

Task Force on Elimination of Poverty in India

Regional Consultation Meeting

Based on the work of the Task Force,
prepared a paper on
'Eliminating Poverty : Creating Jobs and
Strengthening Social Programs'

Task Force Meetings, Consultation and Approach

- NITI Aayog's Taskforce constituted in March 2015 under the Chairmanship of Vice Chairman, NITI Aayog
- Members include one NITI Member, CEA, experts and Secretaries of the relevant ministries.
- Parallel Task Forces were to be constituted in all States/Uts.
- Three meetings of the Task Force were held.
- Consultations were held with economists, journalists and NGOs.
- Selected a small number of most important topics instead of being comprehensive.

Broad Issues

1. Measuring Poverty in India: A Brief History
2. Assessing the Need for an Official Poverty Line
3. Combating Poverty: Employment-intensive
Sustained Rapid Growth
4. Combating Poverty: Making Social Programs
More Effective
5. Combating Poverty: New Approaches

1. MEASURING POVERTY IN INDIA: A BRIEF HISTORY

Poverty Line, Poverty Line Basket and Poverty Ratio

- The conventional approach to measuring poverty is to specify a *minimum expenditure* (or income) required to purchase a *basket of goods and services* necessary to satisfy basic human needs.
- This minimum expenditure is called the **poverty line**.
- The basket of goods and services necessary to satisfy basic human needs is the **poverty line basket** or PLB.
- The proportion of population below the poverty line is called the **poverty ratio** or **headcount ratio** (HCR).

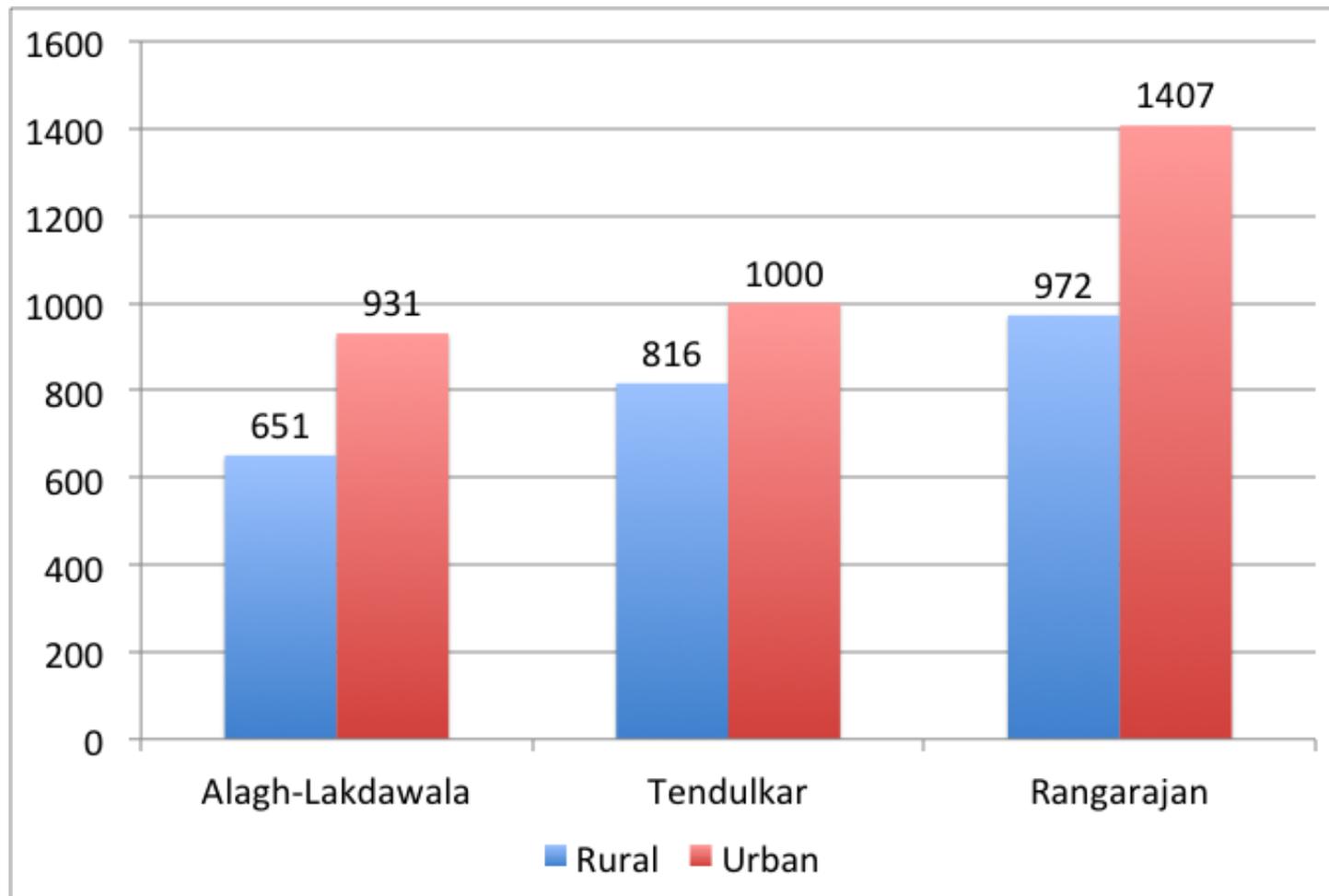
Measuring Poverty in India: A Brief History (1 of 2)

- Most countries and international institutions (WB, UN) follow similar approach for counting the poor.
- In India, the first official rural and urban poverty lines at the national level were introduced in 1979 by Y. K. Alagh Committee and official poverty counts began for the first time.
- Later, in 1993, D. T. Lakdawala Committee extended these poverty lines to states and over time allowing official poverty counts over time and in the states.
- In 2005, recognizing that the rural poverty line was too low, the government appointed the Tendulkar committee to take a fresh look at the poverty lines.

