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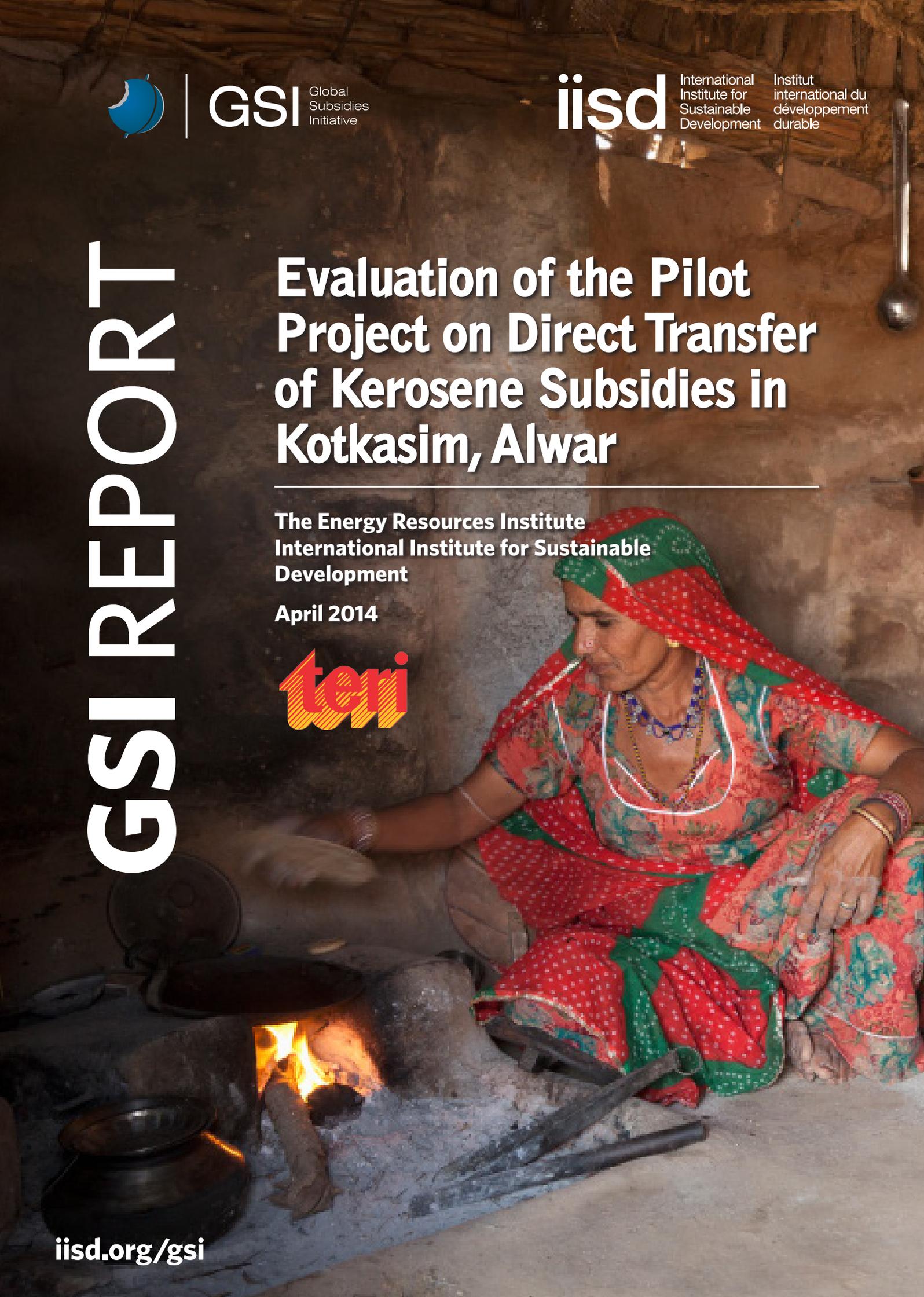
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GSIREPORT

Evaluation of the Pilot Project on Direct Transfer of Kerosene Subsidies in Kotkasim, Alwar

The Energy Resources Institute
International Institute for Sustainable
Development

April 2014





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GSI is an initiative of the International Institute for Sustainable Development (IISD). GSI is headquartered in Geneva, Switzerland and works with partners located around the world. Its principal funders have included the governments of Denmark, the Netherlands, New Zealand, Norway, Sweden and the United Kingdom. The William and Flora Hewlett Foundation have also contributed to funding GSI research and communications activities.

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Acknowledgements

This report is a joint production of The Energy and Resources Institute (TERI) and the International Institute for Sustainable Development (IISD). The authors are Anmol Soni and Anjali Ramakrishnan, with input from Damon Vis-Dunbar, Kaushik Ranjan Bandyopadhyay and Madhura Joshi.

The authors are grateful to R. K. Batra and James Docherty for providing peer review comments on the report. The report could not have been completed without the generous input of the current and former District Officials of Alwar and Kotkasim, and of our survey team, led by Sudhakar Gaur.



Executive Summary

Over 40 per cent of households in India have no access to modern lighting fuels. With electrification yet to reach every village, kerosene is a major source of lighting for these households. In some cases, kerosene is also used as a cooking fuel, either for igniting biomass or in kerosene stoves. This latter use has increasingly reduced over time. To help meet demand, kerosene is provided at subsidized rates through the government-sponsored Public Distribution System (PDS). The sale of kerosene at subsidized rates leads to high costs for the government and oil companies. The under-recovery on the sale of the fuel currently stands in excess of INR 30 (-US\$0.50) per litre. The total under-recoveries in 2012-13 stood at INR 294.1 billion and for 2013-14, these stood at INR 305.75 billion. In addition to this, the fiscal subsidy provided by the Government in 2012-13 was INR 7.41 billion.

While the PDS system aims to ensure kerosene accessibility at affordable rates, the wide margin between the desired price and the subsidized retail selling price incentivizes diversion of kerosene to the black market. There have been, therefore, long-standing demands for a system that better controls delivery of kerosene subsidies: a direct cash transfer has been mooted as one of the possible options by the policy-makers, Government and development agencies.

In December 2011, the Government of Rajasthan, with support from the Central Government, launched a pilot scheme in Kotkasim, Alwar to test a system of direct transfers to the bank accounts of ration cardholders as a means of distributing PDS kerosene subsidies. Under the scheme, every ration cardholder is allocated 3 litres of kerosene per month at the market rate (which equals the depot rate plus state-level taxes). The subsidy amount (as determined by the state authorities) is then transferred to the bank's accounts of the ration card holder on a quarterly or monthly basis. This requires every beneficiary to have an operating bank account with any one of the designated banks under the scheme.

This study was undertaken to assess and evaluate the pilot project in Kotkasim with a focus on answering the following questions:

- How well has the pilot project performed against its stated policy objectives?
- How has the pilot project impacted kerosene-consuming households, including their ability to access the subsidy and effects on household expenditure?
- What are the policy implications for the reform of the kerosene subsidy system?

The assessment involved meetings with the scheme participants, including the district officials, banks officials and the FPS dealers. Based on these interviews and other pre-fieldwork activities (brief visits to villages to test awareness about the scheme), a beneficiary questionnaire was designed and administered with 160 households in four villages. Alongside the primary survey, the research team also conducted focused group discussions.

Sales of kerosene at the FPSs for the Kotkasim block fell drastically (from 82 kl in November 2011 to 54 kl in the period from December 2011 to February 2012) over the period of the pilot scheme. Part of this decline is likely due to the scheme's success in curbing leakage of kerosene to the black market. However, this study also raises concerns that the high upfront price of kerosene, poor access to banking facilities and the overall uncertainties associated with the subsidy transfer also contributed to households reducing their consumption of kerosene. The study also suggests there was poor understanding of how the scheme operates on the part of those who it was intended to benefit.



Recommendations

- Properly plan and structure the system of information dissemination well before launch of the scheme.
- Ensure the opening of bank accounts for all beneficiary households before launch of the scheme.
- Make the scheme-related data (periodical evaluation reports, per-village kerosene allocation, FPS uptake of kerosene etc.) publicly available.
- Provide higher incentives to the FPS dealers (timely increase in commission and regular communication) in order to ensure optimal penetration of the scheme.
- Maintain proper records of FPS dealer transactions and household ration card purchases, eventually leading to digitization of all data.
- Improve access to banking facilities to villages.

The report begins with a brief introduction to PDS in India and an introduction to the kerosene cash transfer program in Alwar. This is followed by a detailed discussion of the methodology of the study and the analysis and findings from the research activities. Finally, the observations and findings are summarized in the last section which also provides key recommendations for future projects on implementation of direct transfer schemes. To assess the implementation, design, and challenges of the pilot project, we refer to the framework proposed in TERI (2012).



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List of Abbreviations

AAV	Antyodaya Anna Yojana
APL	Above Poverty Line
BPL	Below Poverty Line
BSY	Balika Samridhi Yojana
DBC	Double Bottle Connection
FGDs	Focus Group Discussions
FPS	Fair Price Shop
GSS	Gram Sabha Samiti
IGNOAPS	Indira Gandhi National Old Age Pension Scheme
JSY	Janani Suraksha Yojana
KOD	Kerosene Oil Depots
LPG	Liquefied Petroleum Gas
MoPNG	Ministry of Petroleum and Natural Gas
NCAER	National Council for Applied Economic Research
NEFT	National Electronic Fund Transfer
NIC	National Informatics Centre
OMCs	Oil Marketing Companies
PDS	Public Distribution System
PNB	Punjab National Bank
RGB	Rajasthan Grameen Bank
RGVY	Rajiv Gandhi Gramin Vidyutikaran Yojana
RSFCSC	Rajasthan State Food & Civil Supplies Corporation Ltd
RSP	Retail Selling Price
SBC	Single Bottle Connection
SBI	State Bank of India
SDO	Sub Divisional Officer



1.0 Introduction

1.1 Background

As is the case for most developing nations, providing access to clean, and modern forms of energy is a priority for India. According to the latest available data from the 2011 Census, over 31 per cent of the households are currently dependent on kerosene for lighting (Figure 1). In case of cooking, 67 per cent households used biomass-based fuels as primary energy and 28 per cent households used kerosene (Figure 2). In rural areas, this dependence is even more significant; 85 per cent of households use traditional fuels (and 7.5 per cent of households use kerosene) as their primary cooking energy sources.

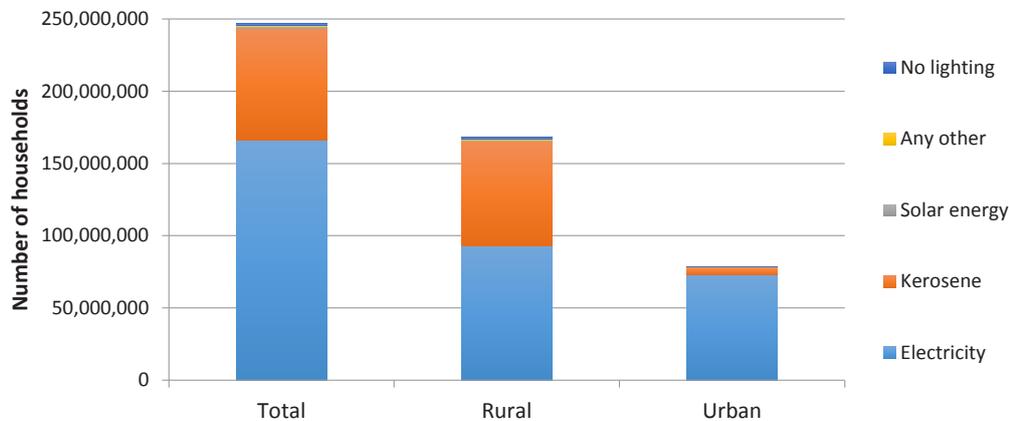


FIGURE 1. PRIMARY SOURCE OF LIGHTING ENERGY

Source: The Registrar General & Census Commissioner (2011).

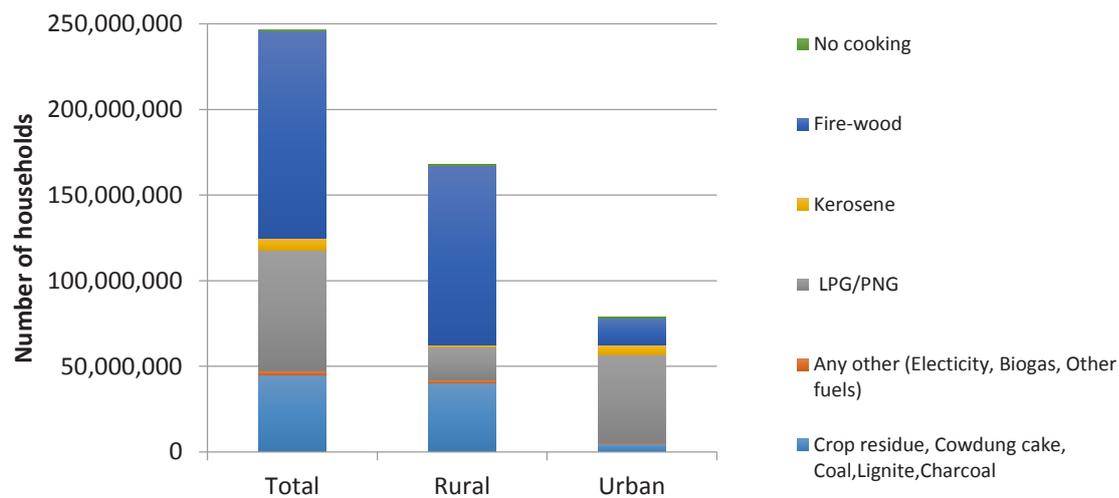


FIGURE 2. PRIMARY SOURCE OF COOKING ENERGY

Source: The Registrar General & Census Commissioner (2011).



As can be noted from Figures 1 and 2, in the absence of electricity, kerosene forms a major source of lighting in rural India (and, in some cases, for cooking energy in urban India). There is, therefore, a need to ensure delivery of kerosene to these areas at affordable rates. In order to facilitate the provision of, and access to kerosene for household usage, the Government provides the fuel at subsidized rates through its Public Distribution System (PDS).

1.2 PDS Delivery Mechanism

The kerosene delivery mechanism under the PDS is operated through a joint effort of the Central and State Governments and the Public Sector Oil Marketing Companies (OMCs) (Figure 3). The Central Government makes kerosene available to States and Union Territories based on the coverage of liquefied petroleum gas (LPG) and piped natural gas (PNG), per capita allocation of kerosene in the state and the previous year's lifting by the respective states.¹ The OMCs supply kerosene to the state delivery systems by making it available at fair price shops (FPS) and oil depots after which the state is responsible for making the kerosene available to the final consumers. This PDS Kerosene is sold through a network FPS and Kerosene Oil Depots (KODs) spread across the country.

