

India's Basic Income Experiment

by Rasmus Schjoedt

Introduction

The concept of a universal basic income (UBI) is currently gaining increasing prominence. At the end of last year, the international media reported widely on plans for a [UBI pilot project in Finland](#) while the [Dutch city of Utrecht](#) is planning similar pilots. In June, Switzerland will vote in a referendum on whether to adopt a UBI. Most recently, in the UK the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) published a comprehensive report [on a UBI model for the UK](#) (Painter and Thoungh 2015).

Professor Guy Standing from London University's School of Oriental and African studies (SOAS) has been involved in a number of interesting pilot projects across low- and middle-income countries, including a project that ran in the Indian state of Madhya Pradesh from June 2011 to November 2012.

In March last year I visited some of the villages involved in the project and spoke to people from the Self Employed Women's Association (SEWA), the large union for women working in the informal sector that implemented the project, as well as some of the beneficiaries.

The project was innovative compared to many other cash transfer programmes in that it provided a *universal, unconditional and individual* monthly grant to every adult and child in the selected villages. Furthermore, the project was designed as a randomised controlled trial and included comprehensive data collection before, during and after the implementation period. In total, about 6,000 men, women and children in nine villages in Madhya Pradesh received the transfer each month for a year and a half. A total of 15,000 individuals were covered by the research and 100 in-depth case studies were carried out with recipients.

The project took the form of two pilots. The first included eight villages, with 12 similar villages included as control villages. The second pilot, which

started slightly later than the first, included one tribal village, with another tribal village as control.

The research design included both villages where SEWA was active and villages where they were not present, thereby enabling researchers to discern the effect of SEWA's work, both in combination with the basic income and without.

The results of the project have been published in a book – ["Basic Income – A Transformative Policy for India"](#) – which presents the important choices and practical issues involved in designing and rolling out the project in a very clear and readable way (Davala et al. 2015). It makes interesting reading for anybody involved in similar exercises.

The rich information collected in the project allows us to paint a detailed picture of the effects of a basic income on the welfare of those in the project villages. And, despite the relatively low benefit levels, the effects of the cash transfers were impressive. By the end of the project, it was possible to see significant improvements in living conditions, nutrition, health and education.

The detailed findings are available in the 500-page [final report](#) published by SEWA Bharat and UNICEF India, which funded the project (SEWA 2014). Below I set out some of the key findings. Unless otherwise indicated, the information is taken from Davala et al (2015).

Setting the benefit levels

The project set the benefit levels with the aim of providing *"enough to make a difference to living standards, but not enough to improve them considerably."* This was decided to be about 20-30% of the income of lower-income families. With an estimated maximum monthly income for vulnerable households of a little less than US\$100 at the time, the benefit level was initially set at the equivalent of US\$4.40 for each adult and US\$2.20 per child per month between June 2011 and May 2012. After May, the value was raised by 50% to adjust for inflation and provide a more generous benefit.

It is important to remember that, since these are individual grants, at the household level the transfer level is more meaningful and comparable to the higher benefit levels found in other cash transfers around the world.¹

Impacts on living conditions

There was a range of impacts on living conditions. Many people used some of the money to improve their housing, adding more space, making improvements to walls and improving and repairing roofs. There was also an improvement in latrines, although not as much as could have been hoped for, probably because increasing latrine usage is as much about changing mindsets as it is about increasing incomes.

There was a dramatic improvement in assets, especially in the tribal village, the poorest of the target villages. For example, the percentage of households which had at least one bed went up from 35.5% to 83%. Mobile phone ownership increased from 9% to 61% and the ownership of scooters or motorbikes rose from 3% to 30%. These are assets that can make a vital difference to, for example, job opportunities or access to market information.

