Cash Transfers

Social Protection for the Poorest :

Cash Transfers are programmes that transfer cash generally to poor households, on the condition that those households make prespecified 9investments in human capital of their children.The national and international commitments to global poverty reduction reflected in the Millennium Development Goals focused attention on the extent and persistence of poverty in developing countries. However, effective poverty eradication implies aiming beyond the MDG 1 target to halve, between 1990 and 2015, the proportion of people with incomes below US$ 1 per day – now about 1 billion people in the world. More attention needs to be paid to the plight of the 300 to 420 million chronically poor people in the world, and to developing comprehensive, coherent, and sustained interventions that support their efforts to improve their situation.

Conditional cash transfers programs first were introduced in Latin American countries, which aimed to reduce poverty by making welfare programmes conditional upon the receiver's actions. Govt. only transfers the money to persons who meet certain criteria. These criteria may include enrolling children into public schools, getting regular health check ups, receiving vaccinations or the like. CCTs are unique in breaking the cycle of poverty for the next through the development of the human capital. Several reports from UNDP and World Bank show that there is good evidence that CCTs have improved the lives of poor people. Moreover, CCT programs have often provided an entry point to reforming badly targeted subsidies and upgrading the quality of safety nets.

Brazil started the CCTs in 1990 and expanded rapidly in 2001 and 2002. The other Latin American countries like Columbia, Mexico, Honduras and Jamaica started the programmes subsequently between 1998 and 2002.

In Asia, Bangladesh established female secondary school Assistance in 1994 on the condition of school attendance and girls remaining unmarried. Subsequently, Cambodia, Turkey, Egypt and Philippines started the Cash Transfers. Interest in programs that seek to use cash incentives to household investments in child schooling have spread from developing to developed countries most recently to programs in NewYork city and Washington DC.

Cash transfers in Africa –

While most of the cash programs in Latin America are conditional, there are unconditional cash transfers introduced in African countries. The success of cash transfer programmes in some countries is no guarantee that they can be reproduced in other countries with the same performance. But their example can yield both good practices and notes of caution and challenges in design and implementation. A useful tool for assessing the order of magnitude of transfers needed for the desired impact on targeted areas and populations is ex-ante evaluation.

Targeting children in poor and / or rural households results in much greater total poverty reduction as per capita transfers are higher than in universal programs. Yet the benefits of the transfer under the targeted programme will be partly offset by the administrative costs of identifying and reaching the neediest households. Targeting rural children is administratively less costly than targeting all poor children and may be a more cost-effective policy option for reducing poverty than universal programs.

The study also assesses how much difference larger cash transfers would make when increase to 20%, 30%, and 40% of the national poverty line, compared to the scenario of 0.5% of GDP. The larger transfers have far greater effect on income poverty but may not be affordable for most African countries. The cost of cash transfers at 40% of the poverty line varies from a low around 5% of GDP for the Ivory Coast to a high well over 16% of GDP for Burundi.

Conditional Cash Transfers in Latin America

Conditional cash transfers (CCTs) are grants provided to targeted poor households on the condition that they engage in human capital investment. They address demand-side constraints for poverty reduction, combining short-term objectives of safety nets with long-term goals of breaking intergenerational poverty traps. With substantial support from the international community, CCTs have become popular in many countries.

Mexico was the first country to introduce a nation-wide CCT programme, Progresa, in 1997. In 2002 it was expanded in coverage and scope and renamed Oportunidades. Brazil in 2001 started the 'Bolsa Escola' programme, which in 2003 was unified with other federal CCTs into 'Bolsa Familia'.

'Progresa' was introduced as an innovative and apolitical program consisting of cash and in-kind transfers conditional on school attendance by the children of beneficiary households and regular health check-ups by all its members.

Its apolitical claims related to its transfer and targeting mechanisms. Cash Transfers were sent directly from the programme administration to recipients, without intermediation through subnational budgets. Targeting was carried out in three steps. First, demographic data were used to identify the most deprived communities. Then, beneficiary households within these communities were selected on the basis of household surveys. Finally, the list of selected households was reviewed in a community meeting.

