SMALL BUT EFFECTIVE:
INDIA'S TARGETED UNCONDITIONAL CASH TRANSFERS

Puja Dutta, Stephen Howes and Rinku Murgai[1]

Abstract

India's approach to social security stresses the provision of subsidized food and public works. Targeted, unconditional cash transfers are little used, and have been little evaluated. An evaluation of cash transfers for the elderly and widows based on national household survey data and surveys on social pension utilization in two of India's states, Karnataka and Rajasthan, reveal that these social pension schemes work reasonably well. Levels of leakage (corruption) are low, funds flow disproportionately to poorer rather than richer households, and there is strong evidence that the funds reach vulnerable individuals. A comparison to the public distribution system reveals that the main strength of the social pensions scheme is its relatively low level of leakage. We hypothesize that social pensions suffer less from corruption than India's other safety net programs either because of the low levels of discretion involved in their delivery, or the small size of the transfers involved. Since we cannot choose between these two hypotheses, the scaling-up of the social pension schemes, currently underway, while warranted, should be closely monitored.

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Keywords: Social security; pensions; unconditional cash transfers; India; widows

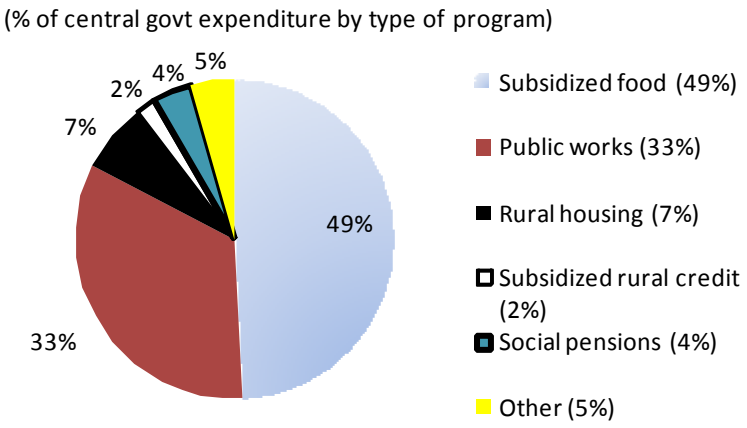
Corresponding author:
Prof Stephen Howes, Director
International Development & Economics
Crawford School of Economics & Government
J.G. Crawford Building (132)
Australian National University
Canberra ACT 0200

[1]Puja Dutta (pdutta@worldbank.org) and Rinku Murgai (rmurgai@worldbank.org) are in the New Delhi Office of the World Bank. Stephen Howes (stephen.howes@anu.edu.au) is at the Australian National University. We would like to thank Juan Muñoz and Philip O'Keefe for their collaboration, support, advice and comments throughout the research which led to this paper. We also acknowledge support from the DFID World Bank trust fund to carry out this research for the India Social Protection Report (World Bank, forthcoming). We thank participants at ISI and ANU seminars for their comments, as well as Jean Drèze for his. All views expressed in this paper, and any errors, are our own.

1. INTRODUCTION

India's safety net costs about 2% of GDP, relatively high for a country of India's income per capita (Weigand and Grosh, 2008). Government social security policies emphasize subsidized food, through the Public Distribution System, and public works programs, through the National Rural Employment Guarantee (World Bank, forthcoming, provides a recent overview). Targeted, unconditional cash transfers (called 'social pensions' in India) are provided to specific social groups – the elderly, widows, and disabled – but are small by comparison. Figure 1 shows central government safety net spending in 2008–09. Social pensions make up less than 4% of the total, compared to almost half for subsidized food, and about a third for public works.

Figure 1. Distribution of central government spending across safety net programs, 2008–09



Notes: 'Subsidized food' includes food and fuel subsidies and mid-day meals; Public works includes NREG and SGRY; 'rural housing' is Indira Awaas Yojana; Subsidized rural credit is SGSY; what is labelled 'social pensions' actually also includes a maternity benefit scheme and Annapurna (the provision of subsidized food to the elderly), and so is an overestimate; 'other' includes welfare schemes for SC/ST, RSBY, central welfare funds and urban social protection programs. *Sources:* Budget documents of various departments.

This domination of the Indian government's social security strategy by public works and subsidized food is well entrenched. Public works spending has expanded greatly in recent years as a result of the 2005 National Rural Employment Guarantee Act (NREGA) which guarantees 100 days of employment to all rural workers who want it. The Right to Food Bill currently under discussion would give subsidized food the same sort of legislative backing which public works received through NREGA.

If social pensions are a small and relatively unimportant part of India's safety net, why do they deserve study? For four reasons. First, as our study shows, the pensions, though small, are important to their recipients. In Rajasthan, almost 75% of pensioners listed their pension as their most important source of income. About 6 million Indians receive the old-age pension and about 3 million the widow's pension.

Second, the Indian government is scaling up the pension schemes. In 2007, participation criteria were relaxed, and the pension amount doubled.

Third, India is home to one-fifth of the world's population and, using World Bank data and definitions, about one-third of the world's poor. India's strategy for tackling poverty is of global interest. Given the resurgent global interest in cash transfers to the poor, both conditional (World Bank, 2009) and unconditional (IDS, 2006), India's experience with these instruments is of global interest.

Fourth, there is long-standing dissatisfaction in India with its major safety net schemes, and, on this basis, recurrent suggestions that more emphasis should be given to cash transfers. Recently Devesh Kapur, Partha Mukhopadhyay and Arvind Subramaniam in their 2008 *Economic and Political Weekly* article made 'The case for direct cash transfers to the poor.' Starting with the standard criticisms of India's anti-poverty programs that

> *…only a small fraction of overall resources reaches the poor due to, in varying degrees, targeting inefficiency (inability to reach the poor), leakages (to the non-poor), participation costs (foregone earnings that are especially consequential in employment programmes) and large administrative costs... (p. 38)*

Kapur, Mukhopadhyay and Subramaniam argue for 'a radical shift in the structure and mechanism of spending on poverty reduction programmes.' (p.38) But will the 'substantial direct transfers to the poor' (p.37) which these authors call for work any better than the current schemes which they critique? The authors in fact make no mention at all of the existence, let alone the performance, of cash transfers in the current expenditure mix.

