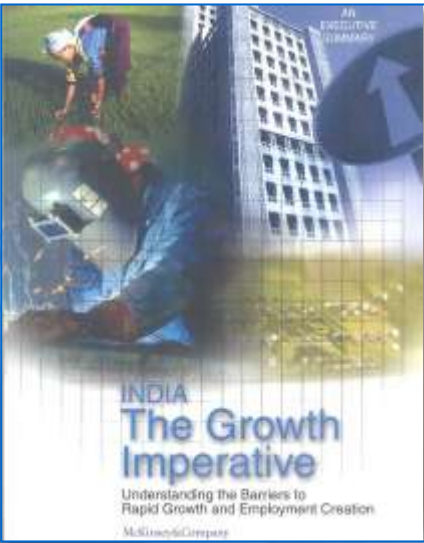


From poverty to empowerment

India's imperative for jobs, growth and effective basic services

MGI INDIA | March, 2014

McKinsey Global Institute: our research on India



2001



2007



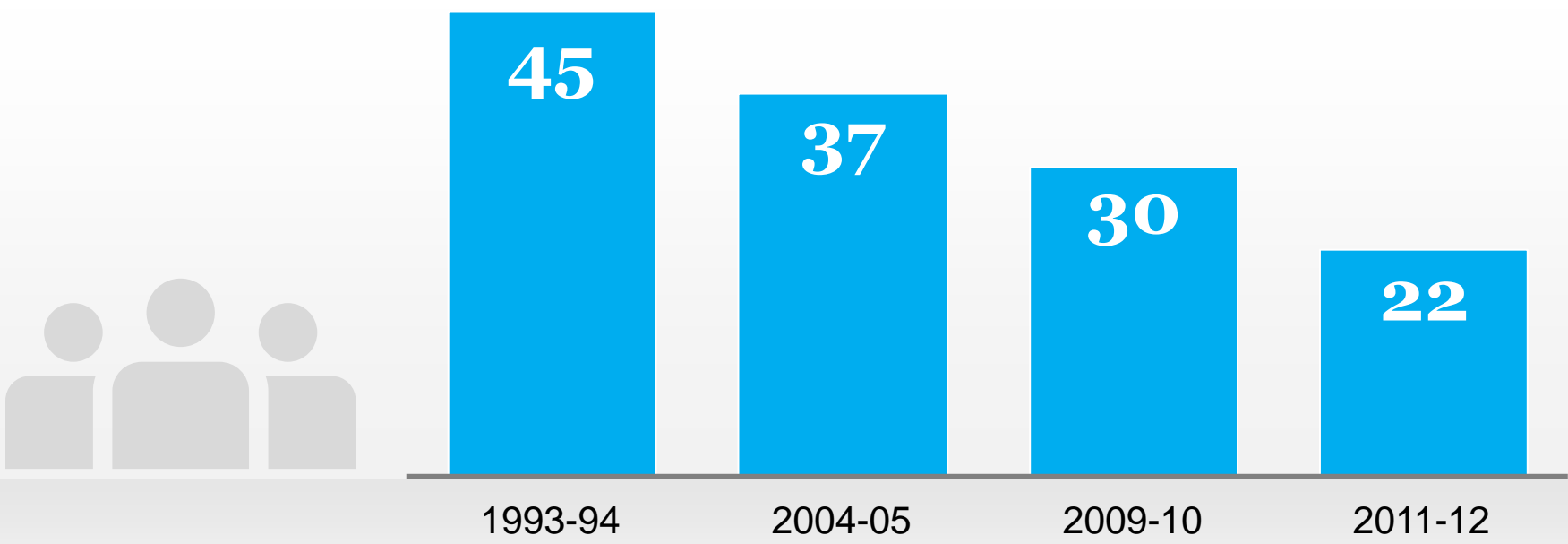
2010



2014

Encouraging progress on extreme poverty reduction

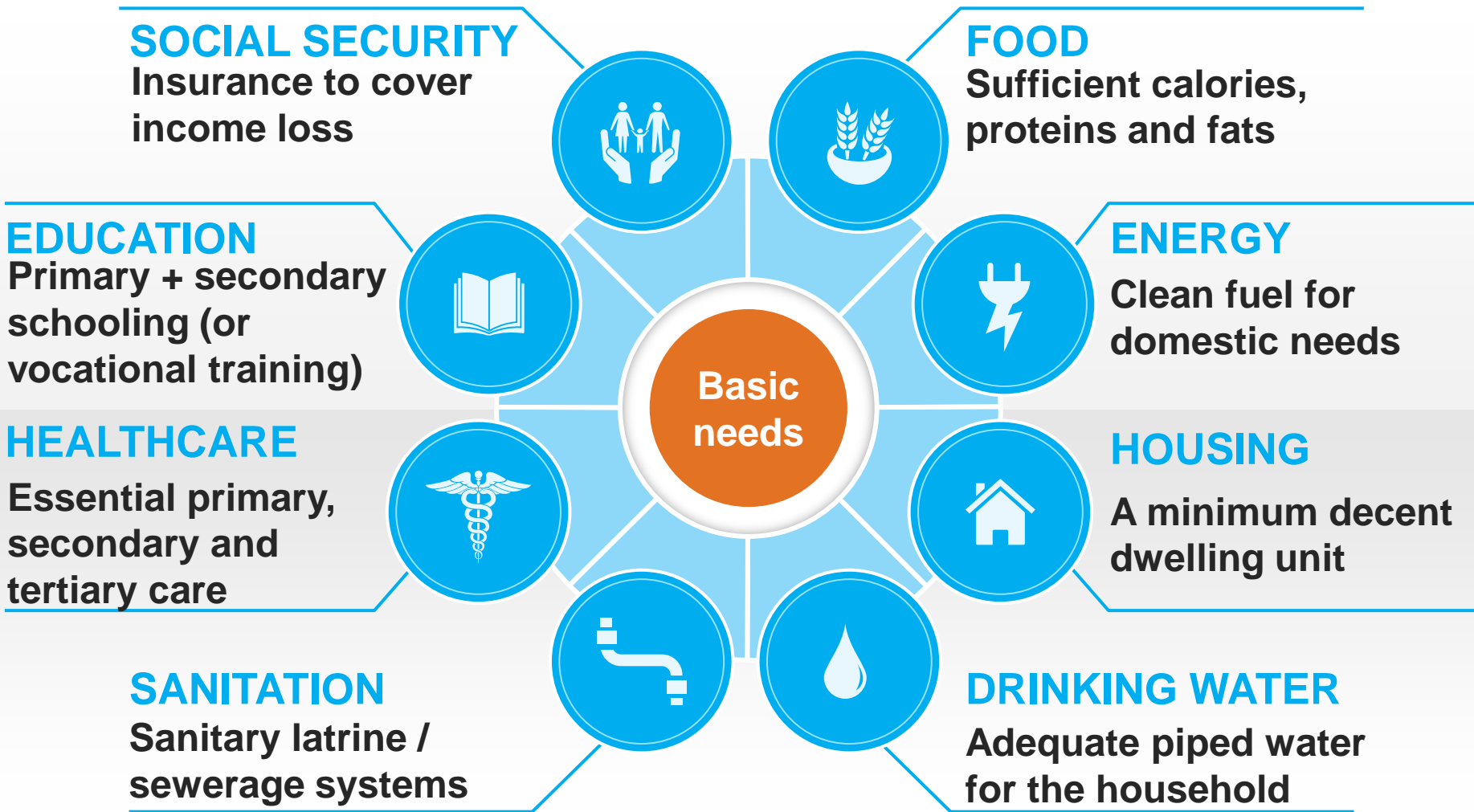
Headcount ratio of population below India's official poverty line
Percent



