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SOCIAL PROTECTION FOR A CHANGING INDIA

VOLUME I



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Acronyms

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

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

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Executive Summary

THE SOCIAL PROTECTION CONTEXT IN INDIA

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

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

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

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

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

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

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

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

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

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

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

implementation experience across states offers valuable lessons for the future.

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

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

THE FRAMEWORK FOR LOOKING AT THE SP SYSTEM

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

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

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

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

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

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

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

KEY FINDINGS

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

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

Table 1: Major central social protection schemes, 2009

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

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

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

Source: Bank staff and Government of India budget documents 2009/10 and 2008/09. RSBY allocation refers to 2008/09.

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

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

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

8 See Pritchett et al. (2002) for a discussion of these distinctions.

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

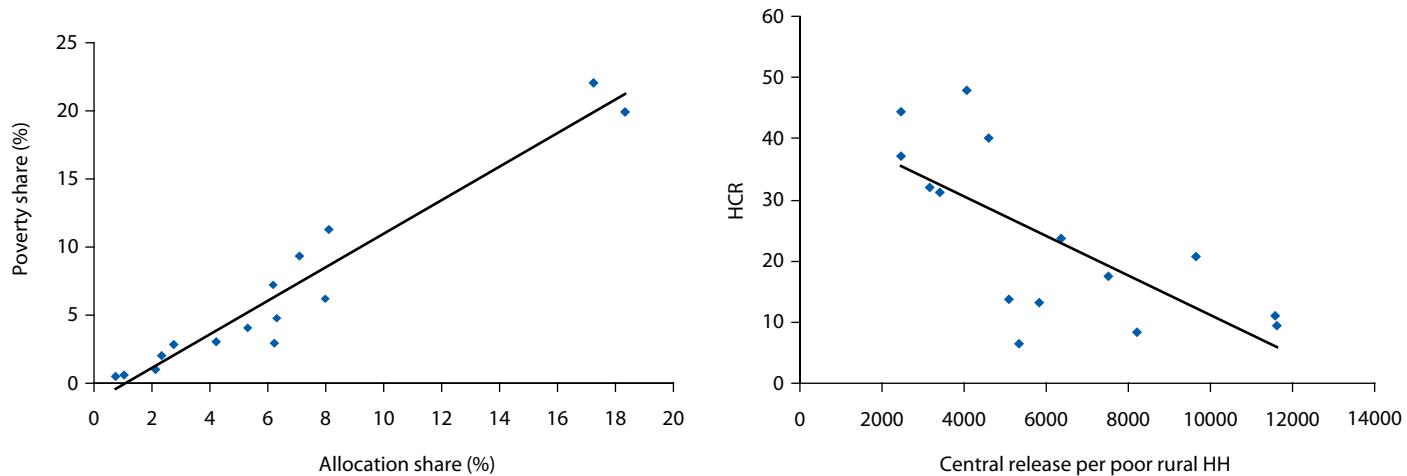
Safety nets

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

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

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

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



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

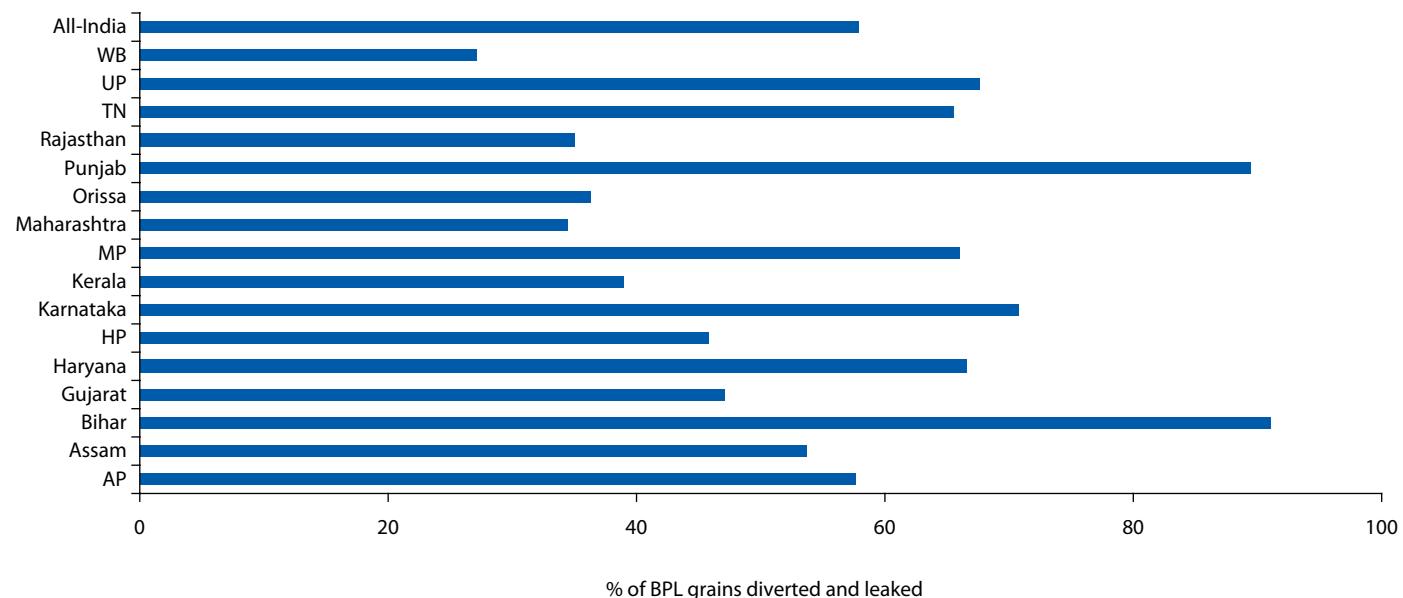
Notes: Programs included: PDS, SGRY/NFFW, SGSY and IAY. HCR refers to head count poverty rate.

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

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

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

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



Source: Planning Commission, GoI.

Social security for unorganized workers

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

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

specialized agency. Setting up this agency is the key short run challenge for the RSBY.

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

Administration and delivery of social protection programs

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

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

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

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

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

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

Notes:

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

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

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

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

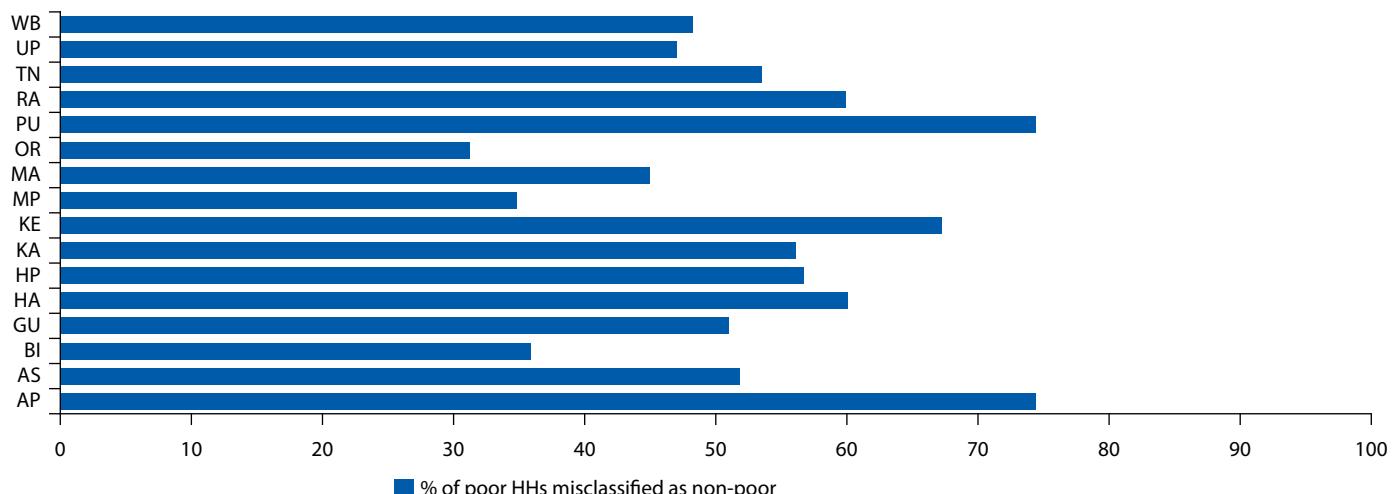
- ◆ ***maintenance of a "one size fits all" SP program and policy mix from the centre does not respond to the growing spatial diversity in living standards.*** While the insight that "India is a big and diverse country" is a truism in public policy, the CSS which continue to dominate SP policies give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

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

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

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

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



Source: Jalan and Murgai (2008).

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

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

SOCIAL PROTECTION FOR A CHANGING INDIA

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

Policy reform in social protection

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Improving implementation of SP programs

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

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

◆ ***delineating clear lines of accountability accompanied by adequate staff and finances.***

Delineating appropriate institutional responsibilities for all links of the SP service delivery chain, and aligning the division of functions with assignment of personnel and allocation of resources for program implementation will be critically important for improved implementation of SP programs. This will require first and foremost greater proactivity on the part of states to approve policies and put into practice the PRI/ULB decentralization provided for under the 73rd and 74th constitutional amendments. This would need to be followed by a process-intensive reconciliation of central guidelines, state-level stances on service delivery decentralization, and capacities at sub-state levels to perform the required implementation functions in SP programs. Achieving this goal will require coordination and gradual convergence across the many departments of government responsible presently for different programs, and commitment to strengthening implementation capacities at the lower levels of the system, in particular at the block and GP levels. It will also mean building on innovations in institutional roles to promote greater accountability among SP service providers, as exemplified by social audits in MGNREG.

◆ ***rapid and substantial improvements in the basic “nuts and bolts” of program administration and procedures.*** Broadly, they would involve

overhauling a range of bureaucratic procedures which impede funds flow, strengthening processes for administrative and social accountability of service providers, a through modernization of program record keeping and reporting arrangements (including computerizing systems and taking advantage of India's ICT prowess to look for “technology leap-frogging” opportunities such as introduction of smart cards and other innovations), building on improved rural banking

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

◆ ***overhauling existing targeting mechanisms, both at the household level and geographically.***

Any social protection system needs to be able to identify who are the poor with a reasonable degree of accuracy. Innovations already operating in India and good practice from other developing countries offer a range of options for significant improvements in targeting mechanisms. These include: (i) development of “poverty maps” at a sub-state (probably block) level which would allow more precise geographical allocation of SP funds to poor areas; (ii) overhaul of the BPL 2002 methodology in line with good practice in design of proxy means-tests (PMT) in other developing countries, including allowing for cross-state and urban/rural variations in the PMT formula; and (iii) in rural areas, continued piloting and strengthened evaluation of community-based beneficiary identification for SP programs with an eye to convergence with a reformed BPL system, and possibly – as has already happened in AP – its replacement in appropriate settings. While the new BPL methodology proposed by the Saxena Committee improves upon the 2002 system in several ways, several drawbacks of the previous method remain. Piloting the proposed methods and subjecting this methodology to the test using NSS data as done with the 2002 BPL method would yield interesting insights into how well the new *de jure* targeting design would perform.

◆ ***in the area of social security for unorganized workers, past experience suggests that direct public provision, financing and administration is neither feasible nor desirable.***

It seems more feasible to partner with existing non-governmental entities (for-profit, NGOs, and membership-based organizations) and restrict the role of government to: (i) providing targeted subsidies; and (ii) regulating these entities and setting basic standards. This model already exists in India in

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

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

Political economy of SP reform

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

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

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

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

12 See World Bank (2004).

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

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

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

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

THE STRUCTURE OF THE REPORT

THIS REPORT SUMMARIZES THE FINDINGS AND RECOMMENDATIONS DETAILED IN THE COMPANION VOLUME II. It begins by outlining the key recommendations for short and longer term reforms of the SP system. There is then a summary discussion of key performance indicators of the major SP programs, exploring coverage, adequacy of benefits, incidence of benefits and determinants of the programs outcomes. In the case of preventive programs, the report examines the Indian experience and strategies for expanding coverage of different types of social insurance to unorganized workers. The following chapters then explore different aspects of program financing, program administration, and institutional arrangements that help to understand the observed outcomes. This is

followed by a discussion of targeting mechanisms and options for SP programs, in particular the BPL (Below Poverty Line) targeting method that acts as a backbone targeting mechanism for several key programs. The

final chapter highlights some of the political economy challenges that must be addressed if the SP system is to become more effective as a tool for promoting poverty reduction and inclusive growth.

Policy Reform in Social Protection

INDIA WILL UNDOUBTEDLY CONTINUE ITS STRONG COMMITMENT TO A SOCIAL PROTECTION SYSTEM WHICH SEEKS TO SERVE THE POOR. The question is how best to do that more effectively in the short and medium term. There are likely to be three broad elements necessary for an effective SP reform strategy for India:

- ◆ ***Reorienting the policy mix and specific program policies across SP programs in order to meet the diverse needs of India's poor*** – diversity which has several dimensions: spatial across and within states; across socio-economic categories; and between households trying to manage different types of risks and shocks. This would include exploring new SP tools for leveraging improved human capital outcomes and household productivity, and innovating with policies and programs to support the urban poor;
- ◆ ***Getting better poverty reduction outcomes from existing programs through improvements in***

financing, targeting, institutional arrangements and administration of existing schemes; and

- ◆ ***Building consensus around the reforms to be undertaken.*** It will be necessary for political constituents, including a significant share of those who may lose from reform, to support the stages of policy and implementation evolution if they are to be successful.

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

SP system provides dynamic efficiency gains to the economy through positive impacts on productivity, and as an important tool for governments in managing the impacts of reforms in the wider economy.¹³

THERE IS A NEED TO DEEPEN THE ONGOING POLICY REORIENTATION OF THE INDIAN SOCIAL PROTECTION SYSTEM TO MEET THE CHANGING AND INCREASINGLY DIVERSE NEEDS OF ITS POPULATION. Marginal changes alone will not deliver the kind of safety net which a changing India needs for its poor and for its economy. This would involve several elements: (i) a rebalancing of the policy mix across different types of public SP priorities; (ii) consolidation of the large number of central and state schemes to a core set of flagship programs; (iii) in the context of consolidation, introducing an element of choice and flexibility for states in the specific program mix of centrally-supported schemes that they operate; and (iv) in some areas and for some programs, actively exploring the possibilities for leveraging the role of private players (both non-governmental and for-profit) in delivery of interventions.

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

- ◆ *increasing the emphasis on preventive programs* which help the poor and those vulnerable to poverty to manage risks and shocks better. This implies a significant expansion in coverage of different social insurance instruments, though in a phased manner consistent with institutional and fiscal capacity. Experience to date suggests that phasing would benefit from: (i) starting with simpler-to-administer insurance products such as life and permanent disability, while continuing to pilot and evaluate experience with more complex products such as health insurance; and (ii) for reasons of ease of worker mobilization and to control transactions costs, focusing initially on the “low hanging fruit” of unorganized workers who are members of groups (e.g., MFIs, cooperatives, trade union and worker associations, SHG federations) that could play an intermediary function between workers and the state/insurers.
- ◆ *rethinking programs which seek to promote movement out of poverty in two ways:* firstly,

moving from administratively driven subsidized credit to public financing of a more diverse range of livelihood promotion approaches better suited to the labor market conditions of individual states as is currently being proposed under NRLM; and secondly considering the options for use of safety net transfers (see next bullet) to leverage participation in core education, health and possibly nutrition services, in order to promote long term movement out of poverty.

- ◆ *moving to more consolidated and more cash-based social assistance programs for the chronically poor.* The “big elephant in the room” in this respect is fundamental reform of PDS. The very poor and long run performance of the program in many states suggests that the medium term vision of a reformed PDS for most groups should be cash-based, though this would face substantial resistance in light of the ongoing debate around the Right to Food legislation. A reformed PDS could still provide food-based support for specially vulnerable groups (in line with Supreme Court orders), and in specific areas facing chronic or acute food shortages, but for most areas and most people, a cash-based social assistance system seems a more efficient and transparent means of providing an income floor. An intermediate solution currently being mooted in the 2010 Economic Survey is to transfer the subsidy directly to households (rather than the PDS store owner) through food coupons with a lumpsum entitlement that can be exchanged at any PDS store.
- ◆ in the face of demographic change and slower rates of poverty reduction in urban areas, *starting to address the neglect of urban social protection policy.* While some of the needs of the urban poor are common to their rural counterparts, the possibilities (and constraints) of the urban environment suggest that simple mimicking of rural models of SP programs and service delivery mechanisms is unlikely to be an adequate response. For example, the options for “voice accountability” of service providers which can be mobilized in rural areas through collective community action are likely to be less possible

13 See World Bank (2004).

in urban areas, while the possibilities for “choice accountability” (through income enhancement and offering options in service providers where possible) are likely to be greater. The JNNURM program had appeared to offer a solid base for such an urban SP reform, but has largely failed to deliver in this regard and closer consideration is needed of how to affect urban SP policy change.