Indeed, while some authors assert that India's social pensions reach the poor (Farrington et al, 2003), the evidence base is weak. The one published analysis we are aware of (Start and Deshingkar, 2006) in fact suggests dismal results, though the small sample size makes one wary of giving this study much weight.

This paper presents a simple evaluation of India's social pension schemes. We begin with a short description of the existing schemes (Section 2), and with the data we use to analyse them (Section 3). We then provide an analysis of the performance of social pensions (Section 4), followed by a comparison with the public distribution system (Section 5), before concluding (Section 6).

2. INDIA'S SOCIAL PENSION SCHEMES

In India, government pensions are provided to the poor elderly, poor widows and the severely disabled. Pension payments are largely funded by the centre but are administered by the states. The elderly and widows' pensions are intended only for the poor. Until recently participation criteria were defined by the states, and were intended to ensure only coverage of the very poor or 'destitute'. Recently, however, criteria have been relaxed, and now any elderly person or widow with a Below Poverty Line (BPL) card is entitled to the pension.

Monthly rates vary from state to state, depending on the co-contribution which the state governments make, but the amounts of money involved are small. At the time of our survey, 2005 and 2006, in the two states in which the survey was carried out, the standard pension payment was Rs 100 a month in Karnataka and Rs 200 in Rajasthan. These amounts have since increased to Rs 400 in both states. The mode of payment also varies from state to state. Both Karnataka and Rajasthan rely mainly on money orders, which can be cashed at a bank (or delivered to the beneficiary via the postal system), but both states also use cash payments at government offices (more common in Rajasthan) and payments into bank accounts (used in Karnataka).

The 2004–05 NCAER–University of Maryland India Human Development Survey (IHDS) survey found a national coverage rate relative to the number of elderly of about 7% for old age pensions (just under 5 million recipients) and similar coverage, relative to the number of widows, for the widows' pensions (almost 3 million recipients). Coverage rates also vary from state to state. Coverage rates in Karnataka, one of the states we surveyed are much higher: 20% for old age pensions, and 27% for the widow's pensions. Those in Rajasthan are closer to the national average, at 7% and 10% respectively.

3. DATA

To analyse the targeting and coverage of the social pension schemes, we rely primarily on analysis of the 2004–05 nationwide 41,000-household IHDS reported in Ajwad (2006). To get at issues of leakage, and for more detailed analysis of the social pension schemes, we analyse special-purpose household surveys carried out in the southern state of Karnataka (in 2005) and the northern state of Rajasthan (in 2006).

The two state surveys are representative samples of households with at least one elderly person or widow.[2] In Karnataka, both rural and urban areas were included in the survey, though not the capital Bangalore. The Rajasthan survey was focused on rural areas.[3] A detailed description of the sampling method is provided in Murgai (2006) for Karnataka, and Dutta (2008) for Rajasthan. In both states, 20 blocks (taluks) were selected and within these a number of smaller administrative areas.[4] Based on a second-stage unit listing operation of households with at least one elderly person or widow (referred to as elderly households, and widow households respectively), two strata of households were created: those households which received a pension, and those which did not (non-pensioner households, or potential beneficiaries). Households within both strata were randomly selected for interview. The first stratum was over-sampled as Table 1 shows.

Table 1. Sample sizes for Karnataka and Rajasthan social pension surveys

	Full Sample	Pensioner households	Non-pensioner households
Karnataka			
Elderly	670	160	510
Widow	1184	735	449
Both	646	321	325
Neither	4	4	0
Total	2504	1220	1284
Rajasthan			
Elderly	751	424	327
Widow	815	447	368
Total	1566	871	695

Note: The Rajasthan survey also included households with persons with disabilities. Those households have been excluded from the analysis in this paper. For explanation of the 'neither' category in Karnataka, see footnote 2.

[2] This is not strictly true, as households in receipt of one of these pensions could be included in the sample even if the individual receiving the pension was not actually elderly or a widow. In practice, the numbers in this category were negligible: none in Rajasthan, and just four households in Karnataka.
[3] The Rajasthan survey was designed to also examine performance of the pension program for persons with disabilities. In this paper, we draw only on the results for elderly and widow pensions.
[4] In Karnataka, the second stage of sampling was based on postal delivery areas and polling stations. In Rajasthan, gram panchayats were used for second-stage selection.

A short questionnaire was administered to each household, with common questions on household characteristics addressed to both groups and separate modules on information related to the pension schemes designed for the two groups. For pensioner households, the special module solicited information on program eligibility criteria and various transaction costs associated with the application process. For non-pensioner households, the special module also collected information on whether the potential beneficiary met the program criteria, besides information on failed tries to get a pension or reasons why a potential beneficiary chose to never apply for a pension.

Finally, the Karnataka study also entailed an examination of the treasury department's computerized pension database to examine leakage. A similar exercise in Rajasthan was not feasible because pension records were only partially computerized.

4. PERFORMANCE OF THE SOCIAL PENSION SCHEMES

We use three criteria to judge the performance of the social pension schemes:

- *Coverage*: what percentage of the targeted population actually benefits from the scheme?
- *Targeting*: do the schemes benefit the poor and vulnerable?
- *Compliance*: is the scheme run according to guidelines; if not, at what cost?

