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PUBLIC DISTRIBUTION SYSTEM AND CASH TRANSFER

Dr. V. S. Kannan Kamalanathan
Associate Professor, Vice Principal, HOD.Commerce, & PhD Guide (University of Mumbai).
KES Shroff College, Kandivli, Mumbai.

Abstract

The Government of India has announced that subsidies on food grains, fertilizers, kerosene and liquefied petroleum gas will be replaced by cash transfers to end users. A close examination of the objectives of the subsidies in food grains, fertilizer and kerosene and the implications of the shift raise some challenging questions. According to a recent report in the business magazine Business India, "A confidential study conducted by the Prime Minister's Office (PMO) in consultation with various ministries has revealed that, based on the actual money spent by the central government during 2010-2011 under various subsidies totaling Rs. 211,474 crore (approximately $38 billion), the scheme can result in a net saving of Rs. 33,000 crore ($6 billion) by way of plugging leakages." The replacement of price subsidies by cash payments is a longstanding demand of the World Bank and other representatives of international big business. So the government of India is approaching this issue of subsidies from economic perspective not from the social perspective. By doing so the original purpose of giving subsidies is defeated.

Introduction: The National Food Security Bill approved by the ruling government's Cabinet committee has a provision to gradually transfer cash amounts in place of food grain rationing. While dealing with the question of reforms in the PDS, the proposed NFSA (draft approved by Cabinet), makes clear its intentions on cash transfers. Chapter 13, Section 3(g) of the Bill says:

"Introducing scheme for cash transfer to the targeted beneficiaries in lieu of their food grain entitlements… in areas and manner to be prescribed by the central government." This clearly indicates that the government wanted to abolish the PDS system.

Although India grows enough food (food stock of 50 million tonnes projected in 2009) and its GDP has more than doubled since 1991, it is home to about 25 percent of the world's hungry poor (FAO 2009, Hindustan Times 2009). Forty eight percent of children under the age of five years are malnourished in India, which is over a third of the world's 150 million malnourished under-fives. Also over half of all women aged between 15 and 49 years are anaemic, and 30% of children are born underweight. It is estimated that 3% of GDP is lost by physical impairments caused by malnutrition in Asian countries (Economist 2010a).

The author of the opinion that the government is thinking of reduce its responsibility saying that the direct cash transfer reduce the government spending by millions of rupees besides the leakage in the distribution system can be blocked. It is not the money involved here matters but the purpose for which the money spend matters. The whole idea of PDS started with the sole aim of providing food grains at the subsidized price to the poor so as to enable him to have at least Two time meals. If it is closed and cash transfer of subsidies taken place then many of the poor cannot get food since the money received may be used for some other purpose.

Review of literature: It is not the modality of cash transfer that is the only issue, but also how much, and for whom, and also, instead of what, asks Amartya Sen

Shinjini Kumar, director at Price water house Coopers India, who supports the DCT except in the area of food subsidies, suggests that the scheme can be successful, but for some programs more than others. "Wherever there is no need to rework the calculation — like in the case of old age pension — it can be a smooth transition," Kumar says. "In such a case the identity of the person has already been established and it is just a matter of improving the efficiency of delivery. But in the case of kerosene and LPG for instance, where the methodology will need to change from giving the subsidy to the supplier to giving it to the user, it could be a challenge. Correct identification of the beneficiaries is also an important piece that needs to be fixed."

Jayati Ghosh, professor of economics at the Jawaharlal Nehru University in New Delhi, is among the skeptics. Ghosh points out that one of the assumptions of the DCT is that the beneficiary will have an UID that will enable him or her to open a bank account and that the banking correspondent will come around with a handheld device, take his or her fingerprints and hand over the cash. According to Ghosh there are several problems with this model. "For instance, when you are distributing cash, the potential for leakage is very high. Secondly, fingerprints changessince the majority of the poor are labourers.

