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CASH TRANSFER OF SUBSIDY & ITS IMPACT ON MICRO SMALL AND MEDIUM ENTERPRISE IN GOA

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Abstract: Direct cash transfers have been advocated as better means of reaching the targeted beneficiaries with less cost and even lesser leakages. The 'Aadhar'-the Unique Identity Number project of the Government of India is a facilitating link in this exercise. Suddenly the Government seems to have expedited the process of direct transfer of cash in place of numerous subsidies.

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As early as January 2013, 51 districts out of a total 659 in the country, will see the roll out of this plan; 18 States will be covered by April 2013 and the remaining 16 States later by April 2014. Hence, in a way, the first roll out is a pilot project, success of which will add to the confidence of the Government.The Ministry of Small Scale Industries (SSI) is operating a scheme for technology upgradation of Small Scale Industries (SSI) called the Credit Linked Capital Subsidy Scheme (CLCSS). The Scheme aims at facilitating technology upgradation by providing upfront capital subsidy to SSI units, including tiny, khadi, village and coir industrial units, on institutional finance (credit) availed of by them for modernisation of their production equipment (plant and machinery) and techniques. The Scheme (pre-revised) provided for 12 per cent capital subsidy to SSI units, including tiny units, on institutional finance availed of by them for induction of well established and improved technology in selected sub-sectors/products approved under the Scheme. The eligible amount of subsidy calculated under the pre-revised scheme was based on the actual loan amount not exceeding Rs.40 lakh. Due to insufficient investment and lack of awareness of both the quality standards and access to modern technologies, a large percentage of SSI units continue with outdated technology and plant & machinery. With increasing competition due to liberalisation of the economy, the survival and growth of the SSI units are critically dependent on their modernisation and technological upgradation. Upgradation of both the process of manufacture and corresponding plant and machinery is necessary for the small enterprises to reduce the cost of production and remain price competitive at a time when cheaper products are easily available in the global market.

- To evaluate the procedure and implementation of direct cash transfer of subsidy.
- To study the impact of cash transfer of study.
- To identify the possible threats and measures to overcome them

Cash transfers are direct payments provided to people either based on certain criteria or otherwise. Historically, cash transfers have been used for various purposes, such as providing income support to households, poverty alleviation, bolstering investment in human development, pension support and support to farmers.

Cash transfers seek to mitigate the demand constraint faced in accessing basic services and products by raising the income of the beneficiaries. Cash transfer schemes do not address product supply issues. For instance, the Janani Suraksha Yojana (JSY) aims to improve the ability to pay for prenatal and post-natal care while assuming that medical services are accessible.

OBJECTIVES OF THE STUDY

- To evaluate the procedure and implementation of direct cash transfer of subsidy.
- To study the impact of subsidy on MSME in Goa and india.
- To Identify the possible threats and measures to overcome them

RESEARCH AND METHODOLOGY

The purpose of conducting this study is to study and evaluate the various schemes implemented by the government and to see that whether the schemes really benefited the rural people or the backward class people.

RESEARCH METHODOLOGY ADOPTED

The study was conducted by using data from the directorate of industries and the department of Msme govt. of India and through visits to industries, questionnaires, interviews and books

METHODOLOGICAL ASSUMPTIONS AND LIMITATIONS

a) Study is concentrated on MSME.

b) The study is conducted to see whether the people are really benefited from the scheme direct transfer, the difference between the market price and subsidized price is directly transferred to the beneficiary in the form of cash in proportion to the quantity uplifted from the market.

In the Union Budget 2011, the government announced a direct transfer of subsidies to BPL households which is a drastic departure from the existing indirect or price subsidy system wherein subsidies are routed through manufacturers who are Under required to sell goods below the market rate.

On the other hand, unconditional transfers simply transfer money to the intended vulnerable beneficiaries in order to assist them in coping with their vulnerabilities and do not induce any behavioral changes on their part.

MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

Micro, small and medium enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The defined limit on investment for enterprises to be classified as micro, small and medium enterprises is as follows:

Table: 1

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs.50 million / Rs. 5 crore	Rs. 20 million / Rs 2 crore
Medium	Rs 100 million / Rs 10 crore	Rs. 50 million / Rs 5 crore

* Investment limit in Plant & Machinery   ** Investment limit in equipment

The term “village industries” has been redefined in amended KVIC, Act, 1956 as "any industry locat-ed in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of artisan or worker does not exceed Rs. one lakh (Rs. one lakh and fifty thousand in case of village industry located in a hilly area) or such other sum as may, by notification in the Official Gazette, be specified from time to time by the Central Govern-ment" government of Goa announced some new schemes for the MSME in Goa such as:

Capital Contribution Scheme: The scheme envisages providing capital contribution to the existing functional units to venture out and expand. The scheme is designed to support local entrepreneurs, promote industrial units which venture out and develop special products, based on locally developed technology.

Share Capital to Local Entrepreneurs and Self Employed Scheme: The main objective of this scheme is to encourage local youth, preferably of Goan origin, to start income generating activities and to encourage self-employment. Under this scheme, 50 percent interest free share capital contribution is provided to the beneficiaries of Chief Minister Rozgar Yojana, which is being implemented by the Economic Development Corporation for local youths to take up activities related to the industrial and self-employment opportunities, except, those which are falling under Red Category under the Industrial Policy and related to tobacco and liquor.