Headcount below official poverty line
Million



What it would take to economically empower every Indian – fulfilling eight basic needs

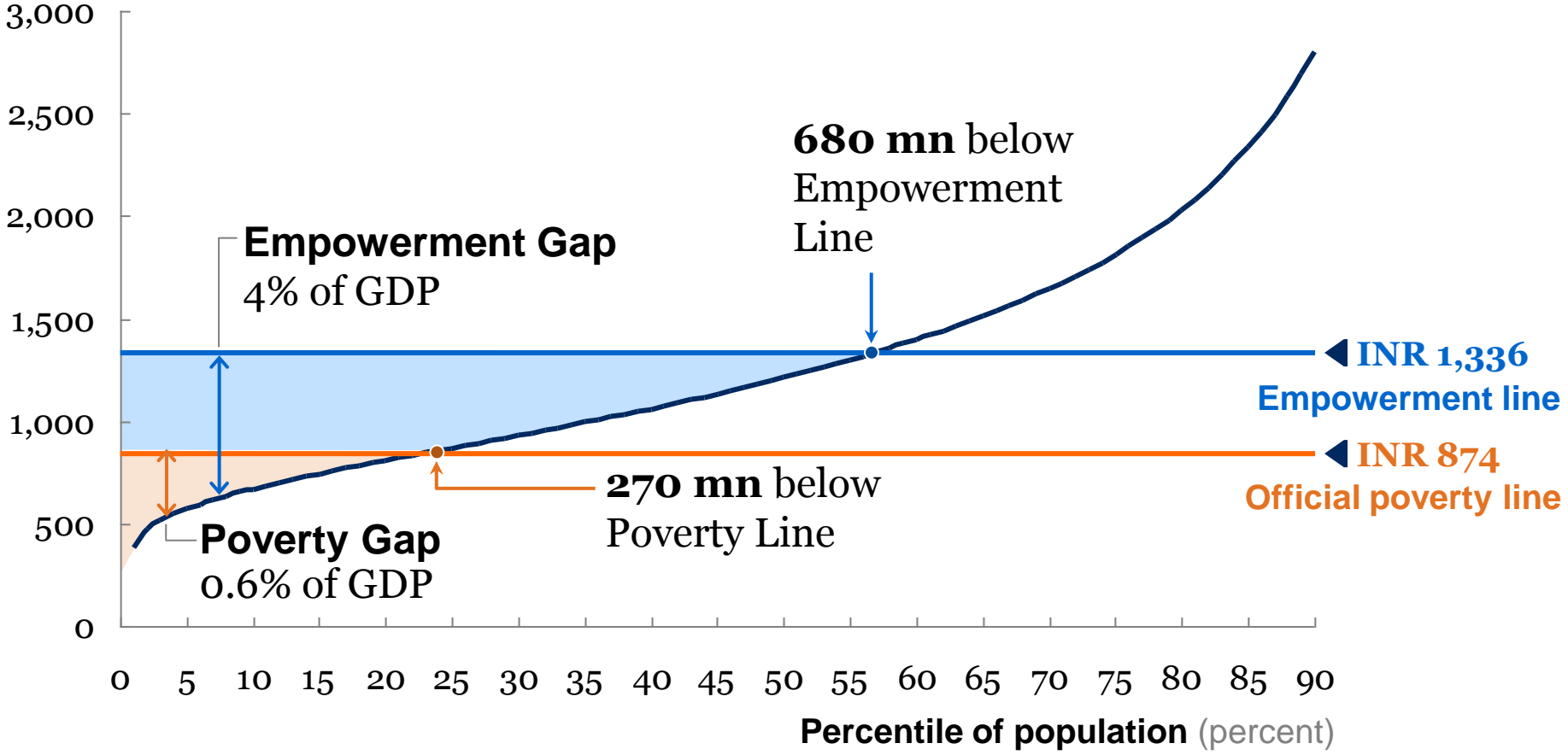


1 Protein and fat norms for adults
SOURCE: McKinsey Global Institute analysis

680 million live below the Empowerment Line –2.5 times the extremely poor and 7 times their consumption gap

Average monthly consumption expenditure

INR per capita per month, 2011-12, in 2011-12 prices

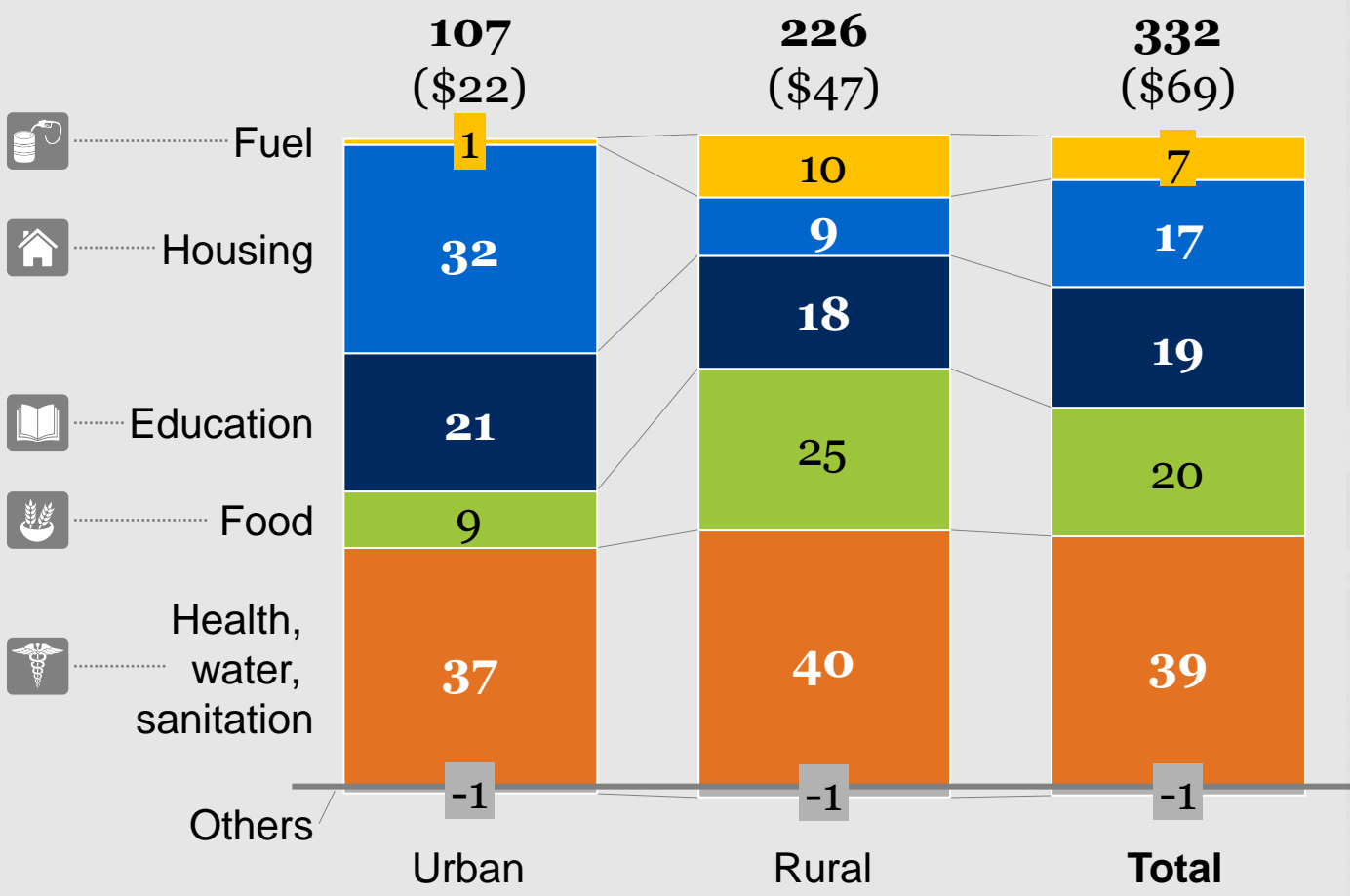


SOURCE: National Sample Survey Office survey, 68th round; McKinsey Global Institute analysis

