

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

The Department for International Development (DFID) is the British government department responsible for promoting development and the reduction of poverty. The government elected in May 1997 increased its commitment to development by strengthening the department and increasing its budget.

The policy of the government was set out in the White Paper on International Development, published in November 1997. The central focus of the policy is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date.

DFID seeks to work in partnership with governments which are committed to the international targets, and seeks to work with business, civil society and the research community to encourage progress which will help reduce poverty. We also work with multilateral institutions including the World Bank, United Nations agencies and the European Commission. The bulk of our assistance is concentrated on the poorest countries in Asia and sub-Saharan Africa.

We are also contributing to poverty elimination and sustainable development in middle income countries, and helping the transition countries in Central and Eastern Europe to try to ensure that the widest number of people benefit from the process of change.

As well as its headquarters in London and East Kilbride, DFID has offices in New Delhi, Bangkok, Nairobi, Harare, Pretoria, Dhaka, Kathmandu, Suva and Bridgetown. In other parts of the world, DFID works through staff based in British embassies and high commissions.

COUNTRY STRATEGY PAPERS

Country Strategy Papers (CSPs) are prepared for all countries where we provide development assistance programmes, and are normally produced every three years. CSPs set out how we aim to contribute to achieving the international development targets in the country in question. Progress will be assessed against the strategic objectives set out in Section E of the paper. In preparing CSPs, we consult closely with governments, business, civil society, and others within both the partner country and the UK.

Department for International Development
July 1999

INDIA: COUNTRY STRATEGY PAPER 1999

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'The service of India means ... the ending of poverty and ignorance and disease and inequality of opportunity.'

Jawaharlal Nehru
14 August 1947

'...the task that Nehru had identified remains, alas, largely unaccomplished.'

Jean Dreze and Amartya Sen
India: Economic Development and Social Opportunity, 1996

A. SUMMARY

A1. India is a huge country in which poverty remains pervasive. Some half a billion Indians survive on less than a dollar a day. Patterns of poverty vary, but most poor people live in rural areas and rely on daily-wage labour. Women, tribal people and scheduled caste and tribe groups fare particularly badly.

A2. Economic growth has substantially exceeded the rate of population growth, and since the 1970s there has been a significant reduction in the proportion of people whose incomes are below the poverty line. There has also been progress towards human development objectives (such as increasing literacy and reducing infant mortality). But India's progress has been less than in some other countries, particularly in East Asia, whose poverty levels were comparable in the 1970s. Policies and programmes designed to help the poor have suffered from ineffective implementation and there is widespread public concern about the impact of corruption on governance. The large sums invested in public anti-poverty programmes tend to focus on poorly targeted subsidies and safety nets rather than longer term investments in education and health.

A3. India has the potential to make much faster and more effective progress in reducing poverty. India can meet the internationally agreed development targets - including halving the proportion of people living in poverty, improved basic health care provision and universal access to primary education by 2015. To do so it will need to maintain economic reform and growth, increase effective investment in health and education, substantially improve governance, and empower poor people to realise their rights.

A4. The volume of development assistance is insignificant compared to the national budget but external agencies can achieve strategic impact on poverty through influencing specific policies at the national level. There are good prospects for DFID to form effective partnerships with progressive state governments. Local government is crucial to poverty reduction, but has limited capacity at present. There is also scope for DFID to work more closely with civil society, business, and other donors, especially the multilateral institutions.

A5. The aim of UK development assistance in India is to work with Indian partners towards Nehru's vision of ending poverty and realising rights for all. To that end DFID will focus on promoting five specific objectives:

- partnership with selected state governments to tackle poverty more effectively;
- accountable government delivering pro-poor reform and growth and effective services;
- substantially increased and more effective investment in education, health and water and sanitation;
- greater empowerment of the poor, especially women and members of scheduled castes and scheduled tribes; and
- better management of the natural and physical environment.

A6. India's poverty justifies a significant increase in the DFID effort over the next few years, but eventual resource levels will depend on progress in building effective partnerships with state governments towards the elimination of poverty and the right enabling environment nationally and in the region.

B. THE CHALLENGE

B1. With a population approaching a billion, India is a vast country containing a kaleidoscope of peoples of widely varying ethnic background, language and culture. Many Indian states are as populous as large nations.

POVERTY ANALYSIS AND INTERNATIONAL DEVELOPMENT TARGETS

B2. India is a low income country, with a GDP per capita in 1996 of \$380 (\$1580 at purchasing power parity)¹. About half the population lives on less than \$1 a day. Government surveys indicate that 320 million people - 35% of the total population - fall below the Government of India official poverty line, which is lower than the \$1 a day benchmark². Some 80% of poor people live in rural areas, where the incidence of poverty (37%) is slightly higher than in urban areas (31%). Rates of poverty vary widely between states, from 12% below the Indian Government poverty line in Punjab to 55% in Bihar. For most states, however, the figure is 25-45%.

B3. The scale of poverty in the country means that progress towards the internationally agreed development targets in India will have a major bearing on whether the targets are achieved internationally, since about a third of the world's poor live in India. Over the last 50 years since Independence the proportion of the population in poverty in India has reduced substantially but remains high. Prior to the mid-1970s the proportion below the Government poverty line remained fairly static at about 55%. Between 1975 and 1987 there was a steady decline to 38%, coinciding with an

increase in the economic growth rate from 4% to 5% a year and strong rural growth. The correlation between strong economic growth and poverty reduction has continued into the 1990s, but the proportion of people in poverty has fallen more slowly, particularly in rural areas, with the focus of growth shifting to industry and services. The overall number of poor people has remained roughly constant over the past 25 years due to population growth. Since the 1970s reductions in poverty have been fairly broad-based, although there have been variations between states (and districts) as shown in Box 1, with minimal improvements in a few states, notably Bihar.

B4. Although India has made significant progress in reducing poverty over the last two decades, the incidence of poverty is still much higher than in most other regions of the world (see Box 2), except for parts of sub-Saharan Africa. Countries in East Asia, including China, have had considerably more success in reducing poverty, despite having comparable levels of poverty in the 1960s and 1970s (around 60% below the \$1 per day poverty line). This suggests that India could have achieved more. Looking forward, India should be able to attain the international target of halving the incidence of poverty by 2015. The relatively even distribution of income in the country means that income growth of only 1.5% a year per capita will be required to achieve the target, whereas economic growth has averaged 3-4% a year per capita over the past decade and is expected to remain at similar levels. The challenge for India will be to emulate the success of East Asian countries and reduce poverty much further.

