

Current Socio-Economic and Political Issues in India - I

POVERTY

A **poor person** is one who cannot secure his basic human needs such as clean water, nutrition, health care, education, clothing and shelter.

1.1 Measuring Poverty

Poverty is separately measured for rural and urban areas. The **Planning Commission** is the nodal agency that estimates poverty on the basis of the large sample survey of household consumption expenditure the NSSO (National Survey sample office) approximately every five years.

In 2010, World Bank stated, 32.7% of the total Indian people fall below the international poverty line of US\$ 1.25 per day (PPP) while 68.7% live on less than US\$ 2 per day.

A study by the Oxford Poverty and Human Development Initiative using a Multi-dimensional Poverty Index (MPI) found that there were 650 million people (53.7% of population) living in poverty in India, of which 340 million people (28.6% of the population) were living in severe poverty, and that a further 198 million people (16.4% of the population) were vulnerable to poverty

Calorie Consumption Method (Used by Planning Commission of India)

When a person is having less than 2400 cal/day (rural) or 2100 cal/day (urban), he/she is termed as living Below Poverty Line (BPL). This has been now modified (as the consumption pattern has changed) by the Suresh Tendulkar committee widely criticized by the media and civil services activist. Odissa, Bihar and Chhattisgarh are the three states with the highest percentage of BPL population.

Table 13.5: Poverty Ratios (per cent)				
	Earlier estimates (URP) based on the Lakdawala methodology		Estimates (MRP) based on the Tendulkar methodology	
	1993-1994	2004-2005	1993-1994	2004-2005
Rural	37.3	28.3	50.1	41.8
Urban	32.4	25.7	31.8	25.7
Total	36.0	27.5	45.3	37.2

Source : Planning Commission.
URP - Uniform Reference Period, MRP- Mixed Reference Period.

Source: Economic Survey 2012-13

1.2 Causes behind Poverty

Scarcity of basic needs, Overpopulation, Strong Regulations and Corruption, Lack of industrialization, Illiteracy, Structural Unemployment, Over-reliance on agriculture.

Over-reliance on agriculture

There is a **surplus of labour** in agriculture leading to disguised unemployment.

About 52% of the population depends on agriculture whereas the **contribution** of agriculture **to the GDP** is about 14.5%.

Does that mean Indian population is dependent on agriculture?

While services and industry have grown at nearly double digit figures, agriculture **growth rate** has **dropped** from 5.8% (2005-06) to **0.2%** (2009-10). During the last five year plan agriculture is estimated to grow at 3.28% (economic survey).