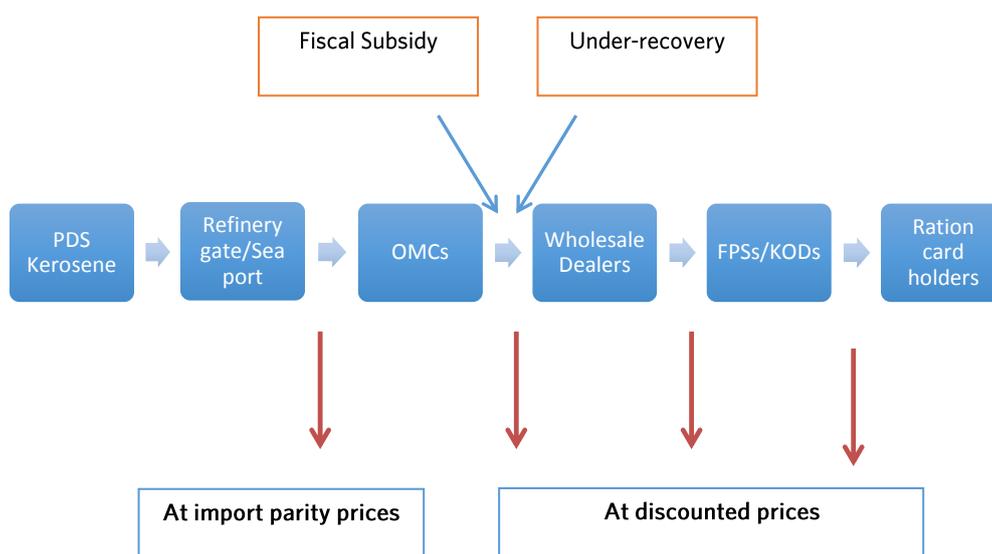


FIGURE 3. SUPPLY CHAIN OF PDS KEROSENE

Source: TERI (2012)

The final consumers are ration card holders for whom per-household allocation of kerosene is determined by the respective state governments. Usually, there are three categories of cardholders: Above Poverty Line (APL), Below Poverty Line (BPL) and Antyodaya Anna Yojana (AAY)—the poorest of the poor. In addition, state-specific categories (such as State BPL) also exist, and may influence household allocations. The allocation of PDS kerosene is also linked to access to LPG cylinders. Households with LPG cylinders (Double Bottle Connection [DBC] and/or Single Bottle Connection (SBC)) are, in some cases, not allocated any kerosene under the PDS scheme. A detailed description of this process of kerosene delivery and distribution can be found in TERI (2012) and TERI & IISD (2012).

Table 1 summarizes the allocation of PDS kerosene to states in recent years.

¹ For more details on kerosene allocation policy, refer to (Lok Sabha, 2013a)



TABLE 1. KEROSENE ALLOCATION TO STATES AND UNION TERRITORIES (IN KILOLITRES)

SL.NO.	NAME OF STATES/UTS	2009-10	2010-11	2011-12	2012-13	2013-14
1	A & N Islands	7,272	7,248	7,248	7,236	6,912
2	Andhra Pradesh	664,476	595,800	530,808	465,996	465,996
3	Arunachal Pradesh	11,783	11,736	11,628	11,556	11,479
4	Assam	331,393	331,176	330,708	328,152	327,966
5	Bihar	827,265	824,760	820,320	817,212	814,068
6	Chandigarh	9,228	9,168	7,332	3,960	3,528
7	Chattisgarh	187,381	186,972	186,600	186,240	180,072
8	D&N Haveli	3,579	3,036	2,484	2,280	2,280
9	Daman and Diu	2,664	2,328	2,016	912	876
10	Delhi	173,777	138,900	61,380	53,904	53,424
11	Goa	24,684	22,680	19,776	5,460	5,244
12	Gujarat	954,328	920,556	673,584	673,584	673,416
13	Haryana	186,107	172,632	157,260	95,076	91,260
14	Himachal Pradesh	58,424	40,260	32,472	25,140	24,660
15	Jammu & Kashmir	96,794	95,082	95,082	94,698	94,698
16	Jharkhand	271,089	270,852	270,276	269,988	268,704
17	Karnataka	592,822	562,812	539,544	522,888	522,888
18	Kerala	277,958	225,096	197,124	125,196	120,192
19	Lakshadweep	1,022	1,020	1,020	1,008	1,008
20	Madhya Pradesh	626,881	626,412	626,412	625,980	625,668
21	Maharashtra	1,640,416	1,564,176	1,258,812	945,720	730,464
22	Manipur	25,370	25,344	25,344	25,344	24,967
23	Meghalaya	26,161	26,136	26,064	25,944	25,943
24	Mizoram	7,943	7,920	7,836	7,836	7,800
25	Nagaland	17,114	17,100	17,100	17,100	17,100
26	Orissa	403,919	403,140	400,944	399,768	398,988
27	Puducherry	15,740	15,732	10,440	4,668	4,440
28	Punjab	301,590	285,396	272,556	103,884	90,132
29	Rajasthan	511,984	511,644	511,404	510,960	508,764
30	Sikkim	7,152	6,600	6,588	6,348	6,348
31	Tamil Nadu	717,580	633,648	551,352	482,244	348,696
32	Tripura	39,501	39,300	39,264	39,180	39,179
33	Uttar Pradesh	1,594,414	1,593,768	1,592,700	1,592,148	1,590,000
34	Uttarakhand	115,451	111,060	107,520	37,932	36,168
35	West Bengal	965,724	965,388	964,728	964,464	963,528
	Total Allocation	11,698,986	11,254,878	1,036,5726	9,480,006	9,086,856

Source: Lok Sabha (2012) and (2013a)



As can be seen, the allocation (from the Government) over the years has declined due to improved access to LPG and electricity across most states. In some cases, the decline in allocation is in excess of 20 per cent, such as in Gujarat, Himachal Pradesh and Kerala. Also notable here is the decline in Delhi, where the allocation fell by nearly 45 per cent. This is primarily on account of the state government’s declaration of efforts towards making Delhi a kerosene-free city (Lok Sabha, 2013b).

The provision of kerosene at subsidized rates through the entire value chain poses significant costs to government budgets and the oil companies. In addition to providing a fiscal subsidy on kerosene, the government also shares the burden of the under-recovery incurred by oil companies on the sale of the product.² The under-recovery on kerosene is currently in excess of INR 30 per litre³ and the fiscal subsidy stands at INR 0.82/litre. The total under-recoveries in 2012-13 stood at INR 294.1 billion and for 2013-14, these stood at INR 305.75 billion. In addition to this, the fiscal subsidy provided by the Government in 2012-13 was INR 7.41 billion. Over the past decade, the accumulated under-recoveries on the sale of kerosene were INR 188,502 crore⁴. Table 2 provides the level of fiscal subsidy and under-recovery on PDS kerosene over the past few years.

TABLE 2. PER-LITRE SUBSIDY AND UNDER-RECOVERY ON KEROSENE

YEAR	PER-LITRE SUBSIDY/UNDER-RECOVERY (IN INR/LITRE)		TOTAL SUBSIDY/UNDER-RECOVERY (IN INR CRORE)	
	FROM GOVERNMENT BUDGET	BY PUBLIC SECTOR OIL COMPANIES	FISCAL SUBSIDY	UNDER-RECOVERY
2005-06	0.82	12.10	1,057	14,384
2006-07	0.82	15.17	970	17,883
2007-08	0.82	16.23	978	19,102
2008-09	0.82	24.06	974	28,225
2009-10	0.82	14.85	956	17,364
2010-11	0.82	17.39	931	19,484
2011-12	0.82	26.46	863	27,352
2012-13	0.82	31.16	741	29,410
2012-13	0.82	33.84	Not available	30,575

Source: PPAC

1.2.1 Leakages From the System

The significant difference between the (non-subsidized) actual price⁵ and the (subsidized) retail selling price (RSP) of kerosene encourages black-marketing and “leakage” of kerosene from the government’s distribution system. These leakages can be in the form of fuel use for non-household purposes (such as running pump-sets, tractors etc), over-consumption by some households, and also consumption by households that are not allocated kerosene under the system.⁶ A significant proportion of leaked kerosene is also diverted towards adulteration of diesel. A report from the

² Defined as the difference between the desired price of kerosene and the realized price, under-recovery is an indicator of the subsidy provided on kerosene sold through the PDS. For a more detailed discussion on this please refer to TERI (2012) and Agarwal and Soni (2013).

³ As on March 1, 2014, the per litre under-recovery on sale of PDS kerosene was INR 36.34/litre, and the total under-recovery for the period April to December 2013 stood at INR 22,373 crore.

⁴ Crore is used in the Indian number system and equals 10 million. For more details in the currency and exchange rates, please refer to the Annexure.

⁵ As determined by the Total Desired Price plus excise duty, VAT and dealer’s commission.

⁶ An example of this could be households that are APL and are not allocated kerosene under the state government’s policies.



National Council for Applied Economic Research (NCAER) found that as much as 35 per cent of kerosene intended for household usage was being diverted for non-PDS usage, including for adulteration of diesel, thus posing a loss of INR 10,000 crore⁷ (Lok Sabha, 2011). More recently, in the period from 2011 to 2013, 92 cases of irregularities like adulteration, black marketing, diversion and irregularities in distribution of PDS kerosene were detected; as a result, licenses of four kerosene dealers were cancelled on account of black marketing of kerosene (Lok Sabha, 2014). This inherent inefficiency in the existing kerosene delivery system creates a need for new methods for delivering subsidies to ensure that intended beneficiaries receive the benefits on time and without significantly increasing costs to the exchequer. One such mechanism is the direct transfer of subsidies into the bank accounts of identified households. Such a mechanism, if implemented efficiently, has the potential to eliminate leakages of kerosene from the delivery chain.⁸ At the same time, however, the low rate of financial inclusion—particularly among poorer rural households—poses an obvious challenge to any bank-related direct transfer schemes in India.

1.2.2 Direct Cash Transfers

Direct cash transfers have been implemented in India for delivery of other social and welfare schemes. Some of these include the *Janani Suraksha Yojana* (JSY) for improving maternal health, the *Balika Samridhi Yojana* (BSY) and the *Dhanalakshmi* scheme for girls and the Indira Gandhi National Old Age Pension Scheme (IGNOAPS), to name a few. The potential advantages and challenges associated with cash-transfer schemes are discussed in detail in TERI (2012).

The report also provided a framework for implementation of cash transfers for fossil fuel subsidies. One of the main recommendations was to test any direct transfer schemes as pilot projects in select districts before any such program is introduced more broadly across the country.

In December 2011, the Government of Rajasthan, with support from the Ministry of Petroleum and Natural Gas (MoPNG), and the Government of India launched a pilot scheme to provide cash transfers to the bank accounts of ration card holders as a means to distribute PDS kerosene subsidies in the Kotkasim Block of Alwar District in December 2011. To date, this is the only experiment with cash transfers for PDS kerosene in India, although there has been discussion on expanding the program.

As noted in Table 2, Rajasthan is a significant consumer of PDS kerosene, and while the allocation for many states declined considerably over the past five years, the annual kerosene allocation for Rajasthan has remained constant, at around 510,000 kilolitres—despite the rise in electricity access across the state. Therefore, there is a strong need to examine the kerosene delivery mechanism in Rajasthan to assess the usage and allocation of kerosene across the state. There are five categories of ration card holders in Rajasthan (Table 3). However, there is no distinction among these categories for allocation of PDS kerosene—all households are allocated 3 litres of kerosene purchase per month from the PDS ration shops.

⁷ Based on 2011 prices.

⁸ The advantages and challenges of introducing a direct transfer-based mechanism were discussed in detail in TERI (2012).



TABLE 3. RATION CARD CATEGORIES IN RAJASTHAN

CATEGORY	NUMBER OF HOUSEHOLDS
APL	12,787,231
BPL	1,827,152
Antyodaya Ann Yojana	932,101
State BPL	1,124,245
Anna Purna	105,293

Source: RSFCSC (2011)

Note: This data has been taken from the website so it may not provide the latest numbers. It does, however, provide an indication of the distribution of households across ration card categories.

While kerosene is used primarily for lighting, households also use it for cooking and to help ignite firewood. All the villages in Kotkasim are electrified and receive a fairly regular supply of power. The Kotkasim block has seen intensive efforts towards electrification under the *Rajiv Gandhi Gramin Vidyutikaran Yojana* (RGGVY). With increases over the past two years due to rising costs of imported oil, the subsidized rate for kerosene is currently INR 17.5 per litre, while the retail rate in the block stands at INR 51.22 per litre. The total number of DBC and SBC holders in Kotkasim is 1,945 and 2,798 respectively. As no kerosene is provided for DBC holders, only 21,100 ration card holders out of 25,843 are entitled to purchase kerosene.⁹

1.2.3 About This Study

The scheme in Kotkasim has now been in operation for over two years, and data available from all sources has indicated a substantial decline in the sales of PDS kerosene. Significant lessons on the implementation process and potential challenges that such schemes pose (especially in rural areas of the country) have emerged during the time that this scheme has been in operation. This study assesses and evaluates the cash transfer scheme for kerosene subsidies, with the specific goals of determining:

- How well has the pilot project for kerosene in Alwar performed against its stated policy objectives?
- How has the pilot project impacted kerosene-consuming households, including their ability to access the subsidy and effects on household expenditure?

What are the policy implications for the reform of the kerosene subsidy system? The study draws from interviews conducted between October 2013 and January 2014 with district officials, FPS dealers and the beneficiary households. These interviews were complemented by a household-level survey conducted across four villages in January 2014 and eight focus group discussions (FGDs) with the villagers during the same period.

⁹ National Informatics Centre, Alwar.



2.0 Evaluation Methodology and Implementation

As discussed in Section 1, this study followed a comprehensive methodology of engaging with all the stakeholders, including district officials, FPS dealers, bank officials and beneficiary households through one-on-one meetings, household survey and focused group discussions (Figure 4).

In order to understand how the scheme was implemented and to ascertain its effectiveness (as well as examine the attainment of the deliverables), a first round of meetings was organized with the district officials. This helped the research team understand the mechanism adopted in creation of bank accounts, linking these to beneficiary households and finally, ensuring that leakages and duplication are eliminated through the implementation of the pilot projects. The information gathered through these meetings was then used to design the questionnaires for the household survey and the FGDs that followed in the later part of the study.

The following sections provide a detailed description of the methodology used in the study and an account of the pre-field activities that were undertaken prior to the survey and the final development of the questionnaire, as well as outlining the sampling methodology used to select the target group for the survey.

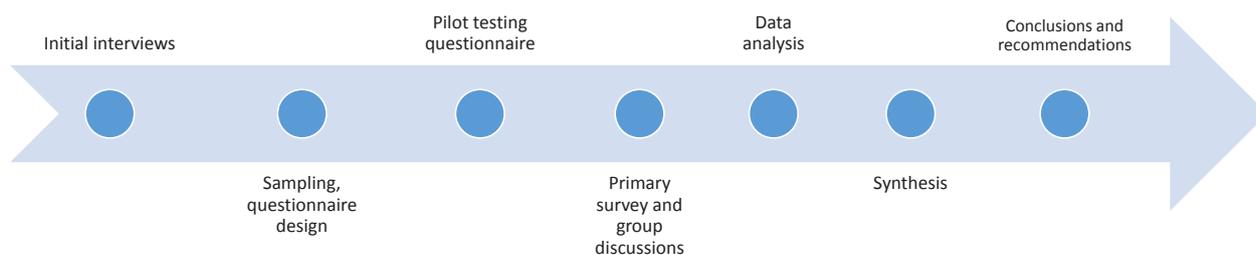


FIGURE 4. STUDY METHODOLOGY

2.1 Pre-Fieldwork Activities

Prior to starting on-field activities, the research team made a visit to the District Collector’s office to present the project scope and objectives. This was crucial in obtaining official cooperation in providing the field data and the best directions to conduct the survey. The first milestone of the study was the stakeholder consultations conducted among key personnel involved in the implementation procedure. These included the district supply officer, district statistical officer, enforcement officer, bank officials and FPS dealers from Kotkasim block. The first visit also included short visits to the main Kotkasim village area and neighbouring villages, including informal discussions with the households to gauge the level of awareness about the scheme.

