows the share of income that the required contribution would entail by earnings decile were the worker to make the entire contribution and where there was a 1:1 matching contribution. The share without the match reaches levels likely to discourage participation in the lower deciles but with a match, the range is between 2-5 percent. Combined with the high rate of return that the match implies, it seems feasible that the scheme could attract participation along with other factors, such as transaction costs and institutional trust.



of a defined contribution (DC) pension scheme that targets a pension level of about 500 rupees per month at age 60. In this example, the premium works out to about 5 rupees per day for a worker that contributes regularly from the age of 26, but this assumption is only illustrative. The principle, however, is that the benefit target determines the stream of contributions that are need to preclude any unfunded liability from arising as well as to ensure that the target benefit level is achieved with a high degree of probability. A defined contribution arrangement is also able to cope with variable incomes and the absence of a reference wage. It is also, at least in principle, portable since the balance could be shifted into an EPFO account or even into the new DC scheme that applies to new civil servants or vice versa.

AN IMPORTANT DESIGN PRINCIPLE IS THAT THE PREMIUM OR CONTRIBUTION LEVEL SHOULD BE AFFORDABLE TO A SIGNIFICANT SHARE OF THE TARGET POPULATION IN THE UNORGANIZED SECTOR. In the DC scheme example in Box 5.3, the contribution level would represent between 3 and 11 percent of the earnings of unorganized sector workers in deciles 3 to 8, according to the survey data. In order to attract voluntary take-up and participation, some matching contribution or premia would be required. A 1:1 matching contribution would halve those percentages and simultaneously provide a significant incentive for voluntary participation in the form of an implied 100 percent rate of return before investment income is taken into account. Note that in each case, the eligibility rules as well as the target benefit and incentive levels would be set in relation to the 'social pension' parameters in such a way that did discourage participation. For example, the potential accumulation in the DC scheme would be taken into consideration when determining the age at which an individual could participate in the contributory scheme as well as the contribution amount.

AVAILABLE DATA, VARIOUS STUDIES AND REAL WORLD EXPERIENCES SHOW HOWEVER, THAT A LARGE PORTION OF THE UNORGANIZED SECTOR IN INDIA IS CAPABLE AND WILLING TO CONTRIBUTE TO THEIR OWN SOCIAL SECURITY.<sup>283</sup> Many

existing schemes are contributory, although in most cases, there is a direct or indirect subsidy to cover actual expenses. It is also important to note that most of the initiatives under way around India today involve groups that are organized either on an occupational basis or on some other basis such as MFIs, SHGs or cooperatives. In addition to acting as a credible intermediary with insurers, these organizations can keep transaction costs relatively low.<sup>284</sup> In short, the available evidence suggests that individuals participating in groups and having some minimal willingness to pay contributions are the best candidates for inclusion in any new contributory schemes.

REALISTICALLY HOWEVER, GROUP SCHEMES ARE NOT LIKELY TO REACH THE SCALE POSSIBLE THROUGH STATE AND CENTRAL GOVERNMENT PROGRAMS. The RSBY and NPS are the two most important central government programs for expanding social security coverage at the moment. In terms of reaching unorganized sector workers At the same time, Indian states are larger than most countries, and several have undertaken important initiatives in this area. In health insurance, the Aarogya scheme in Andhra Pradesh has by far the largest coverage with the older Yeshaswini scheme in Karnataka coming in a distant second. Andhra Pradesh introduced its co-contribution pension scheme for ten million self-help group members in 2009.

CLEARLY THOUGH, SOME HOUSEHOLDS WILL NOT BE ABLE TO AFFORD ANYTHING BEYOND A NOMINAL CONTRIBUTION AND NEITHER CONTRIBUTORY INSURANCE NOR PENSIONS IS RELEVANT. For example, the recently released summary of the NSS 61<sup>st</sup> round consumption survey shows that ten percent of rural households spend less than 270 rupees per month on a per capita basis. Out of this meager sum, more than 90 percent is spent on food and other basic necessities. Furthermore, insurance for those already widowed or disabled or contributory pensions for the elderly (or soon to be elderly) are irrelevant. For these households, well targeted transfers are needed simply to survive from one day to the next. Improved targeting of safety net programs<sup>285</sup> discussed

283 Madheswaran et al. (2005a) find that between 67-75 percent of unorganized sector workers surveyed were willing to contribute for various types of insurance. On average, agricultural workers were willing to make a monthly payment of 624, 607 and 696 rupees for old age, death and sickness, respectively. Two-thirds of those unwilling to contribute cited poverty as the main reason. Dror (2006) found that households were willing to pay, on average, 559 rupees per year for health insurance. In the area of pensions, 'micropension' schemes have emerged such as the one operated by SEWA or the for workers in dairy cooperatives in Gujarat.

284 Ahuja (2005) makes this point in the context of health insurance provision.

285 For example, the NSAP program that, in addition to old age and widows, pays death and maternity benefits to poor households.

in Chapter 8 and expansion of coverage would help achieve this primary objective.

THE OTHER CRITERIA RELATE TO IMPLEMENTATION; SPECIFICALLY, EFFICIENT RECORDKEEPING, ASSET MANAGEMENT, INSURANCE PROVISION. A key policy decision in all three areas is the role of government versus private sector providers. One model would involve the creation of a new bureaucracy that would administer the new schemes and perform all three functions. This is what is done already in the case of pensions and life insurance for formal sector workers in the form of the EPFO. One potential advantage of such an entity would be economies of scale in administration. However, the experience of parastatal monopolies such as the EPFO in Asia as well as other parts of the world is that they are not adept at managing assets or avoiding the creation of large unfunded liabilities that often lead to financial insolvency. Service standards and lack of technological innovation in the absence of competition are often cited as problems in these institutions. Applying the current ratio of staff to active contributors in the EPFO to a new scheme for the unorganized sector with participation of say one of every five workers, would result in the expansion of the civil service by around 200,000 employees.

THE ALTERNATIVE TO DIRECT PUBLIC PROVISION AND ADMINISTRATION IS TO USE EXISTING NON-GOVERNMENTAL ENTITIES AND RESTRICT THE ROLE OF GOVERNMENT TO: (i) PROVIDING TARGETED SUBSIDIES AND (ii) REGULATING THESE ENTITIES AND SETTING BASIC STANDARDS. This model already exists in India in several forms already mentioned, with RSBY as the best example. In addition, many other schemes falling into the community based or micro-insurance category could be incorporated under an umbrella program that provided matching contributions or premia but set certain standards in terms of benefit targets, eligibility conditions, investment policy and recordkeeping, among others.

THERE ARE SEVERAL POTENTIAL ADVANTAGES TO THIS APPROACH:

- ◆ first, by harnessing existing groups including SHGs, coops, MFIs, etc., transaction costs could be kept low, especially where recordkeeping at

the individual member level was already taking place. This is particularly important in the early stages of any national initiative since achieving a minimum scale and using existing recordkeeping infrastructure will help keep administrative cost ratios low during the start up period.

- ◆ a second advantage of this model would be the promotion of competition on the basis of cost and quality of services.
- ◆ third, many unorganized sector workers have no experience or direct interaction with formal financial sector institutions so that groups can serve as an effective intermediary.<sup>286</sup>

PERHAPS THE GREATEST CHALLENGE FOR EITHER APPROACH, HOWEVER, WILL BE THAT OF TRACKING PARTICIPANTS AND THE FINANCIAL FLOWS ASSOCIATED WITH EACH OF THEM. Recordkeeping must be accurate, timely and reliable if the scheme is to gain the trust of participants who can opt out of the scheme at any time (unlike the mandated schemes such as EPFO). Even a small number of errors that result in financial losses early in the life of the scheme could irreparably damage the image of the program. Recordkeeping clearly does involve large economies of scale and this has led some countries to centralize this function while maintaining competitive and decentralized provision of other services.<sup>287</sup>

FOR SEVERAL REASONS, THE CHALLENGE OF TRACKING FLOWS OF MONEY AND INDIVIDUALS WILL BE PARTICULARLY DAUNTING IN INDIA. The lack of a unique and universal national identification (ID) so far has been a challenge for many public programs. Several existing (ID) systems operate in a disconnect, by nature of their mandate provide only for a limited coverage, and would often not meet requirements sought for a modern public benefit program. For example, tax registration covers only income tax payers. Registration systems of various welfare funds are believed to be operationally outdated.

THE SCENARIO COULD IMPROVE DRAMATICALLY IN LIGHT OF THE HIGH PRIORITY THAT HAS BEEN GIVEN BY THE NEW ADMINISTRATION TO IMPLEMENTATION OF THE NATIONAL,

<sup>286</sup> In one study for Karnataka, more than sixty percent of unorganized sector workers chose to save through SHGs compared to around 23 percent in banks and post offices.

<sup>287</sup> Examples in the area of pensions include Mexico and Sweden. It is also worth noting that the PFRDA Act also envisioned a centralized recordkeeping agency while allowing asset management and annuity provision to be contracted out to the private sector.

**BIOMETRIC ID.**<sup>288</sup> A unique ID would facilitate identification for a wide variety of social programs. Some universal requirements could be introduced in respect to the data collection as part of the registration process to ensure minimal information requirements and compatibility of member's data across agencies.

**COMPUTERIZED RECORD MANAGEMENT MAKES ANY PROGRAM MORE TRANSPARENT AND FLEXIBLE.** Still today many public programs in India rely on archaic systems of paper records that are generally very limited in their capacity to provide for, e.g., data aggregation and analysis, duplicate records checks, and effective coverage assessment. Furthermore, cross-eligibility checks for multiple programs may virtually be impossible. Investment in computerized administration and processing systems would be necessary for the success of any large scale program. Still, with a highly sophisticated computerized core of operation, some elements of administration will probably continue to operate with paper records (for example, management of signature sheets for benefit disbursement). But even this is not a dogma anymore – the boundaries of technology today are being tested by introducing, e.g., paperless biometrics-based identification systems.

**PROGRAMS WITH SYSTEMATIC PERSONALIZED RECORD-KEEPING PROVIDE MUCH GREATER CAPACITY FOR ADDING NEW BENEFITS AND IMPROVING EXISTING SCHEMES.** Examples of the schemes that would often not have updated membership records include various micro-credit programs (operating on a group basis) and conventional social security programs where employer is responsible for premium payments (in some cases, the agency does not collect records and/or centralize of the covered individuals until the time of their retirement). As long as operations of such programs lack personification, capacity to introduce new benefits or facilitate targeting will remain limited.

**THE ACCESS GAP CAN FURTHER BE REDUCED BY MEANS OF VARIOUS TECHNOLOGICAL INNOVATIONS.** Several mechanisms are being tested where conventional infrastructure fails to provide for connection between the local communities and some remote centralized operational core. Opportunities of both the on-line and off-line communications are being explored. For

example, it seems that the infrastructure of the rural Internet kiosks can provide a backbone for some public benefit programs. At the same time, in places where the on-line connectivity is still beyond the reach, the smart card technology can facilitate efficient off-line record management.

**OPERATIONS OF THE CASH COLLECTION AND DISPERSED SYSTEMS IN THE UNORGANIZED SECTOR POSE SERIOUS CHALLENGES.** Conventional financial intermediaries are often ill prepared to deal with mass transactions of very small amounts in remote, dispersed, and poorly educated communities. Penetration of commercial banks in the rural areas in India remains low. While the India's extensive Postal system seems operates in almost every corner of the country, the adequacy of its accounting mechanisms and capacity to assume new tasks remains to be evaluated. In generally, operational subsidies, partnerships with local intermediaries, and various innovations – all will help the effort of coverage extension.

**BOTH IN INDIA AND ABROAD, A NUMBER OF INTERESTING AND RELEVANT INNOVATIONS HAVE BEEN ADAPTED TO THE NEEDS OF BOTH PUBLIC AND PRIVATE SECTOR IN EXTENDING THE COVERAGE OF FINANCIAL SERVICES.** Low cost ATMs developed at a fraction of cost of the conventional machines, equipped with finger print identification and long-life batteries facilitate cash distribution in remote areas (some interesting and quite competitive prototypes have been developed in India). Point-of-service (POS) devices installed in local shops and gas stations can use regular telephone lines to process on-line cash disbursement transactions. Special branches on wheels make conventional banking mobile, enabling regular and schedules visits in the remote communities. Finally, mobile phone banking is an emerging phenomenon that utilizes comprehensive penetration of the new communication networks. All these solutions offer immense opportunities but also come with limitations (e.g., mobile phone banking works when money has been deposited in a bank account, etc.). A combination of various solutions would likely be required.

**INDIA'S DYNAMIC AND GROWING ECONOMY WILL LEAD TO GREATER DEMAND FOR SOLUTIONS THAT ALLOW FULL PORTABILITY OF BENEFITS.** It is not clear if and when

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<sup>288</sup> A few months after the 2009 elections, the Government of India appointed the former head of Infosys and well-respected reform advocate, Nandan Nilekani to head up the effort and allocated significant budgetary resources for the effort.

some centralized public record-keeping platform could or should be developed. At the same time, the regulatory mandate can provide for opportunities of standardization in the product design. (In particular, for the retirement programs, the plans with a defined contribution benefit offer greater portability by the generic nature of their design). Furthermore, some off-shelf software products and utilities could be promoted (and provided to participating groups at low or no cost) as basic record-keeping platforms facilitating easy implementation of the regulatory standards.

THE DISCUSSION IN THIS SECTION THEN SUGGESTS THAT ANY NEW, CONTRIBUTORY SCHEME TARGETED AT THE UNORGANIZED SECTOR SHOULD BE:

1. **based on target consumption smoothing objectives defined by public policy**
2. **affordable to a significant share of the unorganized sector workforce**
3. **flexible enough to handle volatile income streams**
4. **financially sustainable based on the principle that assets match liabilities**
5. **administered in such a way so as to minimize transaction costs without compromising on the accuracy and timeliness of recordkeeping**
6. **accessible and portable throughout the country (and ideally based on a unique ID).**

## E. CONCLUSIONS AND RECOMMENDATIONS

INDIA'S UNORGANIZED LABOR FORCE IS VAST AND HETEROGENEOUS AND THIS REALITY MUST BE TAKEN INTO ACCOUNT IN ANY ATTEMPT TO EXTEND COVERAGE OF SOCIAL SECURITY PROGRAMS. One important distinction is between households that are either too poor to contribute or have already experienced the shocks that could otherwise be insured through contributory schemes. In these cases, social assistance i.e., cash transfers on a means-tested basis are the appropriate

intervention. These programs are dealt with in Chapter 3. At the same time, a large proportion of households would benefit from ex ante interventions that allowed for risk pooling and were made more affordable through direct subsidies. Among these households, a subset is already participating in a number of uncoordinated attempts – mostly through group arrangements – to provide protection against a range of life-cycle risks. Some are sponsored by government, such as welfare funds while others are NGO-based initiatives that often involve microinsurance.

THE LESSONS FROM SOME OF THE SCHEMES THAT ALREADY EXIST IN INDIA SHOULD BE DISTILLED AND APPLIED IN THE PROCESS OF ADOPTING A NEW NATIONAL POLICY FOR EXTENDING SOCIAL PROTECTION COVERAGE. These experiences could provide policymakers with information ranging from the factors affecting voluntary participation to data that could help with actuarial calculations of cost.<sup>289</sup> Implementation lessons might include estimates of the costs of specific transactions, such as processing a claim or issuing a statement and the potential savings from the scale economies usually found in administration and recordkeeping operations. Comparing notes across existing schemes might yield useful information about how to efficiently use technology or how to set up processes to certify eligibility and verify claims. In some cases, there may be evidence that supports government action through better regulation or direct provision of public goods. The case of unique identifiers, already mentioned, is likely to be one such case.

MANY OF THE EXISTING SCHEMES USE A FORM OF THE PARTNER-AGENT MODEL AND THIS APPROACH HAS SEVERAL ADVANTAGES OVER THE ALTERNATIVE, THE CREATION OF A NEW LAYER OF GOVERNMENT BUREAUCRACY WITH POTENTIALLY LAKHS OF EMPLOYEES. In particular, the PA model has become increasingly relevant in India in recent years as financial sector reforms have resulted in competitive markets for insurance and asset management and have led to the creation of specialized regulatory institutions. This favorable situation should be exploited in order to reduce costs and preempt the problems observed with monopoly, quasi-state entities that cover formal sector workers. The key question is whether this 'bottom up'

<sup>289</sup> Unorganised sector workers and subsets therein will exhibit mortality and morbidity patterns that may differ greatly from the typical clientele of insurance companies. For example, the life tables used by LIC are based on annuitants most of whom are higher income individuals with much lower mortality rates than the general population. A database that systematically collected this information could be used to produce actuarial tables that would serve as a benchmark for assessing costs when designing the scheme as well as supervising providers once the scheme was operational.

approach can be successfully scaled up with government support. Answering this question could begin with a series of meetings that could bring together potential group participants (SHGs, MFIs, coops etc.), insurance companies, asset managers, regulators, government ministries and researchers.

INITIALLY TARGETING EXISTING GROUPS SUCH AS SHGS AND MFIS IS RECOMMENDED FOR SEVERAL REASONS INCLUDING FOR REDUCING TRANSACTION COSTS, ACHIEVING EFFECTIVE RISK POOLING<sup>290</sup> AND ENSURING A MINIMUM CRITICAL MASS OF VOLUNTARY TAKE-UP IN THE EARLY STAGES OF THE PROGRAM. However, there are tradeoffs involved in such a strategy. First, while the number of such groups has been increasing rapidly in recent years, coverage is still relatively low and regionally concentrated (predominantly in the Southern states).<sup>291</sup> Second, any subsidies involved in such a scheme should not be expected to mainly reach the very poorest households. Various studies have shown that membership in groups tends to be concentrated in the second and third quintiles rather than the bottom quintile.<sup>292</sup> As mentioned above, for many of these households, the condition that would have been insured already exists (e.g., life insurance for widows). In these cases, ex-post transfers in the form of social pensions seem the appropriate policy response.

AT LEAST THREE MEASURES ARE REQUIRED IF THESE INITIATIVES ARE TO BE SUCCESSFULLY SCALED UP.

- ◆ **first, in order to take advantage of economies of scale, to ensure portability and to facilitate supervision, some common standards would have to be developed, particularly in the area of recordkeeping.** A good example is a universal standard for identification of covered workers that, in itself, would be a public good with many other uses. Another is a ratings system for SHGs and other groups based on objective criteria.
- ◆ **second, appropriate contribution and insurance premia would be calculated based on rigorous**

**actuarial calculations that were adjusted over time to reflect experience.** This would help ensure that unfunded liabilities (for example, those that arise when guarantees are offered) did not arise and compromise financial sustainability. It would also make any subsidy involved explicit and transparent.

- ◆ **direct government subsidy is the third element of successful coverage expansion.** In order to encourage voluntary take up among low income segments of the unorganised labor force, the required premia and contributions would have to be subsidized. This subsidy would have to be set at a realistic level given budget constraints.<sup>293</sup>

THE RSBY PROVIDES A MODEL OF COVERAGE EXPANSION THAT EFFECTIVELY ENCOMPASSES THESE ELEMENTS TO PROVIDE CATASTROPHIC HEALTH INSURANCE COVERAGE TO TENS OF MILLIONS OF UNORGANIZED SECTOR WORKERS AND THEIR FAMILIES. The scheme is notable for its scalability and relative transparency achieved through a combination of standardized processes and innovative use of technology. By contracting out service provision, it has allowed competition to set the premium level and enough flexibility to adjust this over time. It has also defined a targeted subsidy which appears to be sustainable in the broader fiscal context. All of these features make it a good practice example for further progress in reducing India's coverage gap.

ACHIEVING WIDESPREAD COVERAGE IN AN EFFECTIVE MANNER IS NOT POSSIBLE WITHOUT THE DEVELOPMENT OF INFORMATION SYSTEMS THAT ALLOW THE GOI TO TRACK MEMBERS OF THESE PROGRAMS AND THE FINANCIAL FLOWS (CONTRIBUTIONS, PREMIA AND BENEFITS) EFFICIENTLY. Innovative use of technology may be part of the answer, but in order to keep costs down, existing infrastructure such as post offices and banks will have to be harnessed. In addition, and especially during the first phase of implementation, the recordkeeping that already exists for groups such as SHGs and MFIs should be utilized and, where necessary,

290 These groups are, for example, in a much better position to ensure that all members participate in a health insurance scheme, reducing adverse selection problems.

291 As Ghate (2006) reports however, the growth in the number of SHGs linked with banks has increased dramatically and regional disparities are shrinking somewhat.

292 See for example, Basu and Srivastava (2005) for the relationship between income level and membership in SHGs in Andhra Pradesh. In the same vein, Ghate (2006) concludes that "Microfinance is best suited to reach the economically active poor, which may exclude some in the lowest decile or two of the population that suffer from old age, ill health or disability."

293 The Gol already subsidizes members of the EPFO with an annual contribution of 1.16 percent of the covered wage bill. In addition, favorable tax treatment of superannuation products and the Personal Provident Fund (PPF), a medium term savings instrument, results in tax expenditures of an unknown amount that mostly accrue to higher income workers who pay income tax. It could be argued that a matching subsidy of the kind described here would be both more progressive than and have a more positive impact from a public policy perspective than existing subsidies.

upgraded so that it is possible to 'plug in' large numbers of participants in a cost effective manner. Both governmental and external assistance could be made available to groups willing to participate and meeting recordkeeping standards (including compliance with the unique ID system) should be a condition for receipt of subsidies. A centrally managed recordkeeping system is one option, but common standards that allow supervision entities to monitor effectively are a minimum prerequisite. The time and resources required to design and construct a national system of this kind should not be underestimated but getting the implementation machinery right at the beginning will avoid bigger problems down the line. At the same time, India is a world leader in MIS applications so that state of the art solutions are possible if policymakers accord the issue the importance it merits.

FINALLY, ALTHOUGH NOT MENTIONED ABOVE, THERE ARE MANY DISPARATE AND DISCONNECTED INITIATIVES IN PROGRESS BY CENTRAL AND STATE GOVERNMENTS IN INDIA THAT SHOULD BE BROUGHT UNDER A CONSOLIDATED NATIONAL POLICY FRAMEWORK. The passage of the Social Security Act at the end of 2008 is a positive step towards establishing such a framework. It now requires implementation. The Social Security Board envisioned under this act can serve as a coordinating body bringing various efforts under one umbrella, spell out a national policy complete with target benefit levels, costing, subsidy and strategy for phased implementation. In light of the importance of implementation issues and, especially recordkeeping, a special advisory group to make recommendations on these aspects with the best available technical support from public - private sector partners in India could be formed.



## Financing and Institutions for Social Protection

CHAPTER

6



# Financing and Institutions for Social Protection

LIKE OTHER PUBLIC INTERVENTIONS, EFFECTIVE SOCIAL PROTECTION SYSTEMS RELY ON A MUTUALLY SUPPORTIVE WEB OF APPROPRIATE POLICIES, CAPABLE AND EMPOWERED INSTITUTIONS FOR IMPLEMENTATION, AND TRANSPARENT AND ADEQUATE FINANCING. This chapter provides an overview of financing and institutional aspects of SP programs, key determinants of SP system effectiveness in India. It first explores financing sources, mechanisms, and patterns in recent years for the major centrally sponsored schemes of social protection, before examining the rapidly evolving institutional framework for SP program delivery.

THE KEY FINDINGS FROM THE CHAPTER ARE:

- ◆ *financing of SP interventions in India is significant, at over 2 percent of GDP.* If one adds formal sector pensions, the SP spending share rises to around 4.3 percent of GDP. In international terms, financing of safety nets in India is adequate, but there remains a major agenda in getting better poverty reduction impact from spending.
- ◆ *within SP programs, financing priorities have shifted somewhat during the 2000s in a positive direction,* though spending on insurance-based programs outside the formal sector and urban programs remains remarkably low. Looking at international evidence across developing countries, insurance-based interventions could be expected to be a major source of spending growth on SP programs over time.
- ◆ *despite clearly progressive allocation of SP resources across states, actual state-wise expenditures on SP programs are regressive.* The limited analysis on intra-state SP expenditures suggests that some states reinforce the regressive pattern of transfers across districts.
- ◆ looking ahead, there are four major challenges for India in financing of its social protection system: (i) sustaining roughly the current share of public spending as overall spending rises; (ii) continuing to adjust the composition of spending to greater emphasis on ex ante risk mitigation and promotional programs; (iii) increasing the flexibility of funding from the centre to states in terms of how it can be used for

different SP interventions, while strengthening the emphasis on spending outcomes; and (iv) deepening a range of administrative and institutional reforms in SP service delivery which can contribute to greater expenditure efficiency (see Chapter 7 on administrative and public expenditure management issues).

- ◆ ***institutional roles and responsibilities for SP service delivery have evolved rapidly over the past decade.*** However, the evolving assignment of institutional responsibilities for SP programs has typically not been informed by a clear alignment of functions, funds and functionaries, though MGNREG provides a promising example of the way forward.

## A. FINANCING OF SOCIAL PROTECTION PROGRAMS

### (a) Aggregate spending on centrally sponsored SP schemes

SEVERAL OBSERVATIONS CAN BE MADE IN LOOKING AT CENTRAL SPENDING ON SP INTERVENTIONS IN RECENT YEARS (SEE TABLE 6.1):

- ◆ ***India spends a significant share of resources on social protection programs.*** At 2.2 percent of GDP in 2008/09 from the central level, SP spending is more than double public spending on health (at around 1.0 percent of GDP). There is approximately

**Table 6.1: Spending on major SP programs, 2002/03- 2009-10**

Program	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 (allocated)
Food subsidy – primarily for PDS	24,200	25,200	25,800	23,200	24,200	31,545.6	43,627.2	42,489.7
Kerosene/LPG Subsidies + freight	4,735	6,372	3,553	2,930	2,625	2,730	2,724	2,866
NSAP and Annapurna	680	618	1,055	1,183	2,481	2,892	4,442	5,109
Central Labour welfare funds	102.7	104.2	109.5	160.3	162.3	263.6	259.2	269.9
RSBY	NA	NA	NA	NA	NA	NA	204	308
IAY	1,552.5	1,710	2,607	2,475	2,625	3636	7,919	7,920
SGRY	8,642	9,640	4,590	7,650	2,700	3,420	6,750	NA
SGSY	656	720	900	899.8	1,080	1,620	2,113	2,115
Welfare schemes for SC	741.6	766.9	803.2	951.9	1,169.6	1,582.3	1,690.8	1,674.2
Welfare schemes for ST	960.7	871.8	1,016	1,370.2	1,611.6	1,637.7	1,894.3	2,578.7
Welfare schemes for disabled people	203.2	207.9	203.0	220.8	220.4	226.0	242.3	271.4
Midday meal	1,237	1,375	1,507.5	3,345.3	5,348	6,678	8,000	8,000
Urban SP programs (VAMBAY, JNNURM, SJSRY)	361.9	333	402.6	342.6	313.4	358	530.2	535
Employment Guarantee (MGNREG) +NFFW (till 05/06)	860	0	1,818	4,050	10,170	10,800	30,000.19	30,100
<b>Total central SP expenditure</b>	<b>44,933</b>	<b>47,919</b>	<b>44,365</b>	<b>48,778</b>	<b>54,707</b>	<b>67,389</b>	<b>110,396</b>	<b>104,237</b>
<b>Total central SP expenditure as % of total Gol expenditure</b>	<b>11.12%</b>	<b>10.10%</b>	<b>8.77%</b>	<b>9.59%</b>	<b>9.41%</b>	<b>9.50%</b>	<b>12.25%</b>	<b>10.21%</b>
<b>Total central SP expenditure as % of GDP</b>	<b>2.0%</b>	<b>1.9%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.4%</b>	<b>1.6%</b>	<b>2.2%</b>	<b>NA</b>
<b>Estimated state level SP spending as % of GDP</b>	<b>0.54%</b>	<b>0.61%</b>	<b>0.58%</b>	<b>0.51%</b>	<b>0.52%</b>	<b>0.55%</b>	<b>0.54%</b>	<b>NA</b>
<b>Total central plus estimated state level SP spending as % of GDP</b>	<b>2.54%</b>	<b>2.51%</b>	<b>2.08%</b>	<b>2.01%</b>	<b>1.92%</b>	<b>2.15%</b>	<b>2.74%</b>	<b>NA</b>

Source: Gol Expenditure Budget, various years. GDP and state level total expenditure from RBI: Valmiki Ambedkar Awas Yojana (VAMBAY) was merged with JNNURM in 2008. Data for 2006-07 include Vambay, JNNURM and SJSRY. State level SP spending calculated based on 3 percent of total state level expenditure by year. Note: Spending data for all programs are revised budget allocations from the Expenditure budget documents of various Gol budgets and not actual audited expenditures.

an additional 0.54 percent of GDP in addition spent from state level budgets, making for a total of 2.74 percent on safety net programs. If one adds to safety nets spending that on public pensions (a further 2.1 percent of GDP in recent years), total SP spending is around 4.8 percent of GDP and around the same level as public spending on the education system.

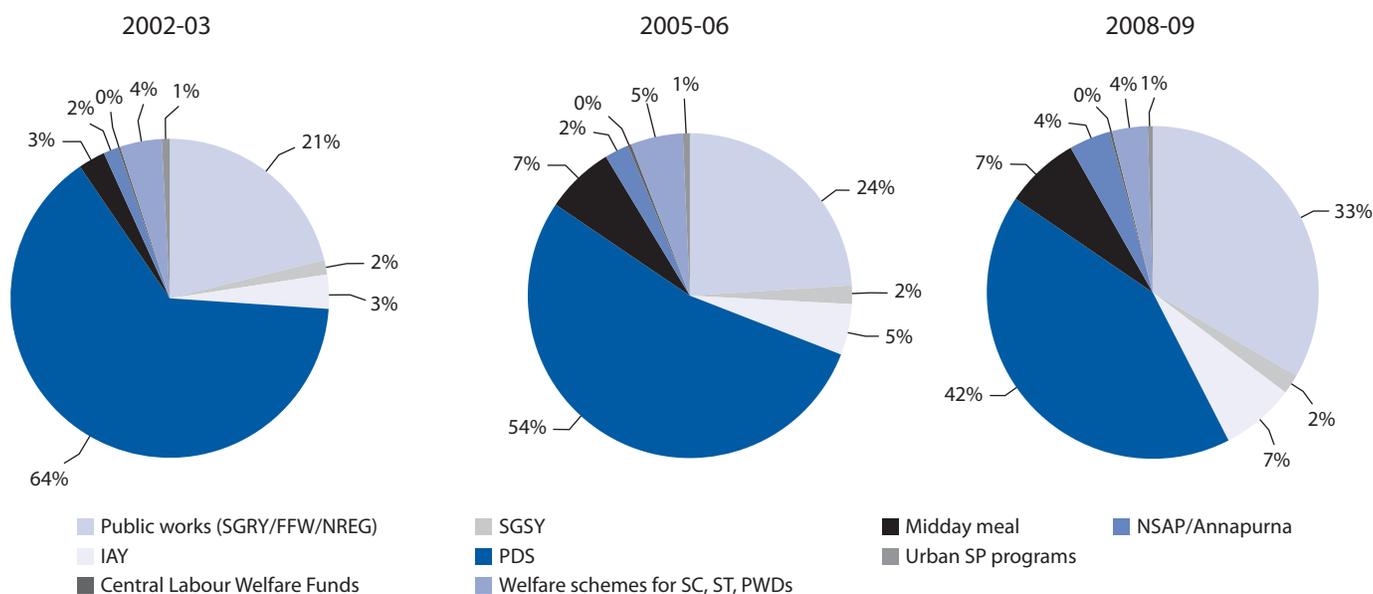
- ◆ while the nominal level of spending has increased rapidly during the second part of the 2000s (having been fairly flat in the first half of the decade), core SP spending as a share of total Gol spending (plan and non-plan) actually declined in the early years of the decade before a partial recovery in the last two budget years, with a typical range between 9 and 11 percent of total central spending (and a tendency to be on the higher end of the range in years preceding national elections). It is also notable that the GDP share of SP spending has had upticks in the years leading up to national elections, though in the case of 2008/09 there was also the likely upward impact of SP responses to the food and fuel crises.
- ◆ *over the period shown, there has been an appreciable shift – which is also shown in Figure 6.1 away from PDS as a share of total Gol SP spending towards an increased share for public works (under*

*MGNREG), and some marginal increases for IAY and social pensions.* There was also an appreciable increase in the share of midday meals by the mid-decade which has largely been sustained since then. However, the most notable areas of low expenditure within social protection – urban SP programs and social insurance outside the civil service and formal sector – have remained negligible proportions of total to date.

MOST SP CSS REQUIRE FINANCIAL CONTRIBUTION FROM STATES, SO THAT GOI SPENDING DOES NOT REPRESENT THE ENTIRE PICTURE EVEN FOR CENTRAL SCHEMES. A typical financing split on SP CSS has been 75:25, though the two largest schemes (PDS and MGNREG) have a much lower state share, as does RSBY which is likely to increase in coming years. MGNREG requires only around 10 percent of total from states (i.e., 25 percent of non-labor costs, with an assumption of 60:40 labor and other costs split), and PDS requires only transportation and other logistical costs from states, with commodities provided free of charge to the states. In addition, north-eastern and hilly states have special treatment in most schemes, with higher central shares in total SP spending.

IN ADDITION, THERE ARE A RANGE OF STATE-SPECIFIC SP PROGRAMS WHICH IN SOME CASES ACCOUNT FOR NON-NEGLECTIBLE SHARES OF TOTAL SP SPENDING AT STATE LEVEL. It is very challenging to put together a full picture of

Figure 6.1: Share of main CSS in total central SP spending, 2002/03, 2006/07 and 2008/09



Source: Gol Expenditure Budgets, various years.

state-specific SP schemes. Overall the situation is highly variable across states, with some such as Orissa and Bihar having until recently virtually no state-financed SP schemes of any note in spending terms, while others have had major outlays on state-specific schemes in addition to their CSS counterpart funds. Interestingly, while poorer states in general have a higher share of central spending in total SP outlays in-state, there are several examples of state-specific schemes even in poorer states (e.g., Jharkhand spends significant shares on state-specific schemes which in some cases replicate CSS; UP has an unemployment allowance for educated unemployed youth). Some of the motivation for state schemes – particularly where they mirror CSS – may be the desire for states to “take credit” for programs.

GIVEN THE VARIABILITY OF STATE-SPECIFIC SP PROGRAMS, THE DEMANDS OF CSS COUNTERPART FUNDING RELATIVE TO TOTAL STATE EXPENDITURE, AND INCREMENTAL STATE-SPECIFIC POLICIES ON EVEN CSS, IT IS CHALLENGING TO ESTIMATE A PRECISE FIGURE FOR STATES’ OWN SPENDING ON SP PROGRAMS. Additional spending on other programs is highly dependent on state policies and fiscal capacity, so that state SP spending as share of total is variable (e.g., in the mid-2000s in HP, SP spending was around 1.9 percent of state expenditure, while Rajasthan spent 2.3-2.5 percent, Orissa over 3 percent, and Jharkhand a much higher 18 percent).<sup>294</sup> In contrast to the central government, own-spending on PDS is generally low in states. However, there are notable exceptions such as TN which in its 2008/09 budget allocated 2,988 crore for PDS due to it being universal and at a very low purchase price, and AP’s PDS allocation increased from 1980 crore in 2008/09 to ₹ 3,500 crore in 2009/10. Another highly variable spending item until recently has been social pensions, due to the benefit top-up provided by many states.<sup>295</sup>

BASED ON THE SET OF STATES FOR WHICH SP SPENDING DATA WAS ANALYZED IN DETAIL, A CRUDE (AND PROBABLY CONSERVATIVE) ESTIMATE IS THAT ABOUT 3 PERCENT OF TOTAL STATE SPENDING IS ALLOCATED TO THE CORE SP PROGRAMS OUTLINED ABOVE, WITH SIGNIFICANT ADDITIONAL FUNDS ON AREA DEVELOPMENT AND RELIEF PROGRAMS IN A NUMBER OF

CASES.<sup>296</sup> This estimate needs to be treated with caution, but seems useful in assessing orders of magnitude of SP spending at the state level, and having a sense of aggregate SP spending in India. The three percent of total state level expenditure would have accounted for ₹ 26,783 crore in 2008/09.<sup>297</sup> This would be close to an additional 25 percent spending above Gol expenditures, or around 0.54 percent of GDP SP spending from the state level. Allowing for specifics such as TN and AP’s additional commitments on PDS, the figure may well be higher, and more work is needed to develop robust estimates of state-level spending.

IN INTERNATIONAL TERMS, SAFETY NET SPENDING OF AROUND 2-2.5 PERCENT OF GDP IS ABOVE WHAT MOST COUNTRIES AT INDIA’S LEVEL OF INCOME SPEND (FIGURE 6.2). This is a reflection of the political importance that attaches to SP programs in India. As the Figure indicates, India spent well above its South Asian neighbors on SP programs as a share of GDP in the early years of the decade (and the share has been even higher in recent years), as well as other larger countries in the Asia region such as China and Indonesia. At the same time, international evidence from countries at all different income levels (including the OECD) suggests that safety net spending generally tops out at 2-2.5 percent of GDP, so that it is probably not reasonable to expect safety net spending in GDP terms to increase far beyond the current GDP share that one observes in India in recent years.

INTERNATIONAL EVIDENCE ALSO SUGGESTS THAT THE MAJOR DRIVER OF INCREASED SPENDING ON SP SYSTEMS AS COUNTRIES GET RICHER IS EXPANSION ON SOCIAL SECURITY/INSURANCE SPENDING. This can be seen in Figure 6.2, in which the major distinction between middle and higher income countries is their spending on social insurance rather than safety nets. It would be surprising if India does not follow a similar trajectory over the coming 2-3 decades, more so as current social insurance spending is almost entirely concentrated on the formal sector, which accounts for less than 10 percent of the labor force. The rapid expansion of RSBY health insurance for the unorganized sector suggests that an expansion in social insurance spending may already be underway.

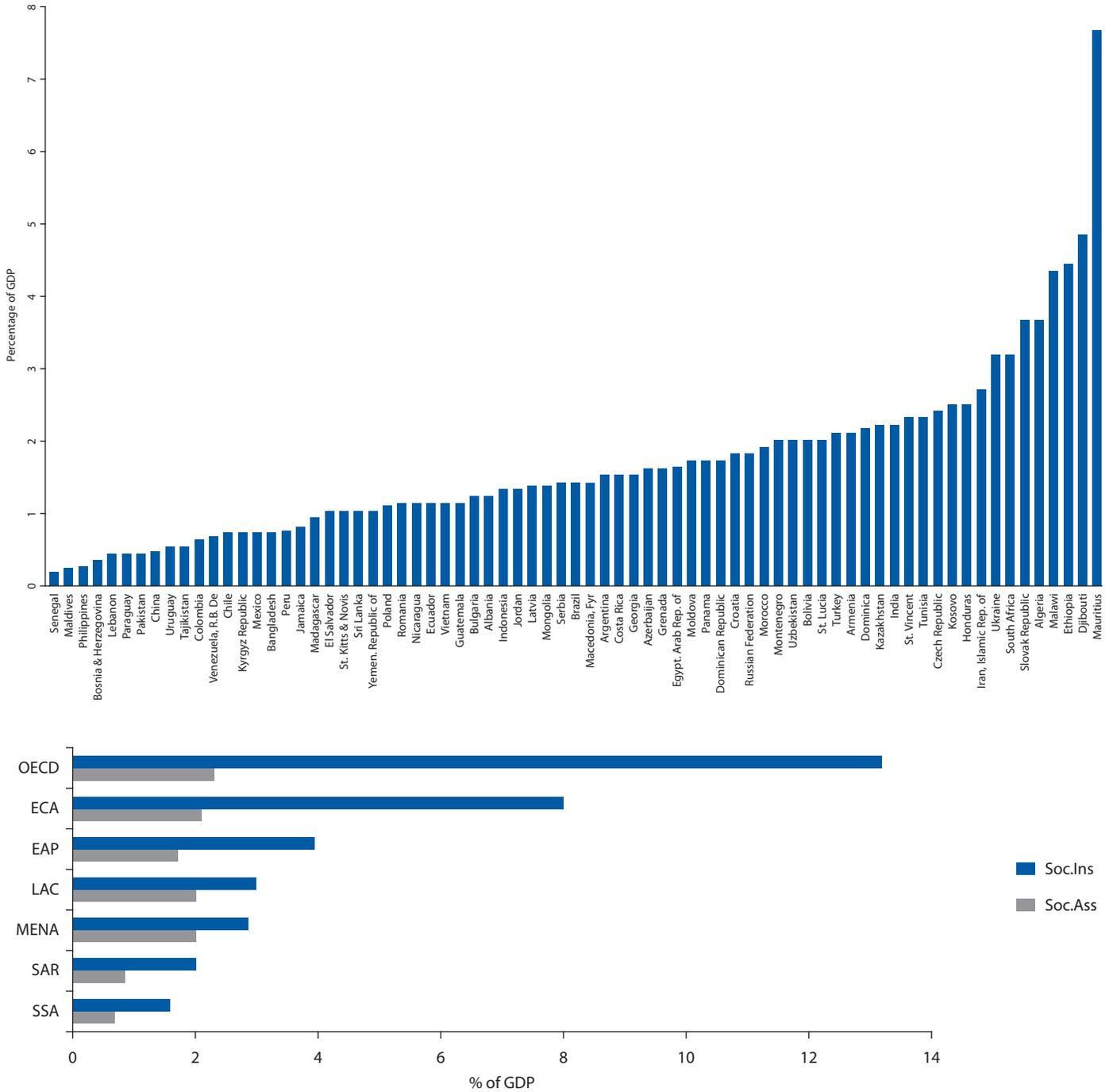
294 See World Bank (2006d), various state economic reports.

295 With the increase of central transfer for NOAPS in 2007/08 budget to ₹ 200 per elderly pensioners, and the subsequent assumption of central financing of widow and disabled social pensions, many states have seen a significant reduction in social pension spending.

296 Using figures from the mid-2000s, this would account for only around half of own RD spending in all states, which seems a conservative estimate.

297 See RBI for total state level expenditure by year at [www.rbi.org.in](http://www.rbi.org.in).

Figure 6.2: Spending on social assistance and social insurance by region, early 2000s (% GDP)



Source: Weigand and Grosh (2008).

## (b) Statewise allocations for CSS SP Programs

LOOKING BENEATH THE AGGREGATE LEVEL, IT IS IMPORTANT TO LOOK AT BOTH ALLOCATIONS AND ACTUAL

EXPENDITURES OF SP CSS FUNDS ACROSS STATES. All CSS have allocation formulae which should in principle be redistributive. The allocation formulae for some major programs are outlined in Table 6.2.

**Table 6.2: Allocation rules for selected SP CSS**

Program	Allocation rule across states
PDS	Based on state rural and urban poverty rates for 1993/94 adjusted for population growth, and subsequent adjustment
SGRY	Based on state rural poverty rates for 1993/94 adjusted for population growth, and subsequent adjustment
MGNREG	Initially 200 backward districts as defined by the Planning Commission based on merging of RSVY and NFFW districts, using agricultural productivity per worker, SC/ST share and casual agricultural wage rates by district. Now covering all districts of the country.
SGSY	Based on state rural poverty rates for 1993/04 adjusted for population growth and subsequent adjustment
IAY	50% on adjusted state rural poverty estimates and 50% on housing shortage
NOAPS	50% of state-specific NSS poverty rate for population x over 65 years population by state. Now 100% of state-specific poverty rate under IGNOAPS.

Source: Saxena 2006.

WHILE THE GENERAL BASE FOR MANY SCHEMES IS THE STATE POVERTY SHARE, THIS IS SUBJECT TO AN ADJUSTMENT FACTOR PROPOSED BY THE LAKDAWALA COMMITTEE IN THE LATE 1990s, WHICH ENSURED THAT THE REDUCTION IN THE APP ALLOCATION OF SPECIFIC STATES DID NOT FALL BY MORE THAN 15 PERCENT FROM THE PREVIOUS ALLOCATION FORMULA. Prior to 1997/98, allocations were based on a methodology of estimating rural poverty than was subject to considerable criticism (hereafter the "Task Force" method). When this was dropped in favour of NSS poverty estimates, certain states would have had their allocations fall sharply. As

a result, a compromise was reached which ensured that allocations according to NSS poverty rates would be no less than 15 percent below those using the Task Force methodology. The adjusted formula is now used for SGSY, SGRY and IAY (the latter with an additional factor of housing shortage), and for TPDS, both urban and rural poverty are taken in account. The comparison of state-wise allocations according to the Task Force, Expert Group and Adjusted Shares are shown in Table 6.3. While for most states the adjustments are rather marginal, there are some obvious "winners" in the adjustment process, including AP, Maharashtra,

**Table 6.3: Core funding shares by state for rural anti-poverty programs**

State	Task Force 93-94	Expert Group 93-94	Adjusted Shares
Andhra Pradesh	6.635	3.257	5.64
Assam	1.513	3.866	3.222
Bihar	19.265	18.476	18.476
Gujarat	2.11	2.547	2.123
Haryana	0.721	1.498	1.249
Himachal Pradesh	0.272	0.631	0.526
Jammu & Kashmir	0.191	0.781	0.651
Karnataka	5.011	3.934	4.259
Kerala	1.094	2.293	1.911
Madhya Pradesh	11.018	8.859	9.365
Maharashtra	9.905	7.922	8.419
Orissa	7.59	5.774	6.451
Punjab	0.262	0.728	0.607
Rajasthan	2.665	3.88	3.234
Tamil Nadu	5.546	4.987	4.987
Uttar Pradesh	20.365	20.333	20.333
West Bengal	5.479	8.601	7.169
North Eastern states and Union Territories	0.235	1.147	0.967

Source: Saxena (2006).

Orissa, and MP. There are also a few “losers” but the impacts are not dramatic, including West Bengal, J&K, and Kerala.

#### ARE THESE ALLOCATION PRINCIPLES ADHERED TO IN PRACTICE?

The short answer is broadly yes, though Table 6.4 below - using allocation data from 2004/05 for major SP programs - indicates that allocations in practice do not precisely follow the norms. Overall, the observed patterns suggest that in general states which perform well in terms of funds/food offtake are rewarded at the margin in allocations, and vice versa for poorer performers. Of note is that:

- ◆ most southern states do better in terms of actual allocations than the formula alone would suggest, with some such as TN and AP doing considerably better than formula.
- ◆ Assam and “other” (primarily NE states) also do considerably better than the simple allocation formula would suggest.

- ◆ conversely, several lagging states get some what less – in the case of Bihar/Jharkhand and UP/Uttaranchal considerably less – than formula would indicate.
- ◆ as would be expected, the geographic targeting of NFFW program results in a very different allocation pattern across states, whereby most lagging states do considerably better than formula (with the notable exception of UP/Uttarakhand).

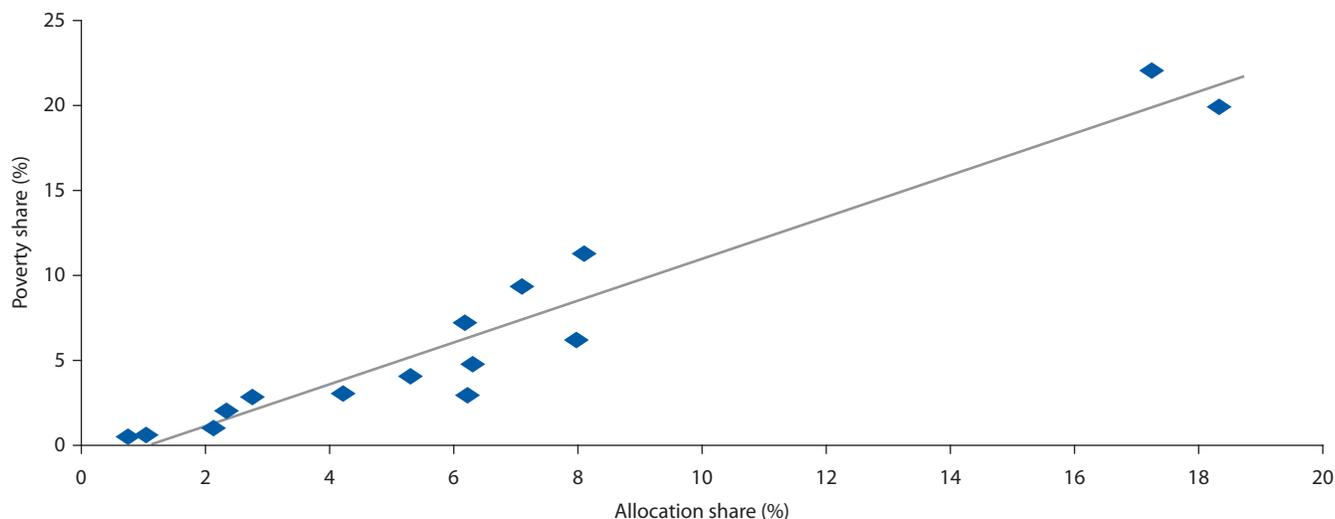
USING ACTUAL ALLOCATIONS, DESPITE THE VARIATIONS SEEN ABOVE, AN ENCOURAGING DISTRIBUTIONAL PICTURE EMERGES ACROSS STATES WHEN COMPARING ALLOCATIONS ON GENERAL (I.E., NON-GEOGRAPHICALLY TARGETED) SP PROGRAMS. This can be seen in Figure 6.3, which shows a strong positive correlation between the allocation shares for major programs (PDS, SGRY, SGSY and IAY) and the share of major states in total poor people in India. The figure uses data from 2004-05, but the general picture is similar for most of the decade.

**Table 6.4: Formula share for SP CSS and actual allocations (% of total by state), 2004/05**

	Adjusted allocation norm	Actual expenditures (% by state)					
		SGRY	SGSY	IAY	PDS (BPL)	4 programs	NFFWP
Andhra Pradesh	<b>5.64</b>	5.22	5.31	7.31	6.97	<b>6.58</b>	6.05
Assam	<b>3.22</b>	7.20	7.20	7.55	3.27	<b>4.70</b>	8.24
Bihar							
(+ Jharkhand)	<b>18.48</b>	17.36	17.38	25.68	12.95	<b>15.43</b>	24.27
Gujarat	<b>2.12</b>	2.29	2.00	2.10	2.97	<b>2.69</b>	1.98
Haryana	<b>1.25</b>	1.21	1.18	0.71	1.02	<b>1.03</b>	0.14
Himachal Pradesh	<b>0.53</b>	0.51	0.49	0.31	0.66	<b>0.58</b>	0.15
Jammu & Kashmir	<b>0.65</b>	0.60	0.61	0.38	1.19	<b>0.96</b>	0.24
Karnataka	<b>4.26</b>	3.90	4.01	3.78	5.11	<b>4.67</b>	1.45
Kerala	<b>1.91</b>	1.75	1.80	2.34	2.55	<b>2.33</b>	0.27
Madhya Pradesh (+ Chhatisgarh)	<b>9.37</b>	9.21	8.81	5.61	8.76	<b>8.51</b>	12.99
Maharashtra	<b>8.42</b>	7.71	7.92	6.71	9.56	<b>8.80</b>	7.67
Orissa	<b>6.45</b>	5.91	6.07	5.88	6.93	<b>6.57</b>	11.04
Punjab	<b>0.61</b>	1.34	0.57	0.47	0.61	<b>0.74</b>	0.35
Rajasthan	<b>3.23</b>	2.96	3.04	1.98	3.00	<b>2.88</b>	1.75
Tamil Nadu	<b>4.99</b>	4.57	4.69	3.67	8.34	<b>6.91</b>	2.40
Uttar Pradesh (+ Uttaranchal)	<b>20.33</b>	18.63	19.13	14.77	16.38	<b>16.77</b>	13.57
West Bengal	<b>7.17</b>	6.57	6.74	7.89	7.24	<b>7.15</b>	5.67
Others	<b>0.97</b>	3.06	3.05	2.85	2.50	<b>2.67</b>	1.76
<b>India</b>	<b>100</b>	100	100	100	100	<b>100</b>	100

Source: Gol, MoRD and Food; Bank staff calculations.

Figure 6.3: Correlation between major CSS SP program share in total allocations by state and state share of total poor in India, 2004/05



Source: Gol; Sen and Himanshu 2007 for poverty estimates.

### (c) Statewise expenditure performance for CSS SP programs

WHILE THE ALLOCATION FORMULAE FOR SP CSS ARE BROADLY IN LINE WITH POVERTY RATES, THE MORE INTERESTING DISTRIBUTIONAL STORY LIES IN ACTUAL PROGRAM EXPENDITURES AND THEIR DIVERSITY ACROSS STATES. The story of state wise expenditure execution on SP CSS is often characterized as one of poorer states failing to use their full allocations at the expense of better-off states. While this is correct to some extent, the situation is somewhat more complex. While certain poor and low capacity states have indeed been perennial laggards in spending execution on programs (e.g., Bihar, Jharkhand, Chhattisgarh), this is not true for all poor states, nor is it true for all programs even among the laggard states (e.g., Bihar has executed relatively well on IAY in recent years). The situation on specific major schemes is presented below, followed by the aggregate picture across major programs in recent years.

WITH RESPECT TO PDS, AND FOCUSING ON BPL/AAY - THE GROUP OF INTEREST - IT IS CLEAR THAT OFFTAKE IS HIGHLY VARIABLE ACROSS STATES. In spending terms, the major program remains PDS for which state-specific offtake numbers are presented in Figure 6.4, with offtake for BPL/AAY and APL separately. The low income states on average have a considerably lower average TPDS

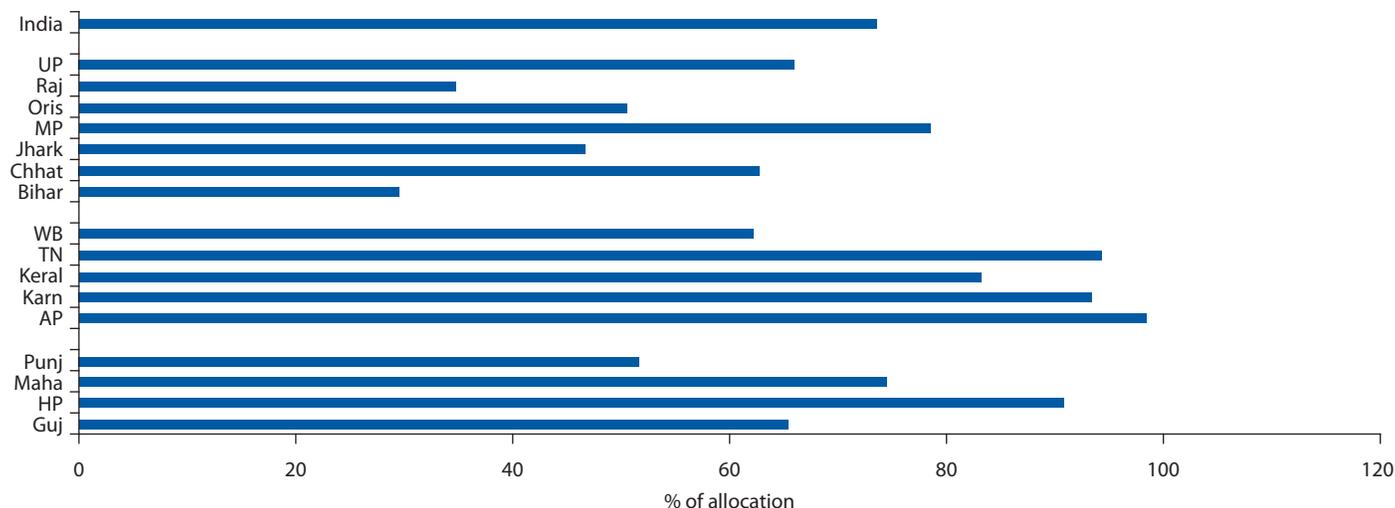
offtake for BPL/AAY in the period, with all but MP below the national average. At the same time, it is the middle income states which had a notably higher offtake than the higher income group. Clearly more factors are at work than simply state income levels, with absorptive capacity, need, price differentials between PDS and market grains, and other factors at work.

LOOKING AT THE NEXT BIGGEST PROGRAM, WORKFARE, A SOMEWHAT CLEARER PATTERN EMERGES, WITH THE POORER AND NE STATES CLEARLY WITH LOWER AVERAGE OFFTAKE IN TERMS OF BOTH CASH AND FOOD (THOUGH NOTABLY WORSE ON FOOD OFFTAKE IN RELATIVE TERMS). At the same time, the grouping is by no means uniform, as poorer states such as MP, Orissa and particularly Rajasthan managed very good and in some cases excess offtake relative to allocations, while mid-range income states like West Bengal were among the weakest performers. The significantly greater shortfall of the poorer states on average for food than cash is also of interest, as this may be related to the higher administrative and logistical demands of food delivery relative to cash. (Figure 6.5)

LOOKING ACROSS SEVERAL OF THE MAJOR SP PROGRAMS COMBINED FOR THE MOST RECENT YEAR FOR WHICH FULL DATA ARE AVAILABLE (2006/07), WE SEE THAT THERE WERE LARGE VARIATIONS IN EXPENDITURE RELEASES BY STATE PER RURAL POOR HOUSEHOLD.<sup>298</sup> This broad pattern holds for

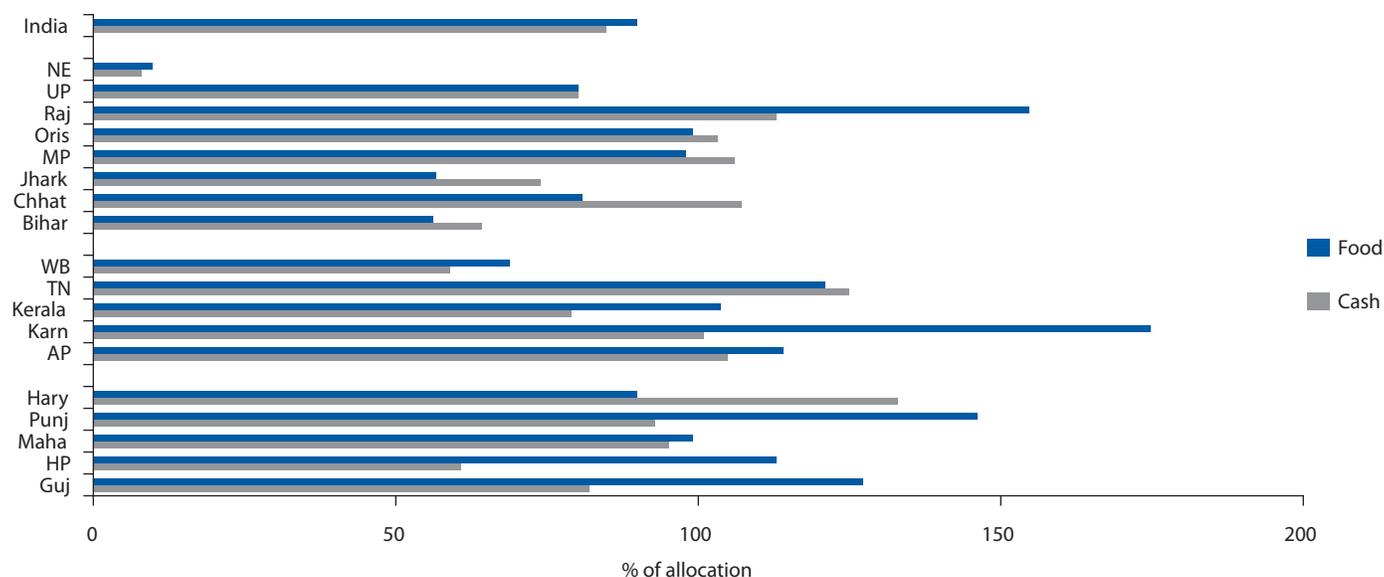
<sup>298</sup> Note that this is total spending, of which a portion goes on administrative costs, plus if subject to leakage between release and reaching households. The amounts should therefore not be interpreted as actual amounts received by households, which are reported from survey sources in Chapters 3 and 4.

Figure 6.4: TPDS BPL/AAY offtake by state, 2002-05



Source: Ministry of Consumer Affairs, Food and Public Distribution, various years.

