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## Modus Operandi for Implementing Direct Cash Subsidy in India

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### ABSTRACT

Financial or kind support in any form, generally with the aim of promoting beneficial economic and social outcome is subsidy. Various essential goods are subsidized at affordable prices by the government some subsidized goods are produced and imported by both, Government and private sector, but distributed under the supervision of the Government like PDS for kerosene and domestic LPG. In India Government is also providing subsidies, not only on fuel, fertilizers and LPG but also on food grains, to facilitate the common man to have access to these basic necessities at affordable prices. A significant proportion of subsidized goods do not reach the targeted beneficiaries. To ensure greater efficiency, cost effectiveness and better delivery of subsidized items, the Government will move towards direct transfer of cash subsidy to people living below poverty line. The present paper attempts to focus on the modus operandi for implementing direct cash subsidy in India

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## INTRODUCTION

In India the problem of poverty and deprivation is ground rooted, since independence every government in India is devoted to curb these problems. Major share of central and state government budgets is put in place for broad-ranging social safety nets and livelihood assistance programs. This led to achieve elementary objective of these programs i.e. to provide a basic minimum quality of life for the vast majority of people who require social assistance and it made possible for the poor to access basic goods and services that would otherwise be exorbitant. The Government has introduced many social security and welfare schemes. In these schemes, cash is typically transferred to the beneficiaries without any service or product delivery. These can be classified as follows:

- Direct Cash Transfers -In this money is either delivered directly transferred into his or her bank account. Advances in technology and improved telecommunications access have made it possible to provide electronic transfer of funds into the accounts of beneficiaries example of this model is Social security pensions.
- Conditional Cash Transfers- Here cash transfers are made conditional on the achievement of certain social or development objectives. This approach has been adopted in the Janani Suraksha Yojana where beneficiaries must fulfil certain conditions to receive the cash from the Government.

The following shortcomings in the current system led to change in subsidy policy of India:

- The customer needs are not responded properly
- Poor targeting of BPL population
- Diversion and leakages
- Under recoveries for Oil Manufacturing Companies
- Distortions of market rates
- Dual-pricing policy

Looking into the above limitations of the subsidy policy in the Union Budget 2011, the government announced a direct transfer of subsidies to BPL households which is the removal of the existing indirect or price subsidy system wherein subsidies are routed through manufacturers who are required to sell goods below the market rate. The chairperson for the task force constituted for director transfer of subsidies is Nandan Nilekin. This task force proposed the Core Subsidy Management System to achieve a fully electronic back-office process for direct transfer of subsidy. The system would automate all business processes related to direct subsidy

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transfer and can be customized according to the business rules. This system will integrate Aadhaar, ERP (Enterprise Resource Planning), nodal bank and payments gateway.

#### ***Core Subsidy Management System (CSMS):***

For direct transfer of subsidies the Core Subsidy Management System (CSMS) will be implemented by the Ministry/Agency driving the subsidy scheme. The model is similar to the Core Banking System (CBS) as followed by almost all large banks today. The subsidy accounts of all beneficiaries and policies related to subsidy management will be maintained under this system. The CSMS would be capable to support all forms of direct transfers of subsidies such as non-cash transfers, conditional cash transfers, direct cash transfers, etc. In addition to maintaining the subsidy accounts, it is also needed to integrate it with the number of other external systems of other government departments, partners, and service providers to effectively monitor the scheme, and ensure the desired quality of service.

#### ***Role of Aadhaar:***

The Aadhaar number is exceptionally unique as the number is derived from the linkage with individual biometrics which makes fake identities easily identifiable that is why it is christened as Unique Identification Number (UID). Many government aids do not reach the poor people because they do not have the perfect documents to establish their identity so that they can qualify for the benefits. So when a resident enrolls for the Aadhaar number, their basic demographic information and biometric details are stored in a central database, and linked to their assigned Aadhaar number. The database can then be contacted by agencies and service providers anywhere in India to confirm that the person's identity. The unique identification number stored within the centralized Aadhaar database can play an important role in addressing existing challenges within our economy. The basic role is as follows:

- It ensures that one beneficiary has one number across subsidy programs.
- It also enables real-time authentication of identity at the time of subsidy delivery.
- It facilitates the welfare benefits and subsidies through direct transfers into Aadhaar enabled Bank Accounts.