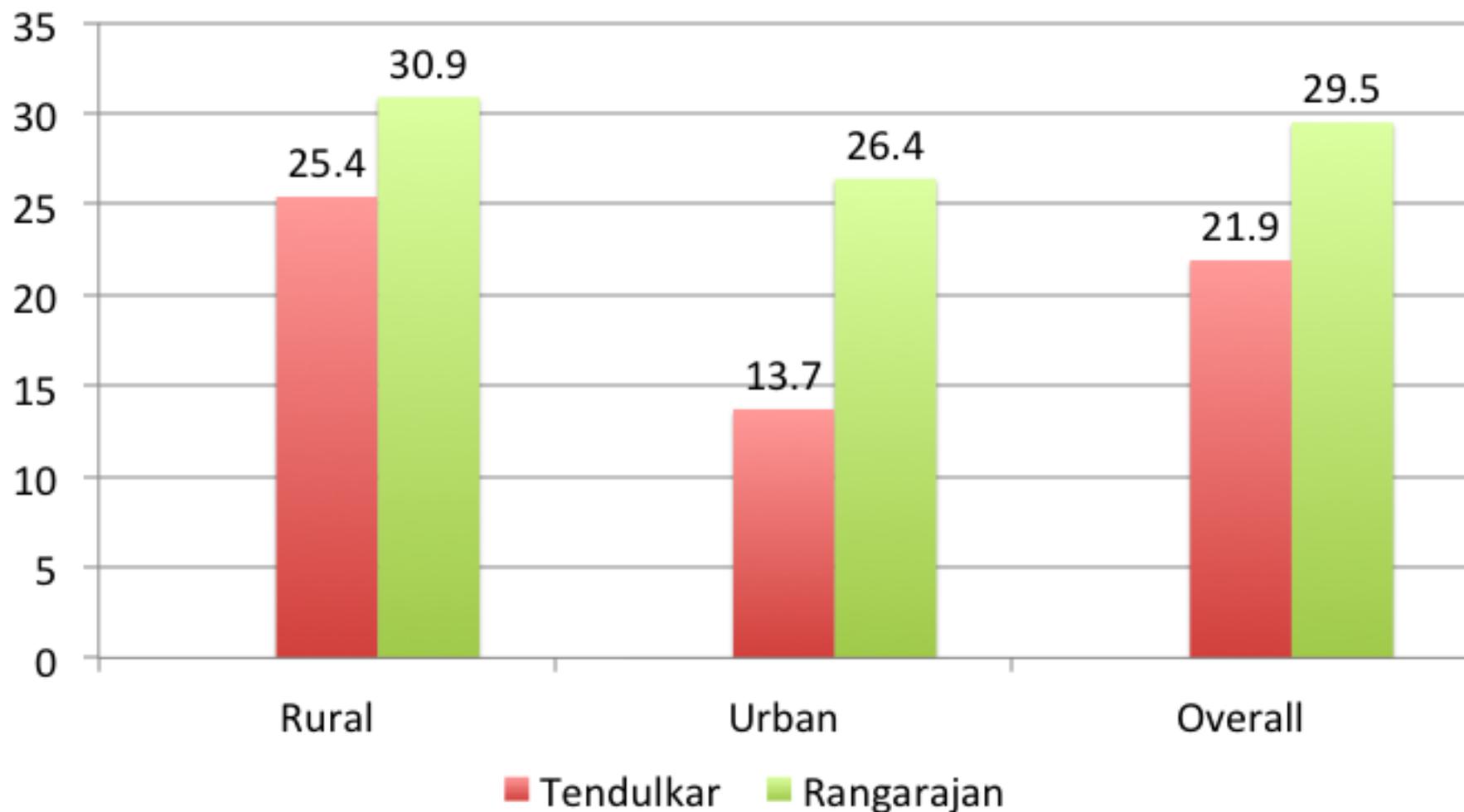
Measuring Poverty in India: A Brief History (2 of 2)

- Reporting in 2009, the Tendulkar Committee revised upward the rural poverty line..
- Continued media criticisms led the government to appoint the Rangarajan Committee in 2012. Reporting in June 2014, the committee recommended raising further both the rural and urban poverty lines.
- Decision is yet to be taken on the Rangarajan Committee recommendations.
- Therefore, the Tendulkar poverty line remains the official poverty line and is the basis of the current official poverty estimates in 1993-94, 2004-05 and 2011-12.

Rural and Urban Poverty Lines in India at 2011-12 Prices



Percent Population below Poverty Line (2011-12) at Tendulkar and Rangarajan Lines



MEASURING POVERTY: FUTURE COURSE

Measuring Poverty: What Should be the Future Course?

- Perceptions of what defines basic human needs vary widely according to income and socio-political beliefs of the observer.
- Therefore, views on where we must set the poverty line vary widely.
- This has repeatedly led to contentious debates on poverty line in the media.
- Any decision the government takes on the poverty line is likely to give rise to similar debate.

The Case for Official Poverty Estimates

- We need to track progress in poverty reduction.
- We are also committed to such estimates under the SDGs recently adopted at the United Nations and supported by India.
- Income or expenditure is the best single summary indicator of the material well being of the population. Having an official poverty line and therefore official poverty estimates helps concentrate the public policy discourse around an agreed set of of numbers.

An Alternative: Track the Progress of the Bottom 30%

- If we did not want to commit to a poverty line, an alternative would be to track the economic progress of the bottom 30% of the population over time. Rising incomes of this group would imply declining poverty
- The World Bank has recently adopted this approach (it tracks the incomes of the bottom 40%)
- The main limitation of this approach is that it will not allow us to answer questions such as how far are we from eliminating poverty or by how much have we reduced it.

Does Socio Economic Caste Census (SECC) Offer an Alternative?

- The SECC is useful for identifying potential beneficiaries of social programs such as affordable housing, electricity, water and toilets but not for tracking overall poverty over time
 - It does not collect information on the overall income or expenditure of the household
 - Over time, there is also high risk of household responses getting biased since the households know that their responses determine whether or not they receive benefits
 - So far we have no experience on how this experiment would work out over time.
 - After nearly five years, we still have only the rural SECC results with no urban SECC results yet available.

What are the Options?

- Option 1: Continue with the Tendulkar poverty line
- Option 2: Accept the Rangarajan poverty line or higher rural and urban poverty lines
- Option 3: Track progress of the bottom 30 of the population
- Option 4: Track progress along specific components of poverty such as nutrition, housing, drinking water, sanitation, electricity and connectivity.

