



CASH FOR FOOD : THE NEED FOR CAUTION

- Dipa Sinha and Biraj Patnaik

The Union government notified the Cash Transfer of Food Subsidy Rules on 21 August 2015, without much publicity.¹ The proposal to introduce cash transfers instead of foodgrains in the Public Distribution System (PDS), via the National Food Security Act 2013 (NFSA), is ill-conceived and, if implemented, will be harmful to food security in the country. Concerns abound in relation to a programme of cash for food replacing the current PDS. These include denial of assured minimum foodgrains to the poor, enhanced vulnerability to inflation, inadequate access to banks, and decreased public procurement at minimum support prices. In a context where leakages in PDS are steadily declining and the NFSA offers greater coverage (and hence lower targeting errors), what is required is an expansion of a strengthened PDS rather than dismantling it. Moreover, as FAO (2015) discusses, many researchers remain unconvinced that cash transfers would bring about drastic reductions in leakages in welfare programmes, as there is nothing intrinsic to cash transfers which renders them less vulnerable to leakages: irregularities are already found to be high in existing cash transfer programmes.²

While the case for cash transfers in lieu of subsidies (be it for health, education, agriculture or food) has continually been made since 2005, the present government has made known its unequivocal preference for Direct Benefit Transfers (DBT) as a means to reduce poverty through policy pronouncements such as the Economic Survey 2015 and the Union Budget 2015. One of the main DBT schemes being discussed is a proposal to replace the distribution of foodgrains with cash transfers through PDS. Herein, we assess the pros and cons of this proposal.

Under the PDS, households are provided highly subsidised foodgrains through a network of Fair Price Shops (FPS). Currently, the coverage, quantity and prices under which PDS grains are distributed are on the basis of NFSA.³ The state governments are responsible for the implementation of the Act while the foodgrains are allocated by the Government of India (GoI). The states have formulated their own eligibility criteria to identify households that would come under the 'priority' category, to be capped at 75 per cent of rural areas and 50 per cent of urban areas for the country, with variations across states.

In order to introduce DBT in PDS, the GoI has sought that states consider the idea of piloting these. One of the pre-conditions for introducing DBTs is complete digitisation of beneficiary data as well as seeding it with Aadhar (UID numbers). As of now, pilots have been announced in three Union Territories (UTs) – Chandigarh, Puducherry and Dadra and Nagar Haveli⁴ – as well as a pilot in Raipur city in Chhattisgarh⁵. While these pilots are recent and need further scrutiny, a number of concerns must be borne in mind while considering replacing PDS with cash transfers. A 2015 publication by Food and Agriculture Organisation of the United Nations (FAO) summarises the arguments for and against DBTs as shown in Figure 1. Key arguments against dismantling the PDS and move to cash transfers are discussed as follows:

The Debate

- ▶ Concerns have been raised that replacing the provision of foodgrains with cash will not ensure that the money will address food insecurity.⁶ The poor face a number of vulnerabilities and the available cash can be spent on other urgent consumables.
- ▶ With rising food prices, there is a danger that the value of the cash transfer will decline over time unless a robust system of inflation-indexing is put in place.
- ▶ In spite of the *Jan Dhan Yojana*⁷, there are still large bottlenecks in accessing banks by the poor whereas the network of FPSs is far more widespread and more easily accessible.
- ▶ The withdrawal of provision of grains through PDS comes with the danger of reduction in procurement at minimum support prices (MSPs). At a time when agriculture is in crisis and limited arenas of support are available to farmers, such a move can be disastrous. Targeting errors that were part of the earlier PDS can now be addressed to some extent. The exclusion errors can be addressed through expanded coverage under the NFSA and inclusion errors through using data from the verified Socio-Economic Caste Census (SECC) lists for identification. There have been doubts raised about too many poor households getting left out from SECC, even though theoretically, it can help gradually eliminate leakages and errors of inclusion and exclusion.⁸ In any case, there is nothing inherent in cash transfers that makes targeting fool proof.
- ▶ Leakages in the PDS are showing a declining trend based on which it can be safely predicted that with NFSA implementation in all states, the leakages in PDS will only come down further. Therefore, this is not the time to dismantle the PDS, rather to strengthen state government efforts to improve it.

