

Mad about Cash Transfers

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December 2012 may go down in history as the Congress Party's "India Shining" moment: the moment when it started believing its own hype, and even deluded itself into thinking that its perception was so widely shared that it could provide a win for the party in the general elections. Indeed, it has not been so long ago - seven years ago in December 2003 as it happens - that the BJP decided that the high GDP growth rates of the previous two years had actually meant better material conditions for most if not all Indians, and decided to celebrate this achievement of the NDA government it led in the "India Shining" slogan.

Much of the electorate, whose lives had actually become more insecure and materially fragile through the very growth process that was being celebrated, saw such a slogan as little more than an ironic insult, evidence of a government completely disconnected from their own reality. They responded by voting out that government in the next general elections in 2004. Since the Congress Party was the chief beneficiary of that costly mistake, and came into power on the basis of its explicit recognition of the actual economic reality of most citizens (including hunger and lack of paid work) it could be expected that they would be extra careful before trumpeting non-existent achievements or promising policies that do not work for the common people. But it seems that those who do not learn from history really are condemned to repeat it.

How else is it possible to explain why so many leaders of the Congress as well as other government functionaries have suddenly become mad about cash transfers? This has become the latest fad in official circles, and one that is now seen by many in the Congress Party as the vehicle that will lead it to electoral victory. (As it happens, the BJP seems to think this too: they have actually complained that the promise of these cash transfers violated the electoral code of conduct before state elections in Gujarat.)

The enthusiasm for cash transfers comes from many different quarters, and often for contradictory reasons. Rahul Gandhi has announced that this is the biggest thing since the telecom revolution, and projected this as the electoral slogan for the Congress Party: 'aapka paisa aapka haath'. Finance Minister P. Chidambaram has described the cash transfer scheme as "nothing less than magical", since it will apparently plug the loopholes in the delivery mechanism and ensure that poor get the complete benefits of government schemes, even while reducing required outlay on subsidies! So, from reducing the government spending on subsidies to buying votes, cash transfers are supposed to deliver everything.

No wonder, then, that the government is in such unseemly haste to introduce this method of cash delivery to beneficiaries of particular programmes. It has been announced that the Aadhar-Enabled Cash Transfer (AECT) project will be initiated in 51 districts from January 2013 - just a few weeks from now. Initially, the scheme will cover 34 benefits that are currently given in cash form, such as scholarships, old age pensions, MGNREGA wages etc. But this is only in the first phase - government spokespersons have been open about the intention to bring all other entitlements under this, including food and fuel subsidies.

Indeed, the Delhi Government has just announced the 'Dilli Annashree Yojana' with much fanfare, which is effectively exchanging food entitlements for cash transfer. Two lakh vulnerable households that are not covered under the BPL or any other food security schemes like Annapurna and Antyodaya have been identified as the beneficiaries.

The obvious thing to do would be to ask why these households did not earlier have any food entitlement if they are indeed deserving. This would lead to an examination of the processes that generate exclusion errors, which is surely an even more critical issue if the transfers are to be in cash. But instead of taking this essential step, the Delhi government has decided to give Rs 600 per month to the seniormost female household member. This is currently not a substitute for food grain (since these households earlier received nothing) so obviously this will be well received by recipient households. The Delhi Government can then claim this to be a huge success, one that can in turn be used to justify the substitution of cash for actual food provision through the PDS.

In this rushed process, all the arguments to the contrary are simply being brushed aside, including the damning evidence from the Government's own pilot projects. Reports from the pilot project of substituting cash for subsidised kerosene in Kotkasim village of Alwar district in Rajasthan, provide a dismal story of collapse in demand from the poorest households, several of which have not received the promised cash even after one year. Subsidised kerosene was priced at the market rate (first Rs 45 and then Rs 50 per litre) and the difference between the earlier subsidised rate and the market rate was to be transferred to bank accounts of consumers. Numerous problems emerged, including difficulties of opening bank accounts and loss of time wasted in visiting the bank to get the subsidy (often involving the loss of a day's wages for labourers), erratic transfer patterns with some consumers getting double subsidy despite not buying kerosene and other getting nothing in spite of buying kerosene for more than six months.

