

**These Papers have been prepared
By
individual members/experts
for
discussion in the NAC and do not, in
all cases, reflect settled conclusions
of the NAC**

**RURAL POVERTY REDUCTION
THROUGH CENTRALLY SPONSORED SCHEMES**

(Naresh C. Saxena & Jayanti S. Ravi)

CONTENTS

1	Characteristics of poverty	2
2	Allocation of Funds for Schemes	3
2.1	<i>How is State/District share in Central Releases Determined?</i>	5
2.2	<i>State Contribution</i>	6
2.3	<i>Releases & Utilization</i>	6
3	BPL Census	6
4	Individual Schemes	8
4.1	<i>Self-Employment Schemes</i>	8
4.1.1	Problems with Self-Employment Programmes	10
4.2	<i>Wage Employment Schemes</i>	13
4.2.1	JRY	13
4.2.2	EAS	15
4.2.3	SGRY	17
4.2.4	Evaluation of SGRY	18
4.3	<i>Rural Housing Scheme - IAY</i>	21
4.3.1	Assessment	23
4.4	National Social Assistance Programme (NSAP)	24
4.4.1	Evaluation of NSAP	25
4.4.2	Implementation after 2002-03	26
4.5	<i>TPDS</i>	28
4.5.1	Antyodaya	29
4.5.2	Offtake by States	30
4.5.3	Evaluation	32
5	Analysis and Suggested Action	34
5.1	<i>Effectiveness of Centrally Sponsored Schemes</i>	34
5.2	<i>Assessment of Monitoring Efforts</i>	36
5.2.1	Monitoring of Panchayats	39
5.2.2	Is Transfer through CSS Regressive?	40
5.3	<i>Flexibility & Capability Issues</i>	40
5.3.1	CSS vs ACA & NCA	42
5.4	<i>Suggestions for Improvement in the Design of Programmes</i>	45
5.4.1	Integrated Development	45
5.4.2	SGSY	46
5.4.3	SGRY & NREGA	47
5.4.4	IAY	49
5.4.5	NSAP	50
5.4.6	TPDS	51
5.4.7	Governance Issues	53

1. Characteristics of Poverty

This paper reviews the National and State-wise performance of selected Anti-Poverty Programmes (APP) between 1997/98 and 2005, and discusses the extent to which the performance of APP since the 9th Plan measures up to the pro-poor objectives which schemes set for themselves. It also provides a set of recommendations for policy makers and programme implementers which could help to improve APP performance. The Programmes selected are:

- (i) IRDP/ SGSY;
- (ii) JRY/EAS/SGRY and NFFW;
- (iii) IAY;
- (iv) NSAP, especially pensions; and
- (v) TPDS/Antyodya

Despite India being one of the ten fastest growing economies of the World, India is home to over one third of the world's poor people. Several features of poverty in India stand out.

First, poverty is getting concentrated in the poorer States. In terms of absolute numbers, Uttar Pradesh, Bihar and Jharkhand account for around 27% of the country's population but 30% of India's poor lived there in 1973-74, which has increased to over 41% by 1999-2000.

Second, more than three-fourths of the poor live in rural areas. Over 70% of the total working population depends on Agriculture; of this about 80% are small and marginal farmers¹.

Third, more than three-fourths of the rural poor depend on agriculture. Agricultural growth will therefore have greatest potential of poverty reduction.

Fourth, poverty has many social dimensions. There has been hardly any decline in poverty for the Scheduled Tribe households, almost half of them continue to be Below the Poverty Line.

**Table 1: Composition of the Poor Households Classified by Social-Group Affiliation :
All-India Rural 1993-94 – 1999 -2000**

Category	1993-94			1999-2000		
	Percentage Share of the Household Type in			Percentage Share of the Household Type in		
	Total Rural Population	Rural Poor Population	HCR	Total Rural Population	Rural Poor Population	HCR
Social groups						
Scheduled castes	21.1	28.19	45.69	20.43	27.1	38.38
Scheduled tribes	10.83	15.46	48.81	10.49	17.41	48.02
Others	68.07	56.35	28.3	69.08	55.49	23.23
All households	100	100	34.2	100	100	28.93

¹ Census of India, 1991.

Although poverty among the Scheduled Castes has declined from 46 to 38% during 1993-99, the caste system confines those from lower castes to a limited number of poorly paid, often socially stigmatised occupational niches from which there is little escape, except by migrating to other regions or to towns where their caste identity is less known. Many States, especially in the north and western part of the country, are characterised by long-standing and deeply entrenched social inequalities associated with gender. Gender cuts across class, leading to deprivations and vulnerabilities which are not necessarily associated with household income.

Fifth, poverty is intimately connected with vulnerability and shocks. Severe and chronic deprivation in India is compounded by general uncertainty with respect to livelihood and life, which threatens an even wider section of the population than might be counted as poor.

And lastly, a fast decline in poverty should have been generally accompanied with improvement in health indicators, which does not seem to have happened. The IMR has declined only very gradually in the last ten years from 74 in 1993 to 64 per 1000 children in 2002. According to the UN Human Development Report, 2004, Bangladesh, in 2002, reported a lower Infant Mortality Rate of 51 deaths per 1,000 than India. Furthermore, mortality of children under five years appears to have seen no improvement over the 1990s and might, if anything, have worsened (from 94 in 1992 to 95 in 2002). Similarly, almost half the population suffers from mal-nutrition.

The interrelatedness between poverty and political empowerment is also quite skewed. An attempt was made to look at the correlation between poverty and political representation based on Local Self Government Institutions of Karnataka. Data obtained from Chitradurga District shows that, of 34 Members of the Zilla Panchayat, 2 belong to the BPL category, which is 5.88%. In the case of Taluka Panchayats, 23 out of 129 Members belong to the BPL category, which is 17.83%. In the case of Gram Panchayats, 1191 Members out of 3238 (or 36.78%) are in BPL category. We see that as one moves away from the local tiers of Government, the share of BPL persons as elected representatives decreases and poor people are less politically empowered at the Taluka, Zilla, Assembly and Parliament levels respectively. Such data does not seem to be available in respect of MPs or MLAs.

Thus, poverty is an extremely complex phenomenon, which manifests itself in a range of overlapping and interwoven economic, political and social deprivations. These include lack of assets, low income levels, hunger, poor health, insecurity, physical and psychological hardship, social exclusion, degradation and discrimination, and political powerlessness and disarticulation. Therefore, policy instruments should be designed to address not only the low income and consumption aspect of poverty, but also the complex social dimensions. The Schemes described in this paper do not cover these dimensions of poverty.

2. Allocation of Funds for Schemes

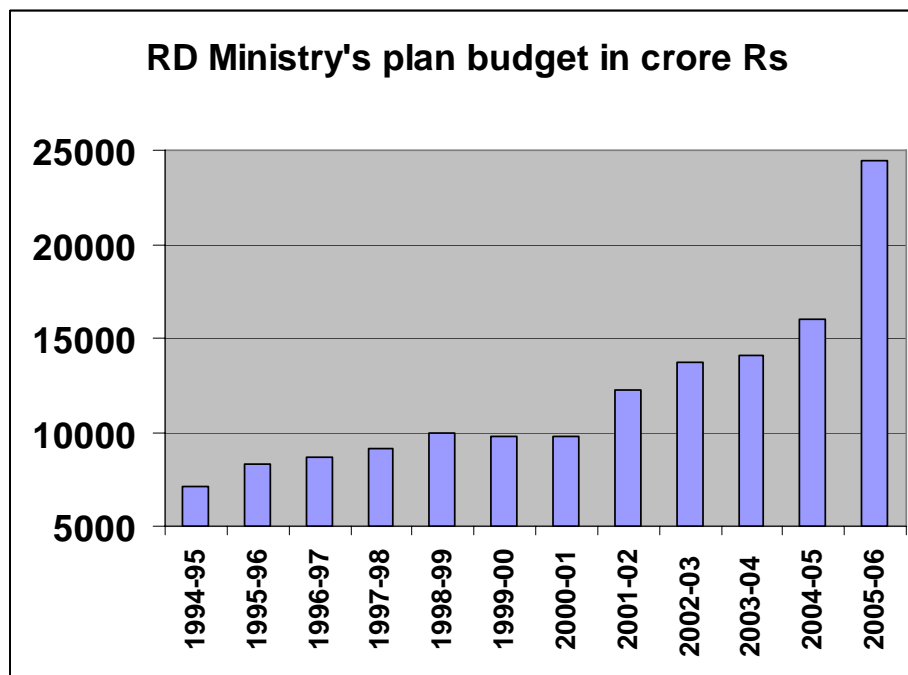
Although the Constitution of India does not mandate any significant role for the central Government in Poverty Alleviation Programmes, such Schemes have been a part of GoI's Budget, right from the early 1970's. These were basically of three types; schemes to promote self-employment; creating new work opportunities for wage labour; and the third category focused on backward areas, arid areas, hilly regions, etc. of the country. Since then the names have changed, but objectives have not; and the current schemes in the Ministry such as SGSY, SGRY and IWDP (including DPAP and DDP) too are serving the three good old aims of

promoting self-employment, wage employment and area development respectively. In addition, there are now programmes for providing basic infrastructure for better quality of life in rural areas, such as rural housing, and programmes for social security of the poor and destitute, such as old age pensions. It may not be out of place to point out the confusion that these frequent change of nomenclatures of schemes result in. As pointed out by a Field Officer, *'Such complicated names like SGRY, SGSY etc. make it all very confusing and they constantly keep changing. Very few villagers may be aware of these schemes. Asking full names of these may be a very difficult question even for DRDA Staff. It may be much more helpful if these names are on non-controversial, apolitical personalities such as, for example, Bhagat Singh Scheme, Subhash Bose Scheme etc.'*

It is also seen that performance based incentives/ disincentives are not in place. Unless a metric for gauging the performance of the States is in place and this is linked to the devolution, the pace of improvement in the implementation of the scheme by States may continue to be very slow.

Out of the five schemes chosen for examination in this paper, four are supervised by the Rural Development Ministry and one by the Food Ministry. The annual allocation for the NSAP is part of the Additional Central Assistance (ACA), which is decided and allocated annually by the Planning Commission, and is released by the Finance Ministry to the State Government. Food allocations are done by the Food Ministry to the States for TPDS on the basis of their share in poverty, and on the directions of other Ministries for welfare schemes (RD for SGRY, HRD for Mid-Day Meals, etc). Allocations for the other three schemes are decided annually by the RD Ministry, on the basis of its overall Annual Plan ceiling, as also the five yearly allocation of each scheme indicated by the Planning Commission in the current Five-Year Plan. These funds are transferred by the Ministry direct to the districts, bypassing the State legislatures and the State Finance Departments.

The Plan budget of the RD Ministry was Rs 7,070 crores in 1994-95, increased to Rs 9,760 crores in 2000-01, and stands now at Rs 24,480 crores in 2005-06. The share of this Ministry in the total plan of central Ministries supported by the budget has generally been more than 20 per cent. The increase in the allocation of the RD Ministry over the last 15 years is part of the general strategy of GoI to increase transfers to the States via the Central Ministries at the cost of general purpose transfer via the Planning Commission. Within the central Ministries, the social sector schemes receive a higher share now as compared to the previous Plan periods. GoI has thus increased its control over the schemes implemented by the States in three ways, firstly, through substantial funding of CSS, the budget for which is now more than the Central Plan Assistance (as against a norm of 1/6th fixed by NDC); secondly, much of it goes straight to the districts, thus, bypassing the States and placing district bureaucracy somewhat directly under the supervision of the GoI; and thirdly, more than half of Central Assistance even from the Planning Commission is given in the form of ACA for specific schemes, which is often not formula based but where the Union Ministries often have some control over the State allocations and releases.



2.1 *How is State/District share in Central Releases Determined?*

Allocation of funds to the States under major rural poverty alleviation programmes have been based on the incidence of poverty estimated by the Planning Commission. However, when the methodology was changed in 1993-94, it was found that some States were adversely affected. Therefore, an adjustment formula was worked out under which the losses under the new estimates were contained to not more than 15 per cent of their expected entitlement as per the old methodology. Second, the share of eight north-eastern States in the total number of poor comes to around 4%, but it was decided to increase their allocation to 10% of the total, by reducing allocation of other States. This has meant that Assam now gets 7.47% share in allocations in SGSY and SGRY, whereas its share in the number of poor in the country is only 3.22%. Transfers for SGSY and SGRY are based on the share of each State in the total number of rural poor. For IAY, share in housing shortage is given 50% weightage (increased from 2005-06 to 75%), and poverty gets the remaining weightage.

From out of the State allocation, allocation of funds to the districts is based on an index of backwardness. Two indicators are used for working out the index of backwardness, namely, the proportion of the SC/ST population of the district to the total SC/ST population in the State and the inverse of agricultural production per agricultural worker with equal weightage assigned to each of the two indicators. The rural population of the district as weighted by these indicators separately will be the basis of allocation of funds to the districts within the overall allocation of the State. Within the district, while distributing the funds among the village panchayat, 60% weightage is given to the SC/ST population and 40% to the total population of the village panchayat.

Notwithstanding the above provisions, the allocation to the States/Districts for SGRY is subject to the minimum allocation of Rs. 25,000/- to each of those village panchayats, which were receiving less than Rs. 25,000/- as on 1.4.2001 (increased to Rs 50,000 from 2005-06). Apart from SGRY, the role of panchayats in other schemes is generally restricted to selection of the beneficiary, whereas actual implementation is done by the block officials.

2.2 State Contribution

The contribution of the States in CSS was generally 50% in the 1980's, but was reduced to 25% in the 90's in view of the difficult fiscal situation of the States. In fact, some of the schemes started in the current decade are cent per cent funded by GoI, such as the PMGSY and RSVY. Of the five schemes under consideration in this paper, the share of the States for the largest scheme, SGRY and NFFWP, comes to roughly 12%, as the food component is given free (it was 5 kg per day per worker, but reduced to 3 kg since September 2005 in view of food shortages. NREGA has no food component). State share for IRDP was 50%, but was reduced to 25% in 1997-98. The scheme for pensions is again cent per cent centrally funded, but the States are encouraged to contribute, which increases the scale of pension from Rs 75 to Rs 100-250 per month. Many States do so, as they were already running a State pension scheme before the introduction of the CSS in 1996, but no State contributes to NFBS or Annapurna. For foodgrains BPL consumers have to pay the subsidized rate. The States are responsible for local storage and movement from FCI godown to fair price shops. Poorer States tend to pass on this responsibility to the shopkeepers, thus encouraging corruption.

2.3 Releases & Utilization

The 9th Plan (1997-2002) outlay for the Department of Rural Development was Rs 32,870 crores, against which the figures for BE, RE, and actual expenditure were Rs 41015, 40753, and 40435 crores respectively. This however masks inter-scheme and inter-State variation in utilization. It has been not possible to push expenditure in SGSY and NSAP, whereas other RD schemes have no such problem, except in a few States.

In other schemes, although overall expenditure is satisfactory but there are States like Bihar, Jharkhand, West Bengal, and Assam, who generally are not able to lift their total entitlement of central funds. Among the richer States, Punjab and Maharashtra have also sometimes not been able to lift their full quota of funds. On the other hand, the middle income States such as Andhra Pradesh and Karnataka have generally been quite vigilant in fulfilling the conditions of release and often been getting more than their allocation, as the unutilised funds (and foodgrain quota) of States like Bihar and Jharkhand are passed on to them.

Despite being one of India's poorest State and therefore with the greatest need for development assistance from the Centre, Bihar has perhaps the lowest resource utilization rate for central government's assistance in India. Unused funds from the central government allocation unfortunately lapse and are then transferred to more efficient and vigilant States. The reasons are lack of political and administrative will, lack of capacity to spend and send accounts, lack of staff, insufficient delegation, and archaic procedures.

3. BPL Census

The Ministry of Rural Development conducts the Below the Poverty Line (BPL) Census in the rural areas of the country in the beginning of each Five Year Plan period, through the State Governments, for identification of persons living below the poverty line. The methodology and criteria for identification of the BPL households in the rural areas are finalised taking into account the recommendations of an Expert Group constituted for the purpose. The BPL Census 1992 identified 50,989,917 families (52.49% of total rural families) living Below the Poverty Line whereas the number of such families identified under the BPL Census 1997 was 55,570,998 (41.05% of total rural families) in the country (*Reply to*

Parliament Question by MoRD on 22nd July, 2004). As per the methodology adopted for the BPL Census conducted during 1997-98, any rural household fulfilling at least one of the following criteria was excluded from the BPL list:

- (a) Operating more than two hectare of land,
- (b) Having a pucca house,
- (c) Ownership of Consumer durables namely, TV, Refrigerator, Ceiling Fan fixed to a pucca roof, Motor Cycle/ Scooter /Three Wheeler,
- (d) Ownership of farm implements namely, Tractor, Power Tiller, Combined Thresher/ Harvester.
- (e) Annual Income of any resident member of the household from salary/self employment being more than Rs. 20,000/- per annum.

The next BPL Census was conducted in 2002, based on the recommendations of another Expert Group, taking into account 13 score-able socio-economic parameters including operational holding of land, housing, clothing, food, security, sanitation, ownership of consumer durables, literacy, labour force, means of livelihood, status of children, type of indebtedness, migration, and the nature of assistance preferred. Each household was ranked according to the total score obtained for classification into 'poor' and 'non-poor'. One of the important features is that it does not require the direct application of the poverty line to identify the poor. Nor will any household be excluded just because they possess some consumer durables as was done in the last census. The new methodology was to enable the ranking of each household in a village on the poverty scale so that others know inter se position of each household at the time of finalisation of the list.

The State Governments were advised that the number of BPL persons identified through the BPL census, 2002 should not exceed the number of persons living below the poverty line estimated by the Planning Commission for 1999-2000 for the rural sector or the number of persons as per the Adjusted Share computed by the Planning Commission, whichever is higher. In addition to above further 10% flexibility was granted on account on transient poor. The cap on the total number of BPL households to be identified under BPL Census, 2002 was considered essential so as to avoid inclusion of non-poor in the list if it is open-ended, and to ensure optimum use of limited resources available for the poverty alleviation and rural development programmes.

However, the BPL List, on the basis of BPL Census, 2002, has not been operationalised, due to a Stay Order passed by the Hon`ble Supreme Court in Writ Petition No. 196 of 2001 in the matter of PUCL v/s Union of India. The People`s Union for Civil Liberties (PUCL) had filed this Writ Petition alleging that the methodology would reduce the number of persons identified as BPL, and a large number of the poor would lose their entitlements. The net result is that the current BPL list being followed for implementation of programmes is based on the 1997 census, which used the modified 1993-94 ceilings on the number, with some flexibility. The question arises whether identity of the rural poor has remained the same all these years. Interestingly, Planning Commission`s figure of 1999-2000 found only 27.09% people of rural areas as poor, whereas the present list contains 41% of the rural population. Out of 18.04 crore, which is the total number of projected households in 2000, 8.05 crore households (which includes 5.56 crores rural, and the rest urban households) have been identified as BPL. Interestingly, UP and Bihar have not been able to identify the full number of households who are entitled to the BPL status, whereas Andhra, Gujarat, Karnataka and Tamil Nadu have identified far in excess to their entitlements. The Ministry however releases

foodgrains/funds only on the basis of the entitlement of the States, and not on the basis of actual number of identified families. By identifying a very large number of BPL households the field officials get a wider choice in identifying the beneficiaries, whereas in UP and Bihar chances of the real poor being left out from identification are higher than in the southern States.