Impacts on food security and nutrition

There was a significant improvement in the self-perceived ability of beneficiaries to cover food needs: before the project, 45% of beneficiaries claimed that they had insufficient income to provide themselves with sufficient food, but this fell

to only 19% by the project end. The most dramatic change in food habits was in the tribal village. The consumption of pulses and lentils went up by 1,000 percent (from 0.3 to 3.8 kilos per family per month), vegetables by 888% (from 0.6 to 5.5 kilos per family per month), while the consumption of eggs and meat also increased. After six months of receiving the cash transfer, the proportion of households reporting sufficient income to satisfy food needs rose from 52% to 78%. In the control village there was a slight drop.

Probably the most eye catching result was the effect on nutrition. Malnutrition is a scourge in India's poor villages, resulting not just from a lack of nutritious food, but from a range of factors, particularly poor sanitation. Even though the cash mainly addressed the former challenge, the effect was very positive. By the end of the project the proportion of children with normal weight for age had increased from 39% to 59%, an improvement that was double that in the control villages. In addition, the effect was greater on girls (25% increase) than on boys (14% increase).

Alcohol consumption

Probably the single most common critique of cash transfers is that people will waste their money. As a UNICEF official I had recently spoken to in Nepal said: *"Cash is about choice. People don't want to give choices to poor people, because they believe that they are poor because of bad behaviour. This is, of course, completely unfounded and deeply unfair."*

The truth of this statement is borne out in the findings from the UBI project, in particular in terms of alcohol consumption. Of course, all villages have people who misuse alcohol and a basic income will not necessarily change this. But the overall trend in the project was clear: in the pilot villages 3% of respondents increased their alcohol consumption, while 4% reduced it; in contrast, in the control villages 7.5% of people increased their consumption, while it fell among only 2.5%.

The women I spoke to in the village of Ghodakhurd concurred with the findings from the project when they told me that their husbands had started drinking less after receiving the basic income. Their explanation was that they experienced less stress as a result of improved economic security.

¹ See for example UNICEF (2012), a review of 12 cash transfer programmes which find that transfers should be equal to at least 15-20% of household food consumption in order to improve food security. <https://transfer.cpc.unc.edu/wp-content/uploads/2015/12/Social-Cash-Transfer-Publication-ESARO-December-2015.pdf>

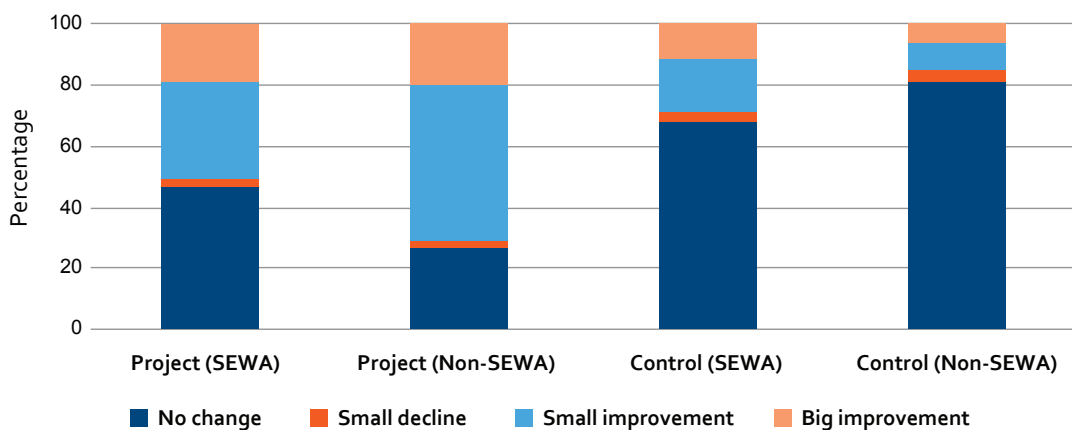
Impacts on education

Regarding education, people in the pilot villages increased spending on education more than in the control villages, especially on girls. The cash transfers also contributed to preventing teenage girls from dropping out of secondary school while increasing overall school attendance (Davala et al. 2015).