Reetika Khera, an economist and assistant professor at the Department of Humanities and Social Sciences at the Indian Institute of Technology, Delhi, who has studied the PDS and its implementation, says the notion that PDS is 'leaky' is an outdated one. Khera, who in 2011 along with economist Jean Dreze conducted a survey on the state of the PDS in nine states, argues that contrary to public perception, many Indian states have made considerable progress since 2004 in plugging leakages in the PDS.

Ghosh points to other concern areas, too. "This scheme is touted as a way to save money. I find that extremely problematic. The presumption here is that the distribution margins of private players is less than that of the public sector. This is not true. Also, corruption and leakage are political-economy problems and the cash transfer scheme does not address those issues."
Rajesh Chakrabarti, executive director of the Bharti Institute of Public Policy at the Indian School of Business: "Cash transfers have been widely used in Latin American countries, with Brazil's Bolsa Familia covering over 11 million families being one of the largest," Chakrabarti notes. "Mexico, Chile and many other Latin American countries have used it. Kenya in Africa uses it. Closer to home, in Asia, Pakistan has used it for a while, as have Bangladesh and Cambodia. But of course, none of these schemes even come close to the scale that India is talking about."

Table 1: Annual Subsidy Spending

Year	PDS kerosene	Domestic LPG	Petrol	Diesel	fertilizer	food
2000-01	7522	6724	00	6572	13811	12010
2001-02	5310	5830	00	5310	12596	17494
2002-03	3018	5760	5225	3018	11015	24176
2003-04	3,751	9,158	6,292	00	11,847	25,181
2004-05	10,627	10,146	150	2,154	15,879	25,798
2005-6	15,441	11,851	2,723	12,647	18,460	23,077
2006-07	18,853	12,255	2,027	18,776	26,222	24,014
2007-08	20,080	17,186	7,332	35,166	32,490	31,328
2008-09	29,199	19,314	5,181	52,286	75,849	43,627
2009-10	18,321	16,071	5,151	9,279	61,264	52,490
2010-11	20,496	23,999	2,227*	34,384	54,977	60,600

Sources: MoF; *Indian Public Finance Statistics: 2009-10*, Table 7.8, *India Expenditure Budget*, Vol I: 2011-12, p 19

Research methodology: Secondary data is used to analysis the issue. The data is collected from various journals, articles published in research journals, magazines books and web pages. Data is analyzed by using charts and tables.

Government Justification for direct cash transfer: Cash Benefits are transfers to individuals which are already taking place through existing government schemes such as Scholarships, Pensions,unemployment allowances, other benefits for the poor, Wage Payments– such as through MGNREGS, Health Benefits Electronic Transfer of Benefits (ETB) is a simple change as the transfers are already taking place and the only modification that would be involved is a movement from a paper based, cash driven system, with or without the use of banking channels to an electronic direct transfer system. As in the case of DTS, the details will need to be worked out. The following are the advantages of moving benefits to a direct electronic cash transfer system.

- Reduce corruption, as operated in the current manner, and in the transfer of benefits, as done in the paper driven manner that is in vogue today.
- Eliminate waste arising out of both poor targeting and leakages as a result of corruption.
- Eliminates waste in subsidies - A Cash Transfer System could be used as an entry point for reforming subsidies by having better targeting, cutting out duplication and eliminating leakages.
- A Cash Transfer system, once in place, can be used to consolidate cash transfers to households which are currently coming from multiple sources and in multiple forms, and in the long run, improve the efficiency of the social safety net.
- It will have positive institutional externalities and will enable the development of strong targeting, delivery and monitoring
- This system frees the administrative system to focus on development rather than on exercise of controls. It will ensure that India can maximize the benefits from the expenditure on the welfare schemes and thus help in overall Human Development

In the medium term, as a country transits on the economic growth curve from an LDC position to a Middle Income Country status, a Cash Transfer system becomes a potent institutional arrangement which can be the platform for modifying and transferring benefits to people depending on the needs and circumstances.