Figure 6.5: SGRY offtake on cash and food, 2004-05



Source: Saxena 2006.

the earlier years of the decade also. This can be seen in Table 6.5. A few points emerge, including:

- ◆ **southern states do considerably better in releases per poor rural household**, with states such as AP doing particularly well, at around 2.5 times the unweighted national average. For the four southern states overall, they average over twice the national poor rural per household allocation for non-MGNREG main programs, and approaching twice once MGNREG is included.
- ◆ **conversely, most lagging states have considerably lower per poor rural household releases, though even within them there is variation**, with states such as Rajasthan notably better performers and the poorest states such as Bihar and Orissa particularly low.

**Table 6.5: Expenditure releases per poor rural household for major SP CSS, 2006/07**

State	Poverty Head Count (%)	Exp per rural poor on 4 progs (Rs)	Exp per rural poor on 4 progs + MGNREG (Rs)
Andhra Pradesh	15.8	17,701.7	21,823.8
Assam	19.7	18,639.6	24,218.1
Bihar	41.4	3,868.0	4,984.3
Chattisgarh	40.9	6,160.1	10,760.6
Gujarat	16.8	7,141.5	7,763.1
Haryana	14	8,793.2	9,623.6
Himachal Pradesh	10	22,244.7	27,565.1
Jammu & Kashmir	5.4	82,088.5	87,321.7
Jharkhand	40.3	4,169.9	7,717.5
Karnataka	25	12,095.1	14,899.5
Kerala	15	12,929.5	13,302.5
Madhya Pradesh	38.3	5,569.9	11,075.7
Maharashtra	30.7	7,156.2	7,613.8
Orissa	46.4	4,500.9	6,766.5
Punjab	8.4	7,395.2	8,216.3
Rajasthan	22.1	7,036.8	11,357.1
Tamil Nadu	22.5	14,221.8	14,915.2
Uttar Pradesh	32.8	6,080.9	7,014.9
Uttaranchal	39.6	6,042.5	6,934.3
West Bengal	24.7	6,392.7	7,461.0
<b>India</b>		<b>7,091.1</b>	<b>9,065.8</b>

Source: MoRD Annual reports, various years. Bank staff calculations. The 4 programs are PDS, SGRY, SGSY and IAY, with MGNREG added in final column. Poverty head counts from NSS 61<sup>st</sup> round 2004/05.

- ◆ *the major north-eastern and hilly states do very well on average in terms of allocations*, perhaps reflecting the lower matching fund requirements. This holds even if one excludes J&K which is a major outlier on the upside.
- ◆ *total spending per poor rural household nationally on these programs was significant, at ₹ 9,065 in 2006-07, or over 40 percent of the annual rural household poverty line*. Assuming an average 5 person household, the per poor rural household spending on these programs was around 42 percent of the annual rural poverty line.<sup>299</sup> Such a figure needs to be interpreted with caution, as a portion of spending goes on administrative costs, plus is subject to leakage between release and reaching households. The amounts should therefore not be interpreted as actual amounts received by households, which survey sources indicate are far lower, and are reported from

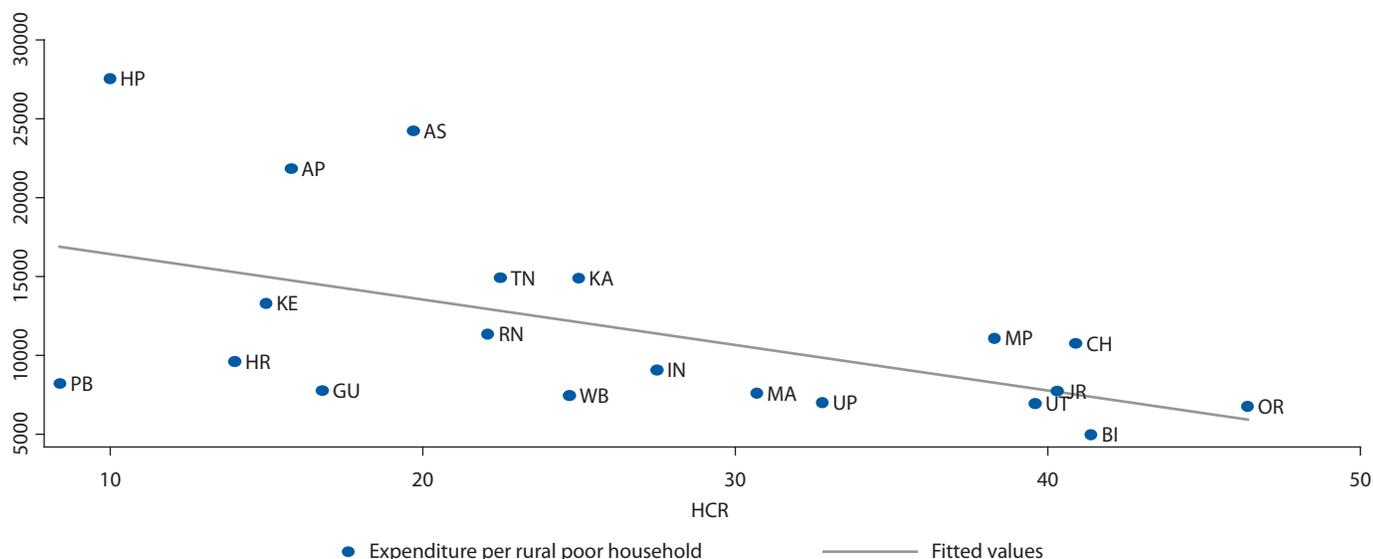
survey sources in Chapters 3 and 4 (and below for Orissa from administrative sources).

THE RELATIONSHIP BETWEEN STATE POVERTY RATES AND SPENDING PER RURAL POOR HOUSEHOLD IS NEGATIVE, INDICATING THAT THE EX POST OUTCOMES IN SP CSS RELEASES ARE REGRESSIVE ACROSS STATES. This can be seen in Figure 6.6, which presents average spending per poor rural household by state for 2006/07 for SGRY, SGSY, IAY, PDS and MGNREG combined. A similar pattern holds for earlier years in the decade, and if one excludes MGNREG.

ANOTHER WAY OF LOOKING AT THE EXPENDITURE PERFORMANCE ACROSS STATES ON THE MAIN CSS SP PROGRAMS IS TO COMPARE THEIR ADJUSTED ALLOCATION NORM OF TOTAL CENTRAL SPENDING AND THE OUTCOMES OF ACTUAL EXPENDITURE FROM THE CENTRE ON THE MAIN CSS. This is presented in Table 6.6 using data from 2006/07 on the 5 main CSS programs, and the patterns largely

<sup>299</sup> The 2004/05 monthly rural poverty line was ₹ 356.3 per person, or annually ₹ 21,378 per household.

Figure 6.6: Average spending per poor rural HH on main SP programs and poverty headcount by state, 2006-07



Source: Spending from Annual Report 2007-08 of MoRD and www.nrega.in; HCR: Planning Commission (URP 2004/05); Rural poor households based on state-wise projected rural population in 2005 from 2001 Census. State-wise rural poverty rate in 2004-05 divided by the average household size (NSS 61<sup>st</sup> round) to obtain rural poor households.

Table 6.6: Spending on the five main CSS for 2006/07 and adjusted allocation norms

State	Adjusted allocation norm	5 programs
	%	%
AP	5.64	8.4
Assam	3.22	6.0
Bihar (+ Jharkhand)	18.48	11.0
Gujarat	2.12	2.5
Haryana	1.25	1.0
HP	0.53	0.8
J&K	0.65	1.3
Karnataka	4.26	5.6
Kerala	1.91	2.3
MP (+ Chhattisgarh)	9.37	12.4
Maharashtra	8.42	6.8
Orissa	6.45	5.1
Punjab	0.61	0.6
Rajasthan	3.23	4.2
Tamil Nadu	4.99	7.6
Uttar Pradesh (+ Uttarakhand)	20.33	14.5
West Bengal	7.17	6.4
Others	1.37	3.5
India	100	100

conform to the picture above, though there are some notably better lagging state performers such as MP.

THE RELATIVE SPENDING PERFORMANCE ACROSS STATES IS DRIVEN BY IMPLEMENTATION DIFFERENCES, AS ALLOCATIONS ARE FAR MORE PROGRESSIVE. Differences in implementation performance are driven by a range of factors, some related to state-specific policies and procedures, and some to institutional capacity at different levels within states. These issues are taken up in the remainder of this chapter, and on a program-specific basis in Chapters 3 to 5.

#### (d) Intra-state SP expenditure performance

GIVEN SIGNIFICANT HETEROGENEITY OF LIVING STANDARDS WITHIN STATES, IT IS ALSO IMPORTANT TO LOOK AT INTRA-STATE EXPENDITURES ON SP PROGRAMS. In principle, some of the regressivity seen in cross-state spending could be offset by geographically pro-poor release across districts within states.<sup>300</sup> Such analysis is not readily available in consolidated form. The following discussion therefore focuses on a few states for which district level SP expenditure analysis has been done, taking selected SP program spending for Rajasthan, Jharkhand, and Orissa.

300 See World Bank (2006d), for general discussion of intra-state variations in household living standards and access to services.

The data suggest that there are significant variations across states, across programs, and in some cases across time in their intra-state expenditure patterns. Looking at the figures, one can see:

- ◆ in Orissa, Table 6.7 shows a clearly regressive pattern of spending across regions on the main RD SP programs (SGRY/NFFW, SGSY and IAY), with spending per poor household in 2002-05 roughly twice the level in richer coastal regions as in the poorest southern regions. This is not to say that the southern regions are ignored, as the RLAP program and other initiatives indicate. However, it confirms on an intra-state basis in a very poor state that expenditures on these programs remain regressive in geographic terms.
- ◆ in Jharkhand for 2001-04, Figure 6.7 shows that districts that were more backward typically spent less per person than less backward areas on the same SP programs. This trend may well be offset once tribal program spending is included, but for SGSY, SGRY and IAY and area development programs, the geographical pattern at district level is mildly regressive.
- ◆ for Rajasthan, the correlation between SGRY spending and BPL share by district was positive but not very strong or improving between 2001 and 2005, while the correlation for SGSY improved sharply from 2003/04 to a high level,

Table 6.7: Average household spending on SGRY/ NFFW, SGSY and IAY by region, 2002-05: BPL and below the poverty line households	
NSS region	Program Spending Annual spending per BPL household
Coastal (poverty rate = 32 %)	₹ 965
Northern (poverty rate = 50%)	₹ 1453
Southern (poverty rate = 87%)	₹ 961
Annual spending per poor household (NSS)	
Coastal	₹ 1867
Northern	₹ 1300
Southern	₹ 966

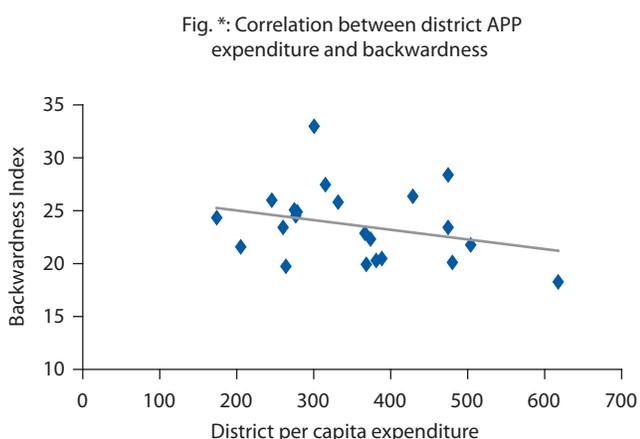
Source: NSS 55<sup>th</sup> round, Bank staff estimates, BPL and spending from GoO.

indicating highly progressive intra-state spending across districts.

OVERALL, THEREFORE, IT APPEARS THAT INTRA-STATE SPENDING PATTERNS ON KEY SP PROGRAMS IN SOME STATES ARE REINFORCING THE DISTRIBUTIONAL CONCERNS THAT ARE EVIDENT ON A CROSS-STATE BASIS, THOUGH MORE STATE-SPECIFIC ANALYSIS IS NEEDED TO CONFIRM THE FINDINGS. As with the cross-state analysis, absorptive capacity and other factors are at work, so that there is no simple policy prescription for how to address the spending differentials issue within states.

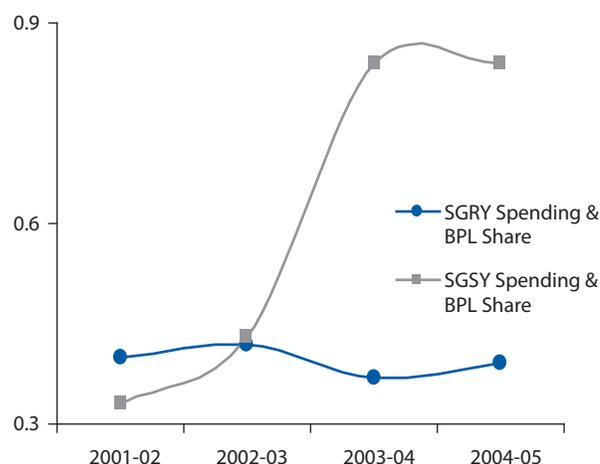
Figure 6.7: Intra-state SP spending

Jharkhand: Spending on APP by districts, 2001-04



Source: GoK. programs = SGRY, SGSY, IAY and area development programs. Index from RD Dept, GoJ.

Rajasthan: Spending on SGRY/SGSY by district, correlation with BPL share



Source: GoR for spending and BPL by district.

## (e) Financing sources for SP programs

AT BOTH STATE AND CENTRAL LEVELS, GENERAL REVENUES REMAIN THE OVERWHELMINGLY DOMINANT MODE OF PROGRAM FINANCING. While the spending split between centre and states varies by program, in nearly all cases both levels finance from general revenues. The most notable exception is that of various central and state-level welfare and provident funds for specific groups of unorganized sector workers. Most of the central welfare funds are financed through a sector-specific cess (e.g., for the Beedi Workers Welfare Fund, a cess on all beedis produced; for construction workers, a cess of 0.3 percent on the value of construction undertaken). At the state level, the financing patterns are more mixed, though many require a contribution from workers, governments and employers in some cases.<sup>301</sup> Apart from welfare funds, the notable major CSS SP program with mixed financing is the midday meal, which in principle benefits from the education cess levied by Gol. A final exception to the practice of general revenue financing has been the famous Maharashtra Employment Guarantee program, which has raised funding from a small tax on all those employed in the organized sector.

IN INDIA – AND THE LARGE MAJORITY OF DEVELOPING COUNTRIES – THERE HAS BEEN VERY LITTLE ANALYSIS OF THE GENERAL EQUILIBRIUM EFFECTS OF DIFFERENT FINANCING SOURCES FOR SP PROGRAMS. In most developing countries, analysis of both equity and efficiency aspects of cash transfers have tended to focus on the direct distributional impacts, using partial equilibrium analysis. A second important dimension is the indirect effects of programs, which looks at the impacts of transfers and their financing modes on the level and composition of supply and demand in the economy. While such work does not yet exist for India, analysis from Mexico on the indirect effects of cash transfer programs provides a useful example of CGE modeling of such impacts, and its implications for different financing models.<sup>302</sup> Indirect effects would through three main effects:

- ◆ a redistribution effect from the patterns of tax to finance cash transfers
- ◆ a reallocation effect, which will arise if the income elasticities of demand among those financing the programs differ from those receiving transfers

<sup>301</sup> See ILO (2004).

<sup>302</sup> See Coady and Harris (2004).

- ◆ a distortionary effect to the extent that program financing is done through changes in distortionary commodity taxes and subsidies (e.g., if financing is done through reduction in distortionary subsidies, this will improve second order effects, and vice versa if such subsidies are increased to finance the program).

IN CONCLUSION, THE EVIDENCE ON FINANCING OF MAJOR SP PROGRAMS SUGGESTS THAT SP PROGRAMS WHICH ARE DESIGNED ON REDISTRIBUTIONAL LINES BECOME MILDLY LESS SO WHEN ONE LOOKS AT ALLOCATIONS ACROSS STATES, AND ACTUALLY REGRESSIVE WHEN EXPENDITURE RELEASES ARE USED. This is not a problem amenable to easy solutions, as flaws in implementation are often driving some of the poor spatial distributional outcomes. However, the conclusions section offers some suggestions which may be worth considering.

## B. INSTITUTIONAL ROLES AND RESPONSIBILITIES IN SP PROGRAMS

EVEN WITH SENSIBLE POLICIES AND IMPLEMENTATION PROCEDURES, PROGRAMS ARE ONLY AS EFFECTIVE AS THE INSTITUTIONS RESPONSIBLE FOR THEIR IMPLEMENTATION. This section looks at some overarching institutional issues in SP program implementation, while Chapters 3, 4 and 5 explore program-specific institutional and implementation issues. Overall, institutional arrangements for SP programs are in a state of flux which results in a considerable degree of heterogeneity across states, sometimes significant gaps between de jure and de facto roles of different institutional actors, and divergences in institutional priorities, both between levels of administration and between administrative and elected institutions.

SP PROGRAMS IN INDIA ARE CHARACTERIZED BY A VAST RANGE OF INSTITUTIONAL ACTORS. This has several dimensions:

- ◆ at central and state levels, programs are spread across a range of Ministries and agencies, including Rural Development and/or Panchayati Raj, Food Distribution, Social Welfare, Labor, Urban Employment and Poverty Alleviation,

Human Resource Development, Tribal Welfare, Food Corporations etc.

- ◆ across levels of administration, central, state and sub-state officials are involved, with the relative importance of the three shifting in SP programs over time in terms of different elements of implementation in SP programs.
- ◆ at sub-state levels, there are roles in SP programs for administrative and elected officials which vary across states both de jure and in practice, and across programs.
- ◆ community groups such as SHGs and cooperatives have in a number of states been given roles in implementing SP programs, and/or monitoring their performance.

THERE ARE SEVERAL IMPORTANT INSTITUTIONAL TRENDS WITH RESPECT TO MAJOR SP PROGRAMS IN RECENT YEARS, INCLUDING:

- ◆ **the increased reliance on CSS, combined with increased use of direct fund transfers to district level, has increased the role of the centre vis-à-vis states in major SP schemes.** This has attractions in terms of the equity function of SP programs, with greater scope for cross-state allocation of funds. At the same time, it may reduce the incentives for states to monitor programs financially, and other functions.
- ◆ **the increased importance of SP funds flows direct to district level presents some differences across states in terms of the relative roles of Zilla Parishads (ZP) and district administration representatives in DRDAs.** While in principle the DRDA should be a channel for elected representatives to have a role in program planning and disbursements, the role of ZP officials is highly variable.
- ◆ **the emerging role of PRIs (in particular Gram Panchayats (GPs)) in aspects of SP program implementation.** While MGNREG represents the most thorough effort to date to give GPs a central role in SP service delivery,<sup>303</sup> other programs have in either central rules (e.g., SGRY) and/or state-level implementation (e.g., PDS through handing over FPS to PRIs; IAY in local beneficiary identification)

given strengthened implementation functions to GPs and *gram sabhas*. This shift is evident in the Eleventh Plan document that seeks to use PRIs as the “primary means of delivery of essential services that are critical to inclusive growth”.

- ◆ **despite the increased de jure role of PRIs, field research indicates that states and administrative channels/line departments continue to play a substantial role in program implementation, though this varies across states and programs.** The de facto outcome of institutional roles is driven in large measure by the misalignment of functions of PRIs with funding levels and controls over resources, and the lack of capable personnel for executing those functions.
- ◆ **on a more state-specific basis, community groups are assuming new roles in SP service delivery.** Examples include operation of FPS by SHGs and cooperatives in several states; involvement of communities in social audits of MGNREG, often with facilitation by NGOs; involvement of VECs and womens’ groups in preparation of midday meals, and in some cases supply of additional food items for the meal.
- ◆ **in a number of states, or specific programs, NGOs and CBOs have been given a promotional or facilitating role in program implementation.** Examples of this trend include contracting of NGOs for capacity building and other support to SHGs seeking to access SGSY credit, facilitating roles in promoting community oversight and social audits, and reliance on worker associations, MFIs and trade unions in mobilization of members for participation in social security schemes for the unorganized sector. Another recent example is the role of different grassroots organizations in outreach for the RSBY program. While states and researchers are generally positive on the contribution of NGOs in program implementation, there is also skepticism in some quarters on the risks of “NGO capture” in cases where NGOs are co-opted by the public system as part of its network (and NGOs such as MKSS have deliberately avoided formalizing their engagement with the

303 In MGNREG, GPs (and at block and district levels, panchayat samitis and zila parishads respectively) are expected to identify sub-projects, mobilize and organize beneficiaries, assist in opening worksites, in some states pay beneficiaries, and play a role in monitoring through the gram sabha.

state in order to retain a more independent voice in program monitoring and mobilization).<sup>304</sup>

WHILE THE SITUATION IS EVOLVING RAPIDLY WITH RESPECT TO INSTITUTIONAL ACTORS IN SP SERVICE DELIVERY, THIS HAS INCREASED THE DIVERSITY OF INSTITUTIONAL ARRANGEMENTS ACROSS STATES. This has naturally resulted in uncertainty – and in some cases resistance – within states as new institutional modalities for SP service delivery mature. Overall, the experimentation that is happening both within CSS institutional design, and in state-specific implementation modalities is a welcome development in light of implementation problems that have long plagued SP programs. At the same time, some of the flux is less positive in that it appears to be driven by genuine lack of coordination and even confusion on the part of policy makers with respect to institutional assignment of responsibilities. The following paragraphs discuss these issues.

A STARTING POINT IN EXAMINING INSTITUTIONAL ROLES IN SP PROGRAMS IS LEGAL ASSIGNMENT OF RESPONSIBILITIES. Interestingly, neither rural development nor poverty alleviation figures in any of the lists of central, state or concurrent subjects under the Seventh Schedule, Article 246 of the Indian Constitution. The State List includes Agriculture, Water, Animal Welfare, Land, and Fisheries, whereas Economic and Social Planning is given in the Concurrent List. The State List includes 'Relief of the disabled and unemployable', but no general poverty alleviation function.<sup>305</sup>

IN CONTRAST, THE 73<sup>RD</sup> AND 74<sup>TH</sup> AMENDMENTS TO THE CONSTITUTION ARE MORE SPECIFIC IN ALLOWING – THOUGH NOT MANDATING – ASSIGNMENT OF SP PROGRAM FUNCTIONS TO PANCHAYATS BY INDIVIDUAL STATES.<sup>306</sup> For rural areas, the SP areas where states may assign functions to PRIs include rural housing, poverty alleviation programmes, public distribution system, social welfare, and welfare of “weaker sections”, particularly SC and ST. For urban areas, the 74<sup>th</sup> amendment allows urban local bodies to have responsibilities for urban poverty alleviation. This de jure power is supplemented in practice by direct assignment of functions to panchayats under the guidelines of central schemes such as MGNREG.

304 See Jenkins and Goetz (1999) for a useful discussion of “state fostered” civil society organizations and their role in service delivery.

305 Saxena, (2006).

306 The following paragraphs draw on World Bank (2006b).

307 States have been encouraged to operationalize the 73<sup>rd</sup> Amendment through seven round-tables organized by the Ministry of Panchayati Raj as well as regular State of the Panchayat Reports.

THE FACT THAT THE 73<sup>RD</sup> AND 74<sup>TH</sup> AMENDMENTS ARE NON-MANDATORY WITH RESPECT TO DEVOLUTION OF FUNCTIONS TO PRIS HAS RESULTED IN VERY VARIABLE DEVOLUTION OF SP (AND OTHER) PROGRAMS ACROSS STATES, AND OFTEN LACK OF CLARITY WITHIN STATES OVER WHICH INSTITUTIONS ARE EMPOWERED TO UNDERTAKE SPECIFIC PROGRAM-RELATED ACTIVITIES. Despite the specificity of the list of services which can be assigned by states to PRIs, the situation varies greatly on whether – and if so in what detail – states have subsequently empowered PRIs in specific areas of service delivery.<sup>307</sup> As the power of PRIs in service delivery is derivative of states, such assignment by states is critical. The situation in different states can be described as follows:

- ◆ **most states have not subsequently assigned specific SP-related activities to PRIs in a coherent manner, so that PRIs have no specific mandate in state legislation (though they may derive this from central legislation and program guidelines).** At the same time, program specific initiatives in a number of states are increasing the effective delegation of activities to PRIs and community groups on a more piecemeal basis.
- ◆ **in a number of other states (e.g., Rajasthan and Karnataka), functions have been explicitly devolved to panchayats, but in broad terms which result in concurrent responsibilities between states under existing legislation and PRIs.** This results in lack of clarity on assignment of specific activities within the broad devolved heads, and overlap of functions across levels of government/administration.
- ◆ **only Kerala has devolved activities in an inclusive manner in terms of subject areas and with a reasonable degree of specificity** in terms of specific activities and roles of different actors. This avoids the issue of concurrent powers which many states encounter.

AS A RESULT, PRI CAPACITY FOR IMPLEMENTING SP PROGRAMS IS HIGHLY VARIABLE ACROSS STATES. Given the large volume of funds currently being administered by panchayats under the Backward Region Grant Fund

(BRGF), MGNREGA and other central schemes, building capacity to administer these schemes as well as general skills related to planning, financial management and procurement becomes critical. Recent initiatives such as the Panchayat Empowerment and Accountability Initiative (PEAIS) seek to address this issue. The PEAIS includes providing training to functionaries and elected representatives on roles and responsibilities as well as IT and FM systems to panchayats.

THE IMPORTANCE OF CSS IN THE SP SECTOR ADDS FURTHER COMPLICATIONS TO ASSIGNMENT OF INSTITUTIONAL RESPONSIBILITIES, AS CSS GUIDELINES INCREASINGLY SPELL OUT INSTITUTIONAL RESPONSIBILITIES WHICH MAY OR MAY NOT BE CONSISTENT WITH ASSIGNMENTS IN INDIVIDUAL STATES. In addition to the lack of clarity within states on assignment of institutional responsibilities for specific service delivery tasks, the guidelines of CSS increasingly introduce roles for PRIs in program implementation. The most thorough example is MGNREG, but other schemes such as SGRY, SGSY (to a modest extent), and IAY also mandate a PRI role. Two points to note in this respect are: (i) that different central schemes presently have very different degrees of PRI participation, reflecting in part their age and the state of the devolution debate at the time of framing and; (ii) there is often a mismatch between CSS-assigned institutional roles and more general assignment of devolved functions to PRIs within states.<sup>308</sup>

ONE SHORTCOMING OF INSTITUTIONAL ASSIGNMENTS OF RESPONSIBILITY FOR SP PROGRAMS IN THE PAST HAS BEEN A TENDENCY TO CONCENTRATE RESPONSIBILITIES FOR MULTIPLE PROGRAM FUNCTIONS AT SPECIFIC – AND SOMETIMES INAPPROPRIATE – LEVELS OF THE SYSTEM. This leads to difficulties in enforcing accountability, in part due to concurrent responsibilities within states. To date in most schemes, there has been a tendency to cluster functions at specific levels of the system, rather than assigning specific activities to the most appropriate level. In some cases, the clustering is de jure (e.g., SGSY), and in others de facto (e.g., SGRY). For example, districts – through Collectors and BDOs - and states have historically played a major role in all aspects of SP implementation, from prioritization of activities (e.g., works selection; priority lending areas) to oversight. This has contributed to

program challenges such as lack of responsiveness of schemes to local needs and weak local accountability due to oversight from a distance.

IT IS CLEAR FROM THE ABOVE THAT THE ASSIGNMENT OF INSTITUTIONAL RESPONSIBILITIES FOR SP PROGRAMS HAS OFTEN NOT BEEN INFORMED BY A CLEAR ALIGNMENT OF FUNCTIONS, FUNDS AND FUNCTIONARIES, THOUGH MGNREG IS A PROMISING CASE OF EFFORTS TO IMPROVE THE SITUATION.<sup>309</sup> The dominance of CSS in SP with the need for state and sub-state level implementation creates challenges for developing an appropriate institutional framework. In this respect, it is important to have an alignment of functions to be carried out by different actors (administrative and elected public sector, NGOs and communities themselves) which reflects – or mobilizes – the capacity of functionaries at different levels to undertake the assigned functions, and is supported by sufficient funding and control over spending for each level to perform its anticipated functions.

UNBUNDLING THE KEY ACTIVITIES THAT ARE NEEDED IN INDIVIDUAL SP PROGRAMS WOULD THEREFORE SEEM A SENSIBLE FIRST STEP TOWARDS MORE APPROPRIATE ASSIGNMENT OF IMPLEMENTATION RESPONSIBILITIES. The guidelines for MGNREG provide just such an example, and should act as a model for future reforms of SP CSS. At the same time, for CSS, there should be closer consultation with states on which unbundled functions most sensibly sit at what level of the system, and with elected or administrative agencies. An example of such an “unbundling” is presented in Annex 1 for SGRY, looking at both de jure and de facto assignment of the unbundled activities. Annex 1 also presents an indicative format for activity mapping developed by the Ministry of Panchayati Raj, in response to the recommendations of the Empowered Sub-Committee of the National Development Council (NDC) on Financial and Administrative Empowerment of PRIs. In broad terms, these functions can be divided into six major categories. Within these major categories of activities will be a range of sub-activities which need further enumeration and assignment:

- ◆ *policy development and standards*
- ◆ *planning*
- ◆ *asset creation (and/or benefit delivery)*

308 See also the advisory dated 19.01.2009 from the Ministry of Panchayati Raj to states on delineation of roles and responsibilities of PRIs in CSSs/ACAs.

309 See World Bank (2006d), for a detailed description and application of the “3 Fs” framework for India, and World Bank (2004) for international evidence.

◆ *program operation (including HR, FM and other support functions)*

◆ *M&E*

WITH RESPECT TO POLICY DEVELOPMENT STANDARD SETTING, IT IS CLEAR THAT THE CENTRE AND STATES SHOULD CONTINUE TO PLAY A MAJOR ROLE. Given the patterns of financing, and the desire for a significant degree of equity in programs across space within the country, it makes sense for the centre and states to continue their major role as policy developers. However, there are issues in how these policy and standard setting functions are carried out within and between the centre and states which will require a fresh look in light of the evolving SP policy and program mix.

A FIRST ISSUE IN POLICY AND STANDARD SETTING IS HOW TO PROMOTE GREATER COORDINATION AT CENTRAL AND STATE LEVELS ACROSS LINE AGENCIES. In the past, the concentration of SP programs in the Ministry of Rural Development and Ministry of Consumer Affairs, Food and Public Distribution meant that the coordination challenges in developing a coherent SP policy were more limited. However, the situation is already changing and can be expected to change further in coming years in several ways. Firstly, greater efforts will be need on development of appropriate SP policies and programs for urban areas, increasing the role of both urban Ministries. Secondly, the anticipated expansion of social security to the unorganized sector will involve Ministry of Labor and Employment more actively in SP service delivery (as well as a range of third parties such as insurers, intermediary organizations of unorganized workers et al). Thirdly, the increasing role of SP interventions to support human capital formation (currently midday meals, but also stipends for education and pilot CCTs for early child interventions) will require increased coordination with other social sector Ministries such as Human Resource Development, Health and Family Welfare, and Women and Child Development. Finally, the increased role of local institutions in delivery of SP programs will require coordinated efforts between line agencies and the Ministry of Panchayati Raj. Simply relying on the lead of Rural Development and Food Ministries, and/or expecting bilateral coordination between ministries will increasingly be inefficient and insufficient, and is likely to increase the tendency to substitute broad-based policy development and oversight with “guideline development” within specific schemes.

THERE ARE DIFFERENT OPTIONS FOR HOW TO IMPROVE THE COHERENCE OF SP POLICY DEVELOPMENT AND STANDARD SETTING, BUT ALL WOULD IMPLY AN EXPLICIT INSTITUTIONAL MECHANISM FOR MORE STRATEGIC AND COHERENT ACTION AT BOTH CENTRAL AND STATE LEVELS. Different countries have approached such coordination challenges with different institutional responses. Some have tried to bring programs increasingly under the purview of a single Ministry (such as Labor and Social Protection/Welfare), others have created coordinating institutions or structures under the office of PM or President. These may be ambitious options for India, given the institutional interests and history in the sector. A more modest option would appear to be creation - with a lead role for the CS, Planning or Finance Departments in states, and for Finance perhaps at the centre – of a Social Protection Task Force or Agency. This could involve all ministerial players, and deal with policy issues in SP of a more strategic or cross-cutting nature.

THERE HAVE BEEN EFFORTS AT THE SUB-NATIONAL LEVEL IN RECENT YEARS TO TRY TO PROMOTE GREATER INSTITUTIONAL AND DELIVERY PLATFORM HARMONIZATION ACROSS AGENCIES RESPONSIBLE FOR SP AND OTHER TARGETED PROGRAMS. Uttar Pradesh approved such an agency in 2008, called the Safety Nets Authority with an important standard setting and harmonization function across departments responsible for programs targeted to the poor. The mandate for the Authority seemed very appropriate. In 2008, the Delhi Government introduced the Convergence Mission. This initiative, as the name suggests, is a concerted attempt to streamline service delivery of multiple targeted programs. To achieve this vision, the Government intends to bring the programs on a common platform, strengthen the implementation machinery at lower levels, and incorporate civil society organizations as partners in overseeing the entire process (see Box 6.1). Some states, notably Kerala, have shown great progress in convergence across programs at the local level through the involvement of PRIs.

A SECOND IMPORTANT ASPECT OF THIS ISSUE IN INDIA IS THE DEGREE OF POLICY FREEDOM THAT STATES COULD BE GIVEN IN POLICY ADAPTATION AND MIX IN MAJOR SP PROGRAMS. A common criticism of CSS has been that states have insufficient policy leeway in adapting CSS program design to the needs of specific states. While this concern has been somewhat less in recent years (e.g., as states have been given more leeway in adapting local

## Box 6.1: Mission convergence: Institutional reform of targeted programs in Delhi

Like other states/UTs, Delhi has a range of social programs - both CSS and local programs - which seek to target the poor and vulnerable. These are administered by nine different departments, including Social Welfare, Health, Education, Urban Development, Food and Civil Supplies, and Labor, among others. Many of the programs overlap in design as well as target populations, implementation and reporting arrangements. However, no single entity has a comprehensive overview of programs in terms of type of intervention, beneficiary population, delivery system, spending, etc. From the point of view of the target population, this multiplicity implies understanding various eligibility rules, making several applications and engaging with multiple authorities in accessing benefits. This is often very challenging.

In 2008, the Delhi Government introduced the Convergence Mission. This initiative is a concerted attempt to rationalize and converge service delivery of multiple programs, with a view to improve access and outcomes. To achieve this vision, the Government intends to bring these programs on a common platform, strengthen the implementation machinery at lower levels, and incorporate civil society organizations as partners in overseeing the entire process. In operational terms, this has involved the following processes:

**(a) Defining institutional responsibilities and implementation structures.** At the UT level, a registered society, the Samajik Suvidha Sangam, is responsible for implementation. The SSS is also responsible for coordination with the participating state departments. At the grassroots level, over 90 Gender Resource Centers (largely managed by NGOs and CBOs) serve as the principal agency for outreach, beneficiary identification and service delivery.

**(b) Rationalization of programs.** The Mission, with inputs from the Commissioners of the Supreme Court, reviewed the social programs administered by the nine departments with respect to their relevance, effectiveness of implementation arrangements, and eligibility criteria. The rationalization process entailed merger of some schemes (within and between departments), closure of some, and the expansion of coverage or scope of others. This is a massive achievement. However, even further rationalization as the current of programs remains high at 35 programs. This is seen as a dynamic process.

**(c) Development of common beneficiary database.** The Mission has adopted a new targeting method, which supersedes the previous BPL system. Vulnerable households are now classified as per three criteria: (i) Residence - those living in slums and resettlement colonies and the shelterless or precariously housed; (ii) Social deprivation - single unprotected children, child-headed households and households with elderly, disabled, single women, persons suffering from specific illness such as HIV/AIDS, tuberculosis or leprosy; and (iii) Occupational vulnerability - those households that are primarily dependent on earnings from casual work with irregular wages and poor working conditions. A subset of households is considered most vulnerable. While the move towards identifying vulnerable households on the basis of non-income dimensions is a positive step, translation of these criteria into clear, measurable and verifiable indicators remains a concern. In addition, the reliance on MC's field service units (see below) for the enumeration of households has raised problems in execution of the proposed targeting method.

**(d) Establishment of a common delivery platform.** The next step is to develop a common delivery platform that provides access to all programs using a biometric card system. The GRCs would provide a single point of contact between beneficiaries and government. Common formats for enrolment in various programs have been developed, along with simplification and streamlining of documentation requirements. Enrolments through biometric cards are planned in order to minimize fraud and facilitate efficient and integrated delivery of benefits. Similarly, the intention is to develop common systems for information, reporting, and monitoring.

Mission Convergence is an ambitious and welcome initiative. Delhi has a very complex governance structure. This presents formidable challenges to such an initiative that redefines administrative and local power structures. If successfully implemented, this could potentially increase cross-program coherence, streamline delivery and demands on administrators and beneficiaries, and increase transparency. It can also serve as a model for other states; for instance, Uttar Pradesh also announced in 2008 the formation of a Social Safety Nets Authority to perform a coordination function across state departments and programs.

institutional arrangements in program delivery), the overall room for states to adapt the policy mix across major SP programs remains limited. In addition, specific elements of the CSS policy framework remain in some cases more rigid than would be desirable (e.g., the restrictions on types of works allowed to be undertaken under public works programs).

**FOR PLANNING, THE CONNECTIONS BETWEEN LEVELS OF THE SYSTEM - AND BETWEEN ADMINISTRATIVE AND ELECTED MECHANISMS - REMAIN THE BIGGEST CHALLENGE.** In the area

of planning, several government and donor-supported initiatives have focused in recent years at district level, with the objective of achieving greater cross-program convergence on priorities, in the process reducing risks of duplication of use of funds. The guidelines of MGNREG again provide a useful example of efforts to promote greater coordination in planning between GPs, blocks and districts, though field work reveals that such coordination remains to be realized effectively in most states. However, the challenges of achieving effective

district planning should not be underestimated. The difficulties in coordinating planning efforts within states include:

- ◆ **at the higher levels, there is often inadequate coordination between centre and states (and/or DRDAs), so that communication of likely allocations for SP programs in the coming budget year are not known in advance, and at times not well into the budget year.** This makes planning at state and lower levels challenging, as forward planning exercises do not have sufficient information on the resource base to make informed decisions.
- ◆ **there is limited attention in allocation of institutional responsibilities to the economies of scale/scope and the potential externalities of different program activities.** An example is public works planning, where GP-level decisions on water management works or construction of link roads may – in the absence of coordinated action at a wider geographic level – result in works which fail to maximize wider-area benefits and efficiencies. Often, multiple district plans are prepared without an integrated vision for the district as a whole.
- ◆ **capacity for planning at sub-state level is typically low, so that close technical support is often required to facilitate such planning exercises.** Data from the Ministry of Panchayati Raj indicate that as of 2005-06 several states had not yet constituted District Planning Committees (e.g., UP, Gujarat, Goa, Assam, and Andhra Pradesh), so that a basic building block of effective district planning was absent.<sup>310</sup> This situation is gradually improving and by 2009, 19 states had constituted DPCs.
- ◆ even where district planning mechanisms are in place (which is the case in the majority of large states), there is an inherent tension between the tied nature of SP (and other) program funds and the intention in district planning to give panchayats, DRDAs and other local agencies a less constrained voice in the planning process.

ON OPERATIONAL ASPECTS OF PROGRAM OPERATIONS, THE KEY DECISIONS ON ROLES AND RESPONSIBILITIES BETWEEN LEVELS AND BETWEEN ELECTED AND ADMINISTRATIVE MACHINERIES NEED TO BE TAKEN BY STATES, WITHIN THE

310 [www.indiastat.com](http://www.indiastat.com), citing MoPR, Gol.

GUIDANCE PROVIDED BY THE CONSTITUTION. While at one level such a proposition is obvious in light of the diversity of institutional capacities across states, an immediate question is how far the centre can drive specific institutional assignments of roles on a scheme-specific basis. A desirable compromise between the interests of states and the centre would seem to be a cross-scheme assessment involving both parties of appropriate and feasible assignment of functions and specific activities in major SP programs. The case of Kerala is the best practice to date of moving from such agreements to a generalized but specific assignment of activities for PRIs (and by default administration) in program implementation.

FOR URBAN AREAS, THE ROLES OF LOCALLY ELECTED BODIES, MUNICIPALITIES AND LINE AGENCIES IN SP PROGRAM ADMINISTRATION REMAIN EVEN LESS CLEAR THAN FOR RURAL AREAS IN MANY STATES. While analytical work is growing on institutional roles in rural areas, the urban landscape remains relatively under-examined. This is an area where the Ministry of Urban Employment and Poverty Alleviation, in collaboration with states and cities, has a role to play in sharing knowledge on existing institutional arrangements in urban SP programs, and good practice among states.

ON M&E, THERE ARE LIKELY TO BE ROLES FOR ALL LEVELS OF THE SYSTEM, BUT IN DIFFERENT CAPACITIES WHICH BUILD ON THE COMPARATIVE ADVANTAGE OF EACH. Some elements of a desirable division of responsibilities might include:

- ◆ **for the centre, there could sensibly be three roles in M&E: (i) working with states to develop common administrative monitoring systems and indicators.** These could be enhanced at state level as capacity allows, but some minimum standard setting on program reporting would be a valuable central function. The collaboration between the central Ministry of Rural Development and the National Informatics Centre (NIC) on software development for MGNREG provides a good example of the value-added of the centre in SP programs, as does the software certification function of NIC within the RSBY program; (ii) within CSS budgets, making explicit allowance for M&E functions in allocations, including capacity building within states; and (iii) strengthening the evaluation of CSS SP

programs, in particular moving beyond the present system of concurrent evaluations to more rigorous methods of impact evaluation which proceed from reliable pre-program baselines. Such a function is anticipated under MGNREG guidelines, though the anticipated central role in this regard has yet to be rolled-out in practice. More generally, the Planning Commission has argued recently for an Independent Evaluation Office which would have an arms' length relationship to the implementing Ministries, and have a more analytical evaluation function than that of the CAG, which tends to focus more on compliance issues rather than impact evaluation per se.<sup>311</sup>

- ◆ **for states, there is a need to reconsider what roles can effectively be played in M&E.** The need to “push down” certain monitoring functions may require a narrower role for states in future. Nonetheless, several important tasks could sensibly be retained, including: (i) responsibility for financial internal and external audit of programs, including capacity building at lower levels for generation of records needed to conduct effective audits; (ii) consolidation of lower level monitoring reports, and synthesis of trends as a tool for policy refinement and reorientation as needed; and (iii) with financial support from the centre, deepening a culture of impact evaluation in programs.
- ◆ **at the sub-state level, the challenge will be to balance the strengths of local level actors in being “close to the action” with the need to have some distance between those implementing different aspects of programs and those monitoring them.** A threshold issue in this respect is a more explicit assignment in most states of responsibility for specific service delivery activities in SP programs between sub-state levels and between elected and administrative channels. However, several general principles seems desirable: (i) communities, both through *gram sabhas* and through facilitated processes such as social audits, should be given a stronger authorizing environment for program monitoring of all SP programs, as allowed for under MGNREG, and support provided to perform such

functions. Such functions would be more difficult to perform in urban areas where community institutions are less developed, and options like localized third party monitoring may be required; (ii) the role of the block level in monitoring should be explored more closely, as a potential layer which balances the desire for being close to the source of implementation with the need to minimize GP monitoring their own execution of activities. The extent to which the functions of the block in this respect would most usefully amount to oversight or some closer form of monitoring needs further consideration. At a minimum, the block would continue to be an important layer in consolidating program performance information, and using this to inform coordinated action across GPs where the nature of program suggests it (e.g., public works which involve cross-GP coordination or impacts); (iii) the district level is perhaps the most difficult to assess in terms of potential M&E roles. It is in principle too far away from the source of implementation to monitor effectively, but not high enough to have much capacity to conduct more rigorous evaluations.

THE BIGGEST CHALLENGES FOR SP PROGRAMS IN TERMS OF INSTITUTIONAL ASSIGNMENT OF ROLES WILL CONTINUE TO BE TWO: (i) mismatch between centrally-mandated roles under specific programs for sub-state actors and the in practice level of devolution and capacity of PRIs; and (ii) lack of clarity on the relative roles of administrative and PRI delivery channels within states, particularly where de jure and de facto responsibilities are misaligned.

## C. POLITICAL ECONOMY OF INSTITUTIONAL REFORM IN SOCIAL PROTECTION

THE POLITICAL ECONOMY OF SP POLICY AND INSTITUTIONAL REFORMS IS COMPLEX, AND WILL REQUIRE INTENSIVE EFFORTS TO BUILD CONSENSUS ON REFORMS. In particular, it will be important to ensure that the interests of perceived “losers” of SP and broader economic reforms are taken into account. While reforms that involve expanded coverage or new types of interventions are unlikely to

311 <http://www.business-standard.com/india/news/independent-office-to-evaluate-govt-schemes-soon-montek/75523/on>. October 9, 2009.

be controversial, there are strong interests in preserving the status quo in SP programs among a range of actors, including administrators, politicians, contractors and others. Simply cutting programs or excluding certain groups of beneficiaries or institutional players is therefore unlikely to be successful unless incentives for institutions and households which will be affected by reforms can be part of the reform package. The political economy of SP reform is challenging in all countries, and governments in India would benefit from more innovation in their efforts to create a broader societal understanding of the need for and benefits of reforms.

SOME OF THE POLITICAL ECONOMY CHALLENGES THAT THE SP SYSTEM CONFRONTS IF IT IS TO BECOME MORE COHERENT AND MORE EFFECTIVE AS A TOOL FOR PROMOTING POVERTY REDUCTION AND INCLUSIVE GROWTH INCLUDE:

- ◆ *as in many areas of policy reform in India, consolidation and reform of the SP system within a coherent strategy will run counter to the past experience of scheme-driven initiatives by a plethora of Ministries*, and the observed tendency of each new government at both central and state levels to want new SP programs clearly distinguishable from their predecessors. Reducing these natural bureaucratic and political tendencies will be very challenging. A first step is obviously having an integrated SP strategy which is driven by the top politicians and bureaucrats at central and state levels, with strong inputs from civil society in its development, including opposition parties. However, even if such a strategy process can be developed, it will be important for it not to become a “one shot” exercise, but to have institutional coordination mechanisms in place which explore program duplication and exploit synergies.
- ◆ *giving states a more flexible hand in use of central SP resources will be a challenging transformation* both for central administrators (whose past tendency has been to define the parameters for use of central funds quite tightly) and politicians (who not unexpectedly seek political attribution for centrally-financed schemes implemented by states). The first of these challenges in perhaps easier to address through development of more outcome-based monitoring systems. The second is more difficult in a democracy.
- ◆ *in a number of programs, there are presently significant rent-seeking opportunities for a range of actors*. Such opportunities are facilitated by the current complexity of the SP program mix, but also by the number of intermediaries who often are involved in the interactions of poor people with the SP system. The generic identity of such official intermediaries and unofficial middlemen is generally well-understood, but minimizing the potential avenues for their continued roles has only recently become a more explicit goal of SP policy design. While it is too early to say, even apparently naïve blanket bans on certain actors in legislation and/or guidelines (such as the ban on contractors under NREGA) do appear to help. However, a more comprehensive approach will require a more thorough modernization of SP business processes. Examples where such approaches already appear to be making headway include greater reliance on direct transfers to beneficiaries through banking and postal systems, and innovations in use of ICT in SP program delivery.
- ◆ *a more recent and fluid development in the political economy of SP (and much other) service delivery is how increased decentralization of responsibilities to panchayats* – in particular GPs – generates different patterns of contention, cooperation and collusion between newly elected panchayat officials and traditional loci of influence among administrators and higher level politicians such as MLAs and MPs. An essential first step in promoting decentralization of SP service delivery as a tool for contestability and hence accountability will be getting a better empirical understanding of the diversity and evolution of experience. This would include how the gradual increase in the role of panchayats is proceeding (and what factors – such as limited control of resources and very low capacity), and the extent to which panchayats effectively promote accountability in SP service delivery or are captured by local social, political and administrative elites.<sup>312</sup>

<sup>312</sup> Jha, Bhattacharyya, Gaiha and Shankar (2008) on MGNREG provides useful empirical insights into the dynamics of program capture and the variations by state for the cases of Rajasthan and AP.

◆ *the final more nascent, but potentially powerful, element in the political economy of SP reform is the role of communities and civil society in promoting more effective poverty reduction outcomes from spending.* In this respect, the strengthening of the “authorizing environment” for communities in SP service delivery in recent years is encouraging. This is both cross-cutting, through reforms such as the Right to Information Act, and program specific, such as the anticipated role of social audits in NREGA, and new roles for community groups such as SHGs in delivery of some SP services (e.g., running Fair Price Shops). However, there is no guarantee of “trickle down” to citizens in terms of awareness of their emerging entitlements. The role of NGOs, media and other actors in this respect cannot be under-stated, as various political and administrative actors at local level may not have strong incentives to promote such citizen-based accountability mechanisms. Notable examples such as MKSS in Rajasthan demonstrate the potential impacts of such partnerships.

## D. CONCLUSIONS AND RECOMMENDATIONS

◆ *It is clear that social protection is in an exciting phase in terms of policy evolution, financing levels, and institutional arrangements.* At the same time, the situation presents an unfinished agenda which in some ways lacks a coherent vision for the system which is informed by the socio-economic developments outlined in Chapter 1, and institutional capacities. *Looking at the financial and institutional aspects of SP programs covered in this chapter, some conclusions and recommendations are as follows:*

### (i) Financing of SP programs

BROADLY SPEAKING, INDIA’S SHARE OF PUBLIC SPENDING ON SAFETY NETS IS REASONABLE, AND INDEED QUITE HIGH AS A SHARE OF GDP BY INTERNATIONAL STANDARDS OF LOW

AND MIDDLE INCOME COUNTRIES. ITS MAIN CHALLENGES ARE THEREFORE FOURFOLD:

- ◆ sustaining roughly the current share of public spending as overall spending rises.
- ◆ adjusting the composition to spending to greater emphasis over time on ex ante risk mitigation (i.e., social insurance programs for the unorganized sector) and promotional programs (including those linked to human capital formation, discussed in Chapter 4).
- ◆ increasing the flexibility of funding from the centre to states in terms of how it can be used for different SP interventions, while strengthening the emphasis on spending outcomes.
- ◆ deepening a range of administrative and institutional reforms in SP service delivery which can contribute to greater expenditure efficiency. Many of the operational reforms are discussed in Chapter 7.

THE NOTABLE EXCEPTION IS THE AREA OF SOCIAL INSURANCE, WHERE THE SHARE OF PUBLIC SPENDING CAN BE EXPECTED TO INCREASE NOTABLY AS INDIA ENTERS MIDDLE INCOME STATUS, AND WHERE THE IMBALANCE BETWEEN SOCIAL SECURITY SPENDING ON THE ORGANIZED AND UNORGANIZED SECTORS WOULD BE EXPECTED TO SHIFT IN FAVOUR OF THE LATTER. In the medium term, international experience and social expectations in India would suggest significantly increased spending on social insurance for the large uncovered share of workers. It will be important that this increased expenditure priority not be at the expense of social safety net spending, but rather is financed from a combination of reallocation from non-merit spending, growth in aggregate fiscal resources, and contributions from workers themselves. In practice, expanding social security to the unorganized sector is likely to require not-insignificant public subsidies to incentivize participation, as one sees for example with RSBY and certain pension schemes.<sup>313</sup> In addition, effective social insurance programs can in part be expected to be self-financing in two ways: (i) they should help control additional demands on the safety net that might otherwise arise due to factors such as population ageing; and (ii) international evidence suggests that effective social security systems can actually contribute to growth in a

313 For international experience on matching subsidies to incentivize participation in pension programs for informal sector workers, see Holzmann et al. (2009).

variety of ways, from enabling higher risk/higher return productive activities to cushioning the impacts of growth-enhancing reforms for those who lose out from them in the short run.<sup>314</sup>

- ◆ **The specific proposal of this report is that central SP programs over time aim for a “3 + block” strategy.** This would involve 3 core CSS SP programs or “pillars”, combined with an SP block grant from which states could finance other SP programs - or supplement benefits under the core pillar programs - more tailored to the poverty and vulnerability profile of the individual state. This would also involve significant expansion in urban areas. This could promote both a more coherent and less duplicative SP system, but also give states more leeway to adapt the SP policy mix to the needs of the poor in individual states in light of available economic opportunities. The three core pillars proposed are:
  - ◆ **a major social assistance program.** The obvious candidate for this is a significantly reformed PDS, merged for specific groups with existing social pension programs.<sup>315</sup> Chapter 3 gives more details on the options for reform of PDS proposed by this report, with a preference for a predominantly cash transfer approach.
  - ◆ **a public works program,** for which MGNREG would be the building block, as well as piloting expansion in urban areas. There are several benefits of a reliable public works program at this stage of India’s development: (i) by its demand-driven nature, it can be responsive to shocks in a way that longer run programs typically can not. In this way, it functions as a “quasi-insurance” program for the extended period during which more structured insurance is expanded to the unorganized sector; (ii) the positive targeting outcomes of self-targeted works; and (iii) the potential for multiplier effects from asset creation and community mobilization distinguish public works from other SP programs.
  - ◆ **a basic social security package for those outside the formal sector** which could be expanded

in terms of coverage and scope of benefits as institutional capacity and fiscal space is developed. The core types of insurance which Gol aims to expand include life, disability, old age pension, and health, and the RSBY program is already an important step forward in this regard. Chapter 5 gives suggestions on institutional, financing, sequencing and other aspects of an expansion strategy.

BEYOND THE THREE “PILLARS”, STATES COULD RECEIVE AN ADDITIONAL TRANSFER AND IMPLEMENT STATE-SPECIFIC SP INTERVENTIONS. How this is programmed could vary according to state-level priorities, and include interventions such as livelihood support of different forms, targeted housing, interventions to incentivize use of basic social services (such as CCTs), nutrition and/or early childhood care, specific urban SP programs, or other options as proposed by states. A secondary benefit of such an approach would be strengthening of complementarities between CSS and state-sponsored schemes in order to control unnecessary duplication. A common core national SP system under the three pillars could promote portability of basic entitlements, and be increasingly useful as mobility of workers and households increases.

IN TERMS OF PROMOTING BOTH MORE EFFECTIVE SPENDING ON SP, THE “3+BLOCK” PROPOSAL WOULD ALLOW MORE CROSS-PROGRAM FLEXIBILITY TO STATES – OR POSSIBLY DISTRICTS - IN DECIDING THEIR SP EXPENDITURE PRIORITIES, WHILE STILL MAINTAINING A COMMON NATIONAL CORE SP SYSTEM. It would also allow for greater adjustment in light of poverty levels, key vulnerabilities, etc. This could be done in a variety of ways, possibly using a menu approach to SP programs, and a flexible form of social protection block or matching grant which consolidates resources from existing SP CSS.<sup>316</sup> This is an approach which has received increased attention in India in recent years as policymakers seek to get greater impacts from SP spending. Given current financing channels from the centre to states in India, a more flexible granting mechanism for SP programs to states could take different forms – as a more “bundled” anti-poverty CSS, as Additional Central Assistance (ACA) along the lines

314 See World Bank (2006c), for a discussion of international evidence that there is no necessary growth-equity trade-off.

315 This would be similar to the Chinese urban and emerging rural social assistance system, which is built around the “di bao” program which provides cash benefits to the poor, and has additional provision for specially vulnerable groups such as disabled and unsupported elderly. See World Bank (2009b).

316 See de Neuborg (2002) for a discussion of the strengths and weaknesses of different block and matching grant mechanisms in the context of SP programs.

of programs like Pradhan Mantri Gramodaya Yojana (PMGY), or through a more fungible realignment of Gross Budgetary Support shares between the states and central Ministries which control CSS.<sup>317</sup>

THERE ARE PROS AND CONS OF DIFFERENT POSSIBLE METHODS OF MORE FLEXIBLE CENTRAL FUNDING FOR SP PROGRAMS. Firstly, there would be natural reluctance from central Ministries to simply transferring SP CSS resources to Normal or even Additional Central Assistance, as evidenced by the failure to transfer several CSS to states as per the 1999 Planning Commission list of schemes. More specifically, as Normal Central Assistance is based on population and poverty under the Gadgil formula and not on performance, incentives for states to improve performance on specific SP programs would be relatively weak. For Additional Central Assistance, there are examples of linking transfers to state reform performance, such as JNNURM etc. However, these requirements have not been strongly enforced in practice. There is also no obvious mechanism for the Planning Commission to monitor performance of specific CSS under NCA, and for ACA only where responsibility is given to a central Ministry.

OVERALL, AN IMPROVED TRANSFER SYSTEM FOR SP CSS WOULD NEED TO BALANCE NEED, CAPACITY AND FISCAL AND ADMINISTRATIVE EFFORT OF STATES. This could involve several elements, including:

- ◆ ***a first step towards such a system would be moving to towards a more outcome based funding method.*** Such an approach would, however, require a clearer set of outcome indicators against which state performance could be measured, and a stronger planning function at state and district levels. This approach is one that is already being used in India in some donor programs which are results or outcome-based.
- ◆ ***a second step in such a process may be allowing for sanctioning of allocations for states which stretch across two to three budget years,*** which could lessen current incentives to spend SP allocations inefficiently (or simply parking them in accounts), and also assist with programs which are subject to cyclical demand - such as public works – which is not presently synchronized with the budget planning and release cycle.

- ◆ ***a third step could be the block grant for SP programs outlined above.***
- ◆ ***an alternative approach which could be implemented even in the absence of more serious financing reforms is the creation of an incentive fund for states for SP programs.*** An SP incentive fund could either be stand-alone or a window of broader proposal for a decentralization incentive fund. Alternatively, a central innovation fund for social protection could be created which could allow states to access central funds on a proposal-driven basis for innovations in SP program delivery, or experimentation with new initiatives.

## (ii) Institutional roles for SP programs

THE MOST FUNDAMENTAL INSTITUTIONAL CHALLENGES IN SP CSS CONTINUE TO BE DELINEATING CLEAR LINES OF ACCOUNTABILITY IN SERVICE DELIVERY, AND SUPPORTING THE AUTHORIZED ACTORS WITH ADEQUATE STAFF AND FINANCES. This will require first and foremost greater proactivity on the part of states to approve policies and put into practice the PRI/ULB decentralization provided for under the 73<sup>rd</sup> and 74<sup>th</sup> constitutional amendments. With notable exception of Kerala, and incomplete examples such as Rajasthan and Karnataka, most states have yet to define the framework for decentralized service delivery in a sufficiently operational manner.

THIS WOULD NEED TO BE FOLLOWED BY A PROCESS-INTENSIVE RECONCILIATION OF CENTRAL GUIDELINES, STATE-LEVEL STANCES ON SERVICE DELIVERY DECENTRALIZATION, AND CAPACITIES AT SUB-STATE LEVELS TO PERFORM THE REQUIRED IMPLEMENTATION FUNCTIONS IN SP PROGRAMS. This is not a process which will generate a single “right” answer on the assignment of activities to different actors at different levels of the system. What it could usefully achieve however is a more considered assessment by both centre and states of what is the chain of activities from top to bottom required to deliver effective SP programs, and of the realistic potential of different actors to deliver on their proposed responsibilities. This could in time improve the alignment of functions, funds and functionaries in SP programs. Such efforts would need to focus in particular on elements of the service delivery chain at block level and below. The process could involve several steps:

317 See Saxena (2006) for a history of central transfers for APP since the 1960s.

- ◆ **“unbundling” each core SP CSS to its constituent functions or services and specific activities in different programs, as has been done for the MGNREG and RSBY guidelines.** While implicit in guidelines of some other schemes, such a simple exercise would be a useful building block for a principled division of functions across levels.
- ◆ **for all states, producing a consolidated mapping of the current assignment of sectors and SP program-specific functions, both de jure and de facto.** This exercise would clearly identify cases where concurrent responsibilities arise for programs where DRDAs and/or PRIs have specific responsibilities assigned to them under CSS

guidelines. Where such concurrent responsibilities are apparent, further dialogue between the states and centre would be needed to agree whether CSS guidelines need to provide more flexibility to states on institutional arrangements for programs, or whether states need to be encouraged to move more actively on state-specific assignments which are consistent with CSS programs (with Kerala providing a good example of such a proactive role by states). Such discussions could be guided by both public finance criteria for assigning responsibilities, and basic management principles for enhancing accountability.<sup>318</sup> Both of these are discussed in Box 6.2.