¹ Adjusted for the cost of living in India

² \$1 a day is an internationally accepted threshold for absolute poverty

B. THE CHALLENGE

CONTINUED

Box 1.

COMPARATIVE PERFORMANCE OF STATES IN INDIA

	Incidence of Rural Poverty ¹ %		Infant Mortality Rate per 1000 live births	Adult Literacy Rate (%)
	1974	1993	1995	1991
Punjab & Haryana	35	25	60	58
Maharashtra	65	48	55	65
Gujarat	58	35	62	61
Tamil Nadu	59	37	56	63
Karnataka	61	41	62	56
Andhra Pradesh	57	29	66	44
Kerala	62	31	16	90
West Bengal	63	27	59	58
Assam	56	49	77	53
Rajasthan	59	48	85	39
Madhya Pradesh	66	45	99	44
Uttar Pradesh	56	42	86	42
Orissa	59	40	103	49
Bihar	69	64	73	38
India	57	37	74	52

Notes: 1. Using Indian Government poverty line

Sources: World Bank: 'India, Achievements and Challenges in Reducing Poverty, 1997'

United Nations Development Programme: 'India the Road to Human Development, 1997'

B5. As well as the decline in income poverty, there has been progress against human development indicators. But overall these remain poor, particularly for women, tribal people and scheduled castes. The right to education, health care, shelter, and just and safe work conditions remain unrealised for many. Since Independence, the literacy rate has risen from 20% to 52% (39% for women) but remains worse than in most other countries (see Box 2), particularly in Asia. This reflects low primary school enrolment rates, high drop out rates, the poor quality of education and gender inequalities in access to education. A major factor is inadequate government

investment in education - some 4% of GDP, only about half of it for primary education. There are also wide variations in literacy between states (box 1), the success of Kerala showing what can be achieved given adequate resources and policies. The Government has proposed increasing education spending to 6% of GDP, with a target of universal primary education by 2000 and full literacy by 2005. Slippage seems inevitable, but the objectives should largely be achieved before 2015. Eliminating gender biases in education by 2005 will be much harder, given current disparities and entrenched social attitudes.

B. THE CHALLENGE

CONTINUED

Box 2.

COMPARISON BETWEEN INDIA AND OTHER COUNTRIES/REGIONS

	Poverty Incidence ¹	Infant Mortality Rate		Adult Literacy
	%	per 1000 live births		Rate ²
	1993	1970	1995	1995
India	52	137	74	52
China	22	69	33	82
East Asia & Pacific	26	80	40	84
Sub-Saharan Africa	39	138	92	56
Latin America and Caribbean	24	85	37	87

Notes: 1. Using \$1 per day poverty line.
2. Percentage of people aged 15 and above.

Sources: 'World Development Report 1998/99'
'Are Poverty and Social Targets for the 21st Century Attainable?', Demery and Walton, 1997

B6. Since Independence, life expectancy has almost doubled from 32 to 60 years and infant mortality rates have fallen by two thirds. But maternal and infant mortality rates (at 5.5 and 74 deaths per 1000 births, respectively) remain higher than in most other countries, except in sub-Saharan Africa. They also vary greatly between states. India's population growth rate, currently about 2% a year, is declining slowly. Achieving the international development targets for health by 2015 will be difficult. A major increase in government investment in health (currently just 1.3% of GDP) and other social services (including water and sanitation) will be required, combined with measures to improve the effectiveness of service delivery and enhance access in remote rural areas.

B7. Failure to ensure the rights of women and children remains a cause of major concern. Overall, women represent an increasing proportion of the poor. Gender inequality and exploitative labour practices exacerbate poverty. Violence against women and children, child labour and bonded labour are commonplace. Protective legislation, such as banning the dowry system, is often ineffective, especially in rural areas. The relationship between these social factors and income is complex; for example, not all child labourers are from very poor families. West Bengal has relatively low income poverty but high gender differentials.

B8. Poverty is closely linked to caste (see Box 3) and ethnicity. Migrants (many of whom are from the scheduled castes and scheduled tribes) are among the poorest.

B. THE CHALLENGE

CONTINUED

Box 3.

CASTE

Caste remains a pervasive social problem in India, even though the system is far from static. Research shows that scheduled castes and scheduled tribes (SC/STs), who account for 17% and 8% of the population respectively, lag behind other groups in terms of human development, and continue to be victims of systematic discrimination and violence. Over half fall below the Indian poverty line in rural areas and their rates of literacy, at 37% and 30% respectively, are far below the national average. But significant levels of income poverty exist among other castes, so class and caste hierarchies do not always coincide.

The Indian constitution offers scheduled castes and scheduled tribes a range of guarantees of equality and affirmative action. These include reservations in education and employment, welfare schemes and political representation. The economic and human development status of SC/STs varies greatly from state to state. While legislation has been a positive step, its effectiveness has been diluted by patchy implementation and the resilience of caste attitudes and practices, particularly in rural areas.

B9. Daily-wage labourers account for most of the poor in both rural and urban areas, with the incidence of poverty highest (68%) amongst agricultural labourers. There is a seasonal dimension to rural poverty related to the harvest, although this is declining with irrigation and watershed management. Many households move into and out of poverty from year to year. Increasingly, lack of access to land is a problem for rural households, and wage labouring (farm and off-farm) is often the primary source of income. This is likely to worsen due to population-induced fragmentation of holdings, lack of effective land reform, and limited formal employment opportunities.

POLITICS AND GOVERNANCE

B10. India has a robust tradition of parliamentary democracy, an independent judiciary, a free press and apolitical armed forces. The federal structure of national and state government is evolving, with increasing devolution of power to the states. The rise of regional parties and decline in political cohesion at the centre are likely to accelerate this process. Fragile coalition government at both central and state level make long-term development strategies more difficult. The media continue to play a critical and independent role in politics as well as in social and economic issues.

