Introducing Conditional Cash Transfers in India: A Proposal for Five CCTs

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Abstract

This paper makes the case for converting some of the massive subsidies and significant expenditures on directly targeted poverty reduction programmes into conditional cash transfers. All the five CCTs it proposes would be primarily targeted at the below poverty line population. It also addresses the minimum requirements to ensure that CCTs succeed, and actually reach the poor instead of meeting the fate of usual directly targeted poverty reduction programmes. It also notes the fact that while the identification of the poor has so far proved beset with errors of exclusion and inclusion, those can be mostly resolved through a revised methodology that has already been almost finalized, and will be implemented 2010.

Introduction

There has been growing chorus of opinion in India that redistributive programmes of the government have been relatively ineffective, that the benefits do not reach the poor, and that there is a case for introducing forms of social assistance that have so far not been tried extensively (Kapur and Mukhopadhyaya, 2007; Prahalad et al, 2009). Latin American countries were the first to introduce conditional cash transfers (CCTs), and in recent years, a few Asian countries have also been doing so (e.g. Indonesia, the Philippines). The case has been made that like other emerging market economies India too should seriously consider this form of social assistance.

This paper makes the case for CCTs, and actually proposes five new CCTs that should be considered for introduction by the central government. However, it cautions that there are prequisites for introducing CCTs that are not yet present in the Indian governance system; hence, a hurried introduction of cash transfers, conditional or unconditional, would be fraught with risks, and vulnerable to implementation problems as serious as those that beset the prevailing delivery system for redistributive programmes. It also argues that finding finance for the CCTs is not difficult, and it shows clearly where the finance can be found – by converting existing subsidies or programme funding into CCTs.

Section 1 spells out the reasons why the Indian government might consider CCTs as a serious policy option. Section 2 lays out the three minimum requirements to ensure that CCTs are successfully implemented in a country like India, where the delivery system for basic services and redistributive programmes has been marked by widespread leakages. Section 3 goes on to spell out the five proposed CCTs in different areas. Section 4 examines how the CCTs can be financed. Section 5 concludes.

1. Why we need CCTs?

There are several reasons why time may be ripe for the Indian state to seriously start considering CCTs as a policy mechanism to benefit the poor.

1. India has had a long history of redistributive poverty reduction programmes, but hardly any programmes that provide direct cash assistance to the needy in India.

India has hardly any cash social assistance in place on a large scale, conditional or unconditional (although the National Rural Employment Guarantee and the Public Distribution System for essential commodities are social safety nets).[1]

2. Between 1973/4 and 1993/4, there was no decline whatsoever in the numbers of the poor (as estimated by the Planning Commission): it remained stuck at over 300 million over two decades, even though the head count ratio of poverty was declining (Planning Commission, 2008). This is despite the fact that India's poverty line is way below the $1 a day (let alone $1.25 a day) poverty line. Hence, the Indian government should consider testing new forms of delivering benefits to the poor. In other words, despite years of redistributive programmes, hardly reduction in the numbers of the poor (based on what is really a destitution poverty line) is an indictment of those programmes' effectiveness.
3. The need for social assistance is underlined by the fact that the vast majority (92%) of India's workforce is in the unorganized sector engaged in informal employment, characteristised by low income and also a high variance in that income (NCEUS, 2008). This workforce receives almost no social insurance either. This should be unacceptable in any civilized society on humanitarian grounds. Such workers in the unorganized sector, therefore, deserve some social assistance in cash, which go beyond the other programmes (e.g. public distribution of food; the National Rural Employment Guarantee; and so on).
4. India is today a more globally integrated economy, and social safety nets that are effective and less leakage-prone than current redistributive programmes are especially needed now, more than ever before. First, they are needed because the Indian economy is more vulnerable to exogenous shocks, and India has already seen the adverse impacts on employment in a series of export-related sectors (e.g. gems and jewelry, leather, textiles, garments, handicrafts) since the global financial crisis of late 2008 (Mehrotra, forthcoming). Second, there will be structural change in both employment and output when economic growth takes place – this, of course, is not exogenous. Such structural changes require that the vulnerable are protected against adverse changes.

[1] The Janani Suraksha Yojana, meant to encourage institutionalized delivery of babies, as opposed to home deliveries which are the commonest form of childbirth, is the sole exception. It is a one-time cash transfer, given to the pregnant mother when she delivers a baby at public or private health facility, by the central government. A few state governments also have a limited number of CCTs, especially to encourage girls' education.

5. The international experience highlights the need for a social contract. Rodrik (2000, 2004) and Bourguignon et al (2002) point out that after Second World War, Europe would probably not have experienced a rise in industrial productivity which went hand in hand with economic growth and structural change, without an institutional environment that permitted a social contract to emerge. In fact, the economic historian Lindert (2004), in a systematic analysis of the now industrialized countries, spanning the 100- year period from 1880 to 1980, concluded that not only did the size of government and the share of government expenditure in GDP rose from 11% on average to over 40% of GDP, but this increase in size was accounted for almost entirely by the corresponding rise in social transfers (health, education, social security).
6. Despite a large number of evidently ineffective and ad hoc poverty-reduction programmes, India is very unusual in this respect (i.e. the absence of social assistance programmes) among emerging market economies. Most emerging market economies already have had a few decades of experience of running CCTs for the poor, and India can learn from their experience.

Besides, there is the fiscal argument for CCTs. India has had a long history of untargeted or poorly targeted subsidies, which are in need of replacement, especially because the fiscal burden of these subsidies has become increasingly unbearable after the multiple fiscal stimuli post-2008 economic crisis. Official estimates of subsidies given for food, fertilizers, petroleum and other subsidies in 2006-07 amounted to Rs. 53,495 crore (Actual) The budgeted amount for subsidies in 2008-09 had risen to nearly Rs. 67,000 crore ($14.6 bn at 2008/9 exchange rates), while the actual amount is reported to be over Rs. 122 000 crore ($26.5 bn) (Ministry of Finance - 2009), and only slightly less is budgeted for 2009-10 (see Table 1). The most important of these subsidies are for food, fertilizer and fuel. It is very well-known that a significant proportion of the subsidies either do not reach the targeted population. This paper attempts to address the question: How can part of the same financial allocation by the Central Government be actually made to reach the targeted population through conditional cash transfers (CCTs)?

