

Progress and Shortcomings of Cash Transfers and PDS Evidence from Delhi

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ABSTRACT

Over a fourth of India's population suffers acute poverty and deprivation. A critical part of concern must go to the process of extending welfare benefits to the poor, as public service delivery of these programs frequently suffers from technical flaws and administrative inefficiencies. Whereas India's major programme for food security– the Public Distribution System – is largely criticised for erroneous inclusion and exclusion of beneficiaries, and diversion of food subsidies that accentuate the inability of people to access food, Cash Transfer as an alternative service delivery mechanism seeks to eliminate inefficiency and corruption by giving money directly to the poor. This paper compares the implementation of PDS and Cash Transfer in Delhi to look into the necessity of formulating public policy that defines appropriate and effective mechanisms to ensure food security. The objective of the study is to evaluate the possible outcome of CT as a dependable solution for ensuring food security while drawing attention to the implementation of the most popular in-kind transfer program in the country, that is, PDS, to attain food security. An empirical investigation using questionnaires-based survey covering 80 households and eight Focus Groups Discussions with beneficiaries, and interviews with concerned implementing agencies showed that both schemes formed an important basis in sustaining households' basic needs, and had spill over effect on gender equation at the household level. Yet, exclusion and corruption continued to a larger extent in PDS compared to CT, and both lacked effective responsiveness and accountability in governance mechanisms.

Highlights

- Both PDS and Cash Transfers supported households' basic needs enabling spill over effect on gender equation at the household level. Exclusion and corruption are higher in PDS compared to CT and both lacked effective responsiveness and accountability in governance mechanisms.

Keywords: Cash Transfer, Food Security, Poverty, Public Distribution System

It is no secret that, despite the government legislating, funding and implementing several welfare schemes for the poor, over a fourth of India's population still suffers acute poverty and deprivation. According to the Suresh Tendulkar Committee on Poverty (2009), the poverty ratio in India is 21.9 percent for 2011-2012. The Rangarajan expert panel on Poverty estimated poverty ratio in India at 29.5 percent for 2011-2012 suggesting that the poor are those who are unable to spend ₹ 32 and ₹ 47 per day in rural and urban areas respectively (Planning Commission, 2014). A critical part of

blame must go to the process of extending welfare benefits to the poor, as public service delivery of these programs frequently suffers from technical flaws and administrative inefficiencies. For instance, India's major in-kind transfer scheme – the Public Distribution System (PDS) that seeks to support and provide physical and economic access of food to the people – suffers from not just exclusion and inclusion errors but is also infested with leakages,

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with a substantial chunk of these subsidies going to unintended and ineligible beneficiaries that defeats the very intent of the scheme.

PDS adopts targeting-beneficiaries approach facing both technical and administrative problems. It encounters two major types of errors - Type I error meaning errors of wrong exclusion and Type II error meaning errors of wrong inclusion. The Type I error excludes the deserving poor households and the Type II error includes ineligible households (Swaminathan 2000). Furthermore, the cost of delivery and administration in targeting the population is high demanding high administrative competence and commitment. The task of collecting and segregating exact information based on the income level of the poor is almost impossible. It is argued that these factors lead to weakening of the welfare especially because targeting a section of population to meet the objectives of food policy is seen as a 'dangerous policy' and almost synonymous with ending the PDS as it does not necessarily mean increasing benefits for the poor (Swaminathan 2000). Targeting is also very prone to fraudulent practices because of the high demand for limited resources of food commodities. Corrupt practices owing to diversion and black marketing takes place in tandem; the huge gap between the price of BPL food grains and open market encourages diversion and illegal sale in the market leading to high leakages of food resources exposing the severity of corruption in implementing agencies. The illegal profits would be very high if, in the past, the estimation of a diversion of one truck procured an illegitimate return of about ₹ 60,000 (Mooij 2001). The Planning Commission in 2008 reported that only 42 percent of subsidized grains issued by the central pool reach the target group. Leakages are one-third of total BPL allocation and in some states, almost three-fourth (Planning Commission 2005, 83). Such administrative inefficiencies and corruption severely hamper poor people's access to food resources.

It is a well-known fact that the Government designs welfare programs for poverty alleviation. The Government also seeks to evaluate the viability of its schemes against certain parameters namely economic utilization of resources, improving efficiency, transparency, accountability and lessening corruption. Similarly, the National Committee on

Direct Cash Transfer (DCT) 2012 pitched such acknowledgements. To prevent the drawbacks and malpractices taking place in PDS, Cash Transfer (CT) as an alternative service delivery mechanism is debated by several scholars as a method of policy correction. Proponents of CT believe that it can plug leakages and reduce corruption, which is rampant in PDS. A comparative study of CT, that is, social pension schemes and PDS revealed that CT is more progressive and effective in targeting and delivery of services as it is less affected by corruption and leakages, which usually happens in PDS (Dutta *et al.* 2010). India has had a vast experience in implementing CT for several decades through old age pensions, maternal incentives, scholarships, and wage for work and so forth. However, the course of implementing CT to attain the goals of food and nutritional security is of a recent experience. Until now, Self Employed Women's Association (SEWA) led pilot projects have primarily studied the impact of CT for household-level food and nutritional security in Delhi and, the impact of basic income transfers in the rural villages of Madhya Pradesh (SEWA Bharat and UNICEF 2014).