### Box 6.2: Guiding principles for assignment of institutional responsibilities

Assigning institutional responsibility for specific services and programs, and within programs for specific activities, naturally involves a number of trade-offs. One difficulty in SP CSS to date has been that the principles for assignment, and the policy trade-offs involved in specific assignments of responsibilities, have not always been explicit. In order to move over time to a more principled assignment of institutional roles, both public finance and accountability criteria provide useful guidance.

From a public finance perspective, some guiding criteria for assignment of institutional jurisdiction for service provision are:

- ◆ **economies of scale or scope:** Economies of scale or scope are likely to apply in SP programs in particular to issues such as record keeping, beneficiary numbering systems (e.g. unique household identifiers are most sensible when consistent across programs and space), and certain aspects of delivery such as management of targeted credit.
- ◆ **scope of externality from the service or activity:** To the extent that a service does involve externalities, the general rule would be to make the jurisdiction large enough to internalize the externality. In the case of SP programs, a number will have rather limited externalities beyond the household or village, while others such as public works potentially have a significant element of externality (e.g. small stretches of road which may if coordinated link villages).
- ◆ **equity:** This is clearly a very important welfare economics consideration for SP programs.
- ◆ **heterogeneity of demand:** To the extent that SP-related needs of different states and sub-state areas vary (as they inevitably will in a country such as India), institutional assignments which allow for greater tailoring of priorities to local needs are attractive.

From an accountability perspective, there are five key features of accountability relationships, all of which interact with each other, and are:

- ◆ **delegation:** This is simply the explicit assignment of tasks to designated agents. While obvious, it is precisely the lack of clarity in such assignments within states – due both to their lack of action and in some cases conflicts between CSS and state assignments – that is one of the major institutional challenges for SP CSS.
- ◆ **finance:** This is aligning finances with the delegated responsibilities, a task which is fraught when delegation is unclear or concurrent to start with. A second constraint in the case of SP CSS is ensuring that those in control of funds have sufficient capacity to do so in a transparent manner.
- ◆ **performance:** This is the doing of the assigned task. Given the many steps involved in delivery of most SP CSS, this requires a disaggregated breakdown of steps in the delivery chain to avoid overly lumpy assignment of many tasks to single levels of the system.
- ◆ **information about performance:** This is an area where many SP programs have been weak, with both weak linkage between information and actual performance/outcomes, and frequent reliance for monitoring on levels of the system which are too removed from the point of implementation to perform more than perfunctory monitoring.
- ◆ **enforceability:** Information on performance only matters if there are consequences for poor or good performance. How the system aligns enforceability with information on performance is this key.

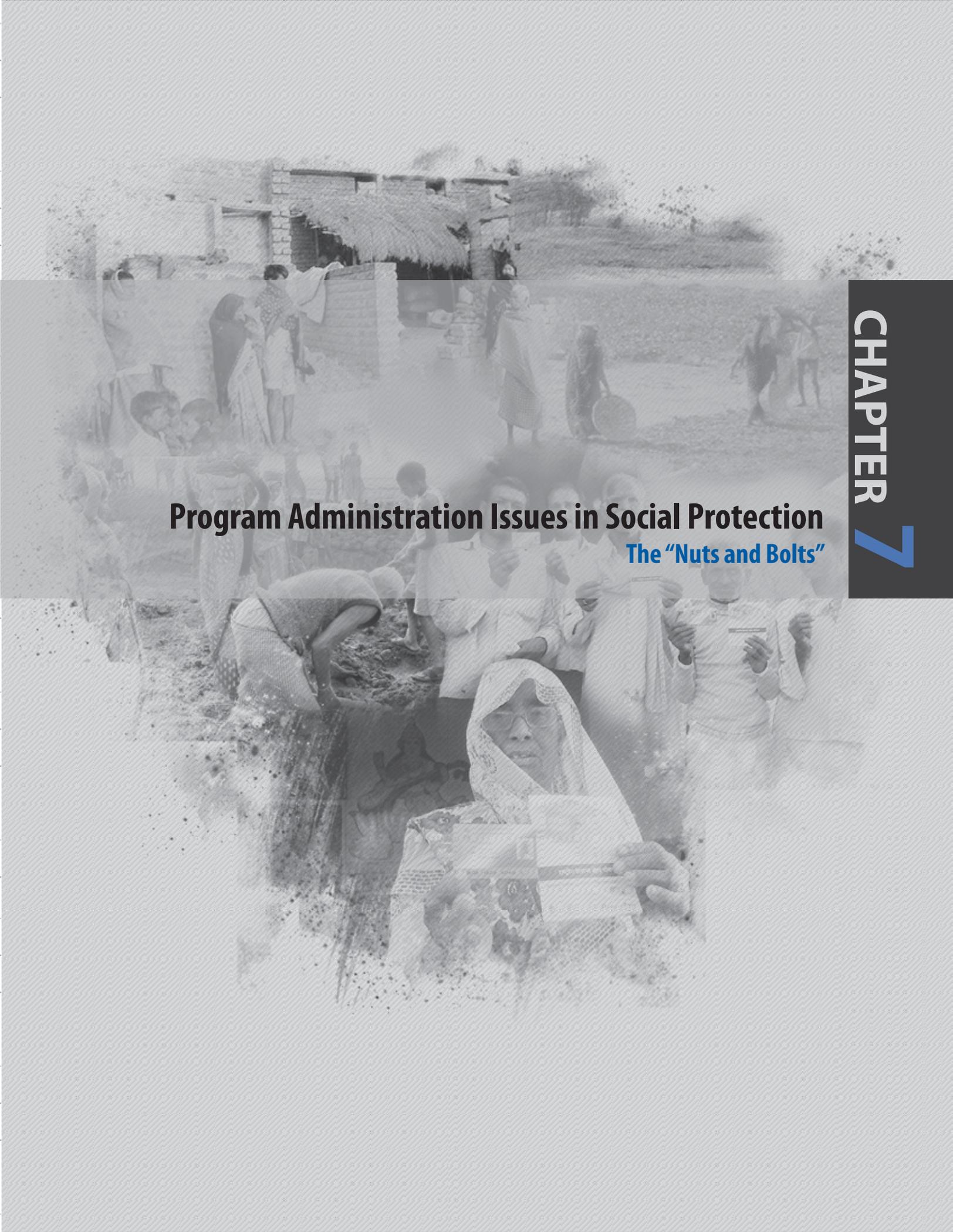
Sources: World Bank (2006d); World Bank (2004).

318 See also the recommendations of the Empowered Sub-Committee of the National Development Council (NDC) on Financial and Administrative Empowerment of the PRIs July 2008.

- ◆ **having determined an appropriate assignment of functions to different levels, a fuller assessment is needed of the personnel and financial implications of carrying out required functions.** Where enhanced personnel capacity is needed, this would then need – as is the case with MGNREG – to include the financing of needs in program costing, and the capacity building requirements at different levels.
- ◆ **gradually institutionalizing roles for communities in both selected elements of CSS delivery, and in community oversight of program functioning.** Again, the model of MGNREG provides a useful precedent. This is also likely to involve partnerships with NGOs to build local capacity for effective social audit, and the more general obligations of the state for disclosure of program information, as has proved effective for example in Rajasthan. The RSBY scheme also provides useful precedents on the role of NGOs and other grassroots organizations in SP service delivery and demand side mobilization.
- ◆ **taking lessons from the emerging experience in India and beyond in public-private partnerships in different aspects of SP service delivery.** Increasingly, the private sector has been playing different roles in the Sp service delivery chain. RSBY is the most advanced example, with involvement of private insurers, private hospitals, private sector smart card providers and outsourced software development, as well as roles for grassroots organizations noted above. However, many other programs – particularly at state level – have been experimenting with outsourcing of different functions. In some cases, this involves partnerships on technology, such as the role of TCS in managing MGNREG databases in AP, or smart card provision by commercial firms in a number of pilots. In others, there is a more involved role for the private sector, such as in Bihar where rural informatics service centers for RD programs at block level have been assigned following a tender process, in which for-profit and not-for-profit organizations operate the information and database management of RD programs on behalf of the state Government.
- ◆ **at both central and state levels, formation of an inter-departmental Task Force or Authority for Social Protection,** which would promote coordination across programs targeted towards similar populations, and promote more coherent strategy development on the medium term policy mix and priorities in social protection. The cases of Mission Convergence in Delhi and the Safety Nets Authority in UP provide interesting models, which could be adapted by other states.
- ◆ **for program planning, several initiatives would be useful,** including: (i) earlier notification to states and DRDAs of estimated funding envelopes for programs for the following fiscal year in order to facilitate lower level planning and budget management; and (ii) ensure that states which have not already done so appoint District Planning Committees, and ensure adequate financing for technical support to DPCs.
- ◆ **as social security expands, the role of the private sector (as insurers) and a range of member-based organizations such as MFIs, NGOs and workers associations is already becoming increasingly important, and demands new modes of engagement and partnership from the public sector.** The biggest constraint on expanding social security to the unorganized sector has been developing delivery mechanisms which can deal with the transactions costs of reaching unorganized workers. This requires intensive engagement with intermediary partners between government/insurers and unorganized workers, as well as learning from efficient insurance distribution channels of public and private insurers. The RSBY provides an excellent model of partnership, as do more localized initiatives such as UTI partnerships with both state governments and organizations such as SEWA, and the roles of trade unions and employer organizations in some of the welfare funds around the country.
- ◆ **for M&E, develop a disaggregated picture of potential and capacities at different levels of the system for monitoring and evaluation,** and align program guidelines in that light. The proposal to establish a national Independent Evaluation Office is a welcome step with respect to M&E.

IN ADDITION TO THE ABOVE NEEDS ON INSTITUTIONAL ROLES, SPECIFIC SUGGESTIONS INCLUDE:

**Program Administration Issues in Social Protection**  
The “Nuts and Bolts”





# Program Administration Issues in Social Protection

## The “Nuts and Bolts”

THE MOST COMMON MANTRA IN THE SOCIAL PROTECTION FIELD IS “INDIA HAS GREAT LAWS AND POLICIES, BUT POOR IMPLEMENTATION”. This section looks at some of the “nuts and bolts” issues in SP program implementation, and attempts across programs to understand some of the common administrative problems, several of which contribute to the coverage and targeting outcomes observed in Chapters 3, 4 and 5. The main operational issues covered in this chapter are:

- ◆ *program awareness and outreach*
- ◆ *the applications process and eligibility determination*
- ◆ *public expenditure management issues*
- ◆ *payment systems for benefits*
- ◆ *record keeping*
- ◆ *monitoring and evaluation.*

OVERALL, THE BASIC “NUTS AND BOLTS” OF PROGRAM ADMINISTRATION AND PROCEDURES IN MOST STATES ARE FAR BELOW THE STANDARDS THAT COULD BE POSSIBLE

GIVEN INDIA’S TECHNOLOGICAL AND HUMAN CAPITAL CAPACITY. However, in nearly all areas, there are emerging models of good practice which suggest that getting administrative systems in place which increase accountability and transparency is a realizable goal, given sufficient political will and a set of institutional incentives which reward good practice. One of the key challenges in this regard is achieving closer alignment of the incentives of the centre, states and sub-state levels for improved program administration. This cannot be separated from allocation of institutional responsibilities, discussed in Chapter 6.

### A. PROGRAM AWARENESS AND OUTREACH

ALTHOUGH SEVERAL OF THE MAIN PILLARS OF THE SP SYSTEM IN INDIA HAVE BEEN IN PLACE FOR SOME TIME, MOST PROGRAMS HAVE BEEN SUBJECT TO PERIODIC CHANGES IN POLICIES, IMPLEMENTATION ARRANGEMENTS, SCHEMES

**NAMES AND OTHER FEATURES.** Some of the changes are quite fundamental (e.g., moving to a targeted PDS; guaranteeing the right to 100 days employment under MGNREG), while others are either a product of consolidation efforts (e.g., SGSY combining IRDP and several related programs under one roof), or of repackaging for political or administrative purposes (e.g., EAS and JRY being superseded by SGRY).

**THE FREQUENT SHIFTS IN PROGRAM DESIGN IMPLY SIGNIFICANT DEMAND FOR AWARENESS AND OUTREACH EFFORTS ON THE PART OF GOVERNMENT.** Despite this need, CSS SP programs have typically relied on a rather top-down approach to dissemination of new/revised program information. This has been a standard approach of central and state governments issuing implementing orders and instructions, often with detailed program guidelines. These are distributed through line agency and general administrative channels, in particular to Collectors and BDOs. This may be complemented by rather traditional

media campaigns announcing the schemes and their key elements. Increasingly, some program information is available on the web. However, there is rarely a well-developed outreach strategy which focuses on how different audiences receive information, and what types of information they most need either to participate in schemes or perform their functions in program delivery. In addition, penetration of messages below the block level is often lacking, and in any event in formats mainly suitable for literate populations.

**EVIDENCE FROM FOUR STATES INDICATES THAT THERE IS CONSIDERABLE VARIABILITY IN AWARENESS OF PROGRAMS, AND IN SOME CASES ACROSS STATES WITH RESPECT TO INDIVIDUAL PROGRAMS.** This can be seen in Table 7.1 and Table 7.2, which presents findings from Orissa, MP and Karnataka, and additional survey information from Jharkhand in the state-specific table. With respect to the cross-program awareness on the three states, the main findings are:

**Table 7.1: Awareness about programs, Orissa, Madhya Pradesh and Karnataka (%)**

	Quartiles				
	1	2	3	4	All
<b>Cash Transfer Programs</b>					
<b>Targeted</b>					
Indira Awaas Yojana	68.0	71.1	68.9	63.6	67.9
National Old Age Pension Scheme	59.6	62.8	57.1	54.7	58.6
Widow/disable pension	60.8	64.0	58.6	54.7	59.5
<b>Universal</b>					
Rural Education Scholarship	29.7	29.5	28.1	33.4	30.2
<b>In-Kind Transfer Programs</b>					
<b>Targeted</b>					
Public Distribution System	86.1	90.5	92.9	95.0	91.1
Antyodaya Anna Yojana	34.0	33.3	32.8	31.4	32.9
<b>Universal</b>					
Integrated Child Development Services	26.7	33.6	37.0	37.3	33.6
National Mid-Day Meal Scheme	67.7	77.4	78.1	68.9	73.0
Free text-book	60.2	67.6	71.6	68.6	67.0
Free hostel	18.0	31.0	31.1	33.1	28.2
Free uniform	51.2	59.8	62.7	61.5	58.8
<b>Workfare Programs (Self Targeted)</b>					
Sampoorna Grameena Rozgar Yojana	25.0	33.3	30.2	29.6	29.5
Food for work	28.5	29.8	25.7	26.0	27.5
<b>Subsidy Based Livelihood Programs</b>					
<b>Targeted</b>					
Swarnajayanti Gram Swarojgar Yojana	10.2	17.0	18.9	21.3	16.8

Source: Dev et al. (2007), based on the 2006 three state SP survey. Q1 is poorest and Q4 richest, with ranking based on wealth index.

**Table 7.2: Households aware of the safety net programs by social groups, Orissa, Karnataka and MP combined (%)**

Programs	Overall	SC	ST	Non SC&ST
<b>Cash Transfer Programs</b>				
<b>Targeted</b>				
Indira Awaas Yojana	67.92	72.79***	75.59***	61.03
National Old Age Pension Scheme	58.55	56.25	62.09	57.25
Widow/disable pension	59.51	56.99	62.56	58.61
<b>Universal</b>				
Rural Education Scholarship	30.16	29.41	23.93***	34.44
<b>In-Kind Transfer Programs</b>				
<b>Targeted</b>				
Public Distribution System	91.08	92.28	86.49***	93.5
Antyodaya Anna Yojana	32.89	34.56	34.36	31.27
<b>Universal</b>				
Integrated Child Development Services	33.63	33.46	37.2**	31.42
National Mid-Day Meal Scheme	73.01	77.21*	73.46	71
Free text-book	66.96	72.06	62.56*	67.67
Free hostel	58.78	63.6	55.21	59.06
<b>Workfare Programs (Self Targeted)</b>				
Sampoorna Grameena Rozgar Yojana	29.5	27.21	38.63***	24.62
Food for work	27.51	21.32	33.89***	25.98
<b>Subsidy Based Livelihood Programs</b>				
<b>Targeted</b>				
Swarnajayanti Gram Swarajgar Yojana	16.81	13.6	21.56***	15.11

Source: Dev et al. 2007. \*\*\*=significant a 1% level; \*\*=at 5% level; \*=at 10 percent.

- ◆ *as would be expected, awareness is highest for PDS (though not AAY, for which awareness is quite low).* This is not surprising given the program's age and widespread coverage of FPS, and the result holds for all three states.
- ◆ *at least three programs are surprising in terms of the relatively low levels of awareness – SGRY/FFW, SGSY, and ICDS.* The low level of ICDS awareness is particularly striking given its objective of universalism and coverage of anganwadi workers.
- ◆ *overall, there is relatively limited variation across quartiles of the distribution in program awareness, but awareness is more progressive for targeted than untargeted programs (with the notable exception of SGSY).* While the top half of the distribution has somewhat higher awareness in most programs, the differences are not dramatic, and awareness of targeted programs is generally slightly higher.

- ◆ *between states (not shown in the table), Orissa has the highest level of program awareness overall relative to MP and Karnataka.*

AWARENESS ACROSS SOCIAL CATEGORIES OF MAJOR PROGRAMS IS NOT DRAMATICALLY DIFFERENT, BUT FOR SEVERAL KEY PROGRAMS IS SOMEWHAT HIGHER FOR ST, EXCEPT IN ORISSA WHERE IT IS NOTABLY LOWER FOR NEARLY ALL PROGRAMS. Table 7.2 presents results across the three states broken down by SC, ST and non-SC/ST. For most programs, awareness among SC is not notably different, and the difference is statistically significant only for IAY. However, for ST, awareness is higher and statistically significant for several programs, including IAY, ICDS, SGRY/FFW and SGSY. Unfortunately, this finding does not hold for Orissa, where ST program awareness is generally lower, in contrast to the overall finding of higher program awareness levels in Orissa.

AT THE VILLAGE LEVEL, THERE ARE SEVERAL FACTORS ASSOCIATED WITH HIGHER AWARENESS, BUT THE RELATIVE

IMPORTANCE OF DIFFERENT FACTORS VARIES NOTABLY BETWEEN KARNATAKA AND THE OTHER TWO STATES. Table 7.3 reports results on village level determinants of program awareness, both grouped for the three states, and comparing the states on key indices of social capital, PRI functioning, and women's participation. Some key results are:

**Table 7.3: Village level determinants of program awareness, Orissa, Karnataka and MP, 2006**

	Coefficients
(Constant)	-0.03
Female public participation (e.g. elections, GS meetings)	0.48***
Female empowerment index	0.23*
Presence of NGO in village	0.40**

Source: Dev et al. 2007. See Annex 2 for details of construction of PRI and gender-based indices. \*\*\*=significant at 1% level; \*\*=at 5% level; \*=at 10 percent.

- ◆ *across the three states, the factors associated with higher awareness include status of women in the household, presence of an NGO in the village, and women's participation in public affairs.* This can be seen in Table 7.3, which reports the factors which were statistically significant as village level determinants of awareness about all safety net programs. In particular, the female participation in public life (though GS meetings, elections etc) is highly significant in determining village-level awareness of SP programs. Also, female empowerment index (which reflects women's participation in household decision making about a range of key factors, and their autonomy in social and economic behaviour) has a significant relationship with village level awareness of SP programs.
- ◆ *in contrast, a range of other variables had no significant explanatory power as determinants of program awareness,* including existing social and economic infrastructure, share of small farmers and landless, functioning of the PRI, social composition of the village, and level of trust in local institutions.
- ◆ awareness of safety net programs is lower in wealthier villages.

319 CBGA (2006, 2007) and IHD (2006, 2007).

IT IS NECESSARY ALSO TO EXPLORE IN MORE DETAIL WHAT "AWARENESS" MEANS, AND THE IMPLICATIONS OF DIFFERENT LEVELS OF AWARENESS FOR FUTURE OUTREACH STRATEGIES. There is not much good survey-based evidence on this question, but field studies on awareness of MGNREG are instructive, and point towards the gap between general knowledge of the existence of programs, and knowledge of the specific elements of entitlements that would facilitate effective participation in schemes by the poor. This can be seen in Table 7.4. Even in 2006, awareness of the MGNREG in different states was highly variable, but overall reasonable in light of the young age of the scheme, and exceptionally good in some cases. While Gujarat and Jharkhand were laggards on awareness, the achievements of AP, Chhattisgarh and Bihar were impressive. Subsequently, field studies that have revisited sample locations in Chhattisgarh and Bihar between 2006 and 2007 indicate that awareness, though still largely low, has increased over time.<sup>319</sup>

**Table 7.4: Overall awareness of MGNREG, various MGNREG states, 2006**

State	Share aware of MGNREG in MGNREG districts (%)
Andhra Pradesh	97.5
Bihar	62.5
Chhattisgarh	69.3
Jharkhand	28.9
Gujarat	38.8
Madhya Pradesh	45.0

Sources: CBGA 2006 for Chhattisgarh, MP, AP and Jharkhand; IHD 2006 for Bihar; CDA 2006 for Gujarat

DESPITE THE GENERALLY POSITIVE LEVEL OF BASIC PROGRAM AWARENESS, AWARENESS OF SPECIFIC IMPORTANT ELEMENTS OF MGNREG ENTITLEMENTS AND FUNCTIONING IS NOTABLY LOWER IN A NUMBER OF CASES, AND EVEN GENERAL AWARENESS IS GENERALLY LOWER AMONG LOWER CASTES. The results in Table 7.5 provide a more nuanced picture of program awareness, indicating that while MGNREG "brand awareness" is satisfactory or good for such a new scheme, awareness of some key elements of the program remain to filter down as effectively. For example, while knowledge of the 100 day guarantee is relatively strong (and reflective of the emphasis of Information and Education Campaign (IEC)), the understanding of the

**Table 7.5: Awareness of specific elements of MGNREG entitlements by state, 2006**

State	100 days employment	Minimum wages to be paid	Role of <i>Gram Sabha</i> /GP	Basic facilities at work site	Work within 5 KM
Andhra Pradesh	93.8	68.8	2.5	48.8	8.8
Chhattisgarh	53.7	35.1	3.9	9.3	13.7
Madhya Pradesh	44.2	35.0	2.5	18.3	5.8
Jharkhand	10.0	8.9	1.1	1.1	2.2
Gujarat	38.8	NA	37.7	23.8	NA
Bihar	77.7	44.0	0.8	4.5	26.5

Sources: CBGA (Chattisgarh, MP, AP and Jharkhand); IHD (Bihar); CDA (Gujarat), all 2006

role of GPs and *gram sabhas* in scheme functioning is very low, as could be to some extent expected given the innovation involved for such a scheme. The survey of MGNREG worksites in six northern states by Drèze and Khera (2009) indicates that fewer than half of the surveyed households knew about the entitlement to hundred days of work and minimum wages. Some studies note that there is little awareness that this is a universal right for rural households and not limited to specific groups. In consequence, potential applicants can be excluded based on certain characteristics (e.g., widowed, single women headed, elderly etc) or documentation (e.g., ration card).

**BOTH MGNREG AND MANY NGO AND DONOR PROGRAMS DEMONSTRATE THAT INNOVATIVE METHODS OF GENERATING PUBLIC AWARENESS OF PROGRAMS ARE OFTEN NECESSARY.** As noted, Government IEC for programs remain typically top-down and rather traditional in their communication methods. In contrast, many NGO schemes (or in some cases, public schemes partnering with NGOs) use a variety of communication methods which are more likely to be digested by target populations. These include a wide range of strategies, including reliance on women's and community groups with grassroots penetration, and engagement with panchayat or other village level notables including religious leaders, jati panchayat elders, et al. In addition, the modes of communication are much more diverse, and often better suited to the needs of non- or low literate populations. They include tools such as street theatre and puppetry, visual communication of key messages, imaginative use of media (e.g., short human interest spots built around the program and its benefits) etc.

**ANOTHER IMPORTANT NEW FACTOR IN AWARENESS RAISING IS THE RIGHT TO INFORMATION ACT.** This mandates much

more local posting of program information than the past, and in principle makes information on program performance available to members of the public who pay a small processing fee. This can be a useful tool in awareness raising, and experience in some states (e.g., Rajasthan) has already demonstrated the potential of the Act in circumstances where effective third parties such as NGO are able to navigate the system to access information. However, to date the RTI Act has been more a vehicle for tracking down program information rather than a motivation for program administrators to be more proactive in sharing basic program indicators with the public in easily understandable formats. This will presumably be part of the agenda of central and state RTI Commissioners in the future.

## B. THE APPLICATION PROCESS AND ELIGIBILITY DETERMINATION

**ACROSS MOST PROGRAMS, A COMMON COMPLAINT OF BOTH CURRENT BENEFICIARIES AND APPLICANTS/POTENTIAL BENEFICIARIES IS THAT THE ADMINISTRATIVE COMPLEXITIES AND ATTITUDES OF OFFICIALS ARE SIGNIFICANT BARRIERS TO PROGRAM PARTICIPATION.** This of course is not a problem unique to SP programs, and also an area where evidence beyond the anecdotal is often lacking. The section below presents new analysis for selected programs on the reported importance of such bureaucratic factors in accessing programs. While much more research is needed, it suggests that the widespread anecdotal evidence is borne out by data.

**SP PROGRAMS IN INDIA RELY HEAVILY ON THE BPL CARD AS A PRINCIPLE MECHANISM PROVIDING PRELIMINARY**

EVIDENCE OF ELIGIBILITY, WITH BOTH PROS AND CONS FOR PROGRAM ADMINISTRATION. A core common determinant of individual or family eligibility for benefit in most SP programs in India is availability of the BPL card. Such setup helps to control the administrative cost of multiple programs by taking the burden of initial eligibility screening away and allows the administering agencies to focus on other core tasks. This arrangement is in contrast to experiences of many other countries where programs often operate own comprehensive eligibility determination mechanisms. Given such high dependence on the common external factor of eligibility determination, ensuring efficient operation of that external mechanism becomes crucial to the success of the collective effort of poverty alleviation of various SP programs. A common limitation of the BPL mechanism, however, is significant element of inertia in updating the list of eligible families, as it remains part of the census operated only once every five years. The process of card issue and record-keeping itself needs further analysis as it exhibits serious deficiencies.

LOOKING AT WHY HOUSEHOLDS DO NOT HAVE RATION CARDS, THE DOMINANT REASON NATIONALLY IS BUREAUCRATIC DIFFICULTIES. However, there are major cross-state variations in main reasons for not having cards. Table 7.6 presents results across states. While bureaucratic problems are the main reason nationally, there are sharp differences across states in the importance of this reason. For a group of very poor states – including Bihar, Jharkhand, Orissa, and Chattisgarh, but also West Bengal – bureaucratic difficulties in accessing cards are much more important, though in other poor states such as UP, MP and Rajasthan, less specific reasons dominate. In contrast, for richer and southern states, “other” is the dominant reason for no card. Overall, the importance of “other” as a reason for no ration card is high, and requires more detailed research, particularly for states such as Maharashtra, TN and Karnataka where it is easily the dominant reason. Also of interest from an administrative viewpoint is that around 18 percent of household report losing their card or not being able to get a new card after moving as the main reason for not

**Table 7.6: Main reasons for not having ration card by state, 2004/05 (% households)**

States	Not needed	Card lost	Bureaucratic	Moved but card not transferred	Other
Andhra Pradesh	12.8	3	29.7	10.4	44.2
Assam	1.3	42.8	31.2	11.6	13.2
Bihar	0.7	9.4	84.4	1.2	4.4
Chattisgarh	8.4	7.2	65.9	5.5	13
Gujarat	16.7	16.7	16.7	16.7	33.3
Haryana	12.6	10.2	9.8	17.3	50.2
Himachal Pradesh	25.6	3.2	17	16.7	37.5
Jammu & Kashmir	11.1	4.4	16.8	8.2	59.4
Jharkhand	8.1	7.3	67.6	3.4	13.6
Karnataka	0	8.7	6.4	17.4	67.4
Kerala	4.7	7.9	10.8	21.1	55.5
Madhya Pradesh	20.4	7.6	21.8	21.6	28.6
Maharashtra	4.7	2.8	13.3	5	74.2
Orissa	15.6	7.3	68	3.3	5.7
Punjab	7.8	21.4	28.2	16.7	25.9
Rajasthan	16.3	9.3	18.4	10.2	45.7
Tamil Nadu	11.7	0	0	0	88.3
Uttar Pradesh	13	9	30.1	4.8	43.1
Uttaranchal	27.6	4.2	32.4	8.4	27.4
West Bengal	2	7.2	65.5	5.6	19.8
<b>All India</b>	<b>9.5</b>	<b>8.5</b>	<b>40.8</b>	<b>9.6</b>	<b>31.6</b>

Source: Ajwad (2006) based on the 2005 IHDS data.

having a card. Finally, the share of households reporting that they did not need a card is under 10 percent, and surprisingly, this share is higher than average in at least two poor states, MP and Orissa.

LOOKING AT REASONS FOR NO RATION CARD ACROSS THE DISTRIBUTION AND SOCIAL CATEGORIES, THE POOREST AND ST HOUSEHOLDS APPEAR TO HAVE PARTICULARLY SERIOUS PROBLEMS WITH BUREAUCRATIC DIFFICULTIES. Table 7.7 presents results by wealth level, rural/urban, and social category. While the difference across wealth level and caste in the share of households not needing a card is as expected, more notable is the sharp differences between lower and upper income groups in the share reporting bureaucratic difficulties as the main reason for having no ration card. This also applies to rural households relative to urban, and notably for ST households.

SURVEY RESULTS ON SOCIAL PENSIONS FROM SEVERAL STATES PROVIDE FURTHER INSIGHTS INTO THE NATURE OF DIFFICULTIES IN ACCESSING PROGRAMS. While these results are obviously state and program-specific, they are nonetheless instructive. By way of illustration, Table 7.8 below cites the main problems encountered by those currently receiving social pensions in Rajasthan in accessing benefits. Broadly the first five rows can be considered different types of program related difficulty,

**Table 7.8: Main problems in getting social pension sanctioned, Rajasthan, 2006**

	Primary problem	Secondary problem
Understanding the eligibility rules	13.9	5.3
Time for getting documents	16.3	17.9
Cost of getting documents	12.7	21.8
Proving meet criteria	3.0	19.1
Informal payments	1.3	3.6
Transport costs	13.0	30.2
Other	0.9	2.1
No difficulty	38.9	NA

Source: Dutta 2008, based on Rajasthan social pensions survey, 2006.

and indicate that just under half of applicants faced some form of bureaucratic difficulty, rising to around two thirds when secondary reasons are included. The time and financial costs of documentation are of particular note, as are the transport costs associated with application. The findings on the demands of eligibility documentation are supported by previous studies in other states, including AP, Kerala and Orissa, one of which refers to applicants for social pensions “lost in a bureaucratic maze which they find impenetrable”<sup>320</sup>

**Table 7.7: Main reasons for no ration card by wealth, location and social category, 2004/05**

	Not needed	Card was lost	Bureaucratic	Moved but card not transferred	Other
Poorest	4.3	9.5	53.6	7.9	24.7
Q2	5.9	8.3	48.6	8.5	28.7
Q3	6.4	8.7	41.9	8.5	34.5
Q4	14.7	7.9	29.2	9.9	38.3
Richest	21.7	6.7	23.0	8.5	40.1
Rural	6.2	9.6	46.7	6.3	31.3
Urban	15.5	6.6	30.4	15.5	32.4
OBC	7.5	8.1	44.1	8.6	31.5
SC	5.9	10.6	43.2	8.6	31.7
ST	9.3	8.4	52.7	6.9	22.6
Other	14.5	8.7	26.6	13.4	36.8
<b>All India</b>	<b>9.5</b>	<b>8.5</b>	<b>40.8</b>	<b>9.6</b>	<b>31.6</b>

Source: Ajwad 2006 based on 2005 IHDS data. Note that the other social group category excludes Brahmins.

<sup>320</sup> See Nayak et al. (2002) for AP, and Centre for Management Development 2000 for Kerala, the latter finding “non-cooperation by officials” on certification as a significant barrier to access. See also International Management Institute 2001 for study in Orissa, which found the complexity of documentary evidence being abused by officials for rent-seeking purposes.

On a more encouraging note, just under 40 percent of successful applicants in Rajasthan reported no difficulty in accessing the pension.

INSIGHTS FROM THOSE WHOSE APPLICATIONS FAILED OR WERE DETERRED FROM APPLYING ARE ALSO OF INTEREST. Among those in Rajasthan not applying the complexities of the application process were the deterrent for one third, and this was as high as 45 percent in Karnataka.<sup>321</sup> Among those who applied and were rejected, around one quarter cited lack of personal connections to officials as the reason for rejection in Rajasthan and around 15 percent in Karnataka. Related to this was a further 18 percent in Karnataka and a further 8 percent in Rajasthan citing inability to pay a middleman as the main reason for failure of their application. A further factor of interest is the time taken to sanction benefits for those who are granted them. Once more there is considerable anecdotal evidence of significant delays in sanctioning, or provision of work in the case of workfare. The MGNREG attempts to address this issue through the default option of an unemployment allowance in cases where work is not granted within 15 days of a request, though in practice studies to date find no evidence of such allowances being paid.<sup>322</sup> The Rajasthan and Karnataka social pension surveys also provide some insights on the question. In the case of both Karnataka and Rajasthan, the median waiting period between application submission and sanctioning of the pension was 6 months, with 10 percent of current pensioners in Karnataka reporting a wait of more than 2 years from the data of first application.<sup>323</sup> In both states, repeat applications by eventual beneficiaries are also common.

THE ABOVE DISCUSSION POINTS TO THE POTENTIAL IMPORTANCE OF MIDDLEMEN IN ACCESSING BENEFITS. One of the factors often mentioned in the literature on SP programs is that the poor often take the help of various agents to access programs including such things as obtaining a BPL card.<sup>324</sup> In addition, there is considerable variation across programs in the importance of middlemen, with less reliance for programs such as NOAPS and more for programs such as IAY and public works. It is

important to stress that the term “middleman” includes a range of intermediary relationships. Some – such as intermediation by NGOs or SHGs – may be quite positive processes. At the other extreme, intermediaries who exploit their relations with officials for earning “speed money” or contractors on public works who get people onto worksites for a commission are less desirable. In between lie a range of social network relationships, for example with local MLAs who may exchange intermediation for voter commitments.

THE PREVALENCE OF MIDDLEMEN IN ACCESSING SP PROGRAMS IS SUPPORTED BY EVIDENCE FROM THE THREE STATE SURVEY OF ORISSA, KARNATAKA AND MP, WHICH ALSO PROVIDES INSIGHTS INTO THE RELATIVE IMPORTANCE OF DIFFERENT TYPES OF MIDDLEMEN. The results should not be interpreted simply as malfeasance, but more as necessity (and ability) to access intermediating officials and others. A few observations emerge:

- ♦ overall, reliance on panchayat officials is the most common form of intermediation, and for most programs is necessary for more than half of beneficiaries.
- ♦ **while there are no large variations across programs in the main form of intermediation, a few programs are worthy of note:** (i) AAY beneficiaries rely far more heavily on elected than administrative officials; (ii) in child-related programs, the reliance on elected or administrative official is relatively lower and conversely, reliance on “other” forms of intermediation higher; and (iii) SGSY exhibits an unusually high reliance on administrative officials for accessing.
- ♦ **in distributional terms, those in the top quartile are generally more likely than the poor to rely on the intermediation of administrative officials,** while the picture on the relative reliance on elected officials between rich and poor is more mixed.

USING VILLAGE-LEVEL INFORMATION ON THE ROLE OF MIDDLEMEN (OR OTHER “CONTACTS”) IN ACCESSING PROGRAMS, IT IS POSSIBLE TO LOOK AT WHAT FACTORS INFLUENCE THE

321 See Dutta (2008) and Murgai (2007).

322 See reports from various states summarized in Chapter 4.

323 Note that in both cases, a significant share reports the need for more than one application before sanctioning, e.g., in Rajasthan among current beneficiaries, just under 30 percent had applied more than once for benefits.

324 Nayak et al. op. cit. is again a useful source on the role of middlemen and how it differs between programs.

DEPENDENCE OF POOR HOUSEHOLDS ON MIDDLEMEN TO ACCESS PROGRAMS. The results are reported in Table 7.9 and Table 7.10. Overall, female literacy, women's general status in the household, and households "trust" in public institutions significantly reduced the dependence on middlemen. The dependence on middlemen was also higher in the relatively poorer state of Orissa than in the other two states.

A FURTHER COMMON CLAIM WITH RESPECT TO SP PROGRAMS IS BRIBERY IN ORDER TO ACCESS (AND IN SOME CASES STAY ON) PROGRAMS.<sup>325</sup> AS WITH MANY ISSUES IN PROGRAM ADMINISTRATION, THIS CLAIM IS WIDELY MADE FROM FIELD AND ANECDOTAL EVIDENCE, BUT LESS COMMONLY SUPPORTED BY DATA. However, closer studies of the issue have confirmed the prevalence of direct and indirect bribery, but also strong variations across programs in the scale of the problem. One can identify several forms of corrupt behavior: (i) individuals ineligible for benefit trying to gain access to public resources; (ii) otherwise eligible individuals trying to bribe in order to move up the priority list for benefits; (iii) eligible individuals trying to overcome bureaucratic obstacles in accessing universal benefits. While (i) and (ii) are problems that are intrinsically difficult to address, (iii) is something that should be easier to deal with by means of public awareness campaign, improved accountability, rationalized processes, and possibly investments in IT.

A FINDING OF PREVIOUS WORK AND SUPPORTED BY RESEARCH FOR THIS STUDY IS THAT PROGRAMS WHICH ARE DESIGNED AROUND LARGER SINGLE OR LUMPY PAYMENTS APPEAR

Variables	Coefficients
PRI functioning index	-0.255 (-1.483)
Economic infrastructure	0.124 (0.696)
Trust PRI	-0.131 (-0.445)
Trust Officials	-0.187 (-0.597)
Trust Groups	0.540*** (2.796)
Total Female Participation	0.129 (0.596)
Empowerment	0.286 (1.247)
Control on assets	-0.275 (-1.524)
Average Index	0.083 (0.295)
Ratio of female and male literacy	0.769** (2.183)
% female literacy	-1.048** (-2.371)
Migrated	-0.139 (-0.884)
Presence of NGO in village	0.050 (0.274)
Social Composition of village (Herfindal)	-0.181 (-1.077)

Source: Dev et al. 2007. Notes: t-statistics in parenthesis. See Annex 2 for variable definitions.

**Table 7.10: Reliance on intermediaries to access benefits by program and intermediary types, Orissa, Karnataka and MP, 2006**

	Officials					Elected Leaders					Others				
	Q1	Q2	Q3	Q4	All	Q1	Q2	Q3	Q4	All	Q1	Q2	Q3	Q4	All
IAY	23.4	25.0	31.0	41.2	28.2	68.1	63.9	69.0	58.8	66.2	8.5	11.1	0.0	0.0	5.6
NOAPS	18.8	25.0	40.0	33.3	28.1	62.5	68.8	50.0	66.7	63.2	18.8	6.3	10.0	0.0	8.8
Widow/ disabled pension	25.0	15.0	22.2	16.7	20.0	65.0	65.0	66.7	50.0	63.6	10.0	20.0	11.1	33.3	16.4
Stipend	28.6	33.3	38.9	33.3	33.3	52.4	38.9	27.8	58.3	43.5	19.1	27.8	33.3	8.3	23.2
PDS	16.1	27.6	27.9	24.1	24.0	70.4	63.8	66.7	71.3	68.1	13.5	8.5	5.4	4.6	7.9
AAAY	4.0	15.0	13.3	0.00	9.1	88.0	80.0	80.0	83.3	83.3	8.0	5.0	6.7	16.7	7.6
ICDS	8.0	28.6	22.7	30.0	22.5	52.0	42.9	40.9	56.7	49.0	40.0	28.6	36.36	13.3	28.6

325 This is distinct from the larger issue of leakage of program funds or goods, and diversion of different forms within public spending. For PDS, this is dealt with in Chapter 3.

	Officials					Elected Leaders					Others				
	Q1	Q2	Q3	Q4	All	Q1	Q2	Q3	Q4	All	Q1	Q2	Q3	Q4	All
Midday meal	8.0	20.0	14.0	6.3	12.0	62.0	40.0	54.4	72.9	57.5	30.0	40.0	31.58	20.8	30.5
SGRY	18.8	25.7	32.1	40.0	27.8	59.4	60.0	60.7	45.0	57.4	21.9	14.3	7.14	15.0	14.8
FFFW	17.1	13.8	12.0	29.4	17.0	78.1	79.3	76.0	58.8	75.0	4.9	6.9	12.00	11.8	8.0
SGSY	33.3	60.0	70.0	50.0	53.7	66.7	40.0	30.0	25.0	39.0	0.0	0.0	0.00	25.0	7.3

Source: Dev et al. 2007.

MORE SUBJECT TO DEMANDS FOR BRIBES BY OFFICIALS AND THEIR ASSOCIATES FOR ACCESSING THE PROGRAM. More specifically:

- ◆ *previous studies and this find that IAY is typically subject to a bribe running into thousands of rupees.* The results in Chapter 3 on IAY average benefits are very consistent with field reports from beneficiaries of a bribe of ₹ 4,000-5,000.

Such findings are supported in part by Gol's own evaluation of the program, and by field research from AP in the early 2000s, which reported a bribe of around ₹ 6,000 per ₹ 20,000 IAY benefit.<sup>326</sup> Box 7.1 presents examples from field work in three states for this report on the stories of IAY applicants which are illustrative of the situation faced.

### Box 7.1: Accessing IAY – The view from the field in three states

Field research for this report, in addition to finding evidence of bribery in quantitative data, conducted detailed personal histories of the experience of villagers in accessing schemes. Some findings with respect to accessing IAY are presented below:

- ◆ Govind Vishwakarma from Madhya Pradesh was asked to apply for Indira Awaas Yojana. Govind Vishwakarma contacted the Sarpanch who asked him to apply and inform him, so that he can facilitate the process. He approached some employee in the office who demanded ₹ 500 for writing the application and other procedural expenses. He has given ₹ 400 to get the work done. Later the strenuous follow up of the application began and this continued for nearly two months. Then the Sarpanch demanded ₹ 5000 and he had to give that amount. Within a week's time, ₹ 20,000 was allotted to Govind Vishwakarma. He repaid the debt of ₹ 5000 from that and the rest of the money was utilized for the renovation of the house. Thus, he had to give bribes at two points which amounts for more than one fourth of the total grant.
- ◆ Three years back, Prameshappa from Karnataka took ₹ 32,000 as part of Credit cum Subsidy scheme to construct a house. He thought his savings clubbed with the loan amount would suffice the needs for the small house he wanted to make. And in the villages they say, it is during the bad phase in life one would embark on making houses. It was proved as an out and out truth for Prameshappa. He exhausted all the self-earned resources in the very initial phase of house construction and the loans came through after a long point of time. Bribing officials for getting it sanctioned is a practice and Prameshappa refused to do so. It delayed the process and his house is still not finished.
- ◆ Ghasi Bilputia is a widow, lives along with her daily laborer 18-year old daughter in Similiguda block of Koraput district of Orissa. Her house is in dilapidated condition with walls and cracked asbestos roofs. She has tried for IAY and applied for it. The village meeting discussed it and approved their application also. But nothing proceeded further. The neighbors tell her that if she can bribe the *Sarpanch* and the ward members, she would get a house. For somebody who is struggling for making the two ends meet, where is the big money that needed for bribing politicians and officials to get her housing grant cleared?
- ◆ Shamila Yadav is an unskilled agricultural worker from Bordai village of Seoni district of Madhya Pradesh. However, with their meagre incomes they are yet to build a comfortable shelter and they find it difficult to live in the broken down hut they presently live. They were told about IAY and Shamila applied for the scheme, being among the most eligible categories. She filed the application expecting that something would happen positively soon. However nothing has worked out even after her continued perusal. Later she met *Sarpanch* and as suggested by his accomplice, she has given ₹ 200 to him. He assured that it would be done positively in a month. However, even after ten months, Shamila Yadav did not get the benefits and the family continues to live in the same hut braving summers, winters and monsoons.

Source: Dev et al. 2007, based on qualitative work for the three state SP study.

326 See CAG (2003a) IAY evaluation; Saxena (2006); Nayak et al. (2002) for AP estimate; Dev et al. (2007). Also Nair 1999 has a useful discussion of some of the political economy aspects of the program.

- ◆ **the other lumpy benefit is under SGSY.** Evidence of informal payments to officials of intermediaries is more anecdotal in this respect. Earlier studies by Gol of IRDP pointed to the prevalence of political influence in accessing the program, and deduction of often significant “commissions” (e.g., in West Bengal, deduction of 10 percent of the loan amount by banks as “charges”; in TN, “speed money” and “incidental expenses” amounting to over 20 percent of loan amounts; in other parts of TN, request for bribes cited as the most common problem for beneficiaries).<sup>327</sup> An important element of this relates to the weak emphasis on repayment, with an informal agreement not to pursue repayment being worth more than the bribe amount to beneficiaries.<sup>328</sup>
- ◆ **in contrast, while bribery is consistently reported in accessing social pensions, the scale of it relative to the cumulative flow of benefits appears to be much lower.** This can be seen from Rajasthan and Karnataka data, where the average reported payment to officials was only ₹ 100-200 in both states (variable by type of official), and just under ₹ 500 for the small share of beneficiaries reporting reliance on a middleman. However, also of interest is the share of rejected applicants who reported inability to pay a bribe/middleman as the main reason for not being on the program (16 percent of refused applicants in Karnataka, and over 8 percent in Rajasthan).

## C. OPERATIONAL ASPECTS OF PROGRAM ADMINISTRATION

LIKE MANY AREAS IN SERVICE DELIVERY IN INDIA, THERE ARE A RANGE OF ADMINISTRATIVE CHALLENGES WHICH HAVE INHIBITED THE EFFICIENT AND EFFECTIVE IMPLEMENTATION OF PROGRAMS. These go beyond the broader issues of institutional assignment of responsibilities for program implementation, which are discussed in Chapter 6, and

targeting systems, which are discussed in Chapter 8. Some of the key issues include:

- ◆ **public expenditure and financial management issues**
- ◆ **payment systems for beneficiaries**
- ◆ **program record keeping**
- ◆ **monitoring of program performance and evaluation of program impacts.**

### (a) Financial management and SP CSS programs

AN IMPORTANT ELEMENT OF FINANCING OF SP CSS RELATES TO PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY (PFMA) OF PROGRAMS. As noted, implementation issues contribute to differential cross-state performance on SP CSS, and financial management is an important aspect of this. The situation in this regard has evolved rapidly in recent years, with SGSY, SGRY, MGNREG and IAY central transfers now directly to DRDA/ZP level, bypassing the state treasuries. This has some benefits in terms of avoiding the sometimes significant delays in approval and funds release by state treasuries. At the same time, it introduces a new range of financial management and accountability challenges. Some of these are due to lack of clarity in FM/accountability procedures as they apply to DRDAs and PRIs, while others relate to limited FM capacity as one goes down the system.

ON THE ISSUE OF FM AND ACCOUNTABILITY, PREVIOUS WORK OF GOI AND OTHERS HAS RAISED A NUMBER OF AREAS FOR IMPROVEMENT IN PEM OF CSS, INCLUDING:<sup>329</sup>

- ◆ **states and districts are often not aware early enough of the quantum of funds likely to be received from Gol under CSS.** As a result, budget planning at both levels can be disconnected from actual allocations.
- ◆ **flow of funds problems have often been present in the past, driven by a range of factors including Gol and state government approval processes,<sup>330</sup>** number of intermediaries through whom funds

<sup>327</sup> Planning Commission (2000); World Bank (1998); Taylor Nelson Sofres MODE (2001) regarding TN.

<sup>328</sup> See Nayak et al. op cit regarding AP.

<sup>329</sup> See various CAG reports, and World Bank (2005a).

<sup>330</sup> Bihar is an example of state-level procedures being an issue, with cumbersome internal procedures delaying fund release by 4-6 months, with attendant pressure to spend quickly towards the end of fiscal. See World Bank 2005. However, this falls well short of delays of up to 24 months in state releases identified by CAG in the SGSY scheme evaluation.

flow, and failure to keep up with advances in ITC for purposes of funds transfer.

- ◆ **as CSS are treated as “grant-in-aid” for budgetary accounting purposes, release of funds by Gol (and where relevant by states to lower levels) are treated as expenditure, which weakens the emphasis on accounting for fund use, financial reporting and audit.** State-specific analysis indicates issues in some programs with “parking” of releases in various local accounts, so that funds have not always been used for program purposes when already accounted as spent.<sup>331</sup> There is no real distinction in such cases between expenditures and advances, an issue which is exacerbated by incentives for states to show “expenditure” to justify further fund releases. This contributes to difficulties in consolidating year-on-year expenditures, as most programs in most districts have often significant opening balances. This practice does have benefits in the face of sometimes slow releases early in budget years, but some cost in terms of transparency and efficient planning.
- ◆ in cases where funds flow directly to districts outside the state treasury system, the framework for accounting, financial statements and disclosure requirements remains under-developed.
- ◆ **compliance with internal control procedures is weak.** Internal audit is generally weak in practice, despite financial rules, and financial reporting via utilization certificates tends to be used more for fiduciary and control purposes than as effective financial monitoring of performance. The RD Ministry has taken a number of positive steps in this direction, with for example NFFW introducing conditions related to financial and physical performance and monitoring to justify further fund releases.
- ◆ **external audit and reporting are weak.** In the case of programs where funds flow through state treasuries, there is a large backlog on issue of audit certificates by CAG, driven in large part by failure of departments to provide statements of expenditure. Where programs flow more directly to the sub-state level, clarity on principles of audit

and lack of local level capacity to prepare financial statements are big issues. However, several RD programs have improved transparency and availability of program performance information in recent years, for example putting detailed performance information on websites (e.g., for MGNREG in a number of states or social pensions in Andhra Pradesh), and some programs have developed systems which report audit compliance.

- ◆ while community level oversight of program expenditures has become an important feature of MGNREG through social audits in particular, institutionalizing the social audit process is in most states only just finding its feet even in that program (though with positive exceptions like Rajasthan), and wider adoption of the practice under SP programs has not happened for the most part.
- ◆ **in programs where PRIs play a more significant role, such as MGNREG, there is typically very limited financial management capacity at the local level.** This in turn is often cited as a reason for reluctance to transfer program funds to PRIs, resulting in a classic “chicken and egg” problem (i.e., limited funds are handled by PRIs because they lack capacity, which they are unlikely to develop so long as they manage limited funds).
- ◆ **there is no provision for reassignment of SP program funds across programs.** Given the program-specific nature of fund release and reporting, there is no scope for states to reallocate funds from programs which are not spending to those which are. Thus, lower levels are expected to be accountable for program performance, but have little control over either design or program mix at the local level.

While not applicable in all schemes or in all states in the same measure, the above factors point to significant issues in accountability of funds use in CSS, including social protection programs. The results of such weak accountability mechanisms can be seen in CAG’s performance reports on specific SP CSS:

- ◆ **the evaluation of SGSY (CAG 2003b) found that 53.5 percent of expenditures test checked in 157 districts**

<sup>331</sup> The variety of “parking accounts” is also notable, and not conducive to transparent FM, including DRDA general accounts, personal ledger accounts, civil deposits, current accounts and deposit-at-call receipts.

were diverted, misutilized, misreported, or otherwise subject to spending irregularities<sup>332</sup>. The largest problems related to parking funds in unauthorized accounts (not necessarily indicative of malfeasance, but at a minimum reflecting lack of FM discipline), overstatement of expenditures (typically through failure to adjust advances against actual expenditure incurred), and diversion of funds to other purposes. In addition, monitoring of repayments by borrowers was weak in a number of states (e.g., TN and Karnataka), and default rates on borrowings ranged from 28 to 62 percent in Chhattisgarh, Gujarat and Kerala. Finally, there was very poor planning in most states for the program.

- ◆ ***the IAY evaluation (CAG 2003a) found similar issues with misuse and mismanagement of funds, with 31.6 percent of all checked spending being misused in some way, including diversion for non-program purposes, inflation of reporting, parking in unauthorized accounts and other factors.<sup>333</sup> On the positive side, only a negligible portion was considered to be misappropriated.***

MORE WORK IS NEEDED TO UNDERSTAND ACROSS STATES THE EXTENT TO WHICH THE ABOVE FACTORS CONTRIBUTE TO RELATIVE EXPENDITURE PERFORMANCE AND TRANSPARENCY OF PUBLIC EXPENDITURE MANAGEMENT IN SP PROGRAMS.<sup>334</sup> Some of the factors noted – such as budget procedures, prevalence of ITC in financial transactions, and commitment to social audits – are very state-specific, while others – such as generally weak FM capacity in panchayats and accounting parked funds as “spent” – are more generic. To date, no clear pattern emerges to indicate that high income states have significantly better PFM. This is probably due to the common and uniform framework followed across the country and given the fact that the PFM reforms are still at a fairly nascent stage. Nonetheless, a number of States have initiated measures over the last 4-5 years to strengthen the treasury systems to obtain more timely financial information, initiated accounting reforms in the ULBs, electronic transfer of salaries, setting up systems to monitor audit and other measures which provide good models for other states to follow.

<sup>332</sup> See CAG SGSY evaluation, See CAG (2003b).

<sup>333</sup> See CAG IAY evaluation, See CAG (2003a).

<sup>334</sup> A good example of such a detailed analysis for Bihar is World Bank (2005a).

## (b) Payment systems for beneficiaries

APART FROM BUDGETARY FINANCING ISSUES, THERE HAS BEEN SOME EXPERIMENTATION IN RECENT YEARS WITH DIFFERENT MODES OF CASH BENEFIT PAYMENTS TO PROGRAM PARTICIPANTS. At the same time, the picture in many states reveals often outmoded payment systems, and under-developed reliance on ICT. Modes of benefit payment vary both across space within the country (and often within states), and between different benefit types within states in some cases. They range from cash payment by panchayats in the presence of the public (e.g., MGNREG in some districts), to cash payments from block treasuries, to money order delivery of benefits via the postal system (e.g., social pensions in many states), to direct deposits into bank or postal savings accounts. There are also non-regular forms of payment, including transfer of MGNREG wages through field assistants or in some cases contractors. Some important indications should be considered in defining efficient disbursement arrangements: accessibility, cost, transparency of record-keeping and accounting, cash in transit safety, etc. For instance, while using banks could perhaps be the most efficient and secure method of provision, inadequate banking network penetration may not allow for heavy reliance on that option. No payment method can be considered the preferred option in all cases, and even apparently straightforward and low intermediary options like savings account payment have been seen in field work to be subject to “deductions” by staff.

INDIA’S ICT CAPACITY SUGGESTS THAT GOVERNMENTS COULD BE MORE PROACTIVE IN EXPERIMENTING WITH NEW BENEFIT DELIVERY MODELS FOR SP PROGRAMS. While some of the models tried internationally (and now in some parts of India) will require connectivity that more remote areas currently lack, various E-governance initiatives of both central and state governments suggest that it will increasingly become realistic to experiment with ICT-driven payment systems (see Section D).

WHILE NOT ALL OPTIONS WILL BE SUITABLE OR POSSIBLE IN ALL AREAS IMMEDIATELY, ALL THESE SOLUTIONS OFFER IMMENSE OPPORTUNITIES, BUT ALSO COME WITH LIMITATIONS (E.G., MOBILE PHONE BANKING WORKS WHEN MONEY HAS BEEN DEPOSITED IN A BANK ACCOUNT, ETC.). A combination

of various solutions would likely be required. Box 7.2 gives some details on existing experiments in India and internationally, which may provide useful lessons.

AN OPERATIONAL COMPLEMENT TO CONVENTIONAL PUBLIC MECHANISMS THAT HAS GROWN IN RECENT YEARS IS RELIANCE ON THE SELF-HELP GROUPS (SHGS) AND PRI IN CERTAIN ASPECTS OF PROGRAM ADMINISTRATION. This has included client services such as public awareness, beneficiary identification, basic record-keeping, operation of FPS, and benefit disbursement. SHGs can sometimes organize themselves both at village and mandal levels and open accounts at commercial banks, which can facilitate cash disbursement. PRI are also involved in certain programs/states in direct benefit payment, with cash benefits handed over in community meetings/

*gram sabhas*. While such initiatives have considerable promise, an issue for future consideration is the extent to which such functions are uncompensated, which may raise questions of their sustainability and replicability.

### (c) Record keeping

WITH THE NOTABLE EXCEPTION OF MGNREG, RECORD KEEPING IN MOST PROGRAMS IN MOST STATES IS OFTEN OUTMODED, AND DOES NOT MEET THE NEEDS AND STANDARDS OF MODERN PROGRAM ADMINISTRATION. At the same time, both MGNREG and the innovations of individual states (e.g., Karnataka through its computerized treasury system and Andhra Pradesh with its newly developed system for the social pension program), suggest that rapid and

#### Box 7.2: Innovations in payment systems

While disbursing cash benefits through the organized financial sector channels is normally associated with strong operational advantage, lack of penetration of many remote and rural areas with financial services has been posing a binding constraint on this mode of delivery. While Post Office seems to operate in a greater number of locations in India, adequacy of its accounting mechanisms and capacity to assume new tasks remains to be evaluated. More generally, conventional financial intermediaries are often ill prepared to deal with mass transactions of very small amounts in remote, dispersed, and poorly educated communities. The Indian challenge is not unique. Both in India and abroad, a number of interesting and relevant innovations have been introduced to facilitate the effort of expansion of coverage of financial services.

ATM machines, being a conventional means of cash disbursement, remain an expensive proposition for some communities. Research and development efforts have been focusing on bringing the advantages of conventional financial sector infrastructure to those communities. For example, lessons from Bolivia where low-cost finger print enabled ATMs were introduced to service needs of the emerging MFI sector, indicate that rural, low-income communities are both willing and capable of using high-tech services as long as they serve their needs. The cost of such device in Bolivia is around \$18,000 ([http://www.digitaldividend.org/case/case\\_prodem.htm](http://www.digitaldividend.org/case/case_prodem.htm)). In India, innovations in the same field seem to be far more promising. With a prototype developed by a team lead by Dr. Ashok Jhunjunwala of Indian Institute of Technology in Chennai, a similar device may cost less than \$2,000. It can function as a stand-alone machine or be connected to a computer terminal, operating on a standard ATM platform or custom banking IT system. Accessing the account is enabled by a finger print recognition system. An ATM card or account number entry would be required to facilitate the matching process. Note that no expensive smart card is required in this case. Finally this new device is capable of working in the conditions of temporary losses of electric power supply. All of this is important for efficient service provision in otherwise infrastructurally lagging communities. The new machines have already been piloted by the ICICI Bank.

Another interesting internationally emerging practice of providing access to financial services in the remote communities is **mobile banking**. In Kosovo, for example, when a new basic old age pension program was being introduced, bank branches were not operating in some ethnic minority enclaves. A number of mobile banking units were licensed then to service those areas lacking normal banking coverage. The mobile units visited these areas on a regular schedule, providing benefit disbursement services, until the banking sector developed to sufficiently cover the whole territory of the province through normal branch operations (Gubbels et al, forthcoming).

**Point of Service (POS) devices** have been widely utilized, for example, in Brazil as an alternative to the conventional financial services network. Using a regular debit card, individuals can now access their accounts and perform various financial transactions, e.g., while shopping at a local drug store. Local providers have to be licensed by the host commercial bank, have a telephone line, and be equipped with a card-reading device connecting in a dial-up session to the remote bank's server.

**A final and more recent innovation is mobile phone-based payment systems.** While still in relatively early stages in developing countries, experiences in countries such as South Africa, Kenya and Philippines indicates that there may be significant potential for exploring mobile phones as vehicles for payments of various kinds. The basic model involves topping up of mobile credits to a phone-holder in the relevant area, who can then pass on the cash value of the top-up to beneficiaries. Obviously such an approach has its limitations and would require careful piloting and evaluation, but the fact that pilots such as that supported by Vodafone in Kenya appear to be working in challenging environments suggests that it is worth considering for experimentation in India.

quite far-reaching improvements in record keeping can be achieved at manageable cost and despite capacity constraints.