Table 1: SUBSIDIES IN INDIA					
				(In crore of Rupees)	
		PARTICULARS	Budget	Revised	Budget
			2008-2009	2008-2009	2009-2010
1	1.	**Major Subsidies**	**66537.38**	**122352.38**	**95578.97**
		i. Food	32666.59	43627.20	42489.72
		ii. Indigenous (urea) fertilizers	12900.37	16516.37	8580.25
		iii. Imported (urea) fertilizers	7238.89	10981.28	7800.00
		iv. Sale of decontrolled fertiliser with concession to farmers	10847.10	48351.10	33600.00
		v. Petroleum Subsidy	2884.43	2876.43	3109.00
	2.	**Interest subsidies**	**2829.15**	**4063.19**	**2608.56**
	3.	**Other subsidies**	**2064.07**	**2827.11**	**2744.48**
Total – Subsidies			**71430.60**	**129242.68**	**100932.01**

SOURCE: Expenditure Budget Vol.I, 2009-2010

2. Three minimum requirements for CCTs to work

In most industrialized countries, social insurance is pretty much universal, but social assistance is much more selective and targeted. India was a low-income country until 2008, the first year in which it moved into the low-middle income country category (after a period of sustained high economic growth over the past decade). However, it still has a very substantial poor population – 300 million, according to current estimates. Therefore, even covering such a large poor population would have considerable fiscal costs; hence, CCTs should be confined in the initial years to the poor population.

If cash transfers are to succeed in India, there are at least three requirements that should
be fulfilled.

First, the CCTs should target the below poverty line (BPL) population, hence BPL households have to be correctly indentified. In all the three Censuses of the rural population

1992, 1997 and 2002 in the last two decades there is evidence of large scale exclusion and inclusion errors.[2] The Government of India will initiate, with the state governments, a census of the rural population (probably in 2010) based on a totally new methodology.

The new methodology to identify the rural areas will rely on a much more directly verifiable, simple, transparent and directly observable characteristics of the poor. Using transparent criteria, it first would exclude the non-poor; second, it would similarly use directly verifiable criteria to automatically include in the BPL list those who are extremely poor. For the rest of the population it will use multiple non-money-metric criteria to rank the population who are neither excluded nor automatically included (see Mehrotra and Mandar, 2009, for an explanation of the methodology that will be used). This leaves it up to the Central and State Governments to determine what cut off will be employed by them for determining the size of the BPL in a given State, depending on the availability of fiscal resources.

2. A successful CCT would require the introduction of a biometric identification system to ensure that the correct beneficiaries are actually receiving the funds. The beginnings have already been made in this regard by the initiation of a Unique Identification System (UID) for the entire population, which is likely to be in place in the next three years (see President's speech to the joint houses of Parliament, 4 June 2009). This would require that every adult gets their biometrics registered in a database and this is used to identify the recipients of cash.

3. A CCT system for poor beneficiaries in a country presupposes that bank or post office accounts are almost universally available for the un-banked population of the country. Given that the un-banked population of the country accounts for over half the nation's population, a mechanism has to be developed whereby the bank/post office is not physically so far from the beneficiary that it creates opportunity costs for them in terms of travel time, the cost of which will be foregone wages. Hence, it is critical that a correspondent banking system expands rapidly before a functional CCT system can be put in place. That way the bank virtually comes to the beneficiary, rather than the latter going to the bank. The good news is that thanks to the National Rural Employment Guarantee Act, increasingly payment of all rural

[2] These censuses are conducted by the states based on a design provided by the Ministry of Rural Development, the ministry with the highest concentration of poverty reduction programmes of any ministry in central government.

wages for this nation-wide publicly funded wage-employment programme is to be made directly through post office or bank accounts. In fact, some 88.2 million[3] bank or post office accounts have been opened, largely for the poorer sections of the population within the last couple of years. This can provide a sound foundation for further expanding coverage of bank and post office accounts among potential beneficiaries of a CCT system. The shortage of banks/post offices is evident from Tables 2, 3 and 4. Table 2 shows that the very large area served by a post office, and also that the population served per post office is over 7000. Table 3 shows that the population in India per bank branch is over 13 000. Similarly, a post office on average serves about 4 villages, while a bank branch serves about 8 villages. All this implies that without a system of bank correspondents (as discussed in the Raghuram Rajan Committee report on Financial Services to the Planning Commission, 2008), a system of CCTs is unlikely to be successful.

[3] National Rural Employment Guarantee Act, Bank Post Office Report 2009-10

Table 2: Post offices: Population and area served per post office

States/ Uts	Post Offices			Population served by a P.O.	Area served by a PO (sq km)	Villages per P.O
	Urban	Rural	Total			
Andhra Pradesh	1299	14860	16159	4995	17.0	
Assam	298	3708	4006	7156	19.6	
Bihar	432	8622	9054	10023	11.1	
Chhatisgarh	223	2901	3124	7232	43.3	
Delhi	489	81	570	28107	2.5	
Gujarat	732	8242	8974	6180	21.9	
Haryana	325	2328	2653	8788	16.7	
Himachal Pradesh	120	2659	2779	2323	20.0	
Jammu & Kashmir	227	1464	1691	6470	131.4	
Jharkhand	272	2819	3091	9479	23.9	
Karnataka	1245	8592	9837	5719	19.5	
Kerala	911	4159	5070	6575	7.7	
Madhya Pradesh	848	7481	8329	7971	37.0	
Maharashtra	1313	11524	12837	8280	24.3	
North-East	200	2732	2932	4236	60.2	
Orissa	579	7582	8161	4765	19.1	
Punjab	527	3425	3952	6873	12.8	
Rajasthan	718	9646	10364	6009	33.0	
Tamil Nadu	2058	10121	12179	5438	10.7	
Uttar Pradesh	1987	15679	17666	10375	13.1	
Uttarakhand	220	2496	2716	3394	23.4	
West Bengal	1135	7925	9060	9516	11.5	
Total	**16158**	**139046**	**155204**	**7166**	**21.2**	**4**

