**ELK ASIA PACIFIC JOURNAL OF FINANCE AND RISK MANAGEMENT**

**ISSN 0976-7185 (Print) ISSN 2349-2325 (Online) Volume 5 Issue 2, April (2014)**

ELK Asia Pacific Journals

www.elkjournals.com

**CASH TRANSFER SCHEMES IN INDIA**



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**ABSTRACT**

*Discussion on cash transfers as an instrument for delivering social security in India has seen a spurt in the recent times. The government of India has announced that subsidies on fertilizers, kerosene and liquefied petroleum gas will be replaced by cash transfers to the end users. In this light, the present paper attempts to examine the experiences of cash transfers in other countries. Also, it studies the pre-requisites needed to successfully launch cash transfers in India. Towards the end, the paper discusses the constraints, challenges and advantages of introducing conditional cash transfers in India.*

## MEANING OF CASH TRANFERS AND ITS VARIENTS

Cash transfers can be described as a class of instruments that transfer cash directly to poor households, with or without conditions. Thus, the beneficiaries are endowed with purchasing power to acquire specific goods rather than the goods themselves.

The following can serve as the purpose of cash transfers-

1. To provide monetary benefits for a specific purpose and use, such as for health care through medical assistance programme, for education through a scholarship
2. To provide direct income support benefits to some specific category of people such as unemployed adults, disabled persons, older adults etc.
3. To provide a direct subsidy for specific products such as for food, fuel, agricultural inputs, electricity etc.

Further, cash transfers can be divided into **conditional cash transfers and unconditional cash transfers. Conditional cash transfer** schemes provide cash directly to poor households on the condition that those households make pre- specified investments in the human capital of their children. Specific conditions attached to these transfers, may be minimum attendance of children in schools and /or attendance at health clinics, participation in immunization etc. These schemes create incentives for households to adjust their behaviour towards nationally accepted social goals.

Cash transfer programmes that do not impose any conditions for making the transfers are called **Unconditional cash transfers.** It includes social transfers such as pensions to senior citizens, the physically challenged, children etc. as most common unconditional cash transfers. These transfer schemes are unconditional not attempting to influence individual/household consumption preferences. Such transfers recognise the vulnerability of those whom the scheme addresses and make provisions of cash grant to enable individual or group coping mechanisms, often in response to guaranteed human rights.

## EVOLUTION OF CONDITIONAL CASH TRANFERS

Conditional cash transfer schemes originated in middle-income Latin American countries that had good infrastructure and supply systems. They were introduced as publically provided safety net programme that essentially supplied cash to the needy and helped them to survive through the period of economic crisis. In the mid-1990s , in various municipalities of Brazil and in the Federal District, a number of programmes were launched with the main aim to provide cash transfers to families living in extreme poverty in exchange for commitments on education (Aguiar and Araiyo,2002; Gogoy, 2004). In 1997 , Mexico introduced the Education

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, Health and Food Programme (Progresa), which transferred cash , food supplements access to basic health package to rural families living in extreme poverty on the condition that they undertake specific education and health care commitments (Levy and Rodriguez, 2005).

In Brazil, the first CCT programme was started in 1996 with a focus on child labour. While some more programmes based on the CCT philosophy were introduced to address specific areas, these were intrgrated in 2004 into the now-well known programme –BolsaFamilia. Including above many other first generation CCTs addressed health and education. Other few of these wereBono de DesarolloHumano(Equador), Familia en Accion (Familis in Action, Columbia), PRAF (family allowance programme , Honduras), PATH (Programme of Advancement through Health and Education, Jamaica) , short –lived RED de Protection Social (RPS, social protection programme, Nicarugua).

Further, the second generation CCT schemes in South East and South Asia have been directed primarily to schooling and maternal health ( Sri Lanka's Samruddhi and India 's JananiSurakhshaYojna (JSY). Recent Initiatives include pilot programmes in many countries in sub-Saharan Africa.

Thus, CCTs being multi-sectoral and integrated in nature and having the prospects of tackling the short- term poverty while protecting the formation of human capital has led governments in Africa and Asia to adopt such schemes.