INSTITUTIONAL TRANSFORMATION RATHER THAN A MERE ICT UPGRADE SHOULD BE SEEN AS AN OBJECTIVE OF OPERATIONAL MODERNIZATION. An ICT project should be seen as an opportunity to comprehensively assess existing business processes and based on the accumulated experiences define a new process that would help address various limitations and loopholes. It is the business process, not the ICT, that should be a driving force behind the effort of reform.

THERE ARE A RANGE OF COMMON CHALLENGES WHICH SP PROGRAMS IN MUCH OF INDIA FACE. THEY INCLUDE:

- ◆ *in some states (or parts thereof) and for some programs, lack of any records at lower levels of the system.* This is for a variety of reasons, but a common one is the lack of capacity and training, and lack of clear guidance and enforcement to the lowest levels of the system, in particular GPs. An illustration is provided by the social pension program in Rajasthan presented in Table 7.11, which shows the share of villages by district maintaining beneficiary registers. In some districts, there were no GP registers at all of social pensioners in sampled blocks, and in the 8 districts surveyed, under 30 percent of GPs maintained a register. Of GPs that did maintain a register, a further quarter did not maintain

separate registers by type of social pension. The substantial variation across districts also points to lack of enforcement and standardization of record keeping.

- ◆ *even where registers of beneficiaries are well maintained, there is typically a lack of coordination and cross-checking across levels of the system.* Field work for this report found that basic program information (including beneficiary numbers) was at times different across levels of the system, indicating issues with data consolidation and comparability.
- ◆ *updating and simple checking of beneficiary lists is often neglected. Beneficiary lists are frequently not updated for long periods, despite requirements in several programs for annual verification exercises.* Just as significantly, administrative data are not in most cases used for “reality checking” and duplication checks. A positive example of the benefits of relatively straightforward (and low cost) exercise in this respect is found in Karnataka, where the Finance Department did an initial check by taluk of social pensioners against census data. This identified a range of obvious issues, including high shares of very old pensioners, taluks where the beneficiary population for NOAPS exceeded the total elderly population (and conversely, where it was less than 5 percent), and other anomalies. This allowed for focused program audit by the Government of Karnataka. The exercise was supplemented by running a simple algorithm for checking individual records which seemed high risk for duplication. The latter exercise allowed an immediate reduction of 6 percent of duplicate or ghost records across 20 taluks. This technique is described in Box 7.4. Such procedure helps to improve and make the internal audit effort more directed. However it requires at the minimum some basic electronic database of records of active beneficiaries.
- ◆ *lack of records of active members.* What often is available is only a cumulative register of all beneficiaries who ever applied and/or were paid at least once from the program. Cases of losses of eligibility or death would remain unaccounted in such program statistics, therefore significantly limiting monitoring and planning capacity.

**Table 7.11: Share of GPs maintaining registers of social pensioners, Rajasthan, 2006**

District	A. Any register of social pensioners (% of GPs)	B. Separate register by social pension type (% of col. A)
Ajmer	16.6	100
Bundi	85.3	100
Dungarpur	4.7	0
Ganganagar	36.0	23.1
Jaisalmer	35.2	71.0
Jalore	44.0	23.1
Jhalawar	0	0
Jhunjhunu	0	0
<b>All sampled districts</b>	<b>29.2</b>	<b>76.9</b>

Source: Dutta (2008)

- ◆ **fragmentation of record keeping across programs, resulting in inefficiencies, inability to cross-check, and a weak information base where action is needed on a cross-program basis.** The lack of linkages across program record-keeping deprives the system of some of the benefits of economies of scale that might otherwise be possible. It also contributes to the situation where beneficiaries may have multiple identification numbers in different parts of administrative data systems. A simple but important example is the common difference in the identification numbers of BPL households on the PDS ration card system and in the BPL lists themselves. While a cross-program (and even broader) unique household or individual identifier is a Holy Grail of both Indian and other developing country policymakers, the challenge in India is not so much technical as one of departmental coordination and political will. There are examples where efforts to promote data-sharing across departments are showing promise, e.g., Orissa's pilots to consolidate reporting across departments in food-based programs and link this to an early warning system on "hunger blocks".
- ◆ **lack of computerization of records on a consistent basis, particularly at sub-district level.** Where records exist at lower levels of the system, they are more often than not paper-based. This is a practical option in some areas with unreliable electricity, but nonetheless, many states lack a consolidated plan for roll-out of computerization in SP record-keeping. There are good examples of significant progress, e.g., the MGNREG databases established in several major implementing states. Beyond that, there are emerging examples of more sophisticated ICT applications such as AP's introduction of biometric technology in PDS ration cards which has resulted in a significant reduction in duplicate and bogus ration cards. The most notable is the RSBY program, which represents a path-breaking application of smart card technology to a public program for the poor. This is discussed in detail in Chapter 5, and discussion of the experience of smart cards in public programs in India is provided in Box 7.3.
- ◆ **exploring greater reliance on outsourcing and partnerships in software development and other aspects of record keeping.** While there are good

examples in CSS such as NIC's development of the basic MGNREG software, states have still to exploit the full potential of outsourcing arrangements on improvements in record keeping, including all stages of ongoing operations like applications collection and benefit payments, and later steps like archiving. Deciding what is appropriate to outsource is obviously a policy decision (including on issues like data ownership and access protocols), but India's private sector potential in ICT suggests that there is more scope for exploring such options. Good computerized records are becoming an increasingly important element of program management in the face of Right to Information Act requirements for publicly available program performance information.

- ◆ **capacity development for record keeping, particular at block and GP levels.** The increased role of PRIs in SP program implementation has created new demand for recordkeeping and other skills at local level. While several states are pursuing capacity building initiatives in this area, much more remains to be done.
- ◆ **there are also a range of program-specific implementation challenges.** These are discussed in part in Chapters 3, 4 and 5 under individual programs. Two examples are: (i) absence of available data under SGSY on repayment rates of beneficiaries; and (ii) perennial challenges in the veracity of muster rolls under public works programs.

#### (d) Monitoring and evaluation

Overall, monitoring of sp programs – like many others – remains driven by generation of input/output information more suited to oversight than monitoring in a more policy-oriented manner, and rigorous impact evaluation is very under-developed and largely piecemeal.

WITH RESPECT TO EVALUATION, THERE IS NO EXAMPLE OF A MAJOR PROGRAM FOR WHICH RELIABLE PRE-PROGRAM BASELINE INFORMATION HAS BEEN COLLECTED. The main evaluations conducted by Gol of major CSS are so-called "concurrent evaluations", which are useful but more in the nature of assessments of key performance parameters of schemes. At best – for example when dedicated surveys are commissioned – they may give

### Box 7.3: Smart cards in public programs: Experience and issues

The past few years have seen an unprecedented rise in the use of IT and associated applications in the management and monitoring of Government programs in India. Though most efforts seem to be concentrated towards increasing efficiency within Government departments, there are also efforts to increase outreach to citizens in order to facilitate access to government services. Smart Cards - plastic cards with a chip having the capability to store, maintain and manage data securely over time - are emerging as an important medium for enabling offline transactions with a high degree of security. The ability to enable secure transactions without the need of online connectivity (unlike debit or credit cards) makes smart cards an ideal medium for use in a country which still has large areas virtually unconnected by reliable means of communication to backend systems. Since smart cards allow only electronic transactions, an incidental benefit of using them is the ease with which authentic electronic data can be collected.

The “smartness” of these cards lies not only the manner in which the embedded software is implemented, but also in the security systems that can be implemented using the encryption and authentication features available on smart cards. Deployment of these cards in association with features like biometrics (primarily fingerprints) and context dependent software further enhances their utility. Such a system can easily be used to verify usage, authenticate a person and validate the transaction without any backend connectivity to servers or external source authentication, providing a completely secure and validated environment for offline transactions. All this and more can be done using personal computers, portable computing devices and even certain mobiles, using only a minimum of external or built in smart card reading/writing devices.

There have been numerous recent efforts in India using smart cards for ensuring an authenticated and validated delivery of government benefits to the beneficiary. Pilots using smart cards include ration cards in Kerala, milk contributions by women in Dairy Federations in Gujarat and Rajasthan, and providing subsidized medical aid to Bhopal Gas Victims and HIV/AIDS affected people. These pilots have used the cards for enabling offline transactions, storing the data and empowering the holders. However, not every project involving smart cards has yet realized the true potential of the medium. In fact they have even proved detrimental to the argument for use of smart cards in some cases. Projects like the Fishermen ID card in Gujarat and the much touted driver’s license and registration Certificate have simply used smart cards as photo identity cards and for storing certain data that is once personalised but never read or used.

Based on the lessons from other projects, the recently launched Cashless Health Insurance card of the RSBY program of Gol (see chapter 8) has proved to be a success story for smart cards in delivery of Government benefits. It has made use of the full capabilities of the card and combined it with efficient and implementable re-engineered processes to set up a system that is continuously evolving, self administrating and most importantly has made the process of utilizing free medical facilities for the Below Poverty Line very easy to use. With the exception of RSBY, India still has a considerable way to go in order to realize the potential of smart cards in public programs. In addition using smart cards as a superfluous tool to digitize existing processes, it is important to re-engineer processes to empower the beneficiary, reduce the administrative efforts and redirect them towards the actual business of delivering benefits.

An important aspect for the use of smart cards in India is prevailing standards. Fortunately, the National Informatics Centre has already made a major effort in this area and Smart Card standards (SCOSTA i.e., Smart Card Operating System for Transport Applications) are already widely used and have evolved over time to keep pace with the growing demands and availability of new products. International standards already exist for smart card readers/writers. However, there is still a large gap in standards for other devices and associated systems like fingerprints, hence careful evaluation of requirements vis-a-vis available products is needed before commencing a project based on these technologies. Using SCOSTA as a distinguisher between kinds of smart cards is a common error. Commonly smart cards may be JAVA or Native based on their implementation (the JAVA card should not be confused with the open source operating system or software as this is slightly different) or they may be contact and contactless to provide a different platform for usage of the card.

Source: Chopra 2009.

insights into the household level benefit of programs in rupee or quantity terms. However, such evaluations have yet to be designed in the public sector to explore the net impact of schemes, in terms of robust comparisons both to the pre-program situation and/or to control groups of non-beneficiaries with similar characteristics to those participating. The skills to conduct such impact evaluations are available in India, and some evaluations have been conducted outside government. There is increasing interest in robust impact evaluation in

Government, and MGNREG provides structures in its governance for supporting research on program impacts of different kinds.

WITH RESPECT TO MONITORING, INDIA HAS A TRADITION OF DETAILED REPORTING OF KEY INPUT/OUTPUT INDICATORS. However, such data are used primarily for internal reporting and justification of future funds rather than analytically to assess key program weaknesses by issue and state.<sup>335</sup> Unlike many developing countries, SP

<sup>335</sup> While there are systems for concurrent evaluation of program performance through vigilance and monitoring committees at various levels, effectiveness varies across states. The monitoring mechanism includes, inter alia, a performance review committee, periodic progress reports, audit and utilization certificates and field monitoring.

programs in India do not lack for detailed data. However, there remain a range of issues with administrative data used for monitoring, some related to the data themselves and others to processes and uses of such data for policy purposes:

- ◆ **a first shortcoming – noted in the FM section above – is that expenditure data is an imperfect reflection of actual spending at the grassroots level, and conflates this with simple funds release (which may remain parked in government accounts).**
- ◆ **a second shortcoming in monitoring relates to consolidation of monitoring data.** Given the increase reliance on CSS fund channeling through DRDAs, state budgets will frequently not reflect total spending in the state on specific programs. Getting a consolidated picture of spending within a state by program is therefore not straightforward.
- ◆ **a third shortcoming on some schemes is that important indicators are not collected as a matter of course, and/or not available in digestible form to state or central policymakers.** Examples

include: (i) repayment rates on SGSY loans; (ii) the age composition of beneficiaries; and (iii) actual days of employment generated under workfare schemes prior to MGNREG. While it is important not to overburden monitoring systems with needless reporting, some of these indicators go to the heart of getting a good sense of program impacts and sustainability. This points to a bureaucratic rather than strategic culture in deciding which monitoring indicators are given priority.

- ◆ as noted above, the lack of data on active beneficiaries of the program seriously hampers any effort of analysis of the program performance.
- ◆ **on the process side, the available data are rarely used for any purpose other than publication in annual reports and to some extent audit and budgeting.** Both states and the centre lack strategic planning offices in Ministries which use the outputs of monitoring for assessing trends and patterns in program performance, and applying the insights to policy development. Monitoring data are therefore under-exploited. Box 7.4 gives

### Box 7.4: Case study of cross-checking for duplicate beneficiaries in Karnataka

The incidence of duplicates among active (“running”) records of social pensioners in Karnataka was checked by looking at the similarity across records in the administrative database. To do this, a pattern-matching program was applied to quantify the similarity between any two records in the files.<sup>3</sup> The program assigned to each record pair a “similarity score” between zero and one, found the other record most similar to each record in the file, and sorted the file according to this similarity, to put the record pairs most likely to be duplicates on top. For instance, in one of the taluks (Malur,) the two records appear near the beginning of the sorted file with an assigned similarity of 1.00 (they are almost identical, despite their different PPO codes,) meaning that they almost certainly reflect a double payment. Further below in the same file, the two records are assigned a similarity of 0.93 (they are alike enough to raise strong suspicion.) Even further below, the pair with a similarity of 0.86, may or may not be duplicates – a human comptroller would probably suggest an audit.

Across the 20 taluks, 6 percent of the pension records have a likely duplicate in the administrative database. There was wide variation across taluks: in two (Channarayapatna and Malur), over 10 percent of the records have a close enough active duplicate (similarity score greater than 0.80) to warrant an audit. Six other taluks have over 5 percent of records with a close duplicate. The incidence of duplicates is correlated with the estimated coverage rate (the percent of elderly who benefit from the pension schemes), another indicator of hyperactivity in the application of the pension programs in the taluk.

PPO ID	Name:	Address
O980744385	Venkatappa	S/O Mutturayappa   Panamakanahalli-Kondashettihalli Post   Malur Tq-X-562116
O980744396	Venkatappa	S/O Muthurayappa   Panamakanahalli-Kondashettihalli Post   Malur Tq-X-562116
O870725582	Muniyamma	W/O Ramappa   Banuhalli Village-Tekal Hobli   Malur Taluk-X-562116
O870742919	Muniyamma	W/O Ramanna   Banahalli Village-Tekal Hobli   Malur Taluk-X-562116

Source: Murgai 2006

Notes: The measure of similarity is based on Ratcliff and Obershelp’s “Gestalt” algorithm. The program first transforms the “Name” and “Address” fields from both records into phonetically similar texts, applies the algorithm to each field pair separately, and finally computes the similarity score as an average.

a recent example from Karnataka of how simple use of administrative monitoring data has been put to good use.

A KEY DEVELOPMENT ON PROGRAM MONITORING IN RECENT YEARS HAS BEEN INVOLVING THE COMMUNITY ITSELF IN MONITORING. With a strong push from civil society, GoI and states in recent years have begun to recognize the potential of communities as agents for monitoring program implementation. The extent of this practice is highly variable across states, and in many cases is a tool where the rhetoric of possibility has to date outstripped practice. Nonetheless, progress is being made. MGNREG presents the most developed example to date of a program which has an explicit community monitoring role, through the mandate of “social audits”. In the MGNREG guidelines, social audit is viewed as a continuous process of community monitoring intended to cover all aspects of program implementation. The method builds on prior experience from NGO initiatives in India, in particular the work of Mazdoor Kisan Shakti Sangathan (MKSS), a Rajasthan NGO which pioneered a practice of

*jun sunwais* or public hearings on program performance. More details of that experience are provided in Box 7.5, as well as insights from initial experience in Andhra Pradesh on social audits for MGNREG. To date, a requirement of social audit has not been included under any other CSS SP program, though AP is looking to include such a process as a standard element of all RD programs in coming years.

WHILE THE COMMUNITY MONITORING PROCESS SHOWS POTENTIAL - PARTICULARLY WHEN EMPOWERED THROUGH STRATEGIC USE OF THE RTI ACT – PRACTICE IS STILL EVOLVING ON HOW TO MAKE COMMUNITY MONITORING A SYSTEMATIC PROCESS, RATHER THAN A “ONE-OFF” EXERCISE. To some extent, the reliance on *jun sunwais* is a reflection on the weakness of community institutions such as the *gram sabha*. A challenge looking ahead will be trying to incorporate some of the good practices of *jun sunwais* into regular institutional mechanisms at panchayat level.

IN ADDITION, THE GOVERNMENT IS INCREASINGLY PARTNERING WITH NGOS AND RESEARCH INSTITUTES TO MONITOR THE

### Box 7.5: Community monitoring of social programs: Experience from Rajasthan and AP

MKSS (Organization for the Power of Workers and Farmers), a Rajasthani NGO, organized a series of *jun sunwais* or public hearings on performance of public programs targeted to the poor. The meeting is an open forum which aims to include community members, social activities, lawyers, media and public officials. At the meeting, public documents on program performance are read out, and participants are encouraged to ask questions and give examples of their own experience in program operation in reaction to the official records. Initially, this approach was resisted by many officials, who objected that official documents could only be audited by official auditors. In some cases, court orders were sought to avoid sharing information through such an extra-judicial mechanism.

While the *jun sunwais* meeting has no official mandate and hence sanction authority, it has proved a useful tool for “naming and shaming” in order to improve program performance. Some officials have returned funds, others have quit or been suspended, and arrests were made in some cases. On the policy side, the process resulted in amendments to the Rajasthan Panchayati Raj Act to allow public access to all documents under anti-poverty programs, and the development of social audit guidelines. The process has also now been extended to some urban areas such as Delhi. The methodology has also been used intensively through “padyatris” on the MGNREG, and MKSS has conducted two trainings for participants from other states in the social audit methodology.

Building on the Rajasthan experience and with the mandate of the MGNREG guidelines, the state of AP has taken a proactive role in promoting social audits in the districts where MGNREG is operational. The Department of RD and Panchayati Raj set up a social audit wing, which trained district resource people, who are training village level organizers. Initial social audits have now been documented in all 13 districts in the state where MGNREG is implemented. This has also involved widespread NGO participation. Training has been provided for village level workers in social audits processes. For example, in Anantpur district, 1200 workers were organized in team of 10-13 members covered 38 mandals in a 10 day period, and then conducted a mandal-level “social audit forum” to discuss main findings.

The social audit process involves several steps after training: (i) teams are given a checklist of key implementation issues; (ii) key financial reports, muster rolls and other documentation are procured from local officials under the RTI Act; (iii) a household level survey is done; (iv) visits are carried out at work sites, and a village meeting is held to share information and discuss problems found; and (v) a mandal level social audit forum is called where officials and the community attend and officials are asked to explain discrepancies in implementation. While managing these processes has been challenging, the interaction between communities, PRIs and officials is generally considered useful, and has resulted in dismissal of lower level field staff in a number of cases. At the same time, the social audit has generally been better at dealing with small level grievances than systemic issues, and it remains to be seen how sustained the process and its impacts will be as implementation continues.

Sources: OHCHR/UNDP workshop; Samji and Aiyar.

PERFORMANCE OF VARIOUS PROGRAMS IN THE FIELD. Most notably, MGNREG has introduced systems for field monitoring of the program using national monitors as well as third party monitoring by independent agencies. A network of institutes has been established for independent concurrent monitoring of the program and has generated a body of research on the performance of MGNREG in the field across states.<sup>336</sup>

## D. CONCLUSIONS AND RECOMMENDATIONS

WITH A MYRIAD OF PROGRAMS AND PLANS TO INTRODUCE NEW SCHEMES, EXPAND COVERAGE AND CONSOLIDATE EXISTING SCHEMES, IT IS AN IMPORTANT TIME TO ASSESS RELEVANT EXPERIENCES AND IDENTIFY BOTH GOOD AND BAD ADMINISTRATIVE PRACTICES. While India may not have the advantage of other countries of running a well-organized centralized machinery of administration of public benefits, some strategic priorities could be defined to achieve better benefit delivery and transparent operation. In particular, policies seeking harmonization, portability, and transparency in benefit provisions, and otherwise ensuring minimum operational standards, should be designed, endorsed, and promoted. Capacity to regulate and supervise various benefit providers and their intermediaries should be gradually built. Furthermore, a firm stand could be taken on the policy of registration and tracking of beneficiaries of the public programs. From the discussion above, and from the insights of many GoI and independent studies on program performance of CSS SP programs, some more specific recommendations emerge:

### (i) On awareness and outreach

WHILE PROGRAM AWARENESS AND OUTREACH IS AN INHERENTLY DIFFICULT PROCESS IN A COUNTRY OF INDIA'S SIZE AND DIVERSITY, EXPERIENCE FROM STATES AND FOR SPECIFIC PROGRAMS SUCH AS MGNREG INDICATES THAT MUCH CAN BE DONE IF THERE IS SUFFICIENT WILL. An improved awareness and outreach strategy would likely involve several elements:

- ◆ *developing a better picture of what are the key information sources of the poor on public programs, including what types of information they get from which channels.* The limited survey information indicates that typical government media campaigns, web-based information, and information from administrative officials are not the channels through which the poor find out about programs
- ◆ *providing in SP program budgets for sustained awareness raising by third parties where possible.* Field work for this report indicates that program awareness dissemination is not a one-time activity, but a product of repeat contacts and local sources of reliable information. This tends not to be the approach of most IEC campaigns for SP programs.
- ◆ *developing a more diverse range of IEC strategies for program awareness raising.* This would involve not only a more diverse range of actors as tools of information dissemination (including NGOs, SHGs, youth groups, social and religious leaders), but also a more diverse set of information tools (including visual media suitable for non-literate audiences, television and radio campaigns which more creatively engage audiences rather than simply presenting program guidelines, use of community, etc).
- ◆ *deepening the use of social audits not only as a tool for program monitoring, but as a source of program information dissemination.*

### (ii) On the applications process

- ◆ *review program eligibility criteria on several key programs with a view to simplification of eligibility proof and understanding of the public.* One aspect of this would be exploring avenues for reliable third party verification of certain facts where documentary evidence is not available or costly to gather.
- ◆ *proactive exploration of how SP programs can reduce transactions costs of program application linking up with the range of ICT*

<sup>336</sup> This Professional Institutional Network (PIN) includes Indian Institutes of Management (IIMs), Indian Institutes of Technology (IITs), National Institute of Rural Development (NIRD), Administrative Staff College of India (ASCI) and others.

*initiatives such as rural business kiosks and other village-level connectivity initiatives.* The emerging examples in other contexts such as spreading availability of land records through rural E-kiosks (e.g., Bhoomi in Karnataka) and availability of market information (e.g. ITC's E-chaupal initiative) suggest that concerted effort between SP departments and their ICT department colleagues could pave the way for a major contribution to simplification of program applications, and significant cost reductions for applicant households (not to mention lower opportunities for undesirable middlemen).

- ◆ ***encourage – if necessary with public subsidy on a contracting-out basis – NGO, SHG and other CBO intermediation to facilitate program applications, and increase the use of camp approaches to registration by the administration itself.*** Given that the culture of reliance on middlemen is so prevalent, it seems sensible to encourage the efforts of middlemen (or more likely “middlewomen”) who are more likely to have the interests of the applicant at stake.
- ◆ in terms of program oversight, it seems sensible to target IAY and SGSY for particular scrutiny, including use of social audits.
- ◆ share the experiences of states which are piloting biometric and other ICT advances to reduce fraud and human error in the beneficiary recording process.

### (iii) Financial management<sup>337</sup>

- ◆ ***some of the needed improvements are in the domain of states, and they will need to follow the lead of recent reformers in areas like public expenditure management rules and expansion of ICT in release and tracking of funds.*** They will also need to facilitate sustained FM capacity development in PRIs if the intentions of decentralization of SP programs are to be realized. This will also require in most states a more elaborated financial accountability framework for PRIs and sub-state implementation agents.

- ◆ ***other reforms – such as accounting for SP CSS resources as “spent” when they have not been and application of accrual accounting – will require coordinated efforts of the centre and states on reporting processes that require reliable information on physical and other outcomes of “spending”.*** The example of MGNREG reporting in some states provides a good model which should be institutionalized. A first step in coordinated effort between the centre and states could be clear agreement on the necessary skills needed for FM at different levels of the system for SP programs (and more broadly), and agreement on action plans for ensuring adequate skills.
- ◆ as part of strengthening the accounting and financial reporting framework, it will be increasingly important in SP CSS which route through DRDAs to develop standard financial reporting rules for societies, which would subsequently be reflected in the GFRs for GoI and the states. This work would most sensibly be led by CAG and ICAI.
- ◆ ***address the backlog in external audits of SP CSS, and a more competitive process of selection of third party accountants responsible for auditing societies.*** All Ministries implementing SP CSS should also post the findings and actions taken on audits on websites.
- ◆ ***equally - and more challenging in terms of bureaucratic culture – there is a strong need to deepen the uses to which financial information on programs is put,*** and hence to move away from the simple input/output culture of financial reporting which prevails in most CSS.
- ◆ ***finally, the positive development of increased citizen accountability for SP funds use seen in MGNREG should be institutionalized over time in all SP programs,*** with basic initiatives like posting of all program releases and uses, greater reliance on social audits, and posting of beneficiary lists and program rules in plain language. A number of these are natural corollaries of the Right to Information Act, but their full potential remains to be exploited in most states of India to date.

<sup>337</sup> See World Bank (2005a) for more detailed recommendations.

## (iv) Payment systems and record keeping

REFORMS OF PAYMENT SYSTEMS CAN TAKE A RANGE OF FORMS, BOTH TECHNOLOGY-BASED, AND WHERE THAT IS NOT POSSIBLE, WITH COMMUNITY MONITORING OF PAYMENTS. SOME OF THE TECHNOLOGICAL OPTIONS INCLUDE:

- ◆ low cost ATMs developed at a fraction of cost of the conventional machines, equipped with finger print identification and long-life batteries, can facilitate cash distribution in remote areas.
- ◆ point-of-service (POS) devices installed in local shops and gas stations can use regular telephone lines to process on-line cash disbursement transactions, or – in the case of PDS – facilities for debiting the monthly ration.
- ◆ special mobile branches could make conventional banking more accessible, enabling regular and scheduled visits in the remote communities.
- ◆ finally, mobile phone banking is an emerging phenomenon that utilizes comprehensive penetration of the new communication networks.

MORE GENERALLY, COST RECOVERY MECHANISMS OF DIFFERENT OPERATIONAL ALTERNATIVES TO THE CONVENTIONAL MODELS OF SERVICE PROVISION SHOULD BE FURTHER STUDIED. While some models are quite promising, their financial viability as localized stand-alone solutions remains a concern. Clever solutions may simply need to be scaled up in order to reach the break-even point of economic operation. Furthermore, strategies enabling synergies across multiple programs should be further explored. For example, while the smart card technology may be a costly solution if utilized only by a single benefit program<sup>338</sup>, using it as a common platform for multiple products (e.g., various benefit and insurance schemes) may well help to make its application a sound economic proposition.

WITH RESPECT TO RECORD KEEPING, THE EXPERIENCES OF MORE PROGRESSIVE STATES SUCH AS KARNATAKA OFFER LESSONS FOR OTHERS. Some of the issues for attention include:

- ◆ *training (and subsequent monitoring and enforcement of compliance) for GPs and blocks in maintaining appropriate registers of beneficiaries.*

As one of the challenges in this work with be capacity constraints at both levels, it could be useful to explore options for supplementing this in non-costly ways, such as providing skilled workers from MGNREG as temporary assistants to the gram sewak.

- ◆ *at the state and district level, development of simple verification exercises which will allow program oversight to focus on high-risk areas.* Even available monitoring data often throws up obvious anomalies, but is typically not used for this purpose.
- ◆ *at central and state levels, improve cross-departmental coordination on a range of record keeping issues, starting with a strategy for convergence of beneficiary identification numbers.* Even where systems remain parallel for the short to medium term, Collectors and BDOs should encourage greater cross-program information exchange for programs with common elements such as being food-based or child-focused.
- ◆ *as a condition of CSS receipts, the centre could insist that a computerization strategy and roll-out plan for SP programs be developed, including a training plan.* This seems a bare minimum for movement towards a modern system of record keeping.
- ◆ *encourage states to be more proactive in exploring outsourcing possibilities on development of program record-keeping software.* India offers a particularly promising environment for such efforts, though there would remain an important role for the central government in ensuring consistency in basic design features, and thus comparability of data from different states.

## (v) Monitoring and Evaluation

- ◆ *ensure that any major SP program has a pre-program baseline done,* and that impact evaluations also include control areas where feasible.
- ◆ *explore replicating the model of MGNREG with provision for more robust research and evaluation financed from the program budget.*

338 The marginal cost of one smart card issued in India is quoted as being in the \$2-\$3 range.

- ◆ **on monitoring:** (i) review the current set of monitoring indicators for major programs to assess their utility and gaps in key program indicators; (ii) if necessary on a contracted-out basis or under special units (e.g., as Orissa has developed under its Poverty Monitoring Agency), conduct regular basic analysis of consolidated program monitoring information at state and central levels; and (iii) explore institutional mechanisms in states and at the centre to use the analysis of such units for annual review of program performance and policy implications.
- ◆ **building on the social audit experience in some states, mainstream social audits as a standard practice in all SP programs.** While the experience is relatively new on any scale, social audits seem a useful tool for increasing community knowledge of programs and providing a vehicle for redress where needed. However, in the absence of an authorizing environment in program guidelines (such as under MGNREG), the potential of social audits will remain limited.





**Targeting Mechanisms**  
**BPL and Beyond**

**CHAPTER**  
**8**



# Targeting Mechanisms

## BPL and Beyond

TARGETED PROGRAMS HAVE NATURALLY TO CONCERN THEMSELVES WITH IDENTIFYING WHO ARE THE POOR, AND HOW WELL INTERVENTIONS REACH THEM. Given fiscal constraints, they also often need to ensure that the non-poor do not benefit unduly from interventions which are intended to be targeted. For nearly all its major anti-poverty programs, India seeks to target the poor as the exclusive or major beneficiaries of public interventions.

THIS CHAPTER EXAMINES THE MAIN WAYS IN WHICH PUBLIC PROGRAMS IN INDIA TRY TO TARGET THE POOR, HOW EFFECTIVE THEY ARE IN ACHIEVING THEIR OBJECTIVES, AND OPTIONS FOR IMPROVING TARGETING MECHANISMS. The structure of the chapter is as follows: Section A outlines the different meanings of the term poor (in program terms, “below poverty line” or BPL for short) in social protection (SP) policy in India. Section B then has a discussion of the dominant targeting mechanism for SP programs – the BPL census system – and its shortcomings. While poverty incidence is estimated by the Planning Commission every five years based on the “thick” NSS data, the

identification of poor households is done through a separate process by the Ministry of Rural Development for rural areas; the process for urban areas seems to be more fragmented with various state departments maintaining different beneficiary lists. Section C then looks at comparative targeting performance across SP programs which employ different targeting methods. Section D looks at alternatives to the indicator-based BPL method. The next section assesses the targeting performance of these different methods. The chapter concludes with a discussion of options for improving targeting in SP programs, including a discussion of the proposed 2009 BPL methodology as described in the Saxena Committee draft report. While the chapter finds significant shortcomings in the BPL system, targeting of SP programs is an inherently difficult process in a country where a large share of the population clusters around the poverty line, and thus the observable differences between “poor” and “non-poor” households are often not easy to measure and may be small in absolute terms.

## A. WHAT DOES “POOR” MEAN IN TERMS OF PUBLIC PROGRAMS?

THERE ARE FOUR MAJOR DEFINITIONS IN THE SP SYSTEM OF THE TERM “POOR” OR “BELOW POVERTY LINE (BPL) PEOPLE” IN INDIA:

- ◆ *people who are below the state-specific poverty lines determined by the Planning Commission*, based on the NSS “thick rounds” which are conducted every 5 years or so. These estimates are primarily for planning and fiscal allocation purposes, and are important for allocation of centrally sponsored anti-poverty programs.
- ◆ *people who are on the so-called “BPL lists” based on periodic dedicated surveys by the Ministry of Rural Development (for rural areas)*. These use a standard national set of criteria for determining household living standards. These lists distinguish primarily between APL (Above Poverty Line) and BPL (Below Poverty Line) households, and the main purpose is ranking of households for determining eligibility for various anti-poverty programs targeted to the poor. This system has been in place since 1992, with changes in the methodology for determining eligibility since that time. Though prepared by the Ministry of Rural Development, this BPL list is used for targeting programs (such as RSBY) administered by other Ministries as well. There is no comparable centrally directed process across programs for identifying urban poor households; instead, various departments identify poor households using different methods and maintain separate beneficiary lists. “A working group at the Planning Commission is currently debating the design of an urban BPL methodology”.
- ◆ *people who have a “BPL ration card”*. This refers to ration cards, issued by the state Food and Civil Supplies Departments, which determine the amount and price of grains which households can access from the PDS system.<sup>339</sup> Since the 1997 reforms of PDS, households may have an APL, BPL, Antodaya (AAY) or Annapurna ration card, depending on their poverty level.

The card also has many other functions, such as an identity card, and a basis for establishing residence and even citizenship in some cases. The determination of ration card status is done in different ways across states. In several states (e.g., AP and UP), the Food and Civil Supplies Department conducts its own periodic survey to determine the level of household welfare. In others (e.g., HP and Rajasthan), the Food and Civil Supplies Department relies on the “BPL lists” as a basis for issuing ration cards. In others (e.g., Bihar), this movement from having separate bases for determining PDS ration card status and BPL listing for other anti-poverty program purposes towards integration of the two lists has been fairly recent. This has been strongly encouraged for all states as the 2002 BPL lists were being put in place and more recently in the Saxena Committee draft report on the proposed methodology for the 2011 BPL Census.

- ◆ *people who are considered “destitute” or otherwise poor or vulnerable*. This includes members of specific social groups who receive either categorically targeted programs due to their high average poverty rates or social exclusion. The primary groups in this category are ST and SC populations, but in specific programs may include other poor and/or vulnerable groups such as disabled people, widows and girls.

IN TERMS OF POLICY, THERE IS THEREFORE A DIVERGENCE IN DEFINITIONS ACROSS DEPARTMENTS, STATES AND PROGRAMS IN WHAT THE TERM “POOR PEOPLE” OR “BELOW POVERTY LINE PEOPLE” MEANS. This divergence spills over beyond social protection programs, as other sectors use one or other definition of “below poverty line” for provision of benefits and/or exemptions (e.g., in health, BPL households are eligible for institutional birth allowances, subsidies on participation in some public health insurance schemes, and exemptions on service fees in hospitals and some other health facilities; in education, many central and state stipends are based on social category). There is also frequently a divergence between how policymakers and functionaries use the term “BPL” and how different segments of the population defines it. Based on research for this report,

339 A notable exception is Tamil Nadu, which continues to have a PDS system which is not targeted according to a BPL/APL divide (see Chapter 3).

the most commonly understood meaning of the term for the general population is either possession of a certain type of ration card, or a more undefined sense of destitution.

THERE HAS OFTEN BEEN A SIGNIFICANT MISMATCH BETWEEN AGGREGATE NUMBERS DEFINED AS POOR FOR PLANNING AND FISCAL ALLOCATION PURPOSES AND NUMBERS WHO ARE POOR ACCORDING TO OTHER METHODS. The most notable example is the difference in the aggregate numbers and state-level patterns of poverty in Planning Commission terms and those for BPL ration cards. This can be seen in Table 8.1, which compares the state-level estimates of poor households according to the Planning Commission and the number of BPL households identified by state governments for PDS. Two things of note are that aggregate numbers of BPL ration card holders exceed the official estimates of the poor (by nearly three quarters), and that the differentials differ sharply across states. Some states such as West Bengal, Bihar, Chattisgarh, Jharkhand, Rajasthan, Maharashtra and Madhya Pradesh have coverage of ration cards only slightly more than the official poverty rate. Only Uttarakhand has under-coverage of BPL ration cards relative to official poverty rates. In contrast, the majority of states – most notably Andhra Pradesh, Karnataka, Gujarat and Orissa – have BPL ration card beneficiaries which far exceed official poverty estimates. Tamil Nadu makes no distinction between BPL and APL ration entitlements. In addition, there are discrepancies between ration card holding using administrative and survey-based data. Thus, the administrative data indicates that 40 percent of all households possess a BPL/AAY ration card.<sup>340</sup> The corresponding figure from 2004/05 NSS household data is 25 percent.<sup>341</sup>

AT THE SAME TIME, THERE HAVE BEEN EFFORTS – AS YET INCOMPLETE AND VARIABLE ACROSS STATES – TO PROMOTE GREATER CONVERGENCE BETWEEN THE DIFFERENT ADMINISTRATIVE MECHANISMS FOR IDENTIFYING THE POOR. An example in several states is the effort to develop common lists of BPL households for PDS and other SP and social programs, at least where the target groups are similar. However, this initiative has not begun in a number of large states to date. Another was the attempt

**Table 8.1: Discrepancies between different estimates of “BPL” households (rural and urban combined)**

State	Poor households (national) <sup>1</sup>	HHs with BPL/AAY ration cards (national) <sup>2</sup>	BPL/AAY HHs as multiples of poor HHs
Andhra Pradesh	28.1	140.5	4.99
Assam	10.3	18.9	1.84
Bihar	61.1	71.6	1.17
Chhattisgarh	17.9	19.2	1.07
Gujarat	17.3	46.3	2.67
Haryana	5.6	8.1	1.44
Himachal Pradesh	1.3	3.0	2.33
Jharkhand	20.7	24.0	1.15
Karnataka	27.3	71.4	2.61
Kerala	10.5	20.2	1.93
Madhya Pradesh	45.2	52.1	1.15
Maharashtra	64.1	73.6	1.15
Orissa	37.5	48.5	1.29
Punjab	3.9	7.1	1.85
Rajasthan	22.3	23.1	1.04
Tamil Nadu	34.2	168.3	4.92
Uttar Pradesh	91.5	106.8	1.17
Uttarakhand	6.8	5.0	0.73
West Bengal	41.3	47.3	1.15
<b>Major states</b>	<b>546.9</b>	<b>955.0</b>	<b>1.74</b>

Notes: All figures in lakhs. Tamil Nadu makes no distinction between BPL and APL ration entitlements and the number above includes both.

1. Planning Commission poverty estimates based on 2004/05 NSS data. The national poverty rate is 28%. 2. As identified under PDS by state governments in 2003/04 (dates differ somewhat across states).

Source: Planning Commission; Ministry of Food, Public Distribution and Consumer Affairs.

to promote numerical convergence between Planning Commission aggregate poverty estimates by state and the estimates of the poor generated from BPL lists.<sup>342</sup> This effort was diluted in practice due to political economy challenges so that it is unclear how effective this convergence was. This, however, does not necessarily mean that all programs would need to target the same groups. Programs such as educational scholarships

<sup>340</sup> Calculated using 2005 projected population and household size estimates from the 2001 Census.

<sup>341</sup> This corresponds to 30 percent of rural households and 11 percent of urban households.

<sup>342</sup> See Saxena (2006).

that target SC/ST children could use the information in the common database to continue targeting on caste affiliation rather than vulnerability status.

EVEN MORE WORRYING IS THE LACK OF OVERLAP ACROSS ADMINISTRATIVE LISTS, I.E., THE SAME HOUSEHOLDS ARE NOT NECESSARILY IDENTIFIED AS BPL EVEN WHEN THE UNDERLYING NOTION OF POVERTY OR VULNERABILITY IS THE SAME. For instance, a study in Bangalore revealed that there were three lists of households identified as BPL by three different departments (including for PDS) in three notified.<sup>343</sup> The study found discrepancies in aggregate numbers, ranging from 1841 families as per the Food and Civil Supplies Department, 640 by the Directorate of Municipal Administration and 668 families according to the Karnataka Slum Clearance Board. What was striking was that the number of families that were common to all three lists was only 6 percent!

## B. THE 2002 BPL METHODOLOGY<sup>344</sup>

The BPL Census is the primary administrative mechanism used for targeting in several government programs, including rural housing support (IAY), subsidized rural credit (SGSY) and, in some states as discussed above, also subsidized rations (PDS), as well as other social programs and services targeted to the rural poor.<sup>345</sup> However, the 2002 BPL list has been the subject of considerable criticism. This section discusses the design and performance of the 2002 BPL census methodology. The analysis in this chapter suggests that this method is a weak mechanism for identifying the poor. While the BPL score index is good at distinguishing the bottom 10 percent from the top 20 percent of the population, it is unable to differentiate between the poor and non-poor in the vicinity of the poverty line. Relaxing these assumptions and expanding choice of indicators improves *de jure* targeting outcomes somewhat, but is still not as

effective as a random assignment of BPL status among the bottom 40 percent of the population. Fine-tuned indicator-based targeting is an inherently difficult exercise in a context where the characteristics of the non-poor do not differ significantly from those of the poor.<sup>346</sup> Finally, this section evaluates *de facto* targeting outcomes for ration card holding in the absence of data on targeting outcomes of BPL lists and because the most common understanding of “BPL” is linked to the possession of ration cards.

### (a) *de jure* targeting design of the BPL census

IN 1992, THE MINISTRY OF RURAL DEVELOPMENT, GOI, UNDERTOOK THE TASK OF IDENTIFYING “BELOW POVERTY LINE” (BPL) HOUSEHOLDS IN RURAL INDIA THROUGH PERIODIC (APPROXIMATELY FIVE-YEARLY) VILLAGE CENSUSES. THE FIRST SUCH CENSUS USED SELF-REPORTED HOUSEHOLD INCOMES TO IDENTIFY BPL HOUSEHOLDS. Households with annual income below ₹ 11,000 were classified as poor. However, given the difficulties of measuring income, the self-reported income approach was abandoned in the 1997 BPL census. In the modified format, a set of five questions were asked of every household in the village – whether they: (i) operated size of land was more than two hectares; (ii) owned a ‘pucca house’ as defined in the Population Census; (iii) had annual household income of more than ₹ 20,000; (iv) owned any of the following consumer durables: television, refrigerator, ceiling fan, motor cycle/scooter and three wheelers; and (v) owned farm equipment such as tractor, power-tiller, or combined thresher/harvesters. If households answered in the affirmative to any one of the questions, they were declared to be “visibly non-poor”. This was done to identify “visibly poor” from “visibly non-poor” households in the village relatively quickly and in an inexpensive manner. Visibly non-poor households were excluded from the more extensive BPL survey that collected information on consumption expenditures using an abridged budget-expenditure

<sup>343</sup> Ramanathan (2005).

<sup>344</sup> This section draws extensively on Jalan and Murgai (2008), prepared as a background paper for this report.

<sup>345</sup> No comparable census exists in urban areas and the identification of poor households are carried out separately by different departments, e.g., the Food and Civil Supplies Department for PDS, Urban Department for SJSRY, etc.

<sup>346</sup> Analysis of NSS data indicates that there is little difference in the standard of living between poor and middle class (median) households, at least in the types of indicators that are measured by the NSS (World Bank, 2011).

schedule based on a mixed reference recall period of 30/365 days.<sup>347</sup>

THE 1997 BPL CENSUS METHODOLOGY HAD SEVERAL SHORTCOMINGS, INCLUDING (i) very stringent “exclusion” criteria, whereby e.g., households were declared visibly non-poor even if they possessed a ceiling fan; (ii) non-availability of official poverty lines for all states/UTs; (iii) using uniform criteria without allowing for inter-state variations; and (iv) not allowing new households to be declared poor in the interim period before the next BPL survey is instituted.<sup>348</sup> Prior to the next survey in 2002, an Expert Group was established to recommend changes in the 1997 BPL identification guidelines to overcome the criticisms.

A SIMPLE FORM OF “PROXY MEANS TEST” WAS ADOPTED FOR THE 2002 SURVEY.<sup>349</sup> The group recommended that rather than rely on measures like income or expenditure to identify the poor, socio-economic indicators reflecting the quality of life of households should be used to identify BPL households. Each household would be given a score of one to four for each of thirteen “scorable” indicators and the scores would be summed to an aggregate index ranging between zero and fifty-two.<sup>350</sup> Households would be ranked based on the total score that they received and categorized as poor or non-poor based on a cut-off score. These cutoff scores could vary locally across districts, blocks or even villages, with one constraint that the number of BPL poor was to be the same (or not more than 10 percent) as the number of persons living below the poverty line in that state/UT as estimated by the Planning Commission for 1999-2000. States were given discretion as to whether cut-off thresholds are the same across the entire state, or determined on a more decentralized basis. In practice, they appear to have opted for uniform cut-off thresholds rather than intra-state variation, in part due to limited information on living standards at sub-state level, and in part in response to political economy concerns of richer

sections of states “missing out”. In most cases, the cut-off chosen was between 16 and 25.

## (b) How well does the 2002 BPL indicator perform in theory?

IT IS IMPORTANT TO UNDERSTAND HOW EFFECTIVE THE BPL IDENTIFICATION PROCESS IS IN TERMS OF DESIGN OF THE TARGETING MECHANISM. In order to evaluate the design efficiency of the 2002 BPL method in identifying the poor as compared to the expenditure based poverty measure, this section uses information in the 1999/2000 NSS survey to construct household scores that are as similar as possible to the BPL-based scores.<sup>351</sup> The constructed BPL score indices are close, but not identical, to the administrative BPL scores because the survey instruments are not the same and there are some differences in the definitions of variables. The methodology and mapping of BPL criteria and NSS household characteristics is explained in Annex 5. Based on the distribution of BPL scores within each state, we define a state-specific BPL score cut-off such that the number of BPL poor (i.e., people with BPL scores below the cut-off) is exactly equivalent to the number of persons living below the poverty line in that state as estimated by the Planning Commission for the year 1999-2000.<sup>352</sup> Households are classified as being (actually) poor using per capita monthly consumption expenditures and the official Planning Commission state-specific rural poverty lines. NSS data for 2004/05 is also used to confirm the robustness of results.

BASED ON THE MAPPING OF BPL CRITERIA TO NSS DATA, IT IS CLEAR THAT THE BPL IDENTIFICATION METHODOLOGY IS A WEAK MECHANISM FOR IDENTIFYING THE POOR. Table 8.2 reports the extent of under-coverage in the BPL classification at the state-level. Under-coverage is defined as the percentage of the actual (i.e., expenditure-based) poor who are incorrectly classified as BPL non-poor. Three key findings emerge:

347 The survey also gathered information on household demographics, housing conditions, land ownership, formal training for skill development and receipt of assistance from various programs but this information was not used for categorizing households as BPL.

348 Sundaram (2003) provides a detailed discussion.

349 See Box 8.1 in Section D.

350 The thirteen indicators included size of land holding, type of house, availability of clothing per person, food security, sanitation, possession of consumer durables, literacy, status of household in labor force, means of livelihood, status of children between 5-14 years, type of indebtedness, reasons for migration in case of a migrant household, and preference for assistance from among various schemes.

351 A detailed discussion of methodology and results is contained in Jalan and Murgai (2008), prepared as a background paper for this report.

352 While the score-based BPL indices were introduced in 2002, the data used are from 1999/2000. However, the predetermined number of BPL households at state level set by GOI was based on 1999/2000 poverty rates, and therefore, the discrepancy, if any, should not be significant.

**Table 8.2: Poverty rate and targeting errors in the 2002 BPL classification, by state**

State	1999-00		2004-05	
	Rural Poverty Rate (%)	Under-coverage (%)	Rural Poverty Rate (%)	Under-coverage (%)
Andhra Pradesh	10.5	76.9	10.0	74.4
Assam	40.3	41.6	22.0	51.8
Bihar	44.0	40.6	42.5	35.9
Gujarat	12.4	64.9	18.8	51.0
Haryana	7.4	73.8	13.3	60.1
Himachal Pradesh	7.5	74.5	10.5	56.7
Karnataka	16.8	64.2	20.6	56.1
Kerala	9.4	72.6	13.1	67.2
Madhya Pradesh	37.2	43.8	36.9	34.8
Maharashtra	23.2	54.4	29.6	45.0
Orissa	47.8	32.1	46.9	31.2
Punjab	6.0	72.4	9.0	74.4
Rajasthan	13.5	63.8	18.3	59.9
Tamil Nadu	20.0	64.5	22.8	53.5
Uttar Pradesh	31.1	51.9	33.2	47.0
West Bengal	31.7	46.3	28.4	48.2
16 Major States	27.0	49.1	27.3	45.8

**Notes:** Under-coverage is the percentage of the poor population wrongly classified as BPL non-poor. Rural poverty rates are estimated using the official Planning Commission state-specific rural poverty lines for 1999-00 and 2004-05. Note that the poverty rates in the two years are not strictly comparable (see Chapter 1).

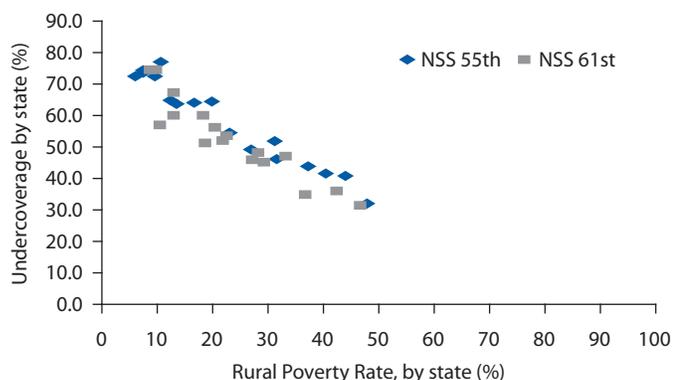
**Sources:** Jalan and Murgai (2008).

- ◆ *across India, the BPL score misclassifies nearly half (49 percent) of the poor as non-poor, and conversely, 49 percent of those identified as BPL poor are actually non-poor.*
- ◆ *there is also strong variation across states in the targeting errors implied by the BPL methodology, though targeting errors are significant in all states.* Even in the “best” state (Orissa), 32 percent of the poor are misclassified while in the “worst” state (Andhra Pradesh), three out of every four poor people are misclassified as non-poor based on the BPL indicator.
- ◆ *there are also notable variations within states (based on NSS regions) on the scale of misclassification of the poor.* This finding – not shown in the table below- is simply an extension of the above point on cross state variations, but is quite noticeable within several states, including Assam, Bihar and Orissa.<sup>353</sup>
- ◆ *Findings from 2004-05 data imply similar magnitudes of under-coverage and pattern of variation across states.* The BPL score misclassifies nearly 46 percent of the poor as non-poor using 2004/05 data. Under-coverage higher in most states, with the exception of Assam, Punjab and West Bengal, in 1999/2000 relative to 2004/05.

IT IS ALSO CLEAR THAT THE PROBLEM OF EXCLUSION OF THE POOR (AND THEREFORE, INCLUSION OF NON-POOR) IN THE BPL METHOD TENDS TO BE GREATER IN THE RICHER STATES (see figure 8.1). At one level, this is a source of consolation, as SP policy would be expected to be most strongly concerned with the poorest states. However, this remains a cause of concern, both with respect to the efficiency of public programs which are based on the BPL mechanism, and of equity, given the still high exclusion of the poor by the BPL criteria even in the poorest states.

<sup>353</sup> The results by NSS region are presented in Jalan and Murgai (2008).

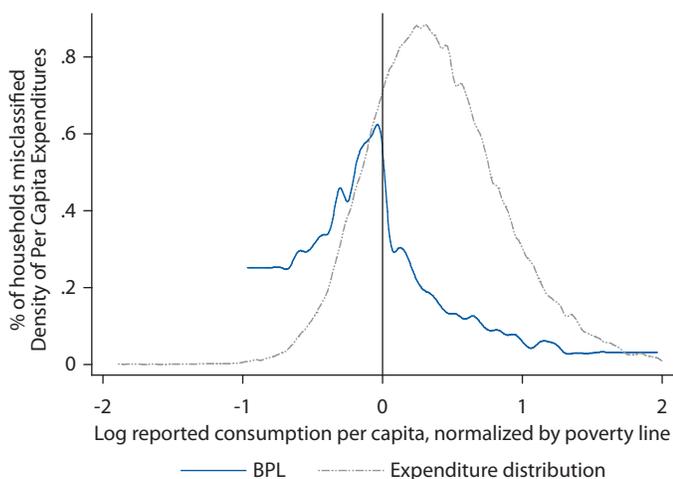
Figure 8.1: BPL misclassification of the poor and rural poverty across states



Source: Jalan and Murgai 2008. NSS 55<sup>th</sup> round refers to 1999/200 data; NSS 61<sup>st</sup> to 2004/05 data.

LOOKING AT THE HOUSEHOLD LEVEL, THE EFFECTIVENESS OF THE BPL METHOD VARIES SIGNIFICANTLY ACROSS THE DISTRIBUTION IN TERMS OF HOW WELL IT TARGETS, BOTH IN INCLUDING THE POOR AND EXCLUDING THE NON-POOR. Figure 8.2 illustrates this; Table 8.3 also reports poverty rates (expenditure based and BPL score based) and under-coverage and leakage rates by per capita expenditure classes. Some important observations emerge:

Figure 8.2: Predicted targeting errors in the BPL classification (1999/00)



Note: The height of the curve captures the extent of targeting errors made at different points in the distribution.

Source: Jalan and Murgai 2008, using 1999/2000 NSS data.

Table 8.3: Poverty rate and targeting errors in the BPL classification, by expenditure class (1999/00)

Expenditure class	Poverty Rate (Planning Commission)		Targeting Errors (2002 BPL census)	
	Expenditure based	BPL score Based	Under-coverage	Leakage
Poorest 10%	100.0	63.2	36.8	–
2 <sup>nd</sup> decile	100.0	47.6	52.4	–
3 <sup>rd</sup> decile	69.7	36.2	62.2	27.3
4 <sup>th</sup> decile	0.0	31.9	–	100.0
3 <sup>rd</sup> quintile	0.0	23.0	–	100.0
4 <sup>th</sup> quintile	0.0	14.3	–	100.0
Richest 20%	0.0	8.0	–	100.0
<b>Total</b>	<b>27.0</b>	<b>27.0</b>	<b>49.1</b>	<b>49.1</b>

Notes: Leakage is the percentage of the BPL poor that is actually (expenditure-based) non-poor.

Source: Jalan and Murgai 2008, using 1999/2000 NSS data.

- ◆ *on the positive side, targeting errors of the BPL method decrease sharply with higher per capita incomes above the poverty line.* This implies that the BPL indicator works relatively well in excluding the more rich amongst those above the poverty line. Inclusion errors are largely concentrated amongst households that are only marginally above the poverty line. Targeting errors in the richer expenditure classes are, by comparison, marginal.
- ◆ *however – and more worryingly – the BPL mechanism is problematic below the poverty line.* Even though targeting errors tend to decrease with distance from the poverty line, errors of exclusion are high even amongst very poor households. For example, over 20 percent of the population with expenditures which are half the poverty line are misclassified as non-poor. In the poorest decile, a large share of the population (around 37 percent) is incorrectly classified as being non-poor.
- ◆ *targeting errors are highest in the neighborhood of the poverty line.* Thus, at the third decile, the BPL indicator misclassifies 62 percent of the poor as BPL non-poor and 33 percent of the non-poor are classified as BPL poor.<sup>354</sup>

354 The third decile of the per capita expenditure distribution corresponds to the range (-0.1 to 0.3) on the x-axis in Figure 7.2. The short range arises because of the large mass of people concentrated very close to the poverty line. By contrast values below and upto -0.26 on the x-axis correspond to the poorest 10 percent of the population, with the mass of the population towards the top end of that range.

IN SUM, THE TARGETING ERRORS OF THE BPL DESIGN IMPLY LARGE WELFARE LOSSES, BOTH TO HOUSEHOLDS, AND IN TERMS OF EFFICIENCY OF PUBLIC SPENDING WHICH IS BASED ON THE BPL MECHANISM. The BPL method does a relatively good job at classifying the rich correctly. However it performs significantly worse in the lower part of the expenditure distribution, and the errors are not just concentrated around the poverty line, indicative of large welfare losses.

### (c) Why does the BPL mechanism perform poorly?

Sundaram (2003) highlights two broad sets of concerns with the 2002 BPL methodology.<sup>355</sup> First, the sub-indicators used to construct the overall BPL score may themselves be a poor description of poverty and second, the assumptions underlying the scoring and aggregation method in the BPL indicator may not be valid. This section explores both reasons empirically.

#### (i) Choice of indicators

ONE REASON WHY THE BPL SCORE PERFORMS POORLY MAY BE THE CHOICE OF INDICATORS. The set of indicators that are included in the aggregate score are assumed to reflect a household's "quality of life". As a result, a ranking of households based on some combination of these indicators is expected to reflect the relative positioning (presumably in terms of poverty status, or long-term economic status) of each in household in a village. As the purpose of the census is identification of poor households, there should be a clear link between the indicators and the underlying concept of poverty. In addition, the indicators should be clearly measurable and verifiable. The choice of the 13 indicators have been criticized on the following grounds:

- ◆ poor performance of some indicators in separating the very poor from the poor or even the poor from the rich
- ◆ imposition of the same set of indicators across very different local contexts

- ◆ omission of some socio-economic characteristics (e.g., caste) that are known to be strong correlates of poverty
- ◆ potentially discourage households from investing in schooling, housing and sanitation

Assessing the performance of indicators in identifying the poor empirically using 1999/2000 NSS data confirms the first of these concerns. Figure 8.3 plots the distribution of scores for each indicator across expenditure classes. There are three categories of indicators apparent:

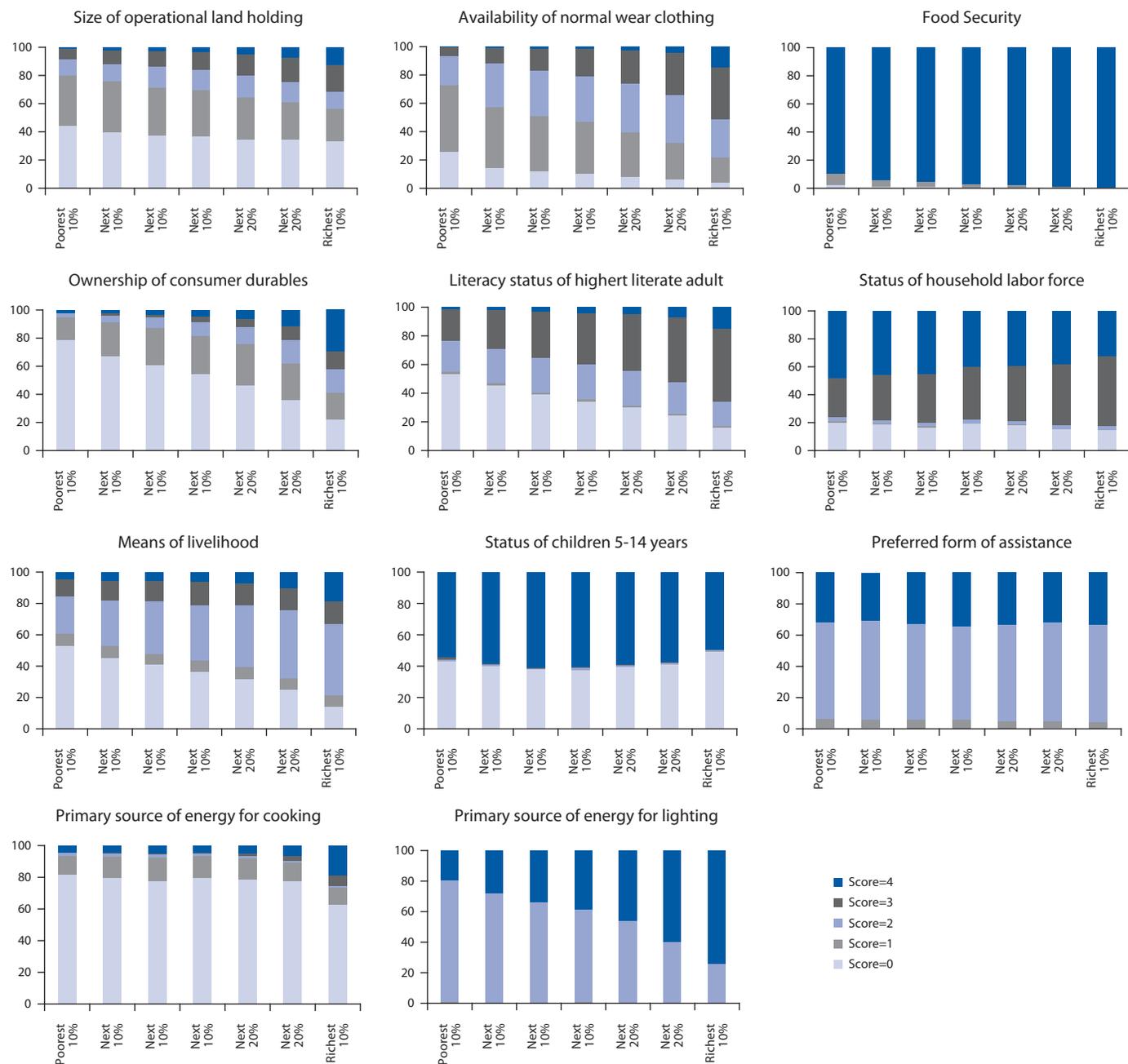
- ◆ *some indicators are clearly ineffective in sorting out rich from poor.* For example, the scores of indicators such as the preferred form of assistance and food security do not vary significantly across expenditure classes.
- ◆ *some indicators vary between rich and poor, but in the wrong direction.* For example, while the status of children 5-14 years does show some variance, the gradient is not the expected direction. A larger share of the richest 20 percent of the population has a score of zero as compared to the poorest 10 percent of the population.<sup>356</sup>
- ◆ *other indicators show a shift in the distribution of scores in the expected direction, but the differences in the poorer half of the population are not very strong.* That is, the types of indicators that are included in the overall BPL score do not do particularly well in sorting out households into poor and less poor categories amongst the lower half of the expenditure distribution. For this fundamental reason, indexes based on these scores, regardless of the weighting and aggregation method used are unlikely to be effective targeting instruments.

