

G20 Country Briefs



International
Labour
Office

INDIA'S RESPONSE TO THE CRISIS

Economic resilience

In the years preceding the crisis, the Indian economy was among the fastest growing in the world, with annual real growth in gross domestic product (GDP) averaging about 9.6 per cent in the 2005–2007 financial years (ending March 31). Growth slowed slightly to 9 per cent in 2007–2008, with a further drop as the crisis took hold to 6.7 per cent in 2008–2009 (figure 1). However, growth picked up later in the 2009 calendar year, with GDP expanding by an estimated annualized rate of 7.9 per cent during July to September.

The Indian economy has proved relatively resilient in the face of the global economic crisis. India's large domestic market, along with government fiscal measures, a number of social programmes and a strong banking system have helped to cushion the impact of the drop in demand in export markets.

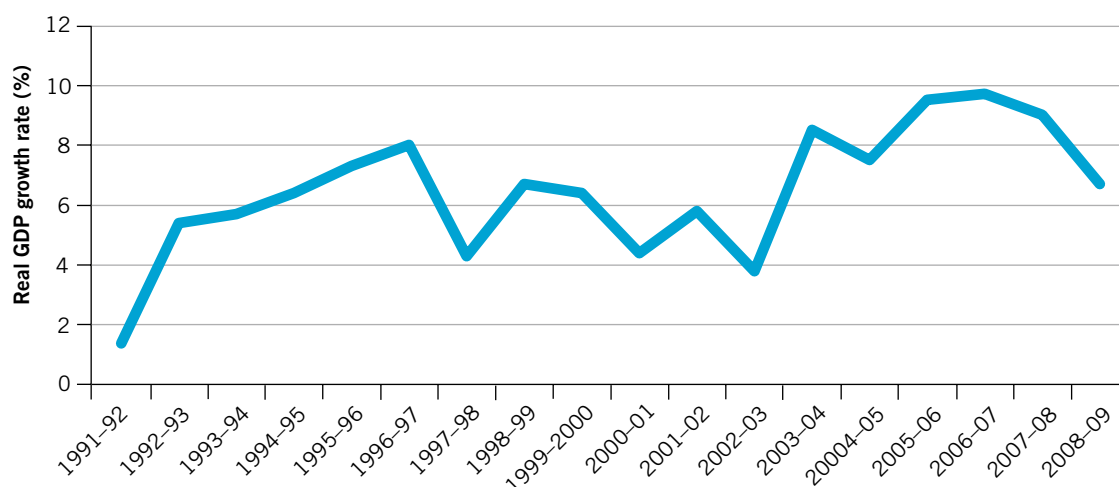
Nonetheless, the crisis initially led to job losses, particularly in export-oriented industries such as textiles and gems and jewellery. For example, figures from a survey of enterprises in badly affected sectors indicate that employment fell by 491,000 during the last

quarter of 2008 (October–December), with further falls evident in the second quarter of 2009 (figure 2). Employment has since rebounded in these firms.

Such numbers, however, provide a partial picture, as they cover only selected industries and relate mainly to formal employment. The situation is much harder to track in the informal economy, which accounts for most employment in India. While estimates vary according to definitions, about 86 per cent of India's more than 500 million workers are in informal employment and over 90 per cent are in what is known as the unorganized sector.¹ These shares have changed little in recent years, indicating that India's strong and steady growth has not yet yielded a significant improvement in terms of broadening access to quality employment.

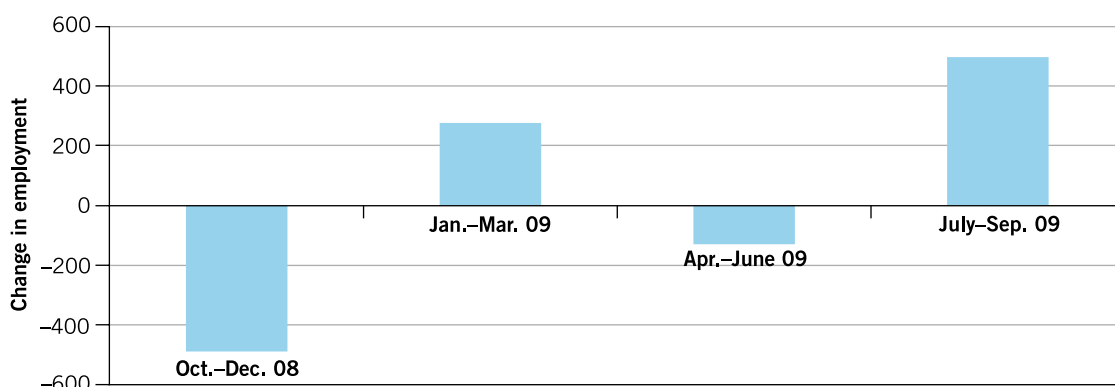
The Indian government's concern with this "quality gap" in employment is reflected in its 11th Five-Year Plan (2007–2012), which focuses on faster and more inclusive growth based on policies to reduce poverty and create employment opportunities, with decent working conditions a critical strategy element.

