



Effective Subsidy Delivery Mechanism

This editorial is based on "[What commodities distribution of commodities should be distributed for free or at a subsidised level](#)" was published in The Indian Express on 16/06/2022. It talks about wasteful expenditure occurs by the state by giving subsidies to non-essential goods and services, and how the state can utilise best practices to further enhance its delivery mechanism.

For Prelims: Food subsidies, PDS (Public Distribution System), DBT (Direct Benefit Transfer), PLI (Production Linked Index), Poverty, Fiscal policy

For Mains: Issues in the Implementation of Subsidy Distribution, Delivery mechanisms, and their fiscal implications

Recently, the Punjab government announced a subsidy scheme to provide free electricity up to 300 units, this sparked the debate around the subsidies and what are the essential goods and services that required the government efforts to reach the downtrodden section of society.

What are Subsidies?

- It's the difference between the market price of a commodity, for example wheat and rice which are procured by the government, and the price at which they are being sold to the beneficiary in the form of subsidized food grain.
- **Fiscal Cost of Subsidies:**
 - As India is a developing country, hence, there are limited budgetary resources to enhance subsidies net coverage to far more population.
 - In the central budget, the food subsidy amounts to **Rs. 2.06 lakh crore**, which is **almost 1.9% of the GDP in 2018-19 and 2.5% in 2019-2020**.
 - The **revenue to GDP ratio** has been stagnating over a long period during 2010-11 to 2019-20, which is around the **narrow range of 18.4% to 20.3%**.
 - Whereas in many **developed and emerging market economies**, this ratio tends to be much higher. In 2019, these ratios were **36% and 30.1% for the UK and USA, 48.6% and 43.6% for Sweden and Netherlands, and 31.5% for Brazil**.

What is the Delivery Mechanism for Dispersal of Subsidy?

- Support for **low-income households** in a **targeted manner**, which is the free or subsidized provision of **food grains and services such as health and education e.g. - ([Public Distribution System](#))**.
 - For example, **Direct Benefit Transfer (DBT) through providing money to the beneficiary's bank account**, so that a person is **free to choose any food grains** in the open market according to his choice and on the other hand the person avails subsidized food grain through **PDS (Public Distribution System)**.

- **Incentives to support selected categories of investors and producers** like **reduction of corporate taxes** have been offered to **promote investment in general, or in certain regions such as backward areas.** e.g. - **PLI (production linked incentives).**
 - **PLI (Production Linked Incentives)**-alternative methods include direct budgetary support and indirect support through tax concessions, schemes also require to be carefully designed to avoid their misuse and minimize their costs.

What could be the Rationale for Selection of Subsidy?

- With limited budget, poor targeting and leakages we need to focus on commodities which are considered **“essential”** and **“merit”** goods.
 - Primarily **food grains, particularly wheat and rice**, are supplied to target groups at a highly subsidized price through the public distribution system.
 - Further there is enough evidence that such a distribution has helped to **reduce poverty.**
 - There is also a category of goods which are called **“merit” goods** where significant **positive externalities** are associated with their consumption — for instance, **health and education-related provisions, including midday meals and breakfast.** In these cases, the **benefit of the use of such goods extends beyond the immediate consumer to the wider community.**
 - subsidization or the free provision of essential and merit goods can be justified on the grounds of **meeting social objectives** but there are enormous **examples of wasteful or populist subsidies** recently **Punjab government announced 300 units of free electricity which has led to an undue increase in the wasteful power consumption.**

Way Forward

- **Innovative Solutions:** Need **proper targeting** of beneficiaries **leveraging technology.**
- **Regulation Body:** There is a need to establish a efficient **procurement and public distribution system** which would **manage procurement and distribution.** So, that is to stop leakages and avoidable administrative costs.
- **Choice of Goods & Services:** The need of the hour is to **limit subsidies to essential and merit goods only.**
- **Less Fiscal Space:** There is a need to be very efficient and select subsidies on goods and services as there is limited **overall financial support.**
- **Generating More Income:** Governments, both state and centre need to pay adequate attention to further **strengthening their fiscal revenue.**
- **Social Impacts:** Although there are leakages in the PDS system it shows **the major impact on the individuals and benefits go beyond the individual to a social and community level,** but the benefits from direct income support and PLI are not yet measurable.
 - So, the best way to continue with the PDS scheme is to stop its leakages wherever possible and side by side keep on experimenting with direct income support with measurable results.

Drishti Mains Question

There is a need for proper targeting of beneficiaries in order to rationalize subsidy burden on government exchequer. Discuss.

UPSC Civil Services Examination, Previous Year Questions (PYQ)

Q. Concerning ‘Water Credit’, consider the following statements:

1. It puts microfinance tools to work in the water and sanitation sector.
2. It is a global initiative launched under the aegis of the World Health Organization and the World Bank.

3. It aims to enable the poor people to meet their water needs without depending on subsidies.

Which of the statements given above are correct?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (c)

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