B11. Dreze and Sen³ note that while many of the basic entitlements people need to improve their lives, such as health and education services and water supplies, depend on positive government activity, standards of governance in many of these fields are low and in some cases deteriorating. The senior echelons of the civil service at central and state levels, especially members of the Indian Administrative Service, are well trained and committed, although their effectiveness is constrained by weaknesses in the system within which they work. There are relatively well established mechanisms for ensuring transparency and accountability, but these are often not enforced. Capacity in the lower levels of the public service and local government is limited. Bureaucracy tends to be inflexible and slow and systems of patronage are entrenched. Corruption is widespread and criminal elements are involved in elected bodies in some states. The judicial system is regarded as being largely free of corruption. But the judicial process to try politicians and administrators accused of corruption is ponderous and can be influenced by politics. The Prime Minister stated in late 1998 that tough measures had to be taken to enforce ethical order in the administration without which good governance will not be possible⁴.

³ 'India, Economic Development and Social Opportunity', Section 8.4

⁴ Quoted from an article in The Hindu newspaper on 27 November 1998

B. THE CHALLENGE

CONTINUED

B12. A number of independent, statutory bodies exist to safeguard rights. Of particular importance are Parliament, the Supreme Court, the National Human Rights Commission (NHRC) and the Minorities Commission. Nonetheless, the political and civil rights of the poor sometimes suffer from heavy handed police and para-military actions, which recur where judicial response has been weak. This is particularly the case in areas of insurgency such as Kashmir and the North-East. Religious, caste and ethnic conflicts in some states are exacerbated by ineffective and sometimes partisan policing, as reported by the Minorities Commission and the press.

B13. Legal measures are in place to protect the social and economic rights of women, children, scheduled castes and other vulnerable groups. But it is often difficult for the poor to realise these rights. The NHRC is beginning to address the issue of access to social and economic rights. A recent Supreme Court ruling on drought-prone Western Orissa mandated the NHRC to monitor and report on state anti-poverty and welfare programmes to ensure that basic needs and rights are more effectively upheld. In addition, the Supreme Court has recently ruled on broad types of sexual harassment as unconstitutional, which now provides a basis for legal protection for individuals. Such rulings on economic and social rights are creating progressive precedents, and are broadening the rights debate in India beyond the earlier focus on political and civil rights.

B14. Decentralisation from state governments to elected authorities at district level or below was mandated by constitutional amendments issued in 1992, but implementation is uneven. Affirmative policies mean that representation from women and scheduled tribes and castes is increasing in local government bodies, which should lead to development issues receiving more attention. Accountable and representative local government is crucial to poverty focused development as it enables poor people to participate and express their demands near the point of planning and service delivery. Improving the effectiveness of local government will require a more informed electorate, stronger civil society and building the capacity of elected representatives and staff.

B15. The need to increase the efficiency of government, and contain its escalating salary costs (exacerbated by the recommendation of the government's Fifth Pay Commission for a further large increase) has given impetus to fiscal and administrative reform initiatives at the centre and within states. The fact that a number of states are heavily indebted, facing serious cash flow problems and constrained in their ability both to raise additional revenue and to borrow, gives them an incentive to change. But public sector reform is a complex and difficult task. A culture which still tends to be biased against the private sector and favours legal protection for public sector workers, trade unions which oppose change, and political opposition - sometimes backed by violence - all make reform difficult and slow.

GOVERNMENT ANTI-POVERTY POLICIES

B16. The 1998 World Bank report entitled 'Reducing Poverty in India' focuses on government anti-poverty policies. It concludes that in the half century since Independence, India has secured many notable social and economic achievements including the eradication of famine, a reduction in population growth and significant reductions in levels of poverty. The national government has established a range of pro-poor policies and programmes. These include reservation policies for scheduled castes and tribes, legislative measures, and a wide range of employment, safety net and subsidy programmes for the poor (costing over 1% of GDP). The World Bank report states, however, that many policies and schemes have been only partially effective and targeting at the poor has generally been weak. Rural public works have generally been the most successful, providing out-of-season employment to large numbers of poor people, but have not involved any upgrading of skills. Credit schemes have generally benefited both poor and non-poor groups, and have not been linked to training. Subsidised public food distribution systems have been least effective in terms of the share of benefits received by the poor, although they have helped prevent famine and the Government has recently proposed a more targeted scheme. Recent government evaluations have recommended measures to rationalise the multiplicity of schemes and improve their effectiveness; these are currently under consideration.

B. THE CHALLENGE

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B17. Government at both national and state levels has given inadequate attention to longer term investments in basic health and education, despite their importance in poverty reduction, largely because they have focused instead on subsidy and safety net programmes. In addition to those programmes mentioned above, huge subsidies have also been provided for power, irrigation and fertilisers, most of which have benefited the non-poor⁵. Once in place, subsidies have proved politically very difficult to reform, although there has been increasing recognition over the last few years of the need for change.

B18. The Government's National Agenda for Governance seeks to promote growth with social justice and equity. It gives priority to agricultural and rural development to generate sufficient employment in order to eradicate income poverty. Policies do not, however, adequately address the need to redistribute land and other key assets affecting the poor.

GOVERNMENT ECONOMIC POLICIES

B19. After Independence, in line with many other developing countries, India pursued an autarchic economic strategy relying on high tariffs, widespread industrial licensing and state control of economic activity including the financial sector and much of the industrial sector. These policies were associated with a sluggish economic growth of around 4% a year. Economic growth picked up to 5.5% a year during the 1980s as India gradually opened up the economy. But with inadequate revenue mobilisation and burgeoning subsidies, the fiscal deficit increased substantially (to 8.5% of GDP by 1985/86). The over-valued exchange rate and high levels of tariff protection discouraged exports which led to a current account deficit of 3.5% of GDP in 1990/91. This caused reserves to fall to negligible levels, and culminated in a major foreign exchange crisis in 1991.

