



State of India's Livelihoods

The 4 P Report

Edited By: Dr. Sankar Datta and Vipin Sharma



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The Microfinance India Secretariat

Aarti Dayal
Project Coordinator, Livelihoods,
ACCESS Development Services



ACCESS Development Services

28, Hauz Khas Village, New Delhi - 110016
Tel : +91 11 26510915, Fax: +91 11 26850821
www.accessdev.org

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Edited by:

Dr Sankar Datta

Vipin Sharma

ACCESS Development Services
28 Hauz Khas Villages, New Delhi 110 016

2009

Disclaimer: *This report represents the personal views of the chapter authors. It does not represent the view of ACCESS Development Services, The Livelihood School, or of its sponsors, or of the Livelihoods India Advisory Group.*

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ACCESS Development Services
28, Hauz Khas Village
New Delhi - 110 016
Phone: +91-011-26510915
Fax: +91-011-26850821
www.accessdev.org

BfC Production Team

Shoba Ramachandran, Rajeevan and Gokul

CONTENTS

Foreword
Preface
Abbreviations

Chapter 1

Overview of Livelihoods Scenario in India

1. Introduction	1
2. Salient features of the livelihoods scenario today	3
2.1. <i>New government's focus on rural livelihoods</i>	3
2.2. <i>Global economic slowdown</i>	4
2.3. <i>Current employment scenario</i>	6
2.4. <i>Stagnant agricultural economy</i>	7
2.5. <i>Widening gap</i>	9
2.6. <i>Distribution of workers across gender: feminisation of workspace</i>	12
2.7. <i>India's response to the current livelihoods situation</i>	12
3. Policy interventions to address the same	13
3.1. <i>Social Inclusion focus of government</i>	13
3.2. <i>National Rural Livelihood Mission (NRLM)</i>	13
3.3. <i>National Rural Employment Guarantee Act (NREGA)</i>	13
3.4. <i>Social security bill</i>	14
3.5. <i>Skill building efforts</i>	15
4. Innovation initiatives	16
4.1. <i>Experimentation with institutional forms</i>	16
4.2. <i>Difficulties in mobilising livelihood finance</i>	16
5. Promotion efforts of civil society	17
5.1. <i>Diverse multi-lateral programmes focusing on livelihoods: large investments</i>	17
5.2. <i>Public-private-people partnership</i>	17
6. Conclusions	18
References	19

Chapter 2

Perspectives on the Impact of the Global Financial Crisis on India's Poor

1. Introduction	20
2. Financial crises and their impact on the poor	21
3. The canvas	22
3.1. <i>The global scenario related to the present crisis</i>	22
3.2. <i>Impact on global trade, growth and remittances</i>	23
3.3. <i>Global impact on poverty and hunger</i>	25
3.4. <i>The decoupling debate</i>	25

4. The Indian context	27
4.1. <i>India and the Global Economy</i>	27
4.2. <i>The transmission channels</i>	28
4.3. <i>The moderating factors</i>	28
5. Impact of the slowdown on sectors and industry groups	29
5.1. <i>Activities not integrated into the global economy</i>	30
5.2. <i>Activities impacted by domestic deleveraging</i>	31
5.3. <i>Sectors facing a business cycle acceleration</i>	34
5.4. <i>Sectors entailing boom-time valuations</i>	34
6. Migrant remittances	39
7. Policy response	41
7.1. <i>Monetary policy response</i>	42
7.2. <i>Fiscal policy response</i>	43
8. Assessing the impact	44
9. First order impact of the crisis	45
9.1. <i>Opportunities lost for new job creation</i>	45
9.2. <i>Job losses</i>	45
9.3. <i>The poverty impact</i>	47
9.4. <i>Impact: an intuitive sector-wise overview</i>	48
10. The second order impact of the crisis	48
11. Other collateral issues	51
12. Conclusion	54

Chapter 3

The Promise of Social Inclusion: Will the 11th Five Year Plan Deliver?

1. Introduction	55
2. Social exclusion and inclusion – the theoretical construct	57
3. Socially excluded people and their situation	59
3.1. <i>Women</i>	60
3.2. <i>Scheduled Castes (SC) and Scheduled Tribes (ST)</i>	61
3.3. <i>Muslims</i>	64
4. Livelihoods schemes and their inclusive potential	66
4.1. <i>Schemes for women</i>	66
4.2. <i>Schemes for the SCs and STs</i>	67
4.3. <i>Schemes for the minorities</i>	69
5. The 11th Plan: how inclusive?	70
5.1. <i>Affirmative schemes</i>	70
5.2. <i>Basic services</i>	72
5.3. <i>Social protection</i>	76
5.4. <i>Market inclusion</i>	77
5.5. <i>Legal and policy framework</i>	77
5.6. <i>Social norms and attitudes</i>	77
5.7. <i>Targets and monitoring</i>	78
5.8. <i>Discussion</i>	78

6. Conclusions	79
References	81
7. Annexure 1–11th plan outlay & expenditure: selected schemes	84

Chapter 4

NREGS and Livelihoods: A Review of Issues and Outcomes

1. Introduction	88
1. 1. <i>Experience of wage employment schemes in India</i>	89
1. 2. <i>NREGA: vision and salient features</i>	90
1. 3. <i>The rationale of the NREGA and expectations of the NREGS</i>	91
1. 4. <i>Outreach and performance of NREGS</i>	92
1. 5. <i>NREGS outcomes: field evidence of impact on rural livelihoods</i>	100
1. 6. <i>NREGS and rural livelihoods: employment generation or creation of productive assets</i>	106
1. 7. <i>NREGS and livelihoods: selected implementation issues</i>	109
1. 8. <i>Concluding observations</i>	112
References	115
Appendix 1	118
Appendix 2	120

Chapter 5

Skilling a Young India

1. Investing in youth now	121
1. 1. <i>Problems and challenges</i>	124
2. Legacy of the past	125
3. Snapshot of different market-linked initiatives	128
3. 1. <i>Government of Andhra Pradesh</i>	128
3. 2. <i>Govt. of Tamil Nadu</i>	131
3. 3. <i>The Livelihood Advancement Business School (LABS) by Dr Reddy's foundation</i>	132
3. 4. <i>Government of Gujarat</i>	133
3. 5. <i>Government of Rajasthan</i>	134
3. 6. <i>Efforts by industry associations: CII skilling initiatives</i>	135
4. Skilling mission: a panacea for all ills?	136
4. 1. <i>Challenges</i>	138
5. Way Ahead	142
5. 1. <i>Focus on the unorganised sector</i>	142
5. 2. <i>Focus on women</i>	143
5. 3. <i>Focus on the disabled</i>	144
5. 4. <i>Focus on innovations</i>	146

Chapter 6

Producer Companies – Linking Small Producers to Markets

1. Need for collectivisation	148
2. Functions of collectives	148

3. Forms of collectives	150
4. Origin of cooperatives	150
5. Mutually Aided Cooperatives Act (MACS)	153
6. Producer companies	154
7. Comparison of PC and Co-operative laws	157
8. Conclusion	168
References	169

Chapter 7

Challenges in Livelihood Finance

1. Is microfinance the answer to poverty reduction?	171
2. Rationale for livelihood finance	172
3. Working definition of LiFin	172
4. The nature of funds required for LiFin	173
5. The Rangsuotra case:4 demand side story	174
6. Organic dilemma5: the supply side story	177
7. The LiFin leveraging bottlenecks	179
8. Good practices in livelihood finance: SEWA experience	181
9. SEWA's model of livelihood finance – Sajeevikalay	182
10. SEWA's livelihood initiative for the salt farmers in Surendranagar	182
11. Cost and time aspects of livelihood finance	184
11.1. <i>Time taken to pull a family out of poverty</i>	184
11.2. <i>Agarias of Surendranagar</i>	184
11.3. <i>Cost of livelihood finance</i>	185
11.4. <i>Social security</i>	185
11.5. <i>Performance so far</i>	186
11.6. <i>Lessons from SEWA's experience in livelihood finance</i>	187
12. Way ahead in LiFin	188
12.1. <i>Engaging capital markets</i>	188
13. Setting up a challenge fund in livelihood finance for vulnerability reduction and addressing structural issues of poverty	189
References	190

Chapter 8

Corporate-NGO Partnerships: What are we Learning about the Lifecycle?	191
1. Introduction	191
2. Key process and relationship-buildin aspects in a life cycle approach	193
2.1. <i>Investing in the community: the first stage of the life cycle</i>	193
2.1.a) <i>Investment from a social responsibility objective which later emerged as a part of value chain for the compa ny's product</i>	193
2.1.b) <i>Investment in the community based on clear product buyback intentions</i>	195
2.1.c) <i>Investments in participatory design and joint monitoring</i>	197

3. Risks and accountabilities further down the cycle: the challenge of scaling up	198
3.1. <i>Sharing risk and accountability during scaling up: the second stage of the life cycle</i>	198
4. Corporate entry later in the cycle: negotiating with strong producer institutions	202
4.1. Inviting the corporate and negotiating with them on even terms: the third stage of the life cycle	202
Reference	209

Chapter 9

Impact of World Bank Support Projects on Rural Livelihoods in India

1. Introduction	209
2. The context	210
3. The approach	213
4. Impact parameters	214
5. Building institutions of the poor	214
6. Promoting inclusion	216
7. Access to finance	217
7.1. <i>Expanding livelihoods opportunities</i>	220
7.2. <i>Linking to employment</i>	222
7.3. <i>Accumulating assets</i>	222
7.4. <i>Market access</i>	224
7.5. <i>Improving the household livelihoods</i>	225
7.6. <i>Improved service delivery and convergence with government schemes</i>	226
7.7. <i>Moving forward: scaling up and consolidating success in the DPIPs</i>	228
7.8. <i>Lessons learnt</i>	229
References	231
About the authors	233

FOREWORD

The first volume of the State of India's Livelihoods (SOIL) Report was published last year, and received a very encouraging response, both from sector experts as well as practitioners. Putting together a report that documents, in an aggregated manner, the various issues and challenges related to the dynamic livelihoods of the poor, was indeed an arduous task, but ACCESS took it up as a challenge, and was successful in bring out a report that is useful not only for academicians, but also for practitioners and other actors in the sectoral value chain.

Given the success of the first volume, ACCESS and The Livelihood School are now bringing out volume two of the SOIL Report. Based on feedback on last year's Report to make it more practitioner oriented and less academic, the 2009 edition aims to focus on more contemporary themes. It is also a sequel to the first volume and further builds on the last year's report. SOIL 2009 attempts to get into specific issues and trends and analyze in detail particular livelihood related concerns of the poor, with chapters being interrelated, thus making the Report comprehensive and complete. The SOIL Report this year has specific focus on more contemporary issues like the impact of global meltdown on the livelihoods of the poor and analyzes the role and impact of large scale government programs like NREGA and other multilateral programs (with a focus on World Bank supported initiatives). The report further gives insights to practitioners on various innovative livelihoods solutions like skill development, producer collectives, social inclusion and livelihoods finance. Like last year, the SOIL Report will be developed along a 4-P framework, focusing on the Poor, the Policy environment, Potential and Promoters.

SOIL 2009 has 8 chapters, authored by well known experts from the sector, who have the experience and the knowledge to understand the intricacies embedded in enhancing livelihoods of the poor. The names include Ajay Tankha, Bazil Shaikh, Biswajit Sen, Dr. Narendranath, Dr. Smita Premchander, Dr. Vanita Viswanath, Meera Shenoy and Srinu Babu. Each author, in addition to writing their chapter, has brought in great value addition to the Report through their insights, critical views, time investment in roundtable consultations as well as writeshops. I cannot thank them enough to have taken out time from their busy schedules and contributed whole-heartedly to this Report.

The innovative insights and ideas given by the Livelihoods Advisory Group, consisting of experts such as Ajay Tankha, Ajit Kanitkar, Brij Mohan, Deep Joshi, Dr. Virinder Sharma, Prema Gera, Dr. Sankar Datta and Tinni Sawhney, are also extremely valued and have greatly helped in shaping the Report. Given that it is only the second volume, I am deeply appreciative of the continuing support to the Report by UNDP, Citi and IFMR Trust.

Partnering with The Livelihood School for bringing out this Report has been a pleasure, and like last year, the process went on very smoothly, with them complementing ACCESS perfectly. My special gratitude goes to Sankar Datta, Dean, The Livelihoods School, for his valuable suggestions and also for taking the initiative to bring together the Report on time. I would like to also thank Management Development Institute, Gurgaon, for hosting the author's writeshop and Prof. Ashok Kapoor, Prof. Gita Bajaj, Prof. Jaydeep Mukherjee and Prof. Neelu Bhullar for providing their valuable comments on the chapters.

While SOIL 2008 was published in-house, this year's Report has been published by Books for Change, whom I'm very grateful to for doing a great job, despite the time crunch they had. A special thanks also to Sudin, the content editor of SOIL 2009, who coordinated with each author and helped to improve their chapters.

Tracking the progress on how individual and institutional efforts are impacting the livelihoods of the poor is indeed difficult, given the demand and factor conditions that influence progress. This is a small effort, which we hope to refine over the years. I hope this joint effort of ACCESS and The Livelihood School brings value to the sector's understanding on the challenges that the poor face in moving the fragile livelihoods from subsistence to sustainable levels.

I dedicate this volume of the SOIL Report to Late Shri Sitaram Rao, mentor and guru of the Indian Microfinance and Livelihoods movement and a Board Member of ACCESS, who passed away recently. Sitaram was very passionate towards the livelihoods challenges that the poor face. He was one among the few thought leaders who contributed towards designing innovative livelihoods solutions for the poor, and very strongly believed that to have any significant impact on the vast population of the poor in India, the development interventions should be of considerable outreach and scale.

I extend by gratitude to all who have directly and behind the scenes contributed to put together this year's SOIL Report. And to all the readers, whose overwhelming response and feedback on last year's SOIL has helped us improve and make this report more practical. I sincerely hope that all the good wishes, support and critical feedback would help us build this as a useful tool for practitioners and thus a contribution towards improved livelihoods of the poor.

Vipin Sharma
Chief Executive Officer
ACCESS Development Services

PREFACE

Supporting livelihoods of large number of people, whose lives are adversely affected by increasing population pressure, advancing technology and globalizing markets, have from the turn of the century, become a matter of serious concern amongst policy makers, development activists, socially concerned academics as well as many corporate houses. Therefore, it was recognized that a comprehensive review of the livelihood situation in India was urgently required for giving a concrete shape to livelihood interventions arising from such concerns.

Responding to this need, ACCESS Development Services, an agency engaged in a variety of technical assistance and support services to those engaged in livelihood promotion, and the Livelihood School, an institution engaged in building and disseminating knowledge required for supporting large number of livelihoods, made the first joint effort to take a close look at the status of livelihoods in India. Their report, the first State of India's Livelihoods (SOIL) Report 2008, was published and released during the India Micro-finance Summit 11-13 November 2008.

Encouraged by the responses received to the above report, ACCESS and the Livelihood School have decided to bring out the second edition this year.

The SOIL Report 2008, is a comprehensive depiction of the situation of livelihoods in India: a picture that does not change much every year. Therefore, in the first chapter of this new edition, we have tried to capture snapshots of some of the significant events and situations in the country that affected the livelihoods of large number of people during 2009. These significant situations include the global financial crisis, election of a new government, enhanced focus on skill building, rolling of the NREGA, and greater than before, engagement of the multilateral agencies in livelihood promotion efforts.

This year, the global economy witnessed a serious turmoil. This situation, though not as much as it did in many other countries, has affected the livelihoods of large number of people in India. In the second chapter of this report Bazil Shaikh explores the effect that the global crisis has had on the livelihoods of people, especially livelihoods of the poor and the women. This year, we have also elected in a new Government, which has focused its attention to addressing the inequality issue. In the third chapter, Smita Premchander explores the various new initiatives of the Government through its plan and the budget. National Rural Employment Guarantee Act 2005 also has been rolled of in different states, not only ensuring some employment for the people but also enhancing cash-flow in the rural economy thus augmenting livelihoods there. However, NREGS has also started facing many road-blocks. In the fourth chapter of this report Ajay Tankha explores the difficulties faced in implementing this act on the ground. Meera Shenoy looks into the efforts made for skill development, which also happens to be one of the focus areas of the new government. During this year, various attempts have been made for promoting or supporting livelihoods. In chapters six, Narendranath portrays some experiences of promoting new institutional forms like producer companies and in chapter seven Srinubabu illustrates his experiences in mobilizing livelihood finance. In recent years, many corporate entities and multilateral agencies have started making conscious efforts to support livelihoods. These efforts have been explored by Vanita Viswanath and Biswajit Sen in the subsequent chapters of this edition.

By reviewing all these experiences, the SOIL Report 2009 tries to make the overall picture of the livelihood situation accessible to all those who are engaged in livelihood promotion efforts. In this report we also make available several pieces of data and information that an agency engaged in livelihood promotion needs.

This report is not purported to be a mere academic pursuit. We hope, the new edition will be useful for action against poverty in general and for action to support large number of livelihoods in specific.

Sankar Datta

2009

ABBREVIATIONS

APMA	Agricultural Product Marketing Act
AYUSH	Department of Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homoeopath
BAIF	Bhartiya Agro Industries Foundation
BB	Big Bazar
BRGF	Backward Regions Grant Fund
CC	Collection Center
CDS	Current Daily Status
CISF	Central Industrial Security Force
CoEs	Centres of Excellence
CRPF	Central Reserve Police Force
CSOs	Civil Society Organisations
CSR	Corporate Social Responsibility
CSWB	Central Social Welfare Board
DFID	Department for International Development
DGET	Directorate General of Employment and Training
DPAP	Drought Prone Areas Programme
DPCE	Daily Per Capita Expenditure
EU	European Union
FCI	Food Corporation of India
FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
FYP	Five Year Plan
GDI	Gender Development Index
GDP	Gross Domestic Product
GP	Gram Panchayat
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HYO	Hank Yorn Obligation
ICDS	Integrated Child Development Scheme
ICT	Information and Communication Technology

IDPs	Internally Displaced People
IIAA	Integrated Impact Assessment Approach
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IRDP	Integrated Rural Development Programme
IT	Information Technology
ITIs	Industrial Training Institutes
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
KVIC	Khadi and Village Industries Commission
MES	Modular Employable Skills
MFI	Micro Finance Institutions
MIS	Monitoring and Information Systems
MMRs	Maternal Mortality Rates
MoSPI	Ministry of Statistics and Programme Implementation
MPCE	Monthly Per Capita Expenditure
MRP	Mixed Recall Period
NBA	Narmada Bachao Andolan
NCVT	National Council for Vocational Training
NCW	National Commission for Women
NDDDB	National Dairy Development Board
NE	North-Eastern
NFBS	National Family Benefit Scheme
NFFWP	National Food for Work Programme
NGOs	Non-Governmental Organisations
NORAD	Norwegian Agency for Development Cooperation
NR	Natural Resources
NREGA	National Rural Employment Guarantee Act
NREGS	National Rural Employment Guarantee Scheme
NREP	National Rural Employment Programme
NRHM	National Rural Health Mission
NSDP	Net State Domestic Product
NSSO	National Sample Survey Organisation
OBC	Other Backward Classes
PMGSY	Pradhan Mantri Gram Sadak Yojana
PPP	Public Private Partnerships
PPP	Purchasing Power Parity
PRIs	Panchayati Raj Institutions

QUIM	Qualitative Impact Monitoring
RBI	Reserve Bank of India
RIAA	Regulatory Impact Assessment Analysis
RMK	Rashtriya Manila Kosh
RRB	Regional Rural Bank
RSVY	Rashtriya Sam Vikas Yojana
SC	Scheduled Caste
SC/STs	Scheduled Castes/ Scheduled Tribes
SCP	Special Component Plan
SCSP	Scheduled Castes Sub Plan
SERP	Society for Elimination of Rural Poverty
SEWA	Self-Employed Women's Association
SEZs	Special Economic Zones
SHGs	Self Help Groups
SIAAs	Sustainable Impact Assessment
SME	Small and Medium Enterprises
SoR	Schedule of Rates
SRC	Supply Region Company
SSA	Sarva Shiksha Abhiyan
SSI	Small Scale Industries
ST	Scheduled Tribe
STEP	Support for Training and Employment Programme
TSP	Tribal Sub-Plan
TSRDS	Tata Steel Rural Development Society
UCB	Urban Cooperative Banks
URP	Uniform Recall Period
VAW	Violence against Women
WCD	Women and Child Development
WCP	Women Component Plan
WDC	Wholesale Distribution Center
WTO	World Trade Organisation

Overview of Livelihoods Scenario in India

Sankar Datta and Vipin Sharma

1. Introduction

With the severe shortfall in the monsoon rains in kharif 2009 affecting the food production of the country, and simultaneously affecting livelihoods of millions, the year 2008–09 has been a bit of a roller-coaster ride for livelihoods situation in India. The second quarterly report by Labour Bureau of the quarter October–December, 2008, claimed that about half a million workers were assessed to have lost their jobs in the construction, apparel and carpets sectors. Already, farmer suicide reports from States like Andhra Pradesh are flowing in and the total agricultural productivity for the kharif season is likely to go down by more than 10 per cent. However, employment in these sectors during the quarter January to March 2009 is estimated to have increased by about a quarter million to 15.72 million. India, which had also been affected by the global economic meltdown, has started recovering from the situation. The National Rural Employment Guarantee Programme (NREGP), which has given purchasing power in the hands of millions of poor, has not only saved them from starvation, but has also helped in credit formation and priming the rural economy. While the previous UPA government laid a strong emphasis on ‘inclusive growth’, with greater numbers, this term of the Government may see a renewed thrust and emphasis on livelihoods of the disadvantaged sections of the society. There is already a buzz on putting livelihoods promotion on a mission mode: National Rural Livelihood Mission (NRLM). To address the skill gaps among the multitude of informal sector workers and the unemployed, a comprehensive skill development plan for the country is also being developed under the aegis of the Prime Minister’s Council on Skill Development, supported by the National Skill Development Coordination Board (NSDCB). Various multi-lateral institutions have also focused their attention to supporting livelihoods of a large number of people. Returns from farming have been given a boost by stepping up the support prices, given the fact that the productivity of agriculture, which employs 57 per cent of the working population, has remained stagnant for long. Attempts to identify appropriate institutional forms of organising small producers, including those for aggregating fragmented landholdings, have also been consolidated. This year has also seen several new initiatives for tapping the opportunities to make the market work for the poor.

The 2009-10 Budget emphasises inclusive growth strategy. Several new proposals for the rural poor have been announced. Employment, rural infrastructure, rural employment, and social security among others, are major thrust areas of the Union Budget. How these measures impact the sectors will need examination as the policies are rolled out.

The SOIL Report 2009 traces key livelihoods issues from the perspectives of the Poor, the prospects and potentials of the programmes on the poor, their progress and the policy environment, i.e., the 4P Perspective. This report examines the salient features of the livelihoods scenario in India today, looking at the effect of the global meltdown and how the country has coped with this problem. In Chapter 2, Bazil Shaikh has explored this in great detail. In Chapters 3, 4 and 5, we have looked at some of the policy responses to the livelihoods challenge in the country. In Chapter 3, Smita and Premchander have looked at the Effects of Inclusive Growth Focus, on livelihoods of the poor. In Chapter 4, Ajay Tankha takes stock of NREGP implementation and its impact on the ground. Chapter 5: Skill Building Efforts of the Government and the Civil Society: Experiences of Scaling Up have been explored by Meera Shenoy.

Apart from the government, the Civil Society Institutions have also started paying greater attention to livelihoods promotion. These have been captured in Chapters 7, 8 and 9. Recognising the limitations of the institutional forms for managing the livelihoods of the poor, various experiments have been done in the recent years. Narendranath looks at some of these initiatives in Chapter 6: Experiments in Institutional Forms for organising small producers. Srinubabu in Chapter 7 has looked at the Difficulties being faced in Mobilizing Livelihoods Finance by Different Forms of Institutions Engaged in livelihoods promotion. In Chapter 9: Effectiveness of large multilateral livelihoods support programmes (including those of UNDP, IFAD, DFID, etc.) by Biswajit Sen and Parmesh Shah have discussed the enhanced role being played by multilateral agencies in poverty alleviation. In Chapter 8: Vanita Vishwanath and Ujjwal Ganguly look at Corporate-NGO Partnerships: What are We Learning about the Lifecycle.

We conclude this report by making several sets of information that livelihoods intervention practitioners may find useful for their work.

2. Salient features of the livelihoods scenario today

2.1. New government's focus on rural livelihoods

The Ministry of Rural Development's decision to transform the Swarna Jayanti Swarozgar Yojna (SGSY)¹ into the National Rural Livelihood Mission (NRLM)² is clear evidence that the 'poor' are the key focus of the Union Government, and past inefficiencies in programmes will need to be set right if real time outcome and impact from outlays are to be seen. While the Mission mode has worked in other sectors, it will be critical to see this approach bringing in incremental gains for the SGSY programme. While the National Rural Employment Guarantees Act (NREGA) provides employment to unskilled workers only, the NRLM will go a step further to enable asset acquisition, provide self employment opportunities, including agriculture and allied sectors. Several schemes to build skills of disadvantaged people are being designed. In order to enhance the skill of rural artisans, rural mega clusters are being set up in Bengal and Rajasthan. This was announced by the Finance Minister, while presenting the Union Budget 2009-10 in the Lok Sabha.

The objective of SGSY was to bring the *Swarozgaries* (assisted poor families) above the Poverty Line by ensuring appreciable sustained level of income over a period of time. This objective is to be achieved by inter alia organising the rural poor into Self Help Groups (SHGs) through the process of social mobilisation, their training and capacity building and provision of income generating assets.

The budget of 2009-10 reiterates this outlook of the government. Allocation under NREGS increased by 144 per cent to Rs39,100 crore in Budget Year (B.E.) 2009-10 over B.E. 2008-09. To increase productivity of assets and resources under NREGA, convergence with other schemes relating to agriculture, forests, water resources, land resources and rural roads is also being encouraged. In the first stage 115 pilot districts are selected for convergence. The government has chosen to use the NREGA to bring about visible improvements in the rural areas, which would improve quality of life. The efficiency of programme implementation and transfer of benefits to the labourers under the scheme should be improved. The potential of financially including NREGA clients should be realised.

1 At present, the SGSY provides assistance to BPL families by providing them self employment through skill development in an activity which can fetch/ provide them a monthly income of Rs.2,000.

2 Press Information Bureau, Government of India, 06th July 2009. <http://pib.nic.in/release/release.asp?relid=49803>

In the Eleventh Five Year Plan (2007–12), thrust has been given to create a pool of skilled personnel in appropriate numbers. A comprehensive skill development programme with wide coverage throughout the country has been initiated by the Government. The Government has set up the Prime Minister's Council on Skill Development for policy direction to be supported by the National Skill Development Coordination Board (NSDCB) chaired by the Deputy Chairman of the Planning Commission. To promote private sector initiative for skill development, an institutional arrangement in the form of a non-profit corporation called the National Skill Development Corporation (NSDC) has been set up in the Ministry of Finance.

In order to shield the country from recession, the Indian government is implementing stimulus packages that include increased government spending, government guaranteed funds for infrastructure projects, expanded guarantee cover for credit to SMEs, cut in indirect tax rates, farm loan waivers, salary increase for government employees, etc. The government has to trade off between restoring growth and fiscal discipline in the present crisis. Consequently, the combined central and State government's fiscal deficit now could go up to 12 per cent of GDP, if off-budget subsidies are also added. To help control moderation in economic growth, the Reserve Bank of India (RBI) has also changed its policy stance in favour of monetary easing. Starting mid-September 2008, it has gradually reduced the Repo rate from 9 per cent to 4.75 per cent, and cut the Cash Reserve Ratio from 9 per cent to 5 per cent. It is now trying hard to persuade commercial banks, which have become more risk-averse, to lower the rates. Overall, the government has made available around US\$75 billion additional liquidity in the financial system, amounting to around 7 per cent of GDP. Some impact of the stimulus packages has already started, as seen in marginally falling interest rates and raw material prices, and rising demand for consumer goods.

2.2. Global economic slowdown³

The year 2008–09 has witnessed a major global economic slowdown leading to stagnation of employment growth, affecting the poor through:

- i) Stagnation of the export oriented industries,
- ii) Reduction in investment flow, working capital shortage leading to job loss.

The major factor in India's economic slowdown has clearly been the global financial meltdown and consequent economic recession in developed economies. Challenge arising from global slowdown included: arrested growth of export-oriented industries, including small scale industries, ancillaries to other

³ This section is partly built upon the information provided by the Economic Survey 2008-09.

industries, drop in employment leading to lowering demand, and affecting sales, in turn affecting production and employment and severe shortage in flow of capital, including working capital. The overall growth of GDP in 2008–09, as per revised estimates released by the Central Statistical Organisation (CSO) (29 May 2009) was 6.7 per cent. This is lower than the 7 per cent projection in the Mid-Year Review 2008–09⁴ and the advance estimate of 7.1 per cent, released subsequently by CSO in February 2009.

The economy in general experienced a slowing down. Though various parts of the economy kept growing, the growth rates had mostly fallen as compared to the annuated growth rate for the first five years of the decade, referred in the State of India's Livelihood (SoIL) Report 2008. Construction which employed 5.7 per cent of the total workforce grew at 6.7 per cent Q 3 to Q 3 as compared to 11.02 per cent growth in the past five years. Growth of Trade, Hotel, Transport and Communication, which employed 11.5 per cent of the workforce, came down from 9.2 per cent to 6.8 per cent. While agriculture, which employed 53.9 per cent of the workforce, recorded a negative growth of 2.2 per cent as compared to 1.6 per cent in the past five years. Manufacturing, employing 12.7 per cent of the workforce, recorded a negative growth rate of 0.2 per cent as compared to 7.4 per cent in the past five years. However, Mining and Quarrying, which employs only 0.7 per cent of the total workforce, grew at 5.3 per cent, which was same as the past growth rate.

However, the ADB Report of April 2009 observes that despite the global slowdown, the Indian economy is estimated to have grown close to 6.7 per cent in 2008–09. A number of leading indicators, such as increase in hiring, freight movement at major ports and encouraging data from a number of key manufacturing segments, such as steel and cement, indicate that the downturn has bottomed out and highlight the Indian economy's resilience. Given the decline in investment opportunities elsewhere, net inflows through various non-resident Indian (NRI) deposits surged from US\$179 million in 2007–08 to US\$3,999 million in 2008–09, according to the RBI. FDI inflows during April 2008–January 2009 stood at US\$ 23.9 billion compared with US\$ 14.4 billion in the corresponding period of the previous fiscal, witnessing a growth of 65 per cent, according to the Department of Industrial Policy & Promotion. FIIs have made investments of around US\$2 billion as of 14 May 2009, including a record single day net purchase of US\$824.72 million on 13 May 2009, according to the Securities and Exchange Board of India (SEBI). According to the estimate of economists, this is expected to enhance the job creation in the next financial year.⁵

4 Economic Division, Department of Economic Affairs (DEA), December 2008.

5 <http://www.ibef.org/PrintThisArticle.aspx?artid=22805&pgno=2&totalpage=2>

Another factor that helped the Indian economy cope with the global slowdown was its reasonably stable domestic market. Most Indian industries which were export-oriented, started looking for domestic markets, and found some. Major IT companies like Infosys, Genpact explored and invested in developing the domestic BPO business, which in turn protected livelihoods of many. Similarly, textile majors like Arvind Mills also focused its attention on the domestic market.

2.3. Current employment scenario

Though there was a downturn with the global slowdown, the situation in India is recovering, and rapidly so. During the quarter October–December 2008, about half a million workers were assessed to have lost their jobs in the export-oriented industries like gems and jewellery, textiles, metals, and auto components. However, employment in these sectors during the quarter January to March 2009 is estimated to have increased by about a quarter million. The employment in the selected sectors during March 2009 still remains lower than employment in September 2008, when the employment figure was 16.2 million.

Total estimated employment in the sectors covered in the Report of the Labour Bureau has increased by 0.6 per cent during January–March 2009. Non-exporting units have shown higher rate (0.92 per cent) of increase in employment as compared to exporting units (0.28 per cent). Sectors registering increase in employment during January–March, 2009 period are Gems & Jewellery (3.08 per cent), Textiles (0.96 per cent), IT/BPO (0.82 per cent), Handloom/Powerloom (0.28 per cent) and Automobiles (0.10 per cent). Decline in employment during January–March, 2009 has been observed in Leather (2.76 per cent), followed by Metals (0.56 per cent) and Transport (0.36 per cent). The increase in employment of direct workers has been observed to be 0.68 per cent during January–March, 2009 in comparison to decline of 0.63 per cent during October–December, 2008.⁶

Table: Effect of economic slowdown on employment in India

Sl. No.	Period	Per cent rate of decline
1	October 2008	1.21
2	November 2008	0.74
3	December 2008	1.12
4	Average monthly change during Oct.–Dec. 2008	1.01
5	January 2009	1.17

Source: Report on Effect of Economic Slowdown on Employment in India (January 2009)

⁶ http://pib.nic.in/release/rel_print_page1.asp?reid=48773

Estimates of job losses in the wake of global financial crisis and economic slowdown

Labour Bureau, Ministry of Labour and Employment

According to the report on *Effect of Economic Slowdown on Employment in India*, which is based on a sample survey of 2,581 units conducted by the Labour Bureau, Ministry of Labour and Employment, during October–December 2008, there was decrease in employment of about half a million workers during the period. The most affected sectors were gems and jewellery, transport and automobiles where employment has declined by 8.58 per cent, 4.03 per cent and 2.42 per cent respectively during the period. In the textile sector, 0.91 per cent of workers have lost their jobs. Another thin sample survey conducted to assess the employment situation in January 2009 over December 2008 indicated a loss of about 1 lakh (one hundred thousand) jobs in the month of January 2009. However, it may be possible that the unemployment indicated is seasonal in nature since the employment estimated in the reference period of the study is not in comparison with the same period in the previous year and the employment in the period October to December 2008 is compared to that in September 2008 and later January 2009 against December 2008. The survey conducted by the Labour Bureau for the period January to March 2009 covering 3,192 units in 21 centres, however, indicated improvement in the selected sectors with employment rising by a quarter million. Sectors registering increased employment were gems and jewellery (3.08 per cent), textiles (0.96 per cent), IT-BPO (0.82 per cent), handloom–powerloom (0.56 per cent) and automobile (0.10 per cent).

Department of Commerce, Ministry of Commerce and Industry

A sample survey conducted by the Department of Commerce for 402 exporting units revealed job loss (direct and indirect) to the tune of 1,09,513 persons during August 2008 to mid-January 2009. Another sample study conducted earlier (for the period August–October 2008) by the Department of Commerce for 121 export-related companies belonging to several sectors, primarily employment-oriented sectors like textiles, including garments, leather, engineering, gems and jewellery, handicrafts, food and food processing, minerals, and marine products has revealed loss in export orders to the tune of Rs1,792 crore (Rs17.9 billion) and loss of jobs of around 65,507. Two other surveys for the period August 2008 to February 09 2009, and August, 2008 to February 28, 2009 revealed job losses (direct and indirect) of 1,17,602 and 1,19,159 persons respectively.

Source: *Economic Survey, 2008–09*

<http://indiabudget.nic.in/es2008-09/chapt2009/chap105.pdf>

2. 4. Stagnant agricultural economy

The performance of the highly weather-dependent agricultural sector influences the growth of the Indian economy. Agriculture (including allied activities) accounted for 17.8 per cent of the Gross Domestic Product (GDP at constant prices) in 2007–08 as compared to 21.7 per cent in 2003–04. Notwithstanding the fact that the share of this sector in GDP has been declining over the years,

its role remains critical to GDP growth as it accounts for about 52 per cent of the employment in the country. In other words, 52 per cent of the population share only 18 per cent of the GDP of the country, indicating a very low level of earning for those engaged in this activity. Apart from being the provider of food and fodder, its importance also stems from the raw materials that it provides to industry. The prosperity of the rural economy is also closely linked to agriculture and allied activities. The Agricultural sector contributed 12.2 per cent of national exports in 2007-08. The rural sector (including agriculture) is being increasingly seen as a potential source of domestic demand; a recognition, that is shaping the marketing strategies of entrepreneurs wishing to widen the demand for goods and services.

The productivity of agriculture is also limited by the poor quality and small sized landholding that we are left with. Almost every bit of arable land having been brought under cultivation, the balance of land that we are left with today is highly degraded, often undulating with thin top soil. Further, given the fact that only one-third of all agricultural land is irrigated, the current and future challenge to agricultural productivity would be to invest significantly more on dryland farming techniques. Beside, with increasing population pressure, these lands are getting fragmented, making further investment in their quality difficult, not only technologically, but also by the capacity of the people who own them and whose livelihoods depend on them. Land fragmentation is also eroding the viability of the occupation at the individual farmer level.

However, this period also witnesses drastic increase in minimum support prices for agriculture products: Sunflower Seed from Rs1,510/quintal to Rs2,215/quintal (increase of 47 per cent), Soyabean (black) from Rs910/quintal to Rs1,350/quintal (increase 48 per cent); Cotton from Rs2,030/quintal to Rs3,000/quintal (increase of 48 per cent); Groundnut from Rs1,550 to Rs2,100 (increase of 35 per cent); and Paddy Common from Rs645/quintal to Rs850 (increase of 32 per cent) brought some relief to farmers. In addition to enhancing income at the level of a farmer and vesting larger purchasing power in the rural economy, this also had an impact on the contribution of agriculture to the GDP.

Despite a global slowdown, agriculture and processed food exports from India may register an increase in absolute growth in the current financial year 2009-10. Agricultural and Processed Food Products Export Development Authority (APEDA) feels the exports will grow in absolute terms due to higher demand from Asian and African markets that are aggressively procuring relatively cheaper products from countries such as India. This is significant at a time when other major exports are slowing down. At present, around 70 per cent of the country's agri and processed food exports are to developing countries in the Middle East, Asia, Africa and South America. With the global downturn hitting the profitability of supermarkets in these countries, they are now looking at less expensive products.

As mentioned earlier, this new government is quite proactive about the poor in the country. As part of the support to agriculture, the government has enhanced the target for agriculture credit flow at Rs325 thousand crores (against 287 crore in the previous year). It has also enhanced allocation under Accelerated Irrigation Benefit Programme (AIBP) by 75 per cent over B.E. 2008–09. Allocation under Rashtriya Krishi Vikas Yojana (RKVY) has also been stepped up by 30 per cent in B.E. 2009–10 over B.E. 2008–09. However, while in absolute terms there is a marginal increase in the overall central sector plan outlay for agriculture, of Rs550 crores, this is 2.4 per cent of total outlay for 2009–10, which is less than the 2.7 per cent of total outlay provided in 2008–09. Though welcome, availability of credit is only one input that impedes productivity. More composite solutions that include focus on access to market, transportation, local economic infrastructure (cold chains, warehousing facilities), and price discovery measures may need to accompany credit enhancement measures.

2. 5. Widening gap

However, this period also witnessed widening gaps between the ‘Haves’ and ‘Have-nots’. Gini Co-efficient was reported to be going up (Morgan-Stanley, *South Asia Investor Review*, 23 May 2009).

The India Labour Report 2008 also highlighted that more than 92 per cent of the Indian workforce belong to the unorganised sector. This ‘slavery of the 21st century’ is bad for employers, policy makers, employees, tax collectors and cities. 60 per cent of our labour force generates 18 per cent of our GDP (India Labour Report 2008). As highlighted by the National Commission for Enterprises in the Unorganised Sector report on the ‘Challenges of Employment in India’, this has also led to growth of poor quality of jobs (also see *EPW* Jeemol Unni, G Raveendran, January 20–27, 2007), in terms of total pay, security of jobs, number of working hours, working conditions, leave and other benefits to workers.

Table: Sector and type of employment (UPSS), all workers (2004–05)

Formal/ informal sector	Total employment (Million)		Total
	Informal employment	Formal employment	
Informal/ unorganised sector	391.8 (99.6)	1.4 (0.4)	393.2 (100.0)
Formal/ organised sector	28.9 (46.2)	33.7 (53.8)	62.6 (100.0)
Total	420.7 (92.3)	35 (7.7)	455.7 (100.0)

Note: Figures in the parenthesis are percentages.

Source: Adopted from ‘The Challenge of Employment in India: An Informal Economy Perspective’ April 2009, National Commission for Enterprises in the Unorganised Sector, Government of India, Table 2.3, pp 13.

Box 2

Labour force and workforce

According to the Usual Status (US), about 56 per cent of rural males and 31 per cent of rural females belonged to the labour force. The corresponding proportions in the urban areas were 57 per cent and 15 per cent, respectively. About 41 per cent of the population in the country was employed under usual status (Primary Status PS+ Subsidiary Status SS). The worker population ratio (WPR) was 43 per cent in the rural areas and 35 per cent in the urban areas. Distinct gender differential in usual WPR status was observed as 55 per cent for males and 31 per cent for females in the rural areas, and 54 per cent for males and 14 per cent for females in the urban areas. The WPRs obtained according to Current Daily Status (CDS) were lower than those obtained in the Current Weekly Status (CWS), which, in turn, were lower than those according to US rates: WPR (male plus female as also rural plus urban) as per CDS was 34 per cent and as per CWS, WPR was 38 per cent, while as per US it was 41 per cent. Between 2004–2005 and 2005–06, WPR in the usual status approach in rural areas, remained unchanged at 55 per cent for males and it decreased by about 2 percentage points for females, from 33 per cent to 31 per cent. In urban areas, WPR decreased by about 1 percentage point for males and by about 3 percentage points for females. In rural India, more than half of the usually employed ('all' workers) were self-employed – 57 per cent among males and nearly 62 per cent among females. The corresponding figures in urban India were 42 for males and 44 for females. The percentage of regular wage/salaried employees was relatively lower among females as compared to males in both rural and urban India: figures being 10 for males and 4 for females in the rural areas and 42 for males and 40 for females in the urban areas. The proportion of female casual labourer was about 1 percentage point higher than that of male casual labourer, in both rural and urban areas. In rural India, among 'all' usually employed, about 65 per cent of the males and 81 per cent of the females were engaged in the primary sector (excluding mining and quarrying). Corresponding figures in 1983 were 78 and 88, respectively. In rural India, there has been a gradual increase in the proportion of males engaged in 'secondary sector (including mining and quarrying)' – from 10 per cent in 1983 to 17 per cent in 2005–06 for males and 7 per cent to 12 per cent for females. The proportion has also increased in the 'tertiary' (NIC-2004 industry division: 50–99) sector – from 12 per cent to 18 per cent among males and from 5 per cent to 7 per cent among females. In urban India, the 'tertiary' sector engaged about 59 per cent of the male workers while the 'secondary' sector accounted for about 34 per cent of the usually employed males. For females, the corresponding figures were lower: 52 and 33, respectively. Proportion of urban females employed in the primary sector fell by about 16 percentage points since 1983, with a significant rise for other sectors. About 13 per cent of persons – 16 per cent in rural and 3 per cent in urban areas – reported pursuing subsidiary economic activity. The proportion was quite similar for males (13 per cent) and females (12 per cent). The average wage rate for regular wage/salaried employees, in rural areas, was Rs138.74 for males and Rs87.71 for females – the difference was of the order of nearly Rs50. The wage rate was higher in the urban areas. The corresponding wage rates in the urban areas were Rs205.81 for the males and Rs158.23 for the females and thus, a female regular wage earner was paid, on an average, around Rs50 less compared to males. In the rural areas, on an average, Rs59.29 was earned in a day by a male casual labourer whereas a female casual labourer earned Rs37.97 in a day – showing a difference of a little over Rs20. In the urban sector, the male female wage differential was much higher in the order of a little over Rs35. A male casual labourer in the urban areas, earned Rs80.70 in a day and a female, Rs44.57 in a day.

Source: *Employment and Unemployment Situation in India, 2005–06, NSS 62nd Round, (July 2005–June 2006), National Sample Survey Organisation, Ministry of Statistics and Programme Implementation, Government of India, January 2008*

The report also goes to show that large majority of the people working within the informal sector were also employed informally, without any formal contract or specified condition of employment.

Large majority of poor do not have the capacity to match the requirements of the rapidly changing market. Over 50 per cent of India is self-employed. This is not a badge of India's entrepreneurial instincts but our failure to create employability and non-farm jobs.

Table: Rate of growth of employment in organised sector (per cent per annum)

	1983-94	1994-2006
Public sector	1.53	-0.54
Private sector	0.44	0.92
Total organized	1.20	0.12

Source: Eleventh Five Year Plan Document and Ministry of Labour and Employment

The unemployment rate was not high for rural areas. If the usual status approach is followed it was around 2 per cent (for males nearly 3 per cent and for females nearly 2 per cent). In urban areas, the unemployment rates were higher than those in the rural rates, except for the current daily status approach in which the unemployment rates for rural and urban areas were almost equal (nearly 8 per cent). The unemployment rate, obtained by any of the approaches, was higher for females than that for the males in the urban areas, but it was lower than that for males in the rural areas. Among educated persons, (with education level secondary and above), in the age group 15-29 years, the unemployment rate in rural and urban areas was 12 per cent and 16 per cent respectively, the rate was much higher than that for those with educational level middle or below.

Table: All-India rural & urban unemployment rates* for NSS 61st round-estimates (2004-05)

Sl. No.	Estimate**	Rural	Urban
1.	UPS	2.5	5.3
2.	US (adj.)	1.7	4.5
3.	CWS	3.9	6.0
4.	CDS	8.2	8.3

Source : NSS Report No. 515 (Part I). * As per cent of labour force **UPS-Usual Principal Status, US (adj.)-Usually unemployed excl. Subsidiary Status workers, CWS - Current Weekly Status & CDS-Current Daily Status.

Source: Economic Survey, 2008-09, Chapter 10

2.6. Distribution of workers across gender: feminisation of workspace

The rural female workers continued to be most disadvantaged in terms of the workforce characteristics.

Table: Percentage distribution of workers by activity status (2004-05)

Population segment	Own account & employers	Self-employed unpaid family workers	Sub-total	Regular salaried/wage workers	Casual workers	Total
Rural Male	41.90	16.59	58.48	8.93	32.59	100.00
Rural Female	15.94	47.98	63.92	3.67	32.41	100.00
Rural Persons	32.55	27.89	60.44	7.04	32.52	100.00
Urban Male	36.20	8.42	44.62	40.84	14.54	100.00
Urban Female	24.14	23.05	47.19	35.97	16.84	100.00
Urban Persons	33.67	11.49	45.16	39.82	15.02	100.00
Total Male	40.23	14.20	54.43	18.26	27.31	100.00
Total Female	17.28	43.91	61.19	8.95	29.86	100.00
Total Persons	32.83	23.77	56.61	15.26	28.13	99.99

Source: *The Challenge of Employment in India: An Informal Economy Perspective* April 2009, National Commission for Enterprises in the Unorganised Sector, Government of India, Table 4.14, pp 59.

2.7. India's response to the current livelihoods situation

As stated earlier, Policy Makers of India brought livelihoods promotion into centrestage this year. With the NREGA giving right to 100 days of wages as a part of their livelihoods, with the new Government focusing on developing the capacity of the youth, the livelihoods situation today has started looking up. However, in this context, many players like multi-lateral donors and corporate entities have started enhancing their engagement in the matters of livelihoods promotion for the weaker sections of the people. On the other hand, recognising the limitations of some of the forms of institutions, various experiments have been initiated to explore appropriate forms of institutions for supporting the livelihoods of the poor. Many of the experiments with producer companies and mutual benefit trusts which were started in the last few years, were extensively deliberated upon in the Solution Exchange, and have started showing results on the ground. But, this in turn has also posed new challenges for mobilising diverse types of finance that are required for livelihoods support.

3. Policy interventions to address the same

3.1. Social Inclusion focus of government

The present government has given a significant emphasis on social inclusion as a part of its inclusive growth strategy. In its attempt to build a nation with inclusive growth, the government has attempted: (i) strengthening of some of the basic services, like child-care, health, water and sanitation, and supportive micro-finance among others; (ii) initiated affirmative action, such as educational scholarships, health insurance schemes; (iii) put in place a social protection framework through programmes like NREGP, National Old Age Pension Schemes; (iv) market inclusion policies with special incentives for market agencies to serve poorer regions and (v) an enabling legal and policy environment, including special policies for socially excluded groups. How these intents have been supported by enhanced budgetary allocations in the current year has been discussed by Smita and Premchander. However, people have also expressed their apprehensions about how this complex mix of policies and programmes will finally pan out, coordination between these different segments being a serious challenge.

3.2. National Rural Livelihood Mission (NRLM)

The Swarna Jayanti Swarozgar Yojna (SGSY) has been renamed as National Rural Livelihood Mission (NRLM). With this, the scheme will be made universal, more focussed and time bound for poverty alleviation by 2014. Accordingly, a target has been fixed to enroll 50 per cent cent of rural women in self-help groups over the next five years. In order to enhance the skill of rural artisans, rural mega clusters are to be set up in States like Bengal and Rajasthan. This was announced by the Finance Minister Shri Pranab Mukherjee while presenting the Union Budget in the Lok Sabha this year. "Stress will be laid on the formation of women Self Help Groups (SHGs). Apart from providing capital subsidy at an enhanced rate, it is also proposed to provide interest subsidy to poor households for loans up to Rs1,00,000 from banks," the Finance Minister said.

3.3. National Rural Employment Guarantee Act (NREGA)

'An Act to provide for the enhancement of livelihoods security of the households in rural areas of the country by providing at least 100 days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled manual work'. The Act has come a long way to provide employment to 2.23 crore households since its inception. But recently there is a debate going on about the absence of the grievance redressal system in place at the State level. Professor Jean Dreze, an eminent development economist, has recently highlighted some of the shortcomings of the NREGA through his

various field based studies carried out in almost a dozen of States during the last three years. His arguments are basically holding various State governments responsible for not giving people their enforceable entitlements. Although, the Act includes many provisions for grievance redressal, he argued that these provisions have either been ignored or sidelined.

Moreover, the Finance Minister Pranab Mukherjee has promised in his budget speech that the real wage rate paid under NREGA will be Rs100 per day. Thus, if the Act is perfectly implemented, any rural households availing of the scheme should be able to earn at least Rs10,000 a year from it. In other words, this amount is equivalent of more than 40 per cent of the BPL family's annual income.

Table: Achievements of NREGA

Employment provided to households:	2.23 Crore
Persondays [in Crore]:	
Total:	71.85
SCs:	20.98 [29.2 per cent]
STs:	17.16 [23.89 per cent]
Women:	37.33 [51.95 per cent]
Others:	33.71 [46.91 per cent]
Total works taken up:	19.49 Lakhs.
Works completed:	2.67 Lakhs.
Works in progress:	16.82 Lakhs.

3. 4. Social security bill

In India, many small units employ as few as 10–20 employees and therefore are not regulated by existing labour laws. They are not required to contribute to the Employees' Provident Fund or be paid gratuity or a severance package when they are retrenched. Moreover, only about 8 per cent of workers actually get the benefits available under these Acts. The rest 92 per cent (over 300 million) work in the unorganised sector, and either are not eligible for coverage, or these Acts are just not implemented for them, with the result that these workers have insecure employments and low incomes. They have no coverage of social security, and have to spend out of their meagre incomes for all contingencies such as illness and children's education; in their old age they are helpless. This, in spite of the fact that they contribute over 60 per cent of the country's GDP.

To have an answer to these issues the Unorganised Sector Workers Social Security Bill 2005/2007 was introduced in the Rajya Sabha by the Minister of State for Labour and Employment. It provides legislative backing to all the social security schemes. These include the 'Aam Admi Bima Yojana', National

Old Age Pension Scheme, the Health Insurance Scheme among other around a dozen welfare schemes.

A health insurance scheme has been formulated for below poverty line (BPL) workers and will cover six crore families progressively in the next five years. In all, more than 30 crore workers will be benefited. A provision has been made for issuing smart card, carrying a unique identification number, to each of these families. Both public and private health facilities will be utilised to provide medical services and there would be cashless transactions to ensure that there is no harassment of the beneficiaries. Each family would be entitled to health care worth Rs30,000 per annum. Under the scheme, during the first year, an expenditure of about Rs700 crore is estimated and this will go up to more than Rs3,500 crore at the end of five years when all the six crore BPL families would be covered. The National Old Age Pension (NOAP) Scheme is proposed to be extended to all the BPL persons above the age of 65 years. A pension of Rs200 per month will be provided and States will be requested to add another Rs200 to this scheme. An amount of more than Rs4,000 crore per annum will be spent under the scheme which will be administered by the Ministry of Rural Development. And in the 'Aam Admi Bima Yojana', all the rural landless households in the country will be provided life and disability insurance cover. This cover will be for Rs75,000 on death due to accident and permanent disability due to accident.

3. 5. Skill building efforts

The government has also recognised the need for building the capacity of the youth to enable them to the changing requirements of the market. Several impact assessments such as the one done by Andhra Pradesh Employment Generation and Marketing Mission (EGMM) have shown that short-term market linked skill trainings for the youth were one of the fastest ways of impacting on the livelihoods of the poor households. In its endeavour to provide a means to the hands of the poor by building their skills it has established the Prime Minister's Council on Skill Development, the National Skill Development Coordination Board (NSDCB) and is in the process of setting up a National Skill Development Corporation. It has allocated large resources to the extent of Rs30,000 crores towards this.

Looking into the experiences of Andhra Pradesh, Meera Shenoy has shown that skill development of the youth can be really useful, if these programmes: (i) managed the demand side of the skills required; (ii) attuned the supply of skilled people to the demands; (iii) created a sense of ownership not only among the trainees but also their parents; (iv) developed pro-poor (training) products; (v) set up large number of accessible no-frill training centres; (vi) appropriate institutional framework; (vii) build systems for life-long learning; and (viii) appropriate information technology architecture.

However, here also there are several gaps between the intent and the action. While the skill building process envisaged active involvement of the corporate entities who would ultimately use the skills, with 15 per cent of the resources coming from them, nothing significant has been contributed by them as yet.

4. Innovation initiatives

4.1. Experimentation with institutional forms

It is well recognised that the poor being disaggregated and dispersed, for them to engage with the economy effectively, they need to take collective actions, which require building/strengthening their institutions. Many development agencies have been engaged in mobilising people and building their institutions. But over the years, it has become quite clear that any one of the forms of institutions is often not adequate for extending all the services necessary for supporting livelihoods of the poor. Various initiatives have been made to find an appropriate design of institutions for supporting livelihoods of the poor.

A detailed deliberation on this among the practitioners engaged in these endeavours in the Solution Exchange last year had shown that many agencies engaged in livelihoods interventions were actually promoting a mix of several institutions: some registered as a cooperative at the village level, federating into larger cooperatives or non-banking finance companies; some registered as mutual benefit trusts, some as producer companies. These were often supported by not-for-profit institutions, such as trusts, societies or companies registered under Section 25 of the Companies Act. Discussing these experiments in details, Narendranath, has argued that the search is far from being over. There are serious bottlenecks in each of these proposed forms of institutions, which may have to be addressed using a mix of institutions for some more years to come.

4.2. Difficulties in mobilising livelihood finance

However, this development has also had its impact on the nature of capital required to be mobilised for livelihood support. It has been argued by Srinu Babu, that supporting livelihoods of the poor require a diverse range of investments. Thus, apart from making small sums available to the rural households for individually-owned productive assets, or for working capital or even to sometimes meet their consumption deficit, which is often done by the micro-finance institutions, investments are required for enhancing productivities of the natural resources that the poor have access to; building up their own capacities; organising them to a collective and developing their institutions; building necessary infrastructure, even sometimes developing appropriate policy environment. Each of these requires different forms of investible capital, with different terms, different expected rates of return, on different periods of time. These investments cannot be made by or utilised by any one single

institution. Therefore this necessitates several institutions coming together, and posing a serious coordination challenge.

This has been further complicated by the emergence of multiple agencies discussed above. New norms of assessing investment-worthiness are yet to evolve. Questions are asked (i) cooperatives supported by a society or trust mitigate the risks, as compared to mutual benefit trust; or (ii) how can the capital requirements of a producer company be met, when its ability to provide returns to capital is limited by law?

5. Promotion efforts of civil society

5.1. Diverse multi-lateral programmes focusing on livelihoods: large investments

Another important element in the livelihood scenario is the presence of multilateral projects. With increasing understanding of the need to support large number of livelihoods, many of the multilateral agencies have also started focusing their attention on the livelihood promotion efforts. Sen and Shah have looked into some of these large investments which in addition to funding support also make a wide range of technical assistance available for the development projects which affect the livelihoods of a large number. The range of projects which include joint forest management, and watershed development, highlight a different way of looking at livelihood promotion. Most of these projects utilise community-driven development approaches and incorporate principles of livelihood promotion. These projects are mostly designed and implemented through establishment of specially designed vehicles, registered as autonomous societies, with state level functionaries involved in the governance. These also purport to build a fair amount of convergence with various mainstream government programmes, such as SGSY, NREGA. These also work closely with NABARD supported SGH Bank Linkage programme, which in turn allows leveraging of funds from commercial banks.

5.2. Public-private-people partnership

Even Public-Private-People Partnership has gathered some momentum in the recent period. There has been investment from a corporate social responsibility perspective, which has later got integrated into the value chains that the corporate agency were involved in, as was in the case of Titan-MYRADA partnership or ITC-SEWA Bharat Partnership. There has been some efforts of developing risk-sharing arrangements with corporate entities playing an important role, as can be seen in the cases of partnership between BASIX and Pepsico for contract farming of potatoes or, partnership between Growth Oriented Micro-enterprise Development (GMED) programme and ITC's Agribusiness Division. Some

agencies in further stages of advancement, such as Bunkar Vikas Samiti (BVS) in Chanderi in Madhya Pradesh, have negotiated interesting deals with corporate entities like Fabindia. However, large entities like United Nations Industrial Development Organization (UNIDO) have played a critical role in facilitating such negotiations.

However, it has not been a happy story all the way through. Many of the Public-Private-People Partnership service to rural producers, such as ITC-e-Chowpals, Tata Kissan Kendras, Mahendra Shubh-labh, and DCM-Hariyali Centres, have stopped progressing after initial rounds of fanfare. Sharing of the costs in industry related skill building endeavours envisaged under the various skill building programmes, has not drawn the promised contributions.

6. Conclusions

With these mixed signals in the livelihood scenario of India, it is difficult to state clearly, whether the livelihood situation for the poor has improved in the recent years. The nation, with strong foundation of its domestic economy, including policy makers, corporate houses and civil society together, has reinstated its intent to address this challenge. But results are yet to be seen on the ground. A new government with a stronger mandate is in place for the next five years. The intent of the new government to push on the poverty agenda is evident from its early announcements which aim to revamp existing programmes to bring more significant outcomes, expand the ambit of programmes to include larger number of poor and to introduce new programmes for more composite impact on the livelihoods of the poor. Bilateral organisations like DFID and multilaterals like the World Bank are seeking to assign significant resources in the poorer States. The global economic crisis, as it panned out, saw the poor quite insulated. Although good news, it means that the poor continue to be outside the ambit of the mainstream economy. The big challenge to move subsistence livelihoods of the poor to sustainable levels would be to seek higher levels of capitalisation and integration into value chains. Given that most of the poor are engaged in agriculture, the failure of the monsoon is likely to have a major impact on food security issues, unemployment and migratory trends. In the short term, the impact will not be so clearly evident, but long-term prospects for the poor have a new hope.

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Chapter 2

Perspectives on the Impact of the Global Financial Crisis on India's Poor

Bazil Shaikh

1. Introduction

The turmoil in the global financial markets that emanated from the sub-prime housing bubble in the US around mid-2007 did not have a contagion effect on India's financial sector. Indian banks and financial institutions remained largely unaffected with virtually no direct exposure to the sub-prime market or to the institutions that collapsed in the wake of the crisis. However, the financial crisis and the economic slowdown that ensued post October, 2008 impacted on India through a reversal of capital flows (the financial channel);¹ through a contraction of exports (the real sector channel) and through altering the mood to acute risk aversion (the confidence channel). These resulted in a drying up of liquidity and reduced demand. The overall impact was a slowdown in the economy from the robust 9.0 per cent growth clocked in the fiscal year 2007–08 to 6.7 per cent in 2008–09² with the outlook for 2009–10 uncertain.

Advanced as well as Central and East European countries experienced the sharpest contractions (Table 1). However, households in developing countries remain more vulnerable given high levels of initial poverty, the virtual absence of safety nets and the fragmentation of other forms of social protection. The financial crisis and slowdown came in the wake of the food and fuel price increases between 2005 and 2008. With the onset of the financial crisis, vulnerable sections measured in absolute terms, i.e., those earning below US\$1.25 and US\$2 per day faced what is being alluded to as the food, fuel and financial or the '3F' crisis.

The impact on India has not been uniform. Sectors integrated into the global economy have felt the impact directly. The export sector was the worst hit and recorded consistent contraction since October 2008 (Table 2). Other sectors have felt the indirect impact of domestic de-leveraging or reduction in debt due to a tightening of credit conditions and risk aversion. A large part of India,

1 Subbarao Duvvuri, *Impact of the Global Financial Crisis on India: Collateral Damage and Response*, Speech delivered at the Symposium on "The Global Economic Crisis and Challenges for the Asian Economy in a Changing World", Institute for International Monetary Affairs, Tokyo on February 18, 2009.

2 *Economic Survey, 2008-09*, growth rates related to GDP at factor cost at constant prices,

however, has been reasonably insulated from these developments, though impacted by the food and fuel crisis. The impact of the economic slowdown has been differently felt in different geographical areas. The questions that arise are how has this crisis impacted upon different sectors in India? What has been the consequent impact on the livelihoods of the poor? What is the broader canvas and how have the poor in India fared as against those in other middle and low income countries? Here a brief digression into the generic nature of how financial crises impact on the poor would not be out of place.

2. Financial crises and their impact on the poor

Financial crises typically refer to situations where financial assets or institutions suddenly lose a large part of their value. These generally involve banking panics (runs on banks and consequent bank failures/rescues), the bursting of asset bubbles (stock market crashes or the collapse of housing prices), and currency crises (sudden depreciations in currency values). These are matters far removed from the concerns of the extremely poor, who more often than not, are excluded from the banking system, own hardly any assets and do not participate in any meaningful way in the asset markets. The natural questions that arise are: 'Do matters involving high finance impact on the poor?' 'Do financial crises transmit to household poverty and what has been the historic experience?'

Financial crisis, which often have their seeds in boom-time policies and exuberance,³ are most times accompanied by an economic slowdown. The financial crisis and the subsequent economic slowdown in a country transmits to the poor and vulnerable through a number of channels.⁴ The most immediate channel is through unemployment consequent to an economic slowdown and a decline in wages and salaries (changes in labour demand). The second is through inflation (changes in prices) such as in the case of a currency crisis. Inflation hurts the poor disproportionately as they have little buffer against sudden price rises. Third, is through a decline in the value of assets and fourth through reduced migrant remittances. These represent a first order direct impact.

