Cash versus in-kind transfers: What do beneficiaries really want?

blogs.lse.ac.uk/southasia/2013/09/30/cash-versus-in-kind-transfers-what-do-beneficiaries-really-want/

2013-9-30

***Maitreesh Ghatak**, **Chinmaya Kumar**, and **Sandip Mitra** examine the factors that determine whether beneficiaries prefer receiving in-kind or cash transfers.*

In the last few decades, there has been growing interest in the use of cash transfer (CT) programmes, rather than direct provision by the government, to achieve a wide range of developmental goals. The Government of India recently launched the 'Direct Benefit Transfer' that aims to reduce the leakages in various welfare programmes by directly transferring the benefits to the beneficiaries' accounts. The government's plan to replace in-kind transfer (IKT) programmes – including the public distribution system (PDS) – with a CT programme has been fiercely debated.

The proponents of the CT approach argue that most IKTs have failed to deliver because their implementation requires active involvement of the public administration, which lacks capacity and is unaccountable. Other criticisms against IKTs include corruption and leakage, supply of substandard quality, and to the extent local governments are involved, political bias in distribution. The supporters of IKTs, on the other hand, point to disadvantages inherent in a CT programme – misuse of money, price fluctuations in the underdeveloped rural markets, greater vulnerability of women and elderly – and argue that reforming the existing programme is a more sensible approach than replacing it with a CT programme.

This debate has brought up a wide range of issues that needs to be considered while assessing the relative efficacy of benefits transfers. However, it is also becoming polarised, and the tendency to argue either for or against the cash transfers has diverted our attention from understanding the reasons why a particular transfer programme works or fails in a given context.

To improve understanding of root causes, we need to develop an analytical framework to systematically explore how various forms of benefits transfers interact with a wide range of household and community-level factors. We need more empirical evidence on the performance of cash transfer programmes that replace existing in-kind transfer programmes. We also need to study beneficiary preference between different forms of transfers—unconditional cash transfers, conditional cash transfers, and IKTs.

This paper attempts to fill some of these gaps by studying the performance of a conditional cash transfer scheme in Bihar, Mukhyamantri Cycle Yojna (Chief Minister's Bicycle Programme), which provides money to purchase a bicycle to every student who is enrolled in standard nine of a government run/aided school (from the academic year 2012-13, the government also imposed an additional conditionality: only children with at least 75 per cent attendance would receive money for the bicycle). We conducted a household survey among beneficiaries of this programme in 36 villages spread across six districts of Bihar in September and October, 2012, to answer the following questions:

- How has this programme performed in terms transferring the benefits to eligible beneficiaries?
- Whether the money received under this programme was utilised by the beneficiaries to purchase a bicycle?
- What are the factors that determine whether the beneficiaries use the programme money to purchase a bicycle?
- Whether the beneficiaries prefer receiving a bicycle instead of cash?
- What are the determinants of beneficiaries' preference for cash versus kind?

Basic results

- The data reveals that only 3 per cent of the total beneficiaries reported not having benefited despite meeting the eligibility criteria. This suggests that this programme has done remarkably well in terms of covering the beneficiaries who meet the eligibility criteria.
- 93.3 per cent of the beneficiaries received the right amount of money. This clearly means that it is very difficult for school authorities to make money by denying the eligible beneficiaries the amount they are entitled to receive.
- Approximately 10 per cent of beneficiaries reported receiving a coupon or a bicycle, and the rest received the benefit in the form of cash. This suggests that there is a possibility that 10 per cent of the beneficiaries may not have received a bicycle worth their entitlement. The phenomenon of transferring benefits in the forms of coupon or cycle seems more prevalent in underdeveloped districts.
- Only 9 per cent of the households had any kind of grievances related to the programme, which suggests that a large majority of the beneficiaries were satisfied with the programme.
- 98 per cent of households surveyed did buy a bicycle using the programme money (though this data is likely to be biased as beneficiaries may not want to report that they 'misused' the programme money).
- Only 45 per cent of the beneficiaries surveyed preferred receiving cash over kind.

Determinants of households' preference between cash and kind

A wide range of factors can influence households' preference for cash versus kind: the programme design, its implementation, households' socio-economic characteristics, and access to markets. It would be useful to classify most of these factors in two categories: the demand side and the supply side. The demand side includes factors relating to various household and village characteristics: income level, access to credit, household size, occupation, distance from the district town and bicycle stores, etc. The supply side, on the other hand, includes factors that determine the effectiveness and efficiency of the programme. The following are some of the key supply-side factors:

Conditionality: The cash transferred under this programme comes with a condition that the beneficiaries submit a receipt provided by the bicycle store on purchasing a bicycle. But our data shows that around 30 per cent of the beneficiaries had to submit a receipt even before they received the money from the school. This means that the beneficiaries who submitted a receipt before receiving the money had to either purchase a bicycle using their own funds or had to arrange for a fake receipt.

***Delays in* payment:** The data suggests that there are often huge delays in disbursement of money—half the beneficiaries reported that they received the money after they had entered the tenth grade, meaning that it was delayed by at least six months.

Inadequate money: Almost every beneficiary (98 per cent) had to add money in order to purchase a bicycle. The market price of the cheapest bicycles ranges between 3,100 and 3,300 rupees, requiring beneficiaries to add at least 600 to 700 rupees at minimum. The inadequacy of the transfers might make some households less likely to support a cash transfer programme.

In terms of preference for cash or kind: Beneficiaries who had to submit a receipt before receiving the money were 20 percentage points less likely to prefer cash compared to those who submitted the receipt after receiving the money. None of the other supply side factors seem to have any impact on beneficiaries' preference for cash versus kind.

Key demand-side factors include:

Income and liquidity constraints: We have seen earlier that the money provided under this programme is not sufficient to purchase a new bicycle and most beneficiaries have to spend additional money to make the final purchase—72 per cent of the beneficiaries used their own savings, while 25 per cent had to borrow money. Beneficiaries who are poor or facing short-term financial problems may not like this programme even if it performs well in terms of reducing leakages.

Self-control problems and intra-household conflict: Households with greater intra-household conflicts or with self-control problems may prefer receiving benefits in-kind as it works as a commitment device, assuming resale is not an easy option.

In terms of preference for cash or kind: Unlike supply-side factors, demand-side factors have significant effects on beneficiary preference. Beneficiaries belonging to richer households are more likely to prefer cash over kind than those belonging to poorer households. This might be because the money provided under this programme is insufficient to purchase a new bicycle and most beneficiaries need to add money. While the rich can use their own savings, the poor have no option but to borrow—the results show that beneficiaries who had to borrow the additional money required to purchase a bicycle were 16 percentage points less likely to prefer cash over kind than households who used their own savings to meet this requirement. Moreover, beneficiaries who belong to villages that are very far from a bicycle store were less likely to prefer cash over kind.

Overall, the results from our survey show that the bicycle programme has performed well in terms of coverage rate and curtailing direct forms of corruption. However, a large majority of the beneficiaries stated their preference in favour of receiving the benefits in-kind instead of cash. Our analysis of determinants of beneficiaries' preference for cash versus kind suggest that the demand-side factors and village characteristics (accessibility of markets) play a dominant role in shaping beneficiaries' preference, though a few supply-side factors related to how conditionalities are imposed also seem to matter.

For more information, including a discussion on the data and findings, see M. Ghatak, C. Kumar, and S. Mitra, "Cash versus kind: Understanding the preferences of the bicycle-programme beneficiaries in Bihar", International Growth Centre Working Paper, July 2013.