A Planning Commission' Study of TPDS in 2004 found that about 43% of the rural poor do not have ration cards, and thus the list is need of drastic revision. It is obvious that a significant number of names on the list are bogus and non-existent, or dead. Several State governments in the past had expressed difficulty in implementing some of the poverty alleviation programmes due to the outdated BPL list. The identification of BPL households is also crucial for the proper implementation of NREGA (National Rural Employment Guarantee Act 2005), which was passed by Parliament in August 2005.

In a Case Study of three villages in Uttar Pradesh, Srivastava (2004) documents the process of identification of BPL households. None of the villages had BPL cards issued, though the "survey" was completed. In practice, the survey was substituted by a list of BPL households in each village drawn up by the Village Development Officer in consultation with the village chief (instead of an open meeting of the Village/Gram Sabha) and forwarded to the district level. At the same time, it was expected some names from the list would be deleted at higher levels of administration due to ceiling on total number of poor.

The Supreme Court Commissioner has been requesting the Ministry to get the Stay on publication of BPL results vacated. For instance, he wrote to Secretary (RD) on the 25th November, 2005 that *'During my field visit to States, I am finding that the non-finalization of BPL 2002 list has excluded many poor and needy families from the schemes of rural development. Hence, I request you to kindly get the stay of the Supreme Court vacated and finalize the list at the earliest.'* **The Stay of the Hon'ble Supreme Court has been vacated in February, 2006.**

4. Individual Schemes

4.1 Self-Employment Schemes

On 1st April, 1999, the IRDP and allied programmes, including the Million Wells Scheme (MWS), were merged into a single programme known as Swarnjayanti Gram Swarozgar Yojana (SGSY). The SGSY is conceived as a holistic programme of micro enterprise development in rural areas with emphasis on organising the rural poor into self-help groups, capacity-building, planning of activity clusters, infrastructure support, technology, credit and marketing linkages.

The District Rural Development Agencies (DRDAs) have been given considerable flexibility in the disbursement of funds for training and capacity building, revolving fund, infrastructure and subsidy for SHGs. This has meant that more funds are being spent now for promotion rather than subsidy; during the period 1999-05 Rs 5,624 crores were spent on this scheme (including State share), out of which 3657 crores was the subsidy element, and thus almost Rs 2,000 crores were spent on promotion (*Annual Report 2004-05, Annexure XVI*).

Even the credit subsidy ratio was only 1.95:1 in 2002-03 and 1.83:1 in 2003-04 as against the norm of 3:1. The average per capita investment is also below the target of Rs

25,000 though it has increased over time, from Rs.21,666 in 2002-03 to Rs.22,469 in 2003-04. The recovery of loans by scheduled commercial banks was 44.98 per cent in 2002-03 and 46.79 per cent in 2003-04 (MTA, Tenth Plan). The recovery from SHGs is higher (89.21 per cent in 2002-03 and 86.23 per cent in 2003-04) as compared to individuals (27.55 per cent in 2002-03 and 29.01 per cent in 2003-04).

The overall allocation and expenditure on this scheme is given below:

Table 2: Allocation, Expenditure, and Physical Achievement under IRDP/SGSY

Years		Total Allocation in crore Rs. (Centre+State)	IRDP/ SGSY Total Expenditure in crore Rs. (Centre+State)	Beneficiaries Lakh Families
1	2	3	4	5
<u>Eighth Plan</u>				
1	1992-93	662	694	20.7
2	1993-94	1093	957	25.4
3	1994-95	1098	1008	22.2
4	1995-96	1097	1077	20.9
5	1996-97	1097	1132	19.2
Total			5048	4868
<u>Ninth Plan</u>				
1	1997-98	1134	1110	17.1
2	1998-99	1456	1162	16.8
3	1999-00	1472	960	9.3
4	2000-01	1333	1116	10.3
5	2001-02	775	970	9.4
Total			6169	5318
<u>Tenth Plan</u>				
1	2002-03	756	921	8.26
2	2003-04	1066	1044	8.93
3	2004-05	1334	1288	5.05

It may be seen from the above Table that the number of beneficiaries has been consistently coming down since the VIII Plan, and so has been the expenditure, if it is converted into constant prices. The States have been finding it difficult to spend funds for this scheme. In the first two years after 1999, the SGSY took off only in those States where a fair amount of ground work had already been done towards formation of Self-Help Groups, especially in mobilizing rural women under DWCRA. As a result, Andhra Pradesh, Tamil Nadu and Karnataka showed considerable progress under SGSY even in the initial years. However, there is a marked preference for individual projects in comparison to SHGs even in the progressive States like Maharashtra, Gujarat and Rajasthan. During the past six years 1999-05, 51.25 lakh beneficiaries (almost 10% of the total rural poor families) were assisted under this scheme, out of which 47% were SHGs.

The State-wise releases in 2004-05 show that the overall percentage of central release of funds was about 90%, but was considerably less in Bihar, Jharkhand, Assam, J&K, MP, and Maharashtra. The share of six poorest States of India (UP, Bihar, Orissa, Chhattisgarh, Jharkhand, and MP) in poverty was 54.5%, but was 50.5 & 50.2 in central allocation and releases under SGSY in 2004-05. 15% of SGSY funds are reserved for innovative projects to be sanctioned by GoI, where inefficient States lose out. There is some degree of discretion available to the RD Ministry in this component while selecting the States and the NGO partners. According to Annexure XIX of the Annual Report of the Ministry for 2004-05, between 1999 and 2005 only 4 projects of UP, 2 of Orissa and 5 of Bihar were sanctioned under this Head, as against 23 of Andhra Pradesh and 20 of Rajasthan.

Lending by the banks is a major problem area. As against the norm of Credit Subsidy Ratio of 3:1, the achievement is 1.94:1 during the last five years. The average *per capita* investment during the last five years has been Rs. 21506 as against the target of Rs. 25000. The total credit mobilized under the scheme has been Rs. 6308 crore as against a target of 16773 crore (37.80 per cent). The attitude of the commercial banks in lending to the SHGs is still not very encouraging in spite of various measures taken by the Government of India. The banks prefer to lend to individuals. Only in the year 2003 for the first time, the assistance to the SHGs beneficiaries has crossed 50 per cent of the total assistance provided under SGSY.

The Report of the Comptroller and Auditor General of India for the year ended March 31, 2002 (Civil) of the Government of Orissa has commented on SGSY. Out of the expenditure of Rs. 97.1 crore tested by the CAG, only Rs. 36.73 crore (represented 37.8%) was actually incurred on the project while the balance was considered irregular on one count or the other.

There are also conceptual issues with the concept of promoting self-employment, as practiced in India, which are discussed below.

4.1.1 Problems with Self-Employment Programmes

The scope of poverty reduction through IRDP/SGSY is limited both by the debt-capacity of the poor and by the high cost of appraising, monitoring and enforcing small loan agreements. The first limitation is in theory offset by subsidy, but it attracts rich borrowers to the scheme, and thus creates political and administrative problems. The subsidy element has led to large scale corruption on the part of lower level functionaries who certify non-eligible beneficiaries as being below the poverty line. Even when the poor are selected there is often no intention on their part to create assets, subsidy is the main attraction. There is a low awareness of the scheme among possible beneficiaries and the training facilities are inadequate. It has also led to corruption on the part of bank staff, and on the part of borrowers themselves, some of who sell off their assets and pocket subsidy, or who borrow by proxy for non-target group borrowers.

Lack of markets and infrastructure - It is well established that unless credit is accompanied with adequate infrastructural support by way of extension, marketing, etc. the result is infructuous lending. SGSY is generally successful where infrastructural and institutional support is available. These are the regions where many people even without the subsidy would have taken to entrepreneurial activities.

The failure by the poor to use assets profitably stems from several factors, of which control over markets is an important factor. The poor are not able to secure economies of scale because of indivisibilities in marketing costs and low risk bearing capacity. Low price received by poor for their products is also because of interlocked output and capital markets, lack of value addition technologies, poor organisational base and insensitive government policies. These problems need to be attacked by the same agency, which is not possible in government system. Whereas NGOs could take initiative in some of these sectors, they cannot change exploitative marketing infrastructure.

Issues in Group Formation and Training - The formation of SHGs is slow, some SHGs distribute the bank loans among themselves as each member bank is individually engaged in a micro enterprise, are dominated/managed by one or two influential members, persons already operating micro enterprises successfully, register as an SHG showing the labourers under him as members. However, these members are paid only a fixed amount as daily wages, Grading of SHGs is found to be a very time consuming with a large number of these groups failing in the grading process, new SHGs often emulate a successful one, choosing the same activity, which in turn, reduces the demand for their produce and lower productivity².

Issues in respect of Banks - There is a greater willingness to sanction loans only to individuals who have not availed loans, loans are sanctioned to individual Swarozgaris in two instalments, banks are found to release only the subsidy part of the loan, holding back the credit portio, the release of the credit portion of the revolving fund is postponed and not more than 22% of the groups have received an amount of Rs.10,000/- or less as revolving fund².

Implementation Issues of Administration - The administration is obsessed with targets- plagued by targetitis, resulting in poor quality group formation without real assessment of the entrepreneurial potential. Officials often dissociate themselves from recovery activities and there is a lack of coordination between Banks and Block officials.

Lack of repeated contacts - Second, IRDP suffers from the basic misconception that the provision of credit is a one-time event rather than a continuing relationship between lender and borrower. It is unrealistic to expect the larger share of borrowers to “graduate” just on the basis of an “injection” of credit (the medical terminology is significant), even if provided in sufficient “doses” (which was until now not usually not the case). Most loans in IRDP are one-time affair, and the bank feels relieved when the file is closed. In the case of Grameen Bank of Bangladesh, most loanees start with small loans, but as the relationship with the bank improves, more loan is given to the same person, thus making their interaction and relationship last for a long-term, recovery and fresh loans often go hand in hand. This also improves the capability of the poor to utilise his loan profitably. His stake in repayment is also higher. In India, since loan is taken only once in a life time by most borrowers, the tendency is not to pay and become defaulter.

Obsession with asset formation - Third, there is still an under-emphasis on activities which require no fixed assets at all such as a large number of trading, service and even simple processing activities. Thus the mix of activities in India is very different from other large micro-enterprise programmes in Bangladesh, the Philippines and Nepal for instance, which

² Concurrent Evaluation of SGSY by Centre for Management development, March 2003.

finance a much larger component of petty trading and service activities suitable to the poorest of the poor. While these activities are no doubt overcrowded, their discouragement in India (due to a preoccupation with asset formation) has restricted the type of livelihood activities that can be financed, and has led to overcrowding in those which are financed (milch animals for instance). Instead of responding to a demand-led pattern of lending opportunities, banks are still restricted to a list (albeit an expanding one) of “approved” activities. In practice the range of activities for which loans were available was quite narrow. On the demand side, certain profitable enterprises were quickly saturated because of too many loans for single professions and their profitability declined. Dreze found that in U.P. a bank gave 20 loans for setting up shops in a village of 143 households.

Need for consumption - Fourth, IRDP totally neglects savings, on the mistaken belief that the poor cannot save at all. The distinction made by banks between the acceptable use of credit for productive purposes and its unacceptable use in consumption is an artificial one in the context of poverty. About two thirds of the borrowing of the poor in India is for consumption purposes (all of it from the informal sector) of which three quarters is for illnesses and household needs in the lean season. (Mahajan and Ramola 1995). In the absence of any system for encouraging even minuscule but regular savings a great deal of IRDP credit gets diverted to emergency consumption needs.

Existing problems of micro-enterprises - Fifth, not only IRDP ignores the need of the poorest for consumption, it also does not look into the existing problems of the already established micro-enterprises. Thus, how can one enthruse the rural poor to become tailors, weavers, shopkeepers, or cattle owners if the present problems faced by those already owning these assets are not looked into? Rather than give subsidy to new enterprises it would be far better to solve the problems faced by the existing units, whether these are in design, or in marketing or working capital.

Overall impact - To sum up, although some poor have made moderate gains, not more than one in five have succeeded in crossing the poverty line as a direct result of IRDP. These problems can be reduced by group lending which will raise debt-capacity and reduce transaction costs. Intermediation by voluntary agencies may also help. Shifting of influence from local officials to panchayat bodies may improve targeting provided there are strong grass root organisations, but it may have opposite effect elsewhere.

Because of the distortion of objectives, lending policy under IRDP tends to be driven by the availability of subsidised funds rather than by the effective demand for credit. Indicators for monitoring are target and not achievement based. Thus retention and profitability of assets purchased are never monitored.

The IRDP along with its allied programmes like TRYSEM, DWCRA, GKY, SITRA and MWS presented a matrix of multiple programmes without desired linkages. These were implemented as separate programmes without keeping in mind the overall objective of generating sustainable incomes. For instance, only 3 per cent of IRDP beneficiaries received training under TRYSEM and only 23 per cent of those trained under TRYSEM were assisted under IRDP.

Some of the major reasons why micro-credit has not worked for the poorest are listed below:

- Since the poorest amongst the poor require a package of services that go beyond micro-credit, the transaction costs for bankers and government officials to deal with them are usually too high.
- Since the poorest are extremely vulnerable, and their incomes are not regular (apart from being very meagre), micro-credit programmes linked to compulsory savings exclude the poorest by default.
- The capacity of the poorest sections of society to absorb credit and to start enterprises is very limited. This is partly to do with their lack of business skills, illiteracy, their inability to take risks and their lack of motivation for business.

A disturbing feature of the SGSY in several States has been rising indebtedness of the beneficiaries of IRDP. This unintended outcome of IRDP has meant that those who have once 'benefited' from the subsidy will never be eligible for credit from formal sources.

Subsidy element in the anti-poverty programmes is a major source of corruption and a disincentive to lend on account of low recoveries. The experience with the Rural Credit Delivery System reveals that what the borrowers need is adequate and timely supply of credit – cost of credit is secondary. Therefore, there is need to phase out subsidy in the rural lending programmes and banks should be encouraged to lend adequate funds to viable projects – preferably managed by Self-Help Groups - that would ensure generation of income for the borrowers and repayment of the bank loan.

On the whole, the basic concept of IRDP/SGSY remains flawed. The massive amount spent on subsidies which has by and large not accrued to beneficiaries at all would be much better spent on watershed development, rural infrastructure and social security. Growth in the first two of these are essential concomitants of credit, and the third an alternative to credit for those who for reasons of old age or disability have few if any productive micro-enterprise opportunities.

4.2 Wage Employment Schemes

4.2.1 JRY

Wage employment schemes are generally implemented by the panchayats. For instance, in JRY, the funds devolved to the village panchayats, intermediate panchayats and district panchayats were in the ratio of 70:15:15. The panchayats were responsible for planning and execution of projects under JRY. The programme has encouraged elected representatives to take keen interest in the selection and implementation of rural works – in many cases, this interest was vested as many of them became contractors without any competition, as there are no tenders. They sometimes hired outside labourers at lower wages.

Despite the fact that about one-third districts in India are labour deficit (which includes both the North-West and the North-East), the programme had allocation for all districts (so is SGRY). Both the field officials and panchayats have viewed JRY as a programme for rural works, and not for employment generation. Hence, construction works were generally undertaken, and more labour intensive activities, such as afforestation and soil conservation works were ignored.

The works undertaken involved high material cost and were not particularly labour-intensive. The violation of material-labour norms prescribed under the programme (40:60) was

very common. In many areas these norms themselves were considered unrealistic given the high cost of material. The share of women in employment generated under the programme was only 17 per cent, against a target ratio of 30 percent. The Standing Committee on Parliament (2004-2005) during their Study visit to Varanasi and Lucknow during November, 2004 had found that the number of women beneficiaries under different schemes, particularly SGRY was marginal. There were also instances of differential wages paid to male and female workers.

Thus the programme fell short of objectives in several ways. Employment generation was too inadequate to be meaningful, with an average of roughly 11 days of employment created per person, according to an evaluation in 1994 (GoI 2000). The resources available were spread too thinly so as to increase coverage without concern for sustainability or duration of employment. The contractors used trucks and tractors instead of labour intensive techniques. Fudging of muster rolls and measurement books was rampant. According to estimates presented by Dev and Evenson (2003), the cost of transferring one rupee under the JRY was Rs. 2.28.

In view of its deficiencies, the JRY was restructured and transformed in 1999 into a new scheme – the Jawahar Gram Samrudhi Yojana (JGSY), which explicitly prioritized asset creation as the primary objective, followed by wage employment. The earlier clause that at least 60% of funds should be spent on wages was removed. It was a bold step designed to reducing fudging of documents. No evaluation studies of JGSY are available since it lasted only a short time before being merged into the SGRY, which again restored the clause relating to wage payment being at least 60% of the project cost.

A Survey³ shows that in about 77.18 per cent of the works, the panchayat functionaries were the executing agency and contractors executed only 2.02 per cent of the works.

Panchayats executing the work has become a ‘convention’ now and the Panchayat implements these works without any legitimate administrative charges. This has led to a ‘justified’ diversion of funds meant for the scheme, which, over the years has led to more and more diversion and eventually large-scale corruption, in a number of instances. The Panchayat functionary functions like a contractor or dons the mantle of a contractor himself over a period of time, even becoming ‘adept’ at various mal-practices, techniques of bogus musters and fake thumb imprints. This should be addressed by actually apportioning a part of the funds for justified expenses at the Gram Panchayat level, including the hiring of Administrative Assistant and Technical Assistants (considering that the Sarpanch or the GP functionaries do not get any remuneration). This will ensure that leakages do not occur and contractors do not make a back door entry.

On an average employment generated under JRY in 30 days preceding the date of survey has been 11 days. The resources were spread thinly so as to increase the coverage of areas/beneficiaries without any concern for duration of employment.

Projects selected bore no relationship to the local needs or the agricultural development strategy. The Jawahar Rozgar Yojana and similar public works programmes have tended to breed corruption. The fudging of muster rolls and measurement books is very common, resulting in huge loss of funds that could otherwise have been invested in building rural infrastructure.

³ Programmes and Policies for Poverty Alleviation (page45)- Handbook of Poverty; Oxford ,2005.

Similarly, the Impact assessment of Rural Development Programmes in Shimoga District, Karnataka shows the following:

Problems and inefficiency in implementation of JGSY.

- (i) Quality of data base at each level was very poor.
- (ii) All Gram Panchayats of a Block receives funds equally and the allocation in a year is too small to take up any useful work. Normally many works are of sub-standard quality.
- (iii) Neither plan nor funds for operations and maintenance are available.
- (iv) Selection of able-bodied rural poor having a domicile in the area often deprives newly migrated poorer rural persons of this benefit.
- (v) Monitoring of the schemes by Block and District level is not evident.
- (vi) PRI members are ignorant of various RD programmes.
- (vii) There seemed no strategy to train officials working in PRIs on various rural development programmes and their implementation strategies.
- (viii) Commitment level of implementing officers is very poor with poor work consuming most of their time.
- (ix) Funds are not released in time resulting in spillover of works up to 2 to 3 years under schemes like IAY and JRY.
- (x) There is complete absence of documentation at Gram Panchayat level regarding programmes like JGSY.
- (xi) Accountability for failure of the programme was totally lacking. Neither the beneficiaries, the PRIs nor Department was held responsible for the failure of any scheme. This was surprising as huge amounts of money were allotted year after year without anyone bothering about the State of assets or impact of the scheme.

