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Protecting and promoting livelihoods in rural India: what role for pensions?*

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It is a major challenge to design and implement effective social protection schemes to tackle rural poverty. Specific protection measures are essential for the many who are unable to engage fully with the productive economy (because of old age, disability, ill-health or large numbers of dependents) since these can at best benefit only very indirectly from livelihood promotion efforts, such as those to stimulate agricultural growth.

In India, 70% of the 30% of the population currently in poverty, live in rural areas, and nearly three quarters of these depend primarily on agriculture. Malnutrition is widespread, with 207 million people unable to access enough food to meet basic nutritional needs, and over half of children under 5 years underweight. The Indian government spends US$5.5bn on poverty-reduction schemes, including around US$3bn on schemes administered by the Rural Development Department. These include: transfers to the poorest (the National Old Age Pension Scheme, the National Housing Scheme, and many food distribution schemes); asset-building schemes, (e.g. the Accelerated Rural Water Supply Programme and the Drought Prone Areas Programme); employment creation; and promotion of self-employment. Other government departments have their own initiatives, the largest of which is the Public Distribution System, in which over 450,000 'fair price shops' nationwide serve some 160m families with subsidised food. Together with its storage and acquisition system, this costs around a further US $5.0bn.

Kirchali Village, Barwani District, Madhya Pradesh, India (©kate Brid)

However, at least 20% of the funds disbursed through these channels fail to reach the poor and for some schemes 'leakage' is as high as 70%. Many government schemes have proved to be too complex and vulnerable to misappropriation. For instance, resources are diverted to political supporters; local officials demand `special payments' to provide signatures or even the application forms; payment is extended to non-eligible groups; and contractors help to distort scheme provisions (e.g. using machinery instead of labour) and then share the 'surplus' with officials. However, according to a recent ODI study (see: www.livelihoodoptions.org), one method of resource-transfer which has been effective and relatively free from misappropriation is the transfer of cash, paid mainly through Post Offices as part of the Indian National Old Age Pension scheme (NOAPS).

Old Age Pension Scheme

At present around US$100m of central government funds are earmarked each year for transfer to the poor above the age of 65 through the NOAPS. This amounts to only US$1.60 per month, with the States adding on roughly the same amount again, though payments are irregular. Pensions are paid in various ways, the least misappropriated being small monthly payments either via the Post Office or a bank account. Once those eligible have been registered, payments can be made automatically in a tamper-proof manner. In rural drought-prone areas, practically all over 65 years are below the poverty line, and they all might be included, while mother and child allowances might become automatic via the Post Office in much the same way.

There are strong arguments to suggest that the level and scope of schemes for pensions and allowances could be increased substantially with little wastage. As a first step, the allocation could be doubled by extending the pensions scheme to all below the poverty line. Then, the individual pension allocation could be raised fourfold for all over 65s below the poverty line, costing some US$800m per year in total. Reducing the age limit to 60, making widows' pensions universal, and providing an allowance to single-parent families would cost around an extra US$2.0 bn per year. Additional mother and child allowances might also be provided for a further US$0.5- US$1.0 bn. None of this would require "new" money: funds could be transferred out of weakly performing schemes with little loss of impact.

Using computer technology widely available in India, the efficiency of transfer processes can easily be strengthened. And, ideally, over the next ten years, pensions and allowance records would be linked to birth, death and marriage data, so that the personal discretion of local level officials or politicians over beneficiary selection could be kept to a minimum and all adults be provided with a record of their personal identification details.

Wider implications of protecting and promoting livelihoods

There are a number of general lessons about the identification of target groups. For acute problems such as drought, they can be selected by location , so that food aid can be delivered as rapidly as possible to those who need it. For chronic poverty, to use a 'poverty line' as a criterion poses serious difficulty - it is difficult to identify who is above or below the line, individuals in any case drift above and below, and official lists (even if accurate) are generally out of date. There is therefore wide scope for discretionary decisions by local officials, facilitating corruption and resulting in many eligible people being excluded while the ineligible gain benefits. Other criteria such as age, caste or marital status (in the case of pensions) might be more robust, though repeated updating will be needed. Ideally, criteria of these kinds would best be incorporated into a computerised system of personal identity cards. Whilst technically feasible, and offering great scope to reduce discretionary decisions by local officials, to introduce and maintain such a system in India would pose challenges.

Hulsi-Dharwad, Karnataka, India (©kate Brid)

A novel advantage deriving from social protection via cash payments is the positive interface with livelihood promotion initiatives. But looking just at 'livelihood protected' households will not necessarily reveal the 'livelihood promotion' synergy, since households which are productively active do not necessarily need protection. With an income-elasticity of demand for food of typically around 0.75, to allocate some 0.5% of GDP (i.e. US$2.0 - 2.5bn per year) to cash transfers to the poor in India will, apart from reducing their specific poverty, boost demand for foodgrains by something approaching 5% (i.e. around 8–10 m tonnes per year) often in local markets which are weakly integrated into the wider economy and so may increasingly face problems of surplus disposal as India reaches self-sufficiency in some foods. Of course, there must be some capacity for agriculture to increase supply in response, if such additional demand is not to be merely inflationary, and improved technology will have an important role here.

What lessons for other countries? The India experience suggests two lessons – first, that increasingly sophisticated targeting of poverty reduction programmes is of little value when implementation constraints are severe, and second, that livelihood protection and promotion can be mutually reinforcing, but these synergies will not be captured unless the different government departments concerned with each of these (and departments within donor organisations) engage more with each other than they have done hitherto.

* Farrington J, Saxena N C, Barton T & Nayak R (2003) 'Post offices, pension and computers: new opportunities for combining growth and social protection in weakly-integrated rural areas?', ODI Natural Resource Perspectives 87.

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