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Better Governance and inclusive reforms: A key towards Rural Development in India

(Challenges to Inclusive Growth in the Emerging Economies)

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Abstract- We have developed two scenarios to see how rapidly India can raise people to the standards of living implied by the Empowerment Line. The first, which we call "stalled reforms", assumes that no bold policy measures are taken and that slow economic growth continues. The second considers an alternative path of "inclusive reforms". The path of inclusive reforms envisages a far more positive alternative, one in which the nation takes steps to stimulate investment, job creation, and farm productivity, as well as dramatically improve the delivery of basic services. These reforms could potentially allow India to achieve an average GDP growth rate of 7.8 percent between 2012 and 2022. This could lift 580 million people above the Empowerment Line, leaving 100 million (7 percent of the population) below it in 2022 and 17 million (just 1 percent) below the official poverty line—virtually eliminating extreme poverty in just a decade. The higher GDP growth inherent in the inclusive reforms scenario generates more tax revenue that can be ploughed back into spending for basic services— and it simultaneously ensures that India meets its fiscal objectives more quickly. To achieve this goal, India will need to increase its investment rate from nearly 36 percent of GDP since 2005 to an average of 38 percent over the next ten years. The combination of higher investment, faster economic growth, and increased tax revenue could allow India to bring its fiscal deficit to 6 percent of GDP from 2017 onward while enabling a moderate but steady increase in social spending, in line with GDP growth, that could bring access deprivation in basic services down from 46 percent to just 17 percent. Although these goals are aspirational, they are feasible based on successes already demonstrated by India's better-performing states.

"India can bring more than 90 percent of its people above the Empowerment Line in just a decade by implementing inclusive reforms"

Index Terms- Inclusive Growth, Inclusive Reforms, Governance, Rural Development

I. Introduction

In the stalled reforms scenario, poverty is likely to maintain its grip on a large share of India's population. India's economic engine has been sputtering since 2011, and there has been a growing sense of legislative and administrative paralysis. In the absence of major reforms, the scenario assumes that India's GDP grows at just 5.5 percent from 2012 to 2022 and that the effectiveness of social spending remains unchanged. In such a scenario, some 470 million Indians (36 percent of the population) would remain below the Empowerment Line in 2022, and 12 percent of the population would still be trapped below the official poverty line. At this rate, the goal of eliminating extreme poverty would not be reached until the mid-2030s. The lack of decisive reforms also makes it unlikely that India would convincingly address gaps in access to social infrastructure. Lower GDP growth implies lower fiscal resources, limiting public spending for basic services. As a result, India's access deprivation would only come down to 26 percent by 2022. The path of inclusive reforms envisages a far more positive alternative, one in which the nation takes steps to stimulate investment, job creation, and farm productivity, as well as dramatically improve the delivery of basic services.

II. RESEARCH ELABORATIONS

"Better governance: key to implementing inclusive reforms"

A failure to execute well on vital programmes has prevented India from achieving its full economic potential. The government's performance in all its roles—from regulatory oversight to providing services to businesses and citizens—is too often marked by inefficiency, unresponsiveness, or even outright corruption. Today, however, there is growing conviction across India that the time has come to demand greater accountability. The problem of poor governance can be overcome by efforts on two parallel tracks: building stronger institutional capabilities and strengthening systems to ensure accountability in the public sector. Institutional capabilities can be improved by creating appropriate organisational structures, attracting the right talent to government roles, managing performance, and streamlining processes. Accountabilities can be strengthened by creating multiple checks and balances— whether democratic, reputational, legal, or regulatory—for government agencies and institutions. Three promising ideas, outlined below, can set this process in motion:

