CASH TRANSFER SUBSIDY: DIRECTIONS AND IMPLICATIONS

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***Abstract*—The rapid economic growth India has experienced since the economic reforms gained momentum in the early 1990s, at an annual rate of about 5% per capita, has not been followed by much improvement in welfare of the poor. The National Sample Survey Office (NSSO) surveys show that the average monthly per capita household consumption expenditures (MPCE) only grew by 1.5% per year from 1993-94 to 2009-10. Poverty, as measured by the share of the population with MPCE below the official poverty line, only dropped from 36% to 27.5% between 1993-94 and 2004-05, the two years for which comparable official estimates are available so far. The dismal reductions in poverty show that the shining economic growth in India has left large sections of the population in the shade. It is therefore understandable and laudable that the Government of India (GOI) has rejuvenated and extended the financing of several large welfare programmes in recent years.**

Social cash transfer (CT) programmes provide basic social protection in the form of cash to vulnerable groups facing significant risks of falling into or remaining in poverty. They aim at increasing poor households' real income as a response to chronic poverty, food insecurity or other development challenges. Cash-based assistance can take many forms, such as non-contributory pensions, periodic or occasional needs-based transfers, family allowances in the form or regular or occasional benefits paid to families with children under a certain age.

***Keywords*—Cash Subsidy, Aadhar, Banking Facilities, Economic Growth.**

I. Introduction

There has been growing chorus of opinion in India that redistributive programmes of the government have been relatively ineffective, that the benefits do not reach the poor, and that there is a case for introducing forms of social assistance that have so far not been tried extensively (Kapur and Mukhopadhyaya, 2007; Prahalad et al, 2009). Latin American countries were the first to introduce conditional cash transfers (CCTs), and in recent years, a few Asian countries have also been doing so (e.g. Indonesia, the Philippines). The case has been made that like other emerging market economies India too should seriously consider this form of social assistance.

In the past decade, cash transfers have been gaining in popularity as a preferred strategy for poverty reduction in different parts of the world. Some have even argued that it can become the solution to the problem of poverty. Some analysts have described cash transfers as not only "the most necessary, obvious and imperative strategy for poverty alleviation" but even suggested "that these should replace a great deal of other government activity". This policy brief discusses some of the pros and cons of using cash transfers as a strategy for poverty reduction. It also discusses the need for seeing cash transfers as supplements, rather than as substitutes of public provisioning of goods and services.

Cash transfers, as the term suggests, are direct transfer of money to people by government. Although some proponents tend to see cash transfers, in vogue since the mid-1990s in several Latin American countries, as a radically new idea, "an elegant southern alternative" in reality historical records suggest that they were employed by governments in different parts of the world in antiquity as well as in the middle Ages. In recent times, cash transfers made by developing country governments have been either:-

Conditional (i.e. subject to the beneficiaries meeting certain pre-specified conditions such as children attending school, families visiting health clinics for check-ups, or immunizing children as per the prescribed schedule and the like); or **Unconditional** often to certain categories (such as pensions for older people or child support grants.)

While there are examples of universal cash transfers**,** they are usually targeted to a certain section of the population meeting particular criteria, typically those described as poor. The cash transfers provide resources needed to meet basic needs of the poorer sections of the population as well as help them to access various services such as health, education. In Latin American countries, cash transfers have had a measure of success in fighting poverty and in most cases the beneficiaries are required to meet a set of conditions to get the transfer. The conditions can range from being light (as in Brazil's Bolsa Familia) to being extremely time-intensive, especially for mothers (as in the Oportunidades programme in Mexico). Because of the perceived success of these transfers in Latin America, cash transfers, both conditional and unconditional, have proliferated in countries of other developing regions, although even here they are not really a novelty. In Sub-Saharan Africa, for example, several such programmes are donor funded and implemented on pilot basis, usually covering a small segment of the intended beneficiaries. Further, in several cases, especially in countries afflicted by HIV/ AIDS, cash transfer programmes are unconditional, provided as pensions to old-age people and/or in some cases as child grants for overall development of children.

