

DIRECT CASH TRANSFER IN PUBLIC DISTRIBUTION SYSTEM OF INDIA: A CRITIQUE

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ABSTRACT

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

Introduction

This paper examines-

- The Pros and Cons of the proposed DCT policy to deliver subsidies
- The delivery mechanism and
- The correct identification 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 current subsidy system. Strengthening the service delivery of subsidies to intended beneficiaries through a cost effective workable system. Direct subsidy transfers as complementary to other welfare programmes. In sum, DCT aims to achieve Inclusive Growth in real spirit. Proposed Framework 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 platform would be extended to fertilizer and public distribution system of food grains.

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

The DCT policy will be rolled out with the help of UID and online IT based interventions which will ensure 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 Bridge. The payment mechanism will work as follows:

Government Department → Sponsor Bank → Central Payment Management System → Beneficiary's Bank → Beneficiary.

Pros and Cons of the Government's DCT Policy:

Much depends on proper execution of the DCT Policy:

- **Pros:**
 1. Market price for essential fuel and fertilizers will replace the existing distortionary dual pricing.

2. Market malpractices like hoarding, black marketing and adulteration thrive when prices are controlled arbitrarily. With DCT mechanism in place, such malpractices can be restricted with one market price.
 3. De-regulation in case of fuel and oil subsidies will raise participation of Oil & Gas Exploration Companies with free market pricing mechanism. 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.
 4. Economical use of resources would be possible under DCT policy since pilferages and leakages would be minimized.
 5. Aadhar based payment platform will ensure. Delivery of subsidies to the targeted beneficiaries. Eliminate pilferage, diversion, leakages of essential goods Introduce transparency in the delivery of the subsidies Bring about rapid strides in financial inclusion and thereby transform the rural economy.
- **Cons:**
 1. DCT will lead to inflation because of market linked pricing. This affects poor and also middle class adversely.
 2. Where all public delivery systems have some element of leakage and diversion there is an apprehension that the cash transferred will be frittered away on wasteful expenditures.
 3. In case of misuse of funds by the beneficiaries, serious problems may arise. For instance if the farmers who receive cash for fertilisers do not use it for the purchase of fertilisers, it may result in reduction in the usage, which will subsequently lead to low food grain production or shift in crop plantation (farmers may switch to cash crops) and create supply scarcities in the country.
 4. The risk with free market pricing of commodities under DCT is that the increased demand pressures may shoot up the prices of essential commodities in the market resulting in high inflation situation in the country. This ultimately will increase poverty and affect the nutrition security negatively.
 5. Execution requires high political willingness and there should be cooperation between state and centre. This is because, even though the policy formulation is at the Central level, the implementation is carried out by state agencies. Hence coordination among the two is crucial.
 6. Also entitlements that put income into the hands of beneficiaries without simultaneously 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 (i.e. Procurement of goods from PDS Shop) would be used mostly for unproductive uses.
 7. 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 extort the money for his own undesired purpose.
 8. Also shortage of supply of the subsidized items may create major unrest and conflict in the country, since beneficiaries may have cash in hand but no goods to buy.

9. Managing a smooth transition to the new system including creation of new infrastructure arrangement and human resources will be a major challenge.
10. The success of DCT depends upon the healthy cooperation between the Centre and the States. This can prove to be a big challenge for implementation of DCT since any lapse would result in severe losses.
11. Direct Cash Transfer System can give rise to a situation where Inflation increases by double digits but the cash provided to the beneficiaries may increase only after extended period of time. Challenge of instant matching of subsidy with inflation. Also, 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.
12. Lastly, the price volatility in the world market of the subsidized goods such as kerosene and pulses which are imported may put pressure on government to increase the amount of cash transfers, thereby adding to fiscal deficit.

Key Issues / Challenges to Be Addressed

1. Ensuring proper Delivery of Subsidies through DCT:

Under DCT scheme the government envisions the creation of an interoperable network of 10 lakh Business Correspondent agents using the combined infrastructure of India Post and banks. Hence Banking and Postal infrastructure in the country needs to be strengthened.

- i. Strengthening the infrastructure would involve huge costs to the banks. This should not result in bank customers having to bear

the burden or stakeholders being penalised. It would, therefore, be necessary for the government/RBI to think in terms of Incentivisation Schemes which will make it attractive for the banks to venture into the rural hinterland on their own volition and make it a win-win proposition.

- ii. In case of Delivery of subsidies, there needs to be a clear differentiation in the mechanism for delivering fertilizer, LPG, and Kerosene. In case of Fertilizer subsidies, for instance, government proposes to deliver direct cash into the UID linked Bank accounts of the farmers. But this does not ensure the usage of funds for the intended purpose. Hence, another alternative could be to transfer the subsidy amount to the farmer's account only on the basis of UID card and proof of purchase of fertilisers. But here the problem of counterfeit receipts of purchase may arise and money therefore could be once again misutilised. To overcome these challenges, there could be another alternative: the subsidy should be directly transferred to the retailer's account, as it is done now and on furnishing the UID, the fertiliser must be delivered to the farmer at the subsidised price.
- iii. Under DCT, there would be no need for fair price shops and it would be necessary to ensure that the existing distribution network continues either under private or a public private model.
- iv. The way postmen dispense money orders to individuals currently; in the same way they can be used for delivering cash to the beneficiaries by using simple technological tools that could be used to link the UID with the cash delivery mechanism. For this purpose, the post offices need to be upgraded and postmen need to be educated about the technological tools that will be used in this regard.