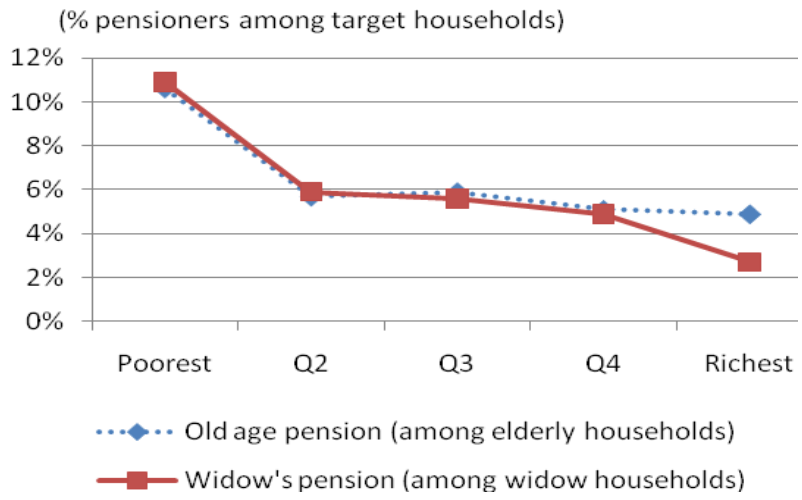
Of these three, coverage is the least useful for judging performance, since it depends on the budget made available to the program. Depending on performance in relation to the other two criteria – targeting and compliance – the budget of the scheme concerned can be scaled up or down. However, it is important to note that changing coverage can in turn impact on targeting and leakage. We explore this issue later in the paper.

4.1 Coverage

Coverage can be defined in relation to either the specific eligibility criteria of the schemes or their broad objectives, namely to support the elderly and widowed poor. Performance in relation to the former is in fact low, as states do not follow their own eligibility criteria. However, especially given that eligibility criteria have changed since the conduct of the survey, this is less important than whether the pensions reach the poor. We analyze eligibility in Section 4.3 in the context of a discussion about compliance. In this section, we focus on the extent to which pensions provide support for the elderly and widowed poor.

We draw on Ajwad (2006) for IHDS survey-based estimates of national coverage. Households are ranked into quintiles based on an index which combines data on household ownership of various assets and dwelling characteristics through principal components to proxy for household wealth (Filmer and Pritchett, 2001). Figure 2 shows the coverage of the target households (those containing at least one elderly person, and those containing at least one widow, respectively) for the two schemes by wealth quintile. The downward sloping nature of the curves in Figure 2 reflects the progressivity of the schemes, which is discussed in the next sub-section. But the low values on the vertical axis show the very low coverage of the schemes, which reaches only 10%, even among the poorest quintile.

Figure 2. National coverage rates of households with elderly or widows by wealth quintiles



Source: Ajwad (2006), based on 2004–05 IHDS.

To achieve full coverage of the schemes would require a massive expansion, at least given the new guidelines. Earlier guidelines called for coverage of half (the poorest half) of the elderly and widowed poor. The new guidelines call for full coverage of all poor. About one-third of Indian households have a BPL card. Full coverage for the old-age pension would thus correspond roughly to ensuring that every household in the bottom two quintiles with an elderly member receives an old-age pension. This is turn would require an increase in coverage from almost 5 million to almost 30 million on the (unrealistic) assumption that only households in these quintiles received a pension, and, without any improvement in targeting, would require an increase in coverage to 55 million.

It is hard to judge the extent to which the binding constraint on coverage is limited central government funds (the new guidelines explicitly state that the scheme will expand to meet demand from eligible applicants), but the state-level surveys are useful for understanding some of the reasons why coverage is not higher. They show that awareness is high but for universal. In both Karnataka and Rajasthan, about 70% of potential beneficiaries were aware of the old-age pension, but in almost half the areas sampled awareness of the existence of both pensions was less than 50%. In addition, the Rajasthan study indicated the level of knowledge was low – even among households that were broadly aware of the social pension schemes, only a small minority was aware of the details of the application process. Among potential beneficiaries who had heard of the schemes, 35% knew virtually no details of the scheme, 58% knew about the level of benefits only while only about 8% knew details of the eligibility criteria and the process of application. Qualitative work also indicated high awareness of the scheme but not of the application process including required documents, eligibility criteria and sanctioning authority, even among several *Sarpanches* (village government heads) interviewed.

In both states, one in three non-recipients had applied for a pension. Paying a bribe to become a pensioner is common – in Karnataka 28% of unsuccessful pension applicants reported paying a bribe. The average waiting time is a year in Karnataka, and six months in Rajasthan. The complexity of the process was a major deterrent to applying in both states.

4.2 Targeting

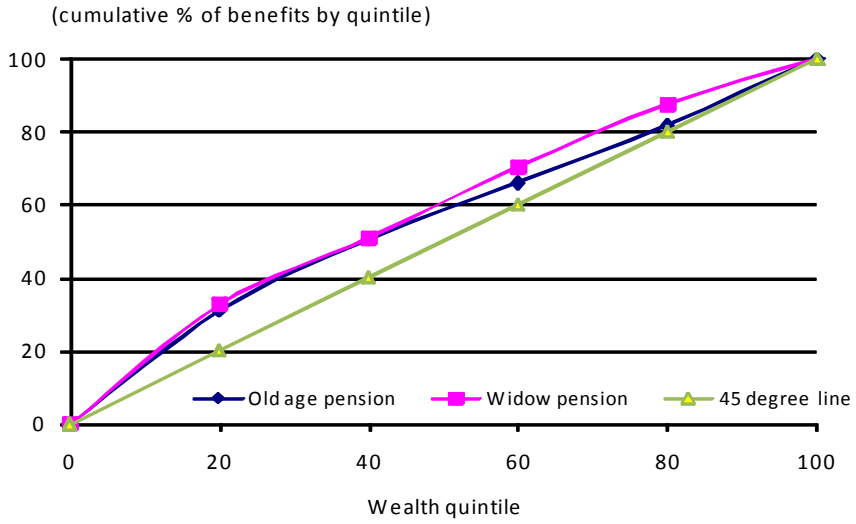
Households containing widows and the elderly are spread through the Indian population distribution and do not show great differences in poverty relative to the general population (Dreze and Srinivasan, 1997, Pal and Palacios, 2006). The elderly and widows themselves, however, do seem to be among India's poorest, once one looks beyond the veil of household income. Widows have higher rates of mortality than non-widows (Dreze and Srinivasan, 1997), and the elderly suffer from high rates of chronic illness.[5] Widows in particular are vulnerable to inequities in intrahousehold distribution (Chen and Dreze, 1992). Both widows and elderly people are more likely to be dependent on the incomes of others, and are vulnerable to shocks. This is particularly the case for those who live alone. For these reasons,

[5] 'In a major survey on health profiles of older people in India, covering 5,000 households in urban and rural areas, 45% of both men and women in the sample reported chronic illnesses. Smaller studies in India have also indicated that in addition to coronary, muscular and respiratory problems, close to 90% of older people surveyed had visual impairment and more than 40% suffered from some form of depressive illness.' (HAI, 1999, p.12)

it is important to look at the targeting of social pensions both over the general population, and within the sub-category of elderly and widows. It is also important, to the extent possible, to look at issues relating to vulnerability and the intra-household distribution of income.