ANOTHER FACTOR THAT WEAKENS THE TARGETING POWER OF THE BPL MECHANISM INCLUDE USING THE SAME SET OF INDICATORS IS USED IN ALL STATES. Given India's diversity, one question is the variability in the method's targeting

<sup>355</sup> See also Hirway (2003), Mehrotra and Mander (2009) and Jain (2004). Alkire and Seth (2008) have also argued that the criteria focus mainly on resources rather than capabilities. Others (e.g., Mehrotra and Mander 2009) point out the operational difficulties of measuring capabilities in the field during a census operation.

<sup>356</sup> This relationship arises because households with no children 5-14 are assigned a score of zero, as are households with children who are working and illiterate. Assigning a score of zero to households with no children in the 5-14 year age group artificially pushes these households into the BPL set.

Figure 8.3: Distribution of individual BPL indicator scores across expenditure classes



Source: Jalan and Murgai (2008), based on 1999/2000 NSS.

power across states. Table 8.4 presents results on under-coverage of households in the bottom two deciles of the distribution in a selection of states. This indicates significant variation in under-coverage of the poorest across states, ranging from a very high 80 percent under-coverage in Andhra Pradesh to around 30 percent in Assam for the poorest decile. This confirms the limitations of using standard national criteria in the 2002 BPL methodology.

FINALLY, THE BPL INDICATORS DO NOT INCLUDE SOME STRONG CORRELATES OF POVERTY SUCH AS CASTE. This information is collected in the BPL survey but is not built into the scoring formula. There may be sensible political or other reasons for these decisions, but it remains undeniable that a number of indicators included in the BPL scoring formula have much less power as predictors of poverty than some of those that were omitted.

**Table 8.4: Under-coverage rates of BPL method for the poor, selected states**

State/decile	Expenditure based poor (% HH)	BPL-based poor (% HH)	Under-coverage of BPL method (%)
<b>Poorest decile</b>			
Andhra Pradesh	100	20.0	80.0
Assam	100	69.9	30.1
Maharashtra	100	50.8	49.2
Rajasthan	100	52.7	47.3
Uttar Pradesh	100	63.6	36.4
<b>Second decile</b>			
Andhra Pradesh	100	22.6	77.4
Assam	100	55.5	44.5
Maharashtra	100	46.8	53.2
Rajasthan	100	33.1	65.9
Uttar Pradesh	100	43.8	56.2

Sources: Jalan and Murgai (2008).

### (ii) Methodology for construction of the BPL score

The BPL methodology entails three key assumptions with respect to the construction of the BPL score:

- ◆ *the scoring method transforms the data for each indicator to a uniform cardinal scale – scored as 0, 1, 2, 3 or 4, with zero representing extreme deprivation – such that the difference between 0 and 1 (for example, the difference between being illiterate and having some primary education) is the same as between 3 and 4 (for example, the difference between having secondary education versus having a graduate degree). Forcing cardinality can result in problematic rankings, as for the indicator on means of livelihood which presumes that an ‘artisan’ household is always better off than one engaged in ‘subsistence cultivation’.*
- ◆ *each indicator enters the aggregate score with an equal weight, implicitly assuming that each indicator has the same impact on poverty status.* Equal weights have the appeal of simplicity and apparent objectivity, but this masks the fact that the imposition of numeric equality is completely arbitrary. It results for example in a situation where having less than one square meal per day

for much of the year can be treated the same as non-ownership of any of the consumer durables.

- ◆ *the same aggregation procedure is used in every state, implying that the weights assigned to indicators are the same across all states.* This implies, for example, that literacy status of the highest educated adult in the household has the same impact in differentiating poor versus non-poor in Bihar as it does in Kerala, an assumption that will clearly not hold for every indicator. As another example, a household with an operational holding of 0.95 hectares of unirrigated land in a high rainfall state and another household with the same size of unirrigated land in a desert state will be assigned the same score.

CAREFUL ANALYSIS INDICATES THAT ALL THESE ASSUMPTIONS IMPLICIT IN THE CONSTRUCTION OF THE BPL SCORE – OF CARDINALITY AND EQUAL WEIGHTS ACROSS INDICATORS, WITHIN EACH CATEGORY OF INDICATOR, AND ACROSS STATES – ARE REJECTED BY NSS DATA. Overly restrictive assumptions are evidently to blame, at least in part, for high targeting errors and associated welfare losses of the BPL indicator. The question is how much? We turn to the extent to which relaxing these assumptions affects targeting performance.

### (d) Alternative specifications to the *de jure* targeting design of the 2002 BPL census

In this section, two alternative models for a proxy means test to identify the poor are presented to explore how different types of adjustment in the 2002 BPL methodology may improve targeting power. They are:

- ◆ *an alternative index using the same indicators as the BPL methodology but which relax the two assumptions of cardinality and equal weights.* The first is a regression-weights based index that uses the estimated coefficients of the most flexible specification - modified to allow different coefficients across states - to predict a household’s per capita expenditure.
- ◆ *the second approach is to use an expanded list of indicators in a regression-based index that captures other household characteristics that may add explanatory power towards identifying*

**the poor.** To retain maximum flexibility in the index and consistent with the evidence that equal weights for indicators across states are not validated by the data, coefficients of all regressors are allowed to vary across states.<sup>357</sup>

Poverty and under-coverage rates for each of the above methods are reported in Table 8.5, and several conclusions emerge:

- ◆ **the first is that relaxing the assumptions implicit in the BPL mechanism improves targeting, but the gains are not substantial.** The regression-based weighted index which discards the assumptions of cardinality and equal weights across indicators reduces under-coverage only marginally, from 49 percent to 45 percent.
- ◆ **the big gains in improved targeting come from relaxing the assumptions and revising the list of indicators to discard some that are problematic**

(e.g., status of children 5-14 years) and add others that are strong correlates of poverty (e.g., sex of household head and caste). This index results in a 32 percent reduction in under-coverage compared to the BPL model. The main reason for the reduction in exclusion error stems from the fact that the model identifies 80 percent of the poor in the poorest 10 percent of the distribution, compared to only 63 percent by the BPL index. Clearly, this is a significant improvement if the poorest are the group about whom policy is most concerned. Inclusion errors are also lower, although this is mainly because again the augmented regression model performs better at correctly assigning people in the top 40 percent as non-poor.

WHY DOES EVEN THE MOST FLEXIBLE REGRESSION MODEL, WITH A LONG LIST OF INDICATORS, NOT PERFORM BETTER? An examination of the poverty rates in Table 8.5 sheds some light. The augmented regression model works well in identifying the poorest among the poor. However, targeting errors are much higher in the vicinity of the poverty line (in the third and fourth expenditure deciles), and this is a problem evident in the regression-based model as well. With the high density of population with income close to the poverty line (see the discussion in Chapter 1), arriving at an effective proxy means test is an inherently problematic and difficult exercise.

AS WITH THE 2002 BPL METHOD, THERE ARE NOTABLE DIFFERENCES ACROSS STATES IN HOW WELL ALTERNATIVE PROXY MEANS TEST (PMT) SPECIFICATIONS PERFORM RELATIVE TO THE BPL METHOD. Table 8.6 presents the percentage improvement of the two specifications for a selection of states (i.e., only the figures in parenthesis in the above table), focusing once more on the bottom two deciles. A few points emerge which have relevance to any BPL reform:

- ◆ for all states except Rajasthan, the improvements in targeting performance are significantly higher for the poorest than the second decile for all specifications.
- ◆ for the poorest decile, the variations are very strong between states where all alternative specifications produce significant improvements

**Table 8.5: Poverty and under-coverage rates across different targeting methods**

Expenditure Class	Regression based weights	Augmented regression model
<b>I. Poverty Rates by Expenditure Class</b>		
Poorest 10%	66.0 (4.4)	80.3 (27.1)
2 <sup>nd</sup> decile	51.4 (7.9)	62.1 (30.4)
3 <sup>rd</sup> decile	41.6 (14.7)	45.6 (25.8)
4 <sup>th</sup> decile	32.2 (0.9)	30.1 (-5.4)
3 <sup>rd</sup> quintile	22.7 (-1.2)	16.7 (-27.2)
4 <sup>th</sup> quintile	12.2 (-14.5)	7.1 (-50.6)
Richest 20%	4.3 (-46.7)	1.8 (-77.1)
Overall	26.7	
<b>II. Classification errors</b>		
Under-coverage	45.4 (-11.3)	34.5 (-32.5)

Notes: 1. Numbers in parentheses are percentage change from the BPL score index. 2. Assumptions underlying the alternative models are given in Annex 5.

Source: Jalan and Murgai 2008 using 1999/2000 NSS.

357 The expanded list of indicators includes demographic, occupational and educational variables in addition to selected BPL indicators that were found to be strongly correlated with per capita expenditures.

**Table 8.6: Improvement over BPL method in coverage rates for lowest two deciles by state across different targeting methods (%)**

State/decile	Regression weights	Augmented regression
<b>Poorest decile</b>		
Andhra Pradesh	11.5	35.7
Assam	10.0	17.5
Maharashtra	15.0	30.5
Orissa	5.9	15.5
Rajasthan	-12.2	-3.0
Uttar Pradesh	-2.7	11.3
<b>Second decile</b>		
Andhra Pradesh	8.2	21.8
Assam	5.7	10.5
Maharashtra	-1.3	5.5
Orissa	6.3	13.0
Rajasthan	0.3	21.5
Uttar Pradesh	6.5	16.4

Source: Jalan and Murgai (2008) using 1999/2000 NSS data.

in coverage, and Rajasthan and UP, where they would actually worsen coverage.

- ◆ the augmented regression model dominates all other methods (and strongly dominates the BPL method) in nearly all states.

## (e) *de facto* targeting – How well does the 2002 BPL method perform in practice?

The above analysis examines the BPL methodology in terms of its design – i.e., assesses how well it would perform assuming that it was implemented precisely as intended. In this section, we turn to the problems in the implementation of the household census and evidence on BPL outcomes in practice.

### (i) *Implementation of the BPL census*

THERE ARE SUBSTANTIAL CAPACITY AND LOGISTIC LIMITATIONS AS WELL AS LOCAL INSTITUTIONAL PRESSURES

<sup>358</sup> Coady et al. (2004).

<sup>359</sup> Saxena Committee Report (2009).

<sup>360</sup> Based on anecdotal evidence from localized surveys.

<sup>361</sup> Sundaram (2003).

ASSOCIATED WITH THE IMPLEMENTATION OF THE BPL CENSUS THAT NEGATIVELY IMPACT DATA QUALITY AND EVENTUALLY TARGETING EFFICIENCY. International evidence suggests that a large fraction of the observed differences in targeting effectiveness across systems and programs can be attributed to factors related to implementation and monitoring.<sup>358</sup> This implies that investments aimed at correcting some or all of these limitations could go a long way in improving targeting outcomes in the region. The following concerns have been highlighted by studies and surveys in various states:

- ◆ **Problems in design of the questionnaire for data collection:** There are concerns about the precise phrasing and coding of questions in the BPL census questionnaire. Some indicators, as asked in the questionnaire, are not clearly measurable or verifiable (e.g., availability of clothing, form of assistance preferred). Codes for some indicators are unclear or not necessarily mutually exclusive with unclear guidelines for implementation, implying subjectivity in assigning scores (e.g., status of household labor, means of livelihood; it is also unclear how to assign scores for households with no children).<sup>359</sup>
- ◆ **Poor quality data collection processes:** Effective implementation of the BPL Census requires a clear definition of institutional responsibilities and sufficient administrative capacity. While the design is the responsibility of the Center, data collection in order to calculate household-level welfare scores is done at the local level. A common complaint from block-level government officials is of inadequate staffing, training and time allowed for the enumeration. In addition, since the task is performed by teachers, health workers and other village-level government employees, this responsibility comes in addition to their regular work load.<sup>360</sup> There is little standardization of processes with little or no quality control from higher levels of administration. These problems are exacerbated given the significant expansion of the required coverage of the detailed survey in 2002 after dropping of the exclusion criteria used in the 1997 method.<sup>361</sup>

◆ **Importance of local institutions and elite capture:** Available evidence confirms widespread anecdotal information that participation in programs according to BPL criteria is affected by operation of local institutions. However, it is inconclusive in terms of systematic patterns across states in how the BPL list system is implemented in practice. For instance, in three villages in UP, the survey was substituted by a list of BPL households drawn up by the Village Development Officer in consultation with the *Pradhan*, and forwarded to 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. Similarly, studies of AP, Karnataka, Kerala and TN found that: (i) the inclusion of landless and illiterate households in BPL lists was more intensive in villages that had held *gram sabhas*, with the probability of inclusion 8-10 percent higher;<sup>362</sup> and (ii) the intensity of BPL coverage of SC/ST households was increased by around 7 percentage points where the GP was reserved, indicating the importance of caste and other connections with the *Sarpanch* for purposes of being determined as BPL at the village level.<sup>363</sup> Further evidence from West Bengal on participation in BPL-targeted programs found: (i) targeting within villages appeared to be fairly effective and not overly captured by local elites; (ii) targeting *within* villages did not vary greatly according to village characteristics, though the employment-intensity of public works and SC/ST share of targeted credit worsened as inequalities in land ownership increased; but (iii) allocation of resources *across* villages exhibited significant difficulties, with a 25 percent reduction on public works resources and a 70 percent reduction in all grants associated with a 5 percent increase in the share of poor SC/ST households in a village.<sup>364</sup> Another localized study from West Bengal found significant manipulation by local elites of BPL lists, with severe under-coverage of the poorest

and significant inclusion of the non-poor.<sup>365</sup> Since BPL status is the first step to access a range of benefits, there is considerable incentive for non-poor households to pressure local authorities for inclusion in the BPL list or for getting a BPL card.

◆ **Grievance redressal and recertification of households:** Another important shortcoming is the lack of attention to grievance redressal as well as recertification (as the eligibility of households may change over time) in the period between two censuses.<sup>366</sup> **Some states have introduced an appeals process against the BPL list, a large number of appeals remain unresolved.** There is no systematic process to update household information or status following changes in household circumstances in the five year period between censuses, e.g., due to deaths, migration, formation of new households, changes in socio-economic status, and so on. This lack of processes for dynamic updating are compounded by poor management of the BPL database in most states. Validation checks of the BPL administrative database for selected states revealed two critical problems in the BPL database:<sup>367</sup> (i) internal inconsistencies and inaccuracies in the database and (ii) lack of clarity on a master BPL list at the state-level given dynamic updating at local levels, with no corresponding mirror changes at the state-level. Consequently, differences between the state and local-level registers are not only significant but bound to grow over time as more appeals and grievances are being processed, severely undermining the system's integrity, transparency and credibility. The accuracy and reliability of BPL lists varies widely across the country and even within states.

#### (ii) **BPL targeting outcomes in practice**

IT IS USEFUL TO SUPPLEMENT THESE INSIGHTS ON DESIGN AND DATA COLLECTION PROCESS WITH EVIDENCE ON BPL OUTCOMES IN PRACTICE. Surprisingly, there is less empirical evidence

362 Besley, Pande and Rao (2005).

363 Besley, Pande, Rahman and Rao (2005).

364 Bardhan and Mukherjee (2006).

365 Mukherjee (2005).

366 Sundaram (2003), Alkire and Seth (2008).

367 In the context of developing a consistent beneficiary database for the Rashtriya Swasthya Bima Yojana.

than might be hoped on this question, and the existing evidence is not always clear on the distinction between BPL ration cards, and being on BPL lists for other purposes. The 2002 BPL list was operationalized only post-2006 due to a stay order passed by the Supreme Court on a writ petition filed by the People's Union for Civil Liberties which alleged that the new methodology would reduce the number of persons identified as BPL and a large number of the poor would lose their entitlements. The analysis below relies on 2004/05 NSS data when the 1997 BPL list was operational and the 2002 BPL list had not yet become operational.<sup>368</sup> Even in the case of two states, Himachal Pradesh and Rajasthan, where ration cards are issued on the basis of the BPL list, the estimates of *de jure* and *de facto* under-coverage are not strictly comparable. This is because the estimate of *de jure* under-coverage is based on the 2002 BPL methodology while the BPL ration card holding

is based on the 1997 list. As a result, it is not possible to conclusively assess whether field level experiences are different from the predictions discussed above. However, it is possible to analyze targeting outcomes at the household level as given by the distribution of ration card holding.

ANALYSIS OF HOUSEHOLD EXPENDITURE AND RATION CARD HOLDING USING THE 2004-05 NSS DATA INDICATES THAT TARGETING OUTCOMES ARE EVEN WORSE IN PRACTICE (see Table 8.7). Several observations emerge:

- ◆ At the national level, the percent of BPL cardholders and the official poverty rate is the same. This is unsurprising given the stipulation by the central government that the number of BPL poor be the same (or not more than 10 percent) as the number of poor persons as estimated by the Planning Commission for 1999-2000.

**Table 8.7: *de facto* targeting even worse than *de jure***

State	Rural Poverty Rate (%)	Rural BPL cardholders (%)	Under-coverage (%)		Leakage (%) <i>de facto</i>
			<i>de jure</i>	<i>de facto</i>	
Adhra Pradesh	10.0	60.6	74.4	19.0	86.7
Assam	22.0	11.5	51.8	76.6	55.2
Bihar	42.5	17.1	35.9	78.2	45.8
Gujarat	18.8	38.3	51.0	43.9	72.4
Haryana	13.3	18.6	60.1	66.8	76.3
Himachal Pradesh	10.5	18.0	56.7	55.4	73.9
Karnataka	20.6	52.0	56.1	28.7	71.7
Kerala	13.1	30.0	67.2	50.3	78.3
Madhya Pradesh	36.9	35.4	34.8	47.5	56.1
Maharashtra	29.6	34.1	45.0	53.3	49.5
Orissa	46.9	45.5	31.2	40.8	39.0
Punjab	9.0	11.7	74.4	79.3	84.1
Rajasthan	18.3	17.9	59.9	66.7	65.9
Tamil Nadu	22.8	21.1	53.5	68.7	66.1
Uttar Pradesh	33.2	15.9	47.0	75.5	48.8
West Bengal	28.4	30.2	48.2	58.3	60.8
16 Major States	27.3	28.7	45.8	61.2	63.2

**Notes:** 1. BPL cardholders are identified in the data as those that possess a BPL or AAY card. 2. Under-coverage is the percentage of the poor population wrongly classified as BPL non-poor (*de jure* – as per 2002 BPL methodology) or not possessing a BPL card (*de facto*). 3. Leakage is the percentage of the BPL card holder who are actually (expenditure-based) non-poor. 4. Rural poverty rates are estimated using the official Planning Commission state-specific rural poverty lines for 2004-05.

**Source:** Jalan and Murgai (2008) based on NSS data for 2004/05.

<sup>368</sup> Jalan and Murgai (2008). This NSS round includes a direct question on whether households possess a ration card, and if so, whether the ration card is a BPL card. BPL cardholders are identified in the data as those that possess an Antodaya or BPL card. Households with the "other" type of ration cards are classified as APL (above-poverty-line).

- ◆ However, this is not true across the different states. In states like Andhra Pradesh, Gujarat, Karnataka and Kerala, the percent of BPL cardholders are three times more than the official poverty rate. In these states, *de facto* under-coverage rates are lower than *de jure*, but the leakage rates are also very high.<sup>369</sup>
- ◆ At the national level, there is approximately a 15 percent difference in under-coverage rates between *de jure* and *de facto* targeting. At the national level and for the majority of states *de facto* targeting is even worse than *de jure*. Nearly two thirds of the poor are under-covered by BPL cards; leakage is just as high – 63 percent of BPL/AAY ration cards are held by the non-poor.

FINDINGS FOR ALL-INDIA INDICATE THAT BPL AND PARTICULARLY AAY RATION CARD HOLDING IS PROGRESSIVE, THOUGH WITH WORRYING EXCLUSION AMONG THE POOREST AND SUBSTANTIAL INCLUSION ERRORS. Results on the incidence of ration card holdings are presented in

Table 8.8, by monthly per capita expenditure quintiles and by social category for rural and urban households. On average, about 3 percent of rural households possess AAY ration cards, a quarter possess BPL ration cards and 52 percent possess APL ration cards, while 19 percent report no ration card holding. In urban areas, ration card holding is much lower, only about 11 percent reporting BPL ration cards, less than one percent reporting AAY cards, and about a third of urban households reporting no ration card holding.<sup>370</sup> Several observations emerge, including:

- ◆ *possession of BPL ration cards is progressive, though there remain significant inclusion and exclusion errors*, and the differences in the BPL rates of the bottom 40 percent are not as great as might be expected (at least in rural areas).
- ◆ *despite the general progressivity of BPL cards, there remain significant inclusion errors in BPL card holding*, with around 35 percent of rural BPL cards held by households in the top 40 percent of

**Table 8.8: Possession of ration cards, by type and socio-economic status (% households)**

Quintile/Social group	Rural				Urban			
	AAY card	BPL card	APL card	No card	AAY card	BPL card	APL card	No card
<b>I. Expenditure quintiles</b>								
Poorest	5.8	35.3	37.9	20.9	2.8	26.2	43.0	27.8
Q2	3.6	31.4	47.6	17.2	1.2	17.0	54.8	27.0
Q3	3.0	28.5	52.0	16.2	0.5	9.7	59.1	30.7
Q4	2.1	23.8	56.9	17.1	0.3	5.7	58.9	35.1
Richest	1.2	17.7	59.9	21.2	0.1	1.7	58.3	39.7
<b>II. Social group</b>								
ST	5.0	39.6	30.8	24.3	1.3	13.6	37.6	47.4
SC	4.4	34.9	43.7	16.9	1.6	17.3	49.8	31.2
OBC	2.3	24.5	54.5	18.5	0.9	14.4	51.5	33.1
General	1.9	17.3	63.0	17.6	0.4	5.1	61.8	32.5
<b>All-India</b>	<b>2.9</b>	<b>26.5</b>	<b>51.8</b>	<b>18.6</b>	<b>0.8</b>	<b>10.5</b>	<b>55.6</b>	<b>33</b>

Notes: 1. Households possessing “other” type of ration cards are classified as APL. 2. The expenditure quintiles are calculated for rural and urban households separately on the basis of real monthly per capita expenditure (i.e., corrected for cost of living differentials across states) expressed in 2004/05 rural and urban prices respectively.

Source: Staff estimates using 2004/05 NSS data.

369 The relatively low percentage of BPL card holders in Tamil Nadu is a consequence of the fact that the state provides universal access to subsidized grain even after the introduction of PDS so that the distinction between BPL and APL card holders is meaningless for households. See Chapter 3 for a discussion.

370 These findings are somewhat similar (especially in rural areas) to those reported by Ram et al. (2009) using 2005/06 NFHS III data and by Ajwad (2006) using the 2004/05 IHDS data. The former reports that about 27 percent of all households possess BPL ration cards. According to the IHDS survey, nationally, 34 percent of all households possess BPL cards, 3 percent have AAY cards and 47 percent have APL cards while 15 percent have no ration cards. The distribution of ration card holding across asset quintiles using these alternative datasets also delineates a similar story – i.e., mildly progressive BPL card holding, but with high exclusion and inclusion errors. However, BPL card holding of the richest quintile drops more sharply when comparing across asset quintiles than across expenditure quintiles as in the NSS data.

the distribution in rural areas. The corresponding figure for urban areas is much lower at 16 percent of urban BPL cards.

- ◆ **AAY ration card holding is notably more progressive, including in the lower ends of the distribution**, with almost 33 percent of all rural AAY cards held by households in the bottom quintile, and almost 55 percent by households in the bottom two quintiles. In urban areas, the poorest households hold up to 54 percent of all urban AAY cards.
- ◆ **among those with no ration card at all, there are no sharp differences between the poor and the rich and across social categories**, though tribals are somewhat less likely to have a card.

PROBIT REGRESSION MODELS EXAMINING THE ROLE OF HOUSEHOLD AND VILLAGE CHARACTERISTICS IN DETERMINING BPL AND AAY RATION CARD HOLDING SUPPORT THIS FINDING (SEE TABLE 8.9).<sup>371</sup> Thus, households in the bottom quintile have the highest probability of possessing AAY or BPL cards, followed by those in the second quintile and so on. However, differences between the bottom two quintiles are small.<sup>372</sup> With respect to inclusion errors, households in higher quintiles also have a fairly high probability of possessing cards. Caste is a significant determinant of ration card holding. Other household characteristics have also the expected effects.<sup>373</sup> In addition, Ram et al. (2009) find that a significant percentage of BPL card holders appear to be fairly well-off in terms of assets owned. For instance, about 18 percent of BPL card holders own more than five acres of agricultural land, 11 percent live in pucca houses with three or more rooms, 10 percent own a motorized vehicle and so on. Also, anecdotal evidence, field experiences relayed by NGOs, and field survey based studies suggest instances of both severe under-coverage of the most needy and coverage of the economically better-off population.<sup>374</sup> An important additional finding from the three state SP study is that the reasons underlying differential access

**Table 8.9: Determinants of ration card holding**

Variables	BPL card holders	AAY card holders
Quintile 1	0.3536***	0.0481***
Quintile 2	0.3455***	0.0472***
Quintile 3	0.2730***	0.0298***
Quintile 4	0.1714***	0.0211***
Other caste	0.0130	0.0032
OBC	0.0501**	0.0045
SC	0.1404***	0.0154**
ST	0.1734***	0.0129*
Rural	0.1748**	0.0069*
HH size	0.0007	-0.0002
Female HH head	0.0081	0.0063*
Age of HH head	0.0005*	0.0001*
HH head literate	0.0113	-0.0048**
HH head completed primary	-0.0181*	0.0005
HH owns agric. land	-0.0001*	-0.0001
HH owns animals	-0.0071	-0.0043

Notes: \*\*\*=significant at a 1% level; \*\*=at 5% level; \*=at 10 percent. Quintile 5 and other caste are the (omitted) reference group. State and other controls also included.

Source: Ajwad (2006) based on the 2005 IHDS data.

may vary across states. For example, the poor and tribals in Orissa are more reliant on their (often weak) social networks to access ration cards, while in Karnataka, PRIs play a more active role in facilitating access.<sup>375</sup>

## C. ALTERNATIVE TARGETING METHODS

The BPL method examined above (and the BPL ration cards) is the most commonly used targeting tool for several anti-poverty programs, especially those administered by the Ministry of Rural Development. However, a number of different targeting methods are available for directing resources to particular groups

371 For consistency with previous models of participation in various government programs (see Chapter 3 for PDS and other social assistance programs), these regression models are based on IHDS data. These data also allows for a richer specification of household and village characteristics. See Ajwad (2006) for results.

372 However, the strong impacts of being in lower quintiles are highly diluted when one looks at actual usage of the BPL ration cards in the previous 6 months (see Chapter 3).

373 In addition, the effect of location is very pronounced for BPL ration card holding (not reported in the table). Broadly, households in most northern states are substantially less likely to hold BPL cards (over 20 percent less in most, and approaching 30 percent in Rajasthan and Punjab). Conversely, households in eastern and central states are substantially more likely to hold a BPL card, and southern and western states broadly exhibit higher positive participation effects.

374 See, for example, Mukherjee (2005).

375 See Dev et al. (2007).

(see Box 8.1 for a brief description). All these methods, with the exception of the first (means testing), are in use in India.

THUS, SP PROGRAMS IN INDIA DIRECT RESOURCES TO PARTICULAR GROUPS USING A RANGE OF DIFFERENT TARGETING METHODS. These include the BPL method (proxy means test), self-targeting (in public works), and mixed methods (e.g., social pensions). See Table 8.10 for a mapping of programs and targeting tools. The 2002 BPL method examined above is a form of a proxy means test, i.e., a targeting tool that relies on readily observable and verifiable socio-economic proxies as substitutes for more expensive and difficult to collect income or expenditure information. All programs combine their specific targeting methodology with a geographic element in terms of fiscal allocations. In addition, several donor and NGO initiatives rely on community-based targeting methods. In some states, notably Andhra

Program	Type of targeting
PDS grain	Ration card
Annapurna grain	Ration card
Rural credit (SGSY)	BPL list
Rural public works (MGNREG, SGRY, FFW)	Self-targeting
Rural housing support (IAY)	BPL list
IGNOAPS	Categorical (age) + BPL list
Disability pension	Categorical (disability)
Widow pension	Categorical (widowhood)
Subsidized health insurance (RSBY)	BPL list
Scholarship	Categorical (social group, gender)

Sources: Program guidelines. Note that NOAPS was earlier targeted using state-specific definitions of “destitution” in IGNOAPS; these have now been substituted by BPL status.

### Box 8.1: Main types of targeting methods

#### a. Means tests

A means test seeks to collect (nearly) complete information on households’ income and/or wealth. Sometimes this information is fully/partially verified against independent sources, other times verification is not possible and program intake workers simply record what the applicant says. Verified means tests are considered to be the gold standard of targeting but are usually difficult to implement in developing countries.

#### b. Proxy means tests

Proxy means tests generate a score for each applicant household based on fairly easy-to-observe household characteristics believed to be correlated with the household welfare status. The information provided by program applicants is usually partially verified either by program officials or by communities. Eligibility is determined by comparing the household score against a predetermined cutoff. India’s 2002 BPL Census method falls in this category.

#### c. Community-based targeting

Community-based targeting uses a group of community members or leaders whose principal functions in the community are not related to the program to decide who in the community should benefit.

#### d. Geographic targeting

With geographic targeting, location determines eligibility for benefits: people who live in the designated areas are eligible and those who live elsewhere are not. Few programs target only on the basis of geography, but many programs combined this criterion with other targeting methods.

#### e. Demographic/categorical targeting

The usual and simple forms of demographic targeting are based on age (e.g., elderly), or on some other individual characteristic commonly perceived to be associated with a higher likelihood of being poor, vulnerable or socially excluded (e.g., widows, disabled, certain caste groups).

#### f. Self-targeting

Self-targeted programs are technically open to everyone, but are designed in such a way that the take-up is expected to be much higher among the poor than the non-poor or the level of benefits is to be higher among the poor. A common example is the use of low wages in public work programs to induce participation primarily among the poor.

Source: Grosh et al. (2008) Chapter 4.

Pradesh and Kerala (to a more limited extent), this approach has been adopted for the government's anti-poverty programs as well. We turn to three methods that are currently in use in India, but could potentially occupy a larger place in the targeting system.

## (a) Community-based targeting

A VERY DIFFERENT APPROACH FROM THE BPL TARGETING METHODOLOGY IS VILLAGE-BASED WEALTH RANKING OF HOUSEHOLDS CONDUCTED BY COMMUNITIES THEMSELVES. This is done in a growing number of states under donor and NGO initiatives. The obvious advantage of the wealth ranking approach is its reliance on local knowledge of factors at the household level which increase or decrease poverty and vulnerability, but which cannot be well measured or taken into account by more aggregated administrative systems. The potential disadvantages include: (i) localized assessments need to match with program allocation systems and financing if they are to be useful for allocating funds across space; (ii) there may be economic and other costs (e.g., potential ostracization) incurred by the participating community members; and (iii) such methods may also be subject to local capture, just as administrative systems may be.

INTERNATIONAL AND REGIONAL EVIDENCE PROVIDES SOME GUIDANCE ON THE BENEFITS AND LIMITATIONS OF COMMUNITY-BASED TARGETING.<sup>376</sup> The basic trade-off which such programs face is between the "informational advantage" that communities possess in targeting, against the accountability risks of capture by local elites and loss of spatial comparability across communities. Evidence from the Food-for-Work program in Bangladesh, for example, found substantial variation across village in the targeting performance of community-based methods, with no systematically better performance in poorer villages. However, a clear result was that village with greater within-village inequality had worse targeting outcomes.<sup>377</sup> The empirical finding is supported by theoretical literature that points to the importance of factors such as local asset inequality and social networks.<sup>378</sup> The risk of local elite capture of community-

based targeting is real. At the same time, empirical evidence on the BPL system suggests that it is also subject to capture and manipulation in such instances. While both methods therefore have the risk, a mediated community process such as described in Box 8.2 would appear to have greater channels for making such capture both explicit and subject to community account than the BPL system.

CURRENTLY, ANDHRA PRADESH PRESENTS AN INTERESTING CASE OF HOW COMMUNITY BASED TARGETING METHODS HAVE BEEN ROLLED OUT, AND HAVE NOW BEEN ABSORBED INTO THE MAINSTREAM SYSTEM FOR IDENTIFYING BPL HOUSEHOLDS. Through project-financed activities, community wealth ranking has been conducted in nearly all of AP in recent years. Most interesting from a systemic viewpoint is that the credibility of the exercise has been sufficient that PRIs and public administration have agreed that the lists of poor households identified through this process should be the basis for official identification of BPL. The experience and method of the ranking exercise is outlined in Box 8.2. Interestingly, even in cases where the community-based process results in households being removed from the official BPL lists, there has to date been fairly limited resistance, due to the village-wide buy-in on the process underlying the new identification method. A similar process is now being debated in Tamil Nadu, and there is interest from PRIs in particular for exploring the Andhra Pradesh convergence experience. Kerala follows a more hybrid model where communities are heavily involved in the validation and finalization of the list of poor households. This targeting method was developed in the context of Kudumbashree, but applies to other government anti-poverty programs that have converged with Kudumbashree (See Box 8.3). Himachal Pradesh is also experimenting with community selection of households for Rural Development programs and PDS from within the official BPL lists, with annual review of BPL status by the *gram sabha*. Bihar is a further interesting case of a review and appeals process with respect to the 2002 BPL list which involved several rounds of *gram sabha* meetings to revise the initial list generated from the BPL census.

<sup>376</sup> Ravallion (2003) provides a summary. See also for more detailed discussion Conning and Kevane (2002).

<sup>377</sup> Galasso and Ravallion (2002).

<sup>378</sup> Bardhan and Mookerjee (2000) and Benabou (2000) on assets and Spagnolo (1999) on social networks. See also Alderman (2002), on Albania and its use of community-based targeting, and Coudouel et al. (1998) on the Uzbekistan mahallas' scheme, which uses a combination of central guidelines and community-based targeting for social assistance.

## Box 8.2: Participatory Identification of the Poor (PIP) in Andhra Pradesh

Under its Velugu program (now IKP), AP has conducted a widescale PIP process in 840 mandals in 22 districts of the state. This is based on methods developed over time in a number of NGO, donor and in some cases public programs. A key benefit is that the PIP process is able to take account of more dimensions of poverty and social exclusion than administrative systems are typically capable of. Based on this exercise, 14.2 million rural households were surveyed, of which 7.9 million (55 percent) households were categorized as BPL, and of these 2.6 million were rated as “the poorest of the poor”. The key steps in this process are:

1. There is an intensive identification and training process for workers who act as facilitators of the PIP process. This is accompanied by a workshop with various government and civil society stakeholders to seek support for the process.
2. There is then a three day process in villages which has several elements:
  - ◆ developing rapport with key village functionaries and service providers, including gathering information on key village and community characteristics
  - ◆ community meeting on purpose of the exercise, including probing more on the operation and awareness of current schemes. There should be agreement on the timing and place for development of a social map of the village (see below)
  - ◆ “transact walk” in the village as preparation for social mapping
  - ◆ development with villagers of a social map, including social and infrastructural facilities, local institutions, use of services, social profile of the village, social clustering within the village by caste or other indicators, and other factors
  - ◆ feedback from villagers on the social map to verify its findings, and preparing a report on these findings
  - ◆ a “wellbeing analysis”. In consultation with villagers, this looks into what are the key correlates and determinants of poverty in the village, and what are the key issues that the poor face. This should allow for a general categorization (and quantification) of households into four groups: the rich, the middle class, the poor, and the poorest of the poor
  - ◆ identifying specific households within wellbeing categories, and listing them
  - ◆ the household list should then be discussed in the *gram sabha*, and any changes incorporated. The ratification of the *Gram Sabha* is a key step in terms of community acceptance of the PIP findings.
  - ◆ preparing a report which consolidates the findings, together with supporting documentation. This reports are tabulated at mandal and district levels, ratified by Collectors and printed.

An important outcome of this process throughout AP has been agreement that the poor household identified through the PIP process should replace the administrative BPL list, subject to the aggregate “cap” on total number of BPL households allowed in any one village. Looking ahead, a key challenge will be convergence between the “macro” numbers on BPL and the micro PIP process in cases where the PIP identifies significantly greater (or lesser) number of poor households than administrative BPL numbers allow for.

## Box 8.3: Combining indicator-based targeting with community validation and finalization of the poor in Kerala

Kudumbashree was launched in 1998 by Government of Kerala as a participatory, women-oriented approach to poverty reduction. This program is implemented entirely through local self governments in both rural and urban areas. The program consists of a three-tier structure, with neighborhood groups (of women) at the bottom, federations into area development societies at the ward level and a community development society at the panchayat level.

Kudumbashree presents an interesting case where indicator-based targeting is combined with a heavy reliance on community-based validation of the “BPL list” in a government program. The initial targeting tool used nine slightly different indicators for identifying the poor in rural and urban areas. Broadly, these included indicators for asset ownership, social exclusion, lack of employment or earning capability, and disability. A family was considered poor if four or more of these risk factors applied and most vulnerable if all nine risk factors applied. These indicators were chosen so as to be easily understandable by communities who had to identify poor households, to enable a ranking based on severity of poverty and yet be verifiable and easy to monitor. However, several shortcomings remained as some indicators were not directly correlated with poverty, others were amenable to manipulation, and equal weights were applied across indicators.

These deliberations on the deficiencies of the previous method led to the evolution of a new set of indicators and targeting methodology. The same set of indicators are now applied in urban and rural areas. These include indicators related to capabilities (e.g., social groups, occupational groups, etc.) and entitlements (e.g., land, dwelling characteristics, basic amenities). Weights have also been assigned to these indicators but it is not clear if these have been assigned by committee or developed through a rigorous regression model. A ranking system has also been devised (along with prioritization of indicators in the case of similar scores). Certain exclusion criteria are also applied, e.g., regular employment, international migration of household members, and ownership of land, concrete house and other assets. This list of poor households – the equivalent of a “BPL” list – is prepared in four stages: a survey by officials, validation by the neighborhood groups of Kudumbashree, discussion in the *gram sabha* and final adoption by the panchayat. There is also an appeals process at the district level.

While developed in the context of a specific program, Kudumbashree, this system of identification of the poor is used in several government programs in the state, including SJSRY (promoting wage and self-employment), VAMBAY (urban housing) and NSDP (slum development) in urban areas and for SGSY in rural areas.

VERY LITTLE INFORMATION EXISTS WHICH COMPARES COMMUNITY-BASED WEALTH RANKING OUTCOMES WITH TARGETING OUTCOMES FROM ADMINISTRATIVE SYSTEMS. The limited empirical information suggests that there is overlap but also significant divergence between community-based identification and administrative BPL identification. It also suggests that ranking by the community may produce somewhat different ranking outcomes among households than one based purely on per capita expenditures. Two examples are reported below for India, as well as one for Bangladesh in Box 8.4.

Table 8.11 compares outcomes of a community-based wealth ranking across a range of Indian states with the status of households on BPL lists, based on a sample of over 3,000 households. The results indicate that: (i) BPL lists exclude significant numbers of households considered to be poor and even very poor by communities; (ii) the BPL lists seem to include significant shares of households not considered to be poor by communities; and

(iii) community ranking in this case is able to sort a small group of the very poor, and also to avoid large sections of the community being rated as poor. The fact that such an exercise in the aggregate produces a share of “poor” households which is not too far away from poverty estimates based on NSS is also of interest.

A second cut on community ranking is comparing to expenditure based measures of welfare, and Table 8.12 below reports findings from a smaller sample in the

Community wealth rank	% of total households	% of category on BPL list
Very poor	5	71
Poor	27	57
Borderline	36	61
Non-Poor	32	40

Sources: Sinha (2003).

#### **Box 8.4: Community targeting in Bangladesh – How well does it identify the poor?**

Given the scale of NGO poverty programs in Bangladesh, their experience with community wealth ranking is of interest. BRAC has since 2002 operated a program called “Challenging the Frontiers of Poverty Reduction: Targeting the Ultra-Poor”. This relies on a several step process in identifying program beneficiaries: (i) development of program eligibility criteria based on a literature review to determine the common correlates of ultra-poverty; (ii) a community wealth ranking exercise which sought to distinguish the ultra-poor from the poor and non-poor; and (iii) based on the ranking exercise, a household survey of those identified by the community as ultra-poor, as a final tool for beneficiary selection.

A study of outcomes of this process was produced in 2004 which found as follows (see table for results of survey-based analysis):

- ◆ the community did a good job in its ranking of distinguishing the poor and ultra-poor when cross-mapped to the “objective” indicators of poverty pre-identified from national data and studies.
- ◆ among the ultra-poor, the household survey was a further useful tool for distinguishing those eligible for the program and others.
- ◆ statistical analysis found that the differences between both the ultra-poor and others identified in the community ranking exercise, and among the ultra-poor between those eligible and not for the program were highly significant.

Indicator	Ultra-poor (% HH with characteristic)	Non-ultra poor (% HH)	Beneficiaries after ranking plus survey (% HH)
Widow	20	6	30
Divorced/abandoned	8	1	15
With no adult male	21	3	36
Physically able husband	64	88	43
Children working	12	7	18
No cultivable land	90	76	98
Average land holding	25.7 units	42.9 units	NA
Not own land of house	44	24	62
No non-housing assets	46	29	56
Borrowing from MFI	19	34	NA

**Table 8.12: Comparing community-based and expenditure-based identification of poor for Orissa**

Community ranking	Expenditure per capita class			
	Less than 50% of poverty line	25 to 50% below poverty line	25% below poverty line to poverty line	Above poverty line
Extremely poor	34.7	27.5	25.0	11.7
Highly poor	26.5	26.1	8.3	23.5
Average poor	30.6	23.2	29.1	35.2
Low poor	8.2	18.8	33.3	23.5
Non-Poor	0	4.3	4.2	5.8

Sources: Shah et al. (2005). Results based on a small sample (159 households in four villages) in Orissa.

state of Orissa. While caution is necessary due to small sample size and state-specificity, a few interesting results emerge: (i) significant shares of the very poor in expenditure terms are not ranked among the poorest by the community; (ii) conversely, around one third of household above the poverty line in consumption terms are rated among the poorest groups by the community; and (iii) as one approaches the poverty line, distinguishing among the poor becomes less effective.

THE ONLY FIRM CONCLUSION THAT ONE CAN DRAW FROM THE ABOVE STUDIES IS THAT COMMUNITY RANKINGS DIFFER TO BOTH BPL AND EXPENDITURE-BASED MEASURES. What this implies depends on whether community ranking is accepted a priori as more “correct” in identifying the poor. In the case of the BPL comparison, the analysis of this chapter suggests that that is a valid assumption. However, for the expenditure-based comparison, the conclusion is less clear. To some extent, this imperfect overlap with consumption expenditure is not entirely surprising. This is because local definitions of poverty and/or vulnerability typically encompass indicators that may or may be tightly correlated with consumption-based poverty.<sup>379</sup>

## (b) Self-targeting

AN IMPORTANT METHOD OF HOUSEHOLD-LEVEL TARGETING WHICH APPEARS TO HAVE VALUE BOTH INTERNATIONALLY AND IN INDIA IS SELF-TARGETING. The approaches examined previously assume an active process of identification of poor households, whether through the BPL method or community wealth ranking. Self-targeting in contrast

operates in India mainly through public works programs, primarily MGNREG (and implicitly to some extent in PDS through grain quality), and relies on some screen to allow beneficiaries to self-select into the program. In the case of public works, the assumption is that the wage rate and nature of the work will lead those with sufficiently high opportunity cost or reluctance to undertake work to avoid the program. The targeting outcomes presented in the next section indicate that self-targeted public works have often done better than BPL-based targeting.

WHILE SELF-TARGETING CAN BE AN IMPORTANT ELEMENT OF TARGETING STRATEGIES, IT IS ALSO IMPORTANT TO LOOK CLOSELY AT WHICH SITUATIONS TO WHICH IT IS BEST SUITED. Self-targeting will be more suitable in conditions where administrative capacity is weak (and hence more intensive targeting methods unsuitable), in crisis situations where the time lag in conducting more demanding forms of targeting are not desirable, and where incomes are irregular. In addition, there needs to be a suitable screen for the self-targeting. The most common ones worldwide are the nature of work and/or a low wage rate in public works, and subsidies on certain food items which are not consumed by better-off people. On the other hand, it is important to acknowledge the limitations of self-targeting. A classic example is the exclusion of certain groups like elderly and disabled (and in some countries, women) from self-targeted public works due to the nature of the work demanded. Another is that – by the nature of the targeting tool – it would typically be difficult to provide high benefits even to the poorest, as this

<sup>379</sup> Communities often define poverty in terms of (i) economic indicators associated with livelihoods, assets and income, (ii) ability to meet basic needs of food, shelter, and clothing, (iii) health and education, and (iv) indicators of insecurity, exclusion, and lack of participation. See, for example, World Bank (2008b) and Krishna (2004, 2006).

would blunt the targeting mechanism.<sup>380</sup> Self-targeting programs by their nature impose participation costs on beneficiaries. While these are higher for the non-poor, they are often also significant for the poor, e.g., evidence on various workfare programs find opportunity costs of participation ranging from around one quarter (Maharashtra EGS) to around one half the gross earnings in Argentina’s Trabajar workfare program.<sup>381</sup>

### (c) Geographic targeting

MOST ANTI-POVERTY PROGRAMS IN INDIA INCLUDE, IN COMBINATION WITH THE METHODS DESCRIBED ABOVE, AN ELEMENT OF GEOGRAPHIC TARGETING IN TERMS OF FISCAL ALLOCATIONS FOR PROGRAMS. In addition, some programs explicitly rely on geographic targeting at least in initial phases. For instance, the Mahatma Gandhi National Rural Employment Guarantee Scheme was introduced in a phased manner, starting with the 200 most backward districts, then rolling out to the next 330 districts and finally to the most advanced districts.<sup>382</sup> The indicators used to select these “backward” districts included indicators such as value of output per agricultural worker, agricultural wage rate and percentage of SC/ST population as well as some consideration special category status and extremism.

With geographic targeting, location determines eligibility for benefits: people who live in the designated areas are eligible and those who live elsewhere are not. Few programs target only on the basis of geography,

but many programs combined this criterion with other targeting methods. The advantage of this approach is that it is administratively simple, requiring none of the machinery for individual assessment. However, geographic targeting will perform poorly when poverty is not spatially concentrated. It also depends on the accuracy and level of disaggregation of the poverty estimates. Finally, political compromises may be required, as politicians from each jurisdiction will lobby to have their districts included and this could mean that a few districts in each area, rather than the poorest districts, will benefit. Indeed, the list of the 200 backward districts includes at least one district in each state.

## D. HOW DO TARGETING METHODS STACK UP?

WHILE ROBUST COMPARISONS OF ALL TARGETING METHODS ARE NOT AVAILABLE, IT IS POSSIBLE FROM NATIONAL DATA TO COMPARE TARGETING OUTCOMES FROM SELECTED CSS SP PROGRAMS WHICH RELY ON DIFFERENT METHODS. Targeting outcomes by program are presented in Table 8.13 and Table 8.14, looking first at coverage rates across the distribution, and then benefit incidence, the latter also using the “targeting differential” method. Looking across programs, some observations on coverage rates across the distribution are:

- ◆ *the use of self-targeting (in SGRY) and combined categorical “destitution targeting” through social*

**Table 8.13: Cumulative share of beneficiaries of major programs by wealth quintile, 2004/05 (%)**

	Poorest	Q2	Q3	Q4	Richest
PDS grain	27.0	47.8	72.3	89.8	100
Annapurna grain	51.9	74.8	85.5	98.1	100
Rural housing support (IAY)	28.6	48.4	73.7	91.9	100
IGNOAPS	32.8	49.1	66.8	82.1	100
Disability pension	30.7	49.7	73.4	86.3	100
Widow pension	43.2	60.8	77.9	91.7	100
Rural credit (SGSY)	32.9	53.6	74.2	86.3	100
Rural public works (SGRY)	43.4	65.6	85.3	96.1	100
Scholarship	22.6	52.2	73.0	88.4	100

Source: Ajwad (2006) based on 2005 IHDS data.

380 See Coady et al. (2004) for a more detailed discussion.

381 Ravallion et al. (1993).

382 The Backward Regions Grant Fund (BRGF), introduced in 2006/07, an untied transfer to panchayats in order to strengthen local governance and village infrastructure, is also targeted to backward districts of India.

**Table 8.14: Cumulative share of total benefits captured by quintile by program, 2004/05 (%)**

	Poorest	Q2	Q3	Q4	Richest	Targeting differential <sup>1</sup>
PDS grain	29.7	54.8	77.4	93.6	100	4.8
Annapurna grain	37.9	64.8	76.0	98.6	100	20.4
Rural housing support (IAY)	24.6	43.1	68.0	90.7	100	5.6
IGNOAPS	31.1	50.6	66.0	81.6	100	8.0
Disability pension	27.6	44.1	64.0	75.2	100	4.1
Widow pension	32.8	51.0	70.4	87.6	100	14.5
Rural credit (SGSY)	7.7	23.1	33.5	50.2	100	-21.7
Rural public works (SGRY)	34.2	51.7	67.9	83.2	100	16.4
Scholarship	11.7	33.3	45.8	65.9	100	-10.4

Notes: Targeting differential of benefits between lower and upper quintiles. Higher numbers indicate better targeting performance.

Source: Ajwad (2006) based on 2005 IHDS data.

*pensions and Annapurna are the most powerful in terms of promoting coverage among the poorest quintile.* SGRY, Annapurna and widows pensions stand out for sharply higher inclusion of the poorest as a share of all beneficiaries.<sup>383</sup>

- ◆ *BPL-based targeting under PDS, and rural housing programs performs less well among targeted programs,* although they are mildly progressive.

BENEFIT INCIDENCE FOR THE BOTTOM QUINTILE IS WORSE ACROSS ALL PROGRAMS EXCEPT PDS THAN SIMPLE COVERAGE RATES WOULD INDICATE. At the same time, the relative performance of programs in terms of targeting performance does not change, with the notable exception of SGSY and school scholarships, which perform particularly poorly in benefit incidence terms. The more useful insight in policy terms, however, is how robust the ranking of targeting performance remains, with self-targeting and specific categorical targeting continuing to outperform other methods.

The targeting differential provides an alternative single measure which takes account of the share of program benefits captured by the poor (for this purpose, the bottom two quintiles of the distribution) and the non-poor (the top two quintiles), which takes account of both inclusion and exclusion errors.<sup>384</sup> As such, it provides useful shorthand for targeting performance in both dimensions. A negative number denotes regressive benefit incidence, and vice versa, with higher numbers

indicating better aggregate targeting performance. While rankings are broadly similar, the very regressive performance of SGSY shows up as even more of a concern (see Table 8.14).

HOWEVER, TARGETING EFFECTIVENESS IS A FUNCTION NOT JUST OF THE DESIGN AND IMPLEMENTATION OF THE TARGETING TOOL, BUT ALSO THE DESIGN, IMPLEMENTATION AND MONITORING OF THE TARGETED PROGRAM. As a result, programs targeted using the same tool can exhibit radically different targeting outcomes. For instance, both PDS and old age pensions (NOAPS) are targeted using the BPL indicator (combined with categorical targeting in the case of NOAPS). However, the programs present varying degrees of targeting effectiveness which can be attributed to differences in program design and implementation.

A few common lessons for the link between program design and targeting outcomes emerge from the analysis of program performance in previous chapters. Clear program design with well-defined program rules and institutional roles and responsibilities is a critical prerequisite. The nature and frequency of benefits also has implications for minimizing fraud and leakage – (i) cash transfers appear to be preferable than in-kind transfers; and (ii) regular (smaller) payments appear to be preferable than one-time large payments. While the PDS deals in providing monthly rations of food grains and other items, the NOAPS offers regular small

383 Though information on targeting in MGNREG is yet to be rigorously confirmed from household surveys, administrative data suggest largely positive as there is over-representation of SC/ST households in employment provided (see Chapter 4).

384 See Ravallion (1999) and Ravallion and Galasso (2005) for an explanation of the estimation method.

and regular cash benefits. The regularity of payments, relatively small amount of each pension payment and monetization of benefits under NOAPS make it a more effectively delivered and better targeted program as compared to the PDS.

With respect to program implementation, the following contribute to maximize access and minimize *de facto* exclusion errors, as well as to reduce program leakage: (i) adequate outreach and information campaigns; (ii) streamlined enrolment process to as to minimize transaction costs; (iii) creative use of IT for payment delivery; and (iv) lean administrative structures (i.e., minimum number of program intermediaries). In general, greater awareness among the poor, both of programs and eligibility criteria, are a critical first step in their ability to access benefits.<sup>385</sup> In recent years, awareness of the BPL process is fairly high in rural areas, partly due to re-verification drives undertaken in several states after the large number of appeals against the 2002 BPL list. With respect to administrative structures for delivery, there appears to be a weak link between lean structures with shorter delivery chains and better targeting outcomes. For instance, the PDS system is operated by heavy bureaucratic machinery involving many stages and levels of intermediaries, including a network of fair price shops. Some other relatively poorly targeted programs also rely on intermediaries, e.g., SGSY relies on banks, SHGs and supporting NGOs or other mobilizers. In contrast, NOAPS is fairly simple in design, making direct payments to pensioners. This distinction – and its mapping to targeting outcomes – is not airtight (e.g., why does Annapurna perform so much better than PDS itself? SGRY saves on the targeting transactions and intermediaries through self-targeting, but needs coordination on organization of works and payment determination), but is worth keeping in mind in reflecting on relative targeting outcomes.

## E. OPTIONS FOR IMPROVING TARGETING IN SP PROGRAMS

THE ABOVE ANALYSIS SUGGESTS THERE IS MAJOR SCOPE TO IMPROVE TARGETING SYSTEMS FOR PUBLIC PROGRAMS IN INDIA. At the same time, there are several generic issues

which must be taken into account in reforming targeting in SP programs:

- ◆ the distribution of households exhibits considerable clustering around the poverty line nationally, making fine-tuned targeting design inherently challenging
- ◆ there is considerable diversity across states in the factors that are correlated with poverty, so that reliance on standard national indicators in targeting systems has inherent weaknesses.
- ◆ community level beneficiary identification has attractions in such an environment. However, its strength is within-community targeting at a very localized level in relative terms rather than the kind of absolute measure of poor people necessary for comparisons across space.

A KEY CHALLENGE THEREFORE IS HOW MIGHT THE SYSTEM MARRY THE “TOP DOWN” TARGETING NECESSARY FOR SPATIAL DISTRIBUTION OF SOCIAL PROTECTION RESOURCES, WITH THE “BOTTOM-UP” INFORMATION ON THE CHARACTERISTICS OF THE POOR WHICH MIGHT DO A BETTER JOB OF RANKING HOUSEHOLDS AT THE GRASSROOTS LEVEL. There appear to be several elements of a potential strategy. These are discussed below, first presenting more modest reform proposals, and then presenting an option which would imply more substantial reform.

INTERNATIONAL EVIDENCE ON TARGETING OUTCOMES PROVIDES USEFUL INSIGHTS IN THINKING ABOUT AN APPROPRIATE TARGETING MIX. Three observations emerge from a review of targeting methods and outcomes in 122 targeted programs in 47 developing and transition countries:

- ◆ some methods have better targeting outcomes than others when taken across a wide range of countries. This can be seen in Box 8.5.
- ◆ combining targeting methods generally results in improved outcomes. For example, a combination of three methods improves targeting outcomes by around 30 percent. This potential improvements needs to be traded off however with additional administrative costs and demands, and the risks of too much complexity introducing possibilities for manipulation.

<sup>385</sup> For instance, a survey after the launch of RSBY in a particular state revealed that, a large proportion (82 percent) of households who were aware of the scheme had enrolled for the program. Research for this report also points to the lack of awareness about eligibility criteria (e.g., for social pensions) and entitlements under MGNREG.

## Box 8.5: International findings on targeting methods

It is useful to look at targeting methods in light of their targeting performance in other developing countries. This can be seen in the table below.

Targeting method	Median targeting performance
All methods	1.25
Any form of individual assessment	1.50
Means testing	1.55
Proxy means testing	1.50
Community assessment	1.40
Any categorical method	1.32
Geographic	1.33
Age: elderly	1.16
Age: young	1.53
Other categorical	1.35
Other selection methods	1.10
Work	1.89
Consumption	1.00
Community bidding	1.10

Source: Coady et al. (2004). Higher scores indicate better targeting performance.

An important additional issue is the reliance on multiple targeting criteria. This raises the question of the benefits of using multiple targeting methods, which implies a relatively high degree of administrative effort to implement. International evidence gives some support for the use of multiple targeting methods. In an econometric analysis of 122 targeted programs from 45 developing countries, it has been found that each additional targeting method used improved targeting outcomes by around 15 percent, controlling for factors such as country income level, governance, inequality and other factors. Of course, such improvements in targeting performance come at the cost of additional costs of administration and additional costs for households in compliance. However, it is unusually difficult to make a reliable estimate of the costs of administering UDB for several reasons, so that it is not possible to have an informed discussion of the trade-off between improved targeting outcomes and increased targeting costs.

Source: Coady et al. (2004).

- ◆ at the same time, there is also strong variation across countries in targeting outcomes within each method, pointing to the importance of country specificities and implementation capacity in considering options. Across the sample of programs, around 80 percent of the variation in targeting outcomes is accounted for by within method variation, and around 20 percent by between method variations. One important dimension of this is community “voice” in the society, which internationally improves targeting outcomes by around 23 percent.

INTERNATIONAL EVIDENCE THEREFORE CLEARLY SUGGESTS THAT NO SINGLE TARGETING METHOD WILL EVER BE SUFFICIENT,

AND THAT THE POLICY QUESTION IS WHETHER A MORE EFFECTIVE MIX OF METHODS CAN BE EMPLOYED FOR SP (AND OTHER PROGRAMS).<sup>386</sup> This would include improvements in methods for each type of targeting, and potentially a different mix of methods. The discussion below focuses initially on improvements in geographic targeting and the “backbone” BPL method, before a discussion of more substantial reform options.

### (a) Improving geographic targeting

WITH RESPECT TO GEOGRAPHIC TARGETING OF CENTRAL SP ALLOCATIONS, IT WOULD BE USEFUL TO GENERATE SUB-STATE ESTIMATES OF POVERTY USING POVERTY MAPPING TECHNIQUES,

<sup>386</sup> See Coady et al. (2004) for a useful discussion of different targeting methods and combinations in developing countries.