Preferential Purchase Incentives for Small Scale Industries Scheme: The scheme is intended to encourage and give boost to Small Scale Industries Sector. Under this scheme, small scale units registered in the State of Goa are given special treatment in any tender floated by Government Departments or any purchases made by any Government Departments.

Interest Subsidy Scheme: The scheme envisages providing subsidy to new and tiny units in manufacturing sector on interest payable by them. The main objectives of the schemes are:-

1. To provide incentives to small industries for making their units financially viable.
2. To promote industrial growth in the State and create an optimistic environment for the small investors and local entrepreneurs to invest.

Goa State Financial Incentives to Industries for Certification and Patenting Scheme: The scheme envisages encouraging the industrial units to obtain ISI certification and/or patent right on products and/or processes. Such units provide benchmark of excellence and serve as a model for others to emulate. Under the Scheme, a maximum subsidy of Rs 2 lakh per unit, once in a lifetime is given.

Incentives to Women Entrepreneurs Scheme: In order to encourage the employment opportunities for women entrepreneurs, the Goa Industrial Policy envisages special incentives to women under various schemes.

The Goa State Employment Subsidy Scheme: This subsidy is an innovative concept of supporting sustainable employment of local youth. The Scheme envisages providing subsidy to the industrial units, which have given 80 percent employment to the local youth.

Incentives to encourage Consumption of Local Raw Material Scheme: The Scheme envisages encouraging consumption of locally produced raw materials by offering incentives, which is in the form of subsidy in power and water bills.

The Goa State Export Market Development Scheme: In order to encourage Goan industry to improve its export market, financial assistance in the form of interest free loan up to Rs 5 lakh, repayable over 5 years, is granted, provided the unit has been in operation for at least five years, has Import/Export Code and its turnover does not exceed Rs 5 crore during preceding 3 years.

The GHRSSIDC is set up to promote, assist and develop handicrafts, Medium Micro and Small as well as cottage industries by undertaking supply of raw materials, arranging for marketing their products, organizing handicrafts exhibitions and providing guidance, training etc. The Corporation runs sale counters and handicrafts emporia for sale of handicraft products. The Corporation also organizes and participates in handicrafts exhibition and fairs. The Corporation is helping the Medium, Micro and Small in procuring scarce raw materials such as iron and steel, polymers, etc. The Government provides financial assistance in the form of share capital contribution to the Corporation.In addition to the above, the Corporation provides the following incentives:

1. Financial assistances to tiny Artisans: There are about 5000 traditional families engaged in the production of handicrafts in the State. This scheme is aimed at providing small loans to such artisans who are predominantly engaged in such trade. It is proposed to provide assistance in the form of working capital, marketing and training in order to encourage/motivate upcoming artisans, thus providing gainful employment.

2. Home Processing, Repacking, Use of Day to Day Consumable items: This scheme provides machinery know-how, training, and marketing support to the Goan unemployed youth and housewives. Locally available raw materials like chilies, turmeric, pepper, etc, are used for making the products.

3. Goa Youth Rozgar Yojana: The earlier scheme, "Deendayal Sawayam Rojgar Yojana" has been renamed as the "Goa Youth Rozgar Yojana" vide Govt. order dated 14-08-2006. The scheme envisages providing loan/assistance to unemployed youth for taking up self employment activities such as information kiosks, cyber cafes, vending kiosks for selling vegetables, fruits, flowers, newspapers/magazines, etc. Preference is given to those who have passed 12thStandard in Vocational Stream or have done an ITI course. The scheme is being implemented through the Goa Handicrafts, Rural & Small Scale Industries Development Corporation.

4. Subsidy for Clay Idol Makers: Pottery and clay idol making has been a traditional Goan cottage industry since time memorable, these idols are used in important Goan festivals like Ganesh Chaturthi, Christmas etc.Under this scheme, subsidy is given to those idols which are produced in Goa by local artisans registered with the Corporation and sold to the public.The subsidy given under this scheme is to the extent of Rs.100/- per idol of not less then one foot in height.

5. Grants/Contributions to Khadi and Village Industries Board: The scheme envisages creating employment opportunities by promoting Khadi and Village Industries in the State through the Khadi and Village Industries Board. The Board is a statutory organization, which provides financial assistance in the form of loan and grants to entrepreneurs. So far, the Board is implementing the schemes formulated by the Khadi and Village Industries Commission on all India basis and the Government of Goa has to bear the cost of establishment. Presently, the Board in Goa implements only one scheme viz. 'Margin Money Scheme'. Generally, 25 percent subsidy in the form of margin money is allowed. In case of women and weaker sections, subsidy is to the tune of 30 percent.

6. Setting up of Industrial Parks: Assistance for Development of Infrastructure. Under this scheme, the Government of India provides funds for the States for development of Export Infrastructure. The main objective of the scheme is to involve the State in export by providing assistance for creating appropriate infrastructure for the development and growth of export. The Goa Industrial Development Corporation has been appointed the nodal and implementing agency. The Director of Industries, Trade and Commerce is designated as the Convener of State Level Export Promotional Committee (SLEPC).

