

# Unconditional Basic Income: Two pilots in Madhya Pradesh

*A Background Note prepared for the Delhi Conference, May 30-31, 2013.<sup>1</sup>*

## **Background**

The public debate on cash transfers in India has been highly charged politically. In order to provide evidence of their potential, in 2010 we launched, through SEWA, a partnership with UNICEF to pilot unconditional transfers, or basic income grants, in rural areas of Madhya Pradesh.

For 18 months, over 6,000 individuals received small unconditional monthly payments. Their situation before, during and after receiving the grants was evaluated by three rounds of statistical surveys and by case studies, comparing the changes in the period with what happened to a control group that did not receive grants. In total, the surveys covered over 12,000 individuals.

This is the first time *unconditional* and *universal* cash transfers have been tested in India. The results should assist those trying to reach a judgment on whether or not, and if so how, grants could be incorporated into Indian social and economic policy.

The pilots were not intended to test whether grants could or should be substituted for other policies such as PDS, MNREGA, or the public health or education system, although the findings do have considerable relevance to debates around those policies.

There were two pilots:

\* The MPUCT (Madhya Pradesh Unconditional Cash Transfer) – 8 villages with everybody provided with monthly grants, 12 similar villages as control villages.

\* The TVUCT (Tribal Village Unconditional Cash Transfer) – one tribal village in which everybody received the grants, one tribal village as a comparison.

This note describes the pilots and highlights primary findings. The topics selected are illustrative, rather than comprehensive.

## **Design Features**

The pilots were designed to identify the effects of basic income on individual and family behaviour and attitudes, and on community development. In the MPUCT, a modified Randomised Control Methodology (RCT) was used. In 8 villages everybody received the grants while in 12 similar villages nobody received them. To test the impact of a Voice organization 50% of all villages were those in which SEWA was active. This is believed to be the first time any pilot has tested for the independent effect of Voice.

In the TVUCT, we compared two similar tribal villages, one where everyone received cash grants and one where no one did.

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<sup>1</sup> This note has been prepared by Guy Standing, and is linked to the international conference held in Delhi at which primary results of the pilots were presented.

In the selected villages, every man, every woman and every child was provided with a modest unconditional grant each month. The targeted recipients were informed in advance that they could use the money as they wished, and that there would be no direction by anybody connected with the project. The money was transferred directly into an account in a financial institution, for most individuals into a bank account, and for SEWA members into individual co-operative accounts.

Initially, in the larger pilot, each adult received 200 rupees a month, each child 100 rupees. After a year, the amounts were raised to 300 and 150 rupees respectively. In the tribal village, the amounts were 300 and 150 rupees for the entire 12 months. These figures mean that an average family received the equivalent of \$24 or £15 a month.

The original amount was calculated so as to be enough to make a difference for basic needs. This amount was calculated as about a quarter of the income of median-income families, at just above the current official poverty line.

#### Why unconditional

The basic income grants given to the individuals had no conditions on how they are to be spent. It was left to the person to decide on expenditure. This is because we believed people are generally capable of making their own decisions and will do so in the best interests of themselves, their children and their families.

Many cash transfer schemes around the world involve elaborate conditions imposed on recipients. Often those are well meant, such as requiring families to send their children to school, or for mothers to give birth in registered institutions. But conditions are hard to apply fairly and involve high administrative costs.

Imposing conditions generally requires beneficiaries to “prove” they had fulfilled those conditions by obtaining a certificate or written approval from a local official, and this becomes a source of corruption and harassment. Furthermore, a condition requires a service to be easily available and to be affordable; often these supply-side conditions are missing. Hence conditions lead to high costs to both Government and the individual, as well as poor implementation of the programme.

#### Why individual

A feature of these pilots is that the basic cash grants were paid to individuals, rather than to households or to one selected individual. Grants for children under the age of 18 went to the mother or, if there was no mother, a designated guardian.

Providing individual grants gives individuals more autonomy and bargaining power within the household, which – as the results confirm - is particularly important for women, the elderly and the disabled. It also ensures more complete financial inclusion, since an account is opened for each individual in the family.

