Cash Transfer: Two Sides of the Story

PRADYUT BHATTACHARJEE AND ARUNDATHI

Exploring whether the benefits of the cash transfer scheme reach the real beneficiaries—the poorest of the poor—this article discusses the challenges facing the government's latest scheme for poverty alleviation

"Cash instead of rice? Our life will go back in time," says Dashmi *didi*, member of Malati Mahila Swa Sahayta Samhooh of Mangalpur, a small village of 70 Mariya (a tribe)-inhabited households in Darbha block of Bastar district. Years ago, before the PDS system of food subsidy was functional, all families in the Mangalpur hamlet used to have two houses. One by the main street of the village, along with their homestead land and another makeshift house built near the agriculture fields between the months of sowing and harvest. "Too much robbery!" exclaims Butki *didi*, Dashmi's neighbour. "If for even a single night, the fields were left unattended—even if it were before the paddy ripens—the crop used to be chopped off and stolen. That's why we in the family take turns to sleep in the makeshift house near our land."

The cash transfer scheme for Butki and Dashmi seems more of a bane than a boon—especially with regard to the PDS system. They also fear that once the subsidy for rice and the ration shop is substituted by direct cash transfer, the prices of rice in the market will shoot up. It will, therefore, become difficult and close to impossible to gain access to quality rice grain.

Manglu, the *sarpanch* of Teeratgarh panchayat is of the opinion that providing cash is not the solution to meet the issue of hunger and food sufficiency. *"Paisa bank se niklega zaroor, par woh chawal ke dukaan tak pahunchega nahin. Beech ka landa aur mandh ki dukaan main hi ud jaayega. Dada ka pet landa aur mandh se bhar jaayega, par ghar mein didi aur bachhe bhookhe marenge*. (The money will be drawn from the bank all right, but it won't be spent on buying food grain. The money will be spent in liquor shops, which lie on the way to the grocery shop. While the man of the family fills his stomach with the local liquor, the women and children at home will starve to death)." He claims that the villagers will spend the money received through the cash transfer scheme on alcohol than food grain.

Kamala *didi* from Danteshwari SHG was worried that it will be her husband whose name the account will be in and that it is he who will have sole access to the money received through the cash transfer scheme. "That will mean that only he can draw money. What will happen when he migrates? Or when he doesn't tell me when he's drawing money and spends it on something other than food grain?" she wonders sadly.

"Gone are the days of *kanki chawal* (low-grade, broken rice) we had thought," says Balman, a villager of Kotwarpara hamlet, Teeratgarh. "Nowadays, we rely on *kanki chawal* only in times of distress. But with the ration shop shutting down, and the cash transfer scheme coming into play, *kanki chawal*, like in the earlier days, will become the main ingredient of our meals." Balman is also of the opinion that people with large landholdings, who anyway do not need BPL cards but who mysteriously possess these cards, will enjoy and reap the benefits of the cash transfer scheme. He says, "This scheme will make the rich richer and the poor poorer." The cash transfer will give the rich an extra cash income, increasing the class disparity in their village. Further, it will be the large landholder, who will sell their land's produce (food grains) at escalated prices in the markets, and will mostly likely use the cash from the scheme to build on and flourish in his business.

A close scrutiny of the pension and scholarship schemes today reveals that money is being pilfered en route to the elderly and that the people in power (the sarpanch, the panchayat sachiv) draw pensions at an age when they are not even eligible for it.

Before the PDS system became fully functional in Mangalpur, the diet of the villagers used to be mostly dependent on forest produce (bamboo shoot, tubers and greens) and kanki chawal. Pej (a thin porridge made of *kanki chawal)* used to be consumed during the day and rice cooked and consumed for just one meal. The PDS system brought in a degree of security—with families consuming better-quality rice meals twice a day as well as not worrying about their crops and harvest being robbed. A cloud of worry and doom looms over Mangalpur as the villagers anxiously hope that the reality of the cash transfer bill will not reach their lives.