The innovative claims related to (i) an integrated approach to poverty, (ii) a positive gender bias, directing the transfers to the mothers and granting higher subsidies for female students, and (iii) an emphasis on participation, both in the targeting review process and by including a beneficiary liaison. An experimental evaluation was introduced at the design state, conducted by independent and renowned researchers. It provided evidence of positive impacts, boosting international recognition.

In Brazil, relatively successful local CCTs preceded the federal 'Bolsa Escola' programme, which was introduced in the run-up to the general elections in 2002. This might help explain why, in less than one year, the programme managed to reach more than five million households around the country.

'Bolsa Escola' granted monthly transfers to poor households with children aged 6-15, conditioned on school attendance. Transfers amounted to a maximum of US$ 15 per family (while in Mexico, Progresa transfers could add up to US$ 60). Decentralized fiscal arrangements, however, allowed richer states and municipalities to top up transfers or expand coverage. For the selection of beneficiaries, the government established a poverty line and calculated estimates of the target population based on demographic data. This created a sort of quota for each municipality, which was then in charge of implementing targeting to households.

Why were CCTs chosen as the preferred policy option? Governments could have expanded and enhanced existing education or health interventions with the funding that was used to start up CCTs. While this might seem easier than designing whole new programmes, it was likely to attract less attention to focus only on the supply of regular social sector services.

What about results? Initial evaluations have shown positive effects of CCTs on schooling and nutrition. The evidence regarding the impact on child labour is not conclusive, since school attendance can be frequently combined with work and requires broader interventions.

The impact on poverty is still not so clear. In the short run, the magnitude of effects on poverty rates varies by programme. In the long run, the translation of higher educational attainment into higher earnings cannot be taken for granted. It depends on the quality of education, rates of employment, absorption of skilled labour in the economy and general rates of return to education.

To understand why CCTs were replicated across the region, we should bear in mind not only their results, but also their fit into the mainstream development discourse. Elements such as gender, human capital, participation, empowerment and targeting are all included, to varying degrees, in CCT programmes.

Politically, CCTs seem quite feasible. Linking cash transfers to certain desirable behaviours among the poor highlights the co-responsibility of beneficiaries for their own well-being and a move away from paternalistic social assistance. Also, CCTs relate to poor children's present living conditions and future opportunities. They are seen as a way of helping the 'deserving poor' escape poverty, while also boosting long-term economic growth.

In principle, CCTs strived for the most accurate targeting possible. From the start, however, both programmes incurred in undercoverage of poor households, as Progresa did not serve communities unattended by health and education services and 'Bolsa Escola' excluded families without children in school and people outside conventional households.

CCTs entail considerable capability requirements, especially in their initial set-up. They involve relatively complex targeting mechanisms and delivery logistics besides the need of good coordination with health and education providers. As they expand, however, there can be economies of scale, contributing to keep overall administrative costs low.

Both Progresa and Bolsa Escola were integrated into existing line ministries, as regular government programmes. While this might increase prospects of sustainability and institutionalization, important administrative challenges remain.

For instance, cost-effective mechanisms for monitoring the compliance of conditionalities, which are at the same time timely and accurate, need to be designed. Also, no clear formula seems to be in place to determine the optional amount of transfers. In the same way, consistent rules and procedures are needed for the inclusion of new beneficiaries or for 'graduation' from the programmes.

CCTs have the advantage of tackling several problems in a single policy. Cash transfers entail less transaction costs than in-kind transfers. And direct transfer to the mothers might generate efficiency gains and female empowerment. However, CCTs can only be effective where no supply biases and geographic barriers exist; they can only be complements to broader social provisioning, never substitutes. They can only work where social services exist and are delivered with an acceptable level of quality.

A crucial question is the need for conditionalities in the first place. The assumption that poor households would not automatically choose to invest in human capital cannot be taken for granted. Would the same impact not be obtained through unconditional transfers combined with significant improvements in the delivery of social services ? While this question may well be adequate, political and administrative feasibility might help explain the inclusion of conditionalities in their design; introducing a new programme, even if complex, might still be easier than reforming existing ones.

If the innovative characteristics of CCTs matched many of the concerns of the international agenda on poverty, their visibility to donors was enhanced by scientifically 'proven' results made possible by the experimental evaluation of Progresa. This visibility, in turn, accounts for the popularity of CCTs, as additional loans and funds are made available for governments willing to implement them. Moreover, it is translated in considerable efforts of dissemination, as donor agencies increasingly act as intermediaries for the diffusion of 'best practices' among developing countries.

