

India's Poor: From Raw Deal to New Deal

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If poverty reduction in India were judged by the performance of the many targeted poverty reduction programs (TPRPs), the result would be deemed an abysmal failure. As the prime minister put it eloquently: far too much money is spent “funding subsidies in the name of equity, with neither equity objectives nor efficiency objectives being met.” The time is ripe for a more radical solution: scrapping all the TPRPs and replacing them with a single cash transfer scheme.

TPRPs refer to scores of schemes sponsored by the Center, including the public distribution system (PDS). For the purposes of this article we have excluded employment guarantee schemes from the analysis, although our conclusions have relevance for those schemes as well. In 2006–07, there were at least 151 centrally-sponsored poverty schemes, entailing budgeted expenditures of about Rs. 716 billion. In addition, the government spent Rs. 250 billion each to subsidize expenditures on PDS for food and on fertilizer and fuel.

Has this spending been effective? These schemes have not been subjected to rigorous evaluation, but available evidence from innumerable reports, including many commissioned by government, suggests that resources in these programs fail to reach their intended beneficiaries. For example, S. Guhan calculated that the final transfer to the poor was just 22 percent through the Employment Guarantee Scheme and only 11 percent under the PDS. More recent evaluations of the PDS by the Planning Commission estimate that this remains at a low 27 percent, prompting the finance minister to state that while the PDS was necessary, “unless it is efficient, procures adequate quantities of foodgrain and delivers food to the poor, the PDS could become an albatross around our neck and an opportunity for rent seekers to enrich themselves.” Could become? With due respect to the finance minister, this horse bolted from the barn long ago.

How have governments responded? Successive governments’ assessment of ineffectiveness has led to the creation of yet new schemes, most of which are more of the same. It is a bit like Sisyphus pushing the rock uphill, resolutely doing something that is self-defeating. TPRPs have created significant vested interests amongst a large number of civil society actors, aid agencies, multilateral organizations and academics designing, evaluating, and, alas, perpetuating these programs. This needs to decisively change.

Why have TPRPs failed? The reasons are many but the fundamental reason for failure is the reality that all TPRPs have to pass through the eye of the needle, i.e. local public administration. Local administration suffers from a fatal combination: extremely weak capabilities combined with low levels of accountability. The most telling example is, of course, primary education and health. Several studies have provided overwhelming evidence of rampant absenteeism of teachers and health workers even though they are considerably better paid than their private counterparts. Enhancing capability and increasing accountability are a tall order. But is there another alternative that will not make poverty reduction hostage to the chronic infirmities of administration?

Consider a radical thought. What would happen if instead of the PDS, the government simply gave eligible households the total amount of money it spends on the program, and allowed them to buy food. It may increase food prices, but it will also lead to a four-fold increase in transfers to the poor. Would they really be worse off? Or would their effective capacity to access food increase?

Now imagine if all TPRPs like the PDS are scrapped and the financial resources spent on them are instead given to the poor through direct cash transfers. The expenditures on different TPRPs under centrally sponsored schemes plus various subsidies conservatively amount to nearly Rs. 150,000 crores. If all these funds were allocated to the roughly 50 million poor households, each poor household would get about Rs. 30,000 annually, enough to hurdle over the poverty line at one go! Even with leakages the incomes of the poor would be greatly enhanced.

What are the benefits and implementation challenges of such a scheme? First, it reduces administrative costs. For example, while PROGRESA, a well-regarded conditional cash transfer program in Mexico, spent \$1.34 on administrative costs per dollar spent on transfers to beneficiaries in its first year of operation (much less than the PDS), this dropped to just 5 cents by the third full year of operation. These huge savings can instead be used to increase the level of benefits to the poor.

In India, the initial costs of a cash transfer program would be less than PROGRESA, since one can begin with beneficiaries who are already identified. This can be subsequently refined with the help of biometric identification technologies. There are also now robust and inexpensive technologies for making cash transfers that are reliable, transparent and monitorable. The actual implementation could take place through the local panchayat with payments made to the woman heading a poor household, with the allocation to each panchayat and the specific beneficiaries being publicly announced.

A cash transfer scheme would avoid paternalism by allowing beneficiaries more individual control over their spending choices. It would also relieve potential credit constraints, which often ties the poor into interlinked labor and credit markets. In short, this is the only way of making the poor empowered agents, exercising choice, diversifying their options, rather than treating them as the objects of noblesse oblige.

What is the guarantee that the implementation problems that have affected TPRPs will not also afflict a cash transfer scheme? The Indian experience suggests that institutions that deal with one-off events which typically tend to be high-profile and around which there is a lot of undivided public attention (think of the Election Commission) can be effective. In the case of TPRPs, the proliferation of schemes, the diffuse nature of outcomes, and the multiplicity of vested interests surrounding them have militated against effective accountability. On the other hand, if all these programs were wrapped into one big cash transfer scheme, the prospects of more effective implementation would improve.

We have no doubt that there will be many implementation challenges—from identifying the poor (a formidable challenge given powerful incentives for people to identify themselves as poor and game the system), to the amount of the cash transfer and automatic sunset clauses so that this does not become a perpetual entitlement. And yes, some of the money will be misspent by poor households. But, would it be any worse than the tens of thousands of crores that have been spent with so little to show for it? Indian policy elites have always had a deeply paternalistic attitude towards the poor but who has not—and will not—make mistakes?

The government must initiate a cash transfer scheme on an experimental basis, with rigorous evaluation as an inherent part of the design. This can be in a few districts where the current performance of PDS is especially poor and where poverty is severe and in states that have begun experimenting with such ideas like Bihar and Jharkhand.

The considerable amount of resources committed in the name of India's poor seems to benefit everyone involved in TPRP programs—except the poor. If this money were delivered to poor households directly, income poverty in India (as per current criteria) could be significantly reduced at a stroke. There can be no arguing that for six decades India's poor have received a raw deal; its time to offer them a New—direct cash transfer—Deal.