Introducing the Social Protection Initiative

Background:

India has made immense progress in its efforts to alleviate poverty. The poverty rate has been halved in the last decade and over 271 million people have been moved out of multidimensional poverty between 2006 and 2016. While this is an admirable feat, there is still a long way to go in ensuring households do not fall into poverty over time. The analytical apparatus used to measure poverty often leaves out a significant section of households that fall in and out of poverty over time. With 85% of India’s 460 million workforce currently engaged in the unorganised sector, there is a significant proportion of the workforce vulnerable to income, livelihood, longevity and health-related shocks. The lack of or insufficient access to risk protection may push these households into poverty when such risks materialise. Trends of growing informalisation of the workforce, even within the formal sector, further exacerbates these vulnerabilities.

India was the first country in southeast Asia to roll out a major social security program, with the passing of the Employees’ State Insurance Act in 1948 and the Employees’ Provident Fund Act in 1952. These programs aimed at covering millions of factory workers across the major industrial centres, providing them with various cash benefits in the event of health and income shocks. While the initial intentions of these schemes have been met, they are largely inadequate in the face of the widespread informalisation of labour. The Employee State Insurance Corporation reports that as of 2017, it has around 29 million employees enrolled, which is a mere 6.3% of the Indian workforce. The Employees Provident Fund Organisation reports lower numbers, with only 17.4 million employees having registered with it. To combat this, the Government of India has introduced various welfare schemes over the last decade that are targeted at the unorganised sector workforce. This is to provide a safety net that would protect these workers and allow them to lead dignified lives. While the different schemes together represent an essential step forward in providing a minimum floor of social protection, there are significant weaknesses in terms of coverage of beneficiaries and adequacy of benefits. Until recently, social security benefits such as old-age pensions, health care and maternity benefits were strictly confined to the public sector. There is, therefore, a strong imperative to strengthen public and private markets to provide individuals and households access to risk protection mechanisms that can act as a safety net to stop them from falling into poverty.
**Objective and Scope:**

Fundamentally, there exist two distinct roles for public policy in combating poverty - a promotional role, where policy aims to enhance the asset base of households and thus eliminate the occurrence of chronic poverty, and a protective role, which aims to prevent vulnerable households from entering into a spiral of poverty due to adverse shocks. Keeping this in mind, the objective of the Social Protection Initiative at Dvara Research is as follows:

"The Social Protection Initiative (SPI) aims to conduct research that will inform the design and implementation of a universal social security system that protects households and individuals against the vulnerabilities faced across the life-cycle while keeping in mind India’s unique demographic and economic realities."

We approach universal social security through three themes:

a. enabling the robust design of universal state-financed social security
b. stimulating missing markets for voluntary insurance and other risk protection instrument, and
c. designing solutions for last-mile delivery challenges

**1. Designing Universal and Comprehensive Social Security**

The idea of social security is to ensure access to a minimum floor of protection against the most critical risks that endanger the well-being of households. One of the biggest challenges to ensure universal social security is the fragmented ownership structure and institutional design of the different social security schemes in India. Social security is a subject in the Concurrent List of the Indian Constitution, and there are several instances of overlap between social security schemes provided by the central and state governments.

Owing to the size of the unorganised sector and the demographic realities of different states, the provision of universal social security requires coordinated efforts both at the state and central levels. For example, the central government provides schemes under the National Social Assistance Programme (NSAP). Many states provide a further set of schemes under the same, as either an addition or an alternative to the central schemes. A lack of coordination between the central and state governments often leads to an inequitable distribution of social security benefits across India, where more prosperous states provide much higher benefits as compared to poorer ones.

As a result of this fragmented ownership structure, data on social security schemes is captured separately. This fragmented collection of data combined with a lack of coordinated efforts across multiple stakeholders has resulted in limited feedback mechanisms and more generally, low levels of innovation in scheme design.

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1 "The outcome of complex interactions of discrete risks, namely of being exposed to a threat, of a threat materialising, and of lacking the defences or resources to deal with a threat"
Availability of high-quality data relating to the access and usage of welfare schemes by beneficiaries is a pre-requisite for identifying inadequacies in current schemes and developing innovative design solutions. A comprehensive effort towards streamlining ownership and governance of social security schemes would represent a significant step forward in India’s ability to provide adequate, reliable, and affordable social protection options for its vulnerable population.

2. Activating Missing Insurance Markets

The Reserve Bank of India Committee on Household Finance chaired by Dr. Tarun Ramadorai highlights very low levels of household participation in insurance markets in India. This is despite households being exposed to various sources of risk such as rainfall shocks (leading to income shocks in largely agrarian segments of the population), health shocks, and natural catastrophes. As of 2018, at least 75% of all Indians were not covered by any form of life insurance, and those that were covered were assured only 8% of what may be required to protect a family from an income shock. Despite the existence of government-sponsored schemes, 66% of the Indian population has no form of health insurance. In 2011-12 alone, about 55 million Indians were pushed into poverty because of having to fund healthcare out of their own pockets, and 38 million of them fell below the poverty line due to spending on medicines. India also ranks 1st in the Natural Hazards Population Exposure Index and is rated “high risk” in the Natural Hazards Vulnerability Index. The elevated level of risk leads to large-scale shocks that can cause significant and sometimes irreversible damage to individuals, national economies, and available coping strategies. Inequalities in social ecosystems attract uneven impact from disaster risks, and the materialisation of these risks pushes vulnerable sections of the population to utilise undesirable coping strategies such as selling productive assets or make critical consumption sacrifices.

The lack of active private insurance markets magnifies the inability of households to smooth consumption in the event of shocks. Even if households do smooth consumption in the face of shocks, they may be doing so in the short run by adopting negative coping mechanisms. Thus, social protection policy should play an important role in activating markets for risk management products, specifically for low-income and vulnerable households.

3. Ensuring Last-mile Delivery

For a country of roughly 1.2 billion people, it is one thing to design and finance welfare schemes, but it is entirely another to ensure the delivery of benefits to targeted beneficiaries. In recent years, there has been a discernible shift towards leveraging the Jan Dhan-Aadhaar-Mobile (JAM) architecture to bring about these transfers. The rationale for this shift hinges on efficiency - better beneficiary identification and arresting leakages in payments. The government consequently claims that benefits of over Rs. 800 billion to citizens have been paid out through the JAM architecture. While the benefits of efficiency may be realised
in full or in part, this shift may have some unintended consequences that create either transitional or permanent exclusion. For instance, studies in Jharkhand have shown challenges with accessing pensions in JAM’s infancy because of friction in the process of linking bank accounts with Aadhaar cards. There are also older challenges of exclusion by the banking channel that have not been adequately addressed. Migration of schemes to the JAM framework, which increases footfall at bank branches exacerbates these challenges. As the government aims to bring most, if not all, schemes under the framework of Direct Benefit Transfer (DBT) through JAM, it is vital to take stock and understand whether these schemes have had positive impacts on households and whether they are efficiently reducing the vulnerability of households. It is critical to evaluate whether the current intervention machinery is robust enough to provide universal social security for India.

Bibliography