The poor typically respond by drawing down savings, reducing household expenditure on food, clothing, education, or try to enhance incomes by additional family members seeking employment. Such responses result in malnutrition,

3 Minsky Hyman, 'The Financial-Instability Hypothesis: Capitalist processes and the behaviour of the economy', 1982, in Kindleberger and Laffargue, ed, *Financial Crises* ****

4 Baldacci, C. et al. (2002), *Financial Crisis, Poverty and Income Distribution*, IMF Working Paper, 02/04, IMF: Washington, DC. See also Lustig, N. and Walton, M. (2009) *Crises and the Poor: A Template for Action*, World Bank, Washington, DC. and IDS In Focus Policy Briefing, (2009) 'Policy Response to the Global Financial Crisis', Issue 07, March, 2009.

impaired health and increased school dropout rates. These are medium to long-term issues and impact on future capabilities of the new generation to achieve its physical and intellectual potential. There is evidence such impact has a gender bias with women often bearing the brunt of the adjustment.⁵ Children, the handicapped, single mothers, the old and infirm, etc., are particularly vulnerable. If Governments, in their response to the crisis, reduce public expenditure, especially on social infrastructure and affirmative action programmes to balance their budgets, the poor get further affected. Finally, the trauma of job losses and reduced incomes takes a toll on psychological health leading to intra-household conflict and mental distress. It also affects the psychological health of society. These represent the second order non-income poverty impact of economic shocks.

Financial crises also impact on income distribution. Most times, while absolute poverty may increase, income inequality declines⁶ as the value of the assets of the rich fall. There is however also contrary evidence that a crisis worsens income inequality exacerbating matters further.⁷ The impact of crises on the vulnerable calls for a range of policy responses; typically, these are additional social protection mechanisms in the form of safety nets. In India, the National Rural Employment Guarantee Programme (NREGP) has to a large extent served as a social security net. The ability of government to respond is often circumscribed by the fiscal space available to it.

3. The canvas

3.1. The global scenario related to the present crisis

Coming to the present crisis, the defining moment was the collapse on 15 September 2008 of Lehman Brothers, the US investment bank, when the world had to squarely confront and deal with impact of the incipient contagion that they were aware of but afraid to confront. It led to a sudden loss of confidence and a consequent freezing of the inter-bank markets.⁸ With the drying up of liquidity, banks and companies could no longer access credit and had to reduce their debt, i.e., de-leverage. De-leveraging transmitted the crisis from the financial to the real sectors.

⁵ World Bank (1999) *Gender Dynamics of the East Asian Crisis*, World Bank, Washington DC:

⁶ Patrick Honohan. (2005) *Banking Sector Crises and Inequality*, World Bank Policy Research Working Paper 3659, July 2005

⁷ Ravallion, M. (2008) *Bailing out the World's Poorest*, World Bank Development Research Group, Policy Research Working Paper 4763, World Bank, Washington DC:

⁸ One of the indicators of the tightening of liquidity conditions is the Treasury-Eurodollar (TED) spread, i.e., the difference between the interest rate in treasury bills and 3 month Eurodollar LIBOR. This was about 20 basis points in early 2007 and rose to a record high of 460 basis points on October 10, 2008 reflecting a loss of confidence and a freezing of the interbank markets..

The sudden seizure of financial markets brought an abrupt halt and reversed capital flows to far flung countries that had no role in the creation of the global imbalances that led to the crisis or were in any meaningful way connected with the financial markets where the turmoil played out. By March 2009, Michel Camdessus, the former Managing Director of the IMF declared that 'no country in the world has escaped the crisis'. The pace of events is perhaps captured by the fact that the IMF revised its growth forecasts for the global economy for 2009 consistently downwards six times between October 2008 and July 2009 from 3.0 per cent-1.4 per cent, the lowest growth rate since World War II.⁹

3. 2. Impact on global trade, growth and remittances

The growth rate of world trade in goods and services declined from 7.2 per cent in 2007 to 3.3 per cent in 2008 and is expected to contract by 11 per cent in 2009. Private capital flows to emerging and developing countries declined from US\$617.5 billion in 2007 to US\$109.3 billion in 2008 and reverse flows of about US\$190.3 billion are expected in 2009.¹⁰

Global remittances by migrants to their home country, however, have proved to be surprisingly resilient. These were estimated at about US\$328 billion in 2008 and are expected to decline by about 7.2 per cent to about US\$305 billion in 2009. Remittances to Latin America, the Caribbean region and Sub-Saharan Africa are expected to decline while those to East and South Asia remain resilient. In 2008, India was the largest recipient of migrant remittances (US\$45 billion representing about 3 per cent of GDP) followed by China (US\$34 billion), Mexico (US\$26 billion) and the Philippines (US\$18 billion).¹¹

In sum, the overall impact of the crisis implies declining real per capita incomes in about 50 developing countries adjusted for terms of trade changes (Table 1). The International Labour Organisation projects that global unemployment may increase by about 30 million of which 23 million will be in developing countries.¹² Loss of livelihoods, push people living on the margin deeper into poverty, the poverty line being estimated in absolute terms at about US\$1.25 per day in purchasing power parity terms.¹³

9 IMF (July, 2009) *World Economic Outlook Update*. The respective changes were 3 per cent in October, 2008; 2.2 per cent in November, 2008; 0.5 per cent in January, -0.5 per cent in March, -1.3 per cent in April and -1.4 per cent in July, 2009.

10 IMF (April 2009) *World Economic Outlook*

11 Ratha Dilip, Sanket Mohapatra, and Ani Sikwal, (2009) *Migration and Development Brief 10, Migration and Remittances Team, Development Prospects Group, World Bank, July 13, 2009*

12 World Bank (2009) *Global Monitoring Report*, World Bank, Washington DC, pg.2

13 USD 1.25 at 2005 purchasing power parity prices. See also Shaohua Chen and Martin Ravallion (2008) *The Developing World is Poorer than we Thought, but no Less Successful in the Fight Against Poverty*, Policy Research Working Paper 4703, World Bank, Washington DC.

Table 1: Impact of the crisis on world growth: summary of world output
(Annual per cent change)

	No. of countries	2003	2004	2005	2006	2007	2008	2009@	Population (percentage of total for world)
World	172	3.6	4.9	4.5	5.1	5.2	3.2	-1.4	100
Advanced Economies	16	1.9	3.2	2.6	3	2.7	0.9	-3.8	15.3
United States of America		2.5	3.6	2.9	2.8	2	1.1	-2.6	4.6
Euro Area		0.8	2.2	1.7	2.9	2.7	0.9	-4.8	5.0
European Union		1.5	2.6	2.2	3.4	3.1	1.1	-4.7	1.5
Japan		1.4	2.7	1.9	2.0	2.4	-0.6	-6.0	1.9
Other Advanced Economies		2.5	4	3.3	3.9	4.0	1.2	-3.9	2.3
Emerging and Developing Economies	139	6.3	7.5	7.1	8.0	8.3	6.1	1.5	84.7
Regional Groups									
Africa	47	5.5	6.7	5.8	6.1	6.2	5.2	1.8	12.9
Central and East Europe	11	4.9	7.3	6.0	6.6	5.4	2.9	-5.0	2.5
Commonwealth of Independent States (CIS)	13	7.8	8.2	6.7	8.4	8.6	5.5	-5.8	4.3
Developing Asia	23	8.2	8.6	9.0	9.8	10.6	7.7	5.5	52.9
Middle East	13	7.0	6.0	5.8	5.7	6.3	5.9	2.0	3.7
Latin America and Caribbean	32	2.2	6.0	4.7	5.7	5.7	4.2	-2.6	8.5

@ 2009: Projections

Source: IMF World Economic Outlook, July 2009

3. 3. Global impact on poverty and hunger

Prior to the onset of the food crisis, it was estimated that there were about 850 million chronically hungry people in the developing world. Estimates by the World Bank's Global Monitoring Report, 2009 suggest that the food price increases between 2005 and 2008 pushed about 200 million more people into extreme poverty and that the growth slowdown will have a poverty impact ranging 'from 55 million to 90 million more extreme poor in 2009 than expected before the crisis'. This breaks the declining trend in the proportion of hungry people in the developing world taking the total number of hungry estimated at over 1 billion.¹⁴

Here it may be stated that most estimates of the poverty impact of the global crisis are premised on declining growth rates and the poverty elasticity of growth. These estimate how effectively growth has translated into poverty reduction. Estimates of the additional poor are obtained by pre- and post-crisis estimates of the difference between how many poor would have been lifted out of poverty had pre-crisis growth rates continued and how many would be lifted out/added based on projected growth rates. This is different from actual numbers being pushed back into poverty.

Given this global scenario, it is interesting to note that the impact of the crisis on emerging countries such as Brazil, India and China has been less severe than the rest of the world. While individual sectors have been severely impacted, the overall economies have proved to be more resilient buffered from the more severe impacts of the crisis. This resilience has revived the decoupling debate whether or not emerging economies with their large domestic markets are as affected as earlier to business cycles in advanced countries, especially the US.

3. 4. The decoupling debate

In the post 1960s, the world experienced a period of global cyclical interdependence where rates of growth of the global economy were linked to business cycles in advanced countries, more specifically the US. The US economy, with its pre-eminence, provided the engine of growth and boom while recession in the US provided the impetus or breaks to growth to the rest of the world. It was thus that 'when the US sneezed, the world caught a cold' and events in the US spread their contagion to the rest of the world. Globalisation suggests that countries grow even more interconnected through the transmission mechanisms of trade and financial flows, and hence are more sensitive to external shocks and stimuli. As economies become more intertwined, business cycles become more synchronised and convergent.

¹⁴ World Bank (2009) *Global Monitoring Report*, World Bank, Washington DC, pg.3.

This issue of how much shocks to the US economy affect the macroeconomic conditions in the rest of the world has been the topic of debate. It was observed that growth rates of the emerging countries and those of advanced countries had shown divergent trends. While the US and industrial countries had been slowing down, emerging economies especially India, China and Brazil, with large diversified economies, high rates of saving and large internal demand had been growing rapidly. Furthermore, intra group trade linkages between emerging countries had increased. At the same time, the share of trade between emerging and industrial countries declined from about 70 per cent at the turn of the century to about 50 per cent by 2006. Emerging countries, which accounted for two-fifths of global GDP growth in 2007, have come to be increasingly less dependent on the United States. Exports to the US accounted for 8 per cent of China's GDP, 4 per cent of India's, 3 per cent of Brazil's and 1 per cent of Russia's and it was felt that the global growth impact of the industrial countries had decidedly declined.¹⁵

Onset of studies,¹⁶ suggested the possibility of a counter intuitive situation where you could have both globalisation as well as 'decoupling' where business cycles in emerging countries are no longer tightly linked in tandem with the business cycles in industrialised countries, i.e., whether emerging market economies and industrial economies have in effect decoupled. This contemporary debate has an interesting flavour: thirty years ago, Sir Arthur Lewis in his 1979 Nobel Prize lecture raised the question whether the 'dependency linkage between the North and the South' was inevitable - i.e., whether the destinies of developing countries is linked with those of industrialised nations. The question by Kose, et al, was to find out whether their business cycles have decoupled?

With the outset of the global financial crisis which took the contagion of the US sub-prime housing crisis deep into the lives of humanity across the world, it was thought that it put paid to the idea of 'decoupling' and settled the debate. Vestiges of the debate, however, continue with speculations whether the economies of emerging countries will be more resilient, based on their own internal dynamics. Given this as the backdrop and global context, the issue that arises is how has India, and more specifically, India's poor been impacted by the crisis.

¹⁵ *The Economist, The decoupling debate, Mar 6th 2008*

¹⁶ *M Ayhan Kose, Christopher Otrok, and Eswar S. Prasad, 2008 Global Business Cycles: Convergence or Decoupling? NBER Working Paper No. 14292. Evidence indicated that in recent years within industrial and within emerging countries, business cycles had converged; but the two had decoupled from each other and a slowdown in industrial countries did not necessarily imply a corresponding slowdown in emerging countries.*

4. The Indian context

4.1. India and the Global Economy

When the sub-prime housing crisis broke out in the US around mid-2007, the concerns in India were to contain incipient inflationary trends that had been latent in the boom period. Monetary policy continued to be tightened to cool down the economy right up to July 2008. Indian banks, 70 per cent of which are under government ownership,¹⁷ did not have any meaningful exposure to toxic assets. The financial sector was unaffected by the contagion and the financial markets continued to function normally. On the real side, India's exports of goods and services constituted about 25 per cent of GDP and it was felt, in the initial phase that India could weather the crisis based on internal momentum. It was almost as if India seemed decoupled from events in the US and the sub-prime crisis.

However, events leading to the Lehman Brothers collapse in September 2008 and the consequent seizure of global financial flows brought home the global impact. India was more integrated into the world economy than initially met the eye. By 2007-08, India had a fairly open current account which amounted to about 53 per cent of GDP. This reflected India's integration into world trade, i.e., the world's real economy. The capital account was moderately open amounting to about 64 per cent of GDP, reflecting India's integration into the global financial markets.

Table 2: Indicators of India's integration into the global economy (2007-08)

Indicator	Per cent of GDP	Remarks
Exports	15	8.9 per cent in 1996-97
Trade (Exports + Imports)	34.7	21.2 per cent of GDP in 1997p 98
Current account (current receipts and current payments)	53	19 per cent of GDP in 1990-91
Capital Account (Gross capital inflows + Gross capital outflows)	64	12 per cent of GDP in 1990-91
Total external transactions (gross current account + gross capital flows)	117.4	46.8 per cent of GDP in 1997-98

Source: RBI, *Monthly Bulletins*; Mohan Rakesh, *Global Financial Crisis and Key Risks: Impact on India and Asia, Remarks at the IMF-FSF High-Level Meeting on the Recent Financial Turmoil and Policy Responses, Washington D.C., October 9, 2008*; Subbarao Duvvuri, *Impact of the Global Financial Crisis on India: Collateral Damage and Response, Speech delivered at the Symposium on "The Global Economic Crisis and Challenges for the Asian Economy in a Changing World", Institute for International Monetary Affairs, Tokyo on February 18, 2009.*

¹⁷ Measured in terms of deposits with government owned banks.

4. 2. The transmission channels

The crisis was transmitted to India through the financial channel with an abrupt decline and reversal of capital flows to the country. Foreign direct investments declined; portfolio investment flows reversed as foreign institutional investors unwound positions to replenish cash balances in the home markets leading to a sharp decline in Indian equity prices; and external commercial borrowings declined in the context of the seizure of the inter-bank markets abroad.

The drying up of financial flows from overseas implied that firms in India had to borrow locally leading to a domestic credit crunch. Reduced liquidity led industries in various sectors to deleverage – or reduce their debt. This has had a felt impact on sectors such as the auto industry, construction, etc. As capital flows reversed, the exchange rate came under pressure leading to a fall in the value of the rupee. The Reserve Bank of India (RBI), the country's central bank, responded by selling dollars to maintain orderly conditions in the foreign exchange markets. This led to a further tightening of domestic rupee liquidity. Credit and liquidity conditions tightened and in September 2008 the overnight money market interest rate rose to above 20 per cent and remained high for the next month. This induced further domestic deleveraging by households and corporates.

In the real sector, the collapse of international trade in 2008 led to a decline in demand for Indian exports. The consequent contraction of exports had an impact on sectors such as gems and jewellery, textiles, carpets, etc. thus transmitting the international fall in demand to domestic markets. Transmission through the confidence channel implied that lenders became risk averse. The psychological impact of global uncertainty was the drying up of confidence, the key anchor of finance. Lenders became risk averse with a closer scrutiny of new credit proposals. Risk aversion and uncertainty impeded financial flows, trade credits and more importantly, domestic investment demand as corporates kept their new projects on hold. Boom time lending inclined towards enterprises creating perceived valuations on the stock markets; the crisis brought cash flow analysis based on economic fundamentals back into the lenders' stream of consciousness, putting on hold many 'hubristic' pipeline projects. The global crisis impacted on domestic liquidity, on demand for Indian goods and on confidence to undertake new projects, bringing the global slowdown to India.

4. 3. The moderating factors

However, the following factors helped moderate the impact of the crisis. For one, India had sustained a real GDP growth trajectory exceeding 8 per cent year on year since 2003, despite a slowdown in industrial economies; India's export to GDP ratio was about 15 per cent thus moderating the real economy impact; much of India's growth was driven by domestic demand and much

of the investments driven by a high savings rate of 37.7 per cent; there was a favourable demographic divide, and the financial markets dominated by state-owned entities (76 per cent of bank deposits and 67 per cent of insurance premium collections) showed resilience; the banking system was well capitalised and prudently regulated – furthermore, it had virtually no exposure to toxic assets or failed institutions; the forex reserve position provided comfort; a majority of Indians did not participate in any substantive way in the equities markets and thus did not suffer the wealth loss effects of falling markets; a number of government measures such as the farm loan waiver and schemes such as the National Rural Employment Guarantee Programme, conceived of as a social security net, combined with quick coordinated policy response, on the monetary and the fiscal front by the RBI and government, helped mitigate some of the impact of the crisis.

5. Impact of the slowdown on sectors and industry groups

The overall impact on India has not been uniform. Different sectors have shown different and divergent trends. As expected, sectors integrated into the global economy have felt the first order direct impact of the crisis. The impact of the crisis has been felt differently across geographical areas – evidence ranges from virtually no impact in most areas of interior India to severe impact on some areas where export clusters impacted by the downturn are concentrated. Impact has also been felt in those interior areas from where migrant workers in impacted export clusters hail. Data often appears contradictory. One of the reasons is that even within apparently homogeneous sectors, sub-sectors have different stories; for instance, within the gems and jewellery sector, the demand for pearls and coloured gemstones marked an increase, which for cut diamonds fell by over 70 per cent.¹⁸

For a broad brush analysis to assess the impact of external shocks, it is useful to break down the economy into five logical components and look at the impact on (i) activities integrated into the global economy; (ii) activities that have entailed domestic deleveraging, i.e., affected by the credit crunch; (iii) activities already in a business cycle downturn whose momentum was enhanced by the crisis; (iv) activities that were based on boom time valuation based models without sound economic fundamentals; and finally (v) activities that are not integrated into the global economy. This provides a framework to analyze the impact based on

¹⁸ ASSOCHAM: *Eco Pulse Study Outlook for Indian Gems and Jewellery Sector: 2009, April 2009*. Also *Financial Express*, April 23, 2009 <http://www.financialexpress.com/news/gems-jewellery-exports-up-1.45/450057/0>

linkages to the rest of the world.¹⁹ While these are not watertight compartments, they have an inherent logic that could enhance understanding.

5.1. Activities not integrated into the global economy

The first component of the activities not integrated into the global economy would be Agriculture, which is by far the largest segment by employment. Indian agriculture engages about 273 million workers representing about 56 per cent of the workforce. This 56 per cent²⁰ of the workforce contributes to about 18 per cent of GDP with a productivity of about USD 637 per worker. It is estimated that about 80 per cent of farmers in India are small or marginal farmers. They produce little or no marketable surplus and largely employ family labour and are thus engaged in subsistence economy. It is the residual 20 per cent middle and large farmers who produce 80 per cent of the marketable surplus of cereals, employ labour and participate in local and international markets.²¹ Policies of the government such as the farm debt waiver injected substantial purchasing power into the sector and schemes such as NREGP have served as safety nets. The agricultural sector has been grappling with its own share of longstanding problems; these however are not related to the economic slowdown as such.

Similarly, the traditional Retail Trade sector which is estimated to engage about 42 million people representing 8.5 per cent of the workforce and contributing to about 12 per cent of GDP²² has been largely unaffected by consequences of the meltdown and has seen a marginal impact reflecting a slowdown in the growth rates and greater caution in fresh spending. The modern retail sector which was impacted by the crisis, employs about 0.3 million and the numbers are negligible.

Public Administration and Defence engages about 8.9 million people representing a little less than 2 per cent of the workforce; Community Personal and Social Services engage about 25 million representing about 5 per cent of the workforce. These sectors have not been affected. Indeed, the implementation of the Sixth Pay Commission and payout of part of the arrears were seen to dovetail into the fiscal stimulus measures of the government.

The Health sector employs 4.8 million persons representing about 1 per cent of the workforce and contributes to about 6 per cent of GDP. In 2006, the size

19 Part of this framework draws upon a Boston Consulting Group (BCG) presentation to the Confederation of Indian Industry (CII) in February, *Understanding the Turbulence: Impact of the Financial Crisis on India*. They use four categories viz., Domestic Deleveraging, Export Compression, Business Cycle Acceleration and Hubristic Business Models.

20 These figures are based on estimates by the Institute of Applied Manpower Research and BCG. *The Economic Survey, 2008-09* estimates agriculture's share of total employment in 2004-05 based on current daily status to be 52.1 per cent.

21 Mahajan Vijay,

22 Estimates by the India Brand Equity Foundation (IBEF)

of the sector was estimated at about US\$34 billion (2006).²³ While more than two-thirds of the hospitals in the country are run by the public sector, the private sector accounts for more than 80 per cent of total healthcare spending. An increasing middle class, increased stress levels in society, lifestyle changes, and growth in communicable diseases have contributed to the sector's growth. Most of the sector caters to the local population, though medical tourism is an emerging area which in 2006 was estimated at about US\$350 million²⁴ The sector has been unaffected apart from alternate therapy medical tourists whose numbers declined in Kerala. There are views that the some of the decline was attributable to the 26/11 attacks which saw tourist arrivals dip; however that sector will show a revival in the coming season.

Thus, intuitive back of the envelope calculations indicate that over 65 per cent of the workforce was engaged in sectors that were not integrated into the global economy and did not experience the pains of job losses attributable to the crisis in any significant manner.

5. 2. Activities impacted by domestic deleveraging

The other component of the economy would be sectors which were impacted by the credit crunch and domestic deleveraging. These would be industries such as the auto sector, large consumer durables, construction, etc. Before commencing a sectoral analysis, a brief digression on the concept of deleveraging would not be out of place.

Companies take on debt or borrow money to fund their growth and increase returns on their investments. They thus 'leverage' their resources. Deleveraging refers to a reduction in debt or the degree to which companies or households use borrowed money. The process of reducing debt is either forced when credit is not available or voluntarily to reduce risk in times of uncertainty and lack of confidence about future growth.

In times of crisis and job uncertainty, households have an aversion to acquiring more debt. The most visible effect of such a phenomenon is on purchases that can be postponed/deferred, typically automobile and large consumer durables, especially where households buy these on credit. At the same time, the credit crunch and greater scrutiny by credit card issuers and finance companies impacts on the availability of credit on offer, making it more difficult for households to borrow. Thus, a credit crunch and an environment of risk aversion leads to household deleveraging.

²³ *Health Care in India, Emerging Market Report 2007, PriceWaterhouseCoopers*

²⁴ *Confederation of Indian Industry and McKinsey,*

On the producers' side, non availability of credit not only puts a break on expansion plans, but also on production activity, especially if inventories start to rise. Producers without recourse to debt funds need to sell assets or slowdown. It is precisely in such times when boom-time exuberance faded away that creditors become risk averse and tighten their norms making credit availability even more difficult, further exacerbating the problem. Here, a special mention need to be made about small and medium enterprises (SMEs) who, with limited access to own funds and to the markets, were double impacted across sectors as large manufacturers to whom SMEs supply, delayed payments to smaller units. In the Indian context, policy action such as (i) moral suasion by the central bank; (ii) a refinance facility of US\$1.4 billion extended by the central bank to apex institution for lending to SMEs; and (iii) the need to fulfill priority sector lending targets ensured that credit to the SMEs did not fall.²⁵ Some of the sectors that felt the impact of the credit crunch and domestic deleveraging are analysed in the following:

The auto sector felt the initial impact of the crisis through the domestic deleveraging and the auto components sector also through reduced demand for its exports. The auto sector comprises the Original Equipment Manufacturers (OEMs) and auto component manufacturers and employs about half a million people directly and around 10 million people indirectly accounting for about 2 per cent of the workforce. The two industries are concentrated in three main clusters centered around Chennai, Pune and the National Capital Region (NCR) with smaller clusters around Jamshedpur and Kolkata amongst others.²⁶

The sector felt the fall out of the global turmoil by the second quarter of 2008–09 when domestic sales, especially of commercial vehicles, slumped, leading to inventory buildups. Large manufacturers responded by scaling down production by 11.6 per cent in October and a further 5.8 per cent in November 2008; reducing work shifts; resorting to block closures of plants; deferring expansion plans and laying off of temporary workers. Lockouts and labour unrest were reported at various centres.²⁷ This had a knock on effect on the auto ancillary industries which, in addition, got affected by a fall in export demand as well as the tyre industry.

25 We confine our analysis to activity defined functional sectors and not on generic basis of SMEs, etc.

26 *Automotive 2006, Report by KPMG for the India Brand Equity Foundation*

27 As per media reports, most auto majors reported substantial declines in their sales estimated at about 20 per cent around November, 2008. In November, Tata Motors reduced the production of truck chassis from 8,000 to 5,000 per month, shut the Jamshedpur plant for a few days and laid off 700 temporary workers. On 24th November, 2008 The Economic Times reported that Tata Motors had laid off more than 4000 temporary workers and block closures of plants were announced. Hyundai, Mahendra, Toyota announced production cuts, Honda deferred its expansion plans in Rajasthan and Ashok Leyland put its new joint venture with Nissan to produce commercial vehicles on hold. Labour unrest was reported at the Hyundai plant in Tamil Naidu. See also <http://economictimes.indiatimes.com/News/News-By-Industry/Auto/Automobiles/Auto-cos-go-beyond-layoffs-shutdowns-in-austerity-drive/articleshow/3749099.cms> visited on 2nd August, 2009.

Livelihoods creation in the auto sector is essentially in auto components industry. Its size is estimated at around US\$18 billion in 2007-08 of which one-fifth was exported. It is highly fragmented with about 6,400 players in the sector, of which only about 6 per cent are in the organised sector. These players, however, account for almost 77 per cent of the output in value terms in the sector. The remaining 94 per cent units in the small-scale and unorganised sector, account for a quarter of the value added and provide most of the livelihood opportunities to local and migrant workers. It was this sub-segment that felt the pains of the initial slowdown. For instance, the forging sub-sector of about 7,000 units employing about 200,000 people is concentrated in clusters around Pune, Chennai and Ludhiana and they reported job losses of about 50,000 in the forging sub-sector alone.²⁸

The turmoil in the sector, however, was short lived. There was an excise duty cut by Government and incentives in the US and the EU for scrapping old cars in a bid to pump their economies boosted Indian car exports. By the first quarter of 2009, signs of recovery in the sector were visible²⁹ and by the second quarter domestic monthly sales marked an increase over those in the previous year. However, there are views that large entities have used the production slowdown of the last quarter of 2008 and the job uncertainty attached with it to cut costs and rationalise their operations.³⁰ Even discounting numbers put out by industry, geographical areas around Pune, Chennai, and clusters around the NCR have felt the initial impact of the downturn with disruptions in livelihoods, if for a while.

The Construction sector, in addition to having an overvalued model, was affected by deleveraging. The sector which accounts for about 7 per cent of GDP is a large employer engaging about 27 million workers or about 6 per cent of the workforce. Most of these are migrant workers belonging to the more economically vulnerable sections of society and hence critical in the issue of livelihoods of the poor. The sector with backward linkages to the steel and cement sectors and forward linkages to segments such as hotels, retail and transport have ripple effects that pervade across a cross section of the economy. In view of its importance, the Labour Ministry attempted to quantify job losses in the sector. These attempts failed primarily on account of the complex manner in which construction workers are employed and there is no employer as such.

28 *Business Standard*, April 7, 2009

29 "The overall sales decline is triggered by the sluggish market conditions combined with tighter lending norms of banks and finance companies. We expect the sales to go up with the liquidity position improving and interest rates marginally coming down in the coming months," General Motor India Vice-President P. Balendran, quoted in *The Hindu*, Tuesday, Mar 03, 2009

30 Wage negotiations, impending job cuts, layoffs of temporary workers resulted in labour unrest in many parts of the country. Some visible instances were those of Hyundai Motor India in Tamil Nadu, at Graziano Transmission India an auto component maker in the National Capital Region, unrest at the Mahendra and Mahendra plant at Nashik, Maharashtra amongst others.

In a media report, the ministry speculated that based on employment elasticities about 0.5 million jobs could have been lost in the sector.³¹ While the sector suffered a setback and declining prices, it is estimated that the construction sector as a whole grew at 7.2 per cent during financial year 2008–09 as compared to 10.1 per cent during financial year 2007–08.³² There are indications of revival in the sector and while projects had been put on hold, mass layoffs across the country were not distinctly visible. The impact of the crisis on the livelihoods of the approximately 6 per cent of the workforce engaged in construction appears to have been temporary.

5.3. Sectors facing a business cycle acceleration

The third component of the economy we look at consists of activities that were already in a business cycle downturn with falling prices and rising inventories. India had clocked annual growth of 8.9 per cent on an average over the last five years (2003–08), and was headed for a cyclical downturn in 2008–09.³³ The crisis accelerated and reinforced the trend. Industries such as steel and cement fall in this category. Steel output declined in the third quarter of the calendar year 2008 and the Associated Chambers of Commerce and Industry (ASSOCHAM) went on record to state that steel was one of the sectors where demand was severely affected with gross demand having fallen by 18 per cent in the last quarter of that calendar year compared to the corresponding period a year before. By March 2009, however, signs of recovery were evident, spurred by increased off take by the automobile and construction sectors.³⁴ Both in the cement and steel sectors, there is little evidence of substantial numbers of permanent job losses and impacts on livelihoods. An impact, however, was felt in the certain sectors such as the transport sector around the iron ore export route.

5.4. Sectors entailing boom-time valuations

The fourth category relates to those activities which were based on boom-time valuation models. In the boom time, promoters in some industries attempted to create valuations for the companies on the stock market in the speculative hope of obtaining returns in future. These valuations were out of tune with economic fundamentals and not based on underlying cash flows. These industries, such as aviation, modern retail, realty, etc., were over extended and over leveraged based on high risk strategy with valuations not in synch with underlying fundamentals. The probability of their failure was high even in the absence of a

31 *Financial Express*, August 07, 2009.

32 *Budget 2009 Snapshot*, PriceWaterhouseCoopers

33 *Reserve Bank of India*, Annual Policy Statement 2009-10, para 5

34 --

downturn and a sobering correction in these was accelerated by and not caused by the downturn as such.

The Aviation industry has little impact on the livelihoods of the poor. The industry which had inherent issues of financial viability, had marked a very considerable expansion on forecasts that passenger traffic would grow as GDP grew and affluence made air travel more affordable.³⁵ When air traffic fell consistently in the second half of 2008, there were attempts to restructure. The few proposed job losses in the sector received much greater media coverage than the considerable job losses in the textile sector. Where the realty sector was concerned, residential property prices had surged by 80 per cent between 2005 and 2008.³⁶ The sector felt the liquidity crunch as private equity investments shied away from speculative over valued ventures and investors at the high end held back their investments as credit became less accessible. This sector as well as the modern retail constitute a negligible proportion of the workforce with little ripple effect amongst the poor.

5. 5. Sectors integrated into the global economy

Sectors integrated into the global economy faced a fall in exports as global demand for their products declined. Merchant exports constitute 15 per cent of GDP and the sector has faced consistent fall in exports (Table 3).

Table 3: Impact of the crisis on India's export sector

EXPORTS (including re-exports)

Months	2007-2008 (USD million)	2008-2009 (USD million)	Growth percentage (2008-2009/ 2007-2008)	2009-2010 (USD million)	Growth percentage (2009-2010/ 2008-2009)
October	14588	12822	-12.10		
November	12768	11505	-9.90		
December	12825	12690	-1.10		
January	14717	12381	-15.90		
February	15221	11913	-21.70		
March	17254	11516	-33.30		
April		16076		10743	-33.20
May		15550		11010	-29.20

Figures for 2008-09 are the latest revised whereas figures for 2009-10 are provisional

Source: Department of Commerce, Ministry of Commerce and Industry, Government of India; RBI Monthly Bulletins, various issues.

35 "There is an issue of financial viability of the way airlines are functioning", Rajesh Menon, CII, quoted in VOA news, 19th June, 2009

36 Goldman Sachs' Asia Economics Research Team quoted in Business Line, November 25, 2008

The Textile and Clothing sector employs about 35 million people and accounts for 4 per cent of India's GDP, about 14 per cent of industrial production and about 12 per cent of forex earnings. Total production of textile and clothing is estimated at about US\$63 billion and exports at about US\$22 billion which accounted for about 35 per cent of production. Of this, textile exports accounted for US\$12.7 billion and garment exports accounted for US\$9.7 billion. The destinations of textile exports are those countries most severely impacted by the crisis, viz., the EU which accounts for 33 per cent of the total textile and clothing by value, followed by the US with a 21 per cent value share.

The industry is highly fragmented, except in the spinning sub-segment. The organised sector contributes over 95 per cent of spinning, but hardly 5 per cent of weaving fabric. The bulk of the weaving and processing operations are carried out by SMEs which largely operate in clusters. Approximately 70 textile clusters produce 80 per cent of the country's total textiles. Based on a UNIDO study conducted on SME clusters in India, some of the prominent textile clusters catering to niche products were Panipat, which accounts for about 75 per cent of the total blankets produced in the country, Tirupur, which produces about 80 per cent of the country's hosiery exports and Ludhiana, which manufactures about 95 per cent of the country's woolen knitwear.

In the context of textiles, it has been the export sector which was severely impacted with large corporates and clusters in Tirupur, Surat, Panipat and Ludhiana as well as the home furnishing manufacturers of Tamil Nadu, Kerala and Punjab feeling the brunt. The component of the industry catering to the domestic sector, however, has remained resilient. Other clusters such as the powerloom units at Bhiwandi, Malegaon, Belgaum, as well as the handloom saree units at Maheshwar or the home furnishing units at Solapur have not witnessed any substantial downturn, apart from their traditional problems. The impact on the sector has essentially been that at the export and highend. A recent study³⁷ in June 2009 suggests that initial job losses in export-oriented units amounted to about 600,000 but it is not clear whether the job losses were temporary or permanent. Much of the work in these clusters is done by migrant workers working in the informal sector without any social security benefits. It is fair to conclude that their return home or even temporary suspension from work of these vulnerable informal sector workers has had its impact on family earnings pushing down incomes to below the US\$1.25 per day levels and pushing them down further into poverty with its concomitant impacts.

The more visible stories to have grabbed the headlines relate to the Gems and Jewellery sector, which is predominantly oriented to exports. The sector is

37 *Impact of Global Economic Slowdown on Indian Textile & Clothing Industry, ICRA Management Consulting Services Limited.*

estimated to employ about 10 million artisans and workers and the size of the market is estimated at about US\$23 billion. About 90 per cent of this market is geared to meet export demand and the sector accounts for about 12 per cent of India's exports. In 2008, exports stood at US\$21.2 billion. In 2007, two markets, viz., the US and Hong Kong constituted about half of India's gems and jewellery exports (49.67 per cent). Exports to the US amounted to 25.93 per cent followed closely by Hong Kong. In 2008 the share of gems and jewellery exports to the US had fallen to 15.28 per cent and that of Hong Kong to about 20 per cent.³⁸ Given the size, structure and export dependence on two markets, the sector is particularly vulnerable to external shocks. Added to this, the demand for gems and jewellery exhibits considerable income elasticity, purchases of which being the first to be dispensed with in times of distress.

The Gems & Jewellery Export Promotion Council figures indicate that the sector as a whole did not contract in 2008; indeed, it grew by 7.41 per cent. Exports however fell by about 4 per cent. It was the 'cut and polished diamonds' sub-sector having a 5 per cent share in G&J exports that witnessed a 73 per cent decline with exports dropping from about US\$990 million to about US\$261 million. Media reports gave considerable prominence to job losses in this sector as well as those of the suicides of diamond workers reflecting acute psychological distress. Estimates of job losses varied, perhaps on account of the temporary closures of units and large movements of migrant workers back to their homes. On revisiting figures, the sector is estimated to have had job losses of about 100,000 workers.³⁹

Most of the diamond workers are concentrated in the Surat cluster. This is also home to a substantial textile cluster which too was affected almost simultaneously. The double impact of two hard hit sectors in one geographical location made Surat a location where the impact of the crisis was starkly evident. Surat was also host to a very considerable number of migrant workers, almost half a million of whom hailed from the State of Orissa. More interestingly, the overwhelming majority of the migrant workers from Orissa in the gems and jewellery as well as the textile sectors came from the single district of Ganjam- a virtually unheard district.

With job losses and temporary suspensions, the return of workers to Ganjam transmitted the effects of the global downturn to the remote recesses of interior India. Thus the problems of high finance, whose fons et origo mali lay in Wall Street, cast their shadow into Ganjam. The claim to fame of Ganjam is that it is among the top ten HIV prevalent districts in the country and accounts for almost 50 per cent of the HIV positive people in Orissa, mostly migrant labourers. The

38 ASSOCHAM: *Eco Pulse Study Outlook for Indian Gems and Jewellery Sector: 2009, April 2009*

39 ASSOCHAM: *Eco Pulse Study Outlook for Indian Gems and Jewellery Sector: 2009, April 2009*

trail of returning migrant labour, with providers becoming dependents, brings in its wake its own set of problems, with anxiety, distress and drunkenness impacting on the psychological health of the local society. It highlights, in some measure, the spatial impact of the crisis on specific areas.

The Carpet industry represents one of the traditional artisan sectors whose fortunes are intimately linked with global trade. The sector engages about 3 million people which includes about 2.5 million weavers. The industry is primarily export-oriented, with 90 per cent of the carpets manufactured being exported. The exports of the sector have seen a 31 per cent fall in its exports from US\$875 million in 2007 to US\$600 million in 2008. Exports to the US, the largest importer, marked a fall of about 27.5 per cent; exports to Germany fell by 15.6 per cent and to the UK by 44 per cent. The fall was greatest in the high value handmade silk category which marked a decline of about 37 per cent. (Table 4) As a result, the impact of the global slowdown has been starkly felt by artisans dispersed across the Kashmir Valley as well as units concentrated in carpet clusters located in regions around the Bhadoi-Mirzapur-Varanasi belt in Uttar Pradesh.

The Handicrafts sector is another where the impact has been felt deep within the country. The sector employs about 7 million dispersed over about 25,000 handicraft clusters across the country, mostly concentrated in around Moradabad, Jaipur, Sharanpur, Ferozabad, etc. Indian handicraft exports account for about 2 per cent share in the US\$235 billion world handicrafts market. The sector, which has been grappling with a host of issues including competition of imitation goods from China, witnessed a fall in exports of approximately 40 per cent in the fiscal 2008-09 with many in the trade having to resort to alternative part-time occupations⁴⁰ transmitting events in the international sphere to the interior recesses of India.

The realities of the impact of the crisis on the Leather industry are opaque. While media reports gave prominence to the impact of the crisis on the leather industry, the situation in leather industry, like other sectors, has been mixed. The industry comprises of tanning & finishing activities, footwear & footwear components, leather garments, leather goods & finished leather. The industry employs about 2.5 million people and processes about 185 million hides and skins annually, 85 per cent of which is sourced domestically. The industry is highly fragmented with the small scale and cottage artisans contributing around 75 per cent of the total production in the country.

The export market for Leather is estimated at about US\$3.5 billion. The Leather Export Promotion Council estimates that as per DGCI&S monthly export data,

⁴⁰ Reserve Bank of India, *India's Foreign Trade 2009-10 (April)*, RBI Monthly Bulletin, July 2009. Also, DNA Money, February 15, 2008 and Economic Times, November 30, 2008.

the export of leather & leather products for the first eleven months, i.e., April–February 2008–09 worked out to US\$3.3 billion, registering a positive growth of 2.73 per cent in Dollar Terms. The story of leather impact was within the sub-sectors, with finished leather exports showing a decline of 13.84 per cent, footwear components about 7.47 per cent and saddlery & harness a decline of about 9.22 per cent. Hong Kong and Italy were the main destinations exhibiting reduced demand. Within India, units in the South were affected more than those in North, East and Central India. While workers employed in the leather sector are among the more socially and economically vulnerable groups, there does not appear to have been any substantial job losses and loss of livelihoods in the sector across the country.

The Information Technology (IT) sector has been one of the more visible sectors driving the Indian growth story. The sector employs about 2 million people and the revenue aggregate of the Information Technology-Business Process Outsourcing (IT-BPO) industry was estimated at US\$64 billion in 2007–08. Despite the uncertain global outlook, the IT-BPO industry achieved a revenue aggregate of about US\$ 71.7 billion in 2008–09 reflecting a growth of about 12 per cent.⁴¹

The Indian software and services exports, including ITES-BPO exports, marked a 16.3 per cent increase to US\$47 billion in 2008–09 though the impact on future projects is unclear. Here it may be stated that while job losses in the IT sector, as such, do not directly impact on the livelihoods of the poor, the ITES-BPO sector has been at the forefront of an emancipatory social revolution in as much as it has been democratic in opening up opportunities for first generation literates and for a generation of those who could not look to an education beyond high school. For all its downsides, it has been a significant 'light on the hill' for upward socio-economic mobility. The sector also spawns a host of support services that directly impact livelihoods of the poor such as drivers, tea stall workers, personal services and the like. The IT sector was one which had also come into prominence with the issue of pink slips, sabbaticals, pay freezes and layoffs. Educating information from industry sources, it appears that while uncertainty still lurks over the fate of new projects, and the creation of new livelihoods in the sector have decelerated, there may not have been substantial job losses (Table 4)..

6. Migrant remittances

Migrant Remittances impact on the real economy from the demand side. In the crisis these have been a more stable and reliable source of funds to home countries

⁴¹ Reserve Bank of India, *India's Foreign Trade 2009-10 (April)*, RBI Monthly Bulletin, July 2009. Also, *DNA Money*, February 15, 2008 and *Economic Times*, November 30, 2008.

Table 4: Sector-wise impact on India's exports

1	Sectors	April-February (US\$ Million)			Percentage	Variation
		2006-07 2	2007-08 3	2008-09 P 4	(3)/(2) 5	(4)/(3) 6
A.	Textiles and Textile Products	14,904.50	16,551.00	16,964.10	11.05	2.50
1	Cotton Yarn, Fabrics, Made-ups, etc.,	3,830.40	4,093.00	3,872.30	6.9	-5.4
2	Natural Silk Yarn, Fabrics Madeups etc. (incl.silk waste)	408.8	341	337	-16.6	-1.2
3	Manmade Yarn, Fabrics, Made-ups, etc.,	1,993.50	2,627.00	2,774.70	31.8	5.6
4	Manmade Staple Fibre	173.4	245.1	232.4	41.3	-5.2
5	Woolen Yarn, Fabrics, Madeups etc.	77.4	83.1	92.6	7.5	11.4
6	Readymade Garments	8,046.90	8,717.60	9,242.10	8.3	6
7	Jute & Jute Manufactures	244.5	300.7	279.2	23	-7.1
8	Coir & Coir Manufactures	129.6	143.5	133.8	10.8	-6.8
B	Leather & Manufactures	2,755.40	3,206.90	3,298.00	16.4	2.8
C	Carpets	851.1	892.1	725.3	4.8	-18.7
1	Carpet Handmade	822.7	874.7	714.4	6.3	-18.3
2	Carpet Millmade	0	0	0	—	—
3	Silk Carpets	28.4	17.4	10.9	-38.6	-37.3
D	Gems & Jewellery	14,253.30	17,854.60	17,193.50	25.3	-3.7
E	Handicrafts	405	476.6	279.7	17.7	-41.3
Total Exports		113,400.90	143,567.90	153,018.20	26.6	6.6

P: Provisional.

Source : India's Exports RBI Monthly Bulletin, July 2009.

than private capital flows, such as equity and lending by foreign banks. While migration is a complex issue, migrant remittances transfer purchasing power to the receiving communities. Remittances, especially to rural areas help reduce poverty, smooth consumption, and help alleviate distress. While remittances unambiguously impact directly and indirectly on livelihoods of receiving communities, the overall impact of migration and remittances on poverty and inequality depends on the income groups from which the migrants originated.

India is the leading recipient of migrant remittances and is estimated to have received US\$47 billion in 2008, up from about US\$38 billion in 2007.⁴² This reflects an upward trend though there are uncertainties whether this level can hold on in the coming year. In a crisis, issues with migrant remittances have three facets: first, the quantum of the inflow of remittances; secondly, the issue of workers returning in large numbers; and, thirdly the issue of workers continuing to go abroad on a net basis. Remittances to India reflect a mixed bag – they include those of migrant labour to the Gulf countries as well as those of professionals residing abroad. The downturn in the construction sector in Dubai had raised apprehensions of mass returnees from the Gulf region and downturn in the US of professionals returning to the home country. The Kerala government augmented the corpus of the scheme to rehabilitate Gulf returnees but the large numbers feared have not quite materialised. Overall, based on World Bank figures and anecdotal evidence, India has not fared too badly on the migrant remittances front. Interestingly, the experience of neighbouring Bangladesh has been similar.

7. Policy response

One characteristic that marked this crisis apart from others was the swiftness and magnitude of the global policy response. Governments and central banks across the world coordinated fiscal stimuli and monetary easing with the IMF calling on countries with fiscal space to enact fiscal stimulus packages of 2 percentage points of their national gross domestic products (GDP).⁴³ Central banks went well beyond the traditional response of finetuning interest rates and resorted to unorthodox methods, such as direct asset purchases, commercial paper funding facilities, liquidity aid, etc. Fiscal stimuli by governments typically involved three components:

- tax cuts
- boosting new expenditures especially on infrastructure
- increasing transfers of to vulnerable groups.⁴⁴

In India, the severity of the crisis brought about a rare policy response where both the Government and the Reserve Bank responded in coordination and consultation to the challenge of mitigating the impact of crisis on India.

42 *Migration and Development Brief*, Development Prospects Group, World Bank, July 2009

43 'What we're trying to organize is this coordinated action plan to have a boost in growth starting from a [global] fiscal stimulus of 2 per cent [of world GDP]. Some measures have already been taken by some countries, and we are looking for a result of an increase in growth of also 2 per cent.' Transcript of a Press Briefing by Dominique Strauss-Kahn, IMF Managing Director, John Lipsky, First Deputy Managing Director, Caroline Atkinson, Director of External Relations, IMF, Washington, DC, Saturday, November 15, 2008. (<http://www.imf.org/external/np/tr/2008/tr081115.htm> visited on 1.08.09))

44 Horton Mark and Anna Ivanova, (2009) *The Size of the Fiscal Expansion: An Analysis for the Largest Countries*, IMF, Washington DC, February 2009.

The response was in the form of monetary and fiscal policy measures. Monetary measures were concerned with enhancing rupee and forex liquidity. They were oriented to compensate for the reversal of capital flows and to ensure:

- tightening of the markets due to global deleveraging did not spread the contagion to the Indian markets
- banks and financial institutions continue to lend to the productive sectors of the economy.

Concomitantly fiscal measures dealt with putting in place fiscal stimuli packages to revive the economy by tax reductions, enhanced spending and transfers to vulnerable sections through various government programmes.

7. 1. Monetary policy response

As the crisis deepened in advanced countries, the Reserve Bank provided dollar liquidity to stabilise the forex markets. This in turn put a pressure on domestic liquidity, and the Bank simultaneously commenced addressing liquidity issues. The conventional measures employed were to:

- reduce policy interest rates to make credit cheaper
- reduce the quantum of bank reserves impounded by the Reserve Bank to increase the quantity of liquidity
- liberalise refinance facilities to ensure that credit flows to industry and others do not freeze.

The first steps were to stabilise interest rates and ensure that the cost of credit remains affordable so that productive sectors could carry on economic activity. The repo rate, i.e., the rate at which the Reserve Bank lends short-term funds to banks was reduced in steps by 400 basis points from 9 per cent in August 2008 to 5 per cent by March 2009 and the reverse repo rates, i.e., the rate at which banks park short-term funds with the Reserve Bank was reduced by 250 basis point from 6 per cent in November 2008 to 3.25 per cent in April 2009. This helped soften money market interest rates and ensure that the price of credit remained attractive to the productive sectors. (As a result, the monthly average of the call money rate which was 7.37 per cent in March 2008 fell to 4.18 per cent by January 2009 and for certificates of deposit from 10 per cent to 7.33 per cent.)

On the liquidity front, the Bank sought to augment liquidity and ease conditions through cuts in the cash reserve ratio (CRR), which was lowered in 4 tranches from 9 per cent to 5 per cent. Reduction in the CRR maintained by banks with the Reserve Bank, frees liquidity and injects it into the system. Parallely, the statutory liquidity ratio (SLR) (the minimum that banks need to invest in cash, gold and approved securities) was lowered from 25 per cent to 24 per cent in November 2008. It was estimated that these measures augmented potential

liquidity by over Rs4 trillion⁴⁵ representing about 7 per cent of GDP. This easing ensured a comfortable liquidity position, though there were concerns about the transmission of these measures.

Monetary policy measures also included unconventional methods. The RBI put in place a rupee-dollar swap facility for Indian banks to give them comfort to manage their short-term foreign exchange funding requirements. A special refinance facility was extended to commercial banks where they could avail of refinance on declaration against commercial loans. Other measures included a special purpose vehicle to channelise funds to non-bank financial institutions (NBFCs) and expanding the lendable resources available to apex finance institutions to refinance credit extended by banks to the small industries, housing and exports sectors. Refinance limits of US\$1.4 billion were extended to the Small Industries Development Bank of India (SIDBI), US\$ 800 million to the the National Housing Bank (NHB), and US\$ 1 billion to EXIM Bank.

In an effort to ensure that bank balance sheets look healthy, regulatory forbearance was extended by relaxing risk weights and provisioning requirements and initiating the restructuring of stressed assets. Finally, to manage the additional government market borrowings programme to fund its fiscal initiatives in a non-disruptive manner, shorter-term bonds were issued with the RBI purchasing government securities under open market operations. Here it may be stated that conservative macro and micro prudential measures with regard to securitisation and structured products, risk weights, provisioning as well as measures to contain leveraging by Non Bank Financial Companies put in place by the RBI during the high growth phase paid dividends.⁴⁶

7. 2. Fiscal policy response

Government on its part put in place countercyclical fiscal measures in December 2008, January 2009 and in February 2009 and thereby estimating an additional expenditure of 3 per cent of GDP. These were initiated despite the fact that the combined fiscal deficit of the Central and State governments in 2008–09 at about 11 per cent of the GDP constrained the space for measures.⁴⁷ Recognising the gravity of the situation, the Central government invoked the emergency provisions of the Fiscal Responsibility Budget Management (FRBM) Act and sought relaxation from fiscal targets, and the borrowing limit

⁴⁵ Reserve Bank of India, *Annual Report 2008-09, Mumbai 2009 para 1.15*

⁴⁶ A complete chronology of monetary policy measures taken by the RBI is given in Annex I to the Reserve Bank of India Annual Policy Statement, 2009-10. April 21, 2009.

⁴⁷ Reserve Bank of India, *Annual Report 2008-09, Mumbai 2009 para 1.10. The combined fiscal deficit (centre and states) including special securities issued to oil marketing and fertilizer companies was estimated at 10.7 per cent of GDP in 2008-09.*

for State governments was increased from 3.0 per cent to 3.5 per cent of State GDP. The measures included reduction in indirect taxes (4 per cent cut in the ad valorem centvat rate excluding petroleum products; 2 per cent reduction in excise and service tax; sector specific measures to boost exports, housing, textiles, and SMEs; government guaranteed funds for infrastructure spending through public-private-partnerships; interest subvention of two per cent on export credit for labour intensive sectors and expanded guarantee cover for credit to micro and small enterprises; additional plan expenditure for critical rural infrastructure and social security schemes amongst others

These stimulus measures were in addition to measures the government had already announced, such as the debt relief package for farmers, expansion of the National Rural Employment Guarantee Programme (NREGP) conceived of as a social security net, as well as payouts under the Sixth Pay Commission which increased salaries of government staff. These measures, though a fall out of different dynamics, helped augment the stimulus package.

The debt waiver package (100 per cent waiver) for small and marginal farmers and the debt relief package (25 per cent relief) for other farmers covered about 40 million farmers and entailed an outlay of about INR710 billion (US\$14.5 billion); the NREGP envisaged wage payouts of US\$5.8 billion (INR300 billion); the Bharat Nirman programme aimed at improving rural infrastructure had an outlay of INR1800 billion (US\$34.8 billion). These, as well as other schemes, such as the Pradhan Mantri Gram Sadak Yojana, Indira Awas Yojna, etc., transferred considerable purchasing power to the rural sector. These measures, taken more out of political expediency, than as a response to the crisis, proved to be fortuitous. Finally, looking to the future and recognising that over 92 per cent of India's workforce works in the unorganised sector, the Unorganised Worker's Social Security Bill, 2005 was passed in December 2008.

8. Assessing the impact

Given that the efficacy of policy interventions helped cushion the economy, the question that arises is: 'What has been the overall intensity and scope of the impact on livelihoods of the people, particularly the poor?' One way of assessing the impact of the crisis is to take into account:

- the opportunities lost in terms of new job creation because of the slowdown
- the number of jobs actually lost
- by how much have incomes declined
- how vulnerable are those whose incomes have declined, for instance.g. groups living on the margin of US\$1.25 per day or for that matter US\$2 per day have a greater vulnerability than those living in a more comfortable zone

- how many have slipped into extreme poverty
- the numbers that would have been lifted out of poverty had the crisis not happened.

The second order impact would take into account long-term impact on health, capacity building and capabilities. Then there are collateral issues such as on the country's standing in the human development index as well as issues of social progress. In the absence of definitive data, we merely attempt an intuitive assessment.

9. First order impact of the crisis

9.1. Opportunities lost for new job creation

In India, employing counterfactual analysis, economists have attempted back of the envelope estimates of job losses by using employment elasticities.⁴⁸ These estimate that, on a putative basis, assuming 2.4 percentage decline in growth rates, the crisis had cost the economy 5.5 million jobs which would have been created had the crisis not happened, assuming an employment elasticity of 0.48.

The issue of employment elasticities, however, evokes divergent views. One group contends that employment elasticities are computed from shifting equilibrium levels of employment and are not an ingrained behavioural parameter, such as labour demand or supply elasticities. Ergo, employment elasticities can take on any value. To make the point, critics indicated that 0.48 overall employment elasticity and 9 per cent growth rates gave rather awkward results.⁴⁹ For quick estimates, however, these are indicative numerical figures and shed light on the realm of possibility and scenarios for policy response and preventive action. While figures may be disputed, the loss in the growth rate momentum has slowed down growth of new job creations.

9.2. Job losses

There are no macro-level estimates of job losses which can be attributed to the economic slowdown,⁵⁰ sectoral surveys, however, have been attempted. Employment figures are put out every year by the Labour Bureau in its Annual

48 Bibek Debroy, *Growth Downturn and Its Effects, Impact of the Financial Crisis on the Poor in India*, in *Global Financial Crisis, Impact on India's Poor*, UNDP, April 2009. The paper estimated that assuming employment elasticity of 0.48, a pre crisis 2008 Q2 growth trajectory of 7.6 per cent would generate 18.2 million jobs, An assumed post crisis growth trajectory of 5.2 per cent would create 12.7 million jobs. Thus on a putative basis the crisis had cost the economy 5.5 million jobs assuming a 2.4 percentage decline in growth rates

49 Given an employment elasticity of 0.48 and a labour force growth rate of 2.93 per cent, GDP growth rates of 9.1 per cent would imply that unemployment would be non-existent by 2008.

50 Reserve Bank of India, *Annual Report 2008-09*, para 1.58

Survey of Industries report. In the wake of the severity of the downturn, the Labour Bureau, Ministry of Labour and Employment carried out a survey for the quarter October–December, 2008 to assess the impact of economic slowdown on employment in the industries/sectors badly affected by the slowdown. The survey revealed that about half a million workers lost their jobs during October–December, 2008, the majority of whom were in export-oriented units.⁵¹

The second quarterly survey for the period January to March 2009 covered additional sectors such as leather and handloom-powerlooms and concluded that total estimated employment in the sectors covered has increased by about a quarter million or about 0.6 per cent during the period. Non-export units have shown higher rate (0.92 per cent) of increase in employment as compared to export units (0.28 per cent). During the April 2008–March 2009 period, employment in the sectors covered has increased by 0.15 per cent, resulting in an addition of 0.28 million jobs.

The Ministry of Commerce and Industry, Government of India, too undertook sample surveys to estimate job losses in export related industries. In the first sample survey covering the period August 2008 to January 2009, out of 402 units surveyed, the loss in export order was around Rs62.72 billion along with a loss of 109,513 jobs. Another updated sample survey related to job losses (direct and indirect) for export-related industries from August 2008 to April 2009, estimated that 1,34,593 jobs have been lost.⁵² The Reserve Bank of India's Industrial Outlook Survey conducted in April–May 2009 indicated the likelihood of net hiring in the manufacturing sector in the next quarter.

Other sources of data on job losses come from chambers of commerce, industry groups, consultants, annual reports of companies, etc. They put out varied figures. For instance, the ASSOCHAM figures for job losses in the gems & jewellery sector were put at about 100,000; figures for the textile industry at about 600,000; those for the forging subsector of auto ancillary industries at 50,000, etc. It is not clear whether the figures indicate temporary or permanent job losses. Finally, estimates come from media reports, discussions with ground level functionaries and NGOs, etc. For instance, in some ways, the dormitory accommodation situation in the Dharavi cluster in Mumbai or Tiripur where migrant labour stays, reflects the pace of economic activity; or for that matter the increase or decrease in the number of mobile crèches run by NGOs at construction sites, corroborate the level of activity.

51 *Appendix to the Report on Effect of Economic Slowdown on Employment in India*, Labour Bureau, Simla (January, 2009). The survey covered 2581 units spread over 11 States/UTs in important sectors, viz. Mining, Textiles, Metals, Gems & Jewellery, Automobile, Transport and IT/BPO. These sectors were estimated to have contributed more than 60 per cent to GDP in the year 2007-08.

52 Information given by the Minister of State for Labour and Employment in a written reply in the Rajya Sabha. Government of India, Press Information Bureau, Survey on Huge Job Losses, Rajya Sabha, July 29, 2009

There has often been a disconnect between the news as reported by the media, the figures that industry associations have reported and what can be deduced from official data. Possible explanations are as follows: First, ground level assessments often reflect individual experience, and being newsworthy to the media, colour perceptions and having a more abiding memory recall. The impact of the crisis has been sector- and area-specific. Clusters where impacted industries have been located, such as Tirupur, Surat, Ludhiana, Badoi have their story as do areas where migrant labour to these clusters come from, be it Ganjam in Orissa, Malda in West Bengal, Raichur and Bidar in Karnataka or Karimnagar in Andhra Pradesh. These do not reflect a general average for the country as a whole and can distort the portrayal of the complete picture. Secondly, there is the possibility of an industry bias in putting out figures with a view to lobby government for fiscal support and forbearance. Finally, there is the issue of disaggregation of data with the devil being in the details; sub-sectors can paint dramatically different pictures of the same sector, as is the case in the gems & jewellery, leather & carpet sectors.

In sum, balancing individual experience and aggregate statistics, the reality of the impact is obscured by veils of turbidity. The job losses by any numerical estimates, be it half to one million, appear not very significant against the big picture of a workforce of about 480 million. Looking to the future, enhanced resource allocation for schemes such as NREGP (by 144 per cent), Bharat Nirman (by 45 per cent), National Highway Development Programme (by 23 per cent), Jawarharlal Nehru Urban Renewal Mission (by 87 per cent) in 2009-10 is expected to help generate additional employment.⁵³

9. 3. The poverty impact

Globally, much of the discussion of the impact of the crisis has been on a putative basis, i.e., the difference in the number of people that would have been lifted out of poverty had the pre-crisis growth trajectory continued and number of people actually lifted out of/pushed into poverty, given the actual post-crisis growth trajectory.⁵⁴ These are counter factual figures and are different from actual numbers pushed into poverty by the crisis.

In India, we do not have generally accepted poverty elasticities of growth and such figures as such are not available. There are concerns that this kind of analysis with exclusive focus on growth rates ignores issues such as income distribution, the quality of government expenditure, the nature of the growth,

⁵³ Reserve Bank of India, Annual Report 2008-09, pg. 75

⁵⁴ Poverty Impact of the Economic Slowdown in Developing Asia: Some Scenarios, ADB Economics Working Paper Series No. 153 April 2009

etc., and may not portray the larger picture accurately. These points of view question whether rise in income inequalities along with increases in growth are always good, leading to the larger question in the realm of political economy: "Are the poor better off with enhanced absolute standards of living while being pushed further down the socio-economic scale as reflected in measures of inequality?" These concerns only go to highlight that there are substantial grey areas and estimates, figures and discussions need to be tempered with in caution.

Secondly, it is difficult to isolate the direct poverty impact of the crisis as it came in the wake of the fuel and food crisis. In India, where low income households spend over one half of their incomes on the food basket as compared to about ten per cent in developed countries, food price reduce the effective purchasing power of the poor and impinge heavily on household budgets. Any further economic shock, exacerbates the problem. What can be said is that much of the impact has been felt by workers in the informal sector which constitutes over 95 per cent of India's non farm workforce, which is a section that is particularly vulnerable. The mitigating factor has been that India has been spared the pains of economic contraction and clocked a better than expected 6.7 per cent growth for 2008-09. The impact, against the broad canvas of the Indian workforce, was not as pervasive and widespread as initially understood through media reports.

9. 4. Impact: an intuitive sector-wise overview

Without definitive numbers, a back of the envelope assessment could look at the sectors that have been impacted and the workforce engaged in each of these. (Table 5)

Employment Elasticities - Total 0.48; Agriculture; forestry & fishing 1.52; Manufacturing 0.34; Construction 0.88; Trade hotels and restaurants 0.59; Transport, storage and communications 0.27; Finance, insurance, real estate and business services 0.94.

10. The second order impact of the crisis

The Second Order or the non-income poverty impact of the crisis relates to longer-term issues, such as reduced incomes resulting in malnutrition, impaired health, increased school dropout rates, and possibly an increased gender load with women bearing a larger share of the adjustment to reduced family budgets.⁵⁵ These have medium to long-term impact on future capabilities.

**Table 5: An Intuitive assessment of the
Impact of the Crisis on Sectors of the Indian Economy**

Sector	Workforce (in millions)	Percentage of workforce	Integrated/ Not integrated	Impacted/ Not impacted/ Impact opaque
Agriculture	273	56.4	Not Integrated	Not impacted
Traditional Trade	42	8.67	Not Integrated	Not impacted
Textile and Clothing	35	7.23	Integrated	Severely Impacted
Construction	27.58	5.70	Not Integrated	Impacted
Community Personal and Social Services	25.8	5.33	Not Integrated	Impact Opaque
Automotive Sector Auto (0.5 mio) Auto Ancillary (10.0 mio)	10.5	2.17	Integrated	Impacted
Gem and Jewellery	10	2.07	Integrated	Severely Impacted
Public Administration and Defence	8.9	1.83	Not Integrated	Not impacted
Health Sector	4.8	1.0	Not Integrated	Not impacted
Carpet	3	0.62	Integrated	Impacted Severely
Handicrafts	7	1.4	Integrated	Severely Impacted
Leather	2.5	0.52	Integrated	Impact Opaque
Information Technology	2	0.41	Integrated	Impacted
Others	31.92	6.59		
All Sectors Total	484			

Employment Elasticities - Total 0.48; Agriculture, forestry & fishing 1.52; Manufacturing 0.34; Construction 0.88; Trade hotels and restaurants 0.59; Transport, storage and communications 0.27; Finance, insurance, real estate and business services 0.94.