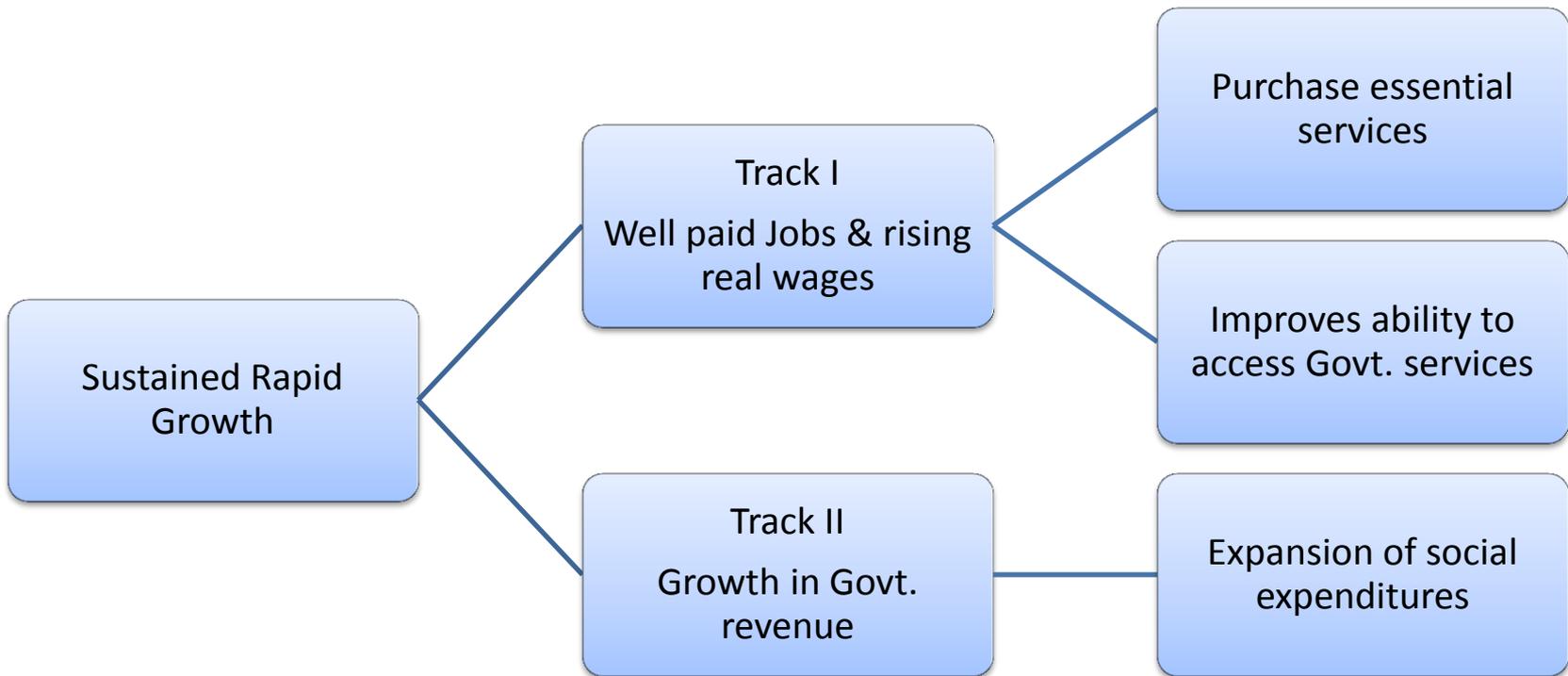
(Option 3 and 4 can be complementary to option 1 or 2 but cannot be a substitute for it)

Choosing between Tendulkar and a Higher Poverty Line

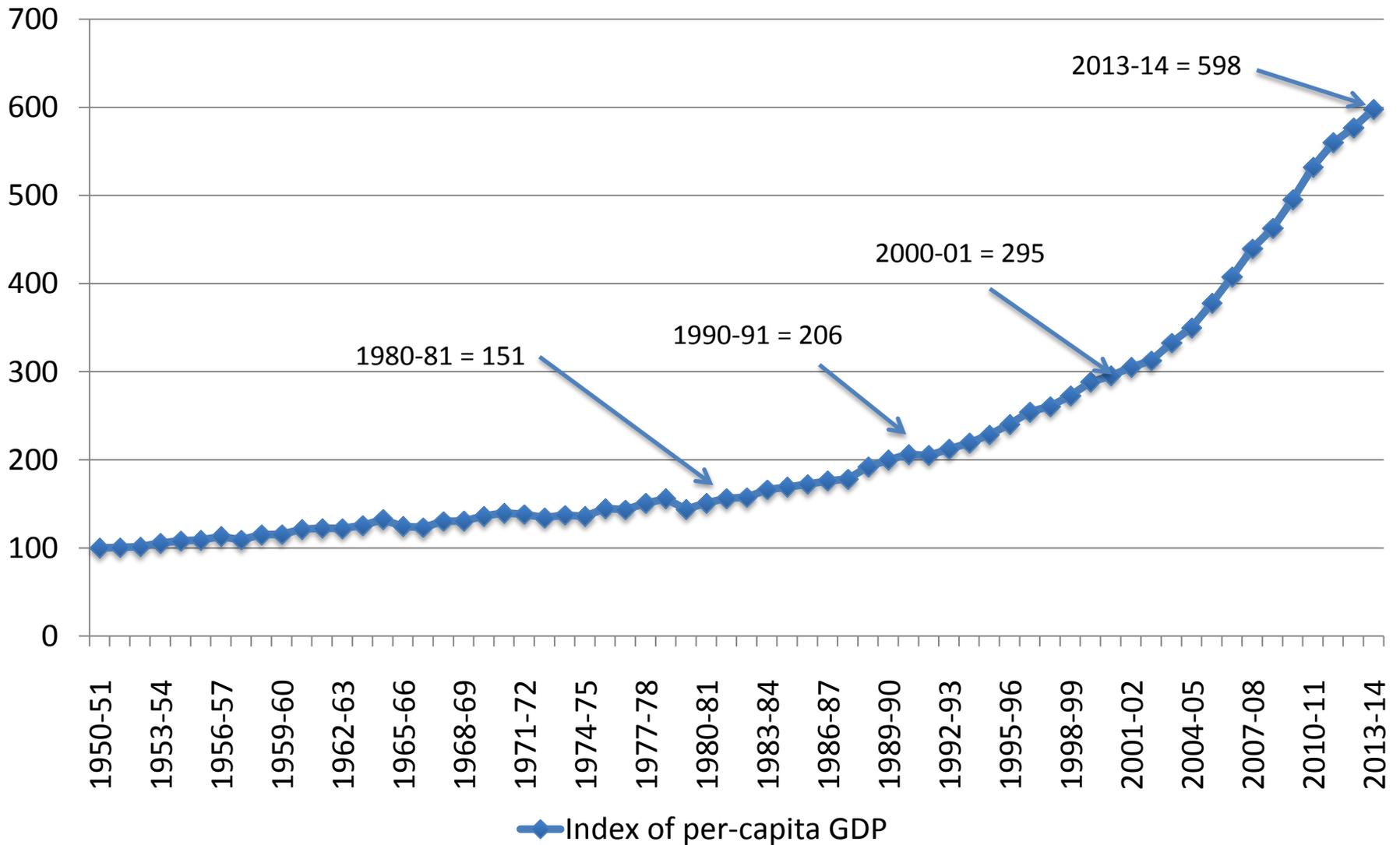
- Main criticism of the Tendulkar line is that being rather low it risks excluding many worthy beneficiaries from government programs
- But this argument is not valid since the poverty line is not to be used for the identification of the poor
- The sole objective behind the poverty line being to track progress in combating extreme poverty, it makes more sense to it at a level just sufficient for accessing the basic necessities of life.
- Setting the poverty line at a level at which the individual has comfortable existence will not allow us to assess the progress in the fortunes of those in abject poverty