4.2.2 EAS

The transformation of the JRY into the JGSY was preceded by a parallel scheme launched in 1993 – the Employment Assurance Scheme (EAS) – that had similar objectives as the JGSY but with reversed priorities. It had the primary objective of creating additional wage employment for rural poor through manual work in periods of acute shortage of employment opportunities, with asset creation as a secondary objective. The EAS was initially in operation in 1772 identified backward blocks situated in drought prone areas, desert areas, tribal areas and hill areas in which the Revamped Public Distribution System (RPDS) was in operation, but gradually got extended throughout the country by 1997-98. The EAS was a demand driven scheme with no targets or allocations for States, which encouraged efficient States to draw three instalments in a year as opposed to poorer States which could not even spend the first instalment. The share of States like Tamil Nadu and Andhra Pradesh in the central releases for EAS has been much more than their share in poverty.

In April 1999, the programme was restructured and became allocative, instead of being demand driven and a fixed annual outlay based on poverty was provided to the States. In keeping with the spirit of democratic decentralisation, the Zila Parishads were designated as the 'Implementing Authorities' under the programme. Prior to 1999, EAS was implemented by official agencies nominated by the Collector/DRDA. Eighty per cent of the funds were released to the district as per normal procedure, the remaining twenty per cent was released as an

incentive only if the State has put in place elected and empowered PRIs. Bihar lost heavily on allocation because it did not have panchayats until 2001.

Seventy per cent of the funds after 1999 for each district were allocated to the Panchayat Samitis on the basis of the proportion of rural population in the respective Panchayat Samitis to the rural population of the district. Thirty per cent of the funds were reserved at the district level and were utilised in the areas suffering from endemic labour exodus / areas of distress.

However, the EAS showed similar failings in implementation as its close variant, the JRY. For example, the scheme generated on average only about 17 days of employment per year per person according to a study by the Controller and Auditor General of India (GoI 2000). The objective of the EAS was, by comparison, to provide assured employment of 100 days per year at statutory minimum wages. The self-selection targeting was subverted by routine use of contractors in most States, fudging of the employment rolls, and violation of norms that called for a 60:40 split of wages and materials in asset creation. As a result, in three States – West Bengal, Gujarat and Haryana – the estimated unit cost of generating a day's employment was Rs. 200 to Rs. 300, far in excess of wage rates (PEO evaluation 2000). For the country as a whole, the mid-term evaluation of the Ninth Plan estimated only Rs. 15 of every 100 rupees' expenditure reached the beneficiaries wages, against a target of Rs. 60. No inventory of assets was kept, making it difficult to ascertain whether assets created were community assets or for individual benefit.

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

A review by the Planning Commission (PEO 2000) found that the Central norms of fund allocation for various sectors have not been followed. For example, in none of the sample States, 40 per cent of funds for watershed development and 20 per cent for minor irrigation, link roads and buildings for schools and anganwadis were earmarked. In Bihar, 69 per cent of EAS funds were allocated to activities like school buildings/anganwadis which are not labour-intensive. It is difficult to justify allocation of funds to such activities under employment generation scheme.

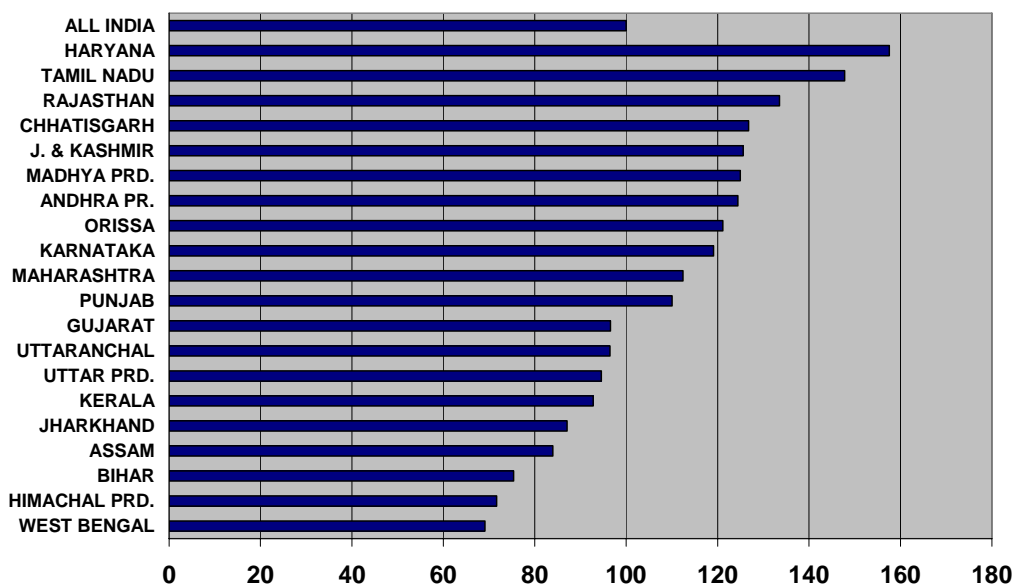
The universalisation of EAS had earlier obfuscated the real objective of the scheme which was to focus attention on employment generation in backward areas where due to poor development of agriculture and consequent lack of employment opportunities the wage rates are lower than the statutory minimum wage and market wage rates in relatively developed areas.

The PEO Study cited above concluded that the objectives of generation of sustained and gainful employment, supplementing the income of the rural wage-earning class in agricultural lean seasons and improving the well-being of rural poor through EAS have not been realised.

4.2.3 SGRY

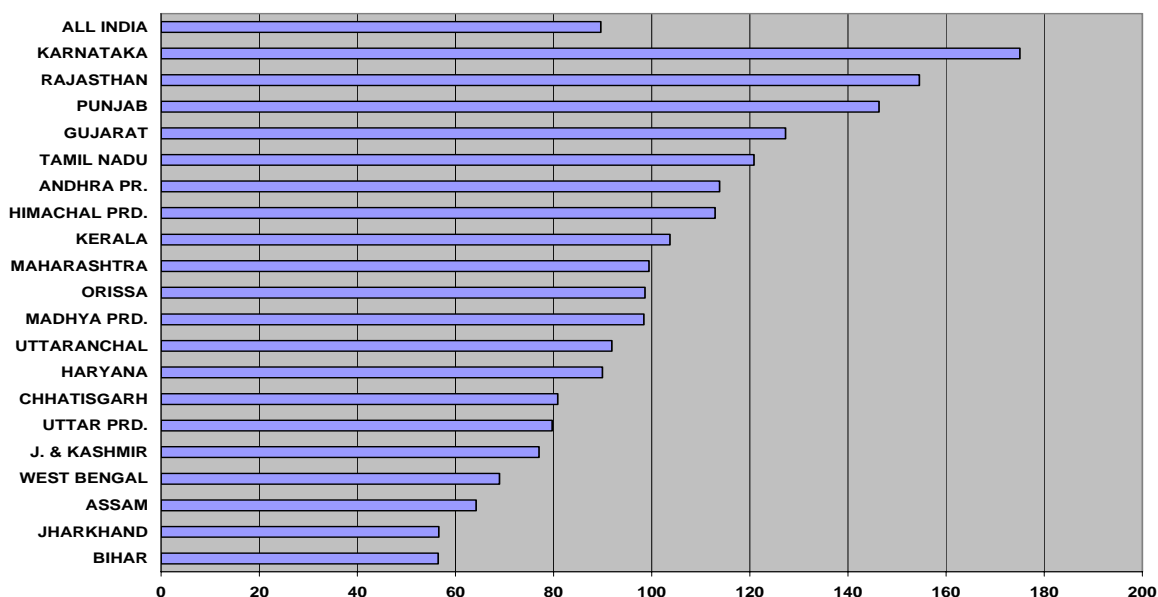
In September 2001, on-going schemes under the EAS and the JGSY were merged into a new scheme – the SGRY. Figures of cash releases in SGRY for 2002-03 and 2003-04, as percentage of allocation for the major States is shown below.

Utilisation of funds under SGRY as % of allocation for two years ending March 2004



The overall percentage of central release of funds was about 84%, but was less in WB, HP and Bihar. The share of six poorest States of India (UP, Bihar, Orissa, Chhattisgarh, Jharkhand, and MP) in poverty was 54.5%, but was 52.7 & 50.9 in central allocation and releases under SGRY in these two years. As regards foodgrains, the share of these States in allocation was 49.4%, but share in offtake was only 43.3%. Although both MP and Orissa lifted almost their entire allocation, it was quite low for Bihar and Jharkhand, whereas UP could lift about 80% of its allocation.

Food utilisation as % of allocation SGRY 2002-04



Special Component of Sampoorna Gramin Rozgar Yojana (SGRY) - The erstwhile Food for Work Programmes launched in January, 2001 was discontinued with effect from 31.3.2002. However the programme has been allowed to continue as a special component of Sampoorna Gramin Rozgar Yojna with a view to extending support to the drought affected families of States. The overall assistance package for States affected by natural calamities is decided by GoI on the recommendations of a field trip undertaken by officials of several Ministries. Sanction letters for release of foodgrains under the Spl. Comp. of SGRY were issued by the Ministry of Rural Development directly to FCI. There is often token provision for this component at the BE stage, but more funds are provided depending upon the recommendations for providing wage employment in areas affected by natural calamities. For instance, there was no provision for the special component at the BE stage in 2002-03, but Rs 1100 crores were provided at the RE stage.

Food component – The food component is not fully reflected in the plan budget of the Rural Development Ministry. During 2004-05 the budget provision was only 300 crore Rs, but actual expenditure counting all the three components was about Rs 1500 crores, taking the cost of grain as Rs 8 per kg (average market cost). Foodgrains are given free to the States, and the cost is borne directly by the Finance Ministry. This gets reflected in the food subsidy (shown as 26,000 crore Rs in 2005-06 budget). Even then the poor wage earners often do not benefit from the scheme of part wages as food, as they do not physically get access to food easily; in many States the PDS does not work well, and the wage earners have to make several trips to the shop in order to convert their entitlement into cereals. Often the poor sell the entitlement at just half the price, and food then is black-marketed. There were reports from UP that this was being transported to Bangladesh! The poor in possession of BPL cards (who would thus have BPL entitlement of 35 kg per month as part of TPDS) would be better off if they were given the entire wages as cash. Unfortunately, about half of the poor do not have BPL ration cards (see section 3.6.3).

Thus the poor people in these States are doubly deprived, neither getting BPL/Antyodaya rations for want of ration cards, nor getting wages as food because of the non-performance of the FPS system. However, on paper the FCI is releasing food for SGRY and FFW, and it is shown in their allocations, given on the Food Ministry's website.

According to newspaper reports, UP has serious problems in lifting the foodgrains in 2005-06, and the RD Ministry has taken a serious view of the delay. Indian Express (Dec 2, 2005) reported very poor lifting of foodgrains in the north-eastern States.

4.2.4 Evaluation of SGRY

In case of SGRY in Andhra Pradesh, Deshingkar and Johnson (2003) document serious irregularities in beneficiary selection, work identification, labour absorption, accounting and grain allocation at the village, mandal, district and State level. In Krishna district – out of 54 works, excavators were employed in 40 cases. Poclaines (the trade name for a kind of earth excavator) are becoming the preferred machine for undertaking a variety of village works through all kinds of programmes from the point of view of the rich (often MLAs and other political leaders) who own the machines and hire them out for public works. One Poclaine can displace 17x8 persons in an eight hour day (at 17 person-days per hour), whereas it costs Rs 800 to hire a Poclaine for an hour. The design of the programme was faulty where government wages were set too high in drought prone areas, which resulted in the very poor being displaced by those who were slightly better off. FFW was implemented for longer periods in

such areas where there was little need for supplementary employment for local labour. Heavy machinery was used to displace local labour. Articles in the press claimed that of the 3.1 million tonnes of rice received by AP, one million tonnes went to labourers (in cash and grain), one million tonnes were recycled to the FCI and the third million tonne was sold across the border.

Universalisation of the programme has also created problems. Even in UP, a study (Srivastava 2004) shows that developed areas and villages have reached a saturation point in developing new infrastructure. The local labour market in these areas is also very tight and wages are higher than the legal minimum. This enhances the possibility of leakages from the programme in these areas, while at the same time, depriving poor areas of employment and much needed infrastructure.

A Study by a Team of Researchers, which included a serving IAS officer, came to the following finding about the implementation of EAS in Bihar, Jharkhand, and West Bengal (Stuart Corbridge, Glyn Williams, Manoj Srivastava, Rene Veron, 2003):

‘We found that both smaller, labour-intensive, and bigger, more material-intensive EAS projects were mainly employing contract labourers from other blocks or districts. The contract labourers, who were mostly healthy young men, accepted work on a piece rate basis. When they were employed at all, local labourers were paid 20 per cent below the statutory rate (of which, in turn, just as they were unaware that they were working on an EAS scheme). Villagers told us that contractors liked to employ outside labourers because they showed little concern for the quality of the work performed, and didn’t care about the accuracy of the accounts. Claims about corruption are always difficult to substantiate, but a comparison of the official records with our own observations of a small pond-digging project in West Bengal suggested that as much as 60-80 per cent of earmarked funds were being skimmed off by the over-reporting and underpaying of contract labourers – a rate of ‘leakage’ that was significantly higher than we found in Bihar.’

Based on inputs from the field, it is also seen that unskilled labour, provision of work at village level and the fixed labour material ratio of 60:40 make the implementation of this scheme difficult. The need to strike a balance between employment and productive employment requires imagination of the implementers and the planners of the shelf of projects at the village level.

It is possible to converge State budgets with funds under the SGRY to address assets, infrastructure, safety net and employment. These funds are often utilized because this is ‘easy money’ as labour gets it by actually doing very little work; this is particularly true if the payment is not on the basis of the work done and its measurement. Further, these are Central Government funds, which are taken more lightly by the State and District authorities. Grant given to gram panchayats in two equal installments often prevents them from taking up meaningful work.

A recent evaluation of SGRY by the Planning Commission for several States showed that minimum wages were not being paid in most cases, and foodgrains as part of wages were not paid in many cases. In Orissa there were cases of recycling of foodgrains by the grain transporter, store manager, and contractor in league with the officials. In Bihar, material

intensive works were taken up that led to fudging of muster rolls. Foodgrains were often not available at the FCI depot. 36% beneficiaries received only cash, and no grain. Works implemented by gram panchayats were of a better quality than those by the other two tiers of panchayats. The Andhra Pradesh evaluation showed widespread use of machinery, leakages prompted by the political leaders, and use of contractors at almost all works, who often brought labour from outside. Labourers received market wages rather than the minimum wages, and females received 14% less than males. These works were not able to arrest labour migration.

Into the maze of the EGS scam

Typically, in the weeks immediately before the monsoon, rural labourers have plenty of work to do. So, when in June an exceptionally high number of workers (1.4 lakhs) sought work under Maharashtra's Employment Guarantee Scheme (EGS) in Solapur district, the Collector Manisha Verma smelled a rat.

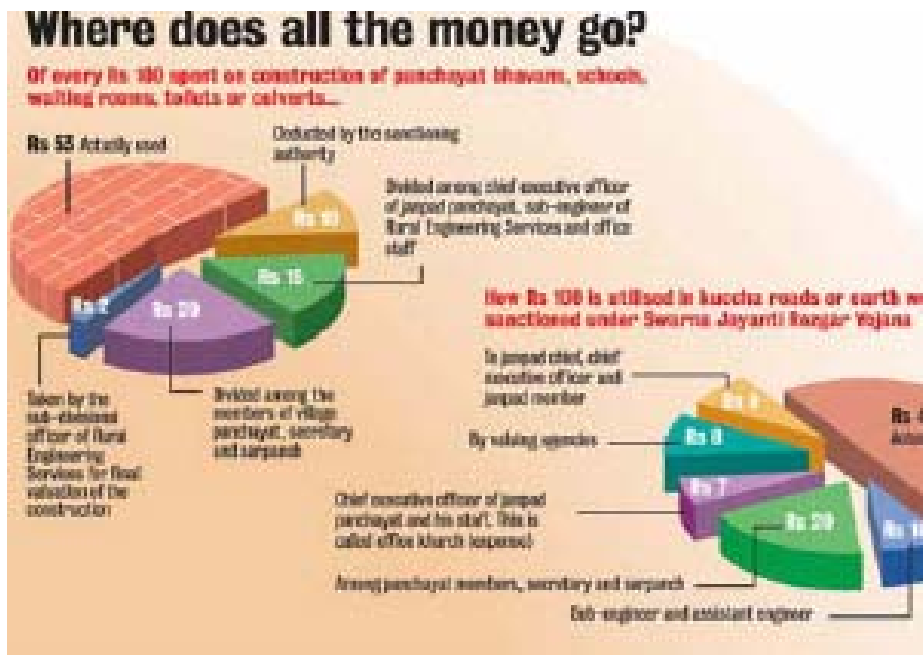
She also noticed that the payment put up to her for sanction against EGS work undertaken was exorbitantly high. She did not recall ever having authorised work of this magnitude. Right away she started questioning her staff from the EGS department. The clerk soon sensed the trouble ahead and on July 1 confessed to the Deputy Collector and the officer in charge of the EGS that he has been fraudulently passing work orders. It was suspected he was either forging signatures or using the scanned signatures. Since the original documents are nowhere to be found, the possibility is also that the photocopy of signatures was being superimposed on the photocopy of the documents and there are no original documents at all.

However, Manisha Verma was informed about the clerk's 'industriousness' only on July 11, 05 - full ten days later. This delay allowed the culprit to remove the documentary evidence, and when the Collector ordered the sealing and inspection of his office, there was no incriminating evidence left. Verma then ordered the reading of the muster roll to verify the claims of work conducted in villages. There was stiff resistance from the implementing agency - the Agriculture department - to this, however, and the muster rolls were not made available to her. And Verma found she could not overcome this resistance; with the size of this scam estimated at Rs.10 crores, and the likelihood of politicians from Maharashtra's ruling party involved at many levels, the chief minister verbally stayed the reading of the muster roll.

Solapur's local Marathi dailies mounted a frontal attack on the Collector holding her responsible for negligence of her duty in monitoring the work per EGS rules. The collector's transfer order too was issued (though withdrawn later). The entire administrative machinery resorted to a kind of non-cooperation, and Manisha Verma - highly respected as a rare upright IAS officer - was left alone to defend herself and answer the government's charge. Thus rather than being rewarded for unearthing a big scandal, the honest officer found that she was put in the dock !

Based on Indiatogether.org dated 25th September 2005

According to a Media Report (*The Week – July 11, 2004*), in Madhya Pradesh, only 50% of the money meant for development projects gets utilised in the three tiers of local self-government – corrupt panchayat members and officers pocket the rest. So much so that the decentralisation of power after the 73rd Constitutional amendment is often termed 'decentralisation of corruption'.... In Jawahar Gram Samridhi Yojana (JGSY) and Mulbhoot Yojana, which are meant for constructing sewage lines and digging borewells, almost 80% of the money is misused. See chart alongside.



In flagrant violation of the guidelines, in many States projects are being executed by using excavators, trucks and tractors instead of more labour intensive approaches. This is being done with full knowledge of the senior officials. The ideal policy should be to discourage its use even by construction Ministries, such as Railways and CPWD, and compensate them financially to build incentives for employing more manual labour. However, the reverse is happening. Not only labour is being displaced in the so-called employment oriented schemes, food meant for the poor is then sold in the market, thus distorting market for farmers.

