

# India's experiences in days of crisis

The global economic downturn is hurting all nations. Poor people are affected in particular, and they tend to live predominantly in the rural areas of developing countries. Rural development offers a chance to make societies more resilient in economic terms and more equitable in social terms. Governments that improve the business climate in rural areas are on the right track. India is leading the way.

Among the most encouraging international news in May 2009 was the re-election of Prime Minister Manmohan Singh's Congress-Party-led government in India. His triumph was a sign that voters reward sensible policymaking for rural areas. After heading a fissured multi-party coalition for the past five years, Prime Minister Singh now commands a comfortable majority in parliament. His party will call the shots over the next five years.

Anywhere in the world, voters tend to punish politicians in tough economic times; and the Indian electorate in particular is known for kicking out incumbent governments. To be re-elected in a global economic crisis and even gain additional seats in parliament is therefore a remarkable feat.

*School feeding in rural India. The electoral triumph of the Congress Party is based on rural voters, as more than 70 percent of India's population still live in rural areas.*

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No doubt, India is facing tough times. The country has been hit hard by the economic crisis. Industrial production has dropped, and so have exports. At the time of the elections, the rate of consumer-price inflation was around eight percent, and the national growth rate was sagging.

Why did the Congress Party outperform all expectations? As a column in the Times of India accurately indicated, the main reason is rural success. In 2001, more than 70 percent of India's one billion people lived in rural areas, according to that year's census. Elections are decided in the villages, and this is where many voters had reason to confirm Prime Minister Singh in office.

### ■ The virtuous circles of modernisation

Investment, employment and prosperity in rural areas thrive on making good use of harvests that exceed local consumption needs. That, in turn, implies that success hinges on adequate infrastructures. They must

- link a rural region to markets beyond the region itself,

- allow profitable investment and gainful employment in various industries, and
- enable people to acquire the skills and raise the capital needed in a diversified economy.

Electric power matters – for companies to run machines, for instance. Telecommunication matters – for people to stay informed about prices and market trends. Transport matters – for goods to reach markets and businesses, including farms, to be able to procure the inputs they need. Provision of water matters – for industries, but also to irrigate fields and cultivate more land. Ultimately, up-to-date environmental technology matters too. Unless wastewater is treated, for instance, it will be difficult to provide water to all concerned. Renewable sources will often turn out to be a smart and cheap alternative to hooking up to the national power grid.

Besides “hard” infrastructure, social services matter, too. Consider the sectors of finance, education and health. Even smallholders can make good use of credit at reasonable interest rates if they have promising investment ideas. That in turn is made more likely by education. Literacy and numeracy, moreover, help people to bargain suc-

### The National Rural Employment Guarantee Act (NREGA)

NREGA is an innovative approach to fighting rural poverty. The law guarantees one adult member of every poor rural family 100 days of employment in a public-works scheme. Workers get the legal minimum wage. The scheme is funded by the central government with contributions from the state governments. On top of boosting purchasing power – which is particularly important in an economic downturn – the main purpose is to improve rural infrastructure.

cessfully. As businesses expand they will employ more workers, and, once again, skilled people will prove more productive. Health care, in turn, is vital to keep them productive.

It is essential to understand that there are various positive feedbacks that drive the modernisation model thus described. Employing health professionals and teachers in rural areas requires resources, and the more productive people are, the better they will

*Thanks to good harvests in recent years, agricultural growth in India has risen by about four percent per year.*



be able to generate such resources. For good reason, the UN considers access to health-care services and education human rights. But such rights will not come true in a setting of subsistence farming, nor will subsistence farming ever provide enough livelihoods for India's growing population.

But doesn't the global slump show that market-oriented modernisation is not the route to long-term sustainability? To argue that way is to throw the baby out with the bathwater. No doubt, the world economy is in crisis today; but what skeptics fail to note is that, even though market-driven economies have always suffered occasional crises, they have nonetheless consistently outperformed centrally-planned economies.

Some skeptics, in India as elsewhere, may still doubt this is so. But the Indian people have obviously learned the lesson. Prime Minister Singh, after all, is the very politician who, as finance minister in the 1990s, began opening India to the world market and thus kick-started high growth that was sustained over many years.

### ■ Good harvests and high prices

In rural affairs, the weather makes a difference. India was blessed by good monsoons recently, so harvests were good. In late 2007, Prime Minister Singh forecast that agricultural growth rates of around an annual four percent would be sustained in the coming years. Bumper crops normally go along with falling prices, but – in line with high international demand – prices stayed high in recent years.