B20. The Government, with support from the International Monetary Fund, initiated a successful stabilisation programme which controlled inflation and built reserves although it slowed the rate of economic growth. Improved macro-economic management and a programme of gradual economic reform and liberalisation established the basis for

sustainable and more rapid growth from 1992/93. Foreign trade and a large number of prices were extensively decontrolled, tariffs greatly reduced, and a more encouraging regime for foreign investment instituted. As a result, growth averaged over 7.5% a year between 1994/95 and 1996/97, although it subsequently fell back below 6%.

B21. India is still not reaching its economic potential. Despite significant reductions in tariffs since 1991, it remains one of the most protected economies in the world, constraining exports and fostering high levels of inefficiency in the domestic economy. Profitability and productivity in the public sector corporations remains extremely low, yet the process of transferring assets into private hands in order to improve management and increase efficiency and investment has barely started. Most seriously India has failed to address its fiscal problem. The growing losses of public enterprises of both the Centre and states, plus the burden of extensive subsidies, contribute to a public deficit in excess of 9% of GDP which is leading to a domestic debt problem, particularly for the states. Within public expenditures there are many inefficiencies, with subsidies generally not being targeted at the most needy groups. The resultant expenditure constraint has led to insufficient investment in infrastructure, power and transport, which are now a major bottleneck on productive activity.

B22. The Bharatiya Janta Party Government has continued the process of reform, although it has been cautious about opening up key sectors for foreign investment with majority external control, and has generally sought to maintain or increase the levels of protection for domestic industry. Although the Government has indicated an appropriate direction for the 'second phase' of the reform programme (including a reduction of tariffs and subsidies, privatisation and financial sector reform), the actual pace of reform has been slow.

B23. Whilst India was not substantially affected by the economic crisis in East Asia, 1998/99 was a difficult year for a variety of reasons. Industrial growth continued to decline. Exports performed poorly. Foreign investment fell as a result of the worsening global investment climate for emerging markets and the economic measures taken against India

⁵ The ineffectiveness of subsidies, especially on inputs, are described in an Indian Government discussion paper entitled 'Government Subsidies in India' published by the Ministry of Finance in May 1997

B. THE CHALLENGE

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following the nuclear tests in May 1998. Nevertheless, economic growth in 1998/99 was 5.8% largely as a result of agricultural recovery and continuing high growth in the service sector.

B24. Enhanced trade and investment is critical to increasing India's economic growth. The World Bank attribute a recent fall in India's share of world trade to tariff increases in 1997 and 1998. Whilst India has decided to phase out quantitative restrictions on consumer goods, other tariff and non-tariff barriers need to be reduced to promote exports and growth. India is a key player in international trade and investment fora, both because of its size, and because of its influence with other developing countries. India is an active member of the World Trade Organisation, having been highly influential in previous trade negotiations. India has reaped substantial benefits in investment through opening up to direct foreign and institutional capital flows. Nevertheless, India continues to maintain a substantial number of restrictions and discretionary powers with regard to foreign investment. Although boosting private sector investment in infrastructure is a recognised priority, the regulatory regimes are in many cases not appropriate or adequate to facilitate this.

THE ENVIRONMENT

B25. Severe pressures on both the rural and urban environment arise from the growing population, rural to urban migration and the expansion and industrialisation of the economy. Problems include land degradation, toxic emissions from industry, declining water quality and the national and international impact of increasing energy use. Poor people, especially where basic infrastructure is lacking, are seriously affected by environmental degradation.

B26. There is a comprehensive framework for legal protection in India. The key framework legislation is the Environmental Protection Act of 1986. This legislation is supported by an established institutional framework at

central and state government level. But legislation has not proved effective in halting environmental degradation and further economic incentives, improved environmental monitoring and regulatory enforcement are needed. The Government's Environmental Action Programme identifies key priorities for itself and donors. There is, however, a clear need for national and state governments to adopt sustainable development strategies if national environmental issues are to be tackled effectively.

B27. India is a key player in international efforts to make progress on global environmental issues both because of its size and its influence on other developing countries. It has been identified as one of the main developing countries with significant potential for action to mitigate the rate of greenhouse gas emission. The Government recognises the importance of global issues and is an active participant in the Global Environment Facility and other international environmental fora.

EFFECTIVENESS OF DEVELOPMENT ASSISTANCE

B28. Although it only amounts to some 1% of GDP, targeted development assistance can play a valuable role in facilitating India's economic and social development. A recent World Bank report entitled 'Assessing Aid: what works, what doesn't and why' cites India as an example of a developing country which has had a relatively good social and economic policy and institutional environment in recent years, where development assistance could have a big effect on growth and poverty reduction. This is particularly likely to be the case in poorer Indian states which are committed to further reforms and to tackling poverty. The World Bank's most recent India Country Assistance Strategy seeks increasingly to focus its assistance on such states. For development assistance to have maximum impact, however, further improvements in institutional effectiveness are likely to be required, including through measures which give greater empowerment to poor people.

PROSPECTS FOR PARTNERSHIP WITH GOVERNMENT

C1. There are many good reasons for seeking enhanced partnership with India for poverty reduction. They include the huge numbers of people in acute poverty; government commitment to economic, social, cultural, civil and political rights as signatory to United Nations treaties and conventions; government commitment to anti-poverty policies; some progress with economic reform; a strong democratic tradition and free press; and a cadre of effective and committed senior civil servants. But there are doubts about how far the political commitment to pro-poor policies extends. Implementation of policies on increasing basic social services is weak and the Government is slow to undertake essential but politically difficult reforms.

C2. A critical issue for all external donors is how to achieve strategic impact on poverty, given India's size, and its federal and increasingly decentralised system of government. The World Bank's Country Assistance Strategy recognises the importance, in a country of India's size and needs, of being selective and focused in its interventions. DFID's resources are modest in comparison with those of the multilateral institutions, in spite of the fact that India is DFID's largest programme. It is therefore particularly important to be strategic in the choice of partners, and to look for ways in which DFID can add value to national and international efforts. In considering opportunities for partnership, the following factors are relevant:

- Government contributes most of the resources needed for investment in health, education and other basic services. There is significant scope to increase access by the poor and the quality of these services. Donors can have a role in policy dialogue and capacity building. There are therefore strong reasons to continue working with government.
- State governments are emerging as increasingly important agents of change and reform. They are responsible for the formulation and implementation of many key development policies. Financial and political pressures on state governments, including the need to reduce debt burdens and compete for

inward investment, give them an incentive to reform and there is increasing interest in some states in engaging with donors at a policy level as well as on direct poverty reduction projects.

