

Research Paper

Commerce



Direct Cash Transfer- A Real Game Changer

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ABSTRACT

The Indian government, since independence has been subsidizing many industries and products, from petrol to food. Loss-making state-owned enterprises are supported by the government. Farmers are given electricity for free. Overall, a 2005 article by International Herald Tribune stated that subsidies amounted to 14% of GDP. Government has announced ambitious plan of Direct Benefit Transfers (DBT) to the poor. On January 1, 2013 government will shift the delivery of welfare services to a new architecture: straight into an individual's bank account, verified by a unique identification (UID) number called Aadhaar. Initially this scheme will be launched in 20 districts as a pilot before its nationwide launch. Under the scheme, those living below the poverty line will receive between 30,000 rupees and 40,000 rupees per year in lieu of 26 welfare programs, including scholarships and pensions. This will not include subsidies for food, kerosene and fertilizers which forms major part of government subsidy bill. This scheme will help to deliver money in the hands of people who deserve it. It will reduce subsidy bill and in efficiency in the delivery system. DCT will transfer money in the hands of beneficiary without corruption, commission and leakage. In the long run it will help to reduce fiscal deficit. here are many questions on success of this scheme as rightful implementation is the key. As of now, all efforts of the government are directed towards implementation and make DCT a real game changer.

Keywords: Direct cash transfers, subsidies, UID, public finance

Introduction

A subsidy, often viewed as the converse of a tax, is an instrument of fiscal policy. It literally implies coming to assistance from behind. However, their beneficial potential is at its best when they are transparent, well targeted, and suitably designed for practical implementation.

Like indirect taxes, they can alter relative prices and budget constraints and thereby affect decisions concerning production, consumption and allocation of resources. Subsidies in areas such as education, health and environment at times merit justification on grounds that their benefits are spread well beyond the immediate recipients, and are shared by the population at large, present and future.

In the context of their economic effects, subsidies have been subjected to an intense debate in India in recent years. Issues like the distortionary effects of agricultural subsidies on the cropping pattern, their impact on inter-regional disparities in development, the sub-optimal use of scarce inputs like water and power induced by subsidies, and whether subsidies lead to systemic inefficiencies have been examined at length. Inadequate targeting of subsidies has especially been picked up for discussion.

India has unveiled the details of an ambitious plan for a cash payout of subsidies to the poor from 1 January. The scheme will be launched in 51 districts initially and will cover the entire country by the end of 2013. Authorities say it will be a potential game-changer, bringing the country's poorest citizens into the mainstream.

The Centre was releasing as much as Rs 2,00,000 crore as subsidies under various schemes for the targeted sections across the country.

Direct Cash transfers (DCT), as the term suggests, are direct transfer of money to people by government. Although some proponents tend to see cash transfers, in vogue

DCT will help efficient distribution of subsidies directly in the hands of poor; avoid leakage and corruption in the distribution system.

Finance minister- Mr. Chidambaram said the government planned to disburse 3,200bn rupees under the scheme. The money would be transferred to the beneficiary's bank account which would be linked to a unique identification number (UID).

Implementing the scheme may not be easy as only 222 million people in India have so far enrolled into a biometric identity scheme, most poor families do not have bank accounts and many villages do not even have a bank.

Objectives of study:

- Implementation of DCT and possible hurdles in it.
- Possible problems due to DCT scheme; that may arise in future.
- Study long term benefits of direct cash transfer (DCT) scheme.

A. DCT implementation

The government has already made it clear that the roll out of Direct Cash Transfer (DCT) scheme in the identified 43 districts in the first phase from January 1 should be done only after ensuring that intended beneficiaries have Aadhaar number linked with their bank accounts, which will be mandatory for transfer of benefits.



Government is in a hurry to launch DCT across the nation

keeping in view general elections in 2014. Everyone is raising possible hurdles in its implementation.

Following are the possible hurdles in DCT implementation-

1. Low bank accounts penetration-

Only 40 per cent of India's population has bank accounts. Opening bank accounts for all the DCT beneficiaries in time is not possible. The current banking network does not have the bandwidth to handle more accounts, and such a network cannot be built within a month, given that the first phase of cash transfers is slated to begin in January 2013.

2. Implementation of UID has been cumbersome –

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.

3. Implementation of transfers on the basis of UID on scale-

Government has carried out pilots of cash transfers in small blocks/territories for period of more than a year. Few pilots failed to scale up and do not give confidence of implementation on a large scale. Flawless implementation of this scheme on large scale is a big challenge.

4 Legitimate beneficiaries may be excluded-

Exclusion is happening because UIDAI does not necessarily cover all people in a locality and because people may have Aadhaar but not proof of eligibility for the scheme like a BPL (below poverty line) ration card.

5. Identifying the poor correctly may be difficult-

The last BPL census was done in 2002. Its next iteration, which had to be completed by 2006, was converted into the socio-economic caste census (to capture caste information about these households as well). It is still underway. The new BPL list will be ready by July 2013.

Everyone is discussing infrastructure and process hurdles but there may be system issues which are difficult to implement. There are limits to the program's ability to stamp out corruption. There is no reason a micro-ATM operator can't ask for a kickback when giving people their money. There is no reason to believe that this scheme will be full proof and will avoid middle men.

B. Possible problems due to DCT

1. Rising prices in deregulated markets

The most immediate threat of direct public provision of some essential goods (like food and fuel) being substituted by cash transfers to consumers, is that of rising prices in these deregulated markets. Rise in prices would render such goods unaffordable for the lower income segments, i.e. those who need them most. Typically, in situations of volatile and rising prices, the real value of cash transfers can get quickly eroded.

2. Ensuring that the cash transfer actually goes to the intended beneficiaries

The possibility of cash transfers being diverted for expenditure that does not meet the intended purpose is another issue that can pose serious problems. Even when the poor household is correctly identified, structures of power within households as well as social constructions of gender behavior can affect decisions about how the money is spent, in ways that are not always expected or desired.

3. High administrative costs

For the identification of beneficiaries and reaching benefits to them, targeting often requires complex methods and advanced institutional capacity. These, in turn, translate into high administrative costs, which often consume a large chunk of allocated funds.

4. Conditional cash transfers will be complex to administer

Conditional cash transfers i.e. subject to the beneficiaries meeting certain pre-specified conditions such as children attending school, families visiting health clinics for check-ups, or immunizing children as per the prescribed schedule.

Administration of qualification before transfer will be complex and may also increase malpractices and corruption.

C. Long term benefits of DCT

- Cash transfers will ensure money in the accounts of correct beneficiaries.
- Cash transfer will increase efficiency of public benefits distribution system.
- The cash in the hands of the poor will spur demand for FMCG products and more in the years to come. Hundreds of millions of people will be elevated out of the depths of poverty.
- Direct cash transfers will generate much-needed budget savings by eliminating corruption such as people using fake identification documents to get the same benefit twice.
- DCT will reduce subsidy bill and fiscal deficit of India. More funds can be allocated to much needed infrastructure projects.

Conclusion

As of now subsidies transfer is very inefficient. Cash transfer is unambiguously a fantastic and will be better than current situation.

Infrastructure is a big question for effective implementation of DCT and if UPA government try and do it in a hurry, it can all get messy. Cash transfer may get delayed in such situation.

DCT has increased lot of expectations for all and if nothing changes then poor may get angry.

DCT can be real game changer if implemented in systematic way and keeping away short term political benefits.