One of the people I spoke to during my visit – a woman named Radhabai in Ghodakhurd village – observed: “We could, with the cash, spend more time with our children and families and help the

children with their education. Now that the project is finished, we are again having to take loans and pay interest and the children have to go to work with us. When we received the cash the children were attending only school. Now they have to go and earn money to pay for their education, for example by working in the fields or at the potato factory. My oldest son is working for some of the farmers in their fields.” As Figure 1 shows, the project villages showed a much larger improvement in school attendance, as reported by mothers, than the control villages.

Figure 1: Reported change in school attendance²



Impacts on productivity

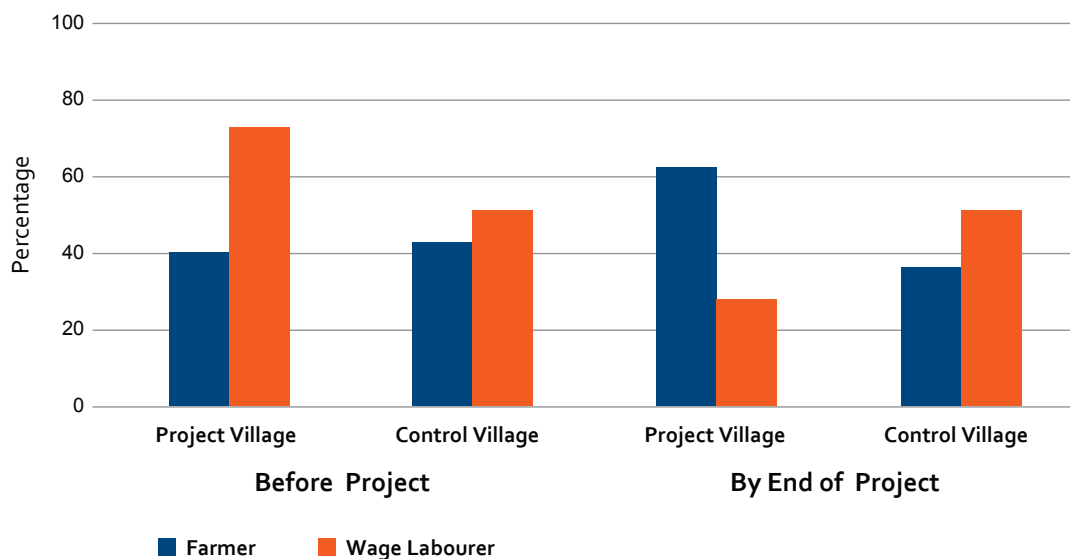
Most families in the project area possess 1-2 acres of land. People grow soya beans and maize in the monsoon season (June-Sept.) and those with irrigated fields cultivate wheat in the dry season, which is harvested in March.

When I visited the tribal village at the beginning of March, many people were supplementing their income by working at a nearby potato chip factory or in local brick kilns. They earn US\$2.40 per day for cutting potato chips while, at the brick kilns, the men receive US\$3.20 and the women US\$2.20 for loading 2000 bricks, which usually takes a day's work. But they rarely see any money, since they take up-front loans from the owners of the kilns and then pay them back with their labour. People also migrate to work the fields for bigger farmers. They travel to where the work is and live on the fields or in the villages in small huts which they themselves construct from plastic and bricks.

A common critique of cash transfers all over the world is that they will make people lazy and dependent on government support, unable and unwilling to improve their own lot. The pilot thoroughly refutes this notion. Instead the extra income created opportunities for people to start improving their lives.

While the evaluation found a slight decrease in overall wage labour, this was mainly because women shifted from low paid wage labour away from the home to working on their own fields. People had more means to buy seeds, fertilisers and other inputs – especially when combining the basic income with inexpensive loans through SEWA – and, as a result, could start developing their own fields instead of being forced to take low paid wage labour. As Figure 2 shows, in the tribal village many people shifted away from wage labour towards farming on their own land as a result of the cash transfer.