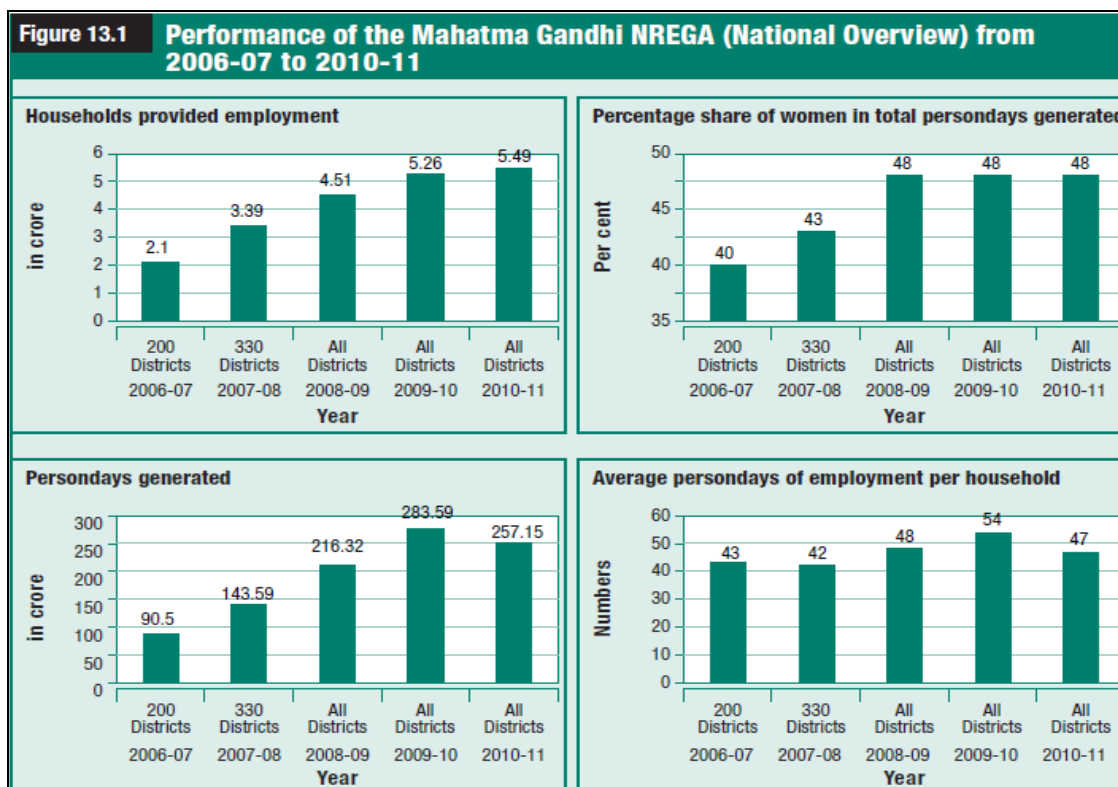
According to P. Sainath, disproportionately large number of **farm suicides** have occurred with cash crops (a byproduct of liberalization), because with food crops such as rice, even if the price falls, there is food left to survive on. Maharashtra, Karnataka, Andhra Pradesh, Chhattisgarh and Madhya Pradesh are the hardest hit by Farm Suicides.

MGNREGA

Launched as National Rural Employment Guarantee Scheme on Feb 2, 2006 in 200 districts; Extended to all the 604 districts w.e.f. April 1, 2008; Rechristened as **Mahatma Gandhi National Rural Employment Guarantee Scheme** on Oct 2, 2009.

Its objective is to provide **enhanced livelihood security** for the poor in rural areas by providing at least **100 days** of guaranteed wage **employment** in every financial year to **every household** whose adult members volunteer to do **unskilled manual work**. It mandates 1/3rd participation for women.

MGNREGS achieves **twin objectives** of rural development and employment. This has been used this year even more effectively due the drought in Karnataka, Maharashtra, Gujrat etc.



Source: Economic Survey 2012-13

Financial inclusion is the availability of financial services and timely and adequate credit at an affordable cost to disadvantaged and low-income groups.

Food Security

About 22% of the population is suffering from **undernourishment**.

India has the **largest number** of **stunted**, **wasted** and **underweight** children in the world. Prime Minister Dr. Manmohan Singh has called it a national shame.

Box.13.6 : Findings of HUNGaMA Survey in 100 Focus Districts on Hunger and Malnutrition

A reduction in the prevalence of child malnutrition is observed : Prevalence of child underweight has decreased from 53 per cent to 42 per cent; this represents a 20.3 per cent decrease over a 7 year period with an average annual rate of reduction of 2.9 per cent.

Child malnutrition is widespread across states and districts and starts early in life : 42 per cent of children under five are underweight and 59 per cent are stunted. Of the children suffering from stunting, about half are severely stunted; about half of all children are underweight or stunted by age 24 months.

Birth weight is an important risk-factor for child malnutrition : Prevalence of underweight in children born with a weight below 2.5 kg is 50 per cent while that among children born with a weight above 2.5 kg is 34 per cent.

Household socio-economic status has a significant effect on children's nutrition status : Prevalence of malnutrition is significantly higher among children from low-income families. Children from Muslim or SC/ST households generally have worse nutrition indicators.

Girls' nutrition advantage over boys fades away with time : Nutrition advantage girls have over boys in the first months of life seems to be reversed over time as they grow older, potentially indicating neglect vis-à-vis girls in early childhood.

Mothers' education level determines children's nutrition : Prevalence of child underweight among mothers who cannot read is 45 per cent while that among mothers with 10 or more years of education is 27 per cent; 92 per cent mothers had never heard the word "malnutrition".

