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Shift from product-based to people-based subsidies

Santosh Tiwari | Thursday, Jul 24, 2014 12:33 hrs

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The Independent Evaluation Office (IEO) has suggested a complete overhaul of the Planning Commission by turning it into a reform and solutions commission, more attuned to the development needs of the states. The Director General of IEO, Ajay Chhibber, explained to Santosh Tiwari the logic behind the recommendation and said there was a need to study and replicate the successful delivery models of different schemes adopted by states such as Tamil Nadu, Himachal Pradesh, Kerala and Gujarat.

The IEO has suggested that a completely new set-up should be put in place to handle planning. How will it be different from the Planning Commission?

We have suggested that whether you replace the current system or bring in a reformed one, it should perform three key functions. One, it should do more long-term thinking rather than five-year plans on climate change, demographics, skill development, water management, resource management and all this looked at from a 20-year perspective. Two, we need a place which looks at systemic reforms that cut across many different sectors. If you want to improve health outcomes, research from many countries shows that health programmes are the third or fourth most important factors driving the outcomes water-sanitation, mother's education, connectivity, they matter more than health programmes. We seem to think that if it is a health outcome, whatever the health ministry does is most important. So you need one place where you can look at these things in a more coordinated way. Similarly, if you do energy reform or infrastructure reform, you need a coordinated approach. Three, different parts of the country are innovating and finding solutions to problems in different ways. They haven't been given the freedom to do it as much as we have but still they have. What we want is a place where people can come and get the information and knowledge on what has been working in different parts of the country, and in other countries, in a well-coordinated and properly evaluated manner. We have recommended a reform and solutions commission in place of the Planning Commission. China and Korea have already done this. We have also said that the current centralised plan allocation system should be replaced as the states want greater flexibility. This function should be taken away because the distinction of Plan and non-Plan expenditure, as the Rangarajan committee report earlier showed, has not much meaning today. The Finance Commission should do the allocation between the states and, if necessary, the government should keep a small secretariat of the Finance Commission which continues and feeds the National Development Council, which should be more of a debating body. The Planning Commission division doing the allocation work can be attached to the finance ministry.

You have studied the good work done in many states in terms of how they made the

schemes work better. Tamil Nadu has done well in implementing many schemes. There are other states also. How do you see this?

Tamil Nadu didn't fight the Centre on these schemes. What they did was they took the central schemes and improved them so that they deliver. For example, the Indira Awaas Yojana gives R70,000. But with the kind of construction wages you have, you can't build even four walls let alone a full house from that money. So, Tamil Nadu added another R50,000, to make it R1.2 lakh. This allowed people to build a house that costs R1.5-1.6 lakh. For scheduled tribes, they have given R2 lakh. The state has found ways to make the schemes work better.

The problem is many states don't need the schemes designed by the Centre. How to deal with this?

This was expressed in Kerala very strongly; they said we have reached a level of development where schemes like the rural electrification programme have no meaning as all villages were electrified 10 years ago. The state needs something else but it can only get the money through this scheme so the state keeps applying and upgrading the system. They said they would prefer a block grant. Different states have different needs. Nagaland may have different problems, Himachal Pradesh has its own requirement.

Himachal Pradesh is handling health schemes quite well. Isn't it?

We are doing a big evaluation of maternal and neo-natal mortality and we have discovered that Himachal Pradesh has had a phenomenal improvement and even remote districts such as Lahaul & Spiti have done well. Clearly, they have concentrated a lot on delivery and health is not the only area where they have done well. The zila parishad knows how much money it is getting under various schemes in the next three years and then it plans how it will spend the money. Himachal Pradesh is a role model for all the hill states.

Kerala is another state where one change in roads contract has improved the quality of roads significantly

If you drive in Kerala, you will find that the quality of roads is very good. You ask, what have you done and they say we just changed the roads contract system. We are the first to be hit by the monsoon and every year all our roads get washed away. So, we changed the contract. We said, you have to build the road and maintain it for five years and immediately the road quality became better; a road that would last for at least five years. A simple rule in the design of contract has led to huge improvements. I don't see why it can't be done in the rest of the country. This is why you need a reform and solutions commission to replicate these examples. What Kerala has done with roads and what Gujarat has done in the power sector these are interesting examples. Our role in evaluation is not just to find fault, our role is also to help find what is working and why is it working, and suggest ways to implement it.

Revamping central schemes is one of the top priorities of the new government. The first one that comes to mind is MGNREGA. The IEO is also evaluating the scheme. How to restructure it?

There is a basic problem with the scheme. It originally came out of the Maharashtra

Employment Guarantee Scheme. It was designed to be a drought relief programme. Then they made it into a national programme and added many different objectives to it which are all good objectives in their own right, but why should you have to saddle one scheme with all such objectives? We went back to the original idea and asked what makes the people in this area vulnerable. It is drought, changing climate and the lack of forest cover. If we could focus this scheme on improving land productivity, improving availability of water and reforestation and you have a limited number of objectives then this scheme will be very helpful. I am told the new government is moving in this direction in any case, but this is what we have found as well. The focus should not be on how many days of employment is given, it should be on how to use this work in a more productive manner to build assets of durable quality.

PDS is another area of concern. How to tackle this?

Subsidies, food, fuel and fertiliser, these alone account for 2-3%, and then you add other subsidies, they account for about 4-5% of GDP in total. All emerging middle-income countries, the BRICS countries, the G20 developing countries, all have shifted to people-based subsidies from product-based ones. Product-based subsidies have problems. They cost too much, they are difficult to target but, more important, they distort the market. We have distorted the food market completely. We have distorted the fertiliser market. Every one rupee of food subsidy delivery is costing us four rupees. The same is the case with fuel. We need to move to people-based subsidies. This is also important because in the next 10-15 years, we will have 300-400 million people in India migrating. People while moving will still be vulnerable so the subsidy system will have to be portable and people-based. The best decision that the government has taken is to continue with the direct benefit transfer (DBT) scheme and the Aadhaar. We can have huge fiscal savings through this and the subsidies can be delivered in a much better manner with lesser distortion in the market. This is where the Expenditure Management Commission announced in the Budget can play an important role. We also can try partial reforms by starting DBT with 50 major cities where financial inclusion is in place and then, if that works, it can be extended gradually across the country.

The savings can be very significant through DBT and it has been seen in other countries also🔗

In Turkey, when I was the head of the World Bank there, they converted all of their subsidies into DBT. On the producers side, they had subsidies of about \$5 billion a year in 2001. They were able to reduce the cost to \$2 billion. This is no rocket science. Indonesia and the Philippines have done it in a big way. Even Iran is trying to adopt cash subsidy for fuel. We are the only country stuck with product-based subsidy. In fact, we are perpetuating it with this Food Security Act. We are going in the wrong direction. We should be moving out of this.

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