AND USE THESE AS THE BASIS FOR FUTURE SPATIAL RESOURCE ALLOCATION.<sup>387</sup> Poverty mapping allows for reliable small area estimates of poverty below the state level by combining information from the NSS household survey data with unit record data from the Census. Since the late 1990s, detailed “poverty maps” have been prepared for a growing number of developing countries. These maps provide estimates of poverty and inequality at the local level – such as the district, sub-district, and even village level. Such information is not commonly available because household surveys are typically too small in sample size to permit sufficiently fine disaggregation. Yet, with ongoing efforts to apply detailed spatial targeting of public interventions, or to realize the gains from decentralization and community-centered development, there is a pressing need for information on distributional outcomes at the local level.

**IN INDIA, THIS COULD RELIABLY GENERATE POVERTY ESTIMATES AT BLOCK LEVEL.** While progress on this front would not address the issue of household level targeting, it would significantly reduce issues of targeting across space within states. In India, a pilot effort to produce poverty maps in three states - West Bengal, Orissa and Andhra Pradesh – is ongoing. Once that is complete, it would be a more precise basis for allocations of CSS SP resources across space. In particular, these poverty maps can potentially be an important part of a strategy to marry “top down” targeting (essential for fiscal allocations of resources across space) with “bottom-up” targeting of households or individuals (e.g., through community-based methods that rely on local knowledge but are not comparable across space).

## (b) Improving household-level targeting

In addition, there is a major need to improve India’s household level targeting systems, though the range of options varies between urban and rural areas, and by program type. This section looks at three possible reforms in the BPL methodology as well as the potential role of other methods, including community-based and self-targeting methods. None of them provide a “magic bullet” for all programs, but are suggestive of options for

improvement which may contribute to a more effective mix of targeting methods.

## (c) Reforming the BPL method: the proposed 2011 BPL methodology

**GIVEN THE CONCERNS OVER WIDESPREAD EXCLUSION AND INCLUSION ERRORS IN THE 2002 BPL METHOD, AN EXPERT COMMITTEE HAS SUGGESTED SIGNIFICANT CHANGES IN DESIGN OF THE PROPOSED 2011 BPL CENSUS (AS DESCRIBED IN THE SAXENA COMMITTEE REPORT).<sup>388</sup>** One, the method proposes the automatic exclusion of visibly non-poor households and the automatic inclusion of the most vulnerable households, with a survey and scoring only of the remaining households. Two, the new method overlays geographic targeting criteria by specifying district, block and GP-level quotas with respect to the proportion of BPL households. In districts that have a very high proportion of BPL households (over 80 percent), all households (except the visibly non-poor) would be considered to be poor and automatically included in the BPL list. This design reduces administrative demands and cost to some extent by reducing the scope of the survey. The underlying principle of the proposed methodology is to minimize errors of exclusion, without worrying over-much about errors of inclusion. The elements of the proposed method are described below.

**SETTING QUOTAS FOR THE DISTRIBUTION OF BPL HOUSEHOLDS ACROSS SPACE: DISTRICT-LEVEL THRESHOLDS FOR THE PROPORTION OF BPL HOUSEHOLDS COULD BE SET USING THE RATIO OF SC/ST POPULATION IN THE DISTRICT TO THAT IN THE STATE, THE INVERSE OF AGRICULTURAL PRODUCTION PER RURAL PERSON AND AGRICULTURAL WAGE RATE OF THE DISTRICT.<sup>389</sup>** These could then be used to estimate block-level proportions of the poor using any one or a combination of indicators on soil and irrigation quality, road connectivity, female literacy and share of non-agricultural workers. Finally, these block-level estimates would be used to generate GP-level quotas for BPL households on the basis of population estimates. Estimating these disaggregated sub-district thresholds as well as choosing alternative rules to generate GP-level quotas could be left to the discretion of the state government or district authorities.

<sup>387</sup> See Elbers et al. (2003) for discussion of the poverty mapping methodology and World Bank (2011) for a discussion on the pilots in India.

<sup>388</sup> Saxena Committee report (2009).

<sup>389</sup> This is the standard formula used for fiscal allocations for Rural Development programs.

**IDENTIFYING POOR HOUSEHOLDS:** The basic principle behind the methodology being proposed is to ensure the inclusion of groups that are regarded as particularly vulnerable (e.g., workers in low income or highly vulnerable occupational categories, households where earning capacity is severely curtailed by external constraints, etc.) and/or groups that are historically subjected to social exclusion. The proposed method of identifying households has the following three elements:

- i. Automatic exclusion of visibly non-poor households
  - ii. Automatic inclusion of the poorest and most vulnerable households
  - iii. Scoring of the remaining households (except in districts with poverty above the specified threshold – 80 percent - where all households, except those automatically excluded, are identified as poor without a survey).
- (i) **AUTOMATIC EXCLUSION OF HOUSEHOLDS THAT ARE MEET CERTAIN CRITERIA AND ARE IDENTIFIED AS NON-POOR:** The intention is to exclude households that are visibly non-poor, but whose position of economic, social or political privilege makes it possible for them to get (wrongly) included in BPL lists. The exclusion criteria include the following: (a) households with double the land of the district average of the agricultural land per agricultural household if partially or wholly irrigated (three times if completely unirrigated); (b) households who have two-wheeled (or more than two wheeled) motorized vehicles; (c) households who have at least one mechanized farm equipment; (d) households who have any person who is drawing a salary of over ₹ 10,000 per month in non-government/private organizations or is employed in government (including parastatals) on a regular basis with pension or equivalent benefits; (e) income tax payers.<sup>390</sup> These criteria are an improvement over those used in the 1997 BPL method as (i) they allow for some local variation to a limited extent (e.g., land holding is assessed relative to the local average instead of the all-India threshold of two hectares previously) and (ii) focus only on high-value assets that may be more successful in separating the rich from the poor.

- (ii) **AUTOMATIC INCLUSION OF CERTAIN CATEGORIES OF HOUSEHOLDS THAT ARE CONSIDERED TO BE AMONG THE POOREST AND MOST VULNERABLE:** These include the following categories: (a) designated Primitive Tribal Groups; (b) designated most discriminated against SC groups (called Maha Dalit Groups), if so identified by the state; (c) single women headed households; (d) households with disabled person as bread-earner; (e) households headed by a minor; (f) destitute households that are dependent predominantly on alms for survival; (g) homeless households; and (h) households where any member is a bonded laborer. However, there is some confusion in the treatment of households and individuals while operationalizing these criteria. While the report focuses for the most part on households (i.e., a joint family that resides under a common roof and eat from a common kitchen) and nuclear families, some of the specific categories noted above relate to individuals. In this case, the report suggests treating these groups as separate households (e.g., single women with no major son, elderly couples or individuals, etc.). However, it is not clear how to score the remaining household members. Also, not all of these criteria are easily measurable or verifiable in the field – e.g., a functional assessment of disability requires several detailed questions and highly trained investigators.
- (iii) **GRADING OF THE REMAINING HOUSEHOLDS (IDENTIFIED AS POOR) IN ORDER TO PRIORITIZE PROGRAMS AND SERVICES TO THE POOREST AMONG THESE HOUSEHOLDS:** The proposed scoring system ranks households on a scale from one to ten using the following criteria: (a) caste and religious affiliation – SC/ST (3 points), denotified tribes and designated 'Most Backward Castes' (2 points), Muslim/OBC (1 point); (b) any one household member engaged in the following occupations – landless agricultural worker (4 points), agricultural laborer with some land (3 points), casual workers (2 points), self-employed artisans or fisher folk (2 points); (c) no adult above the age of 30 with schooling up to grade five (1 point); (d) any household member with TB, leprosy, mental illness or HIV/AIDS or disability (1 point); and (e) households headed by an old person of age 60 and above (1 point). Since the bunching of a large number of households is possible at certain scores, the method proposes a ranking of

<sup>390</sup> These criteria apply to the entire joint family – i.e., the first criteria of higher than average land ownership would apply even to the son of a large farmer even though he may not actually have land registered in his name.

households with the same score, with those in the special category group such as SC/ST at the top, followed by landless agricultural laborers and so on.

THIS PROPOSAL IS A MODEST APPROACH TO REFORM IN THAT IT PROPOSES CONTINUING WITH THE BPL SYSTEM WITH SOME IMPROVEMENTS. The proposed methodology is an improvement over the 2002 BPL method in some ways: (i) The indicators chosen are likely to be highly correlated with poverty for the most part (though not necessarily for the elderly).<sup>391</sup> Some of these indicators (gender of household head, education, occupation) were among a wider set of indicators used by Jalan and Murgai (2008) in their augmented regression model that performed much better than the 2002 BPL method. However, while the reduction in the number of indicators increases simplicity in field processes, it may make it more difficult to separate the rich from the poor and the poor from the poorest; (ii) Weights have been assigned to the indicators as noted above. However, weights have not been applied across states; and (iii) The use of the geographic, automatic inclusion and exclusion criteria reduce the scope of the survey and hence administrative demands and costs. Subjecting this methodology to the

test using NSS data as done with the 2002 BPL method would yield interesting insights into how well the new de jure targeting design would perform.

HOWEVER, SEVERAL DRAWBACKS OF THE PREVIOUS BPL METHOD REMAIN, PARTICULARLY WITH RESPECT TO THE IMPOSITION OF CENTRAL CRITERIA ACROSS DIVERSE LOCAL CONTEXTS, CARDINALITY OF INDICATORS, AND THE SAME PROCESS OF AGGREGATION. In addition, there are likely to be reporting issues with some of the indicators (e.g., chronic health problems, disability). The adoption of this methodology will also have significant fiscal implications. The inclusion criteria are defined on the basis of nuclear families and individuals who are considered as separate households for the purpose of this exercise. This would lead to the number of BPL *households* increasing significantly, implying possible rationing within these households if program budgets do not rise adequately.

AS A RESULT, THERE IS STILL SCOPE TO MOVE TO A MORE DEVELOPED FORM OF PROXY MEANS-TEST, USING METHODS WHICH ARE GOOD PRACTICE IN DEVELOPING COUNTRIES, FOR BOTH RURAL AND URBAN AREAS. Box 8.6 provides some insights from international experience with PMT.

### Box 8.6: International experiences with proxy means testing

Targeting on the basis of proxy means test like the BPL is becoming more common in developing countries. Generally such methods are used for large benefits and/or for multiple programs. Current examples include use of PMT for cash transfers (Armenia, Colombia, Mexico), targeting food subsidies and rations (Indonesia, Turkey), rationing entry for subsidized health insurance schemes (Colombia) etc. PMTs are also currently being designed and piloted in Bangladesh and Pakistan. In general, PMTs are relatively insensitive to quick changes in welfare and require time to design, pilot and set up systems for implementation, monitoring and redressal. As a result, PMTs are best suited for targeting the chronic poor in stable situations and not as a response to crises. From reviews of international experience with PMT, several common features emerge which can be considered good practice. India in its BPL system relies on some of these but not others:

- ◆ **Design:** Typically a PMT is designed using regression models of total household income or consumption on the selected variables, often separately for different regions of the country. This process, usually iterative, should yield:
  - Indicators that are the best possible proxies to predict poverty in rural and/or urban settings.
  - Indicators that are easily observable and not easily manipulated by households.
  - A weighting across the indicators, with the weights derived from the regression model.
  - Not too many indicators to be used in the PMT. Around two dozen variables are used typically when one looks at programs internationally.
  - Piloting before finalizing the PMT allows validation of the tool against other indicators of household welfare using current data.
- ◆ **Implementation:** The use of PMT requires institutional capacity for collection of household-level information and for subsequent database management.
  - Governments or project teams may decide to collect information through a door-to-door census type exercise or through targeting centers (combined with outreach and communication strategies to minimize exclusion).
  - Some countries combine the use of PMT with home visits or other methods for ensuring both that those identified through the PMT are actually poor, and to check on others. While desirable, this needs to be trade off with additional administrative costs and capacities.
  - In some countries, the scoring system is made public.
  - There is often an appeals process to mitigate the negative impacts on some poor households of the mechanical nature of the PMT formula.

391 See Pal and Palacios (2008) for a comparison of poverty rates among the elderly.

THERE ARE SEVERAL POSSIBLE ELEMENTS IN SUCH AS REFORM:

- ◆ ***even if standard national BPL criteria are retained, these should be determined using rigorous regression models for greater targeting power.*** While the proposed 2011 BPL methodology does include criteria such as caste affiliation that have been found to be strong correlates of poverty, the preferred method for such an exercise is to use the NSS or other representative national data to generate a set of indicators that provide more targeting power, and which could be easily verifiable at reasonable cost. The Ministry of Rural Development is currently analysing data from a sample survey to inform the debate on the 2011 BPL design.
- ◆ ***whatever indicators are used, they should have some weighting – preferably on a state-specific basis.*** The basis for such weights and a more sensible ranking between levels of each indicator should be the NSS data, or other representative national data where relevant. In contrast, the proposed BPL methodology and Kerala's Kudumbashree use a set of weighted indicators for the identification of poor households, but the weights do not appear to be based on regression analysis. These are likely to be assigned by committee or, in the case of Kudumbashree, developed by communities in a participatory manner.
- ◆ ***a preferred approach beyond the above would be to let the indicators in the BPL methodology vary by state, or perhaps groups of states.*** As the purpose of BPL is increasingly ranking of households rather than determining aggregate numbers of poor people (which remain controlled through the linkage to Planning Commission aggregates for states), there seems no inherent need to insist on standard national indicators. As part of a process to generate indicators, it would be worthwhile to simulate state or region-specific indicator sets and test their power in ranking of households.
- ◆ ***piloting the proposed method would allow an assessment of how well these indicators capture***

***household welfare, measured using other accepted measures such as per capita consumption and/or asset indices.***

- ◆ ***BPL lists should be subject to localized verification by communities, using gram sabhas or other mechanisms.*** In principle, this should happen, and does in some states (e.g., HP) and/or for specific programs. However, the process is not systematic and made more complicated by the fact that *gram sabhas* are held infrequently and participation is often low in most states.<sup>392</sup> If it were to become more standard, it may be useful in some areas to have the verification process facilitated by NGOs or other third parties where there are concerns of elite capture. Verification and finalization of the BPL list by the *gram sabha* is one of the suggestions made by the Saxena Committee report.
- ◆ ***build in systems for dynamic updating of BPL lists in between censuses.*** The Saxena Committee report suggests holding a census once every ten years, combined with a system for updating the lists every two years by registering changes in household circumstances. However, the report does not specify the implementation arrangements for doing this.
- ◆ ***require states to have common BPL lists and BPL ration card aggregates, preferably consistent also at the household level.*** Several states already do this, and it has the benefit of saving administrative demands and avoiding multiple targeting criteria. The Saxena Committee report makes this recommendation. However, in states where the two do not presently coincide, political economy may make convergence challenging, particularly where BPL ration cards significantly exceed the numbers on BPL lists.

NO COMPARABLE CENTRAL GUIDELINES FOR A CENSUS OF POOR HOUSEHOLDS EXISTS FOR URBAN AREAS. Typically, the identification of poor households is carried out separately by different departments, such as the Food and Civil Supplies Department for PDS ration cards. However, methods differ across states and departments and there is little systematic information on this process. Recently, a working group was

392 Even in the four southern states, only 20 percent of households reported attended a gram sabha (Besley et al. 2005).

formed in the Planning Commission to deliberate on the design of an urban BPL. Notable exceptions are Delhi and Kerala (see Box 8.3 above). More recently, Delhi has defined a common process of identification of the poor across programs. This defines a set of thematic indicators capturing residential location, social deprivation and occupational vulnerability to identify vulnerable households. The underlying principle of promoting inclusion and several of the specific indicators are similar to those proposed in the rural 2011 BPL methodology (see Box 8.7 for details). A survey is currently underway to collect information on households in poor localities, with the intention of covering other areas over time. The list of vulnerable households so generated would be used by the nine state departments that are engaged in delivering programs or services to the urban poor. This is a very positive step towards generating a common beneficiary

database for multiple programs, thereby reducing administrative costs and increasing transparency. This, however, does not necessarily mean that all programs would need to target the same groups. Programs such as educational scholarships that target SC/ST children could use the information in the common database to continue targeting on caste affiliation rather than vulnerability status.

WHILE THE ABOVE REFORMS COULD SIGNIFICANTLY IMPROVE THE BPL SYSTEM, INTERNATIONAL AND INDIAN EVIDENCE SUGGESTS THAT INDICATOR-BASED TARGETING – EVEN WHERE GENERATED ROBUSTLY FROM RELIABLE SURVEY DATA – WILL STRUGGLE TO EXPLAIN A SIGNIFICANT PORTION OF VARIATIONS IN LIVING STANDARDS ACROSS HOUSEHOLDS. This is true in a static sense, where such methods rarely explain more than half the variance in household consumption.<sup>393</sup>

### Box 8.7: Targeting under mission convergence for urban Delhi

The emphasis of Mission Convergence (MC), initiated in March 2008, has been on improving targeting and outreach of social protection programmes in the National Capital Territory of Delhi. The Mission targets through a revised methodology, premised on the enumeration and identification of prospective beneficiaries employing a survey of localities and sites which house ‘vulnerable’ populations in Delhi. Three thematic indicators – type of residential locality, social deprivation and occupation are used to define ‘vulnerability’ and classify target vulnerable households as distinct from other households canvassed for survey data.

#### Vulnerable households are defined as per the following parameters:

- ◆ *Residence* – those living in notified and non-notified slums, resettlement colonies (F,G and H), and are shelterless and precariously housed;
- ◆ *Social deprivation* – households with elderly either living alone or as dependents or others, households with persons with disabilities, households with any member suffering from a specified chronic illness, single women living in households as dependents or alone as heads of households, single unprotected children and households headed by children;
- ◆ *Occupational category* – Households that are primarily dependent on earnings from occupations and forms of employment or self employment which are casual, irregular and hazardous with insecure wages and poor working conditions. An indicative list of such occupations include rag picking, unskilled construction labor, casual daily wage labor, street hawking, casual domestic work, cycle rickshaw, unskilled workers in household enterprises.

In addition, a sub-category of the most vulnerable households includes those that are (a) homeless or precariously housed households; (b) households residing in notified slums, non-notified slums and resettlement colonies (F,G,H) and who report at least one family member as being socially vulnerable as per the criteria noted above.

MC relies on the institutional capacity and expertise of Gender Resource Centres (GRCs) – managed and staffed by non-governmental organisations, civil society groups and community-based organisations for the data collection process. Such an institutional framework, whilst providing unique opportunities in relation to the delivery of benefits and services, has also been accompanied by problems in the pursuit of the planned targeting method. As noted in the Saxena Committee draft report, the actualization of such a non-income based assessment require clear, measurable and standardized definitions of concepts and terms used, which can facilitate strict instructions for data collection. Thus, a concern with the revised vulnerability targeting criterion set by MC is the difficulty in translating the specified criteria into practicable inputs for implementation by agencies with limited survey experience and capacity. In addition, some of the groups noted above are broadly defined (e.g., a large number of households would have at least one member engaged in some form of casual work). This combined with no weighting across criteria, indicated the need for rules for prioritization or ranking within these indicators if faced with budget constraints for programs.

393 For example, Egypt's PMT for its food rationing system captures only 43 percent of the variation in consumptions across households, and Armenia's only around one quarter of the variation.

## (ii) Other reform options

WHILE REFORM OF THE BPL SYSTEM IS HIGHLY DESIRABLE, THERE MAY BE ADDITIONAL OPTIONS IN RURAL AREAS OF SOME STATES FOR COMMUNITY-BASED TARGETING TO PLAY A STRONGER ROLE IN SP PROGRAMS. As the centre enforces convergence on aggregate numbers of poor people between Planning Commission estimates and the BPL system, possibilities for more significant reforms of targeting systems could be considered in rural areas (though perhaps not in urban, where an enhanced PMT would seem more feasible).

ONCE A POVERTY MAP IS AVAILABLE AT BLOCK LEVEL, RELIANCE ON COMMUNITY-LEVEL WEALTH RANKING BECOMES A FEASIBLE OPTION AS A TOOL WITHIN THE FORMAL SYSTEM FOR IDENTIFYING SP BENEFICIARIES. While not an ideal match, the availability of aggregate numbers to block level and community ranking at GP/village level comes close to the “top-down” and the “bottom-up” meeting. To the extent there remains a gap, solutions such as assuming even poverty rates within the block, or some simple indicators such as population share (as is being proposed in the Saxena Committee draft report) or SC/ST share or landless share in different villages might be used to allocate SP resources within a block. The precedent of Andhra Pradesh is instructive, where a list of poor household generated entirely by community wealth ranking has replaced the administratively generated BPL list across the state for the main anti-poverty programs administered by the Rural Development Department. This may not be feasible in all states (e.g., where caste fragmentation is high and risks of local elite capture more

pronounced), and would need facilitation by competent NGOs. However, an evaluation of the AP experience, and well-evaluated pilots in other states seem warranted to see whether some of the shortcomings of even a well-designed PMT can be mitigated through a stronger community role in identifying beneficiaries. See Box 8.8 for a discussion of the operational challenges in scaling up community-based targeting methods.

AS HAPPENS PRESENTLY WITH COMMUNITY WEALTH RANKING, THE PROCESS WOULD BENEFIT FROM BEING FRAMED WITHIN GENERAL CRITERIA FOR RANKING HOUSEHOLDS. From an implementation viewpoint, there is a tension between more localized guidelines and minimizing intensity of process and costs in developing the guidelines. However, experience from India (e.g., Kerala’s Kudumbshree) and from other countries which have formalized community identification into their formal SP systems (e.g., Uzbekistan), suggests that this is a surmountable challenge.

WHETHER THE MODEST OR MORE FUNDAMENTAL REFORM OPTIONS ARE PURSUED, SELF-TARGETING (AS HAPPENS IN PUBLIC WORKS) WOULD CONTINUE TO BE A USEFUL TOOL FOR PROGRAMS WHERE IT IS SUITABLE. This approach is most effective when used to target goods or services that are more heavily consumed by the poor than the non-poor, and for programs where monitoring costs associated with verification of eligibility are high. Programs such as public works are amenable to self-targeting approaches through the wage rate and types of work offered. Others such as subsidized credit lend themselves less readily to self-targeting. For cash benefits, the possible role

### Box 8.8: Operational considerations in scaling up community-based targeting methods

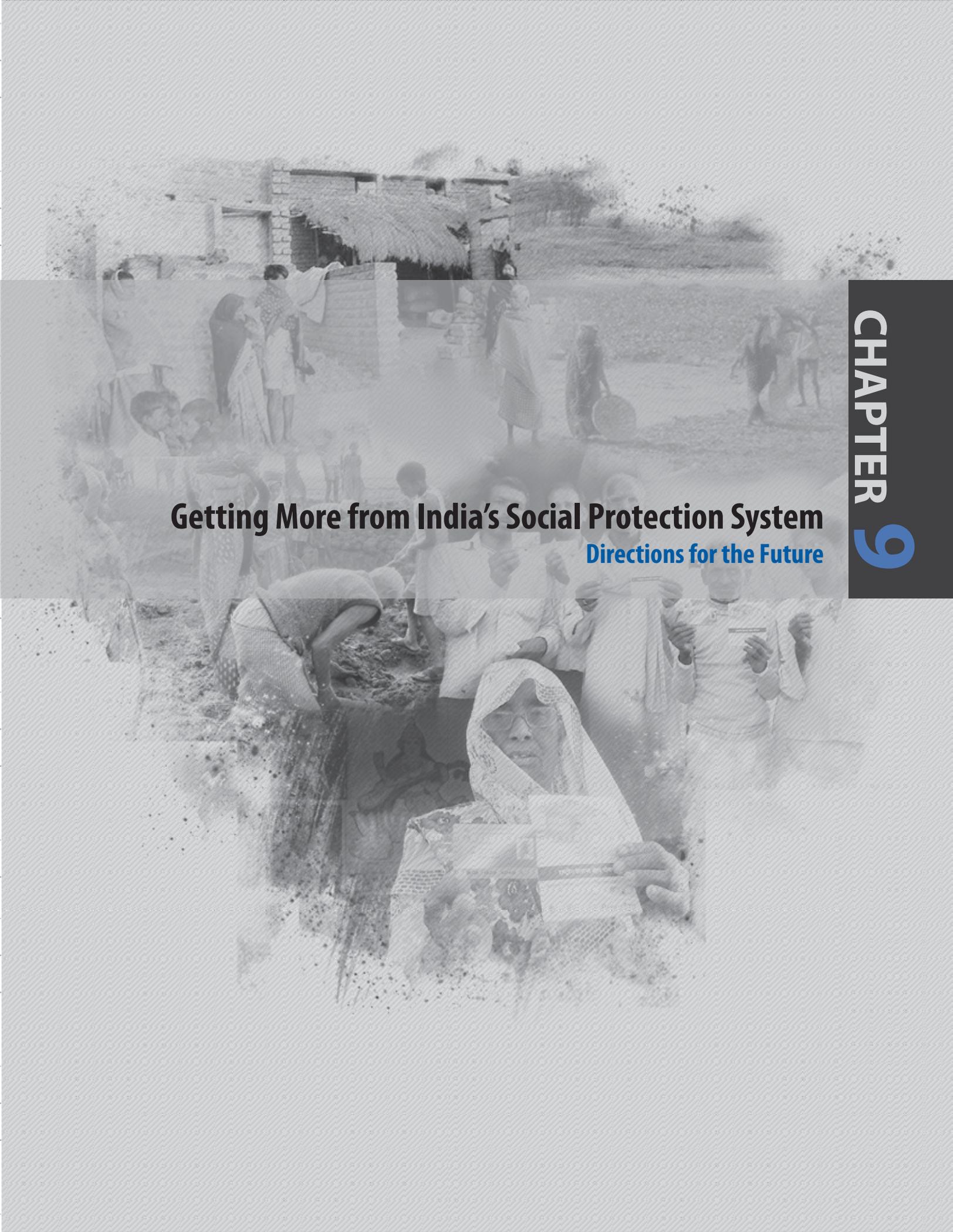
Several operational challenges need to be addressed with respect to scaling up community-based methods if they are to be used in government programs:

- ◆ *Defining community* in a manner that balances the sociological necessity of cohesion among households with the operational compulsions of scale. The unit of the exercise should be small and socially cohesive, but this adds to the cost of the exercise and leads to an additional problem of aggregation of these locally collected lists to an operational/administrative unit level.
- ◆ *Mobilizing participation* is typically earlier in a project context where there is expectation of immediate benefits but may require more outreach when part of a targeting exercise that is delinked from a specific project and with more diffuse expectations of future benefits.
- ◆ *Monitoring the quality of participation* with respect to standardized and high quality facilitation to minimize dominance.
- ◆ *Defining poverty and categorizing the poor* requires balancing the maxim of allowing communities to define characteristics of the poor with the operational need to ensure an acceptable degree of comparability across communities (even in a project-context). Typically ‘guidelines’ are adopted for the characterization of various poverty strata.
- ◆ *Institutionalizing the process* by setting up systems for verification of poverty lists and for regular updating of poverty status.

Source: Conning and Kevane (2002).

of self-targeting will depend on benefit levels, ease of accessing programs and other factors. Despite these obvious limitations, the empirical results in Chapter 4 highlighting the superior targeting performance of public works suggests that “cutting out the middleman” in targeting of SP programs remains an important tool for programs where the nature of the self-targeting

requirement or of benefits offered permits. This suggests that self-targeting should continue to play a role in programs where it is suitable. An important additional factor supporting this conclusion is that self-targeting may minimize the political costs of clear designation of target groups, by allowing policymakers to describe such programs as “open to all”.



# Getting More from India's Social Protection System

## Directions for the Future



# Getting More from India's Social Protection System

## Directions for the Future

INDIA WILL UNDOUBTEDLY CONTINUE ITS STRONG COMMITMENT TO A SOCIAL PROTECTION SYSTEM WHICH SEEKS TO SERVE THE POOR. The question is how best to do that more effectively in the short and medium term. There are likely to be three broad elements necessary for an effective SP reform strategy for India:

- ◆ **Reorienting the policy mix and specific program policies across SP programs in order to meet the diverse needs of India's poor** – diversity which has several dimensions: spatial across and within states; across socio-economic categories; and between households trying to manage different types of risks and shocks. This would include exploring new SP tools for leveraging improved human capital outcomes and household productivity, and innovating with policies and programs to support the urban poor;
- ◆ **Getting better poverty reduction outcomes from existing programs through improvements in financing, targeting, institutional arrangements and administration of existing schemes;** and

- ◆ **Building consensus around the reforms to be undertaken.** It will be necessary for political constituents, including a significant share of those who may lose from reform, to support the stages of policy and implementation evolution if they are to be successful.

IF SUCH A REFORM AGENDA CAN BE DELIVERED, THE BENEFITS FOR THE POOR OF INDIA COULD BE SUBSTANTIAL, AND MAKE GROWTH SIGNIFICANTLY MORE INCLUSIVE. In addition, there are likely to be positive impacts on growth itself from an SP system which more effectively addresses a range of market failures which result in poor and unproductive citizens. The traditional view of social protection systems and the redistributive objectives underlying them was that there was a clear growth versus equity trade-off. However, empirical evidence increasingly highlights that a well-designed and implemented SP system provides dynamic efficiency gains to the economy through positive impacts on productivity, and as an important tool for governments in managing the impacts of reforms in the wider economy.<sup>394</sup>

<sup>394</sup> See World Bank (2004).

## A. POLICY REFORM IN SOCIAL PROTECTION

THERE IS A NEED TO DEEPEN THE ONGOING POLICY REORIENTATION OF THE INDIAN SOCIAL PROTECTION SYSTEM TO MEET THE CHANGING AND INCREASINGLY DIVERSE NEEDS OF ITS POPULATION. Marginal changes alone will not deliver the kind of safety net which a changing India needs for its poor and for its economy. This would involve several elements: (i) a rebalancing of the policy mix across different types of public SP priorities; (ii) consolidation of the large number of central and state schemes to a core set of flagship programs; (iii) in the context of consolidation, introducing an element of choice and flexibility for states in the specific program mix of centrally-supported schemes that they operate; and (iv) in some areas and for some programs, actively exploring the possibilities for leveraging the role of private players (both non-governmental and for-profit) in delivery of interventions.

IN TERMS OF REORIENTING THE POLICY MIX, THE REPORT SUGGESTS SEVERAL DIRECTIONS:

- ◆ **increasing the emphasis on preventive programs** which help the poor and those vulnerable to poverty to manage risks and shocks better. This implies a significant expansion in coverage of different social insurance instruments, though in a phased manner consistent with institutional and fiscal capacity. Experience to date suggests that phasing would benefit from: (i) starting with simpler-to-administer insurance products such as life and permanent disability, while continuing to pilot and evaluate experience with more complex products such as health insurance; and (ii) for reasons of ease of worker mobilization and to control transactions costs, focusing initially on the “low hanging fruit” of unorganized workers who are members of groups (e.g., MFIs, cooperatives, trade union and worker associations, SHG federations) that could play an intermediary function between workers and the state/insurers.
- ◆ **rethinking programs which seek to promote movement out of poverty in two ways:** firstly, moving from administratively driven subsidized credit to public financing of a more diverse range of livelihood promotion approaches better suited to the labor market conditions of individual states

as is currently being proposed under NRLM; and secondly considering the options for use of safety net transfers (see next bullet) to leverage participation in core education, health and possibly nutrition services, in order to promote long term movement out of poverty.

- ◆ **moving to more consolidated and more cash-based social assistance programs for the chronically poor.** The “big elephant in the room” in this respect is fundamental reform of PDS. The very poor and long run performance of the program in many states suggests that the medium term vision of a reformed PDS for most groups should be cash-based, though this would face substantial resistance in light of the ongoing debate around the Right to Food legislation. A reformed PDS could still provide food-based support for specially vulnerable groups (in line with Supreme Court orders), and in specific areas facing chronic or acute food shortages, but for most areas and most people, a cash-based social assistance system seems a more efficient and transparent means of providing an income floor. An intermediate solution currently being mooted in the 2010 Economic Survey is to transfer the subsidy directly to households (rather than the PDS store owner) through food coupons with a lumpsum entitlement that can be exchanged at any PDS store.
- ◆ in the face of demographic change and slower rates of poverty reduction in urban areas, **starting to address the neglect of urban social protection policy.** While some of the needs of the urban poor are common to their rural counterparts, the possibilities (and constraints) of the urban environment suggest that simple mimicking of rural models of SP programs and service delivery mechanisms is unlikely to be an adequate response. For example, the options for “voice accountability” of service providers which can be mobilized in rural areas through collective community action are likely to be less possible in urban areas, while the possibilities for “choice accountability” (through income enhancement and offering options in service providers where possible) are likely to be greater. The JNNURM program had appeared to offer a solid base for such an urban SP reform, but has largely failed to

deliver in this regard and closer consideration is needed of how to affect urban SP policy change.

THE SPECIFIC PROPOSAL OF THIS REPORT IS THAT CENTRAL SP PROGRAMS OVER TIME AIM FOR A “3+BLOCK” STRATEGY. This would involve 3 core CSS SP programs or “pillars”, combined with an SP block grant from which states could finance other SP programs - or supplement benefits under the core pillar programs - more tailored to the poverty and vulnerability profile of the individual state. This would also involve significant expansion in urban areas. This could promote both a more coherent and less duplicative SP system, but also give states more leeway to adapt the SP policy mix to the needs of the poor in individual states in light of available economic opportunities. The three core pillars proposed are:

- ◆ **a major social assistance program.** The obvious candidate for this is a significantly reformed PDS, merged for specific groups with existing social pension programs.<sup>395</sup> Chapter 3 give more details on the options for reform of PDS proposed by this report, with a preference for a predominantly cash transfer approach.
- ◆ **a public works program,** for which MGNREG would be the building block, as well as piloting expansion in urban areas. There are several benefits of a reliable public works program at this stage of India’s development: (i) by its demand-driven nature, it can be responsive to shocks in a way that longer run programs typically cannot. In this way, it functions as a “quasi-insurance” program for the extended period during which more structured insurance is expanded to the unorganized sector; (ii) the positive targeting outcomes of self-targeted works; and (iii) the potential for multiplier effects from asset creation and community mobilization distinguish public works from other SP programs. See Chapter 4 for a discussion.
- ◆ **a basic social security package for those outside the formal sector** which could be expanded in terms of coverage and scope of benefits as institutional capacity and fiscal space is developed. The core types of insurance which

Gol aims to expand include life, disability, old age pension, and health, and the RSBY program is already an important step forward in this regard. Chapter 5 gives suggestions on institutional, financing, sequencing and other aspects of an expansion strategy.

BEYOND THE THREE “PILLARS,” STATES COULD RECEIVE AN ADDITIONAL TRANSFER AND IMPLEMENT STATE-SPECIFIC SP INTERVENTIONS. How this is programmed could vary according to state-level priorities, and include interventions such as livelihood support of different forms, targeted housing, interventions to incentivize use of basic social services, nutrition and/or early childhood care (e.g., through conditional cash transfers as being piloted in some states), specific urban SP programs, or other options as proposed by states. A secondary benefit of such an approach would be strengthening of complementarities between CSS and state-sponsored schemes in order to control unnecessary duplication. A common core national SP system under the three pillars could promote portability of basic entitlements, and be increasingly useful as mobility of workers and households increases.

IN TERMS OF PROMOTING BOTH MORE EFFECTIVE SPENDING ON SP, THE “3+BLOCK” PROPOSAL WOULD ALLOW MORE CROSS-PROGRAM FLEXIBILITY TO STATES – OR POSSIBLY DISTRICTS - IN DECIDING THEIR SP EXPENDITURE PRIORITIES, WHILE STILL MAINTAINING A COMMON NATIONAL CORE SP SYSTEM. It would also allow for greater adjustment in light of poverty levels, key vulnerabilities, etc. This could be done in a variety of ways, possibly using a menu approach to SP programs, and a flexible form of social protection block or matching grant which consolidates resources from existing SP CSS.<sup>396</sup> This is an approach which has received increased attention in India in recent years as policymakers seek to get greater impacts from SP spending. Given current financing channels from the centre to states in India, a more flexible granting mechanism for SP programs to states could take different forms – as a more “bundled” anti-poverty CSS, as Additional Central Assistance (ACA) along the lines of programs like Pradhan Mantri Gramodaya Yojana (PMGY), or through a more fungible realignment of

<sup>395</sup> This would be similar to the Chinese urban and emerging rural social assistance system, which is built around the “di bao” program which provides cash benefits to the poor, and has additional provision for specially vulnerable groups such as disabled and unsupported elderly. See World Bank (2009b).

<sup>396</sup> See de Neuborg (2002) for a discussion of the strengths and weaknesses of different block and matching grant mechanisms in the context of SP programs.

Gross Budgetary Support shares between the states and central Ministries which control CSS.<sup>397</sup>

THE ABOVE APPROACH WOULD REQUIRE CLOSE CONSIDERATION OF THE POLICY DESIGN OF EXISTING PROGRAMS. The findings of this and other reports suggest that the PDS require fundamental consideration of its current design, SGSY is currently undergoing significant change under NRLM and attention to implementation than in the past is warranted, while two others warrant experimentation to see whether innovative approaches can yield better outcomes than seen to date – IAY and school stipends. The other major programs – public works and social pensions - would also benefit from policy improvements but these are more in the nature of incremental policy reform which can be expected in the normal course of program evolution. Urban programs remain small, but pre-conditions suggest that merely transferring rural SP models to urban settings will limit potential impacts, and equally that the SP system needs to explore stronger linkages with the livelihood opportunities available to the poor in urban areas.

A NUMBER OF CROSS-CUTTING ISSUES IN POLICY EVOLUTION OF THE SP SYSTEM WILL ALSO BE IMPORTANT. These include cross-program convergence and consolidation, willingness to experiment with new types of programs and modes of delivery, and more structured efforts to build understanding of the benefits of reforms and manage the political economy of the reform process. An additional challenge will be ensuring increased attention in SP policies to the needs to the urban poor. These are discussed in turn below.

FIRSTLY, CENTRAL AND STATE-LEVEL POLICYMAKERS WILL NEED TO ACCELERATE CROSS-PROGRAM CONVERGENCE AND CONSOLIDATION IN POLICY AND ADMINISTRATION TO MAKE THE SYSTEM MORE UNDERSTANDABLE TO THE POPULATION, REALIZE ECONOMIES OF SCALE IN POLICY DEVELOPMENT AND ADMINISTRATION, AND SIMPLIFY ONGOING PLANNING AND EXECUTION OF SP PROGRAMS. This will require enhanced efforts of institutional coordination within and across levels of government and administration. Both at central and state levels, there seems a need for formation of an inter-departmental Task Force for Social Protection which would promote coordination (and possibly reduce duplication) across targeted programs, and promote more coherent strategy development on the medium

term policy mix and priorities. This could in turn assist the transition from the current program-driven approach to SP to thinking in terms of a social protection system which is animated more by poverty outcomes and less in terms of scheme-based target fulfillment. Such institutional reforms have been important elements of successful SP reforms in a range of developing and developed countries.

A SECOND OVERARCHING NEED IN SUCH POLICY REORIENTATION WILL BE GREATER WILLINGNESS TO EXPERIMENT IN PROGRAM DESIGN AND BASE REFORMS ON RESULTS OF EVALUATIONS. This will require changes in two tendencies of Indian SP policy since the 1970s: firstly, what CAG has called “rechristening and revamping” of programs at the expense of genuine experimentation and innovation, and secondly a limited willingness on the part of the central government to give states (and in some cases, the sub-state level) a freer hand in adapting their policy mix among programs, by allowing flexibility in adjustment of specific programs to suit their diverse circumstances. The experience of a number of developing countries including Bangladesh in recent decades provides a positive example of the social benefits of experimentation in SP policy. Closer to home, there is growing innovation at the state level in India which demonstrates the value of such an approach, and the increased buy-in among politicians and administrators for innovations which are “home grown.”

A THIRD OVERARCHING THEME OF POLICY REFORM IS THAT “GOVERNMENT CANNOT DO IT ALONE”, AND PROGRAMS WOULD BENEFIT FROM APPROPRIATE PARTNERSHIPS WITH THE NON-GOVERNMENT SECTOR. This partnership could be in both policy formulation and the specifics of policy design. The “non-government sector” in this respect could range from communities themselves (in the form of SHGs and other forms of CBOs), to the NGO sector, to the for-profit private sector in specific programs and functions. The design of MGNREG is a promising example of such a reorientation of policy formulation and program design, with its clear roles for community and NGO actors, and willingness to bring in private sector expertise and research institutions on areas such as M&E. But there is room for much more active engagement with the commercial private sector also, including in areas such as public grain distribution,

<sup>397</sup> See Saxena (2006) for a history of central transfers for anti-poverty programs since the 1960s.

targeted credit and livelihood interventions for the poor, and low-income urban housing.

## B. IMPROVING IMPLEMENTATION OF SOCIAL PROTECTION PROGRAMS

EVEN IF THE NECESSARY REORIENTATION OF THE SP POLICY AND PROGRAM MIX CAN BE ACHIEVED, IT WILL NOT IMPROVE OUTCOMES FOR THE POOR UNLESS ACCOMPANIED BY A THOROUGH OVERHAUL OF SP PROGRAM ADMINISTRATION, INCLUDING INSTITUTIONAL ARRANGEMENTS. Whatever the evolving mix of SP policies, there will be several key elements of administration and institutional arrangements which will need to be confronted if India is to achieve the poverty reduction outcomes that its significant spending on SP warrants, including:

- ◆ ***delineating clear lines of accountability accompanied by adequate staff and finances.*** Delineating appropriate institutional responsibilities for all links of the SP service delivery chain, and aligning the division of functions with assignment of personnel and allocation of resources for program implementation will be critically important for improved implementation of SP programs. This will require first and foremost greater proactivity on the part of states to approve policies and put into practice the PRI/ULB decentralization provided for under the 73<sup>rd</sup> and 74<sup>th</sup> constitutional amendments. This would need to be followed by a process-intensive reconciliation of central guidelines, state-level stances on service delivery decentralization, and capacities at sub-state levels to perform the required implementation functions in SP programs. Achieving this goal will require coordination and gradual convergence across the many departments of government responsible presently for different programs, and commitment to strengthening implementation capacities at the lower levels of the system, in particular at the block and GP levels. It will also mean building on innovations in institutional roles to promote greater accountability among SP service providers, as exemplified by social audits in MGNREG.
- ◆ ***rapid and substantial improvements in the basic “nuts and bolts” of program administration and procedures.*** The detailed suggestions in this regard are outlined in Chapter 7. Broadly, they would involve overhauling a range of bureaucratic procedures which impede funds flow, strengthening processes for administrative and social accountability of service providers, a through modernization of program record keeping and reporting arrangements (including computerizing systems and taking advantage of India’s ICT prowess to look for “technology leap-frogging” opportunities such as introduction of smart cards and other innovations), building on improved rural banking infrastructure to overhaul payment systems, and building a strong culture of M&E. Recent reforms in RSBY and to a lesser extent MGNREG, together with a number of state-specific program pilots, provide many lessons in this area, and it is hoped that they can be systematically incorporated in other SP programs over time.
- ◆ ***overhauling existing targeting mechanisms, both at the household level and geographically.*** Any social protection system needs to be able to identify who are the poor with a reasonable degree of accuracy. Innovations already operating in India and good practice from other developing countries offer a range of options for significant improvements in targeting mechanisms. These include: (i) development of “poverty maps” at a sub-state (probably block) level which would allow more precise geographical allocation of SP funds to poor areas; (ii) overhaul of the BPL 2002 methodology in line with good practice in design of proxy means-tests (PMT) in other developing countries, including allowing for cross-state and urban/rural variations in the PMT formula; and (iii) in rural areas, continued piloting and strengthened evaluation of community-based beneficiary identification for SP programs with an eye to convergence with a reformed BPL system, and possibly – as has already happened in AP – its replacement in appropriate settings. While the new BPL methodology proposed by the Saxena Committee improves upon the 2002 system in several ways, several drawbacks of the previous method remain. Piloting the proposed methods and subjecting this methodology to the test

using NSS data as done with the 2002 BPL method would yield interesting insights into how well the new de jure targeting design would perform.

- ◆ ***in the area of social security for unorganized workers, past experience suggests that direct public provision, financing and administration is neither feasible nor desirable.*** It seems more feasible to partner with existing non-governmental entities (for-profit, NGOs, and membership - based organizations) and restrict the role of government to: (i) providing targeted subsidies; and (ii) regulating these entities and setting basic standards. This model already exists in India in several forms, such as the JBY scheme operated by LIC for life insurance, and more importantly the RSBY program. In addition, many other schemes falling into the community based or micro-insurance category could be incorporated under an umbrella program that provided matching contributions or premia but set certain standards in terms of benefit targets, eligibility conditions, investment policy and recordkeeping, among others.

SP PROGRAMS CAN BE CLASSIFIED INTO THREE MAIN PILLARS. “Protective” measures or programs, which provide relief against deprivation and shocks once they have occurred. “Promotional” measures attempt to improve incomes in the short and longer term through livelihood and human capital interventions. “Preventive” measures seek to avert deprivation by supporting the ability of households to manage different risks and shocks they may face ex ante. The main sets of programs falling into each of these categories are discussed below, together with a number of cross-cutting areas critical for program success, including financing and institutions, program administration, and targeting.

## (a) Protective programs

The programs intended primarily to protect individuals and families once risks have been realized, include PDS, social pensions and targeted housing programs. The section reviews the performance of each and identifies some program reform options.

### (i) Public Distribution System (PDS)

CLEARLY, THE DOMINANT PROGRAM AS FAR AS SAFETY NET REFORM IN INDIA IS CONCERNED IS TPDS. This is for a

range of reasons which are presented in this and other reports. Firstly, it remains easily the largest safety net program. Secondly, it has poor targeting outcomes, and in many of the poorest states appalling levels of leakage which have persisted over many years. Thirdly, the procurement system on which it relies is becoming increasingly strained in the face of gradual liberalization of agricultural markets in India, both domestically and in terms of openness to trade.

LOOKING AT RESULTS FROM THE POOR STATES IN PARTICULAR, IT IS HARD TO ARGUE THAT PDS COMES ANYWHERE NEAR ACHIEVING ITS FOOD SECURITY AND POVERTY ALLEVIATION OBJECTIVES. However, reform options for PDS have to be assessed with a clear acknowledgement of the context: technical, political economy, and possibly legal. This context is of course strongly affected by also the commitment of GoI to the Food Security Bill which would convert PDS from a scheme to a legislated right. These include:

- ◆ ***reform of PDS is inextricably linked to the public procurement system.*** While the benefits of PDS to households are spread across India, the main beneficiaries of public procurement of grains to feed the PDS are concentrated among farmers in a few states: Punjab, Haryana, some parts of Uttar Pradesh, and Andhra Pradesh to a lesser extent. Without some reform of the public procurement system – in terms of pricing policy with respect to the Minimum Support Price and the control of government in grain procurement more broadly – there will continue to be large grain stocks purchased each year which need to be drawn down.
- ◆ ***there is a large internal bureaucracy running PDS which is likely to resist fundamental reform options which would undermine their role.*** The FCI alone employs around 450,000 people in India, and SFCs a further number. This in itself is a strong lobby which is likely to resist any changes in the PDS which would imply either a potential role for the private sector in grain provision, or more fundamentally a shift in use of the PDS subsidy from food purchase and distribution to cash for poor households.
- ◆ ***despite the shift at the aggregate level from food deficit to food surplus, there are – and will continue to be – areas of the country which are periodically***

**food insecure.** This reality will continue to support arguments for a direct food security role for the state. At the same time, penetration of private food markets has increased sharply in recent years, so that the actual availability of food is there with the exceptions of some tribal and dry land areas, and market infrastructure of well-developed and sub-markets are increasingly well-integrated. Thus, even with the food crisis of recent years, in most areas the challenge is not so much availability per se as price and affordability.

- ◆ **the maturity of the PDS has naturally created social expectations that it is part of the fabric of social policy.** The results on awareness of PDS (see Chapter 7) are instructive in this respect, and the social constraints of any enforced fundamental change in PDS should not be under-estimated.
- ◆ **there may also be legal constraints on the ability of the state to withdraw from direct provision of grains through PDS.** The Supreme Court of India, in response to Public Interest Litigation take up by the People's Union for Civil Liberties in 2001 with Union of India, FCI and eventually all state governments as respondents, has clarified that Article 21 of the Constitution on the Right to Life also implies a right to live with dignity. The SC agreed that one aspect of this was a right to food, with the PDS a central plank of the right. The Court has made various orders subsequently in efforts to improve the functioning of food-based schemes.<sup>398</sup> A point of note is that the initial order from 2001 indicated that "what is of utmost importance is to see that food is provided to the aged, infirm, disabled, destitute women, destitute men who are in danger of starvation, pregnant and lactating women and destitute children, especially in cases where they or members of their family do not have sufficient funds to provide food for them".<sup>399</sup> The implications are taken up below.

IN LIGHT OF THIS CONTEXT, THREE REFORM OPTIONS ARE PRESENTED FOR PDS, WHICH COULD THEMSELVES HAVE VARIANTS BORROWING FROM THE APPROACHES DISCUSSED. Each approach is outlined below. It is stressed that none of the options assumes any necessary decrease in the

aggregate level of public spending devoted to social assistance for the poor:

- ◆ **an incremental approach to reform which would retain the current PDS model but with a host of improvements in the policy and implementation systems to increase efficiency from its often very poor state.**
- ◆ **an intermediate reform option, which would retain a food-based entitlement program but introduce private sector participation in grain procurement and delivery and a more fundamental overhaul of the PDS administration through use of smart cards.**
- ◆ **fundamental reform which allows for cash transfers instead of food-based transfers, either when the state proves itself unable to fulfill its food transfer obligations or by offering households the choice of grain or the cash equivalent of the grain subsidy.<sup>400</sup>**

THE OVERALL POSITION OF THIS REPORT IS THAT FUNDAMENTAL REFORM OPTIONS FOR PDS SHOULD BE CONSIDERED AND THAT OFFERING HOUSEHOLDS THE OPTION OF A CASH TRANSFER - WHILE RETAINING THE CORE FOOD SECURITY AND BUFFER STOCK FUNCTIONS OF FCI, AND ENSURING PDS GRAINS IN AREAS WHERE ACCESS IS A GENUINE ISSUE - IS AN ATTRACTIVE OPTION. While there is certainly potential to improve PDS performance (as is currently being done through the Ministry's nine point action plan), there remain a host of structural issues with a SP program so dependent on many intermediaries operating within such weak governance systems. In that light, the incremental approach represents a triumph of hope over experience which cannot be expected to resolve the situation of PDS in much of the country. The long term problems of PDS cannot be solved quickly or with a single prescription for all states and all time. However, offering options which allow households choices in how they benefit from the massive public subsidy of PDS could allow for flexibility, greater efficiency, and accountability for the system. While the proposed Food Security Bill will potentially have a major impact on the legally possible range of options, it is hoped that it is not too prescriptive, but leaves open approaches which would appear to have the possibility to improve the welfare of

398 A useful summary and background materials can be found at [www.righttofoodindia.org](http://www.righttofoodindia.org).

399 See Supreme Court Order, of 23<sup>rd</sup> July, 2001.

400 This option has been taken by a range of Indian commentators over the years, including most recently Kapur et al. (2008) and Panagariya (2008).

poor households. In this light, the default provided for in the consultation draft of the Bill for provision of cash where the PDS system is unable to provide adequate and decent quality grains seems sensible. The system has so clearly demonstrated its inability to do so for so long in so many places that ruling out such an option seems likely to leave many poor households with a stronger legal right but no better a real world situation.

- ◆ **introducing a range of measures to make honestly operated FPS financially viable, so that leakage is not a financial inevitability of the PDS at that level.** The measures proposed – many of which are in practice in some states - include: (i) doorstep delivery of grains to FPS at the cost of the state (currently being done in 17 states/UTs); (ii) provision of rent-free premises by panchayats for FPS operations; (iii) allowing FPS to sell non-PDS commodities which will both increase their viability and increase the likelihood of being open more days in a month. States such as Himachal Pradesh and Gujarat are already moving in this direction, which is supported by the Planning Commission in its PDS report; (iv) ensuring that FPS have a minimum catchment area and turnover of grain which allows for sufficient scale to ensure viability. The Planning Commission estimates that substantial share of FPS fail to meet this benchmark. There is an obvious challenge to enforce such a requirement in remote and inaccessible areas, which are likely to be those most reliant on FPS. One option for “squaring the circle” in this respect could be the use of mobile FPS vans such as Himachal Pradesh is already using in a number of remote districts; and (v) in line with Planning Commission suggestions, increase the margin on grains for FPS to 2 percent of the economic cost.
- ◆ **deepening ongoing reforms in management of FPS.** States – both rich and poor - are increasingly moving from FPS operated by private operators to operation by community-based institutions, including PRIs, SHGs, and cooperatives (e.g., in Tamil Nadu in 2009, almost 90 percent of FPS are run by cooperatives). This seems eminently sensible in terms of having operators who are more accountable to their communities and more

likely to operate the FPS on a regular basis. Results from the SPS surveys on safety nets are instructive in this respect. Despite kerosene distribution in PDS being notorious for being high leakage, the incidence of kerosene from PDS in Orissa is far more progressive than that of grains. A simple explanation appears to be that kerosene has been the first commodity transferred to operation by women’s SHGs in the state.<sup>401</sup> By early 2009, about 83,000 FPS (out of the 4.98 lakhs shops across the country) had been allotted to cooperatives, women’s and other SHGs, PRIs, etc.

- ◆ **decentralization of grain purchases.** This would have several possible advantages, and a number of states are increasingly exploring this option in their grain purchasing. Firstly, locally purchased grains are more likely to accord with local dietary preferences, and hence be in greater demand. Secondly, local procurement could spread the economic benefits of the procurement subsidy from the current concentration in a few states (two of which are very well-off) to farmers in all states. Thirdly, the costs of transportation and storage of grains are likely to be reduced considerably. A number of states have started to move in this direction, including lagging states such as Chhattisgarh and Orissa, though how far this can advance before hitting resistance on the supply side in traditional supply states such as Punjab and Haryana remains to be seen.
- ◆ **making options for household-level offtake from FPS more flexible.** The most obvious reform in this respect is obviously allowing, as a number of states already do, for weekly drawing of the household’s allocation. The only constraint on this is the FPS being open on a more regular basis, but that should be addressed through the management reforms outlined above. A second measure which may be more challenging from a bureaucratic perspective – but seems desirable – would be allowing BPL and/or AAY households to carry over their monthly ration from one month to another in months when they had less need for their full ration. Given seasonal fluctuations in PDS to market prices, this could imply some lumpiness. A third option would be allowing

401 See Dev et al. (2007).

households a more flexible mix of grains and other basic commodities up to the value of their ration subsidy, an approach which Gol plans to pilot in the coming year (see below).

- ◆ ***strengthening monitoring of PDS operations.*** A number of measures to increase transparency in the operations of PDS are feasible within the current framework and are indeed being implementing in several states. For instance, one element of management reform may be more direct community oversight in PDS operations, e.g., through community verification of PDS delivery quantities where they are not already operating the FPS and/or through the involvement of PRIs in vigilance committees to monitor FPS. Some states have made some progress in implementing a system of monthly certification by PRIs/vigilance committees for delivery of food grains to FPS and allocation to ration card holders on time. In addition, public display of BPL lists and of district and FPS-wise allocations of food grains for public scrutiny as proposed under the nine point action plan would improve transparency. The review of BPL/AAY lists in 14 states as part of this process has already led to the elimination of 100.51 lakh bogus/ineligible ration cards. Concurrent evaluations of PDS performance by NCAER and IIPA have been commissioned in recent years by the Department of Food and Consumer Affairs.
- ◆ ***strengthening the use of Information and Communication Technology (ICT) in the PDS at the beneficiary end in order to promote more robust identification and in reducing leakage.*** This can take a variety of forms, some – such as in Andhra Pradesh already – simple biometric identification but not fully integrated into a “smart” system, others involving bar coding and other applications. The range of options for greater ICT use in the PDS system have been exhaustively reviewed in a report for the Gol Ministry of Finance financed by the World Bank, which also conducted detailed feasibility assessments in Anand district in Gujarat and Thane district of Maharashtra in 2007.<sup>402</sup> In addition, the use of new technologies such as GPS for tracking movement of vehicles

transporting PDS commodities. Funds for piloting this technology in Chhattisgarh, Delhi and Tamil Nadu were sanctioned in 2007-08. In addition, computerization of TPDS operations have been initiated in several states.

- ◆ ***conducting an independent review of FCI's pricing structure, with an eye to reducing the economic costs of grain procurement and handling.*** It appears that FCI is inefficient in its handling of grains, and the costs of this are naturally borne by the budget and the end beneficiary. Despite this, previous reviews have not been very probing in their efforts to look at possibilities for improved efficiency in FCI. A truly independent review of their cost structure with a prior commitment by Gol to implement its findings would seem desirable (though the technical demands of “efficient” cost estimation in the face of such a dominant market position should not be under-estimated).
- ◆ ***another option is introduction of food stamps or coupons, an approach that is prevalent in Andhra Pradesh and Rajasthan, and was introduced in Bihar in 2007.*** The current food coupon approach involves coupons which are redeemable only in the FPS network, though there is no reason not to allow for a coupon which would be redeemable also in approved private food retailers (see below). Coupons may have attractions as a tracking and leakage-reduction tool if FPS owners are able to replenish their grain stock based strictly on the basis of redeemed coupons. In Andhra Pradesh, it is estimated that the introduction of coupons has reduced leakage in the PDS by up to 25 percent. The system has some obvious risks, including forgery of coupons. Another issue may be the development of a secondary market for coupons (though how much of a concern this is if poor households place more value on the cash than grains is a question). The Bihar experience with food coupons has been closely assessed through a two round survey-based assessment.<sup>403</sup> While only around 60 percent of eligible households had been provided with food coupons in the first year of implementation, access among them dramatically increased as a result of the reform,

402 See Cal2Cal (2007) for a PDS smart card feasibility study produced at request of Ministry of Finance.

403 See Vashisht et al. (2009) which analyze surveys from a pre-reform baseline and a follow-up survey just over a year after the introduction of food coupons.

rising from only 2 percent to around half of BPL households. Bar coded coupons/ration cards have been introduced under TPDS in six states.

THE ABOVE OPTIONS CAN BE CONSIDERED A MINIMALIST APPROACH TO PDS REFORM. THE OPTION OF ALLOWING GRAIN PURCHASES WITH COUPONS FROM APPROVED PRIVATE FOOD RETAILERS WOULD REPRESENT A MORE BOLD FORM OF PDS REFORM WHICH FEASIBILITY STUDIES INDICATE IS VIABLE. Some of the potential attractions of such an approach include competition between PDS and private traders (which could act as an accountability check and perhaps incentivize efficiency improvements in FCI and SFCs), greater frequency of availability in areas where FPS open irregularly, and possibly reduction in the transport and holding costs of PDS for the portion of grains purchases from private traders. The United Progressive Alliance (UPA) Government in 2007 announced plans to pilot such a reform in 20-50 districts, using coupons for beneficiaries which can be redeemed in neighborhood stores other than FPS (“kirana” stores), though there appears to have been limited progress. In addition, beneficiaries would be allowed to have a more flexible form of ration, allowing for purchase of any mix of grains, pulses or other household basics up to the value of the coupon. This reform option was also mentioned in the 2010 Economic Survey. While details remain to be worked out, the initiative seems worth pursuing and evaluating.<sup>404</sup>

A MORE TECHNICALLY ADVANCED FORM OF FOOD COUPONS COULD BE INTRODUCTION OF “SMART CARDS” IN THE PDS, WHICH COULD BE REDEEMABLE ALSO AT APPROVED PRIVATE TRADERS AND/OR FPS.<sup>405</sup> A smart card system can facilitate two key functions: individual identification and remote transaction processing/storage. Smart cards have the ability to store and record a large amount of program and authorized biometric information (signature or fingerprint image) that can be matched to the actual fingerprint or signature of individual involved in a transaction. In the context of the food ration system, the card can store information on the identity of the individual, eligibility for rations, quantity, price and time

intervals at which he/she could be supplied rations, etc. Point of Service (POS) terminals are simple machines that read the cards and have the capability of authorizing the transactions via phone lines or the internet or recording the transactions on the smart card itself.

