Modus Vivendi to actualize cash transfers

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If it is decided to implement cash transfers, the challenge is how to fund and implement the programme. The development eco-system of India contains several initiatives and one simple way of implementing cash transfers is to transmute existing programmes to an appropriate form cash transfer. In this way there will hardly be any requirement of additional funds. Development and humanitarian literature divides cash transfer into three categories - total (direct cash transfer), restricted (conditional cash transfer and vouchers) and contrived (employment programmes). Below, are given some normative guidelines to adapt existing schemes to cash transfers.

The cash transfer programme will be implemented in several stages. First, beneficiaries will be identified based on existing datasets (e.g. SECC) and all of them will be given direct (unconditional) cash transfer every month (e.g. Rs. 500 every month). At the same time, all existing schemes will be converted to conditional cash restricted (e.g. pregnant mothers in ICDS) or contrived cash transfer. This can be done by continuing only those programs that are able to demonstrate that they are doing a better job, than the poor could do for themselves through cash transfers. Here, the trick is to match existing development programmes in India with the right form of cash transfer. This will be a “game changer” as a paradigm shift will occur from the supply- to demand-side subventions.

The next step will be to rationalize schemes to remove overlap among their components. This will be based on the principle that no beneficiary should receive more than one benefit from multiple schemes for an identified need. For example, a child should get nutrition assistance only from ICDS and not any other scheme. During rationalization some norms could be: Direct cash transfer will be given to people who are chronically poor and require repeated and continuing assistance. Conditional transfer will be given as a supplement where specific needs have to be met and larger sums have to be distributed to meet these needs. Alternatively, vouchers will be given if there is scarcity of a commodity or a service, there is a risk of inflation or security concerns about cash transfer, program aims to achieve a specific goal, enterprises or market in a particular commodity or service have to be developed and detailed monitoring data is required. Cash for work will be given if particular community works are required, people have the capacity to undertake the work and maintain the assets. The last step will be to eliminate non-existing beneficiaries based on Aadhar.

Shifting the bedrock of all development programs to direct cash transfer with conditional cash transfers as add-ons to address specific vulnerabilities of the poor is supported by empirical evidence. Some of the most intensively examined cash transfer programs are - Oportunidades (Mexico), Social Protection Network (Nicaragua), Bolsa Escola and PETI (Brazil), Family Assignment Program (PRAF – Honduras), Chile Solidario (Chile), and Program of Advancement through Health and Education (Jamaica). The Mexican Government started the Oportunidades in 1997 (then called Progresá) to replace traditional supply side subventions with demand side interventions through direct cash transfer to poorest
families with conditionalities, such as enrollment of children in schools and participation in health check-ups.

Evaluation of the Mexican program has showed that most important reductions in poverty took place among the poorest households. Additionally, efficiency of conditionalities was assessed by Coady and Parker (2001), who compared subsidizing education by bringing the poor to the educational system, through conditional cash transfer vs. bringing education to the poor through extensive expansion of the educational system. The cost-effectiveness ratio of extensive expansion of school system was nearly 7.3 times greater. Later, Coady and Harris (2004) found substantial general equilibrium welfare impacts by switching to a better targeted direct cash transfer scheme.

Brazil has a bunch of cash transfer programs. The BPC is a Continuous Cash Benefit Program that transfers cash, unconditionally, to the extremely poor with disabilities; the PETI transfers cash to eradicate child labor from hazardous and dangerous activities; the Bolsa Familia is the main conditional cash transfer program targeting poor families with income less than USD 40; the Bolsa Escola targets children between six and 15 years of age; the Bolsa Alimentacao fights infant mortality in poor families; the Auxilo Gas compensated poor families after ending food subsidies in 2001; and the Cartao Alimentacao was created to provide food security to the poor in 2003. A UNDP (2006) evaluation found favorable impacts of the BPC and Bolsa Familia programs on equality – the Gini inequality coefficient had fallen by 28% during 1995 and 2004.

There are several benefits for India to completely shift to cash transfer. First, apprehensions about outflow of capital from productive activities to meet domestic shocks and stresses (e.g. serious health ailments) will be reduced. Second, multiplier effects on agriculture and livelihoods will increase demand for local goods and services. Moreover, the flexible and fungible nature of money will facilitate engagement of the poor in productive enterprises. Third, direct cash transfer will be less costly to administer, less prone to corruption, and potentially cost-efficient if appropriate contextual conditionalities are established. Fourth, direct cash transfer will make the life of the poor dignified - they no longer have to stand as supplicants before development administrators. Additionally, women and the aged are empowered if the cash transfer is made in their favour. Finally, cash transfer increases choices available to the poor and accounts for variations in preferences for goods and services from poor to poor (e.g. family decides how much to spend on food and education).

Delivery of cash is another challenge. High levels of enrolment in the Aadhar, widespread use of the mobile phone and opening of large number of JDY accounts present huge opportunities for the cash transfer programme. The programme can be started by transferring cash to the accounts of the beneficiaries. Later, the Aadhar data can be stored in the mobile phone, including biometrics. Software is available that permits users to record their biometric data: voice, facial features, or fingerprints on their personal gadgets, including mobile phones. Misuse would require stealing the device, finger and eye! An electronic Aadhar card embedded in the mobile phone of the beneficiary will be cheaper, one of its kind and leverage on the considerable work already done in the Aadhar project.
The mobile phone complemented by Aadhar has great potential to address the issue of low implementation capability of delivery systems and skewed bureaucratic incentives during the process of cash transfer. The method deployed by the nonprofit GiveDirectly to achieve last mile cash distribution hold much promise. Paul Niehaus and Michael Faye started GiveDirectly in 2008 while they were doing scholarly work in Harvard. During their graduate research they had found that direct cash transfer was a particularly effective method to alleviate poverty. Unable to find nonprofits practicing direct cash transfer, they launched their own. Their frugal model rides on the highly acclaimed mobile-banking technology used in the M-Pesa program to transfer 90 percent of the money directly to the poor. Only 10 percent is used on transfer fees and the cost of locating and relocating recipients.

Unlike pilots, GiveDirectly has evaluated the approach using quasi-experimental methods. During randomized trials they have used a lottery system similar to medical trials and compared development outcomes of households who have received direct funding vs. those who haven’t. Results show that no-strings attached cash transfer has improved health and led to downstream financial benefits, also. Beneficiaries who are living on less than 65 cents a day, invested in several items: food for starving children, long-term assets, such as land, livestock and housing. There is counterintuitive evidence too: money spent on alcohol or cigarettes remained the same or increased in the same proportion as other expenses (nearly 2-3 percent).

In short, all eligible households will get a fixed cash transfer every month with conditionalities as add-ons. Conditionalities complement direct cash transfer and are used to account for specific and general contextual effects, such as: (1) reduce the effects on specific types of poverty and disadvantage caused by loss of livelihoods; (2) address different types of risk generated; (3) incentivize desirable types of consumption and promote positive spending; (4) remove social, market, and administrative discrimination that prevent the poor to engage more fully in development processes; and (5) achieve goals emanating from wider public interests. This will reduce the vulnerability of the poor, increase choices available to them and address a common complaint made against development programs that they follow a one-size-fits-all approach. Most important, the existing JAM trinity - JDY, Aadhar and mobile phones - will provide the bedrock for the success of the paradigm shift in development programmes.

(Views are author’s and not of IICA or the Government)