

## Hard cash, not subsidies, seen as best help for poor

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The Roman empire handed out free bread and put on circuses to keep its population happy. Today, subsidising the cost of living means keeping a lid on fuel as well as food prices. With the energy and food crises inflating the cost of subsidies across the developing world, governments are being forced down a route that the World Bank and development economists have urged for years: cushioning poor families by targeted cash payments delinked from the cost of hydrocarbons and carbohydrates.

Energy subventions are expensive. According to a survey of International Monetary Fund economists, explicit fuel subsidies in a sample of developing countries averaged 1.5 per cent of gross domestic product last year, and implicit subsidies through price manipulations, a hefty 4 per cent.

Even some oil-exporting countries, where subsidies are easier to afford, are rethinking them. In Iran, where petrol costs 11 cents a litre, President Mahmoud Ahmadi-Nejad said last month that aid to buy fuel would be paid by cash into the bank accounts of poor people. The artificially low price of fuel not only costs the government \$97bn (€63bn, £50bn) in forgone revenue, it encourages smuggling.

There is interest in "conditional cash transfer" schemes in which families get assistance in return for socially beneficial behaviour such as keeping children in school. The idea was pioneered in Mexico and spread to Brazil. It is gaining footholds across Africa and Asia.

Introducing such schemes is not straightforward. Jeffrey Lewis, a development finance expert at the World Bank, says: "To move to an outcome that targets the poor you need to have a reasonably good administrative system in place. In many of the poorest countries they are weak or small in scope."

The programmes have been boosted by better technology, particularly the smart cards and cash cards used in developing countries. Mr Lewis says the revolution in remittance finance, helping migrants send savings home, has connected many more poor families to financial services networks that can be used for government benefit payments. In Malawi, one of the poorest

countries, schemes in the United Nations-supported Millennium Villages development project have distributed cash cards.

Perhaps the biggest obstacle to making the move remains the political risk to removing ceilings on energy and food costs. Even Mexico, though it has increased payouts through its "Oportunidades" cash-transfer programme to meet higher food costs, maintains expensive fuel subsidies on top.

In India, the government has long controlled fuel costs with a complex system of state-run distribution systems and price controls. In particular, kerosene and liquefied petroleum gas (LPG) used for cooking are heavily subsidised.

Economists say the LPG subsidy is an inefficient and badly targeted way of helping the poor, as it is disproportionately used by better-off urban households. Even kerosene, used by the urban poor for cooking, is used by both rich and poor in the countryside. About half the subsidised kerosene never makes it to cooking stoves but is diverted to vehicle fuel tanks.

Three researchers, Devesh Kapur of the University of Pennsylvania, Partha Mukhopadhyay from the Centre for Policy Research in New Delhi, and Arvind Subramanian from the Peterson Institute in Washington, calculate that all India's rural poor could be lifted above the poverty line if the Rs1,800bn (\$77bn, €49bn, £39bn) India spends annually on centralised handouts were made direct transfers.

"When the expenditure on [centralised schemes] and subsidies in the name of the poor is enough to lift all poor people out of income poverty, and yet more than 300m people remain poor, it is imperative that India undertake a radical shift."

As energy subsidies are often captured by the well-off, there is organised opposition to reducing them. Proposals to reform fuel handouts in India met storms of protest, while a dozen petrol stations in Iran were set on fire last June when the government rationed petrol.

Moving to cash transfers may help the poor. But in developing countries, the poor rarely have the loudest voice.