Source: Annual Report.2007-08 of Indian Post

Table 3: Distribution of Bank offices (includes administrative offices)

	Banks					
States/ Uts	**Rural**	**Urban**	**Semi- Urban**	**Metropolitan**	**population per bank**	**Total**
Andhra Pradesh	2316	1568	1464	1003	12000	6351
Assam	777	287	317		19302	1381
Bihar	2337	395	795	265	21888	3792

Chhatisgarh	643	308	232		17611	1183
Gujarat	1449	620	936	1284	11814	4289
Haryana	671	868	415	110	10245	2064
Jharkhand	960	377	331		16155	1668
Karnataka	2130	1280	1137	1185	9220	5732
Kerala	329	1093	2631		7856	4053
Madhya Pradesh	1734	716	894	534	15562	3878
Maharashtra	2106	1059	1341	2959	12978	7465
Orissa	1623	547	463		13978	2633
Punjab	1093	716	900	498	7596	3207
Rajasthan	1739	817	942	405	14478	3903
Tamil Nadu	1660	1358	1683	1071	10812	5772
Uttar Pradesh	4725	1594	1647	1480	17595	9446
West Bengal	2293	901	585	1275	15864	5054
Arunachal Pradesh	50		24		14838	74
Delhi	53		31	2065	6445	2149
Goa	157		252		3296	409
Himachal Pradesh	703	61	146		6679	910
Jammu & Kashmir	536	257	185		10372	978
Manipur	33	23	20		30184	76
Meghalaya	123	47	24		11954	194
Mizoram	54	24	14		9663	92
Nagaland	35		48		23976	83
Sikkim	46		25		7620	71
Tripura	106	50	52		15380	208
Uttarakhand	551	230	275		8039	1056
Andaman & Nicobar	17		20		9622	37
Chandigarh	23	273	1		3034	297
Dadra & Nagar Haveli	4		17		10476	21
Daman & Diu			18		8778	18
Lakshadweep	7		3		6100	10
Pudicherry	22	61	29		8696	112
Total	31105	15530	17897	14134	13077	78666

Source : Master Office File on commercial banks (latest updated version), Department of Statistics and Information Management, RBI.

Table 4: India: Villages per post office and bank

No of Commercial Banks	78,666
No of Post Offices	155204
Total Number of Villages	600000

Villages per Post Office	3.87
Villages per Bank	7.63

Source: As in tables 2 and 3.

3. Five potential types of CCTs could be initiated

The five CCTs proposed here address fundamental problems in human capability afflicting the poor in India: the lack of minimum income; the serious failures in health services to pregnant and lactating women; child malnutrition; food insecurity; and skill gaps among youth.

CCT 1: A Minimum Income Guarantee

Relieving the cash constraints of the poor is a critical way forward in the light of the high dependence of the poor upon non-institutional sources to borrow money in both rural and urban areas. This would be equivalent to a large scale programme of a universal minimum guarantee of income, which partly takes the form of Conditional Cash Transfer (CCT).

The problem

The Finance Ministry report of the Expert Group on Agricultural Indebtedness (2007) pointed out that of the 90 million farmer households in 2003 the SAS shows that 43.4 million (48.6%) were indebted. Of the remaining half who were not indebted, a large proportion of them might have been financially excluded. The average outstanding debt per farmer household was at about Rs. 12,585 (roughly $ 300) and per indebted farmer household was at Rs. 25,902. In addition, the share of non-institutional borrowing in total rural borrowing from all sources rose after 1991 (ie the beginning of structural economic reforms in the Indian economy) from 32% to 39% by 2002. The contraction of commercial bank branches (most of which are in the public sector) in rural areas as well as the collapse of Primary Agricultural Cooperative Societies and Cooperative Credit Banks and of Regional Rural Banks after 1991 contributed to this process.

Small and marginal farmer households, which accounted for 80% of indebted farmer households, absorbed 51% of the total outstanding credit from institutional agencies. As against large farmers, one-third of whose debt was from non-institutional agencies, half of the debt of small and marginal farmers was from non-institutional agencies. In fact, 33% of total farmer households held only between 0.01 hect. to 0.40 hect. of land ("marginal farmers"), and 57% of their loans were from non-institutional agencies. An additional 32% of total households who hold 0.41 hect. to 1.00 hect. of land ("small farmers") also depended on non-institutional sources of debt for (47%) of their total debt. In fact, 84% of farmer households in India hold only up to 2.00 hect. of land; their incidence of indebtedness is as high as 46%, and as much as 50% of their debt is from non-institutional sources.

About 85% of the outstanding debt on cultivator households from institutional sources was in the interest rate of 12-20% per annum. On the other hand, 36% of cultivator households' outstanding debt from non-institutional agencies was at the interest rate of 20% to 25% and another 38% of outstanding debt at an even higher interest rate of 30% and above. In fact, 122 million persons in the marginal farmer households category, and an additional 29 million persons in small farmer households category are estimated to be under-nourished. There is a high degree of overlap between poverty, mal-nutrition and indebtedness, especially indebtedness to non-institutional sources of lending.

Needed a minimum income guarantee

It is for this set of reasons that there is a strong case for the introduction of a large scale programme to ensure a universal minimum guarantee of income, or a Conditional Cash Transfer (CCT). The low income levels of small and marginal farmers and agricultural labourers ensure that the poor rarely accumulate assets and if they happen to do so, those assets are lost to droughts, floods, displacement by projects, and so on. The small and marginal farmers and landless agricultural labourers need cash debts to meet their consumption needs as well as contingency needs. This implies that their later wage income goes to servicing their debt, rather than building assets. This is an underlying reason why many micro-credit customers are able to maintain high repayment rates but are rarely able to climb out of poverty even after multiple cycles of loans.

Eighty-eight million bank accounts have already been opened under NREGA. The wages in these accounts need to be augmented for BPL households by a cash transfer. This cash transfer will be for a period of two to five years depending on how poor they are. For instance, the BPL census in 2010 will enable the government to come up with the rank of each household starting from the extremely poor to the less poor and the Above Poverty Line (APL).[4]

The proposal

What we are proposing is a CCT which is directed at the BPL. It should be possible, using the ranking of the poor, to initiate the process of the CCT. Those automatically counted among the BPL (designated as primitive tribal groups, single women who have been deserted, households with disabled persons, homeless labourers, and households in which any member is a bonded labourer) will need to receive cash transfer for a minimum of five years, to enable them not only to overcome their indebtedness but also to build up a minimum level of savings. Those BPL households closest to those automatically included in the BPL category, in terms of ranking, may need to be given a CCT for a minimum of three years. The rest of the BPL population may similarly need to be supported with a CCT, though for a shorter period of time.