2.1.1 Initial Consultations

The key stakeholders under the scheme include the beneficiary households, the FPS dealers, the banks and the district officials (Figure 5). In addition, those indirectly impacted by the scheme include local traders and businessmen who were known to consume kerosene in tractors, pumpsets and other commercial purposes but perhaps no longer do so due to high prices.

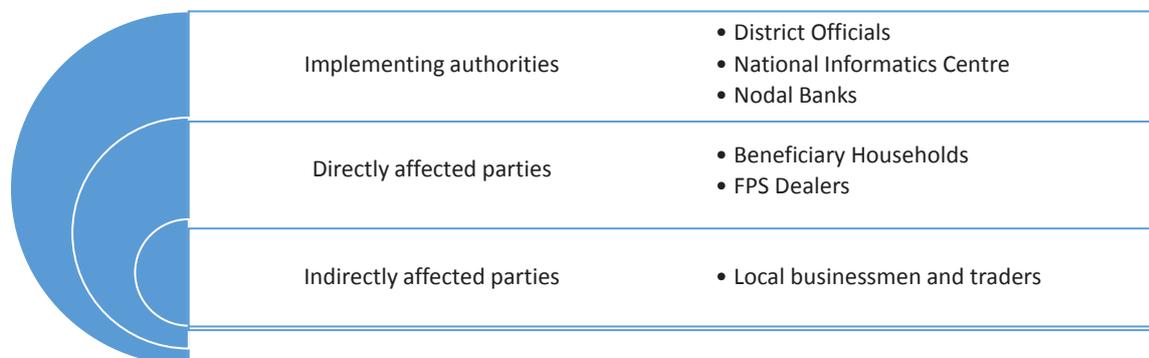


FIGURE 5. KEY STAKEHOLDERS

The district officials, in particular the district supply officer, provided a comprehensive view of the implementation process, with details on the kerosene allocation, uptake and sale in Kotkasim. The National Informatics Centre (NIC) also presented their in-house analysis on the reported kerosene uptake by the households across villages as well as the corresponding subsidy transfers on a quarterly/monthly basis. In this period, a visit was also made to Kotkasim to meet with the sub-divisional officer (SDO) to discuss the ongoing scheme status. This was followed by a visit to Bibirani, a village 10 kilometres (km) from the main road, where the team had a brief meeting with the FPS dealers of the block, who were gathered for their monthly meeting with the enforcement officer. Informal discussions with the dealers revealed some contradictions with official views regarding the scheme’s achievements. Short visits were also made to random households in the village area to observe reactions and the level of understanding regarding the scheme’s features.

Input from the first visit facilitated the designing of the questionnaire. A second visit tested the first draft of the questionnaire based on the information obtained from the officials. This visit provided clarity on the approach to be adopted for final sampling as well as the final design of the beneficiary questionnaire. During this visit, the team was also able to meet the scheme enforcement officer, who has been involved in this project from its inception. The interview revealed several scenarios and answers to the questions that were raised in the pilot survey. Therefore, feedback from the pilot and input from the key personnel interviews helped construct a comprehensive household questionnaire.

2.1.2 Development of the Questionnaire

Three different questionnaires were developed for the following types of respondents and formats of survey:

- Households, to get individual views regarding their fuel consumption pattern and energy needs both before and after the launch of the scheme. This questionnaire, to be administered at the household level, contained sections on awareness levels, PDS functioning, kerosene consumption, banking processes, alternative fuels used, frequency in subsidy receipts and the challenges being faced in the scheme. Along with objective questions, the questionnaire also included perception-related questions to provide a qualitative assessment of the individual understanding of the scheme.



- (b) Focused group discussions, for eliciting the views of the community at the village level to get collective views regarding energy consumption patterns and energy needs at the community level in a participatory mode. This was a structured questionnaire aimed at capturing the shared view on the functioning of the scheme and the opinion of beneficiaries in a group based format.
- (c) FPS Dealers, in order to obtain information regarding their role and opinions on the kerosene consumption patterns over the period of the scheme. In addition, the questionnaire also aimed at examining the operational mechanism of the PDS and the involvements of the FPS dealers in the same. This included issues of costs of operation, profits and their decline due to the fall in kerosene sales in the past two years.

2.2 Target Group Selection

The study comprises a primary survey of 160 households in four villages of Kotkasim Block, Alwar (See Figure 6). One of the initial challenges faced in village selection was determining the basis for sectionalizing the villages due to the limited preliminary village-level information available on socioeconomic demographics. With a target sample size of 160, four villages were shortlisted based on average kerosene sales in the respective *Gram Panchayats* (or *Gram Sabha Samitis* [GSS]) as reported by the NIC, Alwar. Their consumption levels were relatively higher than the remaining villages even after the launch of the scheme in the block.¹⁰ Another basis for selection, as mentioned above, was that the selected villages were at a considerable distance from each other to ensure that no two villages came under same Panchayat. There was also less chance of households in one village influencing the consumption decisions of the other. The villages selected for the survey include Gheekaka, Bhonkar, Nangal Saliya and Burhi Bawal.

Within each village, a simple random sample of households was selected. Since the sample size targeted for the study was relatively small and the population size relatively homogenous, simple random sampling in each village was considered as the appropriate technique for the purpose of the study.¹¹ The number of households per village to be surveyed was selected based on its share of the total population of the villages. The following subsection briefly describes the demographic profile of the surveyed households.

¹⁰ This was done in order to ensure that impact on household expenditure could also be mapped through the survey.

¹¹ The simple random sample is an unbiased surveying technique that is typically done without replacement. That is, any member of the population is not chosen more than once. Under this sampling technique, a subset of households (sample) is chosen from a larger population set such that each household had the same likelihood of being selected at any stage of the sampling process.

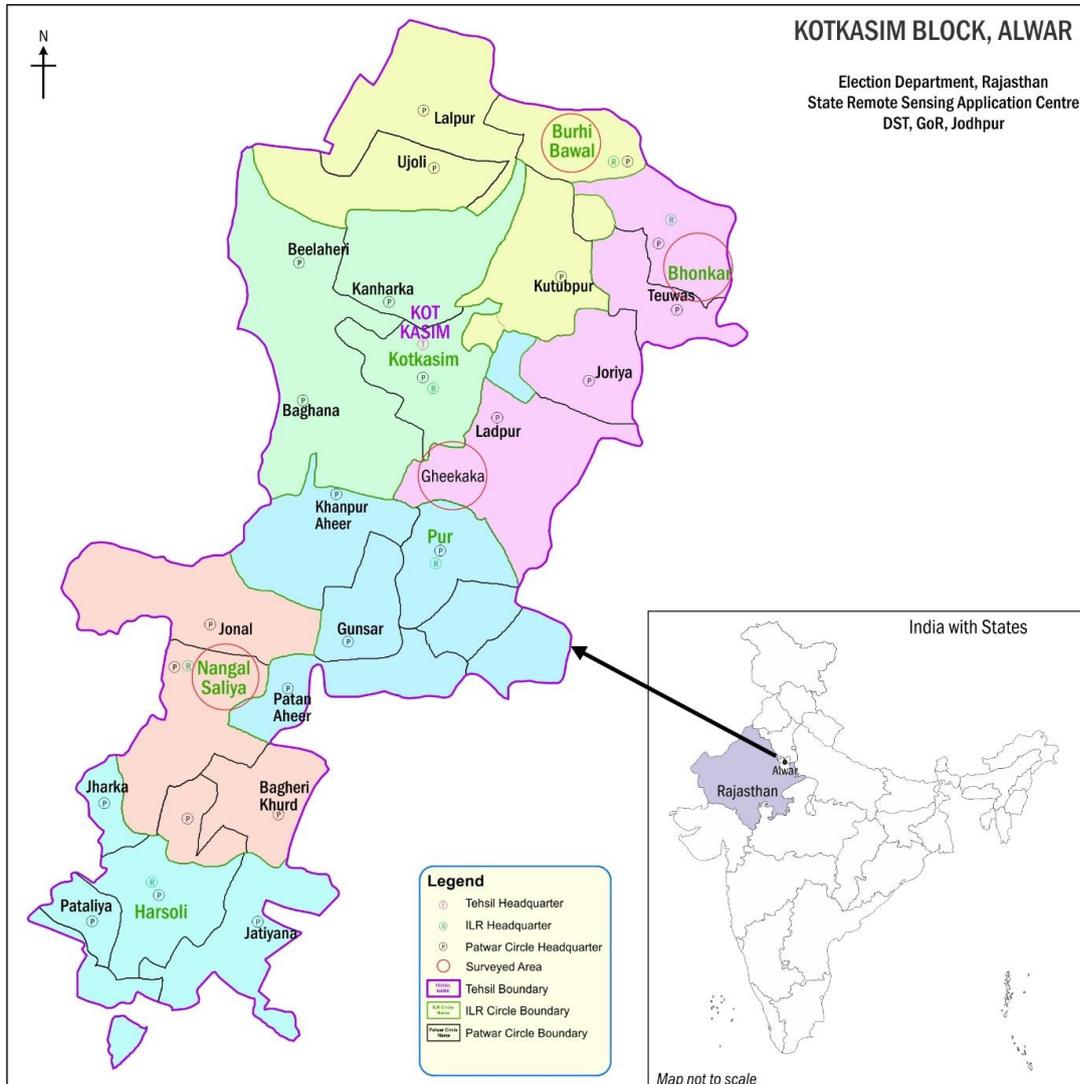


FIGURE 6. LOCATION OF KOTKASIM AND THE SURVEYED VILLAGES

2.2.1 Household Profile: Demographic, economic and educational

In total, 160 households were surveyed across four villages: Burhi Bawal, Bhonkar, Gheekaka and Nangal Saliya. Over 80 per cent of the respondents were males, with an average age of 54. Overall, the average age of the respondents was between 45 and 60 years. The household size of the sample ranged from 1 to 16 members, with about 75 per cent reporting family smaller than seven members. Going by the economic status of the villages, over 73 per cent of the households surveyed were APL, followed by 21 per cent BPL, including state BPL and 6 per cent under the AAY (Figure 7). The average monthly income of nearly 50 per cent of the households from all sources was reported to be less than INR 5,000, while about 30 per cent reported an average income between INR 5,000 and INR 10,000 per month (Figure 8).

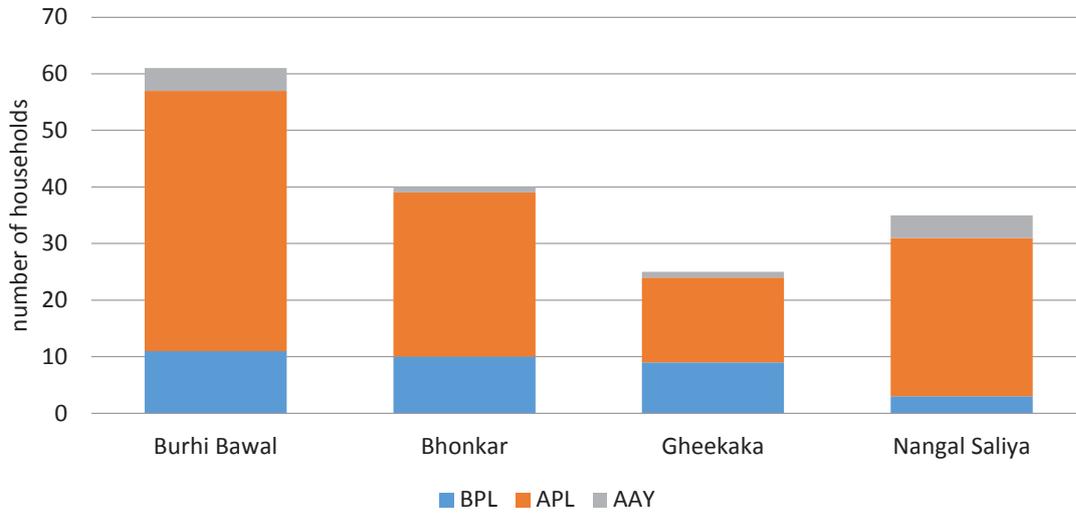


FIGURE 7. DISTRIBUTION OF HOUSEHOLDS BY ECONOMIC STATUS

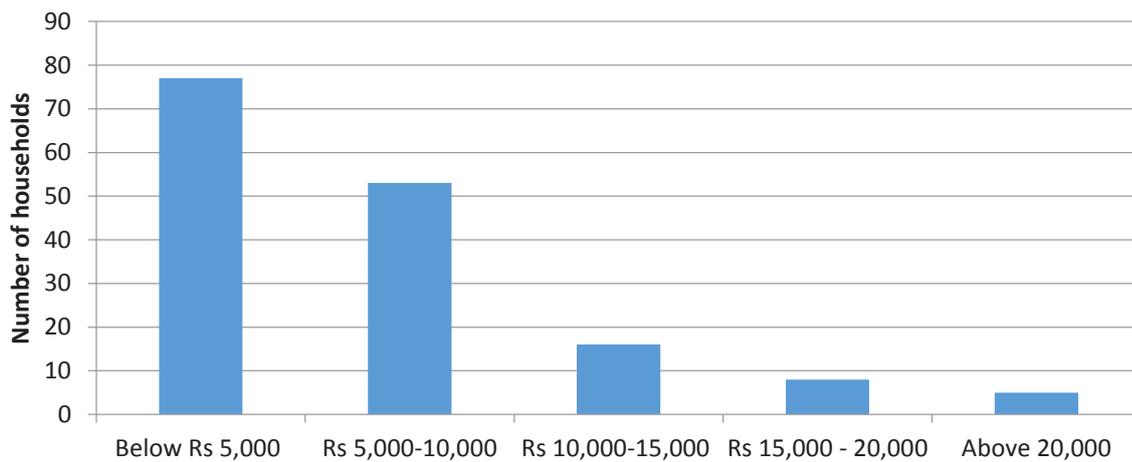


FIGURE 8. MONTHLY HOUSEHOLD INCOME

Regarding educational qualifications of household heads, a quarter of the respondents were illiterate, with an equal number attaining education till Class 8. Only 2 per cent of the surveyed households were college graduates.

Casual and daily wage labour was the principal occupation of over 40 per cent of the respondents, closely followed by farming (34 per cent). An equal number of the respondents were involved in agricultural labour (labour activities on others' land), and in services and self-employment (Figure 9).

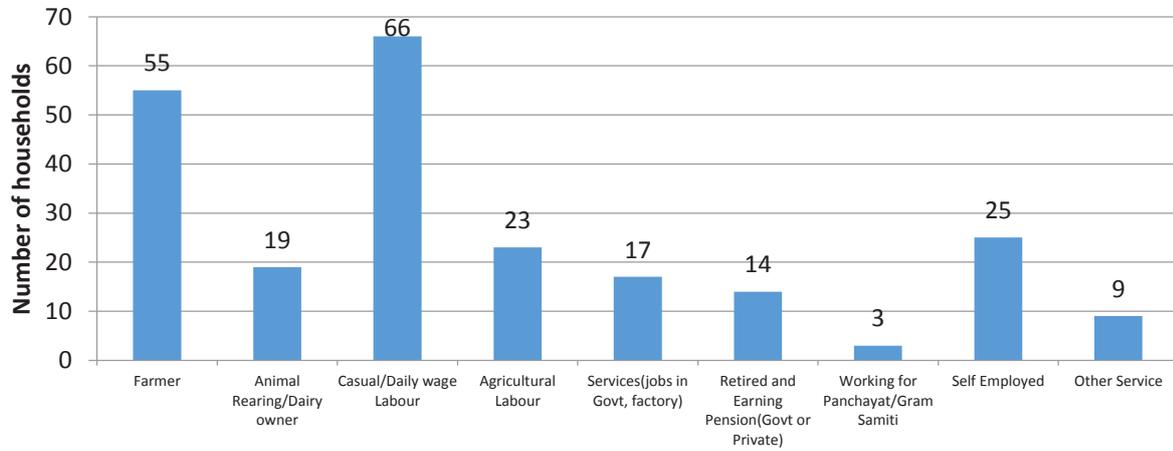


FIGURE 9. OCCUPATION OF THE HEAD OF HOUSEHOLD



3.0 Evaluation of the Scheme

This section provides a detailed assessment of the process, objectives and achievements of the scheme so far and discusses the findings of the household survey. The analysis contained here is based on the three-part analysis described earlier—the detailed meetings and interviews, the household survey, and the FGDs with beneficiaries and stakeholders.