Figure 3 shows the national distribution of social pensions by wealth quintile using concentration curves. The fact that both curves lie above the 45-degree line indicates that the distribution of both benefits is progressive.[6]

Figure 3. Concentration of pensioners by national wealth quintiles

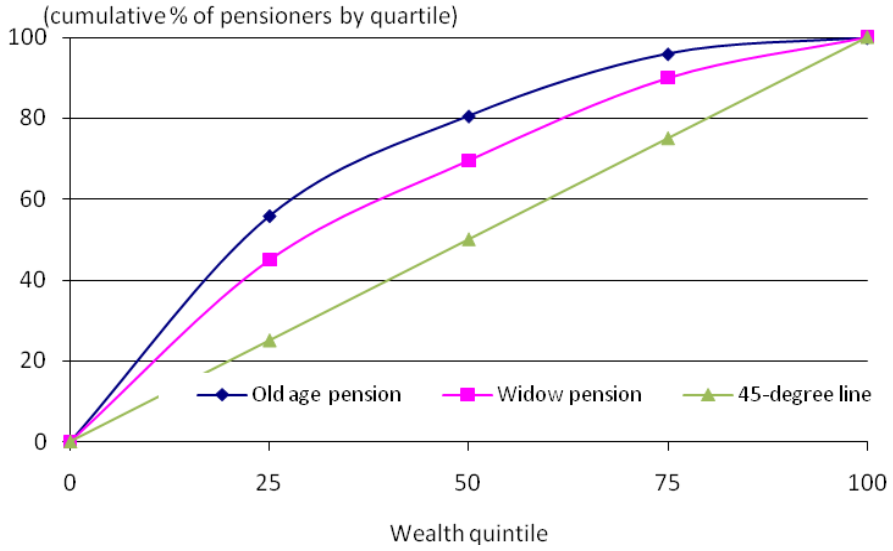


Source: Data from Ajwad (2006), based on 2004–05 IHDS.

We were able to construct a similar household wealth index for Karnataka. Figure 4 shows the distribution of pensions for Karnataka among elderly and widow households. This shows much greater progressivity than is evident at the national level among all households (as per Figure 3).

[6] Both Figure 3 and Figure 4 are defined in relation to the number of beneficiaries not the amount received by each beneficiary. Given that the pension amounts are uniform (at least within a state), and that non and partial receipt of the pension appears to be a relatively minor and distribution-neutral problem (Section 4.3), the distribution of beneficiaries across wealth quintiles and the distribution of benefits across quintiles will be about the same. In addition, using the number of beneficiaries at the national level has the advantage of abstracting from differences in pension payments across states.

Figure 4. Concentration of pensioners by wealth quartiles, Karnataka



Source: Karnataka Social Pension Survey.

Unfortunately, efforts to construct a wealth index for Rajasthan failed as the answers to the asset questions were adequate to clearly identify the rich but not to differentiate amongst poorer income groups. Table 2 shows a number of indicators by pension recipients and non-recipients. The pension is more likely to go to Scheduled Caste/Scheduled Tribe (SC/ST) groups in Rajasthan than other social groups, but other indicators hardly show any difference between pension and non-pension households. This suggests that the Rajasthan pension is mildly progressive, rather than highly progressive as in the case of Karnataka.[7]

Table 2. Select characteristics of pensioners and non-pensioners

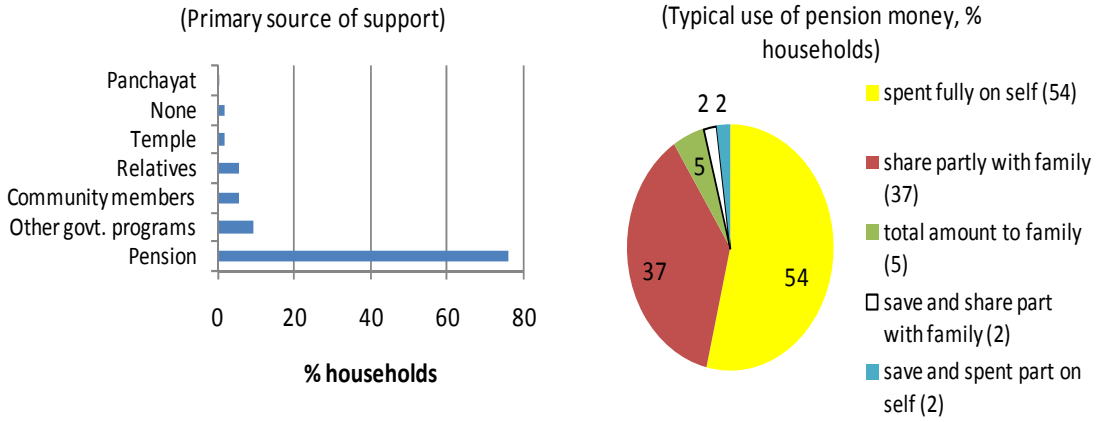
	Karnataka				Rajasthan			
	Pensioners		Non-pensioners		Pensioners		Non-pensioners	
	Widow	Old age	Widow	Old age	Widow	Old age	Widow	Old age
Land>1 ha	0.1	0.07	0.35	0.56	..	..	..	..
SC/ST	0.27	0.23	0.17	0.11	0.36	0.48	0.26	0.27
Pucca walls	0.42	0.31	0.68	0.68	0.28	0.21	0.28	0.27
Pucca floors	0.42	0.36	0.68	0.69	0.18	0.15	0.20	0.12
Pucca roof	0.42	0.32	0.66	0.67	0.20	0.17	0.22	0.26
Electricity	0.63	0.53	0.89	0.86	0.20	0.21	0.22	0.22

Source: Karnataka and Rajasthan Social Pension Surveys.