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Aite *didi*, 65, from Dilimili panchayat put her hands together in a pranaam when she heard that there is a possibility of her widow's pension of Rs 200 reaching a bank account in her name rather than receiving it from the *sarpanch*. "It's been a year since I have seen any trace of my pension," she says forlornly. "Before the elections, the *sarpanch* came to be to ask for my vote and promised me timely pensions, but today all he says is that he doesn't know, it hasn't reached him yet." Likewise, Mahangi *didi*, 73, too feels hopeful and enthusiastic about receiving her old age pension of Rs 300 through cash transfer rather than from the *sarpanch*. Budu, the *sarpanch*, has acquired an SUV. In many cases, the Rs 1,500 under Janani Suraksha Yojana (JSY) seldom reaches the beneficiary because the nurses and doctors all demand their pound of flesh. This is true for the Indira Awaas Yojana (IAY) funds too.

This story is true for most of the *panchayats* of Darbha and other blocks of Bastar. Entitlements such as IAY, handicap scholarship, old age pension, widow pension, JSY, maternity benefit, Sukhad Sahara, Janashri Bima Yojana seldom reach the needy and the poor. Even when in some cases they do reach, the periodicity and time lag between payments proves to be a deterrent.

Whereas the cash transfer schemes might prove to be a boon in these cases, ground realities are very different. Darbha has around 15,000 households and is served by only three banks—two branches of the Bank of Baroda and one branch of the Chhattisgarh Grameen bank—and 4 post offices. Most of the branches shut down much before stipulated time for fear of Naxalites. These branches are horribly under-staffed and attempts to computerize the system haven't yielded results. The long daily queues for normal transactions are quite common. Bankers look at MGNREGS transactions as a burden because they don't contribute to much business. Although there has been an attempt to open mobile banking accounts using the biometric system (FINO) in 10 *panchayats* of Darbha, there have been several technical and logistical hitches.

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Another bottleneck is the very low awareness in the community about its various entitlements and the low literacy levels (functional literacy among women is less than 15 per cent in Darbha). Along with this, there is rampant forgery of thumb impressions and signatures, in order to withdraw money from the account. In most villages that PRADAN works in, the knowledge of the existence of the Aadhaar card and the UID number is almost negligent. Some *didis* of PRADAN's SHGs are apprehensive that the cash transferred to their account might be forcibly withdrawn by their *dadas*. Hence, there is an issue regarding control as well. Another important issue is the eligibility criteria (most notably for Below the Poverty Line—BPL) for most of the schemes and entitlements, leading to the exclusion of the needy and the deserving.

THE BACKGROUND

The government began the New Year ushering in another policy reform aimed at cutting its bloated subsidy bill of Rs 1,64,000 crores by rolling out the ambitious direct cash transfer of benefits covering 7 welfare schemes in 20 districts of 16 states. The programme covers schemes such as educational scholarship for the Scheduled Castes (SCs) and the Scheduled Tribes (STs) and pensions to widows.

Food, fertilizer, diesel and kerosene have been kept out for the present. The seven schemes that will now employ direct cash transfers to beneficiaries' accounts are mostly related to student scholarships and stipends, the Indira Matrutva Yojana and the Dhanalakshmi schemes. It is estimated that at least two lakh beneficiaries will receive cash benefits from 1 January 2013. Cash benefits in the remaining 19 schemes will be available from February and March 2013 when the government will cover 23 other districts across the country.

The government had originally identified 51 districts across 16 states to be covered by the programme under which cash subsidy benefits will directly go to the bank accounts of beneficiaries with the mandatory requirement of the Aadhaar number. Subsequently, four districts each of Himachal Pradesh and Gujarat were exempted from the roll-out because of the assembly elections. The states being covered in the initial phase are Karnataka, Maharashtra, Delhi, Rajasthan, Madhya Pradesh and Punjab and the union territories (UTs) of Puducherry, Chandigarh, and Daman and Diu. This will be extended to 11 more districts from February 1.

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Scholarships and pensions have, after all, always been paid in cash and routed into bank accounts or via post offices and *panchayats*. Now the payment will have to be linked to Aadhaar cards and bank accounts. It's only when the government replaces the growing food, fertilizer and fuel subsidies with cash that the 'game-changing' idea will face its litmus test. Supporters of the government's move also feel that it is time India found an alternative to the age-old PDS, which is full of leakages and corruption at all levels.