As much as CCTs might have an important role in poverty reduction, there are limits to what they can achieve. Low levels of human capital are a central reason for the low incomes of the poor in Latin America, but this is only one part of the story. Complementary macroeconomic policies, which balance social protection and macroeconomic stabilization, are essential as well as interventions to alter deeply rooted and reproduced inequalities, fostering the accumulation of other assets by the poor.

The increasing prominence of CCTs should be regarded with caution. They can be a step forward from conventional safety nets in the direction of 'enabling springboards' or win-win alternatives for donors and recipients. But they cannot do it all.

Cash Transfers : Lessons from Africa and Latin America :

Conditional Cash Transfer Programme are considered innovative in tackling extreme poverty especially in sub-Saharan Africa and Latin America, because of their targeting mechanisms, that the beneficiaries receive cash rather than in kind benefits and the transfers are conditional. CCTs are designed to increase the human capital of beneficiaries by making transfers conditional on certain requirements such as school attendance, visits to health clinics and renewals of immunization. Further, CCTs aim to alleviate poverty in the short term.

Pablo Villatoro's article discusses the short term goals of poverty alleviation and the human capital accumulation in the long run. The different approaches that CCT Programmes can take i) a pure human capital accumulation approach; (ii) a targeted minimum – income guarantee scheme; and (iii) a focus on increasing the income generating potential of adult members in beneficiary households in order to encourage graduation from CCT programmes. Impact evaluation studies of CCT program have shown some promising results, with the evidence of positive impact on education and health outcomes. There is also evidence of positive impact on nutrition mainly when CCTs have been accompanied by the distribution of food supplements. There was no negative impact on labour supply despite the criticism and large scale programmes had impressive results in reducing inequalities, while lessening the severity of poverty.

Even though conditionalities have been controversial in the cash transfer debate, but in some cases they are perceived as tools to guarantee access to universal basic rights i.e. education and health. In other cases, the existence of conditionalities have led to the exclusion of some localities from programmes because of the inadequate supply of services. The social cash transfers are not merely hand outs but necessary social investments in education and health as envisaged in Latin America and Africa. The costs of Brazilian and Mexican cash transfers, are much less than 1 per cent of GDP.

Social Cash Transfers :

Social Cash Transfers (SCF) have been widely discussed in many African countries. Mauritius has a universal basic pension scheme that was established in 1950s. Namibia has also a long standing social pension programme. South Africa is well known for its rights based approach to cash transfers, with large programmes such as the old age pension, the disability grant, and the child support grant. Mozambique implemented a non-contributory social transfers to people unable to work.

The challenges to establishing SCTs in sub-Saharan African countries are numerous. There is a deep entrenched belief that the cash transfers are hand outs that would reduce the labour participation. There is also widespread perception that transfers would divert resources from investment in infrastructure and much needed spending on social services like primary education and primary health care.

Brazil's "Bolsa Familia", the world's largest conditional cash transfer programme said to have yielded very positive results in terms of targeting and its effects on poverty and inequality. The programme is a flagship programme, initiative of president Lula, that every Brazilian should be entitled to atleast three meals a day; with a coverage of nearly 11.1 million families. This scheme is meant for poor and extremely poor families and is conditional on human capital investments such as school attendance, immunization of children and pre-natal check-ups. The rationale is to combine short term goals of poverty alleviation, through the cash transfers, with the long term objective of health and education.

The Brazilian law affirms the right to a guaranterd basic income in order to cover the fundamental rights of citizens such as food education and health. The basic income is to be introduced gradually, giving priority to the neediest groups in live with the budgetary considerations. According to the UNDP report, evaluation results indicate that the CCT programme in Brazil has no negative impact on the labour market. On the contrary, its beneficiaries have a higher rate of participation in the labour market than non-beneficiaries.

Job Law with Right to Information can Cut Poverty in India

The UN Millennium Development Goals are unlikely to be achieved unless India, with the world's largest number of poor, manages to do its part. Employment-intensive economic growth will be crucial. Employment has been growing in the 1990's but not in manufacturing sector, but only in services. The rural poor have been left behind, dependent for their livelihoods upon India's slow-growing agriculture, which still accounts for 55% of total employment.