[7] An eight-state evaluation of the national social assistance program (including old-age pensions) conducted in 1998 by ORG also found that pension coverage among SC/ST, landless, illiterate households is high, about 40–60% of NOAPS beneficiaries were women, and more than 95% of beneficiaries met the age criteria.

Evidence on the success of the social pension as a response to the vulnerability of the elderly and widows comes from the Rajasthan survey. Figure 5 shows that, as mentioned earlier, nearly three-quarters of pensioners in that state rely on the pension as the primary source of support.[8] When one considers the small size of the pension payments, this is not only strong evidence that the pensions are largely being directed to poor households, but is also suggestive that, across the household income distribution, widows and the elderly lack income support from their households. Figure 5 also shows how recipients report that their pensions are spent. Only 4% save even part of their pensions, again suggesting that the pension beneficiaries are poor (too poor to save). More than half (54%) spend the pension on themselves, and only 5% give the entire pension to the family. This use of funds is consistent with the social pensions redressing intra-household inequities.

Figure 5. Sources of support for pensioners and use of pension

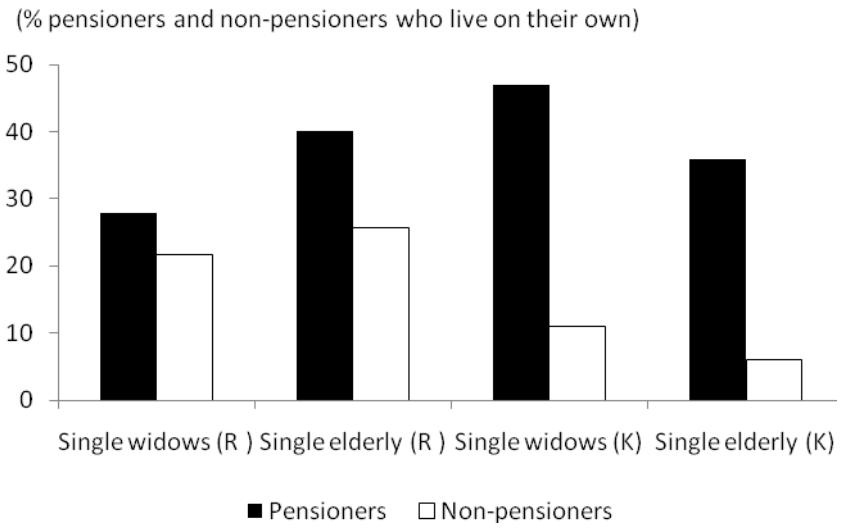


Source: Rajasthan Social Pension Survey.

Widows and old people who live separately are probably the poorest and the most vulnerable of all in these groups. Not being part of a larger household, they not only enjoy no economies of scale, but also are the least likely to receive household support. Figure 6 shows that both states, but especially Karnataka, are successful in picking out single widows and old people for receipt of the pension.

[8] This question was not asked in the Karnataka survey.

Figure 6. Participation of single widows and elderly in pension schemes

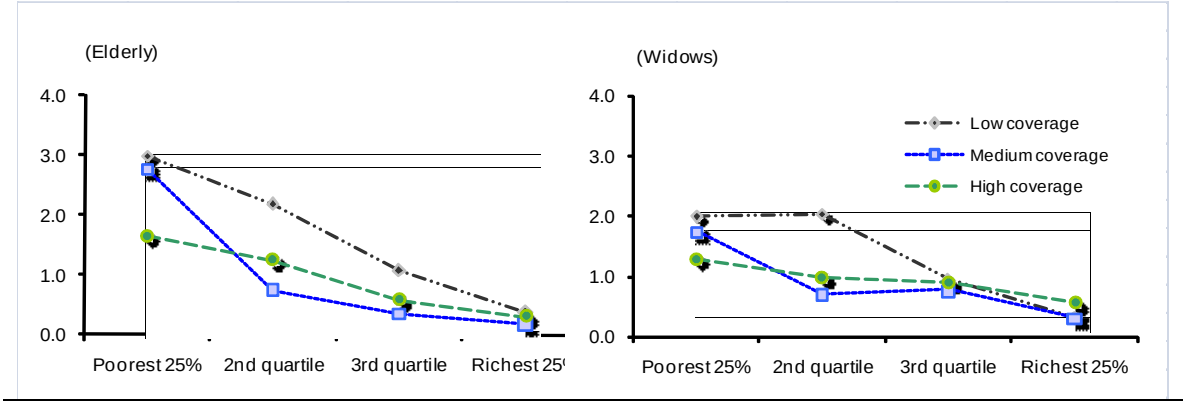


Source: Karnataka and Rajasthan Social Pension Surveys.

What would happen to targeting if coverage expanded? One way to assess this is to compare targeting performance across high and low coverage areas. Analysis for Karnataka (reported in Figure 7) shows that targeting is much more progressive in areas with low coverage. In low coverage taluks, the ratio of the share of pension benefits to share in total population of the poorest quartile of elderly is 3; this ratio falls to less than 2 in the higher coverage taluks. This suggests that targeting may weaken with expansion of coverage.

Figure 7. Targeting performance in low and high coverage areas of Karnataka

Ratio of share of pension benefits to share of population



Source: Based on Karnataka Social Pension Survey.

4.3 Compliance and leakage

There are at least five possible types of non-compliance. First, duplicate records in the administrative database of pensioners lead to the possibility that a pensioner is overpaid, or that someone else is cashing in one of the money orders. Second, if enrolled pensioners are not receiving payments because they are 'missing' (either do not exist, or have moved or died) there is the risk that fraudulent pension recipients are receiving the pension in their stead. Third, enrolled pensioners might not be missing, but still might not be receiving their pension in full, or even in part. Fourth, pensioners might have to pay bribes at the time of joining or during the year to receive the pension. Fifth, pensioners might be enrolled, but may not be eligible given scheme guidelines.