3.1 About the Kotkasim Pilot Project

While a brief description of kerosene consumption and the pilot scheme has been provided in the preceding sections, it is pertinent to discuss the implementation process for the project in Kotkasim.

As of December 2013, Kotkasim comprises 114 of the 1,852 villages in 14 blocks of Alwar district. The block has 24 *Gram Panchayats*¹² and 42 FPS with a total rural population of nearly 140,000 persons. It has a literacy rate of over 60 per cent and a total workforce of 75,000 men and women. As regards PDS, a total of 25,843 ration cards exist in the block, including 22,114 APL cards, 2,627 BPL cards and 1,082 AAY cards. The major source of employment/income among the households is daily wage labour and agriculture.¹³

As noted, the cash transfer scheme aimed at removing leakages from the existing supply chain of kerosene in the PDS by providing the amount of subsidy directly into the accounts of the beneficiary households. For this, bank accounts for all households were opened and kerosene was sold throughout FPS dealerships in the block at non-subsidized rates. The amount of subsidy was to be transferred directly into the accounts of the households. To begin with, an advance subsidy amount for three months (for the period December 2011 to February 2012) was transferred into the accounts of all households. Thereafter, the transfer of amount for the next quarter was based on the purchases made by each household during the previous quarter.

Even now, transfers are made in advance and are based on the kerosene purchase by the household in the previous months. Over time, the sales of kerosene to households and consequently, the subsidy transferred have declined. This is a combination of decline in usage by the households as well as a reduction in diversion due to black marketing. The following subsections discuss the implementation and impact of the scheme in detail.

3.1.1 Implementation of the Scheme

The implementation of the scheme involved awareness raising, opening of new bank accounts and effecting transfer of the subsidy amount, and maintenance of the data on beneficiaries, bank accounts and subsidy transferred under the scheme.

Bank Accounts and Raising Awareness

The first step in implementing the direct transfer scheme was creation of new bank accounts. At the start of the scheme, camps were organised across the block wherein new, zero-balance, no-frills bank accounts for the beneficiaries were created. This process of opening bank accounts was gradual, and new accounts were added every month for the initial phase. The number of accounts has increased over time and as of August 2013, 16,148 bank accounts were operational under the PDS. These accounts are opened based on the ration cards held by the individuals. The ration

¹² Gram Panchayat or Gram Sabha Samiti is a local government body at the tehsil level that works for the villages of the *tehsil*.

¹³ This data was provided by the district supply office and the NIC



card maintained by every household is typically held under the name of the head of the household, often the oldest member of the family. The banks involved in the scheme (referred to as nodal banks) are Punjab National Bank (PNB), State Bank of India (SBI) and Rajasthan Grameen Bank (RGB). While in some cases households already had existing accounts in these nodal banks, those who did not were provided zero-balance bank accounts at no opening costs.

The account-opening camps were also used as a medium for informing the households about the scheme. These camps were organized in collaboration with the Panchayat, FPS and the district officials. During these camps, the beneficiaries were also informed about the scheme objectives and benefits of the pilot scheme being initiated in the block. Three rounds of camps were organized at each Panchayat, with the entire process going on for nearly four months.

Transfer of Subsidy

As per the scheme procedures, three months' worth of subsidy (amounting to INR 263¹⁴) was deposited into the bank accounts of beneficiaries with no LPG connection and INR 175 in the accounts of beneficiaries with SBC in advance. The subsidy transfer under the scheme is made through the National Electronic Fund Transfer (NEFT) into the bank accounts of beneficiary households. As per the initial procedures of the direct transfer scheme, a one-time grant of INR 1 billion was given in instalments by the Central Government to every state that joined the scheme by March 2012.

TABLE 4. MODALITIES FOR TRANSFER FOR INCENTIVE AMOUNT TO STATE

AMOUNT RELEASED (INR, IN MILLION)	CONDITIONS
100	Disbursement on initial approval and willingness to join the scheme
500	Completion of one month into the scheme and receipt of the certificate of the same
100	Agreement to carry out corrective measures in the implementation mechanism based on the evaluation study by OMC
300	Carrying out of suggested changes

Source: District Collector's Office, Alwar, Rajasthan.

Data Transfer and Maintenance of Records

The data for the kerosene sales is first compiled in the stipulated paper format by the FPS dealers (directly in contact with the households) who then forward the monthly recorded data to the NIC in Alwar, which in turn updates the electronic database maintained under the scheme. This database includes allotment, off-take and sale of kerosene, and the quarterly/monthly transfer of funds per account holder into bank accounts. An excerpt of the records prepared for the kerosene sold at the FPS and the quarterly subsidy transfers made into beneficiary accounts is provided in Table 5.

¹⁴That is, 3 litres x INR 29.22 (per-litre subsidy at the start of the scheme) x 3 months.



TABLE 5. QUARTERLY KEROSENE SALE AND SUBSIDY PAYMENTS ACROSS GRAM SABHA SAMITIS¹⁵

	TOTAL KEROSENE SOLD (IN LITRES)				TOTAL SUBSIDY PAID (IN INR)			
	Q1 (DEC. 2011 TO FEB. 2012)	Q2 (MARCH 2012 TO MAY 2012)	Q3 (JUNE 2012 TO AUG. 2012)	Q4 (SEP. 2012 TO OCT. 2012)	Q1 (DEC. 2011 TO FEB. 2012)	Q2 (MAR. 2012 TO MAY 2012)	Q3 (JUNE 2012 TO AUG. 2012)	Q4 (SEP. 2012 TO OCT. 2012)
GSS Ahamad Khan	1,510	546	159	307	49,616	58,999	52,771	-
GSS Harsoli	1,049	614	457	447	37,597	38,823	61,647	9,318
GSS Kotkasim	993	516	96	45	20,775	21,301	67,297	-
GSS Pur	1,563	906	255	300	66,714	46,814	64,233	3,696
GSS Tigawon	1,824	624	183	295	86,603	71,176	43,104	1,496
GSS Bhageri Khurd	1,221	666	423	177	65,924	71,798	40,927	3,780

Source: NIC, Alwar, Personal Communication, January 2014

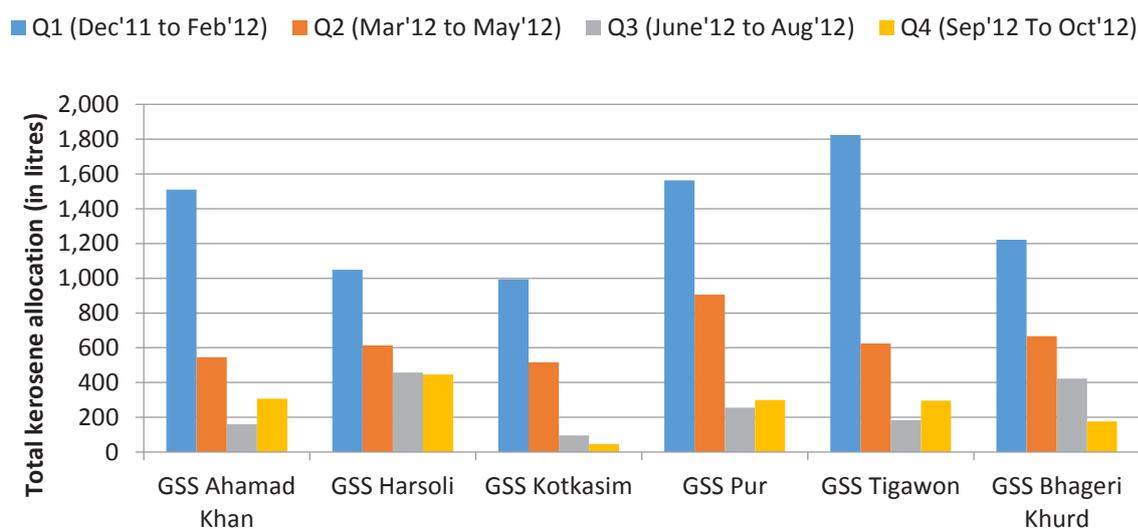


FIGURE 10. GSS-WISE ALLOCATION OF KEROSENE

¹⁵ Gram Sabha Samiti (GSS) or Gram Panchayat is a local government body at the tehsil level that works for the villages of the tehsil (see Definitions).

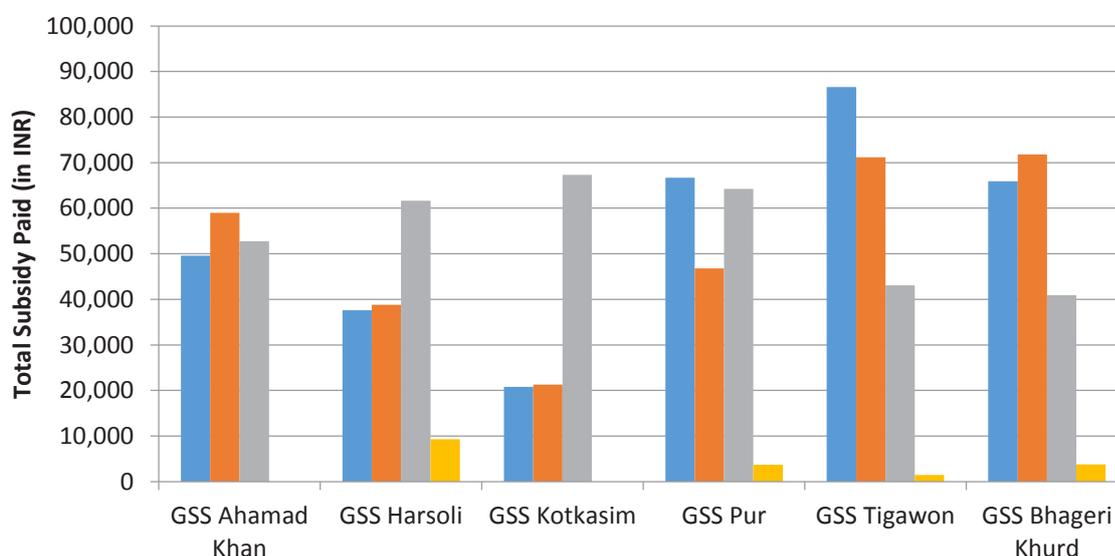


FIGURE 11. GSS-WISE TOTAL SUBSIDY DISBURSED

The transfers are made at the beginning of the quarter, based on the previous quarters' consumption. The difference in quantity of kerosene sold and corresponding transfer of subsidy amount reflected in the table could perhaps be due to the opening of new accounts over time and transfer of pending payments into these new accounts.

3.1.2 Impact of the Scheme on Kerosene Sales

The overall sale of kerosene declined by more than half, from 90.8 kilolitres (kl) from December 2011 to June 2012 to 35.4 kl between July 2012 and January 2013 (Table 6). This further declined to 17.9 kl in the period from February 2013 to August 2013. The decline in the sale levels was also reflected in the falling allocation of kerosene and the off-take by the FPS dealers.

TABLE 6. ALLOTMENT, OFF-TAKE AND SALE OF KEROSENE IN KOTKASIM (IN KL)

PERIODS	ALLOTTED	OFF-TAKE BY FPS	SALES TO HOUSEHOLDS	SAVED
October 2011	84	84	80	0
November 2011	84	84	82	0
Period 1(Dec. 2011-Feb. 2012)	246	72	54	192
Period 2 (Mar. 2012-May 2012)	234	24	32.3	210
Period 3 (June 2012-Aug. 2012)	234	0	8.1	234
Period 4 (Sep. 2012-Nov. 2012)	150	24	15.1	126
Period 5 (Dec. 2012-Feb. 2013)	108	24	28.1	84
Period 6(Mar. 2013-May 2013)	108	0	5.5	108
Period 7 (June 2013-Aug. 2013)	108	9	1	96

Source: DSO, Alwar, Personal Communication October 7, 2013.



The unsold kerosene stored at the FPS created additional pressure for the dealers since kerosene, when kept unused, evaporates in small amounts during the summer months. This adds to the reduction in revenues of the FPS operators, as they pay for full allocation but end up selling a lower quantity. In addition, they also incurred high costs as the commission per litre of kerosene remained unchanged at INR 0.90 for a long period even after the launch of the scheme. After much opposition and even strikes by the dealers, the commission was recently increased to INR 2.70 in August 2013.

3.2 Mapping of Stakeholders and Initial Comments

As mentioned, the scheme has multiple stakeholders—from the district authorities responsible for implementing and monitoring the scheme to the final consumers at the household level. The initial meetings and one-on-one discussions with each of the stakeholders helped identify the major issues associated with the implementation of the scheme. Figure 12 provides a summary of this mapping of key stakeholders and their initial observations and opinions on the pilot project.



FIGURE 12. STAKEHOLDER MAP - IMPACTS AND ISSUES



3.3 Findings and Observations

3.3.1 Kerosene Consumption (and Alternative Fuel Uses)

Kerosene in the household energy consumption basket is used primarily for lighting activities such as in oil lamps and chimneys. In addition, it is also used as fuel (along with biomass matter) primarily in traditional cook-stoves. The villages in Kotkasim have fairly regular access to electricity during productive hours, thereby limiting the dependence on kerosene for lighting to times of power cuts only. The remainder is thus used in cooking or for alternate purposes such as diesel generators and agricultural pump-sets.

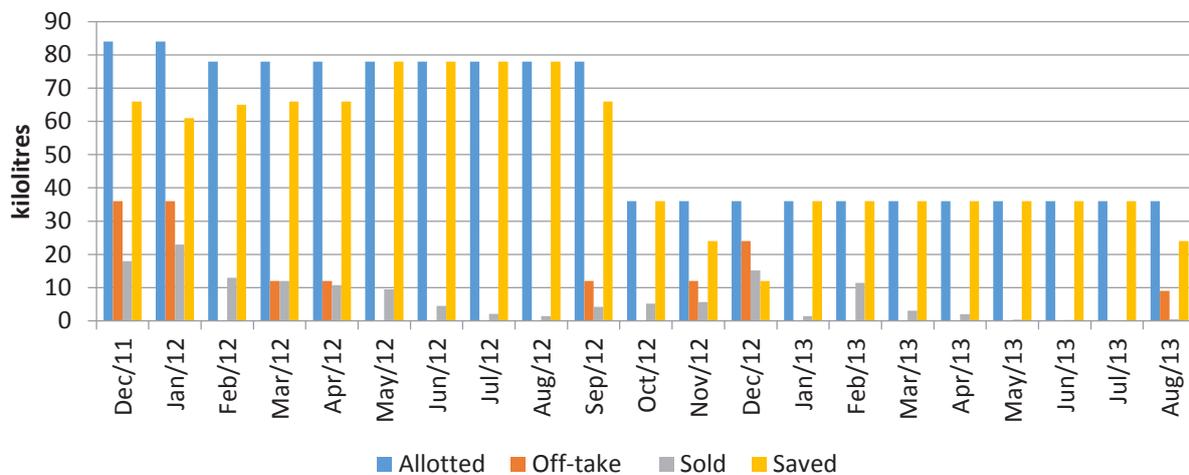


FIGURE 13. MONTHLY TRENDS OF KEROSENE ALLOTMENT AND SALES 2011-2013

On average, the surveyed households consume around 18 litres per year. Accessibility of the fuel was not a concern as the shops were located within the villages and were at an average distance of 300 metres from the household. Men are the primary purchasers of kerosene (when available) along with other food items.