#### ***Role of Banks :***

Public sector banks have been directed the responsibility of making the ambitious 'direct benefits transfer' scheme a success as the Centre is looking direct transfer the benefits of various government programmes through the bank accounts of the beneficiaries. This initiative will start with 43 identified districts across the country. Banks are now expected to use technological advancement such as micro ATMs to transfer the cash benefits to Aadhaar-enabled bank accounts. Transition to direct transfer of subsidies would require careful planning regarding availability of bank accounts and a robust payments infrastructure. The Process of linkage begins when banks seed the Aadhaar number into the Bank account as the list containing Aadhaar Number is conveyed by the implementing agencies and not insists on production of Aadhaar Card by the beneficiaries. Here the two important things are to be considered:

- a) The beneficiaries who do not already have a Bank Account may be advised to open an Aadhaar Enabled Bank Accounts (AEBA) for which they shall be required to submit their UID number to the bank while opening the bank account.
- b) Those beneficiaries who already have a Bank account and Aadhaar Number may be advised to provide the UID number to the Bank concerned so that their accounts may be linked with their Aadhaar numbers.

#### ***System for Subsidies of Goods:***

Presently, this exercise is to be carried out by the government on the subsidy for Kerosene, LPG (Liquefied Petroleum Gas) and Fertilizers. The system is as follows:

#### ***Subsidy System for Kerosene:***

On quarterly basis a fixed quantity of Public Distribution System (PDS) kerosene is allocated by the Government of India to the States/UTs. It is then supplied by the Oil Manufacturing Companies (OMCs) to the wholesale dealers who sell it to Fair Price Shop dealers at a subsidized rate, fixed by the Government of India. Kerosene is made available to customers with a fixed monthly quota from FPSs/dedicated kerosene retail outlets operated under PDS by the State Governments/UTs. The network of distribution to the beneficiaries is controlled by the respective State Governments/UT Administrations. As the task force proposed in its report, the new subsidy system for kerosene would be implemented in 2 phases:

#### ***Phase I: Direct Transfer of Subsidy Through State Governments/UT Administration:***

- States purchase commodity from manufacturers at market price
- Central government transfers the differential subsidy directly to the state governments/UT

- Subsidy amount is proportional to commodity uplifted from the retail points in a state government/UT
- States reform their distribution system based on the CSMS system proposed by the Task Force

***Phase II: Subsidy transfer to beneficiaries:***

- The cash equivalent of subsidy is transferred directly to beneficiaries through their bank accounts by linking transactions to Aadhaar.
- The commodity purchase and then transfer of cash subsidy to their account will be based on successful authentication of the beneficiary through Aadhaar at the point of sale.

***Subsidy System for LPG:***

The country's current consumption of LPG is approximately 14,000 Thousand Metric Tons (TMT), of which indigenous production constitutes approximately 68% while the balance is met by imports. The proposed subsidy framework is considered as a phase-wise implementation, to ensure a smooth transitioning from the existing regime over a period of time, without creating any sudden and unaffordable environment for the residents. It will take place in three Phases:

**Phase I:** Cap consumption of subsidized cylinders for all customers (Contingent on Government taking a policy decision to implement Phase I)

**Phase II:** Direct transfer of subsidy to customers

**Phase III:** Identify and target segmented customers

***Subsidy System for Fertilizers:***

In the present scenario, the Government subsidizes manufacturers of fertilizers to ensure that the end product is affordable for farmers. The quantum of subsidy that manufacturers receive is the difference between their normative cost of production and the subsidized Maximum Retail Price (MRP) that fertilizers are sold at. Looking into the current challenges in the subsidy framework it is proposed that a phased approach to reform the subsidy disbursement mechanism to be adopted. In the Interim proposed framework, the subsidy is planned to be provided to the retailers and ultimately to the intended beneficiaries (farmers). It is proposed to be done in the following phases:

***Phase I: Information Visibility till the Retailer:***

In this phase, information visibility of the movement of fertilizers along the supply chain lies from the manufacturer till the retailer.

***Phase II: Subsidy Payment to Retailer:***

At this stage, it is envisaged that the subsidy will be released to the retailer when he receives the fertilizer. This will involve transfer of subsidy directly to the retailer's bank account on receipt of fertilizer from the wholesaler.