7. Assistance to Development of Infrastructure

8. Assistance to Food Processing Units.

Table 2: Performance of SSI / MSME Units, Employment, Investments and Gross Output

Sl. No.	Year	Total Working Enterprise (In Lakh)	Employment (In Lakh)	Market Value of Fixed Assets (In Crore)	Gross Output (In Crore)
I	II	III	IV	V	VI
1	2001-02	105.21	249.33	154349.00	282270.00
2	2002-03	109.49	260.21	162317.00	314850.00
3	2003-04	113.95	271.42	170219.00	364547.00
4	2004-05	118.59	282.57	178699.00	429796.00
5	2005-06	123.42	294.91	188113.00	497842.00
6	2006-07	361.76†	805.23†	868543.79*	1351383.45*
7	2007-08#	377.37	842.23	917437.46	1435179.26
8	2008-09#	393.70	881.14	971407.49	1524234.83
9	2009-10#	410.82	922.19	1029331.46	1619355.53
10	2010-11#	428.77	965.69	1094893.42	1721553.42
11	2011-12#	447.73	1012.59	1176939.36	1834332.05

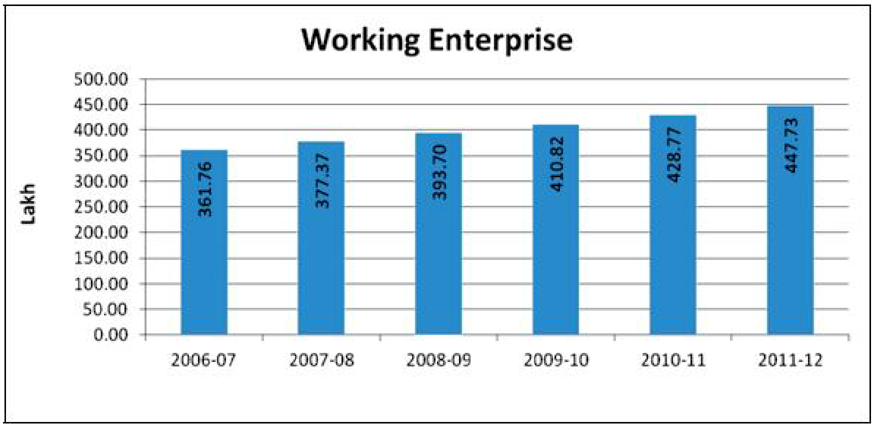
Source: MSME Goa

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSME sector in addition to provide wide range of services.The leading industries with their respective shares are as depicted below:

It is well known that the MSME provide the maximum opportunities for both self-employment and jobs after agriculture sector.

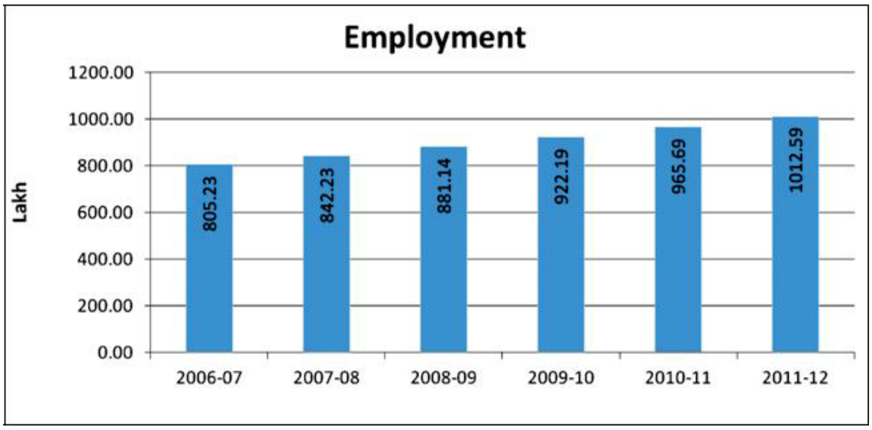
CHART SHOWING STATISTICS OF THE SECTOR

A) Number of Enterprises in MSME Sector

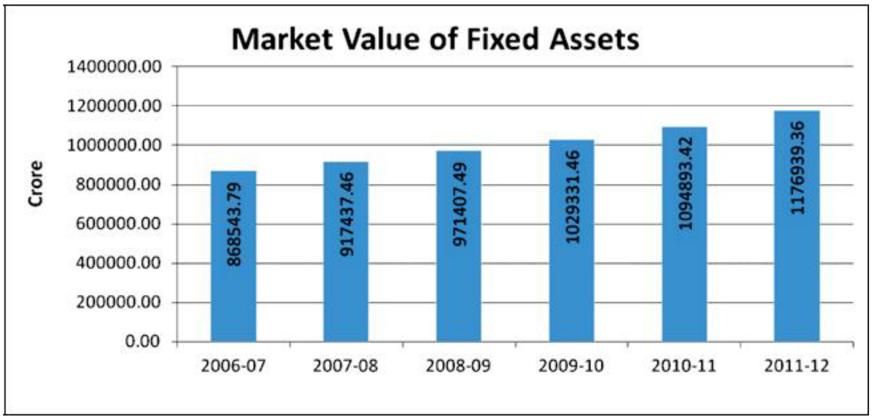


Projected data for the years 2007-08 to 2011-12.