High food prices, however, are a mixed blessing. They benefit farmers, but they hurt landless labourers and urban workers. So why did the Congress Party triumph in the elections nonetheless? The main reason is that labour incomes rose even faster than

*Education should be treated as a human right. Full-coverage schooling in rural areas is still lagging behind.*

food prices, and that the business climate in rural areas is healthy.

Good harvests have boosted rural employment in agriculture and – just as important – in related industries. On top of that, the National Rural Employment Guarantee Act (NREGA), a reform passed by the Singh government, provided additional work opportunities, thus sustaining high wage levels (see Box on page 26).

Of course, Indian governments had drafted many similar schemes in the past, but they hardly made a difference. Funds were diverted; corruption and the abuse of government authority are common phenomena. NREGA, however, put the poor in a position to monitor implementation of the programme. The persons who are entitled to work are given identity cards on which every single day of employment is noted.

Another positive aspect of NREGA is that it treats men and women as equals. It does not discriminate against religious or other minorities. The act is designed to reach the needy – and to improve the business environment in rural areas at the same time, thanks to better facilities for transport, irrigation et cetera.

As Jean Drèze, a Delhi-based economist, argues, the administration of NREGA has been quite satisfying, though not flawless. In any case, the term NREGA figured prominently in the election campaign. It was not,

however, the only policy with a massive impact on India's rural areas.

In a step that certainly made short-term sense, but is likely to prove destructive in the long term, Singh's government also passed a programme to once more forgive farmers' debts. The upside is that many farmers thus gained financial breathing space, but the downside is that it will be even more difficult to recover credits in future. That Indian farmers have grown used to mistaking loans for grants does not bode well for the long-term viability of the financial sector in rural areas.

In the short term, however, it is significant that both farmers and landless labourers have been doing well recently. One consequence is that new cellphone connections hit a record 15.6 million in March 2009, as the Times of India reported, mostly thanks to sub-