THE SPECIFIC PROPOSAL OF THIS REPORT IS THAT CENTRAL SP PROGRAMS OVER TIME AIM FOR A “3+BLOCK” STRATEGY. This would involve 3 core CSS SP programs or “pillars”, combined with an SP block grant from which states could finance other SP programs - or supplement benefits under the core pillar programs - more tailored to the poverty and vulnerability profile of the individual state. This would also involve significant expansion in urban areas. This could promote both a more coherent and less duplicative SP system, but also give states more leeway to adapt the SP policy mix to the needs of the poor in individual states in light of available economic opportunities. The three core pillars proposed are:

- ◆ **a major social assistance program.** The obvious candidate for this is a significantly reformed PDS, merged for specific groups with existing social pension programs.¹⁴ Chapter 2 give more details on the options for reform of PDS proposed by this report, with a preference for a predominantly cash transfer approach.
- ◆ **a public works program,** for which MGNREG would be the building block, as well as piloting expansion in urban areas. There are several benefits of a reliable public works program at this stage of India’s development: (i) by its demand-driven nature, it can be responsive to shocks in a way that longer run programs typically cannot. In this way, it functions as a “quasi-insurance” program for the extended period during which more structured insurance is expanded to the unorganized sector; (ii) the positive targeting outcomes of self-targeted works; and (iii) the potential for multiplier effects from asset creation and community mobilization distinguish public works from other SP programs. See Chapter 3 for a discussion.

- ◆ **a basic social security package for those outside the formal sector** which could be expanded in terms of coverage and scope of benefits as institutional capacity and fiscal space is developed. The core types of insurance which GoI aims to expand include life, disability, old age pension, and health, and the RSBY program is already an important step forward in this regard. Chapter 4 gives suggestions on institutional, financing and other aspects of an expansion strategy.

BEYOND THE THREE “PILLARS,” STATES COULD RECEIVE AN ADDITIONAL TRANSFER AND IMPLEMENT STATE-SPECIFIC SP INTERVENTIONS. How this is programmed could vary according to state-level priorities, and include interventions such as livelihood support of different forms, targeted housing, interventions to incentivize use of basic social services, nutrition and/or early childhood care (e.g., through conditional cash transfers as being piloted in some states), specific urban SP programs, or other options as proposed by states. A secondary benefit of such an approach would be strengthening of complementaries between CSS and state-sponsored schemes in order to control unnecessary duplication. A common core national SP system under the three pillars could promote portability of basic entitlements, and be increasingly useful as mobility of workers and households increases.

IN TERMS OF PROMOTING BOTH MORE EFFECTIVE SPENDING ON SP, THE “3+BLOCK” PROPOSAL WOULD ALLOW MORE CROSS-PROGRAM FLEXIBILITY TO STATES – OR POSSIBLY DISTRICTS – IN DECIDING THEIR SP EXPENDITURE PRIORITIES, WHILE STILL MAINTAINING A COMMON NATIONAL CORE SP SYSTEM. It would also allow for greater adjustment in light of poverty levels, key vulnerabilities, etc. This could be done in a variety of ways, possibly using a menu approach to SP programs, and a flexible form of social protection block or matching grant which consolidates resources from existing SP CSS.¹⁵ This is an approach which has received increased attention in India in recent years as policymakers seek to get greater impacts from SP spending. Given current financing channels from the centre to states in India, a more flexible granting mechanism for SP programs to states could take

¹⁴ This would be similar to the Chinese urban and emerging rural social assistance system, which is built around the “di bao” program which provides cash benefits to the poor, and has additional provision for specially vulnerable groups such as disabled and unsupported elderly. See World Bank (2009b).

¹⁵ See de Neuborg (2002) for a discussion of the strengths and weaknesses of different block and matching grant mechanisms in the context of SP programs.

different forms – as a more “bundled” anti-poverty CSS, as Additional Central Assistance (ACA) along the lines of programs like Pradhan Mantri Gramodaya Yojana (PMGY), or through a more fungible realignment of Gross Budgetary Support shares between the states and central Ministries which control CSS.¹⁶

THE ABOVE APPROACH WOULD REQUIRE CLOSE CONSIDERATION OF THE POLICY DESIGN OF EXISTING PROGRAMS. The findings of this and other reports suggest that the PDS require fundamental consideration of its current design, SGSY is currently undergoing significant change and attention to implementation under NRLM, while two others warrant experimentation to see whether innovative approaches can yield better outcomes than seen to date – IAY and school stipends. The other major programs – public works and social pensions – would

also benefit from policy improvements but these are more in the nature of incremental policy reform which can be expected in the normal course of program evolution. Urban programs remain small, but pre-conditions suggest that merely transferring rural SP models to urban settings will limit potential impacts, and equally that the SP system needs to explore stronger linkages with the livelihood opportunities available to the poor in urban areas. See Table 1.1 for a description of current central schemes.

A NUMBER OF CROSS-CUTTING ISSUES IN POLICY EVOLUTION OF THE SP SYSTEM WILL ALSO BE IMPORTANT. These include cross-program convergence and consolidation, willingness to experiment with new types of programs and modes of delivery, and more structured efforts to build understanding of the benefits of reforms and

Table 1.1: Major central social protection schemes, 2009

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

16 See Saxena (2006) for a history of central transfers for anti-poverty programs since the 1960s.

manage the political economy of the reform process. An additional challenge will be ensuring increased attention in SP policies to the needs to the urban poor. These are discussed in turn below.

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

A SECOND OVERARCHING NEED IN SUCH POLICY REORIENTATION WILL BE GREATER WILLINGNESS TO EXPERIMENT IN PROGRAM DESIGN AND BASE REFORMS ON RESULTS OF EVALUATIONS. This will require changes in two tendencies of Indian SP policy since the 1970s: firstly, what CAG has called “rechristening and revamping” of programs at the

expense of genuine experimentation and innovation, and secondly a limited willingness on the part of the central government to give states (and in some cases, the sub-state level) a freer hand in adapting their policy mix among programs, by allowing flexibility in adjustment of specific programs to suit their diverse circumstances. The experience of a number of developing countries including Bangladesh in recent decades provides a positive example of the social benefits of experimentation in SP policy. Closer to home, there is growing innovation at the state level in India which demonstrates the value of such an approach, and the increased buy-in among politicians and administrators for innovations which are “home grown.”

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

Improving Implementation

Protective Programs

WHILE A REORIENTATION OF ASPECTS OF THE SP POLICY AND PROGRAM MIX CAN BE ACHIEVED, IT WILL NOT IMPROVE OUTCOMES FOR THE POOR UNLESS ACCOMPANIED BY A THOROUGH OVERHAUL OF SP PROGRAM ADMINISTRATION, INCLUDING INSTITUTIONAL ARRANGEMENTS. Whatever the evolving mix of SP policies, there will be several key elements of administration and institutional arrangements which will need to be confronted if India is to achieve the poverty reduction outcomes that its significant spending on SP warrants, including:

- ◆ ***delineating clear lines of accountability accompanied by adequate staff and finances.***

Delineating appropriate institutional responsibilities for all links of the SP service delivery chain, and aligning the division of functions with assignment of personnel and allocation of resources for program implementation will be critically important for improved implementation of SP programs. This will require first and foremost greater proactivity on the part of states to approve policies and

put into practice the PRI/ULB decentralization provided for under the 73rd and 74th constitutional amendments. This would need to be followed by a process-intensive reconciliation of central guidelines, state-level stances on service delivery decentralization, and capacities at sub-state levels to perform the required implementation functions in SP programs. Achieving this goal will require coordination and gradual convergence across the many departments of government responsible presently for different programs, and commitment to strengthening implementation capacities at the lower levels of the system, in particular at the block and GP levels. It will also mean building on innovations in institutional roles to promote greater accountability among SP service providers, as exemplified by social audits in MGNREG.

- ◆ ***rapid and substantial improvements in the basic “nuts and bolts” of program administration and procedures.*** Broadly, they would involve

overhauling a range of bureaucratic procedures which impedes funds flow, strengthening processes for administrative and social accountability of service providers, a through modernization of program record keeping and reporting arrangements (including computerizing systems and taking advantage of India's ICT prowess to look for "technology leap-frogging" opportunities such as introduction of smart cards and other innovations), building on improved rural banking infrastructure to overhaul payment systems, and building a strong culture of M&E. Recent reforms in RSBY and to a lesser extent MGNREG, together with a number of state-specific program pilots, provide many lessons in this area, and it is hoped that they can be systematically incorporated in other SP programs over time.

◆ ***overhauling existing targeting mechanisms, both at the household level and geographically.***

Any social protection system needs to be able to identify who are the poor with a reasonable degree of accuracy. Innovations already operating in India and good practice from other developing countries offer a range of options for significant improvements in targeting mechanisms. These include: (i) development of "poverty maps" at a sub-state (probably block) level which would allow more precise geographical allocation of SP funds to poor areas; (ii) overhaul of the BPL 2002 methodology in line with good practice in design of proxy means-tests (PMT) in other developing countries, including allowing for cross-state and urban/rural variations in the PMT formula; and (iii) in rural areas, continued piloting and strengthened evaluation of community-based beneficiary identification for SP programs with an eye to convergence with a reformed BPL system, and possibly – as has already happened in AP – its replacement in appropriate settings. While the new BPL methodology proposed by the Saxena Committee improves upon the 2002 system in several ways, several drawbacks of the previous method remain. Piloting the proposed methods and subjecting this methodology to the test using NSS data as done with the 2002 BPL method would yield interesting insights into how well the new de jure targeting design would perform.

- ◆ ***in the area of social security for unorganized workers, past experience suggests that direct public provision, financing and administration is neither feasible nor desirable.*** It seems more feasible to partner with existing non-governmental entities (for-profit, NGOs, and membership-based organizations) and restrict the role of government to: (i) providing targeted subsidies; and (ii) regulating these entities and setting basic standards. This model already exists in India in several forms, such as the JBY scheme operated by LIC for life insurance, and more importantly the RSBY program. In addition, many other schemes falling into the community based or micro-insurance category could be incorporated under an umbrella program that provided matching contributions or premia but set certain standards in terms of benefit targets, eligibility conditions, investment policy and recordkeeping, among others.

SP PROGRAMS CAN BE CLASSIFIED INTO THREE MAIN PILLARS. "Protective" measures or programs, which provide relief against deprivation and shocks once they have occurred. "Promotional" measures attempt to improve incomes in the short and longer term through livelihood and human capital interventions. "Preventive" measures seek to avert deprivation by supporting the ability of households to manage different risks and shocks they may face ex ante. The main sets of programs falling into each of these categories are discussed below, together with a number of cross-cutting areas critical for program success, including financing and institutions, program administration, and targeting.

The programs intended primarily to protect individuals and families once risks have been realized, include PDS, social pensions and targeted housing programs. The remainder of the chapter reviews the performance of each and identifies some program reform options.

PUBLIC DISTRIBUTION SYSTEM (PDS)

THE DOMINANT PROGRAM AS FAR AS SAFETY NET REFORM IN INDIA IS CONCERNED IS THE TARGETED PUBLIC DISTRIBUTION SYSTEM (TPDS), OFTEN ABBREVIATED PDS. This is for a range of reasons which are presented in this and other reports. Firstly, it remains easily the largest safety net

program. Secondly, it has poor targeting outcomes, and in many of the poorest states appalling levels of leakage which have persisted over many years. Thirdly, the procurement system on which it relies is becoming increasingly strained in the face of gradual liberalization of agricultural markets in India, both domestically and in terms of openness to trade.

LOOKING AT RESULTS FROM THE POOR STATES IN PARTICULAR, IT IS HARD TO ARGUE THAT PDS COMES ANYWHERE NEAR ACHIEVING ITS FOOD SECURITY AND POVERTY ALLEVIATION OBJECTIVES. Wealthier households capture a significant share of PDS grain benefits, while leakages of grains in terms of diversion from intended BPL recipients and

through the supply chain have been estimated at nearly 60 percent in the early 2000s (see Tables 2.1 and 2.2). However, reform options for PDS have to be assessed with a clear acknowledgement of the context: technical, political economy, and possibly legal. This context is of course strongly affected by also the commitment of GoI to the Food Security Bill which would convert PDS from a scheme to a legislated right. These include:

- ◆ ***reform of PDS is inextricably linked to the public procurement system.*** While the benefits of PDS to households are spread across India, the main beneficiaries of public procurement of grains to feed the PDS are concentrated among farmers in a few states: Punjab, Haryana, some parts of Uttar Pradesh, and Andhra Pradesh to a lesser extent. Without some reform of the public procurement system – in terms of pricing policy with respect to the Minimum Support Price and the control of government in grain procurement more broadly – there will continue to be large grain stocks purchased each year which need to be drawn down.
- ◆ ***there is a large internal bureaucracy running PDS which is likely to resist fundamental reform options which would undermine their role.*** The FCI alone employs around 450,000 people in

Table 2.1: Share of PDS grains captured by consumption quintiles, 2004/05

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

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

Table 2.2: Planning commission estimates of BPL grain leakage in PDS, early 2000s

State	Diversion (% BPL grains)	APL share of BPL grains (%)	Total leakage of BPL grains (%)
Andhra Pradesh	20.6	37.0	57.6
Assam	41.7	12.0	53.7
Bihar	81.5	9.6	91.1
Gujarat	42.1	5.0	47.1
Haryana	55.7	11.0	66.7
Himachal Pradesh	31.4	14.5	45.9
Karnataka	43.4	27.5	70.9
Kerala	21.7	17.3	39.0
Madhya Pradesh	62.4	3.6	66.0
Maharashtra	26.5	8.0	34.5
Orissa	23.4	13.0	36.4
Punjab	76.5	13.0	89.5
Rajasthan	32.0	3.0	35.0
Tamil Nadu	15.7	49.9	65.6
Uttar Pradesh	61.3	6.2	67.5
West Bengal	19.2	7.8	27.0
All-India	36.4	21.5	57.9

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

India, and SFCs a further number. This in itself is a strong lobby which is likely to resist any changes in the PDS which would imply either a potential role for the private sector in grain provision, or more fundamentally a shift in use of the PDS subsidy from food purchase and distribution to cash for poor households.

- ◆ ***despite the shift at the aggregate level from food deficit to food surplus, there are – and will continue to be – areas of the country which are periodically food insecure.*** This reality will continue to support arguments for a direct food security role for the state. At the same time, penetration of private food markets has increased sharply in recent years, so that the actual availability of food is there with the exceptions of some tribal and dry land areas, and market infrastructure of well-developed and sub-markets are increasingly well-integrated. Thus, even with the food crisis of recent years, in most areas the challenge is not so much availability per se as price and affordability.
- ◆ ***the maturity of the PDS has naturally created social expectations that it is part of the fabric of social policy.*** The results on awareness of PDS are instructive in this respect, and the social constraints of any enforced fundamental change in PDS should not be under-estimated.
- ◆ ***there may also be legal constraints on the ability of the state to withdraw from direct provision of grains through PDS.*** The Supreme Court of India, in response to Public Interest Litigation take up by the People's Union for Civil Liberties in 2001 with Union of India, FCI and eventually all state governments as respondents, has clarified that Article 21 of the Constitution on the Right to Life also implies a right to live with dignity. The SC agreed that one aspect of this was a right to food, with the PDS a central plank of the right. The Court has made various orders subsequently in efforts to improve the functioning of food-based schemes.¹⁷ A point of note is that the initial order from 2001 indicated that "what is of utmost importance is to see that food is

provided to the aged, infirm, disabled, destitute women, destitute men who are in danger of starvation, pregnant and lactating women and destitute children, especially in cases where they or members of their family do not have sufficient funds to provide food for them".¹⁸ The implications are taken up below.

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

- ◆ ***an incremental approach to reform which would retain the current PDS model but with a host of improvements in the policy and implementation systems to increase efficiency from its often very poor state.***
- ◆ ***an intermediate reform option, which would retain a food-based entitlement program but introduce private sector participation in grain procurement and delivery and a more fundamental overhaul of the PDS administration through use of smart cards.***
- ◆ ***fundamental reform which allows for cash transfers instead of food-based transfers, either when the state proves itself unable to fulfill its food transfer obligations or by offering households the choice of grain or the cash equivalent of the grain subsidy.***

THE OVERALL POSITION OF THIS REPORT IS THAT FUNDAMENTAL REFORM OPTIONS FOR PDS SHOULD BE CONSIDERED AND THAT OFFERING HOUSEHOLDS THE OPTION OF A CASH TRANSFER – WHILE RETAINING THE CORE FOOD SECURITY AND BUFFER STOCK FUNCTIONS OF FCI, AND ENSURING PDS GRAINS IN AREAS WHERE ACCESS IS A GENUINE ISSUE – IS AN ATTRACTIVE OPTION. While there is certainly potential to improve PDS performance (as is currently being done through the Ministry's nine point action plan), there remain a host of structural issues with a SP program so dependent on many intermediaries operating within

17 A useful summary and background materials can be found at www.righttofoodindia.org.

18 See Supreme Court Order, of 23rd July, 2001.

19 This option has been suggested by a range of Indian commentators over the years, including Kapur (2008) and Panagariya (2008).

such weak governance systems. In that light, the incremental approach represents a triumph of hope over experience which cannot be expected to resolve the situation of PDS in much of the country. The long term problems of PDS cannot be solved quickly or with a single prescription for all states and all time. However, offering options which allow households choices in how they benefit from the massive public subsidy of PDS could allow for flexibility, greater efficiency, and accountability for the system. While the proposed Food Security Bill will potentially have a major impact on the legally possible range of options, it is hoped that it is not too prescriptive, but leaves open approaches which would appear to have the possibility to improve the welfare of poor households. In this light, the default provided for in the consultation draft of the Bill for provision of cash where the PDS system is unable to provide adequate and decent quality grains seems sensible. The system has so clearly demonstrated its inability to do so for so long in so many places that ruling out such an option seems likely to leave many poor households with a stronger legal right but no better a real world situation.