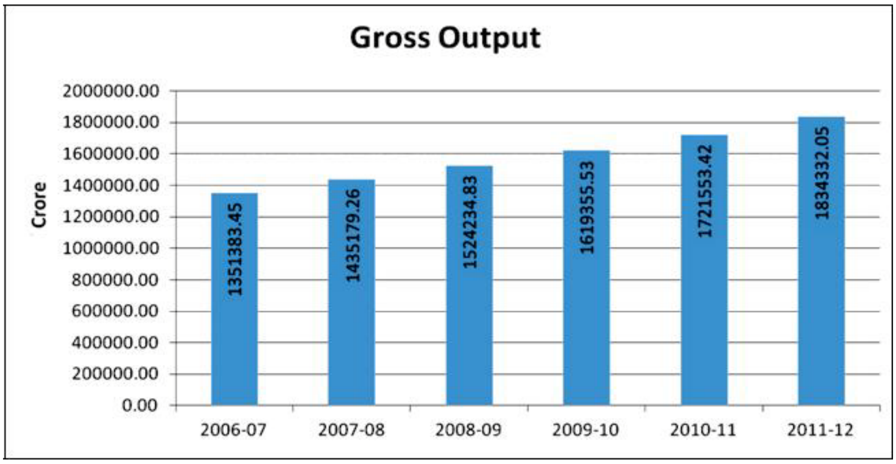
b) Employment in MSME Sector



c) Fixed Investment in MSME Sector



d) Gross Output in MSME Sector



Projected data for the years 2007-08 to 2011-12.

Table 3: State- wise distribution of Estimated Number of Enterprises and Employment of MSME Sector

Sl. No.	State/UT		Number of Enterprises (lakh)				Employment(lakh)		
		Registered Sector	Unregistered Sector			Registered Sector	Unregistered Sector		Total
			Sample	EC 2005*			Sample	EC 2005*	
1	Jammu and Kashmir	0.15	1.18	1.68	3.01	0.90	2.17	2.68	5.75
2	Himachal Pradesh	0.12	1.60	1.16	2.87	0.65	2.27	1.76	4.68
3	Punjab	0.48	9.66	4.32	14.46	4.16	14.16	8.48	26.79
4	Chandigarh	0.01	0.28	0.20	0.49	0.12	0.58	0.53	1.23
5	Uttarakhand	0.24	2.00	1.51	3.74	0.80	3.62	2.54	6.96
6	Haryana	0.33	4.87	3.46	8.66	3.82	8.41	6.61	18.84
7	Delhi	0.04	1.75	3.74	5.52	0.58	5.94	13.29	19.81
8	Rajasthan	0.55	9.14	6.96	16.64	3.42	15.00	12.37	30.79
9	Uttar Pradesh	1.88	22.34	19.82	44.03	7.55	51.76	33.06	92.36
10	Bihar	0.50	7.48	6.72	14.70	1.48	15.97	10.81	28.26
11	Sikkim	0.00	0.06	0.10	0.17	0.01	0.56	0.22	0.79
12	Arunachal Pradesh	0.00	0.25	0.15	0.41	0.05	0.82	0.31	1.19
13	Nagaland	0.01	0.16	0.21	0.39	0.16	1.00	0.54	1.71
14	Manipur	0.04	0.44	0.43	0.91	0.20	1.38	0.78	2.36
15	Mizoram	0.04	0.10	0.16	0.29	0.26	0.30	0.25	0.81
16	Tripura	0.01	0.26	0.70	0.98	0.23	0.53	0.99	1.75
17	Meghalaya	0.03	0.47	0.38	0.88	0.13	1.04	0.75	1.92
18	Assam	0.20	2.14	4.28	6.62	2.11	4.48	7.66	14.25
19	West Bengal	0.43	20.80	13.41	34.64	3.60	54.93	27.24	85.78
20	Jharkhand	0.18	4.25	2.32	6.75	0.75	8.24	3.92	12.91
21	Odisha	0.20	9.77	5.76	15.73	1.73	21.94	9.57	33.24
22	Chhattisgarh	0.23	2.78	2.19	5.20	0.75	4.68	4.09	9.52

23	Madhya Pradesh	1.07	11.50	6.76	19.33	2.98	17.32	13.36	33.66
24	Gujarat	2.30	13.03	6.46	21.78	12.45	21.97	13.31	47.73
25	Daman & Diu	0.01	0.01	0.04	0.06	0.26	0.03	0.09	0.37
26	Dadar and Nagar Haveli	0.02	0.04	0.03	0.09	0.26	0.07	0.07	0.41
27	Maharashtra	0.87	14.45	15.31	30.63	10.89	24.72	34.43	70.04
28	Andhra Pradesh	0.46	14.90	10.60	25.96	3.83	35.15	31.71	70.69
29	Karnataka	1.36	11.12	7.70	20.19	7.89	22.58	16.24	46.72
30	Goa	0.03	0.56	0.27	0.86	0.33	0.87	0.68	1.88
31	Lakshadweep	0.00	0.01	0.01	0.02	0.00	0.05	0.02	0.06
32	Kerala	1.50	12.94	7.69	22.13	6.21	26.98	16.42	49.62
33	Tamil Nadu	2.34	18.21	12.58	33.13	14.26	38.89	27.82	80.98
34	Puducherry	0.01	0.13	0.21	0.35	0.21	0.25	0.55	1.01
35	Andaman and Nicobar Islands	0.01	0.07	0.07	0.14	0.06	0.18	0.15	0.38
	All India	**15.64**	**198.74**	**147.38**	**361.76**	**93.09**	**408.84**	**303.31**	**805.24**