1) **Empowered agencies for high-priority initiatives**, given operational flexibility but held strictly accountable for outcomes. These agencies (led by externally recruited "change agents" or high-performing civil servants) can be set up with a specific mandate—perhaps building a health-care or drinking water system or creating a tourism circuit. The Unique Identification Authority of India, for example, is a quasi-independent agency mandated to issue personal identification numbers to citizens; it has significant flexibility in running its operations while reporting to a high authority. Such empowered agencies in the central and state governments, focused on the most important priorities, could dramatically improve outcomes and governance in focus areas. Similar efforts, with "chief executive"–style leadership, have been employed in Singapore, the United Kingdom, Chile, and elsewhere.
2) **Public transparency**. The Right to Information Act was an important start on the journey to greater public transparency. The next steps are more voluntary government disclosure (by, for instance, putting draft policies and legislation online for public debate) and a massive digitisation effort to get government data into open, shareable form. The imperative for more openness and transparency in government can be strengthened by extending the Right to Public Services, now enacted in 17 states, to a host of citizen and business services. Using this framework, performance metrics can be defined and ongoing feedback loops (such as digitized public scorecards at the state, local authority, and specific desk/office levels) can be instituted.
3) **Decentralisation.** Through the 73rd and 74th Constitutional Amendments in 1992, India sought to devolve powers to *gram panchayats*. In several areas, such as the PDS in Chhattisgarh, panchayats have played a constructive role. Giving them substantial independence in revenue and expenditure, greater autonomy over how to implement programmes, and more training can strengthen their capabilities; the same point applies to local bureaucracies.

"From poverty to empowerment: India's imperative for jobs, growth, and effective basic services"

The first instance is demonstrated by McKinsey Global Institute:

1) **Talent and performance management in government**: Performance management systems can ensure that public officials fulfill their duties. Government commissions on administrative reform have pointed out that India's bureaucracy tends to be more focused on internal processes than on results. To reverse this, bureaucrats should have *incentives for good performance and penalties for consistently poor performance*.
   - **Teacher absenteeism in public schools**, for instance, can be reduced if the consequence is strict disciplinary action.
   - **Senior bureaucratic positions** can be filled through a competitive application-based process, even from within the **civil service**, to create incentives for delivering outcomes.
2) A **robust anti-corruption framework**. India ranked 94th among 174 countries in Transparency International's 2012 Corruption Perceptions Index. Mass protests against corruption culminated in the Lokpal and Lokayuktas Act of 2013. While the impact of this move remains to be seen, more can be done (such as establishing whistle-blower protection). International best practices, such as the model set by Hong Kong's Independent Commission against Corruption, can be used as a template in India.
3) **Simplifying laws and building legal and judicial capacity**. *Speedy access to justice* at a reasonable cost is critical to empowering households and enterprises economically. To achieve this, India would need to increase the number of courts and judges, review a host of archaic laws, and build greater institutional capacity in its legal and regulatory arms. This will create an ecosystem in which citizens can claim their rights.

III. RESEARCH FINDINGS: FOUR CRITICAL ELEMENTS ARE KEY TO THE PATH OF INCLUSIVE REFORMS

The inclusive reforms scenario hinges on four key elements:

1) **Accelerating job creation**. India needs reforms that unlock the economy's potential to add 115 million non-farm jobs by 2022 (about 40 million more than the stalled reforms scenario would generate). This would absorb the expected growth of 69 million in the working-age population, raise the labour force participation rate by some 2 to 3 percentage points, and reduce the share of farm jobs from 49 percent of total employment in 2012 to 37 percent in 2022.
2) **Construction** will need to be the biggest contributor, adding some 50 million jobs. The **manufacturing sector** will need to accelerate growth to create some 21 million to 27 million jobs, while some 35 million to 40 million jobs will need to come from the services sector.
3) Raising **farm productivity**. **Increasing investment in agricultural infrastructure, research, and extension services** can help raise the average farm yield per hectare from 2.3 tonnes in 2012 to about 4.0 tonnes in 2022. This would bring India's yields in line with those in other emerging Asian countries. Gains in agricultural productivity would also accelerate the transition of labour to more productive non-farm jobs.
4) **Increasing public spending on basic services**. India cannot fully realize the potential of its human capital until its population has wider access to affordable basic services. In absolute, real terms, public spending on social services needs to nearly double from Rs. 570,000 crore ($118 billion) in 2012 to Rs. 1,088,000 crore ($226 billion) in 2022 to fill critical gaps in social infrastructure. This entails an annual real growth rate of about 6.7 percent.
5) **Public spending for basic services** (which is actually lower than the 11 percent annual rate of increase from 2005 to 2012). If India can achieve the higher rates of economic growth assumed in the inclusive reforms scenario, this would continue to represent about 6 percent of GDP. The share allocated to health, water, and sanitation services, however, needs to increase from 21 percent in 2012 to nearly

50 percent of total social spending in 2022. Just as expanding access to primary education was given top priority in the past decade, India needs a concerted push to build more extensive health-care infrastructure in the decade ahead.