In Reply to an Unstarred Question No. 1092 on 3rd August, 2005 (by Shri R.K. Anand) in the Rajya Sabha on 'fudged muster rolls in food for work programme', the Minister said that "No report of fudging of muster rolls have so far been received by the Ministry. Some instances of lesser payment of wages reported in the press were brought to the notice of the State Governments concerned. Madhya Pradesh has registered cases against two panchayats for payment less than minimum wage. However, some reports regarding the delay in payment of wages have been received which has caused due to non/less availability of foodgrains in the FCI godowns at some places. Keeping this in view, the States have been given flexibility of compensating foodgrains component of wages in the form of cash if the foodgrains are not available. This has been done to provide unhindered and timely payment of full notified minimum wages to workers. Instructions have been reiterated to the State Governments to ensure compliance of the Guidelines as regards minimum wages and other issues."

4.3 Rural Housing Scheme - IAY

According to the 1991 Census, 3.4 million households were without shelter of any kind while 10.3 million households were living in unserviceable houses. Adjusting for the population growth, the GoI projected a net housing shortage between 1997-2002 as 18.8 million units, of which 8.5 million new houses would need to be constructed and another 10.3 million upgraded. A National Housing and Habitat Policy was adopted in 1998, aimed at providing 'Housing for All' and proposing facilitation of construction of almost 11 million units in the Ninth Five Year Plan (1997-2002), against the projected shortage of 18.8 million units. The residual gap along with additional deficiency arising from population growth was

envisaged as a target to be undertaken in the Tenth Plan. From 1997-98 to 2001-02, the total annual allocation to IAY by the Centre and States combined has been Rs. 14.4 billion, Rs. 18.5 billion, Rs. 21.3 billion, Rs. 21.5 billion and Rs. 21.6 billion respectively, with a cumulative total of Rs. 97.3 billion⁴, resulting in construction of 5.61 million houses during the 9th Plan.

The 2001 Census had estimated a housing shortage of 149.6 lakh. Eight States account for 81 per cent of the housing shortage. According to estimates, the annual requirement is about 30 lakh houses to meet this backlog. In addition, it is estimated that about 10 lakh shelterless will be added every year. Thus total requirement would be for construction of about 40 lakh houses per year. It is estimated that on an average about 23 lakhs houses are built every year for weaker sections in the rural areas. IAY account for 15 lakh houses; other schemes and assistance provided by HUDCO, National Housing Bank, State Housing Boards and Commercial Banks together account for the remaining 8 lakh houses.

In addition, there are State level schemes, which utilize funds from IAY, but contribute from the State plans too, which is in addition to the contribution mandatory for the State share of IAY.

After the new government came to power in June 2004, a special package was announced for Bihar by the Prime Minister which helped in increase of releases under IAY to Bihar considerably⁵. Its original allocation of 488 crores was increased to Rs 915 crores, and the entire amount was released in 2004-05 itself, without waiting for past utilisation. However, the State could spend only 42% of the available funds. At the end of the year it was saddled with 808 crores as unspent funds which alone were almost 80% of the total unspent money for the entire country in IAY. Bihar's opening balance in this scheme was Rs. 171 crores on the 1st April 2004, but increased to Rs 809 crores on the 1st April 2005. Despite this, the share of six poorest States of India (UP, Bihar, Orissa, Chhattisgarh, Jharkhand, and MP) in poverty was 54.5%, but was 50.6 & 56.5 in central allocation and releases under IAY in 2004-05.

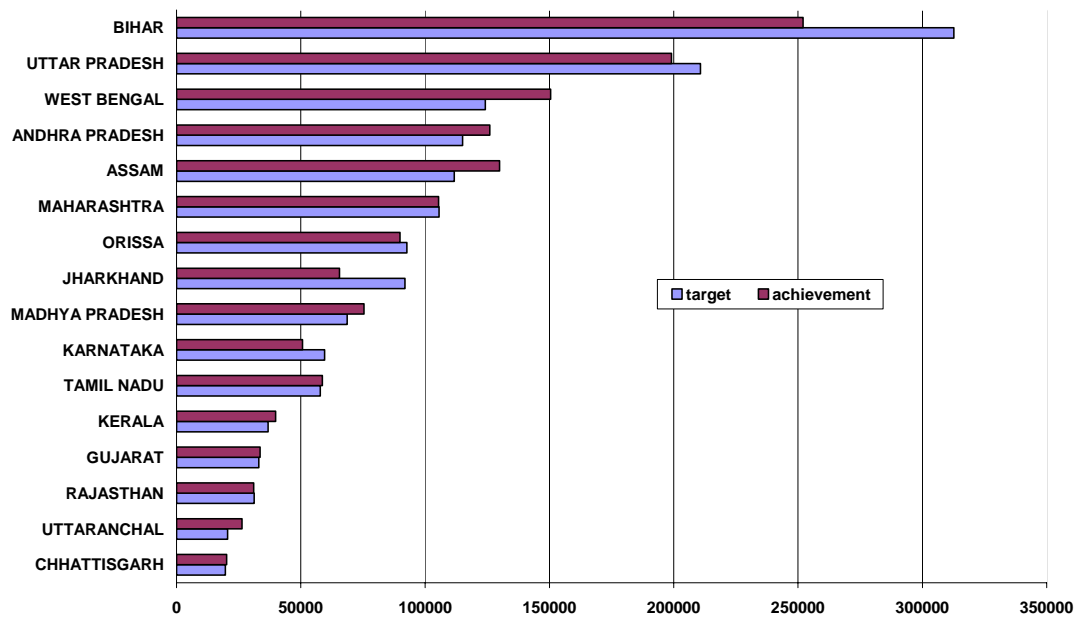
In 2005-06, the formula for IAY allocations was changed, with 75% weightage for housing shortage and 25% for poverty. This increased the share of Bihar from 19.9 to 26.4% in the total allocation. It will be interesting to watch whether the new government is able to make any difference in the utilisation of central funds.

As per 1991 Census, Bihar accounted for nearly one-third of total housing shortage, followed by Andhra Pradesh, Assam, Uttar Pradesh and West Bengal, which together account for another 44.64 per cent. In each of the remaining States, the housing shortage is less than 5 per cent. During 2004-05, the target for house construction under IAY was 1,525,756 whereas the achievement was 1,484,786 (97%). State-wise target and achievement is shown below:

⁴ Four other rural housing schemes have also been launched in the interim, since 1999, with a cumulative outlay of Rs. 11.7 billion between 1999-2002.

⁵ The fact that the RD Minister was from Bihar, and elections were round the corner could not be just a coincidence.

Achievement and Target under IAY in 2004-05 in unit houses



4.3.1 Assessment

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

Nonetheless, there are also severe problems in its implementation, caused in part by its design of large, unencumbered grants. The lump sum payment of Rs. 25,000 is large enough to attract substantial corruption. Local politicians, including Members of Parliament, Members of Legislative Assemblies, and even village heads view this as an important mechanism for patronage for supporters and there is clear evidence of high proportion of benefits being manipulated towards this end. These machinations are a natural outcome of the context of the scheme, since the total allocation of grants-based IAY, although substantial, is miniscule relative to potential demand based on number of BPL households without housed in the country.

In its present form, the scheme excludes all poor who are landless. Only people with land are eligible, which itself means that poorest of poor are left out. This scheme does not include any cost of making water and light available. Most of these houses are out side the village or in the fringe area and with no water and light connection, they remain unused. The scheme could have a cluster approach, with a set of 10-25 houses built along with some basic infrastructure, which will significantly increase its utility. There is no insurance of these houses nor is joint ownership of male and female members of family fully implemented as of now.

The substantial size of individual grants also makes this a popular scheme with local officials, since it is large enough to withstand large “unofficial” fees running into several thousands of rupees. As a consequence, safeguards built into the design of the scheme have

stayed on paper. For example, payments for each stage of construction are to be made only when the preceding stage has been completed, and individuals are required to make their own arrangements for construction. In particular, officials are not allowed to engage contractors on behalf of the beneficiaries. According to the Auditor General, almost one-third (31.6 percent) of IAY funds were misused, (CAG 2003). Of this, almost half was accounted for by depositing of funds by State governments into current accounts, civil deposits, or treasuries outside the government account. The remainder was due to misappropriation, unapproved works, and unauthorized activities. Almost 20 percent of the audited money was spent on construction of houses through contractors. Over inflated expenditures combined with poor quality of dwellings was a natural outcome. Planning Commission evaluation of IAY in 200x also revealed that only 33.36 per cent of the houses surveyed have sanitary latrine and their utilisation is still lower at 29.58 per cent of the existing latrines. Percentage of houses with Smokeless chullah is even lower than the percentage of sanitary latrine at 28.8 per cent. Instances of corruption to the tune of Rs. 5,000 to 8,000 per house have also been detected. The mandatory provision for joint registration of houses in the name of both husband and wife is flouted in most cases. In many States, field-level functionaries are unaware of the existence of such a provision.

4.4 National Social Assistance Programme (NSAP)

The National Social Assistance Programme (NSAP) was introduced as a 100 per cent Centrally Sponsored Scheme on 15th August 1995, to provide social assistance to poor households in the case of old age, death of the primary breadwinner and maternity. It originally had three components: namely (i) National Old Age Pension Scheme (NOAPS), (ii) National Family Benefit Scheme (NFBS) and (iii) National Maternity Benefit Scheme (NMBS). However, from 2004-05 the NMBS has been merged with a Janani Surakhsha Yojana (Mother Care Scheme), a centrally sponsored scheme of the Ministry of Health, whereas the other two schemes along with Annapurna have been transferred to the State Plan Sector w.e.f. 2002-03.

The States have the requisite flexibility in the choice of beneficiaries and implementation of the scheme, by taking up one or two or all of the three or in any other combination in accordance with their own priorities and needs.

The State / UT wise allocation for these welfare schemes is worked out on the basis of the numerical ceilings and qualifying financial entitlement for each State / UT according to the guidelines of NSAP and Annapurna Scheme. It is based on population projections as on 01.07.1998, modified poverty ratios for the year 1993-94, and age specific mortality rate in 18 – 64 age group. Except for NOAPS, States provide no money for NFBS⁶, NMBS and Annapurna from their budget.

As per the guidelines, “it is assumed that 50% of the population below the poverty line in the age group 65+ will qualify for old age pensions under the destitution criteria laid down.” The formula used for calculation of the numerical ceiling for each State, therefore, is: Population * Poverty Ratio * Proportion of 65+ age group in total population * 0.5. The ceilings fixed by GoI, and fund requirement is given below:

Table 3: Requirement of Funds for NSAP

⁶ Kerala used to provide Rs 3000 before 1995, but this was stopped after NFBS was introduced.

Scheme	Numerical Ceiling as fixed by the Central Government	Benefit Entitled Under the Scheme	Allocation Required in crore Rs	Total Requirement
NOAPS	68,81,000	Rs 900 p.a.	620	1373 ⁷
NFBS	5,71,500	Rs 10,000/	572	
Annapurna	13,76,200	Free 120 kg grain p.a.	181 ⁸	

Source : Guidelines for NSAP and Annapurna, Ministry of Rural Development. MoRD letter No.J-13020/10/2004-NSAP.

Against the requirement of Rs. 1373 crore, GoI allocated only Rs. 680 crore during 2001-02 to 2003-04. However, an additional sum of Rs 510 crore has been provided in 2004-05 due to a PIL in the Supreme Court where it was alleged that government was under-funding an important safety net scheme. Thus a total amount of Rs 1,189.87 crore has been provided for NSAP and Annapurna in the Annual Plan 2004-05. However, the total expenditure in 2004-05 was only 694 crores, which was only 58% of the allocation, though more than what the States spent in the previous two years (Rs. 540 and 546 crores).

The average offtake for Annapurna during the last four years ending 2004-05 comes to only 1.12 lakh tonnes, which at the rate of 120 kg per annum will suffice for less than 10 lakh people. According to government's own calculation, the number of persons eligible for pensions under NOAPS is 69 lakhs. Thus 13.8 lakh should be the number of potential beneficiaries for Annapurna. Thus the overall coverage of the scheme is less than 75%.

A potential 69 lakh beneficiaries need to be covered under the NOAPS alone. It is imperative to remember that these targets were fixed based on 1998 population projections and have not been adequately revised ever since. If the targets were fixed for full coverage of eligible populations (as the State must aspire to) as per 2005 population, then allocations are even more inadequate. Using the 2001 Census figures, and the poverty ratios, the number of pensioners should be 81,89,908, and assuming 2% increase per annum in their numbers, one gets the figure of about 9 million. During the year 2001-02 50,81,902 beneficiaries were reportedly covered under the Scheme, which increased to 61,62,598 in 2004-05. Thus about a third of eligible people are still to be covered under the scheme.

4.4.1 Evaluation of NSAP

The NSAP was evaluated by ORG three years after the implementation of the programme. The programme appeared to have been well targeted. The study was taken up in eight States (Andhra Pradesh, Bihar, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Orissa and West Bengal). The programme had largely reached SC/ST population and women. The coverage of women in NOAPS was found to be 40-60 per cent and for NFBS 40-50 per cent. Though age norms prescribed under the programme were being followed, the criteria of identifying "destitute" were not clear and different States followed different bases. The responsibility of identifying destitutes has been entrusted to the panchayats who were not always aware of the criteria. The procedure of registration involves production of several proofs and certificates, which makes it very cumbersome. However, in some States the benefits

⁷ This does not include the administrative cost @ 5%.

⁸ This is to point out that the financial entitlement under Annapurna is the economic cost of the grain estimated at Rs 9.526/kg. plus sales tax @ 10% plus transportation cost at Rs 0.50 / kg.

were distributed once in two months and in some others there was no fixed frequency for distribution.

The NFBS evaluation revealed that the beneficiaries either saved the assistance money in a bank or used it to repay old debts. Use of benefit in income generating activities was negligible. There have been cases of corruption in the implementation of the programme.

Most of the NMBS beneficiaries reported having received the benefit after the delivery. This was due to late submission of the claim by the beneficiaries. There is need to create awareness about the scheme among the target segment so that claims are made well in time. The procedure under this scheme, and other schemes under NSAP, needs to be simplified and made more transparent to enable the target group to derive benefit out of this scheme without hassles.

4.4.2 Implementation after 2002-03

After transfer to the States, there is no sense of ownership with the scheme, either by the Planning Commission or the Ministry of Rural Development, and neither of them is monitoring the performance of the schemes. Funds are released by the Finance Ministry every month equivalent to 1/12th of the CA fixed by the Planning Commission, but as these go to the State treasury, and not districts, State finance departments often divert the funds to other pressing requirements, and thus the districts are left high and dry without adequate and timely funds.

Earlier, the Ministry of RD used to transfer the amount straight to the bank account of the DRDA in the districts, and this ensured quick availability at the district level. Now, the districts will get the same amount from the State Finance Department, and fiscally weak States may often not be able to release the amount in time. Earmarking by the Planning Commission is not a foolproof method of protecting the outlay for a particular scheme, and there have been cases (see Gujarat's example in Table 4) when the States divert the earmarked fund to other pressing needs. Some States, such as Jharkhand did not make adequate and enhanced budget provision for the entire amount, and thus there was no distribution of NSAP funds in the field in 2002-03 in the State. And lastly, GoI used to give extra allocation of 4% of the pension amount to cover administrative cost that was used in the districts for supervision, hiring vehicles, etc. The States have stopped doing that with the result there is no money in the districts for buying stationery, registers etc. for maintenance of accounts. This all would mean delay in disbursement in the field. There are already reports of such delays.

There were huge backlog in payment of pensions and benefit due to shortage of funds. I saw in Chitrakoot, a backward district of UP that due to long queue of applicants under NFBS, the UP Government decided to deny the benefit of this scheme to those who could not be given the cash within the financial year. Needless to say, this order is grossly unfair and iniquitous, as those families where deaths take place in March will never be able to get the benefit!

Irregularity in Payment of Monthly Pension

The field visit of the Supreme Court Commissioner's representatives to Bihar and Jharkhand in 2005 brought to the fore ample evidence showing irregularities in the payment of pensions to old people. The phenomenon of paying pensions after a lag of 2 to 6 months was virtually a universal observation. States like Manipur and West Bengal

have also reported in their affidavits (filed in the Supreme Court), delays and backlogs in payments due to paucity of funds, which was in turn because of inadequate allocations and temporary disruption in release of funds from the Central Government.

NOAPS / State Social Security Pension in the Shwerlat village of Kunda Block, District Chatra, Jharkhand; Dates on which the pension was given in the last one year

Date	Amount given	Months
13 th March, 2003	Rs 1200	For April'02 to March'03
8 th January, 2004	Rs 900	For April'03 to December'03
13 th October, 2004	Rs 600	For April'04 to September'04
4 th March, 2005	Rs 300	For October'04 to December'04
Source – Field notes of the Commissioner's Representatives.		

No regular verification of existing beneficiaries: In the report published in the Times of India dated 27th August 2005, it is said that “the Social Welfare Department of the Delhi Government has been paying old age pensions to 10,131 dead persons and that about Rs 5-6 crore of the tax payers money is lying unused -- locked in bank accounts and post offices.” The door-to-door survey, which was conducted in the month of February 2005 for the first time ever, sought to check out what happens to the Rs 350 a month given to 1,56,131 senior citizens. It found that 27,000 "beneficiaries" are untraceable and 10,131 are dead. Pensions of these people and the 10,131 deceased have been lying unclaimed in banks and post offices.

Table 4: Affidavits filed by the States in the Supreme Court:

States	Affidavits dated	Points made
Gujarat	14.12.04	The State government did not release any amount for NSAP in the years 2003-04 and 2004-05.
Chhattisgarh	23.12.04	Till October 2004, around 4089 applications of family benefit were pending due to non availability of funds from GoI. For the years 2003-04 and 2004-05 Food and Civil Supply Department did not receive any amount for implementation of Annapurna.
Madhya Pradesh	16.12.04	Annapurna Yojana has been withdrawn by the Department of Food and Civil Supplies vide their order of February 2003.
Pondicherry	27.12.04	Reported zero receipt of ACA in the years 2002-03 and 2003-04. The amount received from GoI for NFBS disbursed to the eligible applicants up to October 1997. Applications received from November 1997 onwards are pending for want of funds.

Pensions under NOAPS are still being distributed by the DRDAs/Blocks, and the change from CSS to ACA has not made any difference to the ground level arrangement for distribution. The agencies at the State level who are supposed to look after this scheme could be either the departments of labour, social welfare, or medical. These State departments have little or no interaction with the DRDAs, nor do they receive regular Statements from the

DRDAs. Consequently, State implementing agencies have little ownership of the scheme. There are too many entities involved in implementation without clear demarcation of responsibilities, another outcome of this is irregular timing of payments to beneficiaries, which can be problematic if the recipients are severely liquidity constrained.

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

4.5 Targetted Public Distribution System (TPDS)

With a network of more than 4 lakh Fair Price Shops (FPS) claiming to distribute annually commodities worth more than Rs 15,000 crore to about 16 crore families, the PDS in India is perhaps the largest distribution network of its type in the world, at least on paper. Despite the fact that growth of foodgrain production in the period 1989-2005 was lower than the increase in population during the same period, procurement of cereals on government account went up, suggesting a decline in poor people's consumption and their purchasing power. This may have happened because of the structural imbalances (high MSP, rising capital intensity, lack of land reforms, failure of poverty alleviation programmes, no new technological breakthrough in agriculture etc.) created in the economy, as well as due to production problems in less endowed regions, which led to a dangerous situation of huge surplus in FCI godowns coupled with widespread hunger. PDS thus became a mechanism both for disposal of surplus grain with government and for augmenting consumption of the poor.