- ◆ *introducing a range of measures to make honestly operated FPS financially viable, so that leakage is not a financial inevitability of the PDS at that level.* The measures proposed – many of which are in practice in some states - include: (i) doorstep delivery of grains to FPS at the cost of the state (currently being done in 17 states/UTs); (ii) provision of rent-free premises by panchayats for FPS operations; (iii) allowing FPS to sell non-PDS commodities which will both increase their viability and increase the likelihood of being open more days in a month. States such as Himachal Pradesh and Gujarat are already moving in this direction, which is supported by the Planning Commission in its PDS report; (iv) ensuring that FPS have a minimum catchment area and turnover of grain which allows for sufficient scale to ensure viability. The Planning Commission estimates that substantial share of FPS fail to meet this benchmark. There is an obvious challenge to enforce such a requirement in remote and inaccessible areas, which are likely to be those most reliant on FPS. One option for “squaring the

circle” in this respect could be the use of mobile FPS vans such as Himachal Pradesh is already using in a number of remote districts; and (v) in line with Planning Commission suggestions, increase the margin on grains for FPS to 2 percent of the economic cost.

- ◆ *deepening ongoing reforms in management of FPS.* States – both rich and poor - are increasingly moving from FPS operated by private operators to operation by community-based institutions, including PRIs, SHGs, and cooperatives (e.g., in Tamil Nadu in 2009, almost 90 percent of FPS are run by cooperatives). This seems eminently sensible in terms of having operators who are more accountable to their communities and more likely to operate the FPS on a regular basis. Results from the SPS surveys on safety nets are instructive in this respect. Despite kerosene distribution in PDS being notorious for being high leakage, the incidence of kerosene from PDS in Orissa is far more progressive than that of grains. A simple explanation appears to be that kerosene has been the first commodity transferred to operation by women's SHGs in the state.²⁰ By early 2009, about 83,000 FPS (out of the 4.98 lakhs shops across the country) had been allotted to cooperatives, women's and other SHGs, PRIs, etc.
- ◆ *decentralization of grain purchases.* This would have several possible advantages, and a number of states are increasingly exploring this option in their grain purchasing. Firstly, locally purchased grains are more likely to accord with local dietary preferences, and hence be in greater demand. Secondly, local procurement could spread the economic benefits of the procurement subsidy from the current concentration in a few states (two of which are very well-off) to farmers in all states. Thirdly, the costs of transportation and storage of grains are likely to be reduced considerably. A number of states have started to move in this direction, including lagging states such as Chhattisgarh and Orissa, though how far this can advance before hitting resistance on the supply side in traditional supply states such as Punjab and Haryana remains to be seen.

²⁰ See Dev et al. (2007).

- ◆ ***making options for household-level offtake from FPS more flexible.*** The most obvious reform in this respect is obviously allowing, as a number of states already do, for weekly drawing of the household's allocation. The only constraint on this is the FPS being open on a more regular basis, but that should be addressed through the management reforms outlined above. A second measure which may be more challenging from a bureaucratic perspective – but seems desirable – would be allowing BPL and/or AAY households to carry over their monthly ration from one month to another in months when they had less need for their full ration. Given seasonal fluctuations in PDS to market prices, this could imply some lumpiness. A third option would be allowing households a more flexible mix of grains and other basic commodities up to the value of their ration subsidy, an approach which GoI plans to pilot in the coming year (see below).
- ◆ ***strengthening monitoring of PDS operations.*** A number of measures to increase transparency in the operations of PDS are feasible within the current framework and are indeed being implemented in several states. For instance, one element of management reform may be more direct community oversight in PDS operations, e.g., through community verification of PDS delivery quantities where they are not already operating the FPS and/or through the involvement of PRIs in vigilance committees to monitor FPS. Some states have made some progress in implementing a system of monthly certification by PRIs/vigilance committees for delivery of food grains to FPS and allocation to ration card holders on time. In addition, public display of BPL lists and of district and FPS-wise allocations of food grains for public scrutiny as proposed under the nine point action plan would improve transparency. The review of BPL/AAY lists in 14 states as part of this process has already led to the elimination of 100.51 lakh bogus/ ineligible ration cards. Concurrent evaluations of PDS performance by NCAER and IIPA have been commissioned in recent years by the Department of Food and Consumer Affairs.
- ◆ ***strengthening the use of Information and Communication Technology (ICT) in the PDS at the beneficiary end in order to promote more robust identification and in reducing leakage.*** This can take a variety of forms, some – such as in Andhra Pradesh already – simple biometric identification but not fully integrated into a “smart” system, others involving bar coding and other applications. The range of options for greater ICT use in the PDS system have been exhaustively reviewed in a report for the GoI Ministry of Finance financed by the World Bank, which also conducted detailed feasibility assessments in Anand district in Gujarat and Thane district of Maharashtra in 2007.²¹ In addition, the use of new technologies such as GPS for tracking movement of vehicles transporting PDS commodities. Funds for piloting this technology in Chhattisgarh, Delhi and Tamil Nadu were sanctioned in 2007-08. In addition, computerization of TPDS operations have been initiated in several states.
- ◆ ***conducting an independent review of FCI's pricing structure, with an eye to reducing the economic costs of grain procurement and handling.*** It appears that FCI is inefficient in its handling of grains, and the costs of this are naturally borne by the budget and the end beneficiary. Despite this, previous reviews have not been very probing in their efforts to look at possibilities for improved efficiency in FCI. A truly independent review of their cost structure with a prior commitment by GoI to implement its findings would seem desirable (though the technical demands of “efficient” cost estimation in the face of such a dominant market position should not be under-estimated).
- ◆ ***another option is introduction of food stamps or coupons, an approach that is prevalent in Andhra Pradesh and Rajasthan, and was introduced in Bihar in 2007.*** The current food coupon approach involves coupons which are redeemable only in the FPS network, though there is no reason not to allow for a coupon which would be redeemable also in approved private food retailers (see below). Coupons may have attractions as a tracking and leakage-reduction tool if FPS owners are able to

²¹ See Cal2Cal (2007) for a PDS smart card feasibility study produced at request of Ministry of Finance.

replenish their grain stock based strictly on the basis of redeemed coupons. In Andhra Pradesh, it is estimated that the introduction of coupons has reduced leakage in the PDS by up to 25 percent. The system has some obvious risks, including forgery of coupons. Another issue may be the development of a secondary market for coupons (though how much of a concern this is if poor households place more value on the cash than grains is a question). The Bihar experience with food coupons has been closely assessed through a two round survey-based assessment.²² While only around 60 percent of eligible households had been provided with food coupons in the first year of implementation, access among them dramatically increased as a result of the reform, rising from only 2 percent to around half of BPL households. Bar coded coupons/ration cards have been introduced under TPDS in six states.

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

in the 2010 Economic Survey. While details remain to be worked out, the initiative seems worth pursuing and evaluating.²³

A MORE TECHNICALLY ADVANCED FORM OF FOOD COUPONS COULD BE INTRODUCTION OF "SMART CARDS" IN THE PDS, WHICH COULD BE REDEEMABLE ALSO AT APPROVED PRIVATE TRADERS AND/OR FPS.²⁴ A smart card system can facilitate two key functions: individual identification and remote transaction processing/storage. Smart cards have the ability to store and record a large amount of program and authorized biometric information (signature or fingerprint image) that can be matched to the actual fingerprint or signature of individual involved in a transaction. In the context of the food ration system, the card can store information on the identity of the individual, eligibility for rations, quantity, price and time intervals at which he/she could be supplied rations, etc. Point of Service (POS) terminals are simple machines that read the cards and have the capability of authorizing the transactions via phone lines or the internet or recording the transactions on the smart card itself. Box 2.1 highlights some of the features of smart cards useful in the application of food programs.

SMART CARD SYSTEMS ARE NOT NEW TO INDIA OR TO SOUTH ASIA. Several experiments are already in operation, and the Rashtriya Swasthya Bima Yojana (RSBY) health insurance program introduced by GoI in 2008 clearly demonstrates that smart card applications are very feasible for wide scale use even in poor and low capacity settings, provided the right mix of institutional players is involved and there is rigor in standard setting and implementation. Indeed, there is discussion presently of "piggy-backing" other programs on the RSBY cards, and this is technically possible. There has already been progress with respect to MGNREG in this regard. Another notable small scale private initiative is that of Swayam Krishi Sangam (SKS) in operation in one of the poorest districts of Andhra Pradesh (in Medak). The card is being used essentially as electronic passbook to record all the transactions for micro-finance loans. Recently, GoI has provided in the 2008 and 2009 budgets funds for

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

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

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

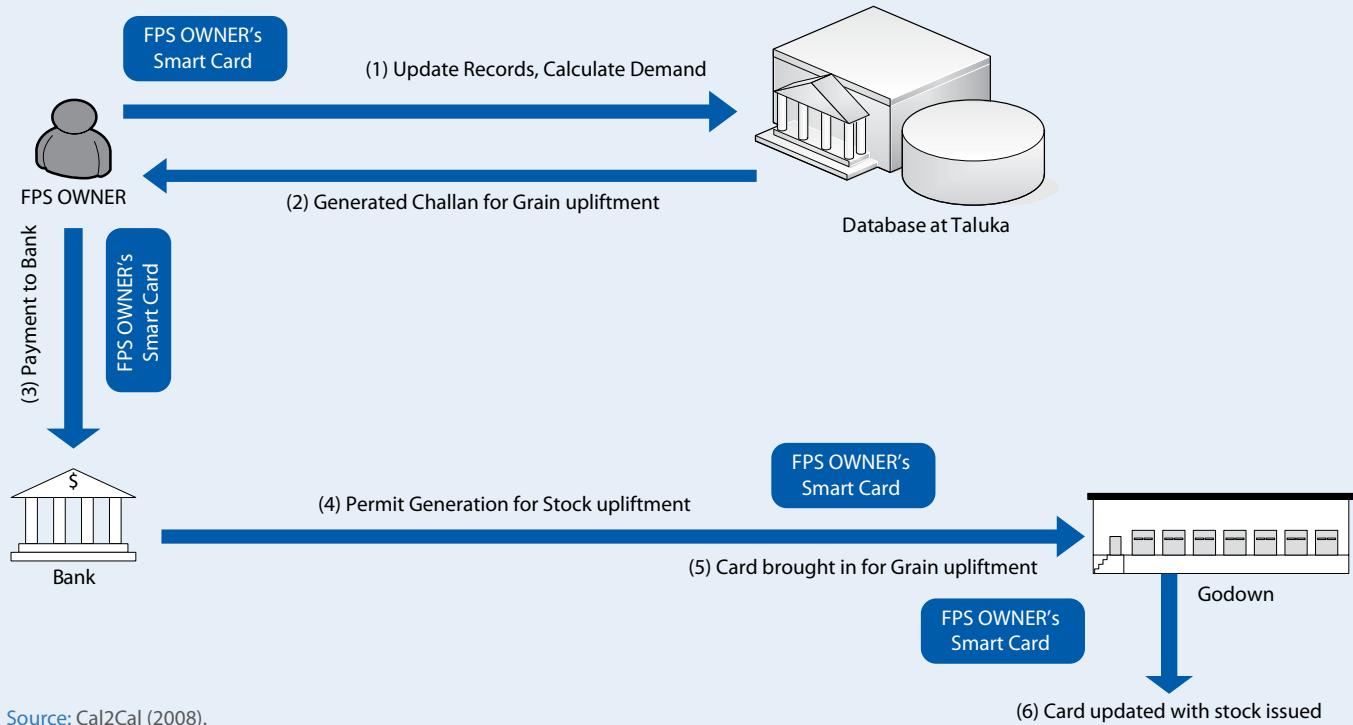
Box 2.1: Smart cards in food programs

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

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

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

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



piloting of a smart card-based reform in Haryana and Chandigarh which would also allow access to authorized private dealers.

THE WORRYING CONDITION OF PDS AS REPORTED BY GOI, NATIONAL RESEARCHERS AND THIS REPORT, SUGGESTS HOWEVER THAT A MORE FUNDAMENTAL REFORM OF PDS IS

25 See, for example, Radhakrishnan and Subbarao (1997).

WARRANTED WHICH WOULD INTRODUCE THE OPTION OF CASH TRANSFERS.²⁵ The following paragraphs outline two variants of a fundamental reform option for PDS: (i) switching to a cash transfer for the poor, or offering options for poor households between food and cash; and (ii) switching to a conditional cash transfer, in order to leverage improved human capital outcomes from the huge spending on PDS.²⁶ Neither option would eliminate the need for food buffer stocks, nor for the continued use of food-based transfers for specific situations (e.g., where relief aid is needed due to climactic or other disasters) or specific areas (e.g., remote or dry land areas), and possibly specific population groups (e.g., those noted in the Supreme Court order above, which largely conform to the AAY category presently). Despite the ongoing debate around the Food Security bill, Indian policymakers appear to be willing to explore such options, as evidenced by the recent announcement by the Government of Delhi of a “cash for ration” pilot in one district which would provide ₹ 1,100 per month to women in poor households (an amount which would purchase around 30 kg of rice at market price as of mid-2009).²⁷ The 2010/11 Economic Survey suggests that the GoI is considering the introduction of food coupons for households with a lumpsum entitlement (rather than specific amounts for rice, wheat, sugar, etc.) that can be encashed at a PDS store of their choice.²⁸

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

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

stocks of grain and perhaps their distribution in situations or areas where they were needed. Finally, to the extent that specific groups or areas continued to receive PDS grains, FCI could continue to perform that distribution function in coordination with SFCs.

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

THERE ARE SEVERAL OBVIOUS CHALLENGES AND ISSUES IN SUCH A PROPOSAL. THEY INCLUDE:

- ◆ ***likely strong resistance from the stakeholders outlined above in the discussion of political economy constraints.*** This is natural. The main way of managing this risk is to have a strategy for “reinvention” of the FCI along the lines outlined, so that it becomes an active player in the new system, with important residual functions like buffer stock management, rather than simply a “loser” in the reform process.
- ◆ ***resistance from FPS owner groups.*** Given the existence of over 400,000 FPS owners, thought would need to be given to how to manage this risk. The first element of a strategy would be continuing transfer of FPS functions to PRI/CBOs who are not “sole purpose” organizations in the way that FPS owners would be, and hence are less likely to resist changes that may be supported by their communities. Secondly, a sub-set of FPS would continue to be needed for the continued PDS functions which would continue even in a

26 In essence, this is the strategy that Mexico followed in its transition from the so-called “tortilla subsidy” to the CCT program Progresa (now called *Opportunidades*).

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

28 GoI (2010).

reformed system. Thirdly, the government could as necessary support transitional livelihoods support for FPS owners who lost their businesses as a result of reform (though this has not proven necessary to date in states which have transferred FPS ownership from private individuals to community groups).

- ◆ ***legal implications with respect to existing Supreme Court decisions and the proposed Food Security Bill.*** This is an important issue, as any reform must be consistent with the law of the land, more so when it flows from constitutional provisions. One reading of the SC order is that Government may not be constrained if it provided sufficient cash transfers to the identified groups to allow them to purchase food. A more demanding reading suggests that a legal obligation directly to provide food may apply to the groups noted. At the same time, the expansion of midday meals and Integrated Child Development Scheme (ICDS), together with the existence of other programs for the destitute such as Annapurna (and of course social pensions) goes some way towards meeting such an obligation if supplemented by a cash transfer. Clearly, however, this would need close consideration of the legal issues and their implications for a reform strategy. Another way of approaching this may be to offer households the option of grains or cash and letting them decide. This would presumably meet the state's legal obligations while offering choice to households in exercising their rights.
- ◆ ***the existence of areas where food insecurity is chronic.*** Despite the aggregate move to food surplus, there is a natural concern about ensuring food security in these areas. It may be that PDS continues in those areas until there is an assessment of the impact of transition to cash in other areas.

AGGREGATE EVIDENCE INDICATES THAT CALORIC INTAKES ARE FALLING IN INDIA, EVEN AMONG THE VERY POOR.²⁹ In light of this, moving to cash for PDS may seem counter-intuitive. However, the counter-balances to that in the above proposal would include: (i) buffer stocks remain an important part of the system, possibly with a "buffer stock plus" to allow a more generous provision for

grains for emergency and special situations; (ii) the recent expansion of midday meals may for children provide a caloric floor (see below); and (iii) it is proposed that AAY continue to provide food for the poorest, as would Annapurna for a share of the elderly destitute; and (iv) ongoing efforts to improve the performance of the nutritional program under ICDS could – if effective – provide improved coverage of poor infants and pregnant/lactating women. Cumulatively, these by no means suggest a wholesale withdrawal from direct provision of food for the poor.