6) **Making basic services more effective**. The impact of higher public spending on basic services is magnified if more of that spending reaches its intended beneficiaries. The inclusive reforms scenario assumes that the nation as a whole can raise the effectiveness of social spending from 50 percent to at least 75 percent by 2022, matching the levels already demonstrated by India's best-performing states. If India increases funding for basic services.

IV. INCLUSIVE REFORM POLICY FOR THE CURRENT BUDGET PERIOD 2014-2015 BY FINANCE MINISTRY

"Government is committed to the principle of **"MINIMUM GOVERNMENT MAXIMUM GOVERNANCE**".

1) URBANISATION

Smart Cities. Unless, new cities are developed to accommodate the burgeoning number of people, the existing cities would soon become unlivable. The Prime Minister has a vision of developing **'one hundred Smart Cities'**, as satellite towns of larger cities and by modernizing the existing mid-sized cities.

2) EMPLOYMENT

Skill India. It would skill the youth with an emphasis on employability and entrepreneur skills. It will also provide training and support for traditional professions like welders, carpenters, cobblers, masons, blacksmiths, weavers etc.

3) SANITATION

Swatchh Bharat Abhiyan. The need for sanitation is of utmost importance. The Government intends to cover every household by total sanitation by the year 2019, the 150th year of the Birth anniversary of Mahatma Gandhi through Swatchh Bharat Abhiyan.

4) WOMEN AND CHILD

Women & child development. Women's safety is a concern shared by all the honorable members of this House. An outlay of Rs. 50 crores will be spent by Ministry of Road Transport & Highways on pilot testing a scheme on "Safety for Women on Public Road Transport". It is also proposed to set up "Crisis Management Centres" in all the districts of NCT of Delhi this year in all government and private hospitals. The funding will be provided from the Nirbhaya Fund.

5) BETI BACHAO, BETI PADHAO YOJANA. The apathy towards girl child is still quite rampant in many parts of the country.

6) SAFE DRINKING WATER

7) HEALTH AND FAMILY

Health and family welfare. *"Health for All",* the two key initiatives i.e. the Free Drug Service and Free Diagnosis Service would be taken up on priority. In order to achieve universal access to early quality diagnosis and treatment to TB patients, two National Institutes of Ageing will be set up at AIIMS, New Delhi and Madras Medical College, Chennai.

9) A plan to **set up four more AIIMS like institutions**. In addition, dental facilities would also be provided in all the hospitals.

10) EDUCATION

School education. There is a residual gap in providing minimal school infrastructure facilities.

Government would strive to provide **toilets and drinking water in all the girls' school** in first phase.

To take advantage of the reach of the IT, setting up virtual classrooms as Communication Linked Interface for Cultivating Knowledge (CLICK) and online courses.

Higher education. The country needs a large number of Centres of higher learning which are world class. Government also proposes to ease and simplify norms to facilitate education loans for higher studies.

11) HOUSING INFRASTRUCTURE

"Housing for all". Our government is committed to endeavour to have housing for all by 2022. For this purpose, extend additional tax incentive on home loans to encourage people, especially the young, to own houses.