Health, drinking water and sanitation form the largest share of the Empowerment Gap

Empowerment Gap by service and sector, 2011–12

%; INR thousand crore (\$ billion¹)

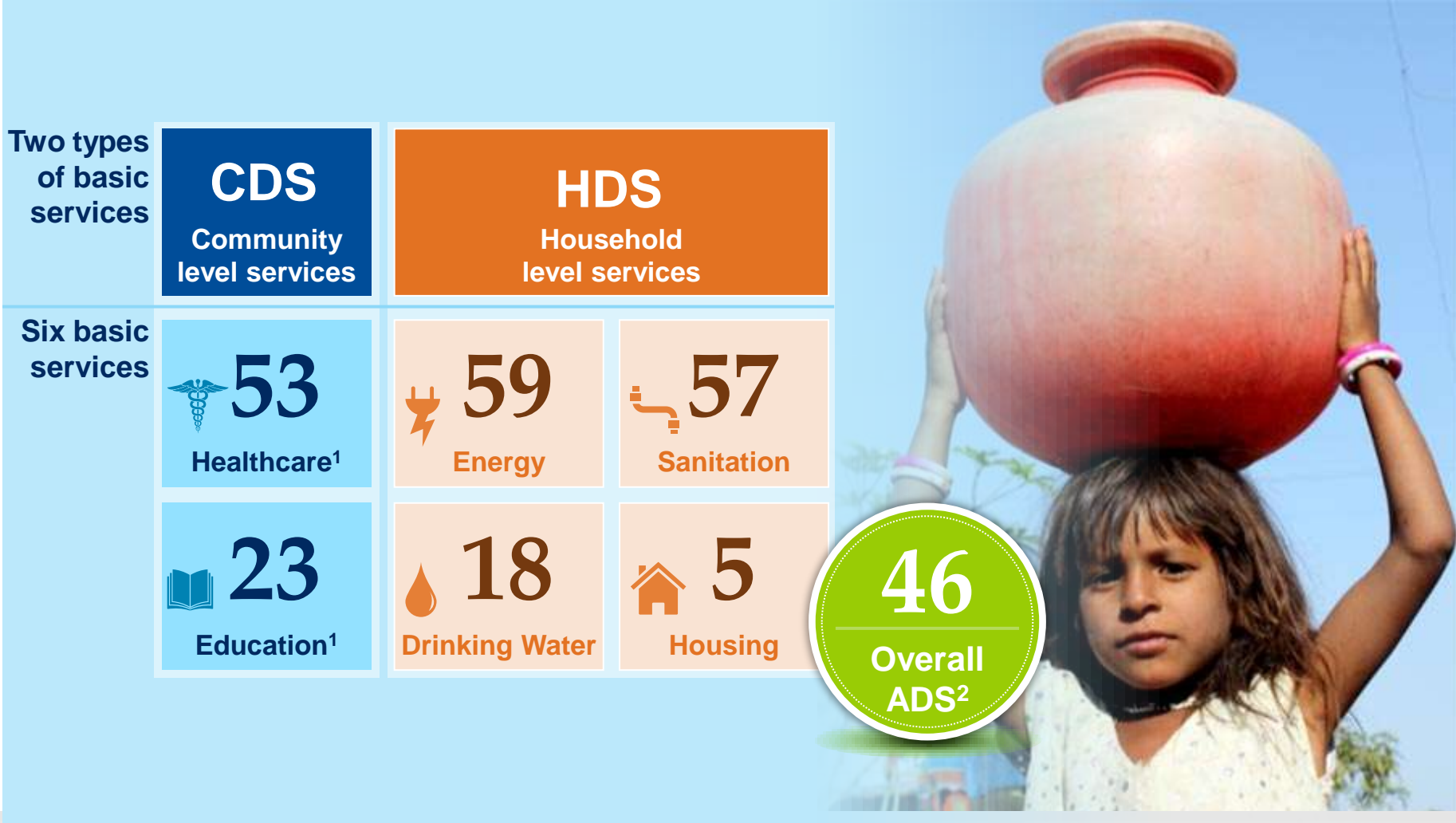


¹ Using average exchange rate of US \$1 = INR 48.0769 for 1 April 2011 to 31 March 2012.

SOURCE: NSSO 68th round, McKinsey Global Institute

An average Indian lacks access to 46% of services

Average deprivation scores by basic service (percent)



¹ Healthcare metrics include ORS, immunisation and health infrastructure; education metrics include net enrolment and classroom and teacher availability;

energy includes electricity and LPG usage

² ADS is a population-weighted average of district-level access deprivation score

SOURCE: McKinsey Global Institute analysis

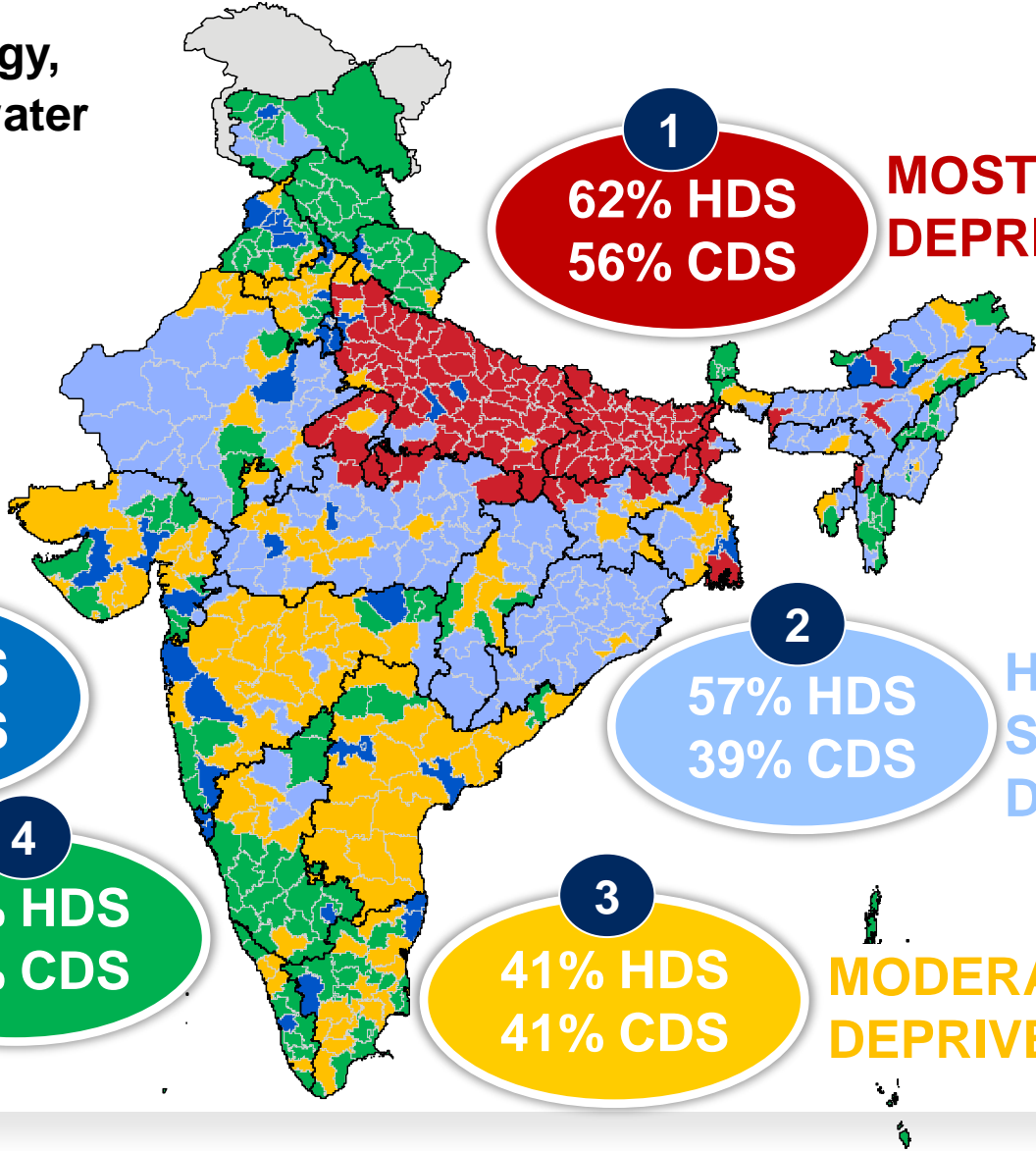
Access deprivation varies by type of service

