

BHARAT SCHOOL OF BANKING

Subsidy leakage - JAM Trinity

Subsidy in India

Government of India provides **subsidies** to the needy people on several **commodities** like **rice, wheat, pulses, kerosene, sugar, LPG, water, fertilizer, iron ore**, etc. The estimated direct **fiscal cost** of **subsidies** is approx **Rs. 3.78 lakh crore**, which is almost **4.24 % of GDP**.

Now you can see, how **enormous** is the **subsidy** in **India**. But the real question is - does the **subsidy** reach the **target household** properly? Unfortunately, a significant portion of this **subsidy** is wasted due to **leakage**. Let's look into an example -

Kerosene is provided to the **poor** in a highly **subsidized** rate, as it is the primary **fuel** for **cooking** and **lighting** in the **Below Poverty Line (BPL)** households. Government distributes **kerosene** to the beneficiaries through **Public Distribution System (PDS)**. But it is found that **approx 45 %** of **subsidized kerosene** does not reach the intended **beneficiaries**. This is just an indication of **subsidy leakage** on kerosene. Think about other **commodities**!

Government's steps to reduce leakage

Government has now taken some significant steps on reducing the **subsidy leakage** problem. Prime Minister **Shri Narendra Modi**'s pet scheme of **Jan Dhan Yojana (PMJDY)** and **Direct Benefit Transfer (DBT)** are indeed good ones, as these mechanisms can eliminate **leakage** and ensure that **subsidies** reach those who **deserves**.

JAM Trinity

The 'JAM Trinity' is intended for the very purpose of restricting the **subsidy leakage** problem, and efficient **transfer** of **subsidies** to the **beneficiaries** (directly, rather than through intermediaries). In the **Budget 2015-16**, government proposed this. It consists of three schemes -

- **Jan Dhan Yojana**
- **Aadhar** (linked Direct Benefit Transfer)
- **Mobile numbers**

JAM allows the state to offer **subsidy** support to **poor households** in a **targeted** and **less distorting** manner.

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Now the **subsidy amount** for LPG is directly **credited** to your **bank account**, rather through intermediaries. Thus government can keep track of the **subsidy flow**, and whether it reaches to the **intended beneficiaries** or not.

Post Offices

Apart from the above mentioned ways, **Post Offices** can be effectively utilized for this purpose, since **India** has the **largest postal network** in the world with over **1,55,015 Post Offices** of which approx **90 %** are in the **rural** areas.



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