Why PDS: Public Distribution System (PDS) is said to have existed from before independence in India, and was initially intended to protect consumers from food shortages and producers from price fluctuations (Tarozzi 2002). It was originally started at a few urban centres, but was extended in the 1980s as a measure for food security and poverty alleviation (DFPD 2010). Wheat, rice, sugar and kerosene are provided to a target of 330 million people estimated to be nutritionally at risk through 499,000 'fair price shops'. Central and state governments jointly manage PDS with the centre being responsible for procurement, storage, transportation and allocation. The states are responsible for the distribution through fair price shops; as well as for identification of families below poverty line (BPL), issuing cards, supervision and monitoring. The misuse of resources and mismanagement of the programme was widespread and became well known. Consequently, the government re-launched PDS as the Targeted Public Distribution System (TPDS) in 1997. TPDS as its name suggests targets the population into above and below poverty line categories and aims to reach a target of 60 million families below poverty line with 20 kg grains each month. It also introduced a dual price system, with the BPL price for grain set at 50% of the economic cost. These price changes have been criticised for the likelihood of increasing malpractices and information issues resulting in confusion among customers about the appropriate prices to be paid (Rajagopalan 2010).

Today, 42 crore of India's poor are able to survive because the public distribution system provides them 35% of the food grain they require. The sad fact is that there is no true assessment of poverty in the country. As much as 39% of India's poor population does not even have a ration card; they get no government welfare relief whatsoever. Hunger and malnutrition continue to remain high in India. About twice as many children in rural areas are likely to be underweight in comparison with children in urban areas (Unicef 2010). There are variations in the levels of malnutrition by gender and caste (Mendelson and Chaudhuri 2010). Girls from lower castes are likely to have higher levels of malnutrition. Malnutrition is associated with half of all child deaths and a quarter of cases of diseases in India. Hence the need for public distribution systems remains. The targeted public distribution system (TPDS) and the mid-day meal scheme (approximately 120 million children are signed up) are two large government food distribution schemes in India. Problems of misappropriation of resources and mismanagement of these programmes continue. As a result of the inefficiencies of operations and entrepreneurial abilities of implementers to use the funds, majority of beneficiaries of the resources invested by the government are not the target population. According to Montek Singh Ahluwalia, Deputy-Chairman of the Planning Commission of India, only 16% of the resources allocated towards India's food subsidized distribution scheme reach the poor (Economist 2010a).this is a distribution failure. That does not mean the programme is bad.

The problem of direct cash transfer: The cash scheme targets 10 crore poor families or 45-50 crore people. The Sengupta, Saxena and Tendulkar committees, respectively, estimated 77, 50 and 37 percent of our population as poor. That roughly works out to be 90, 60 and 45 crore Indians. The Multidimensional Poverty Index (MPI) developed by the Oxford Poverty and Human Development Initiative with UNDP support put 65 crore as poor and another 20 crore as vulnerable to poverty. Without getting into the relative merits of the different benchmarks used, it is safe to conclude that at least 85 crore Indians, or nearly 20 crore families, are impoverished. The majority of them are unquestionably poor. The rest is one illness or crop failure away from officially sinking below the fast-shifting line of poverty. All of them need help but, unfortunately, the government plans to hand out cash to only half of them while denying subsidies to all. According to present official criteria, a poor family in a village is a family that spends less than Rs 15 per day per capita; the amount in urban areas is Rs 20 per capita. So, as 10 crore poor families get Rs 3200 every month, which, by government's own expectation, will increase spending and trigger inflation, the other 10 crore families, nearly as poor, will have to fend for themselves in a non-subsidized, inflationary market. They will soon become poorer than those who now qualify for the cash scheme. There has been no clear word yet on linking it to inflation over time. Moreover, inflation and the price index itself is a regional phenomenon. Beyond the obvious urban-rural divide, prices vary widely between rural areas as well. In such a scenario, Rs 3200 may be just enough for subsistence in many parts of India. Worse, productivity will be hurt. For example, very few of the 85 crore poor will be able to afford, with or without the cash dole, fertilizer and diesel at market price. This will affect agricultural output which, in turn, will pinch the economy and push the poor further into poverty. Even the primary purpose of cash transfer cannot be secured merely by the intent. Where cash is involved, the incentive for manipulation gets much stronger than, say, siphoning off low-quality PDS grains which have a limited market. The test of transparency begins with the selection of the eligible for the scheme.