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

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

29 See Deaton and Drèze (2009).

SOCIAL PENSIONS

THE EVIDENCE SUGGESTS THAT SOCIAL PENSIONS ARE A REASONABLY EFFECTIVE PART OF THE INDIAN SP SYSTEM, AND THEIR ENHANCEMENT IN COVERAGE AND CENTRAL FINANCING IN RECENT YEARS IS WELL DIRECTED. Nationally, the targeting of social pensions across wealth levels and social category was progressive in 2004-05, with particularly good performance in relative terms among the poorest quintile and among SC and ST people. In terms of benefit incidence, both elderly and widow social pensions are also progressive, though somewhat less so than coverage alone due to the higher average benefits of recipients in the richest quintile, and other castes. This is illustrated in Table 2.3, which shows coverage and benefit incidence of social pensions in 2004/05. In light of this, the reform options for social pensions are more of an incremental nature, both in terms of relative spending/coverage priority, and in terms of improvements in current policies and implementation. The main recommendations are:

- ◆ *there is a need in a number of states for better education of officials and other involved in social pension administration on eligibility policies.* Field work in several states finds either partial knowledge or problematic interpretations of previous eligibility criteria on "destitution" (now modified to BPL) and even the reforms under NSAP are likely to face some continuing problems of identifying the poor. Following a review of policy, a more thorough awareness raising and perhaps development of implementation guidelines could help improve the situation.
- ◆ *more broadly, as progress is made on expansion of social security to the unorganized sector, it will be critical for those managing social pension policy development to be involved in thinking through options for pension expansion, and the complementarities with social pensions as a possible "zero pillar" of any contributory system for the unorganized sector.*

Table 2.3: Household coverage rates and benefit incidence of social pensions by wealth, location and social category, 2004/05 (%)

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

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

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

- ◆ **central monitoring of NSAP performances should be further strengthened, despite the reliance on ACA rather than CSS financing mode.** Social pensions are one of the few major national programs for which simple consolidated reporting on various performance indicators is not available in annual reports of the Ministry of Rural Development. At a minimum, this would be desirable. A welcome recent initiative is the computerization of NSAP beneficiaries that significantly increases transparency and enables the central Ministry to monitor outcomes. States are currently in the process of moving to a full-fledged MIS for NSAP. As importantly, the central Ministry could act as a more effective conduit for sharing of good state-level experience in different aspects of policy and implementation.
- ◆ **experience suggests that the previous fund flow model of sending social pension transfers directly to DRDA level is preferable to routing through state treasuries, and that its reintroduction should be considered.** The strongest argument for this is evidence of even rich states such as Gujarat diverting social pension transfers for other purposes, something that is less likely with DRDA routing. In addition, delays in on-payment by state treasuries could be avoided with such a model. However, this potentially entails a policy decision to make the program a centrally sponsored scheme.
- ◆ **the verification process for current beneficiaries by states needs to be made regular, and a process for remedial action developed.** Presently, simple checks such as comparison of census and beneficiary information by district is typically not done, and has proven very informative where has been done in identifying outliers on the up and downsides (e.g., in Karnataka). This would allow a more targeted process of performance audit. In addition to state departments, there may be a potential role in such an enhanced process for PRIs.
- ◆ **a review of payment systems for social pensions would be desirable in a number of states, as would a through effort to reconcile sometimes divergent local level and state level reporting on beneficiary numbers and other information.**

TARGETED HOUSING PROGRAMS

TARGETED RURAL HOUSING PROGRAMS ARE A SIGNIFICANT ELEMENT OF THE INDIAN SAFETY NET. The main targeted rural housing program is IAY, which has been implemented as a stand-alone program since 1996, having been a sub-component of public works schemes prior to that. It is estimated that on an average about 23 lakh houses are built every year under various schemes, with IAY accounting for two thirds of the total, and other assistance provided by Housing and Urban Development Corporation (HUDCO), National Housing Bank, State Housing Boards and Commercial Banks the remainder. The variation in the design of the various housing programs and targeting approaches requires detailed program-specific recommendations. Nonetheless, some board suggestions include:

- ◆ **attempt to develop and implement mechanisms in states for minimizing the significant rent-seeking that appears to be happening in IAY.** This is inherently challenging so long as benefits involve large lump sums. However, the nature of rural housing needs and behavior among the poor suggest that the program can be better adapted to needs.
- ◆ **ensure that safeguards in current guidelines are actually enforced.** The recent introduction of "permanent waiting lists" based on the BPL list and the requirement of displaying these waiting lists in a public area (e.g., the wall of the panchayat building) is the first step in increasing transparency in the program. In this respect, options such as social audits seen in the Mahatma Gandhi National Rural Employment Guarantee Scheme may offer an additional mechanism. A second obvious improvement would be to provide for direct transfers to households via the banking system or post offices. Such a reform in IAY in Bihar has been introduced recently, and field visits indicate significant reductions in leakage of funds due to the reduction in intermediation by officials in the benefit payment process.
- ◆ **conduct a detailed study on practices among the rural poor in housing improvement, to explore options for better matching scheme design with needs and practice.**

A LONGER TERM OPTION FOR TARGETED HOUSING REFORM MAY BE EXPLORING POSSIBILITIES FOR MORE MARKET-LED PROVISION OF HOUSING, PARTICULARLY IN URBAN AREAS. Experience in some metros may provide guidance here, and exploring the role of the private sector as financier and constructor but with subsidies to households seems warranted. There are a range of challenges in market-based solutions which are particularly acute for the informal and self-employed sectors of the workforce due to difficulties in credit assessment, the need to mitigate risks for lenders, and transactions costs. Nonetheless, small scale experiences of Micro Finance Institutions (MFIs) such as Swadhaar, Ujjivan and BASIX, and interest from small and medium housing finance companies indicate both interest in non-traditional market players in serving the urban poor for housing upgradation needs. Initial assessments indicate that market-based solutions may be possible for households with monthly incomes in the range of ₹ 4,500-8,000.³⁰ In addition, there is a need to integrate housing delivery under IAY into a larger process of facilitating access to safe, sustainable and adequate housing. This could

include access to credit in order to meet the funding gap between the IAY subsidy and the cost of housing as well as access to environmentally sustainable technologies and building materials and services to assist people in construction.

THE MORE FUNDAMENTAL QUESTION ON HOUSING PROGRAMS FOR THE POOR IS THE EXTENT TO WHICH THEY SHOULD REMAIN AS STANDALONE CSS, OR MIGHT MORE USEFULLY BE ALLOWED FOR WITHIN AN SP (OR GENERALIZED) BLOCK GRANT SYSTEM.³¹ The JNNURM approach of having an option within a larger program but requiring more pro-active proposal development and management on the part of local authorities in order to use central funds for low-income housing seems worth exploring in the context of IAY also. This would be more consistent with giving states/cities greater local determination in use of CSS resources. Whatever the approach, it would certainly seem that innovation is needed in the area of public subsidies for housing for the poor. It is also important to view these programs in the context of the larger housing and habitat policy for the country.

30 See Monitor Group (2007) for a useful market assessment of both demand and supply sides of low cost urban housing options.

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

Improving Implementation

Public Works and Promotional Programs

BOTH PUBLIC WORKS AND PROMOTIONAL SOCIAL PROTECTION PROGRAMS HAVE RECEIVED INCREASED POLITICAL AND BUDGETARY PRIORITY IN RECENT YEARS. This seems a sensible effort to get greater leverage on poverty reduction and human capital formation from the safety net. Given that significant spending on these programs, particularly MGNREG and mid-day meals, can be expected to continue, it will be increasingly important to ensure that the desired equity and public expenditure efficiency objectives are achieved. The following sections provide some recommendations in this respect.

PUBLIC WORKS

MANY OF THE APPROPRIATE REFORMS OF PUBLIC WORKS POLICY ARE ALREADY REFLECTED IN THE GUIDELINES OF MGNREG, WHICH IN SEVERAL WAYS REPRESENTS THE MOST SERIOUS EFFORT TO DATE TO ADDRESS MANY OF THE INSTITUTIONAL AND IMPLEMENTATION PROBLEMS ENCOUNTERED IN PREVIOUS WORKS (AND INDEED SEVERAL OTHER) PROGRAMS. In many states there has been greater political and institutional

commitment to trying to "make the program work". Examining the implementation experience of MGNREG in the last four years suggests some lessons for improving the delivery of the program in states that are not doing as well as others. It also identifies some areas that warrant increasing attention as the program matures. Within the first year of its implementation and covering just 200 districts, 38 million rural households had been issued with a job card (see Table 3.1). By 2008/09, this figure has more than tripled to 101 million rural households registered. In the same year, about 45 million households – a third of rural households – were provided employment.

THE VARIABLE IMPLEMENTATION EXPERIENCE ACROSS STATES OFFERS SEVERAL VALUABLE CROSS-STATE LEARNING. One of the biggest challenges in implementing MGNREG is to match the expression of demand with the supply of worksites and employment opportunities. It is vital to address the constraints – formal and informal – on this process. At the broadest level, this goes to the heart of what a rights-based, demand-driven approach means in

Table 3.1: Coverage of MGNREG using administrative data, 2006/07 to 2008/09

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

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

practice. Some states have done better at establishing systems to improve the responsiveness of supply to the demand for work (See Box 3.1). This has typically involved attention to or innovations in the following areas:

- ◆ ***Establishing the implementation structure early in the game and ensuring adequate staff with the appropriate orientation and skills.*** This includes serious and sustained efforts at building capacity at all levels of the delivery process, often in partnership with the State Institute for Rural Development. Under the Act, a portion of funds are available for capacity building of those involved in MGNREG implementation, including PRIs. Using these funds effectively will be a critical element of program success over time.
- ◆ ***Generating awareness of the rights and entitlements under MGNREG as the first step towards establishing a right to work.*** Over time, there has been some evolution of IEC campaigns in terms of moving from the dissemination of rights to an emphasis of the need to and the means by which individuals can demand that right. It is also necessary to make communities aware of the unemployment allowance provision in the Act for the guarantee function to be credible. It is vital to deepen awareness raising efforts on MGNREG entitlements, in close collaboration with civil society and using strategies that are tailored to a largely illiterate audience.
- ◆ ***Leapfrogging technical manpower constraints (e.g., the shortage of engineers at the block level) by developing detailed technical specifications of MGNREG works for different geo-climatic conditions as a preparatory stage.*** This minimizes the technical input required at the block and GP level at the planning stage and while starting a worksite. This can be done without the aid of technology (e.g., as in Madhya Pradesh) or with technology as an integral part of a transactions-based Management Information System (e.g., as in Andhra Pradesh).
- ◆ ***Streamlining the flow of funds in various ways so as to prevent funding delays to constrain opening of worksites or payment of wages.*** For instance, some states (e.g., MP) make available advance funds (linked to the volume of MGNREG work) with GPs that makes it easier to open worksites in response to demand. In addition, some states have reduced delays in payment of wages from the GP to worker post office accounts (e.g., by placing a “float” with post offices to make wage payments while waiting for funds transfer; and by mandating that the GP MGNREG account and accounts of MGNREG households to be in the same branch).
- ◆ ***Revising the rural schedule of rates (SoRs) through detailed time and motion studies for different locales and groups to enable a “normal” worker to earn the minimum wage at MGNREG worksites.***

Box 3.1: Some state-level innovations in implementing MGNREG

Rajasthan

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

Andhra Pradesh

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

Tamil Nadu

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

- ◆ ***Partnering with civil society organizations to work as support agencies*** on a variety of areas, including orientation and capacity building of MGNREG staff, awareness generation and mobilization among workers, promoting participatory planning of works, and enhancing accountability.
- ◆ ***Emphasizing the commitment to transparency and accountability.*** While the design of MGNREG contains many safeguards in terms of transparency and accountability, actual implementation on this front has been highly variable. This includes institutionalizing social accountability mechanisms, making the MIS up-to-date, and a continued emphasis on monitoring and community mobilization.

IN ADDITION, INCREASED ATTENTION BY POLICY-MAKERS AND IMPLEMENTING AGENCIES ON IMPROVING THE QUALITY

AND RELEVANCE OF ASSETS CREATED UNDER MGNREG IS WARRANTED AS THE PROGRAM MATURES. This is critical if MGNREG is to have any long-term impact on the rural economy and future livelihoods. In addition, the creation of appropriate, durable and productive assets could potentially help garner the support of non-MGNREG participants for the program and a stake in improving program outcomes. There are many elements to this increased focus on the second objective of the Act:

- ◆ ***Explore options for a wider range of works authorized under MGNREG to reflect variable needs and to dovetail with other programs so as to contribute towards a coherent village development plan.*** The list of eligible works needs to be flexible enough to incorporate seasonality, differences in geo-climatic conditions and the needs of specific groups, particularly those not capable of hard manual

labor. As experience grows, this would be worth looking at from several perspectives, some of which are currently under discussion. The first is the range of works that could be implemented in flood-prone, water-logged, heavily forested or mountainous areas. The second is the range of possible works which could be offered to all MGNREG workers, and whether some “softer” work options – e.g., related to provision of social welfare or community services for vulnerable populations – could be introduced which have positive social externalities. The third is looking at the specific needs of sub-groups for whom special efforts may be needed to provide appropriate work, e.g., disabled people who may not be able to carry out hard physical labor. The fourth is exploring options for MGNREG to finance the labor component while the community (or other line departments) co-financing works that may not be on the approved list of MGNREG works but are part of the larger village development plan.

- ◆ ***Revitalize Gram Sabhas and institutionalize the direct involvement of communities in identification of works undertaken under MGNREG in a way that is integrated with the larger village development plan.*** This has to date been the weakest element in the chain, largely because *gram sabhas* are often not held. If the Act's objective of empowering communities and strengthening grassroots democracy is to be achieved, it will be important to ensure that the role of *gram sabhas* anticipated under the Act is made a reality. This includes ensuring *gram sabhas* are held regularly, building the capacity of *gram sabhas* in participatory planning, community oversight and other relevant areas and the mobilization of groups such as SHGs and CBOs to have their priorities reflected through the *gram sabha* process.
- ◆ ***Establish systems for providing in-time technical inputs for asset planning and evaluation, beyond the currently mandated technical supervision during asset creation.*** This includes providing technical inputs (e.g., through village-level resource mapping to ascertain the technical feasibility

of different types of works) to the *gram sabha* during the planning process and development of shelf of works. Similarly, monitoring of the quality and durability of assets created will increasingly become important. In this respect, MGNREG could draw on international experience (e.g., Bangladesh's Food For Work program) on developing cost effective methods for estimating rates of return on assets. In addition, the use of technology such as GIS in both planning and monitoring would be.

AN ADDITIONAL ISSUE FOR CONSIDERATION IS WHETHER ANY ELEMENT OF DIRECT HUMAN CAPITAL FORMATION CAN BE FACTORED INTO MGNREG AS IT MATURES. Presently there is no provision under MGNREG for skill formation among workers. This may be something that could be considered in due course with the view of enhancing not just current but also future livelihoods. One option to consider is the South African public works program which provides for two days training per month of work for those undertaking public works. While such an approach obviously requires a supply side agency – probably on a contracted-out basis – which can provide useful training, it seems a useful option to consider in future development of MGNREG.

A FINAL ISSUE IS THAT PUBLIC WORKS FOR THE POOR REMAIN RESTRICTED TO RURAL AREAS. Recently, policy-makers have started to discuss the possibility of designing a self-targeted public works programs for the urban poor. Such programs already exist in the works schemes of a number of developing countries such as Ethiopia, Liberia, Colombia, and some other African and Latin American countries. Drawing on the experience of these countries, for example the role of urban communities in identification of beneficiaries, planning and execution of works, and oversight, would be useful in designing an urban public works program for Indian cities and towns. In fact, one of the north eastern states is planning to introduce an employment guarantee for urban areas as a state-funded scheme. Combining such a program with vocational or technical training would enable young participants to upgrade their skills and also compete in the labor market. An example of such an approach is being developed in Kenya for youths living in urban slums.³²

³² See del Ninno et al. (2009).

PROGRAMS TO PROMOTE MOVEMENT OUT OF POVERTY IN THE SHORT AND LONG RUN

Targeted rural credit

THE GOVERNMENT HAS RECENTLY UNDERTAKEN A SIGNIFICANT OVERHAUL OF THE SGSY IN THE FORM OF THE NATIONAL RURAL LIVELIHOOD MISSION. The main reasons for SGSY's and predecessor programs' weak performance strongly suggested the need for a fundamental reform that went beyond marginal improvements. In many ways, the restructuring of the existing program into NRLM goes a long way in doing this.

THE NRLM MOVES AWAY FROM THE PRECISELY DEFINED CREDIT PROGRAM FOR THE POOR AS EXEMPLIFIED BY SGSY AND IRDP AND INSTEAD INCLUDES A RANGE OF LIVELIHOOD SUPPORT OPTIONS FOR THE POOR. This is consistent with the options in the SP block grant proposed within the "3+ block" outlined in the Executive Summary. The rationale behind such a restructuring and reorientation is necessary for a variety of reasons: (i) the nature of labor markets across and within states varies sufficiently that a "one size fits all" credit program seems increasingly inappropriate; (ii) the livelihood support needs of individual groups and poor households that go beyond credit are also diverse, and uniform CSS have failed to respond to this; (iii) the growing penetration of both commercial banks and other non-bank players such as MFIs make the challenge for the poor making them "bankable" rather than being the sole source of formal credit.

SUCH AN APPROACH WOULD REQUIRE GREATER EFFORT BY STATES TO DEVELOP STATE SPECIFIC POVERTY REDUCTION STRATEGIES FOR THE EFFECTIVE USE OF CENTRAL SUBSIDIES FOR LIVELIHOODS PROMOTION. The NRLM design gives states a fair degree of flexibility in trying different approaches to livelihood support; some further options could be explored in this regard:

- ◆ *using reputable MFIs as a channel for credit delivery where they have a presence.* MFIs have a strong interest in developing a sustained relationship with BPL clientele, and more diverse and community-based sources of information on borrowers, allowing for a more informed assessment of risk in the lending transaction. They

are also more likely to enforce repayment, reducing rent-seeking opportunities seen presently, and provide appropriate support services to their members. MFIs often have savings as an integral element of their relationship with clients, so that credit provision is reinforced by savings that can act as cushions against household shocks. At the same time, a significant issue would be the relative terms of SGSY lending and those of most MFIs to their existing clientele, and such an option would demand some degree of harmonization between MFI financial, reporting and other procedures and those of government.

- ◆ *where local labor markets are stagnant and/or migration is already significant, financing support services for poor migrant workers which would reduce some of the economic and social costs of migration, and increase its benefits.* There are already interesting small-scale examples of such initiatives, e.g., in southern Rajasthan with workers migrating to Gujarat. Some of the services that could be provided include: (i) reliable remittance mechanisms; (ii) support for children of migrating workers either in situ or in destination sites to ensure that they do not drop out of school; and (iii) provision of reliable information on labor market conditions in destination areas, probably through a contracted-out service provider contract.