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Officials in the Prime Minister's Office (PMO) say that the Aadhaar-enabled payment system will help weed out fake beneficiaries and ghost ration cards. The PMO claimed this by citing a study by the National Institute of Public Finance and Policy (NIPFP), which holds that integrating Aadhaar with welfare schemes is likely to yield a 52 per cent return to the government on that investment, even after all costs are accounted for.

In a county that has the world's largest number of poor, it is logical for India to be one of the few countries to spend about two per cent of its gross domestic product (GDP) on the social sector. However, it sounds illogical that nearly three-fourths of the money is spent towards the cost of making development reach the poor.

To make one rupee of 'worth of development' reach the poor, India spends Rs 3.65, according to its own official estimate. To put it in perspective, India needs to triple its development budget to ensure each rupee currently allotted reaches the intended beneficiary. That is quite a tall task.

For the current fiscal, India has earmarked Rs 1,37,674 crores for the social sector, that is, 37 per cent of the total budget. This is if one takes into account that state spending as well the total social sector spending in the previous fiscal was Rs 3,69,053 crores, as calculated by the Centre for Budget and Governance Accountability in Delhi.

This expensive mode of reaching development has been a point of debate for decades. Currently, India adopts two ways of reaching out to the poor: create development schemes and top them up with subsidies in food, fertilizer and fuel.

In 2009–10, the central government budgeted Rs 1,99,932 crores as subsidies. Nearly half of it was for food, fertilizer and fuel. The public distribution system (PDS), which aims at distributing at least 35 kg food grain and kerosene a month to each of the estimated 62.5 million poor families in the country, is sustained by this subsidy. If the Rs 1,80,000 crores spent on centrally sponsored schemes and subsidies on food, fertilizer and fuel (in 2007–08) were distributed equally among poor families, it would have meant a monthly transfer of Rs 2,140 per family. This is more than the poverty line income for rural families and more than 70 per cent of the urban poverty line income.

Widespread fudging of the list of beneficiaries and corruption has kept the poor out of the reach of programmes. The brokerage firm, CLSA Asia-Pacific Markets, estimates that between 2010 and 2015, India will have spent Rs 11,25,000 crores in subsidies, of which 40 per cent of it will be siphoned out by fudging beneficiary lists. Data from the 61st National

Sample Survey show only 44 per cent of the poorest of poor families have BPL cards—key to access many development programmes—whereas 17 per cent of families in the rich group do so. Only 39 per cent of eligible families have received BPL cards in the country.

The jury is still out on whether cash transfers will work in India the way it has done in many other countries. Over 30 countries, notably in Latin America, dole out CCTs—payments to the poor that meet certain conditions such as health care and education.

Is Cash Transfers the Panacea?

The government thinks it now has an answer to this development riddle: transfer money directly to the beneficiaries. In fact, some states already have schemes in which cash is used as an incentive for the poor to take part in them. Under such schemes of conditional cash transfer (CCT), money is given on such conditions as families send children to school. The government has cited three key reasons for the shift in its strategy to deliver development. First, the cost of reaching development programmes to people is very high. Second, the intended beneficiaries are not getting the benefits. Third, the impact of development programmes is not tangible. For example, the absolute number of poor in India has remained the same for the past three decades.

Because food and fertilizer subsidies account for the largest chunk of the central subsidy pool, these are targets for the cash transfer method. PDS is prone to pilferage because of the huge subsidy.

The government spends Rs 1,544 on every quintal of food grain sold to the *Antyodaya* families at Rs 200, according to the Department of Food and Public Distribution. In a system of cash distribution of subsidy, PDS food could be priced at the economic cost, leaving no incentive for diversion. Government will just transfer the subsidy component to the poor. This cash payment through smart cards to be prepared under the unique identification (UID) called Aadhaar is increasingly being seen as an option to prevent leakages in PDS.

There is a sense of political triumphalism and euphoria euphemism over the government's ambitious plan for cash transfers to the poor, in lieu of entitlements and subsidies. Senior government ministers are calling this a "pioneering and path-breaking reform", even a "game-changer" in a country beset with appalling levels of corruption in public services. A slogan—'*Aapka paisa, aapke haath* (your money, in your hands)'—has been quickly coined around the scheme. Clearly, the government, troubled by allegations of financial scandals, a slowing economy and an environment of highly partisan politics, believes that cash transfers will help bolster its sagging political fortunes.