2. ELIMINATING POVERTY: EMPLOYMENT-INTENSIVE SUSTAINED RAPID GROWTH

How Growth Works on Two Tracks to Reduce Poverty

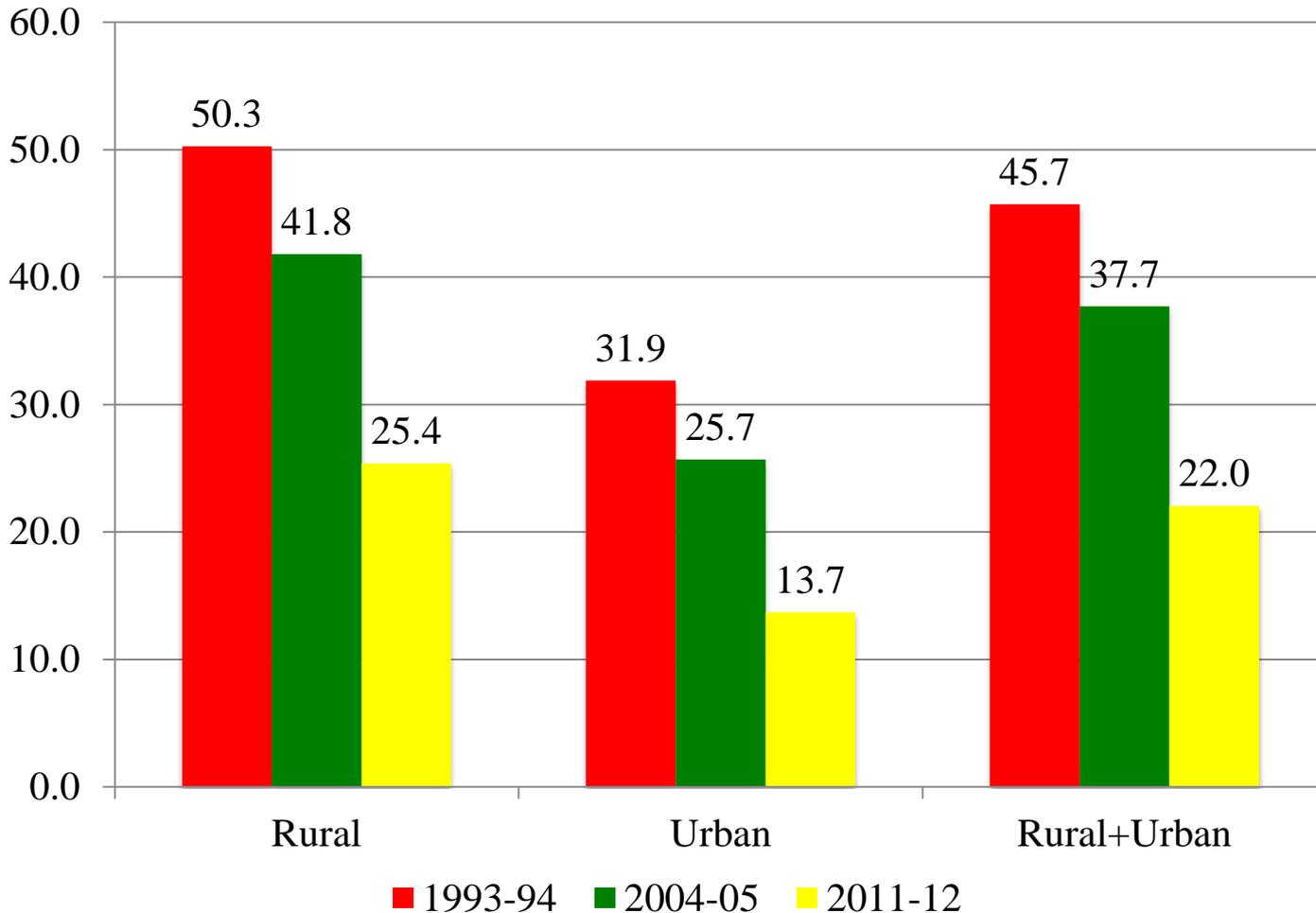


Index of real per-capita GDP (1950-51 = 100)