In the survey, over 95 per cent of the households reported using kerosene for lighting purposes while around 33 per cent use it for cooking as well.

For cooking, the fuel use is dominated by firewood and cow dung cake, closely followed by LPG and then kerosene. In most cases, the use of kerosene is limited to spraying on wood to ignite fire, as nearly 65 per cent did not report ownership of kerosene cook stoves. This clearly implies usage of kerosene for cooking is limited to being a secondary fuel. Interestingly, it has also been observed that a majority (nearly 65 per cent) of households reported consumption of LPG. This clearly indicates usage of multiple fuels (biomass and LPG) for cooking.

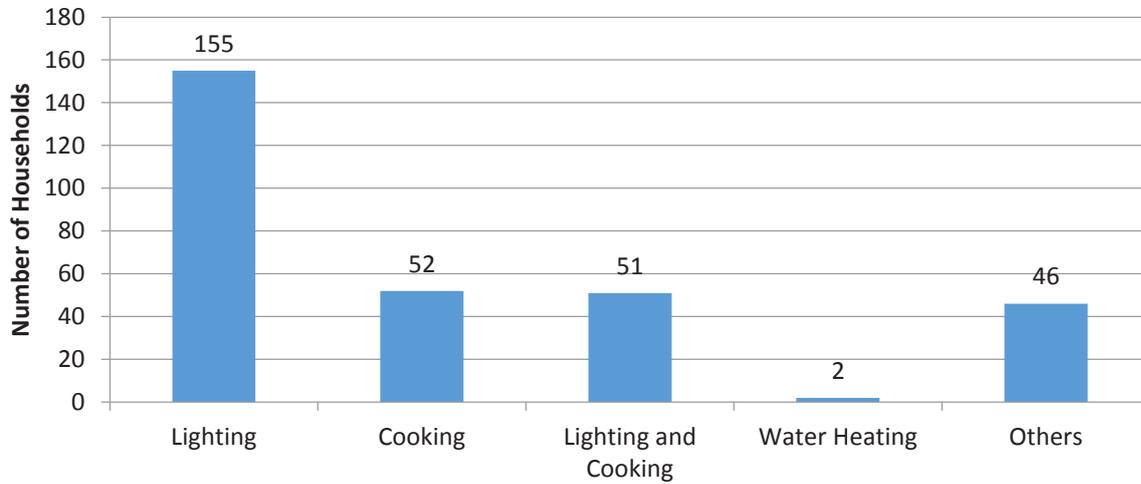


FIGURE 14. USE OF KEROSENE BY HOUSEHOLDS

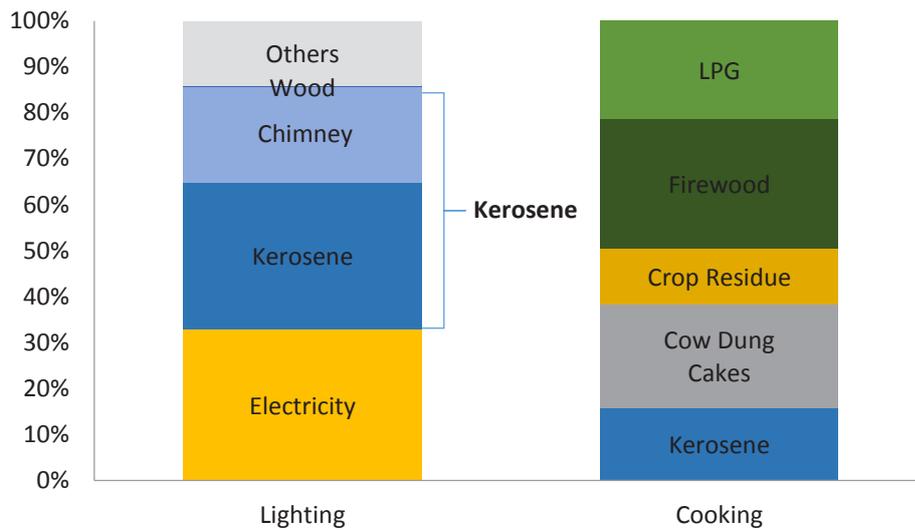


FIGURE 15. MULTIPLE FUELS REPORTED BY HOUSEHOLDS FOR COOKING AND LIGHTING PURPOSES

Figure 16 provides a graphical representation of the households that use LPG and/or kerosene as cooking fuels. With 65 per cent reporting LPG connections and 35 per cent owning kerosene cook stoves, nearly 20 per cent households have LPG connections and own kerosene cook stoves as well. However, the frequency and purpose of use of these cook stoves is not known.

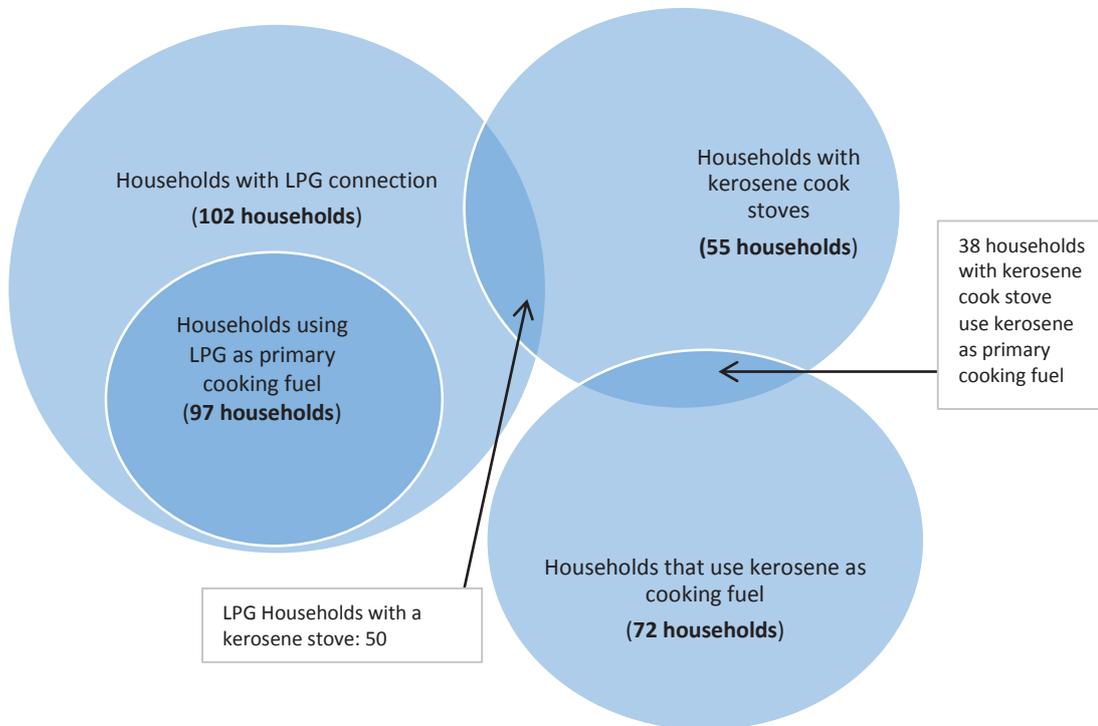


FIGURE 16. LPG AND KEROSENE CONSUMPTION AND STOVE AMONG RESPONDENTS

Of the 160 households surveyed, 156 households reported purchase of kerosene from the PDS shop. Of the remaining, four did not consume any kerosene over the past six to eight months and had no records in their ration cards, while one (from Gheekaka) bought kerosene from the market.

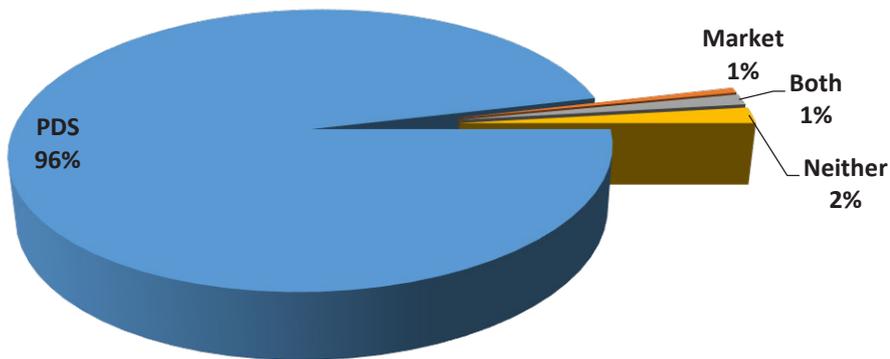


FIGURE 17. SOURCE OF KEROSENE

The household survey also aimed at assessing satisfaction of the households with the current level of kerosene allocation. While 50 per cent were satisfied with the amount, around 45 per cent expressed disagreement. Of the 45 per cent expressing discontent with the allocated quantity, 30 per cent did not have LPG connections; and four households reported that they did not have access to electricity. The satisfaction with the allocated quantity could primarily be attributed to the fact that over 90 per cent of these households are well electrified and receive electricity supply for about 10 to 12 hours during summer months and 12 to 16 hours during the rest of the year.

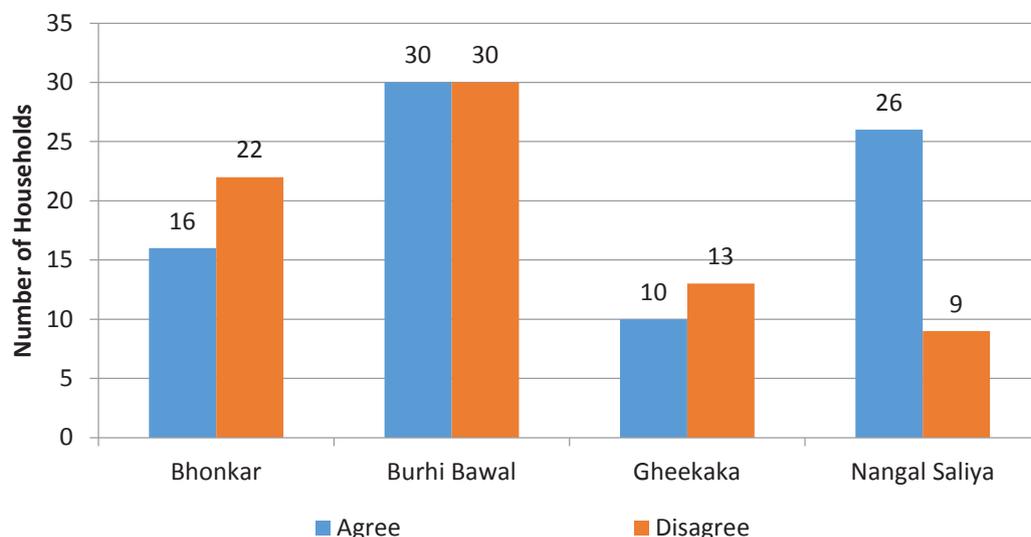


FIGURE 18. ANSWERS TO THE QUESTION “IS THE MONTHLY ALLOCATION OF THREE LITRES OF KEROSENE SUFFICIENT?”

Observations

As mentioned, there has been a rapid decline in the consumption of kerosene. This is mostly driven by a reduction of purchases as higher prices of kerosene and the perception of non-receipt of subsidy into accounts discouraged consumption. In addition to this, during FGDs, it was found that before the scheme was introduced, leakage of kerosene took place in two ways. First, one household would usually purchase kerosene using ration cards of multiple households, thus ultimately procuring more than its allocated quantity. Second, there were reports of leakages from the PDS and sales for non-household consumption at both, the household as well as FPS level. These leakages were evidently plugged after the introduction of the scheme.

Further, even before the introduction of the scheme, due to availability of other fuels kerosene was rarely used as a standalone/primary energy source and usually complemented biomass (for cooking) and electricity (for lighting) in the block. **It can thus be concluded that the fuel is not a major source of energy for the surveyed households.** This rapid decline in consumption is also a reflection of the relative elasticity of demand for the product.

3.3.2 Banking System and Access to Subsidies

Ease of withdrawal of the subsidy from bank accounts depends on the access to banking services in a village. Prior to the launch of the scheme, camps for opening bank accounts for all ration cardholders were organized in every Panchayat.

Access to Banks

All households surveyed in the sample have accounts in one of the banks designated under the scheme. While 75 per cent of the respondents used this account for savings and for receiving their fuel subsidy, approximately 10 per cent used it primarily for the receipt of subsidy only.

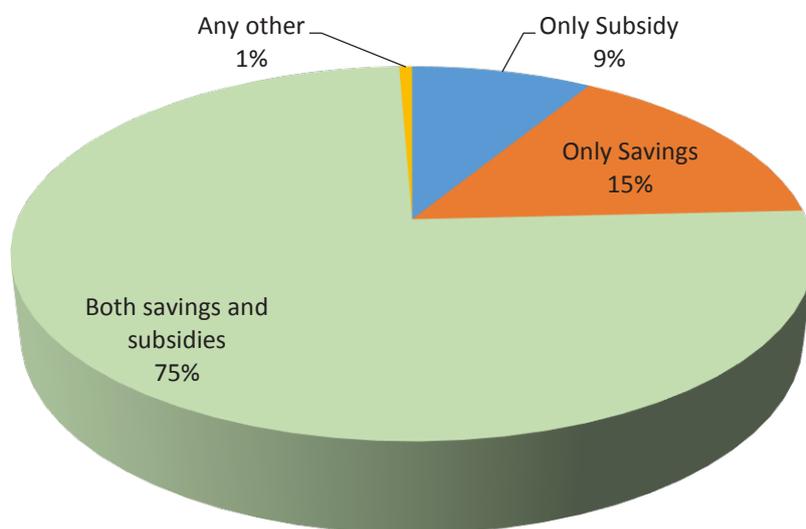


FIGURE 19. USE OF BANK ACCOUNTS

The distance of households from the nearest banking facility indicated the level of access to financial services. For Bhonkar and Burhi Bawal, the banks were located within a 1 km radius of the household, whereas in Nangal Saliya and Gheekaka, the banks were situated approximately 10-15 km and 4 km respectively outside the village.

Receipt of subsidies

75 per cent of the households reported to have received the subsidies in their accounts.¹⁶ Of these, nearly 60 per cent reported to have received it on time. These subsidies were received either on a quarterly basis or within 6 months of the fuel purchase, which also included the advance for the next month, as per the scheme process. However, 12 per cent of respondents reported to have received their dues beyond six months, and in some cases up to a year. This could be attributed to delays in opening of new bank accounts, processing the information and even sometimes due to reporting issues.

However, verifying these responses with the entries made in the respondent passbooks was difficult since nearly 50 per cent of the passbooks had only one entry of subsidy transfer. Many of these passbooks were not updated to reflect bank transactions of the respondents. Furthermore, the lack of proper records of kerosene sales in the ration cards made it difficult compare the amount transferred with kerosene purchases. This added to the complexity of the survey, making it difficult for the survey team to compare the responses with actual passbook entries. While for a few this one entry includes the full amount corresponding to the kerosene purchases, for others the transfer falls short of the expected subsidy transfers (Figure 20).