- Local government at district level and below is potentially very important for poverty focused development. But greater decentralisation of powers and budgets from central and state governments, improvements in the accountability and responsiveness of local bureaucracy, and systems to prevent dominance by powerful local groups are all needed for them to be effective in contributing to poverty elimination (see Box 4).
- DFID's White Paper on International Development (November 1997) undertakes to focus assistance on partners who themselves are committed to poverty reduction. A similar commitment is made in the World Bank's Country Assistance Strategy (which proposes channelling an increasing amount of World Bank assistance to reforming states).
- DFID's own experience shows the value of building long-term relationships with partners at national, state, municipal and district level, and the potential for developing local ownership and commitment through effective, long-term collaboration.
- Concentrating efforts in a few partner states creates opportunities to increase impact on poverty through promoting synergy between different sectoral programmes, and through addressing broad cross-sectoral issues.
- There is increasing recognition of the added value which comes from close donor collaboration, both to ensure a coherent effort and to enhance respective skills and capacity. There is, for example, good complementarity between the multilateral institutions with their substantial loans, influence and analytical capabilities, and DFID's more flexible technical assistance and expertise, for example in participatory approaches and institutional analysis. A recent joint programme between DFID and the United Nations Children's Fund (UNICEF) explicitly seeks to build on the strengths of each, with a view to enhancing the effectiveness of new water and sanitation programmes.

C. PARTNERSHIPS

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- There are new opportunities for partnership with civil society which has a crucial role to play in developing innovative approaches, advocating reform and improving information and awareness as

well as direct provision of services to the poorest. There are also opportunities for building partnerships with the private sector.

BOX 4.

LOCAL GOVERNMENT

India's federal system of government contains three tiers; central government, state governments and local government. In rural areas local government is known as Panchayati Raj. It includes three levels: district, an intermediate level - normally a block - and village. In urban areas there are municipalities.

Local government has remained weak with state governments delegating little real authority or resources to it. The 73rd and 74th Constitutional Amendment Acts passed in 1994 sought to strengthen the Panchayati Raj and municipalities as institutions of self government. These institutions therefore have the potential to play an important role in development. As democratic institutions, they can enable poor people in India to gain more control over their own lives. Local government is also a provider of services that are crucial to poor people, such as environmental sanitation, water supply and health.

Strengthening of local government is therefore an important factor in tackling poverty. This requires the devolution of three key ingredients: accountability, power and resources. Elections to local government bodies have now been completed in most states. A reservation of 30% of seats and office holders for women and scheduled castes and tribes aims to prevent capture of local political processes by dominant groups. Devolution of resources is crucial. Recommendations by state finance commissions will determine the financial resources to be made available to local governments. Development of human resources at local government level is a high priority.

PROPOSED PARTNERSHIPS

Central Government

C3. The relationship with national government will remain crucial, with three main elements:

- maintaining, together with other key donors, an effective dialogue with the Government of India, including the Planning Commission, about national policies affecting development both in formal arenas, including the India Development Forum, and informally;
- working with and contributing to high priority national programmes, both in specific sectors such as education, health and the environment and on broader poverty approaches including women and child development; and

- maintaining good relations with the Department of Economic Affairs and other central bodies, including line Ministries, who are important facilitators and gatekeepers for DFID programmes (including at state level).

State Partnerships

C4. In the light of the analysis in paragraphs C1-C3 above, DFID proposes to build a small number of long-term partnerships with selected state governments. Criteria for the initial selection have been:

- high concentrations of poor people;
- commitment to reducing poverty, including a willingness to make radical shifts in fiscal priorities, tackle difficult social issues such as gender and caste, overhaul delivery of public services and

C. PARTNERSHIPS

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decentralise more power and money to local government;

- desire to improve standards of governance; and
- interest in partnership with the UK, either because of past links, or because they are actively seeking external help and advice.

C5. Andhra Pradesh, Orissa and West Bengal are states where DFID already has broad ranging programmes which should provide a good platform for developing effective partnership. Preliminary discussions with senior figures in the state governments about the possibility of partnership have elicited a broadly enthusiastic response. Research into the nature and scope of poverty in each state has also been undertaken. All three states appear to be committed to tackling poverty; in West Bengal, the pace of liberalisation and reform is slower than in the other two, while its anti-poverty programmes are more developed.

C6. Over time, if conditions are right, DFID may wish to develop partnership with one or two other states. The focus on poverty elimination suggests the early development of closer relations with another poor northern state, probably Madhya Pradesh. In very poor and populous states such as Uttar Pradesh and Bihar, where partnership may not be feasible, we will seek to work with civil society, and perhaps selectively support national programmes where opportunities arise.

Civil Society

C7. Civil society has a crucial role to play in India's future development including by developing innovative approaches to tackling poverty, advocating pro-poor reforms and policies, providing services to poor people in areas which government cannot reach and empowering the poor to make demands on government. DFID will therefore work with civil society on a range of issues including: stimulating demand for improved essential services; empowerment of poor communities and groups; better accountability; and advocacy of pro-poor policies. DFID will also enhance its ongoing dialogue with civil society to help develop and improve the quality of its own activities.

C8. Non-governmental organisations (NGOs) are a key element of civil society with which DFID already works closely. Depending on the definition used, there are between 10,000 and several hundred thousand NGOs. At least 30 UK-based international NGOs are active in India. Central and state governments increasingly recognise the contribution which NGOs can make to eradicating poverty. There are good prospects for working with NGOs, both in the context of partnerships with state governments and in supporting poverty reduction in very poor states with ineffective governments.

C9. DFID will also work with other civil society groups with influence and knowledge relevant to poverty and development, such as academic institutions, elected members of local government, women's groups, the media, professional organisations, foundations and trade unions. Given the huge number of these groups, more research is needed to identify the most effective of them.