On 15 December 2012, as an alternative service delivery mechanism for welfare schemes meant for the poor, the Delhi Government formally launched a Direct Cash Transfer (DCT) programme known as the Dilli Anashree Yojana (DAY) to provide food subsidy to the poor. Through this scheme, it obtained firsthand experience in Cash Transfer (CT) Pilot Projects. The eligibility criteria for people to be included as beneficiaries under DAY was that their family income should not be more than one lakh per annum and they should not possess cards of the PDS meant for accessing subsidized food. Official figures reported that out of the total 7.5 lakh BPL families in Delhi, only 4.09 lakh were eligible to get ration card under PDS. DAY benefited those 'poor families who had been left out of the PDS system due to a cap on the number of beneficiaries fixed by the Centre' (*Business Standard* 18 December 2012). Therefore, the scheme sought to cover those poor households who lived below the poverty line, but not covered under the PDS in Delhi. It provisioned a monthly cash entitlement of ₹ 600 to be transferred directly to the bank account of the women heads of households.

This paper presents a comparative analysis of PDS

and DAY in Delhi by looking at the difference in delivery mechanisms of these two welfare schemes that had a similar objective, that is, to ensure food security. Another reason that made the two schemes comparable is that the targeted beneficiaries of both the welfare schemes stood on a similar socio-economic scale as did the households selected for the survey. The study reflects on the current complexities of policy choice with regard to cash and in-kind transfers seeking to provide food and nutritional security. One of the objectives of this study is to evaluate the possible outcome of CT as a dependable solution for ensuring food security. It is an attempt to assess if a CT scheme like DAY achieve the objectives of efficiency, transparency, accountability and eliminating corruption. Another important objective is to draw attention to the implementation of the most popular in-kind transfer program in the country, that is, PDS, to attain food security. It studies the progress and shortcomings, if any, of the PDS and DAY schemes, which aim to facilitate households' food and nutritional security. It aims to look into the necessity of formulating public policy that defines appropriate and effective mechanisms for public service delivery to ensure the wellbeing of the poor.

MATERIALS AND METHODS

The field study was conducted from February 2015 to April 2015. The sampling area was determined according to the administrative and institutional set up of the Department of Food and Supplies and Consumer Affairs of Delhi Government that executed PDS and DAY. According to the department, there are nine District Offices in Delhi; across these nine District Offices, there are 70 Circle Offices that manage the ration cards of the PDS beneficiaries. The survey covered the District Offices of northwest, northeast, west, and southwest, which had the highest number of poor households that received food subsidy under PDS during the time of the study, as reflected in Delhi's National Food Security website. The rationale for the selection of these sites, therefore, relied on the maximum concentration of PDS households in each district that is likely to give greatest choice for the sample, which makes the areas covered by these districts ideal for the study. In comparison to PDS data, the data of households for CT under DAY was not available in

public domain. The Mission Convergence, Delhi, an implementing agency of DAY, provided households data for respondents under DAY. In view of the fact that DAY was implemented for a period of one year and then terminated, the most logical way to make a comparative study of PDS and CT was to select the beneficiaries from the same District Offices from where the PDS households were chosen. This comparison has helped to understand the change in perspective, if any, of beneficiaries while moving onto provision of subsidized food under PDS to CT under DAY. Therefore, for DAY too, the chosen District Offices were northwest, northeast, west and southwest for the reasons stated above. The questionnaire-based survey covering a sample size of 80 households, 40 households each from PDS and DAY, and eight Focus Group Discussions (FGD) formed the basis of the primary data. Open-ended interviews with the Fair Price Shops (FPS) dealers helped to understand their working and relationship with the beneficiaries. Both structured and non-structured Interviews were also conducted with officials of the implementing department. Secondary sources were drawn from books, journals, government database, newspaper reports, articles and websites from online sources.