School stipends

WHILE THE EVIDENCE ON SCHOOL STIPENDS SUGGESTS THAT THEY ARE NOT AS WELL TARGETED AS MANY SAFETY NET SCHEMES, THEIR OBJECTIVE IS DISTINGUISHABLE. The position of this report is that they will continue to be an intervention worth expanding, though with serious thought about some design elements. The more pertinent concerns with school stipends seem to be two-fold: (i) in their current form, where stipends are based on enrollment and not attendance and thus with no assurance that the intended outcome is being promoted, stipends are less likely to achieve the goal of improved human capital acquisition among the poor; and (ii) stipend schemes do not provide choice for households in schooling, being linked to enrollment only in government and aided schools. This may reduce their potential welfare

impacts not only for the household, but also for the education system, by increasing the marginal costs of private schooling and reducing the accountability of the public system that might otherwise be encouraged by households “voting with their feet”.

THERE SEEM SOLID ARGUMENTS FOR EXPLORING WAYS IN WHICH TO MAKE STIPEND RECEIPT CONDITIONAL ON A SPECIFIED LEVEL OF ACTUAL ATTENDANCE RATHER THAN SIMPLY ENROLLMENT, WHICH IN ITSELF MAY NOT CONTRIBUTE TO HUMAN CAPITAL INVESTMENTS. The obvious challenge that such a transition would present is operating an effective system to record and verify school attendance. However, evidence from a growing number of countries which have introduced conditional cash transfers based on a specified level of school attendance indicates a range of positive effects on attendance, and other household welfare indicators. Though several central and state-specific CCT programs exist in India, these operate more as cash transfers rather than conditional cash transfers. Key challenges in the effective implementation of these programs as CCTs include the monitoring and enforcement of the conditionality and a weak institutional framework for such cross-sectoral programs. In addition, supply-side constraints in the provision of services, particularly in rural areas, could also play a role.

THE ARGUMENTS ON INTRODUCING A DEMAND SIDE ELEMENT TO STIPENDS THROUGH EITHER EXPANSION TO PRIVATE UNAIDED SCHOOLS OR USE OF EDUCATION VOUCHERS REDEEMABLE IN PRIVATE SCHOOLS ARE MORE COMPLEX. It is probably not possible to think about any wholesale shift to systems like vouchers which would be relatively new in the Indian context, and one where international experience – particularly in developing countries – is far more limited. However, this should not preclude piloting in states

where the conditions are appropriate, or perhaps in areas in selected states where the participation in private schooling by poor households is more pronounced (e.g., in urban areas where the experience of a pilot in urban Delhi was fairly positive).³³

Midday meals

LIKE MGNREGA, THE MID-DAY MEALS PROGRAM IS ALSO CONCEIVED AS A UNIVERSAL RIGHT RATHER THAN A TARGETED PROGRAM. Mid-day meals are a universal entitlement for all children enrolled in government or government aided schools. With the recent expansion, midday meals have become an increasingly important part of the Indian safety net. While the national level impacts of midday meals in educational, nutritional and other dimensions remains to be understood in depth, the evidence available suggests that MDM have had positive effects at least on enrolments. As a result, the MDM program provides an interesting example of a major demand side SP intervention which has great potential. In this context, a stronger focus on monitoring and evaluation is warranted. This requires establish systems to monitor the performance in the field with respect to inputs (such as already being done for example for school infrastructure for providing meals), outputs (besides administrative data on children availing of MDM) and outcomes. The latter requires conducting more widely representative studies on the various impacts of midday meals, in particular nutritional impacts. In addition, while several concerns on coverage and implementation have been addressed through the recent expansion and revised guidelines, more can be done to reduce the variability in performance across states.

³³ CMS Social (2009). See also Shah and Braun-Munzinger (2006) for a critical review of the experience of eleven countries with education vouchers, with a discussion of lessons for India.

CHAPTER-4

Social Security

Closing the Coverage Gap

IN ADDITION TO SOCIAL ASSISTANCE PROGRAMS AIMED AT ALLEVIATING EXISTING POVERTY, MANY SOCIAL PROTECTION SYSTEMS INSURE AGAINST A RANGE OF SHOCKS THAT CAN OFTEN LEAD TO POVERTY.³⁴ These social security schemes generally include provisions for old age, disability and death of the breadwinner under the umbrella term, pensions.³⁵ Many countries have also tied health insurance coverage to membership in social security schemes which require contributions or premia while others have opted for general revenue financing.³⁶ This section is about the schemes that operate in India today for both organized and unorganised sector workers. In addition, based on recent experience, it outlines thinking

about how to expand pension and health insurance coverage to the vast majority of India's unorganized labor force. Closing the "coverage gap" is an important policy objective in India and many developing countries.³⁷

INDIA'S UNORGANIZED LABOR FORCE IS VAST AND HETEROGENEOUS AND THIS REALITY MUST BE TAKEN INTO ACCOUNT IN ANY ATTEMPT TO EXTEND COVERAGE OF SOCIAL SECURITY PROGRAMS. One important distinction is between households that are either too poor to contribute or have already experienced the shocks that could otherwise be insured through contributory schemes. In these cases, social assistance i.e., cash transfers on a means-tested basis are the appropriate

³⁴ Other important sources of income protection such as crop and livestock insurance are not typically covered by social insurance programs, but are critical in terms of protection against covariate shocks in the rural sector in countries like India. It is also worth noting that lumpy expenditures for weddings are also important in the Indian context.

³⁵ Unemployment and cash benefits for maternity (as opposed to medical insurance) are often covered by government sponsored social insurance schemes. There are moral hazard problems in both cases, especially with regard to unemployment. Moreover, the definition and monitoring of unemployment for unorganised sector workers is difficult to administer. ESIS offers an unemployment benefit.

³⁶ See Wagstaff (2007) for a summary of the ongoing debate between these models.

³⁷ For a detailed discussion of extension of social insurance coverage in the context of pensions, see Holzmann, Robalino and Takayama (2009).

intervention. At the same time, a large proportion of households would benefit from ex ante interventions that allowed for risk pooling and were made more affordable through direct subsidies. Among these households, a subset is already participating in a number of uncoordinated attempts – mostly through group arrangements – to provide protection against a range of life-cycle risks. Some are sponsored by government, such as welfare funds while others are NGO-based initiatives that often involve microinsurance. Table 4.1 presents a range of programs, by no means exhaustive, aimed at the unorganized sector. The total coverage is not likely to exceed ten percent of the unorganized labor force for any given type of insurance.

THE LESSONS FROM SOME OF THE SCHEMES THAT ALREADY EXIST IN INDIA SHOULD BE DISTILLED AND APPLIED IN THE PROCESS OF ADOPTING A NEW NATIONAL POLICY FOR EXTENDING SOCIAL PROTECTION COVERAGE. These experiences could

provide policymakers with information ranging from the factors affecting voluntary participation to data that could help with actuarial calculations of cost.³⁸ Implementation lessons might include estimates of the costs of specific transactions, such as processing a claim or issuing a statement and the potential savings from the scale economies usually found in administration and recordkeeping operations. Comparing notes across existing schemes might yield useful information about how to efficiently use technology or how to set up processes to certify eligibility and verify claims. In some cases, there may be evidence that supports government action through better regulation or direct provision of public goods. The case of unique identifiers, already mentioned, is likely to be one such case.

MANY OF THE EXISTING SCHEMES USE A FORM OF THE PARTNER-AGENT MODEL AND THIS APPROACH HAS SEVERAL ADVANTAGES OVER THE ALTERNATIVE, THE CREATION OF A NEW

Table 4.1: Selected insurance and pension programs of the unorganized sector

	Name of program	Estimated Membership (000s)**	Type of risk covered
Government	Universal Health Insurance	1000	Health
	Central Welfare funds (5)*	4500 (est.)	Health, education, housing, other
	Kerala Welfare funds (55)	4900	Varies, all kinds
	Karnataka Labor Welfare fund	675	Life, health
	Andhra Pradesh Labor Welfare fund	1000	Life
	Tamil Nadu construction worker welfare fund	631	Life, health, pension, other
	Tamil Nadu Voluntary Health Service	125	Health
	Maharashtra Mahadi workers fund	150	Life, health, other
	West Bengal Provident Funds (2)***	1800	Old age
Non-governmental****	LIC – JBY scheme	3570	Life
	UTI – pension scheme	100	Old age
	Yashivini – Karnataka	2100	Health
	Karuna Trust – Karnataka	14	Health
	Spandana	386	Life
	Shepherd	15	Life
	SEWA Gujarat	100	Life, health, pension, other
	People's Rural Health Promotion Scheme	75	
	ASA	66	Life and Health

* includes beedie, mica, limestone, iron ore and cine workers funds. ** memberships are double counted in some cases since both groups and providers are shown here. *** includes both urban and rural provident funds. **** list is not exhaustive and excludes, among others, life and health insurance for ICICI clients.

Sources: Irudaya Rajan (2004); Roth et al., 2005; LIC 2006; NCEUS 2006.

38 Unorganised sector workers and subsets therein will exhibit mortality and morbidity patterns that may differ greatly from the typical clientele of insurance companies. For example, the life tables used by LIC are based on annuitants most of whom are higher income individuals with much lower mortality rates than the general population. A database that systematically collected this information could be used to produce actuarial tables that would serve as a benchmark for assessing costs when designing the scheme as well as supervising providers once the scheme was operational.

LAYER OF GOVERNMENT BUREAUCRACY WITH POTENTIALLY LAKHS OF EMPLOYEES. In particular, the PA model has become increasingly relevant in India in recent years as financial sector reforms have resulted in competitive markets for insurance and asset management and have led to the creation of specialized regulatory institutions. This favorable situation should be exploited in order to reduce costs and preempt the problems observed with monopoly, quasi-state entities that cover formal sector workers. The key question is whether this 'bottom up' approach can be successfully scaled up with government support. Answering this question could begin with a series of meetings that could bring together potential group participants (SHGs, MFIs, coops etc.), insurance companies, asset managers, regulators, government ministries and researchers.

INITIALLY TARGETING EXISTING GROUPS SUCH AS SHGS AND MFIS IS RECOMMENDED FOR SEVERAL REASONS INCLUDING FOR REDUCING TRANSACTION COSTS, ACHIEVING EFFECTIVE RISK POOLING³⁹ AND ENSURING A MINIMUM CRITICAL MASS OF VOLUNTARY TAKE-UP IN THE EARLY STAGES OF THE PROGRAM. However, there are tradeoffs involved in such a strategy. First, while the number of such groups has been increasing rapidly in recent years, coverage is still relatively low and regionally concentrated (predominantly in the Southern states).⁴⁰ Second, any subsidies involved in such a scheme should not be expected to mainly reach the very poorest households. Various studies have shown that membership in groups tends to be concentrated in the second and third quintiles rather than the bottom quintile.⁴¹ As mentioned above, for many of these households, the condition that would have been insured already exists (e.g., life insurance for widows). In these cases, ex-post transfers in the form of social pensions seem the appropriate policy response.

AT LEAST THREE MEASURES ARE REQUIRED IF THESE INITIATIVES ARE TO BE SUCCESSFULLY SCALED UP.

- ◆ *first, in order to take advantage of economies of scale, to ensure portability and to facilitate*

supervision, some common standards would have to be developed, particularly in the area of recordkeeping. A good example is a universal standard for identification of covered workers that, in itself, would be a public good with many other uses. Another is a ratings system for SHGs and other groups based on objective criteria.

- ◆ *second, appropriate contribution and insurance premia would be calculated based on rigorous actuarial calculations that were adjusted over time to reflect experience.* This would help ensure that unfunded liabilities (for example, those that arise when guarantees are offered) did not arise and compromise financial sustainability. It would also make any subsidy involved explicit and transparent.
- ◆ *direct government subsidy is the third element of successful coverage expansion.* In order to encourage voluntary take up among low income segments of the unorganised labor force, the required premia and contributions would have to be subsidized. This subsidy would have to be set at a realistic level given budget constraints.⁴²

THE RASHTRIYA SWASTHYA BIMA YOJANA (RSBY) SCHEME PROVIDES A MODEL OF COVERAGE EXPANSION THAT EFFECTIVELY ENCOMPASSES THESE ELEMENTS TO PROVIDE CATASTROPHIC HEALTH INSURANCE COVERAGE TO TENS OF MILLIONS OF UNORGANIZED SECTOR WORKERS AND THEIR FAMILIES. The scheme is notable for its scalability and relative transparency achieved through a combination of standardized processes and innovative use of technology. By contracting out service provision, it has allowed competition to set the premium level and enough flexibility to adjust this over time. It has also defined a targeted subsidy which appears to be sustainable in the broader fiscal context. All of these features make it a good practice example for further progress in reducing India's coverage gap.

THE TARGETED HEALTH INSURANCE SCHEME RSBY NOW PROVIDES INSURANCE FOR HOSPITALIZATION FOR MORE THAN

39 These groups are, for example, in a much better position to ensure that all members participate in a health insurance scheme, reducing adverse selection problems.

40 As Ghate (2006) reports however, the growth in the number of SHGs linked with banks has increased dramatically and regional disparities are shrinking somewhat.

41 See for example, Basu and Srivastava (2005) for the relationship between income level and membership in SHGs in Andhra Pradesh. In the same vein, Ghate (2006) concludes that "Microfinance is best suited to reach the economically active poor, which may exclude some in the lowest decile or two of the population that suffer from old age, ill health or disability."

42 The GoI already subsidizes members of the EPFO with an annual contribution of 1.16 percent of the covered wage bill. In addition, favorable tax treatment of superannuation products and the Personal Provident Fund (PPF), a medium term savings instrument, results in tax expenditures of an unknown amount that mostly accrue to higher income workers who pay income tax. It could be argued that a matching subsidy of the kind described here would be both more progressive than and have a more positive impact from a public policy perspective than existing subsidies.

FORTY MILLION POOR PEOPLE AND IS GROWING RAPIDLY. The RSBY may be the first social sector program in India that simultaneously takes into account the perspective of the poor, focuses on getting the incentives of the various players that have to deliver the benefits right and encourages changes over time based on evidence. The experience of the first year or so has been positive, particularly in terms of demonstrating that the target population can be reached (despite the poor quality of the BPL list). However, in no country has such a large health insurance scheme operated without the oversight of a specialized agency. Setting up this agency is the key short run challenge for the RSBY.

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

OVERALL FISCAL CONSTRAINTS, ALONG WITH THE NEED TO KEEP TRANSACTION COSTS LOW AND TO ESTABLISH THE CREDIBILITY NEW INITIATIVES, SUGGEST THAT NEW SOCIAL SECURITY PROGRAMS BE PHASED IN CAREFULLY AND GRADUALLY. This kind of sequencing will inevitably imply tradeoffs. For example, as experience in India already shows, it is easier to implement cash-based benefits covering risks such as death and old age than it is to provide health insurance due to supply side constraints and the complexities of monitoring providers. Add to this the problems of adverse selection and moral hazard and it becomes clear that health insurance is much more difficult to design and implement than pensions. Yet, medical care is likely to be a greater priority for most unorganised sector workers and the members of the households that depend on them for income.⁴³ Nevertheless, extending coverage for other risks in a shorter time frame could prevent millions of households from falling into poverty in the meantime.

ACHIEVING WIDESPREAD COVERAGE IN AN EFFECTIVE MANNER IS NOT POSSIBLE WITHOUT THE DEVELOPMENT OF INFORMATION SYSTEMS THAT ALLOW THE GOI TO TRACK MEMBERS OF THESE PROGRAMS AND THE FINANCIAL FLOWS (CONTRIBUTIONS, PREMIA AND BENEFITS) EFFICIENTLY. Innovative use of technology may be part of the answer, but in order to keep costs down, existing infrastructure such as post offices and banks will have to be harnessed. In addition, and especially during the first phase of implementation, the recordkeeping that already exists for groups such as SHGs and MFIs should be utilized and, where necessary, upgraded so that it is possible to 'plug in' large numbers of participants in a cost effective manner. Both governmental and external assistance could be made available to groups willing to participate and meeting recordkeeping standards (including compliance with the unique ID system) should be a condition for receipt of subsidies. A centrally managed recordkeeping system is one option, but common standards that allow supervision entities to monitor effectively are a minimum prerequisite. The time and resources required to design and construct a national system of this kind should not be underestimated but getting the implementation machinery right at the beginning will avoid bigger problems down the line. At the same time, India is a world leader in MIS applications so that state of the art solutions are possible if policymakers accord the issue the importance it merits.

FINALLY, AS NOTED ABOVE, THERE ARE MANY DISPARATE AND DISCONNECTED INITIATIVES IN PROGRESS BY CENTRAL AND STATE GOVERNMENTS IN INDIA THAT SHOULD BE BROUGHT UNDER A CONSOLIDATED NATIONAL POLICY FRAMEWORK. The passage of the Social Security Act at the end of 2008 is a positive step towards establishing such a framework. It now requires implementation. The Social Security Board envisioned under this act can serve as a coordinating body bringing various efforts under one umbrella, spell out a national policy complete with target benefit levels, costing, subsidy and strategy for phased implementation. In light of the importance of implementation issues and, especially recordkeeping, a special advisory group to make recommendations on these aspects with the best available technical support from public - private sector partners in India could be formed.

⁴³ Interestingly, some surveys, (e.g., Madheswaran et al. 2005a show that unorganised sector workers rate old age pensions higher than insurance for sickness or health. However, the data on actual shocks experienced suggest that health shocks are more important to most households, at least on a short term basis. Furthermore, there is evidence that many workers do not value the benefit of health insurance if they do not make a claim and consider the premium 'lost'. Pensions, on the other hand, are deferred income that, at least in principle, will eventually be received (at least by a survivor in case of death).

