

THE DIRECT CASH SUBSIDIES SCHEME IN INDIA: AN APPRAISAL

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ABSTRACT

India has introduced a subsidy reform plan which involves a measured removal of all subsidies items, including energy commodities, provided through public distribution systems (PDS) and direct benefits transfer (DBT). Broadly, the aim is to replace the PDS subsidies by direct cash transfers to the beneficiaries. However, there are several concerns linked with this reform plan, namely, the manner in which it is designed and implement, and its impact on energy sector reforms. This study is focused on the plans, existing status and feasibility of direct cash transfer schemes (DCTS) for energy commodities such as PDS kerosene, liquefied petroleum gas and wage payments, fuel subsidies, food grain subsidies etc. The study investigates the existing problems in the provision of energy subsidies (like LPG, Fertilizers, Kerosene etc.) through PDS, the impact of removal of these subsidies, effectiveness and sustainability of the cash transfers to the needy people, possibility of tackling leakages and corruption with DCTS which were associated with subsidies through PDS, and the economic, environmental and social implications of cash transfers in India. It is expected that the energy subsidy reforms may eventually lead to a gradual phasing out and ultimately a complete removal of energy subsidies. In such a case, the availability of energy commodities at market price across India could facilitate trading opportunities and contribute to energy market integration (EMI) within various states in the country and possibility with other countries in the East Asia Summit (EAS) region.

KEYWORDS: DCT, DBT, Public Distribution System, National Rural Employment Guarantee Schemes.

Introduction

In the current observe by the planning commission, it is ascertained that the PDS is so unproductive that 58% of the subsidized grant do not reach the targeted group and almost a third of it is trisected off the supply chain. According to the finance ministry, the inefficiencies of the PDS cause the government to spend Rs. 3.65 for transferring Rs. 1 to the poor. To generated budget saving and reduce corruption, the government of India launched the DCT/DBT Scheme on January 1st, 2013. The DCT/DBT program aims that entitlements and benefits are transferred directly to the beneficiaries with the help of biometric Aadhar linked bank account. At present, the scheme is covering 7 welfare schemes in 26 Districts in 13 states. The programme covers scheme like education, scholarship for the Scheduled Castes and Scheduled Tribes and pension to the windows. Food, Fertilisers and Fuel have been kept out of its purview at this time. The DCT/DBT Schemes Aims at cutting a subsidy bill of Rs. 164000 crores apart from other benefits like better delivery, accurate targeting, broader choice, reducing delays and corruption.

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Direct Benefit Transfer (DBT)

DBT is a main reform proposal to ensure better and timely delivery of benefits from Government to the people. This marks a model shift in the process of delivering benefits like wage payments, fuel subsidies, food grain subsidies etc. directly into the bank accounts of the beneficiaries, removing leakages and ornamental financial inclusion. Of late, with due espousal of the Government, DBT has evolved into a transformative mechanism which ensures a horizontal and efficient interface between the Government and people. The concept and scope of DBT initiative has been growing over the years. DBT was rolled out in the country in 2013 in 43 districts, 24 selected Central Sector (CS) and Centrally Sponsored Schemes (CSS) in a phase-wise manner. In Phase II, DBT was further expanded across the country on 12.12.2014 with 7 new scholarship schemes, and modified DBTL for LPG subsidy and National Rural Employment Guarantee Scheme (300 districts) brought under its ambit. At this time, DBT is being implemented in 66 schemes of the Central Government across the country, delivering benefits to more than Rs.30 crore beneficiaries with more than Rs.100 crore DBT transactions. Apart from its extensive spread, the definition of DBT has also prolonged over the years. Today, DBT not only encompasses direct transfer of cash benefits, but also In-kind benefit transfers and transfers to the service providers/enablers within the Scheme design. In totality, DBT has progressed onto becoming a revolutionary delivery mechanism, enabling the country to leapfrog generations of sub-optimal service delivery and transfer directly to a cutting-edge government delivery system.