Much of India lives at or near the margin. A silent crisis of hunger and malnutrition has been an integral part of the Indian landscape with over 20 per cent of the population suffering from chronic food deprivation. Despite being the fifth largest economy in the world and being acknowledged as a significant economic player in the global arena, India is host to almost 30 per cent of the world's hungry and ranks 94 out of 120 countries for which the 2008 Global Hunger Index was calculated by the International Food Policy Research Institute (IFPRI).

While numbers relating to the hungry are controversial, a UNICEF report estimates the number of hungry persons in India based on number of calories consumed per day to be approximately 209 million in 2004–06.⁵⁶ This number was estimated to have risen in absolute numbers to 230 million in 2007–08. Estimates indicate that an average 46 per cent of children in India under the age of 5 are underweight and that malnutrition accounts for more than 50 per cent of child deaths. Some estimates suggest that 1.5 million children could become malnourished due to the food price crisis of 2008.⁵⁷ Food prices have continued their upward trend in the first half of 2009. With malnutrition comes issues of health and the concomitant issues of access to medicines and medical facilities.

When income earners lose their livelihoods, other members such as children help supplement family incomes and dropout of school; others dropout because parents cannot afford the fees or travel cost. Media reports, however, indicated a large number of school dropouts in Surat⁵⁸ as migrant families moved out of Surat in the initial phases of the crisis. While it was reported that the local government had taken measures to advise schools not to insist on fees in a bid to avert school dropout rates, it is not certain if these disruptions were temporary. There is also the gender facet – women workers are deemed more dispensable and are in the front line of job losses in the textile and clothing sector.

It is difficult to assess the non-income impact which can be attributable to the economic slowdown on an all India basis on matters such as nutrition, access to health facilities, school dropout rates, or the gender impact. For one, there are few if any specific studies to rely upon. A UNICEF study, specifically to assess the impact of the economic crisis on women and children in South Asia, has not still arrived at any definite assessment. Similarly, while access to medical facilities has been an area of concern for a while, specific impact of the crisis has been difficult to establish.⁵⁹ These are complex issues and the length of the disruption has not been long enough for measurement attributing the increase or decrease in any of the parameters to the economic slowdown on those earning between US\$1.25 to US\$2 per day in purchasing power parity terms. Anecdotal evidence indicates that in textile clusters, some of those who had made a decisive shift out of the poverty income brackets and had entered the

56 UNICEF (2009) *A Matter of Magnitude: The Impact of the Economic Crisis on Women and Children in South Asia*, Khatmandu

57 UNICEF (2009) *A Matter of Magnitude: The Impact of the Economic Crisis on Women and Children in South Asia*, Khatmandu

58 *Indian Express*, Monday, Feb 16, 2009 <http://www.indianexpress.com/news/distress-uncut/423959/0>

59 A statement by WHO Director-General, Dr Margret Chan on 12 November, 2008, 'Impact of the global financial and economic crisis on health' too has not been able to quantify the impact and relies on expected outcomes.

lower brackets of the middle income groups,⁶⁰ had slid back to the vulnerable categories consequent to job losses. On a general note, it is logical to deduce that any reduced earnings of those living at the margin would affect the quality and variety of food nutrition, access to medical facilities and on future capacities. In terms of relative numbers, however, the impact appears muted.

The impact on social health in specific clusters involving psychological distress and mental health has been visible which would have had its knockdown effects on intra-household conflict. Media reports indicate suicides reported by diamond workers and their family members which had become a political issue.⁶¹ These were directly attributed to psychological distress conditions arising from the economic downturn. The social psychological impact has been felt by those concentrated in clusters which have experienced the collective anxiety of possible mass layoffs; however the NREGP has, to some extent, served as a safety net.

11. Other collateral issues

One of the collateral impacts of the crisis has been on intellectual thought and on the received wisdom that the best strategies for growth are an open current and capital account. Strategies for growth have been debated for a long time commencing from the Soviet Industrialisation Debates of the 1920s.⁶² Policy prescriptions of the past 20 years have advocated the view that economies grow best through exports which free constraints of domestic markets and by keeping their capital accounts open which unfetter constraints of domestic investments and savings and also induce efficiencies.

The fact that emerging economies such as India and China have weathered the downturn better than the economies in Eastern Europe which followed the received wisdom of current and capital account liberalisation has cast a shadow on these doctrines that dominated the growth discourse for over two decades. The crisis experience seems to support dissenting views that the cross-country evidence on the growth benefits of capital-account openness is inconclusive and

60 Sengupta, et al., have categorised middle income groups based on the Monthly Per Capita Consumption Expenditure (MPCE). A household belongs to the middle income group if its MPCE is between 2 and 4 times that given by the Poverty Line. Sengupta, Arjun, K. P. Kannan, G. Raveendran, *India's Common People: Who Are They, How Many Are They and How Do they Live?*, Economic & Political Weekly, March 15, 2008. This is the methodology followed in the National Commission for Enterprises in the Unorganised Sector.

61 Media reports had indicated 19 suicides by diamond workers and about 35 if family members were included. *Frontline*, Volume 26 - Issue 05 :: Feb. 28-Mar. 13, 2009, <http://www.hindu.com/fline/fl2605/stories/20090313260500800.htm>

62 Thought about growth strategies have evolved over time commencing with the Soviet debates in the 1920s – some of these were the Bukharin (balanced growth) vs the Preobrazensky – Feldman (unbalanced growth – capital goods oriented model), the Indian experiments with the Five Year Plans and the debate between the Bombay School and the Mahalanobis model; the growth theories of W Arthur Lewis, Hirschmann, Harrod-Domar, etc. The received wisdom for the past 20 years has been that economies grow fastest with an open capital and current account.

lacks robustness;⁶³ that the presumed complementarity between foreign capital and economic growth does not necessarily hold;⁶⁴ and views that periods of financial turbulence have coincided with the opening up of capital accounts and large global capital flows.⁶⁵ This has brought back more moderate views that the benefits and costs of financial globalisation for developing countries, especially capital account convertibility, are not conclusive.

On the practical level, collateral issues relate to how far the crisis has derailed our march towards reaching the Millennium Development Goals (MDGs). The MDGs relevant in our context would be poverty reduction, achieving universal primary enrolment, reducing infant mortality and reducing maternal mortality rates. These essentially relate to the second order impact and depend on the trajectory that growth rates may assume given the uncertain domestic and global outlook. While growth constitutes the key factor, the importance attached to income distribution and inclusion in the policies pursued, as well as the efficacy of policy implementation on the ground are as important. This has been brought out starkly in the IFPRI study on the India State Hunger Index which noted that States such as Kerala and West Bengal have done better on human development indices than States that have clocked better growth rates and that there is a lack of clear relationship between economic growth and human development indices.⁶⁶

In fiscal 2009-10, the combined expenditure of the centre and states on the social sector are budgeted to increase only modestly over the last fiscal from 9.9 to 10.4 per cent of GDP. Expenditures on public health are budgeted to increase from 1.4 to 1.5 per cent of GDP and on education from 3.2 to 3.4 per cent of GDP.⁶⁷ These figures are small in comparison to other emerging countries. Looking forward, the government may sooner or later revert back to the path of fiscal consolidation, How government expenditures on crucial sectors such as infrastructure, education, health, rural development and social empowerment get impacted will have implications for India's poor and the road to the MDGs (Table 6).

63 Kose, M. Ayhan, Eswar Prasad, Kenneth Rogoff and Shang-Jin Wei, "Financial Globalization: A Reappraisal," Harvard University, revised December 2006.

64 Prasad, Eswar, Rajan, Raghuram G, and Arvind Subramanian, "Foreign Capital and Economic Growth," *Brookings Papers on Economic Activity*, 2007, 1, 153-209. See also, Gourinchas, Pierre Olivier, and Olivier Jeanne, "Capital Flows to Developing Countries: The Allocation Puzzle," November, 2007.

65 Carmen Reinhart and Kenneth Rogoff, *This Time is Different: A Panaromic View of Eight Centuries of Financial Crises*, NBER Working Papers No 13882, March 2008.

66 IFPRI, *India State Hunger Index, Comparison of Hunger Across States*, February, 2009.

67 Reserve Bank of India, *Annual Report 2008-09*, Table 2.57.

Table 6: Impact of crisis on the first 5 of the 8 Millennium Development Goals for 2015

Goal	August 2008 position (Based on MDG Monitor)*	Post slowdown
Eradicate Extreme Poverty and Hunger	Possible to achieve if some changes are made	Impacted by the food and the fuel crisis. Reduced growth rates on account of the economic slowdown will impede the number of poor that would have moved out of poverty on account of enhanced incomes.
Achieve Universal Primary Education	Possible to achieve if some changes are made	The overall quantitative impact on an all India basis is unlikely to be significant.
Promote Gender Equality and Empower Women	Possible to achieve if some changes are made	The impact of the crisis on this is unclear.
Reduce Child Mortality	Off track	To the extent reduction in poverty levels are impeded by the crisis, there will be some impact.
Improve Maternal Health	Possible to achieve if some changes are made	To the extent reduction in poverty levels are impeded by the crisis, there will be some impact.

*Source: MDG Monitor – initiative of the United Nations. MDG Monitor Country Profiles are updated once a year with the latest official information from UNDP, obtained in consultation with national governments.

Most discussions of the impact have been couched in numerical terms as to the number of persons that would have been drawn out of poverty had the crisis not occurred. There has also been a psychological impact of the downturn. Within employees belonging to the organised sector, the downturn has replaced an optimism that arose from a decade of fast-paced growth with uncertainty and anxiety arising from the spectre of unemployment and layoffs. In the context of employers, there is a view that even unaffected sectors have used the pretext of the downturn and the anxiety filled environment to effect cost cuts, bring in new performance appraisal measures and 'rationalise' operations in a bid to enhance efficiency and improve the bottom line.

In addition, there are a host of soft issues which impact on the poor and vulnerable but are difficult to measure. Questions arise: "Has the crisis accelerated the shift to informal and vulnerable employment where social protection coverage is limited?" "To what extent has the anxiety driven atmosphere been utilised by Indian industry to compromise workers' rights in the quest to cut costs?" "What has been the impact on wages in comparison with product cost and executive salaries?" "Whether the crisis has led to an increase in inequalities in India?"

What has been the impact on the role of social dialogue between workers, business and government and on labour standards?" "Whether the crisis has undermined social progress through an obfuscation of issues camouflaged as a crisis?" These matters have a trail down effect on the informal sector where the predominant sections of the poor eke out their livelihoods. These constitute some of the collateral issues that the crisis throws up.

12. Conclusion

In sum, the story of the crisis impact on India's poor appears to be more muted and less severe than for most developing countries. While India's vulnerability has been high given the large numbers of poor and near poor, the impact on job losses and livelihoods has been sector- and location-specific. Those in highly impacted sectors such as gems and jewellery, textiles, carpets, etc., have been concentrated in clusters which have felt the impact of slowdown. The impact has also been felt on areas from which migrant workers flocked to the affected clusters. Large parts of India's workforce have not felt the impact, though new hiring had decelerated. There are indications that the deceleration may have halted.

India's broad industry and service sector base, very large domestic market, high savings rate, a conservative policy orientation, and a rapid and coordinated policy response have, in part, inured India from more severe effects. The Q1 assessment of the Industrial Outlook Survey⁶⁸ as well as the business expectations index for the forward July-September 2009 suggest that the slide in sentiment has been arrested. The length of the crisis as measured in the time scale has not been too long; its severity, thanks to aggressive policy action, not too intense and the impact on the poor contained in sectors and not pervasive.

The outlook, however, remains uncertain and depends on whether the path to recovery entails further dips. The issues that are of concern to policy makers are how to fund development in the aftermath of the crisis, given the strain on government finances and, on the monetary front, to contain the repercussions of the expenditure incurred as fiscal stimuli. The loss in growth momentum has impacted on new livelihood creation. To that extent, it dampens the numbers likely to break out of the poverty trap, while growth is a critical factor influencing creation of livelihoods, in the Indian context we may need to go beyond numbers. The fate of India's poor in the aftermath of the crisis depends as much on how policy makers finetune government expenditures, particularly on social sector spending and respond to the issue of inequalities and social progress as they chart strategies to manage the recovery.

⁶⁸ *The Industrial Outlook Survey conducted by the Reserve Bank in April-May 2009 for Q1 of 2009-10.*

The Promise of Social Inclusion: Will the 11th Five Year Plan Deliver?

Premchander and Smita

1. Introduction

Livelihoods of low income people in India, in 2009, are affected by two important factors, one historical and one contemporary. Despite significant economic growth India has achieved in the past two decades, more than 90 per cent of her rural population earns below Rs38 per day, and spends less than Rs12 a day on food items (NSA, 2009; NSS 63rd Round). Over 302 million people still live below the official poverty line set in 1973–74, when per capita incomes were much lower. Deprivation is also evident in terms of other indicators. Almost 46 per cent of the children in the 0 to 3 years age group suffered from malnutrition in 2005–06, showing no decline from the 1998 level. While the literacy rate has gone up from 18.3 per cent in 1951 to 64.8 per cent in 2001, the number of illiterate persons still exceeds 304 million. India also has an adverse sex ratio with only 933 women per 1000 men. The child sex ratio (ages 0–6) has declined sharply from 962 in 1981 to 927 in 2001. Agriculture has grown very slowly from the Ninth Plan onwards, which has widened the rural–urban divide and also contributed to the severe distress in rural areas in some regions (GOI, 2007). Increased income and wealth inequalities are beginning to cause concern, evidenced by increasing social unrest in many remote and poor districts in the country.

The upward trend of the Indian economy has been rudely interrupted by the recession that has hit the developed economies, following the financial crisis in USA and Europe. On the one hand, India's dependence on agriculture has served so far to protect it from a large negative impact of global trends. On the other hand, poor monsoons this year, and the imminent increases in prices presents a threat to food security and sustainable livelihoods.

In this scenario, where there is a doubt on growth trends, we ask the question about 'inclusive growth'. Large sections of people have been left out of the growth picture, and are marginalised. We might as well ask why exclusion should be a concern at all. Unequal income and wealth distribution has been an enduring feature of all societies, and cannot be wished away. Exclusion, is

rooted not only in economic, but social structures, with those who are living in poverty belonging to specific social groups, with social, economic and political structures combining to perpetuate their exclusion from the core of society. Thus exclusion has not only economic, but also social causes; and, more importantly, not only economic, but also social consequences.

To begin with, exclusion has resulted in social unrest. More than 150 districts are currently listed as 'naxalite affected', a total of more than 200 are considered disturbed areas. This means that growth in these areas is jeopardised. Inclusion is important for social harmony and to sustain growth. This is the 'productive' or 'instrumental' rationale for inclusion. The other strong rationale derives from the rights perspective, wherein each individual and household is perceived to be entitled to some basic services and minimum conditions of living, deprivation of which constitutes lack of entitlements (Sen, 2000). This provides the ethical argument for working towards greater social inclusion (Smita Premchander et al, 2009).

The 11th Plan¹ is the official document that directs Central Government funds towards key development priorities over the five years 2007–2011. The Plan adopts, inter alia, an 'inclusive growth' agenda as one of its key policy orientation. The Plan document discusses groups considered excluded from growth and outlines specific affirmative schemes for their inclusion. The Plan gives the financial outlay for the five years, and the subsequent annual budgets announced by the government make the financial allocations. Implementation is the responsibility of the relevant ministries, who announce the budget utilisation figures. This chapter will assess the potential inclusive impacts of the schemes contained in the 11th Plan for socially excluded groups. The actual impact of the schemes is less studied, with some concurrent studies, and very few evaluation studies available on official inclusive measures.

The paper first lays out a conceptual framework for defining exclusion and inclusion and provides a framework for assessing inclusive potential of official interventions. It then describes the situation of three large categories of excluded people selected for analysis in this paper, based on caste/ethnicity, religion and gender: the Scheduled Castes and Scheduled Tribes (SC/ST), Muslims and women. Key schemes which address needs of these categories are listed, along with expenditure on them in the past two years of the 11th Plan. The potential inclusive impact of these schemes is analysed. The authors use the social inclusion framework to comment on the official strategies that influence socially inclusive growth, such as the legal and policy framework, protective and promotional livelihoods strategies, and basic services. Finally, the chapter

¹ Here-after referred to as the Plan in this chapter.

reflects on the continued relevance of the welfare state concept, in a context that increasingly demands that the poor must pay for coming out of their own poverty. The authors endorse the entitlements paradigm over the private capital paradigm to evolve strategies for economic and social inclusion.

2. Social exclusion and inclusion – the theoretical construct

The three most celebrated theories of social exclusion are de Haan’s Social Exclusion Framework (SEF), DFID and World Bank’s Gender and Social Exclusion Assessment (GSEA) and Hickey and du Toit’s adverse incorporation framework (Holmes, 2009). These models emphasize different aspects of social exclusion.

The fundamental concepts of the SEF are deprivation and its multi-dimensionality. The multi-dimensional aspect covers resources or networks in economic, social and political spheres. De Haan (2001) emphasises three aspects of inclusion: rights, resources and relationships, which consider institutional, distributional and relational aspects of exclusion. The framework also emphasises the processes that cause deprivation. The GSEA framework closely mirrors De Haan’s framework, and emphasises access to livelihood assets and services (resources); ability of the excluded to exercise voice, influence and agency, and rules of the game (institution and policies). The ‘Adverse Incorporation’ framework captures experiences in social exclusion. The important aspect of the framework is its focus on power relations, history, social dynamics and political economy in addition to the measures that are emphasised in the other dimensions (Holmes, 2009).

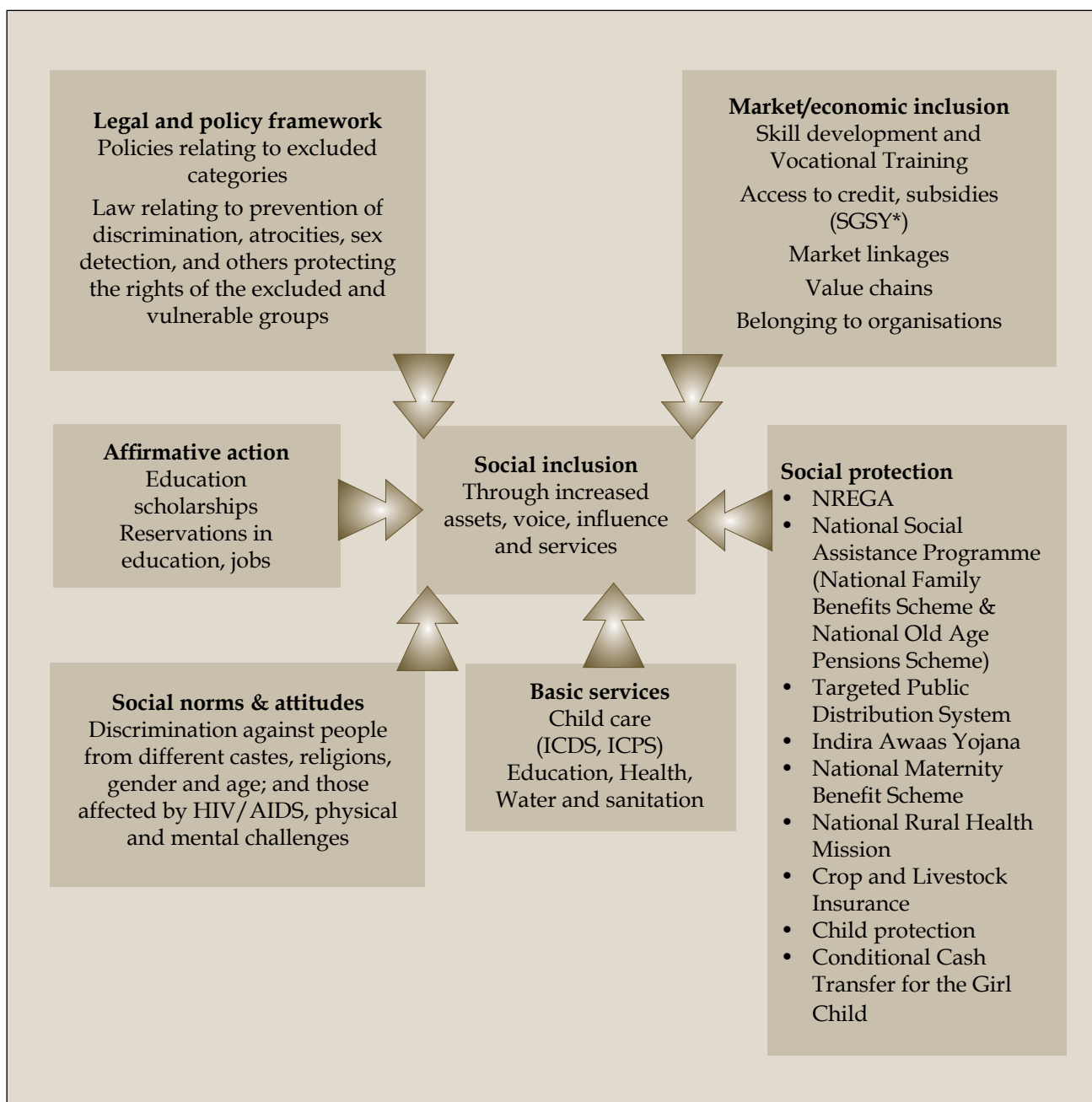
The three frameworks offer dimensions on which the 11th Plan inclusion measures may be assessed. The De Haan’s framework emphasises the impact of official inclusion strategies on institutions, resources and relationships. The GSEA framework offers insights into the impact on three dimensions – access to

Figure 1: Indicators of social inclusion

Dimension arising from	De Haan and GSEA frameworks	Adverse incorporation framework
Resources	Health, infrastructure, education, employment, nutrition, income, property, housing, basic minimum consumption	Relative access to livelihoods resources
Rights and Relations	Citizenship, Welfare state, human, legal/civic, democratic, psychological	Power relations, Social and political dynamics

assets and services and voice; especially the extent to which strategies remove institutional barriers and increase the access of diverse individual and groups to development opportunities. The dimensions of social inclusion, arising from these theoretical frameworks, are depicted in Figure 1:

Figure 2: Holistic model of socially inclusive growth



*Swarnajayanthi Gram Swarozgar Yojana (SGSY) provides support for asset creation through subsidised credit.

As exclusion is multi dimensional, inclusion requires an enabling environment with various elements. We, therefore elaborate the concept of social inclusion in a holistic model, where affirmative measures are but one part of the effort required for social inclusion. This model is holistic in that it incorporates six key spheres of influence. It is contextual in that it is based on the Indian situation, and is dynamic as it can be used for analyzing past, present and future scenarios. The model is elaborated in Figure 2.²

To begin with, all groups who are excluded due to social identities need to be recognised as citizens of India, with basic citizenship rights (Premchander and Sudin, 2009). These and other protective rights form the policy and legal environment in India. Social protection is important, as everyone needs a basic minimum standard of living. Even if social protection measures exist, poor households need to access basic services such as education and health.

Social protection, however, only offers safety nets, and for resilient livelihoods, market inclusion becomes essential. Access to livelihoods skills, credit and market linkages are needed for sustainable livelihoods and therefore economic inclusion of the poor into the mainstream is critical. Finally, affirmative measures are needed for specific groups. These affirmative measures, however, are unlikely to be effective without the existence of the other three elements of the enabling environment: laws and policies, social protection measures and basic services. Perhaps the most important of all spheres is that of social norms and attitudes, which institutionalises and therefore makes excluding behaviour normal and invisible. All six elements, therefore, are required so that socially excluded categories can become integrated into the core of a society and economy.

We now proceed to take an overview of the situation of the largest categories of excluded people in India.

3. Socially excluded people and their situation

Two orders of exclusion are highlighted. The first arises from broader contexts such as living in remote areas where development processes are slow to reach. Remote areas tend to be less connected, therefore experience less economic growth, marginalising those living in these areas. Tribal and north eastern regions are examples of such regional exclusion.

Second order of exclusion is according to social identities, such as caste, gender, tribes, physical or mental challenges, as well as economic characteristics such as landlessness and migrant status., as given in Figure 3.

² This model is an advance over a previously elaborated framework on social inclusion, based on experiences in India (Premchander and Sudin, 2009).

Figure 3 Socially Excluded Groups Identified in the 11th Plan

- Scheduled Castes, Scheduled Tribes, and Other Backward Castes
- Women
- People from the North Eastern States
- Religious minorities: Muslims, Christians, Buddhists, Parsis
- Manual scavengers
- Those affected by HIV/AIDS
- People with disabilities
- The aged
- Scavengers
- Street Children
- Linguistic Minorities
- Beggars
- Drug Addicts

Another categorisation can be in terms of poverty, which excludes, regardless of the social category that people belong to. This makes turning the exclusion spiral upwards all the more difficult. Exclusion is embedded in all social, economic and political institutions, therefore seems normal, and inhibits initiatives for inclusion (Namala, 2009).

3.1. Women

The situation of women in India does not lend itself to simplistic analysis, as there are variations across States, regions, social and economic categories. The indicators are as many for positive trends as for the negative trends. For instance, the female population of India rose marginally from 48.1 per cent of the total population in 1991 to 48.3 per cent in 2001, an increase of 89.4 million. However, while the overall sex ratio improved slightly from 927 in 1991 to 933 in 2001, the Child Sex Ratio (0–6 years) plummeted from 945 to 927, indicative of very high incidence of preference for male children resulting in female foeticide.

Maternal Mortality Rate (MMR) has fallen from 398 in 1998 to 301 in 2001–03. Yet, the health situation of women shows increased incidence of anaemia in pregnant and married women, due to lack of access to iron and folic acid supplements, and less than half of them receive three ANC visits. Women

getting married by the age of 18 still claim 45.5 per cent. NACO estimates that one in three persons living with HIV in India is a woman.³ Violence against women (VAW) in the form of female foeticide, rape, abduction, trafficking, dowry death, domestic violence, and witch-hunting, has been increasing. There are 10 million girls in India missing and this number is rising.⁴

The absolute numbers of illiterate women have declined from 200.7 million in 1991 to 190 million in 2001. Still the gender differential in education continues to be high at 21.7 per cent. The unorganised sector involves an estimated 118 million workers (97 per cent of the female workforce are in the informal sector. 75 per cent of the total female workforce and 85 per cent of rural women are employed in agriculture as wage workers or workers on own/contracted

3 Nearly 60% of HIV-positive widows are less than 30 years of age and live with their natal families; 91% of them receive no financial support from their marital homes.

4 Dowry deaths rose from 6822 in 2002 to 7026 in 2004. In 84–89% of the rape cases in the years 2002–04, the victim knew the offenders, with family members being the offenders in 9% cases. Abduction and trafficking for sexual and other exploitations accounted for 19.4% and 7.2% cases registered in 2005. Despite the high incidence of VAW, reporting is rare and conviction rates for reported cases, abysmally low; conviction rate for cruelty by husband was 19.2% and 25.5% each for dowry and rape (National Crime Record Bureau, 2005).

household farms.⁵ The wage disparity ratio (ratio of female wage/male wage) widened for all categories of work in both rural and urban areas. Women are also more exploited as a result of the seasonality of work, home based work, over-concentration in sectors like construction, domestic work and lack of alternative avenues (Unni, 2003; Chandrashekhar and Ghosh, 2007).

When we consider first and second order exclusion, we find that women in SC/ST, OBCs and minorities are much worse off than others. 73 per cent of SC women, 79 per cent of ST women and 61 per cent of OBC and Muslim women are illiterate. 42 per cent of SC women and 46 per cent of ST women are malnourished, as compared to 30 per cent among 'other' women, which also indicates women's impoverishment. These facts about women's situation in India demand that a level playing field be provided to women, with strong affirmative measures.

3.2. Scheduled Castes (SC) and Scheduled Tribes (ST)

The SCs constitute 16.23 per cent of India's population, with 80 per cent of them living in the rural areas. More than half of the SC population is concentrated in the five States of Uttar Pradesh, West Bengal, Tamil Nadu, Andhra Pradesh and Bihar. Their situation, vis-a-vis the general population, may be seen according to indicators relating to education, occupations, health and poverty.

Although the literacy rate of SCs has increased considerably, from 10.3 per cent in 1961 to 54.7 per cent in 2001, till recently the gap between literacy rates of the general and SC population had not reduced (see Table 1).

Table 1: Literacy rate of general population and SC/ST population during 1961-2001

Year	General			SC			ST		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1961	34.44	12.95	24.02	16.963	3.29	10.27	13.83	3.16	8.53
2001	75.3	53.7	64.8	66.64	41.90	54.69	59.17	34.76	47.10

Source: MHRD, 2005

The gross enrolment ratio for the country as a whole in 2000 was about 10 per cent. For the SCs, however, it was significantly lower at 6.4 per cent. The dropout rates for SC children are still very high, with the gap between the SC population and the general category increasing at higher levels of schooling.⁷ The drop out rates for girls were higher among both general castes and SC categories, with 71 per cent girls of the SCs dropping out of school before they reach class X.

⁵ The drop out rates for SC children, in 2004-05, were 33% in Classes I to V; 55% in Classes I to VIII; and 69.1% in Classes I to X. These were 32%, 52% and 62% respectively for the general castes.

An analysis of occupations shows that about 60 per cent of SC households still have to depend on wage labour, compared to one-fourth for the others. In 2000, only 16.8 per cent of them pursued cultivation as an independent self-employed occupation, whereas among the non-SC/ST this percentage was more than double (41.11 per cent). About two-thirds of rural SC households were landless and near landless, compared to one-third among others. Less than one-third of SC households had acquired access to capital assets, compared to 60 per cent among the others. In rural areas, about 28 per cent of SC households had acquired some access to fixed capital assets compared to 56 per cent for other households (non SC/ST). In urban areas, also, the access to capital assets for SCs was low (27 per cent) as compared to other households (35.5 per cent). In rural as well as urban areas, due to inadequate access to fixed capital assets, an exceptionally high percentage of more than 62 per cent of all SC households was dependent on wage employment.

Poverty analysis shows that in 2004–05, about 36.80 per cent of SC persons were living below poverty line (BPL) in rural areas as compared to only 28.30 per cent for others (non-SC/ST). In urban areas the gap was slightly larger; 39.20 per cent of SC households were BPL compared to 25.70 per cent among other households. The variation in poverty ratio across household types or occupational groups is striking.

In 1993–94, the incidence of poverty was about 60 per cent among agricultural labour followed by 41.44 per cent among non-agricultural labour. The level was relatively low for persons engaged in self-employed activities in agriculture (37.71 per cent) and in the non-agricultural sector (38.19 per cent). In urban areas the incidence was very high among the casual labour (69.48 per cent). Poverty was also high among the self-employed households (54 per cent). About 60 per cent of SC households still have to depend on wage labour, compared to one-fourth for the others. The level of poverty is about 36 per cent among SCs as compared to only 21 per cent among others. According to the UNDP Report (2007) on Human Poverty and Socially Disadvantaged Groups in India, the Human Poverty Index (HPI)⁸ for SCs was estimated to be 41.47 per cent for India, which was much higher compared to non-SC/STs (31.34 per cent).

With regard to STs, their literacy levels are lower than the general population as well as that of the SCs. Moreover, the gap between the literacy rates of STs and of the general population has continued during the three decades between 1971 and 2001 at about 17.70 per cent. Their school-dropout rates are still very high, with more than 80 per cent of ST girls dropping out of school before class X.⁹

8 Human Poverty Index (HPI) is a measure to assess the level of deprivation among a given social group with reference to Infant Mortality Rate, Illiteracy Rate, Poverty Ratio (Head Count Ratio), Health Status and Nutritional Status.

9 The estimates for school drop-outs among STs were 42.3% in Classes I to V; 65.9% in Classes I to VIII; and 79.0% in Classes I to X in 2004–05.

Figure 4: Manual scavengers: bottom of the livelihoods pyramid

Manual scavengers represent the most downtrodden of all the caste categories, with the most demeaning work, while the practice has been banned in India for over a decade. But official figures put the number of people still employed as human scavengers, across India, at nearly 800,000. (Source: NDTV, June 19, 2006). A recent report on a yatra, a hindu pilgrimage, convened in Pandharpur, in July 2009, offers some insights. One million believers convened. Municipal authorities designated 11 areas for open defecation. Some 200 scavengers were hired to remove 'night soil', vast majority being women. About half of them were municipal workers, the others contract workers. Salary of scavengers varies from 7000 to 9000 Indian rupees a month, roughly 200 US\$. This only applies to municipal workers. Contract workers are paid 130 INR on daily basis, roughly 3 US\$. Working tools extremely poor: municipal workers used a short broomstick, a small plate and an iron bucket. Some were wearing face masks and large plastic gloves, obviously making hands very sweaty. Contract labourers are working with less protection. Despite presence of many toilets, masses preferred shitting in the open. Sewage of toilets often blocked by paper and cloth obliging workers to go with whole arm into sewage infected with maggots.

Some young women (of 17 and 18 years old) were helping out their mothers (contract workers only), without remuneration. Majority of scavengers are women. Any supervising job or cleaning of toilets was a man's job. I spoke to one man having completed first year of engineering college. Asked why he was involved in this work, he stated ... that despite education, social attitudes prevent scavengers from taking dignified occupations.

Manual scavenging is illegal in India. Manual scavenging is not decent work. It is also a caste-based occupation from which escape is nearly impossible. It constitutes forced labour. Life expectancy of scavengers is in the mid-40's on average. Working conditions and occupational health aspects are extremely dire. No dignity at work. On the Indian human scale, scavengers represent lowest of low. Often they are communities originating from other areas. Maharashtra has no scavenging caste of its own and most come from Gujarat (bhangis) originally. They live in secluded areas and are shunned by rest of population.

Generally, scavengers have little education due to discriminatory practices throughout their lives. Despite all policy/legislative measures, aid for education, rehabilitation and skills training is not reaching them. They are caught in vicious circle, submitted to forced labour. Caste occupational confinement was presented as biggest problem, as well as lack of dignity the community faces. Only very few persons from scavenging community escape from occupation, mainly through individual support, by NGOs, often of Buddhist or Christian character (Kompier, 2009).

Scavenging can only be eradicated if entire culture regarding 'relief' will change. Efforts in areas of education, rehabilitation are necessary, but also in water and sewer management. Construction of flush toilets, as required by law, must be stepped up. Social attitudes need to change as well (Ramesh, 2009)

In terms of occupations, 81.56 per cent of the total ST workers, both rural and urban, are engaged in the primary sector, in which 44.71 per cent are cultivators and 36.85 per cent are agricultural labourers.¹⁰ STs are essentially dependent on agriculture, and are mainly landless poor forest dwellers and shifting cultivators, small farmers and pastoral and nomadic herders. The incidence of poverty amongst STs is very high at 47.30 per cent in rural areas and 33.30 per cent in urban areas, compared to 28.30 per cent and 25.70 per cent, with respect to the total population in 2004–05.¹¹ The HPI for STs is estimated at 47.79, which was higher than SCs and non-SC/ST for the period 1990–2000.

3.3. Muslims

As per the provisions under the National Commission of Minorities Act, 1992, five religious communities – Muslims, Christians, Sikhs, Buddhists, and Zoroastrians (Parsis) have been notified as minorities. According to Census 2001, 18.4 per cent of our population belongs to Minority communities of which Muslims constitute a large share at 13.4 per cent. In absolute numbers, Muslims (138 million) account for 72.8 per cent of the total minority population of 189.5 million. Geographically, there is a Large concentration of Muslims in Jammu and Kashmir, Assam, West Bengal, Uttar Pradesh, Bihar and Maharashtra. Among the minorities, Muslims, especially Muslim women, need special attention as compared to other communities they have remained socially, educationally and economically backward. This chapter focuses on Muslims as those excluded on the basis of religion.

The Sachar Committee Report of the Government of India provided information on the social, economic and educational status of the Muslim community of India. With regard to education, it found that enrolment of children aged 6–14 years at the all-India level was 85.3 per cent for all communities (GOI, 2006). The enrolment figures for Muslims was lower (81.8 per cent) than the national average as well as relative to 'All others' (89.9 per cent), but higher than SCs/STs (79.3 per cent). The gap between Muslims and other socio religious communities (SRCs) increases as the level of education advances. Only one student out of every 25 undergraduate and 50 postgraduate students in premier colleges is a Muslim (GOI, 2006).¹²

The total literacy rate for Muslims was 59.1 per cent as against 64.8 per cent for all religious communities, with only 50.1 per cent Muslim women being literate.¹³

10 The corresponding figures for all workers are 31.65% (cultivators) and 26.55% (agricultural labourers).

11 Perspective Planning Division, Planning Commission, New Delhi.

12 The Sachar committee report is criticised for not giving sufficient details, such as the factors which leave Muslim children, and especially Muslim girls, without sufficient access to primary, secondary and higher education (Wilkinson, 2007).

13 The First Report on Religion data 'Census of India 2001', p.p. XXI, XIII

Muslim children suffer from the highest rate of stunting growth and the second highest rate of under-weight children among all social groups (GOI, 2006).

The Sachar Committee Report shows that due to limited land ownership, most Muslims are engaged in non-agricultural occupations. 61 per cent of the total Muslim workers are self-employed as against 55 per cent of Hindu workers. 73 per cent of Muslim women are self-employed as compared to 60 per cent for Hindus.

Figure 5 - Higher caste control on CPRs restricts SC options

The implementation of District Poverty Initiative Project (DPIP, a Government of Madhya Pradesh project funded by the World Bank) in Sironj block of Vidisha district offers insights into ground realities. The programme was designed to provide ample opportunity to work with the Scheduled Caste (SC) population. Beneficiary households were entitled to receive an assistance of Rs20,000 that could be utilised by the family for their livelihood enhancement through farm as well as non farm activities. The family had to make a contribution of 15% to avail the grant fund. Of the 15% contribution, there was a provision of contributing 10% in cash and five per cent in kind (labour) for farm related activities.

We did a lot of work related to soil and water conservation like developing water structures, land leveling, field bunding, etc. However, during the course of the work we learnt that the land which officially belonged to the SC families was in most cases mortgaged out to the well-off families. This kind of transaction was not documented and we, as implementers, faced a major dilemma in figuring out a solution to the problem.

Most villages selected under DPIP were those that had high SC and Scheduled Tribes (ST) population. In those villages bonded labour system also existed, in fact was quite prevalent. In many of the cases the SC project beneficiaries worked as bonded labour. They also took credit from the landlords for depositing their 10% cash contribution which made the situation graver.

In one village, a group of SC women who were also landless, decided to pursue Dairy as a livelihood activity. For making fodder available all throughout the year, the group decided to take common grazing land on lease and grow fodder. Identification of the common grazing land became a never-ending process in itself. It involved fixing up time with Patwari, then following up with him if he was not able to keep the appointment for some reason. If he did come for the meeting, he would forget his record book and so on and so forth and ultimately got transferred! The same process was repeated with a new patwari.

Later we realised that the real problem was that there was no grazing land left. Each and every inch of common land was encroached by well-off families of higher caste. Initially when we did transit walk to figure out the land status, the group members and their families were threatened by these higher caste people. Failing to make any progress, the group then switched to taking up goatery as a livelihoods enhancement activity. I, however, still feel that had we got timely help, we could have started Dairy with the group which would have increased their income considerably especially because the village was close to the district headquarters and was on the road side.

Arpana Sharma Singhal, Independent Consultant, New Delhi.

4. Livelihoods schemes and their inclusive potential

This section discusses the key schemes of the 11th Plan for socially excluded people, and focuses on those which have the largest budgets allocated.¹⁴ These schemes are listed in the Plan, but given that many schemes were launched several years ago, there is a need to examine not only their inclusive potential, but also whether and how the claimed emphasis on 'inclusive growth, has changed these schemes.¹⁵

4.1. Schemes for women

Among the official schemes for women and children, ICDS is the largest one, which seeks to provide an integrated package of health, nutrition and educational services to children up to six years of age, pregnant women and nursing mothers. Rajiv Gandhi National Creche Scheme for the Children of Working Mothers aims to provide day care services for children in the age group of 0–6 years, belonging to economically weaker sections of society, whose family income does not exceed Rs12,000 per month.

The Central Social Welfare Board (CSWB) has initiated several programmes for the welfare and development of women and children, especially in rural areas, including Condensed Courses for women and girls, Awareness Generation Programmes, Vocational Training, Family Counselling Centres, Mahila Mandals and Short Stay Homes. Swayamsiddha is an integrated scheme of Ministry of Women & Child Development for holistic empowerment of women through formation of Self Help Groups (SHGs), awareness generation, economic empowerment and convergence of various schemes.

The objective of the Swadhar scheme is to comprehensively rehabilitate widows, victims of trafficking, victims of natural calamities, mentally disordered and destitute women by providing for support like food and shelter, counselling, medical facilities and vocational training to women.

Support to Training and Employment Programme (STEP) scheme intends to strengthen and improve women's skills in traditional sectors such as agriculture, animal husbandry, dairying, fisheries, handlooms, handicraft, etc. thereby encouraging their participation in these sectors and increasing their income generating abilities. In 2008–2009 the expenditure on Swadhar was Rs8.09 crore

¹⁴ An elaboration of the livelihoods schemes of the 11th Plan is available in Premchander, Chidambaranathan and Prameela, 2008.

¹⁵ The information on schemes, outlays and expenditure is taken from the websites of Indiabudget, and the Ministries of Tribal Affairs, Social Justice and Empowerment, Minority Affairs, Women and Child Development, and Development of North Eastern Region.

and on STEP was Rs10.04 crore. In addition, there are certain other national schemes too, the allocations for which do not exceed Rs20 crores each. The Plan outlays and expenditures on five prominent schemes for women on these are given in Table 2.

Table 2: Expenditure on key women related schemes

Sl. No.	Schemes for Welfare of Women	XI Plan Outlay	2007-2008		2008-2009		2009-2010
			Outlay	Expenditure	Outlay	Expenditure	Outlay
1	Integrated Child Development Services (ICDS)	42400	4776.88	4479.93	5665.2	5812.98	6026.4
2	Rajiv Gandhi National Creche Scheme for the Children of Working Mothers	550	100	97.19	90	87.12	91.52
3	Central Social Welfare Board (CSWB)	260	36.75	15.29	23.4	40.93	43.47
4	Swayamsiddha	500	22.41	11.63	180	0.22	20
5	National Nutrition Mission and Nutrition Education Scheme	51	15.08	0	9.9	-	22.08

These schemes have a potential positive impact on health, workforce participation and self employment, which is discussed later in Section 5. During the last four years the Indian government has introduced gender budgeting which is the allocation of money in each ministry and department towards women specific purposes. The money allocated increased from around 13.47 per cent in 2007-08 to 20.48 per cent in 2008-09 in all departments taken together. However the fact that only one-fifth of the total allocation goes to women-specific purposes, shows the failure of both, the government as well as civil society organisations in making official schemes more gender sensitive (NSA, 2009).

4. 2. Schemes for the SCs and STs

The objective of the Post Matric Scholarship Scheme is to provide financial assistance to Scheduled Caste students to pursue post-matriculation courses in recognised institutions within India. The purpose of Special Central Assistance to Scheduled Caste Sub Plan (SCSP) is to give a thrust to the development programmes relevant for economic development of Scheduled Castes. In order to open up more avenues for the SC youth to prove their potential and excellence in high-end income generating activities, capacity building programmes in new

sunrise sectors have been emphasised within the existing format of the scheme of Special Central Assistance.

Rajiv Gandhi National Fellowship scheme was launched in 2005-06 for Scheduled Caste Students to pursue higher studies leading to MPhil/PhD courses. Central assistance is provided on 50:50 basis, 100 per cent to Union Territory Administrations and 90 per cent to the Central Universities and 45 per cent to other Universities for construction of Boys Hostels for SC boys who are studying in middle and higher levels of education. 100 per cent central assistance is provided to State Government/UT Administrations and the Central and State Universities/ Institutions for fresh construction and expansion of existing Girls Hostels .

The objective of the Assistance to Voluntary Organisations for Welfare of SCs Scheme is to utilise the services of capable and reliable Voluntary Organisations towards socioeconomic development of Scheduled Castes. The assistance under Machinery for implementation of Protection of Civil Rights (PCR) Act 1955 and Prevention of Atrocities Act 1989 is mainly provided for strengthening the administrative, enforcement and judicial machinery, awareness generation, inter-caste marriage and relief and rehabilitation of the affected persons, etc. Self Employment Scheme of Liberation and Rehabilitation of Scavengers aims at rehabilitation of remaining scavengers and their dependents in a time-bound manner. In addition, there are other national programmes, the expenditure for which does not exceed Rs20 crores each.

Similar to SCs, the government has launched several affirmative schemes for the STs. The Ministry supplements the efforts of the State government by extending Special Central Assistance (SCA) to State Tribal Sub Plan (TSP). The objective and scope of SCA to TSP which was originally meant for filling up of the critical gaps in the family-based income generation activities of the TSP, has been expanded to cover the employment-cum-income generation activities and the infrastructure incidentals to not only family-based, but also Community based through cluster approach.

The provision in Other Programmes for Welfare of Scheduled Tribes relates to assistance to voluntary organisations for Scheduled Tribes, supporting projects of All-India or inter-State nature for Scheduled Tribes, Research and Training, support to Tribal Cooperative Marketing Development Federation of India Limited (TRIFED) for retail marketing development activity in respect of tribal products, R&D, training, skill upgradation, capacity building of ST artisans and gatherers of minor forest produce (MFP) and creation of corpus fund.

The objective of the educational schemes is to provide financial assistance to ST students to pursue recognised post-matriculation courses in recognised

institutions within India. The provision of National/State Scheduled Tribes Finance & Development Corporations is to participate in the Share Capital Investment of States, setting up of State Tribal Development Corporations in various States, who mobilise finances for providing assistance to Scheduled Tribes for economically viable projects. The National Scheduled Tribes Finance and Development Corporation (NSTFDC) has been set up to provide exclusive focus on financing Scheme(s)/Project(s) for the economic development of the Scheduled Tribes, through State channelising agencies.

Under the Schemes of Hostels for ST girls and boys, grants are provided to the States on 50:50 basis and 100 per cent in case of Union Territories. Hostels are considered to be an effective instrument to promote literacy among ST girls and boys. These grants are also available to Ashram Schools under the Tribal Sub Plan Areas Scheme, on which Rs30 crore was spent in 2008–2009. In addition, there are other central plans too, the allocations for which do not exceed Rs20 crore each. These allocations highlight the primacy given to educational support under the affirmative measures.

4. 3. Schemes for the minorities

Government invests in public enterprises by allocating money to National Minorities Development & Finance Corporation (NMDFC). The objective of the Multi-Sectoral Development Programme for Minorities in selected minority concentration districts is to address the 'development deficits' identified by a baseline survey in the ninety identified districts having a substantial concentration of minority population.

Post-matric scholarship will be provided to students from the minority communities who fulfill merit and means criteria for studies in class XI & XII levels including technical and vocational courses and to such eligible students for general courses at undergraduate, post graduate levels up to PhD level, in schools/colleges/institutes/universities recognised by an appropriate authority. Maulana Azad Education Foundation (MAEF) is a voluntary, non-political, non-profit making, social service organisation established to promote education among the educationally backward minorities.

Scholarship will be provided to the students from the minority communities under Merit-cum-Means scholarships for professional and technical courses at undergraduate and post-graduate levels for those who fulfill the eligibility criteria of merit-cum-means for pursuing professional and technical courses at undergraduate and post-graduate levels in institutions recognised by an appropriate authority.

The objective of grants under research/studies, monitoring and evaluation of development schemes for minorities including publicity is to study, evaluate and

monitor the programmes and schemes for the welfare of minorities, including the 15-Point Programme and also carry out intensive multi-media campaign for dissemination of information of such programmes, schemes and initiatives.

Pre-Matric Scholarship for Minorities will be provided to students from the minority communities who fulfill the eligibility criteria for studies up to Class X in schools recognised by an appropriate authority. In addition, there are other central schemes too, the allocation for which does not exceed Rs20 crores each (See Annexure 1).

Having listed the key affirmative schemes that the 11th Plan has implemented for these excluded categories, we now analyse their potential inclusive impact.

5. The 11th Plan: how inclusive?

The current economic crisis puts a serious question mark on the 11th Plan projections and strategies, which will need to be revisited in the light of reduced growth, increased prices and therefore, increasing distress of those who are poor and marginalised.

The 11th Plan's conceptualization of inclusion is outlined in the chapter on Social Justice and Empowerment of specific groups identified as socially disadvantaged. This is expected to be achieved through three means: Social empowerment, mainly through educational development, economic empowerment, through employment and income generation for poverty reduction; and social justice, through legislation for prevention of discrimination and atrocities. Affirmative schemes are assessed based on indicators listed in Figure 1. Thereafter, other Plan approaches are assessed using the holistic framework outlined in Figure 2.¹⁵

5.1. Affirmative schemes

The 11th Plan's claim to inclusiveness first meets disappointment in its lack of departure from the 10th Plan's array of schemes. Most schemes, barring a few, are exactly the same as the previous Plan. There is no new thinking, understanding of social exclusion/inclusion behind the 11th Plan. The question then arises: What merits the labelling of the 11th Plan as one leading towards 'inclusive growth'?

To examine this claim, we first assess the 11th Plan's affirmative strategies, targeting socially excluded categories of people, and discuss their potential for social inclusion. The inclusion-assessment of strategies is based on the indicators laid out in Figure 1. The assessment is given in Table 3:

¹⁶ The commentary in this chapter is limited, however, especially on laws relating to excluded groups, and social norms and attitudes, which is beyond the scope of this paper.

Table 3: Inclusive potential of key 11th Plan Schemes

Sl. No.	Schemes	Health and Nutrition	Infrastructure	Education	Income and employment	Housing	Minimum consumption	Relational adverse incorporation
SCs and STs								
1	Post Matric Scholarship and national fellowship			D	I			D
2	Hostels	I	D	D	I	D		I
3	Scavengers				D			I
4	Implementation of Acts		D					D
Women								
1	ICDS and Creche	D		I	D		D	-
2	Swayamsiddha and STEP			I	D			D
Minorities								
1	National minorities Development and finance corporation Scholarship				D			I
Total Schemes 8		D=1 I=1	D=2	D=4 / I=2	D=3 / I=3	D=1	D=1	D=4 / I=3

Of the eight primary affirmative schemes examined, four have a direct potential impact on education, and therefore on adverse incorporation. Six have a direct or indirect potential impact on income and employment. However, the link between education and employment/self employment/incomes is tenuous in India. Four of the eight most prominent affirmative schemes have the potential to provide voice and influence, with likely positive impacts on power relations.

The 11th Plan schemes and expenditures for the past two years are assessed according to the holistic inclusion model presented in this chapter in Figure 2.

5.2. Basic services

The oldest and most important official measure to care for children in the age group of 3–6 is the ICDS programme, presented in Figure 2.

Health and Nutrition is another area where our track record over the years has been extremely tardy. In this scenario it is the SC/STs, Women and other excluded groups who have had to suffer the absence of State-supported health care. The dismal performance on all major parameters – infant mortality, malnutrition, etc., despite targeted programmes – reflects the inadequacy of these programmes to address the issue.

Figure 6: Key Provisions for health sector in 11th Plan

Public health spending will be raised to at least 2 per cent of GDP during the 11th Plan period. The Plan aims to establish 60 medical colleges and 225 new nursing and other colleges in deficit States through PPP. The following targets have been set during the Plan to ensure an efficient public health delivery system under the National Rural Health Mission (NRHM), which was launched in 2005.

- Over 5 lakh Accredited Social Health Activists (ASHAs), one for every 1000 population in 18 Special Focus States and in tribal pockets of all States by 2008.
- All sub-centres (nearly 1.75 lakh) functional with two Auxiliary Nurse Midwives by 2010.
- Primary Health Centres (PHCs) (nearly 30000) with three staff nurses to provide round the clock services by 2010.
- 6500 Community Health Centres (CHCs) strengthened or established with seven specialists and nine staff nurses by 2012.
- 1800 Taluka or Sub-Divisional Hospitals (SDHs) and 600 District Hospitals (DHs) to be strengthened to provide quality health services by 2012.
- Mobile Medical Units for each district by 2009.
- Functional Hospital Development Committees in all CHCs, SDHs, and District Hospitals by 2009.
- Untied grants and annual maintenance grants to every sub-centre, PHC and CHC released regularly and utilised for local health action by 2008.
- All District Health Action Plans completed by 2008.

Figure 7: Importance of Basic Services: The ICDS Scheme

The scheme primarily aims to improve the nutritional and health status of pre-school children in the age-group 0 to 6 years. The scheme, inter alia, covers health check-up for pregnant/lactating mothers and nutritional and health education services for mothers in the age of 15 to 45 years. The scheme has direct intervention for women in addition to providing indirect effect by enhancing the capability of the mother to look after the nutritional and immunisation needs of the child. It is a rare scheme which involves the convergence of line departments like Health and Family Welfare, Sanitation and Drinking Water Supply, Rural Development and Education.

Category	Children 6-72 months	Severely Malnourished Children 6-72 months	Pregnant Women and Nursing Mothers
Revised Rate (Rs) per beneficiary per day (previous in brackets)	4.00 (2.00)	6.00 (2.70)	5.00 (2.30)
Nutritional Norms Calories (Kcal)	500 (300)	800 (600)	600 (500)
Protein (gms)	12-15 (8-10)	20-25 (20)	18-20 (15-20)

The scheme is funded jointly by the Centre and State governments. In an effort to reach less developed States, the Central Government has changed the funding pattern of the Supplemental Nutrition scheme. The scheme will be funded 90:10 between the Central and State governments for the North Eastern States. For all other States this component is 50:50. All other components of ICDS are funded to the extent of 90 per cent from the Central Government Budget.

Coverage and Expansion

The scheme covers 7076 projects (2008-09) which is an increase of about 12 per cent over the previous year. The number of anganwadis has increased by about 17 per cent to 12.42 lakhs. There has been a dramatic jump in the number of mini-anganwadis from 36,829 to 1,13,931 (a three-fold increase).

Budgetary Allocation

Year	Budget Allocation Rs Lakhs	Funds Released Rs Lakhs	
		ICDS (G)	Supplementary Nutrition
2006-07	4,45,400	2,69,138	1,51,920
2007-08	5,20,400	3,10,803	2,06,231
2008-09	6,30,000	4,01,319	2,28,131

The problem of providing health services in remote inaccessible areas, (where a majority of the marginalised live) is intertwined with the problem of low levels of education and lack of access to school and higher education. The Plan has the ambition of raising the fractional investment in healthcare to a level of 2 per cent of GDP. The role of the Panchayati Raj Institutions (PRIs) to direct the delivery of healthcare in the rural areas has not been elaborated. In the absence of financial control over budgetary allocations for health (as in the case of Education), the expectation that PRIs will be the instrument of social inclusion is unrealistic.

Health outcomes for children, however, have deteriorated over the past two years, with immunisation as well as under-nutrition rates having increased from 2007-08 to 2009. More than 70 per cent children in our country are anaemic and around 36 per cent women have a Body Mass Index below normal.

A population of 2.2 crore in our country are physically challenged and are living in a situation of utter neglect without any proper health care and social security (NSA, 2009).

The health related expenditure by the State governments have declined from around 4.5 per cent to 3.6 per cent of their overall expenditure between 1999-2000 and 2008-09. The issue regarding health services is not only about lack of allocation but also about equity. The available information suggests that around 10.1 per cent of total government subsidy goes towards the benefit of the poorest 20 per cent population in India, whereas the richest 20 per cent avail around 33 per cent of government subsidies for curative care. The number of PHCs working in our country has declined from 22875 in 2002 to 22370 in 2007. The number of doctors in these PHCs has declined from 25274 to 22608 during the same period. On the one hand, the Government is making announcements for National Health Missions and on the other hand, the basic elements of health service delivery have deteriorated (NSA, 2009).

In terms of human assets, many schemes are related to Education. However, literacy in the excluded groups identified has not kept up with developments in the general population. There are wide regional disparities, and the picture is dismal when we consider school dropout and completion of school education.

Education is a key instrument of social change and inclusive growth. The plan document is not clear on how inclusive growth will be achieved through the setting up of Central universities and institutions. Doubtless there will be additional seats for SCs/STs and OBCs but to gain access to these institutions there has to be a modicum of primary and secondary education. There is no specific indication on how the 11th Plan will fund PRIs to enable them to provide primary and secondary education. Education being a concurrent subject, it is expected that State Governments will play a significant role in education. There is, however, nothing in the 11th plan to suggest that States have incentives to

Figure 8: Education & skill development

The action proposed in the Eleventh Plan for secondary education includes the following:

- Rapid upgradation of 15000 Upper Primary Schools to Secondary Schools, and expansion of intake capacity in 44000 existing Secondary Schools;
- Establishment of 6000 high quality model schools at the block level to serve as benchmarks for excellence in secondary schooling. About 3500 of these will be public-funded schools while 2500 would be through PPP;
- Provision for laboratories/libraries and also strengthening of the existing facilities available;
- Continuous teacher training;
- Provision for hostels and residential schools for girls;
- More liberal approach on the part of State Governments to allow private schools to be set up to meet the large unmet demand for quality education.

The following initiatives will be taken in the Eleventh Plan to attain these objectives in higher education.

- Establishment of 30 new Central universities, one in each of the 16 States which do not have a Central university at present, and 14 other Central universities in different parts of the country. Some of these universities will be targeted ab initio to achieve world class standards, which will involve coverage of a wider range of subjects, including, especially engineering and medicine.
- Establishment of eight IITs, seven IIMs and five Indian Institutes of Science Education and Research.
- Since the establishment of world class institutions involves considerable expenditure to create facilities, the scope for public-private participation to set up these universities will be carefully explored. The location of these institutions should take advantage of the co-location of other scientific and research institutions in certain places.
- The scope to set up institutions of higher education in the private sector must also be explored. State governments would be well advised to adopt a supportive stance on this issue, including flexibility to charge higher fees.
- At present, fees vary across universities, but generally these have been kept very low, in many cases not even covering 5 per cent of the operating cost. The Centre and State Governments must either be able to subsidise university education massively or try to mobilise a reasonable amount from those who can afford it by way of fees that cover a reasonable part of the running cost. Since most university students come from the top 10 per cent of the population by income levels, they would be able to pay fees amounting to 20 per cent of the operating cost of general university education. The fees for professional courses could be much higher.

The fee levels should, therefore, be increased gradually in existing institutions but the new norms could be implemented in new institutions from the start.

focus on education as a priority. In such a situation there is no certainty that political and social forces that have governed attitudes on education will be changed for anything better.

The budget analysis shows reduced allocations for education, and funds from education cess assigned to other purposes, especially for creating infrastructure for private education. The allocations for elementary education have declined by around 14 per cent from Rs9991 crore in 2007–08 to Rs8590 crore in 2009–10 (NSA, 2009). Reduced allocation for primary education is indeed a matter of serious concern, as it directly affects the excluded groups, who do not have access to private schools.

Further, while education per se adds to human capital, its connection to a positive impact on income and employment can be quite problematic, with higher levels of education not ensuring better employment.

The most glaring gap in the design of schemes is the lack of attention to the education of girls. Typically, girls drop out of school between primary and secondary school, when they have to go to a school located further away, and when they reach puberty. The drop-out rates for girls are high at this stage, especially if they belong to SC or minority communities. Over the past six decades of planned development, the government has not come up with solutions to this problem, resulting in continuing gaps between male and female literacy and education levels.¹⁷ Given that literacy and education are the foundation of social, economic and political empowerment, women are disadvantaged right from the beginning. If gender equality is to be promoted, primary education for girls of all communities will need to be ensured. Secondly, while there is a mix of schemes that promote health and nutrition, education, and capacity to improve livelihoods, there is less attention to entrepreneurship and market linkages.

5.3. Social protection

The Indian Government has introduced a large number of social safety net programmes over the past few years. Indeed, the biggest of these is the National Rural Employment Guarantee Act (NREGA), which guarantees a maximum of 100 days of unskilled labour to every Indian citizen on demand. However, the amounts allocated under NREGA are inadequate to offer the 100 days employment as promised. The increase in budgets from 2008 to 2009 reflects higher allocation for the expanded coverage to 600 districts, but does not provide for increased number of employment days (NSA, 2009). Other

¹⁷ This is also acknowledged in other criticisms of Indian public expenditure (NSA, 2009). Current discourse on the issue highlights that education and empowerment of women is an important factor in children's nutritional outcomes and this is particularly problematic in India. (Bamji, 2009).

important Social Protection schemes are given in Figure 2. A major step for protection is envisaged through a proposed legislation for social security to unorganised sector workers, who form 93 per cent of the Indian workforce. The National Social Assistance Scheme is a combination of old age pensions and health schemes. The current welfare programmes are notorious for widespread leakages to the non poor. A new initiative, whereby each Indian will have a unique identity card has been launched. When operational, it will provide a low income and vulnerable family direct access to official support. As new initiatives take off, there is hope that the poorest will have sufficient safety nets. As of now, there is still some ground to cover before a comprehensive package of social protection becomes operational in India.

5. 4. Market inclusion

Social Inclusion is definitely aided by improving human assets through education and health. It is also augmented using rights based approaches which promote equality of all citizens in a country. However, income and wealth inequalities result in the excluded groups surviving on the margins of the market economy. Even a strong emphasis on skill development, such as provided by the 11th Plan, will fall short of integrating the poor into markets unless the skills are market-oriented. Current schemes for market inclusion are inadequate to augment the asset base of those excluded. Without bringing about higher assets and incomes, their social inclusion will not be possible.

5. 5. Legal and policy framework

The laws relating to rights of socially excluded groups are wide ranging and offer a protective environment to them. It is the implementation of these laws and access to justice which is severely compromised by inadequate judicial machinery and finances. Further, social norms perpetuate existing social hierarchies, whether they relate to caste, gender or religion. With respect to all excluded groups including women and child rights, the 11th Plan has provided for financial support to set up implementation agencies for various laws that have been enacted to protect the rights of women and children. This is an important step to ensure social inclusiveness and will help establish the legal environment for inclusiveness.

5. 6. Social norms and attitudes

Real social inclusion is contingent on changes in social norms and attitudes. The 11th Plan has inadequate conceptualisation of how socially excluded groups are expected to move from the sectors in which they are currently employed to more economically viable sectors. The scheme for manual scavengers remains grossly underutilised, as job mobility remains restricted. Similarly, Scheduled Caste

people in rural areas are rarely allowed entry into certain sectors, for example food and alcohol. Thus, social norms prevent SCs and other marginalised groups from participating fully in the market and benefiting from growth opportunities. Market inclusion therefore, is not just a matter of skill development and enterprise, but also requires major changes in social attitudes.