In the past, scores of bona fide candidates were left out while the landed pocketed BPL cards. The other challenge will be to ensure possession and control of cash. Having a bank account does not warrant transparency as has been evident from several case studies under schemes such as NREGA where the village strongman took possession of all banking documents and controlled the money in collusion with local bank employees.

India is moving towards a system of cash transfers in accordance with certain eligibility criteria. Whether it is food grain payments or health services payments, the government will make cash transfers available only to those it accepts as poor. Such exercising of government discretion in transferring money raises the basic fear that the system may no longer remain public or open.

We need, therefore, to be clear about the consequences before deciding to operationalise any system of conditional cash transfers. Seventy per cent of India's population still lives in villages where few banking institutions are available. As many as 26,000 rural banks have downed their shutters since 1992, and commercial banks have shown no interest in social welfare schemes. That's why it's difficult to reach cash to village populations.

We have seen cash disbursals being made to promote maternal security and pension schemes, but even in these cases many beneficiaries do not receive their entitlements because of corruption. This proves that cash transfers do not put an end to corruption, as is claimed by proponents of such a course of action. Eventually, we need to reform and strengthen our infrastructure and systems and make them more accountable.

What's more, it is important to note that the Supreme Court has defined food, nutrition, and social security as basic human rights. These rights cannot be compromised or curtailed by BPL eligibility and other conditions. Conditional cash transfers limit basic rights. They have only been successful where government systems are capable and influential. In India, the government system is weak and helpless. In such a scenario, the monopoly of the private sector could prove dangerous.

The intellectuals fail to realise is that the government buys 4-6 crore tonnes of food grain every year, at its minimum support price, to run the public distribution system. If food grain were not distributed through the public distribution system, the government would buy less from farmers, who would then no longer have the luxury of being able to sell their produce within a radius of 10 km from their villages. This would increase their dependence on companies like ITC and Cargill, leading to a situation where multinational companies, not the government, determine the price of food grain.

The voice of the poor: There are some surveys conducted by experts about the transfer of cash subsidies the outcome of the surveys are listed below

1. In a survey conducted by the National Federation of Indian Women (NFIW) and the Right to Food Campaign, in Delhi's slum settlements in May-June 2011, a mere 201 out of the 4,005 BPL (below the poverty line) women interviewed stated that they preferred cash transfers; 91% of BPL families wanted the distribution of subsidised food grain to continue. But they looked forward to a structural improvement in the PDS.
2. During documentation of a series of case studies on food insecurity and hunger among tribals in Madhya Pradesh, by Vikas Samvad, it was found that people from tribal communities overwhelmingly prefer food, for various practical reasons.
3. Anjanwada is a village in Sondhwa tehsil of Alirajpur district that has been affected by the Sardar Sarovar Project. The dam has submerged the livelihood resources of 60 of the 63 families residing in the village, yet all these families have been allotted APL (above the poverty line) ration cards. If a villager falls ill, it's inevitably life-threatening as it takes three hours by boat to navigate the reservoir waters to the nearest primary health centre (which is almost always shut). No public transport system has been set up either by the Narmada Valley Development Authority or the state government.
4. The adivasis of Anjanwada speak with one voice. "Will we be cured if cash comes into our hands? The hospital staff already fleece us. Things would get even more difficult with private healthcare. No, we don't want cash. Just give us foodgrain and healthcare," they say.
5. The Nandi Foundation, which supports the idea of cash transfers and putting an end to government involvement in social welfare administration, conducted a survey in 12 districts of Madhya Pradesh in 2010, to assess the opinion of beneficiaries about the policy change. It found that 95% of women opposed the idea of dismantling the public distribution system and replacing it with cash transfers. Women firmly believe that the cash will never come into their hands because, in most families, control of money is in the hands of men who do not always spend it on basic necessities.
6. Forty economists from around the world (working in internationally renowned universities like Harvard, LSE, D-School, IGIDR, ISI, Princeton, Columbia, Warwick, etc) have written

