Treat the disease, not the symptoms

The Statesman

May 24 and 25, 2015

Directly Says It -I

The administration of massive amounts of subsidies by the Union and State governments for various purposes has always been plagued by pilferages, wastes and corruption. To prevent this, Government of India has launched the programme for direct benefit transfer (DBT) of subsidies to the bank accounts of beneficiaries by linking these accounts to their AADHAR numbers. The scheme expectedly has brought transparency into the system, while reducing corruption and leakages.

Starting initially with 20 districts and covering scholarships and social security pensions in January 2013, within the next 10 months, DBT was extended to 121 districts covering 21 schemes run by nine union ministries. These schemes pertained to the welfare of women and children, especially the girl children, besides providing scholarships to students, including those from the disadvantaged sections. In November 2014, Government of India had launched a scheme for extending the DBT in respect of LPG subsidy in 54 districts in 11 states whereby cash equivalents of subsidy amounts - the difference between market price and subsidised price of LPG cylinders - were to be transferred directly into the bank accounts of LPG consumers, while making the cylinders available only at a single market prices. By January 2105, the scheme covered over 15 crore consumers across all 646 districts of the country, making it the world's largest direct subsidy roll-out scheme.

There is no doubt that the DBT scheme has increased the efficiency of subsidy administration beyond measure and it is hoped that the scheme would soon be extended to cover the entire gamut of subsidies in the country. Here the Government has successfully leveraged technology to improve the economic lives of the poor, and achieved better targeting of beneficiaries while ensuring economical and efficient transfer of financial resources to poor households to 'expand the set of antipoverty tools the government has in its armoury', as the Economic Survey for 2015-16 has noted. The survey has claimed that such well-targeted cash transfers can boost household consumption and asset ownership, while increasing the effectiveness of the existing anti-poverty programs. The technological platform that can facilitate this in a less distortive manner has been named the 'JAM Number Trinity', covering the **J**an Dhan Yojana, **A**adhaar and **M**obile numbers, and the delivery mechanisms that have been identified are mobile money and post offices with their enviable network of 1.55 lakh offices reaching out to the remotest corners of the country, which can be used to extend the direct cash transfer benefits to people living in the remotest outposts of India.

Doubtlessly, cash subsidy is better than price subsidy which distorts markets in various ways that ultimately hurt the poor, and there cannot be two opinions that DBT is a much better option for rolling out subsidies. There also cannot be any dispute that in a country that still falters in defining poverty and fumbles in estimating the number of its poor, eliminating or phasing down of subsidies cannot be an option. Poor, marginalised and the vulnerable must be provided with adequate safety net, with a view to ultimately empower them with income-earning capacity so as to obviate the need for any more subsidy. The question is about the route to such empowerment, and when this question is considered, the optimism exuded by the Economic Survey that by seamlessly linking the JAM Number

Trinity, once all the subsidies are rolled into a single or a few monthly transfers, the *Nirvana* of real progress in terms of direct income support to the poor will be attained seems rather misplaced.

Subsidies, even if targeted carefully and transferred efficiently by eliminating leakages, may not necessarily transform overnight into an empowering and enabling mechanism, helping the poor to overcome the hopelessness of their situations. To emerge from poverty, the only viable option is employment which demands a skill-set. Such a skill-set can be imparted only by quality education, to which the poor has no access. Unless conditions are created for such empowerment, a subsidy will always remain what it is, a debilitating dole, making the poor permanently dependent on the Government for their sustenance and thus making them a captive vote bank for any political party that holds out the promises of such doles, as we have witnessed in election after elections in our country. It suits the political class to keep the poor in a permanent state of impoverishment, and empowering them in real terms by developing employable skill and knowledge is not in the interest of political parties, given the trends in our current socio-political discourses. The keys to such empowerment are education and health of the youth – both always go together. We have a plethora of schemes devised for extending doles to the poor in the name of anti-poverty intervention, but mechanisms necessary to create and augment the earning capacity of the poor to overcome poverty are singularly absent in these schemes.

Seven decades since independence from exploitative colonial rules and eleven five year plans which have doled out lakhs of crores of rupees through countless anti-poverty schemes have failed even to eradicate absolute poverty characterised by severe deprivation of basic human needs. A quarter of population still remains illiterate and suffer from serious handicaps arising from lack of quality healthcare, drinking water, nutrition and sanitation. Public infrastructure for primary, secondary and college education remains pathetic in most places, barring a few isolated islands in the elite institutions managed and funded by the Central Government. As the Annual Status of Education Report published every year by the educational NGO Pratham indicates, half of the children in our primary schools are nowhere near their class-age appropriate learning levels. Delivery of merit goods and services like education and health remains dismal, if not non-existent, in most states. Thus millions of graduates and post-graduates emerge every year from our temples of learning without acquiring any employable skill-set or knowledge. Public healthcare also presents a similar dismal scenario, with services available at most of the primary and secondary heath centres remaining far below optimal. We cannot dream of achieving higher or double-digit growth rates touted by our leaders if the vast multitudes of our rural, non-city dwelling people are left out of the growth trajectory, who are unable to afford the cost of private education or healthcare and have access only to the mostly dysfunctional municipal/ panchayat schools or equally dysfunctional government dispensaries. The end result is that they remain permanently at the bottom of the pyramid, adding little value to the economic system, and getting little benefit and hardly any value in their lives.