Other donors

C10. Enhanced co-operation between DFID and multilateral agencies will strengthen relations with and improve impact in partner states (some of the multilaterals are increasingly focusing their efforts on reforming states), help address poverty in areas where DFID lacks the capacity to work and contribute to DFID's global objective of helping the multilaterals become more effective. The World Bank is a leading donor in India both by virtue of the size of its programme and its relationship with government and because it invests substantially in research into development issues at national and state level, for example the recent report 'Reducing Poverty in India'. The UN agencies, with several of which DFID is developing collaborative relations, are also influential.

C11. DFID will continue to work closely with the World Bank in a range of sectors, including public sector and power sector reform, and in Andhra Pradesh and Orissa. Among the UN agencies, DFID will aim to work more closely with UNICEF with the emphasis on building joint capacity, especially in water and sanitation. There are good prospects for further developing relations with the United Nations

C. PARTNERSHIPS

CONTINUED

Development Programme (UNDP) in environment and governance, and the International Labour Organisation in child labour. There are also opportunities to work more closely with other large donors with whom contact has so far been limited, especially the Asian Development Bank (for instance in Madhya Pradesh) and Japan. DFID will continue to work closely with the European Commission, including in education and health.

Business

Ci2. India has a relatively well developed private sector, including strong business membership organisations. The process of economic liberalisation begun in 1991 has given greater encouragement to the private sector and to foreign direct and portfolio investment. In 1993, the Indo-British Partnership, supported by government and the private sector in both countries, spearheaded a major campaign to promote increased trade and investment. The UK is the second largest

investor in India (cumulative approvals 1991-1998) and bilateral trade in goods increased by two thirds between 1992 and 1997 to £3.2 billion. UK exports of goods have declined over the past two years, largely due to the economic slowdown in India. The UK Department of Trade and Industry and Foreign and Commonwealth Office are already devoting substantial resources to trade and investment promotion.

Ci3. DFID can best add value by strengthening its existing approach of carefully targeted partnership with the private sector in specific areas where there are common objectives. These include: tackling specific aspects of poverty, such as child labour, or the HIV/AIDS problem in the trucking industry; improving the enabling environment for the private sector, for example by promoting power sector reform; and helping create a framework for private sector investment in water and sanitation. Equity investments from the Commonwealth Development Corporation also help private sector development.

D. CURRENT UK DEVELOPMENT PROGRAMME

D1. The current DFID programme focuses on policy and management reform in key productive sectors, public and private investment in education and health and innovative approaches to livelihood and environmental problems. It covers six main sectors: energy, rural development, health, education, urban poverty, and water and sanitation. Within these sectors it focuses on particular priorities.

D2. Strengths of the existing approach have included;

- innovative and participatory approaches to direct poverty reduction and gender equality;
- well established and generally effective sectoral programmes;
- increasing DFID impact in promoting pro-poor approaches, including through successful partnership with the World Bank; and
- greater knowledge, responsiveness and effectiveness through having a substantial DFID presence in Delhi.

Weaknesses have been:

- project level work has often been pursued in isolation and not linked to wider sectoral or policy reform;
- the underlying causes of poverty, especially governance issues, have been inadequately addressed;
- poverty-focused projects have had good impact at local level, but have not been successfully scaled up or projected nationally; and
- DFID's sectoral focus and structure have made it more difficult to pursue holistic approaches.

D3. Work to assess the impact of the programme in most of its main sectors has been undertaken in recent years. A recent poverty evaluation and a study of participatory approaches are generating useful programmatic lessons. Methodologies and good practices are now established in projects across the programme. There are serious limitations on the usefulness of data from output to purpose reviews and project completion reports in terms of impact assessment; but they indicate that most DFID projects are successful in achieving most of their objectives.

D4. Specific examples of successful outcomes of current and recent DFID interventions are⁶:

- living conditions for 1.4 million slum dwellers in three Eastern states improved in the last nine years
- wider access to basic education in Andhra Pradesh; total enrolment in primary schools in five DFID project supported districts increased by 6.5% (7.9% for girls) between 1995 and 1997
- better sexual health and reduced HIV/AIDS transmission in Calcutta; HIV prevalence in the project area is under 6% compared to rates of up to 70% recorded in comparable areas in other parts of India
- water supplies to 187 villages covering a population of 375,000 in drought-prone districts of Maharashtra
- improved national guidelines for watershed programmes, which draw on experience from DFID-funded projects
- ground-breaking power sector reform well advanced in Orissa and under way in two other states.

⁶ More details are available from DFID India (see back cover for contact details)

How DFID Will Operate

1. PARTNERS

E1. As set out in Section C, DFID will seek to develop partnerships with selected state governments and continue to work with the Indian Government on the development of national poverty reduction policies and programmes, such as the District Primary Education Programme and watershed development programmes of the Ministry of Rural Areas and Employment, where modest improvements in targeting or quality could have an impact on a large number of people.

E2. DFID will also seek to operate in ways which add value to national and international efforts, and to establish more effective relationships with other donors, civil society and the business sector.

2. APPROACHES TO PROGRAMMING

E3. DFID will build on systems which have worked well to date (see Section D), while introducing a number of new approaches including:

- focusing programmes increasingly on partner states which are committed to poverty reduction, largely phasing out activities in other states, especially less poor ones, over time.
- extending and deepening our co-operation with multilateral agencies.
- continuing with a mix of measures directly empowering poor people and enabling interventions which tackle the wider causes of poverty. The latter will be monitored to ensure that benefits accrue to poor people.
- supplementing project funding with more flexible forms of assistance, including programmatic support, sector wide approaches, channelling funds through national programmes, and co-financing with other donors and civil society.
- planning interventions towards longer time horizons, especially in the context of partnership with state governments and others. In the past,

donors have sometimes expected to effect change or have an impact unreasonably quickly.

- developing skills and mechanisms for impact assessment at project, programme and - in time - state level.
- scaling up innovative and successful poverty-focused interventions to reach a greater number of people.
- developing the process of consulting stakeholders on DFID strategy, both to expose programmes to peer review and to disseminate lessons learned.
- encouraging greater public understanding in India of development issues and policy options, and increasing awareness of DFID's programme

What DFID Will Do

E4. The goal of the strategy is to make progress towards the elimination of poverty in India. Its purpose is for DFID to work effectively with partners to reduce poverty significantly over the next ten years. DFID will pursue this by working towards five specific, interlocking objectives, listed below.