HDS: Housing, energy, sanitation, drinking water

CDS: Healthcare & Education

COMMUNITY SERVICES DEPRIVED

LEAST DEPRIVED



1
62% HDS
56% CDS
MOST DEPRIVED

2
57% HDS
39% CDS
HOUSEHOLD SERVICES DEPRIVED

3
41% HDS
41% CDS
MODERATELY DEPRIVED

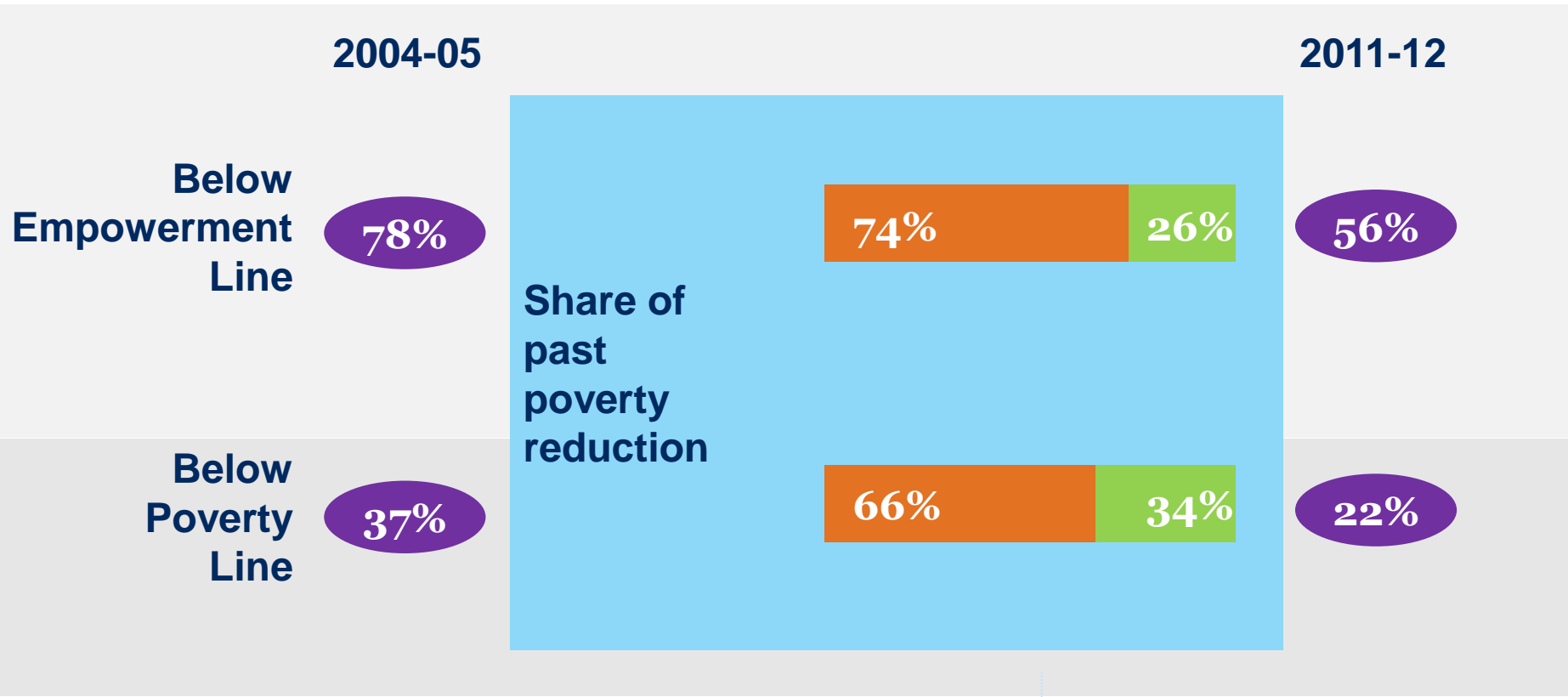
4
38% HDS
31% CDS
LEAST DEPRIVED

5
20% HDS
46% CDS
COMMUNITY SERVICES DEPRIVED

Historical reduction of Empowerment Gap largely from higher incomes

Empowerment Gap, 2005–12
%; INR thousand crore

xx% Headcount ratio

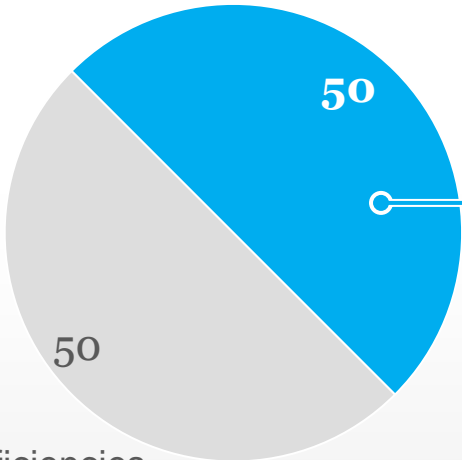


SOURCE: National Sample Survey Office survey, household consumption survey, 61st (2005) and 68th (2012) rounds; McKinsey Global Institute analysis

Government social spending is 6% of GDP but half of it does not benefit the people