²Source: SEWA Bharat 2014

Figure 2: Shift from wage labour to farming: main occupation in the tribal village³

One of the women I spoke to provides a good example of how people were able to improve their livelihoods with the cash transfer. Shardabai is 43 years old and has five children. The two oldest are married and one of them lives with the family, along with her two children. Altogether, there are 11 members in the household. Because they are such a large household, by pooling their cash they had enough money to buy an irrigation system. Now, their irrigated field provides the family with an extra annual harvest of 800 kilos of wheat, enough to feed them for 8-10 months of the year.

Near the family's house, in the middle of the village, is a large pond. During the pilot project, twelve people collaborated to purchase fish roe and establish a fishing cooperative, thereby generating income for themselves by selling the fish as well as improving the diet in the village.

People's productive assets in general increased, and there was a tendency towards assets that increased women's and girls' ability to earn an income. Davala et al. (2015) quote 26-year old Leelabai:

"These men always make arguments, so they don't have to buy a sewing machine. How feasible is your project of tailoring? Will it get you income? People will not pay for your clothes. I say "Why will they not pay?" Look at how much I pay to get my blouses and children's clothing stitched. But I have stopped arguing and now I am buying my sewing machine with my own money."

The evaluation shows a strong effect on savings with people starting to save in banks instead of at home. People shifted from relying on borrowing for medical treatment to relying on savings. An interesting finding is that, initially, people saved to safeguard themselves against shocks and crises – such as medical emergencies – but, by the end of the pilot, many had started saving to invest in livestock, fertilisers and other agricultural inputs. This suggests that the positive effects on production and livelihoods would have improved even more had the cash transfers continued for a longer period.

A way out of debt

Davala et al. (2015) spend considerable space discussing the scourge of debt in rural India. Indeed, it is very important to understand the situation in which many families in rural villages find themselves. As the authors notes: "Since labour opportunities are meagre and incomes low, almost every aspect of their lives is governed by debt."

There are different forms of borrowing – the authors mention five ways that people get into exploitative debts – and one of the most common is for people to take out loans from employers, such as the owners of the brick kilns, and then repay them with their labour.

³ Source: SEWA Bharat 2014

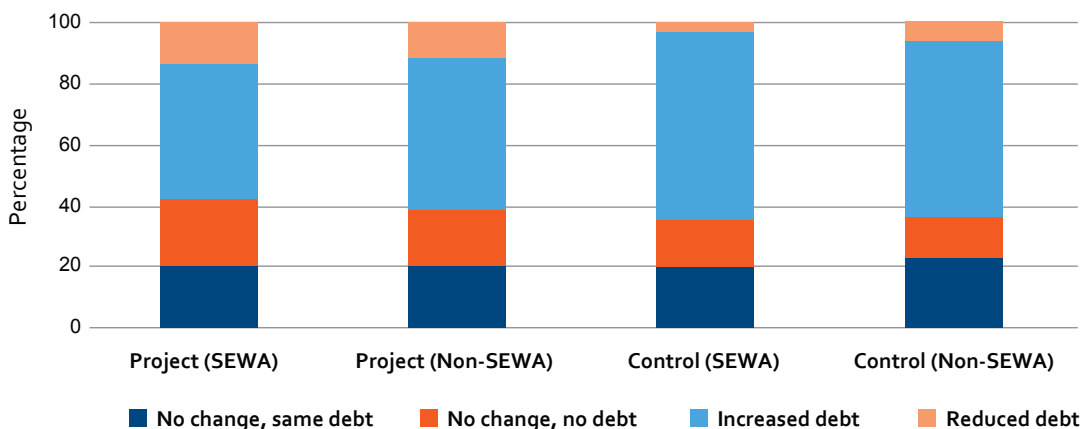
One of the women I spoke to told me how she had recently lost her 5-year old daughter in an accident in one of the local brick kilns. The family had wanted to file a report with the police, but the owner persuaded them not to do so by promising to cancel their debt. The owner of the brick kiln later denied having given the promise and today the family is still working at the brick kiln to pay off a debt of about US\$1,500. Since they also have to live off their meagre salary it will take them years to pay off the debt and, in the meantime, they will likely incur more debt. In reality, they are working as slaves for the owner of the brick kiln, trapped in a vicious circle that too many poor families in India are familiar with.