Poor households need consumption credit to tide over days without wage income or when there is a health or family contingency and there are no savings. That is when the poor go to the moneylender. We propose that each BPL family will get a monthly cash transfer of

[4] This scheme is only slightly similar to the proposal in a brief note by Prahalad, Banerjee and Rajan (March, 2009). Prahalad et-al proposed a minimum income guarantee scheme that will be designed to compensate the poor their losses due to the abolition of fertilizer, fuel and food subsidies amounting to more than Rs. one lakh crore every year. For example, they estimate that if Rs. 33,000 crore out of Rs. one lakh crore total annual subsidy reaches the poor defined as the bottom half of the population of India (110 crore), then each poor person must get at least Rs. 600 per annum under the new scheme. They also proposed that the scheme will be universal in the sense that all adult Indians will be eligible to receive the same guaranteed amount. This avoids, according to them, “often a insurmountable problem of identifying the truly poor, and has the additional advantage that when the money does not show up, the better connected sections of the poor and middle class will have an incentive to use their social clout to make sure it does”. They argued that the programme would be universal in principle, and an element of self-targeting could be required of able-bodied adults to go to the collection points at least once a month and record fingerprints to register their demand for the money. They suggest that this will probably discourage the top 25% of the population from claiming the money under normal circumstances, though, since in a pinch they can always start collecting, it serves a useful insurance function. We believe that Prahalad et al are overly sanguine about the possibility of ensuring self-targeting through this mechanism of demonstrating physical presence once a month.

Rs. 250 electronically swept into their account[5]. Given the depth and scale of indebtedness among the poor that we have already established earlier in this section, the only conditionality proposed is that the BPL account holders can withdraw only up to 50% of the cash transfer at any time. The reason for withholding 50% in the bank account is that they must develop the habit of saving, so that they can build up some financial assets over time, enabling them to possibly leverage those funds for borrowing from micro-credit lenders. The 50% funds that are withdrawable can be used to, e.g. repay old loans taken from moneylenders or to buy medicines for a sick family member or to pay school fees or to support any of the diversified portfolio of subsistence activities[6].

Social insurance is a necessary complement to social assistance. This CCT will need to be part of a wider, comprehensive social insurance plus social assistance package, of which many critical elements are already been in place. First, in line with the recommendations of the National Commission of Enterprises in the Unorganised Sectors (NCEUS), the bank accounts will automatically give comprehensive insurance, covering life, accident, disability, critical illness and asset (house, livestock, implements) insurance for the entire household. The cost of the life, accident and disability insurance has been determined for BPL households (see Mehrotra, 2008), and the premium will independently be transferred to the insurance company for each BPL households.[7]

In addition, this bank account will receive further supplementation from the following Government sources (as part of programmes already being implemented by the Ministry of Rural Development):

- NREGA wages for unskilled work, up to 100 days per household per year;
- National Old Age Pension remittance of Rs. 200 for each person over 65 years, supplemented in 11 States by the State Governments by Rs. 200 per month;
- A widow or disabled person pension (as announced in November, 2008);
- Rural housing subsidy (under the Indira Awas Yojana) of Rs. 35,000 (although a one-off subsidy, this could be combined for an expanded rural housing programme):

[5] As a reference, Rs 200 is what the central government gives as old age pension to rural BPL citizens over 65 years of age, as part of the National Old Age Pension Scheme, administered by the Ministry of Rural Development.
[6] This proposal is similar to the idea in Mahajan (2008).
[7] The asset insurance has some components of it in place in many States in India, but it would need to be universalized. As regards illness, the Rashtriya Swasthya Bima Yojana (RSBY) has already been introduced on a pilot basis in most statees starting in 2007 and will need to be taken to scale over the next few years.

- Micro credit for Self Help Groups (under a significantly reformed Sampoorna Grammen Swarozgar Yojana) to generate self-employment.[8]

In addition, this cash transfer could be supplemented by the other CCTs proposed in this paper.

CCT 2: Conditional Maternity Entitlement

India has one of the worst child malnutrition rates in the world, as well as a serious problem of anaemia among women, especially pregnant and lactating women. Although there is a large central government programme to address the problem in existence since 1975 (the Integrated Child Development Scheme, ICDS), the problem has remained quite intractable. To supplement the interventions under ICDS, there is need for a conditional maternity entitlement, to improve the utilization of health services on offer.

The objectives of the Conditional Maternity Entitlement (already proposed in the 11th Five Year Plan chapter on Food Security and Nutrition[9]) are as follows:

- To ensure wage compensation for pregnant and nursing mothers in the high burden malnutrition districts (in the poorer states) so that they are able to rest adequately during their pregnancy and after delivery.
- To ensure that the inflow of additional income to the household is used for supplementing nutritional needs of pregnant and lactating mothers.
- To incentivise ante-natal and post-natal follow-up check-ups and referral.
- To promote counselling for breast feeding and complementary feeding.
- To ultimately make a dent in the high levels of anaemia amongst pregnant and nursing women as well as the high burden of maternal mortality.

Every pregnant and nursing mother in the high burden districts of poorer states residing in rural areas will be entitled to a conditional transfer of Rs.4500 for the first two children.

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[8] An Expert Group under the Chairmanship of Dr. Radha Krishna, of which I was a member, has recommended that the erstwhile SGSY should be radically reformed to make it vastly more effective in mobilizing poor and the facilitating the SHGs. See Expert Group Report, MORD, 2009.

[9] I was coauthor of this chapter on Food Security in the 11th Plan.

The transfer of funds will be made directly into a bank / post office account in the woman's name with the following periodicity:

a) Rs.500 per month for the three months preceding the delivery.
b) Rs.1000 per month for three months after the delivery.