2011-12 government spending

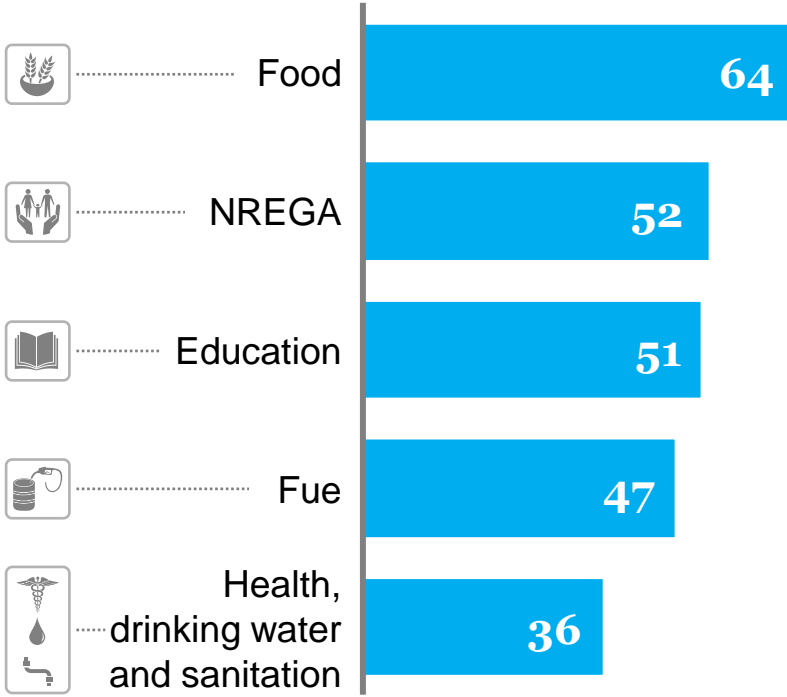
100% = INR 570,000 crore



Inefficiencies and leakages

Estimated efficiency/effectiveness of all-India government spending

% of spending that typically reaches the people



Best performing states at 80-90%

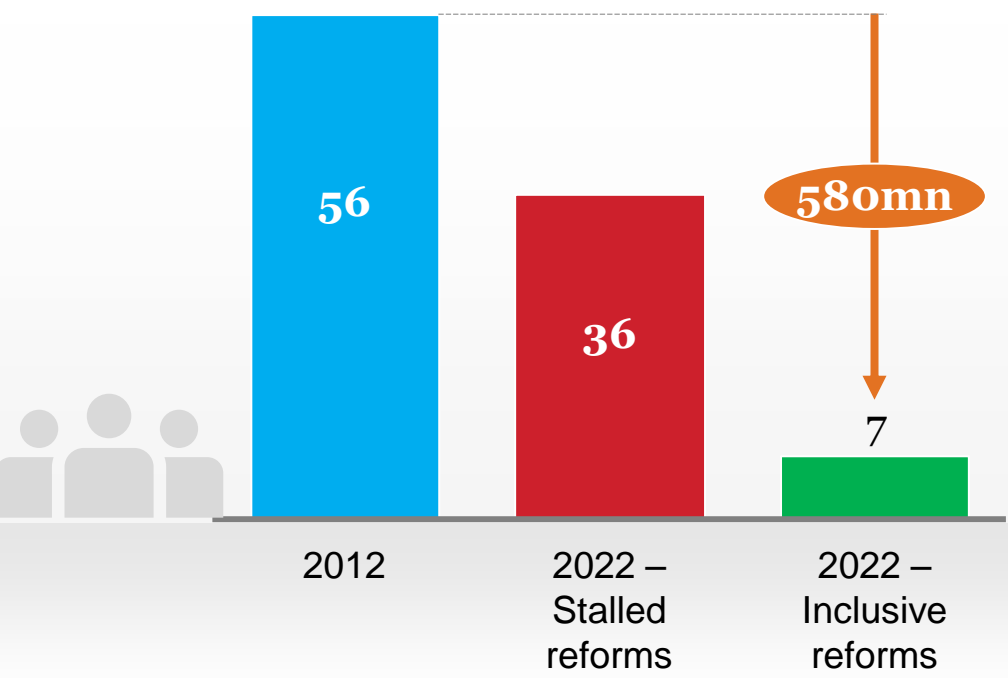
If subsidy delivery nationwide was as effective as in India's best performing states, 85 million more people would be above the official poverty line