We are able to address the third and fifth of these issues using both state surveys, and the others using the Karnataka survey (in large part because of the state's computerized pension recipient lists).

In Karnataka, analysis was undertaken of administrative lists of pensioners to assess the extent of duplication of records.[9] Note that full addresses are not provided (and often do not exist in rural areas), so that the exact extent of duplication is unknown. Records contain data on name, father's/husband's name, and post office, as well as an identifier, which is meant to be but may not be unique for each household. An algorithm was run to assess the closeness of different records. Only 0.2% of records were virtually identical (for example, all details the same except the ID).[10] But 1% of records had a very high similarity score (0.9 or above) and 6% a high score (0.8 or above).

We were unable to check through fieldwork the probability that records assigned a particular duplication score were in fact duplicates. In the analysis which follows we simply assume that pairs with a score of 0.9 or above were duplicates, and pairs with a score below 0.9 are not. This gives a total of 1% of records as duplicates.

There is a concentration of likely duplicates in a small number of areas: half the duplicates were in two of the twenty blocks. It is unclear what pension payments are made to duplicates, though, if program guidelines are followed, money orders are printed for all records.

[9] Assessing the incidence of duplicate pension records or enrolled pensioners who cannot be traced was not possible in Rajasthan because the administrative database was only partially computerized.
[10] In theory, different IDs should indicate different households, but not in practice.

We came across no cases of households receiving double-pensions (or, at least, none who admitted it). It is possible that duplicate pensions are siphoned off by postal deliverers, or at some other stage of the process.

To measure the second problem of missing pensioners, in the areas sampled, the Karnataka survey team tried to find all enrolled pensioners. In 9% of cases, the enrolled pensioner could not be found. In half of these cases, the pensioner had moved away. In 30% of cases, the pensioner had died, and in 20% either the household was fictitious (i.e., could not be found) or the pensioner was (i.e., the household could be found but reported that the pensioner did not exist).[11] As with duplicates, the problem is concentrated geographically: 60% of cases were in the worst third of sampled blocks.

Households which were wrongly listed as containing an enrolled pensioner were not sampled, and we don't know the fate of pensions intended for these missing pensioners. This percentage will never go to zero, as pensioners will continue to die, and it will take some time, even in a perfectly-performing system, for this to be recorded. Nevertheless, it is reasonable to regard pensions intended for but not going to missing enrolled pensioners as a form of leakage.

Analysis of the extent of receipt of pension payments was collected for both Karnataka and Rajasthan. On average in Karnataka, enrolled pensioners receive 96% of their pension, and in Rajasthan 93%. There are two distinct problems in this regard. A large number of pensioners – one in five in Karnataka, and one in four in Rajasthan – report paying small bribes to the postman and government officials.[12] A small number of pensioners in both states report receiving much less than they are entitled to, or no pension at all. Note again the geographical concentration of the problem. If the two worst-performing blocks in Karnataka are excluded, the percentage shortfall falls from 4% to just 1%.

On bribes paid to join, as already mentioned, those who applied for a pension, but unsuccessfully, paid on average a fee of Rs 200 (in Karnataka). If we assume that successful recipients paid the same bribe on average, and amortize the fees both they and the unsuccessful applicants pay over a 20-year period (assuming a 6% discount rate), then this

[11] A very small percentage of listed pensioners could be found but had never received a pension. They were also counted as missing pensioners.
[12] Payments to government officials are more prevalent in Rajasthan since more pensions are distributed through government offices (in cash), and relatively fewer through the postal system (via money orders).

adds another 2% to leakage. The Karnataka survey also found that 8% of participants had paid a median amount of Rs 100–200 in the last 12 months in fees to various officials in order to receive a pension. This adds less than 1% to total leakage.[13]

Finally, we turn to the issue of eligibility. The criteria Karnataka and Rajasthan use for selecting poor widows and old people were, at the time of the survey, similar but not identical. The Karnataka criteria were more restrictive. Both Karnataka and Rajasthan restricted receipt of old age pension to those without adult children (adult family members in the case of Rajasthan) to support them. They both placed limits on own-income support and on household support for old age and widow pensions. However, demographic eligibility criteria for old age pensions were more stringent in Karnataka (only those without a spouse are eligible). The reverse was true for widow pensions, where Rajasthan further restricted receipt to those without adult family members. An important difference was that in Rajasthan BPL status overrode all other income support and demographic (i.e., family member) criteria. In other words, at the same of the survey, Rajasthan, but not Karnataka, applied what is now the nationally mandated practice of providing pensions to all elderly and widow with a BPL card.[14]

Were these criteria enforced in practice? In Karnataka, the criteria were honoured almost entirely in the breach – only 9% of recipients of the old-age pension and 1% of recipients of the widow pension met all the demographic and destitution criteria. Pensions went entirely to the elderly and widows. But many old people in receipt of a pension have adult children or grandchildren, and have income or income support in excess of what is allowed. The situation was not much different in Rajasthan, but the BPL clause allowed a much higher share to be eligible. Only 26% of elderly pensioners and 9% of widowed pensioners would have been eligible in Rajasthan were it not for the BPL clause.

[13] It is assumed that these bribes are additional to the ones causing incomplete receipt of the pension. In practice, there might be overlap. An unpublished study of social pensions in Himachal Pradesh found that there are high transaction costs in the application process, but also that the administration of the scheme is fairly smooth once pensions are sanctioned. For instance, the application process in HP was fairly lengthy with only 25% sanctioned within six months and the average time taken is slightly over a year. There are high satisfaction levels with the scheme, particularly with respect to selection procedure and regular payments but the amount is perceived as insufficient (the benefit amount at the time of the HP study was approximately Rs.100 depending on pension type).

[14] The difference between then and now is that now BPL status is mandated to be the only criterion. At the time of the Rajasthan survey, it was possible to get a pension even without a BPL card provided the other criteria were met.