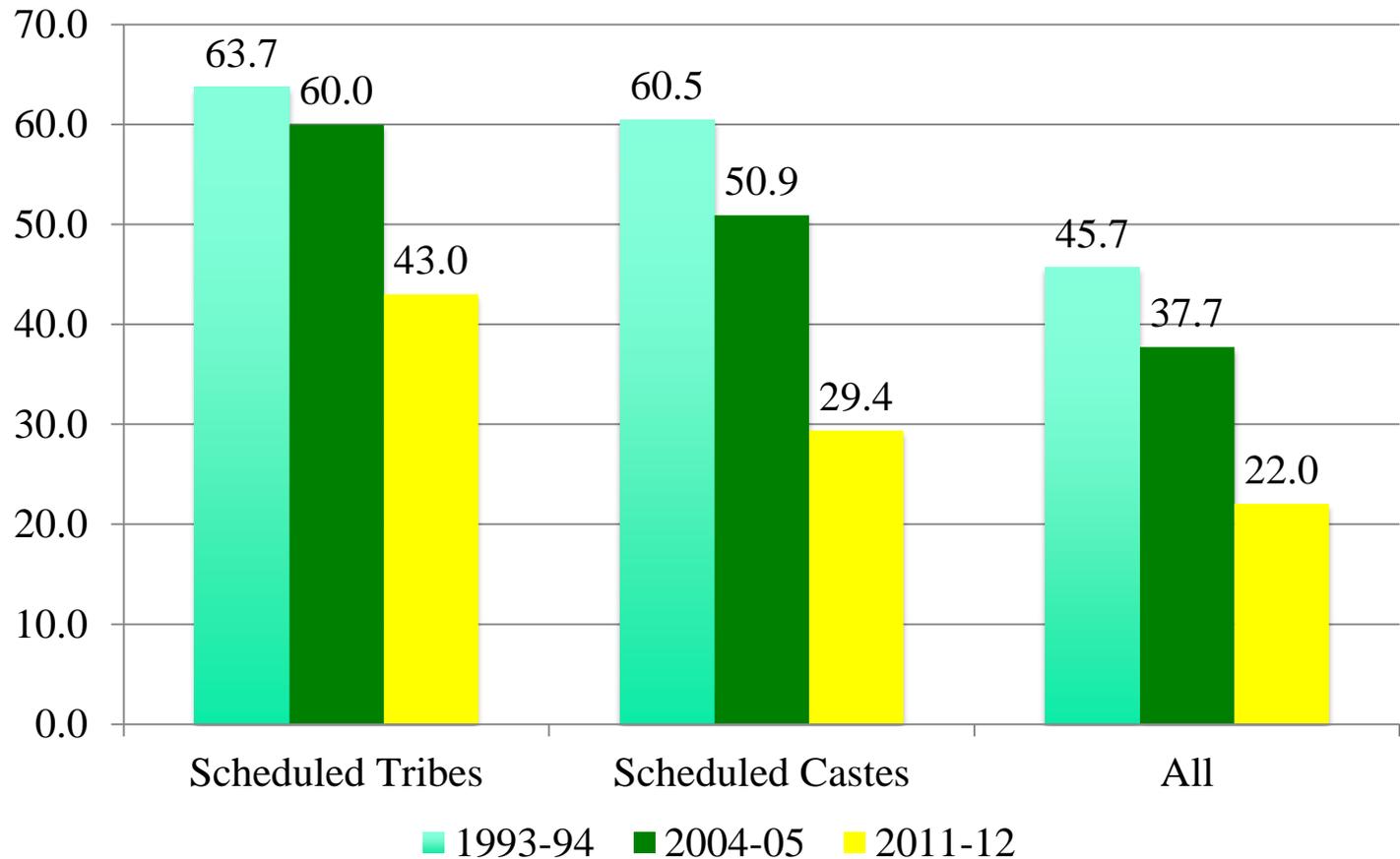
Poverty: Rural and Urban (93-94 to 11-12)

(As per Tendulkar Methodology)



Poverty by Social Groups (93-94 to 11-12)

(As per Tendulkar Methodology)



Centrality of Agricultural Growth

- 80% Indian poor are in rural areas
 - Their livelihood directly or indirectly depends on the performance of agriculture
- But agriculture inherently grows slowly
 - Limited livelihood opportunities at local level
 - Subsistence incomes for small and marginal farmers
- We need two-pronged strategy
 - Modernize agriculture & accelerate agricultural growth: The Taskforce on Agriculture discussed this
 - Create job opportunities in industry & services for farmers wishing to exit agriculture
 - ✓ We focus on this last subject below.

Employment-intensive Growth in Manufacturing and Services

- The fastest agriculture growth over a ten-year period is 4.7% per annum during the 1980s
- Shared prosperity mandates that industry and services that grow faster create jobs to which underemployed farmers can migrate
- This is how South Korea and Taiwan eliminated poverty during 1965-90 and China more recently.

Transition of Workforce out of Agriculture: South Korea vs. India

India

Percent share of agriculture in	1993-94	2004-05	2011-12
GDP	28.3	20.3	14.4
Employment	64.8	58.7	48.9

South Korea

Percent share of agriculture in	1975	1980	1985
GDP	24.9	15.1	13.9
Employment	45.7	34	24.9

