Reducing Poverty by Direct Cash Transfers

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A comparative study between the Brazilian Bolsa Familia experience and the possibilities that the Indian scenario may offer as the direct Cash Transfer scheme embarks in the country

There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things – Niccolo Machiavelli

The study comes at a time when a different attempt is being made by the central government, to address the issue of poverty alleviation, especially the incidence of rural poverty, which has been on the agenda of every government ever since the independence of India. This time, the plan is to transfer money into the bank/post office accounts of the poor so that it can enhance their access to it. The scheme involves direct transfer of the subsidy amount, usually paid by various departments of the government to the poverty stricken, into the bank accounts of beneficiaries. One of the direct benefits could possibly be that the scholarships for higher education for Dalit students, previously paid to a university, would henceforth be transferred directly to the individual, who would then pay for his or her studies. This scheme may also aspire to replace, in the long run, the prevalent perspective of poverty reduction through government 'in-kind' support– widely known as Public Distribution System (PDS). The advantage of the new cash transfer (CT) system is that the government can ensure the delivery of the money to the intended claimant, thereby reducing for them the pitfalls of paying bribes to secure their due or giving officials the option to channelize funds for other purposes.

To address this situation of corruption and malpractices, the central government, headed by a high-powered national committee on direct cash transfer constituted by Dr. Manmohan Singh, the Honourable Prime Minister of India, passed the decision of direct cash transfer to the target population on 26 November 2012, thereby reducing the scope of deep-seated malpractices in several tiers of the subsidy programmes such as fraud, middle-men, black-marketing and bribery when dispersing subsidies (including PDS.). The Minister of Finance, Mr. P. Chidambaram claimed in a press conference on the eve of the declaration of the scheme that "This is a game-changer for governance... this is a game-changer in how we account for money, it is game-changer in how the benefits reach the individual." Initially 29 welfare programmes such as subsidies, pensions and scholarships will be included in the domain of the scheme. At first, the government had plans to deploy the project in 51 districts across 16 states under which cash subsidy benefit will directly go to the bank account of Aadhar card holders. However, at the implementation time, 4 districts each of Himachal Pradesh and Gujarat were exempted from the roll-out because of the impending assembly elections. The states to be covered in the initial phase are Karnataka, Andhra Pradesh, Delhi, Rajasthan, Madhya Pradesh and Punjab, and the union territories of Puducherry, Chandigarh, and Daman and Diu.

These 43 districts will be covered in 2 phases—20 (from 1 January 2013) and 23 (during February and March 2013). Families with Aadhar cards, entitled to subsidies, pension, scholarships, etc., will get money directly in their bank accounts. Direct cash transfer of subsidies will be done through Aadhar-enabled bank accounts. Every person is expected to hold a bank account to enable such transfers.

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BRAZIL, MEXICO AND OTHERS STARTED ROLLING THE BALL

The idea of direct cash transfer to beneficiaries, to address basic necessities, was initiated in Brazil in the 1980s, based on the assumption that poverty is lack of income. This programme was termed Bolsa Familia. It was a part of the umbrella programme called Fome Zero strategy (Zero Hunger), which involved part transfer of money as per requirement of families; the amount was made commensurate to the number of family members and the income of the family. The families under the benefit of the project are categorized on the basis of their income, which if restricted to Brazilian Real (R$) means 120 per member per family.. The objective is to enable the poorest families to buy food and essentials, and at the same time encourage these families to access health, education and social welfare public services. The transferred income thus provides each of these families with the much-coveted access to proper dietary intake and schooling of young children. (Vinod Vyasulu: Brazil's "Fome Zero" strategy: Can India implement Cash Transfers? *Economic & Political Weekly,* June 26, 2010, vol. XLV Nos. 26 & 27, pg 89.) The families receive monthly benefit ranging from R$ 20 to R$ 182, depending on the number of children or adolescent family members and the family's per capita income. This entire exercise is conducted through the clever use of information and communication technology (ICT)—the cash can be accessed through a pre-loaded magnetic debit card (ibid.).