The following could be the eligibility conditions for the conditional maternity entitlement scheme:

- All pregnant and nursing mothers residing in rural areas in the identified high burden districts will be eligible for the scheme.
- The scheme will be applicable for the first two children only.
- The pregnant and nursing mothers must be registered at the nearest ICDS Centre.

The eligible women will be identified by the ICDS worker (who is female) in consultation with the Auxiliary Nurse Midwife (ANM). The first tranche of the benefit will be transferred to the eligible woman's bank account after the ICDS worker has certified that her pregnancy has been registered at the ICDS Centre. Subsequent tranches will be transferred after the conditionalities have been certified by the ICDS worker.

The cash transfer will be made subject to the following conditionalities:

- The pregnant / nursing woman is registered at the nearest ICDS Centre – thus the public health system will be aware of her needs, and is tracking them.
- The pregnant / nursing woman visits the ICDS Centre at least twice in the three months preceding the delivery for a ANC check-up, thus ensuring that she receives iron and folic acid tablets, and also her tetanus toxoid injection – both of which would reduce the risk of maternal mortality.
- The pregnant / nursing woman receives breastfeeding counselling from the ICDS centre – given that only about half of India's infants are exclusively breastfed in the first six months.

- The mother ensures the infant receives all vaccinations that are part of a full immunization programme – thus reducing the risk of avoidable child morbidity and mortality.
- The nursing woman goes for at least one PNC check-up at the ICDS centre – thus ensuring that she is recovering well post-childbirth.

Since funds were allocated for this CCT in the 11th Five Year Plan, the programme is about to be launched on 1 April 2010.

CCT 3: Converting the Supplementary Nutrition Component (SNP) of Integrated Child Development Scheme (ICDS) to Cash Transfer

The ICDS has two kinds of components: the services component (immunization, health check-up, pre-school education, child growth monitoring by weighing) and the supplementary nutrition component (SNP). The SNP, in turn, has two sub-components: one, hot cooked meal provided to 3-6 year old school children; and two, take home rations given to pregnant and lactating mothers and to 6-36 month old children. The 11th Five Year Plan document proposed that the ICDS programme, including both its service and SNP components, are in dire need of reforms, the most important of which is its decentralization and implementation by the Panchayati Raj System (or system of local government), especially by the Gram Panchayats (village local government).

The most infamous characteristic of ICDS remains to this day that the 0-3 year old children are not its focus, although malnutrition sets in irreversibly by age 2, with the result that the one programme intended to address the most serious problem of mal-nutrition in the world remains ineffective. Child mal-nutrition rates have barely declined from 54% of all 0-6 year old children in 1992-93 to 46% in 2005-06 (International Institute of Population Sciences, 2007). Yet, the Planning Commission has increased the allocation for ICDS from roughly Rs. 10,000 crore in the 10th Five Year Plan (2002-2006) to Rs. 42,000 crore in the 11th Five Year Plan (2007-2011), on account of the requirement of the Supreme Court judgment (of 16.12.2006) that the ICDS, which until 2005 only covered 40 million of the 160 million children in the 0-6 years age groups, should be universalized within the next 2 to 3 years.

The risk is that despite its universalisation and the four-fold increase in financial allocation between the 10th and 11th Five Year Plan period, the programme may still not be able to deliver the reduction in the child mal-nutrition and the preparedness of pre-schoolers for primary schools. Therefore, it may be advisable to consider re-structuring of ICDS in the following manner, which includes the conversion of one component of its services into a CCT:

1. Four of the six services provided under ICDS, which are related to the health sector (immunization, health check-up- and referral, etc.) should be the primary responsibility, not of the ICDS workers (who report to the Ministry of Women and Child Development), but of the functionaries of the public health system, i.e. the Auxiliary / Nurse Mid-Wife (ANM) and the Accredited Social Health Activists (ASHA). In other words, the health sector should take primary responsibility for delivering health related services for pregnant and lactating mothers and 0-6 year old children. For this to work, the ASHA will need to be compensated better, and not merely given incentives.

2. The pre-school education component must receive high priority within the universalized ICDS. This would require that the Anganwadi worker is re-trained effectively to provide these services in a manner in which pre-schoolers are prepared to enter Class- I in primary school. Pre-school education requires this emphasis because drop-out cases in Class-I are extremely high and this is largely explained by the fact that at least 1/3rd of the children entering primary class-I are the offspring of functionally illiterate parents.[10]

3. Supplementary Nutrition Component (SNP): Given that the pre-school education component of ICDS should acquire salience within the ICDS centre, the centre should continue to focus on 3-6 year old children as it has always done. It is a requirement of the Supreme Court judgment that 3-6 year old children should receive a hot cooked meal in the ICDS centre, hence we propose that this component must continue as a part of ICDS. However, the other sub-components of SNP – Take Home Ration for pregnant and lactating mothers and 6-36 months of old children – could be converted into a cash transfer.

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[10] The Ministry of Human Resource Development and Sarva Shiksha Abhiyan (SSA) have not accepted the Rs. 2,000 crore assigned to MHRD by the Planning Commission for introducing one year of pre-school education in every primary school. Hence, the pre-school education component of ICDS could be strengthened, rather than it being handed over to the primary school system.

The rationale is that, provided that mothers of infants are appropriately counseled, they will use the cash to purchase food that can be fed to the infant as complementary food, especially after the six-month period of exclusive breast-feeding is over. Illiterate rural mothers are often not aware of the importance of solid, mushy food being introduced for 6 month old infants, the result of which is that child malnutrition skyrockets from about 16% to affect half of all children by the time they are two years old.

Financing the cash transfer: The total financial allocation for SNP in 2009-10 from all sources (Central and State Governments) is about Rs. 8,000 crore ($1.9 bn) in the financial year 2009-10. We know that roughly 1/3rd of all funds allocated to SNP are spent on hot cooked meal of 3-6 year old children in ICDS Centres. In other words, the remaining 2/3rd are allocated to procuring take home ration for pregnant and lactating mothers and 6-36 month old children.