Objective of the Subsidy Schemes

It should be renowned that direct subsidy transfers are not a impartial solution for subsidy delivery, but just one among numerous strategies that may be employed to deliver welfare services. It is not a replacement for other regular government welfare services, but a complementary piece. Direct subsidy transfers should also be vigilantly tested to ensure that they bring about real choice and empowerment for beneficiaries, without distorting markets in unacceptable ways. A move towards direct transfer of subsidies will require re-engineering the subsidy administration process. In doing so, it has to address existing challenges with targeting, address leakages and amusement through transparency and use of technology, empower beneficiaries with choice in accessing subsidies, provide a fast and suitable method to report grievances, provide a vigorous electronic process for identification of beneficiaries, and electronic transfer of funds into their bank accounts.

Methodology

The present paper is based on the secondary data. The secondary data collected through different government offices, websites and other available sources. Data has been collected on the working of DCT Scheme in India from different stakeholders. This study cover subsidy through direct cash transfer in LPG, fertilizers and Kerosene.

Hypothesis of the Study

- DCT/DBT is fulfilling its aim of removing corruption and leakages in transfer for beneficiaries.
- DCT/DBT has not reached to people from all economic sections of society.

Subsidy through Direct Cash Transfer

The Policy on Direct Cash Transfer (DCT) of subsidies, initiate by the Finance Minister in his budget speech last year, is a new policy determine which will be implemented in phases with the aim to remove numerous anomalies of the present subsidy edifice by ensuring greater efficiency, cost efficiency and better delivery of kerosene, fertilizers and LPG.

This paper examines:

- The Pros and Cons of the projected DCT policy to deliver subsidies
- The delivery instrument and
- The correct classification of the target beneficiaries.

The DCT Policy Framework proposed by the Government: Major Planks of DCT policy are:

- One market price for subsidized goods to replace the dual pricing under the existing subsidy system.
- Increase the service delivery of subsidies to proposed beneficiaries through a cost effective workable system.
- Direct subsidy transfers as harmonizing to other welfare programmes.

In sum, DCT aims to accomplish Inclusive Growth in real spirit.

Proposed structure for DCT as given by the Task Force:

Government intends to transfer fuel subsidy for kerosene and liquid petroleum gas (LPG) cylinders directly to the poor families instead of giving it to the state run agencies. This stage would be extensive to fertilizer and public distribution system of food grains.

A phase wise accomplishment for Fertilizer, Kerosene and LPG subsidies is optional by the Task Force.

A Road in front of Direct Cash Transfer			
	LPG	Fertilizer	Kerosene
Phase I	Government to cap expenditure of subsidized cylinder per household	Software capability & scientific support to track association of fertilizer from retailers to farmers to be created. Information visibility up to the dealer level is to be facilitated.	States purchase kerosene at market rates. Centre transfers cash based on actual off take of Kerosene
Timelines	(within 3 months of approval of policy)	(Pilot Dec 11)	(N.A.)
Phase II	All consumers start buying LPG at market rates with direct transfer of subsidy into bank accounts	transportation to facilitate direct cash transfer to bank accounts of retailers to be set up.	Consumers buy at market rates and State governments to transfer cash to their accounts
Timelines	(Pilot Dec 11)	(Pilot June 12)	(N.A.)
Phase III	Government to make out and target specific segment of customers for subsidy	Government to set up the system where farmers buy at market rates from retailers and get cash transfer of subsidies to their accounts	
Timelines	(As per Government approval)	(N.A.)	

Successful accomplishment of such a system for Kerosene and LPG will pave the way for direct food subsidy to the BPL families at a later stage.