PDS is operated under the joint responsibility of the central and State governments, with the former responsible for procurement, storage, transportation (upto the district headquarters) and bulk allocation of foodgrains. The State governments are responsible for distributing these foodgrains to consumers through a network of Fair Price Shops. This responsibility includes identification of families below poverty line (BPL), issue of BPL cards, and supervision and monitoring of the functioning of the Fair Price Shops. States are also responsible for movement of foodgrains from the district headquarters to the PDS shop, which requires storage at the sub-district level. As food was always a non-plan subject, such an infrastructure is often weak in the northern States.

Until 1992, the PDS had universal targeting, being available to all consumers. While this scheme has continued, the GoI introduced a revamped PDS (RPDS) in 1992 in limited areas, primarily drought prone, tribal and hilly, and remotely located. The RPDS was a purely location targeted scheme, being available to all in the selected area. This has been substituted in 1997 by the Targeted PDS (TPDS), specifically aimed at BPL people in all parts of the country. State-wise BPL quota is fixed on the basis of the adjusted poverty share determined by the Planning Commission based on official poverty lines in 1993-94, adjusted for growth in population in the interim. There would have been two implications, if the 1999-00 survey was used as the basis for determining the number of eligible households in each State. First, poorer States would have got higher allocation (but these States have poor capacity for lifting), and a

very large number of poor people would have lost their status as BPL in States where poverty has sharply declined (Andhra, Tamil Nadu etc).

Under TPDS each poor family was entitled to 10 kgs of foodgrains per month at specially subsidised prices. The allocation of foodgrains for the BPL families has been increased to 20 kg w.e.f. April, 2000, and to 25 Kg. per family per month with effect from July, 2001. It was further increased to 35 kg in 2003-04, which corresponds to 84 kg per annum per unit, taking the average size of family as five. The central issue price for wheat and rice has remained unchanged since April 2000.

The additional allocations are being made at APL rates from December, 1997 subject to availability of foodgrains in the central pool and the constraints of food subsidy. The BPL/APL rates (Rs/kg) have been as follows since 1997:-

Table 5: BPL/APL Rates (Rs/kg)

Category	Date	Wheat	Rice (common)
BPL	1.6.1997	2.5	3.5
-do-	1.4.2000	4.15	5.65
APL	1.6.1997	4.5	5.5
-do-	1.4.2000	6.1	11.35

4.5.1 Antyodaya

According to the National Sample Survey about 5% of the total population in the country sleeps without two square meals a day. This section of the population can be called as “hungry”. In order to make TPDS more focused and targeted towards this category of population, the “Antyodaya Anna Yojana” (AAY) was launched in December, 2000 for one crore poorest of the poor families. AAY contemplates providing them foodgrains at a highly subsidized rate of Rs. 2/- per kg. for wheat and Rs. 3/- per kg for rice. The States/UTs are required to bear the distribution cost, including margin to dealers⁹ and retailers as well as the transportation cost. Thus the entire food subsidy is being passed on to the consumers under the scheme. The scale of issue that was initially 25 kg per family per month has been increased to 35 kg per family per month with effect from 1st April, 2002.

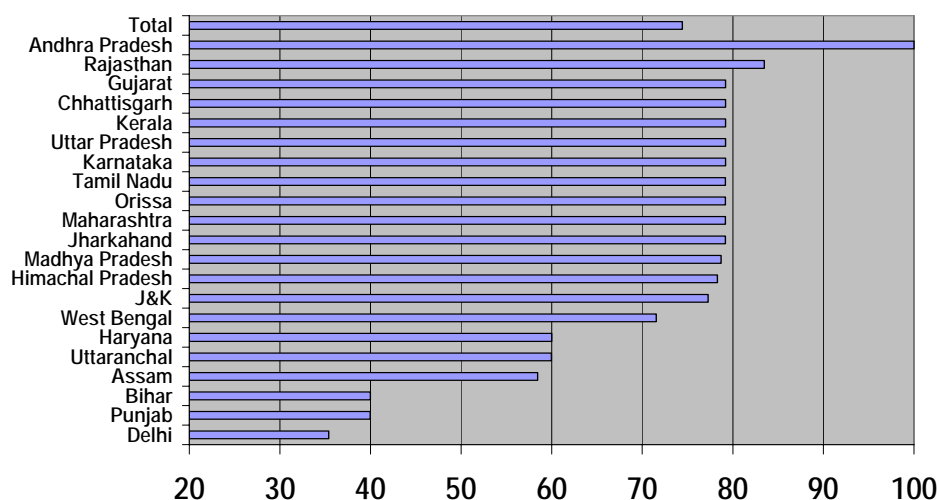
The AAY Scheme has been expanded in stages each time by 50 lakh households; in 2003-2004, August, 2004 and the third in May 2005, thus bringing the total number of beneficiaries to 2.5 crore households. The State-wise estimated number of AAY families and the families identified and ration cards issued under AAY by the State Govts./UTs shows that several States have yet to complete the process of identification.

A recent study (EPW Nov 26, 2005) for Madhya Pradesh shows that the selection of AAY beneficiaries is generally fair, and the scheme is directed at genuinely poorer households. However, in some districts such as Tikamgarh only 2% of the BPL families had yet been identified for Antyodaya cards. When compared with their entitlements, they received 17% less. Often they found the shop closed, or when it was open they did not have cash. Despite

⁹ In actual practice, none of the States give margin to the dealers, thus forcing them to corrupt practices.

orders government permitting staggered lifting, shopkeepers insist on the entire quota to be lifted in one instalment.

Identification of AAY beneficiaries



4.5.2 Offtake by States

The overall lifting under TPDS (including Antyodya) and welfare schemes such as SGRY and MDM schemes has shown considerable improvement in the last two years. The percentage offtake of BPL/AAY foodgrains as percentage of allocation has gradually improved since 2001-02 from 59.2% to 81.9% in 2004-05.

Table 6: Production, Procurement & Offtake of Foodgrains (in MT)

	1997-98	2001-02	2002-03	2003-04	2004-05
Food Subsidy ¹⁰ (in billion Rs.)	79	176	240	270	290
Production of Foodgrains	192.3	212.85	174.77	213.46	204.61
Procurement of Foodgrains	23.6	42.6	40.3	34.5	40.8
Distribution through Ration Shops (including AAY)	16.98	13.84	20.09	24.2	29.4
Disposal through other Welfare Schemes, such as SGRY, NFFW	2.08	8.86	11.38	13.5	10.6
Open Market Sale	0.06	5.6	5.66	9.66	0.25
Subsidized Exports	0	4.7	12.46	10.31	1.0

Table 6 shows that large amounts of grain, equivalent to some 28 million tonnes from 2001 to date, were exported from India, at almost BPL prices. This fuels the widespread notion that the GoI is feeding the poor of other countries (often cattle), instead of those at home. Had

¹⁰ See annex for a time series

the amount exported been used for welfare schemes like SGRY, MDM, Annapurna, etc, the people benefited could have more than doubled.

The breakup of PDS offtake during 2004-05 between BPL, APL, and AAY was 17.28, 6.68, and 5.46 million tonnes respectively. Almost 60% of the offtake for APL category was confined to the five States of AP, Karnataka, TN, WB, and Assam. Taking out the APL offtake, the distribution of 22.7 MT of foodgrains translates to providing the full quota of 84 kg per unit per annum (35 kg per household per month is equivalent to 7 kg per unit, assuming 5 units in a household, or 84 kg per annum per unit) to more than 27 crore units, which covers the entire BPL population according to 1999-00 survey. However, not all States lift their entire quota, Bihar and Jharkhand being the worst defaulters, lifting less than half their allotment. In 2004-05, the 2nd and 3rd poorest States in India, Bihar and Jharkhand, lifted only 44%, and 53% of the allotted food grains. It turns out to that, out of every 10 households for whom foodgrains was not lifted in India in 2004-05, 4 households were living in Bihar and Jharkhand alone. The other States where the foodgrain lifting was below national average were Manipur (54%), West Bengal (67%), Punjab (68%), Himachal Pradesh (74%), Gujarat (75%) and Orissa (77%).

Similarly, during 2003-04 too, Bihar, Jharkhand, UP, MP, and Orissa lifted less than 50% of their allocation. If the lifting by some of these States has improved in 2004-05, part of the explanation could be higher market price, which not only increases demand from the consumers but also creates higher incentive for the shopkeepers to black market the allotment in the open market.

The reasons for poor lifting in Bihar and Jharkhand are:

- (i) Inadequate storage capacity with FCI, which has godowns only in less than 50% districts
- (ii) The State Food Corporation (SFC; the two States have a common SFC) on its part does not have sufficient godowns located in different blocks where foodgrain can be stored for supply to the dealers. The mobile vans, meant to bring the foodgrains from the godowns to the shops are all in need of repair or there is no driver or no fuel. The SFC is in an extremely poor financial shape. There is no working capital to purchase the PDS commodities from the FCI; it is the PDS dealers who have to advance the money every month. There are districts in which the SFC still needs to pay 12-24 months salaries to the depot managers and other corporation staff members.
- (iii) Allocations from GoI are valid only for a month, and if the State government is not able to lift within that time, its quota lapses. It could be increased to a quarter.
- (iv) The villagers are poorly informed, and certainly not in advance. This means that the poorest among them may not have sufficient cash ready available when the foodgrains arrive in the shop.
- (v) The PDS dealer will only transport so much as he expects to sell within one or two days. In short, there is a physical access problem, in the sense that the commodities may come with irregular intervals or not at all. There is also a problem of economic access, in the sense that the poorest people do not have cash ready at the moment the stocks arrive.

Some other general problems associated with the scheme besides illegal diversion are :

- The poor do not have cash to buy 35 kg at a time, and often they are not permitted to buy in instalments.

- Low quality of foodgrains – A World Bank report (June 2000) States that half the stock of FCI is at least two years old, 30% between 2 to 4 years old, and some grain as old as 16 years. The picture may have changed drastically, as the stock with government has declined from 65 to 20 million tonnes in the last four years.
- Weak monitoring, lack of transparency and inadequate accountability of officials implementing the scheme
- Price charged exceeds the official price by 10 to 14%
- The shop does not open for more than 2-3 days in a month, and the card holders are not allowed to lift their quota of previous months.

4.5.3 Evaluation

All is not well with the Public Distribution System in India. The different weaknesses in the targeted public distribution system (TPDS) include ration cards being mortgaged to ration shop owners, large errors of exclusion of BPL families and inclusion of above poverty line (APL) families, prevalence of ghost BPL cards with weaknesses in the delivery mechanism leading to large scale leakages and diversion of subsidised grains to unintended beneficiaries, section of the APL households holding BPL cards actually not lifting their ration quota and thus a part of the entitlement of these households leaking out of the PDS supply chain.

A study was conducted in 1999 by the Tata Economic Consultancy Services to ascertain the extent of diversion of commodities supplied under PDS from the system. At the national level, it was assessed that there is 36% diversion of wheat, 31% diversion of rice and 23% diversion of sugar. The diversion is more in the Northern, Eastern and North Eastern regions. Diversion is comparatively less in the Southern and Western regions. As extreme cases 64% diversion of rice is estimated in Bihar and Assam. In the case of wheat 100% diversion is estimated in Nagaland and 69% in Punjab.

A recent PEO study (2005) finds that about 58 per cent of the subsidized foodgrain issued from the Central Pool does not reach the BPL families because of identification errors, non-transparent operation and corrupt practices in the implementation of TPDS. There are errors of wrong inclusion of ghost cards and non-BPL households; only about 57% of the BPL households are covered by it. The FPSs are generally not viable because of low annual turnover and they remain in business through leakages and diversions of subsidized grains. Only about 42% of subsidized grain issued from the Central Pool reaches the target group. Over 36% of the budgetary subsidies on food is siphoned off the supply chain and another 21% reaches the APL households.

Error of inclusion is high in Andhra Pradesh, Karnataka and Tamil Nadu. This implies that the APL households receive an unacceptably large proportion of subsidised grains. Leakages vary enormously between States. In Bihar and Punjab the total leakage exceeds 75 per cent while in Haryana and Uttar Pradesh it is between 50 and 75 per cent. Leakage and diversion imply a low share of the genuine BPL households of the distribution of the subsidised grains. During 2003-04, it is estimated that of 14.1 million tonnes of BPL quota from the Central Pool, 6.1 million tonnes reached the BPL families while 8 million tonnes did not.

The responsibilities for storage, transport and distribution within districts are contracted out to “fair price” shops and the associated contractors. This has created substantial scope for fraudulent practices due to large gap between market prices and prices in fair-price shops.

Even then the cost of handling of food grains by public agencies is very high. According to the study, for one rupee worth of income transfer to the poor, the GoI spends Rs 3.65, indicating that one rupee of budgetary consumer subsidy is worth only 27 paise to the poor. Thus the cost of income transfer to the poor through PDS is much higher than that through other modes.

DELIVERY SYSTEM FOR PDS IN BIHAR

A Study on Bihar (*Jos Mooij 2001, EPW Aug 25-31*) revealed the following :-

- Dealership and even membership of vigilance committees are seen as positions where money can be made
- The procedure to appoint these is highly politicised, and mostly clients of MLAs are appointed
- Sub-district infrastructure to handle foodgrains is poor, Ranchi had only 11 godowns for 20 Blocks
- The Civil Supplies Corporation has no working capital to buy from FCI, vans are in poor condition or no money for patrol, staff does not receive salaries for months
- On the whole, only govt. staff, agents and retailers benefit from the scheme

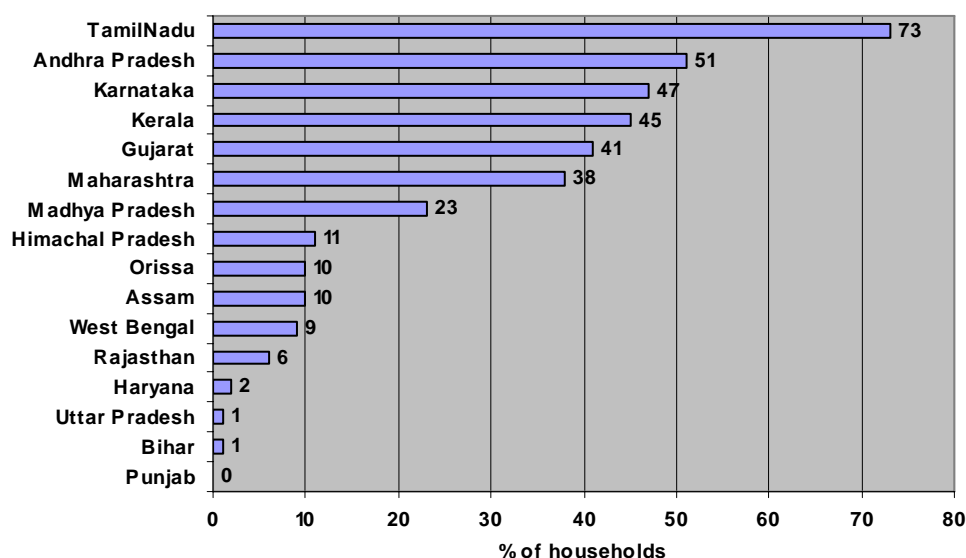
The problem of lack of infrastructure and shortage of funds with government parastatals is not unique to Bihar, most States except the few in west and south suffer from these handicaps. GoI should first ensure that adequate infrastructural capacity is available at the district and block levels, otherwise wasting scarce resources through leakages helps only contractors and corrupt government staff, and does not in any way help the poor. Another study claimed that each fair price dealer has to “maintain” on an average nine government functionaries. It is significant that the allocation of poorer States such as UP, Bihar and Assam got more than doubled, as a result of shifting to TPDS, yet due to poor off-take by the States and even poorer actual lifting by the BPL families, the scheme has not made any impact on the nutrition levels in these States.

Average foodgrain consumption from PDS in 1993-94 and 1999-00 was estimated by NSSO. It showed that whereas average lifting from PDS per person in Kerala was 4.58 kg per month, it was only 0.15 kg in Bihar and 0.29 kg in UP.

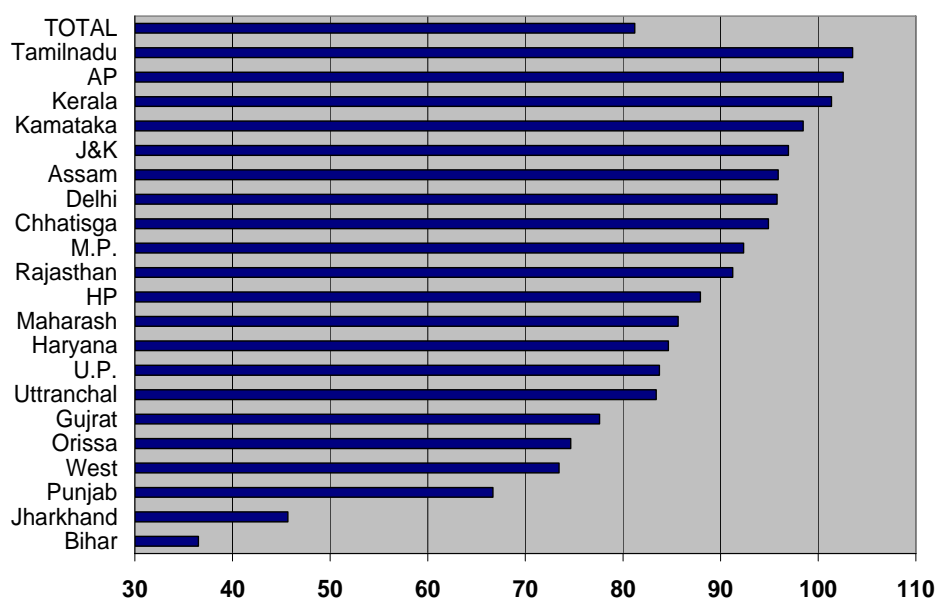
An All-India study carried out by a renowned agency (Public Affairs Committee, Bangalore) and published in the *Economic and Political Weekly*, 28th February, 2004, showed that the dependence of the non-poor on the PDS is much higher than that of the poor. Similarly, the dependence on PDS of the moderately poor is higher than that of the very poor, which clearly shows that the system is not properly targeted at the poor. However, there are variations across States in targeting PDS at the poor. Usage is high even in States where the foodgrain offtake is low, because villagers use the PDS outlet to procure subsidised kerosene and sugar.

Although the percentage of households reporting the use of ration cards is high, only one-fourth of the rural and one-fifth of the urban households reported the regular availability of staple foodgrains at the ration shop. Regular availability is reported by more than half of all rural households in the four southern States, viz. Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. Regular availability is reported by 2 per cent (or less) of the users in the States of Bihar, Haryana, Punjab and Uttar Pradesh.

Regular Availability of foodgrains



Lifting of foodgrains as % of BPL allocation 2004-05



5. Analysis and Suggested Action

5.1 Effectiveness of Centrally Sponsored Schemes

The effectiveness of CSS in meeting their strategic objectives is highly variable across sectors and schemes. Nevertheless, a number of them are more successful (e.g., ARWSP, PMGSY, SSA) than the anti-poverty schemes¹¹. This lower than expected level of effectiveness in delivery is because of a large number of factors, some general, and some scheme specific. In this section we take up the general factors, as scheme specific issues have already been discussed in the last section.

¹¹ Schemes under the Health sector too do badly both in terms of utilisation of funds and quality of implementation.

