CHAPTER – 1

INTRODUCTION

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CHAPTER - 1: INTRODUCTION

1.1 About Poverty

Poor households are those households who are not able to buy the basic necessities like food, clothing and shelter. World Bank Organisation defines poverty as “Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty has many faces, changing from place to place and across time, and has been described in many ways. Most often, poverty is a situation people want to escape. So poverty is a call to action -- for the poor and the wealthy alike -- a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities.”

In 1901, Rowntree’s study developed a poverty standard for individual families which was based on the estimates of nutritional needs. Till the 1960s, poverty was defined based on level of income. In the 1970s, Runciman Townsend redefined poverty. Poverty, as per him, meant not only not being able to get minimum nutrition but also unable to meet the standard of living prevalent in the society. In the words of Townsend “Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary or at least widely encouraged or approved in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities” In the mid 1970s, poverty was defined not just as lack of income, but also as lack of access to health, education and other services. In 1980s, other non-monetary aspects got added based on Robert Chambers work on powerlessness and isolation. More emphasis was laid on participation,
vulnerability and need for security. Brundtland Commission on sustainability and environment brought out need for sustainable livelihood. Amartya Sen then came up with the theory that income was worth only if it increased the capability of individuals. In the 1980s, the focus shifted to women – Gender in Development (GID) and Gender and Development (GAD).

Poverty has been described as a situation of “pronounced deprivation in well-being” and being poor as “to be hungry, to lack shelter and clothing, to be illiterate and not schooled” (World Bank, 2000-2001). Mehta and Shah (2001-02) defines poverty as the sum total of a multiplicity of factors that include not just income and calorie intake but also access to land and credit, nutrition, health and longevity, literacy and education and safe drinking water, sanitation and other infrastructural facilities. Poor households are not able to earn enough income, or even if they are able to earn enough income, they are not able to earn the same on continuous basis. They are extremely vulnerable to disasters and risks. They are under nourished, have ill health and are less aware.

As per the World Development Report (2015), poverty is not only about being short of money, but poverty also affects the mental resources of the person. Poor are continuously finding ways to repay debts, meet their daily expenses, look for the safety of their children etc. Their minds are continuously occupied with these tasks. As Mullainathan and Shafir (2013) state they are not able to think beyond this, are not able to think about their future, investing in education and health. They are also not able to see the opportunities coming their way. They are afraid of failures and also ashamed of facing the society in case they fail, hence do not aspire much.

1.2 Types of Poverty

There are two forms of poverty – “Absolute Poverty” and “Relative Poverty”. Absolute poverty means when someone is not able to meet one’s basic needs of food and nutrition. Relative poverty means when
someone is not able to meet up with the standard of living of a particular society or area. Poverty can be temporary or permanent. Temporary poverty can occur due to reasons of illness, natural or man-made disaster, sudden accident etc. Permanent poverty happens due to some factors that go on for generations. Potential poverty is a kind of poverty that may occur as a result of some major disaster, sickness or any such major cost. As Hagenaars/de Vos in 1987 explains absolute poverty as having less than an objectively defined absolute minimum income, relative poverty is having less than others and subjective poverty is feeling one does not have enough to get along.

There could be temporal poverty or time poverty. If the income of the poor falls below poverty line in both of his income generating periods, then a person is intemporarily poor.

1.3 Causes of Poverty

Current population growth along with increase in demand for consumption needs is one of the major causes of poverty. It has been argued that government focused on development of the cities and service sectors like banking, insurance, finance etc. and gave less priority to agriculture and other manufacturing sectors. Manufacturing sectors provide jobs to many people. The service sector provides less jobs to people.

In the rural areas, agriculture is the predominant occupation. Agriculture has become less productive, there are several reasons for agriculture becoming less productive, major being fragmentation of land, unequal distribution of land, insufficient capital, infrastructure, impact of climate change, price rise, traditional methods of cultivation. The lower rates of development along with unemployment have also led to poverty. People do not have much access to capital to start their own micro enterprise. Above all these reasons, the social customs and traditions are also hindering the households to come out of poverty. Nurkse said “low level
of saving reduces the scope for investments, low level of investments yield low income and thus the circle of poverty goes on indefinitely.”