The DCT policy will be rolled out with the help of UID and online IT based interventions which will make sure minimal errors in the delivery system of the policy. All the subsidy benefits under this scheme will be delivered through direct transfers into Aadhaar enabled Bank /Post office Accounts (AEBA) using the Aadhaar Payments viaduct. The payment apparatus will work as follows:

Government Department Beneficiary's Bank	Sponsor Bank Beneficiary	Central Payment Management System
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Under this system, a person can even withdraw money at his or her entrance way from an Aadhaar enabled no frills bank account through Business Correspondents. As of now, 300 mn cards have been issued under Aadhar and by 2013, as many as 700 mn populations is expected to be covered under Aadhar.

Pros and Cons of the Government's DCT Policy:

Much depends on proper implementation of the DCT Policy.

Pros:

- Market price for necessary fuel and fertilizers will replace the existing distortionary dual pricing.
- Market malpractices like signpost, black marketing and defilement thrive when prices are controlled randomly. With DCT mechanism in place, such malpractices can be controlled with one market price.
- De-regulation in case of fuel and oil subsidies will raise contribution of Oil & Gas Exploration Companies with free market pricing apparatus. Market price of LPG and Kerosene would eliminate under recovery of Oil companies and illegal diversion on LPG and Kerosene would reduce to a considerable extent.

- Economical use of possessions would be possible under DCT policy since pilferages and leakages would be minimized.
- Aadhar based payment platform will ensure:
 - Delivery of subsidies to the targeted beneficiaries.
 - Eradicate pilferage, diversion, leakages of vital goods

Cons:

- DCT will lead to inflation because of market related pricing. This affects poor and also middle class harmfully.
- Where all public delivery systems have some element of leakage and diversion there is an anxiety that the cash transferred will be frittered away on lavish expenditures.
- In case of exploitation of funds by the beneficiaries, serious problems may arise. For example if the farmers who receive cash for fertilizers do not use it for the purchase of fertilizers, it may result in decrease in the usage, which will subsequently lead to low food grain production or shift in crop agricultural estate and create supply scarcities in the country.
- The risk with free market pricing of merchandise under DCT is that the increased demand pressures may shoot up the prices of vital commodities in the market resulting in high inflation circumstances in the country. This ultimately will increase poverty and influence the nutrition security negatively.
- Execution requires high political readiness and there should be cooperation between state and centre. This is because, even though the policy formulation is at the Central level, the accomplishment is carried out by state agencies. Hence coordination among the two is crucial.
- Also entitlements that put income into the hands of beneficiaries without concurrently making a claim on their time in other words, money that comes in for free, without doing anything, even going through the motions of work would be used mostly for unproductive uses.
- An issue about male dominance has been repeatedly raised. Even though cash transfer may take place in the name of the adult woman in the household, the adult male may still wrest the money for his own undesired purpose.
- Also deficiency of supply of the subsidized items may create major clash and conflict in the country, since beneficiaries may have cash in hand but no goods to buy.
- Managing a horizontal transition to the new system including creation of new infrastructure bargain and human resources will be a major challenge.
- The success of DCT depends upon the healthy cooperation between the Centre and the States. This can prove to be a large challenge for implementation of DCT since any lapse would result in severe losses.
- If all the beneficiaries receive cash at the same time, it may result in price-rise of the essential commodities since demand will suddenly shoot up.
- Lastly, the price volatility in the world market of the subsidized goods such as kerosene and pulses which are imported may put stress on government to increase the amount of cash transfers, thereby adding to fiscal deficit.

Conclusion

It is recognized view that no policy is perfect; every scheme has some flaws either in policy itself or in its accomplishment process. Here, it is not about the best or worst policy but it is rather about the valuation of the efficiency of policy over one another. DBT Policy is pro-poor policy which can surely accomplish the expectancy of the stake holders (Both the people and the government). The scheme may not fully do away with the all anomalies but will surely bring some principal changes in the delivery of benefits. It will surely eliminate the growth of black marketing. Also, it will improve the standard of living of people or for now provide some really deprived ones the basics of the life by providing them access to cash. This scheme will improve the purchasing power of beneficiaries and will provide a vigorous approach in people's spending behavior and decision making particularly in women.

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