Financing and Institutions for Social Protection

LIKE OTHER PUBLIC INTERVENTIONS, EFFECTIVE SOCIAL PROTECTION SYSTEMS RELY ON A MUTUALLY SUPPORTIVE WEB OF APPROPRIATE POLICIES, CAPABLE AND EMPOWERED INSTITUTIONS FOR IMPLEMENTATION, AND TRANSPARENT AND ADEQUATE FINANCING. This section provides an overview of financing and institutional aspects of SP programs, key determinants of SP system effectiveness in India. It first explores financing sources, mechanisms, and patterns in recent years for the major centrally sponsored schemes of social protection, before examining the rapidly evolving institutional framework for SP program delivery.

IT IS CLEAR THAT SOCIAL PROTECTION IS IN AN EXCITING PHASE IN TERMS OF POLICY EVOLUTION, FINANCING LEVELS, AND INSTITUTIONAL ARRANGEMENTS. At the same time, the situation presents an unfinished agenda which in some ways lacks a coherent vision for the system which is informed by the socio-economic developments and institutional capacities. Looking at the financial and institutional aspects of SP programs covered in this chapter, some conclusions and recommendations are as follows:

FINANCING OF SP PROGRAMS

BROADLY SPEAKING, INDIA'S SHARE OF PUBLIC SPENDING ON SAFETY NETS IS REASONABLE, AND INDEED QUITE HIGH AS A SHARE OF GDP BY INTERNATIONAL STANDARDS OF LOW AND MIDDLE INCOME COUNTRIES. Its main challenges are therefore fourfold:

- ◆ sustaining roughly the current share of public spending as overall spending rises.
- ◆ adjusting the composition to spending to greater emphasis over time on ex ante risk mitigation (i.e., social insurance programs for the unorganized sector) and promotional programs (including those linked to human capital formation).
- ◆ increasing the flexibility of funding from the centre to states in terms of how it can be used for different SP interventions, while strengthening the emphasis on spending outcomes.
- ◆ deepening a range of administrative and institutional reforms in SP service delivery which can contribute to greater expenditure efficiency.

THE NOTABLE EXCEPTION IS THE AREA OF SOCIAL INSURANCE, WHERE THE SHARE OF PUBLIC SPENDING CAN BE EXPECTED TO INCREASE NOTABLY AS INDIA ENTERS MIDDLE INCOME STATUS, AND WHERE THE IMBALANCE BETWEEN SOCIAL SECURITY SPENDING ON THE ORGANIZED AND UNORGANIZED SECTORS WOULD BE EXPECTED TO SHIFT IN FAVOUR OF THE LATTER. In the medium term, international experience and social expectations in India would suggest significantly increased spending on social insurance for the large uncovered share of workers. It will be important that this increased expenditure priority not be at the expense of social safety net spending, but rather is financed from a combination of reallocation from non-merit spending, growth in aggregate fiscal resources, and contributions from workers themselves. In practice, expanding social security to the unorganized sector is likely to require not-insignificant public subsidies to incentivize participation, as one sees for example with RSBY and certain pension schemes.⁴⁴ In addition, effective social insurance programs can in part be expected to be self-financing in two ways: (i) they should help control additional demands on the safety net that might otherwise arise due to factors such as population ageing; and (ii) international evidence suggests that effective social security systems can actually contribute to growth in a variety of ways, from enabling higher risk/higher return productive activities to cushioning the impacts of growth-enhancing reforms for those who lose out from them in the short run.⁴⁵

THERE ARE PROS AND CONS OF DIFFERENT POSSIBLE METHODS OF MORE FLEXIBLE CENTRAL FUNDING FOR SP PROGRAMS. Firstly, there would be natural reluctance from central Ministries to simply transferring SP CSS resources to Normal or even Additional Central Assistance, as evidenced by the failure to transfer several CSS to states as per the 1999 Planning Commission list of schemes. More specifically, as Normal Central Assistance is based on population and poverty under the Gadgil formula and not on performance, incentives for states to improve performance on specific SP programs would be relatively weak. For Additional Central Assistance, there are examples of linking transfers to state reform performance, such

as JNNURM. However, these requirements have not been strongly enforced in practice. There is also no obvious mechanism for the Planning Commission to monitor performance of specific CSS under NCA, and for ACA only where responsibility is given to a central Ministry.

OVERALL, AN IMPROVED TRANSFER SYSTEM FOR SP CSS WOULD NEED TO BALANCE NEED, CAPACITY AND FISCAL AND ADMINISTRATIVE EFFORT OF STATES. This could involve several elements, including:

- ◆ *a first step towards such a system would be moving to towards a more outcome based funding method.* Such an approach would, however, require a clearer set of outcome indicators against which state performance could be measured, and a stronger planning function at state and district levels. This approach is one that is already being used in India in some donor programs which are results or outcome-based.
- ◆ *a second step in such a process may be allowing for sanctioning of allocations for states which stretch across two to three budget years,* which could lessen current incentives to spend SP allocations inefficiently (or simply parking them in accounts), and also assist with programs which are subject to cyclical demand – such as public works – which is not presently synchronized with the budget planning and release cycle.
- ◆ *a third step could be the block grant for SP programs outlined above.*
- ◆ *an alternative approach which could be implemented even in the absence of more serious financing reforms is the creation of an incentive fund for states for SP programs.* An SP incentive fund could either be stand-alone or a window of broader proposal for a decentralization incentive fund. Alternatively, a central innovation fund for social protection could be created which could allow states to access central funds on a proposal-driven basis for innovations in SP program delivery, or experimentation with new initiatives.

⁴⁴ For international experience on matching subsidies to incentivize participation in pension programs for informal sector workers, see Holzmann et al. (2009).

⁴⁵ See WDR, (2006), for a discussion of international evidence that there is no necessary growth-equity trade-off.

INSTITUTIONAL ROLES FOR SP PROGRAMS

THE MOST FUNDAMENTAL INSTITUTIONAL CHALLENGES IN SP CSS CONTINUE TO BE DELINEATING CLEAR LINES OF ACCOUNTABILITY IN SERVICE DELIVERY, AND SUPPORTING THE AUTHORIZED ACTORS WITH ADEQUATE STAFF AND FINANCES. This will require first and foremost greater proactivity on the part of states to approve policies and put into practice the PRI/ULB decentralization provided for under the 73rd and 74th constitutional amendments. With notable exception of Kerala, and incomplete examples such as Rajasthan and Karnataka, most states have yet to define the framework for decentralized service delivery in a sufficiently operational manner.

THIS WOULD NEED TO BE FOLLOWED BY A PROCESS-INTENSIVE RECONCILIATION OF CENTRAL GUIDELINES, STATE-LEVEL STANCES ON SERVICE DELIVERY DECENTRALIZATION, AND CAPACITIES AT SUB-STATE LEVELS TO PERFORM THE REQUIRED IMPLEMENTATION FUNCTIONS IN SP PROGRAMS. This is not a process which will generate a single “right” answer on the assignment of activities to different actors at different levels of the system. What it could usefully achieve however is a more considered assessment by both centre and states of what is the chain of activities from top to bottom required to deliver effective SP programs, and of the realistic potential of different actors to deliver on their proposed responsibilities. This could in time improve the alignment of functions, funds and functionaries in SP programs. Such efforts would need to focus in particular on elements of the service delivery chain at block level and below. The process could involve several steps:

- ◆ *“unbundling” each core SP CSS to its constituent functions or services and specific activities in different programs, as has been done for the MGNREG and RSBY guidelines.* While implicit in guidelines of some other schemes, such a simple exercise would be a useful building block for a principled division of functions across levels.
- ◆ *for all states, producing a consolidated mapping of the current assignment of sectors and SP program-specific functions, both de jure and de facto.* This exercise would clearly identify

cases where concurrent responsibilities arise for programs where DRDAs and/or PRIs have specific responsibilities assigned to them under CSS guidelines. Where such concurrent responsibilities are apparent, further dialogue between the states and centre would be needed to agree whether CSS guidelines need to provide more flexibility to states on institutional arrangements for programs, or whether states need to be encouraged to move more actively on state-specific assignments which are consistent with CSS programs (with Kerala providing a good example of such a proactive role by states). Such discussions could be guided by both public finance criteria for assigning responsibilities, and basic management principles for enhancing accountability.⁴⁶

- ◆ *having determined an appropriate assignment of functions to different levels, a fuller assessment is needed of the personnel and financial implications of carrying out required functions.* Where enhanced personnel capacity is needed, this would then need – as is the case with MGNREG – to include the financing of needs in program costing, and the capacity building requirements at different levels.
- ◆ *gradually institutionalizing roles for communities in both selected elements of CSS delivery, and in community oversight of program functioning.* Again, the model of MGNREG provides a useful precedent. This is also likely to involve partnerships with NGOs to build local capacity for effective social audit, and the more general obligations of the state for disclosure of program information, as has proved effective for example in Rajasthan. The RSBY scheme also provides useful precedents on the role of NGOs and other grassroots organizations in SP service delivery and demand side mobilization.
- ◆ *taking lessons from the emerging experience in India and beyond in public-private partnerships in different aspects of SP service delivery.* Increasingly, the private sector has been playing different roles in the SP service delivery

⁴⁶ See also the recommendations of the Empowered Sub-Committee of the National Development Council (NDC) on Financial and Administrative Empowerment of the PRIs July 2008.

chain. RSBY is the most advanced example, with involvement of private insurers, private hospitals, private sector smart card providers and outsourced software development, as well as roles for grassroots organizations noted above. However, many other programs – particularly at state level – have been experimenting with outsourcing of different functions. In some cases, this involves partnerships on technology, such as the role of TCS in managing MGNREG databases in AP, or smart card provision by commercial firms in a number of pilots. In others, there is a more involved role for the private sector, such as in Bihar where rural informatics service centres for RD programs at block level have been assigned following a tender process, in which for-profit and not-for-profit organizations operate the information and database management of RD programs on behalf of the state Government.

IN ADDITION TO THE ABOVE NEEDS ON INSTITUTIONAL ROLES, SPECIFIC SUGGESTIONS INCLUDE:

- ◆ ***at both central and state levels, formation of an inter-departmental Task Force or Authority for Social Protection***, which would promote coordination across programs targeted towards similar populations, and promote more coherent strategy development on the medium term policy mix and priorities in social protection. The cases of Mission Convergence in Delhi and the Safety Nets Authority in UP provide interesting models, which could be adapted by other states.
- ◆ ***for program planning, several initiatives would be useful***, including: (i) earlier notification to states and DRDAs of estimated funding envelopes for programs for the following fiscal year in order to facilitate lower level planning and budget management; and (ii) ensure that states which have not already done so appoint District Planning Committees, and ensure adequate financing for technical support to DPCs.
- ◆ ***as social security expands, the role of the private sector (as insurers) and a range of member-based organizations such as MFIs, NGOs and workers associations is already becoming increasingly important, and demands new modes of engagement and partnership form the public sector.*** The biggest constraint on expanding social security to the unorganized sector has been developing delivery mechanisms which can deal with the transactions costs of reaching unorganized workers. This requires intensive engagement with intermediary partners between government/insurers and unorganized workers, as well as learning from efficient insurance distribution channels of public and private insurers. The RSBY provides an excellent model of partnership, as do more localized initiatives such as UTI partnerships with both state governments and organizations such as SEWA, and the roles of trade unions and employer organizations in some of the welfare funds around the country.
- ◆ ***for M&E, develop a disaggregated picture of potential and capacities at different levels of the system for monitoring and evaluation***, and align program guidelines in that light. The proposal to establish a national Independent Evaluation Office is a welcome step with respect to M&E.

Social Protection Program Administration

WITH A MYRIAD OF PROGRAMS AND PLANS TO INTRODUCE NEW SCHEMES, EXPAND COVERAGE AND CONSOLIDATE EXISTING SCHEMES, IT IS AN IMPORTANT TIME TO ASSESS RELEVANT EXPERIENCES AND IDENTIFY BOTH GOOD AND BAD ADMINISTRATIVE PRACTICES. While India may not have the advantage of other countries of running a well-organized centralized machinery of administration of public benefits, some strategic priorities could be defined to achieve better benefit delivery and transparent operation. In particular, policies seeking harmonization, portability, and transparency in benefit provisions, and otherwise ensuring minimum operational standards, should be designed, endorsed, and promoted. Capacity to regulate and supervise various benefit providers and their intermediaries should be gradually built. Furthermore, a firm stand could be taken on the policy of registration and tracking of beneficiaries of the public programs. From the discussion above, and from the insights of many Gol and independent studies on program performance of CSS SP programs, some more specific recommendations emerge:

AWARENESS AND OUTREACH

WHILE PROGRAM AWARENESS AND OUTREACH IS AN INHERENTLY DIFFICULT PROCESS IN A COUNTRY OF INDIA'S SIZE AND DIVERSITY, EXPERIENCE FROM STATES AND FOR SPECIFIC PROGRAMS SUCH AS MGNREG INDICATES THAT MUCH CAN BE DONE IF THERE IS SUFFICIENT WILL. An improved awareness and outreach strategy would likely involve several elements:

- ◆ *developing a better picture of what are the key information sources of the poor on public programs, including what types of information they get from which channels.* The limited survey information indicates that typical government media campaigns, web-based information, and information from administrative officials are not the channels through which the poor find out about programs.
- ◆ *providing in SP program budgets for sustained awareness raising by third parties where possible.* Field work for this report indicates that program

awareness dissemination is not a one-time activity, but a product of repeat contacts and local sources of reliable information. This tends not to be the approach of most IEC campaigns for SP programs.

- ◆ ***developing a more diverse range of IEC strategies for program awareness raising.*** This would involve not only a more diverse range of actors as tools of information dissemination (including NGOs, SHGs, youth groups, social and religious leaders), but also a more diverse set of information tools (including visual media suitable for non-literate audiences, television and radio campaigns which more creatively engage audiences rather than simply presenting program guidelines, use of community, etc.). Box 6.1 highlights the community monitoring experiences in Rajasthan and Andhra Pradesh.
- ◆ ***deepening the use of social audits not only as a tool for program monitoring, but as a source of program information dissemination.***

APPLICATIONS PROCESS

- ◆ ***review program eligibility criteria on several key programs with a view to simplification of eligibility proof and understanding of the public.*** One aspect of this would be exploring avenues for reliable third party verification of certain facts where documentary evidence is not available or costly to gather.
- ◆ ***proactive exploration of how SP programs can reduce transactions costs of program application through linking to the range of ICT initiatives such as rural business kiosks and other village-level connectivity initiatives.*** The emerging examples in other contexts such as spreading availability of land records through rural E-kiosks (e.g., Bhoomi in Karnataka) and availability of market information (e.g., ITC's E-chaupal initiative) suggest that concerted effort between SP departments and their ICT department colleagues could pave the way for a major contribution to simplification of program applications, and significant cost

Box 6.1: Community monitoring of social programs: Experience from Rajasthan and AP

MKSS (Organization for the Power of Workers and Farmers), a Rajasthani NGO, organized a series of *jun sunwais* or public hearings on performance of public programs targeted to the poor. The meeting is an open forum which aims to include community members, social activities, lawyers, media and public officials. At the meeting, public documents on program performance are read out, and participants are encouraged to ask questions and give examples of their own experience in program operation in reaction to the official records. Initially, this approach was resisted by many officials, who objected that official documents could only be audited by official auditors. In some cases, court orders were sought to avoid sharing information through such an extra-judicial mechanism.

While the *jun sunwais* meeting has no official mandate and hence sanction authority, it has proved a useful tool for "naming and shaming" in order to improve program performance. Some officials have returned funds, others have quit or been suspended, and arrests were made in some cases. On the policy side, the process resulted in amendments to the Rajasthan Panchayati Raj Act to allow public access to all documents under anti-poverty programs, and the development of social audit guidelines. The process has also now been extended to some urban areas such as Delhi. The methodology has also been used intensively through "padyatris" on the MGNREG, and MKSS has conducted two trainings for participants from other states in the social audit methodology.

Building on the Rajasthan experience and with the mandate of the MGNREG guidelines, the state of AP has taken a proactive role in promoting social audits in the districts where MGNREG is operational. The Department of RD and Panchayati Raj set up a social audit wing, which trained district resource people, who are training village level organizers. Initial social audits have now been documented in all 13 districts in the state where MGNREG is implemented. This has also involved widespread NGO participation. Training has been provided for village level workers in social audits processes. For example, in Anantpur district, 1200 workers were organized in team of 10-13 members covered 38 mandals in a 10 day period, and then conducted a mandal-level "social audit forum" to discuss main findings.

The social audit process involves several steps after training: (i) teams are given a checklist of key implementation issues; (ii) key financial reports, muster rolls and other documentation are procured from local officials under the RTI Act; (iii) a household level survey is done; (iv) visits are carried out at work sites, and a village meeting is held to share information and discuss problems found; and (v) a mandal level social audit forum is called where officials and the community attend and officials are asked to explain discrepancies in implementation. While managing these processes has been challenging, the interaction between communities, PRIs and officials is generally considered useful, and has resulted in dismissal of lower level field staff in a number of cases. At the same time, the social audit has generally been better at dealing with small level grievances than systemic issues, and it remains to be seen how sustained the process and its impacts will be as implementation continues.

Sources: OHCHR/UNDP workshop; Samji and Aiyar.

reductions for applicant households (not to mention lower opportunities for undesirable middlemen).