Majority of the poor families belong to the remote areas and work in informal economy. In India, those belonging to scheduled castes, scheduled tribes and other economically backward classes, are normally poor. Those who are physically challenged, elderly with no one to take care of them are also poor. Some geographical pockets of the country, due to lack of natural resources and the needed infrastructure, also have poor households. In the rural areas, agriculture is the main source of livelihood for the households, and agriculture comprises of 15% of GDP, while over 58% of workforce is involved in agriculture. Mahajan (2000) place this as the cause for more low income group households in India. Households which have less of physical and financial asset, have more members in the family, have irregular flow of income are prone to remain poor. Mehta and Shah (2003) state how unequal distribution of factors of production, like land and capital affect poverty and how due to lack of adequate factors of production, the poor is not able to participate in the economic development of the country. Lack of resources, low levels of education and skills increase the chances of poverty. Widows, women headed households are also likely to be poor.

As per the Millennium Development Bank Report, it is expected that in 2020, 60% of poverty will still exist in the rural areas. If rural poverty gets reduced, urban poverty will also get reduced as the rate of migration from the rural to the urban areas will reduce. Since rural households generate income from agriculture, development initiatives should be focused on agriculture development.

A caution has been developed for cash and subsidy based development programmes saying anti poverty programmes leading to subsidy, cash and nutritional benefits to the poor make them work less and leads to higher poverty.
1.4 Poverty in India

After independence, India took up the challenge of reducing poverty. Planning Commission formed in 1962 started working on measuring poverty. Poverty line was worked upon, initially, using the household consumption expenditure figures brought out by National Sample Survey Organisation (NSSO). Household consumption expenditure was used for income. In 1971, Dandekar and Rath linked calories intake of each person. In 1974, Amartya Sen recommended the calories to be linked with age, sex and occupation. In 1979, Task force was formed. Dr. Y. K. Alagh led this Task Force. The Task force worked out the revised poverty line to per capita consumption expenditure and the average per capita needs of 2400 calories in rural areas and 2100 calories in urban areas. In 1989, Planning Commission formed an expert group led by Professor D. T. Lakdawala to “look into the methodology for estimation of poverty and to redefine poverty line” The group submitted its report in 1993 and the recommendations were accepted in 1997. In 2005, Planning Commission set up yet another expert group led by Prof. Suresh Tendulkar. This group submitted its report in 2009. In 2012, a technical expert group was formed headed by C.Rangarajan. Planning Commission report 2014 states: “Expert Group led by Tendulkar used All India poverty line to derive state and central poverty. Rangarajan Committee reverted back to taking separate All India rural and urban poverty basket lines and working out separate rural level and urban level estimates. While Tendulkar committee had decided to do off with available official calorie norms, expert group led by Rangarajan considered deriving the food component of the poverty line basket by reference to the simultaneous satisfaction of all the 3 nutrient norms.”

As per the report of the expert group to review the methodology for measurement of poverty, Planning Commission 2014, the new poverty line works out to monthly per capita consumption expenditure of Rs. 972 in rural areas and Rs. 1407 in urban areas. For a family of five, this works out to monthly consumption expenditure of Rs. 4,860 in rural areas and
Rs. 7,035 in urban areas. As per the same report, in India, the number of those living in poverty is 363 million, out of which 260 million are in the rural areas and 103 million in the urban areas.

1.4.1 Poverty in Urban Areas:

India is growing very fast, the economic growth happening is quite good. However, almost half of the population of India is still poor and are not able to get the benefits of the growth process. The poverty in the urban areas is growing very fast. As per the latest estimate of Rangarajan Committee report, there are 103 million poor in urban areas. The urban poor stay in slums, with no proper water facilities or electricity facilities. They stay in cities where cost of living is high, they need to spend more to get almost the same facilities as they could otherwise get in rural areas. Government needs more mechanisms to understand the needs of the rural poor and accordingly formulate policies for them. Jawaharlal Nehru National Urban Renewal Mission – 2005 has formulated policies to help the urban poor, however, more studies need to be conducted to know what is that they need.

