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More inclusive growth

Jump in Crisil inclusion index is good news for govt

THE GOVERNMENT, AS this newspaper has reported, plans to increase the proportion of its annual ₹400,000 crore of welfare-spending that is channelised through the Aadhaar-based Direct Benefits Transfer (DBT) channel to 75% in FY19, from 35% in FY18. And, there is also the possibility that state governments will start channelising their welfare expenditure—around ₹300,000 crore per year—the same way. Given the large leakages in welfare expenditure in the past, this will mean a significantly higher amount coming into the hands of the poor. Add to this the fact that 31 crore Jan-Dhan bank accounts have been opened for the poor since the government came to power, 13.4 crore people have got highly subsidised accident insurance, another 5.3 crore have got life insurance and 5.72 crore have got farm insurance under various schemes. So, while the issue of creating fresh jobs remains a challenge, the government's inclusion plank is doing well. Not surprising, then, India continues to move up the Crisil Inclusix Index—from 50.1 in 2013, the score rose to 56.2 in 2015 and 58 in 2016; when the index is updated for FY18, the score should increase significantly.

Even so, there are important issues to flag. Though the 'deposit penetration' sub-index improved to 78.3 in 2016 as compared to 60.3 in 2013, the 'credit penetration' sub-index was a mere 56, even if up from 45.7 in fiscal 2013. Apart from the fact that this means the poor's income didn't really grow much in FY16, it also suggests the pace of DBT has not been fast enough—had DBT grown fast enough, the poor would have a steady stream of income in their bank accounts and this would have made them more credit-worthy; in FY19, should the government's DBT plan work out, this will be less of a problem. At 54.3, the 'insurance penetration' sub-index is low, but if the success of the various PM insurance schemes since 2016 are taken into account, that is likely to be much higher today.

While the poor will benefit from the greater use of DBT, as Crisil's Inclusix report points out, the low penetration of pensions remains a problem since a very small proportion of people save enough for their retirement. While there were a little over one crore subscribers to the New Pension Scheme (NPS), Crisil estimates there were another 3.6 crore persons under various other pension schemes such as EPFO in 2016. Ideally, then, the government should restructure its expenditure programme to start paying an annual contribution to pension accounts for the poor. If ₹10,000 is deposited every year into a pension account for 30 years, and the pension fund generates even a 10% return, the family would have a corpus of over ₹18 lakh on retirement, enough for a reasonable pension. If, say, the bottom 25% of the population was targeted, the scheme would cost ₹50,000 crore a year—funding that would require the government rejigging its expenditure pattern, but is well worth it.