Table 3. Percentage of pensioners and non-pensioners satisfying eligibility criteria

Criteria	Old age pension		Widow's pension	
	Pensioners	Non-pensioners	Pensioners	Non-pensioners
Karnataka				
All demographic criteria met	35.5	11.3	100	100
Demographic & destitution criteria met	9.2	1.2	16.4	14.5
Rajasthan				
Holding a BPL card	57.8	35.9	50.9	47.1
OR, no BPL card but demographic & destitution criteria met	11.6	9.3	3.9	10.9
Memo: Demographic & destitution criteria met (regardless of BPL status)	26	13.1	9.4	16.6

Source: Karnataka and Rajasthan Social Pension Surveys. *Notes:* Destitution criteria refer to lack of own income or income support in the case of Karnataka and to lack of own income in the case of Rajasthan. In the case of Rajasthan, to be eligible a pensioner must either have a BPL card or meet the demographic and destitution criteria. In the case of Karnataka, both demographic and destitution criteria must be met.

The demographic criteria were evidently too strict. Moreover, household and own-income are difficult to observe, and evidence from Karnataka suggests that own-income for pensioners is inversely correlated with household wealth: poorer pensioners have to work. Family support is also difficult to verify.[15]

Given the recent reforms and the linking of social pensions to BPL status, non-compliance with the eligibility criteria is of only historical interest. A summary message of leakage can be obtained by aggregating the other four types of non-compliance. In Karnataka, these add to about 17%: 4% from partial or non-receipt of the pension; 9% from missing pensioners; 3% from joining and on-going fees or bribes; and 1% from duplicate records. In Rajasthan, only leakage due to partial/non-receipt of the pension is available. This amounts to 7% (relative to 4% in Karnataka).

Overall, the results of this evaluation of the social pensions are moderately positive. The targeting of the scheme is moderately progressive, though this clearly varies from state to state. Equally or more importantly, the social pensions target the vulnerable, and provide an independent income stream for those who would otherwise be dependent and powerless. Leakage, while present, is moderate.

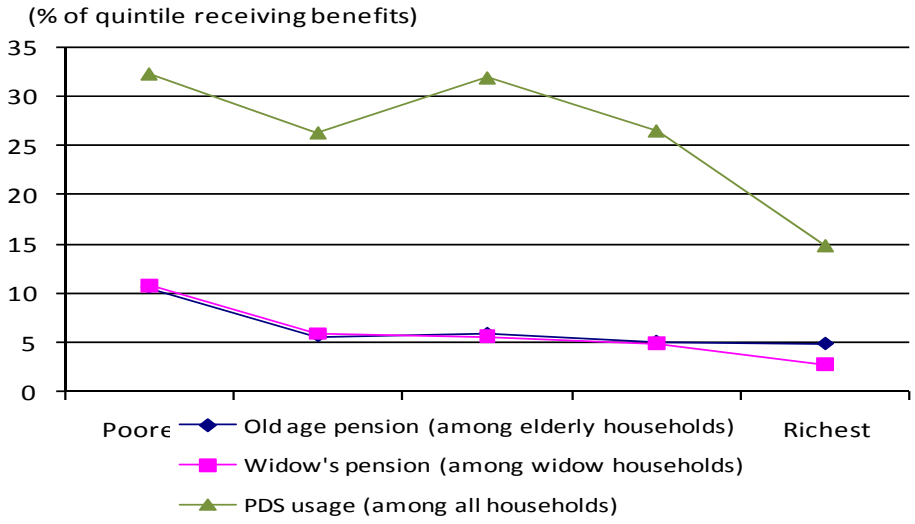
[15] A now dated but still relevant report by ORG (1998) also found that destitution criteria were problematic. The onus of authenticating destitution in the eight states which ORG covered was on the *Panchayat* or village functionaries. However, awareness of the destitution criteria among these functionaries was low. Interviews with *Sarpanches* in the sample GPs indicate that awareness of eligibility and the application process is low in Rajasthan as well.

5. Comparison to the Public Distribution System

To put the evaluation of the social pensions into context, it is useful to present a parallel evaluation of India's largest anti-poverty program, the public distribution system.[16] Data on PDS utilization was also collected by the IHDS. Coverage is measured in terms of numbers utilizing the PDS system. Targeting is measured taking into account not only whether but how much (in terms of kilograms of grain purchased) households use the PDS. This measure ignores the differential pricing available under the PDS, but analysis suggests that it is not the case that poorer households pay lower prices.

The PDS has a much higher coverage of a much larger target group than the social pensions scheme, as Figure 8 shows.

Figure 8. Coverage of PDS and social pension schemes, by wealth quintile

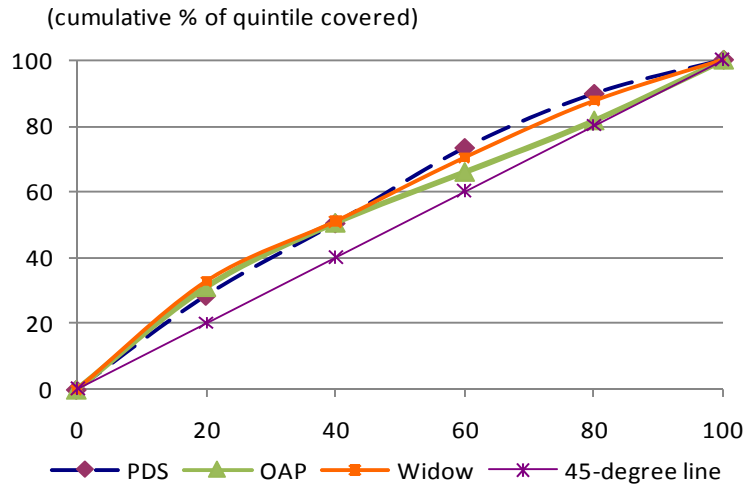


Source: Data from Ajwad (2006) based on 2004–05 IHDS.

The targeting performance of the PDS and the pension schemes are quite similar (Figure 9). All three schemes deliver half of their benefits to the poorest 40%. The pension schemes do better at targeting the poorest 20%, but also provide more to the top 20%. The fact that benefits from the PDS are progressively distributed is surprising given the trenchant criticisms of the lack of targeting in the PDS, and reflects the success of the government's reform strategy for the PDS, through the introduction of the Targeted Public Distribution System which aimed to limit the provision of subsidized food to the poor (who were issued with a Below Poverty Line card, entitling them to food from public distribution shops at subsidized prices).