12) CONSERVATION OF RESOURCES

The world's soils are getting degraded due to erosion, compaction, soil sealing, salinization, soil organic matter and nutrient depletion, acidification, pollution and other processes caused by unsustainable land management practices, the Food and Agriculture Organization (FAO) of the UN said, "*One- third of all soils in the world are degraded and unless new approaches are adopted, globally, arable and productive land per person in 2050 will be only one-fourth of the level in 1960"*. "It can take up to 1,000 years to form one centimeter of soil".
Every year 5 December is celebrated as World Soil Day**. "FAO will observe 2015 as the International Year of Soil".**

13) RURAL DEVELOPMENT

Aims to cater all groups of the society with a motto, "***Sab ka Saath Sab ka Vikas".***

14) "**DEEN DAYAL UPADHYAYA GRAM JYOTI YOJANA**" for power supply to the rural areas.

15) "**START UP VILLAGE ENTREPRENEURSHIP PROGRAMME**" for encouraging rural youth to take up local entrepreneurship programs.

16) "**NEERANCHAL**" to give impetus to watershed development in the country.

V. CONCLUSION AND RECOMMENDATION

Let me end with a vision of how the RBI can speed up and enhance financial inclusion of the kind I have just outlined.
"*Financial inclusion in my view is about getting five things right:*

Five Ps of Financial Inclusion- "Product, Place, Price, Protection, and Profit."

If we are to draw in the poor, we need **products** that address their needs; a safe place to save, a reliable way to send and receive money, a quick way to borrow in times of need or to escape the clutches of the moneylender, easy-to-understand accident, life and health insurance, and an avenue to engage in saving for old age. Simplicity and reliability are key – what one thinks one is paying for is what one should get, without hidden clauses or opt-outs to trip one up. The RBI is going to nudge banks to offer a basic suite of Products to address financial needs.

Two other attributes of products are very important. They should be *easy to access at low transactions cost.*

In the past, this meant that the **Place of delivery**, that is the bank branch, had to be close to the customer. So a key element of the inclusion program was to expand bank branching in unbanked areas. Today, with various other means of reaching the customer such as the mobile phone or the business correspondent, we can be more agnostic about the means by which the customer is reached. In other words, '*Place' today need not mean physical proximity; it can mean electronic proximity, or proximity via correspondents.* Towards this end, we have liberalized the regulations on bank business correspondents, encouraged banks and mobile companies to form alliances, and started the process of licensing payment banks.

The **transactions costs of obtaining the product, including the Price and the intermediary charges, should be low.** Since every unbanked individual likely consumes low volumes of financial services to begin with, the provider should automate transactions as far as possible to reduce costs, and use employees that are local and are commensurately paid. Furthermore, any regulatory burden should be minimal. With these objectives in mind, the RBI has started the process of licensing small local banks, and is re-examining KYC norms with a view to simplifying them. Last month, we removed a major hurdle in the way of migrant workers and people living in makeshift structures obtaining a bank account, that of providing proof of current address.

New and inexperienced customers will require **Protection**. The RBI is beefing up the Consumer Protection Code, emphasizing the need for suitable products that are simple and easy to understand. We are also working with the government on expanding financial literacy. Teaching the poor the intricacies of finance has to move beyond literacy camps and into schools. Banks that lend to the entrepreneurial poor should find ways to advise them on business management too, or find ways to engage NGOs and organizations like NABARD in the process. We are also strengthening the customer grievance redressal mechanism, while looking to expand supervision, market intelligence, and coordination with law and order to reduce the proliferation of fly-by-night operators.

Finally, while mandated targets are useful in indicating ambition (and allowing banks to anticipate a large enough scale so as to make investments), **financial inclusion cannot be achieved without it being Profitable.** So the last 'P' is that there should be profits at the bottom of the pyramid. For instance, the government should be willing to pay reasonable commissions punctually for benefits transfers, and bankers should be able to charge reasonable and transparent fees or interest rates for offering services to the poor.

VI. TO CONCLUDE

One of the greatest dangers to the growth of developing countries is the middle income trap, where crony capitalism creates oligarchies that slow down growth. If the debate during the elections is any pointer, this is a very real concern of the public in India today. To avoid this trap, and to strengthen the independent democracy our leaders won for us sixty seven years ago, we have to improve public services, especially those targeted at the poor. A key mechanism to improve these services is through financial inclusion, which is going to be an important part of the government and the RBI's plans in the coming years. I hope many of you in this audience will join in ensuring we are successful.

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