We propose that this latter sub component, the 2/3rd of the total SNP allocations of Rs. 8,000 crore, i.e. Rs. 5,376 crore, would be available for direct cash transfer. We propose that the pregnant mothers will be counseled by health services providers (ASHA, ANM, and also ICDS centre) to use the cash transfer to consume an appropriate diet that is rich in protein-energy content, and also purchase/prepare appropriate weaning foods for their 0-36 month old children.

The ICDS Centres that will emerge as a result of this restructuring exercise will look as follows. The ICDS worker will have been re-trained to perform her pre-school education and early childhood development functions far better than she will have ever been able to perform so far. Second, most of the health-related services, currently being performed by the ICDS worker, will have been diverted to the health sector to be performed by a combination of the Primary Health Centres, sub-centre, and ANM and the ASHA, all of whom would have to be strengthened in their capacity to perform these functions of counseling pregnant and lactating mothers about breast-feeding and the introduction of weaning foods after six months of exclusive breast-feeding. In other words, if the supply-side of services does not improve, there is not much purpose in introducing CCTs which raise the demand for services. For instance, the maternity benefit would raise the demand for services, and the public health and ICDS system will have to respond to this increased demand (see earlier discussion of CCT – 2). Third, the ICDS worker's functions would also have been reduced by the fact that she would no more have to distribute take home rations for pregnant and lactating mothers and for children 6-36 months old; she could perform her other tasks better. Finally, just as a mid-day meal is provided in the primary schools, the ICDS centre would continue to provide a hot cooked meal for 3-6 years old children, who would hopefully receive more attention of the ICDS worker and her helper than the hitherto over-burdened worker has been able to provide.

CCT 4: CCT to replace Food Subsidy under the Public Distribution System (PDS)

We noted earlier that the food subsidy under PDS amounts to over Rs. 43000 Crore (or just over 1% of GDP) in 2008/9. The subsidy is calculated after deducting the sales realization of cereals sold to consumers from their economic costs to the central government. The economic cost has two main components: (a) the acquisition cost; and the (b) distribution cost (the latter consisting of freight, handling expenses, storage charges, interest charges, transit shortages, storage shortages and establishment charges). The subsidy is a very significant component (around 50%) of the total economic cost.[11]

Instead of allocating cereals and sugar under PDS to BPL and the poorest half of BPL households,[12] it should be possible to convert the food subsidy in cash to the same households. The subsidy would remain the same, and the change is that the subsidy would be delivered not in kind (grains and sugar) but in cash. The advantage of converting the food subsidy into cash transfers would be that it would reduce transaction costs for the government, and should reduce the diversion of PDS rice and wheat by unscrupulous officials, transporters of grain and ration shop owners into the open market to earn super-normal profits – illegally. As in the case of other CCTs proposed in this paper, the cash subsidy for purchasing food would require the transfer of money directly to bank / post office accounts of the BPL / AAY households.

[11] For instance, in the year 2003 the acquisition cost for the central government-owned Food Corporation of India (FCI) was Rs. 1,073 crore and the total distribution cost amounted to Rs.134 crore, making the total economic cost equal to Rs. 1,206 crore. The realization from the sales of the cereals in that year amounted to Rs. 593 crore making the subsidy equal to Rs.613 crore.

[12] The poorest half of the BPL in India are entitled to buy from ration shops wheat and rice at a price well below the price at which grains are sold to the rest of BPL households (the latter are well below the open market prices).

Such a scheme of cash (rather than food) subsidy could work particularly well in the 11 states[13] that have been undertaking decentralized procurement of foodgrains from within the states and then distributing them to the BPL population – since grains would be easily and regularly available, procured from within the state rather than from Punjab or Haryana. As part of decentralized procurement, the state specific economic cost is determined by the central government, and the difference between the economic cost and the central issue price can be passed on to the state as food subsidy by the central government.

However, the total requirement of PDS of even these states cannot be met from within state procurement (except in Orissa and Chhattisgarh, which are now meeting their own requirements plus supplying neighbouring states with grains). Therefore, the system of minimum support price[14] based procurement from Punjab and Haryana, will continue and those procured grains will have to be transported to the food-deficit states. In other words, the PDS involving the supply of grains cannot be done away nor replaced by a cash-alone subsidy, and the system of MSP-based procurement cannot be dispensed with either.

The question then that remains is: where does the cash subsidy in lieu of the grain subsidy fit into this complicated scenario? We propose that it would be appropriate to initiate a *cash subsidy only in cities*.[15] This is because the availability of private sector shops which could supply the grains is not a problem in cities, which it may well be in the rural areas in northern and eastern States of India. The CCT will need to be piloted in a few cities before lessons can be learnt about the appropriate method of ensuring grains supply to the BPL cardholders, who will be the recipient of the cash equivalent of the grain subsidy. In rural areas, in many parts of northern and eastern India, and even in certain parts of southern and western India, there are not enough private shops that may be able to meet the purchased grain requirements of BPL families.

The system of Food Corporation of India procuring grains from either Punjab/ Haryana or the decentralized procurement states, and then the transportation of those grains to the food-deficit areas of the country and their storage by the State Food Corporations – this

[13] Madhya Pradesh, Uttar Pradesh, Chattisgarh, West Bengal, Uttarakhand, Tamil Nadu, Orissa, Gujarat, Karnataka and Kerala, and also Andaman and Nicobar Islands.

[14] All government procurement from private farmers takes place at a pre-announced price, the minimum support price, which has tended to rise in the last few years quite sharply. The government has been raising the MSP with a view to enhance farmer incentives and incomes.

[15] In fact, Delhi state is already toying with the idea of substituting cash for food in the PDS

entire system may need to survive in any case. What may be new in this scenario is that within States, FCI may be permitted to auction the grains to private shopkeepers, at least in cities, in order for these CCTs to work.

However, starting such a cash subsidy does not mean that the *reform of PDS* can be avoided. In fact, reforms to PDS will be required, regardless of whether we convert the food subsidy into a cash subsidy or not. This is primarily because for a considerable period of time into the future, it is difficult to substitute for the supply emanating from the cereal-surplus states of Punjab and Haryana. These two states account for roughly 60% of the total rice and wheat procured on the Minimum Support Price in India as a whole. It is these two northern states that meet the needs of the grain-deficit states of the country that are mostly located in the south and west of the country.