RESULTS AND DISCUSSION

The exclusion of targeted eligible beneficiaries from utilizing welfare benefits was higher in PDS than DAY. Only 68 percent of households received food entitlement from PDS as against 95 percent of DAY households that received CT. The cases of exclusion herein refer to those households that did not receive their entitlements even though they were registered for the programme. Fundamentally, a 'Right to Food' programme should ensure food security to all eligible households. However, NFSA seeks to cover only 75 percent of the population in the rural areas and 50 percent of the population in urban areas. Against a narrowly targeted programme leading to large exclusion errors, there is a general hypothesis that universal coverage would achieve wider coverage of eligible households with large errors of wrong inclusion and less exclusion. A trade-off between these two types of errors would ideally seek to improve the coverage by expanding the inclusion of the deserving households and minimizing wrong exclusion errors. This is because

wrong inclusion errors can cause fiscal deficit or financial costs but wrong exclusion leads to welfare costs that cost both individual and society in the form of hunger and malnutrition. This approach presents that welfare costs caused by hunger and malnutrition is harder to measure than fiscal costs (Swaminathan 2000, 102). Universal coverage also avoids targeting errors; Tamil Nadu state in India implementing a universal PDS is a case in point (Balani 2013). The general assumption is that the transition from universal to targeted distribution leads to the inclusion of non-poor as beneficiaries and correspondingly the exclusion of poor families (Planning Commission 2005, 74). Such errors were due to a mix of factors ranging from identification errors to administrative malpractices. This study has exclusively pointed out the exclusion of targeted eligible beneficiaries from receiving their entitled benefits. Unfortunately, whatsoever the reason behind ineffective targeting or wrong exclusion, the thread of implication always runs between two knots: loss of welfare to the poor people and increase in the delivery cost for the government (Planning Commission 2005, 80).

Under the NFSA, PDS guarantees highly subsidised food grains of wheat at ₹ 2 per kg and rice at ₹ 3 per kg. In Delhi, the allotment is usually 4 kgs of wheat and 1 kg of rice. According to the survey, on an average, beneficiaries received 3.25 kilogram of wheat and 1.18 kilogram of rice per head per month. PDS performed well in delivering the allotment of rice but there was a short fall in delivering the entitled quantity of wheat. However, FPS dealers did not pursue the legal price for sale of foodgrains set by the Act. The major drawback in PDS was that approximately 58 percent of households paid more than the legal price. Some households paid ₹ 15 per kg for wheat and ₹ 22 per kg for rice to the FPS dealers. Only one-third of the respondents admitted to paying the stipulated amount of the subsidized ration as mandated under their respective ration cards. The notion of welfare subsidy was eroded by making the poor pay more than the legal price set by NFSA. Black-marketing was one of the major reasons why corruption was endemic in PDS. In DAY too, the CT fell short by some amount casting a shadow on fair practice in CT. Under DAY, the actual cash entitlement was ₹ 600 per month. Given that the government implemented DAY for a year,

beneficiaries should have received a sum of ₹ 7200. Out of 95 percent of the respondents that received cash directly in their bank accounts, only 72 percent of households were able to recall the approximate total amount of CT. Out of those who recalled the amount, DAY households received an average total amount of ₹ 6962. According to this estimation, DAY beneficiaries received 97 percent of the entitled CT thereby implying three percent of the allotted amount did not serve the intended purpose and got diverted or lost. The percentage of amount lost might not seem a big amount, but it did not rule out the possibility of siphoning off a greater sum in future if neglected. If households do not receive the entitlement in full, CT might not serve the purpose of countering leakages and corruption like that of dishonest means practiced by PDS intermediaries such as FPS dealers.

Out of eighty households from both PDS and DAY, 42 households preferred cash and 38 households preferred food subsidy. This number put CT above in-kind transfers as the choice of mechanism of service delivery with 52 percent out of eighty households opting for it. Nevertheless, the fact is that 48 percent of the people preferred PDS as food subsidies remain indispensable to the poor. Findings showed that majority of those who tried CT preferred cash and the majority of those who tried PDS preferred food; amongst PDS households, the better off preferred cash, and the poorer amongst them preferred food. Similar findings were observed in other studies (Baksy, Jaggi and Gupta 2013; Davala, *et al.* 2015; Sewa Bharat 2012). Several reasons quoted by the respondents for their preference for CT were multiple uses to which cash can be put and the flexibility it affords such as purchasing better quality rations and food, adding to their savings and investing in their children's education and future. CT schemes like DAY can have an impact on households' dietary intake. The UCT experimental project in Delhi observed a change in the pattern of households' diet intake compared to previous consumption under PDS; CT enabled households to shift to nutrients rich food such as non-cereal commodities including pulses, meat, milk, and eggs (Gangopadhyay *et al.* 2015). The SEWA led CT pilot projects also observed that CT as supplementary income transferred to women creates a substantial positive impact on

households' health, education and nutrition (SEWA Bharat and UNICEF 2014). The CT under DAY had served as a complementary means to ensure basic households needs. Welfare schemes like DAY that improved people's purchasing power had a positive spillover effect in achieving food and nutritional security, together with access to education, clothing, healthcare and sanitation practices. Some chose CT because of the limitations and inefficiency of PDS: PDS allocation was less; food quality from PDS was of poor quality; FPS was crowded; and FPS was too far. For some, the foremost reason to opt for CT was their aversion towards PDS because of improper and allegedly corrupt behaviour of FPS dealers. Despite black marketing at the food distribution level, and irregular service delivery and tiresome efforts to purchase subsidized food grains, majority of PDS households still found the food subsidy indispensable. Although they were charged higher than the legal price, the poor would continue to buy food grains from FPS at a price slightly lower than the open market price.

