Research Paper Economics

Impact of Direct Cash Transfer in India

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ABSTRACT

The Union Government has launched the Direct Cash Transfer programme to give benefits like scholarships, pensions, NREGA wages etc. to directly to the bank or post office accounts of beneficiaries. There are also talks of direct transfer of subsidies for food, fertilizer and kerosene at a later stage. The cash transfer system is expected to curb corruption, cut down on administrative costs and minimize the leakages, because of which, the huge amount of subsidies that the government offers to poor people have not been able to have the desired impact. The paper tries to view the positive impacts if Direct Cash Transfer (DCT) in India. Besides, it also attempts to analyze the negative impacts of DCT in India.

Keywords : Direct Cash Transfer, subsidy

I.INTRODUCTION

The Government of India has prepared a cash subsidy model under which recipients of subsidized cooking gas, fertilizer and kerosene will get direct cash transfers into their accounts. These are the key recommendations of the task force chaired by Unique Identity Authority of India (UIDAI) chairman Nandan Nilekani to suggest ways to plug the leakages in the current subsidy framework for kerosene, LPG and fertilizer. The Government has operationalised a phase-wise shift from subsidy-based system to Direct Cash Transfer (DCT), since 1st January 2013. The Union Government has launched the Direct Cash Transfer programme to give benefits like scholarships, pensions, NREGA wages etc. to directly to the bank or post office accounts of beneficiaries. There are also talks of direct transfer of subsidies for food, fertilizer and kerosene at a later stage.

The cash transfer system is expected to curb corruption, cut down on administrative costs and minimize the leakages, because of which, the huge amount of subsidies that the government offers to poor people have not been able to have the desired impact. To be operationalised through the Aadhar platform – which is a 12-digit "Unique Identification Number Scheme", the system will be introduced in 51 districts from January and extended to cover the targeted households in 18 states and Union Territories by 1st April, 2014. Before 1st April 2014, all the remaining states and UTs are envisaged to be covered.

India's DCT experiment draws a lot from the Brazilian one, which has succeeded in reducing poverty and inequality over the past 15 years. The experiment in Brazil, called "*Bolsa Familia*" was responsible for a 21% drop in inequality between 1995 and 2004.

II. OBJECTIVES OF THE PAPER

1. To view the positive impacts of direct cash transfer in India.

2. To analyze the negative impacts of direct cash transfer in India.

III. POSITIVE IMPACTS

The positive impacts of the Direct Cash Transfer can be summarized as follows:

1) In this model, targeted population will get benefits. The government spends over Rs.70,000 crore a year on providing kerosene, fertilizer and cooking gas at below market rates. The purpose of direct subsidy is to ensure that it reaches the targeted beneficiaries. Thus, people who deserve it will get it.
2) DCT will facilitate monitoring the subsidy transactions carried out at different levels. Hence, better monitoring can be ensured in order to curb corruption.
3) When government spending on subsidy reduces, fiscal deficit will decrease and inflation can be controlled.
4) DCT gives a scope to expand financial inclusion. There shall banking facility for all since having a bank account is mandatory on the part of the beneficiaries. It would stop large-scale diversion of subsidized goods, while giving poor rural Indians the opportunity and motivation for opening their first bank accounts.

IV. NEGATIVE IMPACTS

The following are the various negative impacts of direct cash transfer in India.

1) There is no guarantee that the cash transfer will be used to buy food. If the cash transfer is not given additional to food subsidies and is given "in lieu of" food subsidies, the money given may not be used for nutritional purposes. Hence. The problem of undernourishment may still persist. In a country like India, where malnutrition and hunger are two very important issues, cash transfer instead of Public Distribution System (PDS) would create food insecurity.
2) Without the PDS, people would be entirely dependent on market or a few privately-owned shops in rural areas which may create artificial shortage and thereby, increase food prices.
3) The success of cash transfer depends to a large extent on easy accessibility to banks which unfortunately not the case in rural India, where banking infrastructure is extremely limited and people have to travel long distances to access a bank.
4) People in rural India lack financial literacy. They do not have much idea on how to approach a bank and use banking services.
5) The identification of Below Poverty Line (BPL) families is a major problem. BPL cards may be issued by families who are not poor.
6) Another serious problem is that of transition, especially if there is a time-lag in opening an account in a bank or

in a Post Office, to receive the cash transferred. If meanwhile, the subsidized food disappears, the poor who fail to open an account adequately fast, for one reason or the other, will lose doubly through not having the cash yet and through the fact that others will have the cash to buy food which would keep the food prices high.

7) The study by development economist Jean Drezè, brought out loopholes in the pilot project of the cash transfer scheme carried out in Kotkasim, a tehsil in Rajasthan's Alwar district, where the residents bought kerosene at market price and the subsidy that they were to receive was transferred directly to their bank accounts. The study found out that the beneficiaries had to spend much more on travelling to banks than what they were getting as kerosene subsidy. Besides, in several cases the payments of subsidies were "very erratic and untimely". To demonstrate that the scheme was a big success, the dealers in Kotkasim were also reportedly forced to buy kerosene at a loss. Some people who have not bought the kerosene got the money and some people who bought the kerosene did not get the money.
8) Conditional Cash Transfers (CCT) gives poor people cash conditional on good behaviour such as sending children to school. This helps the poor get some income support on one hand and take steps to lift themselves out of poverty on the other. In the Bolsa Familia programme, cash is delivered to a poor household's bank account on the condition that the children will go to school until the age of 17 years and will have full set of vaccinations in their first five years. But in India, no such CCT has been included.
9) The most common argument for cash transfers is that cash makes it possible to satisfy a variety of needs (not just food), and that people are best judges of their own priorities.

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