¹⁶Of the remaining 25 per cent, the respondents have either not visited the bank or not received the subsidy.

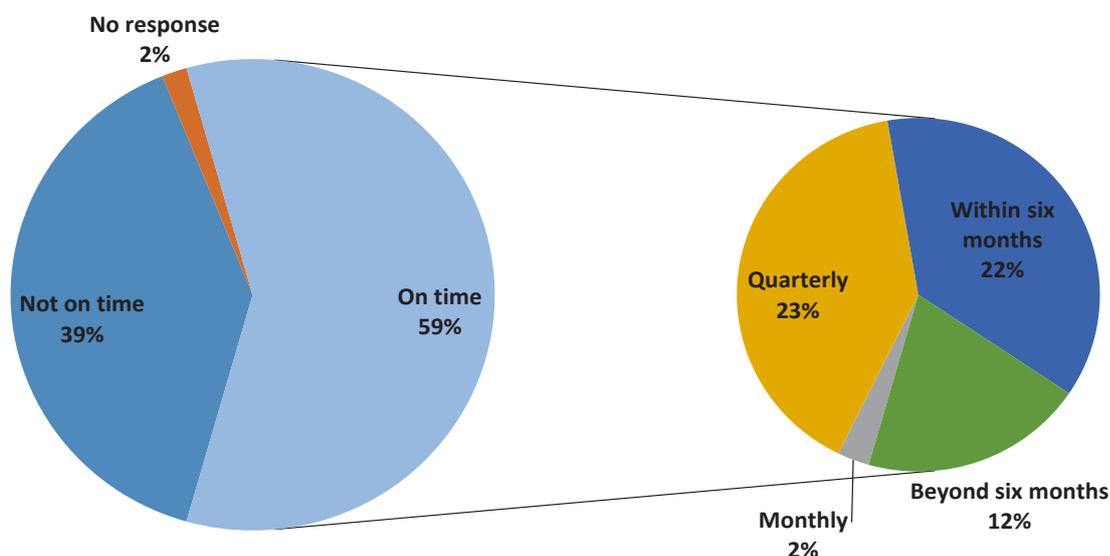


FIGURE 20. RECEIPT OF SUBSIDY BY BENEFICIARIES

As mentioned earlier, among the major reasons for the perception of non-receipt of fuel subsidy held by the households was irregular updating of bank passbooks by the households. About 22 per cent of the respondents visited the bank every month, while over 70 per cent went to the bank only when the need arose, which could range from once every two months to twice a year. Further, 6 per cent also reported to have visited the bank only once in the entire period since the start of the scheme. Reasons cited by the households for irregular visits to the bank were: 1) the uncertainty of receiving subsidy, which forced accountholders to make multiple visits for checks, eventually discouraging future visits; 2) non-cooperation on the part of bank officials dissuaded accountholders from undertaking routine bank visits; and 3) long queues at the bank, resulting in multiple trips. The concern was escalated by the lack of banking facilities in the village area, which resulted in issues of distance to the bank and over-burdening of banking officials with an expanded customer base because of the scheme. It is important to note that non-updating of passbook does not always mean non-transfer of subsidy into beneficiary accounts. In several cases, the respondents also stated that while they had visited the bank branch, there were no entries made in the passbook since the subsidy had not been transferred into the accounts.

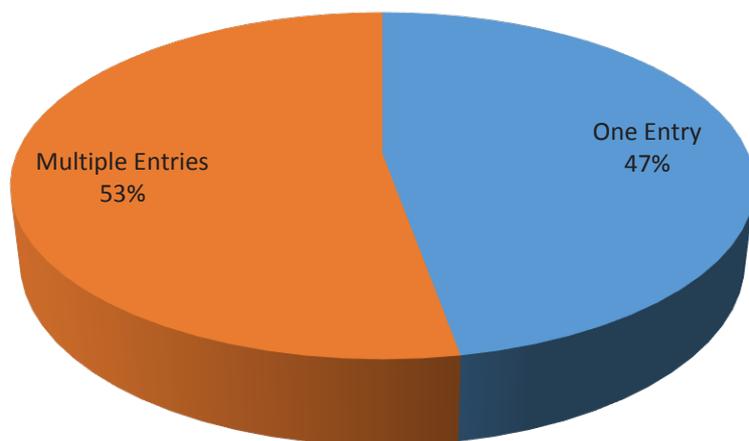


FIGURE 21. SUBSIDY TRANSFER ENTRIES IN THE PASSBOOK



Observations

One of the most important challenges in implementing the scheme was the beneficiary households' lack of understanding of the banking system and the role of banks. The distance between two of villages surveyed (Gheekaka and Nangal Saliya) and the closest bank branches further aggravated the issue. Further, the long queues and time taken at the bank branches (due to their smaller capacity) also deterred the households from making multiple trips to the banks. The absence of a grievance redressal mechanism for households was also reported as a concern during the FGDs. On the other hand, in the villages where the bank was located close to the village, the respondents seemed more satisfied with the operations.

3.3.3 Functioning of the Public Distribution System

A key objective of the primary survey was to assess the functioning of the PDS and the role of FPS dealers in the pilot scheme.

As of December 2011, the ration shops were mandated to open during the final week of the month, which was later changed to the last 10 days of the month.¹⁷ In all the villages considered under the study, FPSs were situated within 1.25 km of the household. Most of the households surveyed reported that their local FPS was open for around 7 to 10 days towards the end of the month, while a few households from Burhi Bawal claimed that the FPS opened depending upon the availability of ration items. With the gradual implementation of the scheme over the pilot period, it was observed that the FPS dealers often linked the purchase of other items sold through FPS with that of kerosene in order to ensure sales of surplus kerosene from FPS shops. It was claimed by nearly 37 per cent of the respondents that reported that **the dealer had placed conditions on the sale of ration items such as wheat, tea, salt, and spices with a mandatory purchase of certain quantity of kerosene** in the initial months after the launch of the scheme (Figure 22). Such conditional linking was particularly prevalent in Burhi Bawal, where 33 per cent of households reported such incidences. This, however, was limited to the initial phases of the project only. At the same time, nearly one third of the respondents in the sample **also reported unavailability of kerosene at the FPS**. While the linking of purchase by FPS dealers started with household kerosene consumption falling in the initial months resulting in excess quantities with the FPS dealer, the issue of unavailability can be attributed to the drastic decline in the kerosene quantities held with the dealers due to the prevailing low demand.

¹⁷As per a recent amendment in the mandate, the FPS is now required to be open during the last 15 days of the month. Since this amendment is a very recent introduction, it is not reflected in the survey results.

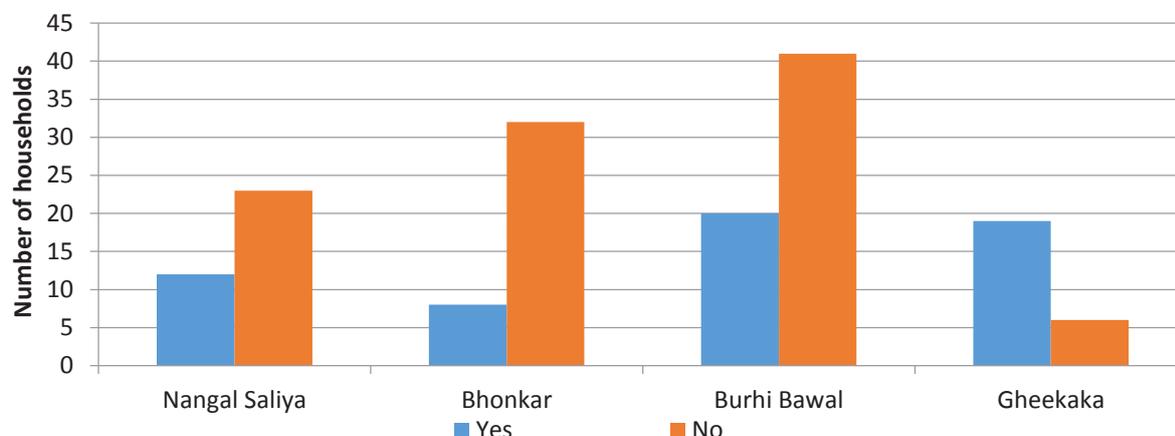


FIGURE 22. ANSWERS TO THE QUESTION “WERE CONDITIONS IMPOSED BY THE FPS TO FORCE KEROSENE CONSUMPTION?”

Observations

Respondents were generally satisfied with the operation of the FPS except in a few places where issues related to irregularity in the frequency and duration of shop opening were reported. In addition, one improvement in terms of better availability of kerosene was reported across most villages. This, however, does not include the latest quarter, where kerosene allocation from the State itself was not made, which led to unavailability at the FPS.¹⁸ FPS dealers also corroborated that sales of other ration items (especially grain) were conditioned upon purchase of kerosene by the households during the period when sales fell drastically and stocks rose at the FPS. **However, this issue was resolved quickly and the linking or conditional sale of kerosene does not take place any longer.**

3.3.4 Household Expenditure

Drawing from the perceptions reported by the households (discussed in detail in the upcoming section), this section looks at the responses to any increase in expenditure on kerosene purchases after the launch of the scheme. The total number of households here is 125 out of the 160, considering only those spending INR 150 to 200 per month on kerosene (non-zero) purchases. While over 50 per cent of the households are in agreement (strongly or otherwise) there has been an increase in expenditure, over 30 per cent disagree (strongly or otherwise) with the same statement. Since the overall cost in kerosene procurement hasn't actually changed (the subsidy amount gets returned through bank transfers), this could possibly indicate regular recovery of cost or a clear understanding of the scheme dynamics by the 30 per cent who disagree.

At the same time, it is observed that 42 per cent households disagree with there being no change in kerosene consumption since scheme launch and only 11 per cent agree. With the increase in kerosene price, the demand of households has led to this drop in consumption. However, the amount associated with the subsidy (on a per-litre basis) is too small to reflect any major upsets in the households' overall expenditure.

¹⁸This perception dominates the responses in the household survey.



TABLE 7. PERCEPTION OF AN “INCREASE IN EXPENDITURE ON KEROSENE PURCHASE” SINCE LAUNCH OF THE SCHEME

PERCEPTION	NUMBER OF HOUSEHOLDS
Strongly disagree	6
Disagree	33
Neither agree /nor disagree	18
Agree	48
Strongly Agree	20
Total households	125

TABLE 8. PERCEPTION OF “NO CHANGE IN KEROSENE CONSUMPTION” SINCE LAUNCH OF THE SCHEME

PERCEPTION	NUMBER OF HOUSEHOLDS
Strongly disagree	3
Disagree	52
Neither agree /nor disagree	46
Agree	14
Strongly Agree	7
Total households	125

3.3.5 Awareness about the Scheme and Perceptions of Households

The effective penetration of the scheme depends a lot on the dissemination programs carried out by the implementing agency. In case of this pilot, the district officials reported that camps were organized over three or four months across villages with the objective of spreading awareness of the scheme, opening bank accounts and addressing any concerns. However, after the launch, no such major event has been undertaken apart from visits to the villages. On the other hand, the beneficiaries did not concur with this, stating that the camps were limited to opening of bank accounts and their main source of information was the FPS dealer. This lack of awareness is also confirmed by analyzing the responses to the perception-related questions.

As per the survey results, 89 per cent of the respondent households became aware of the scheme only after it was launched. Over 90 per cent of respondents claimed that the information dissemination of the scheme was mainly carried out by FPS dealers. The role of FPS was thus of prime importance in ensuring that complete and accurate information was provided to the beneficiaries. Around 38 per cent respondents claimed that information also circulated among neighbouring households, which can be expected in such closely clustered households. Only about 20 per cent of the households who are aware of the scheme reported to have received the information about the scheme from the *Panchayat*. Further, 20 per cent of the respondents also received information through other mediums such as the local newspaper, camps organized by bank officials and local body meetings.

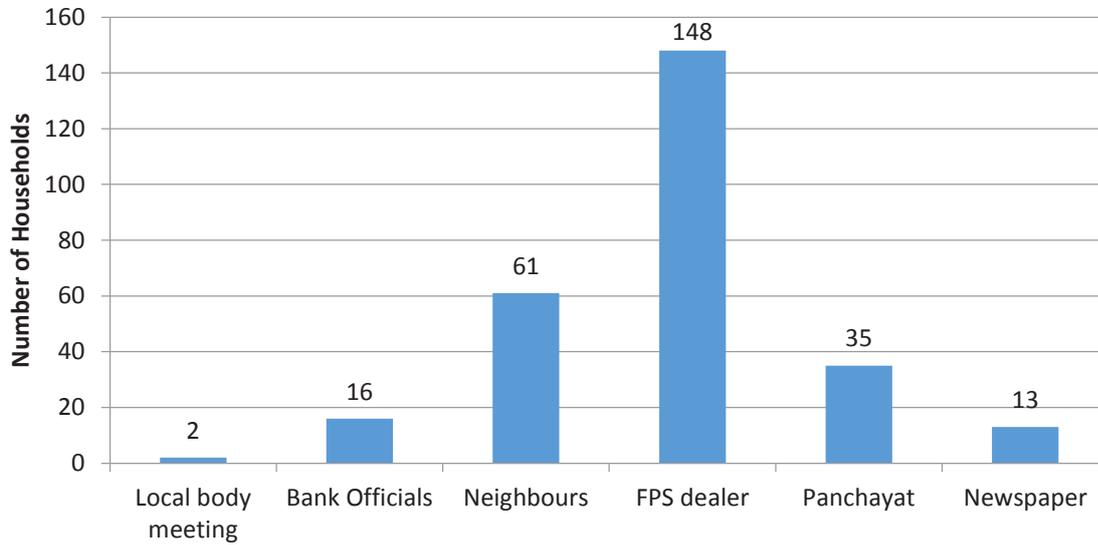


FIGURE 23. MEDIUM OF INFORMATION ON THE SCHEME

The opinions cited by the respondents on kerosene allocation and the operationalization of the direct transfer scheme are also subjective to the perception held by them. During the survey, the method of obtaining the opinions involved reflecting on positive and negative statements in relation to the survey against which the perception of the respondent was captured. This perception was recorded through simple responses of whether the respondent “strongly agreed,” “agreed,” “neither agreed nor disagreed,” “disagreed” or “strongly disagreed” with every statement. The exercise was conducted to evaluate the understanding of the respondents about the features of the scheme with no conditions whatsoever surrounding them. Table 9 presents a description of the questions and the objective that a response to each is expected to achieve followed by Figure 24, which summarizes the findings.