## EXPERIENCE OF CASH TRANSFER IN OTHER COUNTRIES

Evaluations have suggested that CCTs in Latin America had remarkable success in many aspects, more notably on school enrolment and retention. The same is true of Female Stipend Programme in Bangladesh where each additional year of participation in the programme leads to an increase in girls' enrolment by 8% (Khandker et al 2003) and of Cambodia's Girls Scholarship Programme (FIlmer and Schady 2006). Many CCTs were introduced primarily to incentivise use of health services in Bangladesh, Indonesia, Nepal, Sri Lanka, Malawi and in Latin America. Thought the evidence is thin but yet several studies suggest that they do increase use of preventive services but did not clearly state if they led to improvement in health outcomes.

While Mexico's Progressa and Nicaragua's RPS are associated with significant improvement in child height, PRAF in Honduras and Bolsa Almientacao (nutrition allowance) in Brazil have essentially no effects on pre-school nutritional status. Overall, the evidence on CCTS indicates increased service utilisation (ie. School enrolment and healthcare use) but mixed impacts in final outcomes, such as test scores, illness prevalence and nutritional status (Bassett 2008). It has also been argues that the CCTS have complemented state provisions. Indeed, the successful CCTS in Latin America have often mandated conditionalities that involve use of state provided health and nutrition services. Behrman and Hoddinott (2005) find that progress beneficiaries improved with CCT and nutritional supplements. In Mexico, children receiving both the cash transfer and a multi-micronutrient supplement grew about one centimetre more than those receiving neither intervention, but it have not been possible to identify the effects of the two interventions individually. The success of CCTS is not much as a standalone intervention but as a complementary input and it should be recognised as such (Bassett 2008). Progressa in Mexico and Bolsa Familia in Brazil were rolled out in Communities that had adequate access to services and hence made the fulfilment of conditionality's feasible. Further, there are chances that the neediest household may not be able to participate if compliance is too costly, for example, if transportation costs are too high, schools and clinics are too far away or opportunity costs of labour too great (Bassett 2008).low participation rate and poor uptake have been problems with many CCTS, as with Nepal's National Incantive Programme, to promote safe delivery (Powell Jackson et al 2009) and India's JSY (lim et al 2010).

## CCT SCHEMES AND SOCIAL TRANSFERS IN INDIA

Since the initiation of planning in 1951, Social transfers have a rich tradition in India with both the Central as well as the State governments implementing a range of measures broadly comprising socio-economic security. In an attempt to fulfil some of the commitments made under the directive Principles of State Policy, the Fundamental Rights guaranteed under the Constitution of India and the commitments made to the International Community on the Millennium Development Goals, a wide range of programmes have been launched. Many national and state level schemes implemented all over India having similarities with CCT schemes are-

### National Level Schemes

ISSN 0976-7185 (Print) ISSN 2349-2325 (Online) Volume 5 Issue 2, April (2014)

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- Dhanlakshmi 2008,
- JananiSurakshaYojana (JSY 2005),
- BalikaSamridhiYojana 1997
- National Programme for Education of Girls at elementary –level under the Sarva ShaktiAbhiyaan(SSA)2003
- Kasturba Gandhi BalikaVIdyalay Scheme, 2004

| State Level Schemes | States |
|---|---|
| Ladli Scheme ,2008 | Delhi |
| Pension Schemes,1960 (covering eldery, widows, the destitute, agricultural workers, workers of informal sector) | Tamil Nadu and Kerala |
| MDMS(free textbooks, uniforms, and nutritional support provided on massive scale) | Tamil Nadu |
| VidyaVikas Programme and AksharaDoshala | Karnataka |
| ChiranjiviYojana | Gujarat |

No doubt several initiatives have been undertaken to boost the supply services, but there is still not much evidence of steps to stimulate and, in the current macro-economic context, protect demand. The CCT programmes on the other hand, shift governments focus from the supply -side delivery of basic services to the demand –side, by protecting the consumption of merit goods. Also these programmes represent a shift from general subsidies to more sharply targeted programmes that aim to improve human capital formation and thereby, increase efficiency in long-run.