Statistical analysis and qualitative interviews demonstrate that the basic income cash transfers

enabled people to reduce their debts. Around 73% of beneficiaries in the tribal village managed to reduce their debts while none increased. In the control village 18% had reduced their debts while they increased for 50%. It indicates that a basic income could have a very significant impact on debt bondage in India. Furthermore, the cash transfers increased the bargaining power of employees versus employers, enabling those living in poverty to avoid exploitative employment relationships.

Figure 3 shows the impact on debt for the villages in the main (non-tribal) pilot. Many people in both project and control villages increased their debt during the project; however, a larger percentage of households in project villages reduced their debt and fewer increased it.

Figure 3: Change in debt in project and control villages⁴



Strengthening women’s empowerment

Since the project provided cash transfers to individuals rather than households, it presented many women with the novelty of having their own money. Even just opening an individual bank account to be able to receive the cash was a significant event for women seeking to establish independent identities. The following quote from Davala et al (2015) illustrates the extent to which many women are deprived of their own identity.

"My neighbour brought me to a meeting in SEWA; it was the first time I had come to a meeting. We were asked to introduce ourselves and I was struck dumb, I could not say my own name. You know, in our families no one calls us by name. My mother-in-law calls me bahu, my children call me mother, and other family members call me bhabhi. I had almost forgotten

my name! And, in my father’s house, my name was Leela; after marriage my name was changed to Ramabai. Now when I stand up and say my name in meetings, I feel a change has come over me."

It is difficult to measure women’s influence on household decisions, but one way is to examine the number of families who said they were sharing earnings. By the end of the project 55% of respondents in basic income villages said that they shared earnings equally, compared to 36% in control villages. Around 60% of women said that the basic income had enabled them to have more influence on household spending. Similarly, in the tribal villages, at the beginning of the project 71% of respondents said decisions were made by household heads but, by the end, this had fallen to 52% (Davala et al. 2015).

⁴ Source: SEWA Bharat

The way forward

India has a huge number of social protection schemes, including cash transfers, many of which are not effective in making a difference in the lives of the hundreds of millions of people living in poverty across the country. Some assessments mention more than 1,000 different schemes at the central level alone, and hundreds more in each state: in Madhya Pradesh alone there are more than 300. An unconditional and universal basic income could present an attractive option for making the system more effective.

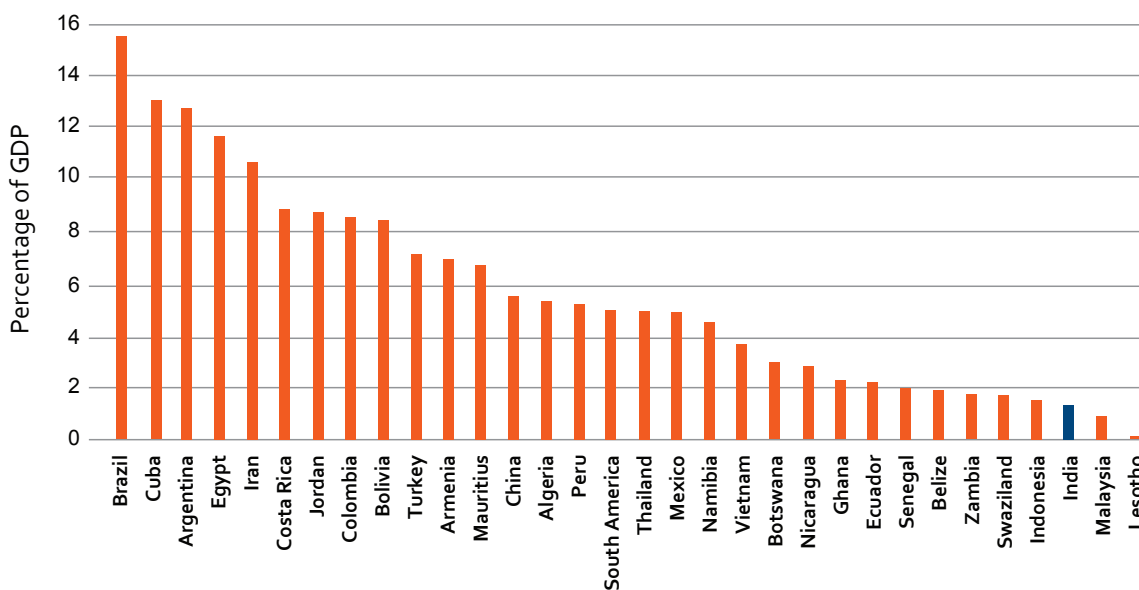
Most of these cash transfers, as well as India's long standing Public Distribution System (PDS) – which gives people living in poverty access to ration shops where they can buy basic goods such as grain and kerosene at much reduced prices – use a proxy means tested targeting mechanism known as the 'Below Poverty Line (BPL)' list. This method is notorious in India for excluding many of those living in poverty and including many non-poor. A new National Food Security Act (NFSA) promises to reduce exclusion errors but, unsurprisingly, this is still not being implemented as planned. The PDS system is an extremely inefficient system of