TABLE 9. EXPLANATION OF THE PERCEPTION-BASED QUESTIONS

LABEL	STATEMENT	OBJECTIVE
Ease of Procuring SKO	Ease of kerosene procurement has improved with this scheme	There are no more long queues at the FPS to purchase items, FPS opens on time and kerosene is available
Expenditure Increase	Expenditure on kerosene purchase has increased with scheme implementation	Do the households understand that though the price of the fuel has increased, the additional amount (subsidy) will be returned to their accounts? So technically expenditure shouldn't increase. But if the households agree that there has been an increase, it could also mean a lag in receiving subsidies, which adds to their monthly expenditure on purchasing kerosene.
Consumption Change	The kerosene consumption hasn't changed much since the launch of the scheme	<ul style="list-style-type: none"> - The actual consumers of kerosene will continue to use the fuel for same purposes unless hindered by the delayed subsidy transfers. So their consumption will remain largely unchanged - Others, who are unintended beneficiaries, will agree to a change in consumption as buying kerosene is no longer a profitable option for them. - A section might be discouraged by the speculation on the non-receipt of subsidies and might reduce consumption so as to not face the excess costs.
Bank Paper Work	Opening a bank account under the scheme demands a lot of paperwork	To determine how easy or difficult the process of opening an account with the nodal banks in the scheme was. Gives an idea of the respondent's perspective of the banking system.
SKO Availability	Kerosene is always available at the FPS	This will bring out the gaps in FPS dealings. Might also influence the level of consumption of the household, as low availability reduces overall consumption. However, given the time of survey, an unavailability perception might also be due to the fact that the dealer had no allocation since August 2013.
Bank Transfer	The transfer of the subsidy amount into banks accounts is the best way of cash transfer under this scheme	To gauge the respondents' view of using bank transfers as an option to receive subsidies. This would also indicate their perception of ease of using banking services.
Old Scheme Comparison	The scheme is better than the earlier system of purchasing kerosene	Will indicate the overall understanding of the scheme from macro perspective. Whether the households know the economic impact of the scheme.
Awareness Prg	Sufficient awareness programs on the scheme were carried out in the village	To find out if awareness campaigns were organized before the launch or during the process of implementing the scheme. This also indicates the level of understanding of the scheme dynamics.
Household Benefit	The primary objective of the scheme is to benefit the households	The understanding that the households realize the objective of the scheme is targeted at them and not for the benefit of the government (which is an indirect outcome of this scheme).
Scheme Function	I fully understand the functioning of the scheme	This question lays the foundation for the questions that follow. It will conform or contradict them accordingly.

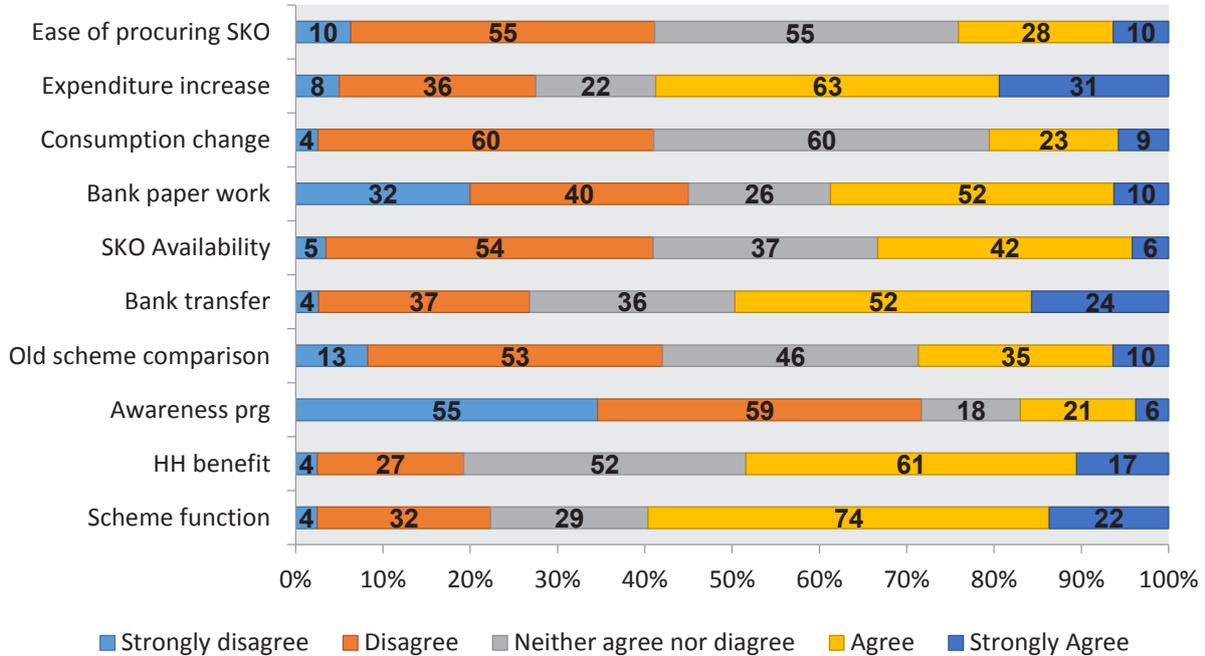


FIGURE 24. PERCEPTIONS ABOUT THE SCHEME

While certain perceptions conform to responses provided by the households in the earlier sections of the questionnaire, there are cases where contrary opinions have emerged. For instance, while most of the households agreed that they fully understand the functioning of the scheme, in the one-on-one interactions and FGDs, it became evident that the respondents often did not understand that the transfer of subsidy hinged on actual purchase of kerosene.

In fact, 60 per cent of the households agreed that owing to the delay in receipt of subsidies, there was an increase in expenditure on kerosene purchase, and the households had to spend additional amounts on procuring the fuel. In case of delays in receipt of subsidies, the access to funds from the subsidy transfer into accounts reaches the households only after monthly purchases have been made. However, this reported lack of transfers could also be attributed to the fact that respondents make few trips to update their bank passbooks.

The acceptance that the scheme is aimed at benefiting the households and that bank transfer of subsidy is the best way of cash transfer indicates a positive perception regarding the scheme and its motive. The perception that kerosene consumption has declined after the introduction of the scheme also indicates an increase in the price of kerosene, uncertainty and lack of awareness associated with subsidy transfers and elimination of duplicate consumers. This was also reiterated by the collective disagreement among respondents on the easy availability and procurement of kerosene and the ease of procuring the fuel.



3.4 Key Conclusions

- **Choice of Kotkasim**

The first conclusion from this study relates to the choice of Kotkasim as the block for the pilot. A presumption before introducing the scheme (based on the high level of electricity access in the entire district) was that kerosene supplied through the PDS was inevitably being diverted. However, the high access to electricity also implied a relatively high price elasticity of kerosene as a source of energy, thereby leading to changes in consumption as soon as the prices were increased.

- **Implementation process of the scheme**

The implementation of the scheme involved opening new bank accounts, linking ration card information with the bank accounts, creating a database for recording kerosene purchase and subsidy transferred and disseminating information about the scheme. The new accounts were opened gradually after the scheme had been launched, leading to a delay in transferring the subsidy into accounts. A major gap in the implementation was lack of information about the scheme among the beneficiaries. During the surveys and group discussions, most respondents did not indicate a proper understanding of the mechanism. The absence of regular meetings with the households and village representatives has widened this information gap.

- **Reasons for decline in kerosene purchase**

Kerosene consumption in the village has undergone a dramatic decline primarily on account of lower purchases by the households. In addition to this, the leakages from the supply chain for both non-household uses and sales of higher than the allocated quantity to one household (in the cases where one household would collect multiple ration cards and purchase kerosene) were effectively plugged with the scheme in place.

- **Impact on Households**

While the upfront cost of purchasing kerosene may have increased (especially in cases where the transfer of subsidy in bank accounts has not taken place), the impact on household expenditure and budgets has been limited primarily due to the rapid decline in the uptake of the fuel and therefore no visible increase in expenditure on the fuel. Further, as stated earlier, since kerosene was not used as a primary fuel for cooking or lighting in most of the surveyed households, the reduction in its consumption cannot necessarily be linked to an increase in consumption of other fuels. In the meetings and discussions, some respondent did compare the costs of diesel and kerosene (which are now the same) thus indicating a possible shift to substitution by diesel for marginal consumption. Further, even during the FGDs, the households did not report any dramatic increases in the consumption of biomass.

- **Impact on FPS dealers**

The FPS dealers have seen the largest losses through the implementation of the scheme. There has been a decline in their revenues on two counts: a fall in sales affecting their earning from the commission, and the complete removal of the opportunity to earn by diverting even marginal quantities of kerosene.



4.0 Conclusions and Recommendations

4.1 Observations and Recommendations

This section summarizes the major observations from the field. While the key findings have already been presented in the analysis of the survey questionnaire and the key person interviews in the preceding sections, there are some subjective observations that emerged during the formal and informal interactions.

The observations can broadly be categorized as those for the district authorities, the banking sector, and the FPS mechanism in general (Figure 25).

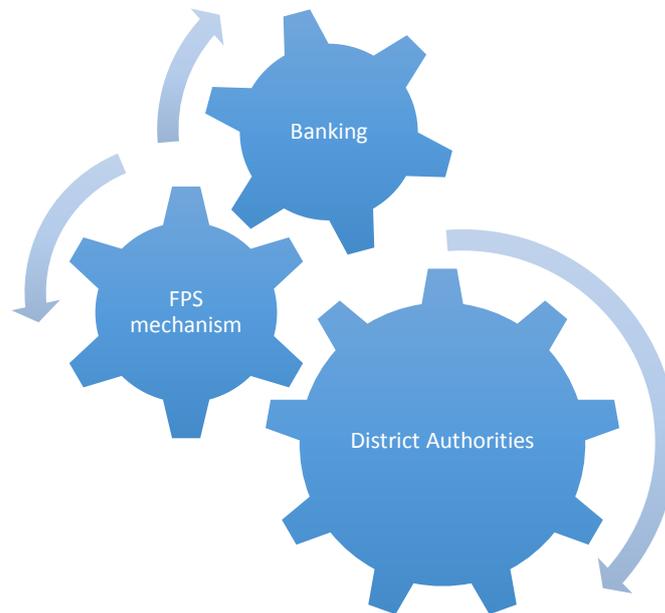


FIGURE 25. RECOMMENDATIONS - SECTORS INVOLVED

4.2 District Authorities

4.2.1 Dissemination of Information

The system of information dissemination to the targeted stakeholders needs to be in place before the launch of the scheme, and continued during the course of the project such that the intended beneficiaries are fully aware of, and prepared for the scheme and processes involved therein. Even after the launch of the pilot, there was a gap in the awareness levels of the households. It is therefore imperative **to ensure that there is adequate budgeting and planning for conducting awareness camps and providing detailed information on the operational aspects of the scheme.**

In addition to increasing awareness among the households and the beneficiaries, efforts need to be made **to provide information in publicly accessible formats.** While reports are available on request,¹⁹ the village community did not

¹⁹ These were provided on time to the research team by the district authorities.



seem to be aware of most of the aspects of the program. Information needs to be disseminated through different programs, ranging from workshops, meetings at the gram panchayats, and setting up of accessible information centres in order to provide information locally and to immediately resolve any issues.

4.2.2 Regular Checks and Meetings

It also became apparent through the field-level analysis that there is a relative lack of involvement and direct contact between the implementing authority (i.e., district officials) and the households. Interaction with the district authorities is primarily through the FPS dealers. Most households have reported that they became aware of the pilot scheme either through the dealer or through their neighbours. Further, during the Key Person Interviews (KPI), FGDs and even in informal discussions, it became clear that the **households were not aware of the specific officials or departments involved** from the district authorities and they had never heard from the authorities in person either.

After the implementation of the pilot, regular monitoring and evaluation activities are necessary to ensure fulfilment of objectives set out under the program and to provide for any mid-course correction if needed—for this, rapid evaluation surveys on a quarterly or half-yearly basis and monitoring studies throughout the course of the pilot project need to be provided for.

4.3 FPS Mechanism

The FPS dealers have the potential to become an important catalyst of the cash transfer scheme. They are the most important sources of information about the scheme and as members of the village community the dealers have the potential to become the focal points for program promotion.

4.3.1 Remuneration and Attitude of the FPS Dealers

It is quite evident that the **FPS dealers have suffered the biggest losses in the implementation of the direct transfer project**. The reduction in sales of kerosene drastically impacted their earning from the total commission on kerosene sales. Further, even though not explicitly stated, this loss was worsened by **the complete removal of any opportunity to earn profits from diverting kerosene sales for other (non-household) uses**. As regards their earnings from the regular operations, it is only recently that the commission on sale of kerosene was increased to INR 2.7/litre in Rajasthan (from the earlier level of INR 0.9/litre) prior to which the commission earnings were not even sufficient to meet their costs. **This significantly affects the attitude of the dealers towards implementing the scheme and the image they project about the scheme in the villages**. There is, therefore, a need to ensure that procurement and sales of kerosene are remunerative.

This can be achieved through a combination of efforts—firstly, increasing commissions and secondly, conducting focused discussions with the dealers to understand and address their problems and concerns with the scheme.

4.3.2 Maintaining Records

The field survey also revealed a **lack of prescribed procedures for maintaining the records of kerosene sales to the households** at the FPS dealership. While a process has been introduced in order to facilitate data transfer under the aegis of the pilot scheme (and the kerosene dealers have to fill up the prescribed forms and provide these to the district authorities) there is still a gap in the process at the household level. The process of recording the sales of kerosene in the ration cards of households and maintaining these records at the FPS shop is often disorganized and



needs to be standardized and, in the longer run, digitized. This is of prime importance as the transfers made thereon correspond to the kerosene sale records provided monthly by the FPS to the NIC.

4.4 Banking

Though banks are located in or near some villages, the issue of distance has been often quoted by the beneficiaries as a major cause of concern for access to banking services.

New initiatives were taken in order to implement the scheme by organizing camps in villages to open new, zero-balance, no-frills accounts for all beneficiaries in the block. However, **the overall understanding of banking activities among most households and even the local heads is limited**. There is therefore a need to expand the purview of these camps to improve basic financial awareness and the resolution of queries on an ongoing basis. In addition, the pattern of financial inclusion needs to be re-considered carefully, i.e., at what distance should the bank branches be located and how should the households gain access to their facilities. The **banking correspondent (BC) model**, which has been discussed at the state level with regard to the Aadhaar mechanism, **can provide an effective mechanism in addressing these concerns**. In this too, appointing an appropriate person to be a correspondent and ensuring their accountability would be crucial in successful implementation of the scheme. Appointing the local FPS dealer as the BC for the villages could perhaps provide an option that ensures accountability and timely implementation.

The second major issue is the financial viability of the banks themselves. **Maintenance of a large number of zero-balance accounts by the public sector banks has been described as a burden for the small-capacity bank branches.**

This lack of availability of banking facilities can pose a serious challenge to the future course of implementation of such schemes. Particularly in areas where the levels of financial inclusion are low and the consumption of kerosene for lighting purposes is high (due to lower rates of electrification and availability), **the success of bank transfer-related schemes will hinge on the extension of banking**. A recommendation in this regard would be the enabling instant SMS facilities for zero-balance accounts with the immediate transfer of the subsidy into beneficiary accounts. This would address the issue of time-lag in purchase of kerosene and the transfer of subsidy.

4.5 Planning for Implementation of Pilots on Cash Transfers

In addition to the specific measures suggested for the district authorities implementing a pilot project, the experience from Kotkasim provides one key observation for the state and central level governance mechanism as well. In order to test the applicability and scalability of direct benefits transfer schemes across the country, there are certain crucial observations that need to be put into practice before a scheme is launched.

This includes a **detailed assessment of requirements of the project at each stage, identification of the respective government departments and bodies that need to be involved, an accountability paradigm and the total duration of the pilots with the possible options for closing or scaling up need to be identified** before the scheme is implemented. Another important aspect is the selection of more villages for implementing the pilot scheme, especially in areas where kerosene is in fact the primary fuel for the household energy requirements. However, in such cases, specific time-bound pilot projects need to be implemented given the sensitive nature and the implications on household's budget and energy choices. The uncertainty of the future of the Kotkasim pilot, the absence of a future roadmap and clarity on linking of kerosene subsidy to direct transfers through banks have emerged as crucial points from the meetings held with the implementing agency as well as the FPS dealers.