#### Why universal

Social protection programmes can be targeted to those designated as in poverty, which is the approach mostly taken in India, or they can be provided universally, i.e., to everybody regardless of social or poverty status. The conventional rationale for targeting is that since funds are limited they

need to be spent on those who need them most. But, as many studies have shown, targeting in practice does not work: identifying the poor is administratively difficult, costly and prone to errors of omission. It may be less costly to universalise, recognizing that rich people may choose not to receive them.

In the villages selected, grants were provided to every person registered as a usual resident at the outset, the only requirement being that they opened an account for the transfer of funds within three months of the launch. For the first three months, everybody was provided with grants by direct transfer of the money.

### *What is in a name?*

In the pilots, the term used was Unconditional Cash Transfers, simply because that was closest to the term beginning to gain popularity across India. However, since then the debate has changed public perceptions, and new terms such as “direct benefit transfer” are now being used.

At international level, we use the term “basic income” for what are unconditional cash transfers. They might also be called “cash grants” or “development grants”, since they provide scope for both personal and community development.

### **Evaluation Methodology**

In the larger pilot, a baseline census, covering the whole population, was conducted in all 20 villages just before the start of the cash grants, covering issues relating to health, nutrition, schooling, work and labour, income, savings and other aspects of households that might be affected by the introduction of grants.

This was followed later by an Interim Evaluation Survey (IES), covering the same issues as well as matters of “financial inclusion”, including teething problems faced by recipients.

A Final Evaluation Survey (FES) took place shortly before the end of the pilot, supplemented by a small Post-Final Evaluation Survey (PFES) just in the cash-grant villages, covering people’s impressions of the experience. A similar evaluation process was conducted in the tribal villages.

The evaluation survey data were supplemented by 89 case studies, and secondary data generated by two rounds of Community Survey, as well as data from local schools and anganwadis (local child carers).

## Primary Illustrative Findings

The following provides just a few of the many findings from the evaluation surveys. These will be elaborated at the conference and in technical papers to be issued afterwards, along with material from the detailed case studies.

*[Acronyms: IES, Interim Evaluation Survey; FES, Final Evaluation Survey; MPUCT, Madhya Pradesh Unconditional Cash Transfer pilot; TVUCT, Tribal Village Unconditional Cash Transfer pilot]*

### Implementation and Financial Inclusion

- Take-up of the basic income grants was rapid, with 93% receiving them in the first month in cash form.
- Bank account opening was challenging work for SEWA officials, but within a few months almost everybody had had bank or cooperative accounts.
- However, a majority of the villagers reported in the IES and FES that they had experienced no major problems opening bank accounts.
- Women found it easier to access and operate SEWA Co-operative accounts than the Nationalised Bank Accounts.
- The project has led to financial inclusion: Savings increased and households began using their accounts for saving, rather than keeping money at home.

### Housing and sanitation

- Recipients of basic income grants were significantly more likely to make improvements to their dwellings.
- The main improvements were to walls and roofs, although improvement to latrines was also widespread.
- The basic income grants led to a switch to more preferred sources of energy for cooking.
- In the tribal village, cash grants were used by the recipients to construct new dwellings (10%), repair old houses, switch to better drinking water sources, such as getting own tube-well, and shift to better lighting.

### Nutrition and Diet

- Using the WHO's z-score index, income grants were associated with an improvement in children's weight-for-age, with the main effect being among young girls.
- Cash grant recipients were significantly more likely than others to have enough income for their daily food needs.
- Cash grants led to more varied diets, with greater relative consumption of fruit and vegetables, rather than simple reliance on subsidised staples.
- In the tribal villages, cash grant recipients reported a sharp rise in food sufficiency. In the cash transfer village, households that reported that their income was sufficient for their food needs increased from about 50% in the baseline to 78% in the IES, and

further to 82% in the FES. Correspondingly, the incidence of having insufficient food fell.

- In the MPUCT, an increase in food sufficiency was most pronounced for scheduled caste households.
- Those receiving cash grants were not more likely than others to increase spending on “private goods”, such as alcohol or tobacco. Reasons for that will be presented in the conference.

### **Health and healthcare**

- During the course of the pilots, cash grant households reported a lower incidence of common illnesses.
- Cash grants led to more regular medical treatment and more regular taking of medicines. This was particularly observable in the TVUCT.
- Cash grants were associated with increased spending on medical treatment.
- Improved health was attributed most to an increased ability to afford medicines, although many families also mentioned it was due to more or better food and reduced anxiety. Scheduled Tribe households were relatively likely to attribute better health to the acquisition of more or better food.
- The public health system has achieved impressively high levels of immunization.
- Cash grants were associated with more resort to private healthcare, and in particular a shift from government hospitals to private hospitals.
- Although the number acquiring health insurance was small, significantly more cash grant households did so during the course of the experiments.