Looking ahead, two possible scenarios for India

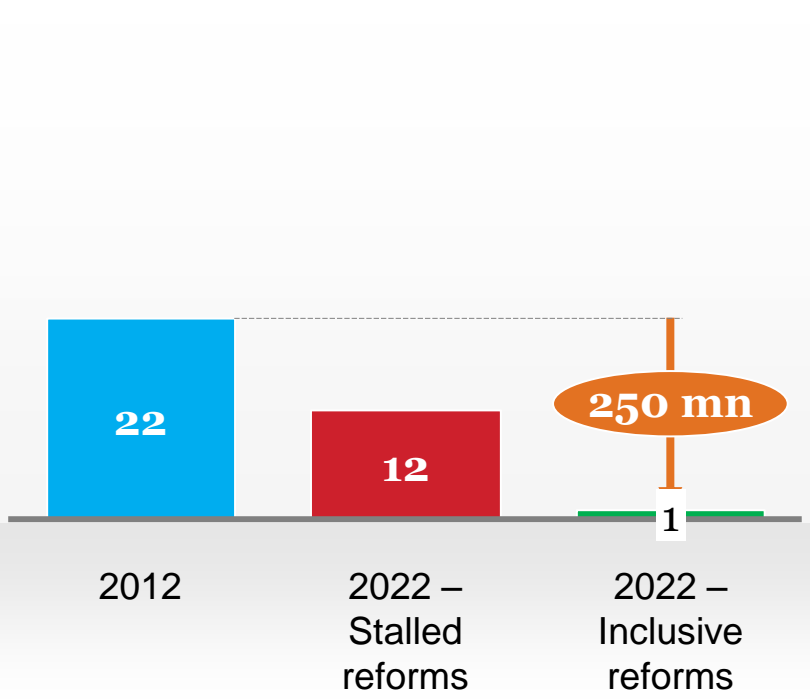
Percent of population

- Stalled reforms
- Inclusive reforms

Below Empowerment Line



Below Poverty Line

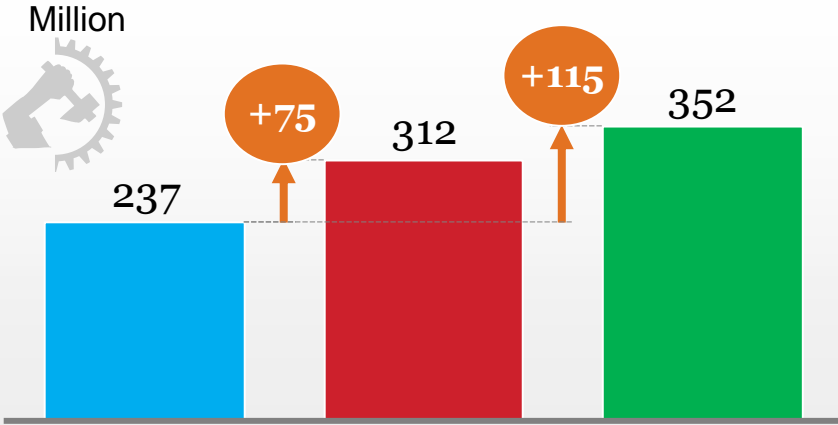


GDP growth rate **5.5%** vs. **7.8%**

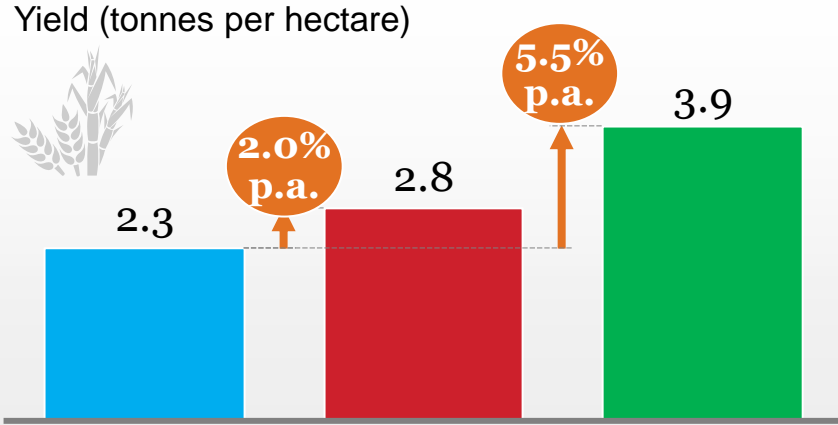
Four inclusive reform themes

■ Stalled reforms
■ Inclusive reforms

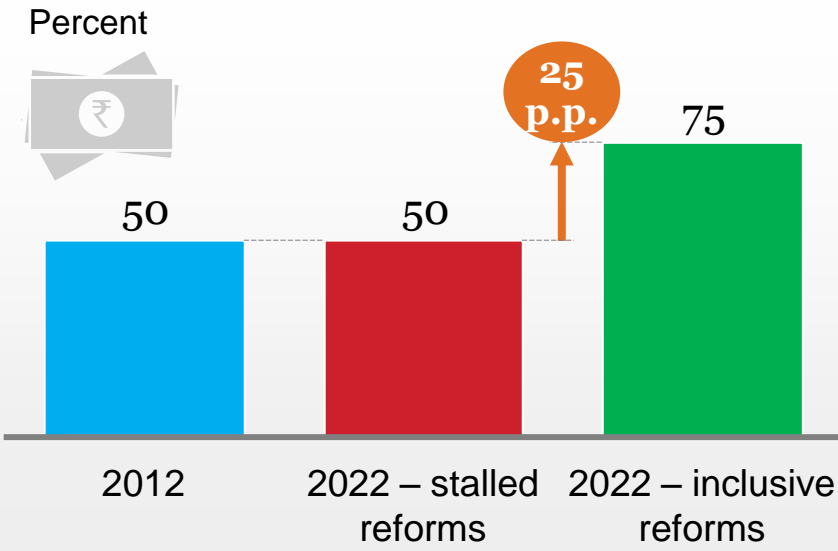
More and better non-farm jobs



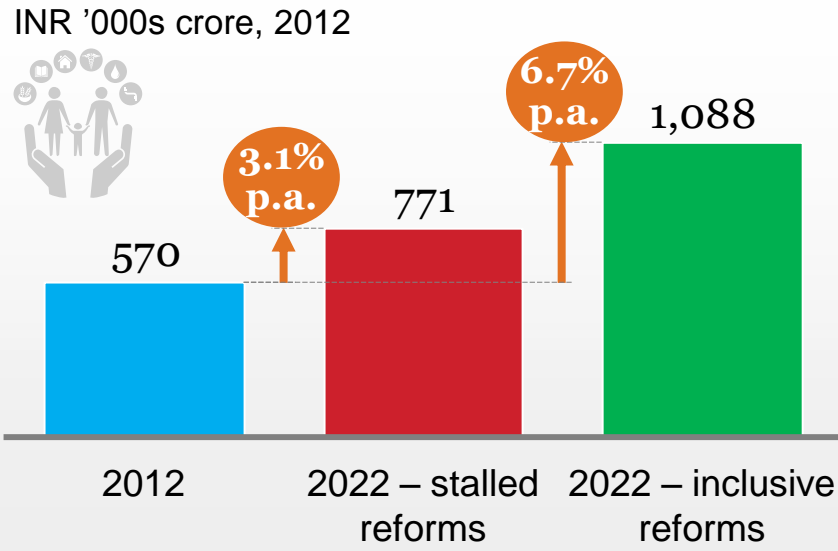
Accelerate farm productivity improvements



Improve effectiveness of public spending

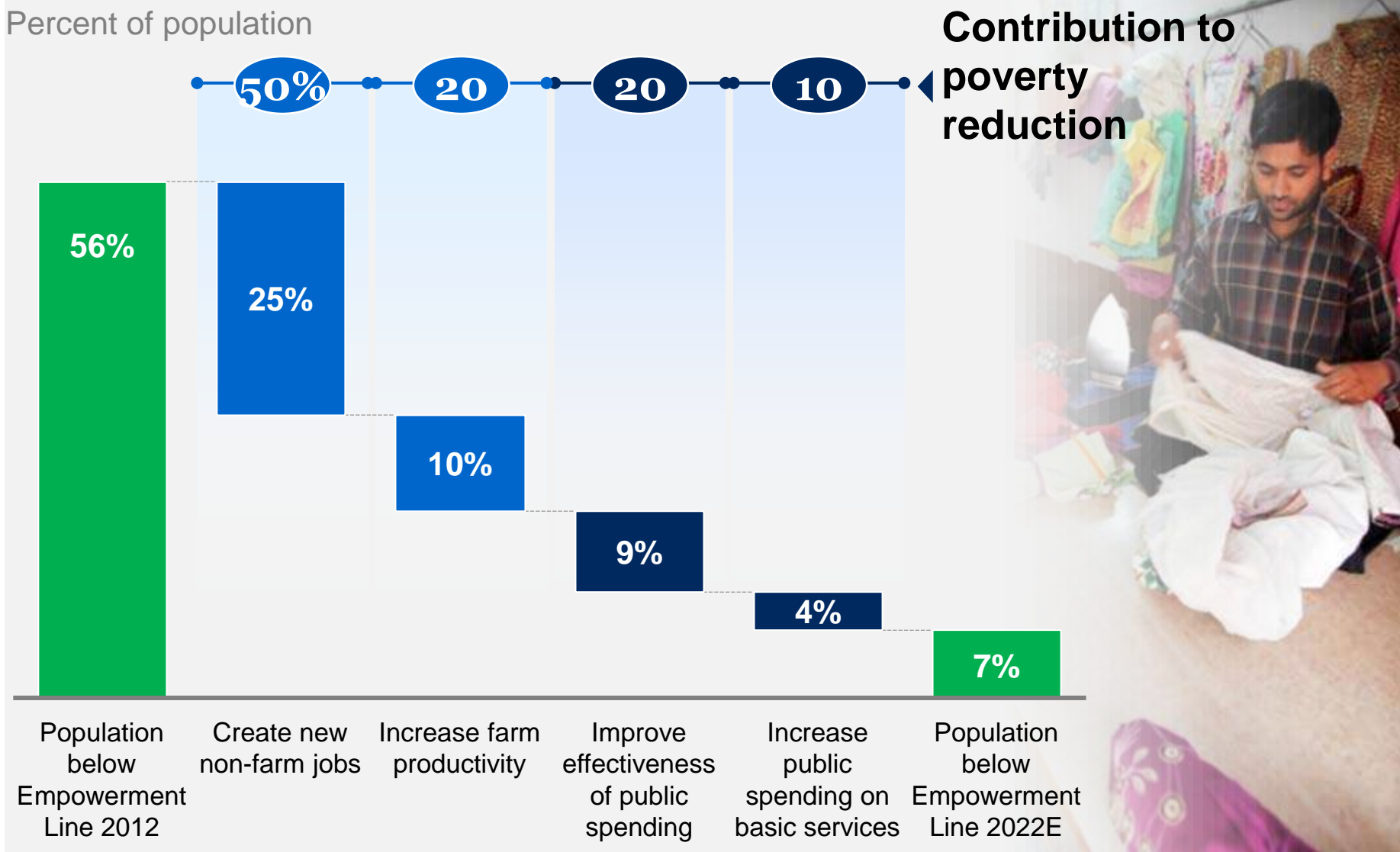


Increase public spending on basic services



SOURCE: McKinsey Global Institute analysis

90% of potential impact comes from productivity and efficiency levers, just 10% comes from more social spending



