

SUBSIDIES NEED TO BE BETTER TARGETED

by Ibrahim Athif Shakoor

A subsidy, almost by definition, is intended to assist the unfortunate and to help those in need.

However, here in the Maldives all subsidies are not targeted towards the unfortunate and for those in need, but many are open and accessible not only to all citizens; regardless of their financial status, but also to expatriate workers and guests to our shores.

Each year, through the national budget, the state designates money for 'assistance, subscriptions and subsidies. For the budget period 2019-2021 this amount averages MVR 3.9 billion and account for an average of 18.74% of the total according to the 2021 budget figures.

However, included within the category are items like

'subscriptions and membership fees for local and non-local associations, awards and prize moneys, assistance to administer local councils and provisions for natural calamities. When such items are removed, and what may be termed broadly as subsidies to help the needy and the unfortunate are included only, the subsidy figure is 2.9 billion average for the 3 years (Table 1). It is important here to note that might be differing views about the items selected for list of subsidies in Table 1. The average subsidy amount of 2.9 billion accounts for 74% of the budget code and also represent an average of 9.22% of the total budget for the year in the 3 year period.

Table 1. Subsidies provided by the state*. (In millions of MVR)

		2021	2020	2019
	Total of assistance, subscriptions and subsidies (budget code 228)	3,862.95	4,338.24	3,760.31
228001	1. Moneys to lower prices	95.12	173.95	491.69
228002	2. Assistance to improve livelihood of the poor	3.00	2.57	0.11
228003	3. Assistance to private parties	143.14	185.42	211.68
228011	4. Subsidy to lower electricity tariffs	427.70	624.57	468.50

228012	5. Subsidy to lower water tariffs	-	21.00	-
228013	6. Subsidy to lower food prices	365.64	338.10	321.04
228014	7. Subsidy for single parents	60.00	56.50	48.88
228015	8. Assistance for non-local medical expenses	40.00	38.05	54.76
228016	9. Assistance for local medical expenses	70.00	63.92	50.18
228017	10. Assistance for children under state care	2.86	2.56	2.36
228018	11. Medical Insurance payment	717.76	950.76	1,313.50
228019	12. Assistance for the disabled	250.00	215.93	195.86
228024	13. Assistance for therapeutic care	33.00	31.61	3.17
228025	14. Assistance for managing waste	30.00	-	-
228026	15. Fuel Subsidy	-	-	-
228027	16. Income support for redundancies and or on furlough	-	150.00	-
228999	17. Other assistance	192.67	156.87	209.58
	Total of Items identified as subsidies*	2,430.88	3,011.79	3,371.31

Data: Budget 2021, Ministry of Finance

Most people in most countries, do not deny that state assistance need to be offered to the vulnerable and to the needy. The 1.9 trillion pandemic relief bill just recently passed by the US Congress enjoyed broad support in the general public across the political spectrum, the histrionics of the republican law makers, none of whom voted for the bill, notwithstanding.

As we have, at the start, defined subsidies as 'intended to assist the unfortunate and to help those in need' then, many of the items of the above list, appropriately fit the definition. Items like No. 2 'assistance to improve the livelihood of the poor', No. 12 'Assistance for the disabled', and No. 16 'support for those made redundant and or on furlough' are clearly such items targeting the unfortunate and those in need.

However, the same claim cannot be made for items 4,5 and 6- being subsidies to lower electricity tariffs,

water tariffs and food prices. These are not targeted assistance and available for all class of citizenry, the rich and famous and the poor and destitute alike.

Among these food subsidies have been a perennial feature of the state budget for more than 35 years now and is very much the default position in the Maldives. However, quite unexpectedly and for a brief period in late 2016 the state announced that effective almost immediately, the state would limit staple food subsidies only to just the needy. Ministry of Economic Development announced that the subsidy would now be made available to the needy through the National Social Protection Agency (NSPA) with effect from the very following month.

However, sudden attack of a fit of fiscal responsibility. food subsidy was back on



the state budget for 2017 and has stayed on the budget ever since.

The subsidy to lower electricity tariff rates is another hardy handout that had shown resistance to all manners of fiscal distress. In 2019 the government announced that from March of that year electricity tariffs in the islands (regardless of the cost of production) will be set as the same rate as that of Male' - a decision which STELCO would cost the state an additional MVR 5m/month.

Subsidies provided by the state does not distinguish the ultra-rich with the destitute. For the 3 years (2019-2021) state budget allocated MVR 2.5 billion MVR on food and electricity subsidies thereby accounting for an average of 21.4% of the budget Code for the 3 years.

While targeting subsidies may not have been an easily accomplished feat in yesteryears, today's technology allows for the hitherto impossible to be common place. In September 2016 when the state announced that food subsidies were, from then on, only available to those in need and would have to be applied for through NSPA it was evident then, that the state was not fully ready, for the abrupt and sudden burst of fiscal rationality. A gazette announcement stated that (a) the recipient has to be a Maldivian and (b) must conform to the criteria set out by NSPA. Yet, the criteria were still to be established.

Today, without attempting for such sudden and traumatic backflips, the state can, and should, start

preparing for the roll-out of targeted subsidies. And we do not have to look further than the very targeted subsidy rolled in 2016 in rural India.

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On the traditional Labor Day on 1st of May, 2016, the Indian Government announced the Pradhan Mantri Ujjwala Yojana (PMUY) Scheme for providing LPG connections to those below the poverty line (BPL). In India the BPL differs from state to state and from urban to rural areas but is today at 1,059.42 Indian Rupees (less than 15 US \$) per month in rural areas. The scheme was launched by PM Narendra Modi in Ballia, to ensure 50 million LPG connections to BPL families and a budgetary allocation of (US\$1.1 billion) was made for the scheme.

Indian media reports that 22 million LPG connections were made in the first year and had crossed 58 million



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by December 2018. The scheme led to an increase in LPG consumption by 56% in 2019 as compared to 2014 thereby helping to reduce deforestation, enhanced the health and wellness of women and family; who otherwise used wood and coal in their homes and had benefited over 45 million Indian BPL. This was a scheme introduced in 2016 and targeted families, especially women who were surviving below the Poverty Line in rural India. While there is, of course, much comment and criticism of the scheme,

there are lessons for us.

We in the Maldives, in general, are better connected with better technology at hand. The lessons learnt by the roll out of providing 80 million women in the rural areas of India are available for us to benefit from. The subsidy was not a free for all. It was targeted, and it worked. We in the Maldives can do so much better.

As pointed out by some many commentators, local and external, the practice of offering food and electricity subsidies on a wholesale basis to all consumers, including visitors to our shores, expatriate workers and to the rich and wealthy is an outrage and an affront to common sense.

It is time to eliminate the whole-sale method and target it only to the vulnerable and the needy. In fact, it is long overdue. Today's technology allow for it happen. What was implemented in the rural areas of India, can, without doubt be better implemented here in the Maldives. But unlike in 2016, let's take it with a little bit more patience and do it right.