- ◆ **encourage – if necessary with public subsidy on a contracting-out basis – NGO, SHG and other CBO intermediation to facilitate program applications, and increase the use of camp approaches to registration by the administration itself.** Given that the culture of reliance on middlemen is so prevalent, it seems sensible to encourage the efforts of middlemen (or more likely “middlewomen”) who are more likely to have the interests of the applicant at stake.
- ◆ **in terms of program oversight, it seems sensible to target IAY and SGSY for particular scrutiny, including use of social audits.**
- ◆ **share the experiences of states which are piloting biometric and other ICT advances to reduce fraud and human error in the beneficiary recording process.**

◆ **as part of strengthening the accounting and financial reporting framework, it will be increasingly important in SP CSS which route through DRDAs to develop standard financial reporting rules for societies, which would subsequently be reflected in the GFRs for GoI and the states.** This work would most sensibly be led by CAG and ICAI.

- ◆ **address the backlog in external audits of SP CSS, and a more competitive process of selection of third party accountants responsible for auditing societies.** All Ministries implementing SP CSS should also post the findings and actions taken on audits on websites.
- ◆ **equally – and more challenging in terms of bureaucratic culture – there is a strong need to deepen the uses to which financial information on programs is put,** and hence to move away from the simple input/output culture of financial reporting which prevails in most CSS.

◆ **finally, the positive development of increased citizen accountability for SP funds use seen in MGNREG should be institutionalized over time in all SP programs,** with basic initiatives like posting of all program releases and uses, greater reliance on social audits, and posting of beneficiary lists and program rules in plain language. A number of these are natural corollaries of the Right to Information Act, but their full potential remains to be exploited in most states of India to date.

FINANCIAL MANAGEMENT

- ◆ **some of the needed improvements are in the domain of states, and they will need to follow the lead of recent reformers in areas like public expenditure management rules and expansion of ICT in release and tracking of funds.** They will also need to facilitate sustained FM capacity development in PRIs if the intentions of decentralization of SP programs are to be realized. This will also require in most states a more elaborated financial accountability framework for PRIs and sub-state implementation agents.
- ◆ **other reforms – such as accounting for SP CSS resources as “spent” when they have not been and application of accrual accounting – will require coordinated efforts of the centre and states on reporting processes that require reliable information on physical and other outcomes of “spending”.** The example of MGNREG reporting in some states provides a good model which should be institutionalized. A first step in coordinated effort between the centre and states could be clear agreement on the necessary skills needed for FM at different levels of the system for SP programs (and more broadly), and agreement on action plans for ensuring adequate skills.

PAYMENT SYSTEMS AND RECORD KEEPING

REFORMS OF PAYMENT SYSTEMS CAN TAKE A RANGE OF FORMS, BOTH TECHNOLOGY-BASED, AND WHERE THAT IS NOT POSSIBLE, WITH COMMUNITY MONITORING OF PAYMENTS. Some of technological the options include:

- ◆ low cost ATMs developed at a fraction of cost of the conventional machines, equipped with finger print identification and long-life batteries, can facilitate cash distribution in remote areas.
- ◆ point-of-service (POS) devices installed in local shops and gas stations can use regular telephone lines to process on-line cash disbursement

transactions, or – in the case of PDS – facilities for debiting the monthly ration.

- ◆ special mobile branches could make conventional banking more accessible, enabling regular and scheduled visits in the remote communities.
- ◆ finally, mobile phone banking is an emerging phenomenon that utilizes comprehensive penetration of the new communication networks.

MORE GENERALLY, COST RECOVERY MECHANISMS OF DIFFERENT OPERATIONAL ALTERNATIVES TO THE CONVENTIONAL MODELS OF SERVICE PROVISION SHOULD BE FURTHER STUDIED. While some models are quite promising, their financial viability as localized stand-alone solutions remains a concern. Clever solutions may simply need to be scaled up in order to reach the break-even point of economic operation. Furthermore, strategies enabling synergies across multiple programs should be further explored. For example, while the smart card technology may be a costly solution if utilized only by a single benefit program, using it as a common platform for multiple products (e.g., various benefit and insurance schemes) may well help to make its application a sound economic proposition.

WITH RESPECT TO RECORD KEEPING, THE EXPERIENCES OF MORE PROGRESSIVE STATES SUCH AS KARNATAKA OFFER LESSONS FOR OTHERS. Some of the issues for attention include:

- ◆ training (and subsequent monitoring and enforcement of compliance) for GPs and blocks in maintaining appropriate registers of beneficiaries. As one of the challenges in this work will be capacity constraints at both levels, it could be useful to explore options for supplementing this in non-costly ways, such as providing skilled workers from MGNREG as temporary assistants to the gram sevak.
- ◆ at the state and district level, development of simple verification exercises which will allow program oversight to focus on high-risk areas. Even available monitoring data often throws up obvious anomalies, but is typically not used for this purpose.
- ◆ at central and state levels, improve cross-departmental coordination on a range of record keeping issues, starting with a strategy for convergence of beneficiary identification numbers. Even where systems remain parallel for the short to medium term, Collectors and BDOs should

encourage greater cross-program information exchange for programs with common elements such as being food-based or child-focused.

- ◆ as a condition of CSS receipts, the centre could insist that a computerization strategy and roll-out plan for SP programs be developed, including a training plan. This seems a bare minimum for movement towards a modern system of record keeping.
- ◆ encourage states to be more proactive in exploring outsourcing possibilities on development of program record-keeping software. India offers a particularly promising environment for such efforts, though there would remain an important role for the central government in ensuring consistency in basic design features, and thus comparability of data from different states.

MONITORING AND EVALUATION

- ◆ ensure that any major SP program has a pre-program baseline done, and that impact evaluations also include control areas where feasible.
- ◆ explore replicating the model of MGNREG with provision for more robust research and evaluation financed from the program budget.
- ◆ on monitoring: (i) review the current set of monitoring indicators for major programs to assess their utility and gaps in key program indicators; (ii) if necessary on a contracted-out basis or under special units (e.g., as Orissa has developed under its Poverty Monitoring Agency), conduct regular basic analysis of consolidated program monitoring information at state and central levels; and (iii) explores institutional mechanisms in states and at the centre to use the analysis of such units for annual review of program performance and policy implications.
- ◆ building on the social audit experience in some states, mainstream social audits as a standard practice in all SP programs. While the experience is relatively new on any scale, social audits seem a useful tool for increasing community knowledge of programs and providing a vehicle for redress where needed. However, in the absence of an authorizing environment in program guidelines (such as under MGNREG), the potential of social audits will remain limited.

Targeting Mechanisms

THE ANALYSIS IN THE REPORT SUGGESTS THERE IS MAJOR SCOPE TO IMPROVE TARGETING SYSTEMS FOR PUBLIC PROGRAMS IN INDIA. At the same time, there are several generic issues which must be taken into account in reforming targeting in SP programs:

- ◆ the distribution of households exhibits considerable clustering around the poverty line nationally, making fine-tuned targeting design inherently challenging.
- ◆ there is considerable diversity across states in the factors that are correlated with poverty, so that reliance on standard national indicators in targeting systems has inherent weaknesses.
- ◆ community level beneficiary identification has attractions in such an environment. However, its strength is within-community targeting at a very localized level in relative terms rather than the kind of absolute measure of poor people necessary for comparisons across space.

A KEY CHALLENGE THEREFORE IS HOW MIGHT THE SYSTEM MARRY THE “TOP DOWN” TARGETING NECESSARY FOR SPATIAL

DISTRIBUTION OF SOCIAL PROTECTION RESOURCES, WITH THE “BOTTOM-UP” INFORMATION ON THE CHARACTERISTICS OF THE POOR WHICH MIGHT DO A BETTER JOB OF RANKING HOUSEHOLDS AT THE GRASSROOTS LEVEL. Table 7.1

Table 7.1: Type of targeting by SP programs

Program	Type of targeting
PDS grain	Ration card
Annapurna grain	Ration card
Rural credit (SGSY)	BPL list
Rural public works (MGNREG, SGRY, FFW)	Self-targeting
Rural housing support (IAY)	BPL list
IGNOAPS	Categorical (age) + BPL list
Disability pension	Categorical (disability)
Widow pension	Categorical (widowhood)
Subsidized health insurance (RSBY)	BPL list
Scholarship	Categorical (social group, gender)

Sources: Program guidelines. Note that NOAPS was earlier targeted using state-specific definitions of “destitution” in IGNOAPS; these have now been substituted by BPL status.

describes major social protection programs and their targeting approaches. There appear to be several elements of a potential strategy. These are discussed below, first presenting more modest reform proposals, and then presenting an option which would imply more substantial reform.

INTERNATIONAL EVIDENCE ON TARGETING OUTCOMES PROVIDES USEFUL INSIGHTS IN THINKING ABOUT AN APPROPRIATE TARGETING MIX. Three observations emerge from a review of targeting methods and outcomes in 122 targeted programs in 47 developing and transition countries:

- ◆ some methods have better targeting outcomes than others when taken across a wide range of countries.
- ◆ combining targeting methods generally results in improved outcomes. For example, a combination of three methods improves targeting outcomes by around 30 percent. This potential improvements needs to be traded off however with additional administrative costs and demands, and the risks of too much complexity introducing possibilities for manipulation.
- ◆ at the same time, there is also strong variation across countries in targeting outcomes within each method, pointing to the importance of country specificities and implementation capacity in considering options. Across the sample of programs, around 80 percent of the variation in targeting outcomes is accounted for by within method variation, and around 20 percent by between method variations. One important dimension of this is community “voice” in the society, which internationally improves targeting outcomes by around 23 percent.

INTERNATIONAL EVIDENCE THEREFORE CLEARLY SUGGESTS THAT NO SINGLE TARGETING METHOD WILL EVER BE SUFFICIENT, AND THAT THE POLICY QUESTION IS WHETHER A MORE EFFECTIVE MIX OF METHODS CAN BE EMPLOYED FOR SP (AND OTHER PROGRAMS).⁴⁷ This would include improvements in methods for each type of targeting, and potentially a different mix of methods. The discussion below focuses initially on improvements in

geographic targeting and the “backbone” BPL method, before a discussion of more substantial reform options.

IMPROVING GEOGRAPHIC TARGETING

WITH RESPECT TO GEOGRAPHIC TARGETING OF CENTRAL SP ALLOCATIONS, IT WOULD BE USEFUL TO GENERATE SUB-STATE ESTIMATES OF POVERTY USING POVERTY MAPPING TECHNIQUES, AND USE THESE AS THE BASIS FOR FUTURE SPATIAL RESOURCE ALLOCATION.⁴⁸ Poverty mapping allows for reliable small area estimates of poverty below the state level by combining information from the NSS household survey data with unit record data from the Census. Since the late 1990s, detailed “poverty maps” have been prepared for a growing number of developing countries. These maps provide estimates of poverty and inequality at the local level – such as the district, sub-district, and even village level. Such information is not commonly available because household surveys are typically too small in sample size to permit sufficiently fine disaggregation. Yet, with ongoing efforts to apply detailed spatial targeting of public interventions, or to realize the gains from decentralization and community-centered development, there is a pressing need for information on distributional outcomes at the local level.

IN INDIA, THIS COULD RELIABLY GENERATE POVERTY ESTIMATES AT BLOCK LEVEL. While progress on this front would not address the issue of household level targeting, it would significantly reduce issues of targeting across space within states. In India, a pilot effort to produce poverty maps in three states - West Bengal, Orissa and Andhra Pradesh – is ongoing. Once that is complete, it would be a more precise basis for allocations of CSS SP resources across space. In particular, these poverty maps can potentially be an important part of a strategy to marry “top down” targeting (essential for fiscal allocations of resources across space) with “bottom-up” targeting of households or individuals (e.g., through community-based methods that rely on local knowledge but are not comparable across space).

47 See Coady et al. (2004) for a useful discussion of different targeting methods and combinations in developing countries.

48 See Elbers et al. (2003) for discussion of the poverty mapping methodology and World Bank (*forthcoming-a*) for a discussion on the pilots in India.

IMPROVING HOUSEHOLD-LEVEL TARGETING

IN ADDITION, THERE IS A MAJOR NEED TO IMPROVE INDIA'S HOUSEHOLD LEVEL TARGETING SYSTEMS, THOUGH THE RANGE OF OPTIONS VARIES BETWEEN URBAN AND RURAL AREAS, AND BY PROGRAM TYPE. This section looks at three possible reforms in the BPL methodology as well as the potential role of other methods, including community-based and self-targeting methods. None of them provide a "magic bullet" for all programs, but are suggestive of options for improvement which may contribute to a more effective mix of targeting methods.

REFORMING THE BPL METHOD. given the concerns over widespread exclusion and inclusion errors in the 2002 bpl method, an expert committee has suggested significant changes in design of the proposed 2009 bpl census (as described in the Saxena Committee report).⁴⁹ One, the method proposes the automatic exclusion of visibly non-poor households and the automatic inclusion of the most vulnerable households, with a survey and scoring only of the remaining households. Two, the new method overlays geographic targeting criteria by specifying district, block and GP-level quotas with respect to the proportion of BPL households. In districts that have a very high proportion of BPL households (over 80 percent), all households (except the visibly non-poor) would be considered to be poor and automatically included in the BPL list. This design reduces administrative demands and cost to some extent by reducing the scope of the survey. The underlying principle of the proposed methodology is to minimize errors of exclusion, without worrying overmuch about errors of inclusion. The elements of the proposed method are described below.

SETTING QUOTAS FOR THE DISTRIBUTION OF BPL HOUSEHOLDS ACROSS SPACE: District-level thresholds for the proportion of BPL households could be set using the ratio of SC/ST population in the district to that in the state, the inverse of agricultural production per rural person and agricultural wage rate of the district.⁵⁰ These could then be used to estimate block-level proportions of the poor using any one or a combination of indicators on soil and irrigation quality, road connectivity, female literacy and

share of non-agricultural workers. Finally, these block-level estimates would be used to generate GP-level quotas for BPL households on the basis of population estimates. Estimating these disaggregated sub-district thresholds as well as choosing alternative rules to generate GP-level quotas could be left to the discretion of the state government or district authorities.

IDENTIFYING POOR HOUSEHOLDS: The basic principle behind the methodology being proposed is to ensure the inclusion of groups that are regarded as particularly vulnerable (e.g., workers in low income or highly vulnerable occupational categories, households where earning capacity is severely curtailed by external constraints, etc.) and/or groups that are historically subjected to social exclusion. The proposed method of identifying households has the following three elements:

- ◆ Automatic exclusion of visibly non-poor households
- ◆ Automatic inclusion of the poorest and most vulnerable households
- ◆ Scoring of the remaining households (except in districts with poverty above the specified threshold – 80 percent - where all households, except those automatically excluded, are identified as poor without a survey).
- ◆ Automatic exclusion of households that meet certain criteria and are identified as non-poor: The intention is to exclude households that are visibly non-poor, but whose position of economic, social or political privilege makes it possible for them to get (wrongly) included in BPL lists. The exclusion criteria include the following:
 - (a) households with double the land of the district average of the agricultural land per agricultural household if partially or wholly irrigated (three times if completely unirrigated);
 - (b) households who have two-wheeled (or more than two wheeled) motorized vehicles;
 - (c) households who have at least one mechanized farm equipment;
 - (d) households who have any person who is drawing a salary of over ₹ 10,000 per month in non-government/private organizations or is employed in government (including parastatals)

⁵⁰ Saxena Committee report (2009).

⁵¹ This is the standard formula used for fiscal allocations for Rural Development programs.

on a regular basis with pension or equivalent benefits; (e) income tax payers.⁵¹ These criteria are an improvement over those used in the 1997 BPL method as (i) they allow for some local variation to a limited extent (e.g., land holding is assessed relative to the local average instead of the all-India threshold of two hectares previously) and (ii) focus only on high-value assets that may be more successful in separating the rich from the poor.

- ◆ Automatic inclusion of certain categories of households that are considered to be among the poorest and most vulnerable: These include the following categories: (a) designated Primitive Tribal Groups; (b) designated most discriminated against SC groups (called Maha Dalit Groups), if so identified by the state; (c) single women headed households; (d) households with disabled person as bread-earner; (e) households headed by a minor; (f) destitute households that are dependent predominantly on alms for survival; (g) homeless households; and (h) households where any member is a bonded laborer. However, there is some confusion in the treatment of households and individuals while operationalizing these criteria. While the report focuses for the most part on households (i.e., a joint family that resides under a common roof and eat from a common kitchen) and nuclear families, some of the specific categories noted above relate to individuals. In this case, the report suggests treating these groups as separate households (e.g., single women with no major son, elderly couples or individuals, etc.). However, it is not clear how to score the remaining household members. Also, not all of these criteria are easily measurable or verifiable in the field – e.g., a functional assessment of disability requires several detailed questions and highly trained investigators.
- ◆ Grading of the remaining households (identified as poor) in order to prioritize programs and services to the poorest among these households: The proposed scoring system ranks households on a scale from one to ten using the following

criteria: (a) caste and religious affiliation – SC/ST (3 points), denotified tribes and designated ‘Most Backward Castes’ (2 points), Muslim/OBC (1 point); (b) any one household member engaged in the following occupations – landless agricultural worker (4 points), agricultural laborer with some land (3 points), casual workers (2 points), self-employed artisans or fisher folk (2 points); (c) no adult above the age of 30 with schooling up to grade five (1 point); (d) any household member with TB, leprosy, mental illness or HIV/AIDS or disability (1 point); and (e) households headed by an old person of age 60 and above (1 point). Since the bunching of a large number of households is possible at certain scores, the method proposes a ranking of households with the same score, with those in the special category group such as SC/ST at the top, followed by landless agricultural laborers and so on.