Source: MSME Goa

Table 4: Numbers of EM-II filled by type of enterprises

	Numbers of EM-II			
Year	**Micro**	**Small**	**Medium**	**Total**
2007-08	1,56,051	17,777	491	**1,74,319**
2008-09	1,71,031	18,757	690	**1,93,077**
2009-10	1,86,126	23,999	1,412	**2,13,894**
2010-11	2,04,064	29,101	1,260	**2,37,263**
2011-12	2,42,606	34,192	2,939	**2,82,496**

Source: - The States/UTs Commissionerates/Directorates of Industries.

Note: (P) - Provisional

Table 5: Summary Results of Fourth All India Census of Micro, Small and Medium Enterprise sector

Sl. No.				**(lakh)**
	Characteristics	**Registered Sector**	**Unregistered Sector ***	**Total**
	Total Number of working enterprises	**15.64**	**346.12**	**361.76**
1	Manufacturing	10.5	104.51	115.01
	Services	5.14	241.61	246.75
2	Number of rural enterprises	7.07	193.12	200.19
3	Number of urban enterprises	8.57	153	161.57
4	Number of women enterprises	2.15	24.46	26.6
5	Number of enterprises running perennially	15.14	189.13	204.27

6	**Employment**	**93.09**	**712.14**	**805.24**
	Manufacturing	80.84	239.23	320.07
	Services	12.26	472.91	485.17
7	**Employment**	**93.09**	**712.14**	**805.24**
	Male	74.05	610.62	684.68
	Female	19.04	101.52	120.56
8	**Enterprises by type of social category**	**15.64**	**346.12**	**361.76**
	SC	1.19	27.15	28.34
	ST	0.45	20.4	20.84
	OBC	5.99	145.74	151.73
	Others	8.01	149.55	157.57
	Not Responded	0	3.27	3.27

Table 6: Summary Results of Fourth All India Census of Micro, Small and Medium Enterprise sector

				(lakh)
Sl. No.	**Characteristics**	**Registered Sector**	**Unregistered Sector ***	**Total**
9	**Enterprises by type of organization**	**15.64**	**346.12**	**361.76**
	Proprietary	14.09	327.45	341.54
	Partnership	0.63	3.65	4.28
	Private Company	0.43	0.06	0.49
	Co-operatives	0.05	1.16	1.21
	Others	0.44	7.65	8.09
	Not Recorded	0	6.15	6.15
10	**Enterprises by main Source of power**	**15.64**	**346.12**	**361.76**
	No Power needed	3.79	194.39	198.18
	Coal	0.25	6.23	6.48
	Oil	0.53	13.86	14.39
	LPG/CNG	0.07	3.97	4.04
	Electricity	10.49	106.52	117.01
	Non-Conventional Energy	0.03	0.85	0.88
	Traditional Energy/Firewood	0.23	7.15	7.39
	Others	0.25	10.19	10.44
	Not Recorded	0	2.95	2.95

Source: Central Statistics Office of Ministryof msme.

CASH TRANSFER SCHEMES IN INDIA

India has several ongoing cash transfer programs, both conditional and unconditional. The CCT schemes in India include the JSY, which is aimed at improving maternal health, and the Dhanalakshmi Scheme and Balika Samridhi Yojana (BSY), both of which aim to reduce social apathy towards female children. The JSY and lessons to be learned from it are described in greater detail in the Appendix. The latter schemes (Dhanalakshmi and BSY27) provide cash incentives to families to facilitate education of their daughters through high school graduation. On the other hand, pension schemes for the elderly and widows are provided as unconditional transfers, targeted towards certain segments. Details of these programs and the prominent evaluation studies that have been done on them to date are provided

ENSURING CONSUMPTION OF MERIT GOODS

Transfers in cash are theoretically posited to be more beneficial to households over in-kind subsidies, as these provide a wider choice to the beneficiaries. However, if the objective is to increase the consumption of more efficient and cleaner forms of energy, simply replacing existing price subsidies with cash transfers may not be the most effective option. Evidence about food stamps and cash transfers from United States has found the propensity to consume food out of food stamps to be higher than that out of cash income

This problem may arise in the Indian context too, where the general apprehension is that any cash transferred to households may be misspent. Misspending of cash received from transfer programs has been recognized as one of the potential pitfalls of introducing such schemes in the country.

EXPOSURE TO PRICE VOLATILITY

Cash transfers provide additional income to the beneficiaries, to relax constraints on their demand. However, in contrast to price-based subsidies, cash transfers do not provide a direct shield against volatility in prices unless the quantum of the transfer is accurately indexed to change with changes in prices. In India, this is a significant risk, especially in the case of petroleum products like kerosene and LPG, the prices of which depend on global crude oil prices. If a cash transfer is introduced to replace in-kind fuel subsidies, the value of cash transferred often gets eroded as the prices of goods rise and the response from the system is lagging

IMPACT ON INFLATION

As mentioned previously in this report, dual pricing exists in the market for kerosene. If price-based subsidies are replaced with a cash transfer, the PDS price of kerosene will rise. As the price of kerosene forms a part of inflation indices such as Consumer Price Index (CPI) and Wholesale Price Index (WPI), an increase in the price is likely to have a direct impact on inflation figures. Moreover, since cash is being infused into the economy, money supply will rise, pushing up inflation. In the long run, however, reduced fiscal deficits would lead to reduction in inflation. The inflationary impact of cash transfers will, therefore, have to be duly considered and accounted for when introducing the program.