The pilot is officially seen as a success because it has led to reduced subsidies because of less 'diversion', but even the report of the Food Supply Officer of Alwar district notes that in the four months May to August 2012 there was zero offtake and monthly sales have declined dramatically from more than 80 kilolitres before the scheme was introduced to only around 5 kilolitres in October and November 2012. This is not reduced diversion so much as exclusion of the needy from access. According to media reports, residents often ask that the scheme be extended to all parts of the state so that everyone suffers like they do!

In any case it should be obvious that cash transfer schemes, even those that do not replace existing physical delivery, face enormous logistical difficulties given the poor state of basic infrastructure in much of the country, including the 51 districts where the programme is to be rolled out from January. A pilot project in Ramgarh district of Jharkhand to link MNREGA and other payments like pensions and scholarships to Aadhaar (UID) has exposed significant flaws. According to one report, most beneficiaries still do not have bank accounts mapped with 12-digit Aadhaar numbers - only 2 per cent of the population is currently covered after a whole year of this effort. Even those with such accounts find that their "PINs" (the individual biometric fingerprints) often do not work when they try to get paid through the micro-ATMs controlled by their village Banking Correspondent.

These problems are also recognised by several Chief Ministers, including in states that have seen substantial improvement in some public delivery systems such as the PDS. The Chief Minister of Chhattisgarh has actually written to the Prime Minister to record his concerns and apprehensions about substituting public provision with a system of cash transfers through technology-driven identification of beneficiaries. In his letter, he notes that "Financial inclusion and the availability of IT infrastructure are preconditions to any scheme of cash transfers. There are substantial problems in the State on both accounts. It would also be difficult to fix the monthly cash subsidies in view of fluctuation in market prices. The system is also vulnerable to misuse of cash subsidy amount by male heads of households or purchase of non PDS commodities which would defeat the very purpose for which the subsidies are proposed to be transferred."

Chhattisgarh's experience actually shows that it is possible to strengthen and expand the PDS and to reduce leakages by bringing about qualitative changes in the organisation of the system, through close monitoring of the PDS supply chain using end-to-end computerisation. Several states, including Tamil Nadu and Kerala, also report much better rates of public provision of near-universal subsidised foodgrain and much lower rates of leakage and diversion than the national average. Clearly, this can be achieved, and the methods that have enabled this success need to be studied for indications of how this success can be replicated elsewhere.

In fact it can be argued that if the central government is really serious about improving the lives of people (and consequently gaining in electoral terms) it should be going in precisely the opposite direction, beginning by meeting its own previous electoral promises. The government had promised effective food security: this requires expanding, strengthening and consolidating the PDS as well as improving the conditions of food supply by ensuring greater viability and sustainability of smallholder cultivation. Instead of the pathetic and watered down version of the Food Security Bill currently languishing in Parliamentary limbo, a robust law that focuses on these goals is required.

Obviously, cash transfers in the form of pensions, scholarship, child support etc. are not just desirable but also necessary. However, in no case should they be seen as substitutes for any public service delivery, which is still extremely inadequate in India. Instead we need significant expansion of such public services, along with measures to enforce their greater accountability. Also, linking any cash transfers to biometric identities is a problematic move, not just because of the various conceptual and practical difficulties associated with the UID project. It may even be legally unacceptable when the UID Act has still not been approved by Parliament and the Aadhaar is not supposed to be compulsory, so it should not be linked to any entitlements.

There is still time for the central government and over-enthusiastic state governments to pause and reflect on the implications of rushing through with such a scheme. Otherwise it risks creating chaos and public disaffection rather than the expected accolades.

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