In a Study of how people come out of poverty in Rajasthan (*Krishna 2003*), the author came to the following conclusion about the impact of government programmes:

‘Programmes of direct assistance for poverty reduction have had at best only marginal impacts on poverty in these villages. In no more than seven of 79 escaping households in Udaipur (9 per cent) and 4 of 53 such households in Rajsamand (8 per cent) did external assistance of any kind figure anywhere among the principal reasons for successful escape. People in this region have overcome poverty mostly as a result of their own initiatives and with the help of their relatives and friends. Government assistance – or even assistance from any other external parties, including NGOs, business houses, and political parties – has very little to do with these results. Government expenditures on poverty reduction schemes may have had other positive effects, including making poverty more tolerable, and other government schemes, such as affirmative action and public distribution, may also have made a considerable difference. But programmes of direct assistance account collectively for a relatively small fraction of households escaping poverty in these villages.

It is not that all direct government assistance to the poor is a bad idea and should be withdrawn. My point is more about the kinds of assistance that are now on offer. These types of assistance have not been notably associated with cases of households successfully escaping from poverty. Other reasons have been more important, and understanding these reasons can help give shape to different and more effective programmes of direct and indirect assistance.

Programmes of information provision – including, perhaps, supporting employment exchanges in rural areas – can be quite helpful for making diversification an option available to a larger number of willing persons. At the same time, however, a different set of programmes will be required for controlling other households’ simultaneous decline into poverty.’

The Central Government has often got away with poor performance of the schemes by asserting that implementation is the responsibility of the States. The sensitivity of Centre-State relations in an environment of coalition politics also comes in the way of pulling up the non-performing States. The West Bengal secretariat officials informally blame the complete transfer of schemes to panchayats for low utilisation, as they escape their responsibility by giving the excuse that they have no control over panchayats. Coupled with this is the political and bureaucratic pressure to transfer resources in spite of a continuing history of poor performance of some States. The most common objective at the State level is typically project completion and meeting financial targets. Project management tools and a framework which assist in greater accountability (e.g. log frame analysis) are primarily utilized by donor-friendly States (like AP) or particular Departments within a State to meet donor conditionalities, but not for non-donor CSS.

Even within the GoI, most Ministries and Departments are focused on meeting their physical and financial targets with limited emphasis on scheme quality or the need to adapt scheme guidelines to match the diversity operating conditions in various parts of the country. As central agencies have limited capacity and resources to track qualitative outcomes, feedback from the field is often delayed and rarely affects operational policy decisions except for reporting on established targets. Hence, phenomena such as late-March release of funds to meet targets are common as are problems of long delays in release of funds, inefficient programme implementation and high levels of leakage and rent-seeking. It may be added here

that the late-march release does not affect availability of funds in the field for RD schemes, as these are transferred to a district Bank Account, which generally has sufficient balance to meet requirement of expenditure in April, May and June.

While the administrative problems associated with implementation are well known (such as frequent transfer of key officials, inadequate assessment of the ability of beneficiaries to utilise programme service, irregularities in identifying the beneficiaries, corruption), problems relating to strategy and the very design of programmes are hardly questioned. Often the very conditions for the success of these programmes such as vertical and horizontal linkages, and adequate technological and institutional capability are absent. There is also lack of coordination with other concerned departments. For instance, the programmes for poverty alleviation have not been sufficiently integrated and oriented to the development of infrastructure (drainage, soil conservation and afforestation) for increasing agricultural productivity. The programmes are also weakly integrated with plans for area development and do not lead to sustained increase in employment, and the assets created exclusively for the benefit of the poor in SGRY are few.

A preliminary assessment conducted by the World Bank (2004) in conjunction with preparatory work carried out in relation to the Orissa Economic Revival Credit/Loan in 2002 indicated that the fiduciary risk in this State is on the high side despite the existence of a reasonably sound financial accountability structure in line with the one prevailing across India. The immediate problem is not so much with laws, rules, regulations, and standards, although these are not always in line with the most modern national and international practice. The main problem is the failure to effectively implement the spirit behind existing laws, rules and regulations governing basic financial management standards and public accountability procedures. This could also be said of many other poor States of India.

There are several reasons why anti-poverty programmes are not effective in achieving their goal, some of these are:

- Lack of unbiased impact studies & weak monitoring
- Poor capacity and corruption among panchayats
- Poor capacity at the State and district level for the design of schemes

5.2 Assessment of monitoring efforts

As regards monitoring, the general practice in the States is not to study the impact of CSSs. The central Ministries in general are loathe to do intensive supervision over the States, but the Ministry of Rural Development has always generated a lot of reports on impact analysis and concurrent evaluation.

National Level Monitors - With a view to ensuring transparency and efficacy in the implementation of Rural Development Programmes, the Ministry has prepared a panel of 179 National Level Monitors involving Senior Level Ex-Servicemen and Retired Civil Servants to monitor the policy and implementation environments of the programmes at grass root level. The National Level Monitors shall also be required to look into various specific complaints regarding implementation of programmes, as and when required by this Ministry.

District Level Monitoring - A new initiative of District Level Monitoring of the Rural Development Programmes in 128 Districts in 26 States through locally based independent

external agencies has been taken up on a pilot basis. This mechanism enables the Ministry to obtain not only monthly physical and financial progress reports from different Implementing Agencies but also generates periodic qualitative reports on the policy and implementation environment for the programmes in the districts and verification of physical achievement under different programmes. Such close monitoring helps in the improving quality of implementation of the programmes.

There appears to be a great deal of difference in the conclusions drawn by the studies done by the Ministry, when compared with independent assessment by academic organisations or even the Planning Commission. Let us compare the observations recorded by the senior officers of the Ministry after their field visits with that of the studies done by the Planning Commission.

Many officers from the RD Ministry undertook visits during the last three years (Standing Committee On Rural Development (2004-2005), Fourteenth Lok Sabha) The main observations of the Area Officers are as under :

- (i) On the whole, programmes are being implemented in almost all the districts in accordance with the guidelines issued by the Ministry of Rural Development;
- (ii) The rural poor have benefited to a large extent and a number of them have crossed the poverty line over the years;
- (iii) The Area Officers have documented a number of success stories with regard to micro-enterprises development, provision of self-employment, improvement in quality of life of people, solidarity of Self Help Groups etc;
- (iv) A large number of durable community and social assets have been created under the wage employment programme in several districts of the country. These assets, by and large, have proved useful to the community;
- (v) In several States houses built under IAY has been very useful in improving the quality and living environment of the rural poor. There is a high satisfaction level to the extent of 96 per cent in case of IAY houses. Beneficiary selection under IAY has also been largely made by the Gram Sabhas;
- (vi) People's participation in programme implementation is seen in almost all the States; and
- (vii) There is a visible improvement in the socio economic life of the village community.

The Area Officers have also brought out certain deficiencies in programme implementation, but these are marginal, described as exceptions only, and according to them do not amount to severe lapses, such as, wrong selection of beneficiaries/swarozgaries; delay in release of State share; lack of coordination among various Implementing Agencies/Line Departments; shortage of staff in block and Districts; wage differential in the male and female workers; delay in distribution of foodgrains under SGRY etc.

However, the Mid-Term evaluation of the 9th Plan done by the Planning Commission and the Approach Paper to the X Plan came to very different inference about the impact of the RD Schemes. It observed:

- *'IRDP has been a poorly targeted programme due to leakages, misappropriation of funds, violation of programme guidelines, selection of the non-poor as the target group, absence of proper maintenance of accounts and poor quality of assets*

- *Only 15 of every 100 rupees reach the beneficiaries as wages, against the 60 rupees they are entitled to.*
- *IAY, although quite popular because of 100 percent subsidy of Rs 20,000 per beneficiary, has led to strengthening of dependence of the rural poor on the elite. The scheme 'dis-empowers the poor collectively while providing them individually with a valuable asset'.*
- *Tribals have been deprived of their assets and means of livelihoods without compensation, and 'a small clutch of bureaucratic programmes have done little to assist the precipitous pauperisation, exploitation and disintegration of tribal communities.'*

Thus, it is difficult to agree with the Ministry's contention that programmes are having considerable positive impact on poverty reduction.

The CAG studied the implementation of a few centrally sponsored schemes (CSSs) and observed (as quoted in the X Plan Approach Paper, 2002) as follows:

'The result of the performance reviews of these schemes carried out in the controlling Union ministries and the different States disclosed a common pattern of shortcomings in the execution of all Centrally Sponsored Schemes as under:

- ◆ *Inability of the Union ministries to control the execution of the schemes with a view to ensuring the attainment of the Stated objectives in the most cost effective manner and within the given time-frame, as a result of which, the programmes continued to be executed in uncontrolled and open-ended manner without quantitative and qualitative evaluation of delivery.*
- ◆ *The controlling Union ministries confined their role to the provision of budget and release of the funds to the State governments rather mechanically without reference to the effective utilisation of the funds released earlier in accordance with the guidelines and capacity of the respective State governments to actually spend the balance from the previous years and releases during the current year.*
- ◆ *The ministries were unable to ensure correctness of the data and facts reported by the State governments. OverStatement of the figures of physical and financial performance by the State governments was rampant. No system of accountability for incorrect reporting and verification of reported performance were in vogue.*
- ◆ *The Ministry was more concerned with expenditure rather than the attainment of the objectives. Large part of funds were released in the last month of the financial year, which could not be expected to be spent by the respective State governments during that financial year.*
- ◆ *The State government's attitude to the execution of the programmes was generally indifferent. They laid emphasis on release of assistance by the ministry rather than ensuring the quality of expenditure and attainment of the objectives. Misuse of the funds provided for vulnerable sectors and sections of the society was rampant. The State governments' attitude towards such misuse was one of unconcern. The controlling Union ministries had no clue to such misuse. Thus, in many cases, the figures of expenditure booked in accounts assumed precedence over the bonafides and propriety of the expenditure.*
- ◆ *Nobody could be held responsible for shortfall in performance, poor delivery of output, wanton abuse of the authority to misuse the funds provided for succour to the victims of*

calamity, economic upliftment of the poor Schedules Tribes, eradication of Malaria, sheltering from the suffering of repeated droughts, etc.’

5.2.1 Monitoring of Panchayats

Panchayats prefer construction activities that promote one-way dependency of the poor on the wage givers, and are loathe to get involved in programmes that promote equality and mutual inter-dependence, such as education, health, and common land management. As panchayat leaders are themselves contractors, it is not in their interest to promote transparency or sharing of information. Even the elected members are not aware of basic details like the cost of the work, number of man days, etc. Therefore panchayats need to be made accountable for programmes based on consensus rather than authority.

In UP, a study (Srivastava 2004) evolved some criteria for ranking twenty panchayats. Points were given to panchayats along three dimensions – democratic functioning, efficiency, and transparency and the total marks obtained by each panchayat were used to rank each of the panchayats. The criteria used are summarised below:

Table 7: Ranking of Panchayats

Dimension Scale

Participation

1. Regularity of Gram Panchayat Meetings: Regular -03 Irregular 02 Not held 01
2. Participation in Gram Panchayat Meetings: All sections 05 Some sections 03 On Paper/Nil 01
3. Regularity of Gram Sabha Meetings: Regular -05 Irregular 03 Not held 01
4. Participation in Gram Sabha Meetings: All sections 05 Some sections 03 On Paper/Nil 01

Transparency

1. Selection of Beneficiaries: Open Meeting 05 Open Meeting but tampered - 03 Outside Meeting - 01
2. Selection of Schemes: Open Meeting - 05 Open Meeting but tampered - 03 Outside Meeting - 01
3. Publicity of Funds and Expenditure: Well advertised -05 Selectively known -03 Not known to anyone -01

Implementation

1. Level of Activity: Active 03 Less Active 02 Inactive 01
2. Supervision of Works: Collective Involvement 03 Pradhan or Relative 02 Contractor 01
3. Quality of Works: Good - 05 Medium 03 Poor/Vpoor 01
4. Corruption Honest: 05 Relatively honest 03 V Corrupt 01

Grades for Panchayats: V Good 40-49, Good 30-39, Unsatisfactory 21-29, V Unsatisfactory 11-20

Not surprisingly, most of the study panchayats (75 percent) rank in the ‘Unsatisfactory’ (12) or ‘Very Unsatisfactory’ (3) category. But two achieve a ‘Good’ rank while three achieve a ‘Very Good’ rank. Of the five well functioning panchayats, two were in the Hill region, and

one each were in the Western, Central and Eastern regions. Notably, two of the best functioning panchayats in the sample were headed by women Pradhans. These two successful women Pradhans had significantly different profiles, yet they performed reasonably well as leaders of their respective panchayats.

5.2.2 Is Transfer through CSS Regressive?

It is generally believed that the distribution of the CSS funding between the States is regressive. Certainly three poor States, Bihar, Assam and Jharkhand, lose out on their share and receive the lowest per capita transfers in India. Assam often has fiscal difficulty in fulfilling its obligation of contributing the State share. On the other hand, on a per capita basis the Special Category States (SCS) and Middle Income¹² States (which has Andhra and Karnataka) receive more than their population or BPL share of resources. This is partially because these States are in a better fiscal health and hence are able to provide appropriate matching resources for the CSSs. The formula also favours these States. The better governance of these States, stronger institutional capacity and ability to implement and hence claim reimbursement of expenditures are important factors that influence better State ability to uptake resources. At the same time, some of the poorer States, such as Rajasthan and UP, manage to draw sometimes more than their due share, whereas some of the well-off States, such as West Bengal, often default on lifting their full instalments.

Therefore, if on the whole, Bihar, Jharkhand and Assam, bring down the share of poor States in overall utilisation, it is not because of political factors. The most important factor is the State of their administration which is sleepy and indifferent to implementation of schemes. There is of course some discretion with the Central Government, such as in innovative schemes of SGSY, special component of SGRY, etc. but there too alert States such as Rajasthan and Andhra Pradesh do well, whatever be the political complexion of the ruling parties of these States and the Centre.

5.3 Flexibility & Capability Issues

In order to increase flexibility of funding support for APPs, a new scheme called Basic Minimum Services (BMS), was introduced in 1996-97 with provision for Additional Central Assistance for the seven Basic Minimum Services for priority attention: primary health care, primary education, safe drinking water, public housing assistance to all shelterless poor families, nutrition, connectivity of all villages and habitations by roads, and streamlining of the PDS. The States had the flexibility in allocations between the sectors as per their own needs and priorities. While in 1996-97, the allocation was Rs 2244 crore, it gradually increased to Rs 3700 crores in 1999-2000.

It was noticed that the ACA for BMS, which was given to the States via the budget, was either not released to Departments by the States, or at best used for providing the State's matching share for CSS of the concerned sectors. Thus the ACA for BMS did not contribute to the creation of additional resources for the desired social sector. It was replaced in 2000-01 by a new scheme called PMGY (Prime Minister Village Upiftment), which had two components: Programme for rural connectivity (PMGSY) with 50% of PMGY's allocation, and other programmes of primary health, primary education, shelter, drinking water and nutrition with the remaining 50% allocation. In the year 2000-2001, Rs 5000 crore were provided for this.

¹² It is interesting that the richest States of Punjab and Maharashtra are not very efficient in drawing their share.

While the scheme for rural roads was implemented by the Department of Rural Development, the administrative Departments at the Centre of Family Welfare, Elementary Education and Literacy, Rural Development, Drinking Water supply, and Women and Child Development were to oversee the implementation of the schemes under their purview. Each sector was given 15% of the total allocation, the rest 10% was left to the discretion of the States. In fact, it was proposed that the Central Ministry/Department would monitor their own component of PMGY, while the overall coordination would be the responsibility of the Planning Commission. However, on protest from the States, the role of central Ministries was minimized and PMGY was run almost on the lines of BMS, whereas PMGSY became an independent CSS. Thus additionality got provided to the State budgets, not necessarily to the social sector. Allocation for PMGY in 2004-05 was Rs 2800 crores, but the scheme was wound up in 2005-06, as GoI claimed that sufficient increase for the schemes on which PMGY funds could be spent has been provided for in the budget of the Central Ministries in 2005-06.

As regards flexibility within a sector, two issues arise. Should the States have discretion in deciding the mix of poverty alleviation programmes? And two, do the individual schemes take into account specific needs of the region, or do they impose top-down priorities on the States/districts?

As regards the first issue, it is a fact that not all schemes have the potential of achieving good results in all regions. For instance, SGSY will do well where faster urbanization is creating demand for rural goods. SGRY is not necessary in labour scarce regions. IWDP will have greater potential in semi-arid regions with undulating fields. TPDS will have less demand in agriculturally surplus rural regions, and so on.

Acknowledging the agro-ecological diversity of regions in India, Planning Commission had suggested giving greater freedom to the States in deciding the mix of schemes, in a letter to all the State Governments in April 1999, the last para of which read as follows:

‘As we are in the process of restructuring these poverty alleviation programmes, we would like to ascertain from the State Governments whether the restructured IRDP can be an effective instrument for poverty alleviation, particularly with the proposed changes flagged above. Are there any suggestions for making it viable? Secondly, the Planning Commission is interested to know given a choice how would you like to divide the total funds under rural poverty alleviation funds allocated to your State among the self-employment scheme of Swarnjayanti Gram Swarozgar Yojana (SGSY), and wage employment schemes of Gram Samridhi Yojana (SGSY) and Employment Assurance Scheme (EAS). Further, do you feel that any of these schemes should be discontinued in your State? This information may kindly be furnished by 30th April, 99. This may be accorded top priority’.

Most States did not respond, or did not give to this suggestion the considerable attention that it deserved. Consequently, this particular idea was not pursued any further either by the Planning Commission or the States. The fact that in many States contractors’ lobby is strong, and they would pressurize the States to increase allocations for such schemes where it is easy to make money was one of the reasons why the Commission did not pursue the idea. Schemes such as NOAPS and Annapurna, where there are no contractors, would suffer. Secondly, the States have not created the necessary knowledge base to formulate policies on

such crucial issues. They tend to refer such matters to the district Collectors, and keep reminding them until everyone loses interest in the subject!

The Commission also thought that the new scheme of PMGY that was begun in April, 2000 had given the desired flexibility to the State Governments of choosing between seven options. However, as Stated above, the scheme ended up as mere budgetary support and did not create additionality for the crucial sectors, which was the Stated intention of starting such interventions.

As regards the second issue, compared to other CSS, the RD schemes are quite flexible in their design, and very few references are made to the Centre for authorizing expenditure by the districts. A comparison of IWDP with similar schemes of the Ministry of Agriculture shows that the districts in IWDP and DPAP/DDP are free in deciding the mix of specific interventions, unlike item-wise cost fixation in the watershed schemes of the Agricultural Ministry. Even when rigidity is introduced in the schemes for valid reasons (such as earmarking 40% of wage employment programmes for watershed activities), these are flouted by the districts. Schemes requiring participation are less attractive to the districts than those which place people in a hierarchical position (such as in SGRY where some give wages, many receive wages). Greater autonomy to panchayats to choose the schemes may result in lower priority to health and education, or schemes where benefits are delayed, such as afforestation, or to schemes that benefit the poor, such as pensions. Panchayats also are not keen to annoy the powerful rich farmers, and will not ban the digging of new tubewells although it may benefit a larger number of small farmers who have access to shallow wells. They have generally preferred infrastructure to providing employment as the main goal of SGRY, and thus given a free hand will not give priority to national goal of reducing unemployment.

Therefore we have a long way to go before States and districts can have a more effective say in choosing their own mix of poverty alleviation programmes from a basket of Central Schemes. This will need a panchayat structure that is responsive and inclusive of the poor, besides being capable of designing appropriate schemes.

However, it does not mean that uniformity in norms etc. does not cause confusion. For instance, Kerala was providing Rs 3000 to the bereaved family when the breadwinner died before the NSAP was introduced in 1995. As the central scheme envisaged a payment of Rs 10,000, but only for unnatural or accidental deaths, the State scheme became unpopular, and caused a great deal of confusion in the field, as there became two rates for seemingly similar circumstances. But in a large country such problems are inherent in centrally directed schemes.

