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Unconditional Cash Transfers

Mains: *GS II – Governance*

Why in News?

Unconditional Cash Transfer (UCT) schemes have emerged as an important component of India's welfare and electoral politics, particularly since 2020.

What is UCT?

- **UCT** – **Unconditional cash transfers (UCTs)** are direct financial assistance programs that provide money to vulnerable individuals or households without requiring any specific behavioral conditions or actions in return.
    - For example, Several States have introduced direct income-support programmes targeted at women, including **Kalaignar Magalir Urimai Thittam** in Tamil Nadu, **Lakshmir Bhandar** in West Bengal and **Gruha Lakshmi** in Karnataka.

Why UCTs Have Gained Popularity?

- **Income Support** – They provide **direct income support** to households facing inflation, unemployment or livelihood insecurity.
- Since women are frequently the beneficiaries, such transfers can enhance their financial autonomy and bargaining power within households.
- **Promoting SDG** – UCTs partially advance **Sustainable Development Goal 5**, particularly the recognition of women's unpaid domestic and care work.
- **Application of Digital systems** – Direct transfers are administratively attractive because they can be delivered through digital payment systems and are relatively easy for beneficiaries to understand.
- The growing scale of such programmes, however, has significant fiscal implications. According to the Economic Survey, States are expected to spend around **$18 billion on UCTs in 2025-26**, with a substantial proportion targeted at women.

What are the Fiscal and Economic Cost?

- The primary criticism of UCTs is that they may become politically difficult to withdraw once beneficiaries begin to depend upon them.
- If fiscal resources are limited, increased spending on unconditional transfers can involve **expenditure switching**, higher borrowing or reduced allocations for productive expenditure.
- This creates an opportunity cost. Resources spent on recurring transfers could otherwise support employment generation, skill development, healthcare and

nutrition, education, infrastructure, entrepreneurship and self-employment and social security systems.
- This does not mean that cash transfers are inherently unproductive. On the contrary, additional household income can improve consumption, nutrition and financial security. The concern arises when transfers become a substitute for **structural interventions that expand people's productive capabilities**.

What are the Challenge of Targeting?

- **Fundamental administrative problem** – Governments cannot perfectly observe household income, particularly among workers in the informal economy.
- **Errors –** Consequently, States use proxy indicators such as land ownership, electricity consumption, household assets and other socioeconomic characteristics.
- This produces two kinds of errors:
    - **Inclusion error —** ineligible households receive benefits.
    - **Exclusion error —** eligible households are denied benefits.
- **Issues of Exclusion** – While inclusion errors create concerns about inefficient use of public resources, exclusion errors can generate a particularly significant political problem: **a person who believes that she is entitled to a benefit but is denied it may become more dissatisfied with the government than someone who never expected the benefit in the first place.**
- Thus, welfare politics is influenced not merely by actual targeting errors but also by **perceived unfairness**.

What are the Experiences of Different states?

- **The Tamil Nadu Experience –** The **Kalaignar Magalir Urimai Thittam** illustrates this challenge.
- Before the 2021 election, the ruling party had promised a monthly transfer of ₹1,000 to women-headed households.
- However, when the scheme was launched in September 2023, fiscal considerations resulted in eligibility restrictions based on income, land ownership and other criteria.
- Initially, approximately **1.13 crore women** were covered. Following complaints from women who believed they were eligible, another **16.94 lakh beneficiaries** were reportedly added in December 2025.
- The scheme involved expenditure of approximately **₹13,807 crore in 2025-26**.
- Despite this expansion, dissatisfaction reportedly continued among some excluded households. Such dissatisfaction can become politically relevant, particularly in closely contested constituencies.
- The lesson is important: **even when governments expand welfare coverage, those who remain excluded may continue to perceive the programme as unfair.**
- **Experiences from Other States –** Similar political and administrative challenges have emerged elsewhere.
- The **Lakshmir Bhandar** scheme in West Bengal, introduced in 2021, provides monthly assistance to women.
- Despite increases in benefits before the 2026 election, the incumbent government was defeated, demonstrating that higher cash transfers do not automatically translate into

electoral support.

- Similarly, Maharashtra's **Mukhya Mantri Majhi Ladki Bahin Yojana** and Karnataka's **Gruha Lakshmi Scheme** have faced concerns relating to beneficiary identification and targeting.
- These experiences caution against assuming a simple relationship between the **quantum of welfare spending and electoral outcomes**.

What is the tension between Economics efficiency and political acceptability?

- **Economy VS Political** – From an economic perspective, **targeting** is desirable because scarce public resources should ideally reach those who need them most.
- From a political perspective, however, broader inclusion can be advantageous.
- Voters judge governments not only on the benefits they receive but also on benefits they believe they have been unfairly denied.
- This creates an inherent political cost of targeted UCTs.
- Moreover, once a transfer becomes an established entitlement, political competition can lead to **competitive welfarism**, with parties promising higher transfers rather than addressing deeper causes of poverty, unemployment and gender inequality.

Conditional Cash Transfers: A More Sustainable Approach
• One potential alternative is to link welfare benefits with **socially desirable outcomes**. • Conditional Cash Transfers (CCTs) can combine immediate financial support with investments in human capital. Conditions may relate to school attendance, healthcare utilisation, maternal health or other socially beneficial outcomes. • Such schemes can generate broader developmental benefits because the transfer is connected to an outcome that improves household welfare over the long term. • Tamil Nadu's **Midday Meal Scheme** provides an illustrative example of welfare linked to school participation. By connecting nutritional support with schooling, the programme simultaneously addresses hunger, enrolment and human-capital development. • Conditionality can also reduce perceptions of arbitrary exclusion when eligibility is linked to an observable activity such as school attendance. • However, excessive conditionality can itself exclude vulnerable households that lack access to schools, healthcare facilities or administrative documentation. Therefore, conditions must be designed carefully and accompanied by adequate public services.

What could be done?

- **Better targeting –** Use dynamic socioeconomic databases and regular grievance-redress mechanisms to reduce exclusion errors.
- **Portability –** Ensure beneficiaries can access entitlements despite migration or changes in residence.
- **Outcome orientation –** Wherever feasible, link transfers with education, nutrition, healthcare, skilling or productive employment.
- **Fiscal sustainability –** Assess recurring welfare commitments against State revenues, debt and competing development priorities.
- **Transparency –** Publish clear eligibility criteria and explain exclusion decisions to reduce perceptions of arbitrary treatment.
- **Independent evaluation –** Measure welfare schemes not only through beneficiary numbers but also through their impact on poverty, nutrition, employment, women's

agency and human capital.

- **Complementary investments –** Cash transfers should supplement, not replace, public investment in health, education, infrastructure and employment.

What lies ahead?

- India should therefore move towards welfare architecture that balances **equity, efficiency, fiscal sustainability and political legitimacy**.
- Conditional and outcome-oriented transfers, supported by strong public services and effective grievance redressal, can ensure that welfare expenditure becomes an investment in human capabilities rather than merely a recurring electoral commitment.
- Ultimately, the objective should be to transform welfare from a **cycle of competitive cash promises into a pathway towards greater economic security, human development and empowerment**.

Reference

The Hindu| UCT