[16] A comparison with public works schemes is not provided here, mainly because the recent introduction of the National Rural Employment Guarantee makes a definitive evaluation difficult.

Figure 9. Concentration of PDS and social pension participation, by wealth quintile



Source: Data from Ajwad (2006) based on 2004–05 IHDS.

Though we do not have data on this point, it is reasonable to surmise that the PDS like social pensions contributes to a better intra-household allocation of resources, since it forces the receipt of benefits in the form of necessities, rather than cash, which could be used solely or primarily for the benefit of the household head.

An important difference between the PDS and social pensions concern leakage. A full analysis of leakage such as was carried out for the pension schemes is not possible for the PDS. The biggest source of leakage in the PDS is the gap between food issued to the public distribution shops and food reported as purchased at these shops. The Planning Commission (2008, Table 4.1.8) estimates that consumption of grains from PDS shops was only 46% of the grain supplied to them (their offtake) in 2004–05, down from 72% last decade. This means that more than half the food intended for subsidized distribution is in fact diverted, presumably to the open market. It is hard not to see a link between the improved targeting and the increased leakage of the PDS. If fewer households have access to subsidized food and are buying in the open market, then the incentives to divert food to that market must increase.[17] Most of the vast network of retail outlets maintained by the states to sell subsidized food would be unprofitable without the diversion of grains (Planning Commission, 2005).

[17] Leakage is lowest in Tamil Nadu where universal distribution of subsidized food continues.

Leakage varies from state to state, but is high in most. In the states of particular interest to this study, the ratio of PDS food consumed to supplied was 64% in Karnataka, and 41% in Rajasthan.[18]

6. CONCLUSION

This paper sought to evaluate the performance of India's social pensions, from both an absolute and a comparative perspective. Based on the best data available – a nationwide, general-purpose household survey, and two, special-purpose state-specific surveys – we found that in general the social pensions perform well. In particular, the performance of the social pensions scheme appears to out-perform the public distribution system. Though it has lower coverage, both schemes target the poor and vulnerable, and the social pensions schemes have much lower leakage: half the level in Karnataka comparing a comprehensive measure of leakage for social pensions to a partial measure of leakage for subsidized food.

Should social pensions therefore be scaled up? While this at first glance seems to follow automatically, in fact it depends on the likely impact of increased coverage on both targeting and leakage. On targeting, the evidence presented in the paper suggests that increased coverage, in the form of expansion in numbers, will in fact likely worsen targeting (Figure 7). The shift now underway to basing social pensions on BPL status might also worsen targeting given the only mildly progressive distribution of BPL status (Ajwad, 2006). However, neither expansion nor shift to BPL status will likely render the social pension regressive in its distribution, and its positive impact on vulnerability would remain intact. In any case, the comparison with the public distribution system suggested that the key attraction of the social pension scheme was its low level of leakage.

What would happen to leakage if the cash transfers schemes are expanded? This depends on the reason for the current low leakage. There are two possibilities. One is that leakage is low because levels of discretion are low. There is a high level of discretion at the time of joining, but payments then follow more or less automatically. Bribes might have to be paid to join the scheme, but once a pensioner is on the list there is little scope for further diversion of funds, at least on a large scale. Compare this to the public distribution system, where not only do potential participants face the same discretionary challenges of signing up, but in addition they have to persuade the shopkeeper to open his shop and sell to them rather than to divert

[18] This is calculated using NSS 61st Round. State wise off take data is taken from http://fcamin.nic.in/ReportTable/view_reporttable.asp The national average is 41%.

his grain to the open market. This is evidently a difficult task, not often achieved. In summary, social pensions might be a pain to register for, but thereafter the benefits flow more or less automatically. For the public distribution system, every extraction of benefits from the system requires efforts and is a potential rent-seeking opportunity.

The other possible explanation for the relatively low leakage of the social pension schemes is that both the payments involved and the number of recipients are relatively small. Those after public funds through corrupt means are likely to follow the money and target resource-rich programs.

These two hypotheses are both plausible. One stresses the institutional, supply-side features which might make the social pensions schemes relatively impervious to corruption. The other stresses demand-side factors which might make the social pensions schemes less attractive to corrupt agents. But they have very different implications for the scaling up of social pensions. If the former is correct, then scaling up is warranted, since scaling up will not affect the design of the social pensions schemes. If the latter is correct, however, then scaling up will compromise performance.

Since we cannot distinguish between these two hypotheses it makes sense to scale up the social pensions schemes progressively and to monitor performance along the way, to try to detect a possible deterioration in performance.

One factor which supports a scaling-up conclusion is that it seems from the analysis that such leakage as there is in the social pensions scheme should be tractable to policy action. Thus, if scaling up does indeed increase leakage, corrective measures can be taken to combat this. Evidence from Karnataka suggests that abuse of the scheme – whether in terms of duplicate records, missing pensioners, or non/partial pension payment – is often concentrated in a few problem administrative areas, and should be susceptible to administrative checks and surveys, especially after computerization.

If the social pension schemes should be scaled up, how should this be done? In the short-term, the way forward would be to expand the coverage among widows and the elderly and to increase the size of the pension. This is a path the Government of India has already embarked upon. In the longer term, the policy question is whether it makes sense to expand the categories to whom social pensions are given. Ultimately, one can imagine a situation in which, say, cash pensions are made to every holder of a Below Poverty Line card, instead of,

or as well as, an entitlement to buy subsidized food and/or to a guarantee to a minimum number of days of public employment. Given the recent passage of the National Right to Employment Guarantee Act, and the decision of the government to support a Right to Food Act such a scenario is far-fetched today. Moreover, as stressed above, little is known about how cash transfers would perform if scaled up. Nevertheless, it is reassuring to know that calls for a greater role in Indian social security policy for cash transfers are at least not contradicted by the performance of India's existing cash transfers.

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