Will Cash Transfers Work?

The jury is still out on whether cash transfers will work in India the way it has done in many other countries. Over 30 countries, notably in Latin America, dole out CCTs—payments to the poor that meet certain conditions such as health care and education. Such transfers typically cut transaction costs, plug leakages, curb corruption, help migrant workers and are easier to monitor.

But, as economist Jean Dreze eloquently argues, cash transfers should never replace public services by forcing the poor to buy health and education from private providers. Cash transfers have been successful in Latin America, he says because they are "seen as a complement, not a substitute, for public provision of health, education and other basic services."

In other words, the incentives work because the state spends and delivers public services efficiently. Dreze cites the example of Brazil where almost half the health expenses are paid by the government (compared to barely a quarter in India), and where basic health services such as immunization and ante-natal care at birth are almost universal.

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Even the World Bank believes cash transfers are not a panacea. They work well, the Bank says, when the "supply of health and education services is extensive and of reasonable quality." Sadly, this cannot be said of India.

Public services are badly planned (there is still no consensus, for example, on who comprise the very poor and who should receive subsidies), leaky and notorious for corruption. The country's booming middle-class have virtually seceded from public services—they avoid government hospitals and public transport, hire private security and run private generators for their electricity—and the poor bear the brunt of the miserable services. In large swathes of the country, the state has simply withered away.

In truth, the government has made a cautious start with cash payouts for pensions and scholarships. The real challenge will come when cash transfers are made for food and fertilizer. "Food is a complex issue and fertiliser is more complex than food," Finance Minister P Chidambaram concedes. "They are not being put into the system now as there are many issues that need to be addressed."

Cash transfers, especially in lieu of cheap food or fuel distributed through a vast network of public distribution shops, can lead to misuse by family members and result in higher food prices in the market. They can also put immense pressure on India's patchy banking system, which is not very friendly to the poor and will struggle to cope with the rush of claimants. Only 222 million people have enrolled into a biometric identity scheme that provides each with an identification number. Also, the poor, studies have shown, still prefer food over cash. Cash transfers, analyst Pratap Bhanu Mehta says, can never be a substitute for governance. He believes that cash transfer systems actually require 'more sophisticated governance'.

In India, that sounds like an oxymoron.

The Glitches

There still remains the issue of bank accounts. The last Census shows that only 54.4 per cent people in rural areas have bank accounts. Bank branches too are not evenly distributed, with too many of them and too few of them elsewhere. Some of the rural branches are located very far apart, forcing people to waste several hours commuting and waiting to collect cash, having to forgo daily wages in the bargain.

The government hopes to bridge the gap through "business correspondents" appointed by commercial banks. The banks seem to have taken to the idea because it is more cost-effective than opening a rural branch or maintaining a physical ATM. The correspondents will use hand-held devices to help authenticate the identity of the beneficiary and the credit balance in his bank account. Much of the success of the system of cash transfer will depend on how this system will work.

The shortage of banks/post offices is evident from Tables 2, 3 and 4. Table 2 shows that a very large area served by a post office, and also that the average population served per post office is over 7,000.

Table 1: Post Offices – Population and Area Served Per Post Office

States/UTs	Post Offices			Population Served by a Post Office	Area Served by a Post Office (sq km)
	Urban	Rural	Total		
Andhra Pradesh	1299	14860	16,159	4,995	17.0
Assam	298	3708	4,006	7,156	19.6
Bihar	432	8622	9,054	10,023	11.1
Chhattisgarh	223	2901	3,124	7,232	43.3
Delhi	489	81	570	28,107	2.5
Gujarat	732	8,242	8,974	6,180	21.9
Haryana	325	2,328	2,653	8,788	16.7
Himachal Pradesh	120	2,659	2,779	2,323	20.0
Jammu & Kashmir	227	1,464	1,691	6,470	131.4
Jharkhand	272	2,819	3,091	9,479	23.9
Karnataka	1,245	8,592	9,837	5,719	19.5
Kerala	911	4,159	5,070	6,575	7.7
Madhya Pradesh	848	7,481	8,329	7,971	37.0
Maharashtra	1,313	11,524	12,837	8,280	24.3
North-East	200	2,732	2,932	4,236	60.2
Orissa	579	7,582	8,161	4,765	19.1
Punjab	527	3,425	3,952	6,873	12.8
Rajasthan	718	9,646	10,364	6,009	33.0
Tamil Nadu	2,058	10,121	12,179	5,438	10.7
Uttar Pradesh	1,987	15,679	17,666	10,375	13.1
Uttarakhand	220	2,496	2,716	3,394	23.4
West Bengal	1,135	7,925	9,060	9,516	11.5
Total	**16,158**	**1,39,046**	**1,55,204**	**1,69,904**	**579.7**