5.7. Targets and monitoring

Twenty seven targets at the national level, in six categories, will monitor the success of the 11th Plan. The six categories are: income and poverty; education; health; women and children; infrastructure and environment. Of the 27 national targets only one attempts to ensure that at least 33 per cent of the direct and indirect beneficiaries of all government schemes are women and girl children. Of the 13 State-specific targets, only one – gender gap in literacy can be considered as addressing inclusive growth. In the absence of specific targets for both national and State level monitoring, it may not be feasible to estimate the achievements in social inclusion.

5.8. Discussion

The schemes present a mixed bag that does not add up to significant potential for change. The affirmative schemes are many, but less resourced, fragmented, and not adding up to a whole, whereby significant impact may be expected. The basic services leave much to be desired with great loopholes present in public child care, education and health systems. Neglect of health and education sectors will cost India dearly. Affirmative measures cannot make up for a deficiency in basic services provision.

The belief in public=private-partnerships may be fine for infrastructure and industry, but in essential services it seems incongruent, especially when expected to reach those who do not have the purchasing power. The predominant orientation continues to be to protect and benefit the rich, as reflected in the death of land reform measures, and facilitation of land acquisition for industry and SEZs. The only hope for improved livelihoods of the poor lies not in affirmative measures, but in legal changes that have a big impact on the enabling environment. The NREGA gave every working Indian a right to minimum employment of 100 days per year. Similarly, the ICPS (Integrated Child Protection Services) promises child protection, and Right to Education Bill will oblige the State to educate all children. These measures, by changing the quality of human asset and social capital, will have a major positive impact on rural livelihoods.

Analysis using the adverse incorporation principle reveals that those excluded lack resources, organisation, power and voice, and therefore are not equipped to improve their own situations. Akin to gender inequality, overcoming social and

income inequalities are an uphill climb. The most powerful changes can come from within the legal environment, which change the norms of society. The adherence to the new norms is another question, however. If policies and laws change slowly, mindset changes are even slower. As the example of scavengers shows us, mindsets and institutionalised discrimination still continue to keep this demeaning practice alive, and a million people socially and economically excluded. While the Plan documents continue to make, assess and allot finances to education and health, performance in these sectors has continued to be dismal. Recent UNICEF statistics are alarming. They show that India's share of the total Under Five (U5) child population is 20 per cent, and of the total number of children in the world dying before their fifth birthday (total 9.7 million), India accounted for 2.1 million, 21 per cent. India's share in the world's total underweight children is 35 per cent; of maternal deaths, 23 per cent; and population not using improved sanitation is 27 per cent.

6. Conclusions

The issue of inclusive growth has many dimensions. The primary dimensions are access and opportunity. Access is the ability of an individual to take an opportunity given by society. Opportunity is a social, political or economic good that can be converted by an individual into meaningful social or economic gain. All Five Year Plans in India have focused on providing economic goods to people in the expectation that benefits will trickle to various segments of the population in proportion to their political numbers. This has sadly not been borne out by experience. The 11th Plan has explicitly set for itself the objective of achieving inclusive growth with special mention of Scheduled Castes and Tribes, Other Backward Castes, Minorities and Women. While economic growth has been achieved to a certain extent there are alarming failures on many dimensions, such as poverty, human development, child related and gender indicators. These failures are far more pervasive among the groups that are being targeted for inclusive growth.

The central vision of the 11th Plan is 'to build on our strengths to trigger a development process which ensures broad-based improvement in the quality of life of the people, especially the poor SCs/STs, other backward castes (OBCs), minorities and women'. The Plan's vision of inclusiveness ambitiously goes beyond economic emancipation to include equality of opportunity, social and economic inclusion. This is expected to be achieved through Panchayat Raj Institutions. Since the passing of the 73rd amendment the track record of States to devolve fiscal and managerial responsibility to the Gram Panchayat has been tardy at best. It is not clear how inclusive growth can be achieved through bodies that are themselves in their infancy and/ or disempowered as well.

In addition to allocation of sufficient public funds, attention is needed to improve the efficiency of money utilisation. This demands new and innovative ways of working, for instance, leveraging central funds to raise local resources. However, such use of central funds is an exception rather than the norm.

Right to information is also expected to play a major role in monitoring inclusive growth. It is clearly evident that too much responsibility is being placed on the non-government sector for the implementation of policies which are clearly the responsibilities of the State.

The claims of the 11th Plan towards inclusive growth fall short on several dimensions. The Plan does not make an adequate departure from the past to incorporate new and innovative steps towards social inclusion. Despite increases suggested in Plan allocations, budgets and expenditures of the first two years of the plan do not show significant real increases. The advancement of rights based approach has been a significant departure from the past and should provide (if implemented on the ground) a legal framework for inclusive growth. Affirmative schemes are expected to be implemented through PRIs and Development Corporations, both of which are ill-equipped for the task in terms of resources and capacity. The challenge that has not been addressed, in the 11th Plan, is ensuring that marginalised groups like SC/ST, Women, Minorities, physically and mentally challenged persons, and those living with HIV and AIDS are not excluded from access to basic services like health, education, skills and employment. Wide-ranging social protection measures which are envisaged, but not yet put in place, will have wide ranging impact on social inclusion.

The integration of economic and social inclusion needs to be taken cognisance of more seriously than done by the current policy makers. With over 60 per cent of the population still dependent on agriculture, land reform no more a priority, and the large scale ineffectiveness of distributive and welfare schemes, widespread poverty and hunger co-exist with increasing incomes of those endowed with land and other assets. The latter, more endowed group, are able to influence policies and their implementation in their favour. No serious efforts have been made to organise the poor, thus they lack voice and influence (Appu, 2009). These are serious shortcomings, and policies need to ensure secure access of cultivation land to the poor. They also need to ensure basic minimum consumption and education to all sections of the population. Attention to these is absolutely essential if social and economic distances between the haves and have-nots in India are to be covered.

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7. Annexure 1-11th plan outlay & expenditure: selected schemes

S. No.	Schemes for welfare of scheduled castes	XI Plan outlay	2007-2008		2008-2009	2009-2010
			Outlay	Expenditure	Outlay	Outlay
1	Post matric scholarships for SCs	4197	825	875.08	750	735
2	Special central assistance to SCs sub-plan	2000	501.4	501.15	480	469
3	Hostels for SC boys	150	40	36.78	38	39
4	Hostels for SC girls	250	37	30.5	55	56
5	Self employment scheme for rehabilitation of scavengers	660	50	25	100	97

S. No.	Schemes for welfare of scheduled castes	XI Plan Outlay	2007-2008		2008-2009	2009-2010
			Outlay	Expenditure	Outlay	Outlay
1	Post matric scholarship including higher scholarship for PhD & higher Level	842	120	125.61	134	121.5
2	Boys & girls hostels for OBCs	300	21	20.54	35	0.5
3	National backward classes 214 finance & development corporation	31	31	35		
4	Pre-matric scholarship for OBCs	162	25	25	30	25.5
5	Grant-in-aid to voluntary 70 organisations working for OBCs	350	359	350		

Sl. No.	Schemes for welfare of persons with disabilities	XI Plan Outlay	2007-2008		2008-2009
			Outlay	Expenditure	Outlay
1	Deen Dayal Disabled Rehabilitation Scheme	600	77	70.47	70
2	Scheme of assistance to disabled persons for purchase/fitting of Aids and appliances	542	70	49	79
3	National institutes for disabled	320	50.28	45.28	49
4	Employment for physically challenged	190	0	0	15
5	Schemes arising out of the Implementation of the persons with disabilities (Equal opportunities, Protection of Rights & Full Participation) Act, 1995	140	17.4	9.28	20
6	Financial assistance to women with disabilities to look after their children after birth	0	0	0	5

Sl. No.	Schemes for social defence and media	XI Plan Outlay	2007-2008		2008-2009
			Outlay	Expenditure	Outlay
1	Scheme for Prevention of Alcoholism & Substance (Drugs) Abuse	199	27	26.18	35
2	Assistance to voluntary organisations for general grant-in-aid in the field of social defence	199	4.5	3.2	5
3	Integrated programme for older persons	113	20	16.24	22
4	Construction of old age homes	60	0	0	13
5	Information mass education cell	49	10.4	10.4	10.4
6	National institute for social defence	32	6	3.5	6

Sl. No.	Schemes for welfare of Scheduled Tribes	2007-2008		2008-2009	2009-2010
		Outlay	Expenditure	Outlay	Outlay
1	Special central assistance to Tribal Sub Plan	816.71	NA	900	900.5
2	Assistance for schemes under provision(i) to Article 275(1) of the constitution	400	NA	416	1000
3	Other programmes for welfare of Scheduled Tribes	201.69	NA	375	355.77
4	Schemes for Post matric scholarships, book bank and upgradation of ST students	162.04	55	195	217.95
5	National/State Scheduled Tribes Finance & Development Corporations	35	NA	50	50
6	Schemes of hostels for ST girls and boys	34.5	5	61	59

Sl. No.	Schemes for welfare of minorities	2007-2008		2008-2009	2009-2010
		Outlay	Expenditure	Outlay	Outlay
1	National Minorities Development and Finance Corporation (NMDFC)	70	144.12	75	75
2	Multi sectoral development programme for minorities in selected minority concentration districts	66.97	NA	485.8	517.45
3	Grants-in-aid to State channelising agencies engaged for implementation in NMDFC programme	66.97	NA	4.5	0.9
4	Post-matric scholarship for minorities	54	21.89	89.9	76.5
5	Grants-in-aid to Maulana Azad Education Foundation	50	11.41	60	65
6	Merit-cum-means scholarship for professional and technical courses of undergraduate and post-graduate level	48.6	40.9	112.4	72

S. No.	Schemes for welfare of North Region	XI Plan outlay	2007-2008		2008-2009	2009-2010
			Outlay	Expenditure	Outlay	Outlay
1	Grants from central pool of resources for North Eastern region and Sikkim	NA	636	636	650	700
2	Schemes of North Eastern council	NA	509	508.39	544.5	544.5
3	Special package for Bodoland Territorial council	NA	100	100	100	50
4	Loans to North Eastern Development Finance Corporation Ltd (NEDFi)	384.43	60	NA	60	60
5	Technical assistance & capacity building	78.9	12	NA	125	13

S. No.	Schemes for welfare of scavengers	XI Plan Outlay	2007-2008		2008-2009	2009-2010
			Outlay	Expenditure	Outlay	Outlay
1	Self employment Scheme of Liberation and Rehabilitation of Scavengers (Welfare of Scheduled Castes under Ministry of Social Justice and Empowerment)	600	50	25	100	97

Schemes for Welfare of Women are given in Table 2.

Chapter 4

NREGS and Livelihoods: A Review of Issues and Outcomes

Ajay Tankha

1. Introduction

According to World Bank estimates (based upon a 2005 purchasing power parity - PPP poverty line of US\$1.25) poverty afflicts 41.6 per cent of India's population and the number of poor is as high as 45.6 crores (Gaiha, 2008).¹ Hence, the need for large-scale and successful models of livelihoods promotion for such families cannot be overemphasised.

Targeted interventions to address the poverty problem have been with us since the early 1970s. Poverty alleviation programmes of the Government of India have basically fallen into two categories:

- schemes for direct wage employment generation (mainly public works programmes and food-for-work programmes) that help to create the social and economic infrastructure through the labour of the poor
- programmes for self-employment involving asset acquisition and skill transfer for income/employment generation through own enterprises.

However, the targeting efficiency of these programmes has been questioned as also the large scale diversion of funds, particularly in the first category of programmes. The National Rural Employment Guarantee Act (NREGA)² enacted in 2005 has given a new direction and stimulus to policy and debates regarding the form and content of employment guarantee schemes. Indeed it has been positioned as a flagship social security programme of the United Progressive Alliance (UPA) government in power. The experience of three years of implementation of the National Employment Guarantee Scheme (NREGS)³ provides the opportunity to review its performance within the overall objective of support for the livelihoods of the rural poor.

1 This compares with earlier estimates for 2004-05 of less than 28%. The Tendulkar Committee has recently estimated a total of 8.32 crore Below Poverty Line (BPL) households (or 38% of the population), based upon 2004-05 NSSO data using a revised methodology. (Chauhan, 2009)

2 The NREGA has been renamed on 2 October 2009 as Mahatma Gandhi National Rural Employment Guarantee Act.

3 While the acronyms NREGA and NREGS are generally used interchangeably, we try as far as possible to refer to the Act of Parliament as NREGA and the employment guarantee scheme being implemented as NREGS.

1. 1. Experience of wage employment schemes in India

In many respects NREGA builds upon earlier schemes and most of the provisions of the NREGS are not new. A plethora of wage employment schemes of varying scope and coverage have evolved and been implemented over the years. These have had the twin objectives of employment creation and capital formation through works programmes.

Evaluation studies of wage employment programmes introduced during the past four decades or so revealed that:⁴

- fund utilisation and coverage were lower than planned;
- majority of beneficiaries received less than 30 days of employment;
- participation of women was low;
- the programmes created income for the rural poor but left very few durable assets;
- there was bogus reporting to achieve targets and non-poor households were also found to be among the beneficiaries;
- the capital-labour ratio norms were not adhered to and contractors and machinery were used even where schemes forbade it;
- the programmes encouraged corruption, both at political and administrative levels with losses resulting from the common practices of fudging of muster rolls and measurement books.

The conventional approach to the stimulation of rural livelihoods has been essentially supply-side involving a top-down approach through various functionaries and absence of involvement of the community. This pattern is sought to be broken by the NREGA with its many innovations aimed at participation of and accountability to the people. An early example of a guaranteed state-sponsored employment scheme in India has been the Maharashtra Employment Guarantee Scheme (MEGS) which was implemented in circumstances of severe drought in the State during 1970 to 1973 as an innovative anti-poverty⁵ intervention and continued to function for over 30 years.

Many of the provisions of NREGA are to be found in MEGS. However, the experience of the MEGS, despite some early promise, suggests it was characterised by weak planning, poor quality and maintenance of assets and a failure to include poor households.

⁴ GoI (2006).

⁶ Chakraborty (2007).

Many would argue that there is little that is new in the NREGA and that these issues and problems appear to continue with the NREGS as currently being implemented. It remains to be seen whether it will be able to break out of constraints that have prevented such schemes from having a sustained countrywide impact on rural livelihoods.

1. 2. NREGA: vision and salient features

The National Rural Employee Guarantee Act (NREGA) which was passed by the Parliament in 2005 is proclaimed by the Ministry of Rural Development, Government of India as "an Act to provide for the enhancement of livelihood security of the households in rural areas of the country by providing at least one hundred days of guaranteed wage employment in every financial year to every rural household whose adult members volunteer to do unskilled manual work." The vision of NREGA is that no vulnerable household in the country goes hungry due to lack of income earning opportunities. It aims to provide an income security net to vulnerable individuals and families irrespective of their social status. Anyone can approach the State and seek employment and the State machinery is bound to provide work. In case the State fails to do so, an unemployment allowance is to be provided. NREGA has been formulated under a Rights framework emphasising the duty of the State to uphold the right to employment and the right of the citizen to demand employment. *Thus NREGA provides, with its Constitutional and legal weight, an employment guarantee that caters to the expressed demand for wage employment at individual/family level in rural areas through a process of self-targeting.*

Previous wage employment schemes such as the Sampoorna Grameen Rozgar Yojana (SGRY) and the National Food for Work Programme (NFFWP) have been clubbed under the new programme. Around 90 per cent of resources for schemes under NREGA are provided by the Central Government⁶ and the rest by the State government. The NREGS is formulated and implemented by State governments through their respective Panchayati Raj Institutions (PRIs). For regular monitoring and review of the implementation of this Act, apart from a Central Employment Guarantee Council, State Employment Guarantee Councils are constituted with official members as well as non-official members nominated by the State Government from PRIs, organisations of workers and disadvantaged groups.

The NREGA also seeks to strengthen the natural resource base of rural livelihoods by promoting measures for water conservation, drought proofing, irrigation, land development, flood protection and rural connectivity, plantation,

⁶ The central government provides the full amount of the wage component and 75% of the non-wage/material component. Further, works undertaken are to adhere to wages and material ratio of 60:40.

and horticulture. It can also be used to develop lands owned by households belonging to the SC/ST or on the lands of beneficiaries of land reforms, IAY and BPL families and (most recently) small and marginal farmers. The purpose is to create durable assets which will help in generating sustainable livelihoods and income for the rural households. Details of salient features of the Act are given in Appendix 1. The key processes involved in securing employment and in planning of works under NREGS are illustrated in Appendix 2.

1. 3. The rationale of the NREGA and expectations of the NREGS

The NREGA has been a major component of the Common Minimum Programme of the UPA government that came into power in 2004 and is considered to be a personal initiative of the then Chairperson of the National Advisory Council (NAC). Civil society activists, including erstwhile members of the NAC, who have also been associated with the landmark Right to Information Act and the Right to Food Campaign, have been at the forefront to support and monitor the programme. Indeed one writer could assert that 'much of NREGA's success is due to a vigilant group of civil society actors who have contributed to the Act becoming a role model for public service delivery in rural areas' (Himanshu, 2008a).

The *rationale* or case for an employment guarantee is focused on labour intensive asset-creating works that could simultaneously tackle problems of unemployment, environmental regeneration and agricultural growth. Following Shah (2007), if effectively implemented, NREGA would ensure at least *six* outcomes:

- provide relief in times of distress and long-term drought and flood-proofing of Indian agriculture;
- shift the economy on to a more sustainable growth path;
- help reduce poverty through better social infrastructure;
- contribute to reduced dependence on a State-sponsored employment guarantee over time;
- spur agricultural growth and a range of sustainable livelihoods in a non-inflationary manner;
- fuel successive rounds of private investment, thereby, setting up a multiplier of secondary employment opportunities.

Thus NREGA is not intended merely as a Keynes-type pump-priming intervention as supposed by some observers; and though the primary objective is employment generation, the output of wage labour in the form of productive rural assets is vital to generate increases in productivity and growth and reduce poverty in the long run.

Nevertheless, *expectations* from the NREGS as implemented differ across stakeholders and analysts. Given its parentage, the fault lines in perception and positioning on the programme also appear to be ideological and political. Social activists monitoring the NREGS focus on worker's entitlements, people's participation and social audits while taking to task the lower echelons of the bureaucracy for the irregularities unearthed during jan sunwais (public hearings). The ecological regeneration view of CSE and other institutions (discussed in section on 'NREGS and Rural Livelihoods: Employment Generation or Creation of Productive Assets') emphasising asset creation and natural resource management provide another perspective to the NREGS. Farmer associations, alarmed at the prospect of increased rural wages and non-availability of agricultural labour, are pressing for NREGS operations not to be undertaken during the peak agricultural seasons.⁷ Left-wing academics and politicians have been muted in their criticism of the deficiencies in the functioning of NREGS seeing it as a means of strengthening grassroots level democracy and to mobilise the poor in order to assert their right to employment and a fair wage. At the other end of the spectrum, sections of the media, business and financial institutions have viewed the scheme as a populist measure and are sceptical of it given the experience of similar schemes in the past. They have expressed concern at the budgetary implications of the NREGS (with allocation increased 144 per cent to over Rs391 billion for 2009 -10) following as it does upon the Rs740 billion loan waiver package for farmers in 2008.

1. 4. Outreach and performance of NREGS

The National Rural Employment Guarantee Scheme (NREGS) has attained extraordinary growth and scale since its inception. Though it started in 2005-06 with a focus on the poorest 200 districts, since 1 April 2008 it covers almost all the districts of the country.

Employment under the NREGS has surged in terms of the number of households provided employment and in respect of person-days employed per household. (ref. Table 1)

- *In 2008-09 NREGS generated a total of over 216 billion person-days of employment – an increase of more than 50 per cent over the previous year.*⁸

7 The latter is understood to have been attempted since in Andhra Pradesh through the adoption of a seasonality calendar.

8 The total employment generated under the NREGS is much larger than earlier employment programmes. For example, *Sampoorna Gram Rozgar Yojana* and *National Food for Work Programme (NFFWP)* which, also implemented on a nationwide scale, generated only 856 million person-days of employment in 2003-04 (Mehrotra, 2008).

Table 1: NREGS: outreach and performance*

		2006-07	2007-08	2008-09
Total employment generation (crore person-days)		90.5	143.7	216.1
Total Households Covered (crore households)	Employment demanded:	2.12	3.43	4.54
	Employment provided:	2.10	3.39	4.50
Total Expenditure (crore rupees)		8,823	15,858	27,181
	% of available funds	73%	82%	75%
Total expenditure per district (crore rupees)		44.11	48.05	44.20
Total works taken up (in lakhs)		8.42	17.81	27.22
Total works completed (in lakhs)		3.97	8.20	12.11
	(as % of total) 47%	46%	45%	

* From NREGA Implementation Status reports 2006-07, 2007-08 and 2008-09 at NREGA website www.nrega.nic.in (accessed on 5 September 2009)

- The scheme provided 4.50 million households with work (99 per cent of households demanding employment)⁹ during 2008-09 – up nearly 33 percent from the previous year. These households received an average of 48 days of employment during the year. Though this figure conceals substantial inter-state variations it is nevertheless considerably . Further, this achievement may not be good enough to naturalise the fallout of the larger trends in employment and livelihoods.¹⁰
- The programme has also been scaled up enormously in terms of outlays, which almost doubled to Rs270 billion in 2008-09 from Rs150 billion in the previous fiscal year. During 2009-10 an outlay of Rs391 billion has been proposed.
- Over 75 per cent of the funds earmarked for the scheme were utilised in 2008-09. In physical terms, over 2.7 million works were taken up in 2008-09 – up 50 per cent from the previous year. Of works taken up in 2008-09, nearly 45% were completed during the year.

9 These figures have been questioned by scholars in the light of some of the known weaknesses in work application processes that have emerged in surveys and audits of the NREGS. Raising doubts, in particular, for figures on “employment demanded” Dreze and Oldiges (2009) note that the accuracy of the official figures is an open question, and which calls for urgent scrutiny.

10 As observed in Chandrasekhar (2009). Using the criterion of 260 person days per year, he estimated full job opportunities created by the NREGS during 2008-09 at 6.7 million as against a conservative annual requirement of 12 million new work opportunities provided in the Interim Budget; and at 13.9 million during the three years of operation 2006-07 to 2008-09. Using the above criterion, the latest ministry employment data above in fact show a more impressive 8.3 million full jobs created by the NREGS in 2008-09 and 17.3 million full jobs during the three-year period.

Table 2. Share of different types of assets in total assets created (2008-09)

	Type of asset/activity	% of total no. of assets
1.	Irrigation facility to land owned by SC/ST/BPL/IAY beneficiaries	21%
2.	Water conservation and water harvesting	20%
3.	Rural connectivity	18%
4.	Land development	15%
5.	Renovation of traditional water bodies	9%
6.	Drought proofing (afforestation & plantation)	7%
7.	Micro irrigation works	5%
8.	Flood control and protection	4%
9.	Others	1%

Source: www.nrega.nic.in

Table 2 gives the share of different types of assets in total assets created during 2008-09. While water conservation, drought proofing and minor irrigation are to be accorded priority (see Appendix 1), road construction (rural connectivity) and land development constitute a substantial proportion of the works undertaken.¹¹

(i) Employment generation

Table 3 gives the State-wise performance in the average days of employment provided per household covered during each of the three years of operation of NREGS.¹² The performance is characterised by considerable variations over time and across different States as evidenced below. A reason for this variation also has been the phased introduction of the scheme in several states.

- During 2008-09, as in the previous fiscal year, Rajasthan, Madhya Pradesh, Chhattisgarh, along with Uttar Pradesh and several north-eastern States have been the leaders in employment generation with over 50 person-days per household provided. Rajasthan, Madhya Pradesh, Chhattisgarh, Manipur, Haryana and Tamil Nadu provided more than 50 person-days of employment per household during 2007-08.
- Interestingly, the 'leader' States (Rajasthan, Madhya Pradesh, and Chhattisgarh) have shown stagnation or a small decline over the years in employment generation in terms of person-days per household.

¹¹ There are plans to enlarge this list of activities to include durable rural assets such as community halls and schools.

¹² A normalisation by the total number of rural households or number of households below the poverty line could give an indication of the overall impact from a slightly different angle.

**Table 3: Employment Provided under NREGS –
Number of Person-days per Household**

States	Employment provided average number of person-days per household*		
	2006-07	2007-08	2008-09
Andhra Pradesh	31.4	39.6	48.0
Arunachal Pradesh	22.5	6.6	43.3
Assam	72.5	34.7	40.0
Bihar	35.3	21.1	26.0
Gujarat	43.7	29.6	25.1
Haryana	48.2	50.0	42.4
Himachal Pradesh	49.8	35.9	46.1
Jammu and Kashmir	26.9	31.7	39.6
Karnataka	41.1	44.4	32.1
Kerala	22.8	28.6	22.2
Madhya Pradesh	68.9	63.3	56.6
Maharashtra	40.8	39.0	46.3
Manipur	93.0	53.7	74.9
Meghalaya	26.9	38.9	38.5
Mizoram	15.6	35.8	72.8
Nagaland	43.6	18.7	68.3
Orissa	57.5	37.0	36.5
Punjab	52.0	10.5	27.1
Rajasthan	85.4	75.0	75.8
Sikkim	60.0	45.3	50.7
Tamil Nadu	26.9	57.2	36.0
Tripura	71.6	32.5	64.0
Uttar Pradesh	32.0	33.1	52.4
West Bengal	14.3	22.5	26.0
Chhattisgarh	55.6	57.6	54.8
Jharkhand	37.4	44.5	47.6
Uttarakhand	31.2	42.5	34.9
AVERAGE (All India)	43.1	41.8	48.0

* Total person-days employment provided divided by total number of households provided employment: Computed from http://nrega.nic.in/writereaddata/mpr_out/nregampr_0809.html

- States like Andhra Pradesh, Maharashtra and Jharkhand though not among the top on the performance scale (employment-days provided per household) *have registered improvements in employment generation over the previous years.*
- States such as Gujarat, West Bengal, Kerala and Bihar *were towards the bottom of the list generating less than 30 person days of employment per household both in 2007–08 and 2008–09.* Further, continuing with their weak performance, States like Orissa and Karnataka *have seen a decline in their employment generation figures during 2008–09 in comparison with the previous years.*
- One of the notable points about the performance of States has been that while the NREGA was a major initiative of the UPA government *it is in the BJP-ruled states that coverage under the NREGS generally has been greater with a comparatively poor showing in the States ruled by the leftist parties.*

An unexplained feature of the process of employment provision is the huge gap between the number of job cards issued and the number of households demanding employment. By the end of the financial year 2008–09, job cards had been issued under the NREGS to over 100 million households (or about two-thirds of rural households) of which only 45.4 million households appear to have demanded employment. The NCAER-PIF (2009) study found that in 103 districts (out of 536 districts for which data was available) the reported coverage of households with job cards was more than 100 per cent of rural households, thus raising doubts about the reliability of the data.¹³ Two of the leading performers among the States, Rajasthan and Madhya Pradesh, accounted for the majority of such districts.

(ii) Wage rates

A feature of the scheme is the relatively attractive wage rates (going up to Rs141 per day in Haryana and Rs125 in Kerala) now being paid under the scheme as compared to prevalent agricultural wage rates in rural areas across the country, particularly for women.¹⁴ The State-wise position can be seen from Table 4 with NREGS minimum rates being much higher than the prevailing wage rates for agricultural operations. There have been increases in minimum wage rates under NREGS in almost all States since the inception of the scheme

¹³ *The study further noted that the data engendered the impression of the existence of bogus job cards particularly among SC and ST category of households (NCAER-PIF (2009), Ch. 2).*

¹⁴ *Under the NREGS there are uniform wage rates for women and men.*

Table 4: NREGS wage rates

States	Average daily wage rates in agricultural occupations in rural India (2004-05) (Rs)*		NREGS wage rates (Rs) (2006 -07)@	NREGS wage rates (Rs) (2007-08)@	NREGS wage rates notified on 1 January 2009 (Rs)**
	Men	Women			
Andhra Pradesh	36.61	27.83	80.00	80.00	80.00
Arunachal Pradesh	-	-	56.00	66.00	65.00-67.00
Assam	30.23	15.52	66.00	76.35	79.60
Bihar	45.06	26.24	68.00	77.00	81.00
Gujarat	55.48	30.14	50.00	50.00	100.00
Haryana	57.83	23.35	96.55	99.21	141.02
Himachal Pradesh	12.95	-	70.00	75.00	100.00
Jammu and Kashmir	31.82	-	70.00	70.00	70.00
Karnataka	49.00	27.85	69.00	74.00	82.00
Kerala	55.89	27.99	125.00	125.00	125.00
Madhya Pradesh	40.61	26.54	62.19	67.00	91.00
Maharashtra	52.97	31.90	-	69.00	66.00-72.00
Manipur	38.66	19.79	72.40	81.40	81.40
Meghalaya	21.44	9.77	70.00	70.00	70.00
Mizoram	-	-	91.00	91.00	91.00
Nagaland	-	-	66.00	100.00	100.00
Orissa	44.86	14.02	55.00	70.00	70.00
Punjab	32.01	-	94.48	94.48	93.00-105.00
Rajasthan	44.16	9.45	73.00	73.00	100.00
Sikkim	-	-	85.00	85.00	100.00
Tamil Nadu	60.79	31.23	80.00	80.00	80.00
Tripura	38.18	-	60.00	71.00	85.00
Uttar Pradesh	47.79	26.09	58.00	100.00	100.00
West Bengal	44.68	32.35	68.43	70.00	75.00
Chhattisgarh	-	-	62.00	66.70	72.23

Jharkhand	-	-	76.68	86.40	92.00
Uttarakhand	-	-	73.00	73.00	73.00
AVERAGE (All India)	61.23	44.59	65#	75#	84#

* Source: Wage Rates in Rural India (WRR), Labour Bureau, Ministry of Labour and Employment as reported in Mehrotra (2008); Wage rates are the average of different agricultural occupations

@ From NREGA website www.nrega.nic.in

** Ministry of Rural Development notification dated 1 January 2009

- Not reported

Wage cost per worker-day (total expenditure on wages for manual work / total no. of person-days of employment)

and by as much as 40–50 per cent in States such as Uttar Pradesh, Rajasthan and Madhya Pradesh.¹⁵

A freeze was, however, placed by the Central Government on wage rates for unskilled workers under the NREGS through a notification of the Ministry of Rural Development dated 1 January 2009.¹⁶ Since wages are paid on the basis of piece rates in most States, the realised daily earnings of workers may vary from the minimum wage rates. In any event, the level of NREGS minimum wage rates has had a variety of effects, including: (i) raising awareness of workers of their entitlements; (ii) increasing minimum wages paid for agricultural operations; and (iii) reduction in out-migration and in labour availability in destination States for migrant labour. In addition, the enhancement in the wage-income earning potential of women through NREGS has implications for intra-household labour allocation and gender relations.

The national average wage cost under NREGS increased by nearly 30 per cent from Rs65 in 2006–07 to Rs84 in 2008–09. [In real terms this represents an increase of about 8 per cent in 2007–08 over 2006–07¹⁷ and a similar increase in the subsequent period.] Wages realised by workers have on the average been above the minimum daily wage rates. However, there has been great variation across States with wages ranging from a minimum of 70 per cent (in Rajasthan) to a maximum of 216 per cent (in Maharashtra) of the minimum wage rate in 2006–07 and from 80 per cent to 165 per cent in 2007–08.¹⁸

15 The dilution of work output norms in the Schedule of Rates by several States would also have resulted in vastly improved returns to the labour of workers under the piece rate system since the inception of the NREGS.

16 Many states are understood to have hiked their minimum wage rates and asked the Ministry of Rural Development to notify these under NREGS. According to recent newspaper reports the ministry is set to notify a wage-bar of Rs100 under the job guarantee scheme as per the UPA manifesto. However, this means that until year 2014 a state hiking its minimum agricultural wage beyond Rs100 will have to shoulder the additional wage expenditure itself. The minimum wage of Rs100 per day will be notified for all states except those already having higher rates as per the notification of 1 January 2009.

17 Dreze and Oldiges (2009).

18 NCAER-PIF (2009).

(iii) Distribution of Benefits

The share of disadvantaged groups in NREGS employment is given in Table 5.

Table 5: NREGS - distribution of benefits

A. Share of disadvantaged groups in NREGS employment (in %)			
	2006-07	2007-08	2008-09
• Women	40	42.6	47.9
• Scheduled Tribes (ST)	36	29.2	25.4
• Scheduled Castes (SC)	26	27.3	29.3
• SC/ST Combined	62	56.5	54.7
B. Share of women in NREGS employment: Selected States			
	2006-07	2007-08	2008-09
• Tamil Nadu	81	82	80
• Rajasthan	67	69	67
• Kerala	66	72	85
• Andhra Pradesh	55	58	58
• Bihar	17	27	30
• Uttar Pradesh	17	15	18
• Himachal Pradesh	12	30	39
• Jammu & Kashmir	4	1	6

* From NREGA Implementation Status reports at NREGA website www.nrega.nic.in

The participation of scheduled castes (SCs) (29.3 per cent in 2008–09) and scheduled tribes (STs) (25.4 per cent) has been higher than their share in the total population. This would suggest that the scheme is reaching the desired sections of society. The share of STs in employment has, however, declined over the years. This is probably due to the phased roll out strategy for NREGA which targeted poorer districts with relatively larger shares of ST population in the first and second phases. The share of SC households has slightly increased over the years.

The overall share of women in employment was highly satisfactory at nearly 48 per cent in 2008–09, up from 43 per cent in 2007–08.¹⁹ Tamil Nadu, Rajasthan and Kerala performed best of all with nearly 70 per cent or better share of women in the total person days of employment. Interestingly, the share of women has increased dramatically in States like Himachal Pradesh and Bihar and it is around the threshold minimum level of 33 per cent in 2008–09. The share of women among workers in U P, however, continues to be less than 20 per cent.

¹⁹ By August 2009 the share of women in total employment had increased to 52%.

Table 6 gives data on households completing 100 days of employment on all-India basis and for selected States. The proportion of such households has been rising and during 2008-09 6.5 million households (or 14.5 per cent of all households provided employment) completed 100 days of work. While these proportions are still quite small, the absolute number of households provided with the targeted employment is significant. Madhya Pradesh (MP) and Rajasthan – both poor States, have invariably had among the highest percentage of households completing 100 days of work.

Table 6. NREGS – percentage of households completed 100 days of employment (selected states)

States	% of Households (HHs) (2006–2007)*	States	% of HHs (2007–2008)*	States	% of HHs (2008–2009)**
Rajasthan	54.4	Rajasthan	42.0	Mizoram	53.1
Himachal Pradesh	26.5	Kerala	32.1	Rajasthan	41.3
Tripura	26.3	Madhya Pradesh	21.0	Madhya Pradesh	18.8
Assam	23.4	Assam	17.1	Tamil Nadu	15.2
Madhya Pradesh	18.5	Chhattisgarh	11.2	Uttar Pradesh	14.
Maharashtra	1.5	Jammu & Kashmir	1.4	Maharashtra	3.6
Meghalaya	0.5	West Bengal	0.8	Bihar	2.7
West Bengal	0.6	Bihar	0.7	Kerala	2.1
Kerala	0.5	Tripura	0.4	West Bengal	0.8
Tamil Nadu	0.3	Mizoram	0.0	Jammu & Kashmir	0.4
TOTAL	10.2		10.8		14.3
Total no. of HHs	21 lakhs		35 lakhs		65 lakhs

* adapted from Mehrotra (2008); ** Computed from NREGA Implementation Status Report 2008-09 at www.nrega.nic.in

1.5. NREGS outcomes: field evidence of impact on rural livelihoods

Despite the fact that the NREGS is barely three years old it has already begun to chart a different path from earlier wage employment programmes through several innovations involving greater community participation. While the objective of 100 days of employment is far from being achieved in any State, the scheme is seen as having had some positive outcomes with an impact on the rural poor. However, as suggested by the State-level analysis, the performance of the scheme has varied across regions and contexts. Comprehensive studies

of NREGS and independent large-scale surveys have not yet been undertaken. The limited emerging evidence of impact of the scheme on participating rural households and wider impacts on rural livelihoods, as based upon a few major studies and reports, are discussed:.

(i) Reaching the Poor and Vulnerable

Given the nature of NREGS, based upon self-targeting, *monitoring of the poverty focus of the scheme does not appear to be a priority*. Indeed, it is felt that as wage rates and work facilities improve, the NREGS could be an attractive source of income for a wider section of rural households particularly during the lean season. However, findings of two studies supported by the NCEUS (reported in NCEUS 2009) suggest that the scheme is generally reaching the intended population of social and economically deprived households. A study by G B Pant Social Science Institute (GBPSSI), Allahabad, led by Jean Dreze and conducted in May–June 2008 in 10 districts of 6 north Indian states,²⁰ showed that 81 per cent of the sample households working under NREGS live in *kachcha* houses, 61 per cent of workers are illiterate and over 72 per cent do not have electricity at home.²¹ Centre for Economic and Social Studies (CESS), Hyderabad study of two districts, Kadapah and Mahboobnagar, in Andhra Pradesh showed that 74 per cent and 60 per cent of landless households respectively in the two districts participated in the scheme as also 65 per cent and 61 per cent of BPL households.

The studies also confirmed a high participation by SC and ST families. The GBPSSI study above found that 73 per cent of respondents belonged to SC/ST families. The CESS study reported that the majority of NREG beneficiaries came from vulnerable social groups (SC, ST and OBC), landless agriculture labour households and women. The same study found that participation of SCs and BCs is more than their respective share in the total households.

According to the GBPSSI study, the statutory *priority to be given to 33 per cent participation of women was found missing in states such as Chhattisgarh (25 per cent), Jharkhand (18 per cent), Bihar (13 per cent) and Uttar Pradesh (5 per cent)*.²² However, the study revealed that a majority of women collected their own NREGA wages and in turn retained them. Further, NREGS employment served as a primary wage earning opportunity for a large section of women.

Other positive benefits reported by NREGS workers included improved food security and reduction in distress out-migration. Wages have been channelled into expenses

20 Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Rajasthan and Uttar Pradesh.

21 The study findings are also reported in Dreze and Khera (2009).

22 A disaggregated analysis of official data by NCAER-PIF (2009) reveals that in about 49 per cent of districts the share of women in NREGS employment was less than the stipulated 33 per cent.

on food, health, education and loan repayment. 'Employment with dignity' through NREGS resulted in empowerment of women workers and sustainable asset creation.

The GBPSSI study found that *wages earned through NREGS helped workers in financing their food and health requirements* as shown in Table 7 with 69 per cent of workers reporting that the wages earned were spent on food and 47 per cent reporting that they had spent on illness. Further, more than one-third of respondents said that it had helped in sending children to school (37%), contributed in repaying debts (34 per cent) and enabled them to avoid demeaning and hazardous work. A majority (57 per cent) of sample workers said that they had used their NREGS wages to buy medicines during the last 12 months. NREGS wages were also used to buy materials for school such as uniforms and notebooks.

Table 7: Perception of NREGA workers on the programme

Proportion (%) of sample workers who stated that:	
NREGA has helped them to avoid hunger	69
NREGA has helped them to avoid migration	57
NREGA has helped their family to cope with illness	47
NREGA has helped them to avoid demeaning or hazardous occupations	35

Source: Dreze and Khera (2009) based on GBPSSI study

At the same time, *delays in payment of wages of NREGS workers are a widely reported phenomenon.*²³ Dreze (2009) asserts that there are routine violations of entitlements of NREGA workers and that delays in payments are getting worse, causing immense hardship to workers. NCAER-PIF (2009) and Sainath (2009), among others, also report delays in wage payments from Madhya Pradesh and Andhra Pradesh respectively.

Finally, there is reason to believe that *a fair number of NREGS workers are small and even medium landowners and other sections of the non-poor*, attracted by the high wages and relatively lighter work requirements in some States, e.g., Andhra Pradesh and Rajasthan. Sainath (2009) reports owners of 25 acres of rain fed land participating in NREGS in Andhra Pradesh. Similarly, in other States *both the number of job card holders and families provided with work outnumber total BPL households*. The participation of women in the NREGS is also often associated with (and supplements incomes of) husbands and other family members being employed at higher wages in non-agricultural labour occupations outside the village.

²³ Related to this is general failure to provide unemployment allowance if work is not provided within 15 days. However, instances of successful people's struggles for the payment of unemployment allowance are reported from Madhya Pradesh, Karnataka, Orissa, Jharkhand and Uttar Pradesh in Roy and Dey (2009a).

An important area of potential impact, though not a stated objective of NREGA, is in the gender domain. Women constitute the majority of NREGS workers and NREGS work is referred to as dignified ‘government work’ by many observers. *There are substantial pecuniary and other gains to women by realising their rights as workers.* By operating through neighbourhood groups as under the Kudumbashree programme in Kerala, NREGS has served to enhance social capital and empowerment of women. Nevertheless, *there continues to be social and practical constraints to women’s participation in several areas* – this includes a wide range of factors such as caste and class restrictions on women undertaking manual work, constraints to the participation of single women in work teams as also the absence of crèche facilities at work sites. Women’s participation in planning processes of the scheme has also been found to be limited.

According to the GBPSSI study, the statutory priority to be given to 33 per cent participation of women was found missing in States such as Chhattisgarh (25 per cent), Jharkhand (18 per cent), Bihar (13 per cent) and Uttar Pradesh (5 per cent).²⁴ The GBPSSI study further revealed that a majority of women collected their own NREGA wages and in turn retained them. Further, NREGA employment served as a primary wage earning opportunity for a large section of women, with few women workers claiming to have had an alternative source of income in the past three months (Table 8).

Table 8: Indicators of women’s empowerment

Proportion (%) of female sample workers who:	
Collect their own wages	79
Keep their own wages	68
Earned any cash income (other than NREGA wages) during the last 3 months	30

Source: Dreze & Khera (2009) based on GBPSSI study

(iii) Rural wage rates and effect on migration

Based upon an analysis of State data for 2006–07 and 2007–08, Dreze and Oldiges (2009) reported *substantial changes in wage rates in several States, and also at the all-India level. The changes have been mainly upward, with four exceptions, notably Maharashtra.* The largest upward jumps, in proportionate terms, have occurred in Uttar Pradesh (66 per cent)²⁵, Orissa (45 per cent), Haryana (28 per cent) and Rajasthan (16 per cent). Dreze and Khera (2009) report from the GBPSSI study data that wages were now much closer to the minimum wage, which itself has risen sharply. The average wage earned by NREGA workers in the sample was around Rs85 a day, compared with about Rs50 a day, on average, for local agricultural labour.

24 A disaggregated analysis of official data by NCAER-PIF (2009) reveals that in about 49% of districts the share of women in NREGS employment was less than the stipulated 33%.

25 The increase in wage rates, both in monetary and real terms, has been sustained during the following year.

Wage availability at relatively attractive daily rates under NREGS is also confirmed by other sources as also its effect on distress out-migration. A monitoring study conducted under the major Poorest Area Civil Society (PACS) Programme in 39 districts of six states of the then 200 districts covered under NREGS (PACS 2007) noted that *reduced migration was reported from more than half of the 600 villages* covered in Maharashtra, Madhya Pradesh, Uttar Pradesh, Bihar, Jharkhand and Chhattisgarh reported reduced migration. According to Mathur (2007) migration reduced in several villages in Andhra Pradesh, Chhattisgarh, Orissa and Rajasthan. Sainath (2008) observed from field visits in Andhra Pradesh that the bargaining power of the weakest had gone up a notch and *distress migration had been reduced*. Ghosh (2008) also stated that distress migration has reduced and there was a slight increase in lean season wage rates

Box 1

NREGS: Effect on migration

Mirzapur district, Uttar Pradesh – NREGS prevents distress migration

In Tand village of Siti Block of Mirzapur district in Vindhyachal region, people lived with severe drinking water problems and loss of crops due to the scarcity of water. Due to severe moisture stress hardly any biomass remained. In Devrikala village of Pateharakala block of Mirzapur district, people were found to be resorting to distress sale of livestock because of their inability to feed the animals. As people struggled for survival in such dire circumstances, NREGS proved to be a great boon. People sought employment under the programme from the Pradhans of the Gram Panchayats. Labour intensive works for renovation of traditional water bodies, water harvesting structures and excavation of tanks were taken up. People employed in these works confirmed that they were getting minimum wages of Rs100 per day. For the first time in spite of a situation of severe crisis in agriculture which used to trigger large migration of people to cities, distress migration away from rural areas did not occur. The availability of work under NREGS and proper and timely payment of Rs100 per day of work to every worker completely prevented distress migration in this area even when agriculture had failed in a large measure.

From MoRD (2008b)

Muzaffarpur district, Bihar – migration unaffected, they don't need NREGS

Despite the implementation of NREGS, why do people still migrate out of Bihar's Muzaffarpur district? A study of the district's five Panchayats shows that NREGS has not been able to replace the job demands of casual agricultural labourers.

NREGS guarantees 100 days of work; that, too, is irregular. On the other hand, most of the casual workers get around 300 to 325 days of regular work in urban areas. Under NREGS, a worker gets Rs115, Rs100 and Rs75 a day for skilled, semiskilled and unskilled works, respectively. In private construction work in urban areas, a skilled labourer gets Rs150 a day. So the migration continues and demand for work under NREGS has dipped.

Adapted from CSE (2008)

(especially for women) in areas where the programme has been successful. The GBPSSI study revealed that 57 per cent of the respondents were of the view that overall out-migration from villages in search of employment had decreased.²⁶ In turn, 57 per cent of the workers admitted that with the onset of NREGA, their previous migration had been avoided.²⁷

Box 1 provides an illustration from Mirzapur district UP of the phenomenon discussed above. However, given the diversity of India, many of these effects are highly context-specific. The example from Muzaffarpur district that follows provides a counter to the more widespread phenomenon of reduced migration since the introduction of NREGS.²⁸

(iv) NREGS: conflict with agricultural operations

A programme like NREGS comes into conflict with the interests of farmers, particularly when the minimum wages are higher than the prevailing agricultural wage rates. While complaints of the NREGS weaning away agricultural labour have come from several States ranging from Punjab to Kerala, in Andhra Pradesh this has developed into a contested issue which has had an effect on the delivery of the scheme. In order to protect agricultural operations already affected by drought, NREGS activities practically ceased for the first eight months of 2008–09 with the State cabinet ordering the stoppage of all works (CEC, 2009) as farmers' associations complained about its indiscriminate implementation (Sukumar, 2008). Though a village level employment calendar was prepared by the government, this restriction on NREGS employment did not go down well with workers and activists. Attempts were made through a dialogue process, between farmers and workers, to avoid such conflicts. It was decided to plan the shelf of works such that large projects with high employment potential are taken up when agricultural operations have ceased while smaller projects are carried out the whole year round (CEC, 2009). This does, however, limit the availability and timing of employment opportunities under the scheme. Box 2 illustrates cases of such conflict as played out at the ground level.

To deal with the labour shortage resulting from the implementation of the NREGS, the Andhra Pradesh government earmarked a budget of Rs2.5 billion towards farm mechanisation and plans to encourage farmer and self-help

26 Reports are also being received of changes in cropping practices within these states. For example, experts facilitated direct seeding of paddy in the Punjab over 14,000 hectares, in view of the scarcity of migrant labour for transplantation during 2008, and the government has encouraged the use of transplantation machines (Kahol, 2009).

27 However, Kahol (2009) suggests that this year on account of the delayed monsoon and drought conditions in Bihar, workers are migrating again to Punjab but at higher wages.

28 This phenomenon is also reported from Birbhum district, West Bengal. A reason for this also is that migration is not restricted only to unskilled agricultural workers but also is undertaken by semi-skilled labour such as masons and bricklayers.

Box 2

Conflict between NREGS and agriculture

In Haridaspur village, Medak district, Andhra Pradesh work on NREGA tasks provided workers Rs.80 to 90 per day whereas wages from agricultural operations were Rs50 to 60 or even less. As a result, workers sought higher wages for agricultural work. The panchayat passed a resolution to stop NREGS work for three months till 1 March 2008. Supported by activists, the workers went to the mandal authorities but were advised to avoid antagonising farmers. In March 2008, big farmers again opposed the NREGS work since sugarcane cutting was to commence. Even when NREGS works were finally started after many subsequent protests, it was in a hamlet and not in the main village.

Similarly in Gunthapally and Golapally villages NREGS works were stopped or not initiated by Field Assistants and many protests and applications were required to get the work started. It was observed that in many villages even though there was not much agricultural activity, officials used it as an excuse to deny NREGS work.

Adapted from CEC (2009)

groups to buy machines like transplanters and harvesters to combat the labour shortage (Sukumar 2009).

1. 6. NREGS and rural livelihoods: employment generation or creation of productive assets

Apart from the primary objective of the NREGA of enhancing livelihood security of rural households by guaranteeing wage employment, an auxiliary objective is the strengthening of natural resource management through works that address drought, deforestation and soil erosion.²⁹ *Very little information is available about the quality of assets created under the NREGS.* However, many field researchers express doubts about the sustainability of the assets created under the NREGS.³⁰

A study by the Centre for Science and Environment (CSE 2008) found that NREGS was focussing on job creation rather than local development through creation of productive assets. The study found that most of the NREGA money had gone to road construction projects, instead of works related to water conservation and harvesting that are the priority (see Appendix 1). The nexus of local government

²⁹ Shah (2009) notes that the scheme is not merely about transferring cash to people in distress but to create durable assets that will ultimately lead to a reduced dependence on NREGA. While some development experts favour asset creation on all lands, much as in a watershed programme, others, like Shah, favour a focus on the farms of the poor.

³⁰ Dreze and Khera (2009), for example, found that the general quality of assets created under the NREGA left much to be desired. They argue that the productive value of NREGA works could be enhanced further with moderate doses of scientific or technical inputs. NCAER-PIF (2009) reports instances of poor quality of assets created and unfruitful expenditure from Haryana, Karnataka, Orissa and West Bengal.

officials and contractors was also a reason behind road construction works getting priority. The CSE analysis also found that many works had been left incomplete and abandoned and there was lack of maintenance of completed works. The study report argues that instead of a short-term distress programme, the NREGS should be for long-term relief against drought and build ecological assets to regenerate the local environment.

Nevertheless, successes have been registered in the construction and renovation of water sources and land development in different areas. The case from Kawardha district (box 3) illustrates the longer term benefits available to farmers through such works. However, inequitable benefits accrue to those, e.g., the landless workers, who only end up getting one-time wages from such activity rather than the benefits from assets which permit increases in crop productivity.³¹

NREGA provisions were amended to allow for building activity on private lands of BPL and Indira Awas Yojana (IAY) beneficiaries along with the SC and ST families. The economic and social impact of this in a drought prone area is provided by the case from Anantapur district (box 3). At the same time, the pitfalls of the scheme being implemented through a corrupt regime are provided by the case of a farmer seeking to have a well dug on his land in Deogarh district, Jharkhand (box 3).

Since the landholdings of these categories are small and fragmented, it is unclear how far benefits of such assets will trickle down to them. A recent decision to extend this facility to lands of small and marginal farmers has been questioned.³² It is argued that this decision is bound to shift the focus from the Dalits and the poorest farmers who will be pushed out, while the landless will be left developing assets for others (Roy and Dey, 2009b).

How even a well-intentioned scheme like the NREGS can have adverse effects for some workers is provided by the case of Hardoi district (box 3), where the land of marginal farmers was taken away for road construction with negative consequences for the affected families.

Box 3

NREGA - wide-ranging impact of works on individual and community lands

1. Kawardha district, Chhattisgarh - Repair and lining of canals

District Kawardha comes under a rain shadow area and the farmers in the area are dependent on irrigation canals. The constructed are either broken or damaged canals due to lack of maintenance.

There are leakages and canals become more or less redundant. Thus, there has been a great demand from villagers as well as farmers for repairs and extension of these canals.

NREGA came as a boon for the villagers who not only got wage employment but also worked towards increasing the irrigated area. Rs2 million were sanctioned for the repair and maintenance of these canals. Till now, repair and lining has been done of 9.55km of the canals and an additional land of 305 acres of kharif paddy has come under irrigation. Not only this, there has been increase in the ground water level and crop production. Future plans for the project include extension and rebuilding of these canals, tree plantation and a service road for the villagers and farmers along the canal.

Adapted from MoRD (2008b)

2. Anantapur district, Andhra Pradesh – Upper castes develop lands of Dalits

Balijas, Reddys and other upper or dominant castes working on improving the lands of Dalits. It's happening here in Kondama Naiyuni Pallayam village of Anantapur district. Call it necessity. Call it NREGS. The heavy late rains may have brought relief to Rayalaseema region in terms of fodder and drinking water. But they also devastate the short duration crops that people have sown. So this village and its neighbours are heavily NEG dependent.

"We will work together, all of us, and not on a caste basis," say E Ravi and K Maheshwar, both Balijas. NREGS work priorities are clear here. The land development programme under it must first exhaust dalit and adivasi households before serving the others.

From Sainath (2009)

3. Deogarh district, Jharkhand – All is not well with the wells

Taufique Zarra of Mahua Tand in Jharkhand's Deogarh district who hails from a BPL family paid a bribe of Rs2,500 for a well to be allotted to him as one of the panchayat's NREGA projects and he became both the beneficiary and abhikarta (manager) of the project. As an abhikarta, Taufique signed an agreement with the government and was in charge of executing the work. He was to fill the muster rolls, purchase materials, pay workers and oversee the worksite. Funds for the work were often delayed and depended on his ability to pay the 'PC' (percentage, a term for illegal commissions) to government functionaries. The PC had to be given in cash before the bill for his payment was passed, he alleged. Taufique had to take a loan of Rs20,000, sold a buffalo and mortgaged his land to arrange for the PC and the construction costs and was pushed into a web of indebtedness.

Luckily, Taufique was not driven to suicide like a helpless and distraught Tapas Soren who set himself ablaze at the Collector's office in Hazaribagh on being unable to cope with the frequent demands for bribes when he tried to construct a well on his own land.

Adapted from Swami (2009)

4. Hardoi district, UP – Land alienation on account of roads built under NREGA

Gokul Punia, a marginal farmer with less than one hectare of cultivable land in Padri village, Hardoi district is cursing the NREGA programme. Driven by the nexus of local state government officials and contractors, Hardoi's district authorities decided to construct only roads under NREGA – in violation of the Act's 'non-negotiable' focus on water conservation. The result: marginal farmers like Gokul had to give up parts of their farmlands to make space for roads.

The 900-metre-long road built in Padri has become a 'road to despair' for the village's marginal farmers. "We heard so much about the scheme – instead of bringing benefits, it has taken away our land," rues Gokul. Though he got 25 days of daily wage jobs, his loss of land has made him poorer.

Adapted from CSE (2008)

1. 7. NREGS and livelihoods: selected implementation issues

Opinion is divided on the efficacy of the NREGS. On the one hand, there is optimism expressed by some of the leading architects of the NREGA on its achievements in creating a legal space for the poor and ensuring transparency and accountability to the poorest.³³ On the other, a member of the Central Planning Commission has been constrained to note that the 'first three years of the programme have also shown that it suffers from many ills – leakages and delays in wage payments, non-payment of statutory minimum wages, work only for an average of 50 days per annum as against the promised 100 days, fudged muster rolls, few durable assets and even fewer sustainable livelihoods.'³⁴ Nevertheless, plans are under way for increasing the scope and coverage of the programme. A few major issues and challenges before the NREGA in relation to promoting livelihoods of the poor can be identified as under.³⁵

(i) Schedule of rates

An important issue is that *there are lacunae in the schedule of rates (SORs), which in turn are another source of corrupt practices* because of which workers are unable to earn minimum wages. An example is the earthwork excavation rates which do not take into account type of geological strata. Similarly, gender and climatic differentials are not taken in account in most States.³⁶ It has also been argued that calorific value of the returns per day for performing hard manual labour on these schemes is often much lower than the energy expended in earning these returns³⁷ "Thus in effect, the new physical assets are being financed in part by the 'bodily deficits' imposed on the most vulnerable sections of society"³⁸. "This is a serious issue that merits further investigation. However, over the years there have been revisions in the applicable SORs for NREGS whereby the outturn rates

33 Roy and Dey (2009a).

34 Shah (2009).

35 These are partly drawn from Mehrotra (2008).

36 Except in the states of Rajasthan, Bihar and West Bengal.

37 Indeed, P. Sainath at a lecture in February 2008 stated that villagers in parts of India were starving themselves in "rotation", to be able to send some family members to do the hard work required under the NREGS.

38 Ashwani Saith, as reported in Pankaj et al (2009).

have been considerably reduced in several States – some of them based upon time and motion studies. These combined with substantial upward revisions in minimum wage rates have made for higher earnings per unit of effort.³⁹ There is, nevertheless, a great variation across States in the SORs and a need to review and revise the schedule of rates in the remaining States such that due minimum wages are realised by the workers.

(ii) Corruption and transparency

Irregularities, leakage of funds and corrupt practices have been an integral part of works programmes in the past, exemplified by a statement of a former Prime Minister that only 15 per cent of such funds reach the intended beneficiaries.⁴⁰

A performance audit of the implementation of the NREGA by the office of the CAG in 128 blocks and 513 Gram Panchayats of 68 Phase I districts (CAG, 2007) found that *virtually every level of formal requirement was widely violated in a significant number of States, districts and gram panchayats*. However, the findings of the audit were widely disputed.⁴¹ It was suggested that instances of corruption of the type brought out by the report would be better investigated through muster roll checks, social audits and *jan sunwais*. Dreze and Khera (2009) in their study found that the chief method of embezzlement is fudging of muster rolls, by which the wages of the fictitious workers were siphoned off by corrupt officials and middlepersons. Fudging of muster rolls was observed to varying extents in most of the sample districts (with the notable exception of Rajasthan).

Various other surveys and studies have, for particular districts, thrown up figures ranging from 5 percent to 85 per cent as the proportion of worker's wages that are siphoned off by intermediaries (Rao, 2007). A major study (PACS 2007) also unearthed a system of fixed rate of commissions charged by block level officials for technical sanctions of works planned by the Panchayats in Madhya Pradesh.⁴² The Transparency International India-Centre for Media Studies (TII-CMS) 'Corruption Study 2007' on corruption faced by below poverty line (BPL) households found that *7 per cent of households had to pay bribes to avail of the*

39 This is particularly true of Rajasthan, for example, where substantial revisions have taken place in the SORs and the minimum wage rates. Further, the "Mate" system is claimed to have been responsible for streamlining work measurement, increased transparency and improved earnings of workers. Interestingly, in what is understood to be wider phenomenon, a mixed group of men and women workers at a work site visited by the author in Jaipur district in August finished their required outturn for the day within 4 hours and were keen to be allowed to return home by 1 p.m.

40 Himanshu (2008b) while estimating that those who worked on wage employment programmes received as much as 42 per cent of the total spending on wage component of employment generation programmes in 2006–07 described it as definitely better than the previous guesstimates of only 15 per cent of public money reaching the poor. (emphasis added)

41 See, for example, Dreze (2007) and Siddhartha and Vanaik (2008).

42 The PC or percentage system in which bribes have to be paid according to fixed percentages to the hierarchy of staff up to the block level, sometimes higher, was also found to be in operation in Jharkhand, Orissa and Uttar Pradesh as reported in the NCAER-PIF (2009). A study in three districts of Orissa by GBPSSI concluded that leakages amount to 30–40 per cent because of the PC system.

NREGS. These bribes were paid for getting selected as a beneficiary, issuance of job card and to avail of wage payments.

One of the safeguards for ensuring transparency and public accountability and restricting corrupt practices is the mandatory social audit for each Gram Panchayat (GP) every six months.⁴³ So far *social audits have been undertaken in 219,000 GPs, out of 250,000 GPs* (MoRD, 2009). The audits involve 100 per cent verification of muster rolls of sample workers. Andhra Pradesh (AP), along with Rajasthan, are two State which have successfully implemented social audits having done so by creating and training a specialised cell for this purpose. *These audits, among others, have pressurised officials to return funds misappropriated by them.* In Mahbubnagar district in AP, out of Rs20 million of irregularities, Rs5.3 million have been recovered.⁴⁴ However, the experience of other States such as Jharkhand and Orissa have not been so positive. There is a clear need to promote transparency and efficacy through improvements in the technical and administrative infrastructure.

(iii) Financial inclusion and social security

It is argued that the success of the NREGS should not be measured solely by using the parameter of employment generation but include others such as financial inclusion. As a check against diversion of worker's wages, these are being deposited in savings accounts that are being opened in banks and post offices. *Over 68.5 million bank and post office accounts were opened in rural areas for wage payments under NREGS during 2008–2009* (MoRD, 2009). Necessary investments will need to be made for this measure to work smoothly.⁴⁵

In addition, *NREGS workers have been identified as a category for Jan Shree Bima Yojana insurance cover, and social security provisioning of informal sector workers that have been enabled by it.* Workers having done a minimum of 15 days of work would be eligible for cover under the NREGS Rs30,000 for natural death and Rs75,000 for accident under the Janashree Bima Yojana in the rural poor category. The Centre would pay Rs100, half the annual premium, with the rest to be paid by the State or the labourer. *The Rashtriya Swasthya Bima Yojana, originally intended for BPL and Indira Awas Yojana (IAY) beneficiaries has also been extended to NREGS workers.*

43 *The social audit can be seen to be conceptually flawed as it requires the panchayat to audit itself* (NCAER-PIF, 2009).

44 *NCAER-PIF (2009). Irregularities in the scheme and recoveries from officials are similarly reported for Anantapur district, Andhra Pradesh in Gopal (2009).*

45 *During a follow-up social audit in Deogarh district (Jharkhand), Dreze and Khera (2009) found that middlemen operated bank accounts in the names of NREGA workers and used them to siphon off funds, apparently in collusion with bank managers. Kar (2009) documents two distinct patterns of irregularities involving bank payments unearthed during this audit, showing how bank payments have only added a new claimant of kickbacks from the NREGA funds.*

(iv) Other implementation issues

(i) Professionalism in NREGS: It is widely accepted that the *NREGS is being run with very little professional input*. With 50% of the works to be carried out by GPs, there is great pressure on the *sarpanch*, programme secretary and the Gram Rozgar Sahayak who are working with very low remuneration. There is a *vital need for technical hand-holding of the administrative and panchayati raj institution staff* by professional persons across the country. Programme and accounts staff are required at the GP level for both the NREGS and other schemes run by it and a programme officer at the block level. More technical persons would also be required at district level. Only 4% of programme costs had been allocated to administrative costs and professional support. This has, however, recently been raised to 6%.