The National Rural Employment Guarantee Act (NREGA) was adopted in 2005 to reduce rural poverty. It guarantees employment of atleast 100 days a year at the minimum wage to one person from every poor household. This is estimated to raise two-thirds of India's population below the poverty line above it.

According to the UNDP Report, NREGA schemes will improve rural infrastructure e.g. roads, school buildings and village water supply. Further, watershed development reduces damage to life and property caused by frequent flooding, and saves future costs in government flood relief. Along with land regeneration and prevention of soil erosion it also protects the environment and enhances land productivity, promoting future growth and rural employment.

Positive second-round effects are also expected with higher incomes generating rising demand, employment and rural wages, as well as investment in human capital by making schooling affordable and reducing drop-outs.

The cost of NREGA was an initial criticism. In the first phase, the 200 poorest districts are covered. The total cost is estimated to rise from 0.5% of GDP in the first year to 1% of GDP in the last year of the inception phase (2008). Thereafter, the ratio will decrease along with the number of poor households. The consolidation of existing employment generation schemes with the programme of employment guarantee will increase efficiency in resource use. The scheme is modeled on a similar scheme implemented successfully for 20 years in Maharashtra State, but the preceding calculations assume much higher unit costs. These could come down with more labour intensity.

However, the Government of India may have to raise its revenues; it collects only 16% of GDP, compared to nearly 23% in China and above 50% in Scandinavian countries.

Critics have also argued that the Act would expand opportunity for bureaucratic corruption. However, it has been demonstrated around India that effective monitoring by the community (Social audit) of government spending is not only possible, it is effective. Ensuring such effective monitoring requires the right to information and social audits.

The Indian Right to Information Act (RTI) became fully operational in October 2005. It empowers every citizen with the right to obtain information from the Government; civil society organizations have demonstrated in Delhi and Rajasthan, how social audits can bring bureaucratic corruption to heal.

These details are to be posted on the walls of the panchayats as well as on boards at the worksites. In addition, PRI legislation in all states also requires proactive disclosure of information through village council meetings or on notice boards. Furthermore, the RTI Act obliges government officials to provide particular information upon request; citizens have to apply for documents from the responsible officer, who is then duty bound to provide the information within 30 days at a nominal charge. Families living below the poverty line are exempt from paying fees.

Prime Minister Manmohan Singh launched the NREGA in February 2006. He sought the cooperation of the State Governments and other agencies to put in place a sound monitoring system and a grievance redress mechanism to ensure that the Act had its intended effect. At the launch ceremony, he stated: ”Three watch words should be followed: outlays must be matched by outcomes, productive assets must be created and the guarantee must be implemented in true spirit.”

India’s Direcyt Cash Transfers :

India, in order to overhaul its welfare schemes, has introduced the Direct Benefit Transfer Scheme to replace the present subsidies, in a phased manner commencing from January, 2013. It is believed that the direct transfer of cash to the Adhar linked bank accounts of the beneficiaries, would circumvent corruption and bureaucratic delays. Currently most recipients get subsidized rice / wheat or kerosene through PDS, if they have a ration card and their income puts them below the poverty line. In the present system there are several loopholes making the benefits not reaching the real poor and many of the non-poor being benefitted. The new approach to Adhar based cash transfers would help the Govt. machinery to weed out the ineligible and thus prevent wastage. As on now India spends up to 14 per cent of its GDP on various welfare schemes and much of the money is wasted on administrative costs and corruption. Direct cash Transfers are now possible through the innovative use of technology and the spread of banking across the country, by getting rid of duplicate card and ghost ration cards and the layers of middlemen.

The ruling UPA has trumpeted the new initiative as an anti-poverty initiative, hoping it will prove a master stroke ahead of Nation wide elections in 2014 with the slogan “your money in your hands”. Party leaders say direct deposits will ensure entitlements get to beneficiaries instead of being siphoned off by the middlemen.

To withdraw money under the program beneficiaries must present a 12 – digit unique identification number, while they must also scan their fingers on a portable device known as micro – ATM.