E5. The choice of objectives is based on: an analysis of India's development needs (summarised in Section B); the needs of the poor identified by participatory assessments as well as more quantitative methods; consultation on priorities with the Indian Government, state governments and other development partners; and analysis of the strengths and weaknesses of DFID's existing approaches.

Objective 1: partnership with selected state governments to tackle poverty more effectively

E6. In Andhra Pradesh, Orissa and West Bengal, DFID will seek to build on already strong sector-specific dialogue to develop partnership at a strategic level. This will involve developing dialogue - where possible in concert with other donors - on each state's overall development goals and fiscal priorities, and agreeing priorities within this framework for future DFID interventions. As effective partnership develops, DFID will increase the resources deployed in that state and also adopt more flexible forms of financing.

E. FUTURE UK DEVELOPMENT STRATEGY

CONTINUED

E7. In Orissa, DFID is supporting a new broad-based programme of public sector and fiscal reform which, combined with greater investment in education and health, could provide a platform for future partnership. In Andhra Pradesh, the entry point is likely to be that state's strong commitment to reducing poverty through community mobilisation as well as DFID involvement in the World Bank's efforts to support reform. In West Bengal, DFID will build on existing sector-based support for the state's strongly poverty-focused programmes. DFID will also look to develop closer relations with another poor and reforming state, probably Madhya Pradesh.

Objective 2: accountable government delivering pro-poor reform and growth and effective services

E8. Although economic performance has improved in recent years, stronger high quality growth is needed if India is to achieve its own and internationally agreed development targets. DFID will therefore continue to pursue key enabling interventions (mostly at state level) which contribute to economic growth and reform, including power sector reform, ensuring that these are taken forward in ways which benefit the poor. Public sector reform is taking off at national level and in a number of key states. DFID will work with parts of government promoting reform of public enterprises and parastatals, the civil service and government finances - both expenditure and revenue. The main focus will be at state level (there should be strong synergy between this and Objective 1), feeding lessons learned to the centre where possible. DFID will also work with Indian Government and other UK agencies on global trade and investment issues, recognising India's importance in international negotiations and agreements. DFID will participate in bilateral and multilateral dialogue, especially through the European Union, and stands ready to offer technical assistance if required.

E9. DFID will support Indian Government and civil society initiatives to make government accountable and responsive to poor people and reduce corruption. DFID will complement and build on existing good governance

programmes in focus states which support decentralisation with local accountability, modern procurement processes and other anti-corruption measures.

E10. In partner states, DFID will support effective and responsive service delivery systems, especially for human development and the utilities (this will also be a focus of Objectives 1, 3 and 5). DFID is ready to support Indian initiatives including the commercialisation of public utilities, such as water and power, and the development of a more efficient civil service at state and municipal level, where these are clearly enabling measures for poverty reduction. DFID will build on its existing initiatives such as the public sector reform programme in Orissa and urban services project in Andhra Pradesh.

Objective 3: substantially increased and more effective investment in education, health and water and sanitation

E11. As the analysis in Section B makes clear, education, health and water and sanitation are key human development priorities for India, in which government has generally under-invested. There is also a need to improve quality and equity of access. In each case, DFID needs to work through national and state government programmes and through civil society. In education, much of the effort will focus on improved access to, and quality of, primary education through the national District Primary Education Programme. In health, DFID will pursue a combination of national initiatives including for TB and HIV/AIDS and working to promote better planned investments and health system reform at state level. In water and sanitation, DFID will work primarily at state level, but with a range of partners, to promote more effective and demand-led investments.

Objective 4: greater empowerment of the poor, especially women, and members of scheduled castes and scheduled tribes

E12. DFID will pursue a range of largely new initiatives aimed at greater empowerment of the poor and

E. FUTURE UK DEVELOPMENT STRATEGY

CONTINUED

disadvantaged groups. DFID will expand its innovative work in rural livelihood development, urban poverty reduction and micro-finance and enterprise development. DFID will also work with civil society to empower the poor in areas where partnership with state governments cannot be pursued at present; continue to adopt a twin-track approach to gender issues, both mainstreaming them in other activities and developing a women's empowerment programme (building on existing work with key government agencies); enhance efforts to empower disadvantaged tribal and caste groups, both by focusing on them within existing bilateral projects and new, discrete initiatives through civil society; help improve poor people's access to justice and security; focus, with civil society, on helping the poor obtain better access to information from government and demand better services; tackle specific poverty related issues such as child labour; and help civil society engage in advocacy for more pro-poor law and policies.

Objective 5: better management of the natural and physical environment

Ei3. Building on existing programmes, DFID will help government promote strategies for sustainable development and livelihood improvements in order to improve management of the natural and physical environment. DFID's rural development programme will continue to focus on sustainable management of forestry resources and watersheds. Work to reform the power sector will help promote greater energy efficiency and DFID will seek to maximise the resulting environmental benefits. DFID's urban poverty and water and sanitation programmes will carry significant environmental benefits. Discrete environment support activities will be strengthened, including training and capacity building, although these will be mainly geared to supporting and influencing government programmes working with others including the World Bank, the EC and UNDP.

Ei4. DFID will also work with the Indian Government and with other interested UK government bodies to help further the global environment and climate change agenda, in which India has a key role to play.

F. IMPLEMENTING THE NEW STRATEGY

F1. DFID's India office (DFIDI) is part of the British High Commission. It currently has a management structure consisting of the main office and sector-specific groups covering health, education, water and sanitation, urban poverty, rural development and energy. Following a management review of DFIDI in late 1998, significant organisational changes are underway. In particular, it is clear that, to improve efficiency and effectiveness, the sector groups should be more closely integrated with the main office and more involved with policy and strategic work.

F2. DFID will gear up to the new challenge of state level partnership. DFIDI is establishing new state teams, and will seek to open a small, representative office in each partner state. In the longer run, DFID will need to consider the optimal balance between the current largely sector-focused structure and a predominantly state-focused structure.

F3. Indian staff bring invaluable understanding of the Indian context and provide continuity in DFIDI. DFID will work to build up further the already strong cadre of Indian staff, including in professional and middle management posts. A scheme has been established to help develop Indian social development advisers.