## INDIA’S STEPS TOWARDS CCT SCHEMES

A recent study by Planning Commission, ascertains that the Public distribution System (PDS) is so ineffective that 58% of the subsidized grains do not reach the targeted group and almost one-third of it is trajected off the supply chain. Finance Ministry has stated that the inefficiencies of the PDs s caise the government to spend Rs 3.65 for transferring Rs 1 to the poor. To generate budget savings and to reduce corruption, the Government of India has Launched the Direct Benefit Transfer (DBT) scheme on January 1$^{st}$,2013. The DBT programme aims that entitlements and benefits are transferred directly to the beneficiaries with the help of biometric Aadhaar- linked bank account.

At present the scheme is covering 7 welfare schemes in 20 districts in 16states. The areas that would be covered by the programme include scholarships, pensions, unemployment allowances and later MNREGA and public distribution schemes. The DBT scheme aims at cutting a subsidy bill of Rs 1, 64, 000 crores apart from other benefits such as better delivery , accurate targeting, broader choice, reducing delays and corruption.

In a landmark step, Prime Minister Manmohan Singh announced the much –awaited direct cash transfer scheme in which the subsidy amount will go directly into the bank accounts of the beneficiaries.

The government will implement the scheme for cash transfer to the beneficiary's account in 51 districts from January 1, 2013. The money is directly transferred into bank accounts of beneficiaries. LPG and kerosene subsidies, pension payments, scholarships and employment guarantee scheme payments as well as benefits under other government welfare programmes will be made directly to beneficiaries. The money can then be used to buy services from the market. For eg.if subsidy on LPG or kerosene is abolished and the government still wants to give the subsidy to the poor, the subsidy portion will be transferred as cash into the banks of the intended beneficiaries.

## PRE-REQUISITES FOR INTRODUCTION OF CASH TRANFER SYSTEM

The design and implementation of any cash transfer has many elements, all of which need to be addressed for the cash transfer system to operate smoothly. Before launching a cash transfer system, the following elements need to be in place-

1) **A unique-identification card for all**- it is necessary to cover all likely recipients of any cash transfer under a unique identification system. This is being done under the UIDAI’s Aadhaar scheme and its linking up with NPR.

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ISSN 0976-7185 (Print) ISSN 2349-2325 (Online) Volume 5 Issue 2, April (2014)

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2) **Universal access to banking**- there is a need for everyone to have access to the banking system in some form or the other within a reasonable distance.
3) **Financial inclusion**- in addition to having access to the banking system, everyone individual must have a bank account of some form or the other. the KYC norms are too aggressive and are against the poor. Making Aadhaar as an adequate KYC would enable financial inclusion.
4) **Data Bases for transfers and link with Unique I.d.** - Apart from an identification system and financial inclusion, a Cash Transfer System needs a database of beneficiaries. These databases will be different for different programs - each benefit type can have a different target group and each benefit program will have separate clientele. These databases need to have a correspondence with the unique i.d. database so that there is common platform for financial transactions. The linkage seeding of the beneficiary databases with the Unique ID numbers and also with the Bank account numbers is a critical component of the strategy. The Implementing Agency of a particular benefit program would need to ensure that the beneficiary database has the details of the Unique ID number while the Banking system will have to ensure the mapping of Aadhaar numbers to the bank accounts.
5) **Transfer Mechanism/ Rules/ Procedures/ Checks/ Audits** - There is a large back-end infrastructure that is needed consisting of payment systems, bridges between different IT systems (of banks, clearing houses, Aadhaar, etc.), clearing systems, and so on, each of which has to be linked up with the other to be inter-operable. Further, detailed rules and procedures have to be evolved and put in place for transfers to take place across all these systems. All these have to have inbuilt checks and balances for traceability, preventing fraud and facilitating audit of transactions.