1.4.2 Poverty in Rural Areas:

As per the report of the expert group to review the methodology for measurement of poverty, Planning Commission (2014), there are 260 million poor in rural areas, based on the proposed method suggested by C. Rangarajan Committee. As per Tendulkar approach, there are 216.5 million rural poor.

72% of the total poor in India stay in rural villages and mainly come from scheduled caste and scheduled tribes. Study by Ganguly, Sen, Su Yan, show that incidence of poverty in SC and ST households is much higher than among other non-scheduled castes. Rural poor mainly come from agriculture, either owning land or working as agriculture labour. Agriculture is less
developed and due to the reasons mentioned above for low productivity in agriculture, the earnings from agriculture is very low. Rural poor pursue more than one occupation to make their ends meet. The extent of social security mechanisms in the rural areas is very low.

Table 1.1: Rural and Urban Poverty in India, based on Tendulkar Approach

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty Ratio</th>
<th>Number of Poor (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>-----------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>1993-94</td>
<td>50.1</td>
<td>31.8</td>
</tr>
<tr>
<td>2004-05</td>
<td>41.8</td>
<td>25.7</td>
</tr>
<tr>
<td>2011-12</td>
<td>25.7</td>
<td>13.7</td>
</tr>
</tbody>
</table>

Source: Government of India Planning Commission Report 2013

1.5 Poverty in Gujarat

As of 2015, Gujarat state has population of 6.5 crores and is the tenth largest in the country in terms of population. As per C. Rangarajan Committee’s report, there are 168 million poor in Gujarat, which works out to 27.4%, very close to the national average of 29.5%. The table below shows the poverty trend in Gujarat.

Table 1.2: Rural and Urban Poverty in Gujarat

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>130.1</td>
<td>41.9</td>
<td>172.2</td>
</tr>
<tr>
<td>2009-10</td>
<td>91.6</td>
<td>44.6</td>
<td>136.2</td>
</tr>
<tr>
<td>2011-12</td>
<td>75.4</td>
<td>26.9</td>
<td>102.2</td>
</tr>
<tr>
<td>(Tendulkar Committee)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td>109.8</td>
<td>58.9</td>
<td>168.8</td>
</tr>
<tr>
<td>(Rangarajan Committee)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Planning Commission Report, June 2014
As per the Millennium Development Goals India country report (2015), poverty head count ratio for Gujarat using Tendulkar method is 16.63% in 2011-12 and is expected to be 15.98% in 2015. The percentage share in consumption of the bottom 20% - the poorest quantile is as shown in Table below:

Table 1.3: Share in consumption of the bottom 20% - poorest quantile – in Gujarat

<table>
<thead>
<tr>
<th>Year</th>
<th>Uniform Reference Period (URP)</th>
<th>Modified Reference Period (MRP)</th>
<th>Modified Mixed Reference Period (MMRP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
<td>Urban</td>
<td>Rural</td>
</tr>
<tr>
<td>2009-10</td>
<td>10.69</td>
<td>7.94</td>
<td>10.65</td>
</tr>
<tr>
<td>2010-11</td>
<td>10.3</td>
<td>9.1</td>
<td>10.9</td>
</tr>
</tbody>
</table>


1.6 Measures taken by the Government for poverty reduction

Prior to independence, India faced many famines leading to poverty and hunger. In its five year plans, India has laid emphasis on reduction of poverty. The Government of India has developed several poverty alleviation programmes, however, the rate of growth for the poor is very low. Prahlad (2005) proposes that ‘If we stop thinking of the poor as victims or as burdens and start recognizing them as resilient and creative entrepreneurs and value conscious consumers, a whole new world of opportunities will open up.’ The Government of India has continuously been putting efforts for poverty eradication and thereby developing various schemes for the poor. As per the World Bank report, India has successfully come out of severe famines and epidemics. With continuous government efforts, poverty continuously declined in 1970s and 1980s. However, from late 1980s, it again worsened. It is expected that population in India will reach 1.5 billion by 2026 and then India will be
the largest nation in the world. But India’s economy is not growing at the same pace. This means shortage of jobs. For this much population, near about 20 million new jobs would be required.