5.3.1 CSS Vs ACA & NCA

The issue of flexibility raises the question: what is the best way to devolve plan funds to the States? As is well known, such funds reach the States in three ways. The Planning Commission transfers Normal Central Assistance (NCA) and Additional Central Assistance (ACA) funds to the State treasury; NCA according to the Gadgil formula (based on population and poverty, and little on performance), and ACA for a variety of schemes such as RSVY (Rashtriya Sam Vikas Yojana), AIBP (Accelerated Irrigation Benefit Programme), etc. There is no mechanism in the Planning Commission for effective monthly monitoring of such schemes, except where the task has been shifted to a Ministry, such as for AIBP and Accelerated Power Development and Reform Programme (APDRP). Some of the ACA schemes duplicate what is sought to be achieved through the RD schemes. For instance, the

Western Ghats And Hill Development Programmes of the Planning Commission are quite similar to DPAP and IWDP, whereas the RSVY gives five crore Rs to each backward district annually almost for the same purpose as the RD schemes for infrastructure or self and wage employment.

Some effort has been made to link some of the new schemes included in ACA with reforms, yet a substantial part of ACA is still not linked to fiscal performance of the States. Examples of reform linked support are the AIBP, APDRP and the Urban Incentive Facility. However, the reform component is either weak or not rigorously enforced, it remains a paper tiger. The will to wield the 'stick' has been missing in the system.

The trend in the last two decades has been that allocation of ACA and CSS has been increasing, whereas the share of NCA in overall plan transfers has been declining. The central government's preference has definitely shifted in favour of specific purpose transfer at the cost of general purpose transfer. This is despite the decision of NDC as early as in 1969, that the total value of CSS should be limited to 1/6 of the Central Assistance to the States. Despite this decision, the central ministries kept on introducing new schemes, and the number increased from 45 in 1969 to 190 in 1978-79, and the total allocation far exceeded the limit of 1/6th fixed by the NDC. However, this number was reduced to 75 in 1980, but again increased to 201 by 1985. During the Sixth plan period 1980-85, a total assistance of Rs 9,318 crores was allocated to CSS, which worked out to be 35 percent of the total Central Assistance to the States. During the Ninth plan the number of CSS was 360 approximately, with allocation being about 60 percent of Central Assistance. The allocation for CSS has now in 2005-06 has even surpassed the total Central Assistance!

Is greater allocation for State Plans the answer? - Despite these problems, it must be admitted that reducing funds for CSS and devolving more resources to the States via the NCA route for State plans may not always improve efficiency, at least in the poorer and badly governed States. There is no guarantee that these States will not use additional funds for recruiting more group C & D staff, or increase non-merit subsidies. In addition to the problems associated with CSS (poor monitoring, too many schemes) which are common to State sector schemes too, releases by the State Finance Departments in many States for their own schemes is highly *ad hoc*, uncertain, delayed, and subject to personal influences. One important factor behind fiscal indiscipline is the artificially inflated approved plan of some of the States, which is often 50 to 80 per cent higher than the available resources¹³, as seen below:

¹³ In an official communication dated September 4, 1998 addressed to the Deputy Chairman, Planning Commission, the Comptroller and Auditor General of India commented, 'The size of the plan was beyond the States' capacity to implement. Our reports contain enough material on systematic transfer of funds from the Consolidated Fund to the Public Account because expenditure rates were much slower than transfer of resources' (MTR 2000).

Table 8: Approved Plans Vs Actual Availability of Funds for some of the States during the Ninth Plan (1997-02) at 1996-97 Prices in crores

Name of the State	Sum of Approved plans during the Ninth plan	Actual availability of resources	Percentage of actual realization
Assam	8,984	4,054	45
UP	46,340	23,058	50
Bihar	16,680	9,885	59
Orissa	15,000	9,525	63
Rajasthan	22,526	15,009	66
MP	20,075	14,333	71

The wide gap between the approved plan and the resources plays havoc with fund releases for the sectoral schemes, which are often approved on the basis of the approved plan size, but for which resources are not in sight. Projects that need advance planning or are completed in several years suffer very adversely. Even when financial sanctions are issued as per budget and plan provisions, the district Treasury does not release money when the bills are presented. Finance Department issues formal/ informal instructions for not honoring the bills even though they may be within the budgetary provisions. There is also a system of issuing of Cash Credit Limit (CCL) which becomes a major constraint.

The widening gap between outlay and available resources weakens the link between physical targets and plan expenditure. Prioritization of schemes becomes *ad hoc*. This distorts the development process and undermines the sanctity of the plan. Apart from this, it also makes the whole process non-transparent and prone to corruption. Bills for POL, TA, Electricity Bills etc. keep pending for months discouraging officers to undertake journeys. Many times officers pay for POL from their own pocket, which encourages corruption. Such conditions of anarchy are hardly conducive to healthy financial management.

In the face of the inordinate delays in releasing of money by the Finance Departments in the States to the districts, many Central Ministries option for releases to district level societies (DRDAs) for receipt of funds directly from the Central government bypassing the State governments seems justified. While this may improve the flow of fund position to the field, ignoring State legislatures has long-term implications and is at best a temporary solution. In the long run we must improve the fiscal health of the States, so that credibility and integrity of the budget process is preserved.

Thus, wholesale replacement of CSS by State sector (or by PRIs) is neither desirable nor politically feasible, at least for quite some time to come. GoI has employed huge bureaucracy in the social sector Ministries, and they resist any such reduction in their budgets. It may be recalled that following a direction from the NDC in 1997, several CSS schemes were sought to be transferred to the States. Planning Commission in Feb. 1999 prepared a list of schemes with an outlay of Rs 3709 crores annually which were proposed to be handed over to the States. But Ministries have been reluctant to transfer the schemes, and agreed to give up schemes worth only 163 crore and transfer to the States. In the meanwhile several new CSS were introduced in the next four years, until another round of discussion in 2002-03 reduced the number of CSS from 360 to about 200.

Delays in financial sanctions are inherent in the very process of annual budget formation. It would be useful to take Parliament sanction of expenditure once for two years, so that continuity in releases is maintained. The annual budget could only be for receipts and taxation, and for new schemes in expenditure. This minor change in procedure will result in timely releases of financial sanctions. Similarly, once Parliament's sanction has been obtained it should not be necessary for the budget of a continuing CSS to be again approved by the State Assemblies.

Finally, a good transfer system should distribute funds based on needs, capacity, and effort. Capacity is the end result of effort, which is the intermediate stage. A State may be low on capacity, which takes time to build up, but if does not even make efforts in that direction surely does not deserve sympathy just because it is poor. Mere gap filling transfers via the NCA and Finance Commission foster dependency and ultimately block the incentive to reform. Matching and conditional transfers have economic and fiscal advantages in terms of allocative efficiency. They introduce elements of local involvement, commitment, accountability and responsibility for the aided activities. Therefore performance and quality of outcomes should be taken into account while transferring funds to the States.

5.4 *Suggestions for Improvement in the Design of Programmes*

We have already discussed earlier why the individual schemes are not achieving their full potential. In this section we summarise how we can improve the design of the programmes and make them effective.

5.4.1 Integrated Development

Programmes such as SGSY, SGRY, and DPAP, etc. are taken up on a 'stand-alone' basis, whereas these are complementary to each other, and should be taken up simultaneously. For instance, tanks and ponds can be made more productive by dredging and de-silting by using food for work funds. SHGs for watersheds can be made more viable by using SGSY funds. Total Sanitation Programme and Swajaldhara (for drinking water) would be more successful in watershed villages where community awareness and increased social capital has created better environment for the success of these schemes.

However, horizontal linkages between various line agencies at the district level are very weak. Thus, although watershed development may require integration of soil conservation techniques with plantation, there is little likelihood of effective coordination between the District Soil Conservation Officer and the District Forest Officer. The tendency in Indian Administration is always to look up to the seniors rather than establish linkages with officers in other departments at equal level. Senior officers, such as Collectors or Secretary Agriculture who could ensure convergence should therefore be given greater responsibility in the programme. Early integration of the interventions under different schemes dealing with land, water, agriculture and rural-based activities (by bringing them together under one coordinating mechanism) is, therefore, called for.

In a few donor assisted programmes, such an integration is attempted as 'Watershed Plus Activities', concentrating on such livelihood needs of the landless/marginal farmers, women and marginalised groups that improve their incomes on a sustainable basis, such as credit, collection and processing of Non-Timber Forest Products (NTFPs), aquaculture, vegetable/fruit garden activities, minor irrigation, and local crafts. This would obviously

demand social mobilisation, institution-building and marketing support, and are best attempted by competent NGOs. However, weak monitoring mechanisms in government have prompted proliferation of NGOs set up by social climbers and manipulators who, with little commitment to sustainable development or poverty alleviation, may use their extra-professional 'resources' to obtain a project from government

How does one ensure that only genuine NGOs with capacity are selected? First, the power to appoint NGOs as partners should be with a district committee in which people with knowledge of that area (including ex-collectors and academics) are members. Second, periodical district-wise studies should be done by government assessing the reputation and capacity of NGOs, so that the fly-by-night operators are kept at bay. Third, important personnel in the project, including PDs and collectors should have long tenure so that they develop personal knowledge about the local NGOs. And lastly, names and details of NGOs which are being funded by the district administration should be in the district website in order to encourage probity and transparency.

5.4.2 SGSY

As already discussed, individual subsidies are prone to capture by the various intermediaries, and the experience of other programmes which show that other SHG based programmes have worked well without individual subsidies. Subsidy for SGSY has often hindered good progress of other similar schemes, such as RMK, and Swamshakti, that empower women through SHGs, but which run without subsidies. Therefore subsidy should be done away with, but grants should be given to microfinance institutions (MFIs), who have to incur transaction costs in servicing small loans. SGSY should have two components:

- (a) One to help micro-enterprises, which are not necessarily managed by the poorest, but without any subsidy. On the other hand, the intermediate organisations that deal with loanees should be helped with grants, which is the Grameen Bank concept of Bangladesh, and SEWA concept in Gujarat. However, while MFIs have made a start in providing financial services to the poor households, their outreach is minuscule compared with the effective demand for credit. Self-employment programmes should not be targeted at the poorest of the poor living in remote regions where economy is stagnant. For this priority group one should focus on wage employment or pension schemes.
- (b) The other to give group loans for consumption and other purposes to SHGs, which are functioning quite well in many States. The rate of interest in these cases is decided by the group themselves, and is only slightly below the market rate.

Micro-credit is a necessary but not a sufficient condition for micro-enterprise promotion. Other inputs are required, such as identification of livelihood opportunities, selection and motivation of the micro-entrepreneurs, business and technical training, establishing of market linkages for inputs and outputs, common infrastructure and some times regulatory approvals. In the absence of these, microcredit by itself, works only for a limited the familiar set of activities – small farming, livestock rearing and petty trading, and even those where market linkages are in place. The grading exercise for SHGs, it is suggested, may be left with a competitive independent agency with almost immediate bank linkages following grading.

Skill development should be an important component in the SGSY. Collaboration with the private sector in imparting skill training could be a useful approach. For instance, it can be handed over to Industrial houses. One should focus on strengthening the economy of the marginal and small farmers, forest gatherers, artisans, unskilled workers etc. The poor should not merely benefit from growth generated elsewhere, they should contribute to growth.

SHGs which ultimately graduate to a stage of micro enterprise have experienced difficulties in access to institutional finance, technical inputs and marketing facilities. A comprehensive work programme for technological upgradation and standardization of products manufactured in rural areas and the marketing of products needs to be planned. Rural Development and Ministry of Commerce along with organizations like CII and FICCI could, in co-ordination, leverage this untapped potential by engaging in market surveys to identify the product profile and mix. Private entrepreneurs and barefoot managers could also engage with such SHGs having specific skills and provide them with specific designs, brand these and market them. Such barefoot managers could usher in household manufacturing in a big way. This could be thought of as an enterprise model.

Regular training and exposure visits for a complete shift in the attitude and approach of the banks should be periodically organised. Delay in sanctioning of loans/indifferent attitude of banks to be sternly dealt with. Surveys show that only 9 States/UTs have mechanisms for providing help to swarozgaris in product design and product development. It is recommended that appropriate agencies be identified in every State for providing appropriate technology for success of the enterprise. SHGs can, if they so desire, be leveraged as an important vehicle for rural marketing and this opportunity can be made available to MNCs and other private companies.

And above all, subsidy on loans taken by the banks should be done away with. On the other hand, government should provide financial assistance to MFIs and banks to meet the high transaction cost and risk in dealing with small loanees.

5.4.3 SGRY & NREGA

Agricultural development has become more capital-intensive. It is unlikely that future agricultural development will come about at rising labour-intensity of output. Though in absolute terms, agricultural sector still holds potential for greater absorption of labour, the employment elasticity with regard to output is on the decline. This will adversely affect landless agricultural labour households who face the severest brunt of poverty in rural areas, as they are precariously dependent on seasonally fluctuating agricultural activities. In view of this, wage-employment programmes can play a very critical role in ameliorating rural poverty by providing some additional income in the hands of the poor during lean agricultural season. These programmes should not be run in about one-third of India's districts, where wage rate is already high and where unskilled labour comes from other regions. Such districts should be offered more funds for other programmes, including irrigation and rural infrastructure. In poorer areas too, greater focus should be on productive works and their maintenance, such as rural roads, watershed development, rejuvenation of tanks, afforestation & irrigation.

Even in these backward districts it is difficult to find public works that are both labour intensive and lead to such durable assets which help the poor, and yet utilise 60% of funds for the labour component. The problem can be overcome if we do not insist on completing the works in a few months time, and increase our time horizon to 5 to 8 years, so that not only does

one select afforestation and watershed related activities that require earth work and increase land productivity, but also add to poor peoples' incomes through new public and private assets. This will need monitoring not just how many people are employed but whether trees survive, and contour bunds are maintained. Employment then becomes a by-product of a labour intensive economic activity.

This was tried during the late 1980s and early 90s by earmarking some NREP funds for social forestry, but was given up later when JRY was formulated. Rather than make DRDAs transfer some funds to DFO at the district level, it was considered more feasible if all funds for forestry reach the DFO through the departmental channel for better accountability. DRDA funds for forestry were neither monitored by the DRDA nor by the Forest Department. Therefore for administrative efficiency one should transfer a part of SGRY funds at the GoI level itself to the Ministry of Environment and Forestry for pushing afforestation and planting of fruit trees on the lands of STs/SCs etc.

Under the Right to Information Act, the list of registered labourers, the muster of all works, payments made, absentees, etc. should be made public; this transparency would cut down on corruption greatly. It should be compulsory to record the electoral card number of the wage workers in the muster-rolls so that their identity can be verified. Each programme must declare on the website the assets created, so that duplication can be checked by the civil society.

Use of call centers by having toll free numbers is another simple innovation that can be implemented. STD/PCOs can provide the interface mechanism and while the penetration of computers at sub taluka level is very low and the comfort level of people in accessing data/information from the internet, given the reality that computer literacy would be extremely low, even as literacy is not at satisfactory levels. In these circumstances, use of IVR and call centers can be a doable option.

There is need to penalize districts that prepare bogus muster rolls by blacklisting them and stopping further development assistance from the Ministry of Rural Development. A significant improvement can also be brought about if payment of wages is made by account payee cheque. To begin with, this system can be introduced in a few blocks to study its impact on probity. This will also disclose how much money was actually spent on wages.

Though the role of wage-employment programmes is very critical, such programmes neither provide higher wages on sustained basis nor provide/create assets for the poor. Once the programmes are withdrawn, the poor may fall back in the poverty trap. These programmes at best provide relief in times of lean agricultural periods. The extent of employment is by no means sufficient to ensure adequate annual income for the labourer household. Ultimately, labourers will benefit from overall increase in agricultural productivity, expansion in rural employment opportunities – both on-farm and off-farm – and rising real wages. The potential of wage-employment programmes in eradication of poverty, *on a sustained basis* is, therefore, limited. Such programmes are good for reducing transient poverty arising out of the seasonal nature of agricultural operations.

Since an objective of SGRY is the creation of durable assets, with a priority to works of soil and moisture conservation, minor irrigation, rejuvenation of drinking water and traditional water harvesting structures, the use of equipment becomes mandatory as in the following: When the height of embankment is more than a certain height such that it becomes difficult for

laborers to carry the earth on head load or when soil suitable for embankment is not available in near vicinity but has to be brought from a lead which is not suitable manually. The rates adapted for earthwork are from the schedule of Rates (S.O.R.) of Irrigation/Roads & Building Divisions, which are prepared assuming that the earthwork would be done through contractors and equipments would be used for the purpose. Hence the rates generally do not make distinction between the type of excavation (i.e. soft soil, hard soil, soft murrum, hard murrum etc.) and are applicable for leads and lifts suitable for equipments. Hence a separate S.O.R. suitable for manual labour should be prepared and used in SGRY as is done under relief works. These works are carried out using the materials (i.e. sand, stones, metal) from local area. The material so used is generally extracted using local labour. Therefore, such works should be exempted from paying royalty for materials. The second installment under the scheme is released after 60% of available fund is utilized. However, as all the Village Panchayats can not be expected to reach the 60 % target simultaneously, it leads to a situation when better performing Panchayats are left with unfinished works and have to wait for funds. In such cases temporary diversion of funds from other Panchayats should be permissible.

Just as use of EVMs have brought about transformations, the use of simple ICT interventions, toll free numbers and call centers, remote sensing data, bio-metric attendance system and GIS based system can also increase the effectiveness of these schemes.

5.4.4 IAY

As already discussed in Section 3.3, there are serious lacunae in the present strategy of rural housing. Under the existing dispensation, the DRDAs/Zilla Parishads make allocations and fix targets for the number of houses to be constructed panchayat-wise. Thereafter, the Gram Sabhas are expected to select the beneficiaries from the list of eligible households as per the target for the gram panchayat. Given the large number of potential beneficiaries awaiting the allotment of a free house, in several gram panchayats it would be possible to cover only very few households each year. This, in turn, could create a situation wherein the poor are divided among themselves. There are pressures from the local MLAs and MPs to ensure that their followers are given a house on priority at the earliest possible.

Therefore, it is necessary that this divisive trend is contained as the strategy of poverty alleviation focuses on organisation of the poor into self help groups and other village level committees. In this context, there are two possibilities. The first best would be to link allotment of houses to those who have endeavoured to form self help groups and/or are taking advantage of other poverty alleviation programmes in the desired manner. In this way, the housing strategy would be an integral part of the strategy of the poverty alleviation. Secondly, one could think of covering selected districts or blocks at a time so as to saturate area. This too would help restrict the fissiparous tendency dividing the poor within a village/panchayat. The magnitude of the problem has grown since the 1991 Census estimated housing shortages. Now, every household living below the poverty line is a claimant to a free pucca house under the IAY. In this situation, it is imperative to target the programme better via a more holistic look at the poverty problem at the household level. IAY should specifically target all poor who are landless –these are the poorest of the poor. This scheme should include the cost of making water and light available. Most of these houses are out side the village or in the fringe area and availability of water and light connection will ensure that they are used. Insurance of these houses for 10 years and joint ownership of male and female member of family should be part of scheme. The scheme could have a cluster approach, with a set of 10-25 houses built along with some basic infrastructure, which will significantly increase its utility.