## CHALLENGES AND CONSTRAINTS OF CCT SCHEMES

1. **Policy dilemmas in design**- CCT schemes pose several policy dilemmas that need to be resolved. These dilemmas that need to be resolved. These dilemmas arise out of the multiple objectives that the programmes set out to achieve.
   a) The transfer of benefits under CCT schemes is generally quite small. This is deliberate so that these subsidies do not create dependency syndrome and participation in workforce is not affected. Thus, it suggest that amount of transfer through any one scheme is insufficient to enable households to cross the threshold of poverty.
   b) Another dilemma is regarding time-frame-if the objective of any schemes to enhance human capital of the next generation, the duration of the programme must be long enough to enable this objective to be fulfilled. On the other hand, if the primary objective is to enable poorer households to cross the poverty line, then a shorter time horizon is sufficient.
   c) CCT scheme are relatively expensive to implement and also make huge demand on human resources. In the present time , when GDP growth rates is declining and fiscal deficit is widening ,it might be very difficult to implement the programme.
2. **Limited Impact**-Another constraint of the CCT schemes is that they assume that easing of the demand constraint will lead to desirable outcomes with respect to human capital formulation. The evidence clearly shows that this is true only in areas where the supply-side constraints are not severe. For example, the assumption that better schooling will result in enhanced employment opportunities. But unless the macro-economic environment is conducive to job creation, the enhanced human capabilities translating into higher earnings and therefore, moving out of poverty may not materialise.
3. **Opportunity cost ignored**-Implementation of CCT schemes would mean resources are drawn away from other programmes which could benefit the social sector more generally. For Example –A CCT programme improving school attendance may replace programmes that can directly improve instructional quality. Thus, programmes to improve selection and training for teachers, instructional quality. Thus, programmes to improve selection and training for teachers, instructional quality, facilities in school would be necessary for the educational component of CCT schemes bear results.
4. **Duration and Exit Strategy**- in order to enhance human capabilities in the long-run the duration of CCT scheme should be sufficiently large and if the objective of the CCT scheme is to bring poor household above the poverty line in the short –run, duration of CCT programme can be for atmost for 3 years. Also in most of the countries the exit strategy for households is not clearly articulated. In the

ISSN 0976-7185 (Print) ISSN 2349-2325 (Online) Volume 5 Issue 2, April (2014)

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absence of such strategies, the programme is likely to encourage a dependency syndrome on the part of the beneficiaries.

5. **Capacity Constraints**-Initially, all CCT schemes were initiated in countries with relatively developed infrastructure and capacity to implement such schemes. As the scheme began to be adopted by low-income countries, they faced severe constraints of capacities–both financial as well as administrative. Further, CCT schemes are complex in design and require administrative skills of a high order to design , implement and monitor the progress of schemes. Identification of beneficiaries is itself a complex task which is heavy in data requirements. Thus, countries with poorly developed data gathering mechanisms are at a disadvantage at this respect.

## ADVANTAGES OF CASH TRANFERS

There are transfers that could immediately benefit from the introduction of an electronic cash transfer system. Some of these long –term and short –term benefits are-

### Short –term Advantages

- Improving the targeting of benefits so that they go to the intended beneficiaries.
- Eliminate waste arising out of both poor targeting and leakages as a result of corruption.
- They can address transient problems and transient poverty such as sudden shocks (calamities, distress, economic shocks) if they are unconditional and are counter-cyclical.

### Long –term Advantages

- Consolidation of cash transfers to households which are currently coming from multiple sources and in multiple forms and in the long-run improve the efficiency of social safety net.
- It will have positive institutional externalities and will enable the development of strong targeting, delivery and monitoring mechanisms .It will result in the development of cutting edge technical systems as a result of the need for coordinating between many actors and verifying compliance with condition.
- This system frees the administrative system to focus on development rather than on exercise of controls. It will ensure that India can maximise the benefits from the expenditures on the welfare schemes and thus help in overall Human Development.
- As the country transits on the economic growth curve from LDC position to a Middle Income Country Status, a cash transfer system becomes a potent institutional arrangement which can be the platform for modifying and transferring benefits to people depending on the needs and circumstances.

## CONCLUDING REMARKS

India is at the right stage in the design life-cycle to pick up the concept of cash transfer and fast track the idea so that it can be rolled out rapidly .the pre-requisites are known and are falling in place . The Aadhaar project is moving towards the universal coverage. Universal access to Banking and Financial Inclusion are also moving around ahead rapidly. The payment systems and procedures needed for a Unified Payment Infrastructure is known and has been tried and tested.

The need of the hour is to accelerate the process of designing and rolling out the cash transfer system. Also there is need for many departments to coordinate their actions. For this, a centralised coordination mechanism needs to be developed. The real success of the policy lies in the accuracy and efficiency in identification of worthy beneficiaries ie BPL beneficiaries.

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