

existing companies in this sector. Entry of many more is needed.

Agriculture, being the largest sector (in terms of employment), is the key to success. Many areas such as irrigation and technological assistance for machinery, implements, and farm management need attention. Credit market hitches, disguised unemployment and risk bearing are some other loopholes that need to be fixed. For example, in the Indian context, underground water has been the major source of irrigation. Large exploitation of this source has led to a great fall in underground water resources. Foreign companies, if allowed to enter the arena of irrigation, can address issues of poor irrigation. Vast areas have inadequate facilities of irrigation and farmers' dependence on monsoons is a serious problem in the country. Construction of ponds, canals, reservoirs, etc will become easier and more efficient with Foreign Direct Investment. The methods of watering could be changed from flood to drip and sprinkling irrigation. Other services such as storage, procurement, etc will be better-planned and at the same time, will open new opportunities for jobs. Credit flows and risk sharing will be much better than at present.

U.S.A, the largest economy in the world, has approximately 60% of its FDI in food processing/convenience goods sector. This serves as an example for an agrarian economy like India to understand the growth potential bestowed within this sector. The terms and conditions of the FDI policies may be debated over in such a way that small farmers and traders benefit tremendously without jeopardizing the profits earned by overseas companies. A win-win situation can emerge provided the policies are framed in a desirable way.

Foreign Direct Investment has now become an essential domain in the Indian growth issue. In conclusion, Indians must shift away the focus of the current debate from the economic creditability of F.D.I to its orientation so that maximum benefits can be extracted.

Understanding Direct Cash Transfers

Aditi Singh

The newly launched Direct Cash (Benefits) Transfer (DCT) scheme has generated a lot of debate and this article aims to explore the pros and cons of it. Under this scheme, the government will transfer cash benefits directly to the bank accounts of identified beneficiaries. Initially, this scheme covers only scholarships, pensions and Mahatama Gandhi National Rural Employment Guarantee Act (MNREGA) wages. The identity of the person will be verified through the Unique Identification (UID) or Aadhaar cards.

To start with, let us examine the advantages of this scheme. First, direct cash transfers can be targeted unequivocally to the poor, which reduces the corruption caused due to the presence of middlemen. Second, the Aadhaar number will help to eliminate duplicate cards and cards for non-existent persons or ghost beneficiaries in schemes such as MNREGA. Third, DCT can plug leakages of the Public Distribution System (PDS) by reducing hoarding, black marketing and wastage. If the fair price shop dealers get the same price from their legitimate customers as from the black market, then there is no incentive to cheat. These three factors, together, lead to massive savings for the government. Even if these leakages are conservatively estimated

at less than 10% of the total subsidy bill, it amounts to a substantial annual sum, given the subsidy bill of about Rs 300,000 crore.

Another benefit is that unlike subsidies, direct cash transfers do not distort market prices. The scheme will also enhance the efficiency of welfare schemes. A big part of the inefficiency in government service delivery is due to the inability to authenticate the identity of individuals. The UID provides a platform amenable to technological innovations to resolve the numerous pinpricks that affect service delivery. The use of micro ATMs, for instance, can enable people (with a UID number) to open a bank account at their preferred kirana shop. Delhi started such a scheme, Saral Money, in December 2012, where merely stating your UID number suffices for know your customer norms. The Unique Identification Authority of India (UIDAI) transfers the relevant data to the bank branch concerned without losing time or depending on the kirana shop owner to use his discretion. This system can be a boon for the poor.

Additionally, such projects have often helped to build the state's legitimacy as programmes are targeted at marginalised groups and support their integration. Another boon is that because DCT will only compensate for a finite amount of resources consumed, it will encourage beneficiaries to reduce their usage of these resources. Furthermore, since cash transfers are regular (typically every month), so the poor can plan on them and include them in the household budget.

In the context of DCT, a recent study was conducted in Delhi by the India Development Foundation (IDF) on behalf of Self-Employed Women's Association (SEWA). Poor people in similar conditions

were randomly divided into three groups. Group 1 got the cash transfer through a bank account that was opened for the woman in the household; their Below Poverty Line (BPL) cards were stamped by the Delhi government stating that they were not eligible to get anything from the PDS shops for one year from the date of the stamp. A bank account was opened for the women in Group 2, but no cash was given to them and they could use the BPL card in the PDS shop. Nothing was done for Group 3. The reason for creating Group 2 was to isolate the impact of the cash transfer from that of having a bank account.

The study does not find any evidence for the argument that with a direct subsidy, households would spend less on food and more on other things that could lead to a loss in nutrition with harmful long-term effects, especially on children. On the contrary, it finds that unconditional cash transfers provide opportunities for households to shift to other nutritious options in the non-cereal segment. What is remarkable, though, is that this increase in non-cereal food items is not compensated by a decrease in calorie intake from cereal food items.

An interesting effect of cash transfer on those who did not receive it was also observed. This is the spillover effect. In particular, it was found that the service quality of PDS shops improved over the period of the experiment, probably because they now faced competition from private shops. At the very least, the study suggests that there could be poor households that would prefer the cash transfer compared to the PDS and the objectives of the PDS would not be compromised.