The proposed framework for direct transfer of subsidies is as follows:

i) A subsidy, by its very nature, introduces two or more prices for the same good, and creates incentives for pilferage and diversion. As a result, the underprivileged suffer the most. Ensuring that goods move in the supply chain at market prices can minimize the incentives for diversion.

ii) Where possible, it is best to empower beneficiaries and give them the choice to receive subsidies in the form of subsidized goods and services or as cash, based on their own preferences. Further, beneficiaries should also be offered choice to exercise their preference at any participating location, rather than restricting the service delivery point to a specific location.

iii) Creation of a Core Subsidy Management System (CSMS) for the purpose of maintaining bookkeeping information on entitlements and subsidies for all beneficiaries. The CSMS will also provide increased transparency in the movement of goods, levels of stocks, prediction and aggregation of demand, and identification of beneficiaries. It will be able to use analytics to detect fraud and diversion. It can also integrate with a contact centre for grievance handling. Beneficiaries can report malpractices to the Government directly making it possible for the Government to react in a timely manner.

iv) Just as a real-time transfer of funds takes place when people top up their mobile talk time, the Government, through the CSMS will transfer the cash component of subsidies directly and in real-time to the bank accounts of beneficiaries. Beneficiaries may then access these funds through various banking channels such as bank branches, ATMs, business correspondents, internet, and mobile banking. Achieving full financial inclusion is crucial for direct transfer of subsidies.

v) As the subsidy management systems assume same configuration under CSMS, integration of all subsidies, entitlements under one umbrella is also achievable.

vi) The transition to direct transfer of subsidies will lead to best practices in modern retail being incorporated in public provisioning, and also to increased competition and efficiency in the manufacturing, distribution, and retailing. The use of technology makes it possible to strengthen and automate checks and balances, which will encourage participants to benefit from compliance, while simultaneously making it difficult to pilfer.

II. The need for Conditional Cash Transfer

There are several reasons why time may be ripe for the Indian state to seriously start considering CCTs as a policy mechanism to benefit the poor.

1. India has had a long history of redistributive poverty reduction programmes, but hardly any programmes that provide direct cash assistance to the needy in India. India has hardly any cash social assistance in place on a large scale, conditional or unconditional (although the National Rural Employment Guarantee and the Public Distribution System for essential commodities are social safety nets).
2. Between 1973/4 and 1993/4, there was no decline whatsoever in the numbers of the poor (as estimated by the Planning Commission): it remained stuck at over 300 million over two decades, even though the head count ratio of poverty was declining (Planning Commission, 2008). This is despite the fact that India's poverty line is way below the $1 a day (let alone $1.25 a day) poverty line. Hence, the Indian government should consider testing new forms of delivering benefits to the poor. In other words, despite years of redistributive programmes, hardly reduction in the numbers of the poor (based on what is really a destitution poverty line) is an indictment of those programmes' effectiveness.
3. The need for social assistance is underlined by the fact that the vast majority (92%) of India's workforce is in the unorganized sector engaged in informal employment, characteristised by low income and also a high variance in that income (NCEUS, 2008). This workforce receives almost no social insurance either. This should be unacceptable in any civilized society on humanitarian grounds. Such workers in the unorganized sector, therefore, deserve some social assistance in cash, which go beyond the other programmes (e.g. public distribution of food; the National Rural Employment Guarantee; and so on).
4. India is today a more globally integrated economy, and social safety nets that are effective and less leakage-prone than current redistributive programmes are especially needed now, more than ever before. First, they are needed because the Indian economy is more vulnerable to exogenous shocks, and India has already seen the adverse impacts on employment in a series of export-related sectors (e.g. gems and jewelry, leather, textiles, garments, handicrafts) since the global financial crisis of late 2008 (Mehrotra, forthcoming). Second, there will be structural change in both employment and output when economic growth takes place – this, of course, is not exogenous. Such structural changes require that the vulnerable are protected against adverse changes.
5. The international experience highlights the need for a social contract. Rodrik (2000, 2004) and Bourguignon et al (2002) point out that after Second World War, Europe would probably not have experienced a rise in industrial productivity which went hand in hand with economic growth and structural change, without an institutional environment that permitted a social contract to emerge. In fact, the economic historian Lindert (2004), in a systematic analysis of the now industrialized countries, spanning the 100- year period from 1880 to 1980, concluded that not only did the size of government and the share of government expenditure in GDP rose from 11% on average to over 40% of GDP, but this increase in size was

accounted for almost entirely by the corresponding rise in social transfers (health, education, social security).