Following are some of the Government policies that were formed for reducing poverty, especially in the rural areas.

Drought prone area programme (DPAP) was started in 1970-71 in the areas which were chronically affected by the drought. In 1976, a specific law to prohibit the bonded labour practice was legislated as Bonded Labour Abolishment act. In the same year Integrated Rural Development Programme (IRDP) was launched in 20 selected districts, which later in 1980 was launched in the whole country. The primary objective was to give income generating assets and employment opportunities to the rural poor to enable them to improve their standard of living. In 1977, Desert Development Programme (DDP) was started with the main objective of controlling diversification of desert areas. TRYSEM was launched on August 15, 1979 with the objective of generating employment opportunities for the unemployed educated rural youth. In October 1980, National Rural Employment Programme was launched with an aim of creating further useful employment in the rural areas. In 1983, Rural Landless Employment Guarantee Programme (RLEGP) was started to generate additional employment in rural areas by helping them build productive assets. Later in 1989-90, Jawahar Rojgar Yojna was introduced. In 1992, under operation flood, development of animal husbandry was undertaken. Prime Minister's Rozgar Yojana (PMRY) was implemented in 1993. The Employment Assurance Scheme was launched in 1994 to provide 100 days of unskilled work to the rural poor. Prime Minister's Integrated Urban Poverty Eradication Program (PMIUPEP) was launched in 1995-96 to provide employment to the urban poor. From April 1999, SGSY, IRDP, TRYSEM schemes were combined and new programme called Swarnajayanti Gramya Swarojgar Yojana (SGSY). In the same year, Jawahar Gram Samridhi Yojana was restructured as Jawahar Rojgar Yojana. DWCRA –
Development of Women and Children in Rural Areas, was started in Government also started the Apart from these schemes, Pradhan Mantri Gram Sadak Yojana helped improve the roads in the rural areas. In December 2000, the Antyodaya Anna Yojana, was launched to provide food grains to the poor. Jai Prakash Rojgar Guarantee Yojana was introduced in 2002. Valmiki Ambedkar Awas Yojana (VAMBAY), was launched in 2001 for the urban slum dwellers.

Government also put in lots of efforts in improving the financial inclusion of all rural as well as urban households. In 1951, All India Rural Credit Survey Committee, (Gorwala Committee) was appointed that submitted its report in 1954. The committee reported that almost 75.2% of the credit requirement of the farmers was coming from sources other than banks or cooperatives. There was a felt need for partnership of the government in the share capital of the cooperatives and also having government nominees on their boards. The committee recommended creating a commercial banking institute that would be state supported. The first public sector bank, State Bank of India was established on July 1, 1955. (This bank was earlier known as Imperial bank of India). In 1969, the Banks were nationalized with an objective of improving the bank branches in the rural areas and providing support to rural farmers at reasonable rates. They were given a mandate of lending 40% of their loans to priority sector – being agriculture and other rural credit areas. Government also introduced the farmer development schemes in the 1970s. However, the reach out to the poorest of the poor households was still difficult. The poor households do not have easy access to banks; they are not able to get a secured place to put their meager savings at a safe place, do not get money in terms of emergent needs or even when they have to set up their own micro enterprise. This brought in the need for increasing microfinance services in India.

Reserve Bank of India formed a committee to study the arrangements for institutional credit for agriculture and rural development. The committee felt that there was a need for a separate body for providing undivided
attention, forceful direction and provided focus to credit programmes arising due to rural development programmes. National Agriculture Bank for Rural Development (NABARD) was then established in 1982. Mysore Resettlement and Development Agency (MYRADA) initiated the SHGs in 1985, but the SHG movement got boost when NABARD started promoting them. Gradually, non-banking finance companies and microfinance companies emerged.
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 CHAPTER - 1: INTRODUCTION


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