(ii) Grievance Redressal Mechanism: The question of how grievances of the workers related to non-receipt of job cards, non-payment of wages, etc., are to be addressed has not been seriously taken up.⁴⁶ The State Governments need to make rules and regulations to deal with any complaint at block and the District level and appoint necessary personnel at these and higher levels. A recent step in this regard is the Ministry of Rural Development Order dated 7 September 2009 directing *State governments to establish an ombudsman to redress grievances* with regard to the implementation of NREGA and the scheme.

(iii) Management Information System (MIS): There is an *urgent need to improve MIS and performance indicators under NREGA*. There are serious gaps in the capacities of the block and district level functionaries filing up formats or uploading online data on the performance of NREGA. Therefore, the available State-wise picture of performance is also not adequately representative of the ground realities. There is a need for a rigorous scrutiny of the data being sent up from the Panchayat level going right up to the district and the State level. However, it is important to consider whether transparency or better management is the objective.

1. 8. Concluding observations

As noted in the section on The Rationale of the NREGA and Expectations of the NREGS, expectations of different stakeholders from the NREGA are wide-ranging and there are different views regarding the basic thrust of the NREGA. Different characterisations of the NREGA (admittedly overlapping) could assert that it is any of the following:⁴⁷

⁴⁶ Dreze (2009) states that the absence of a grievance redressal system defeats the purpose of NREGA, which is to give people enforceable rights.

⁴⁷ From Pankaj et al (2009).

- supplementary employment generation programme
- programme for the construction of rural assets
- concerned with income transfers for the poor with manual work as a screening mechanism
- social safety net for the poor;
- poverty alleviation programme.

On account of this disagreement and debate it would be *difficult to agree on criteria for the evaluation of outcomes of NREGS implementation*. Indeed it could be argued that *within a rights framework process, evaluations become more meaningful than outcome evaluations* as the emphasis is to realise rights that exist on paper but are not available in practice.

If NREGA is seen as basically a labour-intensive public works programme, only the coverage of target group beneficiaries in the implementation phase of the scheme may be monitored. Thus, it is possible to overlook the stream of direct benefits generated by the scheme assets in subsequent years for the target and non-target groups (Saith 2005). The benefits of water conservation and harvesting, for example, would be a windfall benefiting landed farmers more than the landless workers. This is also the case with rural connectivity projects. Asset creation through such public works is described by Saith as a model in which 'the poor subsidise the rich'. To address this, an institutional innovation is called for by which workers are given rights to the assets created by them. They can then claim a proper share of the value added by these assets⁴⁸ through charges to be levied and recovered from the landowner or other groups benefiting from the assets.

Given the limited benefits for the poor in the above model, such *public works programmes can only effectively address temporary poverty rather than chronic poverty, with little long-term social protection impacts*. Besides, it needs to be highlighted that *the NREGS with its screening mechanism of manual labour, is 'exclusionary' by effectively leaving out individuals who are weaker and older apart from the disabled and pregnant women*. Since it is not universal in its scope it has to be supplemented by other measures.

Further, the weaker the side of asset generation, the greater is the justification for basic income grants. In view of the leakages and inequity in benefits, *cash transfers have been touted as an alternative to wage employment schemes like NREGS*. There is an ongoing debate on the effectiveness of direct cash transfers to the poor and vulnerable through cost-effective delivery modes such as smart cards and banks and post office accounts. The government is also understood to be contemplating a set of conditional cash transfer schemes aimed at supplementing

⁴⁸ Saith, as quoted in Pankaj et al (2009).

the cash flow of such families. These will cover health, skill development and offer cash coupons for the purchase of foodgrains (Nayar, 2009).⁴⁹

There has been a countrywide demand to increase the number of days of employment available to a household under NREGA. In fact, some of the forerunners of the scheme offered up to 200 days of employment. One of the suggestions to make NREGA work better (PIF, 2009) is to *keep NREGA wages 15–20 per cent below the minimum wage to ensure that benefits of NREGA are targeted at the poor and most needy*, while simultaneously increasing number of guaranteed days of employment from 100 to 120 in a year. While this may have been a possible screening device, it hardly seems feasible now to turn the clock back on the established minimum wage provisions. The PIF note also proposes that success in implementation of NREGS in a block/district should be measured by an index comprising the following determinants:

- percentage coverage of total employment seekers plus the percentage coverage of BPL families;
- productivity co-efficient of assets generated;
- extent of transparency, accountability and integrity in implementation (as assessed through social audits by Gram Sabha and others);
- efficiency of timely payment of wages;
- quality of maintenance of records. It is likely, however, that this will only serve to further strain the MIS, already stretched by the requirements of transparency and accountability.

*The major learning from three years of operation is that outcomes and impact of the NREGS on livelihoods are greatly influenced by local and regional conditions and the relative strengths of various contending stakeholders. The Central and State Governments have taken measures to increase minimum wages and revise SORs in the interests of NREGS workers and improve their work conditions. Nevertheless, the ability of NREGS workers to realise their rights remains a challenge. In areas where NGOs and community activists have been able to create a people's movement, capture of the programme by rural elites and officials has been minimised. In other areas, the contractor-official nexus continues to hold sway, though their influence has been weakening over time.⁵⁰ However, Banerjee (2009) foresees a *plausible emerging scenario when there could be problems of 'popular capture' rather than 'elite capture' of benefits*. In such a situation, the village leadership, along with the villagers and local functionaries, could extract all they possibly can from the government, e.g., by over-reporting of work done and sharing the benefits.⁵¹ The upward effect of this phenomenon*

49 A fuller discussion of the merits and demerits of cash transfers is outside the scope of this chapter.

50 See, for example, Dreze and Khera (2009) and findings from Orissa reported in Banerjee (2009).

51 Innovations such as the Mate system introduced in Rajasthan could, in fact, help contribute to this practice.

on wage rates in the rest of the economy could result in negative productivity effects and would also inflate the wage bill of the NREGS. There is thus a need for the enforcement of the work requirement under the scheme.

Despite the many issues and problems related to the NREGS, the Central Government is in the process of expanding its scope by taking on various new initiatives, as well as administrative measures to stem leakages in the course of its implementation. These include a series of measures aimed at convergence of different schemes and with various ministries and departments. It remains to be seen whether the thrust of NREGA-2 will have a greater impact on rural livelihoods, particularly of the poor, than has been achieved thus far.

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Appendix 1

Salient features of NREGA:⁵²

(i) Guaranteed rural employment and minimum entitlements

Upholding the Rights perspective the Act clearly defines the conditions for guaranteed rural employment and the minimum entitlements of labourers or workers as below:

- The adult members of every household who (i) reside in any rural areas; and (ii) are willing to do unskilled manual work may submit their names, age and the address of the household to the Gram Panchayat at the village in the jurisdiction of which they reside for registration of their household for issuance of a job card.
- It shall be the duty of the Gram Panchayat to register the household, and issue a job card
- Every adult member of a registered household whose name appears in the job card shall be entitled to apply for unskilled manual work under the Scheme.
- All registered persons belonging to a household shall be entitled to as many days of work as each applicant may request, subject to a maximum of one hundred days per household in a given financial year.
- The Programme Officer shall ensure that every applicant shall be provided unskilled manual work within fifteen days of receipt of an application
- At least one-third of the beneficiaries shall be women
- Applications for work must be for at least fourteen days of continuous work.
- As far as possible, employment shall be provided within a radius of five kilometres of the village where the applicant lives. In cases the employment is provided outside such radius, it must be provided within the Block, and the labourers shall be paid ten per cent of the wage as extra allowances to meet additional transportation and living expenses.
- A period of employment shall ordinarily be at least fourteen days continuously with not more than six days in a week.
- Wages are to be paid according to minimum wages as prescribed under the Minimum Wages Act 1948 for agricultural labourers in the State, unless the Centre notifies a minimum wage rate which in any case shall not be less than Rs 60 per day
- The District Programme Coordinator shall, in his Annual Report to the State Council, explain as to why employment could not be provided in cases where payment of unemployment allowance is involved.
- A list of persons who are provided with the work shall be displayed on the notice board of the Gram Panchayat and at the office of the Programme Officer and at such

⁵² From MoRD documents

other places as the Programme Officer may deem necessary and the list shall be open for inspection by the State Government and any person interested.

(ii) Types of public works

The focus of the programme is on the following works in their order of priority:

- water conservation and water harvesting;
- drought proofing (including afforestation and tree plantation);
- irrigation canals including micro and minor irrigation works;
- provision of irrigation facility to land owned by households belonging to the Scheduled Castes and Scheduled Tribes or to land of beneficiaries of land reforms or that of the beneficiaries under the Indira Awas Yojana of the Government of India;⁵³
- renovation of traditional water bodies including desilting of tanks;
- land development;
- flood control and protection works including drainage in water logged areas;
- rural connectivity to provide all-weather access; and
- any other work which may be notified by Central Government in consultation with the State Government.

(iii) Transparency guidelines

Taking into consideration the local realities the Ministry has built in many safeguards into the Act in order to stem pilferage of programme funds. There are a variety of transparency guidelines issued for the various processes including wage payments:

- Official receipts with date are to be given to all the applicants – whether for employment or for unemployment allowance
- Wage payments are to be made into the bank or post office accounts of the workers
- The list of works, the list of workers who have applied and also those who have got work are to be displayed prominently and these lists can be challenged
- The Gram Sabha, that is the collection of all the households in the village, has the duty to recommend the kind of works to be undertaken in a village
- The Gram Sabha will from time to time carry out a social audit of the works that are undertaken
- While formulating the scheme guidelines under the Act, States are supposed to adhere to the transparency norms as prescribed in the Act
- Funds for the work wages are allotted by the Central Government whereas the funds for the unemployment allowance are to be allotted by the State Government. This ensures that the State government does not hold back in providing jobs.
- States are also advised to involve civil society organisations in awareness generation and training

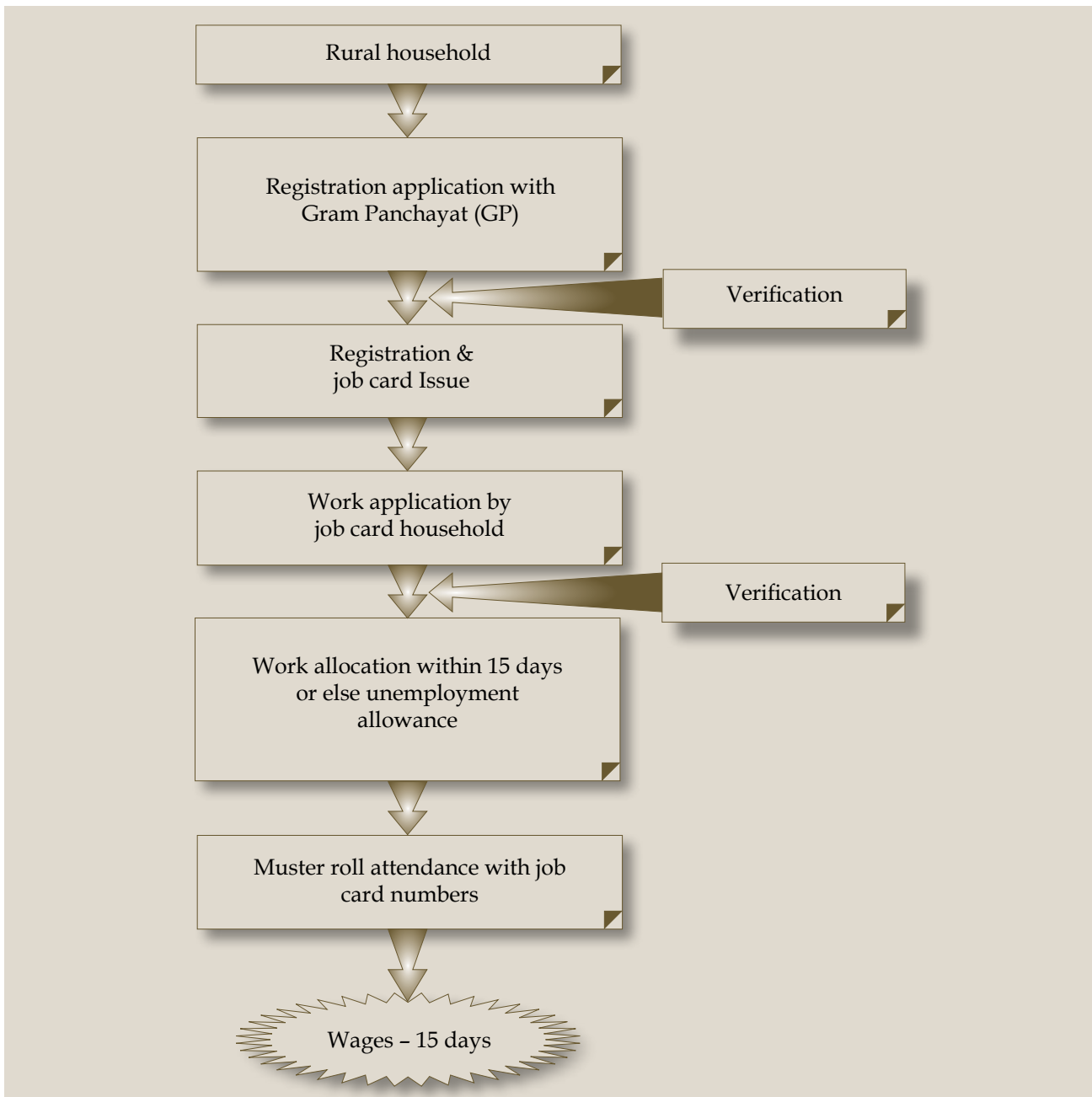
⁵³ Amended to include small and marginal farmers as well

Appendix 2

NREGS: Key processes

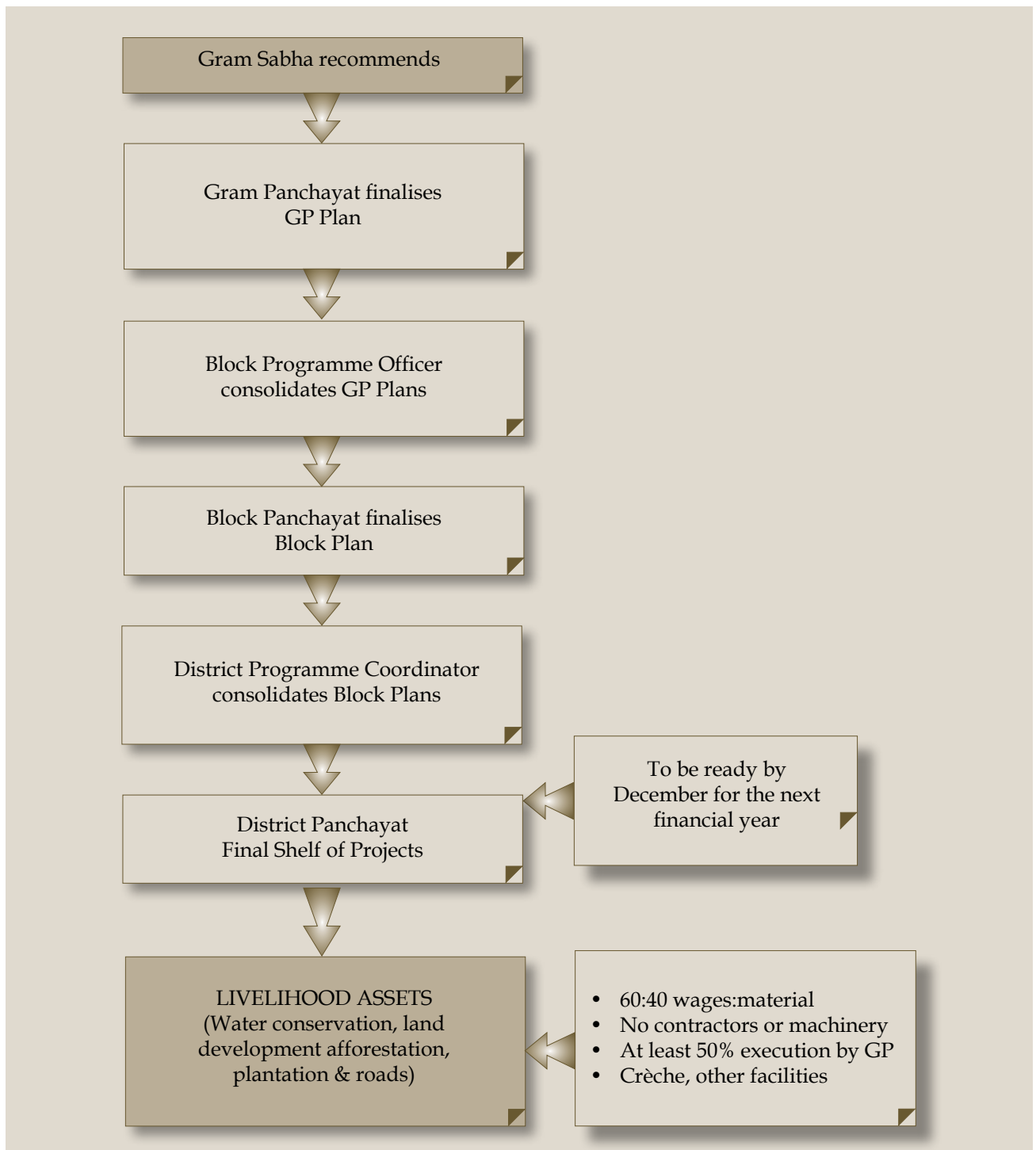
(i) Demand-based Employment Generation

The main steps involved in applying for job and getting the same under the NREGS by a rural household are shown in the schematic diagram below:



(ii) Planning of Works

The main steps involved in planning of the works under the NREGS are as below:



Chapter 5

Skilling a Young India

Meera Shenoy

Dhannamal, 21, grazed sheep in her village in Patagunta mandal of Tirupati. She only went to college to write her final examinations. Her parents, agricultural labourers, felt learning was a waste of time for girls. Battling stiff opposition in the house, when she heard about the EGMM English, Work Readiness and Computer Academy through a member of the self help group, she enrolled in the residential trainings. Today she works in an air conditioned building in Tirupati, doing back office work for ADFC, HDFC Banks rural BPO arm. She sends home annually Rs30,000 which has helped the family invest in a concrete house. The first woman graduate from her village and the first girl to go out of her village to work, she has already inspired two other girls to enroll in the EGMM Academy which gave her trainings and a job.

1. Investing in youth now

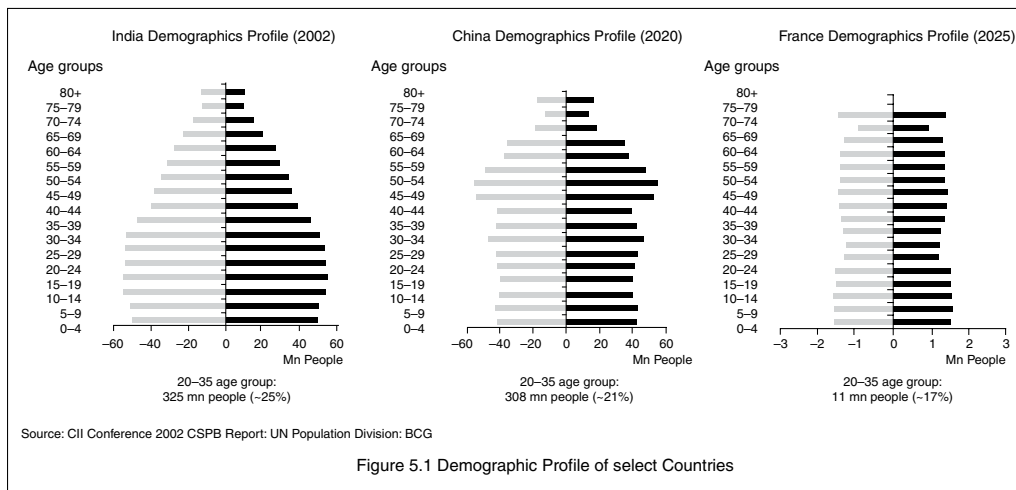
Investing in the younger generation is the only way to make India developed and her villages self-sufficient.

– Abdul Kalam, former President of India

Like Dhannamal there are many, who are transiting from childhood to youth, grappling with a country full of divides: rich-poor; rural-urban; male-female; literate-illiterate. And yet, India with one of the fastest growing economy has unprecedented opportunities. A job to one young member of the family sows the seeds of a new generation of promise and hope. It takes the entire family out of poverty in a sustained manner, ushering in an inclusive society and helping achieve Millennium Development Goals (MDGs). Not surprising, skilling of youth has come centrestage, with policy makers, corporate czars, industry associations, and poverty projects, holding seminars and earmarking large funds to equip youth with market-linked skills.

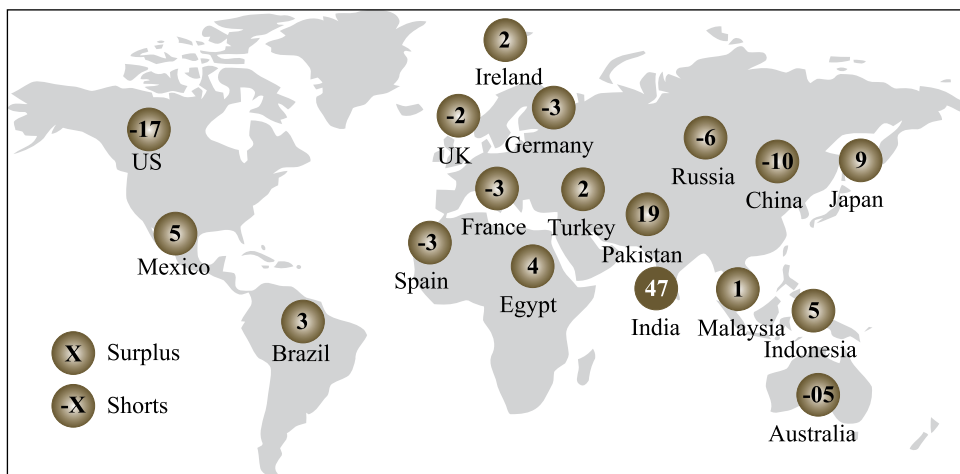
There are several reasons why India needs to invest in youth immediately. By 2010 the total unemployed will be 63 million which is higher than the entire population of UK, France or Italy. As ILO points out, a generation without hope of stable employment is a burden to society. Unemployment and underemployed youth have less to spend, save or invest, which hampers economic growth vitality. And lessons from India are important beyond borders to all developing countries; for, if one in five people in the world are between the ages of 15 and 24 years, 85 per cent of them are in the developing countries.

Demographics show that by 2020, India will be the youngest population in the world. Our median age will be around 24, compared to 30 for China, 38 for Europe and 41 for Japan. India in 2025 will have a dependency ratio of 12:1, i.e., for every 100 working age adults there will be slightly more than 12 persons who are above the age of 65. For China the ratio will be 19:4, for Japan 49, for Europe 33:2. This window of falling dependency rates opens up opportunities of having a large youthful work force.



The ‘youth bulge’ in developing countries and an aging population (figure 2) in developed countries will increase the demand for migration. Getting it right today by investing in knowledge and skills can result in not ‘distress’ but skilled

Potential labour surplus/shortage in working age group across the world (2020)



Note: Working population is defined at the 15-59 years age group. Ratio of working population to total population is assumed to be constant labour numbers are based on assumption of no interventions by respective governments.

Source: US Census Bureau, BCG, 2002-2003

migration and have huge payoffs for the future. Whether this demographic surge and potential will be a demographic disaster or converted to a demographic dividend lies in our hands.

1. 1. Problems and challenges

There are several challenges and paradoxes which need to be addressed in order to harness the potential offered by the demographic surge.

Why do even graduates or engineers, especially from rural areas remain unemployed or underemployed when companies complain of manpower shortage? Why has secondary school dropouts increased dramatically? What needs to be done to ensure public investment in vocational infrastructure like ITI (Industrial Technology Institutes) for a job ticket for the youth? These answers are important as the problem is Herculean.

ILO points out only one out of every five youth enter the working world with formal vocational training. This is directly linked to the abysmally low investments made in this sector. The Montek Singh Ahluwalia Task Force constituted by the Planning Commission in 2001 stated, "Only 5 per cent of the Indian labour force in this age category has vocational skills whereas the percentage in industrial countries varies between 60 to 80 per cent, except for Italy which is 44 per cent. The percentage for Korea which has recently been categorised as an industrialised country is exceptionally high at 96 per cent. The developing countries listed have percentages which are significantly lower than developed countries, but they are still higher than India, e.g., Mexico at 28 per cent and Peru at 17 per cent." The proportion of youth vocationally trained in India is amongst the lowest in the world!

There is an educational crisis in India due to poor quality of education. The Pratham report of 2006 shows that 44 per cent of children in Class 5 cannot read Class 2 text and 42 per cent in Class 7 cannot count. The situation is worse in higher education where barely 9-10 per cent of graduates are employable. 90 per cent of India's 8064 colleges and 68 per cent of 378 universities are of very poor quality. Not surprisingly, dropouts from the tenth and twelfth grade are high as 90 per cent, which means lower literacy rates and fewer jobs in the organised sector.

In the rural and remote areas, even the few who invest their limited resources in a degree, higher education does not guarantee a job as there is a disconnect between the needs of the job market and the curriculum. This vast pool of unemployed young girls and boys are rebellious, frustrated and angry, especially since the spread of television spurs their ambitions. This leads to widespread drug abuse and crime. These youth are also easy targets of anti social movements like Naxalism or Maoist terrorists, drugs and alcoholism.

Table 1: Per thousand distribution of 'dropouts' among ever enrolled but currently not attending (Age 5–24 years) by level at which dropped out in India (July 1995–June 1996)

Level of Education	Rural			Urban			Rural+Urban		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Primary	304	369	332	224	219	222	283	331	304
Middle	274	264	269	238	246	242	265	259	262
Secondary	287	245	269	340	338	339	300	269	287
Higher Secondary	78	61	71	111	105	109	86	72	80
Higher Education	27	14	22	65	70	67	37	28	33
Total*	1000	1000	1000	1000	1000	1000	1000	1000	1000

India is faced with a paradoxical situation where on one hand youth complain of 'non-availability of jobs' while on the other hand, industry laments skill shortage. The India's Demographic Dividend report by CII and Boston Consulting Globe point out that there will be a shortfall of 750,000 workers in the next five years. The FICCI 2007 report highlighted workforce shortages in sectors from IT, Banking and Finance to food processing. This scenario is making the industry sit up. Governments too are being forced to realign their workforce policies due to the fact that agriculture which contributes to 18 per cent of GDP and 56 per cent of the workforce is in crisis. This means planning for alternative skills: from farm to non-farm; unorganised to organised sector. But shadows and legacies of the past have to be shaken off to move forward.

2. Legacy of the past

Skill is associated with low level jobs in India. The challenge is to change the perception, to bring social acceptability and recognition to the word. To reiterate that skill is a bankable certifiable asset. That Skill is currency.

- Vijay Thadani, Chairman, CII, National Committee on Education

Skill acquisition in India takes place through a formal stream and a larger informal one. The formal structure includes vocational education in schools at post-secondary stage; higher technical education imparted through professional colleges; technical training in specialised institutions and apprenticeship training. The informal channels are family occupation, on the job trainings under master craftsmen or in trades like masonry, carpentry, etc.

Table 2: Existing capacity: Totally inadequate

No. of institutions	Course details	Qualification	No. of students
9583 schools	150 educational courses	+2 level	1million
1244 Polytechnic	3 year diploma	10th pass	0.3 million
415 Institutions	Diploma	+2	
5114 ITIs (1896 govt.; 3218 private)	1-2 yr diploma	8-10 pass	0.74 million
2500 Rudsetti	Self employment/ skill building		

The inadequacy in training infrastructure is starkly evident in India-China comparison. China has 500,000 Vocational and Educational Training Institutes (VET). Besides this, there are various Government of India and State government schemes for skilling which all add up to training barely 3.1 million persons annually. As the 11th Planning Commission points out, even today these programmes barely cover 20 per cent of the annual additions to the workforce.

Compounding the inadequacy of infrastructure is the failure of the trainings to deliver. The main reason for failure is the lack of coordination between various government departments. Government, whether State or Central, lead the skilling efforts. At the Centre itself, 17 ministries and departments cater to skill development. This results in a plethora of initiatives that all run independently with little coordination. Monitoring of the schemes was done mechanically with little transparency and professionalism. Industry that has to finally absorb the trainees is not involved in curricula development, leading to demand-supply mismatch in numbers, quality and types of skills. The duration of the training courses are long, between 2-3 years. In contrast, countries like China have 4000 short duration modular courses that provide market relevant skills. Faculty in institutions like ITI use outdated training methodologies and tools. Testing certification systems are weak with no efforts made to link trainings to placement outcomes. The situation was no different in private and far worse in training institutions which were located in remote interior areas.

There is no system for certification for the large unorganised labour pool which acquired their skills through informal channels, like family trade. This results in the uneducated poor being employed in exploitative conditions and having limited options for improving their work status. The other stream of acquiring skills through apprenticeship in industry is underutilized. While 20,800 public/private sector establishments were covered under the Apprentices Act of 1961, only 0.17 million seats were utilised out of the allocated 0.23 million seats. Industry sources point out that India should learn from the German experience,

where apprenticeship is part of the dual education system and an integral part of preparing their working life.

Table 3: Dismal vocational training status among 15–29 years

Vocational training status	Per cent
Receiving formal education	1.3
Received Formal vocational training	2.3 5
Received Non formal vocational training	3.93
Others	3.75
Did not receive any vocational training	87.81

Source: NSSO 61st Employment & Unemployment Round

Government of India has had special schemes aimed at youth to improve their skills and to promote entrepreneurship. But in government implemented trainings, no attempt was made to make the trainees understand or link them to markets. As was popularly quipped in seminars, their emphasis was on 3 Ps – papad, petticoat and pickles. Training of Rural Youth for Self-Employment (TRYSEM), Government of India’s largest training scheme for rural youth, initiated on 15 August 1979, is a case in point. A Quick Evaluation of TRYSEM in August 1993, commissioned by the Monitoring division of Ministry of Rural Development, indicated that roughly 47.19 per cent of the total number of people trained were unemployed. Over two-thirds of the trainees found the duration of training inadequate; others found the training facility ‘not satisfactory’, practical training ‘not enough’, or training infrastructure ‘inadequate’. Majority of the trainees, i.e., 66.52 per cent expressed ‘lack of funds’ as the major reason for not taking up self-employment after the training. A large number of beneficiaries, i.e., 62.91 per cent felt no improvement in their socio-economic conditions. As a result, the Government itself described TRYSEM as ‘the weak link in employment’.

A cumulative effect of the dismal vocational training system was that the word ‘skill’ acquired negative connotations. Youth preferred to spend their limited resources on a degree rather than invest on skills. Yet, from the industry perspective, the demand for entry level humanpower is large. This prompted some organisations to change the vocabulary of trainings to ‘market-linked trainings’.

3. Snapshot of different market-linked initiatives

The need to upgrade India's labour pool is trickling down from industries like IT to bottom-end of the labour pyramid, touching now even uneducated, unskilled workers.

This reflects the changing dynamics of business.

– B Santhanam, MD, Saint Gobain Glass India

When Dr Anji Reddy, Chairman Dr Reddy's Laboratories was in Maldives on holiday, he read an issue of Newsweek which described India's abject poverty. At the same time he was asked to write an article on India's progress for CII Annual bulletin. The contrast between the two perturbed Dr Reddy. This was the genesis of Dr Reddy's Foundation (DRF) which focuses on short-term market linked trainings for youth. The Livelihood Advancement Business School (LABS) as it is popularly called, was piloted and scaled up with the Andhra Pradesh government. Meanwhile, the rural development of the Andhra Pradesh government set up Employment Generation & Marketing Mission (EGMM), the first of its kind for the underprivileged rural and tribal youth by any State government. Tamil Nadu government also initiated a process to link rural youth to job markets. More recently the State governments of Gujarat and Rajasthan too have set up dedicated missions but their focus has not been the underprivileged. This section analyses the experiences of these States as well as those of DRF and CII.

3.1. Government of Andhra Pradesh

The Mission was set up by the World Bank funded Andhra Pradesh Rural Poverty Project (APRPRP) to focus on providing employment/employability for the socio-economically underprivileged rural youth from remote areas. The objective of the Mission articulated by the rural community was to provide one Job for every poor family. The EGMM works in public-private-partnership mode with the main stakeholders being the government, private sector, and the women self help groups. The entire approach is a bottom-up, tailored to move the rural poor from the unorganised to the organised labour market. It is implemented in all the 22 districts in Andhra Pradesh. Incorporated four years back, EGMM has become the largest Jobs mission globally for the underprivileged youth.

EGMM works in sectors chosen for their large demand-supply gap. These include the service sector like retail, health, sales, telecom, hospitality; accounts; IT and IT Enabled Services; construction and textiles. It has developed its own training centres which have established EGMM as a brand name like Rural Retail Academy and grass root English, work readiness and computer Academy. Besides, it has nurtured 14 training partners to work for the rural poor. All trainings range from 15 days to 90 days and are free of cost for youth.

Table 4: Number of youths trained and placed

Year	No of youth trained	No of youth placed
2005-06	12320	11200
2006-07	38194	33800
2006-07	74750	65000
2007-08	101645	73891
Total	226909	183891

45 per cent of the youth trained are girls

37 per cent are from the most vulnerable Scheduled caste and scheduled tribes

450 training centres have been set up in rural and tribal areas

EGMM has achieved this scale due to several reasons:

Managing Demand: EGMM closely works with 100 companies who participate in various ways ranging from giving training modules, guest lectures, and conducting campus recruitment. The Mission works with the top recruiters to analyse attrition and ensure trained youth do not drop out of their jobs. As a result, today EGMM is the dedicated humanpower supplier for HDFC Rural BPOs; Apache which manufactures 'ADIDAS' shoes; 80 per cent of Hindustan Unilever's 'Pure-it'; 'Heritage Fresh' and Aditya-Birla's 'More' in Andhra Pradesh.

Managing Supply: The SHGs are motivated to send their children to the training centres. A dedicated trained team from the community systematically builds a data base of unemployed youth householdwise in villages.

Community Ownership: Parents, especially mothers, are key stakeholders. They discuss the Jobs agenda in the SHG meetings and monitor the programme. Parents visit training centres and are sent on exposure visits to see their children at work. This results in building trust and ownership.

Developing Innovative Pro-poor products: EGMM set up the country's first rural retail academy; Grass root English, Work Readiness and Computer Academy; and Security Academy. These were developed with industry support and are tailored to the needs of the rural and tribal poor. Counselling and soft skills are main constituents of all trainings.

Setting up Training Centres: Unused government infrastructure is used to set up low cost no-frill training centres in rural and remote tribal areas.

Institutional Framework: EGMM has a public-private institutional structure to facilitate a market linkage. The Executive Committee consists of the Minister and senior government officers with the Executive Director, who is from the private sector. A small private sector team is positioned at the State level.

Life-long learning: Through the creation of an alumni base, EGMM invests in life-long learning for the youth who are first generation workers. Hostel facilities for the first three months if the job is in the city are included in the programme.

IT architecture: www.egmm.ap.gov.in EGMM has created a transaction based user friendly software to capture activities as and when they occur in the field. This ensures transparency throughout the process and helps monitor training partners to ensure quality placements. MIS reports are generated seamlessly for government and funders. Analysis of various indicators can be done quickly and learnings fed back into the programme. The analysis on performance (Figure 3) also creates competition among districts to perform better.

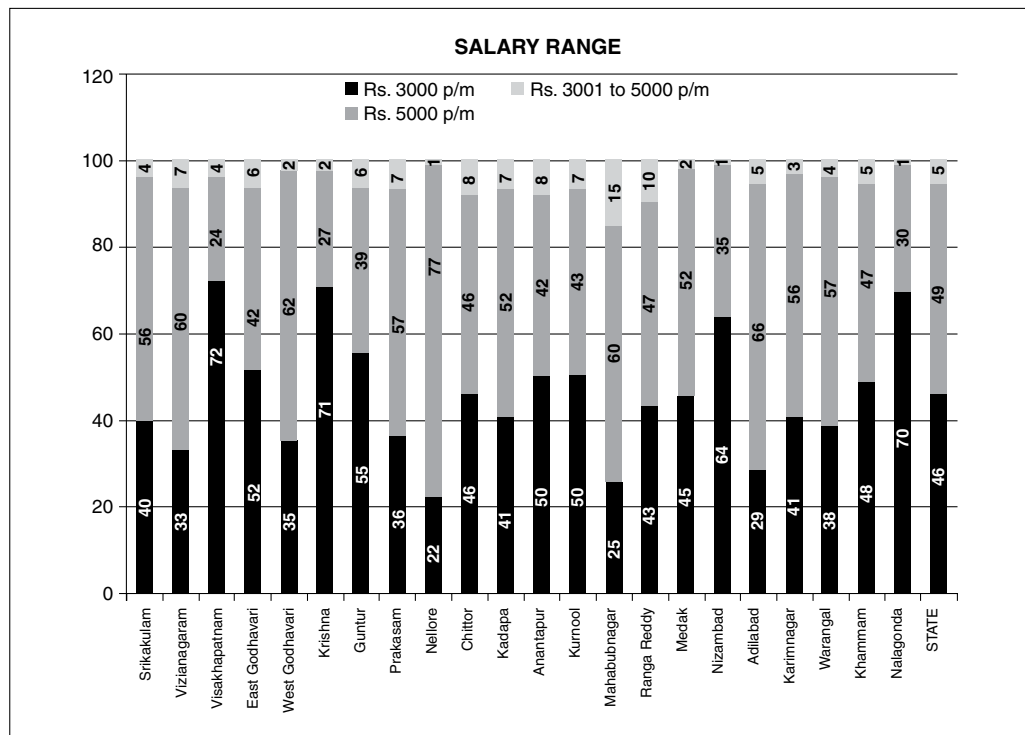


Figure 3 Sample Analysis of Districts Achievements in 2008-9 using EGMM software

Independent Impact studies done by M/S Intellicap and Goldman Sachs, School of Public Policy, University of Berkeley show that when one youth member gets a job, the quality of living improves for the family:

- 94 per cent of the households say that they are able to afford more nutritious food.
- 30 per cent of the families have invested the money to improve their housing conditions

- 93 per cent of them bought a new vehicle and 86 per cent of the families have purchased consumer durables like television and refrigerator.
- Dependence on money lender has come down from 74 per cent to 14 per cent
- A fixed amount (average Rs24000 a year) repatriated by the working youth takes the family (earnings average Rs12000 per annum) out of poverty in a sustained manner
- Younger siblings are always educated
- Reduces anti-social activity like Naxalism by channelising unemployed youth energies productively
- Prevents early marriage of girls and offers them a career path.

3. 2. Govt. of Tamil Nadu

The Government of Tamil Nadu is implementing the Tamil Nadu Empowerment and Poverty Reduction Project called Vazhndhu Kaattuvom Project (VKP) with the assistance of the World Bank. The project is implemented in 15 districts covering 70 blocks using a community driven development approach.

Tamil Nadu, one of the most industrialised States in India attracts large investment by multinational companies in automobile, construction, information and communication, service sector, etc., creating employment opportunities for youth. Realising the huge gap between demand and supply of skilled humanpower in the State, the VKP aims to skill up large number of unskilled and unemployed youth to enable them to secure sustainable employment. In this initiative, the Village Poverty Reduction Committees (VPRCs) comprising of women and youth jointly develop database for each Panchayat in which the details of the youth like name, age, sex, qualification, trade to undergo training, etc., are collected.

Based on the youth data base, the VKP holds district job fairs to link the youth with the potential employer. Also, skill trainings are organised through industries and reputed training-cum-placement partners. Exposure visits to training institutes and industries are arranged for the youth and parents. Funds for training are directly released to the VPRCs. VPRCs finalise the trades, course fee, etc., and pay training fee directly to institutes. Counsellors are engaged to counsel the rural youth at the village and industry levels to avoid dropouts.

Companies like Nokia, L&T, CCC Ltd, etc. provide monthly stipend of Rs2000 to Rs4000 per candidate during the training period. Where necessary, the VPRCs also provide loans to youth to meet expenditure like food, accommodation, and transportation during training or initial employment. Youth are also being sent to Dubai for employment after adequate training in skills like masonry, plumbing, welding, electrical fittings and air conditioning.

As on date, 66,238 rural youth have been trained in various trades, like Masonry, Carpentry, Bar bending, Plumbing, Garments making, Electrical, Driving, JCB operation, Crane operation, Forklift operation, Mobile phone preparing, Computer operation, Welding, Turning, CNC operation, etc., by VKP and Tamil Nadu Corporation for Development of Women, Ltd. Of these, 87 per cent of youth are successfully employed. The impact is sustainable income for the poor through opportunity for the youth to work in good companies.

3.3. The Livelihood Advancement Business School (LABS) by Dr Reddy's foundation

Set up in 1996, Dr Reddy's Foundation (DRF) promotes initiatives at individual, group and organisation levels to achieve sustainable development. Driven by the belief that equity in education and livelihoods helps in building an inclusive society, DRF strives to create quality opportunities in these two areas, with particular focus on economically disadvantaged youth.

In 1999, DRF started the Livelihood Advancement Business School (LABS) to impart business skills to unemployed youth from underprivileged families – especially those who had dropped out of school. The LABS are short-duration day time training institutions that draw unemployed youth from the local community. LABS also integrates the local employers and other relevant actors into the programme and in the process addresses the needs of youth (18–35 years) who are constrained by low income levels, inadequate skills, irregular employment, absence of opportunities for training and development, indebtedness and little bargaining power at the socio-economic level. LABS enable these youth to gain a foothold in the competitive job market giving them livelihood skills in an environment of interactive learning and mentoring that develops their inherent capabilities. Operational in over 170 centres across India, LABS has trained 46,473 youth of which 24,940 are from Andhra Pradesh, 2325 from Punjab and 2,090 from Maharashtra.

The strategy includes scanning the economy for new sectors where skills may be in shortage; developing a market driven curricula and work readiness module. The simplicity and effectiveness of the LABS concept has won wide acclaim, both in India and abroad. Its ability to quickly create sustainable livelihoods through market-savvy vocational training programmes has attracted several socially-oriented organisations which have also been giving valuable suggestions to replicate and scale the model further. The trainings are win-win for all stakeholders. The aspirants need increased income, a secure work environment and social acceptance of their work. At the other end of the spectrum, the job market needs a highly motivated, skilled workforce with low attrition rates. Large number of Central and State government programmes that are run on LABS principles and corporates are investing in such models for their corporate social responsibility

activities. LABS has evolved into a robust model that can effectively be adapted to a wide range of local conditions, both urban and rural.

Common processes involved in market linked trainings of BPL youth

These are a series of carefully evolved and executed steps that logically take a livelihood programme from conception to completion in a structured manner and need to be followed to move the poor from unemployment/underemployment in the unorganised sector to a steady job in the organised sector.

Market scan: This gives an idea of an area's employability potential, based on the local economy, culture, natural resources, labour market and industrial profile and helps determine strategy

Mobilisation: Youth are mobilised through road shows, involving local partners/community/self help groups and even peer-to-peer mobilisation where every youth placed is asked to bring ten unemployed youth to the trainings.

Curriculum development: After detailed 'focus group' discussions and interactions with industry professionals, the training curriculum is developed that includes life skill modules.

Interest inventory: The candidates are administered an 'interest inventory' which is designed to assess the category (realistic/investigative/artistic/social/enterprising/conventional) they fit into, so that their special interests are honed through appropriate courses.

Training: This includes on-the-job training, assignments, projects and field visits.

Individual Youth Development Plan: Through this, each aspirant is assisted to realise his/her aspirations based on his/her unique set of strengths and constraints.

Parents Counselling: This is conducted to orient aspirant's parents about the entire programme and what their son or daughter is going to gain out of the programme.

Work Readiness Module: This teaches the aspirants to prepare their resumes, face interviews, cope with workplace-related issues, and balance their personal and professional lives.

Placement: Entry-level jobs are made available to the aspirants in various industrial/service sectors. Those with entrepreneurial aptitude are also assisted to set up micro-enterprises of their own.

Post-placement mentoring: This includes setting up hostels for girls and boys who get jobs in cities and helping them cope with migration issues like city traffic, opening a bank account.

3. 4. Government of Gujarat

The growth in sectors like pharmaceuticals, roads and buildings, mechanical industries, and hospitality in Gujarat has created huge demand for skilled workforce locally. But, non-availability of local labour with relevant skills has been a problem. To alleviate the problem, the Education Department of the Gujarat Government on the lines of the National Skill Mission has proactively set up the Skill Development Mission. The strategy includes providing training at local level; financial support for training costs and industry-relevant training.

Table 5: Various schemes for skill development

Sr. No.	Name of scheme	Number of beneficiaries	Outcome
1	TDD-GKS Training Programme	8444	All students have been imparted with basic communication skills
2	Schedule Caste Students Training Programme	4000	
3	Paid Training in Rural Area	3400	

The State has identified 40 relevant subject areas in which skill training is provided. The batch size is restricted to 30 students per batch. The details of the students are kept on a web-based management information system. A progressive step in Gujarat is successfully involving industrial houses to adopt ITIs. Companies like Batliboi Industries, Cadila Pharmaceuticals, Tata Chemicals, Hindustan Lever and Suzlon Energy are some of the industrial houses involved in this process. According to Asit Joshi of Batliboi Industry, "With this arrangement, students will get jobs soon after passing out; the industry will get productive [hu]manpower from the very first day."

3.5. Government of Rajasthan

The Rajasthan Mission on Livelihoods (RMoL) was set up to cater to the evergrowing employment needs of youth in the State. The Mission is mandated to build and disseminate knowledge, design innovative livelihood promotion strategies, implement strategies through pilots, facilitate convergence and coordination and envisage policy reforms and advocacy. RMoL was renamed as Rajasthan Mission on Skill and Livelihoods in June 2009. RMoL gets budget support from GoR. In addition, UNDP has also extended funding support of Rs200 million for the period 2008-12. BASIX, a private sector livelihood promotion organisation implements the programme on the ground. The Mission is providing technical skills through 169 courses in 16 sectors.

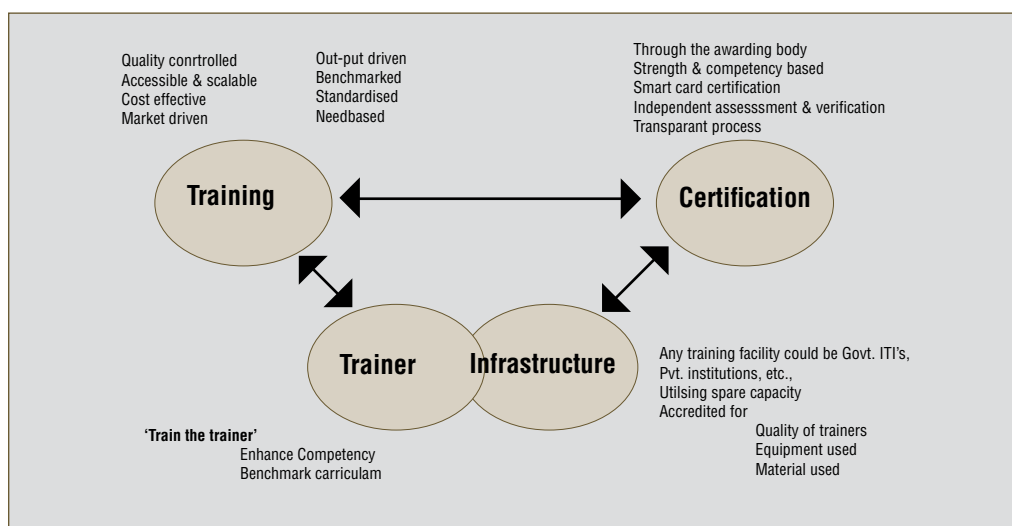
Other efforts include providing Mobile Skill Training Facility programmes in remote areas; 'Eklavya' 30 days training programme for SCs/STs 30 days; setting up Animation Academy; setting up of Finishing Schools in colleges and establishment of Rural Employment Exchanges (REX) in seven divisional headquarters.

Table 6: Achievements of RMoL (2005-09)

Year	Number of programmes	Trainees	Institutions
2005-06	56	1323	40
2006-07	282	5473	164
2007-08	604	14198	289
2008-09	1025	23649	338
Total	1967	44643	

3. 6. Efforts by industry associations: CII skilling initiatives

Skills, employability and humanpower development are key development agendas of the CII. The objective of the Skill Development Initiative is to provide the socio-economically vulnerable population a chance to be part of the mainstream economy. CII has registered a Skills Development Trust for this purpose. It is also working towards putting a system in place to provide soft loans for skilling and thereafter self employment through banks. The initiative proposes to 'Skill a Million Indians', thereby "Making India the Skills Capital of the World". CII conducts "Skills Gap" studies across the country through credible partners. These studies have been successfully completed in Tamil Nadu, Andhra Pradesh, Maharashtra, Jammu & Kashmir and Punjab. The study projects the skills needs and gaps of each State by 2015. This analysis helps understand the dimensions of the problem and opportunity in the State. CII has also contributed to the World Bank funded ITI up-gradation project and to the concept of the Modular Employment Skills (MES) programme of the Government of India for the unorganised sector. It is also an approved assessor for the MES programme.

Figure 4: CII Skilling Strategy


Youth Agenda in Constituency Plan

Enterprising political leaders are helping their youth in constituencies get a job after training. Kamal Nath, the former Union Minister of Commerce, set up the Development & Learning Centre (DLC) for students in Chindwara. Kamal Nath convinced top IT companies like Intel, CISCO, IBM, DELL, Suzlon, HCL, NIIT and others to be part of this plan which imparts English and IT to youth.

The key features of the Skills Development Initiative (Figure 4) are its localised and need based approach, scalability, accessibility, quality and cost effectiveness, independent assessment and verification, joint certification by awarding bodies and partners, centrally administered 'Train the Trainers'

and importantly 'benchmarked international standards of performance'.

4. Skilling mission: a panacea for all ills?

Decent work means not just more jobs but better jobs. We have developed a decent country work program for India. This includes enhancement of opportunities for productive work for men and women, both upstream work, at policy level, and grass root. It includes social protection and elimination of unacceptable forms of labour.

– Leyla Tegmo Reddy, Director & ILO Representative in India

Prime Minister Dr Manmohan Singh set the agenda for skill development initiatives when he announced in his Independence Day speech from Red Fort in 2007, "We will soon launch a Mission on Vocational Education and Skill development, through which we will open 1600 new ITIs and polytechnics, 10,000 new vocational schools and 50,000 new skill development centres. We will ensure that annually, over 10 million students get vocational training – which is a four-fold increase from today's level." This political will at the highest level was reinforced by the Union Government proposing to spend Rs310 billion on skills development over the next five years as part of a National Skills Development Mission. According to the 11th Five Year Plan, one of the Mission's goals is to provide, within a five to eight year timeframe, a pool of trained and skilled workforce, sufficient to meet the domestic requirements of a rapidly growing economy, with surpluses to cater to the skill deficits in the other ageing economies, thereby effectively leveraging India's competitive advantage and harnessing India's demographic dividend.

The Mission structure consists of Prime Minister's National Council on Skill Development for apex policy level directions, a National Skill Development Coordination Board, and a National Skill Development Corporation/Trust. While the National Council will be chaired by the Prime Minister and have various concerned Ministers and experts as Members, the Coordination Board will be chaired by the Deputy Chairperson of the Planning Commission and have the relevant secretaries on board. State governments are expected to gear their departments into State Skill Development Missions in line with the central

objectives. The third organisation, the National SDC (NSDC) will be set up as a non profit company under the Companies Act with equity of Rs150 billion from government, private sector and multilateral sources. NSDC will manage funds received by a National Skills Development Trust. This institutional framework is meant to give flexibility to deliver market-related trainings to address the skills deficit.

Since 2007, the Government of India has taken some concrete steps to pursue the agenda of employability and skill upgradation. It has set up the NSDC with an initial Rs10 billion corpus and a distinguished private sector Chairperson. For the first time ever, a National Employment Policy has been put in place. This is being hailed as a 'Path breaking move' which will encompass macro-economic and sector employment strategies, labour market institutions, skill development and development of employment intensive industries. The draft has been debated at two national consultations with employer groups and employee unions; inter-ministerial and State consultations. The draft National Employment Policy has since been released for public review and suggestions. The Ministry of Labour and Employment (MoLE), along with International Labor Organization (ILO), has drafted a National Skills Development Policy. This is presently being circulated for feedback and inputs. The government has also conceptualised an Integrated Management Committee (IMC) for upgradation of 1396 ITIs over the next five years through public-private-partnership. It has earmarked an investment of Rs36.65 billion for this purpose. In the first phase upgradation of 500 ITIs has been undertaken; 100 through domestic funding and 400 through World Bank assistance. A short-term modular employable scheme with certification has also been launched.

List of twenty high growth sectors

Box 1

- | | |
|--|--|
| 1. Automobile and Auto-components | 11. Health Care Services |
| 2. Banking/Insurance and Finance Services | 12. ITES or BPO |
| 3. Building and Construction Industry | 13. ITS or Software Services/Products |
| 4. Chemicals and Pharmaceuticals | 14. Leather and Leather goods |
| 5. Construction Materials/ Bulding Hardware etc. | 15. Media, Entertainment, Broadcasting, Content Creation and Animation |
| 6. Educational and Skill Development Services | 16. Organised Retail |
| 7. Elecrtionics Hardware | 17. Real Estate Services |
| 8. Food Processing/Cold Chain Refrigeration | 18. Textiles, Apparel and Garments |
| 9. Furniture and Furnishings | 19. Tourism, Hospitality and Travel Trade |
| 10. Gem and Jewellery | 20. Transportational Logistics, Warehousing and Packaging etc. |

Also, across the years, Central and State policies to attract investments have made industry more capital intensive rather than employment-intensive. The draft employment policy suggests moving away from across-the-board subsidies for attracting investments, to a package targeted at products and sectors that create employment. Some examples are tourism, construction, footwear, jewellery and textiles. Like Environmental Impact Assessment before starting industries, it

envisages an similar assessment which will assess changes in employment from expansion in a sector, to indirect employment created down the value chain.

Further, the National Skills Development Policy aims to address the issue of lack of coordination among various ministries in achieving quantum increase in number of skilled certified youth. Says Sharada Prasad, "To ensure coordination and avoid overlap among initiatives between different Ministries and States, it is envisaged to set up a National Skill Development Authority." This will replace the National Council of Vocational Education, eventually. Other key features of the policy are:

- Establishment of a National Skills Development Fund financed by public and private donors to ensure progressive increase in the allocation of funds for skill development from 2 to 5 per cent of GDP.
- Setting up of National Vocational Qualifications Framework (NVCQF) to ensure certifications offered by different organisations are comparable. Quality will also be assured through National Accreditation agency; sector; Assessment and Certification Bodies.
- Setting up industry-led Sector Skills Councils at the national level to work closely with State and district offices and feed locally relevant market information. This will enable quick response to technology changes.
- Strengthen industry-training centres ties through PPP in forecasting emerging areas of employment, employable skills, development and delivery of curriculum, on job trainings and placement.
- Develop demand driven and flexible Modular Employable Skills (MES) for workers who acquired skills through informal streams; workers and ITI graduates seeking skill upgradation; school dropouts from 5th class upwards; children earlier in child labour; disabled. DGET has made a beginning by developing over 500 modules.

4. 1. Challenges

- **Coordinating mechanism:** While several National Institutions are mooted, the mechanism of coordinating between different departments involved in skill development is not clear. This is a major challenge as presently the government departments work in a tunneled approach; each with different MOUs, different fund flows leading to confusion on the field and lack of quality. (The lack of coordination among multiple players was identified as a major problem in the beginning of the chapter in the 'legacy of the past'. Do we mean to say that the problem will continue even in the new policy?)
- **Funding:** With volatility in the markets, while the policy suggests private sector participation in funding, in reality Government appears to have the

only fund which itself can be a weakness. What are the checks and balances to prevent leakages? How will a smooth fund flow be ensured to deliver quality? The fund flow has to be linked to clear outcomes with clear benchmarks.

- **Using IT:** This is crucial to delivering scale with transparency and quality.
 - i) An IT backbone to monitor fund flow and expenditure is crucial for transparency with the kind of large investments that are being envisaged in skill developments
 - ii) Greater emphasis has to be laid in creation of an IT architecture to track performance of partners in training centres for placements and post placement
 - iii) Different kinds of technology: VSAT, mobile telephony, e-learning; mixed mode learning are being used in different pilot projects. Some IT best practices are:

IT Best Practices: a glimpse

Online training: Eejevika: IIT Chennai has incorporated a society called Rural Technology and Business Incubator (RTBI) which incubated the startup, 'Eejevika'. The objective is to train villagers for employment in the service sector. The model involves identifying potential entrepreneurs with the help of village panchayat leaders, NGOs or self help groups. These entrepreneurs are offered a franchise, for which they have to invest Rs50,000 for computers, broad band connection and power backup. Interested students enroll through the Eejevika website, pay a nominal fee of Rs500 and undergo a month's online training. It has been piloted through 20 franchisees in Tamil Nadu reaching out to 100 students.

Online Monitoring: EGMM has put in place a transaction based software which picks data from training centres. Youth data can be traced up to the village level including information on placements with company names and salaries. Several reports ranging from caste, sex, incomes, training vs. placement can be generated seamlessly through this user-friendly software. Both programme and fund flow reports are generated through this software, bringing in transparency and ability to work on scale.

Job portal: 'Kudumbshree', a government of Kerala initiative which works with families below the poverty line, is all set to have a virtual employment exchange. It will host a website, listing out details of unemployed youths, their educational qualifications, skills and contact addresses, according to its Executive Director, T K Jose. The site would provide all the necessary details about the people that would help companies select candidates of their choice and needs. To start with, the site would provide data of prospective employees of Ernakulam, Palakkad and Thiruvananthapuram and extend it to other districts.

- Developing trainer's pool: Conducting skilling programme in scale requires trained teacher pool. Institutes need to be set up with clear funds earmarked to train the trainers.

Presently the situation is bleak. According to DGET website, the ITIs have about 50,561 units considering the different sectorial trainings. Students enrolled are around 0.8 million which require around 65,000 teachers. DGET has only six training institutes which train annually 1100 trainers. How can one get the industry to help create a pool of trainers, with updated industry skills who can then train existing trainers?

- English as a life skill: English is no longer just a language. For any job, even entry level, English communication is a pre-requisite with soft skills like grooming, time management, etc. The policy must emphasise introducing English and soft skills in all vocational trainings, irrespective of the sector.
- Employment exchanges as career guidance cells: DGET, Ministry of Labour has 900 employment exchanges. According to some indirect estimates based on the NSS, almost 79 and 84 per cent respectively, of the rural and urban persons on the live register of Employment Exchanges tend to be aged 15 to 29 years. The percentage of employment to submission of application is an abysmally low 5.8 per cent, making them virtually defunct. Further, the Employment Exchanges are concentrated in relatively larger towns and cities; and they do not command much credibility among the potential employers. As a result, they hardly serve the interests of the unemployed youth. The existing infrastructure and human resources must be retooled to act as counsellors, trained in doing market scans and use of information technology.
- Alumni networks: The proposed skilling initiatives will churn out a large number of youth who are first generation workers. A sensitive support system needs to be planned for them like low cost hostels if jobs are in the city; counselling should be provided for the first three months otherwise they drop out of work. Also some thinking and investments need to be put in place to expose youth to learning products.
- The policy says little on government-industry academia partnerships. Universities should be encouraged to set up Poverty labs which research topics related to disadvantaged youth, conduct impact studies to feed learnings and help incubate innovations in this field.

Best Practice: Infosys campus connect

Infosys Technologies has launched Campus Connect, an industry-academia partnership initiative. The nation-wide programme focuses on aligning the needs

of engineering colleges, the faculty and students with the needs of the industry, thus preparing 'industry-ready' professionals. Infosys will invest about Rs10 crore in this programme. N R Narayana Murthy, chairman of the board and chief mentor of Infosys Technologies Ltd said, "Unless we develop a pool of highly skilled talent with global aspirations, India could lose its edge in this highly competitive game. Campus Connect is a programme designed to address the needs of educational institutes, so as to produce 'industry ready' recruits. "The Faculty Enablement Programme shares Infosys' educational experiences and best practices with faculty from various engineering colleges. The fortnight long session covers areas like computer hardware and system software, programming fundamentals and management systems, among others. A roll out of this will follow across all Infosys Development Centres. As a part of the Campus Connect initiative, Infosys has also hosted a Campus Connect portal. There are online tests and dummy project material to help students assess their current capability levels. "This is the first time that we are participating in a well thought out and structured programme like Campus Connect. This is an initiative that will be

Box 2**PPP is not Easy**

Raj Jain, Managing Director and CEO of Bharati Wal-Mart says, "No single stakeholder, whether government or industry, can bridge the massive employability gap. It requires collective effort and PPP is crucial."

There are stumbling blocks to partnering, like existing mindsets by which Companies have no faith in governments and governments think all companies are exploitative. A facilitating mechanism is required to bridge both partners. There is also limited information on successful PPP models. Current thinking is to add a fourth P, the poor, to PPP to ensure the poor are equal stakeholders and usher in an inclusive society.

Jörg Hartmann, Director of the Center for Cooperation with the Private Sector at the German Technical Development Zentrum (GTZ) says, "Partnership – like marriage and democracy – is here to stay. It may lead down a troublesome road but it is worth it in the end." He outlines three steps for success:

Lesson 1: Drive up demand – go commercial

To be successful, BOP projects 'must be demand driven'.

Lesson 2: Take risks – don't go by the book

Partnerships vary according to the parties involved. Although there are clear principles that partners should follow – a willingness to engage fairly and transparently in the interests of everyone involved – there are no set rules. There are no blueprints in different sectors. This offers scope for partners to take the initiative. Unlike the public sector, the private sector is more able to take risks .

Lesson 3: Be patient when working with governments

It can be difficult working with governments. The vision for the investment changes as we go along: the money pledged is not always what ends up in the partnership.

highly beneficial to the faculty, students as well as the Industry," said Prof D Jawahar, Director, PES Institute of Technology, Bangalore.

5. Way Ahead

India's demographic dividend can be reaped through investments in human resources, infrastructure, creative innovations and enterprise.

- Nandan Nilekani

India with its sheer size and complexities needs attention on some core areas to help build an inclusive society through skilling of youth. These include the unorganised sector; women; disabled in remote and interior areas. These are Challenges of Equity and Access. An ecosphere needs to be created to foster innovations and new models, especially targeted to the BPL youth.

5.1. Focus on the unorganised sector

According to the Planning Commission Vision 2020 document, the organised private sector will contribute to economic growth but overall employment generation will be modest. Today, the workforce in organised sector is only 27 million compared to 421 million in the unorganised¹ sector. The share of informal employment has risen from 92 per cent (nearly 276 million out of 300 million) in 1983 to 93 per cent in the 1999–2000. The employment in the organised sector has shown only a marginal increase from 24 million in 1983 to 28 million in 1999–2000 (table 7). The largest numbers of informal workers are in agriculture. In fact, 98.84 per cent of the employment in agriculture is informal. In the non-agricultural sector, the highest numbers of informal employees are in construction, textiles and manufacturing.