6. Despite a large number of evidently ineffective and ad hoc poverty-reduction programmes, India is very unusual in this respect (i.e. the absence of social assistance programmes) among emerging market economies. Most emerging market economies already have had a few decades of experience of running CCTs for the poor, and India can learn from their experience.

Besides, there is the fiscal argument for CCTs. India has had a long history of untargeted or poorly targeted subsidies, which are in need of replacement, especially because the fiscal burden of these subsidies has become increasingly unbearable after the multiple fiscal stimuli post-2008 economic crisis. Official estimates of subsidies given for food, fertilizers, petroleum and other subsidies in 2006-07 amounted to Rs. 53,495 crore (Actual) The budgeted amount for subsidies in 2008-09 had risen to nearly Rs. 67,000 crore ($14.6 bn at 2008/9 exchange rates), while the actual amount is reported to be over Rs. 122 000 crore ($26.5 bn) (Ministry of Finance - 2009).

III. BENEFITS AND CHALLENGES OF CASH TRANSFER SCHEMES

Social cash transfer (CT) programmes provide basic social protection in the form of cash to vulnerable groups facing significant risks of falling into or remaining in poverty. They aim at increasing poor households' real income as a response to chronic poverty, food insecurity or other development challenges. Cash-based assistance can take many forms, such as non-contributory pensions, periodic or occasional needs-based transfers, family allowances in the form or regular or occasional benefits paid to families with children under a certain age. Within this framework, an emerging practice across the developing world is to link social cash transfers to certain behavioural requirements, which is referred to as "conditional cash transfers" (CCT). Mexico for example was one of the first countries to introduce a nation-wide CCT program in the late 1990s, consisting of cash transfers conditional on school attendance by the children of beneficiary households and regular visits to health centres by household members.

Critical issues associated with cash transfer programmes include targeting methods, payment modalities and institutional arrangements to implement, monitor and oversee the management of the funds.

IV. BENEFITS OF CASH TRANSFER SCHEMES

The first generation of cash transfer programmes in Mexico and Brazil have been largely credited for good implementation in terms of targeting, administration and impact evaluation, raising expectations about a stronger role such approach can play in poverty alleviation strategies. An ODI paper providing an overview of the benefits and challenges associated with such approaches concludes that their potential for poverty reduction has been largely underestimated both in relief and development contexts (Harvey, P., Slater R. and Farrington J., 2005).

V. POVERTY REDUCTION

Most evaluation studies conclude that cash transfer programmes have a positive impact on poverty alleviation, especially with regards to health and education outcomes, and can potentially be used as a rapid and cost effective tool for poverty reduction. In terms of health outcomes, for example, a 2008 study estimated that the birth weight of Mexico's CCT programme beneficiaries were on average 127,3 grams higher than non-beneficiaries and incidence of low birth weight 44,5,% lower among beneficiaries. Improvements in birth outcomes were explained by better quality of prenatal care as well as by empowering women to demand and negotiate better care from health providers (Barber, S.L. and Gertler P.J., 2008). Another evaluation of the Mexican CCT programme also confirms a significant increase in enrolment rates of both boys and girls in secondary schools, with the transition rate to secondary schools for girls increasing by 15 %. However, the study also finds that the impact of the programme is more limited on school achievements and performances (Hyun H. Son, 2008). Another impact evaluation of non-contributory pension programmes indicates that poverty in households with older people would be 5,3% higher in the absence of social cash transfers in Brazil and 1,9 % in South Africa (referenced in Schubert B., 2005). Such outcomes do not only benefit older beneficiaries but also younger generations, as in many developing countries older people often care for orphans or vulnerable children in the community.