Therefore, most of the PDS respondents preferred subsidized rations to cash despite many predicaments, as it remained vital for the households. Several PDS respondents were critical of the system itself as well as against the FPS dealers yet preferred to continue with its service. They argued that PDS, at least, was an assured way of obtaining subsidized food. This, many respondents feared, may not be the situation under CT. Nevertheless, almost every respondent, including those supporting PDS, complained that not all family members' names were enlisted on the ration card; this created problems for ensuring food security to the households. Some who preferred to receive food offered reasons against CT, rather than positive reasons for PDS, such as that the cash amount was low and prone to misuse, along with banking problems. Many respondents felt that CT of rupees 600 was too low to meet their dietary needs; they would shift to CT provided the amount under the scheme was increased. Most of the FGD participants too were critical of the working of FPSs yet they stressed that the food subsidy remained indispensable to them due to the assurance of food given under PDS and the affinity and comfort developed due to long experience with it. The CT and food subsidy under DAY and PDS respectively

served as vital supplementary aids to sustain their livelihoods.

Major impediments at the last delivery point were likewise, in both the schemes, deficiency of right entitlement to the beneficiaries, and again in PDS charging the poor extra money for the subsidized food, also compromised food security, and the neglect of these issues compounded the problem of food insecurity in these households. One of the reasons for the rampant black-marketing in PDS could be due to the very low commission earned by the FPS dealers at the time of the study. The FPS dealers, at that time, were receiving a commission of 70 paise on every kilogram of ration sold, which was very low and they reported to have found it difficult to manage the shop. In the beginning of the year 2018, the Delhi government hiked the FPS dealers' commission by 300 percent and the practice of black-marketing in PDS is shown to have reduced considerably (Ngullie 2018). Nonetheless, corruption in the form of giving less than the entitled amount of food appears to be in practice (Ngullie 2018). In addition, grievance redressal mechanisms and accountability of service providers were found to be weak in both PDS and DAY. Although some sort of Helpline was set up to redress grievances, these facilities were not disseminated to the concerned beneficiaries effectively. Therefore, there is a lack of people's participation in monitoring and governance mechanisms in both PDS and DAY. Case studies of CT in Mozambique, Palestine and Yemen show that beneficiaries not only desire an increase in the size of CT and regular payment but seek participation in governance and supervision of the programmes (Jones, *et al.* 2016). Beneficiaries from both DAY and PDS beneficiaries desired an increase in the amount of CT or foodgrains and regularity in service delivery.

Overall, both schemes showed a positive gender impact and women feel empowered. It had a positive impact on women's decision-making role in households' food consumption and finances handling. Women respondents from both households felt a sense of social and economic empowerment being the beneficiaries of the program. For instance, CT provided to the families in the name of female heads made women in households economically empowered as was evident from the responses of DAY beneficiaries. Receiving cash also made them

'feel good'. Similarly, ration cards provided in the name of female member of the families made them feel empowered.

CONCLUSION

Cash transfers and in-kind transfers within the purview of policy choice have been a matter of contention especially when its objective is to provide food and nutritional security to the people. Any policy alternatives should pledge to secure an appropriate and effective mechanism to ensure that the welfare benefits do reach the poor. CT as an alternative service delivery mechanism markedly promised to deliver economic efficiency, transparency with accountability and elimination of corruption, which PDS was mostly criticized for lacking in these. CT is undoubtedly another supportive solution, apart from PDS, to provide food and nutritional security to the poor. Yet, both are not without any shortcomings; cases of exclusion and corruption still persists to a larger extent in PDS compared to CT. Lack of effective grievance redressal mechanisms including lack of people's participation in monitoring and governance mechanisms is apparent in both the programmes; the concerned implementing agencies and service providers are not held accountable, which ultimately weakens the impact of the program. For effective and inclusive participation of the poor, it is vital to begin with participative and transparent methods in registering beneficiaries and putting in place institutional mechanisms for social accountability to ensure that entitlements, as promised, are delivered to achieve a greater impact on the beneficiaries' wellbeing. PDS remains indispensable for the poor and DAY served as an effective alternative route to deliver welfare benefits and to meet similar objectives as PDS, that is, food security. The social security net provided primarily to the poor households formed an important basis of the household's food and nutritional security. Both schemes, seeking to address poverty and attain food security, had a spill over effect on gender equation at the household level.

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