Govt. have announced Direct benefit transfers in cash to the beneficiaries who are below the Poverty line, basing on UIAI – Adhar enabled card to the bank account of the beneficiary using biometric identity. The scheme was supposed to be introduced in 43 districts all over India initially basing on the Adhar card enabled system introduced from January 1st, 2013 and to extend to 200 districts by end of 2013 and to cover all the districts by 2014. About 26 schemes are to be covered by March 1st, 2013. Food, fertilizer, diesel, kerosene and L.P.G. are kept out of the scheme in view of the complications involved. However, by 1st January, 2013, the scheme is being rolled out only in 20 districts of 16 states, while covering 7 schemes with about 2,00,000 beneficiaries. These schemes cover scholarships to the poor students and Women Welfare Schemes.

Advantages:

- Adhar based central data base with biometric identity will help in eliminating duplicate and ghost ration cards and eliminate the enormous wastage by getting rid of middle men
- Amount can reach the right beneficiary without resorting to any laeakage or administrative corruption and delays.
- The same amount can be utilized for final targeted recipients with more money.
- It will cut down the costs of administrative machinery
- The LPG and Kerosine at market prices will reduce adulteration and misuse.
- Short term poverty reduction can be linked to long term goals of health, education and other human development indicators

Problems & Pitfalls:

- Change in fluctuation of market prices may not be always commensurate with the the subsidies
- Market Prices may sometimes dominate where smaller number of private sellers are available not much competition among them
- Availability of bank branches and ATMs in the vicinity of rural areas is a major problem for implementation as only 50 % of India is covered by financial inclusion. Travel to the nearest banks from rural areas will cost the beneficiary a sizeable share of money received and also loosing the wages for the day
- In distant tribal areas, no shops to sell at market prices and banks in the vicinity. Realiostic solution could be improving the existing PDS. The existing system of PDS to continue in some needy parts for a while.

- Implementing Adhar system nation wide has its costs matching with the administrative costd of PDS
- Cash Transfer may plug some leakages but not all like issue of BPL certificates by a politician as in NREGS
- Ensuring Issue of Adhar card to every eligible beneficiary is a must for effective implementation of the scheme.
- Government seem to be aware that any large scale goof up in new subsidy sysyem would backfire.

Cash transfer programme challenges

1. Designing effective exit strategies – Strategic exit factors are (i) the adequate utilization of existing data for systematic identification of beneficiaries, and (ii) the performance of the economy in creating employment and expanding the labour market.
2. Supporting households upon exiting the programme – programme graduates need other forms of support to ensure that they do not fall back into poverty when no longer eligible for cash transfers.
3. Making programmes work both as safety nets and springboards – Cash transfers and conditionalities do not affect structural poverty; it is necessary also to promote access, supply and quality of services like education, health, vocational training and micro-credits.
4. Expanding programme eligibility – Some poor people live outside narrowly defined family households and age groups. Poverty impact would be greater if households without children and elderly were included, as well as single persons.
5. Avoiding the dichotomy "targeting vs. universalism" – Targeting social protection is a strategy for preparing the integration of poor and excluded people into full citizenship; in highly unequal societies it is necessary to combine targeted and universal programmes.
6. Evaluations – It is necessary to evaluate programme outcomes and processes to learn more about what works, what does not, and why. Evaluations are also useful for enhancing cooperation, disseminating ideas, training agents, improving implementation efficiency, prevent distortions, and for measuring impact. Moreover, evaluations are persuasive tools for finance and planning and for informing the public political debate on social inequality.

The major challenges for the new programme would be opening of savings bank accounts in the names of poor households and even listing out the poor out of the households which were given Adhar cards. The number of Bank branches available in the country are about 70,000 compared to nearlysix lakh rural habitations in the country and making the nearest bank available to the beneficiary to open the savings bank account would be a herculean task given the short time available for implementation. To issue Adhar card to all eligible households within the due date itself is a stupendous task. According to some critics it is the political necessity that made to announce the programme much earlier than the delivery systems could be worked out. In view of the complexity of issues involved in implementation Government has not yet announced for inclusion of cash transfers in respect of schemes like PDS, Fertilizer subsidy, Kerosine and LPG subsidies.

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