SMART CARD SYSTEMS ARE NOT NEW TO INDIA OR TO SOUTH ASIA. Several experiments are already in operation, and the Rashtriya Swasthya Bima Yojana (RSBY) health insurance program introduced by Gol in 2008 clearly demonstrates that smart card applications are very feasible for wide scale use even in poor and low capacity settings, provided the right mix of institutional players is involved and there is rigor in standard setting and implementation (see Chapter 5). Indeed, there is discussion presently of “piggy-backing” other programs on the RSBY cards, and this is technically possible. There has already been progress with respect to MGNREG in this regard. Another notable small scale private initiative is that of Swayam Krishi Sangam (SKS) in operation in one of the poorest districts of Andhra Pradesh (in Medak). The card is being used essentially as electronic passbook to record all the transactions for micro-finance loans. Recently, Gol has provided in the 2008 and 2009 budgets funds for piloting of a smart card-based reform in Haryana and Chandigarh which would also allow access to authorized private dealers.

THE WORRYING CONDITION OF PDS AS REPORTED BY GOI, NATIONAL RESEARCHERS AND THIS REPORT, SUGGESTS HOWEVER THAT A MORE FUNDAMENTAL REFORM OF PDS IS WARRANTED WHICH WOULD INTRODUCE THE OPTION OF CASH TRANSFERS.<sup>406</sup> The following paragraphs outline two variants of a fundamental reform option for PDS: (i) switching to a cash transfer for the poor, or offering options for poor households between food and cash; and (ii) switching to a conditional cash transfer, in order to leverage improved human capital outcomes from the huge spending on PDS.<sup>407</sup> Neither option would eliminate the need for food buffer stocks, nor for the continued use of food-based transfers for specific situations (e.g., where relief aid is needed due to climactic or other disasters) or specific areas (e.g., remote or dry

404 *Times of India*, July 3, 2007, “Food coupons to end PDS mess?”; see <http://timesofindia.indiatimes.com/news/india/Food-coupons-to-end-PDS-mess/articleshow/2165884.cms>, last accessed on September 22, 2009.

405 Gol has launched its pilot of this approach in Haryana and Chandigarh. Andhra Pradesh has already gone some way in this direction by recording biometric (iris) identification of all BPL ration card holders in a central database. This allowed for significant reductions in duplicate and ghost ration card holders. See Cal2Cal (2007) for a detailed discussion of the technological options and feasibility of smart cards in PDS.

406 See, for example, Radhakrishnan and Subbarao (1997).

407 In essence, this is the strategy that Mexico followed in its transition from the so-called “tortilla subsidy” to the CCT program *Progresa* (now called *Oportunidades*).

land areas), and possibly specific population groups (e.g., those noted in the Supreme Court order above, which largely conform to the AAY category presently). Despite the ongoing debate around the Food Security bill, Indian policymakers appear to be willing to explore such options, as evidenced by the recent announcement by the Government of Delhi of a “cash for ration” pilot in one district which would provide ₹ 1,100 per month to women in poor households (an amount which would purchase around 30 kg of rice at market price as of mid-2009).<sup>408</sup> The 2010/11 Economic Survey suggests that the Gol is considering the introduction of food coupons for households with a lumpsum entitlement (rather than specific amounts for rice, wheat, sugar, etc.) that can be encashed at a PDS store of their choice.<sup>409</sup>

THE ELEMENTS OF A TRANSITION FROM A FOOD TO CASH BASED PDS COULD BE THE FOLLOWING:

- ◆ **reform would have to start at the procurement end of the system if it is to be feasible, and involve a reorientation of FCI’s functions.** This essentially involves a reduction in government controls over grain markets and procurement operations. Even in such a reformed system, FCI could still be expected to play important roles. Firstly, it could compete with private players in the market, relying on the economies of scale in operations, existing infrastructure, distribution networks and other advantages to be competitive. Secondly, and very importantly, FCI could retain a role as manager of India’s buffer stocks of grain and perhaps their distribution in situations or areas where they were needed. Finally, to the extent that specific groups or areas continued to receive PDS grains, FCI could continue to perform that distribution function in coordination with SFCs.
- ◆ **if procurement reform could be achieved, substantial resources would be freed up for use in a cash transfer program for the poor.** In essence, public funds that are now spent on the large food subsidy bill of Gol would be freed up to be used for direct cash grants to the poor. The analysis of this report shows that regular cash grants are subject to less leakage than food in nearly all cases, are far easier to administer, and are highly valued by the

poor. There is also no solid or systematic evidence from field work of the concern that cash grants are drunk or smoked by the men in recipient households, though of course that cannot be discounted as a possibility.

THERE ARE SEVERAL OBVIOUS CHALLENGES AND ISSUES IN SUCH A PROPOSAL. THEY INCLUDE:

- ◆ **likely strong resistance from the stakeholders outlined above in the discussion of political economy constraints.** This is natural. The main way of managing this risk is to have a strategy for “reinvention” of the FCI along the lines outlined, so that it becomes an active player in the new system, with important residual functions like buffer stock management, rather than simply a “loser” in the reform process.
- ◆ **resistance from FPS owner groups.** Given the existence of over 400,000 FPS owners, thought would need to be given to how to manage this risk. The first element of a strategy would be continuing transfer of FPS functions to PRI/CBOs who are not “sole purpose” organizations in the way that FPS owners would be, and hence are less likely to resist changes that may be supported by their communities. Secondly, a sub-set of FPS would continue to be needed for the continued PDS functions which would continue even in a reformed system. Thirdly, the government could as necessary support transitional livelihoods support for FPS owners who lost their businesses as a result of reform (though this has not proven necessary to date in states which have transferred FPS ownership from private individuals to community groups).
- ◆ **legal implications with respect to existing Supreme Court decisions and the proposed Food Security Bill.** This is an important issue, as any reform must be consistent with the law of the land, more so when it flows from constitutional provisions. One reading of the SC order is that Government may not be constrained if it provided sufficient cash transfers to the identified groups to allow them to purchase food. A more demanding reading suggests that a legal obligation directly to provide

<sup>408</sup> See *Hindustan Times*, August 27, 2009: Pro-poor schemes get the thumbs-up from plan panel, see <http://www.hindustantimes.com/Pro-poor-schemes-get-a-thumbs-up-from-plan-panel/H1-Article1-447365.aspx>, last accessed on September 22, 2009.

<sup>409</sup> Gol (2010).

food may apply to the groups noted. At the same time, the expansion of midday meals and Integrated Child Development Scheme (ICDS), together with the existence of other programs for the destitute such as Annapurna (and of course social pensions) goes some way towards meeting such an obligation if supplemented by a cash transfer. Clearly, however, this would need close consideration of the legal issues and their implications for a reform strategy. Another way of approaching this may be to offer households the option of grains or cash and letting them decide. This would presumably meet the state's legal obligations while offering choice to households in exercising their rights.

- ◆ ***the existence of areas where food insecurity is chronic.*** Despite the aggregate move to food surplus, there is a natural concern about ensuring food security in these areas. It may be that PDS continues in those areas until there is an assessment of the impact of transition to cash in other areas.

AGGREGATE EVIDENCE INDICATES THAT CALORIC INTAKES ARE FALLING IN INDIA, EVEN AMONG THE VERY POOR.<sup>410</sup> In light of this, moving to cash for PDS may seem counter-intuitive. However, the counter-balances to that in the above proposal would include: (i) buffer stocks remain an important part of the system, possibly with a “buffer stock plus” to allow a more generous provision for grains for emergency and special situations; (ii) the recent expansion of midday meals may for children provide a caloric floor (see below); and (iii) it is proposed that AAY continue to provide food for the poorest, as would Annapurna for a share of the elderly destitute; and (iv) ongoing efforts to improve the performance of the nutritional program under ICDS could – if effective – provide improved coverage of poor infants and pregnant/lactating women. Cumulatively, these by no means suggest a wholesale withdrawal from direct provision of food for the poor.

THE SECOND VARIANT OF A CASH-BASED REFORM OF PDS WOULD BE INTRODUCING A CONDITIONAL CASH TRANSFER (CCT) RATHER THAN A SIMPLE CASH GRANT AS OUTLINED ABOVE. The basic arguments for such an approach – and the political economy and legal constraints – are similar

to those for a simple cash grant, though conditionalizing transfers may face more legal complexities. The types of conditions that could be considered would vary according to household characteristics, but could include registration of girl births and school attendance for households with children. For other household types, conditionality may not be appropriate, especially those in the categories outlined above. The obvious attraction of a CCT approach relative to a simple cash grant would be that PDS spending could be used to leverage improved human capital outcomes, or other socially desirable goals such as better treatment of girl children. The additional challenges would include the administrative demands of operating a CCT, but the Janani Suraksha Yojana (JSY) institutional birth grant and other state-specific experience in India suggests that such demands can be dealt with.

IN LIGHT OF VARIOUS CONSTRAINTS AND GIVEN THE FUNDAMENTAL NATURE OF SUCH A REFORM, IT WOULD BE ADVISABLE TO EXPERIMENT WITH A CASH-BASED PDS, PERHAPS FOCUSING ON MORE FOOD SECURE STATES/DISTRICTS FIRST. It would also be sensible to ensure that the groups covered under the Supreme Court order continue to receive grains, possibly in addition to a cash transfer. Such a pilot would need careful monitoring and evaluation to assess impacts and ensure that food security was not compromised, but for poorer states in particular seems a more promising way of ensuring (albeit in an indirect manner) the right to food.

## *(ii) Social pensions*

THE EVIDENCE SUGGESTS THAT SOCIAL PENSIONS ARE A REASONABLY EFFECTIVE PART OF THE INDIAN SP SYSTEM, AND THEIR ENHANCEMENT IN COVERAGE AND CENTRAL FINANCING IN RECENT YEARS IS WELL DIRECTED. In light of this, the reform options for social pensions are more of an incremental nature, both in terms of relative spending/coverage priority, and in terms of improvements in current policies and implementation. The main recommendations are:

- ◆ ***there is a need in a number of states for better education of officials and other involved in social pension administration on eligibility policies.*** Field work in several states finds either partial knowledge or problematic interpretations of previous eligibility criteria on “destitution”

<sup>410</sup> See Deaton and Drèze (2009).

(now modified to BPL) and even the reforms under NSAP are likely to face some continuing problems of identifying the poor. Following a review of policy, a more thorough awareness raising and perhaps development of implementation guidelines could help improve the situation.

- ◆ **more broadly, as progress is made on expansion of social security to the unorganized sector, it will be critical for those managing social pension policy development to be involved in thinking through options for pension expansion, and the complementarities with social pensions as a possible “zero pillar” of any contributory system for the unorganized sector.**
- ◆ **central monitoring of NSAP performance should be further strengthened, despite the reliance on ACA rather than CSS financing mode.** Social pensions are one of the few major national programs for which simple consolidated reporting on various performance indicators is not available in annual reports of the Ministry of Rural Development. At a minimum, this would be desirable. A welcome recent initiative is the computerization of NSAP beneficiaries that significantly increases transparency and enables the central Ministry to monitor outcomes. States are currently in the process of moving to a full-fledged MIS for NSAP. As importantly, the central Ministry could act as a more effective conduit for sharing of good state-level experience in different aspects of policy and implementation.
- ◆ **experience suggests that the previous fund flow model of sending social pension transfers directly to DRDA level is preferable to routing through state treasuries, and that its reintroduction should be considered.** The strongest argument for this is evidence of even rich states such as Gujarat diverting social pension transfers for other purposes, something that is less likely with DRDA routing. In addition, delays in on-payment by state treasuries could be avoided with such a model. However, this potentially entails a policy decision to make the program a centrally sponsored scheme.
- ◆ **the verification process for current beneficiaries by states needs to be made regular, and a process for remedial action developed.** Presently, simple

checks such as comparison of census and beneficiary information by district is typically not done, and has proven very informative where has been done in identifying outliers on the up and downsides (e.g., in Karnataka). This would allow a more targeted process of performance audit. In addition to state departments, there may be a potential role in such an enhanced process for PRIs.

- ◆ **a review of payment systems for social pensions would be desirable in a number of states, as would a through effort to reconcile sometimes divergent local level and state level reporting on beneficiary numbers and other information.**

### (iii) Targeted housing programs

WHILE THERE ARE CLEARLY SOME SIGNIFICANT CHALLENGES IN MAKING THE TARGETING AND PERFORMANCE OF TARGETED HOUSING PROGRAMS MORE EQUITABLE AND EFFICIENT, SPECIFIC RECOMMENDATIONS ON IMPROVEMENT ARE MORE DIFFICULT TO SUGGEST. Nonetheless, some suggestions include:

- ◆ **attempt to develop and implement mechanisms in states for minimizing the significant rent-seeking that appears to be happening in IAY.** This is inherently challenging so long as benefits involve large lump sums. However, the nature of rural housing needs and behavior among the poor suggest that the program can be better adapted to needs.
- ◆ **ensure that safeguards in current guidelines are actually enforced.** The recent introduction of “permanent waiting lists” based on the BPL list and the requirement of displaying these waiting lists in a public area (e.g., the wall of the panchayat building) is the first step in increasing transparency in the program. In this respect, options such as social audits seen in the Mahatma Gandhi National Rural Employment Guarantee Scheme may offer an additional mechanism. A second obvious improvement would be to provide for direct transfers to households via the banking system or post offices. Such a reform in IAY in Bihar has been introduced recently, and field visits indicate significant reductions in leakage of funds due to the reduction in intermediation by officials in the benefit payment process.

- ◆ *conduct a detailed study on practices among the rural poor in housing improvement, to explore options for better matching scheme design with needs and practice.*

A LONGER TERM OPTION FOR TARGETED HOUSING REFORM MAY BE EXPLORING POSSIBILITIES FOR MORE MARKET-LED PROVISION OF HOUSING, PARTICULARLY IN URBAN AREAS. Experience in some metros may provide guidance here, and exploring the role of the private sector as financier and constructor but with subsidies to households seems warranted. There are a range of challenges in market-based solutions which are particularly acute for the informal and self-employed sectors of the workforce due to difficulties in credit assessment, the need to mitigate risks for lenders, and transactions costs. Nonetheless, small scale experiences of Micro Finance Institutions (MFIs) such as Swadhaar, Ujjivan and BASIX, and interest from small and medium housing finance companies indicate both interest in non-traditional market players in serving the urban poor for housing upgradation needs. Initial assessments indicate that market-based solutions may be possible for households with monthly incomes in the range of ₹ 4,500-8,000.<sup>411</sup> In addition, there is a need to integrate housing delivery under IAY into a larger process of facilitating access to safe, sustainable and adequate housing. This could include access to credit in order to meet the funding gap between the IAY subsidy and the cost of housing as well as access to environmentally sustainable technologies and building materials and services to assist people in construction.

THE MORE FUNDAMENTAL QUESTION ON HOUSING PROGRAMS FOR THE POOR IS THE EXTENT TO WHICH THEY SHOULD REMAIN AS STANDALONE CSS, OR MIGHT MORE USEFULLY BE ALLOWED FOR WITHIN AN SP (OR GENERALIZED) BLOCK GRANT SYSTEM.<sup>412</sup> The JNNURM approach of having an option within a larger program but requiring more pro-active proposal development and management on the part of local authorities in order to use central funds for low-income housing seems worth exploring in the context of IAY also. This would be more consistent with giving states/cities greater local determination in use of CSS resources. Whatever the approach, it would certainly seem that innovation is needed in the area of public subsidies for housing for the poor. It is also important to

view these programs in the context of the larger housing and habitat policy for the country.

## (b) Public works and promotional social protection programs

BOTH PUBLIC WORKS AND PROMOTIONAL SOCIAL PROTECTION PROGRAMS HAVE RECEIVED INCREASED POLITICAL AND BUDGETARY PRIORITY IN RECENT YEARS. This seems a sensible effort to get greater leverage on poverty reduction and human capital formation from the safety net. Given that significant spending on these programs, particularly MGNREG and mid-day meals, can be expected to continue, it will be increasingly important to ensure that the desired equity and public expenditure efficiency objectives are achieved. The following sections provide some recommendations in this respect.

### (i) Public works

MANY OF THE APPROPRIATE REFORMS OF PUBLIC WORKS POLICY ARE ALREADY REFLECTED IN THE GUIDELINES OF MGNREG, WHICH IN SEVERAL WAYS REPRESENTS THE MOST SERIOUS EFFORT TO DATE TO ADDRESS MANY OF THE INSTITUTIONAL AND IMPLEMENTATION PROBLEMS ENCOUNTERED IN PREVIOUS WORKS (AND INDEED SEVERAL OTHER) PROGRAMS. In many states there has been greater political and institutional commitment to trying to “make the program work”. Examining the implementation experience of MGNREG in the last four years suggests some lessons for improving the delivery of the program in states that are not doing as well as others. It also identifies some areas that warrant increasing attention as the program matures.

THE VARIABLE IMPLEMENTATION EXPERIENCE ACROSS STATES OFFERS SEVERAL VALUABLE CROSS-STATE LEARNING. One of the biggest challenges in implementing MGNREG is to match the expression of demand with the supply of worksites and employment opportunities. It is vital to address the constraints – formal and informal – on this process. At the broadest level, this goes to the heart of what a rights-based, demand-driven approach means in practice. Some states have done better at establishing systems to improve the responsiveness of supply to the demand for work. This has typically involved attention to or innovations in the following areas:

411 See Monitor Group (2007) for a useful market assessment of both demand and supply sides of low cost urban housing options.

412 A proposal along these lines has been made by Kapur et al. (2008) using IAY and SGSY funds as part of an enhanced PRI block grant.

- ◆ **Establishing the implementation structure early in the game and ensuring adequate staff with the appropriate orientation and skills.** This includes serious and sustained efforts at building capacity at all levels of the delivery process, often in partnership with the State Institute for Rural Development. Under the Act, a portion of funds are available for capacity building of those involved in MGNREG implementation, including PRIs. Using these funds effectively will be a critical element of program success over time.
- ◆ **Generating awareness of the rights and entitlements under MGNREG as the first step towards establishing a right to work.** Over time, there has been some evolution of IEC campaigns in terms of moving from the dissemination of rights to an emphasis of the need to and the means by which individuals can demand that right. It is also necessary to make communities aware of the unemployment allowance provision in the Act for the guarantee function to be credible. It is vital to deepen awareness raising efforts on MGNREG entitlements, in close collaboration with civil society and using strategies that are tailored to a largely illiterate audience.
- ◆ **Leapfrogging technical manpower constraints (e.g., the shortage of engineers at the block level) by developing detailed technical specifications of MGNREG works for different geo-climatic conditions as a preparatory stage.** This minimizes the technical input required at the block and GP level at the planning stage and while starting a worksite. This can be done without the aid of technology (e.g., as in Madhya Pradesh) or with technology as an integral part of a transactions-based Management Information System (e.g., as in Andhra Pradesh).
- ◆ **Streamlining the flow of funds in various ways so as to prevent funding delays to constrain opening of worksites or payment of wages.** For instance, some states (e.g., MP) make available advance funds (linked to the volume of MGNREG work) with GPs that makes it easier to open worksites in response to demand. In addition, some states have reduced delays in payment of wages from the GP to worker post office accounts (e.g., by placing a “float” with post offices to make wage payments while waiting for funds transfer; and

by mandating that the GP MGNREG account and accounts of MGNREG households to be in the same branch).

- ◆ **Revising the rural schedule of rates (SoRs) through detailed time and motion studies for different locales and groups to enable a “normal” worker to earn the minimum wage at MGNREG worksites.**
- ◆ **Partnering with civil society organizations to work as support agencies** on a variety of areas, including orientation and capacity building of MGNREG staff, awareness generation and mobilization among workers, promoting participatory planning of works, and enhancing accountability.
- ◆ **Emphasizing the commitment to transparency and accountability.** While the design of MGNREG contains many safeguards in terms of transparency and accountability, actual implementation on this front has been highly variable. This includes institutionalizing social accountability mechanisms, making the MIS up-to-date, and a continued emphasis on monitoring and community mobilization.

IN ADDITION, INCREASED ATTENTION BY POLICY-MAKERS AND IMPLEMENTING AGENCIES ON IMPROVING THE QUALITY AND RELEVANCE OF ASSETS CREATED UNDER MGNREG IS WARRANTED AS THE PROGRAM MATURES. This is critical if MGNREG is to have any long-term impact on the rural economy and future livelihoods. In addition, the creation of appropriate, durable and productive assets could potentially help garner the support of non-MGNREG participants for the program and a stake in improving program outcomes. There are many elements to this increased focus on the second objective of the Act:

- ◆ **Explore options for a wider range of works authorized under MGNREG to reflect variable needs and to dovetail with other programs so as to contribute towards a coherent village development plan.** The list of eligible works needs to be flexible enough to incorporate seasonality, differences in geo-climatic conditions and the needs of specific groups, particularly those not capable of hard manual labor. As experience grows, this would be worth looking at from several perspectives, some of which are currently under discussion. The first is the range of works that could be implemented in flood-prone, water-logged, heavily forested or mountainous areas. The second is the range

of possible works which could be offered to all MGNREG workers, and whether some “softer” work options – e.g., related to provision of social welfare or community services for vulnerable populations – could be introduced which have positive social externalities. The third is looking at the specific needs of sub-groups for whom special efforts may be needed to provide appropriate work, e.g., disabled people who may not be able to carry out hard physical labor. The fourth is exploring options for MGNREG to finance the labor component while the community (or other line departments) co-financing works that may not be on the approved list of MGNREG works but are part of the larger village development plan.

- ◆ ***Revitalize Gram Sabhas and institutionalize the direct involvement of communities in identification of works undertaken under MGNREG in a way that is integrated with the larger village development plan.*** This has to date been the weakest element in the chain, largely because *gram sabhas* are often not held. If the Act’s objective of empowering communities and strengthening grassroots democracy is to be achieved, it will be important to ensure that the role of *gram sabhas* anticipated under the Act is made a reality. This includes ensuring *gram sabhas* are held regularly, building the capacity of *gram sabhas* in participatory planning, community oversight and other relevant areas and the mobilization of groups such as SHGs and CBOs to have their priorities reflected through the *gram sabha* process.
- ◆ ***Establish systems for providing in-time technical inputs for asset planning and evaluation, beyond the currently mandated technical supervision during asset creation.*** This includes providing technical inputs (e.g., through village-level resource mapping to ascertain the technical feasibility of different types of works) to the *gram sabha* during the planning process and development of shelf of works. Similarly, monitoring of the quality and durability of assets created will increasingly become important. In this respect, MGNREG could draw on international experience (e.g., Bangladesh’s Food For Work program) on developing cost effective methods for estimating

rates of return on assets. In addition, the use of technology such as GIS in both planning and monitoring would be.

AN ADDITIONAL ISSUE FOR CONSIDERATION IS WHETHER ANY ELEMENT OF DIRECT HUMAN CAPITAL FORMATION CAN BE FACTORED INTO MGNREG AS IT MATURES. Presently there is no provision under MGNREG for skill formation among workers. This may be something that could be considered in due course with the view of enhancing not just current but also future livelihoods. One option to consider is the South African public works program which provides for two days training per month of work for those undertaking public works. While such an approach obviously requires a supply side agency – probably on a contracted-out basis – which can provide useful training, it seems a useful option to consider in future development of MGNREG.

A FINAL ISSUE IS THAT PUBLIC WORKS FOR THE POOR REMAIN RESTRICTED TO RURAL AREAS. Recently, policy-makers have started to discuss the possibility of designing a self-targeted public works programs for the urban poor. Such programs already exist in the works schemes of a number of developing countries such as Ethiopia, Liberia, Colombia, and some other African and Latin American countries. Drawing on the experience of these countries, for example the role of urban communities in identification of beneficiaries, planning and execution of works, and oversight, would be useful in designing an urban public works program for Indian cities and towns. In fact, one of the north eastern states is planning to introduce an employment guarantee for urban areas as a state-funded scheme. Combining such a program with vocational or technical training would enable young participants to upgrade their skills and also compete in the labor market. An example of such an approach is being developed in Kenya for youths living in urban slums.<sup>413</sup>

(ii) ***Programs to promote movement out of poverty in the short and long run***

(a) **Targeted rural credit**

THE GOVERNMENT HAS RECENTLY UNDERTAKEN A SIGNIFICANT OVERHAUL OF THE SGSY IN THE FORM OF THE NATIONAL RURAL LIVELIHOOD MISSION. The main reasons for SGSY’s

413 See del Ninno et al. (2009).

and predecessor programs' weak performance strongly suggested the need for a fundamental reform that went beyond marginal improvements. In many ways, the restructuring of the existing program into NRLM goes a long way in doing this.

THE NRLM MOVES AWAY FROM THE PRECISELY DEFINED CREDIT PROGRAM FOR THE POOR AS EXEMPLIFIED BY SGSY AND IRDP AND INSTEAD INCLUDES A RANGE OF LIVELIHOOD SUPPORT OPTIONS FOR THE POOR. This is consistent with the options in the SP block grant proposed within the "3+ block" outlined in the Executive Summary. The rationale behind such a restructuring and reorientation is necessary for a variety of reasons: (i) the nature of labor markets across and within states varies sufficiently that a "one size fits all" credit program seems increasingly inappropriate; (ii) the livelihood support needs of individual groups and poor households that go beyond credit are also diverse, and uniform CSS have failed to respond to this; (iii) the growing penetration of both commercial banks and other non-bank players such as MFIs make the challenge for the poor making them "bankable" rather than being the sole source of formal credit.

SUCH AN APPROACH WOULD REQUIRE GREATER EFFORT BY STATES TO DEVELOP STATE SPECIFIC POVERTY REDUCTION STRATEGIES FOR THE EFFECTIVE USE OF CENTRAL SUBSIDIES FOR LIVELIHOODS PROMOTION. The NRLM design gives states a fair degree of flexibility in trying different approaches to livelihood support; some further options could be explored in this regard:

- ◆ **using reputable MFIs as a channel for credit delivery where they have a presence.** MFIs have a strong interest in developing a sustained relationship with BPL clientele, and more diverse and community-based sources of information on borrowers, allowing for a more informed assessment of risk in the lending transaction. They are also more likely to enforce repayment, reducing rent-seeking opportunities seen presently, and provide appropriate support services to their members. MFIs often have savings as an integral element of their relationship with clients, so that credit provision is reinforced by savings that can act as cushions against household shocks. At the same time, a significant issue would be the relative terms of SGSY lending and those of most MFIs to their existing clientele, and such an option would demand some degree of harmonization between

MFI financial, reporting and other procedures and those of government.

- ◆ **where local labor markets are stagnant and/or migration is already significant, financing support services for poor migrant workers which would reduce some of the economic and social costs of migration, and increase its benefits.** There are already interesting small-scale examples of such initiatives, e.g., in southern Rajasthan with workers migrating to Gujarat. Some of the services that could be provided include: (i) reliable remittance mechanisms; (ii) support for children of migrating workers either in situ or in destination sites to ensure that they do not drop out of school; and (iii) provision of reliable information on labor market conditions in destination areas, probably through a contracted-out service provider contract.

#### (b) School stipends

WHILE THE EVIDENCE ON SCHOOL STIPENDS SUGGESTS THAT THEY ARE NOT AS WELL TARGETED AS MANY SAFETY NET SCHEMES, THEIR OBJECTIVE IS DISTINGUISHABLE. The position of this report is that they will continue to be an intervention worth expanding, though with serious thought about some design elements. The more pertinent concerns with school stipends seem to be two-fold: (i) in their current form, where stipends are based on enrollment and not attendance and thus with no assurance that the intended outcome is being promoted, stipends are less likely to achieve the goal of improved human capital acquisition among the poor; and (ii) stipend schemes do not provide choice for households in schooling, being linked to enrollment only in government and aided schools. This may reduce their potential welfare impacts not only for the household, but also for the education system, by increasing the marginal costs of private schooling and reducing the accountability of the public system that might otherwise be encouraged by households "voting with their feet".

THERE SEEM SOLID ARGUMENTS FOR EXPLORING WAYS IN WHICH TO MAKE STIPEND RECEIPT CONDITIONAL ON A SPECIFIED LEVEL OF ACTUAL ATTENDANCE RATHER THAN SIMPLY ENROLLMENT, WHICH IN ITSELF MAY NOT CONTRIBUTE TO HUMAN CAPITAL INVESTMENTS. The obvious challenge that such a transition would present is operating an effective system to record and verify school attendance. However, evidence from

a growing number of countries which have introduced conditional cash transfers based on a specified level of school attendance indicates a range of positive effects on attendance, and other household welfare indicators. Though several central and state-specific CCT programs exist in India, these operate more as cash transfers rather than conditional cash transfers. Key challenges in the effective implementation of these programs as CCTs include the monitoring and enforcement of the conditionality and a weak institutional framework for such cross-sectoral programs. In addition, supply-side constraints in the provision of services, particularly in rural areas, could also play a role.

THE ARGUMENTS ON INTRODUCING A DEMAND SIDE ELEMENT TO STIPENDS THROUGH EITHER EXPANSION TO PRIVATE UNAIDED SCHOOLS OR USE OF EDUCATION VOUCHERS REDEEMABLE IN PRIVATE SCHOOLS ARE MORE COMPLEX. It is probably not possible to think about any wholesale shift to systems like vouchers which would be relatively new in the Indian context, and one where international experience – particularly in developing countries – is far more limited. However, this should not preclude piloting in states where the conditions are appropriate, or perhaps in areas in selected states where the participation in private schooling by poor households is more pronounced (e.g., in urban areas where the experience of a pilot in urban Delhi was fairly positive).<sup>414</sup>

### (c) Midday meals

LIKE MGNREGA, THE MID-DAY MEALS PROGRAM IS ALSO CONCEIVED AS A UNIVERSAL RIGHT RATHER THAN A TARGETED PROGRAM. Mid-day meals are a universal entitlement for all children enrolled in government or government aided schools. With the recent expansion, midday meals have become an increasingly important part of the Indian safety net. While the national level impacts of midday meals in educational, nutritional and other dimensions remains to be understood in depth, the evidence available suggests that MDM have had positive effects

at least on enrolments. As a result, the MDM program provides an interesting example of a major demand side SP intervention which has great potential. In this context, a stronger focus on monitoring and evaluation is warranted. This requires establish systems to monitor the performance in the field with respect to inputs (such as already being done for example for school infrastructure for providing meals), outputs (besides administrative data on children availing of MDM) and outcomes. The latter requires conducting more widely representative studies on the various impacts of midday meals, in particular nutritional impacts. In addition, while several concerns on coverage and implementation have been addressed through the recent expansion and revised guidelines, more can be done to reduce the variability in performance across states.

### (c) Preventative measures: Closing the coverage gap in social security

IN ADDITION TO SOCIAL ASSISTANCE PROGRAMS AIMED AT ALLEVIATING EXISTING POVERTY, MANY SOCIAL PROTECTION SYSTEMS INSURE AGAINST A RANGE OF SHOCKS THAT CAN OFTEN LEAD TO POVERTY.<sup>415</sup> These social security schemes generally include provisions for old age, disability and death of the breadwinner under the umbrella term, pensions.<sup>416</sup> Many countries have also tied health insurance coverage to membership in social security schemes which require contributions or premia while others have opted for general revenue financing.<sup>417</sup> This section is about the schemes that operate in India today for both organized and unorganised sector workers. In addition, based on recent experience, it outlines thinking about how to expand pension and health insurance coverage to the vast majority of India's unorganized labor force. Closing the "coverage gap" is an important policy objective in India and many developing countries.<sup>418</sup>

INDIA'S UNORGANIZED LABOR FORCE IS VAST AND HETEROGENEOUS AND THIS REALITY MUST BE TAKEN INTO

414 CMS Social (2009). See also Shah and Braun-Munzinger (2006) for a critical review of the experience of eleven countries with education vouchers, with a discussion of lessons for India.

415 Other important sources of income protection such as crop and livestock insurance are not typically covered by social insurance programs, but are critical in terms of protection against covariate shocks in the rural sector in countries like India. It is also worth noting that lumpy expenditures for weddings are also important in the Indian context.

416 Unemployment and cash benefits for maternity (as opposed to medical insurance) are often covered by government sponsored social insurance schemes. There are moral hazard problems in both cases, especially with regard to unemployment. Moreover, the definition and monitoring of unemployment for unorganised sector workers is difficult to administer. ESIS offers an unemployment benefit.

417 See Wagstaff (2007) for a summary of the ongoing debate between these models.

418 For a detailed discussion of extension of social insurance coverage in the context of pensions, see Holzmann, Robalino and Takayama (2009).

ACCOUNT IN ANY ATTEMPT TO EXTEND COVERAGE OF SOCIAL SECURITY PROGRAMS. One important distinction is between households that are either too poor to contribute or have already experienced the shocks that could otherwise be insured through contributory schemes. In these cases, social assistance i.e., cash transfers on a means-tested basis are the appropriate intervention. These programs are dealt with in Chapter 3. At the same time, a large proportion of households would benefit from ex ante interventions that allowed for risk pooling and were made more affordable through direct subsidies. Among these households, a subset is already participating in a number of uncoordinated attempts – mostly through group arrangements – to provide protection against a range of life-cycle risks. Some are sponsored by government, such as welfare funds while others are NGO-based initiatives that often involve microinsurance.

THE LESSONS FROM SOME OF THE SCHEMES THAT ALREADY EXIST IN INDIA SHOULD BE DISTILLED AND APPLIED IN THE PROCESS OF ADOPTING A NEW NATIONAL POLICY FOR EXTENDING SOCIAL PROTECTION COVERAGE. These experiences could provide policymakers with information ranging from the factors affecting voluntary participation to data that could help with actuarial calculations of cost.<sup>419</sup> Implementation lessons might include estimates of the costs of specific transactions, such as processing a claim or issuing a statement and the potential savings from the scale economies usually found in administration and recordkeeping operations. Comparing notes across existing schemes might yield useful information about how to efficiently use technology or how to set up processes to certify eligibility and verify claims. In some cases, there may be evidence that supports government action through better regulation or direct provision of public goods. The case of unique identifiers, already mentioned, is likely to be one such case.

MANY OF THE EXISTING SCHEMES USE A FORM OF THE PARTNER-AGENT MODEL AND THIS APPROACH HAS SEVERAL

ADVANTAGES OVER THE ALTERNATIVE, THE CREATION OF A NEW LAYER OF GOVERNMENT BUREAUCRACY WITH POTENTIALLY LAKHS OF EMPLOYEES. In particular, the PA model has become increasingly relevant in India in recent years as financial sector reforms have resulted in competitive markets for insurance and asset management and have led to the creation of specialized regulatory institutions. This favorable situation should be exploited in order to reduce costs and preempt the problems observed with monopoly, quasi-state entities that cover formal sector workers. The key question is whether this 'bottom up' approach can be successfully scaled up with government support. Answering this question could begin with a series of meetings that could bring together potential group participants (SHGs, MFIs, coops etc.), insurance companies, asset managers, regulators, government ministries and researchers.

INITIALLY TARGETING EXISTING GROUPS SUCH AS SHGS AND MFIS IS RECOMMENDED FOR SEVERAL REASONS INCLUDING FOR REDUCING TRANSACTION COSTS, ACHIEVING EFFECTIVE RISK POOLING<sup>420</sup> AND ENSURING A MINIMUM CRITICAL MASS OF VOLUNTARY TAKE-UP IN THE EARLY STAGES OF THE PROGRAM. However, there are tradeoffs involved in such a strategy. First, while the number of such groups has been increasing rapidly in recent years, coverage is still relatively low and regionally concentrated (predominantly in the Southern states).<sup>421</sup> Second, any subsidies involved in such a scheme should not be expected to mainly reach the very poorest households. Various studies have shown that membership in groups tends to be concentrated in the second and third quintiles rather than the bottom quintile.<sup>422</sup> As mentioned above, for many of these households, the condition that would have been insured already exists (e.g., life insurance for widows). In these cases, ex-post transfers in the form of social pensions seem the appropriate policy response.

AT LEAST THREE MEASURES ARE REQUIRED IF THESE INITIATIVES ARE TO BE SUCCESSFULLY SCALED UP.

419 Unorganised sector workers and subsets therein will exhibit mortality and morbidity patterns that may differ greatly from the typical clientele of insurance companies. For example, the life tables used by LIC are based on annuitants most of whom are higher income individuals with much lower mortality rates than the general population. A database that systematically collected this information could be used to produce actuarial tables that would serve as a benchmark for assessing costs when designing the scheme as well as supervising providers once the scheme was operational.

420 These groups are, for example, in a much better position to ensure that all members participate in a health insurance scheme, reducing adverse selection problems.

421 As Ghate (2006) reports however, the growth in the number of SHGs linked with banks has increased dramatically and regional disparities are shrinking somewhat.

422 See for example, Basu and Srivastava (2005) for the relationship between income level and membership in SHGs in Andhra Pradesh. In the same vein, Ghate (2006) concludes that "Microfinance is best suited to reach the economically active poor, which may exclude some in the lowest decile or two of the population that suffer from old age, ill health or disability."

- ◆ **first, in order to take advantage of economies of scale, to ensure portability and to facilitate supervision, some common standards would have to be developed, particularly in the area of recordkeeping.** A good example is a universal standard for identification of covered workers that, in itself, would be a public good with many other uses. Another is a ratings system for SHGs and other groups based on objective criteria.
- ◆ **second, appropriate contribution and insurance premia would be calculated based on rigorous actuarial calculations that were adjusted over time to reflect experience.** This would help ensure that unfunded liabilities (for example, those that arise when guarantees are offered) did not arise and compromise financial sustainability. It would also make any subsidy involved explicit and transparent.
- ◆ **direct government subsidy is the third element of successful coverage expansion.** In order to encourage voluntary take up among low income segments of the unorganised labor force, the required premia and contributions would have to be subsidized. This subsidy would have to be set at a realistic level given budget constraints.<sup>423</sup>

FISCAL CONSTRAINTS, ALONG WITH THE NEED TO KEEP TRANSACTION COSTS LOW AND TO ESTABLISH THE CREDIBILITY OF THE NEW PROGRAM, ALL SUGGEST THAT THE NEW PROGRAMS BE PHASED IN CAREFULLY AND GRADUALLY. This kind of sequencing will inevitably imply tradeoffs. For example, as experience in India already shows, it is easier to implement cash-based benefits covering risks such as death and old age than it is to provide health insurance due to supply side constraints and the complexities of monitoring providers. Add to this the problems of adverse selection and moral hazard and it becomes clear that health insurance is much more difficult to design and implement than pensions. Yet, medical care is likely to be a greater priority for most unorganised sector workers and the members of the households that

depend on them for income.<sup>424</sup> Nevertheless, extending coverage for other risks in a shorter time frame could prevent millions of households from falling into poverty in the meantime.

ACHIEVING WIDESPREAD COVERAGE IN AN EFFECTIVE MANNER IS NOT POSSIBLE WITHOUT THE DEVELOPMENT OF INFORMATION SYSTEMS THAT ALLOW THE GOI TO TRACK MEMBERS OF THESE PROGRAMS AND THE FINANCIAL FLOWS (CONTRIBUTIONS, PREMIA AND BENEFITS) EFFICIENTLY. Innovative use of technology may be part of the answer, but in order to keep costs down, existing infrastructure such as post offices and banks will have to be harnessed. In addition, and especially during the first phase of implementation, the recordkeeping that already exists for groups such as SHGs and MFIs should be utilized and, where necessary, upgraded so that it is possible to 'plug in' large numbers of participants in a cost effective manner. Both governmental and external assistance could be made available to groups willing to participate and meeting recordkeeping standards (including compliance with the unique ID system) should be a condition for receipt of subsidies. A centrally managed recordkeeping system is one option, but common standards that allow supervision entities to monitor effectively are a minimum prerequisite. The time and resources required to design and construct a national system of this kind should not be underestimated but getting the implementation machinery right at the beginning will avoid bigger problems down the line. At the same time, India is a world leader in MIS applications so that state of the art solutions are possible if policymakers accord the issue the importance it merits.

FINALLY, ALTHOUGH NOT MENTIONED ABOVE, THERE ARE MANY DISPARATE AND DISCONNECTED INITIATIVES IN PROGRESS BY CENTRAL AND STATE GOVERNMENTS IN INDIA THAT SHOULD BE BROUGHT UNDER A CONSOLIDATED NATIONAL POLICY FRAMEWORK. The passage of the Social Security Act at the end of 2008 is a positive step towards establishing such a framework. It now requires implementation. The Social Security Board envisioned under this act can serve

<sup>423</sup> The GOI already subsidizes members of the EPFO with an annual contribution of 1.16 percent of the covered wage bill. In addition, favorable tax treatment of superannuation products and the Personal Provident Fund (PPF), a medium term savings instrument, results in tax expenditures of an unknown amount that mostly accrue to higher income workers who pay income tax. It could be argued that a matching subsidy of the kind described here would be both more progressive than and have a more positive impact from a public policy perspective than existing subsidies.

<sup>424</sup> Interestingly, some surveys, (e.g., Madheswaran et al. 2005a) show that unorganised sector workers rate old age pensions higher than insurance for sickness or health. However, the data on actual shocks experienced suggest that health shocks are more important to most households, at least on a short term basis. Furthermore, there is evidence that many workers do not value the benefit of health insurance if they do not make a claim and consider the premium 'lost'. Pensions, on the other hand, are deferred income that, at least in principle, will eventually be received (at least by a survivor in case of death).

as a coordinating body bringing various efforts under one umbrella, spell out a national policy complete with target benefit levels, costing, subsidy and strategy for phased implementation. In light of the importance of implementation issues and, especially recordkeeping, a special advisory group to make recommendations on these aspects with the best available technical support from public - private sector partners in India could be formed.

## (d) Financing and institutions for social protection

LIKE OTHER PUBLIC INTERVENTIONS, EFFECTIVE SOCIAL PROTECTION SYSTEMS RELY ON A MUTUALLY SUPPORTIVE WEB OF APPROPRIATE POLICIES, CAPABLE AND EMPOWERED INSTITUTIONS FOR IMPLEMENTATION, AND TRANSPARENT AND ADEQUATE FINANCING. This section provides an overview of financing and institutional aspects of SP programs, key determinants of SP system effectiveness in India. It first explores financing sources, mechanisms, and patterns in recent years for the major centrally sponsored schemes of social protection, before examining the rapidly evolving institutional framework for SP program delivery.

IT IS CLEAR THAT SOCIAL PROTECTION IS IN AN EXCITING PHASE IN TERMS OF POLICY EVOLUTION, FINANCING LEVELS, AND INSTITUTIONAL ARRANGEMENTS. At the same time, the situation presents an unfinished agenda which in some ways lacks a coherent vision for the system which is informed by the socio-economic developments outlined in Chapter 1, and institutional capacities. Looking at the financial and institutional aspects of SP programs covered in this chapter, some conclusions and recommendations are as follows:

### (i) Financing of SP programs

BROADLY SPEAKING, INDIA'S SHARE OF PUBLIC SPENDING ON SAFETY NETS IS REASONABLE, AND INDEED QUITE HIGH AS A SHARE OF GDP BY INTERNATIONAL STANDARDS OF LOW AND MIDDLE INCOME COUNTRIES. Its main challenges are therefore fourfold:

- ◆ adjusting the composition to spending to greater emphasis over time on ex ante risk mitigation (i.e., social insurance programs for the unorganized sector) and promotional programs (including those linked to human capital formation, discussed in Chapter 4).
- ◆ increasing the flexibility of funding from the centre to states in terms of how it can be used for different SP interventions, while strengthening the emphasis on spending outcomes.
- ◆ deepening a range of administrative and institutional reforms in SP service delivery which can contribute to greater expenditure efficiency. Many of the operational reforms are discussed in Chapter 7.

THE NOTABLE EXCEPTION IS THE AREA OF SOCIAL INSURANCE, WHERE THE SHARE OF PUBLIC SPENDING CAN BE EXPECTED TO INCREASE NOTABLY AS INDIA ENTERS MIDDLE INCOME STATUS, AND WHERE THE IMBALANCE BETWEEN SOCIAL SECURITY SPENDING ON THE ORGANIZED AND UNORGANIZED SECTORS WOULD BE EXPECTED TO SHIFT IN FAVOUR OF THE LATTER. In the medium term, international experience and social expectations in India would suggest significantly increased spending on social insurance for the large uncovered share of workers. It will be important that this increased expenditure priority not be at the expense of social safety net spending, but rather is financed from a combination of reallocation from non-merit spending, growth in aggregate fiscal resources, and contributions from workers themselves. In practice, expanding social security to the unorganized sector is likely to require not-insignificant public subsidies to incentivize participation, as one sees for example with RSBY and certain pension schemes.<sup>425</sup> In addition, effective social insurance programs can in part be expected to be self-financing in two ways: (i) they should help control additional demands on the safety net that might otherwise arise due to factors such as population ageing; and (ii) international evidence suggests that effective social security systems can actually contribute to growth in a variety of ways, from enabling higher risk/higher return productive activities to cushioning the impacts of growth-enhancing reforms for those who lose out from them in the short run.<sup>426</sup>

<sup>425</sup> For international experience on matching subsidies to incentivize participation in pension programs for informal sector workers, see Holzmann et al. (2009).

<sup>426</sup> See WDR, (2006), for a discussion of international evidence that there is no necessary growth-equity trade-off.

THERE ARE PROS AND CONS OF DIFFERENT POSSIBLE METHODS OF MORE FLEXIBLE CENTRAL FUNDING FOR SP PROGRAMS. Firstly, there would be natural reluctance from central Ministries to simply transferring SP CSS resources to Normal or even Additional Central Assistance, as evidenced by the failure to transfer several CSS to states as per the 1999 Planning Commission list of schemes. More specifically, as Normal Central Assistance is based on population and poverty under the Gadgil formula and not on performance, incentives for states to improve performance on specific SP programs would be relatively weak. For Additional Central Assistance, there are examples of linking transfers to state reform performance, such as JNNURM. However, these requirements have not been strongly enforced in practice. There is also no obvious mechanism for the Planning Commission to monitor performance of specific CSS under NCA, and for ACA only where responsibility is given to a central Ministry.

OVERALL, AN IMPROVED TRANSFER SYSTEM FOR SP CSS WOULD NEED TO BALANCE NEED, CAPACITY AND FISCAL AND ADMINISTRATIVE EFFORT OF STATES. This could involve several elements, including:

- ◆ *a first step towards such a system would be moving to towards a more outcome based funding method.* Such an approach would, however, require a clearer set of outcome indicators against which state performance could be measured, and a stronger planning function at state and district levels. This approach is one that is already being used in India in some donor programs which are results or outcome-based.
- ◆ *a second step in such a process may be allowing for sanctioning of allocations for states which stretch across two to three budget years,* which could lessen current incentives to spend SP allocations inefficiently (or simply parking them in accounts), and also assist with programs which are subject to cyclical demand – such as public works – which is not presently synchronized with the budget planning and release cycle.
- ◆ *a third step could be the block grant for SP programs outlined above.*
- ◆ *an alternative approach which could be implemented even in the absence of more serious financing reforms is the creation of an incentive*

*fund for states for SP programs.* An SP incentive fund could either be stand-alone or a window of broader proposal for a decentralization incentive fund. Alternatively, a central innovation fund for social protection could be created which could allow states to access central funds on a proposal-driven basis for innovations in SP program delivery, or experimentation with new initiatives.

## (ii) *Institutional roles for SP programs*

THE MOST FUNDAMENTAL INSTITUTIONAL CHALLENGES IN SP CSS CONTINUE TO BE DELINEATING CLEAR LINES OF ACCOUNTABILITY IN SERVICE DELIVERY, AND SUPPORTING THE AUTHORIZED ACTORS WITH ADEQUATE STAFF AND FINANCES. This will require first and foremost greater proactivity on the part of states to approve policies and put into practice the PRI/ULB decentralization provided for under the 73<sup>rd</sup> and 74<sup>th</sup> constitutional amendments. With notable exception of Kerala, and incomplete examples such as Rajasthan and Karnataka, most states have yet to define the framework for decentralized service delivery in a sufficiently operational manner.

THIS WOULD NEED TO BE FOLLOWED BY A PROCESS-INTENSIVE RECONCILIATION OF CENTRAL GUIDELINES, STATE-LEVEL STANCES ON SERVICE DELIVERY DECENTRALIZATION, AND CAPACITIES AT SUB-STATE LEVELS TO PERFORM THE REQUIRED IMPLEMENTATION FUNCTIONS IN SP PROGRAMS. This is not a process which will generate a single “right” answer on the assignment of activities to different actors at different levels of the system. What it could usefully achieve however is a more considered assessment by both centre and states of what is the chain of activities from top to bottom required to deliver effective SP programs, and of the realistic potential of different actors to deliver on their proposed responsibilities. This could in time improve the alignment of functions, funds and functionaries in SP programs. Such efforts would need to focus in particular on elements of the service delivery chain at block level and below. The process could involve several steps:

- ◆ *“unbundling” each core SP CSS to its constituent functions or services and specific activities in different programs, as has been done for the MGNREG and RSBY guidelines.* While implicit in guidelines of some other schemes, such a simple exercise would be a useful building block for a principled division of functions across levels.

- ◆ **for all states, producing a consolidated mapping of the current assignment of sectors and SP program-specific functions, both de jure and de facto.** This exercise would clearly identify cases where concurrent responsibilities arise for programs where DRDAs and/or PRIs have specific responsibilities assigned to them under CSS guidelines. Where such concurrent responsibilities are apparent, further dialogue between the states and centre would be needed to agree whether CSS guidelines need to provide more flexibility to states on institutional arrangements for programs, or whether states need to be encouraged to move more actively on state-specific assignments which are consistent with CSS programs (with Kerala providing a good example of such a proactive role by states). Such discussions could be guided by both public finance criteria for assigning responsibilities, and basic management principles for enhancing accountability.<sup>427</sup> Both of these are discussed in Chapters 6 and 7.
- ◆ **having determined an appropriate assignment of functions to different levels, a fuller assessment is needed of the personnel and financial implications of carrying out required functions.** Where enhanced personnel capacity is needed, this would then need – as is the case with MGNREG – to include the financing of needs in program costing, and the capacity building requirements at different levels.
- ◆ **gradually institutionalizing roles for communities in both selected elements of CSS delivery, and in community oversight of program functioning.** Again, the model of MGNREG provides a useful precedent. This is also likely to involve partnerships with NGOs to build local capacity for effective social audit, and the more general obligations of the state for disclosure of program information, as has proved effective for example in Rajasthan. The RSBY scheme also provides useful precedents on the role of NGOs and other grassroots organizations in SP service delivery and demand side mobilization.
- ◆ **taking lessons from the emerging experience in India and beyond in public-private partnerships**

**in different aspects of SP service delivery.** Increasingly, the private sector has been playing different roles in the Sp service delivery chain. RSBY is the most advanced example, with involvement of private insurers, private hospitals, private sector smart card providers and outsourced software development, as well as roles for grassroots organizations noted above. However, many other programs – particularly at state level – have been experimenting with outsourcing of different functions. In some cases, this involves partnerships on technology, such as the role of TCS in managing MGNREG databases in AP, or smart card provision by commercial firms in a number of pilots. In others, there is a more involved role for the private sector, such as in Bihar where rural informatics service centres for RD programs at block level have been assigned following a tender process, in which for-profit and not-for-profit organizations operate the information and database management of RD programs on behalf of the state Government.

IN ADDITION TO THE ABOVE NEEDS ON INSTITUTIONAL ROLES, SPECIFIC SUGGESTIONS INCLUDE:

- ◆ **at both central and state levels, formation of an inter-departmental Task Force or Authority for Social Protection,** which would promote coordination across programs targeted towards similar populations, and promote more coherent strategy development on the medium term policy mix and priorities in social protection. The cases of Mission Convergence in Delhi and the Safety Nets Authority in UP provide interesting models, which could be adapted by other states.
- ◆ **for program planning, several initiatives would be useful,** including: (i) earlier notification to states and DRDAs of estimated funding envelopes for programs for the following fiscal year in order to facilitate lower level planning and budget management; and (ii) ensure that states which have not already done so appoint District Planning Committees, and ensure adequate financing for technical support to DPCs.

<sup>427</sup> See also the recommendations of the Empowered Sub-Committee of the National Development Council (NDC) on Financial and Administrative Empowerment of the PRIs July 2008.

- ◆ *as social security expands, the role of the private sector (as insurers) and a range of member-based organizations such as MFIs, NGOs and workers associations is already becoming increasingly important, and demands new modes of engagement and partnership form the public sector.* The biggest constraint on expanding social security to the unorganized sector has been developing delivery mechanisms which can deal with the transactions costs of reaching unorganized workers. This requires intensive engagement with intermediary partners between government/insurers and unorganized workers, as well as learning from efficient insurance distribution channels of public and private insurers. The RSBY provides an excellent model of partnership, as do more localized initiatives such as UTI partnerships with both state governments and organizations such as SEWA, and the roles of trade unions and employer organizations in some of the welfare funds around the country.
- ◆ *for M&E, develop a disaggregated picture of potential and capacities at different levels of the system for monitoring and evaluation, and align program guidelines in that light.* The proposal to establish a national Independent Evaluation Office is a welcome step with respect to M&E.

## (e) Program administration in social protection

WITH A MYRIAD OF PROGRAMS AND PLANS TO INTRODUCE NEW SCHEMES, EXPAND COVERAGE AND CONSOLIDATE EXISTING SCHEMES, IT IS AN IMPORTANT TIME TO ASSESS RELEVANT EXPERIENCES AND IDENTIFY BOTH GOOD AND BAD ADMINISTRATIVE PRACTICES. While India may not have the advantage of other countries of running a well-organized centralized machinery of administration of public benefits, some strategic priorities could be defined to achieve better benefit delivery and transparent operation. In particular, policies seeking harmonization, portability, and transparency in benefit provisions, and otherwise ensuring minimum operational standards, should be designed, endorsed, and promoted. Capacity to regulate and supervise various benefit providers and their intermediaries

should be gradually built. Furthermore, a firm stand could be taken on the policy of registration and tracking of beneficiaries of the public programs. From the discussion above, and from the insights of many Gol and independent studies on program performance of CSS SP programs, some more specific recommendations emerge:

### (i) *On awareness and outreach*

WHILE PROGRAM AWARENESS AND OUTREACH IS AN INHERENTLY DIFFICULT PROCESS IN A COUNTRY OF INDIA'S SIZE AND DIVERSITY, EXPERIENCE FROM STATES AND FOR SPECIFIC PROGRAMS SUCH AS MGNREG INDICATES THAT MUCH CAN BE DONE IF THERE IS SUFFICIENT WILL. An improved awareness and outreach strategy would likely involve several elements:

- ◆ *developing a better picture of what are the key information sources of the poor on public programs, including what types of information they get from which channels.* The limited survey information indicates that typical government media campaigns, web-based information, and information from administrative officials are not the channels through which the poor find out about programs.
- ◆ *providing in SP program budgets for sustained awareness raising by third parties where possible.* Field work for this report indicates that program awareness dissemination is not a one-time activity, but a product of repeat contacts and local sources of reliable information. This tends not to be the approach of most IEC campaigns for SP programs.
- ◆ *developing a more diverse range of IEC strategies for program awareness raising.* This would involve not only a more diverse range of actors as tools of information dissemination (including NGOs, SHGs, youth groups, social and religious leaders), but also a more diverse set of information tools (including visual media suitable for non-literate audiences, television and radio campaigns which more creatively engage audiences rather than simply presenting program guidelines, use of community, etc.).
- ◆ *deepening the use of social audits not only as a tool for program monitoring, but as a source of program information dissemination.*

## (ii) *On the applications process*

- ◆ *review program eligibility criteria on several key programs with a view to simplification of eligibility proof and understanding of the public.* One aspect of this would be exploring avenues for reliable third party verification of certain facts where documentary evidence is not available or costly to gather.
- ◆ *proactive exploration of how SP programs can reduce transactions costs of program application through linking to the range of ICT initiatives such as rural business kiosks and other village-level connectivity initiatives.* The emerging examples in other contexts such as spreading availability of land records through rural E-kiosks (e.g., Bhoomi in Karnataka) and availability of market information (e.g., ITC's E-chaupal initiative) suggest that concerted effort between SP departments and their ICT department colleagues could pave the way for a major contribution to simplification of program applications, and significant cost reductions for applicant households (not to mention lower opportunities for undesirable middlemen).
- ◆ *encourage – if necessary with public subsidy on a contracting-out basis – NGO, SHG and other CBO intermediation to facilitate program applications, and increase the use of camp approaches to registration by the administration itself.* Given that the culture of reliance on middlemen is so prevalent, it seems sensible to encourage the efforts of middlemen (or more likely “middlewomen”) who are more likely to have the interests of the applicant at stake.
- ◆ *in terms of program oversight, it seems sensible to target IAY and SGSY for particular scrutiny, including use of social audits.*
- ◆ *share the experiences of states which are piloting biometric and other ICT advances to reduce fraud and human error in the beneficiary recording process.*

## (iii) *Financial management*

- ◆ *some of the needed improvements are in the domain of states, and they will need to follow the lead of recent reformers in areas like public expenditure management rules and expansion*

*of ICT in release and tracking of funds.* They will also need to facilitate sustained FM capacity development in PRIs if the intentions of decentralization of SP programs are to be realized. This will also require in most states a more elaborated financial accountability framework for PRIs and sub-state implementation agents.

- ◆ *other reforms – such as accounting for SP CSS resources as “spent” when they have not been and application of accrual accounting – will require coordinated efforts of the centre and states on reporting processes that require reliable information on physical and other outcomes of “spending”.* The example of MGNREG reporting in some states provides a good model which should be institutionalized. A first step in coordinated effort between the centre and states could be clear agreement on the necessary skills needed for FM at different levels of the system for SP programs (and more broadly), and agreement on action plans for ensuring adequate skills.
- ◆ *as part of strengthening the accounting and financial reporting framework, it will be increasingly important in SP CSS which route through DRDAs to develop standard financial reporting rules for societies, which would subsequently be reflected in the GFRs for Gol and the states.* This work would most sensibly be led by CAG and ICAI.
- ◆ *address the backlog in external audits of SP CSS, and a more competitive process of selection of third party accountants responsible for auditing societies.* All Ministries implementing SP CSS should also post the findings and actions taken on audits on websites.
- ◆ *equally – and more challenging in terms of bureaucratic culture – there is a strong need to deepen the uses to which financial information on programs is put, and hence to move away from the simple input/output culture of financial reporting which prevails in most CSS.*
- ◆ *finally, the positive development of increased citizen accountability for SP funds use seen in MGNREG should be institutionalized over time in all SP programs, with basic initiatives like posting of all program releases and uses, greater*

reliance on social audits, and posting of beneficiary lists and program rules in plain language. A number of these are natural corollaries of the Right to Information Act, but their full potential remains to be exploited in most states of India to date.

#### (iv) *Payment systems and record keeping*

REFORMS OF PAYMENT SYSTEMS CAN TAKE A RANGE OF FORMS, BOTH TECHNOLOGY-BASED, AND WHERE THAT IS NOT POSSIBLE, WITH COMMUNITY MONITORING OF PAYMENTS. Some of technological the options include:

- ◆ low cost ATMs developed at a fraction of cost of the conventional machines, equipped with finger print identification and long-life batteries, can facilitate cash distribution in remote areas.
- ◆ point-of-service (POS) devices installed in local shops and gas stations can use regular telephone lines to process on-line cash disbursement transactions, or – in the case of PDS – facilities for debiting the monthly ration.
- ◆ special mobile branches could make conventional banking more accessible, enabling regular and schedules visits in the remote communities.
- ◆ finally, mobile phone banking is an emerging phenomenon that utilizes comprehensive penetration of the new communication networks.

MORE GENERALLY, COST RECOVERY MECHANISMS OF DIFFERENT OPERATIONAL ALTERNATIVES TO THE CONVENTIONAL MODELS OF SERVICE PROVISION SHOULD BE FURTHER STUDIED. While some models are quite promising, their financial viability as localized stand-alone solutions remains a concern. Clever solutions may simply need to be scaled up in order to reach the break-even point of economic operation. Furthermore, strategies enabling synergies across multiple programs should be further explored. For example, while the smart card technology may be a costly solution if utilized only by a single benefit program<sup>428</sup>, using it as a common platform for multiple products (e.g., various benefit and insurance schemes) may well help to make its application a sound economic proposition.