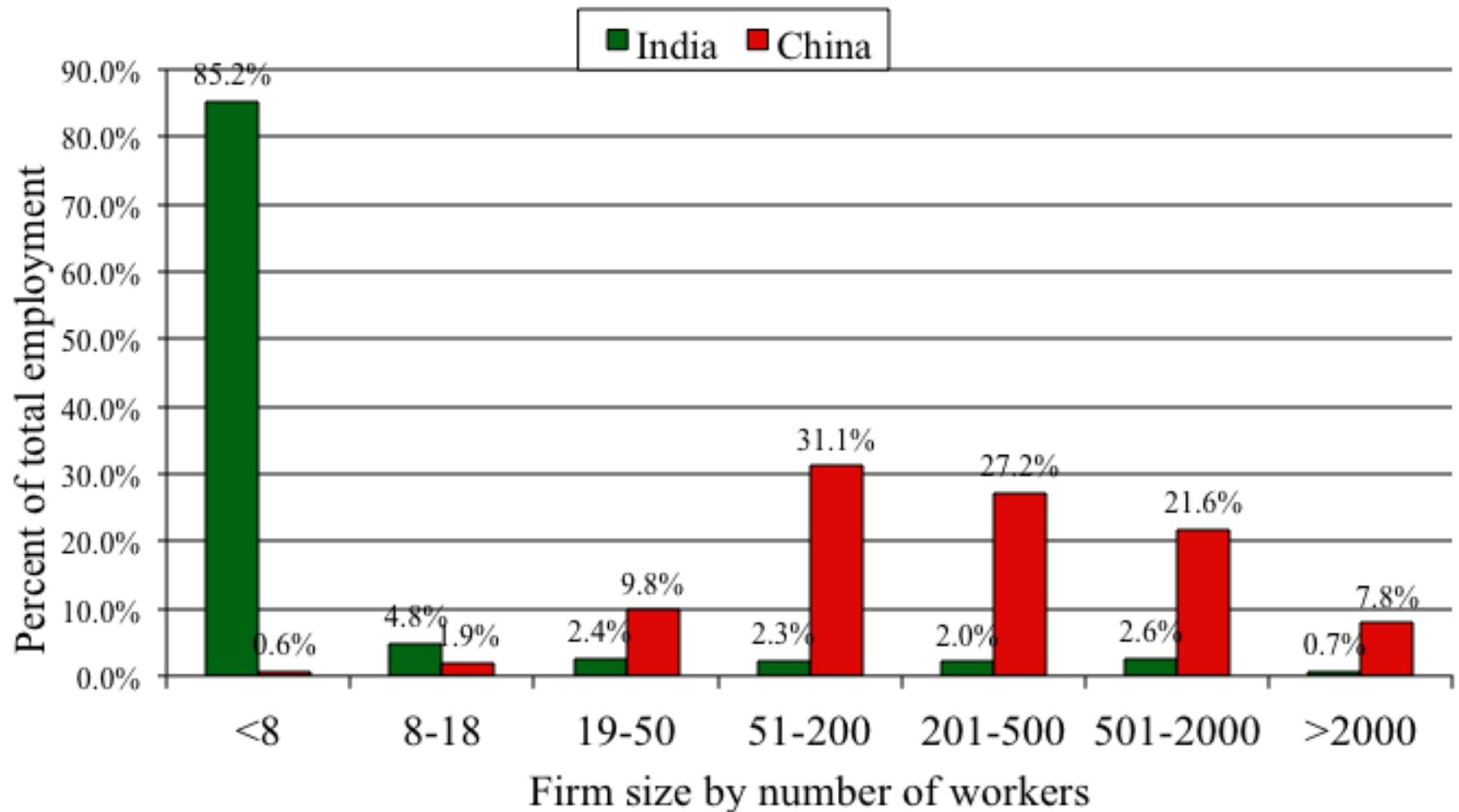
Successful Sectors in India are not Employment Intensive

- Fast growing manufacturing sector such as auto, auto parts, two wheelers, engineering goods, chemicals and petroleum refining use very little low-skilled labor per unit of investment
- Other fast growing sectors such as software, pharmaceuticals, telecommunications and financial services use mostly skilled labor
- Sectors such as clothing, textiles, footwear, food processing and electronic goods, which employ lots of low and semi-skilled workers in which China has excelled have not done well in India

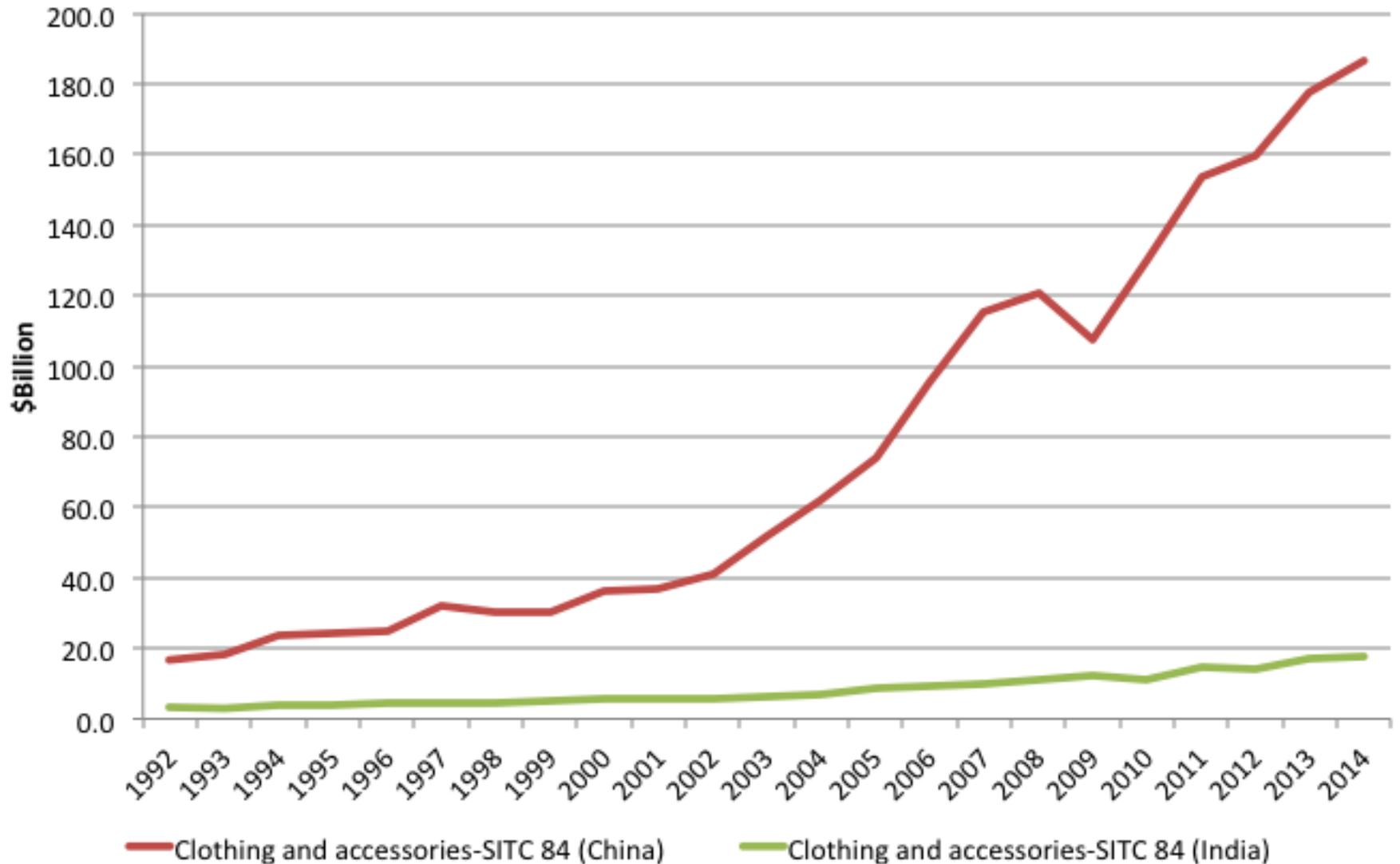
Why are Employment Intensive Sectors Lagging in India?