Giving colostrum to the newborn and exclusive breastfeeding for first 6 months of a child's life are not commonly practiced : 51 per cent of the mothers did not give colostrum to the newborn soon after birth and 58 per cent mothers fed water to their infants before 6 months.

Hand washing with soap is not a common practice : 11 per cent mothers said they used soap to wash hands before a meal and 19 per cent do so after a visit to the toilet.

Anganwadi Centres are widespread but not always efficient : There is an Anganwadi Centre in 96 per cent of the villages, 61 per cent of them in pucca buildings; the Anganwadi service accessed by the largest proportion of mothers (86 per cent) is immunization; 61 per cent of Anganwadi Centres had dried rations available and 50 per cent provided food on the day of survey; only 19 per cent of the mothers reported that the Anganwadi Centre provides nutrition counseling to parents.

Source : HUNGaMA <http://hungamaforchange.org> Survey Report on Poorest Child Development Indicators in 100 Focus Districts in Six States;- Bihar, Jharkhand, Madhya Pradesh, Orissa, Rajasthan & UP.

The poor are dying of **starvation** while food grains are rotting. FCI has admitted to **wastage** of over **1.3 million tonnes** of foodgrains in various warehouses over the past decade. Supreme Court in Aug, 2010 asked the central government to distribute **free** foodgrains to families below the poverty line. The government has asked the Supreme Court not to focus on policy decision which is in the domain of the executive.

The Government is mulling over a **Food Security Bill** which aims at providing differential legal entitlements of foodgrains.

The NAC has decided to set aside the BPL criteria (being followed under PDS) and suggested two broad categories, Priority category (40% of total population) and General category (35% of total population)

AADHAAR

It is a program launched by Unique Identification Authority of India (UIDAI) of India on Sep 29, 2010.

UIDAI was established in Feb 2009 for implementing the envisioned Multipurpose National Identity Card or **Unique Identification card** (UID Card) project in India.

Benefits

Identifying **beneficiaries** for government programmes, preventing widespread **embezzlement** that affects subsidies and poverty alleviation programmes, Address the rigged state **elections**, Addressing illegal **immigration** into India, Countering **terrorist** threats.

Problems

Seen as a tool of exclusion from govt. programs; issues of biometric data collection are already posing serious impediments; financial burden of the project; concerns over data threat and loss of privacy.

The Prime Minister introduced the National Identity Authority of India Bill in 2010 to make the Unique Identification Authority of India (UIDAI) a statutory body. Though the bill was rejected by the Parliamentary Standing Committee in 2011, the government persisted in enrolling residents through executive action, which was “unconstitutional and arbitrary.”

EDUCATION

‘Achieve universal primary education’ - Goal 2 of United Nation’s Millennium Development Goals

Achieving this goal is of utmost importance in the context of India’s potential **demographic dividend**. It is a rise in the rate of economic growth due to a **rising share of working age people** in a population. In **2020**, average Indian will be only **29 years** old as compared to China/USA – 37 yrs; West Europe – 45 yrs and Japan – 48 yrs.

1.1 The Sorry State of Affairs

India’s **literacy** rate is just **74%** as compared to the World’s Average of **84%**. However, **50 %** of **10-year-old** rural children could not read at a basic level, over **60%** were unable to do division, and half dropped out by the age 14 - **The Economist**
Fewer than **40 %** of adolescents in India attend secondary schools - **World Bank**
Only **15%** of Indian students reach high school, and just **7%** graduate.
Of the total workforce, **40%** are illiterate and **40%** are drop-outs - **Boston Consulting Group**
Out of those who receive higher education, only a **quarter** of graduates are employable - **Mercer Consulting**
Of the total 500000 technical graduates in India, nearly **75%** are unemployable – **McKinsey Report**
Infosys had to spend **\$175 million** on training and education in 2008-09.

1.2 Education for All

2002 - 86th amendment to the Constitution of India made **free and compulsory education** to children of ages 6-14 (estimated to be 205 million in number in 2001) a **fundamental right** under Article 21A.

2002 - The '**Sarva Shiksha Abhiyan**' or The '**Education for All**' Movement was launched for achievement of universalization of elementary education by 2010.

