

## **India -- Inclusive Growth Issues**

Although the Indian economy has been growing at a stellar rate of about 6% per annum since the mid-1980s, and over 8% per annum in the past four years, this growth has not been adequately inclusive or its benefits widely shared. Rising disparities and inequality are evident. India remains a land of increasing contrasts: top students from the IIT and IIM are not just globally competitive, they are setting global standards, yet many if not most children in India cannot do simple arithmetic; while there is increasing “medical tourism”, the typical primary health centre doctor in Delhi was measured to be less competent than in Tanzania; and while parts of urban India compete for business in global software engineering and biomedical research, parts of rural India have poverty rates comparable to some countries in sub-Saharan Africa..

One important sign of inadequate inclusion is that poverty reduction has been muted in the last decade even with rising growth. The poverty rate has declined by less than 1% p.a. over the past decade, markedly below trends in neighboring countries such as Nepal and Bangladesh where both average income levels and growth are lower. In the beginning of the 21<sup>st</sup> century, India thus remains a country where more than 300 million still live in deep poverty at less than a dollar (in purchasing power parity terms) a day, posing one of the most significant challenges to achieving the global millennium development goals. Another sizeable 350 million people are just above the poverty line, with incomes below \$2 per day and with not much assets or incomes or human capital to distinguish them from those below the poverty line. Half of India’s children remain malnourished (worse than in sub-Saharan Africa). India’s 40% illiterate people, the significant gender, ethnic and regional differences in human development and poverty reduction have raised concerns about “two Indias” – one which is on a fast development trajectory and the other caught in a low level development trap.

There are several reasons why India’s growth has not been adequately inclusive; the primary among them being: First, growth has diverged across regions, leaving behind the large populous states of North Central and North East India. Second, growth has not been creating enough jobs that provide stable, reasonable earnings for households to climb out and stay out of poverty. The vast majority of India’s workers, about 90%, labor in the informal sector with low wages or earnings and virtually no benefits. Third, growth in the agriculture sector, which employs more than half of India’s workers, has been an anaemic 2 to 2.5% p.a, far below national targets. Finally, growth has left behind key sections of the population: women, the 90 million tribal population, some scheduled caste groups in key states such as Bihar and UP, and other minorities all lag behind in job opportunities, earnings, and human development. These themes are elaborated below.

*Regional Divergence:* In the past decade and half, while the richest and middle-income states have both grown faster after economic liberalization by about 5% annual increase in per capital incomes, the poorest states as a group -- states such as Bihar, UP, Orissa,

Madhya Pradesh, Rajasthan, Jharkhand, and Chhattisgarh -- home to 60% of India's poor, have yet to accelerate growth. About 60% of the new population growth will take place in those poorer and slower growing states, which are otherwise rich in natural resources, but where the economies are largely dependent on low productivity agriculture. If unchecked this trend will sharply increase regional inequality, slow overall growth down, and could create political and social tensions.

*Poor Labor Market Outcomes:* Although the economy is growing fast, not enough good or well paying jobs are being created. While overall employment growth has been holding fast at about 2% p.a. over the past two decades and has accelerated recently, this hides the more than 100 million working poor whose wages are too poor to take them out of poverty and also the recent deceleration in wages growth. Less than 10% of the labor force can find employment in the formal private sector. The vast majority are occupied in low productivity, low paying irregular jobs in the informal sector. On the one hand inadequate infrastructure and rigid labor market regulations constrain the demand for workers in labor-intensive manufacturing, which could provide good jobs for the less skilled people; on the other hand the lack of skills of the vast majority of the labor force prevent them from finding well paying jobs.

*Low Growth in the Agricultural Sector:* An important challenge will be to generate faster growth in agriculture and the rural economy, which continue to be the main sectors for livelihoods of two-thirds of India's population. This agenda is intertwined with the agenda of supporting growth and development in the lagging regions of India which, while having abundant water resources, rainfall and good soil are much more dependent on the agricultural sector but lag behind in agricultural growth. The rising and continuing incidence of farmer suicides across India, especially in its drought-prone districts, is also continuing reminder of the enormous challenges in agriculture, which are now being exacerbated by growing scarcity in ground water, falling prices and rising costs, as well as limited access to credit and indebtedness.

*Gender and ethnic exclusion:* Scheduled castes and tribes (nearly a quarter of the population), women, other minority groups, and the disabled still face tremendous difficulty in access and opportunity. The significant differential in female to male wage ratios that are unexplained by skills and other factors and the low female participation in the work force especially in the poorer regions are all indicators of this exclusion. There is also evidence that districts where the tribal population is significant have systematically lower access to infrastructure and public services. Underlying this is the lack of access to finance by the poor and the excluded groups. A rural finance access survey showed that 87 percent of the poorest households (marginal farmers) do not have access to credit.

Underlying these challenges is the enormous task of improving the quality of core public services, where access/satisfaction gaps are still huge and sometimes growing. Improving the accountability of service providers, with greater decentralization to elected *panchayati raj* and other local bodies, and more competition may hold the key to the realization of more inclusive growth in the next decade.

The Central and State governments have stepped up their attention on programs to help the poor and the disadvantaged. Many important initiatives have been launched, with features that are innovative, flexible and reform-oriented: rural infrastructure (Bharat Nirman), employment (National Rural Employment Guarantee Scheme), regional development (backward districts development program,) education (Sarva Shiksha Abhiyan), rural health (National Rural Health Mission), and urban infrastructure (National Urban Renewal Mission). At the state level, there are growing initiatives to support spending on water, old age and disability pensions, and rural livelihoods and credit. While it is too early to judge the efficacy of these programs, if implemented efficiently and equitably, they could help reduce the development gaps.

*World Bank Activities:* The Bank's lending supports a range of projects for rural livelihoods, rural roads, rural credit cooperatives, technical and vocational training, improvements in education and health services, and support for decentralization. Over the last few years, Bank support for the poorer states in the North and north-eastern region has also increased. Rural livelihood projects in AP, MP, Rajasthan, TN, and Bihar focus on identifying the poor, mobilizing them in groups which initiate economic activities, support community driven investments in asset formation, skill enhancement, and other services. The Bank is also supporting local government development through rural decentralization projects. Besides lending, the Bank has addressed issues of inclusive growth in a number of reports such as the India Development Policy Review: Inclusive Growth and Service Delivery (2006), Social Protection for a Changing India (2007), as well as forthcoming studies on Poverty, Employment, Growth and Development in the Lagging Regions.