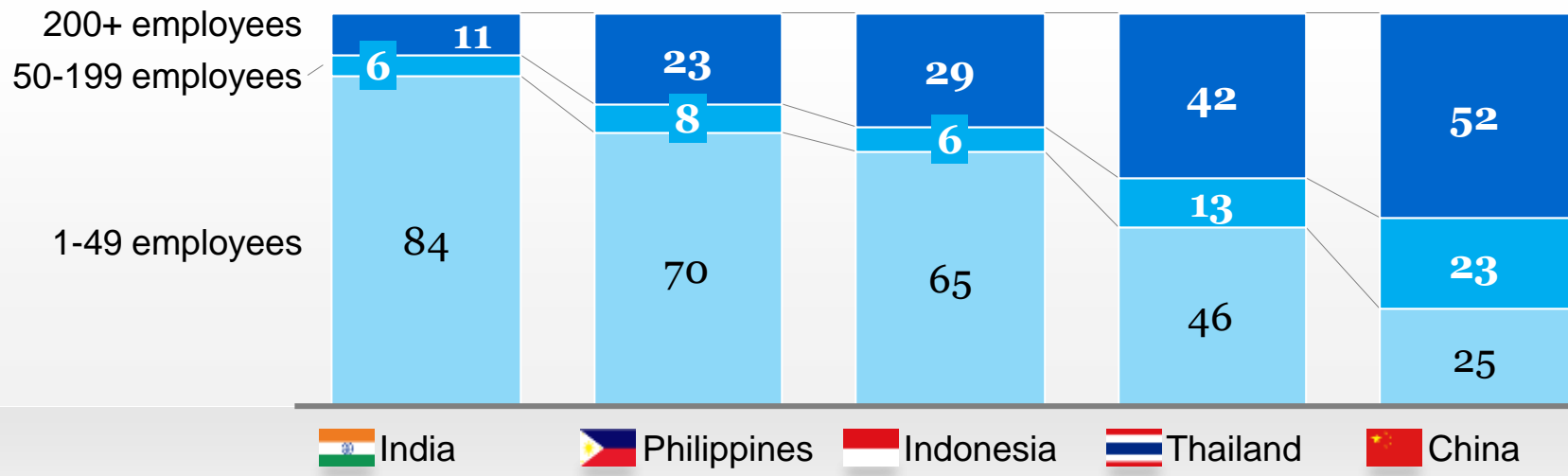
SOURCE: McKinsey Global Institute analysis

BACK UP

India's glut of low-productivity small enterprises keep average worker incomes low

Share of manufacturing employment by business size

Percent



Value add per worker for 200+ employee businesses¹

2005, USD '000 per year



Value add per worker for 5-49² employee businesses¹

2005, USD '000 per year



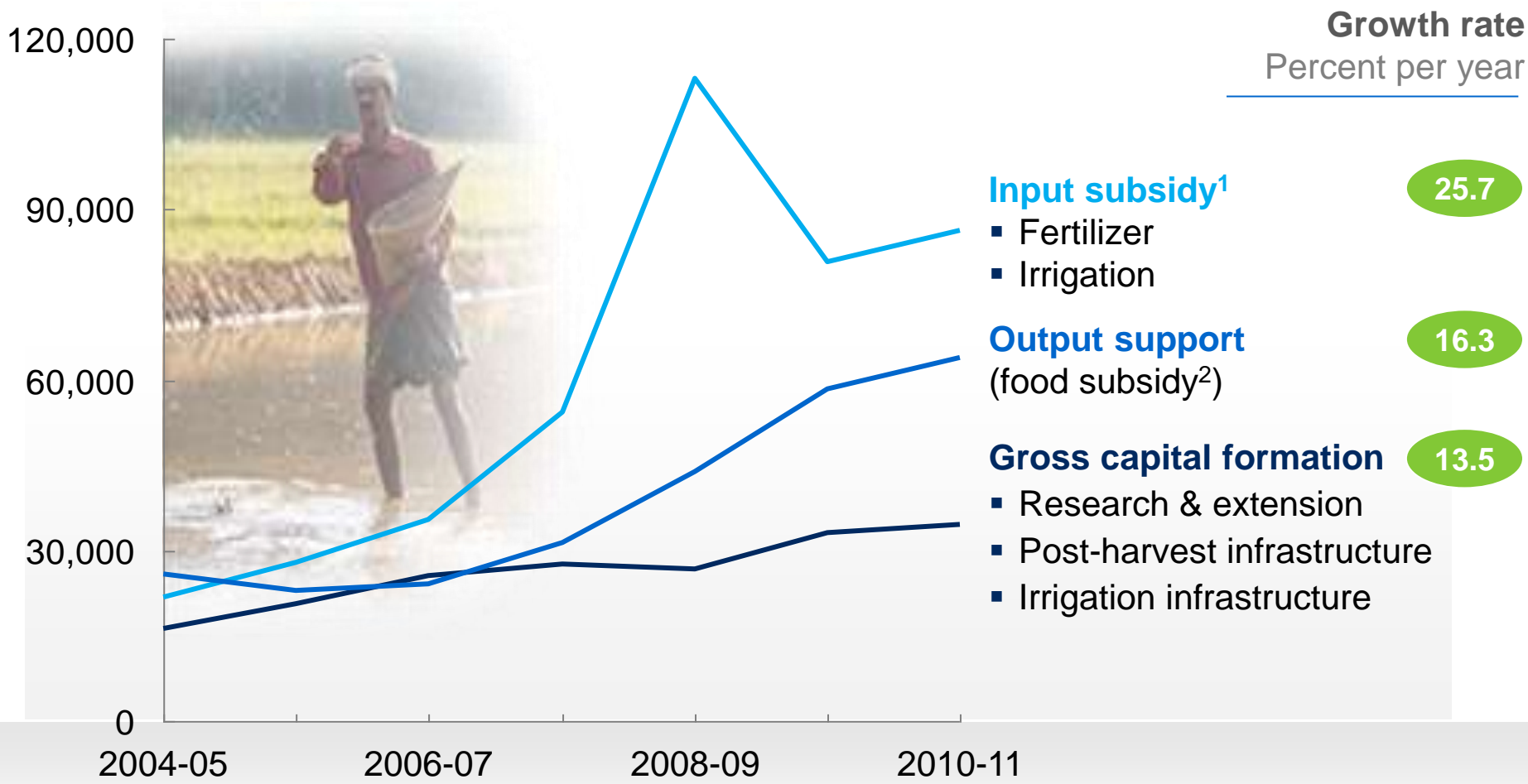
¹ Both manufacturing & non-manufacturing businesses

² Productivity data is only for small enterprises (i.e., 5-49 employees) and does not include micro enterprises (i.e., 1-4 employees)

SOURCE: Asian Development Bank; "Enterprises in Asia: Fostering Dynamism in SMEs," Key Indicators for Asia and the Pacific (2009), McKinsey Global Institute analysis

Agricultural policy has emphasised input subsidies over investment or high quality extension