redistribution: in 2007 the Planning Commission estimated that providing 1 rupee worth of food costs 3.65 rupees to administer.

A basic income would avoid the heavy administration cost of the PDS and, by abandoning the BPL targeting mechanism, exclusion errors and leakages would fall considerably while the arbitrary and discretionary power wielded by government officials would be held in check. Indeed, it would ensure that everybody living in poverty receives access to social security.

A universal basic income, providing every person aged 15 and above with 300 rupees (US\$ 4.36) per month and every child below 15 with 150 rupees (US\$ 2.18) would cost approximately 3.2% of India's GDP.⁵ As Figure 4 shows, this is not at all an unreasonable cost, when compared to what other countries are spending on social security. In fact, 14 out of the 32 middle-income countries included in Figure 4 have increased the proportion of GDP invested in public social security by more than 3 percentage points of GDP since 2000 (ILO 2014). In reality, 3.2% of GDP would be a very small price to pay for the transformation of rural India.

Figure 4: Public social security expenditure (excluding health) in selected middle-income countries, latest year (percentage of GDP)



Source: ILO 2014

⁵ Population data from UNDESA (2015), GDP data from the World Bank (2014).

There is significant resistance to cash transfers from left-wing organisations in India, based on the fear that they will be used as an excuse for cutting down spending on other social protection programmes. People tend to want to keep the support they have, even if it is flawed, rather than take their chances on a new scheme, the benefits of which are unknown.

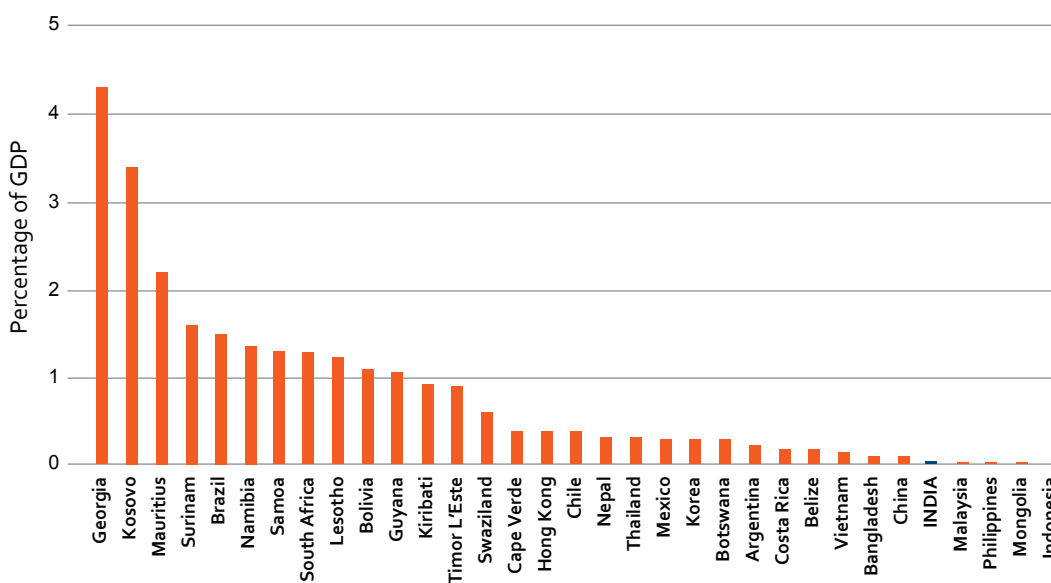
This is part of the reason that Davala et al (2015) recommend rolling out cash transfers before other government subsidies are phased out, since *"making the two changes simultaneously is a recipe for chaos and social suffering."* The authors recommend, in particular, that state governments should conduct expanded pilots in tribal villages. These villages are among the most deprived and vulnerable communities in India, and the basic income showed a particularly strong impact in the tribal village. Pilots targeted at tribal villages would