The most serious problem that continues to plague our delivery system is the state's very limited implementation capacity to target and deliver services to the poor. It does not arise from any constraint of resources; in fact, the Government spends about Rs 3.78 lakh crore -more than 4 percent of our GDP - every year on providing subsidies on a few commodities and services like rice, wheat, pulses, sugar, kerosene, LPG, naphtha, water, electricity, diesel, fertiliser, iron ore and railways. Compare this to the Central Government's total plan outlay of Rs 4.26 lakh crore as per the revised estimates of 2014-15 to understand the magnitude of Government subsidy-expenditure which serves only a very limited purpose for a limited span of time. It is not simply the efficient allocation of

resources which can be the route to the *Nirvana* as so consummately wished in the Economic Survey. It is actually a question of outcomes, for which the focus need to be shifted from restructuring of economic reforms to restructuring of our delivery system.

Some of the countries have successfully bridged the gap between the two by novel designing of the social welfare schemes and addressed their inherent structural incapacities, and in doing so, not only have lifted millions of their poor out of poverty by empowering them in real terms, but also eliminated absolute poverty and boosted real disposable income in the hands of people. Brazil and Mexico are often cited as examples of what a well-designed Government program can achieve. Much has been talked about Brazil's *Bolsa Família* program launched by Luiz Inácio Lula da Silva, the President of Brazil from 2003 to 2011. Successful implementation of social sector welfare programs like *Bolsa Família* to address the question of poverty and *Fome Zero* (Zero Hunger) to combat hunger were the major hallmarks of his presidency and have redefined the socio-economic landscape in his country, from which we also can draw lot of lessons.

Directly Says it –II

Bolsa Família, meaning *'Family Allowance'* in Portuguese, is a part of federal assistance programme of the Brazilian Government. It is not simply a poverty-reduction strategy like our MNREGA, but is meant to address the needs of the poor and fill in the existing gaps and inequities in the delivery and actual outcomes of education, health and social assistance programmes of the Government. To understand its role, we have go back to Brazil's socio-economic conditions in the 1990s.

Till the early 1990s, Brazil was mired in a web of crises, much like our own. About 45 per cent of the population lived below the poverty line - half of them sunk in absolute poverty. With Gini coefficient measuring at more than 0.6, it also had one of the highest income inequalities in the world. Poverty, exclusion and backwardness made the country a potential volcano, ready to erupt at any moment. Under the new 1988 constitution, the country undertook extensive reforms by liberalisation of trade and financial sectors, decentralisation and deregulation, elimination of forex barriers, privatisation and enforcement of fiscal discipline which together bolstered the market and generated additional income. The additional income was meant to be spent on social welfare programmes and by the beginning of the new millennium, there was a horde of these programmes, much like in our country, often with overlapping objectives and unclear goals. Elimination of hunger, reduction of poverty, improving delivery of quality education, healthcare and ensuring gender equality were the focus of most of these programmes. Different executing agencies, diverse spending modalities, multiple funding sources as well as diverse information systems and duplication of efforts were affecting the implementation of these programmes, much like in our own plan schemes. Some of these programmes also featured a component of cash transfer, like our DBT; some even transferred the cash on fulfilment of certain conditions, making it a Conditional Cash Transfer (CCT) as opposed to DBT. These conditionalities were based on two objectives: (1) to alleviate poverty today and (2) to increase the poor people's stock of human capital for tomorrow. To fulfil the first, identified poor families were given program payments in cash. The second was achieved by making those payments conditional to specified behaviours on the part of the beneficiaries, like compulsory enrolment and attendance of their children in schools and their compulsory immunisation and regular public health check-ups in government-run clinics.

After Lula da Silva became President in 2003, all these diverse programmes were integrated and unified into *Bolsa Familia*, with redefined vision, objectives and goals which focussed on access to

social services like health, education and social assistance as much as upon the outcomes of the programmes on a sustained basis, by improving food and nutritional security and achieving a synergy between different government programmes. As Soares (2011, 55) had said, "The evolution of *Bolsa Família* is the story of a fight for legitimacy in the sphere of social protection policies in Brazil." It also put a target to cover all the poor families, estimated at 11.1 million by 2011.

Under the programme, cash benefits were extended to indigent families depending on their levels of income and impoverishment, but subject to certain conditions which included (i) compulsory enrolment of all children in schools; (ii) their minimum 85 percent attendance every month to be reported by the schools; and (iii) regular visits to health centres and following the immunisation calendar of the Ministry of Health, to be reported by the health units at the municipal level. It thus provided a minimum income to poor and vulnerable families, while ensuring to lift their children out of poverty in future, by providing them with skill and knowledge and ensuring their health.