5.4.5 NSAP

On the whole the scheme, especially the NOAPS has tremendous potential with least amount of leakages. In addition to post offices, in some places (such as UP and Maharashtra), pensions are also distributed through the Banks. Many pensioners in these places have opened a bank account, and the pension is centrally transferred from the district to their bank accounts, thus obviating the need for any manual handling of money. Even when these pensions are directly delivered by the development staff to the beneficiary, there is no contractor involved in the transaction. In India, wherever contractors are involved corruption is quite high.

Computerisation can do much to strengthen the automaticity of transfer processes. Many district-level development offices are now equipped with computers, and in some of the more progressive States, these have broadband access to State government databases. If the central government looks 10 years ahead, to pursue the following objectives in the Indian context would be both equitable and feasible:

- Link the payment of pensions and allowances to computerised records of births, deaths and marriages Provide all adults with a printout of their personal identification details as held on the computer
- Ensure that the various rights enshrined in these records to claim benefits, to vote etc. are 'portable' – i.e. can be used by migrants wherever they are.
- In the present form a lot of paper work is involved and a lot of delay is there from the time of application to time of disbursement. This calls for process simplification and re-engineering.
- A totally different way of doing these scheme may be based on data of previous years. A ceiling can be fixed on number of cases under each of the schemes per Gram Panchayat. The equivalent grant can be made available to the GP. The assistance should be delivered within these norms in a stipulated time period. On utilizing the grant completely, the next budget can be released subject to checks by the Gram Sabha and other random checks. This can be made more efficient using ICT, creating databases and using electronic transfer of money.
- A family, which becomes a BPL family after the 'bread earner' dies should also be eligible.

Case for an increase in the Pension Rate - The average old age pension in the country works out precisely to be Rs 142 a month per pensioner. It is important to point it out here that 18 out of 35 States/UTs are paying pension at a rate equal to or less than Rs 100 a month. As per the data available, 10 States/UTs are making no contribution to the pensions under NOAPS, including Andhra Pradesh. The pension amount needs to be adequately raised to a minimum of Rs 250 a month. The Centre should commit an assistance of Rs 200 per month per pensioner and it should be made mandatory for all States to make contributions of at least Rs 50 per month per pensioner or the per pensioner contribution made by the States as on 31st March 2005, whichever is higher. In addition to old people, BPL widows and disabled should be included for pensions.

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

the scheme is unlikely to attract political backing, and grow in size. It is interesting that assistance under IAY has increased from 10,000 to Rs 25,000 during 1996-2005, whereas pension amount has remained unchanged at Rs 75 since the inception of the scheme in 1996. This is despite the fact that the overhead expenditure in implementing the pension scheme is least as compared to other schemes, such as SGRY and TPDS.

5.4.6 TPDS

Adequate infrastructural facilities for storage and movement should be created in the States, so that the process of making foodgrains available to the FPS is made smooth. In many northern States this cost is passed on to the FPS, which encourages corruption.

To increase the viability of FPS, besides subsidized commodities being supplied through PDS, FPS dealers should be allowed to sell other essential commodities as well. This enhances their economic viability and the consumers are able to get most of the commodities at one place at reasonable prices, free from adulteration. In fact fair price shops should be allotted to such people who are already running a viable shop in that area. This alone will ensure that the shop remains open on all working days.

Introduction of food stamps/coupons is administratively not feasible, as it would be difficult for coupon holders to purchase the rations from private shops. The possibility of private shop owners denying rations to coupon holders and facing reimbursement difficulties due to bureaucratic hassles cannot be ruled out.

The list of BPL card holders should be updated once in five years, and should be put on the website so that it can be verified independently. All Primitive Tribal Groups, all Mushahar, Chenchus and other SC/ST groups identified by States as extremely vulnerable groups, all migrant labour who engage in manual work, and all persons who are released from beggar homes and mental hospitals should compulsorily be declared as BPL families. Universal entitlements to these categories should mean that it is the responsibility of State governments and GoI to ensure that all people who fall in the above categories possess BPL/AAY ration cards, whether they fulfill the documentary proof requirement or not. The GoI and States should ensure that they provide them with ration cards through suitable amendments in the scheme.

Ration Cards for the Homeless - The urban homeless suffer from poverty and a range of other deprivations. It is unfortunate that many States as a matter of policy consciously do not issue ration cards to them. It is often alleged that ration cards are used as a proof of address and that illegal immigrants may abuse this facility. It is, however, easy to tackle this problem by issuing special ration cards to cover the homeless, which cannot be treated as a proof of address. In any case, it is necessary to reaffirm the principle that such a vulnerable section should get the due attention of the State.

Common Suggestions (cutting across Schemes):

Frequent changes in the names and guidelines of schemes bring in confusion or lack of stability and this should be avoided. A reliable BPL list, timely transfer of funds, reduction in paper work, setting of monitoring parameters with sharing of best practices and their replication can be taken up.

The projects should necessarily incorporate a precise time-frame and a Mid-Term Appraisal. If the promised improvements have not materialized and mid-course corrections are not possible, any further withdrawals under the scheme should stop.

It is also seen that Performance Based Incentives/Disincentives are not in place. Unless a metric for gauging the performance of the States is in place and this is linked to the devolution, the pace of improvement in the implementation of the scheme by States may continue to be very slow.

Madhya Pradesh has subjected the Jawahar Gram Samridhi Yojana (JGSY) to social audit. This implies that certification of expenditure has to be done by the Gram Sabha. Indeed, the role of the Gram Sabha should be stronger and should not be limited to post-factor certification and right to scrutiny. Decisions about programmes undertaken should also be the responsibility of the Gram Sabha, before the work is approved and carried out. This should be adopted for all schemes.

The assessment of the BPL status through income indicators to be replaced with an alternate system having combination of economic and non-economic indicators.

Panchayats / Block to be given complete autonomy over the execution of various RD schemes within its jurisdiction based on Perspective plan and GOI to announce incentives for the performance of the development units after evaluation.

A District level Multi-Disciplinary non-bureaucratic Team along with DIPA may be established at District level to assist GP's to undertake RD Programmes in a scientific/systematic time bound manner. The GP should be empowered to disburse social assistance schemes.

Though we have provision for training in all our schemes but where are the trainers? Where are good training institutes? Very few of these trainings are useful and followed up. A lot of concerted efforts have to be directed towards this. It is suggested that an Institutional mechanism with basic infrastructure be created in every district on the lines of the District Institutes of Educational Training (DIETs) set up in the education sector. These institutes can serve the purpose of building capacities, regular training, hand holding, support, mentoring for various programmes related to poverty alleviation, rural development and Panchayati Raj. Further, since most of the line departments such as Health, Women and Child Development, Social Justice and Empowerment, to name a few, are devolving and decentralizing the implementation of this scheme, making the PRIs, particularly Gram Panchayats, at the cutting edge the implementers of various schemes and programmes. In this context, it becomes imperative for a mechanism such as the proposed District Institution of Poverty Alleviation (DIPA) to be set up, which can undertake capacity building and mentoring across all these sectors.

It has been found that there is a wide variation in the quality of implementation of various programmes and schemes across States and report after report has pointed out that accountability for failure of the programmes is found to be totally lacking with huge amounts of money allotted year after year. In this context, it is suggested that a clear set of deliverables should be identified for each State and based on the current levels of development, States could be clubbed into three different categories. Having identified the levels at each outcomes and deliverables are to be pegged, an MOU may be designed which spells out the specific

deliverables both in terms of processes to be adopted, financial support structures and outcomes to be achieved may be specified/laid down. Once these are signed and made available in the public domain, the performance of each State should be periodically assessed using the OMM and line departments metrics which should, in turn, be linked to the financial allocations in the form of incentives/disincentives.

A tool which can cut across various departments and really ensure that outcomes are achieved is available in the form of technology. The National E-Governance Action Plan provides an E-Governance framework which would include Back-ends (databases of the different government agencies, service providers, State governments etc.), Middleware and the Front-end delivery channels (home PCs, mobile phones, kiosks, integrated citizen service centers etc) for citizens and businesses. The Middleware comprises of communication and security infrastructure, gateways and integrated services facilitating integration of inter-departmental services¹⁴. This envisages the laying down of a backbone connectivity and community internet centers. This infrastructure of IT ought to be fully utilized by various line departments. This can be a invaluable tool in the case of rural development, poverty alleviation programmes and centrally sponsored schemes. Given the new 'Right to Information' paradigm, lists of beneficiaries in various schemes, quantum of Central Assistance and all details pertaining to the schemes upto to village level granularity should be made available on the website. This will bring about greater transparency and accountability.

It is also suggested that initiatives such as the Mission 2007 (*) being spearheaded by NGOs and Civil Society Groups should be actively leveraged. Ministry of Rural Development should collaborate with such endeavors in the "Civil Society Space" so that the citizens interface at the cutting edge with community involvement is strengthened leading to empowering all citizens and better delivery of all these schemes.

5.4.7 Governance issues

As regards the dimensions and effectiveness of the APP, we quote below from the Tenth Five Year Plan:

'an amount of at least Rs 400 billion per annum flows for rural development by way of Central and State schemes in sectors like health and family welfare; social justice and empowerment; watershed development and agriculture; tribal development; subsidies on food and kerosene; and through schemes of rural development. This is in addition to public investment in infrastructure like roads and power which also directly benefits the rural poor. All this is directed to about 50 million poor families who, on an average, are thus being allocated roughly Rs 8,000 per annum. This amount is sufficient to buy nearly 3 kg. of foodgrain per day at the average rate of Rs 7.50 per kg., potentially permitting them to overcome their State of deprivation significantly. The reason that this money is not being directly transferred to the targeted poor, and is being spent on State run development schemes, rests on the assumption that such initiatives are likely to build capacities, raise income levels and have multiple spin-off effects in the long run. The fact that benefits are not percolating at the desired pace is a reflection on the governance of these schemes.

¹⁴ <http://www.mit.gov.in/plan/about.asp>

In a general sense, the ability to effectively target schemes/programmes towards the most deserving depends critically upon the quality of governance. The better the levels of governance, the more precise can be the targeting. The corollary of this is that in the absence of acceptable levels of governance, it would be preferable to eschew targeted programmes in favour of more generally applicable schemes.

The macro-economic management of the economy at the Centre and in the States, in general, and that of public expenditure, in particular, also highlights the deficiencies in governance practices resulting from the inertia in the relevant institutions and their practices. An efficient macro-economic management of the economy is a necessary condition for mobilising public resources to fund the development process.'

The success of targetted poverty schemes in India is dependent upon proper identification of the beneficiaries, transparency, supervision over field staff, and social mobilization. However, the field reality is that gross violations of prescribed norms and guidelines of implementation are common, resulting in use of intermediaries, falsification of records, and provision of false information from the ground level up. Problems of corruption and poor governance are not confined to these schemes alone, but also affect more broadly large segments of government expenditures.

Changing the design of schemes alone is not enough. Greater efforts are needed to build the capacity of administration and improve governance at the district level. Funds have more than tripled in the last ten years for poorer districts, but neither GoI nor donors have studied whether there is capacity at the district and sub-district level to absorb the funds and produce quality results. While doctors and teachers, who do not handle development funds, avoid postings to such districts, engineers, accountants, and supervisors (that may include even IAS officers) bribe politicians to get posted to such districts, as in the chaotic situation that prevails as regards financial discipline, huge payoffs can be generated. In either case the district gets saddled with officials with the wrong kind of motivations.

There is enough evidence to show that government's capacity to deliver has declined over the years due to rising indiscipline and a growing belief widely shared among the political and bureaucratic elite that State is an arena where public office is to be used for private ends. There are no well-enforced norms and rules of work discipline, very few punishments for ineptitude or malfeasance, and there are strong disincentives to take bold, risky decisions. Weak governance, manifesting itself in poor service delivery, archaic procedures, and uncoordinated and wasteful public expenditure, is one of the key factors impinging on development and poverty indicators.

The vicious cycle of distortions in politics leading to bureaucratic apathy (and vice versa), and both resulting in poor governance can be set right through taking a large number of simultaneous measures. A discussion on political and electoral reforms (restriction on the number of ministers through law is a good beginning), though absolutely vital, is outside the scope of this paper. However many States in India, especially the poorer ones, have lost the dynamism and capacity to undertake reforms on their own without any external pressure. These States are ruled by people who understand power, patronage, transfers, money, coercion and crime. The language of professionalism, goal orientation, transparency, building up of

institutions, and peoples' empowerment is totally alien to them. In these States neither politics nor administration has the capacity for self-correction, and therefore only external pressure can coerce them to take hard decisions that will hit at their money making tactics. In the Indian situation (where foreign donors provide very little aid to the States as compared with what is provided by the Centre) this can come only from the Centre, backed by strong civil society action. However, donors can produce literature that will guide the civil society as regards road map and sequencing.

GoI transfers roughly Rs 2,00,000 crores (this amount does not include subsidies, such as on food, kerosene, and fertilizers) annually to the States, but very little of it is linked with performance and good delivery. The concept of good governance needs to be translated into a quantifiable annual index on the basis of certain agreed indicators such as reduction in poverty, increase in daily wages of agricultural labour, infant mortality rate, extent of immunisation, literacy rate for women, sex ratio, feeding programmes for children, availability of safe drinking water supply, electrification of rural households, rural and urban unemployment, percentage of girls married below 18 years, percentage of villages not connected by all weather roads, number of class I government officials prosecuted and convicted for corruption, and so on. Some universally accepted criteria for good budgetary practices may also be included in the index. Once these figures are publicized States may get into a competitive mode towards improving their score. Central transfers should be linked to such an index.

States should be divided in three categories, those whose per capita income is below the national average, those where it is above the national average, and the special category States (such as the north-east and hill States). The advantage of this categorisation, which already exists in the Planning Commission, is that poorer States like Orissa will not be competing with better off States like Tamil Nadu.

A good civil service is necessary but not sufficient for good governance; a bad civil service is sufficient but not necessary for bad governance. However, governance reforms are intractable under a 'kleptocracy' that exploits national wealth for its own benefit and is, by definition, uninterested in transparency and accountability. A pliable and unskilled civil service is actually desirable from its point of view--public employees dependent on the regime's discretionary largesse are forced to become corrupt, cannot quit their jobs, and reluctantly become the regime's accomplices. Providing financial assistance to such States without linking it with performance and reforms would be a waste of resources. Even under tough conditionalities, reform in these States may be difficult, complex, and slow, yet highly desirable.

Improvements to rural livelihoods are most likely to occur if development programmes make long-lasting changes in five key areas. These are: higher agricultural growth, improved natural resources; better health and education services; improved social networks and gender equality; and improved rural infrastructure (such as irrigation, power, and roads).

Datt and Ravallion (2002) have tried to show why economic growth in some areas or sectors reduced poverty faster than elsewhere. Positive impacts of growth in the non-agricultural sector can be reduced by various initial inequalities, such as credit market imperfections, inequality of assets such as land, low basic education attainments and health conditions. Thus, each percentage point of non-agricultural economic growth in Kerala reduces poverty much more than it does in Bihar, and this is mostly explained by the much higher literacy in Kerala, particularly women's.

Outcome Monitoring Mission

An independent, autonomous and empowered Mission called the 'Outcome Monitoring Mission' (OMM) could be set up under the PMO or the Planning Commission. A certain percent of the budget (say, 0.5% or so of the Rural Development Department) should be set aside to undertake third party monitoring and evaluation, which is independent of the line Ministry. The Mission should factor in citizen-oriented and government-oriented outcomes based on the premise that citizens are the *raison d'être* of Government. These could also be addressed from a 'rights' perspective'.

The OM Mission should be completely immune to pressures and other influences, with professional functioning. This Mission will leverage networks of NGOs and other organizations to carry out field visits and use various methods to assess the extent to which the stipulated outcomes have been actually realized. The OM Mission will present quarterly reports on outcomes (*with suggestions on action to be taken*¹⁵), which will be sent to the administrative Ministry, Planning Commission and the Department of Expenditure under intimation to PMO. This could be based on the ASER 2005¹⁶ experience.

ASER 2005¹⁷ is a citizen's assessment of the status of elementary education in rural India. Facilitated by Pratham, & executed by local groups in each district, it is the largest household survey on school education in India done by non-government bodies.

ASER 2005 reached 332,971 children in 191,057 households in 9521 villages across the country. 485 districts participated in ASER. In many States all districts participated.

More than 20,000 volunteers from 776 local groups, NGOs, colleges and universities participated in this effort. The data collection was carried out between November 14 and December 20 2005.

The survey had a two stage design. In the first stage, 20 villages were selected from the village directory of the 2001 Census using probability proportional to size. In the second stage, 20 households were randomly selected from these villages.

Extensive use of Video-Conferencing can also be made to get the 'pulse' of the people. Randomly selected villages or towns can be contacted using portable V-SATs. (NIC has the required infrastructure to make this happen.) It is possible to randomly speak to the users of various services and schemes and get their feedback and appraisal on both quantitative and qualitative aspects. For instance, in the case of IAY, the local villagers could be asked about the beneficiaries, the process of selection, construction of the house, whether the beneficiary is actually staying there and details of the construction cost and so on. While all this information is available and may also flood offices in GOI, this should not shy us away and could be properly chanelised and streamlined using simple ICT interventions. This will be a very valuable way of getting information and monitoring the schemes.

¹⁵ optional

¹⁶ <http://www.pratham.org/aserreports/summary.pdf>

¹⁷ <http://www.pratham.org/aserreports/summary.pdf>

In addition to this, it is often felt that there is no forum or place for citizens to actually voice their grievances/ feedback. The only point in time where their inputs are solicited for anything is, perhaps, during elections. To provide a forum for this, it is suggested that a toll free number with Interactive Voice Recognition (IVR) facility be available in respect of the important flagship programmes of the Government. Since STD/PCOs are available even at the village and sub- taluka levels, it will provide citizens an opportunity to vent their feedback and appreciation of such programmes. Simple questions in the local language can be posed to them about the delivery of services and they could opt for three to four options, which capture their feedback (such as good, satisfactory and poor, for instance). These can be processed electronically without any human interface and collated and compiled every month both sector-wise and spatially to have a mapping of the feedback across the country. The Government, through such a simple, low-cost yet powerful intervention, will have access to the pulse and feedback of the people on various schemes- another report card of the citizens.

At the end of the Financial Year, the OMM report should be sent to the Ministries concerned and tabled in the public domain, including web-sites. After this, the concerned Minister ought to present a complete Report Card or self assessment giving various details, which could, *inter-alia*, include their performance including expenditure incurred, the outcomes obtained, details of performance, including underachievement, austerity measure or resource savings, if any and innovations introduced. This should be telecast on all TV Channels and also have representative Sarpanches of Gram Panchayats, randomly selected to be present and give their assessment or appraisal. The Ministry as an independent feedback should also accept the OMM report.

Development is an outcome of efficient institutions rather than the other way around. Focus therefore must be shifted from maximising the quantity of development funding to maximising of development outcomes and effectiveness of public service delivery. Despite good achievement on the growth front, India faces significant challenges and needs to take some difficult political decisions. Concerted policy action is needed to lift the 250 million poor, and increasingly concentrated in the poorer States, out of poverty. This requires not so much additional resources, as better policies and sound delivery mechanisms. Preventing milking of the State will require improving the environment in which the three agencies of delivery - civil service, panchayats and NGOs – function. Unless financial discipline is observed, schemes are implemented with transparency, outcomes measured, and the corrupt are punished promptly, mere increase in the poverty alleviation expenditure would only result in further leakages and strengthening of the parasitic bonds between bureaucracy and politicians.
