



A Vision Beyond Subsidies and Sops for Growth

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Copies of the Union Budget 2015 being brought to Parliament House for distribution to MPs and the media after Union Finance Minister Arun Jaitley presented the Union Budget-2015 in New Delhi on Feb. 28, 2015. Photo: Sandeep Saxena

*The Budget presented by the Union Finance Minister, Arun Jaitley, on Feb. 28, 2015, makes a case for inclusive growth within the framework of "business-like development". Though addressing supply-side challenges are important, the uptake of services and the long term success of programmes also depend on building individual capabilities, says **Jayshree Venkatesan**, emphasising that the outcome of this vision for growth will depend on the manner in which the policies outlined are implemented.*

The Union Finance Minister, Arun Jaitley, in his Budget speech, outlined a vision for inclusive growth that resonates with the current government's ethos of 'business-like development'. Though on the one hand, he acknowledged that India's development could not occur without inclusive growth, on the other hand, the vision was characterised by the metrics of employment, skill development and quality of life defined in economic terms. The danger of defining growth in this manner is that it ignores or leaves behind stakeholders, like environmentalists or activists

for tribal rights, unless one can attribute an economic value to such activity. Nonetheless, there is much to laud in the current budget, and one must not avoid praise where it is due.

In an uncharacteristic show of patience, the Finance Minister deferred the target of meeting his fiscal deficit of 3 per cent to 2017-18, thereby allowing the government to support existing and new programmes in agriculture, education, health, and employment, like the MGNREGA [Mahatma Gandhi National Rural Employment Guarantee Act] and infrastructure development. The key message in social sector programmes was targeted subsidies and the need to reduce leakages. The speech indicated the government's intention to plan for the long term, with references to the need for the sovereign (state) to take on a part of infrastructure investment risk to catalyse such investments, along with a vision for India in 2022.

The inclusive growth story

Agriculture

There can never be a budget speech in India without references to agriculture and the current speech was no different. Lending for agriculture has always been an important part of banks' Priority Sector Lending (PSL) targets, although small and marginal farmers continue to face challenges in accessing credit. The current budget allocates Rs. 25,000 crore to the corpus of the Rural Infrastructure Development Fund (RIDF) set up by the National Bank for Agriculture and Rural Development (NABARD), with a target of Rs. 8.5 lakh crore of credit for the year 2015-16 for farmers. The allocation of these funds, however, does not solve the challenge of the inability of banks to underwrite agricultural loans and cater to the needs of small and marginal farmers. One way to ensure access to capital is if NABARD decides to re-think the role of the RIDF so that it acts as a first loss guarantor for banks. With the current government's propensity to track metrics closely, one hopes that such a plan is on the anvil.

A welcome step is the announcement of a national agricultural market to enable better price discovery. This, along with the proposal to strengthen regulations for commodity forward markets, could translate into a strong warehouse receipts system, which in turn can result in better profits for farmers, better access to credit and improved food security in the long run.

Employment

The current government seems focussed on increasing employment through Skill India and indicating the need to coordinate with 'Make in India'. The current MGNREGA programme received an additional allocation of Rs. 5,000 crores, with a total initial allocation of Rs. 34,699 crores. Continuing with the hallmark of the current government, this was issued with the caveat that the focus would be on increasing quality and effectiveness of activity. This was also reiterated when the Finance Minister spoke of education and the need to improve quality of education and learning outcomes.

It is proposed to launch a National Skills Mission shortly through the Skill Development and Entrepreneurship Ministry, and one hopes that this would address some of the shortcomings of the National Skill Development Corporation (NSDC). One also hopes that the proposed Mission recognises traditional skills in the handloom and handicraft sector, which is the second largest employer after agriculture, and finds a way to incubate entrepreneurs from this segment.

Micro, Small and Medium Enterprises (MSMEs)

The Finance Minister announced the intent to launch an electronic Trade Receivables Discounting Systems (TReDS) to finance trade receivables. For MSMEs that have long receivables realisation cycles, this would improve the liquidity in the sector considerably.

Recognising the difficulty faced by MSMEs in accessing credit, it is proposed to set-up a Micro Units Development Refinance Agency (MUDRA) with a corpus of Rs. 20,000 crore and a credit guarantee corpus of Rs. 3,000 crore to refinance Microfinance Institutions. In many ways, this seems to be replicating the efforts of Small Industries Development Bank of India (SIDBI), and it is unclear whether these institutions would co-exist or would merge their effort.

The plan to electrify all villages by encouraging off-grid solar power generation is also likely to benefit the MSME sector in the long run.

Financial inclusion

In a move to increase social security benefits, the Budget announced accidental death insurance with a cover of Rs. 2,00,000 for a premium of Rs. 12 per annum. Further, a pension scheme where the Government matches 50 per cent of the contribution every year for the next five years, up to a maximum of Rs. 1,000/- per annum, has also been announced. While this is a welcome step to ensure old age security and reduce vulnerability amongst low-income households, the pension programme mimics some of the features of the existing National Pension Scheme Lite, regulated by the Pensions Funds Regulatory and Development Authority (PFRDA).

In terms of implementation, it is unclear whether these two schemes are likely to merge or co-exist. The budget focussed significantly on addressing the needs of the aged, with the creation of a Senior Citizen Welfare Fund. Further, the Finance Minister announced that the Pradhan Mantri Jan Dhan Yojana, announced last year, would provide a platform for roll out of all social sector schemes, including the proposed pension and insurance programmes.

Road ahead

The current budget provides a solution for several of the supply-side challenges for inclusive growth, including access to transparent pricing mechanisms for farmers, access to bank accounts, pension and insurance products. Though these are important steps, the uptake of services and the long term success of programmes also depends on building individual capabilities. Unless this paradigm is reflected in the implementation of various programmes, it may be hard to achieve the vision outlined by the Finance Minister today.

(Jayshree Venkatesan, Public Policy Scholar, The Hindu Centre for Politics and Public Policy, is an independent consultant on Financial Inclusion. She was involved in founding IFMR Mezzanine Finance, a group company within IFMR Trust that provided quasi-equity finance to early stage and not-for-profit microfinance institutions. She was Chief Executive Officer of IFMR Mezzanine Finance, and IFMR Advisory Services. She is the recipient of the Chevening Gurukul Fellowship for Leadership and Excellence for 2014, awarded by the UK Foreign and Commonwealth Office and hosted by King's College, London, and a Fellow of the Royal Society of Arts (FRSA), UK.)

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