

## Replacing PDS with Cash Transfers

There is a growing debate within the media and amongst policy circles on replacing the Public Distribution System through which subsidised foodgrains are made available to people, with direct cash subsidies where a fixed amount will be transferred into people's bank accounts each month. The Government made the first move towards this by announcing in the recent budget that fertiliser and kerosene subsidies will be replaced by cash transfers. In his budget speech, the Finance Minister Mr. Pranab Mukherjee stated, "*The Government provides subsidies, notably on fuel and food grains, to enable the common man to have access to these basic necessities at affordable prices. A significant proportion of subsidised fuel does not reach the targeted beneficiaries... We have deliberated for long the modalities of implementing such subsidies... To ensure greater efficiency, cost effectiveness and better delivery for both kerosene and fertilisers, the Government will move towards direct transfer of cash subsidy to people living below poverty line in a phased manner*<sup>1</sup>." This indicates that cash transfers are also being considered in lieu of foodgrains.

The Right to Food Campaign strongly feels that the Public Distribution System (PDS) must not be dismantled, as it plays an important role in not only improving people's access to food but also revitalising agriculture and promoting food production. Repeated studies are showing that the Indian growth experience is lopsided, benefitting only a few while the majority of the population continues to face poverty and deprivation. The Arjun Sengupta committee identified 77% of the country's population as being vulnerable since they live on less than Rs. 20 per day. It is well known that almost half the children in the country are malnourished, 70% of women are anaemic and one-third of all adults have a low body mass index. Hunger and starvation-related deaths continue to occur in different parts of the country. Further, due to agrarian distress and lack of livelihood opportunities a large number of poor are migrating to urban areas in search of a better life. It is the duty of any democratic government to provide basic services such as health, education, food and nutrition to all its citizens. In the context of such widespread poverty, these services have to be provided universally.

The PDS is one of the most important measures currently available to provide not only food security to people, but also income support by freeing some wages to buy other essentials. To some extent it also protects people from the price fluctuations in the market. However, there are problems with the current implementation of the PDS such as exclusion errors in identification of the poor (where genuinely poor households are left out of the (below poverty line) BPL lists); irregular supply, foodgrain leakages even before the rations reach the fair price shops (FPS) and so on. While these need to be corrected, and experiences of other states such as Tamil Nadu and Chhattisgarh have shown that it is possible, this cannot be an excuse to dismantle the system and replace it with cash transfers. Further, it is felt that many of the problems with the PDS, such as mis-targeting and leakages, will remain even in the case of cash transfers. There are several disadvantages of having cash transfers in place of the PDS.

### Issues with Cash Transfers in place of PDS

- 1. Problems of identification will remain:** There is no reason to expect that cash transfers solve all the existing problems with the Targeted PDS. One of the most significant problems with the PDS currently is that of identification errors. Many poor families do not have ration

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<sup>1</sup> Speech of Pranab Mukherjee, Minister of Finance, February 28, 2011 available at <http://indiabudget.nic.in/bspeecha.asp>

cards. Every survey conducted by the government itself shows huge errors of inclusion / exclusion in the identification of BPL families. For example, NSS data shows that about 50% of poor rural households did not have a BPL card in 2004-5 (rising to 80% in states like Bihar and Jharkhand). This problem of incorrect identification of the poor will remain and 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. We can expect that all the current problems involved with setting a poverty line and identifying BPL families will get carried onto the cash transfer system.

- 2. Leakages will remain:** The experience with direct bank transfer systems in other schemes initiated across the country has not been very positive, as to indicate that there would be no leakages compared to transfers in kind, in this case, foodgrains. For instance, social security pensions given to the aged, widows and disabled, in many states are directly transferred to the bank accounts of the beneficiaries but many people who are beneficiaries on government records are actually not receiving the money due to them. There are problems in opening of bank accounts, availability of banks, presence of middle-men even when the money is transferred into the account, delays in release of amounts and so on. In the case of NREGA as well there are instances of delays and corruption in the banking system.
- 3. Banking infrastructure is limited:** The success of a cash transfer scheme depends to a large extent on easy accessibility to banks. Unfortunately, this is not the case in the many parts of the country where people have to travel long distances to access a branch and the facilities in post offices are woefully inadequate to handle such large amount of transactions. It is being argued that this problem will be solved once the UID is distributed and by having in place a network of banking correspondents who will provide outreach services to the villages. Keeping aside all the other problems with the UID, even if this were to work it will take at least another 20 years for such a system to be put in place. On the other hand, the PDS network is already in place and there are a number of PDS reforms (which have been successfully implemented by different state governments) that can be undertaken to make it more efficient and reduce leakages.
- 4. Cash does not guarantee food security:** There is no guarantee that the cash transfers will be used to buy food. Poor families are often debt ridden and are usually in need of cash to meet their household, medical, educational or other expenses. Cash transferred to them may be used for these purposes rather than being used to purchase food. Women bear the burden for providing food for themselves and for the household, and struggle daily to access adequate and affordable food in today's market-oriented and neo-liberal world. While they have greater control over food, they have little or no decision-making power over money in the household. Replacing the PDS with a 'cash transfer' is therefore likely to further intensify not only their own struggle for food, but also make their families, further food insecure.
- 5. No protection from inflation and fluctuation of market prices of food:** The prices of food grains under the PDS remain static despite fluctuations of the market and inflation. A cash transfer scheme in which the amount of cash transferred to each family will be fixed and will not vary as per the market prices, will not offer any protection to poor families against rising prices of food and kerosene oil. This is an extremely grave problem especially in the current scenario of very high inflation rates. For e.g. in 2007 the average price of rice in Delhi was Rs.15 per kg, wheat Rs.12 per kg and sugar Rs.17 per kg. In 2010, these prices increased to