### **Impact on the Disabled**

- Cash grants benefited those with disabilities even more than others, by enabling them to have more access to food and to medical assistance.
- Individualised cash grants gave household members with disabilities greater voice in how money was spent.
- Case studies showed that the cash grants enabled some disabled to become economically active, overcoming constraints to their full membership in village society.

### **Schooling**

- Cash grants were associated with improvement in school enrolment. Although initially there was no significant difference in enrolment, by the FES the enrolment rates of children from 4 to 18 years was 12% higher in the cash transfer villages.
- Transfers led to increased spending on essentials for school, including stationery, shoes, uniforms and basic equipment.
- Cash grants were associated with more regular school attendance, with 29% of cash transfer households reporting an improvement, compared with 13% in control villages.
- Income Grants were associated with improved school performance. Grades over time taken from actual registers of schools showed that more children from cash

transfer families were doing better than children of non-grant families. Scheduled-tribe households were the most likely to show an improvement in performance in terms of grades.

- By the end of the pilots, households in cash grant villages were more likely to be sending their children to private schools. Almost half of all cash-grant village children were enrolled in private school, compared with 30% in control villages.
- Cash transfers were associated with families spending more on transport to school. Grant-receiving households were more likely to send their children to schools located at a greater distance from their homes, and so spent more on transport.
- In the period covered, cash transfers were associated with an increase in private tuition. Most social categories in cash transfer villages spent more on private tuition than in other villages, except scheduled-caste families.
- Cash grants helped families to ensure that their children did non-school work that was less disruptive to their schooling. This was particularly observed in the tribal village.

### **Economic activity, work and production**

- Contrary to a common criticism of cash transfers, cash grants were associated with an increase in labour and work.
- Cash grant households were twice as likely to have increased their production work as non-transfer households.
- Cash grants led to an increase in own-account work, and a relative switch from wage labour to own-account farming and small-scale business. This was especially true for scheduled caste households and for women workers.
- The shift from labour to own farm work was especially marked in the tribal villages.
- Many families used cash grants to buy small items for production, such as sewing machines and seeds and fertiliser.
- Cash grants were associated with the purchase of more livestock to increase production. Households in the cash-grant tribal village increased their livestock by 70%.
- Cash grant households more likely to increase their income from work, in spite of it being a difficult year due to weather conditions in the area.
- Cash grant households were three times as likely to start a new business or production activity as others, with a majority attributing that to the cash grants.
- In tribal village, farmers have increased their spending in good quality seeds, fertilisers and pesticides.

### **Debt and Savings**

- Severe indebtedness was found in over three-quarters of all households.
- Cash grants were associated with a significant reduction in indebtedness, both because recipients used the money to reduce existing debt and because they used the money to avoid going into further debt. Those receiving cash grants were more than twice as likely to reduce debt.
- Cash grants led to a significant increase in savings, even in households with debt. Households often used the money to give themselves vital liquidity.

## Policy Implications

- Only a minority of low-income households in all 20 of the villages had a BPL (Below Poverty Line) or Antyodaya Card. Some of the poorest households had no poverty card at all.
- Only a minority (14%) of households in the 20 villages had ever participated in MGNREGS, the government scheme supposedly guaranteeing every rural household 100 days of employment.

Those two findings deserve to be taken into account in assessing the relative merits of universal and targeted basic income grants. Although the project team will make some policy proposals, it will be up to policymakers and development agencies to digest the meaning of the findings from this and related projects. We urge them to develop and implement policies on the basis of evidence. We believe that cash grants should be considered essentially as “development grants”, which can unlock constraints to personal, family and community development.

Different people have different needs. Unconditional basic income grants can enable them to identify their particular needs and priorities. The results of our pilots strongly suggest that Indian rural households are quite capable of making decisions for themselves and that there is no need to tell them what to do. Those considering subsidies or targeted conditional schemes should bear that in mind.

Ultimately, basic income grants are potentially transformative for Indian families and communities. They can unlock constraints and enable people to gain greater control of their lives.

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