While the unification of various programmes and redefining of the objectives streamlined the programmes and processes, the constraints the nation faced in implementing the programme were truly formidable. These basically arose from lack of capacity, just like in our case. How does the Government set up a quality infrastructure of hundreds of schools with qualified teachers and health clinics with qualified doctors to cover all the targeted families? Without the teachers, doctors and schools and clinics, the programme would only remain in paper. And setting up any kind of school will not do - quality was the keyword here, without which the objective of creating a stock of future human capital capable of adding to the productive capacity and earning incomes was unachievable. Side by side, a real-time information system needed to be created for recording school attendance and clinic check-ups. Fund, however, was not a major constraint. International aid agencies also pledged their support to the programme on the understanding that quality education would boost economic growth by raising incomes and also improve the quality of life. Besides, the programme was inexpensive - total investment in the programme was only 0.2 percent of GDP in 2003 which subsequently increased to 0.43% in 2012. But creation of the requisite massive capacity was a daunting challenge not addressable in the short term; hence the programme had to be rolled out in phases, starting with a few municipalities in 2003, and gradually extending after creating capacity in terms of establishment of schools and clinics with qualified teachers and doctors, to cover the entire country by 2011.

In 2009, the ceiling of 11.1 million beneficiaries was revised upwards to 12.9 million families, also to include the non-poor but vulnerable families that ran the risk of sliding below the poverty line; this led to increase in programme expenditure to 0.43 percent of GDP. In 2012, the coverage was extended further to 13.7 million families comprising 56 million people, making it the largest CCT programme in the world. The high coverage and good targeting of the programme led to astounding results. Within a decade, by 2012, poverty in Brazil had fallen to just 9 per cent of the population; extreme poverty almost disappeared as per capita income rose from US$ 3000 in 2003 to US$ 13000 in 2012. There were distinct improvements in the job market and real minimum labour wage also increased, and inequality reduced consequently. Besides, there was no negative impact on labour supply, unlike sometimes observed in case of our MNREGA. *Bolsa Familia's* contribution on the reduction of poverty, inequality and extreme poverty was estimated to be very significant by all scholars and evaluators.

Other Latin American countries also replicated similar CCT programmes with equivalent measures of success, like *Oportunidades* in Mexico or *Chile Solidario* in Chile for extending support to impoverished families. These programmes focussed on social and economic inclusion while facilitating easier access

of the poor to Government's social sector programmes. Since then, many developing countries had set up some kind of CCT programmes. Nearer home, Indonesia has implemented an unconditional cash transfer programme called *Bantuan Langsung Tunai* to mitigate the impact of fuel subsidy reductions for over 19 million poor and near-poor households like our LPG subsidy programme, while a CCT programme called *Program Keluarga Harapan* (PKH) started in 2007 now has been implemented in all its 33 provinces, covering around 1.5 million - about a quarter of the very poor Indonesian households. The objectives of PKH are very similar to those of *Bolsa Familia*, to reduce poverty in the short run by aiding immediate consumption of the poor households, while investing in future generations through improved health and education to develop future human capital for making the final frontal attack on poverty in the long run.

Can we emulate some of these initiatives in our country after making the necessary adaptations and modifications to increase the efficiency and effectiveness of the delivery mechanisms of our anti-poverty programme? Can we make our village school and primary health centre something like a model school and a model health clinic? If we can, it will be a win-win situation for all.

As Brazil's example has taught us, successful implementation needs building up of capacity at the levels of municipalities by sourcing local talent and resources, and to extend the programme coverage in a phased manner only after the requisite capacity has been created in this manner. We have our village panchayats at bottom of the pyramid which are in direct contact with the grassroots level. It will not be difficult to equip them adequately for exercising effective monitoring at the local level. Suppose the Panchayat schools are to be manned by local talent - qualified, trained and adequately compensated. For carrying out the basic immunisation and nutritional checks of students in these schools, we may not need full-fledged doctors; paramedics produced with lesser effort may suffice. Careful designing and planning can take care of both these requirements in the medium term. Once we launch a CCT programme, say in a few Panchayats to begin with, after meeting these requirements, its coverage can be extended in a phased manner, concomitant with the creation of required additional capacity. This can then transform the rural landscape – with students coming out of Panchayat schools with knowledge and skill appropriate to their age, with health and hope, armed to combat poverty. This will also stop migration of local talent to cities and derive better synergy from the existing infrastructure. The total additional expenditure will only be miniscule compared to what we are spending today for our anti-poverty progrmmes and interventions. We may not realise the results in the short term, but national objectives are always achievable in the long run. Will a Government take the plunge and dare to set its vision far into the future? Will it ever think of an alternative strategy for alleviation of poverty other than doles that only create dependence?