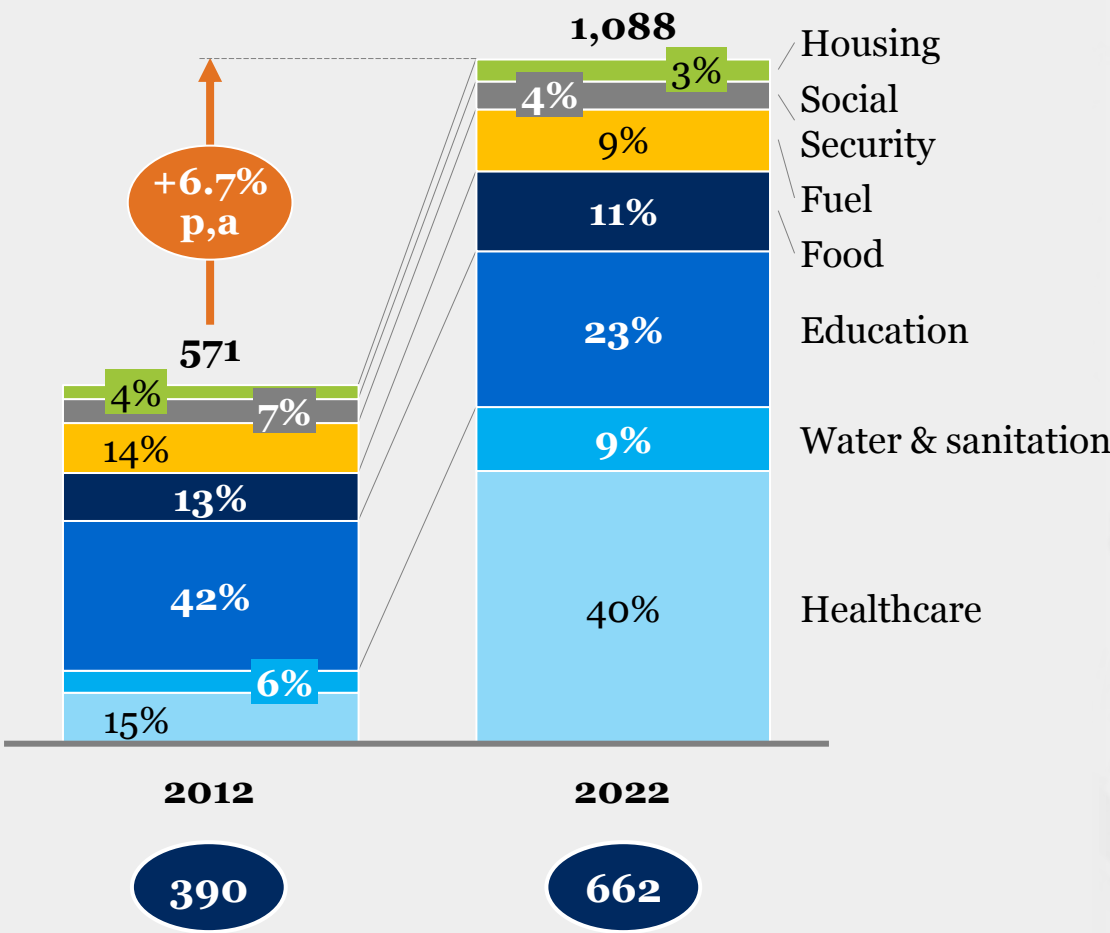
Expenditure in agriculture, INR thousand crore



1 Does not include electricity subsidy accruing to agriculture and subsidy to indigenous urea production
 2 A part of the food subsidy is actually a consumer subsidy rather than a producer subsidy, but a break-up is unavailable
 SOURCE: Planning Commission (2012); McKinsey Global Institute analysis

Basic services spending needs to grow in line with GDP, shifting towards healthcare, drinking water and sanitation

Public spend on basic services
Percent; INR '000 crore, 2011-12



1 Not accounting for inefficiencies and leakages.
NOTE: Numbers may not sum due to rounding.
SOURCE: IPFS; McKinsey Global Institute analysis

Effective service delivery can be achieved through policies that emphasise three elements

		Education	Health	Food
Improvement levels	Leverage External service providers 	<ul style="list-style-type: none"> School vouchers funded by the Govt. PPP schools (e.g., charter schools) 	<ul style="list-style-type: none"> Health vouchers funded by the Govt. PPP and tech-enabled primary health care centres 	<ul style="list-style-type: none"> Cash transfers – service providers will be private NGOs, for-profit companies running Fair Price Shops
	Involve the community, especially women 	<ul style="list-style-type: none"> School management committees Low-cost, semi-skilled teachers trained intensively 	<ul style="list-style-type: none"> Community health workers Village health committees Dispensaries by micro-entrepreneurs 	<ul style="list-style-type: none"> Gram panchayats identify beneficiaries and monitor FPS performance Women SHGs running FPS
	Create IT-based performance monitoring mechanisms 	<ul style="list-style-type: none"> Assessment systems Alternate teacher certification Digital attendance recording 	<ul style="list-style-type: none"> Online medicine supply database SMS-tracking of patients based on biometric identification 	<ul style="list-style-type: none"> Digital tracking of supply chain Surprise audits Web-based portal for grievances

10 action areas for productive job creation (50% of impact)

Set national priority

- 1.1 Set explicit goal** – to create 115 million non-farm jobs (40 million more productive jobs) in the next 10 years
- 1.2 Shift allocations to public capital investment by at least 1.0% of GDP** (Rs. 100,000 crore per year) to fund job creation engines
- 1.3 Implement a system for measurement and tracking of jobs data**

Create four job engines

- 2 20 tourism circuits** – investment of Rs. 5,000 crore per year to create 10-15 million jobs over 10 years through state Empowered Agencies & a Delivery Unit
- 3 30-50 world class industrial clusters, greenfield and brownfield** –invest Rs. 30,000 crore per year to create >5 million jobs and 25-30% IRR for government through state Empowered Agencies and a national Delivery Unit
- 4 30-40 mid-sized cities** – investment of Rs. 50,000 crore per year for urban infrastructure and affordable housing in Tier 3 and 4 cities
- 5 8-10 education and innovation corridors**– investment of Rs. 10,000 crore per year for world class higher education campuses and R&D hubs

Put in place enablers

- 6 Deliver infrastructure (especially power and logistics) e.g., debottlenecking >150 projects** through empowered PM-driven Delivery Unit
- 7 50% measurable improvement in “business’ satisfaction with government”**
 - “Business charter” or Right to Services for administrative and labour issues
 - National and state CIOs to drive e-governance/government re-engineering
- 8 Labour market reforms** –ease interpretation of laws/inspections and undertake more fundamental reform in restrictive laws e.g., unfair dismissal laws
- 9 “Skills vouchers”** to 5 million workers per year through certified skill providers
- 10 Reduce in distortions** – implement GST, remove sector level distortions

10 action areas to double agricultural yield (20% of impact)

Set national priority

- 1 **Set explicit and binding goal** to double agricultural yield over 10 years
- 2 **Shift agri-spending towards investment and capital formation** - commit and additional Rs. 30,000 cr. pa to rural roads, cold chains, research, extension, water harvesting and efficient irrigation systems

Yield improvement engines

- 3 **Revamp agricultural universities and raise investment in agricultural research by 50%** (say Rs. 10,000 cr pa)
- 4 **Overhaul farm extension services** through PPP, monitoring of public extension workers and technology-based expert systems to bridge gaps in human resources
- 5 **Create a National Agriculture Incentive Fund** (say Rs. 10,000 crores), for states that adopt reforms – e.g., model APMC act, pricing of water, power and improvement in extension services
- 6 **Raise farmers' demand for APMC reform and organised retail buyers** through proactive price information using SMS and other technologies
- 7 **Reduce distortions in price supports** to promote diversified food production e.g., by making it a function of an independent agency
- 8 **Incorporate agricultural credit into banking inclusion** and drive credit absorption by an additional 10-15 million farmers per year

Enabling organisation

- 9 Institutionalise **mandatory *Krishi raths*** to visit villages in a coordinated way
- 10 **Collapse myriad departments** and ministries associated with agriculture

Shift focus to job creation with investment in infrastructure and skills

Redirect social spending budgets to boost access to health, water, sanitation

Adopt relentless outcome measurement, leveraging IT

Create accountable Empowered Agencies & Delivery Units to get things done