428 The marginal cost of one smart card issued in India is quoted as being in the \$2-\$3 range.

WITH RESPECT TO RECORD KEEPING, THE EXPERIENCES OF MORE PROGRESSIVE STATES SUCH AS KARNATAKA OFFER LESSONS FOR OTHERS. Some of the issues for attention include:

- ◆ training (and subsequent monitoring and enforcement of compliance) for GPs and blocks in maintaining appropriate registers of beneficiaries. As one of the challenges in this work will be capacity constraints at both levels, it could be useful to explore options for supplementing this in non-costly ways, such as providing skilled workers from MGNREG as temporary assistants to the gram sevak.
  - ◆ at the state and district level, development of simple verification exercises which will allow program oversight to focus on high-risk areas. Even available monitoring data often throws up obvious anomalies, but is typically not used for this purpose.
  - ◆ at central and state levels, improve cross-departmental coordination on a range of record keeping issues, starting with a strategy for convergence of beneficiary identification numbers. Even where systems remain parallel for the short to medium term, Collectors and BDOs should encourage greater cross-program information exchange for programs with common elements such as being food-based or child-focused.
  - ◆ as a condition of CSS receipts, the centre could insist that a computerization strategy and roll-out plan for SP programs be developed, including a training plan. This seems a bare minimum for movement towards a modern system of record keeping.
  - ◆ encourage states to be more proactive in exploring outsourcing possibilities on development of program record-keeping software. India offers a particularly promising environment for such efforts, though there would remain an important role for the central government in ensuring consistency in basic design features, and thus comparability of data from different states.
- #### (v) *Monitoring and evaluation*
- ◆ ensure that any major SP program has a pre-program baseline done, and that impact

evaluations also include control areas where feasible.

- ◆ explore replicating the model of MGNREG with provision for more robust research and evaluation financed from the program budget.
- ◆ on monitoring: (i) review the current set of monitoring indicators for major programs to assess their utility and gaps in key program indicators; (ii) if necessary on a contracted-out basis or under special units (e.g., as Orissa has developed under its Poverty Monitoring Agency), conduct regular basic analysis of consolidated program monitoring information at state and central levels; and (iii) explores institutional mechanisms in states and at the centre to use the analysis of such units for annual review of program performance and policy implications.
- ◆ building on the social audit experience in some states, mainstream social audits as a standard practice in all SP programs. While the experience is relatively new on any scale, social audits seem a useful tool for increasing community knowledge of programs and providing a vehicle for redress where needed. However, in the absence of an authorizing environment in program guidelines (such as under MGNREG), the potential of social audits will remain limited.

## (f) Targeting mechanisms

THE ANALYSIS IN THE REPORT SUGGESTS THERE IS MAJOR SCOPE TO IMPROVE TARGETING SYSTEMS FOR PUBLIC PROGRAMS IN INDIA. At the same time, there are several generic issues which must be taken into account in reforming targeting in SP programs:

- ◆ the distribution of households exhibits considerable clustering around the poverty line nationally, making fine-tuned targeting design inherently challenging.
- ◆ there is considerable diversity across states in the factors that are correlated with poverty, so that reliance on standard national indicators in targeting systems has inherent weaknesses.
- ◆ community level beneficiary identification has attractions in such an environment. However, its strength is within-community targeting at a

very localized level in relative terms rather than the kind of absolute measure of poor people necessary for comparisons across space.

A KEY CHALLENGE THEREFORE IS HOW MIGHT THE SYSTEM MARRY THE “TOP-DOWN” TARGETING NECESSARY FOR SPATIAL DISTRIBUTION OF SOCIAL PROTECTION RESOURCES, WITH THE “BOTTOM-UP” INFORMATION ON THE CHARACTERISTICS OF THE POOR WHICH MIGHT DO A BETTER JOB OF RANKING HOUSEHOLDS AT THE GRASSROOTS LEVEL. There appear to be several elements of a potential strategy. These are discussed below, first presenting more modest reform proposals, and then presenting an option which would imply more substantial reform.

INTERNATIONAL EVIDENCE ON TARGETING OUTCOMES PROVIDES USEFUL INSIGHTS IN THINKING ABOUT AN APPROPRIATE TARGETING MIX. Three observations emerge from a review of targeting methods and outcomes in 122 targeted programs in 47 developing and transition countries:

- ◆ some methods have better targeting outcomes than others when taken across a wide range of countries.
- ◆ combining targeting methods generally results in improved outcomes. For example, a combination of three methods improves targeting outcomes by around 30 percent. This potential improvements needs to be traded off however with additional administrative costs and demands, and the risks of too much complexity introducing possibilities for manipulation.
- ◆ at the same time, there is also strong variation across countries in targeting outcomes within each method, pointing to the importance of country specificities and implementation capacity in considering options. Across the sample of programs, around 80 percent of the variation in targeting outcomes is accounted for by within method variation, and around 20 percent by between method variations. One important dimension of this is community “voice” in the society, which internationally improves targeting outcomes by around 23 percent.

INTERNATIONAL EVIDENCE THEREFORE CLEARLY SUGGESTS THAT NO SINGLE TARGETING METHOD WILL EVER BE SUFFICIENT, AND THAT THE POLICY QUESTION IS WHETHER A MORE EFFECTIVE MIX OF METHODS CAN BE EMPLOYED FOR SP (AND

OTHER PROGRAMS).<sup>429</sup> This would include improvements in methods for each type of targeting, and potentially a different mix of methods. The discussion below focuses initially on improvements in geographic targeting and the “backbone” BPL method, before a discussion of more substantial reform options.

### (i) *Improving geographic targeting*

WITH RESPECT TO GEOGRAPHIC TARGETING OF CENTRAL SP ALLOCATIONS, IT WOULD BE USEFUL TO GENERATE SUB-STATE ESTIMATES OF POVERTY USING POVERTY MAPPING TECHNIQUES, AND USE THESE AS THE BASIS FOR FUTURE SPATIAL RESOURCE ALLOCATION.<sup>430</sup> Poverty mapping allows for reliable small area estimates of poverty below the state level by combining information from the NSS household survey data with unit record data from the Census. Since the late 1990s, detailed “poverty maps” have been prepared for a growing number of developing countries. These maps provide estimates of poverty and inequality at the local level – such as the district, sub-district, and even village level. Such information is not commonly available because household surveys are typically too small in sample size to permit sufficiently fine disaggregation. Yet, with ongoing efforts to apply detailed spatial targeting of public interventions, or to realize the gains from decentralization and community-centered development, there is a pressing need for information on distributional outcomes at the local level.

IN INDIA, THIS COULD RELIABLY GENERATE POVERTY ESTIMATES AT BLOCK LEVEL. While progress on this front would not address the issue of household level targeting, it would significantly reduce issues of targeting across space within states. In India, a pilot effort to produce poverty maps in three states - West Bengal, Orissa and Andhra Pradesh – is ongoing. Once that is complete, it would be a more precise basis for allocations of CSS SP resources across space. In particular, these poverty maps can potentially be an important part of a strategy to marry “top down” targeting (essential for fiscal allocations of resources across space) with “bottom-up” targeting of households or individuals (e.g., through community-based methods that rely on local knowledge but are not comparable across space).

429 See Coady et al. (2004) for a useful discussion of different targeting methods and combinations in developing countries.

430 See Elbers et al. (2003) for discussion of the poverty mapping methodology and World Bank (forthcoming-a) for a discussion on the pilots in India.

431 Saxena Committee report (2009).

432 This is the standard formula used for fiscal allocations for Rural Development programs.

### (ii) *Improving household-level targeting*

IN ADDITION, THERE IS A MAJOR NEED TO IMPROVE INDIA’S HOUSEHOLD LEVEL TARGETING SYSTEMS, THOUGH THE RANGE OF OPTIONS VARIES BETWEEN URBAN AND RURAL AREAS, AND BY PROGRAM TYPE. This section looks at three possible reforms in the BPL methodology as well as the potential role of other methods, including community-based and self-targeting methods. None of them provide a “magic bullet” for all programs, but are suggestive of options for improvement which may contribute to a more effective mix of targeting methods.

REFORMING THE BPL METHOD. GIVEN THE CONCERNS OVER WIDESPREAD EXCLUSION AND INCLUSION ERRORS IN THE 2002 BPL METHOD, AN EXPERT COMMITTEE HAS SUGGESTED SIGNIFICANT CHANGES IN DESIGN OF THE PROPOSED 2009 BPL CENSUS (as described in the Saxena Committee report).<sup>431</sup> One, the method proposes the automatic exclusion of visibly non-poor households and the automatic inclusion of the most vulnerable households, with a survey and scoring only of the remaining households. Two, the new method overlays geographic targeting criteria by specifying district, block and GP-level quotas with respect to the proportion of BPL households. In districts that have a very high proportion of BPL households (over 80 percent), all households (except the visibly non-poor) would be considered to be poor and automatically included in the BPL list. This design reduces administrative demands and cost to some extent by reducing the scope of the survey. The underlying principle of the proposed methodology is to minimize errors of exclusion, without worrying over-much about errors of inclusion. The elements of the proposed method are described below.

SETTING QUOTAS FOR THE DISTRIBUTION OF BPL HOUSEHOLDS ACROSS SPACE: District-level thresholds for the proportion of BPL households could be set using the ratio of SC/ST population in the district to that in the state, the inverse of agricultural production per rural person and agricultural wage rate of the district.<sup>432</sup> These could then be used to estimate block-level proportions of the poor using any one or a combination of indicators on soil and irrigation quality, road connectivity, female literacy and

share of non-agricultural workers. Finally, these block-level estimates would be used to generate GP-level quotas for BPL households on the basis of population estimates. Estimating these disaggregated sub-district thresholds as well as choosing alternative rules to generate GP-level quotas could be left to the discretion of the state government or district authorities.

**IDENTIFYING POOR HOUSEHOLDS:** The basic principle behind the methodology being proposed is to ensure the inclusion of groups that are regarded as particularly vulnerable (e.g., workers in low income or highly vulnerable occupational categories, households where earning capacity is severely curtailed by external constraints, etc.) and/or groups that are historically subjected to social exclusion. The proposed method of identifying households has the following three elements:

- ◆ Automatic exclusion of visibly non-poor households
- ◆ Automatic inclusion of the poorest and most vulnerable households
- ◆ Scoring of the remaining households (except in districts with poverty above the specified threshold – 80 percent - where all households, except those automatically excluded, are identified as poor without a survey).
- ◆ Automatic exclusion of households that are meet certain criteria and are identified as non-poor: The intention is to exclude households that are visibly non-poor, but whose position of economic, social or political privilege makes it possible for them to get (wrongly) included in BPL lists. The exclusion criteria include the following: (a) households with double the land of the district average of the agricultural land per agricultural household if partially or wholly irrigated (three times if completely unirrigated); (b) households who have two-wheeled (or more than two wheeled) motorized vehicles; (c) households who have at least one mechanized farm equipment; (d) households who have any person who is drawing a salary of over ₹ 10,000 per month in non-government/private organizations or is employed in government (including parastatals) on a regular basis with pension or equivalent

benefits; (e) income tax payers.<sup>433</sup> These criteria are an improvement over those used in the 1997 BPL method as (i) they allow for some local variation to a limited extent (e.g., land holding is assessed relative to the local average instead of the all-India threshold of two hectares previously) and (ii) focus only on high-value assets that may be more successful in separating the rich from the poor.

- ◆ Automatic inclusion of certain categories of households that are considered to be among the poorest and most vulnerable: These include the following categories: (a) designated Primitive Tribal Groups; (b) designated most discriminated against SC groups (called Maha Dalit Groups), if so identified by the state; (c) single women headed households; (d) households with disabled person as bread-earner; (e) households headed by a minor; (f) destitute households that are dependent predominantly on alms for survival; (g) homeless households; and (h) households where any member is a bonded laborer. However, there is some confusion in the treatment of households and individuals while operationalizing these criteria. While the report focuses for the most part on households (i.e., a joint family that resides under a common roof and eat from a common kitchen) and nuclear families, some of the specific categories noted above relate to individuals. In this case, the report suggests treating these groups as separate households (e.g., single women with no major son, elderly couples or individuals, etc.). However, it is not clear how to score the remaining household members. Also, not all of these criteria are easily measurable or verifiable in the field – e.g., a functional assessment of disability requires several detailed questions and highly trained investigators.
- ◆ Grading of the remaining households (identified as poor) in order to prioritize programs and services to the poorest among these households: The proposed scoring system ranks households on a scale from one to ten using the following criteria: (a) caste and religious affiliation – SC/ST (3 points), denotified tribes and designated 'Most

<sup>433</sup> These criteria apply to the entire joint family – i.e., the first criteria of higher than average land ownership would apply even to the son of a large farmer even though he may not actually have land registered in his name.

Backward Castes' (2 points), Muslim/OBC (1 point); (b) any one household member engaged in the following occupations – landless agricultural worker (4 points), agricultural laborer with some land (3 points), casual workers (2 points), self-employed artisans or fisher folk (2 points); (c) no adult above the age of 30 with schooling up to grade five (1 point); (d) any household member with TB, leprosy, mental illness or HIV/AIDS or disability (1 point); and (e) households headed by an old person of age 60 and above (1 point). Since the bunching of a large number of households is possible at certain scores, the method proposes a ranking of households with the same score, with those in the special category group such as SC/ST at the top, followed by landless agricultural laborers and so on.

THIS PROPOSAL IS A MODEST APPROACH TO REFORM IN THAT IT PROPOSES CONTINUING WITH THE BPL SYSTEM WITH SOME IMPROVEMENTS. The proposed methodology is an improvement over the 2002 BPL method in some ways: (i) The indicators chosen are likely to be highly correlated with poverty for the most part (though not necessarily for the elderly).<sup>434</sup> Some of these indicators (gender of household head, education, occupation) were among a wider set of indicators used by Jalan and Murgai (2007) in their augmented regression model that performed much better than the 2002 BPL method. However, while the reduction in the number of indicators increases simplicity in field processes, it may make it more difficult to separate the rich from the poor and the poor from the poorest; (ii) Weights have been assigned to the indicators as noted above. However, weights have not been applied across states; and (iii) The use of the geographic, automatic inclusion and exclusion criteria reduce the scope of the survey and hence administrative demands and costs. Subjecting this methodology to the test using NSS data as done with the 2002 BPL method would yield interesting insights into how well the new de jure targeting design would perform.

HOWEVER, SEVERAL DRAWBACKS OF THE PREVIOUS BPL METHOD REMAIN, PARTICULARLY WITH RESPECT TO THE IMPOSITION OF CENTRAL CRITERIA ACROSS DIVERSE LOCAL CONTEXTS, CARDINALITY OF INDICATORS, AND THE SAME PROCESS OF AGGREGATION. In addition, there are likely

to be reporting issues with some of the indicators (e.g., chronic health problems, disability). The adoption of this methodology will also have significant fiscal implications. The inclusion criteria are defined on the basis of nuclear families and individuals who are considered as separate households for the purpose of this exercise. This would lead to the number of BPL households increasing significantly, implying possible rationing within these households if program budgets do not rise adequately.

AS A RESULT, THERE IS STILL SCOPE TO MOVE TO A MORE DEVELOPED FORM OF PROXY MEANS-TEST, USING METHODS WHICH ARE GOOD PRACTICE IN DEVELOPING COUNTRIES, FOR BOTH RURAL AND URBAN AREAS. There are several possible elements in such as reform:

- ◆ ***even if standard national BPL criteria are retained, these should be determined using rigorous regression models for greater targeting power.*** While the proposed 2009 BPL methodology does include criteria such as caste affiliation that have been found to be strong correlates of poverty, the preferred method for such an exercise is to use the NSS or other representative national data to generate a set of indicators that provide more targeting power, and which could be easily verifiable at reasonable cost.
- ◆ ***whatever indicators are used, they should have some weighting – preferably on a state-specific basis.*** The basis for such weights and a more sensible ranking between levels of each indicator should be the NSS data, or other representative national data where relevant. In contrast, the proposed BPL methodology and Kerala's Kudumbashree use a set of weighted indicators for the identification of poor households, but the weights do not appear to be based on regression analysis. These are likely to be assigned by committee or, in the case of Kudumbashree, developed by communities in a participatory manner.
- ◆ ***a preferred approach beyond the above would be to let the indicators in the BPL methodology vary by state, or perhaps groups of states.*** As the purpose of BPL is increasingly ranking of households rather than determining aggregate numbers of poor people (which remain controlled

434 See Pal and Palacios (2008) for a comparison of poverty rates among the elderly.

through the linkage to Planning Commission aggregates for states), there seems no inherent need to insist on standard national indicators. As part of a process to generate indicators, it would be worthwhile to simulate state or region-specific indicator sets and test their power in ranking of households.

- ◆ ***piloting the proposed method would allow an assessment of how well these indicators capture household welfare, measured using other accepted measures such as per capita consumption and/or asset indices.***
- ◆ ***BPL lists should be subject to localized verification by communities, using gram sabhas or other mechanisms.*** In principle, this should happen, and does in some states (e.g., HP) and/or for specific programs. However, the process is not systematic and made more complicated by the fact that *gram sabhas* are held infrequently and participation is often low in most states.<sup>435</sup> If it were to become more standard, it may be useful in some areas to have the verification process facilitated by NGOs or other third parties where there are concerns of elite capture. Verification and finalization of the BPL list by the *gram sabha* is one of the suggestions made by the Saxena Committee draft report.
- ◆ ***build in systems for dynamic updating of BPL lists in between censuses.*** The Saxena Committee draft report suggests holding a census once every ten years, combined with a system for updating the lists every two years by registering changes in household circumstances. However, the report does not specify the implementation arrangements for doing this.
- ◆ ***require states to have common BPL lists and BPL ration card aggregates, preferably consistent also at the household level.*** Several states already do this, and it has the benefit of saving administrative demands and avoiding multiple targeting criteria. The Saxena Committee draft report makes this recommendation. However, in states where the two do not presently coincide,

political economy may make convergence challenging, particularly where BPL ration cards significantly exceed the numbers on BPL lists.

NO COMPARABLE CENTRAL GUIDELINES FOR A CENSUS OF POOR HOUSEHOLDS EXISTS FOR URBAN AREAS. Typically, the identification of poor households is carried out separately by different departments, such as the Food and Civil Supplies Department for PDS ration cards. However, methods differ across states and departments and there is little systematic information on this process. Notable exceptions are Delhi and Kerala. More recently, Delhi has defined a common process of identification of the poor across programs. This defines a set of thematic indicators capturing residential location, social deprivation and occupational vulnerability to identify vulnerable households. The underlying principle of promoting inclusion and several of the specific indicators are similar to those proposed in the rural 2009 BPL methodology (see Chapter 8 for details). A survey is currently underway to collect information on households in poor localities, with the intention of covering other areas over time. The list of vulnerable households so generated would be used by the nine state departments that are engaged in delivering programs or services to the urban poor. This is a very positive step towards generating a common beneficiary database for multiple programs, thereby reducing administrative costs and increasing transparency. This, however, does not necessarily mean that all programs would need to target the same groups. Programs such as educational scholarships that target SC/ST children could use the information in the common database to continue targeting on caste affiliation rather than vulnerability status.

WHILE THE ABOVE REFORMS COULD SIGNIFICANTLY IMPROVE THE BPL SYSTEM, INTERNATIONAL AND INDIAN EVIDENCE SUGGESTS THAT INDICATOR-BASED TARGETING – EVEN WHERE GENERATED ROBUSTLY FROM RELIABLE SURVEY DATA – WILL STRUGGLE TO EXPLAIN A SIGNIFICANT PORTION OF VARIATIONS IN LIVING STANDARDS ACROSS HOUSEHOLDS. This is true in a static sense, where such methods rarely explain more than half the variance in household consumption.<sup>436</sup>

<sup>435</sup> Even in the four southern states, only 20 percent of households reported attended a gram sabha (Besley et al. 2005).

<sup>436</sup> For example, Egypt's PMT for its food rationing system captures only 43 percent of the variation in consumptions across households, and Armenia's only around one quarter of the variation.

### (iii) Other reform options

WHILE REFORM OF THE BPL SYSTEM IS HIGHLY DESIRABLE, THERE MAY BE ADDITIONAL OPTIONS IN RURAL AREAS OF SOME STATES FOR COMMUNITY-BASED TARGETING TO PLAY A STRONGER ROLE IN SP PROGRAMS. As the centre enforces convergence on aggregate numbers of poor people between Planning Commission estimates and the BPL system, possibilities for more significant reforms of targeting systems could be considered in rural areas (though perhaps not in urban, where an enhanced PMT would seem more feasible).

ONCE A POVERTY MAP IS AVAILABLE AT BLOCK LEVEL, RELIANCE ON COMMUNITY-LEVEL WEALTH RANKING BECOMES A FEASIBLE OPTION AS A TOOL WITHIN THE FORMAL SYSTEM FOR IDENTIFYING SP BENEFICIARIES. While not an ideal match, the availability of aggregate numbers to block level and community ranking at GP/village level comes close to the “top-down” and the “bottom-up” meeting. To the extent there remains a gap, solutions such as assuming even poverty rates within the block, or some simple indicators such as population share (as is being proposed in the Saxena Committee draft report) or SC/ST share or landless share in different villages might be used to allocate SP resources within a block. The precedent of Andhra Pradesh is instructive, where a list of poor household generated entirely by community wealth ranking has replaced the administratively generated BPL list across the state for the main anti-poverty programs administered by the Rural Development Department. This may not be feasible in all states (e.g., where caste fragmentation is high and risks of local elite capture more pronounced), and would need facilitation by competent NGOs. However, an evaluation of the AP experience, and well-evaluated pilots in other states seem warranted to see whether some of the shortcomings of even a well-designed PMT can be mitigated through a stronger community role in identifying beneficiaries.

AS HAPPENS PRESENTLY WITH COMMUNITY WEALTH RANKING, THE PROCESS WOULD BENEFIT FROM BEING FRAMED WITHIN GENERAL CRITERIA FOR RANKING HOUSEHOLDS. From an implementation viewpoint, there is a tension between more localized guidelines and minimizing intensity of process and costs in developing the guidelines. However, experience from India (e.g., Kerala’s Kudumbshree) and from other countries which have formalized

community identification into their formal SP systems (e.g., Uzbekistan), suggests that this is a surmountable challenge.

WHETHER THE MODEST OR MORE FUNDAMENTAL REFORM OPTIONS ARE PURSUED, SELF-TARGETING (AS HAPPENS IN PUBLIC WORKS) WOULD CONTINUE TO BE A USEFUL TOOL FOR PROGRAMS WHERE IT IS SUITABLE. This approach is most effective when used to target goods or services that are more heavily consumed by the poor than the non-poor, and for programs where monitoring costs associated with verification of eligibility are high. Programs such as public works are amenable to self-targeting approaches through the wage rate and types of work offered. Others such as subsidized credit lend themselves less readily to self-targeting. For cash benefits, the possible role of self-targeting will depend on benefit levels, ease of accessing programs and other factors. Despite these obvious limitations, the empirical results in Chapter 4 highlighting the superior targeting performance of public works suggests that “cutting out the middleman” in targeting of SP programs remains an important tool for programs where the nature of the self-targeting requirement or of benefits offered permits. This suggests that self-targeting should continue to play a role in programs where it is suitable. An important additional factor supporting this conclusion is that self-targeting may minimize the political costs of clear designation of target groups, by allowing policymakers to describe such programs as “open to all”.

## C. POLITICAL ECONOMY OF SOCIAL PROTECTION REFORM

THE POLITICAL ECONOMY OF SP POLICY REORIENTATION IS COMPLEX, AND WILL REQUIRE INTENSIVE EFFORTS TO BUILD CONSENSUS ON REFORMS. In particular, it will be important to ensure that the interests of perceived “losers” of SP and broader economic reforms are taken into account. While reforms that involve expanded coverage or new types of interventions are unlikely to be controversial, there are strong interests in preserving the status quo in SP programs among a range of actors, including administrators, politicians, contractors and others. Simply cutting programs or excluding certain groups of beneficiaries or institutional players is therefore unlikely

to be successful unless incentives for institutions and households which will be affected by reforms can be part of the reform package. The political economy of SP reform is challenging in all countries, and governments in India would benefit from more innovation in their efforts to create a broader societal understanding of the need for and benefits of reforms.

SOME OF THE POLITICAL ECONOMY CHALLENGES THAT THE SP SYSTEM CONFRONTS IF IT IS TO BECOME MORE COHERENT AND MORE EFFECTIVE AS A TOOL FOR PROMOTING POVERTY REDUCTION AND INCLUSIVE GROWTH INCLUDE:

- ◆ *as in many areas of policy reform in India, consolidation and reform of the SP system within a coherent strategy will run counter to the past experience of scheme-driven initiatives by a plethora of Ministries, and the observed tendency of each new government at both central and state levels to want new SP programs clearly distinguishable from their predecessors.* Reducing these natural bureaucratic and political tendencies will be very challenging. A first step is obviously having an integrated SP strategy which is driven by the top politicians and bureaucrats at central and state levels, with strong inputs from civil society in its development, including opposition parties. However, even if such a strategy process can be developed, it will be important for it not to become a “one shot” exercise, but to have institutional coordination mechanisms in place which explore program duplication and exploit synergies.
- ◆ *giving states a more flexible hand in use of central SP resources will be a challenging transformation both for central administrators* (whose past tendency has been to define the parameters for use of central funds quite tightly) and politicians (who not unexpectedly seek political attribution for centrally-financed schemes implemented by states). The first of these challenges is perhaps easier to address through development of more outcome-based monitoring systems. The second is more difficult in a democracy.
- ◆ *in a number of programs, there are presently significant rent-seeking opportunities for a range of actors.* Such opportunities are facilitated by the current complexity of the SP program mix, but also by the number of intermediaries who often are involved in the interactions of poor people

with the SP system. The generic identity of such official intermediaries and unofficial middlemen is generally well-understood, but minimizing the potential avenues for their continued roles has only recently become a more explicit goal of SP policy design. While it is too early to say, even apparently naïve blanket bans on certain actors in legislation and/or guidelines (such as the ban on contractors under MGNREGA) do appear to help. However, a more comprehensive approach will require a more thorough modernization of SP business processes. Examples where such approaches already appear to be making headway include greater reliance on direct transfers to beneficiaries through banking and postal systems, and innovations in use of ICT in SP program delivery.

- ◆ *a more recent and fluid development in the political economy of SP (and much other) service delivery is how increased decentralization of responsibilities to panchayats* – in particular GPs – generates different patterns of contention, cooperation and collusion between newly elected panchayat officials and traditional loci of influence among administrators and higher level politicians such as MLAs and MPs. An essential first step in promoting decentralization of SP service delivery as a tool for contestability and hence accountability will be getting a better empirical understanding of the diversity and evolution of experience. This would include how the gradual increase in the role of panchayats is proceeding (and what factors – such as limited control of resources and very low capacity), and the extent to which panchayats effectively promote accountability in SP service delivery or are captured by local social, political and administrative elites.
- ◆ *a more nascent, but powerful, element in the political economy of SP reform is the policy shift towards a rights based approach.* Government of India is increasingly operationalizing such an approach in a number of areas through legislation and specific policies and programs. For instance, the Right to Information Act was passed in 2005 and mandates the government to release timely information demanded by citizens. It has been widely hailed as one of the most important drivers of governance reform and transparency in India. The Right to Food and Right to

Livelihood movements are led by civil society, but have managed to influence government so that the National Rural Employment Guarantee Act, (now renamed the Mahatma Gandhi Rural Employment Guarantee Act) was passed in 2005. Other similar Acts include the Right to Education Act (2009), the Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act (often called simply the “Tribal Rights Act”, 2006) while legislations such as for food security are on the anvil.

- ◆ ***a consequence of the above is the increasingly prominent role of communities and civil society in promoting more effective poverty reduction outcomes from spending.*** In this respect, the strengthening of the “authorizing environment”

for communities in SP service delivery in recent years is encouraging. This is both cross-cutting, through reforms such as the Right to Information Act, and program specific, such as the anticipated role of social audits in MGNREGA, and new roles for community groups such as SHGs in delivery of some SP services (e.g., running Fair Price Shops). However, there is no guarantee of “trickle down” to citizens in terms of awareness of their emerging entitlements. The role of NGOs, media and other actors in this respect cannot be under-stated, as various political and administrative actors at local level may not have strong incentives to promote such citizen-based accountability mechanisms. Notable examples such as MKSS in Rajasthan demonstrate the potential impacts of such partnerships.



**Annexes**



# India Human Development Survey (IHDS) – II (2005)

The India Human Development Survey (IHDS) – II (2004-05) is a household survey collected by the National Council of Applied Economic Research (NCAER), as a collaborative exercise with the University of Maryland, USA. The data canvassed around 216,000 individuals living in 41,500 households in India. Questions on safety net programs were included in the survey with financial support from the World Bank, and analysis of the data carried out by Bank staff after entry and cleaning by NCAER. The data are representative at the state level for 33 states and Union Territories and for urban and rural areas separately. Table A1.1. presents the sample size (number of households) canvassed in the survey for urban and rural areas separately and by state.

## WELFARE MEASURE

Income and consumption data were not available from the IHDS at the time of the analysis, but the asset index allows for analysis across the wealth distribution. We can compute a measure of wealth based on the ownership of durable goods and housing characteristics. The wealth index is generated using a principle components model (see Filmer and Pritchett, 1998). Separate wealth indices are created for urban areas and for rural areas, with data from all the states pooled together. Household wealth quintiles too are computed for urban and rural areas separately. Filmer and Pritchett demonstrate that measuring long-run wealth (asset index) using a principle

**Table A1.1: Number of households surveyed for urban and rural areas separately and by state**

States	Urban	Rural	Total
Andhra Pradesh	900	1,535	2,435
Arunachal Pradesh	45	119	164
Assam	315	701	1,016
Bihar	464	966	1,430
Chandigarh (UT)	80		80
Chattisgarh	269	905	1,174
Dadra & Nagar Haveli (UT)		60	60
Daman & Diu (UT)		60	60
Delhi (UT)	840	120	960
Goa	44	121	165
Gujarat	900	1,178	2,078
Haryana	268	1,351	1,619
Himachal Pradesh	315	1,058	1,373
Jammu & Kashmir	315	400	715
Jharkhand	405	519	924

States	Urban	Rural	Total
Karnataka	1,168	2,852	4,020
Kerala	627	1,104	1,731
Madhya Pradesh	645	2,168	2,813
Maharashtra	1,125	2,078	3,203
Manipur	45	60	105
Meghalaya	45	116	161
Mizoram	45	60	105
Nagaland	30	100	130
Orissa	600	1,466	2,066
Pondicherry (UT)	45	60	105
Punjab	540	1,052	1,592
Rajasthan	892	1,595	2,487
Sikkim	45	60	105
Tamil Nadu	1,108	991	2,099
Tripura	45	184	229
Uttar Pradesh	1,125	2,387	3,512
Uttaranchal	135	323	458
West Bengal	1,124	1,256	2,380
<b>All India</b>	<b>14,549</b>	<b>27,005</b>	<b>41,554</b>

Source: Ajwad 2006.

components model can perform as well as other measures of welfare, such as household per capita consumption.

The asset index employed in this note is computed using 24 durable goods. The durable goods used are: bicycles, sewing machines, generator sets, mixer/grinder, motor cycle, black and white television, color television, air cooler, clock or watch, electric fan, chair or table, cot, telephone, cell phone, fridge, and pressure cooker. Among households that had at least 6 of the above durable goods, households are asked about the following: car, AC, washing machine, computer, credit card<sup>437</sup>. If a household has less than 4 items from the main list of assets, then they are also asked about owning: two pairs of clothes, shoes or chappals for all the members of the household<sup>438</sup>. These last two categories of assets are particularly good at separating out the poor from the very poor. Note that we only have information on

whether or not a household owns/uses each of these items and not the quantity or quality of the items<sup>439</sup>.

The asset index satisfies internal coherence (Table A1.2). Sharp differences are seen in ownership across households in the poorer versus richer households. For example, 1.3, 0.1, 0.2 percent of households in the poorest quintile own a sewing machine, motor bike or scooter or color television, while in the richest quintile 59, 59, and 65 percent respectively own the same assets. As expected, all households in the richest quintile own at least two pairs of clothes and two pairs of shoes for all members of the family, while only 85 and 64 percent of households in the poorest quintile own those assets respectively.

Asset deprivation is broadly consistent with state rankings using other sources of information such as per capita gross state domestic product or the HDI. Consider

437 Since answers are only recorded for households with at least 6 durable goods, we assume that households with fewer than 6 durable goods do not possess any of these 5 items. Since these 6 items are likely to be owned by very well off households, the assumption is likely to be met.

438 Since answers are recorded only for households with more than 4 durable goods, we assume that households with more than 4 durable goods also have two pairs of clothes for each of the household members and that everyone in the household also has shoes or chappals.

439 Not included in the data are some farm assets like: tubewells, electric pumps, diesel pumps, bullock carts, tractors, threshers, biogas plant. These variables may be useful to create a welfare aggregate, but the fact that non-farm households (whether rich or poor) are not likely to have any of the assets makes inclusion less compelling. Also not included are housing characteristics such as: the main source of drinking water (tap inside the residence, shared or public tap, hand-pump, etc.), type of housing material (kachcha, semi-pucca, pucca), type of toilet facility (own flush toilet, own pit toilet, shared toilet, etc.), main source of lighting for the house (electricity, kerosene, other), and main source of fuel for cooking (LPG/electricity, kerosene, wood, other). These data are not available in the IHDS. It should also be noted that about half the assets in the model require an electricity connection into the household or a generator. In our model, only half the assets are electricity based.

**Table A1.2: Asset ownership**

	Ownership for all households	Ownership for households in quintile 1	Ownership for households in quintile 5
Own (1); rent home (2); neither (3)	1.11	1.11	1.07
Bicycle	58.1%	39.5%	71.1%
Sewing machine	20.2%	1.3%	58.5%
Generator	1.1%	0.0%	5.4%
Mixer	22.5%	0.4%	54.7%
Motor bike/Scooter	16.0%	0.1%	58.7%
TV – Black & White	24.7%	12.3%	32.9%
TV - Color	24.1%	0.2%	65.4%
Air cooler	9.8%	0.2%	34.2%
Clock or watch	83.2%	38.1%	99.3%
Fan	58.5%	14.2%	96.3%
Chair or table	64.9%	14.0%	97.7%
Cot	85.1%	64.9%	97.9%
Phone	13.7%	0.0%	48.6%
Cell phone	7.0%	0.0%	26.0%
Fridge	13.4%	0.0%	44.4%
Pressure cooker	38.2%	4.3%	83.1%
Car	1.6%	0.0%	8.0%
AC	0.5%	0.0%	2.2%
Washing machine	3.2%	0.0%	14.4%
Computer	1.0%	0.0%	4.2%
Credit card	1.4%	0.0%	7.7%
Clothes	97.1%	84.5%	100.0%
Shoes	93.0%	64.3%	100.0%

Source: Ajwad 2006.

a measure such as the proportion of households in the state falling into the all-India bottom 40 percent of the welfare distribution. With that measure, Maharashtra (around 67 percent of its residents fall into the bottom 40 percent of the all-India welfare ranking),

Bihar (60 percent), Madhya Pradesh (55 percent), and West Bengal (53 percent) respectively rank among states with the largest number of poor people. By this measure, the smallest contributors to overall poverty are Mizoram, Goa, and Sikkim.

**Table A1.3: Proportion of state's population belonging to the all-India welfare quintiles**

States	Poorest	Q2	Q3	Q4	Richest
Andhra Pradesh	12.80%	14.10%	32.00%	27.30%	13.80%
Arunachal Pradesh	0.20%	4.00%	12.70%	40.50%	42.60%
Assam	6.50%	30.80%	34.30%	17.20%	11.10%
Bihar	33.00%	27.30%	21.20%	11.20%	7.10%
Chandigarh (UT)	4.80%	8.60%	19.50%	14.70%	52.40%
Chattisgarh	25.40%	21.20%	25.00%	15.50%	12.90%
Dadra & Nagar Haveli (UT)	10.40%	18.60%	12.70%	10.40%	47.90%
Daman & Diu (UT)	0.70%	0.40%	4.30%	29.20%	65.50%
Delhi (UT)	5.20%	11.70%	17.30%	25.60%	40.10%

States	Poorest	Q2	Q3	Q4	Richest
Goa	1.10%	1.00%	3.30%	21.20%	73.40%
Gujarat	5.10%	14.50%	24.20%	26.90%	29.30%
Haryana	3.60%	5.10%	11.40%	21.90%	58.00%
Himachal Pradesh	2.00%	5.60%	15.50%	25.30%	51.50%
Jammu & Kashmir	9.90%	15.10%	20.20%	22.70%	32.10%
Jharkhand	20.20%	22.50%	25.50%	16.50%	15.30%
Karnataka	28.00%	17.50%	18.00%	16.60%	19.90%
Kerala	1.70%	11.20%	15.40%	18.70%	53.00%
Madhya Pradesh	32.60%	22.70%	16.80%	13.00%	14.90%
Maharashtra	37.90%	28.90%	21.60%	10.90%	0.60%
Manipur	6.20%	2.00%	15.80%	23.20%	52.80%
Meghalaya	29.60%	18.60%	21.10%	17.20%	13.50%
Mizoram	0.00%	0.90%	24.60%	26.40%	48.10%
Nagaland	2.50%	3.10%	17.10%	58.90%	18.40%
Orissa	38.80%	12.50%	22.60%	13.30%	12.70%
Pondicherry (UT)	11.40%	9.80%	20.90%	17.50%	40.30%
Punjab	1.30%	4.50%	9.40%	20.60%	64.20%
Rajasthan	14.90%	24.70%	19.00%	18.40%	23.00%
Sikkim	0.00%	2.60%	11.90%	31.80%	53.60%
Tamil Nadu	18.30%	15.60%	21.20%	21.70%	23.30%
Tripura	12.90%	12.60%	26.60%	31.20%	16.70%
Uttar Pradesh	19.10%	29.50%	17.60%	17.30%	18.70%
Uttaranchal	9.20%	12.30%	18.30%	31.30%	28.80%
West Bengal	25.70%	27.40%	19.50%	18.00%	9.50%
All India	20.30%	21.10%	20.60%	18.30%	20.00%

Source: Ajjwad 2006.

## Social Protection Survey in Three States

This study financed a special household survey conducted in three Indian states, Orissa, Madhya Pradesh and Karnataka. A multi-stage stratified sample scheme (see Table A2.1) was followed for selecting the sample households, as described below.

### SAMPLE SELECTION

In each state, three districts were selected. While sampling the districts within each state, it was ensured that they are located in different agro-climatic zones with differing socio-economic characteristics. For this purpose each state was divided into different socio-cultural regions (SCRs)<sup>440</sup> based on the agro-climatic zones and socio-economic characteristics (urban, remote, tribal, etc). From each state three SCRs were selected with probability proportional to size (PPS). Further one district was selected randomly using PPS method from each sample SCR. The list of selected districts is given in Table A2.2.

From each sample district, two blocks were selected. While making the selection, it was ensured that one block

represented the most developed area of the district and the other the least developed area. For this purpose, a comprehensive development index was constructed for all the blocks in the sample district on the basis of Census data like sex ratio, literate population and literacy rate, worker and non-worker population, etc.

A total of 5 villages were selected from each district (two blocks). From the most developed block, 2 villages were selected randomly using PPS method. In the least developed block three villages were selected with PPS, one from the list of all villages having more than 60 percent SC and ST population and two from the rest.

In each village a sample frame of households was prepared by listing all the households using a separate listing schedule. The listing schedule also contained some ancillary information like the caste, land possessed, education, participation in four major safety net programs, etc. From the listing of households, a sample of 30 households was selected for administering the main household questionnaire and the women's questionnaire. In order to gain insight into the benefits

**Table A2.1: Sample coverage of SPS survey**

Level	Details	Sample in the Study
States	Madhya Pradesh, Orissa & Karnataka	3
Districts	3 per State	9
Blocks	2 per District	18
Villages	5 per District	45
Households Survey	30 per Village	1356

440 Khan (1992).

**Table A2.2: Districts selected for the survey**

State	SCR	District
Madhya Pradesh	Bhagelkhand	Rewa
	Bundelkhand	Datia
	Chhatisgarh & Gondwana	Seoni
Karnataka	Kannada (Bombay)	Bagalkot
	Karnatak (Deccan)	Bidar
	Old Mysore & Maland	Shimoga
Orissa	Chhatis Garh & Gondwana	Sundargarh
	Coastal Orissa (Kalinga)	Jajapur
	Dandekaranya	Koraput

availed from government-funded safety net programs, it was decided to over-sample households which have availed benefits under Food for Work, Indira Awaas Yojana, SGRY, SGSY.<sup>441</sup> For this purpose all the listed households were divided into five strata. The participants in the programs Food for Work, Indira Awaas Yojana, SGRY, SGSY were treated as four separate strata<sup>442</sup>. The rest of the households were treated as the fifth stratum. Finally, we selected 3 households from each of the first four strata. The balance of 18 sample households were selected randomly from fifth stratum<sup>443</sup>. The survey was conducted in 45 villages covering 1356 households.

The main questionnaire was administered to the head of the household. In case the head of the household was

absent, it was administered to any knowledgeable adult member of the household. The section for the females was administered to the spouse of the head of the household. In case she was not available, it was administered to any adult married female available in the household. The coverage for the study is summarized in the tables.

## METHODOLOGY AND TOOLS

A MIX OF QUANTITATIVE AND QUALITATIVE APPROACHES WAS ADOPTED IN THE SURVEY. The instruments used to collect the data are shown in Table A2.3.

The survey also used a wealth index to rank households for purposes of incidence analysis. This was constructed

**Table A2.3: Instruments used**

Instrument	Respondent	Sample	Information
Household questionnaire	Household member	1,350 (450 per State)	Information about the households – – Socio-economic characteristics, – Programme participation, – Profile of benefits, shocks/risk profile etc.
Village schedule	Local key informants - <i>Sarpanch</i> , Patwari	45	Information about the village – – Demographic characteristics and Infrastructure facilities, – Program coverage, Utilization of funds, – Functioning of Panchayat, NGOs etc., – Social mapping, – Political economy and institutional incentives.
Focus Group Discussions in the village	Stakeholders (separately for men and women)	90	
Case studies		30	– Households who successfully used and benefited from programs and those who did not, – Major shocks faced and coping mechanisms, – Seasonal migration and household/community impacts, – Detailed situation of specific vulnerable groups, – Dynamics of poverty and poverty traps.
Interview with BDOs		18	Seek information on implementation of the SSN schemes, its success/failure and reasons.
Interview with NGOs		9	

441 Suitable multipliers were used; the multipliers were constructed based on the population sizes used for drawing samples at each stage.

442 In case of households accessing more than one program, the household is selected based on its participation in one program.

443 In case of any short-fall of samples under the program strata, the remaining samples were drawn from the general strata.

from the household questionnaire and is outlined in the Table A2.4

For constructing the durable index, weights are assigned to each durable. The normalized weights are derived from the reciprocals of the frequency of possession. Thus the most commonly owned durable gets a lower weight while one with less frequently owned gets higher weight.

The analysis also relied upon indices of several social and institutional factors, including household social capital, women's trust in institutions, women's civic participation, women's autonomy and decision making power (all from the household survey). An infra structure index was also created for the sample villages from the village schedule. The nine household-level indices were constructed by aggregating the score on each of the component variables (1 if the condition is met, 0 otherwise). The component

variable and condition for each index are described below.

**A. Index of household structural social capital (score 1 to 16, if anyone in the household is a member):**

- ◆ Village Development Committee
- ◆ NGO- SHG
- ◆ Vana Samrakshana Samithi –SHG
- ◆ Finance, credit group (Other than DWCRA/ NGO SHG)
- ◆ Religious group
- ◆ Political parties
- ◆ Caste Association
- ◆ Mahila Mandal
- ◆ Development of Women and Children in Rural Areas (DWACRA/NGO SHG)

**Table A2.4: Wealth index: (constructed from household questionnaire)**

SI No	Indicator	Score
I	Durables	
	Cycle	1, if household possess, 0 otherwise
	Radio/Transistor	-do-
	Fan	-do-
	Cot/Charpai	-do-
	Almirah	-do-
	TV	-do-
	Refrigerator	-do-
	Car	-do-
	Scooter/motorcycle	-do-
	Watch/Clock	-do-
	Furniture (Chair, stool, Table etc.)	-do-
	Telephone (Landline or Mobile)	-do-
	Durable Index	Weighted average of above*
II	Utensils used for cooking	
	Earthen pots	0
	Aluminum	0.50
	Stainless steel	1.00
	Index for Utensils	Average
III	Clothing	
	One set	0
	Two sets	0.33
	Three sets	0.67
	More than three	1.00
	Index for Clothing	Average
Welath Index	Average (I,II,III)	

- ◆ Vana Samrakshana Samithi Management committee
  - ◆ Rythu Mitra/Farmers' association
  - ◆ Mothers' Committee
  - ◆ Watershed Committee
  - ◆ Village Education Committee
  - ◆ Village Tribal Development Agency
  - ◆ Water Users Association
- B. Women's Trust in PRIs (score 1 to 4; if women trust):**
- ◆ Ward-members
  - ◆ Village vice-sarpanch
  - ◆ Sarpanch
  - ◆ Village Assistant (Patwari)
- C. Women's Trust in officials (score 1 to 8; if women trust):**
- ◆ Teachers
  - ◆ Extension officers
  - ◆ ANM
  - ◆ Banks
  - ◆ Post office
  - ◆ Aaganwadi teacher
  - ◆ Aaganwadi helper
  - ◆ Police
- D. Women's Trust in community groups (score 1 to 5; if women trust):**
- ◆ Mother Committee
  - ◆ Village Education Committee
  - ◆ Parents Teachers Committee
  - ◆ Any Other important village committee
- E. Women's participation in meetings (score 1 to 6; score of 1 if women participated in the first three meetings; 2 if women participated and spoke or raised any issue):**
- ◆ Gram Panchayat
  - ◆ Water users association
  - ◆ Village Education Committee
- F. Women's participation in elections (score 1 to 5; 1 if women participated):**
- ◆ Gram Panchayat
  - ◆ Block elections
- ◆ Zila Parishad
  - ◆ State Legislature (MLA)
  - ◆ Lok Sabha (MP)
- G. Women's role in household decision making (score 1 to 14; 1 if women involved in the final decision):**
- ◆ Daughter's Marriage
  - ◆ Son's Marriage
  - ◆ Food related
  - ◆ Debt related
  - ◆ Children's education – Boy
  - ◆ Children's education – Girl
  - ◆ Care of elderly people
  - ◆ Health Care
  - ◆ No. of children
  - ◆ Family Planning
  - ◆ Spacing between births
  - ◆ Application for ration card
  - ◆ Participation of HH members in public works
  - ◆ Participation in SHG
- H. Women's control over assets (score 1 to 4; 1 if women owns):**
- ◆ Agricultural Land
  - ◆ House/plots
  - ◆ Gold & Silver
  - ◆ Durables
- I. Women's autonomy (score 1 to 9; 1 if women can go to the first 8 events/places without permission; 1 if allowed to set money aside for self use; 1 if purchased the last variable):**
- ◆ Can go alone without permission
  - ◆ Marketing
  - ◆ Visiting friends
  - ◆ Visiting relatives
  - ◆ Cinema, local entertainment, etc.
  - ◆ Local health center/Doctor
  - ◆ Outside village for Work
  - ◆ Community Center/Park in the village
  - ◆ Community functions
  - ◆ Allowed set aside some money for self use
  - ◆ Did you purchase clothes for yourself on your own during the last 12 months?

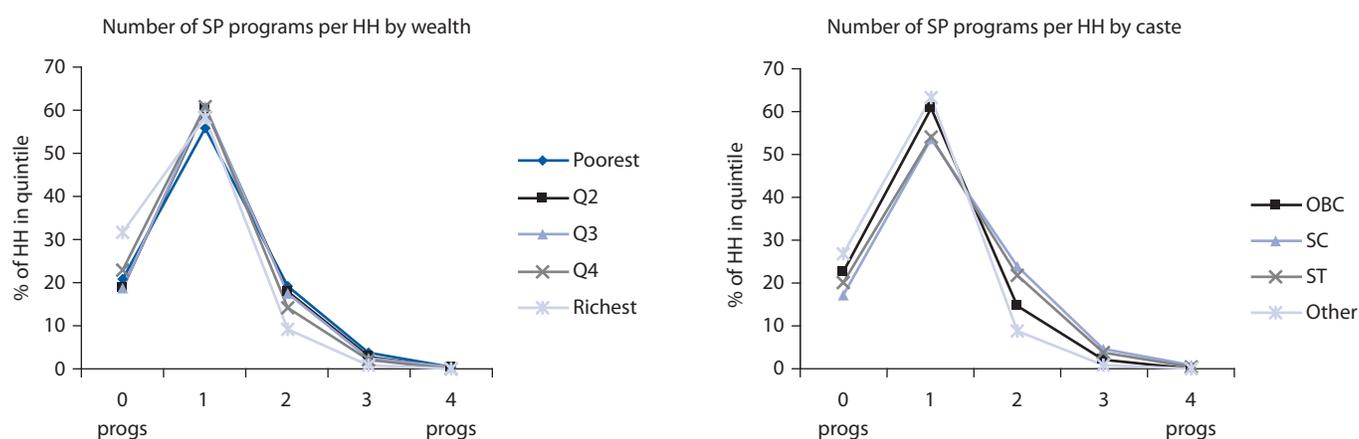
## Cumulative Coverage Across Major Programs

IT IS USEFUL TO LOOK AT THE CUMULATIVE COVERAGE AT HOUSEHOLD LEVEL OF MAJOR SP PROGRAMS BY EXAMINING EVIDENCE ON HOUSEHOLDS ACCESSING MORE THAN ONE PROGRAM. This section looks briefly at access to major SP programs in a cumulative sense.<sup>444</sup> The results are presented by wealth, location and social category in Figure A3.1.

THE PROPORTION OF HOUSEHOLDS BENEFITING FROM MORE THAN ONE SIGNIFICANT SP PROGRAM IS FAIRLY LOW NATIONALLY, THOUGH SIGNIFICANT IN SOME STATES. Around 23 percent of all households accessed no program at all, while the large majority of households (around 58 percent) accessed only one program. Above that, only Orissa, UP and AP of the major states had more than 20 percent of households accessing more than one program. Over all states, the share of households accessing more than two programs (generally PDS plus one other) is insignificant.

LOOKING AT THE DISTRIBUTIONAL INCIDENCE OF MULTI-PROGRAM COVERAGE, OVER ONE FIFTH OF THE POOREST (AND ST) HOUSEHOLDS ACCESS NO SP PROGRAM AT ALL. AT THE SAME TIME, THE SITUATION IS FOR THE MOST PART REMARKABLE MAINLY FOR ITS UNIFORMITY ACROSS WEALTH LEVELS AND SOCIAL CATEGORY, THOUGH AS WOULD BE EXPECTED RURAL HOUSEHOLDS ARE SIGNIFICANTLY MORE LIKELY TO ACCESS MORE THAN ONE PROGRAM. This can be seen in Figure A3.1. The most notable feature is how high up the distribution similar patterns of coverage persist, and how the poorest are not specially better off in coverage terms than those in the middle and even upper reaches of the distribution. On a social category basis, the story is somewhat more positive, with SC and ST having notably higher coverage in more than one program. However, particularly when one considers some of the results on average benefit levels among SC/ST, the overall picture is one of considerable public spending spread rather thinly across a large share of the population.

Figure A3.1: Number of SP programs per household, by wealth and caste



Source: Ajwad 2006 based on 2005 IHDS data.

444 The programs included in this analysis are benefits from PDS, scholarships, SGSY, NOAPS and other social pensions, maternity benefits, Annapurna, and housing programs.

## ANNEX 4

# Unbundling SP Service Delivery Activities<sup>445</sup>

Chapter 7 pointed to the frequent bundling of SP service delivery activities at specific – and at time inappropriate – levels of the system, and recommended that all programs undertake an “unbundling exercise” which could allow for more considered assignment of activities in the service delivery chain. The following is an

example of an unbundling for SGRY. It presents the “delivery chain” for SGRY, and then seeks to map both the de jure and de facto assignment of activity responsibilities across levels of the system. Just such an unbundling exercise was done for MGNREG in its operational guidelines, which offer a good model of both process and outcome.

**Table A4.1: De-jure Functions and Activities Matrix**

Function	Activity	Responsibility					
		Central	State	District	Block	Village	
						Gram Panchayat	Gram Sabha
<b>Policy Design/Standards</b>	Rules of implementation Targeting Budgeting Standards						
<b>Planning</b>	Activity Prioritization/action plan Activity selection						
<b>Asset Creation</b>	<b>Human Capital</b> Skill development <b>Social Capital</b> Information dissemination <b>Physical Capital</b> Public Works						
<b>Operation</b>	<b>Beneficiary Selection</b> Identification of beneficiaries Awareness Raising <b>Recurring</b> Provision of wages/food grains Supervision & quality control						

<sup>445</sup> This annex is drawn entirely from Aiyar and Samji (2006).

Function	Activity	Responsibility					
		Central	State	District	Block	Village	
						Gram Panchayat	Gram Sabha
	<b>Personnel</b> Hiring/firing <b>Maintenance</b> Accounting & financial management Repairs						
<b>Monitoring And Evaluation</b>	<b>Assets</b> Record of assets Physical verification of assets created <b>Audits</b> Financial audit Social audit						
<b>De-facto Functions and Activities Matrix</b>							
<b>Policy Design/Standards</b>	Rules of implementation Targeting Budgeting Standards						
<b>Planning</b>	Activity Prioritization/action plan Activity selection						
<b>Asset Creation</b>	<b>Human Capital</b> Skill development <b>Social Capital</b> Information dissemination <b>Physical Capital</b> Public Works						
<b>Operation</b>	<b>Beneficiary Selection</b> Identification of beneficiaries Awareness Raising <b>Recurring</b> Provision of wages/food grains Supervision & quality control <b>Personnel</b> Hiring/firing <b>Maintenance</b> Accounting & financial management Repairs						
<b>Monitoring and Evaluation</b>	<b>Assets</b> Record of assets Physical verification of assets created <b>Audits</b> Financial audit Social audit						

**Table A4.2: Indicative format for activity mapping (Ministry of Panchayati Raj)**

Broad function	Specific activity	Central govt.	State got.	DPCs	Panchayati Raj Institutions			ULBs	GS/GP Stg. Com.	CBOs, etc.
					District	Inermediate	Village			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
<b>(A) Functions</b>										
<b>Framing scheme</b>	Objective, design, standards, etc.									
<b>Planning</b>	Building database Preparation of macro plans Preparation of micro plans Approval of micro plans Consolidation of plans									
<b>Asset creation and operation</b>	Identification of project/land/site Construction Operation & maintenance User charges Identification of beneficiaries Procurement/distribution of asses									
<b>Monitoring And evaluation</b>	Reporting Display of information Social audit Independent evaluation IEC									
<b>(B) Functionaries</b>										
<b>Oversight over each category of functionaries</b>	Selection/appointment Training/capacity building Payment of salary etc Disciplinary control Attendance monitoring Performance evaluation									
<b>(C) Funds</b>										
<b>Financial approval, accounting &amp; audig</b>	Untied/flexible funds Financial approval Authorization to release Reporting on expenditure Expenditure review Maintenance of accounts Quick audit									

Source: Ministry of Panchayati Raj (Advisory to states delineating the role and responsibilities of PRIs in CSSs/ACAs, Annexure III, 19th January, 2009).

## Methodology for Comparing BPL “Poor” and NSS “Poor” at the Household Level

This technical annex describes the methodology adopted by Jalan and Murgai (2008) for the analysis described in Chapter 8. Based on the distribution of BPL scores within each state, we defined a state-specific BPL score cut-off such that the number of BPL poor (i.e., people with BPL scores below the cut-off) is exactly equivalent to the number of persons living below the poverty line in that state as estimated by the Planning Commission for the year 1999-2000 and 2004-2005. Undercoverage – or misclassification – was defined as the percentage of the actual or expenditure-based poor who are incorrectly classified as BPL non-poor. In this context, at the state-level, the extent of under-coverage is identical to leakage – the percentage of BPL poor who are actually (expenditure-based) non-poor – because of the restriction that the total number of BPL poor is the same as the number of expenditure-based poor in a state. Therefore, whenever we refer to state-level under-coverage estimates as a measure of targeting accuracy, it is useful to keep in mind that it implies the same extent of aggregate state-level leakage, by assumption.

A shortcoming of undercoverage and leakage measures is that they do not differentiate between exclusion (inclusion) of households who are just below (above) the poverty line and households that are far below (above) the poverty line. If most of the targeting errors (exclusion and inclusion) were concentrated around the poverty line, the welfare losses suggested by these measures would be considerably lower.

In order to examine the nature of the targeting errors, i.e., where in the consumption distribution these errors manifest themselves, we follow the approach developed by Skoufias and Coady (2002) to display the targeting errors graphically. We construct a variable that takes a value one when households that are classified as “poor” and “nonpoor” according to consumption are classified incorrectly as “nonpoor” and “poor”, respectively, according to the BPL indicator. Otherwise this variable take the value zero. Using non-parametric methods described by Skoufias and Coady, we plot the mean of this variable against the log of reported per capita expenditures normalized by the poverty line. The value on the y-axis is the “predicted error probability” (PEP). The height of the curve captures the extent of targeting errors made at different points in the distribution. The shape captures where in the distribution these errors are being made. For example, a bell-shaped curved concentrated around 0 (where expenditures equal the poverty line) indicates that most of the misclassifications involve households that are just below and above the poverty line.

The impact of targeting losses can be summarized in a welfare index that places a greater “welfare weight” on income transfers to households that are lower income households (Skoufias and Coady, 2002). Equation (1) derived from standard welfare theory defines an index  $\lambda_p$  for program  $p$ .

$$\lambda_p \equiv \frac{\sum_h \omega^h dy^h}{\sum_h dy^h} = \sum_h \theta^h \omega^h$$

where  $\omega^h = (y^z / y^h)^\varepsilon$ ,  $\theta^h = \frac{dy^h}{\sum_h dy^h}$  (1)

$h$  refers to households who receive transfers and  $dy^h$  is the level of transfers for household  $h$ , so that the denominator is the total budget to be allocated across

households.<sup>446</sup>  $\theta^h$  is each household's share in the total budget.  $\omega^h$  is the weight assigned to household  $h$  and is the social valuation of income transfer to household  $h$ .  $y^z$  is the state-specific poverty line,  $y^h$  refers to consumption of household  $h$ , and  $\varepsilon$  is the inequality aversion parameter. For example,  $\varepsilon=0$  implies no aversion to inequality and all welfare weights take a value of unity, i.e., transfers to all households are viewed equally. When  $\varepsilon=1$ , if household  $h$  has half (twice) the consumption of the poverty line, then its welfare weight is 2.0 (0.25), and so on.

Source: Jalan and Murgai (2008).

446 Strictly speaking,  $\lambda_p$  is a benefit-cost ratio but it is equivalent to a welfare index since we assume that the budget is fixed across simulations.

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India's economic growth and the expansion in public spending on the social sector have created new possibilities for its social protection system. While India spends over 2 percent of GDP on core safety net programs, the reduction in poverty and improvement in livelihoods of the vulnerable have not reached full potential.

This report represents a first comprehensive review of the performance of India's key anti poverty and social protection programs, including the Public Distribution System, Mahatma Gandhi National Rural Employment Guarantee scheme (MGNREG), Indira Awaas Yojana (IAY), Swarnajayanti Gram Swarozgar Yojana (SGSY) and others, as well as programs to expand social security coverage to the unorganized sector such as the Indira Gandhi National Old Age Pension Scheme and the growing Rashtriya Swasthya Bima Yojana (RSBY) health insurance program.

The review draws on new empirical analysis of primary and secondary data sources, including several rounds of the National Sample Survey data, a special Human Development Profile of India survey, dedicated state-level household surveys on associated themes and a rich body of analysis on program performance and impact by national researchers and Government agencies.

The report concludes with suggestions for future directions in reform to help India get the most from its social protection system as it enters the second decade of the 21st century. Volume I highlights the main conclusions and recommendations, while Volume II contains the full report with all analyses and findings in detail.

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