Source: *Annual Report,* 2007–08, Indian Posts.

Table 2: Distribution of Bank Offices (Includes Administrative Offices)

	Banks					
States/UTs	Rural	Urban	Semi-Urban	Metropolitan	Population Per Bank	Total
Andhra Pradesh	2,316	1,568	1,464	1,003	12,000	6,351
Assam	777	287	317	–	19,302	1,381
Bihar	2,337	395	795	265	21,888	3,792
Chhattisgarh	643	308	232	–	17,611	1,183
Gujarat	1,449	620	936	1,284	11,814	4,289
Haryana	671	868	415	110	10,245	2,064
Jharkhand	960	377	331	–	16,155	1,668
Karnataka	2,130	1,280	1,137	1,185	9,220	5,732
Kerala	329	1,093	2,631	–	7,856	4,053
Madhya Pradesh	1,734	716	894	534	15,562	3,878
Maharashtra	2,106	1,059	1,341	2,959	12,978	7,465
Orissa	1,623	547	463	–	13,978	2,633
Punjab	1,093	716	900	498	7,596	3,207
Rajasthan	1,739	817	942	405	14,478	3,903
Tamil Nadu	1,660	1,358	1,683	1,071	10,812	5,772
Uttar Pradesh	4,725	1,594	1,647	1,480	17,595	9,446
West Bengal	2,293	901	585	1,275	15,864	5,054
Arunachal Pradesh	50	–	24	–	14,838	74
Delhi	53	–	31	2,065	6,445	2,149
Goa	157		252	–	3,296	409
Himachal Pradesh	703	61	146	–	6,679	910
Jammu & Kashmir	536	257	185	–	10,372	978
Manipur	33	23	20	–	30,184	76
Meghalaya	123	47	24	–	11,954	194
Mizoram	54	24	14	–	9,663	92
Nagaland	35	–	48	–	23,976	83

States/UTs	Banks					
	Rural	Urban	Semi-Urban	Metropolitan	Population Per Bank	Total
Sikkim	46	–	25	–	7,620	71
Tripura	106	50	52	–	15,380	208
Uttarakhand	551	230	275	–	8,039	1,056
Andaman & Nicobar	17	–	20	–	9,622	37
Chandigarh	23	273	1	–	3,034	297
Dadra & Nagar Haveli	4	–	17	–	10,476	21
Daman & Diu	–	–	18	–	8,778	18
Lakshadweep	7	–	3	–	6,100	10
Puducherry	22	61	29	–	8,696	112
Total	**31,105**	**15,530**	**17,897**	**14,134**	**13,077**	**78,666**

Source: Master Office File on Commercial Banks (latest updated version), Department of Statistics and Information Management, RBI.

Table 3: India: Villages per post office and bank

No. of commercial banks	78,666
No. of post offices	1,55,204
Total number of villages	6,00,000
Villages per post office	3.87
Villages per Bank	7.63

Table 3 shows that the average population in India per bank branch is over 13,000. Similarly, a post office on an average serves about 4 villages whereas a bank branch serves about 8 villages. All this implies that without a system of bank correspondents (as discussed in the Raghuram Rajan Committee report on Financial Services to the Planning Commission, 2008), a system of Conditional Cash Transfers is unlikely to be successful.

At a broader level, not many share the government's optimism about cash transfers as a modern way of disbursing subsidies. "Cash transfer is not a silver bullet for dealing with corruption. The identification of who will receive these transfers is still not clear. The government has been spectacularly unsuccessful in identifying the beneficiaries," says social activist Harsh Mander.