In light of the available evidence, we recommend that the government strengthen the existing PDS system and focus on improving already-existing DBT schemes providing maternity entitlements for pregnant women, and suggest the following:

Recommendations

- ▶ State governments should introduce reforms in PDS to improve delivery of foodgrains rather than introducing cash transfers to replace grains in PDS.
- ▶ The NFSA should include a cash transfer-based provision, i.e. maternity entitlements for all pregnant women.
- ▶ The PDS should be strengthened by linking it to decentralised procurement and including not just cereals but also pulses and edible oils.

FIGURE 1: ARGUMENTS FOR AND AGAINST DBTs

ARGUMENTS IN FAVOUR	ARGUMENTS AGAINST
The PDS is an inefficient and expensive system, liable to high leakages; cash transfers are less prone to corruption and cheaper to deliver efficiently	Cash transfers also can be affected by leakages and irregularities, and could be difficult to implement in remote rural areas
Cash transfers allow for dietary diversity and better quality food for poor people	The PDS provides rations at a constant price, protected against inflation
Cash gives households greater choice	Cash would not necessarily improve diets as cash may be used for non-food priorities in households
	Opposition is not to cash transfers, but to replacing food with cash

Context

As is well-known, DBTs could either be in the form of cash transfers that are conditional upon consuming certain commodities (such as in the case of LPG subsidy) or Unconditional Cash Transfers or UCTs (such as old age pensions). Conditions can also be linked to certain behaviours such as sending children to school, getting children immunised, attending ante-natal clinics and so on. While India has been implementing UCTs in the form of social security pensions (for the aged, widows, disabled) for a long time, the push now is for Conditional Cash Transfers (CCTs).

The High Level Committee (HLC) headed by the former Minister of Food, Consumer Affairs and Public Distribution, Shanta Kumar, in its report in January 2015, recommended that the government replace foodgrains under the PDS with cash transfers and also reduce coverage under the NFSA from 67 per cent to 40 per cent.

One of the earliest CCTs in India was the *Janani Suraksha Yojana* (JSY), initiated under the National Rural Health Mission (NRHM) in 2005. The scheme provided pregnant women an incentive of Rs. 1400 to deliver in a facility. The *Indira Gandhi Matritva Sahyog Yojana* (IGMSY), implemented in 53 districts across the country, was also introduced as a pilot CCT in 2011.

Various reviews have shown the gaps in these schemes towards meeting their objectives, especially in the context of large supply gaps, which make it difficult for eligible beneficiaries to meet the conditions.⁹ Countries that have had successful CCTs, such as Brazil and Mexico, have also spent much higher than India for provisioning basic social services and are incomparable as they have much better human development outcomes.¹⁰

The High Level Committee (HLC) headed by the former Minister of Food, Consumer Affairs and Public Distribution, Shanta Kumar, in its report in January 2015, recommended that the government replace foodgrains under the PDS with cash transfers and also reduce coverage under the NFSA from 67 per cent to 40 per cent. This committee argued that the in-kind food transfers through the PDS have been marked by inordinately high levels of leakages and involve avoidable expenses on the part of the government for storage, transportation, etc. They recommended that this process be first initiated in major urban centres, followed by food-surplus states and then offered as an option to the food-deficit states.¹¹

Using the same argument of leakages and inefficiencies, the *Economic Survey* for 2015–16 also recommended a shift to DBT. It went a step further to note that direct transfers through the “JAM Trinity” platform (Jan Dhan–Aadhaar–Mobile) has the potential of “wiping every tear from every eye”.¹² The finance minister, in his budget speech, also spoke of JAM as one of the “game-changing reforms” introduced by the National Democratic Alliance (NDA) government.