2009 – The **Right of Children to Free and Compulsory Education Act** came into force from **April 1, 2010**. It makes provisions for the implementation of this constitutional right. It will be the **responsibility of the State** to ensure the availability of a neighborhood school for providing free and compulsory education for every child within a period of three years.

Challenges

a) Lack of Expenditure

According to the UNESCO, India has the lowest public expenditure on higher education per student in the world. The public expenditure on education has actually declined from around 3.23 % of GDP in 2000-2001 to 2.88 % in the recent times.
As a proportion of total government expenditure, it has declined from around 11.1 % in 2000-2001 to around 9.98 %.

b) Lack of schools/colleges

Only 12 out of every 100 kids who graduate from high school make it to college, there is therefore a need for 1000 new universities and nearly 40,000 colleges within easy reach of all areas of urban and rural India. Demand for graduates over the next five years is 1.38 crore. But with only 1.32 crore students graduating over the same period, India will face a shortfall of 6 lakh graduates.

c) Teachers' Absence

25% of public sector teachers were absent during one survey

Only about half were teaching, during unannounced visits to a nationally representative sample of government primary schools in another study – *Kremer etc.*

d) Teacher's Qualification

Percentage of untrained teachers is 54.91% in private, compared to 44.88% in government schools

25% of teaching positions nationwide are vacant

57% of college professors lack either a master's or PhD degree

e) Lack of Infrastructural Facilities

Condition of most government schools is abysmal with roofs leaking, classrooms filthy and no proper kitchen sheds for preparing mid-day meals.

A study of 188 government-run primary schools found that 59% of the schools had no drinking water and 89% had no toilets.

Only 3.5% of primary schools in Bihar and Chhattisgarh had toilets for girls. - *National Institute of Educational Planning and Administration (2003-04 data)*

“Education reforms are based on four pillars, namely expansion, excellence, inclusion and autonomy.” - Kapil Sibal, HRD Minister

1.3 Recent Reforms

Scrapping of **Board Exams** at secondary level.

Introduction of Continuous and Comprehensive Evaluation (**CCE**).

Establishment of **new IIT's** and **IIM's**.

Steps towards integration of various **entrance exams** after higher secondary.

Proposal to allow **foreign** education providers set up **campuses** in India and offer degrees

1.4 Foreign Universities Bill

Though 100 per cent FDI is permitted in the education sector since 2000, the present legal structure in India does not allow **granting of degrees** by foreign educational institutions here.

The proposed law would facilitate the globally-renowned institutes to participate in India's higher education sector.

Benefits

The practices and curriculum they introduce will force indigenous institutes to **compete or shrink**; Indian students will be able to **stay back** and get quality higher education at lower prices; India will have the opportunity of **attracting** students from other countries as Indian will always have the advantage of lower infrastructure cost.

Concerns

As **quota** laws will not be applicable to foreign universities, it will be restricting access to higher education in these universities only to students belonging to rich families; It is unlikely that we will be able to attract **quality** institutions; The second rung institutes will end up as **business entities**, hence doing more harm than good; The foreign universities may make it worthwhile for the best talent to shift from the IITs and other similar institutions and then later on entice them to shift to their own country which will lead to **Brain Drain**.

CORRUPTION

According to Transparency International, **“Corruption is operationally defined as the abuse of entrusted power for private gain.”**

Corruption is not limited to any particular job or position. A Traffic *hawaldar* demanding a fifty rupee note to let you off during a traffic violation or a Cabinet Minister demanding a fifty crore rupees bribe for awarding a contract to some industrialist are all forms of corruption.

1.5 Corruption in India

In India more than **50%** of the people had firsthand experience of paying bribe or peddling influence to get a job done in a public office – *Transparency International*

Nearly **a fourth** of the 540 Indian Parliament members faced criminal charges, including human trafficking, immigration rackets, embezzlement, rape and even murder – *Washington Post*
\$462 billion (over Rs 20 lakh crore) illicit flight of money has occurred from India between 1948 and 2008, nearly 40% of India's gross domestic product - *Global Financial Integrity*
For 2010, India was ranked **87th** of 178th countries in Corruption Perceptions Index - *Transparency International*

Root Cause of Corruption is **less Transparency** in Govt. Mechanisms and **over Regulation** of citizen's private life. However, recent Global Economic Crisis showed that how lack of regulation can also lead to Corporate Corruption!