Table 7: Estimate of population, labour force, employment and unemployment (in million)

	1983	1988	1994	2000
Estimated population	718.21	790	895.05	1004.1
Labour force	308.64	333.49	391.94	406.05
Employed	302.75	324.29	374.45	397
Unemployed	5.89	9.2	7.49	9.05
Unemployment rate (as % of labour force)	1.91	2.76	1.96	2.23
Employment in organised sector	24.01	25.71	27.37	28.11
Employment in unorganised sector	278.74	298.58	347.08	368.89

¹ The unorganised / informal employment consists of casual and contributing family workers; self employed persons in un-organized sector and private households; and other employed in organized and unorganised enterprises that are not eligible either for paid, sick or annual leave or for any social security benefits given by the employer.

Muzzafarpur, Bihar district. Suman is barely 30 but looks over 40 years of age. When he was 25 he lost his right hand as a result of a factory accident and is now unemployable. "I started working in an iron foundry when I was ten and am in the house for the last five years," says Suman. Did he get insurance? "I signed some paper, but who is to keep following up," he asks.

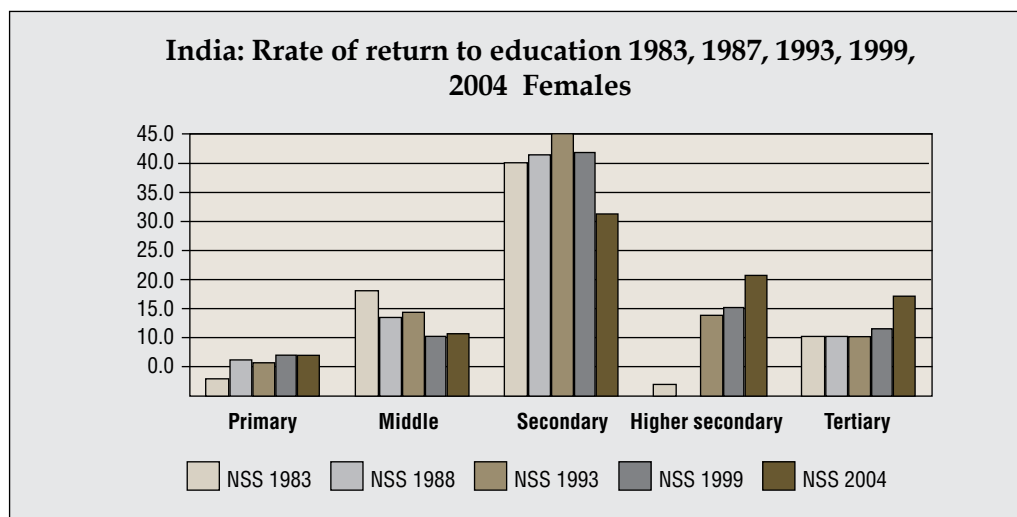
Suman represents the large unorganised workforce which works in an informal economy characterised by low income, shoddy labour practices and low productivity. Without certificate or training, they are dependent on contractors or recruitment agents for work opportunity. They are exploited and work in sweat shops without social security and other entitlements. ILO which is commemorating 'Asian Decent Work Decade' 2006–2015 describes these as 'vulnerable' workers 'without a voice'. They constitute 77.2 per cent of the total jobs in South Asia. Some wage compensation has to be planned in case of accidents as most of them are breadwinners. In some cases, like in the construction industry, assessment followed by certification needs to be planned to give bargaining power. Manish Sabharwal, Chairman Team Lease says, "The Apprentice Act of 1961 is restrictive and needs to be amended. Formal apprenticeship can be a portal for unorganised labour to move to organised labour". A distinctly different approach is needed to bring these workers into the economic mainstream and connect them to markets.

Best Practice: Aajeevika Bureau works to transform seasonal migration into a competitive, secure and dignified work for the rural poor. It provides services through four rural centres in Rajasthan with 8000 registered migrants. The impact has been an increase in monthly income to the tune of Rs1000 per month for 150 youth covered and 10 companies recruiting regularly. Three educated youth have joined Aajeevika Bureau to work with other rural migrants. It has set up a research wing to build knowledge on labour and migration issues.

5. 2. Focus on women

The participation of women in the labour force has always been lower than that of men, in rural as well as urban areas. Work participation by women has gone up from 19.67 per cent in 1981 to 22.73 per cent in 1991 and 26.68 per cent in 2001. This increase was mainly from the rural areas, in agriculture and cottage industries. Significantly, women constituted a mere 19 per cent of the organised workforce as of 31 March 2004.

In labour market segmentation, women fall in the lowest rung which is the lowest paid with no protective legislation. In skill development for women, several factors need to be considered like constraints in accessing skills; retaining the job and getting back after raising children. Drudgery is a major



challenge which needs to be addressed. There is a need for special trainings for income generation skills and self employment as many women cannot migrate for jobs.

For females, the rate of return in education from the labour market perspective is higher than males. For young girls skilling and job linkages make a tremendous impact on lives. They get a basket of options, besides the traditional Auxillary Nurse Midwife (ANM) and teacher. With financial independence comes positive inter and intra family relationship changes. The age of marriage goes up and they help breed a younger more confident new generation.

Sudharani is from old Chintalapudi Village, West Godavari District, Andhra Pradesh. She could not complete her graduation as her father's income from agricultural labour was inadequate for household expenses, leave alone financing a girl's education. She enrolled in the English, soft skills and computer trainings of EGMM in her district. After three months of residential training she got a job in Big Bazaar, Hyderabad through campus recruitment drawing Rs47,000 per annum. Two years later, when Coromandel Fertilisers opened their branch in West Godavari, she returned to her home district as a cashier earning Rs60,000 annually. She made both her brothers enroll in the EGMM trainings. With three earning members, the family income has increased from Rs10,000 to Rs144,000 per annum. Says a confident Sudha, "I have convinced my parents that my career is first, then marriage."

5.3. Focus on the disabled

Estimates of the disabled population in India range from 22 million to 70 million. Yet they are vulnerable and face several problems. In universities, they constitute barely 0.1 per cent of total enrolments. And in work, barely 0.48 per cent of all trade apprentices.

Table 8: Performance of vocational rehabilitation centres for handicapped in India
(January–December, 2006)

Description	Blind	Deaf and Dumb	Ortho-paedically Handicapped	Negative Leprosy Person	Mild Mentally Retarded Persons	Total
Number of clients at beginning of 2006	14	19	60	-	4	97
Number of clients admitted during 2006	2996	4711	24120	52	964	32843
Number of clients evaluated during of 2006	2976	4637	23835	49	942	32439
Number of clients who left the centre without completing evaluation	12	52	155	-	7	226
Number of clients still under evaluation at the end of 2006	22	41	190	3	19	275
Number of clients at rehabilitated during 2006	763	2464	7777	15	228	11187

Providing decent work for people with disabilities has a strong social as well as economic relevance. Persons with disabilities tend to experience high unemployment and have lower earnings than persons without disabilities. They are often relegated to low-paid jobs with little social and legal security, or segregated from the mainstream labour market. Many are underemployed. This affects their self confidence. Yet experience shows that when they find jobs suited to their skills, abilities and interests, they can make significant contributions in the workplace. In a climate of economic and political uncertainty, the protection of the most vulnerable members of society assume greater importance. What's more, achieving the Millennium Development Goals (MDGs) to reduce poverty will require the inclusion of significant, sustained action to create productive and decent work for people with disabilities. Contributions by persons with disabilities will also provide economic and social benefits to States and reduce the substantive costs associated with exclusion.

Best Practice: Ability Foundation: The Foundation organises Ability fairs in different cities annually. These act as a bridge between corporates and the disabled. Youth selected are placed in sectors like retail as cashiers; manufacturing sector and the BPO industry. Plans include building a data base

of the unemployed youth and a data base of companies which are sensitive to this agenda.

5.4. Focus on innovations

Professional and vocational education are generally separate streams with professionals getting the bulk of educational inputs and funding allocations but serving a small elite. The case study below showcases an innovative attempt to improve vocational trainings. For skilling to reach a level of sustainable excellence, these examples need to be scaled.

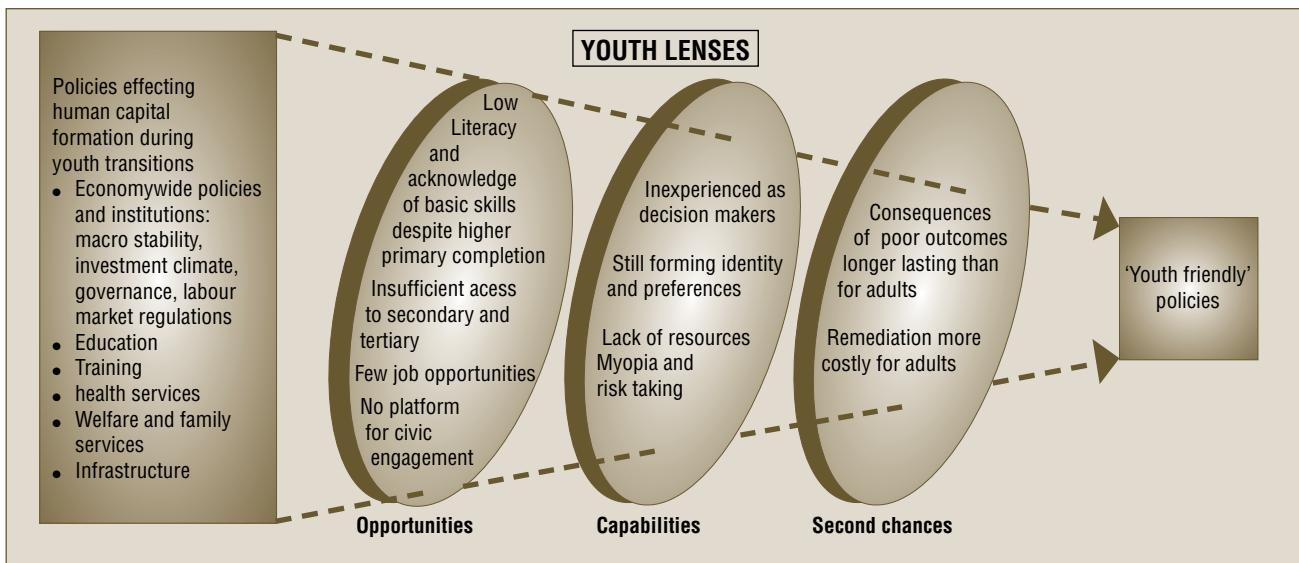
Best Practice: IITians for ITI programme

The Pan IIT organisation envisages identification of IIT alumni volunteers who wish to contribute to ITIs. It will initially concentrate on the 'Centres of excellence' jointly identified by the Central and State governments. These volunteers will work with the management of their local ITIs to draw up short-term and long-term upgradation plans in association with the local industry and directorates of training of the State and Central governments. It envisages covering 100 ITIs. Tangible outputs provided would be training of faculty; technical know-how; funding scholarships and collaboration with industry.

Amit Mitra Chairman, FICCI says, "We need a Green revolution and a Skilling Revolution."

The World Bank's World Development Report 2007 highlights the fact that for a revolution to happen we need to look at youth through Youth lenses. The first lens focuses on gaps in opportunities and policies for youth to build, acquire,

Figure: 6



improve and deploy their skills. The second lens focuses on the capabilities of young people as they choose among existing opportunities and on policies that dispense the information and incentives to help them make good decisions. The third lens focuses on remedying undesirable outcomes and on policies offering second chances that put the youth back on the path to build their human capital for the future. All three lenses have to be aligned for an image to be in focus.

The task is complex. But clearly something needs to be done. Youth bring talent, creativity, and energy to economies. Access to decent work helps youth realise their aspirations, improve their living conditions and actively participate in society. Productive youth bring talent and energy to strengthen economies. Strong building blocks laid today will dictate what our economies will do tomorrow.

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Chapter 6

Producer Companies – Linking Small Producers to Markets

Narendranath

1. Need for collectivisation

The co-existence of abysmal poverty and the plentiful affluence in the country show that the root cause of the poverty is not primarily the lack of resources – resources exist, but are out of reach of the poor, markets exist but the poor have no information or are far away, knowledge is abundant, but not for the poor. The mineral-rich States of India, Jharkhand, Orissa, Chhattisgarh and Madhya Pradesh amongst others have ironically remained the poorest as well. The political economy of progress has always been skewed against the poor. The poor in the villages in India have been affected by the twin problems of isolation and exclusion and that could be stated as one of the fundamental causes of their deprivation and poverty. The tribal communities have mostly settled in forest fringe areas where they have been physically isolated from the markets and the village mainstream. Similarly, the dalits may have lived in the main villages but due to the social hierarchies have been kept away from the social and political, and therefore the economic mainstream. This has resulted in the systematic deprivation of these communities who are now among the poorest in the country. Groups of the poor from other social categories also face similar problems of isolation and exclusion from the mainstream.

Collectivisation of the poor in very many ways has been a dominant strategy adopted by both the State and Civil Society actors seeking solutions to the problems of poverty. Given the diverse nature of the problems, which range from the political to economic, the nature of organisations has also differed. It is natural that even economic collectives of poor people who exist in a skewed political economy would have to play roles that are social and political even to deliver economic services effectively, since the factors are so intricately connected. Thus the collectives have their roots in multiple considerations.

2. Functions of collectives

In the economic realm the collectives are fundamentally about achieving scales of economy. The markets being far away physically, it is important for farmers or artisans to come together to access them for both forward and

backward linkages. The major benefit in this arrangement is the saving in costs for the members through aggregating produce, sharing of support services such as input distribution, warehousing facilities, quality control, production supervision, etc.

An important, yet seldom mentioned aspect of an economic collective is its crucial ability to act as a buffer to protect the small producer from effects of volatile markets like that being seen today. The collective does this by building up a buffer fund in times of surplus and ploughing it back in times of crisis. The PRADAN promoted poultry cooperatives have used this process to good effect to protect the co-operative members from Avian Flu induced price shocks year after year.

In the social realm the collective deals with building capabilities of the members to face up to the iniquitous structures that deprive them of basic rights and entitlements. Here the organisation takes on the role of building confidence and helps the individual members shed the self image of the oppressed and develop self esteem and sense of agency and undertake collective action for mutual well being.

The people's collective is also a political organisation. Often the voice of the poor gets suppressed by forces that have traditionally been more powerful and have the wherewithal to impede any changes that would cause them to share resources. Many a time, gaining access to rightful market and political spaces require the poor people to collectivise and assert themselves. The role of a collective as an agent to exert influence on the environment which would bestow direct economic benefits to the poor people is again of paramount importance.

Peoples' collectives have the potential to occupy multiple roles and spaces in order to ensure livelihood with dignity. It is important for the facilitators who make efforts to collectivise the poor communities to understand the multifarious roles played by the same organisation. It can lead to better nurturing and growth of the organisation. For the organisation to function effectively, though, it has to have one focus and should not try to structure itself to play all the roles. A producer collective dealing with marketing of farm produce must focus on marketing, but it is important for the facilitator to appreciate that the organisation also impacts the social and political realms.

A survey of peoples' collectives done by Datta and Pastakia in 2007, under the aegis of the Solution Exchange, further reaffirms the point that the collectives have played multifarious roles often within the same organisations in order to deal with the issues and constraints small rural producers have faced – be it on the economic, social or even political front. Some of these functions included product aggregation, financial mobilisation, support service provision (AKRSP-I), providing an identity to the poor and augmenting their capacity to

deal and negotiate with external forces, risk mitigation (ASA, PRADAN), local infrastructure development (DHRUVA) and even fostering new institutions and women's empowerment (Toe Hold Artisan's collaborative, PRADAN's poultry cooperatives).

3. Forms of collectives

There is documentation that collectives came into existence in the late 18th Century in Europe, in the wake of the Industrial Revolution, which created material wealth as a result of the skewed growth, and left a lot of people poor. The workers organised themselves but not under any formal system but as informal people's organisations. These then evolved into formal cooperatives in the 19th century and the movement has since then spread across the world. Subsequently, different legal formats for people's organisations have evolved, such as ordinary cooperatives, multi-State cooperatives, mutually aided cooperatives, mutual benefit trusts and producer companies. Those who are interested in forming a collective today have all these options to choose from, depending on the nature of business and geography of operation. The cooperative form of organisation needs special mention here because they form the oldest set of peoples' collectives and laid down the basic principles for people coming together formally for economic benefits. For more than hundred years the cooperatives remained the only legal form available for peoples' organisations.

4. Origin of cooperatives

The first formal cooperative was a consumer cooperative, formed by a set of factory workers in 19th Century Europe to save themselves from exploitation by profiteering traders. The initial set of cooperatives also included a credit cooperative to access low cost credit through a collective thrift and loan activity. These initial cooperatives also enunciated a doctrine of cooperation, which is upheld as the cooperative principles even today by the International Cooperative Alliance (ICA). Some of these principles included; Open and voluntary membership; Democratic control (one member, one vote); Fixed and limited interest on share capital; Surplus allocated in proportion to members' purchases (the dividend); and Political and religious neutrality.

Since then, all cooperatives, irrespective of the trade they are in, are based on these principles which distinguish them from any other legal form. Cooperatives allowed the members, who were at a disadvantage when operating as individuals to create economies of scale as well as to hedge each other's risk. The contribution of each individual however small was very valuable, so the ownership of the cooperative and the ability to influence decisions was divided equally among all. In business, this translated to all members having equal voting

rights irrespective of their patronage (participation in business) and the profits being distributed equally. Thus the cooperatives were mutual associations as well as business enterprises and displayed both characteristics equally.

The phenomenon of cooperatives came to India with the passing of the first Act in 1904. Early cooperatives were involved in activities such as common land management and provision of credit services. Today cooperatives operate to provide variety of services; Agricultural Credit, supplies, Marketing and Processing ; Functional services in the fields like dairy, poultry, fisheries, fruits, vegetables, edible oil, etc.; Services in industrial cooperatives; Public Distribution of essential commodities; Urban Credit; and Housing.

The actual number of cooperatives is not easy to estimate because of their much-dispersed nature and the decentralised systems of data management. However, it is estimated that there are about 112,000 Primary Agriculture Cooperative Societies, which primarily look at inputs supply and credit. There are about 80,000 dairy cooperatives covering more than 10 million rural families. The handloom sector with about 12.5 million weavers across the country also has a large number of cooperatives. These primary village level cooperatives also have their counterparts at the district level and the State level. Most of these cooperatives have been formed under one or the other State-run scheme for providing financial assistance to small producers.

Since their inception, the State has seen it as its duty to form cooperatives of rural farmers and artisans from weaker sections for both, their economic development and social mobilisation as well as to strengthen grass roots democracy. Thus the cooperative department with its powerful registrar was created. The State also sought to participate financially in the cooperatives. Initially the State's promotion of cooperatives resulted in their massive growth in the country, but later on the stranglehold of the State administrative machinery on the cooperatives led to throttling of the movement.

While the growth in number of cooperatives and the quantum of financial assistance given by the State have been impressive, the performance of cooperatives has been dismal. To summarise the issues as delineated by the Vaidyanathan Committee that looked into the reform of the financial cooperatives:

- The participation of the State in equity of the cooperatives led to the State also participating in the governance and management. The State and the cooperative staff became patrons to the cooperatives they themselves were serving in, rather than allowing a scenario in which the members had the autonomy to run the governance and management
- The over concern of the State to ensure that the cooperatives survive led to the scenario of an erosion of credit discipline, since the due diligence norms were not strictly observed. Further, dismal repayment behaviour

was rewarded with loan restructuring and write offs, which helped further deteriorate an already bad situation.

- Instead of addressing the basic issues of strengthening member control and governance, the more the cooperatives piled up bad debt, the more the State took ownership and decision making into their own hands, thus undermining the autonomy of the cooperatives further.
- In addition to this the State also used the cooperatives for distributing subsidies to poor people, which made them instruments of political patronage. Cooperatives gradually became prey to the vote bank politics.

The general state of affairs has not been different for the non-credit cooperatives as well, where autonomous institutional functioning has been impaired by State interference, politicisation and general indiscipline. A large number of cooperatives in the dairy and industrial sectors are actually front organisations for middlemen traders who run 'benami' cooperatives in the name of members from weaker sections to corner State largesse. The system of open membership in cooperatives has led to a lot of local political elite capturing the cooperatives without contributing to the business. Since the geographical boundary of a cooperative is fixed, it forces serious producers to join an existing malfunctioning cooperative as they cannot form another cooperative or join a better functioning cooperative in another village. A common ailment in member-oriented firms is what is called 'member myopia', where the member would opt for a short-term personal benefit, vis-à-vis a long-term institutional benefit. This leads to the cooperative not being able to accumulate enough surpluses and reserves, severely impeding its business growth and diversification.

This is not to say that the idea of cooperatives or cooperation is outdated. It is just that the cooperatives ended up disadvantaging the very people whom they were intended to benefit, due to a plethora of extraneous reasons and a few institutional reasons.

Various committees have over the past 40 years made large number of recommendations to the governments for making cooperatives the vibrant member-owned and governed institutions that they were supposed to be. A lot of the recommendations that called for new types of financial products, or restructuring existing loans, waiving loans, introducing subsidies, or formation of new types of cooperatives, were adopted without much resistance. However, recommendations that sought to reduce external control over cooperatives and enhance member control, did not find favour with the powers that be. Especially at the level of the State governments there has been a major hesitation to dilute State powers and make the cooperatives more autonomous.

5. Mutually Aided Cooperatives Act (MACS)

Given the above background, the passage of the AP Mutually Aided Cooperatives Act in 1995 by the State government could be termed as most significant. Since then, States such as Bihar, Jharkhand, Madhya Pradesh, Orissa, Chhattisgarh, Uttaranchal, and J & K have passed similar self-help co-operative legislations.

The objective of the new generation cooperatives is to promote member welfare and mutual aid. The MACS Act diluted the government's 'ownership' and 'governance' roles in the new cooperatives and vested these only with the members. The government is not allowed to provide equity to the new cooperatives, which has to come solely from the members. The Government may however provide financial support by way of loans and guarantees. The Registrar no longer has powers to hold or withhold elections, overrule decisions of the Board, nominate Directors to the Board, appoint staff as per government rules, award or refuse membership, appoint Auditor, and settle disputes. All these powers rest with the members. The Registrar cannot refuse to register a new cooperative if it has followed the appropriate procedures as per the law. Also in a given area there could be more than one cooperative involved in similar businesses. It is left to the wisdom and discretion of the members to decide which cooperative to join. Unlike the old cooperatives, the new cooperatives are not allowed to carry forward accumulated losses that disadvantaged new members who had no role in the losses. Accounts of the new cooperatives have to be finalised at the end of each year and deficits if any, are to be compulsorily set off against reserves if available or against the participation of the members in the business.

The new Law attempts to ensure that member governance and control is upheld, both in letter and spirit. The MACS Act also trusts the members to be conscious of their best interests and expects them to be responsible for their own actions. Thus, while they would have no godfather to keep pulling them out of trouble, they also will have no policeman watching over their shoulders at all times.

The experience of the MACS Act has been very promising with the emergence of thousands of autonomous cooperatives in the past 15 years or so. Even though the Act permits cooperatives registered under the old law to migrate to the new law there have not been many takers as the new cooperatives are not eligible for financial assistance the way the old cooperatives were. Yet, the ones that did migrate showed considerable improvement in performance as in the case of a large number of dairy cooperatives in Andhra Pradesh where eight out of the 11 District Unions and about 5000 primary dairy cooperatives migrated to the new Act. In a surprise move in 2006, the AP government through an ordinance took over all the dairy cooperatives and Unions that had converted and re-converted them back to the old law. A public-interest-litigation opposing the move is

under consideration in the Supreme Court as of now. It only goes to show how the State can move in insidious ways to take over peoples' movements and destroy them. Thus, irrespective of the most progressive legislations, the Civil Society Organisations have to be constantly on the vigil to conserve the spirit of the cooperative movement and uphold democratic values.

In 2002 the Central Government passed the Multi-State Cooperatives Act, which is appropriate for cooperatives that operate across State boundaries. The major advantage here is that it is outside the purview of the State Government to interfere in the functioning of the cooperative. There are not many reports on how these new generation multi-State cooperatives are functioning, or how many of them are functioning. However the Act has not disallowed the State from holding equity shares in the cooperative thus leaving the door open for the State's involvement in the affairs of the cooperative. The Act also allows the central government to supersede the Board under certain circumstances. One will therefore have to wait and see how these cooperatives shape up.

6. Producer companies

Producer Company Companies came into being in 2003. Based on the recommendations of Dr Y K Alagh Committee, the Companies (Amendment) Act 2002 added Part IX A in section 581 of the Companies Act 1956 to allow the cooperatives to function under the 'vibrant structure' of the Companies Act, as against the existing 'prehistoric structure of co-operative laws'. There was a clear intent to provide an alternative to the cooperative form, which till that time was the only legal form available for the producers to organise themselves to link with the markets. This decision of the Central Government of the time created a climate for conversion of existing cooperatives to a new legal framework that allowed them more autonomy, especially from the State Governments. The producer company offers a unique advantage in terms of maintaining the member-ownership nature of a cooperative operating on social principles and the structural advantages of being a company that focuses on business credibility.

As Dr Alagh himself writes, "...the producer company law provides for an effective alternate organisational form for rural producers offering an opportunity for competing on an even footing with other business organisations. It also provides a professional management and flexibility in organisational operations, including entering into collaborations/joint ventures – that would become necessary in a changing economic environment in order to optimise the benefits to their producer members. It combines the institutional strengths of Mutual Assistance and the Cooperative Principles within the liberal regulatory framework; as well as strict disclosure norms that the Company law offers. Thus the Producer Company legislation is carefully thought out and provides for a

new concept that enables new generation cooperatives to be set up to compete with the private sector in the present liberalised environment.”

The Producer Company legislation has quite a few features that set it apart from the earlier legislations.

The format provides higher legitimacy and credibility in the immediate business environment compared to the cooperative where the dominant imagery is of an interfering Registrar, motivated politicians and supplicant members who hold no agency of their own. While this may not be the case for all cooperatives, a majority of them nevertheless correspond to the above image. The recent move by the Government of AP to re-convert the converted Mutually Aided Cooperatives to the old law only reaffirms this fear. The Company Act, in spite of the skeletons that do tumble out once in a while, still is the most favoured option for entrepreneurs. The imagery is of efficiency and accountability. That now we are looking at rural producers in a new role as owners of their own Companies adds novelty to the perception. This does help the external stakeholder to develop a favourable disposition of the organisations, even if only to try out something new.

Ten or more individual producers can get together and float a producer company. Unlike in a cooperative where only individuals can become members, producer companies allow membership of registered groups (Trusts, Producer Companies, etc.) and non-registered groups (such as self-help groups or user groups) or individuals or a mix of them. This offers enhanced possibilities for creating a member-controlled organisation. This is an important provision from the point of view of organising members who are disbursed far and wide or are from the weaker sections, or both. For such producers, a local grouping, even informal, would be helpful before they are organised to take part in the governance of a larger producer company.

The law explicitly lays down a few ‘mutual assistance’ principles, underlining the ‘cooperative’ nature of the legislation, even while providing a ‘modern’ market-oriented format to the organisation. The basic principle of one-member-one-vote has been upheld in the Producer Company law as well. Voluntary membership is also highlighted as one more measure to enhance mutuality. Similarly, other provisions that could be as the PC would have a Board elected from among the members, and that the surplus arising out of the operations of the Producer Company shall be distributed in an equitable manner by providing for the development of the business, providing for common facilities and for distributing amongst the members in proportion to their participation in business.

The PC is a unique form in which the shares are not to be traded in the capital market. Shares can be transferred from one member to another, that too at par value. This is to ensure that outsiders cannot capture control of these companies.

In other words, the Act permits only 'primary producers' and persons or associations of primary producers to participate in shareholding of producer companies. The term 'primary produce' applies to a produce of farmers arising from agriculture including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products: produce of persons engaged in handloom, handicraft and other cottage industries: by-products of such products; and products arising out of ancillary industries.

The Producer Company for all practical purposes will behave as a Private Limited Company. The significant difference is that to register a PC, a minimum of two persons cannot do so, instead, a minimum of 10 individuals are required. But the maximum number of members can exceed 50. The provision relating to a minimum paid-up capital of Rs0.1 million should not apply to a Producer Company but that is not unambiguously stated.

As mentioned earlier, in PCs with only individuals as members, the voting right is based on the principle of one-member-one vote. However, in PCs with PCs or groups as members, the voting is based on patronage. Surplus distribution also may be determined by the level of patronage provided by members. The Law provides for limited return on equity, meaning that the dividend on shares is small and nominal. But the law also demands that the number of shares one member purchases should be in proportion to the proposed participation in business so that members do not take undue advantage by participating in business.

The major ways in which profits are distributed are through payment of 'withheld price' and 'patronage bonus'. The producers who supply produce will receive an initial payment in proportion to the quantity supplied, and then later receive a 'withheld price'. This withheld price also may be given in the form of shares. Patronage bonus, paid after the annual accounts are approved, means payment out of surplus income to members in proportion to their respective patronage and not the number of shares held. Patronage, in turn, is defined as the use of services offered by producer companies to their members by participation in their business activities. This may also be given in the form of additional shares, as per Board decision. Over and above these, the members also receive a 'dividend' in proportion to the shares held.

The Producer Company law permits cooption of a few expert directors in the Board without voting rights in the Annual General Meeting (AGM). This is a very important provision which did not exist for the cooperatives. The domain experts are able to advise the Board on prudent decisions and thus bridge the 'information asymmetry' between the Board and the management. This provision is especially helpful in those PCs with mostly illiterate membership dealing with complex markets. The members tend to depend upon the professional management to take decisions in such cases.

The PC by virtue of being registered as a Company is regulated stringently, making statutory demands on the organisation for better disclosure and reporting and, thereby, protecting members' interests.

7. Comparison of PC and Co-operative laws

A summary table on how the Producer Company compares with cooperatives is as follows:

Table 1: Comparison of producer company with cooperatives

Parameter	Producer company	Cooperative law	New generation cooperative law
Authority with	The General Body	Registrar of cooperatives in the State	Registrar of cooperatives
Legislation	Central Government	State Government	State Government
Regulated by	Registrar of Companies, GoI	Co-operative Registrar, Department of cooperation of State Government	Co-operative Registrar, Department of cooperation of State Government
Compliances (Returns to)	RoC Returns (On-line)	Registrar, Department of cooperation of State Government	Registrar, Department of cooperation of State Government
Directors' Identification Number (DIN)	Mandatory, difficult to get the required documents from the rural producers	Not needed	Not needed
Directors	There is provision of inviting expert directors from outside (Co-opted directors)	No such provisions	No such provisions
Flexibility	Stable as it is a central Govt. law	State Government can amend the legislation to suit its agenda	State Government can amend the the legislation to suit its agenda
Support from Government	Not possible	Can get financial support from the Department of Co-operation	Cannot get financial support from the Department of Co-operation
Grant support	All grant supports are considered as income	The department provides subsidy through individual members	No subsidies from the department

Profit distribution	Have provisions like, withheld price, patronage bonus limited return on share	Similar provisions exist on deferred payments or patronage rebate and interest on share capital	Profit distribution policies left to the general Body. rebate and No stringent stipulation as to how much to be distributed and how
Equity	Only equity shares for producer members, no outsider (other than the producers) is allowed to invest in equity	Department of coop can invest in equity	Shares to be held only by producer members
Debt	PC is not priority sector. However, as per a recent circular from the RBI, loans to PCs engaged in agriculture and allied activities will now be treated as priority sector	Priority sector	Understandably priority sector (even though not explicitly stated as about PACS and LAMPS)
Membership	Individual, formal group, informal group of producers	Individual member	Individuals, cooperative
Voting right	One-member-one-vote in PCs with only individual producers; patronage based voting rights for groups	One-member-one-vote	One-member-one-vote in primary cooperatives, and a suitable democratic form in Federations
Patronage	The Articles can stipulate minimum levels of patronage; and number of shares linked to patronage	No such provision, therefore a lot of dormant membership	The Articles can stipulate minimum levels of patronage; and number of shares linked to patronage
Partnership	Can form JV with companies with similar objectives	No such provisions	Can amalgamate, form subsidiaries or other organisations
Transparency	Open to access all information through Search Report (on-line)	No such facility	The Act stipulates high standards in reporting and compliances
CEO	Appointed by the Board	By the Registrar of Cooperatives	Appointed by the Board
Dispute settlement	Arbitrator	Registrar of Cooperatives	Cooperative tribunal

As mentioned above, the Producer Company amendment came as a response to the dismal state of affairs of the cooperatives. Yet there are still areas where they have not been addressed adequately. The Alagh Committee had observed that the restrictive provisions such as inability to refuse membership, lack of premium on patronage, the overarching role of the Registrar of Cooperatives, and so on, hamper the autonomous functioning of cooperatives. In the present competitive scenario, the producers (especially the rural poor among them) need a level playing field with other corporates. As per the features listed above and the overall letter and spirit, the Producer Company legislation entails an enabling and progressive legal framework for the cooperative form of organisations.

Since the new law was encoded as an improvement over the cooperative form of collectives, it might be fruitful to assess whether the Producer Company legislation adequately overcomes some of the common weaknesses of the traditional cooperatives.

Issue: The cooperatives have the principle and practice of ‘Open membership’ where new membership can be granted without taking consent from existing members or without regard to the ability of the cooperative to effectively provide services or both. Further, it does not provide any reward or incentive to long standing loyal members. All this has led to the problem of free riding.

Observation: The Producer Company law does not address this issue adequately. While only producers or their associations and groups can become members in a PC, the incentives for longstanding members are still limited.

Issue: Practice of ‘one member one vote’ principle that de-links voting and patronage has led to instances of non-user members taking control of governance in the cooperatives. The Board often comprises members who lack requisite business orientation and expertise. Besides, there is an absence of external scrutiny of cooperatives by skilled investors, financial analysts and rating agencies as applicable in case of public companies. Overall there is an issue of inadequate governance and control mechanism in the cooperatives.

Observation: These issues are partially addressed in the new legislation. The legislation provides for voting based on patronage, albeit only in case of Producer companies formed by Producer Institutions. The legislation also provides for cooption of experts up to one-fifth the strength of the board.

Issue: Cooperatives face problems related to capital formation as the only way that Risk capital can come in is through member equity. Raising member equity for growth or expansion of business often proves difficult, either because members cannot afford or they are not willing to contribute due to reasons such as absence of capital gain on shares invested and limited return on capital. The Capital built through retention of earnings is generally held as unallocated

reserves and the correct position on equity is not reflected. These result in dependence on the State for equity and debt investments in the cooperatives.

Observation: The producer company law does not address these issues adequately as the law here also allows raising risk capital only from members. There is no incentive for members to acquire more shares than necessary. Thus while there is difficulty in mobilising internal capital, there is no provision for mobilising external capital. The general phenomenon in member-oriented firms, i.e., 'member-myopia' would plague the Producer Companies as well, leading to members not taking interest in the long-term gain of the Company, rather looking only at short-term individual gain

Issue: In a cooperative, members need the organisation since they all would like to further their individual business interests. As long as the members relate to the cooperative as users, they share a common interest. However, value addition to the organisation requires additional investments. But members have no incentive to invest because returns are based on patronage and not shareholding. So if a member invests, more often than not, it leads to conflicts because the investing member may demand additional returns.

Observation: The PC law does not address these issues adequately as the issues are similar.

The producer companies currently deal with three broad kinds of constraints. The first set of constraints are generic to any organisation trying to work with small disadvantaged poor people and trying to link them with actors in the market place with whom they have unequal power status, irrespective of its legal form, These are issues that are common to any member-oriented firm.

Then, there are issues, which have to do with the newness of the idea. There is a general lack of awareness among regulators, financial institutions, NGOs and other stakeholders, including the producers. At the level of the regulators and financial institutions, there is also a lack on incentives to promote and support producer companies.

The third set of issues has to do with the special architecture of the institution: primarily the legislated constraint on capital shall come only from members; and only producers can be members. Here, one has to bear all the consequences, such as slow growth, or not being able to use the most modern technology, or modern designs or investing in marketing and advertisements, or in professionals, by adopting the Producer Company format.

There have been many examples of Producer Companies in the country by now. There is, however no one list of Producer Companies that exist today, but it can be safely said that there are already hundreds of Producer Companies that are functioning today. Some of the prominent Producer Companies are Vanilla India Producer Company Limited, ESAF Swasraya Producers Company

Limited (ESPCL), Masuta Producer Company Limited, Indian Organic Farmers Producer Company Limited, Chetna Organic Agriculture Producer Ltd (COAPCL), Sironj Crop Producers Company Private Limited (SCPCL) and 17 producer companies that were formed in Madhya Pradesh as part of the MPDPIP programme funded by the World Bank.

Box 1

**MASUTA Producers' company limited –
the Tasar Silk Processors' collective**

Overview

MASUTA Producers' Company Limited (MASUTA in short) was registered on 26 December 2005 as a Producers' Company.

MASUTA is a women tasar yarn producers' collective that emerged out of the tasar yarn production based enterprise that PRADAN promoted among the women SHG members in its operational area. Organising Tasar yarn emerged as an important option in the quest to provide more value to the poor families involved in the Tasar activity. Despite its economic potential, yarn production did not flourish as an independent activity. It remained a low paying subsidiary activity done by poor women in their free time inside their houses, most of whom were wives of the weavers. It however plays a critical role in the Tasar fabric industry by supplying the raw material. Market studies revealed that the Tasar yarn production by itself had the potential to provide livelihoods to a large number of families, even separate from cocoon production and fabric production.

There were no traditional weaving families, hence no traditional yarn producers in the PRADAN operational villages. So PRADAN trained the SHG members in the technique of converting cocoon into different kinds of yarn. Subsidy assistance was made available to them under Special SGSY programme. Assets in the form of individual reeling machines and the community production centres were created. Then the producers were organised into a two-tiered structure. The primary groups, which are village based, comprising of 20–30 women of the same hamlet or nearby hamlets drawn from one or more SHGs, are registered as Mutual Benefit Trust or MBTs. Each of the MBTs elects its representative to the Producer Company MASUTA. The advantage of the MBT is that it is a relatively hassle-free format and at the same time gives a legal status to the primary groups, which can then receive financial assistance from banks and other FIs.

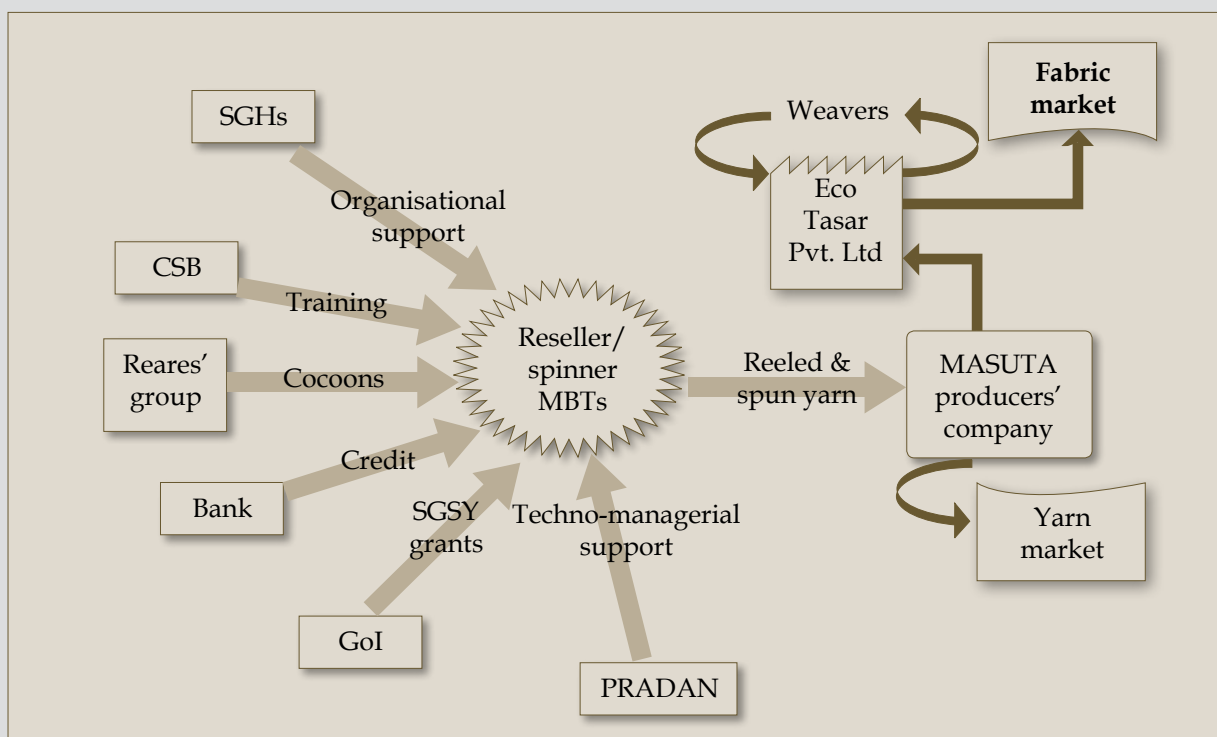
With the inclusion of 500 more members in Jharkhand, the number of member-producers touched 2500 by the end of financial year 2008 09. The members are now spread over 120 villages, from 5 districts in Jharkhand and one district each from Chhattisgarh and Bihar. MASUTA focuses on serving existing and new members by pooling, aggregation, segregation and distribution of materials and services, development of new yarn types, improving production technology, making the producers aware of the market, and membership development.

The bulk of MASUTA's business is yarn production and sales. There are MASUTA recruited yarn supervisors at the community production centres, who are dispersed across three States. The yarn produced by the members are pooled, sorted, graded and packed by MASUTA for marketing. There are two different

marketing channels for MASUTA – selling yarn directly in the market and converting part of it as fabric through Eco-Tasar Private Ltd (a Joint venture Company in which MASUTA holds 76 per cent and a private entrepreneur holds 24 per cent stake and registered as Private Limited Company). In the initial days MASUTA had faced lot of challenges to create space in the yarn market, but slowly and steadily the MASUTA yarn have come to be known for quality and has gained the confidence of the market.

MASUTA has opened two retail counters in Bihar and Chhattisgarh, to cater to the requirements of weavers of these clusters. Besides this, yarn is sold to institutional buyers. MASUTA also organises buyer seller meets to bring together weavers and traders.

Figure 1: The Schematic Diagram of MASUTA PCL



Operations

MASUTA's debt comes from the private sector banks like ICICI bank, Development Credit Bank, HDFC bank, AXIS Bank Manaveeya and IFMR Trust to the tune of Rs 84 million through microfinance as well as direct lending route. Moreover, NABARD under its UPNRM (Umbrella Programme on Natural Resources Management) scheme lent MASUTA Rs10 million last year for the producers of Bihar. In addition, MASUTA secured Rs10 million as cash credit from Indian Bank. These inflows have helped the Company purchase and stick about 50 million cocoons and ensured timely lifting of yarn and payment to the producers. MASUTA, in its short spell of operation has established a good working relationship with its lenders. This has led to many other banks like PNB who are showing keen interest to support the Company.

MASUTA purchases cocoons and sells them at cost price to its member MBTs and purchases yarn from them for marketing. In all such transactions, only yarn sale brings in any revenue to MASUTA. Thus, in case of MASUTA, the transactional turnover and sales are much higher compared to the revenue.

Table 2: Un-audited balance sheet of MASUTA

Particulars	Year ended 31st March 2009 Amount (Rs000s)
Sources of funds	
Shareholder's fund	
Paid-up share capital	5000
Share application money	1067
Reserves & surplus	892
Specified fund	4226
Loan	82714
Total sources of fund	93900
Application of funds	
Block of assets	2,563
Investments	7,645
Net current assets	83,692
Total application of funds	93,900

Benefit to the members

In spite of high cost of capital, MASUTA producers received upfront at the time of depositing yarn, Rs450 per kg net of cocoon cost. In addition to this, another Rs100 to 150 per kg has gone to the producers as Withheld Price, Patronage Bonus, and Dividend. Each producer, her spouse and two children are covered by a cashless health insurance policy. The premium for such insurance is paid by MASUTA out of its surplus.

Last year producers such as Joba Das of Gandharakpur village in Jharkhand, Usha Devi of Rajdah and Lukri Devi of Teliadih in Bihar supplied more than 35 kg of yarn and earned more than Rs20,000 each, increasing their annual family income by almost 50 per cent.

Issues in finance

Even as access to credit has been relatively easy for the company, the cost of capital has remained high at about 16 per cent effective rate per annum. This is despite the fact that the NABARD assistance carries very low interest burden. In spite of an impressive business model, the lenders have refused to bring down interest rates, but the expectation is that over a period of time as business confidence increases, the lender would find it worthwhile to reduce lending rates and bring it to more affordable rates for the low-end producers.

Another way of reducing financial costs is also to look at how to enhance the equity base of the Company. Equity investments are also important if the company wants to attract more debt for expansion. The Company over the past few years in operation has offered the members shares in lieu of the bonus and withheld price. PRADAN has also mobilised grant finance from various sources such as the Ministry of Rural Development, which has been invested in the company by the recipient members, thus adding to the equity base. But these alone will not lead to substantial increase in equity; large scale external capital needs to be brought in. The law currently does not permit infusion of external equity capital in the Company as of now, but it is an area that needs exploration.

Working Group on producer companies

PRADAN organised a workshop on Producer Companies in December 2007. The workshop was an opportunity for the participants drawn from a wide spectrum of arenas, ranging from practitioners to academics and donors to deliberate on issues around linking small producers to markets through Producer Companies.

The workshop deliberated on a wide range of issues mostly summarised above, and also tried to look at the way ahead. Based on the suggestion of the workshop, a Working Group (WG) consisting of selected representatives from different stakeholders was set up to look at the Law comprehensively and generate an exhaustive list of recommendations for improvement. The Working Group carried out consultations with interested stakeholders at large, held a series of meetings and deliberated on the different Clauses and identified issues as summarised in the following sections. The set of recommendations are briefly mentioned here without going into the details of the sections or the clauses. These set of recommendations are currently with the Ministry and there is a possibility of more meetings with a wider array of stakeholders.

Improving the existing provisions:

Issues with definitions: Various terms used in the legislation such as 'member' and 'active member', 'patronage', 'primary produce', 'producer', 'producer institution' and 'withheld price' require clearer and unambiguous definitions.

Voting rights: The existing legislation very strictly prescribes the 'one person, one vote' rule for Producer Companies, other than for the ones formed exclusively by Producer Institutions, where voting is based on patronage. This restricts producer companies that may want to give premium to voting based on patronage from doing so, hampering the autonomy of the members to decide for themselves as to how they want to govern themselves. An additional point is that the existing legislation does not have provision for voting by proxy in case of companies with very large memberships, or those which are spread over very large geographical areas.

Membership: The issue of open membership needs to be addressed so that the members of the day have a say on who the new members would be.

Distribution of Surplus: The relevant clause in the existing legislation requires a re-look to ensure that the surplus generated by the Company is distributed among the various stakeholders in an equitable

manner. This becomes more important in view of the proposals to incentivise internal capital by providing for appreciation of share value and also attracting external non-voting equity, by offering attractive returns.

Election based on constituency: In case of Producer Companies spread over large geographical areas, it would be useful to have mechanisms for voting that allows grouping of members into constituencies based on territory or otherwise.

New Provisions recommended

In addition to rectifying the issues mentioned in the earlier section, a few new sections are also proposed to be incorporated in the Producer Company legislation to make it more effective in dealing with some of the lacunae identified by the working group. They are as described below:

Valuation of equity shares: Provision for the Company to create mechanisms to periodically assess the value of the equity shares held by members and declare a fair value. In case of well-performing companies, this can create an appreciation in the value of the equity share which would incentivise members to acquire more shares. This will help in mobilisation of additional capital from members themselves required for growth and expansion of the business. Similarly there needs to be provision to enable share transfer from member to member at freshly assessed values, rather than at par value, as is the provision now.

Provision for easy exit of non-active members: Once the definition of active members become sharper, it would be required to have an easy exit mechanism for them and refund of their equity

Capital structure This relates to raising external funds through preference shares, bonds, and debentures. This is a new provision that needs to be created because the existing legislation does not provide for raising external risk capital. All the issues that the external risk capital investor would have regarding return, control and exit needs to be taken cognisance of adequately and appropriate provisions would need to be made.

Buy back of shares: A provision needs to be created for this to enable the Company to buy back shares if the need arises.

Other issues

Currently the PCs are being promoted mostly by NGOs, who are looking for options to organise the producers in formats other than the cooperatives. Many of the PCs are struggling primarily because of the financing issues. But there are also other issues as highlighted in the following examples:

Dari Krushak Vikas Producer Company Limited

Development Support Centre (DSC) has promoted the Dari Krushak Vikas PCL in Dari in Amreli District, Gujarat. It has been floated with 10 Watershed Associations as members, with a paid up capital of Rs100,000. The objectives of the PC were to carry out the business of production,

harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce e.g., groundnuts, oilseeds, grains, and other agro products of the members or import goods or services for their benefit, to provide for mutual assistance and technical consultancy services to farmers, to provide for insurance cover and credit facilities to the farmers in a profitable manner and to provide for welfare measures or facilities for the benefit of members. The PCL has about 1000 members and has done a business of about Rs1.2 million in the last financial year. The company has taken up multiple activities around the stated objectives.

The issues faced by the Company are many. Firstly, it is situated in Gujarat where the cooperative movement is quite strong, and the PC format is looked at as competitive to the cooperative. Then there is a major lack of awareness among the lenders and regulators, the bureaucracy, even the auditors. Thus the registration processes are very cumbersome and time-taking. Getting financial assistance from banks is a difficult process. To encourage the formation of more Producer Companies, a number of steps to basically educate, and sensitise the bureaucracy, the lending institutions and the regulators will be necessary.

The Vanilla India Producer Company Limited (VANILCO)

The Vanilla India Producer Company Limited is promoted by vanilla farmers primarily in Kerala, to protect the long term interest of vanilla growers all over the country. Vanilco is a Producer company with the twin objective of promoting vanilla production and processing vanilla as per international standards. Vanilco is owned by farmers and it works in tandem with them to produce and market the best and choice vanilla beans and extracts. Its goal is to ensure a just and fair value for the farmers' produce at par with the international markets and standards. The company procures, processes, benchmarks and markets the farmer' produce and generates profits that are distributed to shareholders as handsome dividends.

Vanilco showed a lot of promise when it was initiated with them being the only player in the market who could supply large quantities of vanilla – an important flavour ingredient with wide-ranging applications. A company with about 2500 vanilla farmers in Kerala as members, it is currently on the verge of a breakdown, as stated by the Managing Director, Mr Paul Jose. A major issues faced is the dumping of cheaper artificial vanilla available freely in the market. The USP of Vanilco is that it is pure and natural vanilla. Artificial vanilla is banned by the FDA in the USA, but no similar legislation exists in India. Unless that happens in India, where the consumers are not that discerning, the market for natural vanilla would not pick up. Vanilco till recently had a tie up with Amul for supplying natural vanilla for the ice creams. But of late the tie up also has been called off because the subsidies that Amul was to get for the use of natural vanilla has not been received by them. In addition to such policy issues, Vanilco also has financing problems. Currently the Company has an equity base of Rs2.5 million and also has a returnable grant of Rs2.5 million they received from Small Farmers Agri-Business Consortium (SFAC). They require more support but loans are not forthcoming. Nevertheless, only solving the financing issues will not save the company unless and otherwise the sector wise policy issues are not sorted out.

Community-owned companies of FabIndia – an alternative to producer companies?

While there have been issues with PC legislation, there also have been innovations. A major name in the promotion of handicrafts in the country, FabIndia has floated a new concept called the Community-owned Company (CoC) in order to organise their supply chain. The FabIndia promoted CoCs have the potential of being a robust alternative to Producer Companies especially when there exists a strong patron like FabIndia who provides an assured market for all the produce of the CoCs.

The model of the CoCs emerged after deliberations as to how the supply chain can be organised in a manner that FabIndia is able to source the products through organised intermediaries and the artisans get a better return for their produce by cutting out other intermediaries and they also do not face any scarcity of working capital. The artisans are also able to source other raw material and technical services without hassles because of being organised.

At the bottom tier is the CoC, a private limited company with the artisan holding a minimum of 26 per cent shares. Fab India has a wholly owned subsidiary named Artisan Microfinance Private Limited (AMFPL). AMFPL holds a maximum of 49 per cent stake in the CoC. Key employees hold a maximum of 10 per cent of the equity and external investors hold a maximum of 15 per cent of the equity. This ensures that the artisans have a controlling equity in the company and eventually can build up the equity to higher levels of control. Fab India through AMFPL has also a substantial control on the Company. AMFPL also supports the company with microfinance as needed. Since this will be an unlisted company, the company has created an interesting mechanism to provide appreciation on investment to shareholders. Twice a year the Auditors will undertake a fair value assessment of the shares and declare the share values. The members can buy or sell shares at this value from the company.

The CoC model tries to combine the strengths of the various players, at the same time ensuring member control to the appropriate level. The Board benefits from the technical expertise of the representatives from the financial institutions and AMFPL. The CoC has captive access to the Fab India goodwill and markets, and FabIndia benefits from an assured supply line. The FabIndia name also opens the doors to the financial institutions, making sure that the production lines do not stop for shortage of working capital. For the artisans, being in an organised form helps provide the scale of economy for market linkages. From an overall point of view this must be the only model that has organised artisans at scale under a robust business model. There are currently about 40,000 artisans under this model in 17 companies spread across Uttar Pradesh, Madhya Pradesh, Rajasthan, Andhra Pradesh, Bihar and Tamil Nadu. FabIndia is targeting 100,000 artisans.

The Fab India model needs to be tried out in more contexts, across more sectors to see whether the model can be universalised for all the small producers. Nevertheless, in this specific case of handicrafts, with a strong support institution providing assured market, microfinance and technical support, the model has turned out to be quite exciting.

8. Conclusion

Linking producers to markets for generating sustainable livelihoods with dignity, has been an age-old problem and has its own challenges. The major issue is their inability to produce surpluses that can be re-invested in the growth of the activity or can lead to capital formation at the household level. This results in stagnation of the poor household; rather, the household can even slip below the subsistence level. Growth will happen only if the household starts producing a marketable surplus that brings in incomes of higher order. For this it is required to infuse investments from outside into the activity and raise its level substantially. This requires enhanced linkages with external markets in order to bring in investments and knowledge; sourcing inputs and other technical services; and accessing output markets.

Linking small producers to markets that are far away has its imperatives. There is need for aggregation, in order to benefit from economy of scale. Then there needs to be systems for sharing services such as knowledge inputs, production supervision, storage, transportation, etc. There also needs to be a mechanism that can absorb the price risks that happen with primary produce such as farm produce, commodities, rural handicrafts, forest produce and so on. Ultimately there needs to be mechanisms to ensure timely sharing of costs and benefits based on patronage. These are the imperatives around which producer organisations have to be created which will also ensure active interest and participation by producers. Additionally, producers' organisations also must adhere to principles of member ownership, members' participation in governance, efficient operating systems and transparent processes.

Till recently the cooperatives used to be the only mechanism available for the rural poor producers to organise themselves in a formal and legal way. The State too recognised the collectives based on cooperative principles to be a robust mechanism to solve all the problems of isolation and exclusion of the rural poor from various social and economic processes. But when the State started promoting cooperatives on a large scale, and started patronising them, the values and principles went out of the window and the cooperatives became instruments of vote bank politics and corruption. Today, the cooperatives in general stand highly discredited.

Of late, many efforts have been made, first by the civil society organisations which were then legitimised by the State. The liberal cooperative law was passed in 1995 and has since made a significant change in the scenario with well-functioning cooperatives coming up under the law. But it still has not become a movement. The better functioning of these new cooperatives have also irked the old school of State-run cooperatives and moves opposing their growth have already started.

Much newer is the Producer Company experiment which is still to take off in a big way in the country, in spite of the big promise it holds to provide an alternate way for the poor producers to link up with the markets. The Producer Company provides a framework for the small producers to organise themselves as a free market entity, set up subsidiaries and joint ventures and such mechanisms to make use of the evolving markets. At the same time they can follow the cooperative values and principles. The fact that the PC is regulated under the Company's Act provides it with higher business credibility. But that also has created a major problem for the growth of the PC, which is the inability to get access to equity. Dependence only on producer-member equity has put a major road block in front of the PC, keeping away investors. This among many others is a problem that needs urgent attention. The Producer Company model needs to be replicated in larger number across sectors to really understand the potential and the problems. Appropriate experiments need to be carried out in various combinations of institutional models. The MASUTA – Eco Tasar model is a combination of a producer company and private limited company that has differentiated between a producing company and a marketing company. More such experiments need to be tried out.

The FabIndia model of CoCs offers an innovative way forward for organising small producers in a corporate way where a patron of the nature of FabIndia exists. The producers benefit from economies of scale and access to assured markets, technical and financial support. This model also needs to be tried out in multiple sectors and combinations to see what can be the best fit.

These are challenging times for the agencies working to link small producers to markets. The more the farms are getting fragmented, the more farmers are leaving farming. The youth in the villages are migrating to cities in large numbers. To provide and sustain livelihoods of these large numbers of poor people, they need to be linked to mainstream market mechanism and appropriate producer organisations are needed for the purpose. New institutional options are emerging but no option has emerged as the best option. May be it is the combination of multiple options that would work in the end.

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Challenges in Livelihood Finance

Srinu Babu M

1. Is microfinance the answer to poverty reduction?

The micro-finance (MF) movement around the World has made capital accessible for the poor households not served adequately by formal financial institutions. The micro-finance industry grew from USD1.2 billion in 1996–97 to cross USD30 billion by 2006–07. The industry has matured to a great extent and strengthened its methodologies. The number of MF institutions has increased many folds. Technologies have been developed, enabling large amounts of capital to flow to the poor. Today, MF has acquired a prominent seat at the policy tables. It is thus perhaps the appropriate time to look back at the question raised by Ela Bhatt (2002) or The Development Finance Forum (2004): Is Micro-credit the Answer to Poverty Eradication?

While attempting an answer, Vijay Mahajan concurs, “micro credit pales into insignificance as a ‘solution’ for poverty alleviation and promotion of livelihoods”. This is because poverty alleviation and sustained increases in income-generating capabilities have to do with accumulation of assets – physical, financial or human. And micro credit is simply far too small and far too narrow (in terms of the risks it seeks to mitigate) to aid significantly in that process. What is required is ‘livelihood finance’ that will aid in the process of asset accumulation, in which provision of financial services (broadly defined) including insurance, loans and repayment in kind/cash with longer moratoriums, etc., is an integral part. For sustained growth and poverty alleviation, the answers are still the old fashioned asset accumulation and employment generation. Even mainstream development finance is slowly coming to grips with this relative ineffectiveness of micro-credit-led strategies, and to that extent, micro credit is yesterday’s story (WFP 2005).

Collective enterprises and fee-based provisioning of public services contribute in creating sustainable livelihoods for the poor. There is also a need to engineer financial products that will help the poor to reduce the vulnerability and strengthen their livelihoods. In India, undoubtedly, microfinance has played a limited role in this direction.

In this chapter we first understand the concept and scope of Livelihood Finance (LiFin). We then discuss the various limitations, constraints and opportunities in offering and accessing LiFin through two cases, one each from the demand and supply side. This particular section will attempt to assess the existing legal institutional frameworks vis-à-vis the demands of LiFin. The chapter then analyses the unique experience from Self-Employed Women's Association (SEWA) in transcending some of the limitations to fulfill the broad scope of LiFin, leaving important lessons in its wake.

2. Rationale for livelihood finance

Microfinance is the provision of financial services, including credit, savings, insurance, and other services to individuals who would otherwise be excluded from the formal financial sector, usually due to lack of collateral (CGAP).

Then there is Value chain finance, which is when credit or other financial services flow through actors along these chains. Value chain finance may or may not include support from formal financial institution (RAFI notes, USAID).

The concept of LiFin is broader than both and comprises a comprehensive set of services ranging from short, medium and long-term investments for livelihood promotion of the poor. Finance for purchase of individual productive assets and even working capital are not enough for the Poor to sustain their livelihoods as they often lack capacities to produce what the market wants. Therefore, the poor also require investments to build their capacities. Further, the Poor often live in areas with low productivity and with little or no infrastructure. Therefore investments are required for enhancing the productivity and infrastructure. The Poor are characterised by fragmentation of landholding and dispersal. Therefore they cannot engage in the market as an equal player unless their products and services are aggregated. This also requires significant investments in bringing them together and building their institutions. Mahajan argues that investments in several of these areas are required for sustaining the livelihoods of the poor effectively (Mahajan, 2005).¹

3. Working definition of LiFin

LiFin comprises of short-term credit to individuals for individually owned productive assets, working capital and meeting consumption deficits; larger and longer term finances to community owned institutions, for both capital investment and working capital requirements; investments including a mix of grants and loans for strengthening the natural resource base, human capacities and strengthening of producer institutions; long-term investments into quasi-

1 Mahajan, Vijay (2005); "From Micro credit to Livelihood Finance", *EPW*, 8th October 2005

government institutions for building infrastructure; as well as investments in knowledge domain, both in terms of knowledge building and technology development.

The range of financial services includes:

- Savings
- Credit both short and long-term, for investment in natural resources: land, water, trees, livestock, and energy
- Insurance for the lives and livelihoods of the poor, covering health, crops and livestock
- Infrastructure finance: roads, power, market places, and telecom
- Investment in human development including in nutrition, health, education, vocational training.

Livelihood Finance is not only about finance. For land treatment to work, the trees to grow on the land on the hill slope, and for the road to be built, functioning local institutions such as watershed committees, forest protection committees and panchayats² are needed to be financed. Therefore, unless investments are made in these resources, the poor will not be able to utilise the micro finance extended to them for individual productive assets, or working capital. Consumption deficit finance would still be required, and is happening with many of the MFIs. To serve the purpose of economic growth, we need a new paradigm of 'livelihood finance' with much larger levels of resource allocation, both from public resources as well as from the capital market.

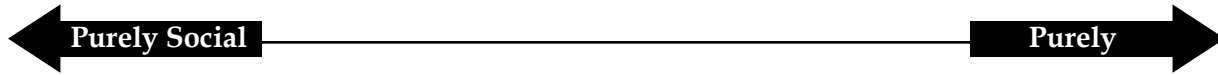
4. The nature of funds required for LiFin

Livelihood Finance is complex. On the demand side, different forms of institutions, i.e. where capital structure (and thereby ownership) is designed differently are required for accessing different parts of the Livelihood Finance. While Individuals can accept Micro-finance for individually owned assets, only a community based or an investor owned for-profit institution can access a loan for plant and machinery. But that agency will not be able to access grants for capacity building which can be accessed by only a not-for-profit institution. But funds for infrastructure development may be accessed and utilised only by a quasi-government institution or a large corporate body which can assure repayment terms of 25 years or longer.