- In employment intensive sectors such as clothing, footwear, food processing and electronic industry, India lacks critical mass of large firms.
- This has impaired India's ability to capture the vast export markets
- In so far as large firms operate in the world markets, they catalyse technological change and high product quality.
- Their absence has meant low productivity of small and medium firms as well in these sectors.
- A comparison with China is instructive

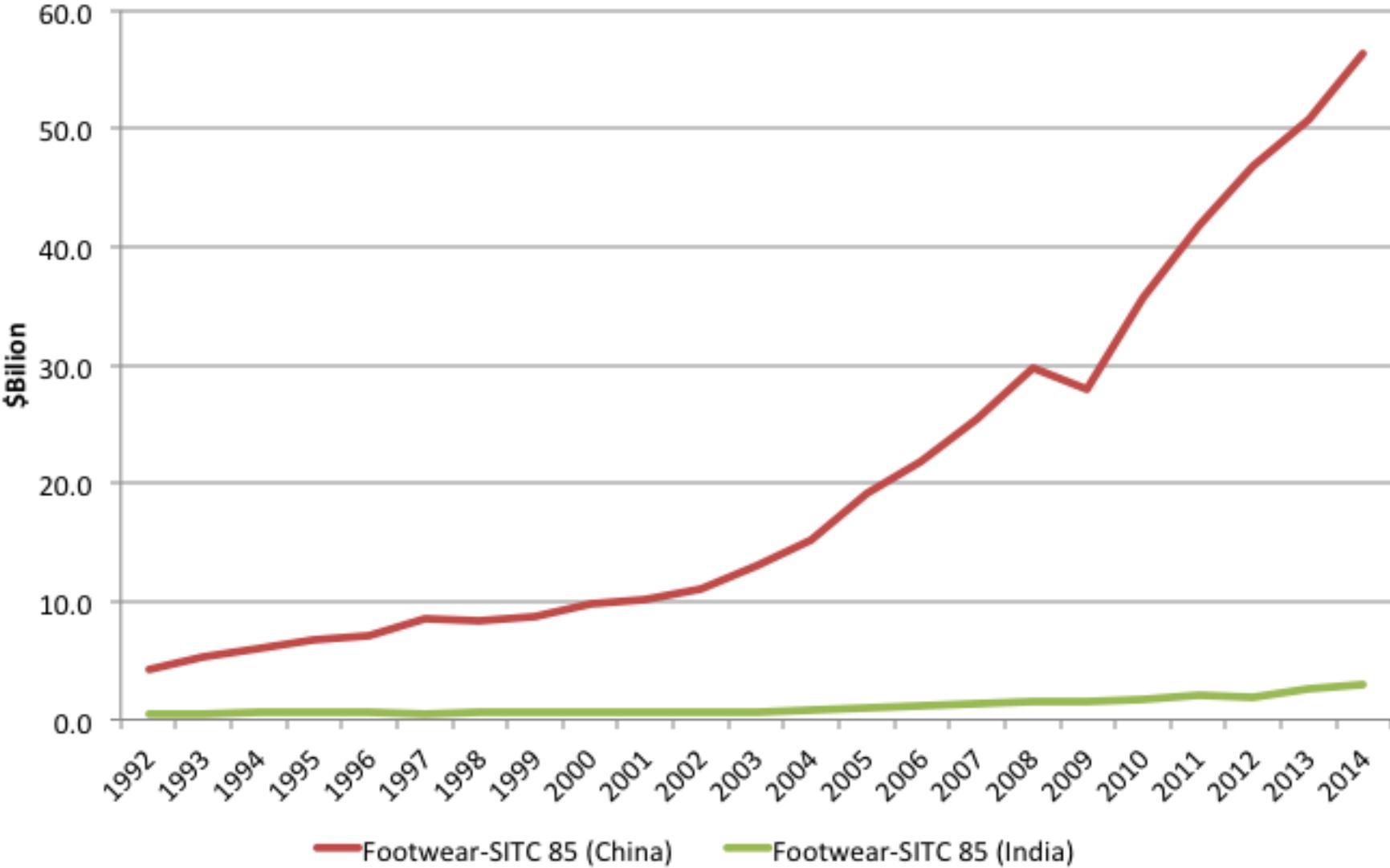
Distribution of Worker Employment by Firm Size in Apparel: India versus China (2005)