1.6 Right to Information

As per the Right to Information Act, 2005 (RTI) any citizen may request information from a "public authority" which is required to reply expeditiously or within thirty days. However, if life or liberty of any person is involved, the Public Information Officer is expected to reply within 48 hours.

1.7 Recent Corruption Scandals

Commonwealth Games, 2G Spectrum Allocation, Adarsh Society Scam, Maharashtra irrigation scam, Coalgate.

Coal allocation Scam or Coalgate is a political scandal concerning the Indian government's allocation of the nation's coal deposits to public sector entities (PSEs) and private companies. In a draft report issued in March 2012, the Comptroller and Auditor General of India (CAG) office accused the Government of India of allocating coal blocks in an inefficient manner during the period 2004-2009.

The essence of the CAG's argument is that the Government had the authority to allocate coal blocks by a process of competitive bidding, but chose not to. As a result both public sector enterprises (PSEs) and private firms paid less than they might have otherwise. In its draft report in March the CAG estimated that the "windfall gain" to the allocatees was ₹1,067,303 crore (US\$194.25 billion). The CAG Final Report tabled in Parliament put the figure at ₹185,591 crore (US\$ 33.78 billion). On August 27, 2012 Indian Prime Minister Manmohan Singh read a statement in Parliament rebutting the CAG's report both in its reading of the law and the alleged cost of the government's policies.

CASH TRANSFER SCHEME

The government public distribution system is plagued with corruption and it is estimated that 40% of the total grains procured and distributed make their way to the black market. The government today considering the acute fiscal deficit wants to do away with inefficient ways of distribution of subsidies. Recently pilot projects were started in Alwar district of Rajasthan where Kerosene was sold at market price and the subsidy was directly transferred into the bank accounts of the beneficiaries.

This allows for financial inclusion of the BPL population which would help them get further loans under schemes like National Rural Livelihood Mission. Further it reduces black marketing of the Kerosene widely used to adulterate Diesel.

It gives the government direct contact to the beneficiaries which can help the government in the big way in elections.

FDI IN RETAIL

Leveraging foreign investment in supply chain infrastructure

- Lack of investment in the logistics of retail chain creating inefficiencies in the food supply chain.
- Though India is the second largest producer of fruits and vegetables (about 200 million MT), it has a very limited integrated cold-chain infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT, 80% of this is used only for potatoes.
- Lack of adequate storage facilities cause heavy losses to farmers in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. Post-harvest losses of farm

produce, especially of fruits, vegetables and other perishables, have been estimated to be over Rs. 1 trillion per annum, 57 per cent of which is due to avoidable wastage and the rest due to avoidable costs of storage and commissions.

- As per some industry estimates, 35-40% of fruits and vegetables and nearly 10% of food grains in India are wasted. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route. In the absence of FDI in front-end retail, investment flows into this sector have been insignificant.
- The consequences of inadequate infrastructure are:
 - Indian farmer realizes only 1/3rd of the total price paid by the final consumer as against 2/3rd with higher degree of retail. A World Bank Study of 2007 demonstrates that the average price a farmer receives for horticulture produce is barely 12 to 15% of what is paid at the retail outlet.
- An 11th Plan working group has estimated a total investment of Rs. 64,312 crores in agricultural infrastructure. A storage capacity gap of 35 million tonnes has been assessed, requiring an estimated investment of Rs. 7,687 crores during the 11th Plan.

Bringing supply chain efficiencies

Foreign retail majors have gained decades of experience, technologies and management practices which will ensure supply chain efficiencies.

Medium-term impact on regulating food inflation

The opening up of Multi Brand Retail will also have a salutary impact on food inflation as it would contribute to savings to the food which perishes on account of inadequate infrastructure.