On the supply side, different forms of investors, such as MFIs, Commercial Banks, Mercantile Banks, Development Finance Institutes, Equity Funds,

² Village assemblies

Figure 1: The LiFin spectrum³



Capital Providers	Intermediaries	Capital Users	Communities
Corporations	Private: • Banks • Asset managers • Fund managers	Companies	Social impacts: • Poverty alleviation • Improved healthcare • Quality education • Access to jobs • Access to markets • Sustainable agriculture • Environmental cleanup or preservation • Economic development
Investors: • Institutional • Individual		Social entrepreneurs	
Philanthropists: • Institutional • Individual Public sector	Domestic/Community development finance institutions Governments, International development finance institution	Not for Profit Organisations / Sec 25 Companies	

Venture Capital Funds, Angel Funds, grant making agencies, referred to as Donor Agencies (both Government and Non-Government) and Foundations complete the spectrum.

The LiFin spectrum in figure 1 tries to capture the range of services and the players on the supply as well as on the demand side. The major bottleneck in providing and accessing LiFin is that none of the institutions could leverage the resources with a single legal design. Rather it had to orchestrate its institutional designs as per the need of the players on both the supply as well as the demand side. Let us try to explore some of the issues that pertain to leveraging of LiFin through some cases from the much appreciated model of Community/producer based organisations.

5. The Rangсутra case:⁴ demand side story

Rangсутra Craft's Duniya Producer Company was formed to generate sustainable livelihood for craftspeople through achieving economies of scale in design and marketing across the States of Rajasthan, Assam, and Uttaranchal.

³ Source: "The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation" by Jed Emerson, p. 282 P

⁴ www.aiacaonline.org/pdf/rangсутra.pdf

Rangсутra works with small producer groups of artisans, weavers and managers to bring together various parts of the supply chain. Each group facilitates the production process, yarn sourcing, dyeing and design allocation to artisans who work from home. Rangсутra is based on the principles of fair trade and creates an environment where producers have a stake in the future of their craft.

To make it more commercially sustainable than the traditional cooperative model, Rangсутra was registered as a producer company under Section 581C (5) of the Indian Companies Act in December 2004. The authorised capital was Rs100,000, being the minimum required for a producer company with each of the ten shareholders investing Rs10,000. The shareholders comprised of five artisan groups (Urmul Marusthali Bunker Vikas Samiti, Vasundhara Gramothan Samiti, Urmul Seemant Samiti, Action North-East Trust, and Pan Himalayan Grassroots Foundation) and five individuals with diverse expertise in the sector.

As only the third enterprise to be registered as a producer company, Rangсутra faced several challenges; generating adequate funds being the biggest. It took them three months to open a bank account due to the unfamiliar structure. Artisan producers did not have much to invest while private investors were reluctant by virtue of legal restrictions to invest in an organisation with so few shareholders and one that limited the rights given to outside investors, international donor agencies were concerned about profit motives and government schemes required at least three years of financial history. In addition, the partner NGOs, accustomed to receiving grants, ran the company like a social venture rather than a business.

To raise additional capital to fund operations and growth, Rangсутra formed a private limited company in June 2006. The private company is owned equally by four stakeholders: artisans; promoters; 3) aavishkar (a venture capital fund); and a joint venture fund established by FabIndia. Artisans have invested individually upwards of Rs1,000 and are represented on the Board of Directors along with two private investors and the Managing Director. The Private limited company is capitalised by debt (sanctioned by a private bank at 13.5 per cent interest) in the form of a working capital loan against orders backed by FabIndia.

The focus of the producer company now is on working with smaller groups to provide services, such as capacity building, marketing and design for a fee. It has a retail outlet where it sells its own label, benefiting from international brand recognition. The role of the private limited company is to manage production and inventory as well as sell to FabIndia, the retail store and other buyers.

The private limited company of Rangсутra achieved a turnover of Rs3 million within a year. In 2007–08, sales were Rs15 million and the target for 2008–09

is set at Rs40 million. Sales are driven on a high volume-low margin model, almost exclusively with FabIndia as a buyer. Larger investment has enabled the private company to hire more staff and invest in product development.

While the private company (PC) is doing well financially, the producer company has not been able to make profits despite a larger mandate. The producer company relies on grants from the handloom scheme and only one part time consultant designer, is compensated. Any institution that seeks to promote a PC will come across this 'design flaw' that limits its capacity to leverage private capital, thus hindering the actual potential of the producers.

The private company structure has brought about many positive elements – faster decision making, a sense of urgency to meet production deadlines, constant design development, committed shareholders, and rigorous financial reporting demanded by investors to guide management decisions. In addition, this legal structure enables expansion and facilitates growth. However, there are some limitations of the private limited company as well, as they only allow a maximum of 50 shareholders. To mobilise share-holding from about 1000–1500 artisan producers, Rangсутra registered as an unlisted public limited company on 2 September 2008.

Issues in producer companies

Capital and related issues of control return and exit (this issue arises from the fact that, when we deal with the very poor producers, they may not be in a position to put in the start up capital required to float the company.

Non-producer investors cannot invest in the Company because the law does not allow them. Even if the law permitted that, there are other provisions that would discourage them, like they cannot get dividend and the shares they purchase cannot be traded.

Drawbacks in the current Producer Company Act (PCA) necessitates introducing new provisions to provide a robust mechanism for poor producers to organise themselves. A PC not being allowed to raise capital from non-members is a major lacuna in the current legislation. Because of this clause, producers who were unable to generate start-up capital themselves as seen in Rangсутra case have to depend either on donors or outside agencies for financial help. A change in legislation to allow PCs to raise 49 per cent of equity capital from non-producers, endorsing their right to 'differential dividend' but not to vote, will enable producers to raise necessary start-up funds, without compromising their control of the company.

In order to enable capital infusion into PCs, the role of the Formal Financial Institutions (FFIs) becomes very significant as the PCs neither attract private investors nor leverage enough capital from the producers. The government and private donors should provide guarantees to facilitate banks to lend to PCs at a subsidised rate with an allowance of high debt equity ratio of 15:1 or more. Further, government lending institutions like NABARD; SIDBI, etc., should treat PCs under priority sector lending because even with best intentions, it is problematic sometimes to generate funds from banks.

We see here that in a short span of four years, Rangasutra has had to incorporate three different forms of institutions to meet evolving needs of business and associated financial requirements. This has been because a single institutional framework was not capable of accessing different types and scales of finance in the present legal circumstances.

The Producer Company is emerging as a popular form of incorporation for small producer enterprises. We therefore try to look at some of the issues (Box 1) that this institutional form faces, particularly in accessing financial resources for running and expanding its operations.

6. Organic dilemma⁵: the supply side story

Organic Agriculture is growing from a movement among a small group of elite farmers into a mainstream activity that benefits a large number of farmers, especially small farmers. This throws up several new and unique opportunities for bank lending. It is by now well recognised that Organic Agriculture is a low external input regimen. This implies that there will be limited need for purchased inputs for cultivation which in turn means a reduction in financial outgo, obviously not a scenario that appeals to the bankers. But there are several other opportunities in this area for banks to have a role, apart from public investments and donors:

1. Land development and water conservation measures: Organic Agriculture involves conservation of natural resources on the farm and the two most precious resources are soil and water. To check the run off of top soil, steps like contour bunding, terracing and contour trenching may be needed. Similarly, construction of small storage structures will be necessary to harvest water. These are investments which will pay back only in medium to long-term and at present the Banks are not geared up to finance such long-term investments. To add to their trouble, since such structures are often located on Common Property, the recipients of the finance have to be either a Watershed Committee or a Panchayat as per the new Hariyali Guidelines.⁶

2. Transition cost: The process of transition from Chemical to Organic Agriculture takes between three to five years, during which time there will most likely be a drop in farm yields and therefore a drop in income of the farmer. Banks will have to design products to cover the income deficit during this period. They will need to consider this as an investment cost rather than working capital and capitalise the transition income gap and have longer moratorium.

5 Murray.E.V : Knowledge Bank-Issues and Challenges in Financing Organic cab.org.in

6 dori.nic.in/hariyaliguideelines.htm

3. Learning organic agriculture & farmers' field schools: Knowledge of Organic Agriculture rests with some progressive farmers. Farmers wishing to take the plunge find that the institutional extension mechanisms are not geared to respond to their needs. The only option for such farmers therefore, is to acquire the knowledge at the 'feet of the masters' in the 'guru-shishya' tradition. Besides the direct costs of travel, stay and tuition, there are indirect costs as well of replacing own labour and supervision by hired hands. All this will throw up tremendous financing opportunities.

Enterprising Organic farmers will also need to institutionalise the transfer of knowledge to other farmers through the establishment of 'farmer field schools'. This will again present an opportunity for banks.

4. Certification costs: obtaining organic certification is an elaborate and expensive process, especially for small farmers. Even for group certification, the costs are significant. The benefits of certification being enormous and it being a pre-requisite for access to export markets, banks will need to fund the cost to the farmer.

5. Consumer education: investment in consumer education is a critical part of development of Organic produce market. As this investment tends to be huge, it normally needs to be leveraged in the form of a grant through a not-for-profit agency. Although for sustainability of the institution, services could be facilitated on revenue basis by collection of nominal service fee from the producers.

6. Acquisition of plough animals, poultry, and fishery - Integrated Farm Model: Organic Agriculture is an integrated farming model. Most farmers who had got rid of their farm animals after adopting Inorganic Agriculture and had paved way for automation, will need to re-acquire farm animals both for draught and farm nutrient purposes. Capital investment will be required for this purpose.

7. Increased labour engagement: organic agriculture while reducing external inputs will increase the demand for farm labour. In a competitive labour market, this will result in increase in labour costs and will require to be funded.

8. Manufacture of organic inputs: This is one of the areas where banks have already taken a lead and are financing 'Commercial Production' units of Organic Inputs such as Bio-fertiliser units, Vermicompost and Fruit and Vegetable waste compost units under the Government of India's Capital Subsidy scheme of the National Project on Organic Farming.

9. On-farm processing and value addition: Organic produce may often not be able to withstand the stress of handling and long distance transport. It may therefore have a shorter shelf life and require greater care in handling, packing and transportation than its chemically enhanced counterparts. Farm level pre-

processing of grading, packing and pre-cooling will need to be developed to build an effective supply chain for organic produce.

If preliminary level processing is done at the farm, the benefits of value addition will accrue to the farmer. Activities such as mini-rice mills, dal mills, milk processing, fruit jellies, jams and pickles, etc., are some immediate options, but these could go beyond to activities like mushroom, sericulture, etc. These will require investment by producers and/or their collectives.

10. Demand beyond agriculture: As this happens, there will be an increasing need for resource transfers to the secondary and tertiary sector, which has been a normal economic route in most developed nations which transited from agriculture to industrial and service driven economies. Farmers' children would require funding for higher education, to be paid for from future crops and farmers will be looking to discount future cash flows from agriculture to acquire more transactions such as televisions, refrigerators and two or four wheelers and this would be a booming market.

Thus, it can be clearly seen that the scale and nature of activities and funds required for promoting organic farming will require a whole range of financial services leveraged from a wide range of suppliers. Investments will be required not only for financing farm operations but also in promotion and development of cultivation standards and practices. Mainstream banks might have the funds but they are generally disinclined to fund medium to long-term requirements. The proportion of long-term loans in the loan portfolio of a District Central Co-operative Bank (DCCB), an institution dedicated to priority sector lending, remains very small. Secondly, some of the fund requirements as seen above will need to be in the form of grants, which the banks might find difficult to meet. On the other hand, the alternative source of finance, the MFIs, while being more flexible also suffer from some very similar constraints. However, a big constraint is mobilising of finances to lend at a bigger scale. Thus, at present, the scope of providing such financial services appears to be well beyond the capacities of either banks or MFIs alone.

7. The LiFin leveraging bottlenecks

Both the cases of Rangсутra and that of organic farming showcase the complexity of accessing and provision of LiFin owing to the nature of its fund requirements, diversity on both supply and demand sides. The agencies involved in Livelihood Promotion are facing major bottlenecks in leveraging LiFin. Some of these bottlenecks are enlisted below:

1. Asymmetry of information between the supply and the demand sources prevents many deals from taking place. The sector still suffers from insufficient visibility, despite recent initiatives. Lack of donor knowledge also includes the uncertainty

regarding potential exit strategies. For many, if the question: "How do I get in?" has no easy answer, the question: "How do I get out?" is even more insoluble.

2 Capital market transactions are very complex, costly and time-consuming, regardless of the success of the transaction. Such costs include legal fees and investment banking charges that few are willing to bear. One way to bypass the risk of having 'sunk costs actually sink the deal' is to sign success-only deals with lawyers, where a fee is charged only if the deal goes through. It is, however, not always possible and very difficult to negotiate.

3. Legal and regulatory obstacles. These are compounded when transactions include international partners which add new layers of complexity and hurdles. Other challenges also include legal and registration red tape. Microfinance policy work to date has focused on enabling the development of retail institutions on the ground; the next policy will be to remove the barriers to entry for international and local capital.

Figure 2: The LiFin grid⁷

Type of Funds	Type of Institution	Advantages	Disadvantages
Grants, Soft loans	Donor driven institutions such as NGOs or unregulated, non-profit MFIs.	Facilitate lending institution start-ups funds that wholesale financial institutions will not or cannot provide. • Substitute for deposits that cannot be mobilised due to legal restrictions.	Lack of ownership • Lack of market based • Substitute for commercial incentives to ensure sustainability • Volatility and scarcity of funds does not allow for sustained institutional growth.
Commercial Loans	Donor driven institutions: NGOs or unregulated non-profit MFIs.	Large amounts of funds can be mobilised on a permanent basis • Low administrative costs • Incentives for good governance and management.	High Financial costs • High guarantee or collateral requirements, usually involving complex and time-consuming negotiation.
Capital riskShares	For-profit MFIs • Licensed banks • CreditUnions.	Risk-bearing funds • More stable funding source • Leverage device for liabilities • Owners generally interested in increasing profits through sound management.	High capital costs due to premium required by owne • High information costs • Profit-orientation and shareholding structure might reorient financial institution towards better-off clients.

7 Modified from *Microsavings Compared to Other Sources of Funds*: Sylvia Wisniewski: CGAP Working Group on Savings Mobilization

The matrix in figure 2 illustrates the different types of fund available to different types of institutions and their comparative advantages and disadvantages. A quick look tells us that more stable and bigger scale of funds also come at a high cost and is available to select few. The question therefore is: “Can an organisation (say, Livelihood Promotion Organisation) with a primary objective of poverty reduction viably access such sources of funds?” The answer maybe a graduated ‘yes’ because an LPO would require assistance, particularly from donor funds in order to be able to fully and successfully access capital market. **Public donors** have a number of options when it comes to playing the midwife to the privatisation of capital flows to the finance market and investment in infrastructure. However, few of them have the capacity to do so.

8. Good practices in livelihood finance: SEWA experience⁸

Let’s try to understand the intensity and diversity involved in Livelihood Financing through the successful experience of the Self-Employed Women’s Association (SEWA). SEWA has tried to master the complexities on the demand as well as the supply side. It has been coming up with an integrated pack of services for the poor and the unorganised through options that have overcome the restrictive design flaws. This has helped SEWA leverage finances from various players and in various forms, including the Public investors. SEWA’s initiatives for livelihoods of the unorganised women workers need no description but the element of diversification and modifications with the legal structures of its subsidiaries is worth recording.

SEWA is a trade union of informal women workers started by Ela Bhatt in Ahmedabad in 1972. Headquartered in Ahmedabad (Gujarat, India), and inclusive of members from 9 of the State’s 19 districts, It is an organisation of poor, self-employed women workers. These are women who earn a living through their own labour or small businesses. They do not obtain regular salaried employment with welfare benefits like workers in the organised sector. The Self Employed Women are the unprotected labour force of (India) and are the members of the Self-Employed Women’s Association 1999. The organisation has two main goals: to organise women workers to achieve full employment and to make them individually and collectively self-reliant, economically independent, and capable of making their own decisions.

⁸ The author is indebted to Mrs Jayashree Vyas, MD, Swashri Mahila SEWA Sahakari Bank

9. SEWA's model of livelihood finance – Sajeevikalay

SEWA did not have a rigid formula for its initiatives in the districts it worked in. SEWA's philosophy and its approach relies on organising, involving, informing and empowering its members and working with (rather than for) them to equip them in their fight against poverty and improve their quality of life.

SEWA initiates economic activities in on-farm (agriculture), land based non-farm activities as well as on the basis of local skill and resource base for its members. SEWA's approach to equip its members to fight poverty could be figuratively termed as the sajeevikalay (house of livelihood).

SEWA's livelihood finance package constitutes:

- Organising and institution building – for collective strength and bargaining power
- Credit and other financial services (like insurance, pension) – that lead to asset building
- Productivity improvement services – capacity building
- Market linkages, Marketing services
- Human development services – health, nutrition, education.

10. SEWA's livelihood initiative for the salt farmers in Surendranagar⁹

In 1992, SEWA opened its first child care centre in the Kuda village of the Dhangadra block. The Gujarat Rural Labour Commissionerate provided 75 per cent of the operating funds with SEWA contributing the rest. The centre started with five children, with timings coinciding with the work hours of the agarias.¹⁰ Child care was free, once the mother became a member of SEWA with a payment of Rs5. The centre also provided education and literacy classes for the older children.

By 1996 there were 21 centres in different villages with the funds for operations contributed by SEWA and sometimes by agaria groups themselves. SEWA had begun to hold meetings for the agaria women to educate them on matters of nutrition and child care. It was in these meetings that agaria women started to request for help to improve their economic situation and for release from

⁹ Excerpts from : Annual Report-2006
Nandaty Reema : Supporting poor rural women to improve livelihoods: The SEWA experience

¹⁰ Salt farmer

the trader's debt trap. Acting on this demand, SEWA started bachat mandals (savings groups) for the agarias. The agarias began to save Rs10 per month. The process was aided by SEWA organisers who travelled to the agarias' houses to collect the deposits. The collected sum was then deposited in the SEWA bank in Ahmedabad. This process continued for about two years.

In 1998, in keeping with SEWA's policy of decentralisation, the Surendranagar Mahila Bal Vikas Mandal (SMBVM) was formed and registered. This District Association became the Surendranagar members' own economic organisation and subsequently led SEWA's livelihood efforts in this area.

By now, the agaria women had understood the importance of regular saving and SEWA persuaded them to come to the association to deposit their monthly savings instead of having SEWA workers going to the villages. The number of groups soon grew to about 700 with more than 14,000 members. Subsequently, the account with SEWA bank was closed and the money was transferred to a local bank in Surendranagar, thereby allowing the District Association to have direct relations with the local members.

SEWA also started technical training sessions for the salt farmers besides trainings on health, education and savings. A demo salt pan was set up where experts invited by SEWA conducted training sessions for the agarias. These trainings had modules on production of edible and industrial salt, quality control, increase in productivity, costing.

In 2000, SEWA started to look for ways to improve the income of the salt farmers and to free them from dependency on the traders. SEWA's research discovered that industrial salt fetched a better market price as compared to edible salt, required the same working capital investment, although additional effort and care were required due to relatively stringent quality constraints.

The district association convinced five agarias to make industrial salt instead of edible salt for a season. To protect them from the risk of the experiment, the district association lent them working capital from the association's revolving fund. With the help of Central Salt & Marine Chemicals Research Institute (CSMCRI) they also conducted training sessions on the production of industrial salt for the five of them.

After almost a year, when the season neared its end, the association built a laboratory for salt testing. The industrial salt produced by the five agarias passed all quality tests and fetched a price of Rs140 per tonne. SEWA made an agreement with Gujarat Alkalis Chemical Ltd (GACL) to purchase all of the agarias' produce. Following this, 50 agarias expressed their interest in producing industrial salt. This marked the beginning of an important phase in SEWA's activities in Surendranagar. Whereas earlier SEWA had focused only on providing supportive services to the agarias to avoid antagonising

the traders (who had a strong nexus among themselves), now they provided not only credit to the agarias at interest rates much lower than the traders, but also market linkages for their produce. Thus ensuring that the agarias could completely avoid dealing with the traders.

The results of SEWA's effort on these two fronts – financial services and marketing services – were dramatic. Some households profited by more than Rs30,000 in a season which they used as working capital for the following season. Effectively it meant that these households rose out of poverty within two years. Over the next five years, 30–35 agaria households moved out of poverty. In 2005, SEWA began to conduct training for home-based trades like agarbatti making, beedi making, etc., so that the agarias could derive income even during the off season months.

Thus, beginning from child-care, SEWA expanded to the entire range of livelihood related activities in Surendranagar. SEWA recently opened a processing and packaging centre in Surendranagar so that the salt produced by its agaria members could reach its other rural members. This is being done through the Rural Distribution Network. By 2007, 8000 salt farmers had been organised and 232 savings groups established. The volume of trade in 2007 was 32,000 tonnes of salt.

11. Cost and time aspects of livelihood finance

11. 1. Time taken to pull a family out of poverty

It is of interest to estimate what would be the approximate time it takes to pull a family out of poverty. This time period would obviously depend on different factors – trade and local dynamics – to name a couple. SEWA, however, has worked across enough districts and SEWA's member-base spans across enough number of trades for us to estimate a reasonable range of this time period.

The starting point of the involvement could be defined as the point when the locality and the demographics are first surveyed. The assumption – as has usually been the case with SEWA when it entered a locality – is that the poor aren't aware of the people attempting to involve them. From SEWA's experience showcased above it could be said figuratively that the time taken to pull the first family out of poverty is the time taken to construct the sajeevikalay. Once the sajeevikalay's infrastructure is in place, a family usually emerges out of poverty a lot quicker.

11. 2. Agarias of Surendranagar

SEWA ventured into Surendranagar in the early nineties and set up its first child centre in 1992. The next four years saw them build credibility and trust among the agarias and to get them organised. In 1996, when a strong platform

had been built, they started a savings drive. The savings movement attained critical mass in a couple of years and became widespread by year 2000. Between years 2000 and 2001, the three important pillars – credit (for working capital), marketing linkages (tie up with GACL) and technical training (Industrial salt training from CSMCRI) were built and the structure was complete for agaria families to make use of SEWA’s services and launch themselves on the path of poverty eradication.

Table -1: Time span for livelihood promotion

Investment/activity	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Credibility and organising										
Institutionalisation through savings										
Training										
Credit										
Market linkages										

It took SEWA ten years to construct sajeevikalay in Surendranagar. Subsequent to this, the time taken to pull the first family out of poverty has been just two years. Agarias fortunate enough to be blessed with ground water benefited so much from the training, the cheap credit and better prices that they did not need credit for the next season’s working capital. A year later, they come out of poverty very comfortably. Agarias with lesser luck, still benefited but a trifle gradually, and emerge out of poverty over a period of 5 years.

11.3. Cost of livelihood finance

Having estimated the time taken to pull a family out of poverty, the next logical step is to determine the corresponding cost incurred per household in the process. Table 2 lists some indicative expenses (approximates and could be assumed to have been incurred by SEWA a few years after its establishment in a district) for different trades.

11.4. Social security

At SEWA, social security means at least health care, child care, insurance and shelter (housing and basic amenities). Illness, disability, and death are a major threat to the overall security of SEWA members. Hence, almost since its inception, SEWA has provided preventive and primary health care, in one

Table 2: Cost of livelihood promotion

Organising and financial service cost	Yearly cost per member	
Cost of organising & collection in initial years	Rs75	Grant
Cost of organising & collection in Later years	Rs92	Grant
Cost of financial services(Per group)	Rs2000	
Training costs	Yearly cost for 50 salt farmers	
Cost of technical training (per session)	Rs7500	Grant
Cost of member education	Rs5000	Grant
Cost of worker education	Rs5000	Grant
Marketing		
Cost of transport of produce	Rs130 per ton	Service fee
Cost of market linkages	Rs4590 per year	Service fee
Child and health care	Per year	
Cost of running a child care centre	Rs96000	Grant
Cost of health care	Rs33000	Grant

form or another. Unlike many of the other SEWA's services (e.g., savings and credit through SEWA Bank and insurance through Vimo SEWA), the services provided by SEWA Health are available to SEWA members – more than 469,000 of them in Gujarat state – and non-members alike.

The micro-pension plan, devised by UTI-AMC, has 50,000 members, several of whom live in slums and earn a living selling vegetables or doing odd jobs as domestic help, cart pullers, bidi rollers, rag pickers and so on. They contribute an average of Rs 100 every month till they are 58. Considering that UTI's existing pension plan has recorded an annual return of 16 per cent over the past five years, the new customized plan promises a reasonable amount as pension.

11.5. Performance so far

Within one year, 40,000 women enrolled in the scheme and contributed a handsome amount of Rs25 million (US\$6,25,000). Majority of the poor are used to living and thinking on a day-to-day basis. They need continuous support to learn about longer-term financial planning. SEWA Bank has undertaken special financial education campaigns for spreading the message of Micro-Pension as an Old-age Savior.

SEWA has recently promoted three private limited companies including Rudi Multi Trading Company, SEWA Trade Facilitation and Nirmaan Construction Workers' Company for small producers. The shareholders of the three companies

include farmers, labourers and artisans who are also members of SEWA. “SEWA being a charitable organisation cannot hold equity in profit making companies. However, the board members who include many industrialists are willing to pick equity stake in these entities,” says Reema Nanavati, chairperson of Rudi Multi Trading Company.

11. 6. Lessons from SEWA’s experience in livelihood finance

Livelihood finance invests in capacity building. The women from poor households often lack resources to systematically and fully develop their business capacity in formal accounting, stock keeping or legal compliances. Livelihood finance provides resources to build such capacities for and with these women.

Livelihood finance invests in support services. Often these women do not have support services such as social protection or insurance or day-care for children or even a place to wash or rest. Livelihood finance provides resources to develop these support services.

Livelihood finance invests in access to markets. Often the capacity and the support services is not enough. What women want is access to markets to buy, sell, trade, and grow. Markets are free but entry is too highly priced for these women. Livelihood finance invests in market access, including marketing, advertising, product designing or sales planning. The investment in the areas mentioned above is done simultaneously and not one-by-one, balancing the needs of one with the other over time and across women. Livelihood finance makes these investments over the course of at least five to seven years. Short-term three-year projects are much less suited to make the scale of change that is needed.

Livelihood finance invests in building partnerships. SEWA invites investors, authorities, individuals, donors and NGOs to be part of the process in any way they find fit for removing poverty on a large scale.

SEWA’s endeavour in Livelihood Finance was not a blueprint approach. Instead different institutional designs evolved to cater to the wide variety of services required to pull the poor out of poverty. This enables accommodating equity, grants, donations public investments and subsidies which are essential features and prerequisites for livelihood promotion. One of the major learnings that emerges from SEWA’s endeavour is that livelihood promotion requires long term investments and commitments for/with the community with a mix of business and social development. In fact, in today’s scenario it would be fatal to overlook this intimate relationship that must exist in business and social development.

12. Way ahead in LiFin

The spectrum of LiFin and the consequent financial needs is wide and diverse on the supply as well as on the demand side. However, the gap between the supply and demand sides are immense that may require investments and interventions of various sorts. These include exploring capital market investments, policy advocacy, innovations in institutional designs and funding mechanisms. Some of these are:

12.1. Engaging capital markets

This should start with taking the debate on LiFin to the national level. Simultaneously the capital markets should be convinced that Livelihood Finance is a good deal and that the risk adjusted returns in it are comparable to or better than well-accepted investments such as 'housing finance', which all banks are chasing with lower and lower spreads. Some specific interventions in this regard could be as follows.

Local capital market development: the development of local capital markets would increase the supply of funding while removing the risks and costs inherent in international transactions. Some also argue that domestic financing is more conducive to economic growth, as savings are kept and re-invested locally instead of fleeing abroad.

Donor training: Few donor institutions currently possess sufficient knowledge of local and international capital markets. By teaming up with investment funds and including their perspective in training materials, donors can decide how, if, and when to act as deal makers. In most cases, that role will be restricted to building capacity and will be good enough.

'Bottleneck grants': Donors can support some of the sunk costs, or set up risk-sharing mechanisms such as guarantees in the event that a capital market deal does not go through. In case of success, these costs can be recovered as a percentage of volume or through management fees. Donor support will also be required in the form of grants for studies, training, and technical assistance to understand and advocate removal of policy bottlenecks that constrain and complicate capital flows.

Equity, subordinated debt, equity funds: An initial stake (equity or quasi) to capitalise funds, and instruments, can constitute the required leverage to attract larger sources of funding, and provide a risk cushion for other investors. Donors need to have the legal authority and freedom to undertake equity participations. These transactions, however, can be highly complex and require in-depth expertise that few donors currently have.

Perhaps it is important to remember, given the donor community's overall track record, that building the capacity of institutions on the ground should be

the first and foremost priority and that they should focus on getting better at it. The other aforementioned roles may appear more sophisticated, thus fancier and more attractive in a context where everyone wants to be seen as ahead of the curve. Yet, their relevance is ultimately contingent upon the existence of solid institutions on the ground. The unglamorous field of retail capacity building is still where public institutions can best contribute to the expansion of the financial frontier.

13. Setting up a challenge fund in livelihood finance for vulnerability reduction and addressing structural issues of poverty¹¹

Arunachalam (2008) made a suggestion to UNDP for setting up A Livelihoods Vulnerability Reduction Challenge Fund (LVRFCF) in its operational areas to serve as a mechanism to 'experiment, innovate and upscale financial products/processes' that will build resilience of the livelihoods of the poor and disadvantaged. This fund was proposed to 'catalyse' various stakeholders, including 'State Livelihood Missions, MFIs, producer organisations, commercial banks, Regional Rural Banks (RRBs), Development Finance Institutions (DFIs), financial institutions, wholesalers, NGOs, the private sector, Governments' to enter into 'Public-Private-Community Partnerships (PPCPs)'. Arunachalam suggested that the fund could focus on three main areas, viz., agriculture and allied activities, urban livelihoods and services and specialised enterprise clusters.

It will be worth exploring the possibility of such a challenge fund on a wider nationwide scale with larger stakeholder participation.

14. Conclusion

To overcome poverty the poor need sustained support and a broad base of services beyond microfinance is a well established. However, the existing legal framework in the country does not enable a single legal entity to provide the entire gamut of livelihoods services required for poverty amelioration. The Livelihoods promotion organisations find themselves restricted in either accessing or providing different sources of funds required to finance the different types of activities that make up the spectrum of livelihoods promotion. The need of the hour is for diversification, and for the evolving institutions to access the variety of finances. This is the lesson for LPOs from the success of institutions like SEWA and MYRADA.

¹¹ Arunachalam.S.Ramesh: Scoping paper on Financial Inclusion

The immediate question that crosses everybody's minds is: Can the SEWA and MYRADA models be replicated by others as well? The answer is a possible yes. But the replication should be coupled with a shift from a set of values based on self interest to a set of values based on common interest and good for all. This calls for innovations in institutional design within the current legal framework and a longer term investment on the part of the LPOs.

First and foremost we must understand that sustainability in livelihood financing is the sustainability of both welfare and commercial activities that help in the growth of society. LPOs will gradually have to strike a balance between these objectives. This is the only way they can be responsive to the society and help alleviation of poverty and not remain just as an organisation providing temporary liquidity or even relief to the poor. It does not mean that commercial institutions should become philanthropic organisations. In fact, taking stock of policy, practice and profitability with due weightage to social responsibility would make an institution more viable and acceptable.

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Corporate-NGO Partnerships: What are we Learning about the Lifecycle?

Vanita Viswanath and Ujjal Ganguly

1. Introduction

Corporate engagement with small-scale producers and suppliers as part of market expansion is a much-discussed subject in the context of poverty alleviation, livelihoods and inclusion. The debated issues range from employment creation and displacement, fairness of the value chains, to more fundamental concerns of ethics related to the way business is done. Questions include: Do modern corporate retail formats have a positive or negative impact on employment of the poor? Who benefits in the value chains and by how much, particularly to the detriment of primary producers?

Is corporate social responsibility (CSR) with its tax-advantages and use of government grants a devious mechanism for corporates to fund their back-end work and expand their production base while creating more wealth for themselves.

The jury is still out, however, as forms of engagement as well as perspectives on what constitutes responsible collaboration between Corporates, NGOs and the Communities, vary widely. Required trade-offs between profits and economic inclusion/poverty alleviation remain contested. Standards and good practices are becoming more difficult to establish as market shifts and financial strains resulting in downsizing affect corporate investments in value chains which have an impact in employment upstream. It is reported that budgets for CSR are being lowered in response to the financial crisis and can, it appears, be expected in the near future to be the first casualty in corporate cost-cutting.

Nevertheless, the impetus to take a closer look at the relationships is the proactive role taken by corporates in both core business and CSR relationships with NGOs in the economic growth phase. Now, as we enter an economically, socially and environmentally troubling period; the examination of these relationships has a renewed significance as the call is for business to show more responsibility as well as take a more long-term view of investments in economic growth. It is equally vital for NGOs and communities to develop a better understanding of the opportunities and limitations of 'fairness' along value chains. NGOs play

key facilitating roles for involvement of poor producers in market operations and corporate-led value chains as well as in building corporate links with communities not necessarily linked at the outset to their value chains.

The last State of India's Livelihoods report analysed the structure of sourcing and marketing of the large retail chains and the impact on the livelihoods of the poor. These chains are corporate-led, are well established and the case studies presented in the report looked at outcomes. Less is known and documented about what happens during the relationship-building processes between suppliers, intermediaries and buyers. The outcomes along the chain depend heavily on the negotiated dimensions between buyers, producers and others in the chain. As growth moves towards inclusion, NGOs become critical players in helping communities manoeuvre through value chains to gain advantage. We will look at corporate partnership features over a life cycle, specifically with NGOs to know the motivation of the partners to engage in a certain form of partnership, the processes that have been followed to build the relationship, the risks over time as well as how they have affected the relationship and the livelihoods of the poor. As this paper shows, what appears to be promising in early stage relationships is not always sustained. What appears to be cautious in the beginning shows promise as the relationship progresses. The analysis here, based on select cases that show changes in relationships over time and reveal the importance of process design, is by no means exhaustive but strongly suggestive of how partnerships should be studied for their different manifestations over a period of time rather than as a one-time 'best practice'.

The data for processes and relationships outlined in this paper largely emerged from an initiative of the UN Solution Exchange, Work and Employment Community anchored by the first author of this paper. Case studies were selected based on recommendations from the community, NGO and corporate partners willing to share information. The cases were divided into partnerships for the supply chain and for CSR. These are the two main modalities currently in evidence of corporate engagement with the development sector on an anticipated multi-year sustainable partnership basis. Newer updated information has been included in some of the cases studied earlier while additional cases have been analysed in this paper to illustrate important process dimensions. A limited number of these selected cases have been documented before and are well-known; however, their life cycle dimensions are relevant and are used in this study for such illustration.

The supply chain partnerships are those in which the corporate is involving the NGOs as intermediaries for sourcing products needed for its business from the community. The CSR partnerships are those in which the corporate is funding NGOs for community development work, usually in locations where the corporate has its major manufacturing or other facilities. Some part of this may

also potentially be linked to the core corporate business as part of its supply chain. Hence, the dividing line between CSR and core business/supply chain is by no means clear. In either case, the partnerships studied are those in which there is primary partnership on the NGO side although there may be multi-layered involvement of other institutions, like affiliated organisations of the main NGO partner or producer organisations spearheaded by the NGO.

2. Key process and relationship-building aspects in a life cycle approach

2. 1. Investing in the community: the first stage of the life cycle

As markets provided opportunity for corporates to grow and diversify their businesses, NGOs also viewed this as an opportunity to link up small producers with buyers. However, while the more common approach is for corporates to mostly 'buy' (such as for artisanal products), the 'buyback' arrangement presupposes some measure of investment in the chain and the relationships by the corporate, assisted and mediated by NGOs who already had experience in building communities.

The investments in the first part of the life cycle vary widely and are based on different goals. Some are based on clear product buyback intentions, some on pure social responsibility goals, while some investments are made with an aim of improving the image of the company as an environmentally responsible corporate, usually in the community in which the corporate units are located. Even those in which a product/service is involved, has seen investments that relate directly to inputs for developing the product and building up the community base with investments in a variety of support activities and in the partnership building processes.

Interestingly, in quite a few cases, the corporates did not have a definite product or service in mind while initiating the relationship. It emerged during the course of the partnership. But the experiences from successful Corporate-NGO partnerships clearly suggests that the common component in all these cases has been the investment made by the corporates in the capacity building of the community and in nurturing the partnership.

2. 1. a) Investment from a social responsibility objective which later emerged as a part of value chain for the company's product

Corporate social responsibility initiatives may link eventually to a product chain but this linkage may be the result of various developments over time rather than be the initial condition for the investment.

The Titan-Myrada partnership (Box 1) began with social responsibility as the objective. Titan wanted to work for the empowerment of women around its factory in Hosur, near Bangalore, and was committed to investing in the community. It began in 1993 with women making chapattis for the Titan factory workers and taking care of their laundry and developed into a critical link in the value chain of the company in 1996 by making watch straps and assembling watches for the company. Titan joined hands with Myrada and invested in the capacity building of the community. Plan International supported the formation of a company called MEADOW (Management of Enterprises and Development of Women) for running this activity. Titan provided specialised training to the women to enable them to achieve the quality standards required by the business.

Box 1

TITAN- MYRADA Partnership

The Titan Industries' village women empowerment programme has proved to be something of a success. It began in 1993 when a group of women from around the Titan factory in Hosur, near Bangalore, were asked to make chapattis. This turned out to be the beginning of a long and fruitful association. As these women were unable to ensure the quality of the chapattis, they were asked instead to take care of the laundry of the factory workers. Titan then roped in Myrada, and in 1995, came up with a proposal with Myrada to start a watch strap making unit.

Titan's decision to start a watch strap assembly unit, and above all, its faith in these women came as a boon to Myrada, which helped set up MEADOW (Management of Enterprises and development of Women), a privately owned company that is solely dedicated for women empowerment in these villages. Meadow, which implements programmes, was quick to grasp Titan's needs and then identify a work group to accomplish the task.

Although Titan funded Myrada for setting up the units for assembly of the watch component, training and implementation of the project, which was the impetus for the establishment of MEADOW Company; Myrada contributed the infrastructure for the assembly operations from its own funds. In addition, Myrada, in association with Plan International, a UK-based NGO, invested nearly Rs1.5 million for building up assets of Meadow. Myrada also invested in the institution building. Titan provided training to these women in the technical nuances for improving the quality. The activity which started with only 20 women has now close to 300 employees earning an average of Rs2500 per month.

Similarly, the ITC- Sewa Bharat partnership (Box 2) in Munger, Bihar, started with the objective of improving the livelihood of the women around the ITC factory. ITC, in partnership with Sewa Bharat, was committed to investing in the capacity building of the community. The partnership started in 2003 with the formation of Self-Help Groups (SHGs) and women taking up stitching and making ground spices as livelihood options. ITC had no business interest in these activities. With marketing becoming a bottleneck, the number of women benefiting through the programme remained small.

Since both Sewa Bharat and ITC were keen on impacting the livelihood of large numbers of women, agarbatti (incense stick) rolling was conceived by the end of 2004. Since ITC markets agarbatti under its Mangaldeep brand, the market for the product was assured. ITC invested in training and capacity building of the women, procuring necessary equipments and providing the initial working capital of Rs1.2 million. Sewa Bharat worked on mobilisation of the community and increasing the membership base of women rollers. All the project costs, including Sewa Bharat's expenses were supported by ITC. ITC's local CSR team worked closely with the Sewa Bharat team to help them set up strong management systems, adhere to quality parameters required by the business and prepare professional business plans. The ITC local team also provided continuous handholding support and negotiated with the business on behalf of the women for better terms.

Box 2

ITC- SEWA BHARAT partnership

The project started in July 2003 with a purely CSR objective of providing better livelihood to poor women around the ITC factory in Munger. The main activities in the initial year and a half were forming SHGs, stitching and making ground spices. Agarbatti rolling, which is part of the supply chain for ITC's Mangaldeep brand, was conceived in November 2004. Women were trained to manufacture unscented sticks to be sent to designated scenting and bagging units which are part of the value chain. They paid for the sticks on a per kg basis. Sewa Bharat promoted women's groups and with technical support from ITC, helped them obtain raw materials and supply the unscented sticks as per ITC's business requirements.

The project started with only 15 women producing 250kgs of sticks per month of poor quality and having high rejection. The involvement of highly qualified, sensitive and experienced local staff of the corporate (ITC) operating as part of SEWA-Bharat's implementing team, enabled better and faster business outcomes for the producers. ITC, in partnership with Sewa Bharat, made systematic investment in the community through focused training, exposure visits and setting up and helping them implement good management systems. The number of women involved in this activity rose to 700 by 2008 with production touching 14 metric tons per month. The women earn between

Rs800-1000 per month. The business recognised it as the best quality unscented sticks. In 2008, the women formed a cooperative which now manages the entire operation.

2. 1. b) Investment in the community based on clear product buyback intentions

More corporates are moving into community investments with a clear product development strategy from plantation to purchase.

In this model, the returns for the corporates will be realised after a considerable period during which time the corporate has to invest in both the producers and in the NGO, including meeting most or all of the costs of plantation, and

related work like land-development and general community development. Ballarpur Industries Ltd (BILT) and Harsha Trust (an NGO) in Koraput District of Orissa (Box 3) are partnering for pulpwood plantations. BILT had a clear business objective of promoting eucalyptus plantation in the catchment area of their paper plant for supply of pulpwood. It provided the saplings while the NGO provided the techno-managerial support to the farmers and a private agency provided loans to the farmers for purchasing the inputs. BILT paid for the technical support provided by Harsha Trust. Similarly, Reliance Life Sciences (RLS) signed an agreement in 2008 with Udyogini, an NGO working with tribal communities in Mandla, Madhya Pradesh since 2003, for jatropa (Box 4). RLS is establishing a bio-fuel plant in the region and is working on raising jatropa plantations in several districts in MP. Udyogini's strong base in the region enabled Reliance to reach out to a large number of villages in a short span of time.

Box 3

BILT- HARSHA TRUST Partnership

Harsha Trust, an NGO, is implementing an eucalyptus plantation project on farmers own revenue land located around Sewa paper mill of Ballarpur Industries (BILT) at Jeypore, Koraput, Orissa. BILT pays for technical support provided by Harsha Trust while BILT Tree Tech (a unit of BILT) provides saplings to farmers. A private agency extends credit support to the farmers.

In the BILT-Harsha initiative on pulpwood plantation, the marginal and small farmers associated with the initiative are those that were out of the net of any developmental interventions, hence their risk taking ability was low. BILT CSR Initiatives invested in community processes in the area for 3-4 years addressing their immediate issues of livelihoods, health and education. This paved the way for winning the trust and confidence of the small and marginal farmers in the plantation programme. Since the plantation is in the 3rd year, the financial benefits from the project will be known only after two years.

However BILT CSR initiative has recognised the importance of capacity building and training aspects. BILT-Harsha Trust started with savings and credit and health and education activities. It extended small credit of Rs100-500 for vegetable and paddy cultivation and backed it up with scientific inputs on cultivation practices. It extended support for Dairy, Goatery and Poultry with sustainable market linkages, building the community's confidence in taking up larger livelihoods activities successfully. BILT also involved the top management through quarterly review of the programmes, thus building a much higher stake and inclusion of the company in the programme.

However, broadening investments in the community to build an enabling environment for product development and ensuring better outcomes for its business, is an important aspect of corporate involvement with NGOs.

BILT realised that building farmer confidence and trust which would also raise their willingness to take risks, was a necessary condition for the uptake of plantation work. Hence, in partnership with Harsha Trust, it started with the formation of Self-Help Groups (SHGs) and took up initiatives related to health and education. It actively promoted livelihood activities like dairy, poultry and goatery and provided scientific inputs to agricultural practices to

enhance productivity. Through continuous meetings, exposure to successful demonstrations and capacity building support, the project has been able to get the confidence of the community for undertaking plantations. RLS, in the meantime, is also trying to strengthen its relationships with the community and Udyogini. Though the partnership with Udyogini is only one year old, RLS has responded positively to Udyogini's proposal to invest in the crèches for children of tribal women that the NGO is working with in Mandla.

Box 4

RELIANCE LIFE SCIENCES- Udyogini Partnership

In 2008, Reliance Life Sciences (RLS) and Udyogini entered into a partnership for the plantation of *Jatropha* plants on the lands of tribal farmers in around 100 villages of Mandla district in Madhya Pradesh. Udyogini had been working with tribal women in microenterprise promotion in Mandla since 2003 and had a good relationship with the community. RLS approached Udyogini in order to mobilise people to grow *Jatropha* as per their requirements. As part of the agreement, RLS has agreed to purchase the produce at a good price. Reliance has incurred all administrative and plantation costs and has its own staff involved in technical assistance and management support for the plantations. Reliance employees monitor the Udyogini-contracted employees. Udyogini gets a small overhead for providing the community interface. The annual investment for RLS in this project exceeded Rs30 Lakh per annum which excludes the plantation costs. The technical part on plantations is directly handled by RLS while mobilisation and community interface is by Udyogini.

It was a viable partnership from Udyogini's point of view because *Jatropha* is not replacing any of the food crops grown by farmers as it is a natural growing plant in Mandla and is being promoted on wasteland. The partnership has helped Udyogini to intensify and expand its community support base, especially among men, which is critical to creating an enabling social environment to empower women through enterprise. It is also helpful that RLS has a perspective that includes supporting farmers to form their associations and producer companies.

2. 1. c) Investments in participatory design and joint monitoring

A facet of partnership that can strengthen it is to involve the NGO in designing the CSR intervention and having a monitoring mechanism that is regular, systematic and involves the NGO and corporate in joint tracking of process and outcomes. When the corporate involves its top leadership to review the progress reports and visit the field, it sends a strong message of corporate accountability to both the project and the other stakeholders in the partnership.

SRF (Shriram Fibres) has a chemicals factory in Alwar district of Rajasthan and engaged Pradan and later Sir Syed Trust (SST), an affiliate of Pradan, for plantation, water harvesting and land development activities in the area with the intention of environment protection (Box 5). Pradan was involved very closely in design and persuaded SRF to go beyond the initial focus to promote plantations and, instead, undertake integrated natural resource management

(NRM). Indeed, SRF did not involve itself in feasibility and planning but engaged Pradan to undertake the exercise. The Pradan affiliate, SST, which took over the project, had the flexibility to choose the activities on NRM based on the needs of the community. SRF bore over 80 per cent of the project cost and all the overheads.

In effect, the objectives and the methods of investments vary in different cases but what links all these cases together is the investment that the corporate made in the capacity building and the empowerment of the community and to make a long term commitment towards nurturing relationships.

Box 5

SRF-SST Project monitoring mechanism

A committee consisting of SRF representative in charge of the project, the director of SST, a representative of Pradan and the representative of the external monitoring agency assigned to the project and who is placed in the field area meet every quarter to review progress both programme and finance. An external NRM expert has also been invited to participate in these one-day meetings held in the SRF factory. Half a day is devoted to a field visit. Presentations on progress are made both by SST and the representative of the external agency. In addition, SST also does an annual presentation of the activities carried out accompanied by a proposal for the following year. The external agency reports to SRF monthly as well. The annual presentation receives attention from the top management of SRF. The Chairman of SRF looks at these reports and also visits the field.

3. Risks and accountabilities further down the cycle: the challenge of scaling up

3.1. Sharing risk and accountability during scaling up: the second stage of the life cycle

The key challenge in corporate-NGO partnerships comes at the stage of scaling up. It is at this stage of the life cycle that a high proportion of the risks related to productivity, quality parameters and market forces begin to manifest themselves and expectations and reactions of various stakeholders can either strain or sustain the partnership.

In most studies of contract farming studied by the authors, corporates, who are much better equipped to absorb the risk, generally avoid sharing the load of mitigation. One recent example, merits examination.

The challenges faced by the stakeholders when Pepsico decided to enter into a contractual agreement with BASIX (Box 6) for potato farming in Jharkhand became apparent during the maturing of the contract and the relationship. BASIX began a partnership with Pepsico for contract farming for potatoes in the areas of Ranchi, Ramgarh, Deogar, Dumka, Koderma in Jharkhand. Pepsico was more interested in early season (August to January cycle) fresh potato for their chips

which is available only in Jharkhand. Pepsico brought in BASIX as a partner who provided the loans to the farmers and because of financial investment bore most of the risk. The experience in the first year was very encouraging with farmers getting very good returns for their produce and BASIX also earning a good margin. However from the 2nd year onwards there were losses due to heavy rains and issues related to product quality and weight. Pepsico refused to give any compensation for crop loss and since over Rs6 million was tied up in the form of loans, BASIX had to bear the brunt. Chip grade potato farming is economically beneficial and is highly profitable. However, for those farmers who have lost their crops due to blight or rains, it is a heavy loss as Pepsico chip grade potato multiplication is both capital and labour intensive. The losses resulted in the partnership deteriorating and the project coming to a close. More importantly, it compromised the trust that farmers had in BASIX, thus hurting that relationship as well.

In this case, the corporate took a narrow view, concerned with short-term returns, and passed on to the partner NGO (BASIX) and the community most of the risks related to scaling up. The terms of agreement also heavily favoured the corporate. While in the 2nd year of the partnership, Pepsico did compensate

Box 6

PEPSICO-BASIX: Risks for the community partners

BASIX entered into a three-year-partnership with Pepsico beginning in 2005–06 for growing grade potatoes in Jharkhand. In the first year, 83 acres were sown involving 200 farmers. BASIX provided a loan of Rs1 million to the farmers. By the third year, over 550 acres were sown involving over 2000 farmers with a loan portfolio of Rs 7 million. Pepsico chose BASIX primarily because it has the capacity to give loans of this magnitude as well as an interest in livelihood promotion of smallholders of Jharkhand. Pepsico provided technical support to the farmers for the first year and then transferred the responsibility to BASIX from 2nd year onwards. BASIX put in 75 per cent of input cost. Logistics was Pepsico's responsibility.

In the first year of the programme, Pepsico paid the agreed price and incentive to farmers. It did not strictly enforce the parameters of rejection (e.g., weighing at a weighbridge and also at the factory; grading to be done in a certain way). In fact, the produce that was consistent in the quality was paid a higher rate. Encouraged by this, BASIX increased the scale of operation in the 2nd year. Pepsico too increased the procurement price per kg of potatoes. Increased scale, however, brought with it increased risk as Pepsico began rejecting some of the produce. There were discrepancies in weights at the farmer, weighbridge and factory points. Weather risks compounded the problem with damage to the potato crop due to early and continuous rains. In the 3rd year of the project, there was further scaling up. Weather problems continued with severe damage to the crop. There were additional problems of infected seeds that contributed to the losses. BASIX put in Rs1.5 million from its own resources but Pepsico was not prepared to bear any costs in this situation. More than Rs6 million of BASIX portfolio was compromised due to default as a result of various losses over time.

(with one truck of seed each) those farmers whose crops were totally washed away it was barely adequate to cover the risk. Despite this, Basix continued with the programme because of demand from farmers to pursue this as some farmers had benefited. In the 3rd year of the project, there was further scaling up but weather problems, blight infestation and losses continued. Managers in Pepsico responsible for this project had changed by this time and being new to the company, they were not willing to commit on the strategic way forward.

In other contract farming examples documented by other researchers there were no risks shared on production or crop failure. In the cotton subsector, the research has reported that additionally, the company has the right to change price at any time.

Risks can be shared, however, and corporates can play a visionary role in identifying and supporting strategic initiatives with producers that help to bring in capabilities to reduce risks. The key in this vision is taking a longer-term perspective that takes the producers and NGOs on board.

The partnership between Growth Oriented Microenterprise Development (GMED) programme funded by USAID and ITC's Agribusiness Division (Box 7) in Malerkotla in Punjab, begun in 2004, illustrates the key aspects of a risk-sharing and mitigation strategy in a scaled programme. Although not an NGO, GMED actually played a role that could be played by capable NGOs or corporates or donors who could fund quality technical facilitation of the kind provided by GMED in their partnerships with NGOs. This project was able to counter the negative impact of contract farming by building up trust and good relationship through relevant support that combined farmer interest and market-interest.

Realising that over 85 per cent of the farmers are small and marginal, GMED facilitated an integrated support programme for farmers including, critical, quality extension services to grow fresh vegetables. Through improved agricultural practices and integrated pest management techniques, the productivity of their crops increased significantly. The interesting part of this model is that ITC and GMED provided inputs, training and imparted information to the farmers which helped them realise a better price for their produce. The crucial differentiation of this model from a normal contract farming model was that ITC guaranteed a minimum price and there was no compulsion on the part of the farmers to sell the produce to ITC, if they could sell it at a higher price elsewhere. The role played by both ITC and GMED together in 'converting' the farmers to grade produce when they did not want to do so and allowing them to experiment with new inputs on half their land so as not to take on all the risk, was sensitive and step-by-step trust building.

ITC-GMED: Reducing risks through quality extension services

ITC and GMED trained the farmers to grade their crops as A, B and C. ITC guaranteed the procurement of the top two grades and paid a good price. Good quality extension services ensured that farmers who started with 30 per cent of their crops as grade A increased to 90 per cent

within a short span of time and thereby increasing the income of the farmers significantly. ITC provided colour-coded crates to the farmers to segregate produce by grades. ITC also organised transport, storage and distribution, thus integrating all the function of the value chain. Realising that providing quality extension service is the key, GMED and ITC trained local educated youth to provide extension services to the farmers. ITC's investment in this has been to provide model extension service to the farmers. As farmers started to realise the returns they made greater efforts to produce better quality that would enable them to meet the requirements of the higher grades.

Better information system and transparency enabled the farmers to make a more informed choice and thus get better price from the market for their produce. It has shown very encouraging results. The programme is still in its early stages and the scaling up of the programme will depend upon having more ITC's Choupal Fresh outlets. ITC has plans of setting up 500 such outlets.

Source: Harper, Malcolm, Inclusive Value Chains in India, World Scientific, 2009

Shared risk and accountability can also result in much fairer terms in the value chain and strengthening the organisational base for producers thus firming up the multi-stakeholder partnership itself.

ITC took a longer term perspective (Box 8) as well in their partnership for agarbatti production with Sewa Bharat which has interesting lessons for scaling up. By the second stage, the continuous technical assistance and handholding by ITC staff of the agarbatti rollers was beginning to show up in improved quality of the product. ITC became committed to facilitating a producer organisation at the local level and helping women undertake further value addition for more margins. ITC's CSR team saw potential in the corporate-NGO CSR partnership becoming more of a business partnership and negotiated with ITC's agarbatti business division on behalf of Sewa Bharat for fair terms. They put in working capital grant and absorbed the losses in the initial 2-3 years. They facilitated the setting up of a women's cooperative and put in financial and managerial resources for the capacity building of the cooperative. Over time, ITC's investment in capacity building of SEWA and the cooperative was several times more than their investments in the agarbatti production chain. To help capture a larger proportion of the value chain, ITC negotiated with the agarbatti business division and helped set up a scenting and bagging unit owned and managed by the women registered as a women's producer company which will increase the turnover three fold. ITC has helped both the cooperative and now the producer company link up with commercial banks and NABARD for future expansion.

Box 8

ITC-Sewa Bharat: taking a longer-term view

In the first year of operation, the average production of agarbatti was around 1.5 Mt a month and there were serious issues related to quality inventory management and wastages resulting in huge losses. ITC's local CSR team worked closely with Sewa Bharat in setting up quality and inventory management systems and waste control measures. ITC had put in over 1.2 million as working capital grant and over 70 per cent got eroded by the end of 2nd year. ITC absorbed the losses and put in an additional Rs300,000 and also facilitated the formation of a women's cooperative named Sewa Udyogic Swabalmbi Sahakari Samiti (SUSSS). With quality improving significantly, ITC negotiated with its agarbatti business to increase the procurement price. Sewa Bharat responded positively to this and by the end of the 3rd year the losses came down drastically and the cooperative made a small operating profit.

ITC invested in sophisticated equipments like moisture meters, electronic weighing machines, and burn test pits, etc., to ensure that quality standards are maintained. To capture higher value, ITC negotiated with the business on behalf of the women's cooperative to set up a scenting and bagging unit which was started in April 2009. A separate women's producer's company was promoted to manage it and enter into an agreement with the ITC agarbatti division. Through this, the turnover will cross Rs20 million. ITC invested not only in setting up the unit and also took care of its overhead and administrative costs. ITC has helped the cooperative and the producer's company to establish linkages with commercial banks and NABARD for accessing funds for future expansion.

The learning from the cases suggests that scaling up involves significant risks but a much better understanding of the business and the market trends is needed for going forward. Most NGOs and community institutions are not well equipped to deal with this. Corporates thus have a critical role to play at this stage of the life cycle. Corporates and donor agencies together (as the ITC-GMED case demonstrates) are much better equipped to ensure sustainability of the partnership with the community with initial support for risk-taking.

4. Corporate entry later in the cycle: negotiating with strong producer institutions

4.1. Inviting the corporate and negotiating with them on even terms: the third stage of the life cycle

Probably the best scenario from the producers' point of view in ensuring that value chains operate in their benefit is to be strong enough to bargain for better terms from corporates. This generally happens when producers are organised and have their own institutions that can negotiate on their behalf. This is the phase in the life cycle that has established producer institutions.

Since Corporate-NGO partnerships (post-market expansion) are in their infancy, there are few examples of this stage of the life cycle where producers' institutions either by themselves or through NGOs have attracted corporate interest or been able to drive a hard bargain. The partnership between United

Nations Industrial Development Organisation (UNIDO), Fabindia and Bunkar Vikas Samiti (BVS) in Chanderi in Madhya Pradesh (Box 9) is an example of an already existing producer institution whose organisational capacity and potential were strengths recognised by large buyers. In this case the buyers were not large corporates as in earlier examples described in this paper but large and small retailers.

UNIDO invested both financial and managerial resources in setting up the institution, BVS, and helped it to access financial and technical resources. Simultaneously it also promoted and supported the association of traders and master weavers through facilitating their participation in National and International exhibitions and helping them expand their own and the cluster's horizon. Thus it was able to build the trust and confidence of the stakeholders, resulting in the overall growth of the cluster. In this case, the base was built by UNIDO which attracted corporates like Fabindia to partner with BVS. The involvement of Fabindia saw considerable improvement in design and production technology, resulting in much higher returns to the weaver members. This attracted several new players like Women Weaves Charitable Trust, Craft Council of Kolkata, Sewa Ahmedabad, and Dastakari Haat Samiti which has not only improved the marketing option for BVS but also brought newer designs into the cluster. BASIX has also got involved to address the

Box 9

Bunkar Vikas Sansthan – Fabindia

Chanderi cluster produces light weight and intricately designed fabric which is unique in the handloom sub-sector. The weavers though continued to get poor returns for their efforts. UNIDO study suggested that there were issues related to technical skills, bargaining power with the buyers, empowerment of women and credit facilities. UNIDO put in considerable effort organising the women weavers into SHG groups and later federated them into Bunkar Vikas Sansthan (BVS). BVS accessed financial and technical resources and passed them on to the weaver members. BVS has a membership of 150 weavers. Several established, as well as budding designers, started working in the cluster to improve the design quality. Fabindia was introduced into the cluster and BVS did a business to the tune of Rs10 million in 2006. The average wage rate increased by 25 to 100 per cent. BVS became the vehicle for Fabindia's entry in the cluster. Fabindia was convinced that BVS had an evolved and a participatory production system in place which would ensure the necessary quality in production and timely delivery of orders. A Memorandum of Understanding (MoU) was signed between the BVS and Fabindia which stated that the two entities would do business worth Rs20 million over a period of three years. Fabindia has now set up a sourcing company at Chanderi which is partially owned by the weavers. BVS have been able to mobilize funds from Financial institutions like National Minorities Finance Development Corporation, Oil and Natural Gas Corporation (ONGC) and BASIX of over Rs 1 million. Several buyers like Kolkata Craft Council, Sewa Ahmedabad and Dastkari Haat Samiti, apart from Fabindia are active in the cluster.

Source: Foundation for MSME Clusters, Informing PPCP: Learnings from Meadows and Chanderi, 2008.

credit and capacity building needs of BVS. Although UNIDO had withdrawn two years ago, the linkages continue to work. Because of the volume of its business BVS have been able to negotiate on more even terms with different stakeholders. The foundation of strong producer institutions was built by donors and this investment over a great many years has allowed BVS to negotiate much better terms.

The Titan-Myrada partnership, mentioned earlier in this paper, also has similar lessons. As already described, Myrada had a strong presence in and around the Titan factory in Hosur prior to the partnership with Titan and Titan engaged them in livelihood promotion activities. However, what was significant in this situation was Myrada's investment to build a producers' institution for interfacing and linking up with Titan. Although Titan was happy to continue their association with Myrada for the watch strap and watch assembly activities, Myrada was keen on promoting the women's company, MEADOW, and invested in the capacity building and the entire infrastructure cost of the company. The institutional base and the investment made in the capacity encouraged Titan to not only increase the volume of business with MEADOW, but also to trust the company with more sophisticated activities like wall clock assembly, putting in precious stones in the watches and even some small components used in aircraft parts. MEADOW assembles over 7000 watches and employs over 300 women.

Contract farming also has a better chance of success if the farmers have been organised prior to the contract being introduced. An NGO in Uttarakhand (Box 10) had created a federation of farmers and built a successful supply chain linking small-scale farmers producing tomatoes with Metro Market place (Delhi). One important feature of the success of this relationship, among other things, was the annual negotiation on production and supply targets and the 'freedom' and arrangement by the NGO to sell farmers' produce in the open market when Mother Dairy was unable to purchase from them in the peak season. The organisation of the farmers and the intermediation of the NGO helped to maintain the 'fairness' in the relationship for marketing of the tomatoes.

The experience from these cases suggests that perhaps a more mature stage in a corporate NGO partnership is facilitated when a donor/NGO has already invested in building a community institution that then is better equipped, to not only access financial and managerial resources, but also has a much better bargaining power with the corporates, enabling more equitable terms of engagement.

Himalayan Action Resource Centre (HARC) – Mother dairy

In 2001, HARC organised the farmers into six federations across 80 villages, which supply off-season vegetables (mainly tomatoes) to Mother Dairy through a purchase agreement with federations. Tomatoes were brought by farmers to designated collection centres, which were managed by an employee/volunteer of the federation. The farmers graded tomatoes at the collection centre according to the quality parameters provided by Mother Dairy and monitored by a federation representative. After grading, tomatoes were packed in plastic crates provided by Mother Dairy which reduced losses during transportation and the cost of packaging by 70 per cent. Although the farmers' federations and Mother Dairy had a legal relationship, the individual farmers were not contractually obliged to sell to Mother Dairy. The farmers were selling only about 30 per cent of their tomatoes to Mother Dairy in 2006; the rest was sold to private dealers. Similarly, Mother Dairy was not obliged to buy a fixed quantity of tomatoes from the farmers. The quantity to be purchased was determined every year through negotiations between the federations and Mother Dairy. It was mandatory for the farmer to be part of the federation in order to be able to supply to Mother Dairy. The NGO's role was to sell agri-inputs to members, organize procurement, provide packaging crates on rent, monitor grading, arrange for farmers' training, receive and distribute payment from Mother Dairy.