Rs.23 per kg (rice), Rs.14 per kg (wheat) and Rs.34 per kg (sugar) respectively<sup>2</sup>. If a cash transfer of Rs.1000 was fixed in 2007, that same amount would buy much less in 2010. Based on experience of previous cash transfer programmes (such as old age pensions, school scholarships), we know that the amount of transfer is not increased even when prices increase.

- 6. Adverse impact on agriculture-** If cash transfers replace the PDS, the government would not need to procure grain. On the other hand, procuring at minimum support prices (or higher) directly from farmers can incentivise further production of foodgrains, and also provide much needed support especially to small farmers. An expanded PDS can therefore also be an opportunity to revitalise agriculture.
- 7. Lack of transparency and accountability of privately owned shops:** With the dismantling of the PDS people would be entirely dependent on private shops for buying of foodgrains. Demanding transparency and accountability from private owners is virtually impossible for people. In Delhi, we have had a very poor experience dealing with private organisations providing public services/utilities- for example BSES providing electricity after the privatization of electricity distribution. Private operators such as BSES have taken stay orders from the Delhi High Court to ensure that they are not under the ambit of transparency and accountability laws such as the Right to Information Act. It would be extremely difficult for people, especially the poor, to demand accountability from private shops and get their ration supplies.
- 8. Trend towards privatisation:** The system of cash transfers must be seen as part of the larger trend towards privatisation, where the government is slowly washing its hands away from its responsibility of providing basic services and social security to its citizens. We are witnessing such privatisation in different sectors including basic education, health care and now food. Such a move takes the power away from people to demand accountability and better service delivery systems for themselves. They are dependent on the market for even essential services to which they have a right.
- 9. Fertiliser and Kerosene Subsidies:** As mentioned above, the government has already announced the introduction of cash subsidies instead of fertiliser and kerosene subsidies. However, it is not yet clear on how this will be operationalised in terms of identification of beneficiaries, the amount of transfer and so on. While many of the problems mentioned above can be expected to apply even to these subsidies, in the case of fertiliser subsidy another issue of concern is that of lack of proper land records. In a situation where many of the small and marginal farmers do not have proper land records, especially in the case of tenancy, there is the danger that the benefit of the cash transfer will go to those absentee landlords who 'own' the land but are not engaged in agriculture.

## **Universalise and Strengthen PDS**

In the context of food security therefore, the need of the hour is to:

- universalise the PDS by moving away from the current system of dividing households into artificial categories such as APL and BPL

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<sup>2</sup> Yearly average retail prices from Price Monitoring Cell, Ministry of Consumer Affairs, Food and Public Distribution available at [http://fcainfoweb.nic.in/pms/average1\\_web.aspx](http://fcainfoweb.nic.in/pms/average1_web.aspx)

- expand the PDS by including other commodities such as pulses and edible oil and
- strengthen the PDS by introducing reforms such as de-privatisation of fair price shops, doorstep delivery of food commodities, end-to-end computerisation, putting in place an effective system of transparency, accountability and grievance redressal, decentralise procurement and so on.

Experiences of other states such as Tamil Nadu and Chhattisgarh have shown that it is possible to reform the PDS to ensure that leakages are minimised.

### **Learning from Other Country Experiences**

In the debate on cash transfers, positive experience of other countries that have implemented cash transfer schemes, especially Brazil and Mexico, are often mentioned. While there are many reasons why their experience cannot be directly translated to the Indian context, there are three important differences that need to be kept in mind.

1. Both these countries (Brazil and Mexico) have much higher levels of human development indicators compared to India. For example, the proportion of households with GDP per capita of less than \$1.25 a day (in 2007 PPP) was 46 per cent in India, but 5 per cent or less in Brazil and Mexico. Therefore, whereas cash transfers are used in these countries towards including a small section of the population who are left out, in India where a much larger population is poor and malnourished there is an urgent need to first provide universal basic services and strengthen these.
2. Related to this, is the issue of supply of provision of social services. In cash transfers, especially in the case of conditional cash transfers for health and education, there is an implicit assumption that the problem is in lack of demand for 'appropriate' services. Cash is therefore expected to act as an incentive for households to access services such as ante natal care or improve school attendance and so on. In India, where there is still a problem with supply of services in the form availability of functional and good quality schools or health centres the immediate need is to improve such services.
3. It is important to note further, that while the debate in India seems to be looking at cash transfers as a substitute to the government providing services, in these countries the cash transfers were a complement to many other strategies that included strengthening public services.