This should go together with strengthening the relationship between the different agencies involved in the process. Figure 26 represents the strength of the relationships among the beneficiaries, FPS dealers, district authorities, local governance bodies and the banking sector. As can be noted, there are certain links where the engagement among the agencies is weaker.

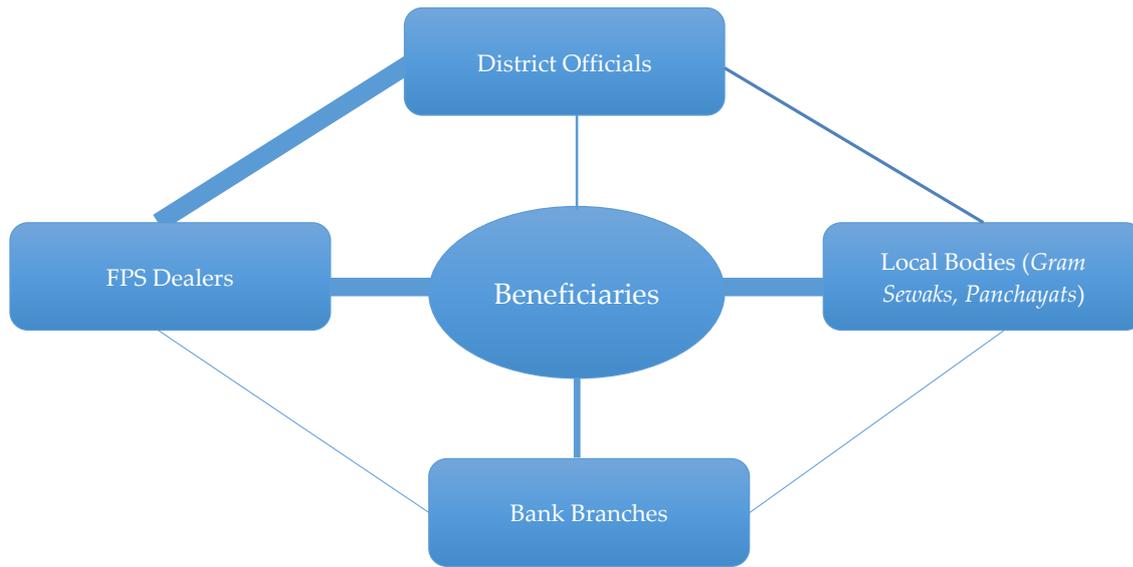


FIGURE 26. STRENGTH OF RELATIONSHIPS IN THE CURRENT SCHEME

(The weight of connector lines represents the strength of relation)

The local bodies—*Gram Sewaks, Panchayats* and even local education institutions—can play an important role in spreading awareness of new government initiatives, monitoring implementation and providing consolidated feedback.

While in the initial phase, it was necessary to first establish linkages between the major institutions, a more holistic relationship among all agents now needs to be forged to make the process transparent and to ensure accountability and constant monitoring.

To summarize: while the pilot project provides interesting lessons, there are some observations that, when addressed over the short and medium terms, will be able to provide a more seamless mechanism for providing direct transfer of benefits to intended beneficiaries without adversely affecting the interests of the business and FPS dealers. Referring back to the framework presented in Section 1 (Figure 1), these suggestions are summarized in Figure 27.

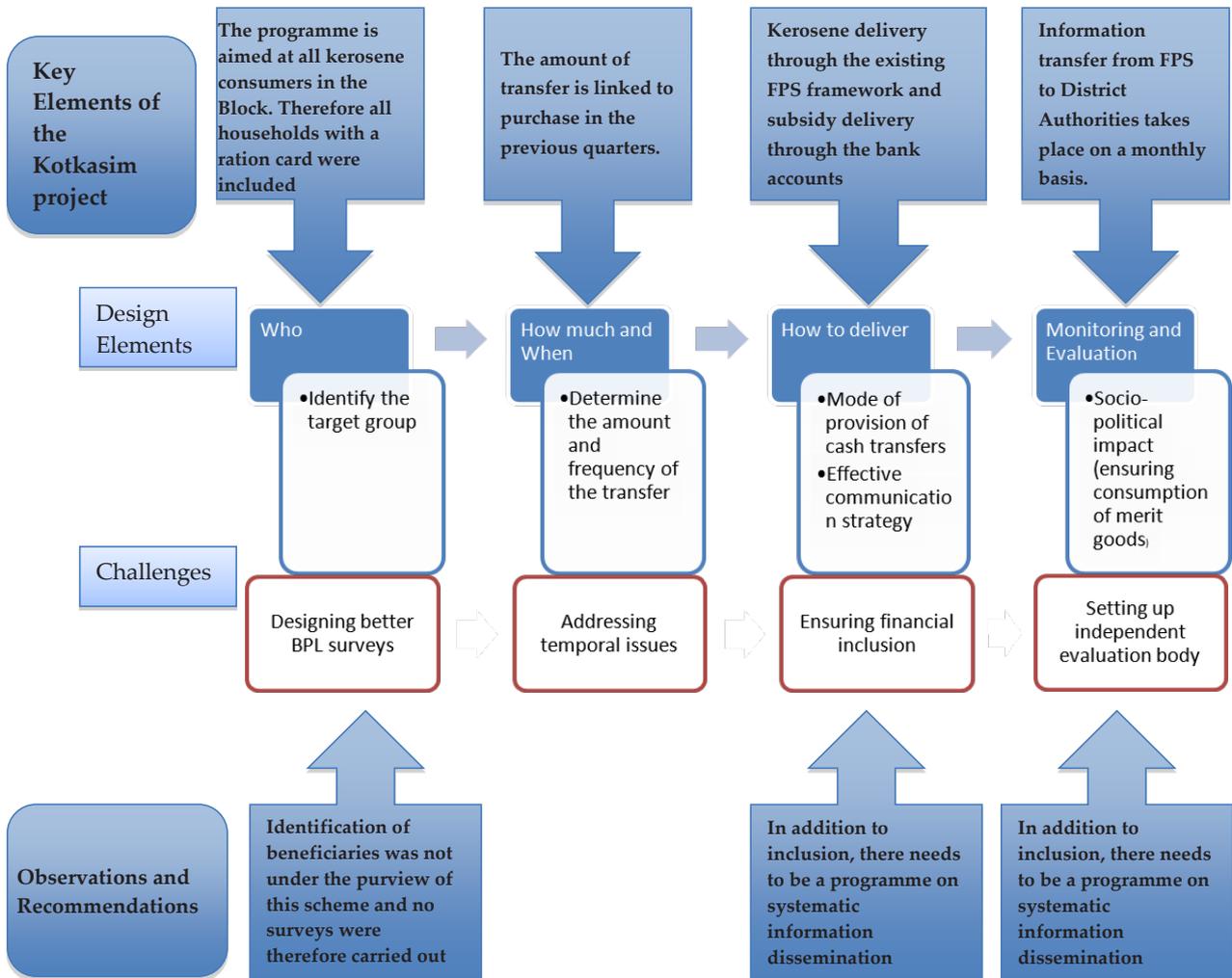


FIGURE 27. FRAMEWORK FOR THE STUDY - KEY OBSERVATIONS



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Annex 1: Definitions

Number system and currency

Indian system of numbering varies from the international system. One lakh equals 100,000 and hence one million is equal to 10 lakhs. Further, Crore equals 10 million.

The currency used in India is the Indian Rupee (INR). The INR to USD exchange rate for the past few years is provided in table A1

TABLE A1. INR TO US\$ EXCHANGE RATE

YEAR	EXCHANGE RATE (INR/USD)
2005-06	44.27
2006-07	45.28
2007-08	40.24
2008-09	45.92
2009-10	47.42
2010-11	45.58
2011-12	47.92
2012-13	54.41

Source: RBI, 2013

Banking

Passbook: Also known as a bankbook, the passbook carries a paper record of all the bank transactions of the deposit account. The passbooks can be updated on a regular basis (as per account holders' convenience) either at an automated teller machine (ATM) or a passbook printer, either in a self-serve mode, by post, or in a branch. This mode of updating and viewing bank information was used before the arrival of telephonic and online banking services.

PDS Mechanism

Public Distribution System: Is the prime food security system under Ministry of Consumer Affairs, Food, and Public Distribution, Government of India and managed jointly with state governments in India to distribute subsidized food and non-food items to the vulnerable sections of the society at subsidised rates. The Food Corporation of India, Govt is responsible for the procurement, storage, transportation, and bulk allocation of food grains and state governments are responsible for distributing the same to the consumers through the established network of Fair Price Shops (FPSs).

Fair Price Shop: It is a part of the Public Distribution System for providing food grains and other essential items (such as sugar, iodized salt and kerosene) to vulnerable sections of the society at reasonable (subsidized) prices fixed by the state government. They are also known as the 'Local Ration Shops'.



Antyodaya Anna Yojana (AAY) – AAY is a scheme introduced under the PDS mechanism to benefit the poorest of the poor households. Under this scheme, additional quantities of subsidized food grains are made available to the identified families.

Government bodies and levels

District – Each state is divided into administrative units called districts. Each district has its own Government machinery led by the District Magistrate (DM). The public distribution system is managed and monitored by the District Supply Office and headed by the District Supply Officer.

Block/Tehsil – Block or tehsil is the sub-unit within a district. In some cases, there might be minor difference in the nomenclature but usually, tehsils and blocks forms the second layer of the sub-state Government structure between the district authorities. These are headed by Sub-divisional magistrates and the tehsildars. In case of Kotkasim, it is both a block as well as a tehsil.

Gram Panchayat – The Gram Panchayat forms the third level of local governance after the tehsil/block level. It is usually a combination of some villages in a tehsil and appoints leaders/representatives through an electoral process. The appointed members then meet regularly to take important decisions.

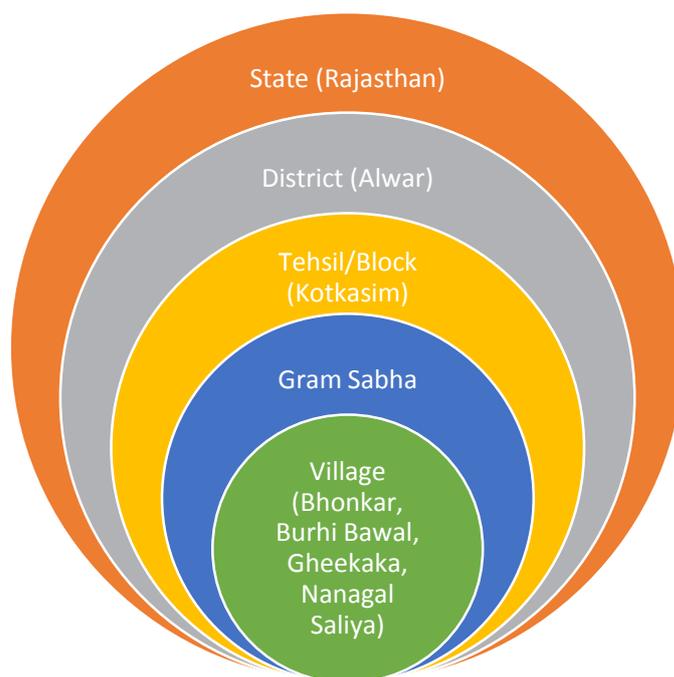


FIGURE A1. STRUCTURE OF THE GRAM PANCHAYAT



GSI Global
Subsidies
Initiative



iisd

International
Institute for
Sustainable
Development

Institut
international du
développement
durable

The International Institute for Sustainable Development's Global Subsidies Initiative

The International Institute for Sustainable Development (IISD) launched the Global Subsidies Initiative (GSI) in December 2005 to put a spotlight on subsidies – transfers of public money to private interests – and how they undermine efforts to put the world economy on a path toward sustainable development.

Subsidies are powerful instruments. They can play a legitimate role in securing public goods that would otherwise remain beyond reach, but they can also be easily subverted. The interests of lobbyists and the electoral ambitions of officeholders can hijack public policy. Therefore, the GSI starts from the premise that full transparency and public accountability for the stated aims of public expenditure must be the cornerstones of any subsidy program.

But the case for scrutiny goes further. even when subsidies are legitimate instruments of public policy, their efficacy – their fitness for purpose – must still be demonstrated. all too often, the unintended and unforeseen consequences of poorly designed subsidies overwhelm the benefits claimed for these programs. Meanwhile, the citizens who foot the bills remain in the dark.

When subsidies are the principal cause of the perpetuation of a fundamentally unfair trading system, and lie at the root of serious environmental degradation, the questions have to be asked: Is this how taxpayers want their money spent? and should they, through their taxes, support such counterproductive outcomes? Eliminating harmful subsidies would free up scarce funds to support more worthy causes. The GSI's challenge to those who advocate creating or maintaining particular subsidies is that they should be able to demonstrate that the subsidies are environmentally, socially and economically sustainable – and that they do not undermine the development chances of some of the poorest producers in the world.

To encourage this, the GSI, in cooperation with a growing international network of research and media partners, seeks to lay bare just what good or harm public subsidies are doing; to encourage public debate and awareness of the options that are available; and to help provide policy-makers with the tools they need to secure sustainable outcomes for our societies and our planet.

www.globalsubsidies.org

The GSI is an initiative of the International Institute for sustainable development (IISD). Established in 1990, the IISD is a Canadian-based notfor profit organization with a diverse team of more than 150 people located in more than 30 countries. The GSI is headquartered in Geneva, Switzerland and works with partners located around the world. Its principal funders have included the governments of Denmark, the Netherlands, New Zealand, Norway, Sweden and the United Kingdom. The William and Flora Hewlett foundation have also contributed to funding GSI research and communications activities.

For further information contact Damon Vis-Dunbar at: dvis-dunbar@iisd.org or info@globalsubsidies.org or +41.22.917.8848

The Energy and Resources Institute (TERI) is a leading science and policy research institution committed to working for global sustainable development. The focus of Teri's initiatives has been to address the diverse challenges of ensuring equity, efficiency and optimal utilization of resources. The institute was formally established in 1974 with the purpose of tackling and dealing with the immense and acute problems that mankind is likely to face in the years ahead

- on account of the gradual depletion of the earth's finite energy resources which are largely non-renewable; and
- on account of the existing methods of their use which are polluting.

Over the years, the Institute has developed a wider interpretation of this core purpose and its application. Consequently, TERI has created an environment that is enabling, dynamic and inspiring for the development of solutions to global problems in the fields of energy, environment and sustainable development. The Institute's growth has been evolutionary, driven by a vision of the future and rooted in challenges looming today, based on an approach that looks beyond the present and across the globe. TERI has grown to establish a presence not only in different regions of India but is perhaps the only developing country institution to have established a presence in North America and Europe and on the Asian continent in Japan, Malaysia and the Gulf.

TERI's Centre for Research on Energy Security (CeRES) functions as the Institute's nerve centre for work on emerging strategic issues and persistent policy challenges in the energy domain, covering energy economics, geopolitics and trade, technology development, infrastructure, and pricing and regulation. The centre engages in transdisciplinary policy research and multistakeholder dialogues on energy security, and works towards forging strategic partnerships with research institutes globally.

The **TERI University** was established in 1998. Initially set up as the TERI School of Advanced Studies, it received the status of a deemed university in 1999. The University is a unique institution of higher learning exclusively for programmes leading to PhD and master's level degrees. Its uniqueness lies in the wealth of research carried out within TERI—as well as by its faculty and students—making it a genuinely research-based university.

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