G. PROGRAMME RESOURCES

G1. British development assistance to India is currently around £100 million a year. A significantly larger programme is justified by India's size, the vast number of poor people, and the wide range of development challenges.

G2. It is therefore proposed to increase the level of development assistance significantly over the next few years as the above strategy is implemented. But this will depend on progress in building pro-poor partnerships and the right enabling environment nationally and in the region.

SUMMARY OF PREPARATION PROCESS

Timetable of main events

A timetable of the main events leading to production of the CSP is as follows:

		APRIL 1998	India/UK Aid Talks including preliminary discussion on strategy with Indian Government
JULY 1997	Meeting of DFID officials in India to discuss the implications on the new Government's development policy for the India programme		Preliminary discussions with Orissa Government, including Chief Minister, led by DFID Chief Economist
			Workshop with DFID Strategic Directors and BHC
			UNDP poverty conference
NOVEMBER 1997	Publication of White Paper on International Development		Meetings with British Business Group and Chamber of Indian Industries
	Workshop for DFID officials in India to discuss new strategy, focusing on what partnership might mean in the Indian context		Meeting between Madhya Pradesh Government and donors
DECEMBER 1997	Finalisation of Policy and Resource Plan for DFID's India programme summarising choices and strategies	MAY 1998	First draft CSP produced by DFIDI
JANUARY 1998	Meetings in DFID India to plan CSP timetable and discuss strategic options		Preliminary discussions with Andhra Pradesh Government, including Chief Minister
	Preliminary meeting with senior official in Dept of Economic Affairs, Ministry of Finance		Meeting in DFIDI to discuss first draft; draft sent to DFID Director for Asia
			Meetings with Indian and UK academics
FEBRUARY 1998	Preparation of strategic options paper	JUNE 1998	Hiatus following nuclear tests
	Preliminary discussion with DFID Director for Asia	JULY 1998	Draft paper circulated to DFID senior management
MARCH 1998	All day strategy workshop for DFID India and BHC staff		Discussions with business groups and civil society organisations in Mumbai and Bangalore
	Round table with British and Indian NGOs		Preliminary discussion with Secretary of State
	Meeting with British representatives of the Indo-British business partnership.	AUGUST 1998	Paper redrafted and updated
	Meeting with British academics		
	Preliminary discussions with West Bengal Government, including Chief Minister		

ANNEX I

CONTINUED

SEPTEMBER 1998	Negotiations with Indian Government Round table consultation meeting with civil society organisations in Delhi Discussions with civil society organisations in Chennai	India: Economic Development and Social Opportunity, Dreze and Sen, 1995 Indian Development, Selected Regional Perspectives, Dreze and Sen, 1996 India: The Road to Human Development, UNDP, June 1997 Situation of Women and Children in India, UNICEF, 1998 Human Development in South Asia, 1998 - The Education Challenge, Mahbub ul Haq and Khadija Haq, 1998 Human Development Profile of Rural India, National Council of Applied Economic Research, November 1996 Approach Paper to Ninth Five Year Plan, Planning Commission, 1997 Government Subsidies in India, Ministry of Finance, May 1997 The Quality of British Aid to India, Christian Aid, July 1998
NOVEMBER 1998	Visit to India by DFID Permanent Secretary including informal strategy discussions with GOI and selected state governments	
NOVEMBER 1998 - JANUARY 1999	Further consultations with senior DFID staff and redrafting	
FEBRUARY 1999	Draft sent to Indian Government	
MARCH 1999	Draft agreed by Indian Government Discussion between Secretary of State and Indian Finance Minister during the former's visit to India	
APRIL 1999	Clearance by other UK government departments	
JUNE 1999	Final approval by DFID senior management and Secretary of State	

NB Although there has been no collective meeting with other donors, numerous informal meetings have taken place at which the strategy has been discussed

MAIN SOURCE DOCUMENTS USED

External

India: Achievements and Challenges in Reducing Poverty, World Bank, May 1997

Reducing Poverty in India, Options for More Effective Public Services, World Bank, June 1998

India 1998 Macro Economic Update, Reforming for Growth and Poverty Reduction, World Bank, 1998

Internal

Eliminating World Poverty: A Challenge for the 21st Century, Government White Paper, November 1997

Evaluation of DFID Assistance to Poverty Reduction, Working Paper on India, DFID, 1998

Participatory Action Learning Study, DFID, 1998

Study of poverty in Andhra Pradesh, Orissa and West Bengal, National Council for Applied Economic Research (commissioned by DFID India), DFID, 1998

Study of Decentralisation in India, Institute of Social Studies, New Delhi, DFID, 1998

plus

Reviews, evaluations and impact assessments of specific DFID projects in India

ANNEX 2

COUNTRY PROGRAMME EXPENDITURE PROFILE (POSITION AS AT APRIL 1999)

£ MILLION	1999/00	2000/01	2001/02
COMMITMENTS			
Rural Development	12.40	11.30	11.50
Environment	0.30	0.20	0.00
Economic Reform	7.00	8.30	5.10
Energy	20.50	13.00	10.50
Water and Sanitation	6.30	5.30	5.00
Urban Poverty	9.00	9.00	1.10
Education	6.80	8.30	10.00
Health	25.00	6.00	4.00
Business & Financial Services	2.00	2.00	2.00
Others	1.51	2.81	0.86
TOTAL COMMITMENTS	90.81	66.21	50.06
PLANS			
Rural Development	0.95	8.00	8.75
Environment	0.00	1.00	2.00
Energy	10.00	21.00	25.00
Governance	0.15	1.00	3.50
Water and Sanitation	4.00	8.00	12.00
Urban Poverty	5.00	15.00	16.00
Education	10.20	22.70	29.00
Health	2.50	26.50	25.50
Business & Financial Services	2.00	3.00	3.00
Others	1.20	2.50	3.00
TOTAL PLANS	36.00	108.70	127.75
GROSS TOTAL	126.81	174.91	177.81
LESS EXPECTED SLIPPAGE	27.31	59.91	47.81
GRAND TOTAL	99.50	115.00	130.00

NB Figures are for planning purposes and do not represent any undertaking by DFID to fund.