Brazil has extreme inequalities, in terms of economic distribution, and quite a substantial proportion of the population lives in abject poverty conditions. Since the latter half of the 1980s, governments have been making attempts to bridge this gap of stark inequalities and deprivation; in the process, many steps were taken to improve the situation, mainly through the state-run cash transfer scheme. In 2003, Luiz Lula da Silva of the Worker's Party came to power and expanded the arena of this programme by merging it with the Fome Zero programme. Substantial increases were made in the budget for this programme in the subsequent years and, by 2010, the government allocation for the scheme showed a 300 per cent increment, compared to what it was in 2003. Simultaneously, the government also concentrated on increasing the minimum wage levels, the effect of which was found in an increase of 200 per cent, in real terms, in 2010 when the minimum wages are compared with that of 2004. A similar and equally strong case is found in Mexico, where the programme was named *Oportunidades.*

GRAFTING THE DIRECT BENEFIT TRANSFER INTO INDIAN CONTEXT FOR POVERTY ALLEVIATION

To contextualize this experience in the Indian scenario, several nuances need to be pondered upon. The renowned economist Peter Svedberg argued that this cash transfer scheme, as largely drafted in the light of the Brazilian and Mexican experience, once implemented on a full scale will cover at least

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two-thirds of the population and can effectively ensure larger transfers to the targeted population, in comparison to the actual subsidy embedded in the existing systems, including PDS, and the overall process may facilitate cutting down the budget allocated for subsidies. His comparative study: 'Reforming or Replacing the Public Distribution System with cash transfers' published in *Economic and Political Weekly* (18 February 2012, vol. XLVII No. 7) basically focused upon the salient features of the PDS and those of the newly proposed and deployed scheme. Svedberg enumerates the positive aspects that the cash transfer scheme cater to for the Indian poor. He writes (sic): "The case for CTs: The main advantages with the differentiated CT scheme suggested here are that :

(1) About two-thirds of all households can be covered,

(2) The transfers to the poorest are huge compared to the actual transfers embedded in the TPDS,

(3) The impact on income distribution is progressive,

(4) The risk of large exclusion errors is eliminated,

(5) The scope for corruption and fraud is diminished,

(6) Operational costs are slashed,

(7) No poverty lines,

(8) No central caps are required,

(9) Objections from one-third of households left out would probably be muted as they may prefer not to be brandished as poor, and

(10) The overall budget can be held at the level of the present TPDS.

However, despite all these, there are loopholes that are prognosticated by several thinkers in India and outside that are capable of bringing more trouble for the targeted people. As we witness the flagging off of the new system, it is perhaps equally important to contemplate on the other aspects because, in the past, many of these issues have left deep scars on several schemes, which have otherwise been soundly drafted, to address the issue of poverty alleviation in India. Among these scholars, eminent economists such as Himanshu and Abhijit Sen, Jean Dreze, Reetika Khera, Mihir Shah and others have put forward their apprehensions of mis-utilization and malicious handling of the registration part of the UID system in India. They have argued that the UID coverage will fall far short of including all the deserving households. Thus, the benefit of various subsidy schemes and the cash transfer, as apprehended by these scholars, will remain out of reach for a formidable section of these communities. They have pointed towards faulty targeting and eligibility as another potential cause for such exclusion errors. Also, concerns about the productive utilization of this money for proper food intake and not for its mis-utilization by buying alcohol and other intoxicants remain (ibid.).

The questions that Nobel laureate economist, Prof. Amartya Sen has raised are: What is going to be replaced by this scheme and who exactly will benefit by this? People entitled to get the benefit of this transfer scheme are already in a lose-lose situation. Will their peril increase further? There are concerns about the scheme itself and the method of transfer. In addition, other questions include: What is the amount of transfer? On what basis is this decided? If in case, in the longer run, this scheme aims to replace the PDS, as claimed by the government, will the beneficiaries remain in a position to access food and other meagre items of daily necessity, which would then be available in the market at an unsubsidized price? Also of greater concern is whether the cash disbursed will be utilized for food by each of the benefiting families for all the members in the family. Empirical evidence suggests that direct access to subsidized food used to address the age-old social discrimination of the amount of food accessed by adults and children, boys and girls that is rampant in Indian society. Also, not every family has a bank account. This is so essential for the scheme to work. Last, but not the least, it must be kept in mind that middlemen will remain active in the post-ICT scenario as well. They will continue to control the prices of the items in the local market. How then will such a system ensure that these malpractices are tackled properly and are reduced substantially?

A RAY OF HOPE FOR THE INDIAN POOR

Despite all these apprehensions, on the basis of the path shown by Brazil, Mexico and some other countries and by the recommendations put forth by the high-powered national committee, the direct cash transfer scheme has been launched by the central government with the noble mission of poverty alleviation from all parts of India. It has several benefits and promises for the poor people, but a very meticulous examination of the affairs has to be conducted by the administration to ensure a 'disease-free' conduct of the system. It talks about money, which ensures direct benefit to the poor and gives them power in a more tangible manner, but also leaves scope for more scams and grave lacunae. Time will pronounce the verdict. At the moment, we can only hope for an Indian Bolsa Familia to save the have-nots.