Subsequently, the Union government issued letters to the states urging them to come up with plans to shift to a PDS based on cash transfers linked to Aadhaar. In an ongoing case, the Supreme Court allowed the Union government to link Aadhaar card data with the PDS and LPG subsidy.¹³ The final decision is pending. As of now, three UTs, i.e. Chandigarh, Puducherry and Dadra and Nagar Haveli, have agreed to pilot this.

Recommendations

- **State governments should introduce reforms in PDS to improve delivery of foodgrains rather than introducing cash transfers to replace grains in PDS.**

Belying the Union government’s belief, the pilots initiated to introduce cash transfers in PDS have largely failed across states. A study of the pilot started in six shops across three cities in Chhattisgarh found that a fifth of the beneficiary households never received any money, and 70 per cent of those who did, only got it after much delay. Further, 43 per cent faced financial distress in trying to buy PDS rice during the pilot and one-third had difficulties in getting Aadhar numbers and/or bank accounts.¹⁴ In Puducherry, the first attempt at introducing cash transfers had to be withdrawn within two months in response to large scale protests by people.¹⁵ The UT is now retrying this in a modified format – while a part of the transfer is still grains, part of it is in cash. Similarly, an earlier attempt at introducing DBTs in distribution of kerosene through a pilot scheme in Kotkasim, Alwar district, Rajasthan was also largely a failure.¹⁶

One of the arguments in favour of cash transfers in PDS is the high level of leakages in PDS. However, what is being ignored is that it is on the decline since 2004–05 onwards. While the leakages in PDS were to the tune of 54 per cent in 2004–05, they have come down to between 35 per cent and 42 per cent (depending on which estimates are considered) in 2011–12.¹⁷ Further, some states such as Tamil Nadu, Andhra Pradesh and Chhattisgarh show much lower leakages.¹⁸ Newer states that have introduced reforms in the PDS such as Odisha, Madhya Pradesh and Bihar are also showing significant lowering of PDS leakages. All states with reported decline in leakages have some common features such as expansion in coverage, uniform and low prices and reforms such as computerisation, door-step delivery and enhanced transparency and grievance redress provisions. With the NFSA, these reforms can be replicated in other states as well and a further decline in leakages in PDS can be expected by the time the next round of data is available.

Furthermore, it is also not the case that there are no leakages in schemes based on cash transfers. Field reports over the last many years have highlighted corruption in old age pensions, widow pensions and disability pensions. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) that transfers cash for work through bank accounts also suffers from leakages. Therefore, the solution is not doing away with the programme but introducing reforms to check leakages. Many examples of local mobilisation and monitoring, transparency and accountability measures are available on reducing corruption in public programmes.¹⁹

Further, studies have found that access to the PDS has an effect of improving not just calorie intake but also dietary diversity through its income effect.²⁰ Based on an analysis of National Sample Survey Organisation (NSSO) data, Himanshu and Sen (2013) found that the calorie-elasticity²¹ of PDS transfers is twice as large when compared to equivalent money transfers. Further, the number of families that depend on rations from the PDS has been increasing, doubling in the seven years between 2004–05 and 2011–12. According to the latest available NSSO data, 46 per cent of rural homes purchased rice and 34 per cent wheat from FPS.²²

In a study conducted by Khera (2014) in nine states, reasons from respondents to prefer food over cash, ranged from assurance of minimum foodgrains at home through the PDS, convenience of accessing PDS over markets, potential misuse of money, familiarity, to concerns related to local hoarding and shortages.

► **The NFSA should include a cash transfer based provision, i.e. maternity entitlements for all pregnant women.**

Evidence shows that the prices of foodgrains under the PDS remains static despite fluctuations of the market and inflation and hence add to its appeal. A cash transfer scheme in which a fixed amount of cash is transferred to each family will also not respond to the rising prices and end up offering no protection to poor families against inflation. Experience with previous cash transfer programmes (such as old age pensions, school scholarships) has revealed that the amounts remain fixed despite price rise. Further, even if they are inflation-indexed, there remain serious gaps in availability of price data in India at a decentralised level, thereby, exposing people to local price fluctuations.