Figure 1. Real GDP growth rate, 1991–2009 (constant 1999–2000 prices, factor cost)



Source: Government of India Planning Commission, <http://www.planningcommission.gov.in/data/misdch.htm>

Figure 2. Change in level of employment in selected sectors, by financial quarter October–December 2008 to July–September 2009 (thousands)



Source: *Quick Employment Survey*, Labour Bureau, Ministry of Labour and Employment, <http://labourbureau.nic.in/reports.htm>

Stimulus measures

India's government enacted three fiscal stimulus packages, in December 2008 and January and February 2009, with a particular focus on infrastructure. The packages accompanied the government's basic policy framework of promoting employment through higher economic growth. The overall aim of government policy was to foster inclusive growth and offset the impact of the global crisis by raising government expenditure, increasing rural incomes, lowering interest rates, boosting domestic demand and private consumption and promoting local investment.

The stimulus packages were also designed to rebuild confidence in the economy by: easing the liquidity crisis, especially the flow of credit to medium-sized and large enterprises; providing further incentives to export-oriented sectors and industries; enhancing access to capital for investment in infrastructure; and boosting local demand for selected goods and services.

The first stimulus package of US\$4 billion in December 2008 was followed by a second package in January 2009, totalling US\$4.2 billion, to prevent a further slowdown of the economy. A third stimulus package, which at about US\$800 million was much smaller than the earlier two, was announced in February 2009. Overall, the stimulus packages totalled about US\$9 billion, less than 1 per cent of GDP.

Their main elements were:

- Funding to support public–private partnership infrastructure projects involving highways, ports and the power sector as well as non-bank finance companies dedicated to infrastructure.
- Financing institutions were allowed to raise funds from multilateral or regional institutions.
- Tax reductions and other benefits totalling about 20 billion Indian rupees (INR) for the textile, handloom, handicraft, gems and jewellery, leather and marine food sectors.

- Injection of capital into the economy. This included assets purchases and lending by the government and the central bank, as well as liquidity provisions and other support, amounting to a total of 5.6 per cent of 2008 GDP.

In addition, the government conducted studies on job losses in sectors affected by the crisis and announced packages for such sectors. The government's 2009–2010 budget proposal aims to extend the Software Technology Parks of India (STPI) scheme for one more year to enable the information technology industry to counter the economic downturn and help India retain its competitiveness.

The government also cut excise duty on a variety of vehicles, including small cars, to 12 per cent to boost demand in the auto industry, and in February 2009 the State Bank of India reduced interest rates on automobile purchase loans. As a result, passenger vehicle sales rose nearly 12 per cent in April to August 2009 from the same period a year earlier.

A key feature of India's response to the crisis has been a participatory social dialogue process. The tripartite Indian Labour Conference, held in February 2009, drew up short- and long-term strategies to cope with the employment impact of the crisis on India. As a follow-up, a Tripartite Expert Group was established, and following a series of studies and consultations this Group submitted consensus-based policy recommendations to the Ministry of Labour and Employment (MOLE). An Inter-Ministerial Group has been constituted by the MOLE to monitor the impact of economic slowdown on employment.

Promoting employment and social protection

India's major schemes for creating wage employment are the National Rural Employment Guarantee Programme (NREGP) in rural areas and *Swarna Jayanti Shahari Rozgar Yojana* (SJSRY) in urban areas. The government's rural development strategy promotes

economic growth and seeks to address the needs of the poor, by ensuring basic rights. The National Rural Employment Guarantee Act (NREGA), adopted in 2005, marks India's most far-reaching effort to guarantee wage employment. It aims to enhance the economic security of people who live in rural areas by providing every household with at least 100 days of guaranteed wage employment in a year. Works undertaken under NREGP are designed to restore the natural resource base and address the causes of chronic poverty, such as drought, deforestation, soil erosion, floods and poor rural connectivity.

Although the programme predates the global economic crisis, NREGP has helped cushion the impact of the crisis on employment and livelihoods. For example, it has provided employment for some of those migrating from urban to rural areas as a result of job losses in export industries.

The following are some key aspects of NREGP:

- Over 3.5 billion workdays have been generated since 2006.
- In 2008, NREGP was extended from 330 districts to 615 districts.
- In 2008, 32 million families received work.
- Women represent approximately 49 per cent of the NREGP workforce.
- Over the past three years, 340,000 road works were carried out under the programme.
- There were 850,000 water conservation works undertaken over the past three years.
- More than 50 million people have opened saving accounts in banks or post offices to receive their payments.

The documents and legal processes enshrined in the NREGA are helping to strengthen grassroots democracy and promote transparency and accountability in rural governance. In addition, social audits, through which the public and civil society play a vital role in overseeing projects, have been conducted in 172,000 village governance bodies, or *Gram Panchayats*. Since 2006, expenditure on the programme has totalled US\$9.53 billion.