THIS PROPOSAL IS A MODEST APPROACH TO REFORM IN THAT IT PROPOSES CONTINUING WITH THE BPL SYSTEM WITH SOME IMPROVEMENTS. The proposed methodology is an improvement over the 2002 BPL method in some ways: (i) The indicators chosen are likely to be highly correlated with poverty for the most part (though not necessarily for the elderly).⁵² Some of these indicators (gender of household head, education, occupation) were among a wider set of indicators used by Jalan and Murgai (2007) in their augmented regression model that performed much better than the 2002 BPL method. However, while the reduction in the number of indicators increases simplicity in field processes, it may make it more difficult to separate the rich from the poor and the poor from the poorest; (ii) Weights have been assigned to the indicators as noted above. However, weights have not been applied across states; and (iii) The use of the geographic, automatic inclusion and exclusion criteria reduce the scope of the survey and hence administrative demands and costs. Subjecting this methodology to the test using NSS data as done with the 2002 BPL method would yield interesting insights into how well the new de jure targeting design would perform.

⁵¹ These criteria apply to the entire joint family – i.e., the first criteria of higher than average land ownership would apply even to the son of a large farmer even though he may not actually have land registered in his name.

⁵² See Pal and Palacios (2008) for a comparison of poverty rates among the elderly.

HOWEVER, SEVERAL DRAWBACKS OF THE PREVIOUS BPL METHOD REMAIN, PARTICULARLY WITH RESPECT TO THE IMPOSITION OF CENTRAL CRITERIA ACROSS DIVERSE LOCAL CONTEXTS, CARDINALITY OF INDICATORS, AND THE SAME PROCESS OF AGGREGATION. In addition, there are likely to be reporting issues with some of the indicators (e.g., chronic health problems, disability). The adoption of this methodology will also have significant fiscal implications. The inclusion criteria are defined on the basis of nuclear families and individuals who are considered as separate households for the purpose of this exercise. This would lead to the number of BPL households increasing significantly, implying possible rationing within these households if program budgets do not rise adequately.

AS A RESULT, THERE IS STILL SCOPE TO MOVE TO A MORE DEVELOPED FORM OF PROXY MEANS-TEST, USING METHODS WHICH ARE GOOD PRACTICE IN DEVELOPING COUNTRIES, FOR BOTH RURAL AND URBAN AREAS. Box 7.1 summarizes some international experiences with proxy means testing. There are several possible elements in such as reform:

- ◆ *even if standard national BPL criteria are retained, these should be determined using rigorous*

regression models for greater targeting power.

While the proposed 2009 BPL methodology does include criteria such as caste affiliation that have been found to be strong correlates of poverty, the preferred method for such an exercise is to use the NSS or other representative national data to generate a set of indicators that provide more targeting power, and which could be easily verifiable at reasonable cost.

- ◆ *whatever indicators are used, they should have some weighting – preferably on a state-specific basis.* The basis for such weights and a more sensible ranking between levels of each indicator should be the NSS data, or other representative national data where relevant. In contrast, the proposed BPL methodology and Kerala's Kudumbashree use a set of weighted indicators for the identification of poor households, but the weights do not appear to be based on regression analysis. These are likely to be assigned by committee or, in the case of Kudumbashree, developed by communities in a participatory manner.

Box 7.1: International experiences with proxy means testing

Targeting on the basis of proxy means test like the BPL is becoming more common in developing countries. Generally such methods are used for large benefits and/or for multiple programs. Current examples include use of PMT for cash transfers (Armenia, Colombia, Mexico), targeting food subsidies and rations (Indonesia, Turkey), rationing entry for subsidized health insurance schemes (Colombia) etc. PMTs are also currently being designed and piloted in Bangladesh and Pakistan. In general, PMTs are relatively insensitive to quick changes in welfare and require time to design, pilot and set up systems for implementation, monitoring and redressal. As a result, PMTs are best suited for targeting the chronic poor in stable situations and not as a response to crises. From reviews of international experience with PMT, several common features emerge which can be considered good practice. India in its BPL system relies on some of these but not others:

- ◆ ***Design:*** Typically a PMT is designed using regression models of total household income or consumption on the selected variables, often separately for different regions of the country. This process, usually iterative, should yield:
 - Indicators that are the best possible proxies to predict poverty in rural and/or urban settings.
 - Indicators that are easily observable and not easily manipulated by households.
 - A weighting across the indicators, with the weights derived from the regression model.
 - Not too many indicators to be used in the PMT. Around two dozen variables are used typically when one looks at programs internationally.
 - Piloting before finalizing the PMT allows validation of the tool against other indicators of household welfare using current data.
- ◆ ***Implementation:*** The use of PMT requires institutional capacity for collection of household-level information and for subsequent database management.
 - Governments or project teams may decide to collect information through a door-to-door census type exercise or through targeting centers (combined with outreach and communication strategies to minimize exclusion).
 - Some countries combine the use of PMT with home visits or other methods for ensuring both that those identified through the PMT are actually poor, and to check on others. While desirable, this needs to be trade off with additional administrative costs and capacities.
 - In some countries, the scoring system is made public.
 - There is often an appeals process to mitigate the negative impacts on some poor households of the mechanical nature of the PMT formula.

- ◆ *a preferred approach beyond the above would be to let the indicators in the BPL methodology vary by state, or perhaps groups of states.* As the purpose of BPL is increasingly ranking of households rather than determining aggregate numbers of poor people (which remain controlled through the linkage to Planning Commission aggregates for states), there seems no inherent need to insist on standard national indicators. As part of a process to generate indicators, it would be worthwhile to simulate state or region-specific indicator sets and test their power in ranking of households.
- ◆ *piloting the proposed method would allow an assessment of how well these indicators capture household welfare, measured using other accepted measures such as per capita consumption and/or asset indices.*
- ◆ *BPL lists should be subject to localized verification by communities, using gram sabhas or other mechanisms.* In principle, this should happen, and does in some states (e.g., HP) and/or for specific programs. However, the process is not systematic and made more complicated by the fact that *gram sabhas* are held infrequently and participation is often low in most states.⁵³ If it were to become more standard, it may be useful in some areas to have the verification process facilitated by NGOs or other third parties where there are concerns of elite capture. Verification and finalization of the BPL list by the *gram sabha* is one of the suggestions made by the Saxena Committee draft report.
- ◆ *build in systems for dynamic updating of BPL lists in between censuses.* The Saxena Committee draft report suggests holding a census once every ten years, combined with a system for updating the lists every two years by registering changes in household circumstances. However, the report does not specify the implementation arrangements for doing this.
- ◆ *require states to have common BPL lists and BPL ration card aggregates, preferably consistent also at the household level.* Several states already do this, and it has the benefit of saving

administrative demands and avoiding multiple targeting criteria. The Saxena Committee draft report makes this recommendation. However, in states where the two do not presently coincide, political economy may make convergence challenging, particularly where BPL ration cards significantly exceed the numbers on BPL lists.

NO COMPARABLE CENTRAL GUIDELINES FOR A CENSUS OF POOR HOUSEHOLDS EXISTS FOR URBAN AREAS. Typically, the identification of poor households is carried out separately by different departments, such as the Food and Civil Supplies Department for PDS ration cards. However, methods differ across states and departments and there is little systematic information on this process. Notable exceptions are Delhi and Kerala. More recently, Delhi has defined a common process of identification of the poor across programs. This defines a set of thematic indicators capturing residential location, social deprivation and occupational vulnerability to identify vulnerable households. The underlying principle of promoting inclusion and several of the specific indicators are similar to those proposed in the rural 2009 BPL methodology. A survey is currently underway to collect information on households in poor localities, with the intention of covering other areas over time. The list of vulnerable households so generated would be used by the nine state departments that are engaged in delivering programs or services to the urban poor. This is a very positive step towards generating a common beneficiary database for multiple programs, thereby reducing administrative costs and increasing transparency. This, however, does not necessarily mean that all programs would need to target the same groups. Programs such as educational scholarships that target SC/ST children could use the information in the common database to continue targeting on caste affiliation rather than vulnerability status.

WHILE THE ABOVE REFORMS COULD SIGNIFICANTLY IMPROVE THE BPL SYSTEM, INTERNATIONAL AND INDIAN EVIDENCE SUGGESTS THAT INDICATOR-BASED TARGETING – EVEN WHERE GENERATED ROBUSTLY FROM RELIABLE SURVEY DATA – WILL STRUGGLE TO EXPLAIN A SIGNIFICANT PORTION OF VARIATIONS IN LIVING STANDARDS ACROSS HOUSEHOLDS. This is true in a static sense, where such methods rarely

⁵³ Even in the four southern states, only 20 percent of households reported attended a *gram sabha* (Besley et al. 2005).

explain more than half the variance in household consumption.⁵⁴

OTHER REFORM OPTIONS

WHILE REFORM OF THE BPL SYSTEM IS HIGHLY DESIRABLE, THERE MAY BE ADDITIONAL OPTIONS IN RURAL AREAS OF SOME STATES FOR COMMUNITY-BASED TARGETING TO PLAY A STRONGER ROLE IN SP PROGRAMS. As the centre enforces convergence on aggregate numbers of poor people between Planning Commission estimates and the BPL system, possibilities for more significant reforms of targeting systems could be considered in rural areas (though perhaps not in urban, where an enhanced PMT would seem more feasible).

ONCE A POVERTY MAP IS AVAILABLE AT BLOCK LEVEL, RELIANCE ON COMMUNITY-LEVEL WEALTH RANKING BECOMES A FEASIBLE OPTION AS A TOOL WITHIN THE FORMAL SYSTEM FOR IDENTIFYING SP BENEFICIARIES. While not an ideal match, the availability of aggregate numbers to block level and community ranking at GP/village level comes close to the “top-down” and the “bottom-up” meeting. To the extent there remains a gap, solutions such as assuming even poverty rates within the block, or some simple indicators such as population share (as is being proposed in the Saxena Committee draft report) or SC/ ST share or landless share in different villages might be used to allocate SP resources within a block. The precedent of Andhra Pradesh is instructive, where a list of poor household generated entirely by community wealth ranking has replaced the administratively generated BPL list across the state for the main anti-poverty programs administered by the Rural Development Department. This may not be feasible in all states (e.g., where caste fragmentation is high and risks of local elite capture more pronounced), and would need facilitation by competent NGOs. However, an evaluation of the AP experience, and well-evaluated pilots in other states seem warranted to see whether some of the shortcomings of even a well-designed PMT

can be mitigated through a stronger community role in identifying beneficiaries.

AS HAPPENS PRESENTLY WITH COMMUNITY WEALTH RANKING, THE PROCESS WOULD BENEFIT FROM BEING FRAMED WITHIN GENERAL CRITERIA FOR RANKING HOUSEHOLDS. From an implementation viewpoint, there is a tension between more localized guidelines and minimizing intensity of process and costs in developing the guidelines. However, experience from India (e.g., Kerala’s Kudumbashree) and from other countries which have formalized community identification into their formal SP systems (e.g., Uzbekistan), suggests that this is a surmountable challenge.

WHETHER THE MODEST OR MORE FUNDAMENTAL REFORM OPTIONS ARE PURSUED, SELF-TARGETING (AS HAPPENS IN PUBLIC WORKS) WOULD CONTINUE TO BE A USEFUL TOOL FOR PROGRAMS WHERE IT IS SUITABLE. This approach is most effective when used to target goods or services that are more heavily consumed by the poor than the non-poor, and for programs where monitoring costs associated with verification of eligibility are high. Programs such as public works are amenable to self-targeting approaches through the wage rate and types of work offered. Others such as subsidized credit lend themselves less readily to self-targeting. For cash benefits, the possible role of self-targeting will depend on benefit levels, ease of accessing programs and other factors. Despite these obvious limitations, the empirical results in Chapter 4 highlighting the superior targeting performance of public works suggests that “cutting out the middleman” in targeting of SP programs remains an important tool for programs where the nature of the self-targeting requirement or of benefits offered permits. This suggests that self-targeting should continue to play a role in programs where it is suitable. An important additional factor supporting this conclusion is that self-targeting may minimize the political costs of clear designation of target groups, by allowing policymakers to describe such programs as “open to all”.

⁵⁴ For example, Egypt’s PMT for its food rationing system captures only 43 percent of the variation in consumptions across households, and Armenia’s only around one quarter of the variation.

Political Economy of Social Protection Reform

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

SOME OF THE POLITICAL ECONOMY CHALLENGES THAT THE SP SYSTEM CONFRONTS IF IT IS TO BECOME MORE COHERENT

AND MORE EFFECTIVE AS A TOOL FOR PROMOTING POVERTY REDUCTION AND INCLUSIVE GROWTH INCLUDE:

- ◆ *as in many areas of policy reform in India, consolidation and reform of the SP system within a coherent strategy will run counter to the past experience of scheme-driven initiatives by a plethora of Ministries, and the observed tendency of each new government at both central and state levels to want new SP programs clearly distinguishable from their predecessors.* Reducing these natural bureaucratic and political tendencies will be very challenging. A first step is obviously having an integrated SP strategy which is driven by the top politicians and bureaucrats at central and state levels, with strong inputs from civil society in its development, including opposition parties. However, even if such a strategy process can be developed, it will be important for it not to become a “one shot” exercise, but to have institutional coordination mechanisms in place which explore program duplication and exploit synergies.

- ◆ ***giving states a more flexible hand in use of central SP resources will be a challenging transformation both for central administrators*** (whose past tendency has been to define the parameters for use of central funds quite tightly) and politicians (who not unexpectedly seek political attribution for centrally-financed schemes implemented by states). The first of these challenges is perhaps easier to address through development of more outcome-based monitoring systems. The second is more difficult in a democracy.
- ◆ ***in a number of programs, there are presently significant rent-seeking opportunities for a range of actors.*** Such opportunities are facilitated by the current complexity of the SP program mix, but also by the number of intermediaries who often are involved in the interactions of poor people with the SP system. The generic identity of such official intermediaries and unofficial middlemen is generally well-understood, but minimizing the potential avenues for their continued roles has only recently become a more explicit goal of SP policy design. While it is too early to say, even apparently naïve blanket bans on certain actors in legislation and/or guidelines (such as the ban on contractors under MGNREGA) do appear to help. However, a more comprehensive approach will require a more thorough modernization of SP business processes. Examples where such approaches already appear to be making headway include greater reliance on direct transfers to beneficiaries through banking and postal systems, and innovations in use of ICT in SP program delivery.
- ◆ ***a more recent and fluid development in the political economy of SP (and much other) service delivery is how increased decentralization of responsibilities to panchayats*** – in particular GPs – generates different patterns of contention, cooperation and collusion between newly elected panchayat officials and traditional loci of influence among administrators and higher level politicians such as MLAs and MPs. An essential first step in promoting decentralization of SP service delivery as a tool for contestability and hence accountability will be getting a better empirical understanding of the diversity and evolution of experience. This would include how the gradual increase in the role of panchayats is proceeding (and what factors – such as limited control of resources and very low capacity), and the extent to which panchayats effectively promote accountability in SP service delivery or are captured by local social, political and administrative elites.
- ◆ ***a more nascent, but powerful, element in the political economy of SP reform is the policy shift towards a rights based approach.*** Government of India is increasingly operationalizing such an approach in a number of areas through legislation and specific policies and programs. For instance, the Right to Information Act was passed in 2005 and mandates the government to release timely information demanded by citizens. It has been widely hailed as one of the most important drivers of governance reform and transparency in India. The Right to Food and Right to Livelihood movements are led by civil society, but have managed to influence government so that the National Rural Employment Guarantee Act, (now renamed the Mahatma Gandhi Rural Employment Guarantee Act) was passed in 2005. Other similar Acts include the Right to Education Act (2009), the Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act (often called simply the "Tribal Rights Act", 2006) while legislations such as for food security are on the anvil.
- ◆ ***a consequence of the above is the increasingly prominent role of communities and civil society in promoting more effective poverty reduction outcomes from spending.*** In this respect, the strengthening of the "authorizing environment" for communities in SP service delivery in recent years is encouraging. This is both cross-cutting, through reforms such as the Right to Information Act, and program specific, such as the anticipated role of social audits in MGNREGA, and new roles for community groups such as SHGs in delivery of some SP services (e.g., running Fair Price Shops). However, there is no guarantee of "trickle down" to citizens in terms of awareness of their emerging entitlements. The role of NGOs, media and other actors in this respect cannot be under-stated, as various political and administrative actors at local level may not have strong incentives to promote such citizen-based accountability mechanisms. Notable examples such as MKSS in Rajasthan demonstrate the potential impacts of such partnerships.

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India's economic growth and the expansion in public spending on the social sector have created new possibilities for its social protection system. While India spends over 2 percent of GDP on core safety net programs, the reduction in poverty and improvement in livelihoods of the vulnerable have not reached full potential.

This report represents a first comprehensive review of the performance of India's key anti poverty and social protection programs, including the Public Distribution System, Mahatma Gandhi National Rural Employment Guarantee scheme (MGNREG), Indira Awaas Yojana (IAY), Swarnajayanti Gram Swarozgar Yojana (SGSY) and others, as well as programs to expand social security coverage to the unorganized sector such as the Indira Gandhi National Old Age Pension Scheme and the growing Rashtriya Swasthya Bima Yojana (RSBY) health insurance program.

The review draws on new empirical analysis of primary and secondary data sources, including several rounds of the National Sample Survey data, a special Human Development Profile of India survey, dedicated state-level household surveys on associated themes and a rich body of analysis on program performance and impact by national researchers and Government agencies.

The report concludes with suggestions for future directions in reform to help India get the most from its social protection system as it enters the second decade of the 21st century. Volume I highlights the main conclusions and recommendations, while Volume II contains the full report with all analyses and findings in detail.

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