IDENTIFICATION AND TARGETING

The primary concern of any targeted social welfare program is to identify the set of intended beneficiaries of the program. The hurdle in targeting lies at the root, that is to say, in the process of identification and definition of the poor.

The first step in identifying target groups should be to estimate the economic impacts of subsidy reform. Household consumption data can be used to estimate how living costs are likely to change given liberalized product prices. More complex, second-order impacts (e.g., inflation, price increases in goods and services related to the subsidized goods, impacts on businesses and employment, economic growth) can be estimated using input-output tables and economic modelling. The results of such exercises can then be used to identify how different groups will be affected by the policy reform,

DETERMINING THE SIZE AND FREQUENCY OF TRANSFER

Typically, the size of transfer in transfer schemes is deliberately kept small to avoid dependence and so that participation in the labour markets is not adversely affected . This concern needs to be balanced against ensuring that the quantum of the transfer is sufficient to make the products in question affordable for the intended beneficiaries. Any cash transfer scheme needs to account for inflation and volatility in prices. As is apparent from the existing schemes in India, in several cases the amount of transferred is insignificant and does not add to the income of the household

TABLE 7: SUBSIDIES AND UNDER-RECOVERIES ON PDS KEROSENE AND NUMBER OF BPL HOUSEHOLDS

	UNIT	2010–11
Fiscal subsidy	INR crore	930.60
	US$ million	204
Under-recovery	INR crore	19,484.42
	US$ million	4,275
Total	INR crore	20,415.02
	US$ million	4,479
Number of BPL households	Million	65.2*

Source: PPAC (2011a); PPAC (2012a); Lok Sabha (2012)*

TABLE 8: AMOUNT OF TRANSFER AVAILABLE PER MONTH AND PER YEAR (IN INR)

PERCENTAGE OF "TOTAL" DISTRIBUTED AS TRANSFER	TRANSFER AMOUNT AVAILABLE PER BPL HOUSEHOLD	
	In INR	In US$
100%	3,131.14 per annum	61.16 per annum
100%	260.93 per month	5.10 per month
80%	2,504.91 per annum	48.92 per annum
80%	208.74 per month	4.08 per month
50%	1,565.57 per annum	30.58 per annum
50%	130.46 per month	2.55 per month

Source: - The States/UTs Commissionerates/Directorates of Industries.

This is a significant amount given that in 2009–2010 the poorest 10 per cent of India's rural population had an average monthly expenditure of INR453 (US$8.85), while the average monthly expenditure of the same decile in the urban population was INR599 (US$11.70) (NSSO, 2011).

Another factor that needs to be considered is the opportunity cost and other expenses incurred by the beneficiaries in travelling to and from the collection centres (banks/post offices/FPSs) to collect their payments. If the transfers are made very frequently, the opportunity cost may become larger than the benefits. On the other hand, if the transfers are infrequent, then they may not adjust in tune with changes in prices and also would be especially challenging for the poor to procure in order to meet the immediate energy needs for which these transfers are actually made. Hence, in cases where the beneficiaries reside at a substantial distance from the delivery points, allowing payments to accumulate in a depository may be beneficial so they can collect the sum according to their convenience. In line with this, adopting an account-based mechanism (either through bank accounts or post office accounts) where the money that remains uncollected can continue to accumulate in the accounts of beneficiaries, means that money could be collected later to meet energy requirements.

DELIVERY MECHANISMS

The choice of technology plays a vital role in implementing cash transfer programs. The mode of subsidy delivery could involve direct transfer of cash by the government to the bank accounts of the beneficiaries. Timely delivery of transfer amounts into accounts of beneficiaries needs to be assured so that there are minimal lags and delays in payments. The intended beneficiaries will typically have severe cash constraints and several competing demands. Thus, timely delivery becomes a critical point in designing a successful cash transfer scheme. In the absence of bank accounts, the option of delivering cash transfers through post offices should also be explored, at least in the short term. This option has been used in Indonesia (see Table 4A in Appendix).

Smart cards with biometric information are being provided as part of the National Population Register (NPR) and by the UIDAI. The UIDAI is envisaging a system where the requisite information of beneficiaries (such as thumbprints or iris scans) can be verified at the time of purchase and the corresponding transfer amount credited to the bank accounts of each beneficiary. In this case, the cash transfer would work as a refund of the subsidy amount to eligible beneficiaries of the program, with all end users paying full market price at the time of purchase.