CCT 5: Cash transfer to youth for skill development

The government of India's new emphasis on skill development found in the 11th Plan (called the Skill Development Mission) has provided for a shift away from the long standing tradition of supply-driven strategies for skill development towards a more demand-oriented strategy, to encourage young people to take up courses that might be in demand in the region in which they reside. This is, in fact, one of the strategies of the skill development mission, to move from a system of funding training institutes to funding the candidates. The Eleventh Five Year Plan (Chapter 5, Vol. I) states that institutional funding could be limited to an upfront capital grant. Recurring funding requirement could be met by an appropriate disbursement to the institute at the end of the successful certification – the conditionality for the institute to receive training funds.

Meanwhile, there can be an interesting intervention, using CCT, to fund candidates from socially disadvantaged backgrounds (e.g. Scheduled Castes, Scheduled Tribes, Other Backward Castes, Minorities), who could be funded in two parts:

- A monthly stipend to be paid to each trainee; and
- Fee subsidization at the end of the programme to be given to the institute after placement.

Once such a CCT (note that the cash transfer is to both for the trainee and the training institute, with conditions for each) was to be offered to youth on the completion of eight years of elementary education at the age of 15, it can increase the demand for skill development and Vocational Education and Training (VET). VET capacity is only 3.1 million which needs to be taken to 15 million. This will be sufficient to meet the annual workforce accretion, which is of the order of 12.8 million. With such a large need for building up the skill base of India's relatively young population, both central / state Governments would need to expand existing public sector VET infrastructure, with the aim of shifting to this infrastructure to private management over the next 2-3 years.

In fact, CCTs to encourage the growth of demand for skill acquisition can perhaps trigger the public sector to rapidly expand supply of VET facilities, which is, in any case, proposed for implementation in the Eleventh Five Year Plan.

4. Where will the resources come from for new CCTs?

1. The funds for the CCT to encourage youth to acquire new skills should be funded from allocations for the Skill Development Mission (CCT 5).
2. The PDS grain subsidy is to be converted into a CCT (CCT 4), and is obviously fully funded under the PDS programme.
3. The CCT in lieu of supplementary nutrition, currently part of ICDS, is already provided for in the funding for the ICDS and is therefore fully funded (CCT 3).
4. The maternity benefit (CCT 2) has already received an allocation in the 11th Five Year Plan of Rs. 4500 crore.
5. It is the first CCT that we have discussed in this paper that will require new funding. The cost of the CCT -1 could be estimated as follows. The current number of BPL population is 300 million; in other words, there are 60 million BPL households in the country. We have proposed that the BPL population should be divided into four quartiles, of 15 million households each. If each household is entitled to Rs. 250 per month, the annual cost for each quartile would come to Rs. 4500 crore, adding up to a total just Rs. 18,000 crore per annum in the first two years for the entire BPL population. This is on the assumption that the bottom quartile will receive cash

entitlements for five years, the next quartile above it in income terms will receive it for four years, the third quartile for three years, and the topmost quartile, which is closest to the poverty line, which would receive it only for two years. In other words, by the fifth year, this amount of Rs. 18,000 crore would decline to only Rs. 4500 crore (or roughly $1 billion, at current exchange rates).

As we argue below, if both the liquified petroleum gas and kerosene subsidy were rationalized, it would be possible to comfortably fund this CCT.

Rationalising Fuel Subsidy for Liquid Petroleum Gas (LPG) and Kerosene

We noted at the beginning of this paper that there are large fuel subsidies, for LPG and for kerosene, each of which is discussed in turn.

Currently, all households regardless of whether they are Below Poverty Line (BPL) or Above Poverty Line (APL) are entitled to receive LPG for cooking. LPG is highly subsidized and there is no real justification for above the poverty line (APL) families getting a subsidy. If the international oil price were $60 per barrel the estimated subsidy burden for the Central Government would amount to Rs. 9546 crore (on the basis of a total consumption of 740 million cylinders of 14.6 kg. each in the year 2007-08). [16]

If the subsidy on LPG was restricted to BPL households alone, an average household, consisting of five persons, will require six LPG cylinders per annum (of 14.6 kg. each).[17] The Planning Commission estimates that there are 220 million BPL persons in rural areas in 2004-05 and 81 million BPL persons in urban areas. The subsidy per cylinder, at $60 per barrel for international oil prices and at current exchange rates, is Rs 129 per cylinder. If each BPL household was entitled to six cylinders per annum, the total requirement of BPL households for LPG cylinders would be 361 million per annum. Let us round the 361 million cylinders off to 400 million cylinders per annum. At an international price of oil of $60 per barrel, the cost to the Central Government of the subsidy to supply LPG to every BPL family in India, both rural and urban, would amount to only Rs. 4657 crore. This has to be contrasted to the subsidy which is currently being given, to the tune of Rs. 9546 crore (as noted earlier),

[16] Had the oil price remained at the rate of $140-150 per barrel, as it was in 2008, for the same level of consumption as in 2007-08, the estimated total subsidy for the Central Government would jump to Rs. 15,523 crore.
[17] These estimates are based on data provided by Dr Surya Sethi, the former principal advisor for energy, Planning Commission.

and this is the case primarily because the subsidy is given universally to all families, regardless of whether they are BPL or APL.

In other words, if all APL households were to pay a market price for LPG cylinders, without regard to whether it is for households or commercial use, and also if the BPL entitlement was restricted to six cylinders per annum at the subsidized price, it is possible to make a significant saving for the central exchequer on an annual basis.

If subsidized LPG cylinders could be tagged with radio frequency tags it would be possible to determine the end use of these cylinders intended for households, thereby preventing the diversion, taking place on a large scale currently on household cylinders (which are subsidized) for industrial and commercial use (which are not)[18].

Reducing the kerosene subsidy

Kerosene is supplied to BPL households for cooking and lighting throughout the country as part of the PDS. Just as it is possible to eliminate the subsidy on LPG cylinders to APL households, it is similarly possible to systematically reduce the even more bloated subsidy bill encumbering the Central Government's treasury in regard to kerosene. At the market price of oil of $60 per barrel the subsidy on kerosene per litre amounts to Rs. 13.68. In other words, at the consumption level of 2007-08 of 11,400 million litres the estimated total subsidy would amount to Rs. 15595 crore in a year.