***Phase III: Subsidy Payment to Farmers:***

In the long run, once the coverage of Aadhaar is extensive throughout the country, and Aadhaar enabled payments are operational, it is envisaged that the subsidy disbursement to the farmer can be done directly into the bank account of farmers.

***Action Plan:***

An implementable solution for direct transfers of subsidies for kerosene, LPG and fertilizers as recommendation by the Task Force requires meticulous planning and persistent follow up on implementation by the Implementing Ministries. This has to be translated into action by a clear and unambiguous plan of action for this clarity of roles and responsibilities and well defined timelines must be assigned to achieve the task in hand. This new scheme aims to plug leakages in the current subsidy regime and will cover more than half of India's population, making it the world's largest cash transfer programme. The following effects on the lives of the individuals and families that receive them:

- People always prefer to receive cash than other forms of assistance (food aid, public works, etc.) because it gives them the freedom to spend the money on the things they feel they need.
- Increase in number of children going to school as a result of receiving the cash transfer
- People experience an increase in their quality of life e.g. they are able to construct permanent shelters, have proper meals in a day and able to pay their health-related costs.
- Particularly vulnerable beneficiaries will feel that they were now able to meet the basic needs of their families, giving them greater economic freedom and security.

**Challenges for Successful Implementation Of Action Plan:**

Implementation of this plan is full of challenges. The following are some big challenges for successful implementation of the plan in India:

- **Opening of Bank Account:** The bank account is the most important criterion for the cash transfers but only 40 per cent of India's population has bank accounts. The current banking network does not have the bandwidth to handle more accounts, and such a network cannot be built within a month.
- **Identification of beneficiaries:** Selection criteria should be kept broad-based and inclusive. Lessons can be learnt from the successful implementation of various programs of other nations. The basic reason of why the social schemes do not reach poor is the inaccurate beneficiaries list and it is important task that Aadhar must not lie in this category.
- **Fluctuating Market Prices:** Prices can be averaged out yearly based on forecasts. Cash subsidy should allow flexibility in the choice of commodity to the beneficiary. The amount of subsidy should be calculated based on the number of individuals per household rather than assuming an average household size.
- **PDS network has a much wider reach than the banking system:** In remote areas where the need for income support is the greatest; the banking system is simply not ready for mass transfers in cash. Last but not least, cash transfers are likely to bring in their trail.
- **Check on greedy commercial interests :** This is one of the important thing that how to keep check on the exploitative elements which are eager to sell alcohol, branded products, fake insurance policies or other items that would contribute very little to people's nutrition or well-being.
- **Transfer of cash subsidy:** To expedite the implementation, bank accounts can initially be opened for one member per household. The withdrawal can be done at bank branches and ATMs through debit cards and through the business correspondent model using smart cards, PoS devices, etc.
- **Implementation of UID has been cumbersome:** It is being very difficult to move banks towards rural areas and sensitizing administrators working at the grassroots level. So far, about 21 crore Aadhaar numbers have been created. This is less than a third of the number of people targeted under the cash transfer scheme. Banks have been reluctant to come to rural areas. This is because no-frills accounts in these areas do not fit in with their business model as they lack the capability to go into rural areas.

This new system of cash transfer will plug leakages and save an enormous amount of money and by this government has plan to reach welfare of people without wasting money as they put hard cash in their hands instead of spending on welfare programmes to end the very old system of PDS.

**Concluding Observations:**

To sum up it may be safely deduced that the Government of India is providing subsidies on fuel, fertilizers, LPG and food grains to facilitate the common man to access the basic necessities at affordable price. Indeed, it is great contribution of Indian government for the people living below the poverty line. The government has good mechanism for providing subsidies to the people i.e. direct cash transfer, conditional cash transfer, CSMS, Adhar Card etc. Despite all efforts, people are yet to get benefited from the subsidies because of lack of awareness about the government schemes, less than 50% of the Indian population is having Adhar Card, and there are no banking facilities in villages or remote areas for rural people. Moreover, literacy is also one of the biggest hurdles in implementing modus operandi for providing cash subsidy. The need of the hour is to overcome these hurdles at an early date to ensure the speedy implementation of the cash subsidy schemes of the government.

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