Thus, the proposed linking of cash transfers with Aadhaar would not help in enumerating the poor but only confirm the identity of a beneficiary as someone eligible through other means.²³ Improved identification criteria has been made possible with availability of the SECC database. Initial reports of the experience of Bihar in using SECC data to exclude rich households from the PDS and including everyone else is worth emulating in other states as well.²⁴

However, if the policy direction is to promote cash transfers, the government must ensure immediate implementation of another entitlement in the NFSA, i.e. the maternity entitlements for all pregnant women. With a potential to address malnutrition through improving breastfeeding, maternal nutrition, and adequate rest, it would also positively impact maternal and child mortality rates.

A study by Centre for Equity Studies was conducted in 2015 covering IGMSY which is the only cash maternity benefit scheme by the Union government. This was conducted in some of the remotest villages of Madhya Pradesh, Bihar, Jharkhand and Chhattisgarh, including women from most vulnerable communities. It was found that while the IGMSY positively impacted the women who received the full amount, implementation was limited and had many gaps. While in most cases, the money was spent on healthcare, food or other household expenses, the timing of the payment was often so delayed that it was not available to women when they most needed it.²⁵

► **The PDS should be strengthened by linking it to decentralised procurement and including not just cereals but also pulses and edible oils.**

It is also essential to ensure that the infrastructure base is secure when considering overhauling of a longstanding system. When compared to the number of rural bank branches and post offices in the country, there are many more FPSs of the PDS, thereby making them more accessible.²⁶ Even the much-hyped *Jan Dhan Yojana* launched by the present government has been ineffective in encouraging people to use their bank accounts.²⁷ Currently, there are 5.2 lakh FPSs in the country with an average of 365 ration cards per shop²⁸ as opposed to 43,000 bank branches, servicing about 5000 households per branch. Although it is claimed that the

transfers can be made through mobile phones, the current status of mobile connectivity and people's comfort with using mobiles for such transactions makes it difficult to imagine the country soon being ready to shift from cash to completely mobile-based transactions.

As noted earlier, one of the consequences of dismantling the PDS to shift to cash transfers will be a reduction in MSP-based procurements by the government. Reducing or closing down the PDS would be a direct threat to procurement as there would be no incentive to procure. If such a step is taken, it will only deteriorate the condition of an already-distressed Indian agriculture. Moreover, it could also dis-incentivise the production of food itself. There might not be enough food for people to buy from the markets with the cash they receive. Increasingly, MSP operations and procurement have been geared only towards the PDS. Although MSP is announced for more than 20 crops, public procurement is largely focussed on rice and wheat.

Currently, procurement is concentrated in only a few states with farmers in food surplus states such as Bihar and West Bengal hardly getting any benefit from the MSPs (the Shanta Kumar committee report also points this out). However, this does not mean that procurement be discontinued. Rather, it needs strengthened infrastructure to allow small farmers across the country to be able to sell to the Food Corporation of India (FCI) / state governments at remunerative prices. Some of the measures include addressing lack of adequate storage and huge handling losses of procured foodgrains.

The biggest problem in PDS is one of accurate identification of the poor. This can be corrected to a large extent under the framework of the NFSA that allows for expanded coverage and has only exclusion-based criteria. When the benefit is in the form of cash, the incentive for people to self-select themselves out of the system will be even smaller. The government's own experience with DBT systems in other schemes illustrates that cash transfers do not automatically take care of either leakages or delays.

Given the number of concerns with replacing PDS with cash transfers, it is recommended that the government focus on improving the distribution of foodgrains rather than shifting to cash. The NFSA is beginning to take off only now. With decreasing leakages in PDS and reforms being introduced in many states, the PDS should be given a genuine chance to improve delivery as well as reach its potential in addressing food security. In fact, what is required is a further strengthening of the PDS by including other food items such as pulses and edible oils so that the nutrition gaps in consumption of proteins and fats can also be taken care of. Procurement of pulses and oilseeds by the government can also contribute to encouraging production of these crops. This is much needed as India is currently importing these two commodities.