However, it is the 11,400 million litres of kerosene consumed which is at issue. This so-called "consumption" is often in fact not consumed by BPL households at all, even though it may be supplied to PDS fair price shops to meet the consumption needs of the poor. The consumption of kerosene is inflated as it is diverted illegally after it leaves the refinery gate in cylinders, since it is used to adulterate diesel and sell it at petrol pumps throughout the length and breadth of India. On the other hand, if PDS kerosene were to be distributed only in two litre poly-packs that are packed before it reaches the refinery gate, the "consumption" of kerosene, would decline sharply, since it cannot be diverted easily (which it can be from the current cylinders).

[18] Personal communication, Dr. Surya Sethi, former Principal Adviser, Energy, Planning Commission.

We can easily estimate the kerosene needs of the BPL population in respect of lighting and cooking.[19] Overall, the total kerosene demand for BPL households for lighting and cooking would amount to only 7,585 million litres as opposed to consumption in 2007-08 of 11,400 million litres for both APL and BPL households. This would keep the kerosene subsidy down to Rs 10 315 cr (instead of the current subsidy of Rs 15 595 cr), depending upon the fuel mix for cooking actually provided.

Thus, as opposed to the current estimated total (LPG and kerosene) subsidy of Rs. 25141 crore, the cost of a subsidy targeted only to BPL households will be Rs. 14973 crore,In other words, two actions would successfully reduce the subsidy on LPG and kerosene by a total of over Rs.10000 crore, if other things remained equal. The first is the distribution of PDS kerosene only to the BPL households in two litres poly pack before it reaches the refinery gate rather than in loose containers which can easily be diverted for other purposes.[20]Second, the restriction of LPG cylinders to six cylinders per BPL households per annum at a subsidized price, would eliminate the subsidy on LPG on cooking for all APL consumers, regardless whether they are households or commercial establishments. In this manner, a significant amount of resources would be released for diversion to more effective use of the same resources to reach the poor through CCT.

Summary

This paper has proposed 5 CCTs (see summary Table 4) which could be initiated simultaneously to benefit BPL households, BPL mothers, BPL children and BPL youths. It has also argued that CCTs should not be introduced without three minimum requirements being put in place. First, a new methodology for identifying the poor, for both rural and urban areas, needs to be implemented in 2010. All the preparatory work for implementation of this new methodology has already been done for rural areas, and the new methodology for urban areas is already being implemented in Delhi state. It is necessary to now extend the

[19] For purposes of lighting, 17 grams of kerosene per hour is the required standard; if we assume a generous 20 gram per hour requirement, for four hours of lighting 80 grams per day per household would be needed. This is equivalent to 3 litres of kerosene per month per household for the purpose of lighting. For the purpose of cooking, 75 grams per hour of kerosene is taken as a standard for consumption. If we are generous and assume a requirement of 100 grams per hour, and also assume that cooking in BPL households would need two hours a day, we project a 200 gram per day requirement of kerosene for cooking i.e. it would be equivalent to 7.5 litres per month per household of kerosene for cooking.

[20] The cost per package of the poly pack is only Rs. 0.07 paise, while for a biodegradable pack the cost would be Rs. 0.12 paise.

methodology for urban areas to tier-II and tier-III cities which require some modifications from the methodology used in Delhi. Second, a successful CCT would require the introduction of a biometric identification system for all BPL. Therefore, there is an urgency to focus on the BPL segment of the country's population in regard to the unique identification system for the entire population. Third, in view of the requirement of transferring funds to the beneficiaries electronically, an urgent effort would be required to ensure that all BPL households have atleast one post-office or bank account – a process that is already well on its way due to the post office/bank account expansion that occurred for the National Rural Employment Guarantee Act.

We have also noted that funding is available right now for four of the five CCTs proposed. Even the first CCT whose objective is to address the mass indebtedness prevailing among the BPL households can be easily funded, given that its total cost even in first year, is not more than Rs. 18,000 crore (half a percent of GDP), which rapidly declines over the next four years.

Even though the three requirements for implementing CCTs are currently not in place, it would be appropriate to initiate some pilots on these CCTs, so that when the conditions are met (as they will be in the next few years), the policy lessons have already been learnt.

Table 4: Conditional Cash Transfer Proposed

Components	Cost (Rs. in crore)	Cash Benefit/ Beneficiary/ Month (in Rs.)	Conditions	Fund availability	Nodal Ministry/ Deptt.
CCT-1 Cash Transfer for Universal Minimum income of Guarentee/Cash Transfer to BPL	18,000	250*	Household must save half of the cash transfer	Yes, conditional upon LPG & Kerosene subsidies being targeted only for BPL	To be determined
CCT-2 Cash Transfer for Conditional Maternity Benefit	3120	4500: 500/ month for 3 months preceeding delivery; 1000/month for 3 months post delivery	Mother must attendANC, Tt vaccine,PNC & child should be fully immunised	Yes	MWCD
CCT-3 Cash Transfer for SNP of ICDS	8,000	362**		Yes	MWCD
CCT-4 Cash transfer for TPDS	613	8.5***	Cash should be used for purchasing food grains from markets/PDS shops	Yes, conversion grain subsidies to BPL	DFPD
CCT-5 Cash Transfer for Youth for Skill Development	Depends upon ITI fees		Youth must train in ITI	Yes	SDM (MoL)

250*==18000crore/60000000(BPL families)/12

Cash Transfer for Conditional Maternity Benefit=3120cr=Rs.4500*6932900(No.of BPL mothers=26% of total mothers)

362**=8000cr/24547460(total BPL(0-3 age group) children+mother belonging BPL)/12

8.5***=613cr/60 million BPL families/12

Cash Transfer for Universal Minimum income of Guarantee/Cash Transfer to BPL will remain constant for first two years. There after, in the 3rd year 25% expenditure will be cut dropping out the first bottom of the BPL category. In the last two years same criteria will be followed. Means, 1st year incurs Rs18000cr.,2nd year Rs.18000cr., 3rd yearRs.13500cr. 4th year Rs.9000cr.and 5th year Rs. 4500cr.. The total amount in 5 years=Rs.63000 cr.

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