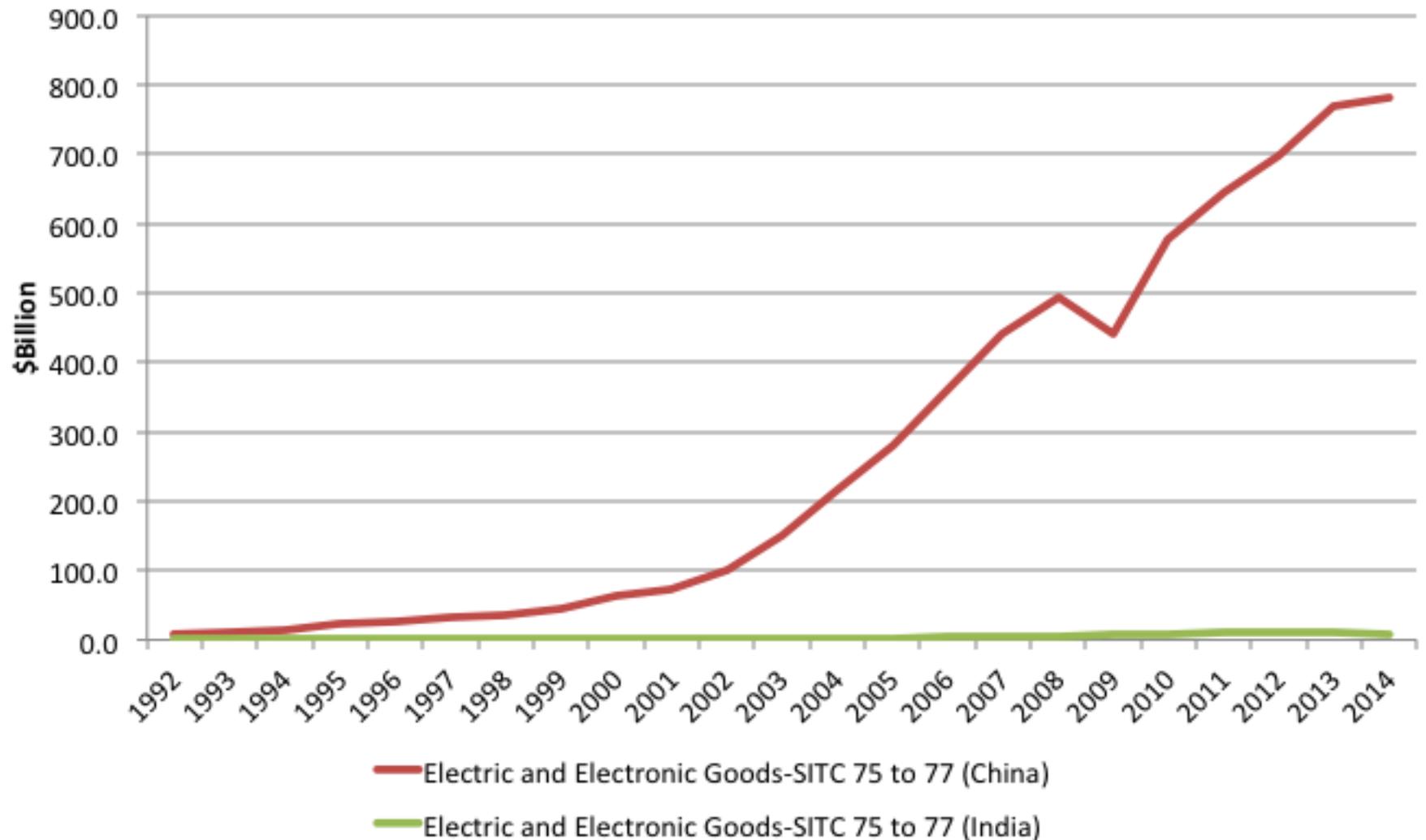
Clothing Exports (\$Billion): India and China



Footwear Exports (\$Billion): INdia and China



Exports of Office machines, telecommunication & recording equipment and electric machinery (\$Billion): India and China



What Must be Done?

- Effective Implementation of all the good things that Hon'ble Prime Minister has announced for the success of Make in India
 - Infrastructure (esp. power, roads and ports)
 - Ease of Doing Business (including trade facilitation)
 - Credit access for MSMEs
 - More flexible labor laws
 - Reform of the Land Acquisition Law
 - A Modern Bankruptcy Law
 - Skill Development
 - Tax certainty

4. MAKING SOCIAL PROGRAMS MORE EFFECTIVE

Nutrition: National Food Security Act, 2013

- **Plugging Leakages**
 - Aadhaar based verification of transactions
 - Choice between subsidized Cereals and cash transfer
- **Better balance in diet**
 - Intensive information campaign, shift to cash transfers
- **Need for reorientation of the subsidy**
 - As per the SECC (Rural), 40% of the rural households satisfy one or more exclusion criteria. This greatly weakens the case for subsidy to more than 60% of the rural households under the NFSA.

Nutrition: Midday Meal Scheme

- Poor convergence of MDMS with the school health program.
- State specific guidelines are required for improved quality and safety of food
- 25% of schools lack kitchen sheds and prepare food in open. This is a major cause for concern as it impacts the safety of food students eat

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

- Skill Development
 - ✓ Allow workers to choose between unskilled employment and skill formation that would allow them to exit the program
- Durable assets
 - ✓ Enforce the 60:40wage: materials ratio to be maintained at the district level and allow contactors in the materials part of the expenditures (this had worked well in the early years)
- Shortage of farm labour in peak season
 - ✓ Allow farmers to hire MGNREGA workers if they are willing to pay bulk of wages
 - ✓ Consider MGNREGA holiday during peak season

Housing for All (Rural)

- The scheme has progressed well overall but can be improved along several dimensions.
- Faces a major challenge in the selection of beneficiaries; SECC may be deployed to identify them.
- Gaps in reporting by the States on completion of houses against the physical targets and the updated progress is not reflected in the reporting system.
- States have to come forward with larger resources to meet the objectives of 'Housing for All by 2022' in the rural areas.
- Explore the scope for prefabricated houses

Housing for All (Urban)

- Challenges of finding land for urban housing. Urban Land Ceilings and Regulation Act, low FSI and difficulties in the conversion of land from one use to another pose challenges
- Integration between land and transport planning is needed so that affordable housing is linked with public transport.
- Low-rent housing requires serious thinking since migrants can rarely afford to buy houses and, absent proper rental housing, seek recourse to slums

Combating Poverty: New Approaches

Targeting Five Poorest Families in Each Village

- SECC based BPL list may be used for selection
- Gram Panchayat to ensure all Government program benefits reach them
- A modest cash transfer for a pre-specified time may top these benefits
- Aim - to ensure the target families become capable of earning & sustaining above-poverty level of income within 5-7 years
- Similar efforts in urban areas – 100 families in a municipality

Towards Cash Transfers: Jan Dhan Yojana, Aadhaar, Mobile (JAM) trinity

JAM could play a vital role in widening the reach of government to the vulnerable sections as

1. Jan Dhan Yojana promise to eventually revolutionize the anti-poverty programmes by replacing the current cumbersome and leaky distribution of benefits under various schemes by the direct benefit transfers (DBT).
2. Aadhar linked accounts permit aggregation of the information, the government would have an excellent database to assess the total volume of benefits accruing to each household.
3. It could pave the way for replacing countless schemes with consolidated cash transfers except in cases in which there are other compelling reasons to continue with in-kind transfers.

The End
Thank You