be relatively easy to implement, since these villages are already relatively self-contained and recognised as groups that deserve special assistance.

Another option, which would stop short of a universal basic income – but would still make a huge difference to India's 300 million people living in extreme poverty – would be to reform some of the existing lifecycle social security transfers so that they take on some of the key characteristics of the basic income grant. This could, for example, happen by making the current old age pension universal and increase benefit levels.

At present, India spends only about 0.032% of GDP on its social pension (HelpAge International Pension Watch database), far less than its much poorer neighbour Nepal, which has a universal pension and spends about 0.32% of GDP. As Figure 5 shows this is still very low in an international comparison.

Figure 5: Level of investment in social pensions in developing countries, compared to India (percentage of GDP)



Source: Kidd et al 2015

If India were to universalize its pension to everybody aged 60 and above, the cost would correspond to⁶:

- 0.6% of GDP at 500 rupees per month (about US\$7.50)
- 1.1% of GDP at 1,000 rupees per month (about US\$15)
- 2.2% of GDP at 2,000 rupees per month (about US\$30)

⁶ Population data from UNDESA (2015), GDP data from the World Bank (2014).

These benefit levels would correspond to between 6% and 25% of GDP per capita, which can be taken as a very rough measure of the general living standard. A pension of 2,000 rupees per month (linked to inflation) would bring India in line with the international norm that pensions should provide at least 20-33% of the general living standard (Whitehouse 2014).

Experience from other countries show that pensions can have a very significant effect on poverty reduction, and not only among the elderly, since benefits are often shared within households (Kidd 2015). For example, in rural Brazil pensions has brought about a 37% reduction in extreme poverty among the entire rural population (Kidd and Huda 2013).

Cash transfers will obviously not solve all issues faced by vulnerable people but, given how complex issues of poverty are, it is amazing how much can be done simply by providing people with a small extra income on a regular and predictable basis. However, as mentioned above the benefit levels are crucial, and schemes that are targeted at the 'poor' or come with conditions are likely to run into implementation problems and result in large exclusion errors.

With almost half of the world's poorest living in India, how the country approaches social protection in the coming years will have a big impact on the global goal of eliminating extreme poverty by 2030.

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About The Author

Rasmus Schjoedt.

Rasmus really misses the monthly pocket money he received as a child – which he insists never dis-incentivised him from doing his school work – and has promised us that, if he ever receives a basic income, he'll continue to work just as hard as he does now.

For more information please feel free to get in touch, our contact details are below:

DEVELOPMENT

PATHWAYS

Development Pathways Limited
2nd Floor Downe House
303 High Street
Orpington, Kent, BR6 0NJ
United Kingdom

T +44 (0)1689 874764
E admin@developmentpathways.co.uk
W www.developmentpathways.co.uk