2. Correct Identification of Target Beneficiaries:

- i. Identification of Target Beneficiaries is a major challenge that needs to be tackled for the successful implementation of DCT under LPG, Fertilisers and Kerosene. The concern is that the policy framework doesn't lay down clear guidelines about identification of target segment of beneficiaries. The important point here is 'Who should get the subsidies?' Under phase two for instance in case of fertiliser, LPG and Kerosene subsidies, even the rich would be allowed to avail the subsidies; which is unfair. Even though UID linkage would solve majority of issues, still most important concern about the wrongful inclusion and exclusion of beneficiaries would still persist, since the eligibility criteria are not clearly defined. Different eligibility criteria must be applied for subsidies to farmers and to households. For instance, eligibility for farmers in case of fuel and Kerosene subsidies could be the size of landholdings whether owned or leased. Only small and marginal farmers with landholdings say less than 2 hectares only may be eligible for subsidies. Similarly government must also consider on what basis the Diesel subsidy would be delivered to the Farmer. Clear exclusion criteria for rich farmers should be worked out in detail. Most important issue under DCT is that the fuel and Kerosene are the items of 'family consumption'. Hence the subsidies are for families and not individuals. But the UID number will be given to the individual members of the household; hence there may be problems of duplication of payments in some cases where the individual members claim subsidies more than once and also absence of payments or denial of right to use if the head of the household is absent or denies access to the money. The migration of population in both ways from BPL status to APL status and also

from APL to BPL also poses a serious challenge in identifying the correct beneficiaries as well.

- ii. Apart from identifying beneficiaries based on UID number, an important question arises as to how does the government will ensure delivery of subsidies to the non UID card holders? Since, nationwide UID linkage would take considerable amount of time, government must think of an alternative solution for correct identification of target beneficiaries
- iii. The Definition of Poverty needs to be updated, modified and made suitable for subsidies under different heads. For instance, under provision of direct cash transfer for fertilizer subsidies the current definition of calorie based poverty line would not be suitable. Also while considering eligibility criteria for dispensing fertilizer subsidies, one must take into account an important fact that, small and marginal farmers do not 'own' the land but merely work as the labour on the land owned by the landlords or rich farmers. In that case, identifying the right farmers would be a major challenge. Another important point is that the current estimates of population below poverty line are based on year 2000 Census and hence the data is not updated and reliable.

3. View on Conditional Cash Transfers:

Conditional Cash Transfer (CCT) could be an alternate way of distributing subsidies through DCT, in India its applicability is highly questionable inspite of international experiences in Brazil, Mexico, Bangladesh favouring the CCT. The goals and aims of such policies are generally highly contextual.

Indian Scenario

Quality of education and health infrastructure in India is a major obstacle. For instance there was a case about a primary health centre in Andhra Pradesh where a maternity ward was built. But the first delivery was done in this ward 18 years after it was built. This depicts the sorry state of infrastructure in the country. Also it is a well known fact that education infrastructure in rural India is very poor. There are hardly any secondary or higher secondary schools in the villages. Also in the existing schools they severely lack water, sanitation and other basic facilities and also face the problem of teachers' absenteeism. All these elements pose a serious challenge in implementing CCT successfully. Under CCT, the cash transfer is discontinued if the conditions are not fulfilled. But one has to keep in mind that the schemes such as DCT are formulated with the aim of helping the poor households, hence they should not be given a discriminatory treatment. The poor in India should not be penalised for lack of infrastructure in the country. Otherwise the very purpose of these subsidies would be defeated. In countries like Brazil, Bangladesh etc. were successful in implementing CCT as they were small in size and less in Population and hence easier to manage. But India is a vast and diversified country. The diversification is not only in terms of geography, demography and culture but there is wide diversity in terms of level of Development. Different states in India have different levels of development and hence it is practically impossible and unfair to put a universalized condition for the subsidies to be transferred under CCT.

Conclusion

In sum, it may be stated that the DCT policy is good and necessary as it only attempts to address all the ills of the current subsidy system but also marks a big stride towards transforming India into a full-fledged market economy without a distortionary pricing system. The DCT policy also meets the 'STEEPLE' parameters

S- Socially desirable

T- Technologically viable

E- Economically feasible

E- Environment friendly

P- Politically expedient

L- Legally in order

E- Ethically correct No doubt it will result in price rise of essential goods but it is ought to be recognised that it was an artificially suppressed pricing system to begin with. However, as outlined earlier, if the policy is to be a success the four critical actions will have to precede its implementation and post implementation also.

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