Nevertheless, there has been a lot of opposition to the DCT scheme, mostly

pivoting around its implementation. A vast majority of beneficiaries still do not have the requisite bank accounts mapped with 12-digit Aadhaar numbers. There are also not enough bank branches to open accounts. Only 40% of India's population has bank accounts. Additionally, not all account holders have got passbooks. Banks have also been reluctant to come to rural areas because no-frills accounts in these areas do not fit in with their business model. For greater financial inclusion of the poor, orientation and acquaintance courses must be held to make the masses more familiar with banking terms and formalities. Several other technical and logistical difficulties have come to the fore in the various pilot projects launched. For example, in the case of those few people who have Aadhaar-linked accounts, often their fingerprints do not match when they try to get paid via the new micro ATMs. Banks are also not able to cope with the volume of transactions. They also have to face other problems like poor internet connectivity and power cuts. Concerns about the security and integrity of the cash-carrying banking correspondents have also been raised.

There may still be a serious problem of transition, especially if there is a time lag in opening an account in a bank to receive the cash transferred. If, meanwhile, the subsidised food disappears, the poor who fail to open an account adequately fast will lose doubly through not having the cash yet, and through the fact that others will have the cash to buy food which would keep the prices high. Moreover, under the previous system, in case the head of the household was sick, or disabled or unable to move due to old age or otherwise, he could send someone else to buy rations. Now however, to withdraw the cash subsidy, the account holder is required to be physically present

at the bank, which has made it useless for old-age card holders as several bank branches are located 8-15 km from their villages.

Some fear that the scheme is likely to be misused by the government as a political gimmick. In addition, as giving money to the poor becomes easier, politicians might spend much more than necessary which would lead to a rising fiscal deficit. There are also concerns about the confidentiality of private data and the government's ability to misuse it to monitor individuals.

Interestingly, activists support DCT when it pertains to providing social security pensions, scholarships, and maternity entitlements. However, replacing subsidized food grains, kerosene, and fertilizers with direct cash transfers is being fought tooth and nail, especially in light of the express timelines laid out by the government. This is because independent studies reveal that government pilots for DCT scheme have been disasters. A case in point was the Kotkasim district (Rajasthan) pilot, conducted between 2011 and 2012, wherein the government tried to provide DCT to those eligible for subsidised kerosene. In one year, sales of kerosene fell by 80%. But far from being a result of efficient design, this was due to people either not getting their bank accounts in place or not getting the subsidy amount in their existing accounts. As a result, people stopped buying costly kerosene with no assurance of support. Noted economist John Drèze and his fellow activists call it 'denial by design'. Also, it is still not advisable to replace subsidized food grains by cash because while the market price of food goes up instantaneously, the increased subsidy can happen only with a lag.

I would like to conclude by first recognising the fact that in a country as vast as India, any new programme is bound to face executional difficulties. But rejecting it simply because of the difficulties in implementation is wrong. There is no doubt that the DCT scheme is based on sound ideology. Hence, the need of the hour is to bring in this scheme in a proper manner which includes all the poor.

References

1. www.thehindu.com
2. http://www.business-standard.com/article/opinion/shubhashis-gangopadhyay-who-prefers-cash-transfers-113012600135_1.html
3. <http://indiatoday.intoday.in/story/what-is-direct-cash-transfer/1/235028.html>

Rural-Urban Migration and Issues in Urbanization

Vatsala Shreeti

The sharp U-turn of the Indian growth story has been the focus of economists, leaders and policy makers from all over the world recently. The country finally seems to be coming out of the much talked about 'policy paralysis.' While the focus had been on broad macroeconomic indicators such as interest rates and inflation among others, there is a parallel need to critically examine issues that will determine the long term course of India's development. Through this article, I attempt to examine one such issue, that of migration of labour from rural areas to urban areas and the urban poverty that is linked with it.

India is urbanizing at a very fast pace and in just over two decades, the urban population of the country is expected to almost double. This means that there will be immense pressure on existing cities in the future and a spurt in the growth of unplanned satellite cities. Without effective management of the entire process of urbanization, it is unrealistic to expect sustainable and inclusive development of the country. In order to analyze these issues in urbanization, it is essential to start by describing the nature of rural-urban migration and its causes.

Rural-Urban Migration

The theory of rural-urban migration is based on the Harris-Todaro model. The basic cause of migration, as identified by this model, is the wage differential between the urban formal sector and the rural agricultural sector of an economy. We divide the economy in two sectors: a traditional rural sector and an urban sector. The total labour force is divided between these two sectors. Wages in the formal sector tend to be higher due to a variety of reasons. This sector is usually unionized, subject to collective bargaining, pension schemes, minimum wage laws, etc which translates into a better bargaining position for workers and hence leads to higher wages. It may also be the case that firms in the formal sector deliberately pay higher wages (efficiency wages) in order to induce greater effort by workers and lower turnover rates. On the other hand, the traditional rural sector has lower wages which fluctuate according to demand and supply conditions. Migration from the rural sector to the urban sector is viewed as a result of this wage gap.

The problem arises when the urban formal sector lacks the capacity to absorb all the workers that migrate from the rural sector. The wage differential between the two sectors leads to a pool of unemployed