to the prime minister urging universalization of the public distribution system. They have also appealed against cash transfers replacing food grain rationing. Acting on the appeal of these learned economists, an intensive study of 1,227 households was undertaken in March-June 2011, in 100 randomly selected villages of nine districts, covering Andhra Pradesh, Bihar, Chhattisgarh, Himachal Pradesh, Jharkhand, Orissa, Rajasthan, Tamil Nadu, and Uttar Pradesh, under the leadership of Indian researchers Professor Jean Dreze and Ritika Khera).The study showed that 91% of people in Andhra Pradesh, 88% in Orissa, 90% in Chhattisgarh, and 81% in Himachal Pradesh want only food grain. Only 11% in Tamil Nadu, 15% in Rajasthan, and 22% in Jharkhand prefer cash. It is revealing to note that among those giving priority to cash, most are males.

7. During a field survey, when asked Puswa Mawasi of madyapradesh, whether people would be willing to accept cash transfers as an alternative to food grain rationing, considering the dismal state of the public distribution system. He thought for a while before replying: “Then we would have to go to Majgawan tehsil headquarters to get our rations from the private dealer.” After a pause, he added: “The cost of food grain keeps going up day by day. That would be the end of us, and we would all die of hunger… Our government took more than 12 years to increase the old age pension amount. No, we only want food. Sukvariya Bai chipped in: “Cash? No, never. Even today, the liquor contractors spell death for us. If cash flows in place of food, it would not go towards food grain but be spent on liquor and gambling. The young seek new pleasures every day. Every rupee we get will be splurged on such frivolous pastimes. Just reform the ration shops and their staff. That’s enough for us.”

Conclusion: The report, prepared at the request of the Government of India, shows that India’s policymakers and the World Bank are travelling in the same boat and do not believe in drastic reforms in the PDS. Instead of reforms, they are ready to dismantle the system. They don’t want to accept the argument that the PDS is fundamentally necessary to protect food producer farmers, offset price fluctuations and ensure food security to the country at large. They forget that India is not a country with an 85% urban population or 5% poor population -- where cash transfers have worked to some extent. It is still a rural economy-based country where 77% of the population survives by spending just Rs 20 ($ 0.44) a day. India will have to retain control over production and public service delivery mechanisms to ensure equality and the availability of essential services.

The public distribution system plays an important role, providing security to farmers, controlling price, and providing emergency supplies and food grain in areas/states facing scarcity. A system of cash transfers would end this role and destabilize the food grain market.

Equally important, the government should introspect on its reluctance to strengthen the infrastructure and working of the public distribution, healthcare and education systems. This required the reform in the entire food supply chain under PDS including Food Corporation of India (FCI), State Civil Supplies Corporation, State Warehousing Corporation and Lead societies. Technology-based schemes will improve monitoring as well as communication and co-ordination of the programme. Research and innovation are required for better understanding and to ensure regular development of the programmes. The hierarchical system, in the case where the person at the top is corrupt, creates a model of malpractices becoming a norm across various ranks and of varying degrees; it also disallows those located under corrupt governance to rectify the system. An explanation often given is that when people are poorly paid they are tempted into misappropriation. Empowering people through information and communication, providing a minimum wage, and creating greater awareness about corruption could help reduce malpractices. Strong political will and administrative commitment for efficient implementation, greater monitoring and evaluation and regular reform, can help keep ahead of schemes to offend and improve performance of the public distribution systems. Ensuring efficient implementation of TPDS is essential to enable the fundamental right to food.

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