MONITORING AND EVALUATION (M&E)

An integral part of any cash transfer program is the process of monitoring and evaluating its performance to ensure that stated objectives of the scheme are being met. As mentioned earlier, M&E of the PDS has been weak and corruption and diversion have grown over time (World Bank, 2011). In domestic LPG as well, cases of malpractice have been reported. A robust system must ensure that frequent studies and surveys are conducted to ensure that diversion and misuse are kept in check and the benefits are reaching all members of the target group. It can be easier to divert cash than to divert goods, which have to be stored and resold

Adequate M&E processes will add to the administrative costs of the transfer program. M&E costs should be accounted for while weighing the relative costs and benefits of different options. It is important to involve local authorities such as the Panchayati Raj Institutions in the M&E process. This should be an administratively cheaper option and also impart a sense of ownership on the cash transfer project.

Communication Strategy

Information campaigns are an important element of any successful subsidy reform strategy. Public understanding and acceptance of changing fuel prices can be encouraged by regularly publishing information such as price surveys, comparisons of domestic and international prices, historical and current prices, and the composition of each key petroleum product prices (such as import prices, refining and distribution costs and taxes

CHALLENGES

Lessons to be Learned from Existing Schemes in India

After examining the modalities and evaluation of the two cash transfer schemes mentioned above, the following broad points emerge that are relevant for initiating a cash transfer scheme for kerosene and/or LPG:

Awareness campaigns are necessary for any successful cash transfer program. Most of the intended beneficiaries of the JSY were aware of the benefits that were being provided to them, while awareness about the IGNOAPS was low in Jammu and Kashmir, and Himachal Pradesh. Unsurprisingly, the JSY has benefited a higher percentage of its target group.

Standardized verification procedures (for age) have not been put in place while implementing the IGNOAPS and this problem has had to be worked around by involving local authorities. Similarly, before a national database is prepared, verification of the identity of intended beneficiaries of cash transfers for kerosene could be carried out in consultation with local authorities and Panchayati Raj Institutions. However, in such cases, there is a danger of corrupt local officers misappropriating or misallocating cash or accepting bribes for ratifying the status of beneficiaries.

Moreover, payment of benefits under the IGNOAPS has been reported to be irregular in Jammu and Kashmir, and Himachal Pradesh. Such discrepancies are very harmful for the beneficiaries, especially in cases where they have limited sources of income. Care has to be taken that all transfers are made in a timely manner and this problem does not get replicated in the fossil fuel cash transfer program.

Finally, evaluation studies are critical for analyzing the performance of the cash transfer program. Results on the level of awareness, regularity of transfers, delivery of benefits and other factors mentioned in this report should be gathered and examined closely to identify and address any problems in implementation and planning of the program.

Table 9: Cash Transfer Schemes: International Experience

DESIGN ELEMENT	INDONESIA	IRAN	MEXICO
Size and frequency of Transfer	• The cost of the program was US$2.3 billion (excluding the organizational and administrative cost), around 25 per cent of the amount saved from subsidy reduction. • The rationale for the quantum of payments is not readily apparent from the English language literature on Indonesia's transfer schemes.	• The Reform Act stipulated that at least 50 per cent of the savings from removal of subsidy be used to compensate households for the price increase. • The president chose to pay US$37 per month (this is double the amount approved by the parliament).	• The amount of transfer varies depending on the status of the recipient households. • The transfer is made every two months. • An energy component was added in the scheme in 2007, and the amount was US$4.60, which is 18.4 per cent of the energy expenditure of the beneficiaries of Oportunidades
Delivery mechanisms	• An energy compensation card was issued to the identified beneficiaries. • Payments were made in two instalments (in October 2005 and January 2006). • The disbursement was either directly or through community leaders. • Post offices were used for delivering the transfers.	• Transfers made directly into specially created bank accounts. • The amount was transferred in advance but was kept frozen until the date of price increase. • Banking infrastructure was expanded and upgraded to facilitate the transfer.	• Transfers were initially made in cash through dedicated distribution centres. But this has changed since 2003. as the program is shifting towards debit cards. • Transfers are made to the female heads of the households.
Monitoring and evaluation	• Rapid appraisal of the program in 2005 and 2008. • Cases of illegal diversion of funds towards non-eligible beneficiaries were reported. • Absence of a dedicated complaint registration unit for the program.	• No formal model has een introduced but there seems to be a proactive response from the government in addressing the problems as they arose.	• Presence of an independent impact evaluation protocol in the Oportunidades program. • Rapid assessments have been carried out at key stages.
Communication strategy	The government had a public relations campaign alongside the introduction of the program in 2005.	Regular publication of Q & A by the media.	The government has a communications strategy that includes regular publication of Q&As.
Sources:	ASEAN (n.d.); Bacon & Kojima (2006a ; 2006b); Cameron & Shah (2011); Hastuti, et al. (2006); Satriana (n.d.); Widjaja (2009)	Guillaume, Zytek & Farzin (2011); Bozorgmehr (2012)	Angelucci & Attanasio (2006); Fernald, Gertler & Neufel (2008); Government of Mexico (2010); Niño- Zarazúa (2010); Visa (n.d); World Bank (2010)

Table 10: Subsidy Estimates: Goa: 1998-99

	Cost (Rs. crore)	Subsidy (Rs. crore)	Recovery Rate (Percent)	Subsidy as Percentage of Revenue Receipts	GSDP	Fiscal Deficit
Social Services	**456**	**407**	**10.65**	**35.49**	**8.18**	**151.31**
Merit I	84	84	0.08	7.30	1.68	31.11
Merit II	166	164	1.09	14.32	3.30	61.03
Non-Merit	206	159	22.66	13.88	3.20	59.17
Economic Services	**231**	**218**	**5.90**	**18.97**	**4.37**	**80.87**
Merit I	2	2	0.00	0.15	0.03	0.63
Merit II	95	85	9.96	7.43	1.71	31.66
Non-Merit	135	131	3.13	11.40	2.63	48.59
Merit	346	335	3.27	29.19	6.73	124.43
Non-Merit	341	290	14.93	25.28	5.83	107.76
Total	**687**	**625**	**9.05**	**54.46**	**12.55**	**232.19**

Source: - The States/UTs Commissionerates/Directorates of Industries.