In view of the practical concerns, activists and policy advocates remain unconvinced about the effectiveness of cash transfers. For example, India's banking system will take a long time to be genuinely inclusive of people in remote rural regions. As FAO (2015) points out, when the nearest bank or post office branch is distantly located from a village, each cash withdrawal entails additional cost and time requirements, and thus, the process could turn out to be more burdensome than current modes of food transfers.²⁹ In India's case, cash transfers cannot replace a well-functioning PDS as it will also dismantle the obligation of government with adverse impacts on agriculture and farmer protection as well.

Notes

- 1 http://dfpd.nic.in/writereaddata/Portal/News/32_1_cash.pdf
- 2 <http://www.fao.org/3/a-i4989e.pdf>
- 3 Refer to the Oxfam India policy brief on National Food Security Act, January 2016
- 4 In all these places there have been protests resisting the change. While Chandigarh has gone ahead with the pilot completely, Dadra and Nagar Haveli has not yet implemented it. Puducherry withdrew cash transfers in April 2015 after trying out for two months and then again reinitiated the pilot, but only partially, after a few months. See: <http://thewire.in/2015/11/30/optimizing-out-of-the-jam-16373/>
- 5 <http://scroll.in/article/752226/chhattisgarhs-experiment-with-cash-transfers-for-food-rations-has-been-a-disaster>
- 6 <http://www.fao.org/3/a-i4989e.pdf>
- 7 Objective of “Pradhan Mantri Jan-Dhan Yojana (PMJDY)” is ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. Source: <http://pmjdy.gov.in/about.aspx>
- 8 http://www.epw.in/system/files/pdf/2015_50/30/Socio_Economic_Caste_Census.pdf
- 9 For example, on JSY see Joshi. S and Sivaraman. A (2014). How effective is Janani Suraksha Yojana, Ideas for India available at http://ideasforindia.in/article.aspx?article_id=390 and on IGMSY see Falcao, V. L., Khanuja, J., Matharu, S., Nehra, S., & Sinha, D. (2015). Report on the Study of the Indira Gandhi Matritva Sahyog Yojana. New Delhi: Centre for Equity Studies.
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- 16 Bhatti and Khanna (2012). Neither effective nor equitable. The Hindu. December 4th 2012 available at <http://www.thehindu.com/opinion/lead/neither-effective-nor-equitable/article4161139.ece>
- 17 Drèze J, Himanshu, Khera R and Sen A. (2015). Clarification on PDS Leakages. Economic and Political Weekly. Vol. 50. No. 39
- 18 <http://www.livemint.com/Opinion/TTLqU0Cg2iF4hYtJShtMRI/PDS-a-story-of-changing-states.html>
- 19 <https://www.oxfamindia.org/oxfam-in-action>
- 20 See Himanshu, and Sen, A. (2013). In-Kind Food Transfers – II. Economic & Political Weekly, Vol. 47, 60–73., Kaul, T. (2014). Household Responses to Food Subsidies*: Evidence from India. Department of Economics, University of Maryland. And Kishore, A., & Chakrabarti, S. (2015). Is More Inclusive More Effective? The “New - Style “ Public Distribution System in India. IFPRI Discussion Paper 1421. Washington, D.C. Retrieved from <http://ebrary.ifpri.org/cdm/ref/collection/p15738coll2/id/129061>
- 21 Elasticity is defined as a measure of a variable’s sensitivity to a change in another variable. In this case, it implies that the calorie impact of in-kind transfers (foodgrains) will be twice as much as that of cash transfers, equalling the value of foodgrains.
- 22 Narayan, Swati (2015). Ten Facts That Set the Record Straight on Cash Transfers, TheWire.in available at <http://thewire.in/2015/08/15/the-food-or-cash-debates-fallacy-of-composition-8533/>
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