The fact that the government has announced the goal without actually defining the route is a cause for concern. Mander, for one, is of the opinion that it is erroneous to think of cash transfer as a substitute for provisioning public good—healthcare, education and food—without first putting a system in place.

The danger in not doing this is that the PDS is associated with the system of minimum support price (MSP) for farmers and price stabilization, which the government ensures. With the government procuring high amounts of food grain from farmers for PDS, an alternative use for that grain would need to be found. Likewise, the physical infrastructure of the six-decade-old PDS (thousands of stores all over the country and lakhs of employees) will have to be put to some use.

If the cash transfer is not additional to food subsidies, and is given 'instead of' food subsidies, it would be important to make sure that the money given is used for nutritional purposes and, equally importantly, that it is divided within the family in a way that addresses the manifest problems of undernourishment and deprivation of young girls.

A wholesale transition from the PDS to cash transfers in rural India will be misguided and premature, at present. For the poor, food rations have many advantages over cash transfers. First, they are inflation proof, unlike cash transfers that can be eroded by local price hikes even if they are indexed to the general price level. Second, food tends to be consumed more wisely and sparingly; cash can easily be 'blown up'. Third, food is shared equitably within the family whereas cash can be appropriated by its powerful members especially the male. Fourth, the PDS network has a much wider reach than the banking system. The Chhattisgarh government has already declined to implement cash transfers.

The other issue is that of the distributional effects of different kinds of benefits within the family. There is a good deal of empirical evidence to suggest that direct access to food tends to favour children rather than only adults, and also girls rather than only boys, working against biased social priorities, common in the subcontinent, favouring adults over children, and boys over girls, which is a long-standing problem in Indian society. If the cash transfer is not additional to food subsidies, and is given 'instead of' food subsidies, it would be important to make sure that the money given is used for nutritional purposes and, equally importantly, that it is divided within the family in a way that addresses the manifest problems of undernourishment and deprivation of young girls.

N.C. Saxena, NAC member, argues, "First, the scheme will be used in programmes targeted at the poor where identification is a huge issue. When you talk about kerosene and fertilizer subsidies but don't have a methodology to identify the target people, it could become a problem. This cannot be done with Aadhaar. It cannot identify the rural poor. It can only eliminate ghost entities. For cash transfer to work, you need to have a good system for identification of the poor. Additionally, if cash is given instead of grain, what do you do with the large amount of grain bought from the farmers? If you abolish PDS, you will also have to abolish MSP (minimum support price) because they are two sides of the same coin. In giving cash in lieu of PDS grain, we also need to look at issues like the grain rotting in our godowns and increasing open market prices. Even in healthcare, there could be the issue of doctors and hospitals charging more through tests and services."

The Way Out

Vinod Vyasulu in his article "Brazil's 'Fome Zero' Strategy: Can India Implement Cash Transfers" in EPW, suggests that Brazil's experience shows that cash transfers, when implemented properly, are at best a necessary condition for poverty alleviation. Supply-side constraints have to be removed if the increased purchasing power is not to lead to unbridled inflation that will hurt the poor badly. India's investment in health, for example, is so low that it cannot handle more demands being made on the system. Creating such demand without measures to meet it would be irresponsible indeed.

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Devesh Kapur, Partha Mukhopadhyay and Arvind Subramanian in their article, "More for the Poor and Less for and by the State: The Case for Direct Cash Transfers", in EPW believe that central expenditure should be redirected in principally two ways, viz.: (a) A scheme of outright transfers to individuals and (b) A quantum increase in flow of funds to local governments.

Another element of such re-direction worth considering is enhanced allocations to the state governments. Transfers could be made to the female members of the family. Furthermore, where feasible, they could be made through formal financial channels.

There are financial inclusion initiatives that address the difficult issue of interface between poor and illiterate beneficiaries and the formal financial system. Else, they could be made publicly and transparently in forums such as the *gram sabha*. It may also be prudent to leave such decisions to Panchayati raj institutions. In conclusion, therefore, unless grassroots infrastructure and awareness levels are strengthened, the desired benefits of cash transfer will be difficult to reap.