Table 11: Subsidy Estimates: Selected Heads: Goa: 1998-99

(Rs. crore)

Social and Economic Services	Cost			Receipts	Subsidy	Recovery Rate (Percent)
	Current	Capital	Total			
Social Services	**390**	**65**	**456**	**49**	**407**	**10.65**
General Education *of which*	179	5	183	1	183	0.28
Elementary Education	*55*	*2*	*57*	*0*	*57*	*0.10*
Secondary Education	*102*	*2*	*104*	*0*	*104*	*0.12*
Univ. and Higher Education	*19*	*1*	*20*	*0*	*20*	*1.17*
Other General Education	*3*	*0*	*3*	*0*	*3*	*3.45*
Techn. Edu., Sports, Art and Culture	22	8	30	1	29	3.66
Medical and Public Health *of which*	99	13	112	4	108	3.96
Public Health	*4*	*0*	*4*	*0*	*4*	*0.00*
Medical	*96*	*13*	*109*	*4*	*104*	*4.10*
Family Welfare	2	0	2	0	2	0.00
Water Supply and Sanitation	56	34	91	41	49	45.44
Housing	2	4	7	1	6	10.05
Urban Development	7	0	8	0	7	3.49
Information and Broadcasting	2	0	2	0	2	0.13

Welfare of SCs, STs and other BCs	0	0	1	0	1	0.10
Labour and Employment	8	0	8	0	8	3.96
Social Welfare and Nutrition	12	0	12	0	12	0.07
Other Social Services	0	0	0	0	0	0.00
Economic Services	**94**	**137**	**231**	**14**	**218**	**5.90**
Agr., Rural Dev. & Allied Activities	37	14	51	3	47	6.81
Irrigation and Flood Control	14	57	71	0	71	0.55
Energy*	0	0	0	0	0	1.75
Industry and Minerals*	4	12	16	0	16	2.89
Transport	32	50	82	8	74	10.14
Science, Technology and Environment	0	0	0	0	0	0.00
General Economic Services	6	5	11	1	10	9.32
Social and Economic Services	**484**	**203**	**687**	**62**	**625**	**9.05**
Total Surplus Sectors	226	24	250	271	-21	
Power	226	24	249	259	-10	
Non-Ferrous Mining and Metal Industries	0	0	0	12	-12	
Total Net of Surplus	**711**	**226**	**937**	**333**	**603**	**35.59**

Note: * Contains surplus sectors/heads which are separately shown.

Source: - The States/UTs Commissionerates/Directorates of Industries.

The Government has provided subsidies of Rs. 154.44 crore, Rs. 174.24 crore, Rs. 281.07 crore and Rs.14.06 crore during 2008-09, 2009-10, 2010-11 and 2011-12 (upto July, 2011) respectively to Micro, Small and Medium Enterprises, under Plan schemes which have benefitted them for Technology Up-gradation, Quality Certification, Marketing Development etc.

As per the Fourth All India Census of Micro, Small and Medium Enterprises 2006-07, the numbers of registered enterprises and persons employed are 15,63,974 and 93,09,486 respectively.

Even when subsidies are targeted, the targeted beneficiary may not be able to access the subsidy because private costs may be involved to access public services. The deprivation of the poor in accessing untargeted subsidies because of private costs is quite extensive. For example, subsidies in higher education can hardly be accessed by students under low income category who have been pushed out of the system at some early stage, and who are unable to compete in entrance examinations not having invested in private school education or private tuition at an earlier stage of education. Similarly, utilization of specialized health services in city centers is far more difficult for rural residents who have to incur private costs in order to access the public subsidies. Subsidy reforms would require not only better targeting but also ensuring better access for the targeted beneficiaries.

The following steps would need to be taken as part of the operational strategy to reform the subsidy regime:

- Each Department/Ministry/Enterprise should prepare a comparative picture of per unit costs and per unit receipts for all chargeable services;
- Each unit should prepare a plan for reducing staff strength, by putting limit on fresh recruitment and developing a scheme for redeployment of staff, and introduction of voluntary and sometimes compulsory, retirement schemes;
- Strategies of private provision of publicly provided private goods by sub-contracting, unbundling of public sector activities, and privatization should be continually explored;
- A mechanism for automatic (or linked to an index of cost) upward revision of fees and user charges should be introduced as guided by User Charges Commission or similar bodies;
- New public enterprises should not normally be set up any more; and
- There should be a periodic review as to the utility of continuing a subsidy and a decision should be taken even at the initial stage of its introduction as to the life of the subsidy.

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