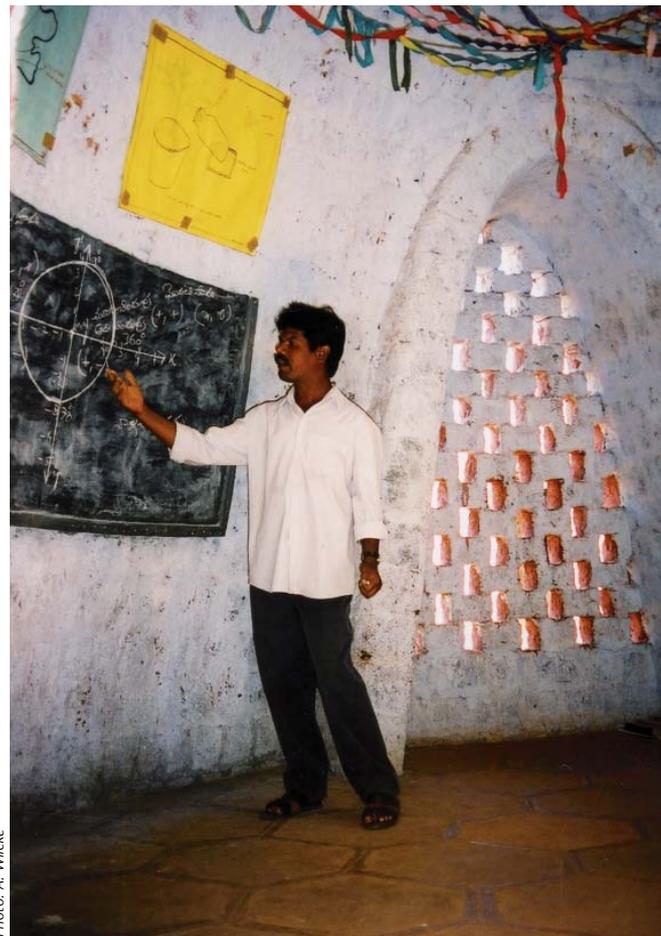


Photo: A. Wicke

### Zusammenfassung

Die globale Wirtschaftskrise betrifft alle Länder. Ganz besonders betroffen sind die armen Bevölkerungsgruppen, die vorwiegend in den ländlichen Gegenden der Entwicklungsländer leben. Die ländliche Entwicklung bietet eine Chance, wirtschaftlich stabilere und sozial gerechtere Gesellschaftsstrukturen zu schaffen. Regierungen, die das Unternehmensklima in ländlichen Gegenden verbessern wollen, sind auf dem richtigen Weg. Indien hat dabei, gemeinsam mit China, eine führende Rolle übernommen. Da mehr als 70 Prozent der eine Milliarde Inder in ländlichen Gebieten leben, investiert die indische Regierung in die Modernisierung der ländlichen Regionen sowie in den Arbeitsmarkt und die Förderung der Sozialsysteme. Manmohan Singh, Finanzminister in den 1990er Jahren und kürzlich als Ministerpräsident wiedergewählt, hat Indien für den Weltmarkt geöffnet und damit eine konsequente wirtschaftliche Entwicklung ermöglicht, die auch die ländliche Wirtschaft erreicht hat.

### Resumen

El revés económico mundial está afectando a todas las naciones. Las personas pobres se ven particularmente perjudicadas, ya que suelen vivir sobre todo en las áreas rurales de los países en desarrollo. El desarrollo rural ofrece una oportunidad de fortalecer la capacidad de recuperación de las sociedades en términos económicos, y de hacerlas más equitativas en términos sociales. Los gobiernos que mejoran el entorno de negocios en las zonas rurales están siguiendo el camino correcto. India lidera esta corriente, junto con China. Dado que más del 70 por ciento de la población india – que suma más de mil millones de personas – vive en áreas rurales, el gobierno indio ha invertido en la modernización del mundo rural, al igual que en la creación de empleo y en los servicios sociales. Durante su período como Ministro de Finanzas durante los años noventa, Manmohan Singh – quien recientemente fue reelegido como Primer Ministro – abrió a la India hacia el mercado mundial e impulsó así el elevado crecimiento económico del país, el cual ha logrado llegar a las economías rurales.

scriptions in the countryside. Another indicator of growing rural wealth that newspapers mentioned is that Hero Honda's motorcycle sales were up by 25 percent. This vehicle maker targets rural areas in particular.

### ■ Lessons learned from Indian experiences

There are several encouraging lessons to be learned from India's recent experience, including that:

- governments can do something to improve the rural business climate,
- sensible policies benefit entire regions and not only the elite,
- effective rural development makes an economy more resilient and, at the same time, more socially equitable,
- rural demand can, to some extent, offset a global slump,
- prosperity in villages and small towns reduces – and to some extent may even reverse – migration to the megacities, thus making it easier to tackle crisis symptoms there, and

- people are likely to reward good governance.

Some may doubt the validity of these lessons and argue that the world economy's recent crisis is evidence of the total failure of the modernisation paradigm.

Let's be realistic. Overcoming a global crisis will never be easy. All governments are facing hard times and tough choices. Poor people will be especially affected. Rural development, however, is part of the solution, and it is well understood what can and should be done to bring it about.

The international community should not just stand by and watch Asia's giants implement their policies. The general thrust of their approach makes sense. Therefore, donors would be well advised to support all governments in developing countries that want to pursue similar strategies. Betting on rural development is not a sign of irrational exuberance in times of economic gloom, but rather one of realistic aspirations for a better future.

### A glance on China

China, the second economic giant in Asia, launched a USD 586 billion stimulus package at the end of 2008 to ward off the global downturn.

Rural development is a core feature of this policy. Enormous sums have been earmarked for improving rural roads, power supply and drinking water provision. Poverty-relief initiatives will be boosted, and more schools are to be built in the People's Republic's backward western and central regions. The government has also decided to grant rebates for the sale of computers, cellphones, TV sets and other electronic devices in rural areas, and it is handing out subsidies to farmers who wish to upgrade their vehicles. Another focus is on improving health-insurance coverage in the countryside.

Even before the current global crisis hit, Beijing had reduced farm taxes and stopped charging school fees. Both measures have contributed to boosting purchasing power in rural areas. The stimulus programme includes cuts in the value-added tax that serve that purpose too.

Although the power of China's Communist leaders is not based on electoral success, they understand that the stability of their rule depends on people's welfare and thus socio-economic success. The rhetoric of harmonious development reflects the understanding that rural dissatisfaction and unrest may yet unsettle the country. Moreover, the Chinese government has understood that higher demand from rural people can support manufacturers of consumer items, as exports begin to dwindle.