More recent studies are more cautious in their evaluation of the long-term positive impact of such schemes on poverty reduction. Another 2008 assessment review of CCT in Latin America concludes that while such schemes have a positive effect on some aspects of schooling, health and nutrition, they may have more uncertain effects on educational aspects of human capital formation and poverty reduction on the long term (Lomeli, E., 2008).

VI. ECONOMIC DEVELOPMENT OUTCOMES

Unlike in-kind benefits that can discourage local trade and production, cash transfers are also expected to have a multiplier effect on the local economy, through investment on the "supply side" and stronger demand for local goods and services. A case study of the Zambian Kalomo pilot social cash transfer scheme confirmed that the local economy was indeed stimulated by the purchase of food, soap, blankets etc, but also agricultural inputs (Schubert B., 2005). Some beneficiaries even managed to save some cash and invested in seeds, small animals or income generating activities.

VII. EFFICIENCY

Cash transfer programmes are expected to be more cost effective than commodity-based alternatives due to lower transaction and distribution costs. For recipients, cash transfers are also a more practical and cost effective solution, as cash costs less than food to transport from the distribution site to the household and they are given the freedom to decide how to use the benefits they receive. In terms of overall efficiency, most studies conclude that CCT programmes do manage to serve intended population with a positive cost/benefit ratio. However, some studies also point towards substantive leakages, in terms of errors of inclusion - resources allocated to people outside of the targeted population-, as well as errors of exclusion - people who should have been served by the program (Lomeli, E., 2008). Pros and Cons of DCT Programs:

Pros

1. Poor families get cash in hand which they can use according to their needs. In case of cash flow problem, they may not have to borrow from money lenders or micro-credit institutions which charge high interest rates.
2. Cash transfer programmes reduce dependence on government functionaries who are mostly not responsive to the needs of the poor.
3. If conditions are attached to the cash transfer, other social goals such as school attendance, immunization and registration of births can be achieved.
4. Cash transfer programmes eliminate the cost of managing the public distribution system, and preventing leakages. According to a Planning Commission study, the government spends about Rs 3.65 to transfer Re 1 of food to eligible recipients under the Public Distribution System.
5. Cash transfers programmes can be more sharply targeted so that it benefits only the recipients who are eligible.

Cons

1. Critics fear that poor families may waste the cash on non-essential items. Also, adult members of a family may tend to rely on cash handouts rather than search for gainful employment.
2. The government may withdraw resources from schemes which complement the social goals that the government wants to achieve through conditional cash transfers. For instance, the introduction of a conditional cash transfer scheme aimed at increasing

school enrollment may lead to resources being withdrawn from a programme which focuses on improving the quality of teaching in schools.

3. The success of cash transfer programmes depends on correctly identifying and targeting beneficiaries, which is the responsibility of the central and state governments. According to the N.C. Saxena committee on BPL Census, about 61% of the eligible population is excluded from the BPL list.
4. Cash transfers work only with a well functioning private sector system, which may not be available for a number of services.

VIII. CONCLUSION

Since independence, Governments in India have been strongly committed to addressing the issues of poverty and deprivation. Accordingly, Central and State Governments have devoted a major share of their budgets to put in place broad-ranging social safety nets and livelihood assistance programs. The fundamental objective of these programs has been to provide a basic minimum quality of life for the vast majority of people who require social assistance. They make it possible for the poor to access basic goods and services that would otherwise be unaffordable. In Direct Cash Transfers, money is either delivered directly to the beneficiary or transferred into his or her bank account. Direct cash transfers are commonly used to deliver social security pensions. This money carries no further conditions once the beneficiaries are identified, and they are free to spend as they choose. Technological advances and improved telecommunications access over the last decade have made it possible to provide electronic transfer of funds into the accounts of beneficiaries. As this is an election year government tries to impress the people of the country through various schemes and cash transfer subsidy is one of them. It is a good program for upliftment of the poor people of the country.

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