Due to the severe drought in 2009, the government extended the scope of employment for NREGA beneficiaries from 100 to 200 days per year in 272 drought-affected districts out of total 624 districts in India.

To promote employment among the urban poor, the government in April 2009 issued revised guidelines for implementation of the revamped *Swarna Jayanti Shahari Rojgar Yojana* (SJSRY). This centrally sponsored scheme was launched in December 1997, replacing India's Urban Poverty Alleviation Programmes. The central government provides 75 per cent of funding, with state governments making up the rest.

Basic objectives of SJSRY are to provide employment to the urban poor, both unemployed and under-

employed; promote self-employment ventures and wage employment; and empower communities through the creation of community structures. The wage employment component (UWEP) provides public works jobs for urban dwellers living below the poverty line. Under UWEP, 69 million workdays had been created up to March 2009. There has been pressure in recent years to put in place legislation similar to NREGA for urban areas.

Developing infrastructure and housing

As part of its drive to develop rural infrastructure, the government launched a second phase of one of India's flagship programmes, *Bharat Nirman*. During Phase-I, the programme achieved most of its targets regarding development of rural water supply and housing, and increased the potential for irrigation. To boost employment and domestic demand, Phase-II focuses on:

- Doubling the target for rural housing to 12 million homes, to be completed in the next five years.
- Setting a target for rural telecommunications coverage of 40 per cent of people living in rural areas in the next five years and expanding broadband to connect every *panchayat*, or village, to a broadband network in three years.
- Revamping the scheme for Common Service Centres, or e-kiosks, to provide government services to citizens in rural areas.
- Establishing new targets for rural electrification, irrigation and road connectivity.

In urban areas the Jawaharlal Nehru National Urban Renewal Mission, with projects totalling nearly US\$10.7 billion in 2007–2012, will continue to focus on infrastructure, basic services and governance reform. It will also increase support to 60 cities to upgrade urban infrastructure and public transport. Under the programme, more than 1.5 million houses are being built for the urban poor. In addition, the government has launched a big housing programme (*Rajiv Awas Yojana*) for poor people living in urban slums.

Expanding social security coverage

The newly introduced Unorganized Workers Social Security Act 2008 seeks to provide improved social security and welfare for workers in the unorganized sector, who are estimated to account for more than 90 per cent of the Indian workforce. Such workers do not get adequate social security, despite implementation of various welfare schemes. Funding of the Act has yet to be finalized.

The Indian government in April 2008 launched the National Health Insurance Scheme, or *Rashtriya Swasthya Bima Yojana* (RSBY). Currently, the scheme provides health insurance to about 7 million families living below the poverty line.

Building skills

Achieving inclusive economic growth in India depends on the ability to absorb a growing labour force. Based on current trends, about 109 million people will reach working age during the period covered by India's current Five-Year Plan (2007–2012). A significant share of demand in the jobs market is likely to be for skilled labour. The skills development capacity in India, however, is about 3.1 million people per year.

As a result, India's ability to sustain labour-intensive growth depends on the expansion of the labour force's skills capabilities. This is especially the case for the large unorganized sector, which cuts across all economic activities, includes rural and urban areas and contributes about 60 per cent of GDP. Strengthening the skill base of workers will improve productivity, working conditions, labour rights, social security and living standards.

The government's aim is to improve and extend skills development and training so that the number of people covered rises from 3.1 million to more than 10 million per year. To this end it has adopted a multi-pronged strategy that includes: assessing and addressing skills deficits in sectors and regions; establishing public–private partnerships; realigning existing public sector infrastructure; establishing accreditation and certification systems; creating sectoral skill development plans; establishing a national skills inventory; and repositioning employment exchanges as outreach points. The strategy also involves creating sustainable funding for skills development.

Among the initiatives launched by the government are:

- Upgrading of Industrial Training Institutes (ITI) through public–private partnerships.
- Launch of a large, well-resourced Programme on Skills Development Initiative to provide vocational training to 1 million people in the next five years, continuing with modular training in employable skills for 1 million people annually.
- Establishment of 1,500 new ITIs and 50,000 Skill Development Centres.

Outlook and challenges

India's economy is on course to strengthen from last year, with GDP growth forecasts ranging from 7.2 per cent to 7.75 per cent for the 2009–2010 financial year. The government expects growth to pick up further in 2010–2011, and has indicated a target of about 10 per cent. This raises policy questions regarding the extent and timing for withdrawing stimulus measures.

However, while stronger growth may lead to a lower rate of both unemployment and underemployment, it may not alter the share of workers in the informal economy. Specific policy measures to target such workers will therefore continue to be important in the future.

Moreover, the labour force is projected to expand annually by about 9 million net until the end of the 11th Five-Year Plan and to continue to grow between 2015 and 2020, albeit at a slowing pace.

Other challenges are linked to the recent surge in food prices, reflecting the impact of the drought as well as the recovery in the global economy. Ensuring that this does not spill over into wider inflation will be of concern.

¹ National Commission for Enterprises in the Unorganized Sector Report (June 2009).