Source: Singh, Sukhpal, Contract Farming and Small Cotton Producers in India, Practice, Issues and Way Forward, commissioned by ICCO, Netherlands, 2009

Conclusions and lessons for future partnerships

Although these are early days, the experience of Corporate-NGO partnerships provides interesting lessons for developing future partnerships. Some of the key lessons that we can derive from the experiences outlined in this paper are the following:

Longer-term vision for nurturing partnerships is needed

The experience from the field clearly suggests that the partnerships that sustained even during the scaling up phase were those that had the relevant design elements built in to help producers hedge risk. Hence, while it is acknowledged that there are inherent risks/costs in contract farming, corporates can anticipate some of these and have strategic inputs to mitigate these or simply absorb the losses in the short term and benefit both the corporate and the community over the longer term. Where the corporate took a larger portion of the risks, it resulted in much higher loyalty on the part of the community and from a purely

business perspective, a better return for the key stakeholders. Although much stress is laid in contract farming partnerships on the contract itself, it is lack of trust, relationship-building, fair and transparent negotiation process, equitable sharing of risk that are important for the success of the relationship rather than what is written in the contract. Contracts, when they emanate from the corporate, reflect corporate perspectives. They can also be changed to respond to the improvement in relationships between the partners. The contract between ITC-SEWA Bharat became more consultative as the relationship progressed and its terms reflected the increased capacity-building investments in the partnership.

The ITC-SEWA Bharat relationship is unusual mainly because of the scale and type of corporate investment made in building NGO capacity – which is indicative of longer-term visioning. ITC put in their own staff (which are highly expensive) to work with the NGO as part of its team for handholding and capacity building. ITC estimates that it cost them nearly a crore of rupees over a four-year period for involving their own staff to help SEWA Bharat reach scale in agarbatti. As mentioned before, this is more than the actual project costs that ITC incurred for agarbatti. And this was only in one district for about 700 women. This amount would be quite out of reach for most NGOs even if they could manage such staff and probably it will be a while before other corporates can imagine this scale of human resource assistance for NGOs to be a value proposition.

The TITAN-MYRADA case also reiterates the importance of having a long-term vision leading MYRADA to make the investment to build and strengthen producer institution and TITAN to gradually trust the institution with sophisticated operations.

Confidence-building measures by the corporate are required

Contract farming has been shown in this paper to have generally worked to the detriment of the farmers, unless their bargaining power has been increased through their organisations. It is also known that due to the greater assurance of supply from larger landholdings, smallholder farmers have generally not been favoured for involvement in supply chains of large corporates. And yet, for true inclusion, it is the smallholders that need to be linked to the market. Though relationship-building and trust over time is important to strengthen relationships, NGOs and farmers' organisations can be deterred from a collaboration opportunity by the terms of the contract which generally favour the buyer. In addition transaction costs and a variety of input support that

is needed to make the produce conform to buyer standards is also not provided, thus putting the produce to greater risk of rejection. So risk-sharing, through providing better quality inputs and technical assistance upfront to absorbing the losses as needed in order to build confidence in the relationship, is still the exception. Delayed payments by corporates that have also been reported can also cause loss of confidence with unfair trade practices such as poor wages, use of child labour and excess workload on women. The most contentious of the aspects of contract farming is, perhaps, the procurement price and 'the issue of what is fair price for the primary grower in a conventional or organic produce chain remains as there is little transparency in pricing and costing of operations when private players are the organisers of contract farming projects'. Contracts concluded at the plantation stage, for investments by the corporate in community building and preparing the ground for the production, would be different from later stage purchase contracts where price and supply issues become important.

Donor support for building competent producer institutions is also key

This is another important lesson for future partnerships. For a mature and equitable partnership on a scale, it is important to invest in building community institutions and continue to handhold them for a few years till they mature. The examples given in the paper show that donor support to building up producers' institutions has been vital to help level the playing field.

Given the scale and challenge for a country like India, significant investment needs to be made in institutional building for enterprise at the NGO and producer levels which the corporates alone may not be in a position to do given their business commitments, although quite a few of them may be genuinely willing to participate and contribute. What may be required is to usher in a Corporate-NGO-Donor partnership in which the corporates will bring in the managerial and technical competencies, NGOs will mobilise the community and handhold them while the donors can support in institutional building and networking. Government would, in any case, have to invest in building up the supplier base with support for skill development as well as ensure large amounts of working capital and a favourable regulatory environment. This may provide the answer to empower and provide sustainable development to the millions of poor in the country.

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Ibid.

ITC estimates the agarbatti project costs for 700 women in one district to be around 70 lacs. It also estimates that it has enough market at the moment to absorb a labor force of 8000 women for which the costs would be very substantial and probably cannot be met by the corporate alone, however committed.

Singh, Sukhpal, n. 3

Ibid.

Impact of World Bank Supported Projects on Rural Livelihoods

Biswajit Sen and Parmesh Shah

1. Introduction

The World Bank in India has been financing and providing technical support to a rural development portfolio that includes a range of projects in the areas of joint forest management, watershed development, irrigation and agriculture. These projects use the community-driven development approach and incorporate livelihoods development principles and investment areas. Department for International Development (DFID) and United Nations Development Programme (UNDP) also fund and implement livelihoods projects in India. The Poorest Areas Civil Society (PACS) programme and Poorest States Inclusive Growth (PSIG) programme are well-known poverty reduction programmes of DFID. While the PACS Programme envisages reduction of poverty by working through civil society organisations on issues of governance, empowerment and entitlements of the poor; the PSIG Programme aims to reduce poverty by working in four poorest states in India (Uttar Pradesh, Bihar, Madhya Pradesh and Orissa) by supporting poor people and small producers to participate in and benefit from economic growth. DFID also supports the Western Orissa Rural Livelihoods Project (WORLP) and the Madhya Pradesh Rural Livelihoods Project (MPRLP). UNDP also has several livelihood promotion programmes such as its State-Level Support to Livelihood Promotion with the Planning Commission and several State Governments, Endogenous Tourism for Rural Livelihoods with the Ministry of Tourism and Culture, Information and Communication Technology (ICT) for Development with the Ministry of Communication and Information Technology, Vulnerability Reduction Through Community Empowerment and Control of Water in the Marwar Region, India Business Alliance on Water with Confederation of Indian Industries (CII) and Capacity Development to Operationalise the Orissa Resettlement & Rehabilitation Policy with the Department of Revenue and Disaster Management, Government of Orissa and DFID.

For the purposes of this chapter, however, focus is on the core livelihoods programmes of World Bank in India, currently either under implementation or just completed. These include the District Poverty Initiative Programmes

and Rural Poverty Reduction Projects in Rajasthan, Madhya Pradesh and Andhra Pradesh, the Andhra Pradesh Poverty Reduction Project, the Bihar Rural Livelihoods Project, the Tamil Nadu Empowerment and Poverty Reduction Project, the Chhattisgarh District Rural Poverty Project, and the Orissa Rural Livelihoods Project. The investments made in these projects total just over US\$0.79.

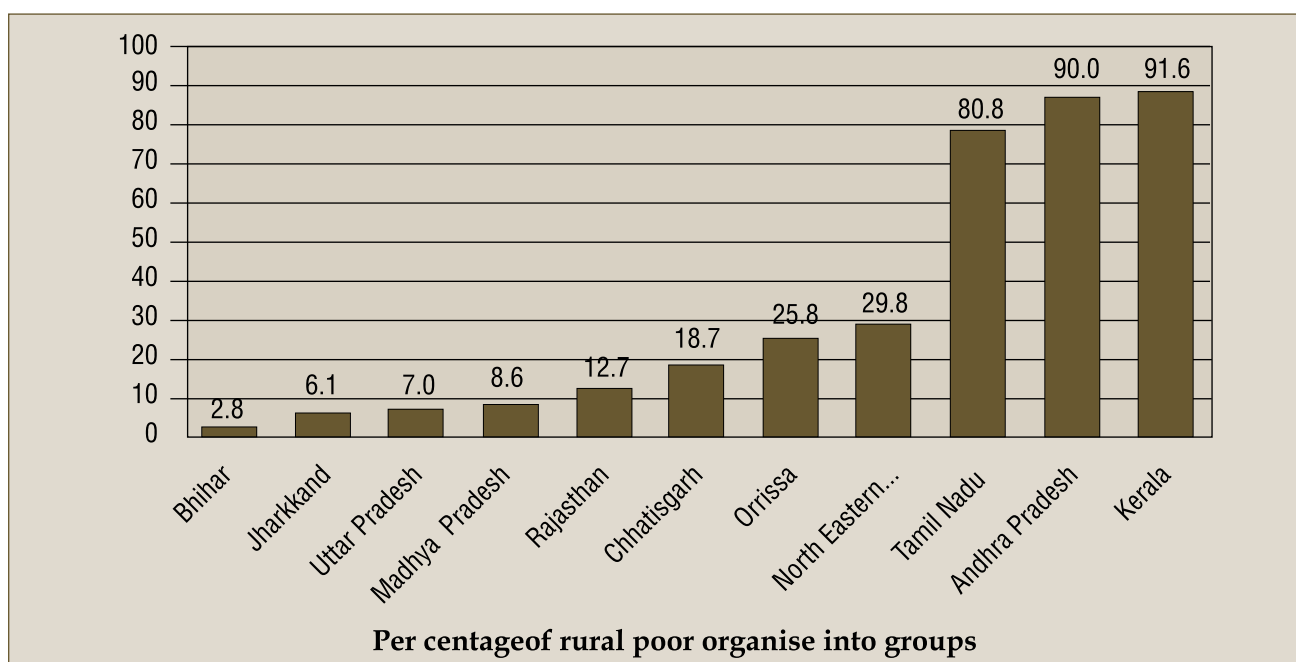
These projects are all designed and implemented through establishment of special autonomous Societies (registered under the Societies Act), by the respective State governments and hence are operationally 'outside' the mainstream departmental structure and regular schemes being implemented under rural development by the Government of India and State governments. However, there is a fair degree of convergence with all the mainstream government programmes through the Board of the Societies established, which are usually chaired by either the Chief Ministers/Chief Secretaries/Development Commissioners, with representation from various development departments. There is also convergence with the various rural development schemes such as Swarnajayanti Gram Swarojgar Yojana (SGSY), once the projects reach a mature stage, which allows for leveraging of additional finances, and with commercial banks through the SHG-Bank linkage programmes initiated many years back by NABARD.

2. The context

One of the most important challenges to reaching the rural poor is that they are not organised and therefore they must deal with State and market institutions as scattered and fragmented producers and users of services. This makes it equally difficult for State and market institutions to deliver services in a targeted and cost effective manner. Out of the 220 million rural poor, only about 23 per cent (50 million) are organised into self help groups (SHGs), producer groups, and other forms of economic collectives. For lagging States, the mobilisation gap is considerably greater - an average of 14 per cent of the poor are mobilised compared to an average of 87.5 per cent in Andhra Pradesh, Kerala, and Tamil Nadu (figure 1). This organisational or mobilisation gap leads to low levels of social capital, which is critical to generating economic capital. This has led to a poor investment climate and lack of a demand side stimulus for both public and private service provisioning. The poor need to be socially and economically mobilised to form their own institutions. The experiences from milk cooperatives in Gujarat, the self-help movement in Andhra Pradesh, and Kudumbshree in Kerala show that when community institutions are developed, nurtured and suitably aggregated, they create significant system wide impact. This changes the rules of the game and produces multiplier effects in terms of economic and poverty impact. Creating

an institutional platform for social and economic empowerment is a critical prerequisite for creating a favourable investment climate for the rural poor and lagging regions. This also helps in creating a base of risk and investment worthy clients at the bottom of the pyramid for the banking system, public service delivery institutions and private sector investment.

Figure 1: There is a BPL mobilisation gap in lagging states

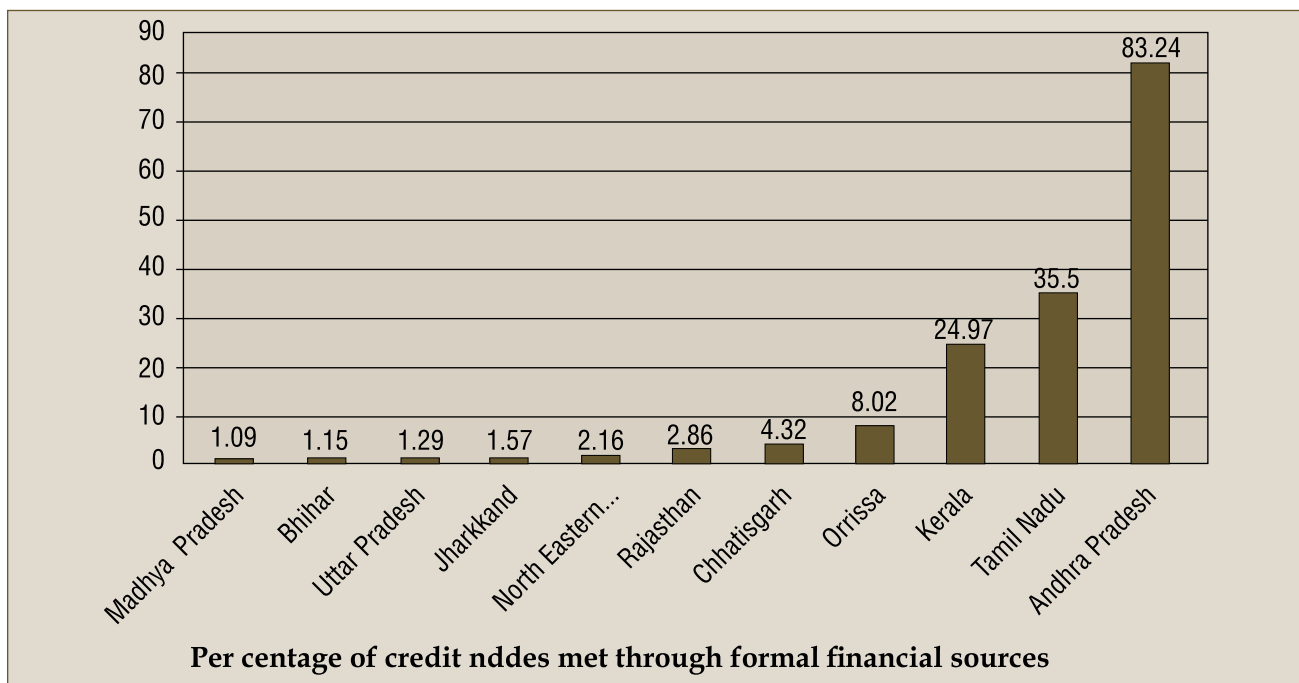


Access to Finance: SHGs are the primary source of credit for the rural poor, including small and marginal farmers. In 2007–08, an estimated US\$1.7 billion in credit was disbursed to 1.3 million SHGs. The per capita credit access is equivalent to US\$111, which is less than 40 per cent of the average expenditure small and marginal farmers make to cultivate their land (US\$286).¹ There is also geographical disparity to the credit flow. For instance, Andhra Pradesh, Tamil Nadu, and Kerala account for 52 per cent of the loans disbursed in 2007–08 under the SHG-Bank linkage system. In contrast, all of the lagging States combined received just over 19 per cent of the credit. Among the lagging States, Madhya Pradesh is at the low end of the spectrum with 1.09 per cent of credit needs met while Orissa shows comparative progress, meeting 8 per cent of credit needs (figure 2). Microfinance institutions (MFIs) are the second major source of formal sector financing, with an estimated credit flow of US\$400–500 million to the rural sector in 2007–08. This too is inadequate to meet the credit needs of the rural poor. To bridge the gap, they depend on informal sources,

¹ US\$286 figure is based on National Sample Survey Organisation Report No. 497

particularly moneylenders who charge usury rates (e.g., in excess of 5 per cent per month), to meet both unforeseen costs and invest in income generation. The credit deficit for the poor leads to high cost indebtedness resulting in chronic poverty inducing conditions. There is a need to invest in institutional systems and processes which would enable the organised poor to access the banking system and the microfinance sector better. All the States which have made significant investment in the institutional architecture of creating creditworthy clients have shown remarkable progress to reduce the credit deficit. Recent estimates by the Rural Development Department of GOI show that to tackle poverty an investment of about US\$50 billion over the next 8-10 years is needed including the public investment and the credit through commercial banks. The current programmes are very transaction intensive and are difficult to scale up due to high transaction cost.

Figure 2: SHGs are not accessing credit at the rate they need



Livelihoods Development: Rural poor households usually rely on multiple sources of income. Agriculture, though, continues to be the dominant livelihood source with about 60 per cent of the rural population still relying on it. However, some emerging trends are affecting the sector. As economic growth continues to increase and the population starts to urbanise, demand for value added agricultural products has increased. The supply response can already be seen as livestock emerges as a primary livelihood option and now accounts for 25 per cent of Agriculture GDP, 9 per cent of the total labour force, and 14 per

cent of household income on average. The non-agriculture workforce has been growing steadily over the past several years, but given that 87 per cent of this sector is unorganised, participants are caught in low productivity cycle that – without significant investment in value addition – makes it difficult to emerge from poverty. Small producers could benefit substantially from agriculture and allied sectors if they aggregate their produce, create institutions for local quality control and value addition and participate in value chain investments. There is a need to make investments in productivity enhancement and value addition so that small producers earn significantly more.

3. The approach

The approach adopted in the various livelihood projects supported by the World Bank is based on the premise that the poor need both voice and scale to reduce their vulnerability and exclusion and capitalise on the opportunities that are emerging from the growth stories that are defining India.

The livelihoods project portfolio of the Bank combines economic empowerment measures with intense social mobilisation of the poor, through promoting group formation, self savings, service delivery and management of their own micro enterprises in a sustainable manner and scale. The projects focus on proper identification of the poor, mobilise them to form affinity based groups around which economic activities are initiated, and target a variety of demand driven investments such as family/community assets formation, skill enhancement and other services, that directly benefit the poor, particularly the poorest of the poor and enable them to come out of poverty. This in turn gives a voice to the poor to demand services and equitably trade with both the government systems and private sector such as banks and market agents. The community driven livelihood projects also have strong elements of decentralised governance and accountability to the community through measures such as channelising money directly from the State level to the poor, without intermediaries, to minimise leakage, process monitoring of project inputs and outputs by the poor themselves, and audit of all fund utilisation both at the community and project levels.

The livelihood programmes have emerged as a critical method of assisting large segments of the rural poor to access the opportunities opening up in the broader economy of India. The key features of these programmes include institution-building support to the poor to form their own viable business organisations in an aggregated scale; investments in assets through a demand driven approach where the poor themselves decide on their investment programme; creating capabilities for enhanced employability of the poor, in growth sectors of the

economy, through skill development; and enhancing access to markets for finance, products and commodities, and services.

4. Impact parameters

In the year 2000, the World Bank introduced three rural livelihoods programmes in the States of Andhra Pradesh, Madhya Pradesh, and Rajasthan. Known as District Poverty Initiatives Projects (DPIPs), these projects shared a common set of goals and principles, though their implementation details were customised to the needs and interests of the individual States. As of 2008, all three DPIPs had closed and produced impact assessments.² This note describes the key impact of the DPIPs in areas central to improving rural livelihoods – institutional development, asset accumulation, access to finance and markets, access to employment – which over 20 projects in the South Asia region have adopted since the DPIPs were approved. Improving these elements can improve the livelihoods balance sheet of poor households, allowing them to participate in the growth economy. Each project has had many multiplier effects and impacts beyond those discussed in this summary.

All of the DPIPs supported the agendas of inclusive growth and poverty reduction articulated by the Government of India, the World Bank's Country Assistance Strategy, and the three State governments. They did this by increasing the ability of the poor to meet their socio-economic development needs and to expand their livelihoods assets and opportunities. Each project laid emphasis on different elements as per the local situation. Despite some differences in approach, the poor in these three DPIPs accumulated savings in US\$400 million, leveraged nearly US\$3 billion in loans from commercial banks, achieved US\$1 billion turnover in collective marketing of farm and non-farm produce, and leveraged well over US\$60 million in resources from other public programmes.

5. Building institutions of the poor

A central tenet of rural livelihoods projects is the development of institutional platforms of the poor. A system of aggregated institutions built up from the grassroots helps the poor take advantage of economies of scale and organisation to access markets and services. The three DPIPs invested over US\$67 million

2 Each DPIP commissioned analyses that surveyed over 8000 households. In Rajasthan, the Institute of Development Studies surveyed 5600 households in 140 villages in seven districts supplemented by focus group discussions and individual interviews. Andhra Pradesh commissioned several studies of specific issues, but the central impact assessment was performed by the Centre for Economic and Social Studies, which did three rounds of household surveys covering 2640 households (1590 self-help groups in 264 village organisations). In Madhya Pradesh, the National Centre for Human Settlements and Environment did an ex post economic analysis of 240 different livelihood activities through field surveys and interviews with 2169 beneficiaries.

towards institutional development. Starting at the grassroots, they created and supported over 240,000 participatory and representative institutions of the poor, and facilitated the formation of over 12,000 aggregate institutions. The projects worked with NGOs, project staff, and over 75,000 community professionals trained by the projects to build the institutional structures, build their capacity, and provide vital services.

The Andhra Pradesh District Poverty Initiatives Project (APDPIP) promoted and supported the formation and strengthening of 3 tiers of self managed, self reliant, and sustainable institutions of the poor: women's self-help groups (SHG), village organisations (VOs), Mandal Samakhyas (MSs) and Zilla Samakhyas (ZSs). APDPIP used a thrift based model of community mobilisation and interaction that supports three goals:

- the practice of savings which helps the poor begin to build assets;
- the habit of repayment, which helps build bridges to banks;
- build trust and positive social capital among the group members which provides a foundation for them to work together for common goals in other areas.

At closing, the project covered 90 per cent of all rural poor households in six project districts of AP, which was much higher than originally envisaged. This was due to a good response from communities, government agencies, and commercial banks. These institutional arrangements have enabled the poor to access a range of services, resources, and expertise from both public and private sector.

A follow up on Andhra Pradesh Rural Poverty Reduction Project has achieved spectacular success to carry this agenda forward. In 2009, the project has organised 10.2 million women in all the districts of Andhra Pradesh, into over 850,000 SHGs that have been federated into 35,500 village level organisations and 1100 Mandal Samakhyas.

Madhya Pradesh District Poverty Initiatives Project's (MPDPIP) core investment supported the formation of common interest groups (CIGs). The CIGs were members of village development committees (VDCs) at the village level for development planning and producer companies to reach markets and financial services beyond the village level. MPDPIP's mode of financing worked through a system of matching grants. The communities contributed US\$6.2 million equivalent in cash towards approved sub-project costs. CIGs also engaged in savings and contributed 10 per cent of their sub-project cost to a village fund (the Apna Kosh) – totaling US\$8.3 million by the end of the project – for the purpose of maintaining investments created under the project.

The aggregate institutions formed by the project were producer companies (PCs), a hybrid between a private limited company and a cooperative society. This institutional form retains the principles of a cooperative society but is outside the purview of the State Government, thus avoiding past problems of

over-dependence among cooperatives. PCs can have an unlimited number of members, all with voting rights, but they also have professional management and a for-profit orientation, which ensures the effectiveness and efficiency of the operations. By the end of the project, 17 PCs (15 crop, 1 dairy, and 1 poultry) were operating with 47,700 shareholders. Most of the PCs have been in existence for nearly two years and were achieving a total turnover of US\$1.4 million.

The Rajasthan District Poverty Initiatives Project (RDPIP) also worked with CIGs of poor men and women, which federated into Cluster Associations (CAs) for economic activities. The Project financed community investments similar to MPDPP – matching grants based on approved community sub-projects. By the end of the Project, 31 per cent of CIGs with approved sub-projects were rated as sustainable using the agreed upon quality and sustainability parameters. Some 2,910 CIGs were members of CAs of which 2,556 CIGs were engaged in dairy activities. Rajasthan demonstrated the potential for building up CIGs and linking them to established institutions like milk unions, dairy cooperative societies, and ultimately to dairy federations. The dairy CIGs linked to Rajasthan State Cooperative Federation (RCDF) and Srijan Maitree Dairy Federation was the most successful model. This approach provided the CIGs with access to services that could only be affordable at scale – such as registration fees, cattle insurance, quality veterinary services, etc.

6. Promoting inclusion

Inclusion was a major goal for each of the DPiPs, and each project crafted strategies for the inclusion of women and marginalised groups, including scheduled castes and tribes.

In the **APDPIP**, the participatory targeting exercise identified the poorest of the poor (28.2 per cent), poor (58.1 per cent), and middle income (13.2 per cent) in each of the project villages. Each group was further disaggregated by social groups. Among the poorest of the poor, 52.6 per cent were from scheduled castes, 17.3 per cent from scheduled tribes, 23.2 per cent from backward castes, 1.8 per cent were minorities, and the remaining 5 per cent were other castes.

APDPIP worked through women's SHGs, so they comprise 100 per cent of direct project beneficiaries. Women in the APDPIP are managing most enterprises run by the VOs, MSs and ZSs. This has led to an increase in participation of women in the rural market economy as they are negotiating with traders, private sector, and public sector representatives. Women demonstrated their leadership ability and management skills by successfully managing the food security programme, collective procurement, and marketing and supply of different types of agricultural inputs. A CESS study and a May 2006 survey highlighted the improved control of women over resources, largely facilitated by project interventions across all social groups. The study also indicated that

decisions relating to the purchase of food items and savings, subscription of savings, marriage of children, purchase of immovable property, and health expenditure are jointly made at the household level.

MPDPIP had a gender empowerment strategy and a tribal development strategy that guided institutional development and financing activities. Women comprised 37 per cent of project beneficiaries, with 30 per cent of CIGs being exclusively women. They have also taken leadership positions in over 94 per cent of VDCs and are on the executive committee in 80 per cent of VDCs. The Project organised 16,093 (29 per cent) sub-projects for women where they have opted for different forms self employment and now contribute a substantial share to the family income and are thus participating in household decision-making. The impact survey revealed that 82 per cent of respondents attested that women's participation in household decision-making has increased to a great extent. Additionally, participation of tribal groups in MPDPIP significantly exceeded the stated completion target of six per cent with 14,357 (26 per cent) sub-projects for Scheduled Tribes.

In the RDPIP, over one-third of the groups (6,275) were women's groups covering some 96,000 individuals. Of the total number of CIGs, some 7,800 had women as chairpersons of the groups. In Baran, a predominantly tribal district, Sahariya tribals received cattle and became members of the RCDF, acquired special low-cost housing, and received access to natural resources and wage labour through participation in joint forest management activities. During stakeholder discussions, women commented that acquisition of assets and additional income had reduced the amount of wage labour they engaged in outside of the house, and provided them with income to invest in education and health.

7. Access to finance

The financial goal of livelihoods projects also create the rural poor as a viable clientele for formal financial institutions. APDPIP adopted a village finance model where grants from the project were on-lent to members of SHGs for consumption and production purposes. MPDPIP and RDPIP pursued a matching grant model where communities contributed a portion of the costs for a sub-project investment, and they promoted savings among CIG members. All of the projects liaised with banks and MFIs to promote greater access by the poor.

Institutions of the poor in Andhra Pradesh leveraged resources and accessed significant amounts of credit and other financial sector services. From an International Development assistance (IDA) investment of US\$111 million, the participating poor households leveraged

The poor in these DPIPs accumulated savings in excess of US\$400 million, leveraged nearly \$3 billion in loans from commercial banks, achieved US\$1 billion turnover in collective marketing of farm and non-farm produce, and leveraged well over US\$60 million in resources from other public programmes.

the following additional resources in six years:

- cumulative savings in excess of US\$113 million, which was used to further leverage credit from commercial banks;
- cumulative credit from commercial banks in excess of US\$425 million with repayment rate higher than 95 per cent, indicating a strong relationship with commercial banks;
- annual bank credit accessed by the members of SHGs increased from US\$11.6 million in 2000 to \$124 million in 2006.
- number of SHGs linked to banks was 155,091 as against the target of 45,000. The SHGs have become valued clients of the banking system.

In the APDPIP, over 500,000 households purchased life insurance coverage (death and disability insurance) on a voluntary basis. This is more than a three-fold (15 per cent of poor households have insurance) increase when compared to the scenario in 2003 (less than 4 per cent of poor household had life insurance coverage).

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During the project period, SHGs revolved a total of US\$919 million (from CIF, recycled CIF, SGSY subsidy, revolving fund, interest subsidy, bank loans, and internal loans from own savings and other earnings). This worked out to be at an average of US\$5,355 per SHG.

By March 2009, the two projects in Andhra Pradesh (APDPIP & AP Rural Poverty Reduction Project), implemented by an autonomous society registered by the government of Andhra Pradesh had achieved spectacular results, with an investment of \$350 million from the World Bank:

- Besides women SHGs project also organised over 210,000 persons with disabilities into some 23,000 self-help groups which provide various support services to their members. These self-help groups have generated cumulative savings and a corpus of US\$1.24 billion.
- Over 6.5 million households had access to credit from formal financial institutions, up from less than 500,000 in 2000.
- A financial sector for the poor has been developed in Andhra Pradesh. Banks now lend 65 times more to the rural poor than before the project and have identified a new client base. Annual credit flow to poor households increased from less than US\$23 million in 2000 to US\$1.23 billion in 2008–2009. Until 2009,

the cumulative credit flow from commercial banks has been US\$4.3 billion. The repayment rate by the women's groups is higher than 90 per cent.

- 9.6 million rural poor have death and disability insurance, up from less than 1,000 before the project started.
- the project has helped community organisations get better market prices for their products and services. Collective marketing and procurement worth US\$321 million has been undertaken by them.
- self-help groups and their federations are managing various service delivery franchises including the distribution of contributory and old age pensions to members. Institutional platform of these self-help groups have been used to access safety net programmes such as the benefits of National Rural Employment Guarantee Scheme
- 600 nutrition-cum-daycare centres run by the community organisations providing nutritive food, nutrition and health support services under one window at the village level have resulted in remarkable improvement in health outcomes. No maternal, infant and neonatal deaths have occurred among the members enrolled and there has been a significant increase in the nutrition level of the infants and child malnutrition has been almost eradicated in these villages. The other indicators include more than 90 per cent safe deliveries and no low birth weight baby born among women who enrolled in the programme.
- women's self-help groups strengthened by IDA-supported projects have swung into action in other areas of need. For example, within six months of the tsunami, about US\$20 million were channeled to help restore livelihoods, using the community targeting and micro planning methods established under these projects. Similarly, SHGs help various public programmes, including building awareness about AIDS, as well as about nutrition and maternal health.
- State Government of Andhra Pradesh has used the institutional model and lessons learnt from the project to launch a State Mission for urban poverty elimination targeted at all the urban poor households in the State.

MPDPIP and RDPIP did not work through self-help groups using savings and thrift as a core organising principle at the grassroots, so it would not be expected for them to achieve the level of formal financial linkages that APDPIP did. However, MDPIP did make progress in terms of savings and access to credit after adjusting a few project features.

The effect of MPDPIP initiatives in the State is evident in the savings behavior of project households, which increased 183 per cent over the project period. Moreover, increased savings occurred most intensely among the lower income

quintiles. Apna kosh in MPDPIP, designed originally to cover the maintenance of the community infrastructure created under the project, gradually shifted its focus to microfinance. By the end of the project, they had collectively accumulated US\$8.3 million contributing in eliminating moneylenders to a great extent. The willingness and openness of the banks to finance CIGs has also grown exponentially. This kind of enthusiastic response of the banking system to help CIGs and the high level of credit flows to the poor was not originally expected.

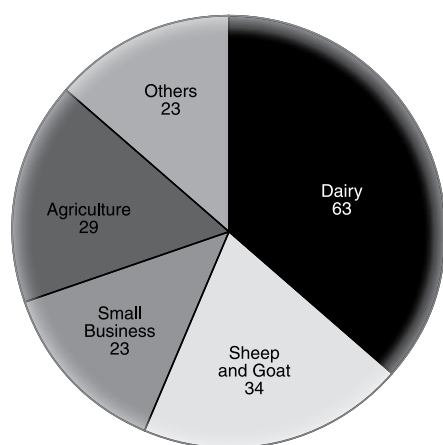
MPDPIP reached an agreement with National Bank for Agriculture and Rural Development (NABARD) that CIGs are a type of SHG and therefore are eligible for group lending. Following this development, the project reported a sharp increase in the number of CIGs accessing banks. At the end the project, the total credit flow from commercial banks to these groups grew to US\$10.6 million, through 25,906 Kisan credit cards and Rs106.2 million through direct linkages between banks and 8,124 CIGs.

The RDPIP did not set out to track savings by individuals, but in tracking linkages to government, NGO, and bank developmental programmes it found that some 2,467 CIGs were linked to RCDF and about 5,000 CIGs were linked to large NGOs such as Srijan and Pradan, who federated the CIGs into clusters and producer companies. Those CIGs to form clusters did accumulate US\$1.2 million in savings and US\$1.3 million in bank linkages.

7.1. Expanding livelihoods opportunities

Although the rural economy is most often associated with agriculture, one coping strategy for poor households is to have a variety of income sources that can buffer them from shocks (like weather). The experience of the DPIP in terms of livelihood diversification varied according to the natural resource base

Figure 3: AP communities invested heavily in income generation



available to the poor and, perhaps, tradition. In APDPIP, for instance, more beneficiaries invested in non-farm livelihoods. RDPIP observed that non-farm activities were not very popular with poor people although the returns are much higher in it. They attributed this to inadequate knowledge about the market and limitation of skills, preventing the rural people from adopting a source of livelihoods that is too unfamiliar.

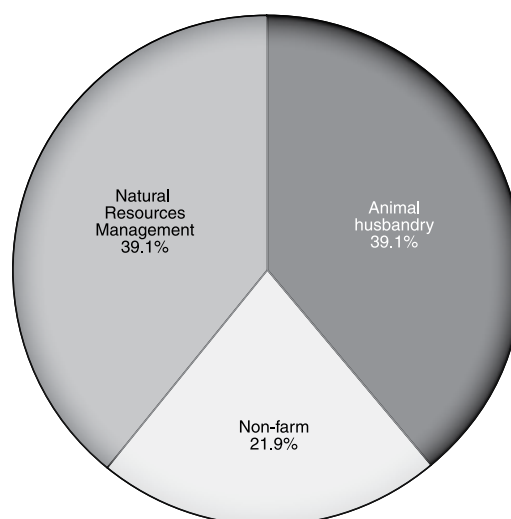
In six years of implementing APDPIP, access to CIF and Bank finance allowed the poor to shift from wage employment below subsistence level to self employment,

diversify their livelihood sources, and increase their asset ownership (gross assets by 73 per cent and movable assets by 139 per cent). With the reduced dependency on money lenders for credit, increased surplus from economic activities and assets and reduced consumption expenditure, livelihoods of the poor have improved. A large proportion of the project promoted investment went into livestock and allied activities and petty trade and service activities. These livelihood activities had a tremendous impact on quality of life parameters relating to women. Overall, the number of livelihood investments per household in APDPIP after the project was 8.7 versus 1.1 before. At the same time, ownership of sheep and goats went up to 18 per cent versus 13 per cent before the project. Currently in the APRPRP, through a special agricultural subprogramme within the project, over 1.38 million acres of land have been brought under sustainable agricultural practices, like non-pesticide-based agriculture management.

In the **MPDPIP**, increases in irrigated land increased the value of agricultural productivity, so many CIG livelihood choices focused on agriculture. For example, with the availability of tubewells and electric pumps, the number of crops per year increased to two or even three. The project also facilitated villagers to change occupations from farming to business, trading, and other professions in the secondary and tertiary sectors. Unemployed youth in villages are now trying to enter into service sector as drivers, security guards, hotel management, and construction workers. Although the differential of the increase in the value of agricultural productivity over the increase in irrigated land was roughly 50 per cent across all households, the actual increase in productivity (149 per cent) was much higher for CIG households because of the high order of increase in irrigated land (27 per cent) as compared to non-CIG and non-project households.

In the **RDPIP**, sample analysis showed that non-farm livelihood activities had the higher IRRs (median of 126 per cent extrapolated over a five year period). However, they were not popular with the poor with only 27 per cent of CIGs pursuing these activities. Animal husbandry comprised the largest component in the Project, accounting for 8,555 (49 per cent) of all the CIGs. Goat rearing had an IRR of 8–9 per cent while dairying had an IRR of 25–36 per

Figure 4: Breakdown of subprojects by livelihoods investment type in RDPIP



cent when their earnings were extrapolated over a five-year period. Together, these two activities accounted for 95 per cent of all animal husbandry activities. Natural resource management (NRM) CIGs comprised 14 per cent of activities initiated under RDPIP, accounting for 2,256 CIGs covering approximately 25,000 households. Agricultural development activities accounted for 37 per cent of all NRM activities initiated. Horticulture, land levelling and vermin composting were the other significant activities accounting for 24 per cent, 15 per cent and 8 per cent of all NRM activities respectively. The range of IRRs seems extremely varied with the minimum observed being 3 per cent return on investments and the maximum being 299 per cent return on investments.

7.2. Linking to employment

APDPIP also supported rural youth in SHG-member households by providing skill development, scanning the market for employment opportunities, and providing placement support in partnership with many private sector organisations and employers. The project also supported Livelihood Advancement Business Schools (LABS) at the district and mandal levels. In FY 2005–2006 (project closing), a total of 11,883 youth belonging to poor households were offered placement in training programmes and/or jobs. A post assessment study conducted on youth who took jobs in urban areas revealed that, on average, each was earning annually about US\$1000 and sending about US\$500 as annual remittance back to their families. More than 190,000 young people have been trained and placed in jobs through partnerships with the private sector.

The Project supported rural youth belonging to CIG member households with skills development, training, market scan and placement support in partnership with many private sector organisations and employers. About 1,350 youths have been selected for placement in various spinning mills, and 850 members have been trained and placed as security guards.

Similar to Madhya Pradesh, the RDPIP focused on agriculture-based livelihoods and optimised its partnerships with federations like RCDF to maximise the market potential of CIGs engaged in agriculture and livestock activities. At the End of the Project (EOP), 56 per cent of all CIGs formed had received basic orientation training as part of the project. However, there is no reliable data available to assess the quality of training provided and anecdotal evidence from stakeholder workshops suggests that training inputs were mixed, especially with regard to non-farm livelihoods.

7.3. Accumulating assets

Poor households, by definition, have few assets (either movable or immovable) and often moveable assets are sold off to weather shocks from illness, death, climate, and other potentialities.

In **APDPIP**, the value of household assets almost tripled---from US\$1032 to US\$2974 on average during the six-year project period, and there was a significant increase in the ownership of both immovable and movable assets. A large majority of this investment was leasing dry and wet land, constructing houses, purchasing milch animals, and purchasing gold jewellery. The extent of irrigated land owned by the poor also increased. On average, investments in productive assets by SHG members increased 168 per cent (US\$1255) after joining the SHG. Likewise, the average family gross assets of SHG members was US\$1032 before joining SHG and increased 188 per cent to US\$2974 after joining the SHG. Many women took up non-farm activities, including small manufacturing and trading, including garments, furniture and retail trading in consumption goods. During this period the turnover from assets also increased by 177 per cent.

Table 1: Changes in asset ownership and productivity in APDPIP

Indicator	Pre-SHG		SHG	
Total number of assets	8,286		15,311	
Total value of assets million Rs/million US\$	83.4	1.9	237.5	5.4
Annual turnover million Rs/ million US\$	34.3	0.8	126.0	2.9
Income from assets million Rs/million US\$	16.5	0.4	50.7	1.2
Income turnover ratio	48.1%	40.2%		

Note: US\$ values calculated using an exchange rate of US\$1=.44 consistent with the ICR

Asset formation patterns in the MPDPIP also clearly demonstrate the influence of project interventions. Analysis shows that households in the project area – both CIG and non-CIG – increased their household assets during the project period. In contrast, assets of non-project households decreased. Trends in household asset formation reveal an increased trend towards ownership of cycles and radios, mainly in the case of project households – both CIG and non-CIG.

Livestock holdings decreased across all households in the State, except among households belonging to a project CIG, which increased their livestock holdings by three per cent. Non-CIG households' livestock holdings declined by 12 per cent, while those of non-project households are down by 18 per cent.

In **RDPIP**, the main theme of the project was the creation of physical assets amongst members of the target community. Despite the deficiency of the project to promote clusters to the level originally envisioned, livelihood activities have had significant impact on the incomes and living standards of member households at the CIG level itself due to the creation of a livelihood asset coupled with the macroeconomic growth in the State over the past few years.

7.4. Market access

For those SHG and CIG members who invest in agriculture based livelihoods, access to competitive markets is essential to maximising profit. Through the institutions of the poor created by livelihoods projects, farmers can improve the terms of trade both with input, output, and financial markets. The DPIPs collectively created over 1500 aggregate institutions of the poor that actively engaged in marketing. Members of these groups received prices for their goods that were 30–40 per cent higher than what they had previously received.

APDPIP invested significantly in value addition at the local level for various agribusiness activities by developing market linkages with the public, cooperative, and private sectors. These linkages enabled producers to get more than 30 per cent higher prices. Access to the market was improved by:

- meeting critical infrastructure gaps (e.g., setting up bulk milk cooling centres);
- promoting wholesale trade by community groups in commodities produced and consumed by the poor;
- developing franchises and partnerships with private sector.

By EOP, over 1500 VOs had implemented collective marketing activities, including 695 community-managed procurement centres. In addition, 273 VOs and 42 MS operated village procurement and bulk milk cooling centres acted as franchises for large State and national dairy companies and cooperatives. The cumulative collective marketing turnover at project closing in 2006, including all commodities, was US\$38.8 million. These investments also contributed to the increased sustainability and viability of individual economic activities taken up by the poor households.

MPDPIP made excellent progress in developing the Producer Company model to establish market linkages, thus converting CIG investments into a sustainable livelihood stream for the beneficiaries. All CIG members participating in these producer companies are shareholders of these companies and have the first call to get the services provided by these companies. These linkages have made the initial investment through the CIF both more productive and sustainable. The PCs are also benefiting the CIG members through timely and quality input supply, like seeds, at a lower than market rate, and providing an assured market for their produce. Hence the social benefits of these producer companies are much higher than what their own profitability shows. The project promoted 17 such producer companies in the different districts covered by the project. While a majority of these PCs are involved in agricultural commodities, a selected few have also been formed in the non-farm sector, such as for poultry and milk marketing. An economic analysis by MPDPIP showed that by the end

of the project, the net present value (NPV) of the PCs ranged from US\$2545 to US\$21,705, and IRR ranged from 35 per cent to 216 per cent.

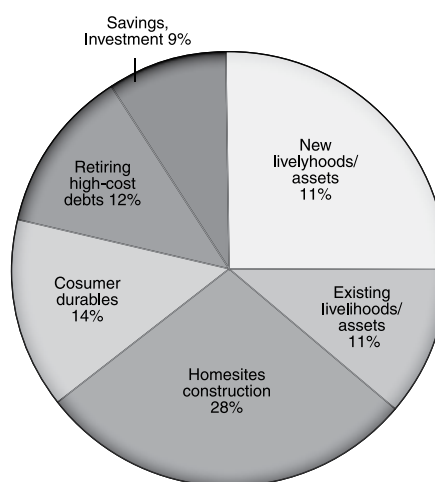
In any case, local level value addition and direct market linkages are tilting the terms of trade in favour of the poor and generating 30–40 per cent higher prices for the products of the farmers in Rajasthan.

7.5 Improving the household livelihoods

All households seek to have more resources coming in than going out – they must manage their household balance sheet so that they have a positive flow of assets and cash at the end of the month or the year. According to impact assessments, households in the DPIP's saw household income increase between 50 and 115 per cent over the life of the project. Household consumption and expenditure patterns also improved.

According to a CESS impact study of APDPIP, the annual income per household among beneficiaries increased in absolute terms by 115 per cent from US\$483 to US\$1041 over the last five years of the six-year project, compared to a 64 per cent increase for non-participant households. Moreover, households' dependence on high-cost sources of borrowing reduced by more than one-third. Small but compulsory savings and inter-lending by SHG members reduced the dependence of members on traditional high-cost sources of borrowing, often interlinked with commodity/labour sales. Interest payments significantly reduced from an average of US\$104.5 to US\$60 per household, indicating access to credit on reasonable terms from commercial banks and less credit from moneylenders. On the whole, the average household expenditure increased US\$196 per annum, and project households spent three times more on education. A January 2007 survey indicated that a substantial part of the income increase was reinvested in existing and new livelihoods.

Figure 5: Incremental income investment by households in Andhra Pradesh



In MPDPIP, the real incomes of project beneficiaries (CIG households) increased by 53 per cent over the project implementation period as compared to non-beneficiaries in project villages whose incomes increased by 24 per cent; the real

income growth of households in non-project villages was only 15 per cent. On average, CIG households saw an 18 per cent increase in average expenditure levels. Non-CIG households registered a drop of one per cent while non-project households curtailed their expenditures by up to nine per cent. The increase in household spending was highest (15 to 28 per cent) among the poorest CIG households. Studies found that CIG households spent 56 per cent more on education, followed by food (30 per cent) and house maintenance (27 per cent). Similar to APDPIP, MPDPIP found that borrowing by CIG households in the lower income quintiles showed a drop of 6 to 10 per cent.

In **RDPIP**, the average income of the CIG member household increased from US\$417.31 in 2001 to US\$742.45 at EOP compared to US\$434.09 to US\$667.95 for the control groups during the same period. The average income earned from selling milk by CIG households is US\$374.90 compared to US\$306.72 in case of non-CIG household. On an average, DPIP households have increased their income level by US\$260.34 after the implementation of the programme, whereas non-DPIP households have improved it by US\$192.22. After DPIP was implemented, the difference in annual income between DPIP and non-DPIP households is US\$207.68. Nevertheless, the ICR report notes that this difference cannot be interpreted as the effect of the programme since other factors such as initial economic conditions, education level, and caste may confound the difference in annual income between DPIP and non-DPIP households. (Singh and Sharma 2008)

7. 6. Improved service delivery and convergence with government schemes

The DPIPs interfaced and influenced government programmes at the local, State, and even the national level, and this convergence leveraged millions more in funds for communities through direct financing, thereby allowing for last mile service delivery by programmes.

Table 2: Household consumption by the numbers

Indicator	APDPIP	MPDPIP	RDPIP
Average increase in household income	US\$1041 (115per cent)	53 per cent	US\$59 to US\$250
Change in average interest payments on debt by households	-US\$44.5		
Average increase in household expenditures	US\$196/year	18 per cent	

Notes (The World Bank 2007) (The World Bank 2008) (The World Bank 2008)

In APDPIP, community institutions provided a ready database to channel funds from line departments, which made targeting for service delivery agents more efficient. Some public agencies have outsourced or franchised some of their services to community based organisations (CBOs).

Towards the goal of empowering communities, APDPIP sensitised SHG members to their entitlements and their potential role in local government institutions, including PRIs. A large number of poor women in AP stood for elections, and 4072 were ultimately elected to office. These included all tiers of local government – district, Mandal, ward.

According to a CESS study, political empowerment had occurred among poor women due to the project, and it points to an increase in participation by women in gram sabhas and community level meetings conducted by panchayat bodies.

Up to November 2006, a total of 822,602 pensions worth US\$31 million were distributed by VOs. Similarly in Madhya Pradesh, many government departments now use CIGs to deliver services to villagers in areas such as health, education, and sanitation. (The World Bank 2007)

By and large, the proportion of households who access the various government programmes is high among participants as compared to the non-participants.

In RDPIP, project staff coordinated with other departments to mobilise funds from other government schemes to benefit target households. Apex service providers such as the Rajasthan non-farm Development Agency (RUDA), Indira Gandhi Panchiyati and Gramin Vikas Sansthan (IGPRS), Malaviya National Institute of Technology (MNIT), Rajasthan Cooperative Dairy Federation (RCDF) and National Bank for Agricultural Development Consultancy Services (NABCONS) were formally brought in to support the project. An estimated additional US\$35 million was mobilised through government schemes, including health, drought relief, joint forest management, tribal housing, watershed management and employment guarantee schemes. In many cases CIG mobilisation was financed through the project and asset creation financed through convergence with the government programme. (The World Bank 2008)

The DPIPs also influence government programmes, for e.g., at the Central level, the approach used by APDPIP has been described as a national model in the Draft Eleventh Five Year Plan Approach Paper released in 2006 and is likely to be the basis for a National Mission on Poverty Elimination. (The World Bank 2007)

**Box 1: An unexpected outcome:
political empowerment**

Towards the goal of empowering communities, APDPIP sensitised SHG members to their entitlements and their potential role in local government institutions, including PRIs. A large number of poor women in AP stood for elections, and 4072 were ultimately elected to office. These included all tiers of local government – district, Mandal, ward. According to a CESS study, political empowerment had occurred among poor women due to the project, and it points to an increase in participation by women in gram sabhas and community level meetings conducted by panchayat bodies.

7.7. Moving forward: scaling up and consolidating success in the DPIPs

The rural livelihoods agenda has expanded greatly since the first three DPIPs were introduced. In Andhra Pradesh, the World Bank began financing a follow-on project – the Andhra Pradesh Rural Poverty Reduction Project (APRPRP) – to consolidate successes from APDPIP and scale up the project to the entire state. In six years of operation, APRPRP has had the following outcomes thus far:

7.8. Lessons learnt

Several lessons have been learnt from implementing the above first generation livelihood projects financed and supported by the World Bank in India. These lessons are now being used to design the second generation rural livelihood projects that are being designed or have begun to be implemented in India in the States of Bihar Jeevika, Orissa (Tripti) and the North East region. Some important lessons include:

Table 3: Progress from APDPIP to APRPRP

Indicator	APDPIP	APRPRP
Project investment in social mobilisation (US\$ million)	30.2	83.9
Number of poor mobilised	2,300,000.0	10,182,181
Institutions formed at the		
● community level	171,618.0	850,671
● village level	9,872.0	35,525
● block level	316.0	1,098
● district level	6.0	22
Number of community professionals created	76,000.0	200,000
Cumulative savings by project community institutions (US\$ million)	113.0	660
Cumulative credit flow to project community institutions (US\$ million)	425.0	1,637.0a
Number of institutions engaged in marketing	1,542.0	2,507.0
Average price increases received by producers	30 per cent	
Cumulative collective marketing turnover (US\$ million)	38.8	492.5

Note: Exchange rate of US\$1=Rs 0.44(as reflected in ICRs) used to calculate US\$ figures for APDPIP. a. number in 2008/2009 as of March 2009

Sources: Society for the Elimination of Rural Poverty 2009, Kumar 2009

- Poverty targeting through a combination of participatory methods and village assembly's (gram panchayat) endorsement is effective and raises transparency. Participatory wealth ranking has proved an effective and equitable tool to identify the poor and improve the government's Below Poverty Line (BPL) list. Similarly, a public review and approval of the wealth ranking-based list at the Gram Sabha level can minimise future conflicts and controversy. This methodology is being used in Madhya Pradesh and Orissa in some form to ensure that the poorest of the poor are not left out of these projects.
- In order to address and improve livelihoods of the poor, promoting and strengthening their own institutions is essential. Direct and intensive support to the groups of the poor in the process of their livelihoods augmentation is more effective than assistance through existing village institutions. This is because main concerns and mandate of the village institutions are in the public domain, whereas livelihoods-oriented interventions focus on a household's own assets and capacity. Sometimes unequal and divided village societies could also impede the poor to gain voice in the public arena and risk elite capture of project benefits. The building of federated SHGs is now the core design of all the rural livelihood projects being supported in India. In the past, different projects followed different groupings which were found to be not so gender sensitive and sustainable in the long run after the project ended.
- Intensive and continuous facilitation is essential for successful social mobilisation and capacity building of the poor. This learning follows from the above requirement of building cohesive and sustainable groups of the rural poor. The process of group formation, trust and capacity building of the poor requires handholding support by external facilitators, tailored to the specific needs of each group at different stages of development. The projects now follow the successful experience of Andhra Pradesh, in which specialised units of facilitators (including resource persons from the community itself) provided high quality support to the groups over a long term. The initial phases in MP and Rajasthan did not have this process intensively enough, leading to weak and inadequate numbers of groups being formed.
- Social mobilisation and capacity building for the sake of social action alone is not enough to empower the poor. Group formation and capacity development need to help the poor make best use of the tangible income opportunities, made available through creation of assets at the household level and linkages to a wider market. To ensure this, all livelihood projects now are linked to the commercial banks for continued financial inclusion and once the groups are strong, they link with other government schemes for additional finance.

- In order to access promising markets, small groups need to federate and operate at a higher level. Lack of access to different kinds of markets is a major reason for the rural poor to continue to remain in poverty. To overcome this constraint and to enhance income flows to the poor in a sustainable manner, federation of small groups into such entities as producer companies is necessary. Through federation, small group members can also access a variety of services, such as supply of high quality seeds, which make their assets more productive. This emerged very clearly from the experience of all the three DPIPs in Andhra Pradesh (where village and mandal level federations have been formed), Madhya Pradesh (where Producer Companies have been formed), and Rajasthan (where women's dairy cooperatives have been formed).
- Private sector participation is important for sustainable livelihoods of the poor. Drawing on MPDPIP's successful experience of developing producer companies with sustainable private sector market linkages, the rural livelihood projects now support technical assistance for major livelihood activities through strategic public-private-partnerships. These sector support organisations will provide technical know-how, critical market linkages, and capacity building support to community organisations mobilised and formed through the project. However there are still many bottlenecks in this from both sides, as government systems have stringent contracting norms and the private sector is often unwilling to experiment with supply chains that they do not control.
- A competitive recruitment system and merit-based human resource development strategy ensures high quality performance and commitment by project staff. Competitive recruitment and selection of staff from both the open market and the government system creates a culture of high standard performance and commitment in the project management units. While this lesson seems obvious, within the government system it is a major issue as recruitment of staff, salary scales and other service rules are highly constrained and universally applied across systems.

Drawing lessons from the implementation of these projects, the key issues that need to be currently addressed in livelihoods for the poor include the following:

- a participative and efficient system of identification of the poorest in a stratified village society, so that benefits reach the right people;
- identification of avenues for livelihoods outside agriculture that can absorb large numbers, given the limited scope for employment generation in agriculture in India;

- design of a robust scaling up strategy in projects and programmes, so that the impact on poverty reduction can reach the millions of poor;
- an effective institutional and programmematic mechanism for converging the disparate rural development schemes of the government so that the utilisation of public resources is more effective;
- an effective institutional framework involving different stakeholders such as the community, government, civil society, NGOs, financial institutions, such as banks, and private business sector, to work together in such projects to complement their core competencies and achieve common goals.

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About the Authors

Ajay Tankha has nearly 40 years of teaching, research, programme management and consultation experience, particularly in rural development and rural finance. He has worked as Head of Microfinance of ActionAid UK and as Agricultural Economist with the National Bank for Agriculture and Rural Development (NABARD) and has lectured in economics and development economics at leading universities of India, The Netherlands and Vietnam. He is currently an independent consultant based in New Delhi.

Bazil Shaikh, a student of economics, did his Masters in public policy from Princeton and has been working with the RBI since the last 25 years, looking specifically at agricultural and monetary policies.

Biswajit Sen is a Rural Development Specialist at the World Bank, Delhi. He has experience of over 25 years in the development field. Biswajit initiated and mentored several national level NGOs including PRADAN and GDS. He is an advisor to UNICEF in African and Central Asian countries, to the Government of Switzerland Aid in India and the McArthur Foundation. He holds a B.A. (Econ) from Delhi University & a PGDM from IIM Ahmedabad.

Meera Shenoy is the Executive Director of EGMM, a Mission which she helped the Andhra Pradesh government to set up, from scratch. Today, it has grown to become the largest Jobs mission for the underprivileged globally. Its innovations are the learning products developed for the poor tailored to the needs of the market. She has been invited to speak on this topic in national and international seminars and given invited lectures on Youth and livelihoods in India, Europe and the US. The work has featured in several prestigious publications including Knowledge @ Wharton. Currently, she also works with the World Bank in Bihar, Sri Lanka and Bangladesh on Youth and employment. Her previous work experience is corporate, and media, both print and television.

Narendranath is currently heading the Research and Resource Centre in Pradan, a facility for developing systems for large scale scaling up as well as for policy dialoguing. He has worked for 19 years in Pradan, out of which 12 years were spent in direct field action in Bihar, Jharkhand and Rajasthan. He has extensive experience in microfinance and livelihoods through SHGs, wide experience in promoting SHGs, was involved in designing and delivering training programs for SHGs and federations and the Pradan

staff, and in large scale training of bankers. He holds a B.Tech (Mechanical Engineering) from Kerala University and has done his Post Graduate Diploma from IRMA.

Parmesh Shah, Senior Rural Development Specialist for the South Asia Region at the World Bank and Andhra Pradesh Rural Poverty Reduction Project Team Leader, has been working for the World Bank for nine years and has been leading the APRPR project for the last 4 years. He obtained his first degree in Agricultural Engineering followed by an MBA. Although he began his career in business management, he quickly shifted to working in the development field. He ran a large rural development project in India and then started his own rural support program, an international NGO which was one of the pioneering agencies working on participatory models of development. He occupied this position for 12 years before attending the Development Studies Institute at Sussex University to complete a PhD in Development Studies.

Premchander, currently Visiting Professor at Indian Institute of Management Ahmedabad in the Finance and Accounting Area, was earlier at IIM Bangalore. He has spent equal time in Industry and Academia, having worked in SBI, IL&FS and Schoolnet India Limited (now ILFS Educational Services Limited) among other companies. He has done a management audit of NABARD, review of the systems of ICDS and a study of the development potential of Karnataka and Kerala are some of the projects he has been associated with. He is also an advisor on HR issues to corporate and development organisations. His current areas of interest are finance and governance, more specifically corporate governance.

Sankar Datta is the Dean of the Livelihood School and also Director of the Indian Grameen Services. Dr Datta has a bachelor's degree in agriculture and animal husbandry from GB Pant Agriculture University, Pantnagar, Uttar Pradesh, a post graduate diploma in Rural Management from the Institute of Rural Management, Anand, Gujarat and a PhD in Economics from the Sardar Patel University, Gujarat. He was at MP Oilseeds Co-operative Federation, PRADAN and IIM-Ahmedabad, before joining the faculty of the Institute of Rural Management, Anand for five years. Dr. Datta has been involved in extending professional services for rural development activities, specially focusing on livelihood promotion, working with micro-enterprises for over two decades.

Smita Premchander is Secretary of Sampark, an NGO engaged with poverty reduction through microfinance, microenterprise, education, vocational training, development of local people's institutions and participatory research in different aspects of development. She is an independent consultant to several national and international organizations. She is engaged in policy advice and advocacy for issues of women's empowerment, social protection, social inclusion, bonded labour issues, microfinance, impact assessments and knowledge sharing for development practice. She has an MA in Economics, an MBA from the Indian Institute of Management, a PhD from the University of Durham, UK, and research links with the University of Berne, Switzerland.

Srinu Babu M is currently a Regional Faculty Coordinator at The Livelihood School. He has worked in BASIX since the past 4 years, and has expertise in Capacity building

of Livelihood promoting organizations. He has earlier worked as a Faculty/Programme Manager in Xavier Institute for Development Action & Studies, Jabalpur (XIDAS) and as a Lecturer in Guru Ghasidas University, Bilaspur C G. He holds a B Sc and M Sc in Guru Ghasidas University, Bilaspur.

Ujjal Ganguly has been working with ITC's social initiatives program since November 2004. He has over 15 years of experience in working with the public sector like Rajasthan Oil Federation, Corporate Brooke Bond Lipton and NGOs like Chirag, Pradan and Srijan. He has also worked as a consultant with Sida and the World Bank. He holds a masters in Economics from JNU and a PGDRM from IRMA.

Vanita Viswanath is the CEO of Udyogini, an organization providing business development services to poor women in the backward and remote regions of India. Prior to joining Udyogini in 2000, she was a consultant to the World Bank and other international agencies. She was a staff member of the World Bank in Washington in the early 1990s. She has several writings to her credit including books and articles on political development, gender, development practice and microenterprise. She has a PhD from the University of Texas at Austin in the United States.

Vipin Sharma is the CEO of ACCESS Development Services. He is responsible for institutionalizing and expansion of the organization as a pan-India resource organization to support livelihoods and microfinance outreach. He has earlier worked in CARE India as Programme Director, Microfinance, heading CASHE (Credit and Savings for Household Enterprises), CARE's largest microfinance program worldwide. Prior to that, he was Executive Director - Rural Non Farm Development Agency (RUDA), Govt. of Rajasthan. He holds a BA (Hons.) in History from St. Stephen's College, Delhi University and a MA in History from University of Rajasthan, Jaipur.

Livelihoods Advisory Group

Ajay Tankha

Independent Consultant

Ajit Kanitkar

Program Officer, Development Finance and Economic Security, Ford Foundation

Brij Mohan

Chairman, ACCESS Development Services

Deep Joshi

Magsaysay Awardee and Former Executive Director, PRADAN

Prema Gera

Head, Poverty Unit, United Nations Development Programme (UNDP)

Sankar Datta

Dean, The Livelihood School

Tinni Sawhney

Senior Programme Officer, Rural Development, Aga Khan Foundation

Dr. Virinder Sharma

Environment and Livelihoods Adviser, Climate Change and Energy Unit, DFID India



The Microfinance India Secretariat

Aarti Dayal

Project Coordinator, Livelihoods,
ACCESS Development Services



Since the last year, ACCESS has been publishing the State of the India's Livelihoods (SOIL) Report in collaboration with The Livelihoods School. This report is a one of its kind report and is the only document that aggregates the experiences and challenges of the livelihoods sector, analyzes case studies, and reports the progress of both government and privately run programs. It focuses on the 4 Ps - Poor, Policy environment, Potential and Promoters. It is an annual publication with specific themes each year addressing contemporary issues impacting livelihoods. The SOIL report collates and examines the existing livelihoods scenario in India and predicts the potential opportunities for the poor. The report also evaluates and presents the role of various promoters of livelihoods i.e., government, civil society and the private sector. It is a great compendium giving a comprehensive analysis of the livelihoods perspective in India and provides a very good platform to further such efforts and thus provide better livelihoods to the poor.

SOIL 2009, rather than being academic, attempts to serve as a practical document providing learning to the practitioners. The themes of the report are based on contemporary topics, making in-depth analysis of issues and programs and provides value added learning for practitioners.

A Microfinance India Publication


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139 Richmond Road
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Phone: +91-80-25580346

e-mail: marketing@booksforchange.info

www.booksforchange.info



ACCESS Development Services

28, Hauz Khas Village, New Delhi – 110016

Tel : +91-11-26510915, Fax: +91-11-26850821

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