Securing remunerative prices for the farmers

- In the present dispensation, there is a complex chain of procurement involving several middlemen. FDI in retail will create the enabling environment and it is expected that progressive States will undertake gradual reform of APMC Act which will ensure direct procurement, at least of horticultural produce from farmers to enable them secure remunerative price.
- Employment opportunities
- Huge investments in the retail sector will see gainful employment opportunities in agro-processing, sorting, marketing, logistic management and the front-end retail business.
- Industry estimates suggest employment of one person per 350-400 sq.ft of retail space, about 1.5 million jobs will be created in the front-end alone in the next 5 years. Assuming that 10% extra people are required for the back-end; the direct employment generated by the organized retail sector in India over the coming 5 years will be close to 1.7 million jobs. Indirect employment generated on the supply chain to feed this retail business will add millions of jobs.

To permit FDI in MBRT in all products, in a calibrated manner, subject to the following conditions:

- FDI in Multi Brand Retail Trade (MBRT) may be permitted up to 51%, with Government approval;
- Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, may be unbranded.
- Minimum amount to be brought in, as FDI, by the foreign investor, would be US \$ 100 million.
- At least 50% of total FDI brought in shall be invested in 'backend infrastructure', where 'back-end infrastructure' will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend infrastructure.
- At least 30% of the procurement of manufactured/ processed products shall be sourced from 'small industries' which have a total investment in plant & machinery not exceeding US \$ 1.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point in time, this valuation is exceeded, the industry shall not qualify as a 'small industry' for this purpose.

- Self-certification by the company, to ensure compliance of the condition as above, which could be cross-checked as and when required. Accordingly, the investors to maintain accounts, duly certified by statutory auditors.
- Retail sales locations may be set up only in cities with a population of more than 10 lakh as per 2011 Census only 53 cities qualify for FDI in multi-brand retail out of nearly 8000 towns and cities and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities; retail locations will be restricted to conforming areas as per the Master/Zonal Plans of the concerned cities and provision will be made for requisite facilities such as transport connectivity and parking.
- The FDI in multi-brand retail is being opened in 53 cities only with population of 1 million and for the rest of the country, current policy regime will apply. In the current regime, 100% FDI is allowed upto wholesale cash and carry point from which franchise/small retailers are able to source quality products for sale to the public at large.
- Government will have the first right to procurement of agricultural products;

To permit 100% FDI in single brand retail trading, subject to the following conditions:

- FDI in single brand retail trading may be permitted up to 100% with Government approval;
- Products to be sold should be of a 'Single Brand' only.
- Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
- 'Single Brand' product-retailing would cover only products which are branded during manufacturing.
- The foreign investor should be the owner of the brand.
- In respect of proposals involving FDI beyond 51%, 30% sourcing would mandatorily have to be done from SMEs/ village and cottage industries artisans and craftsmen. 'Small industries' would be defined as industries which have a total investment in plant & machinery not exceeding US \$ 1.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point in time, this valuation is exceeded, the industry shall not qualify as a 'small industry' for this purpose. The compliance of this condition will be ensured through self-certification by the company, which could be subsequently checked, by statutory auditors, from the duly certified accounts, which the investors will be required to maintain.

Condition of 30% sourcing from small scale sector

30% sourcing is to be done from micro and small enterprises. In this case, it has been stipulated that 30% sourcing will be done from micro and small enterprises having plant and capital machinery worth US 1 million.

This condition will ensure that our SME sector, including artisans, craftsman, handicraft and cottage industry benefits, especially in sectors like textiles, gems and jewellery, leather and jute. This condition is applicable both for Multi-brand retail in all cases and for single brand retail in cases where foreign equity exceeds 51%.

Rationale for enhancing FDI ceiling to 100% in single brand retail trading

In the last 5 years, under the current regime of 51% FDI in single brand retail, foreign direct investment of only US\$ 44.45 million have been received, constituting barely 0.03% of total FDI inflows. Globally, single brand retail follow a business model of 100% ownership and global majors have been reluctant to establish their presence in a restrictive policy environment. The current cap of 51% confers a right to pass all ordinary resolutions, while enhancing cap to 100% will confer full ownership and control.

Question: What is your opinion on FDI in the retail sector?