**Case Study**

**Public Policy**

**Source:** <http://www.prsindia.org/administrator/uploads/general/1388728622~~TPDS%20Thematic%20Note.pdf>

Public Distribution System and Food Security During September 2013, Parliament passed the National Food Security Act (NFSA), 2013. The NFSA seeks to make the right to food a legal entitlement by providing subsidised food grains to nearly two-thirds of the population. The Act relies on the existing Targeted Public Distribution System (TPDS) mechanism to deliver these entitlements.

The existing TPDS operates through a multi-level process in which the centre and states share responsibilities. The centre is responsible for procuring or buying food grains, such as wheat and rice, from farmers at a minimum support price. It also allocates the grains to each state on the basis of a formula. Within the total number of poor in each state, state governments are responsible for identifying eligible households. The centre transports the grains to the central depots in each state. After that, each state government is responsible for delivering the allocated food grains from these depots to each ration shop. The ration shop is the end point at which beneficiaries buy their food grains entitlement.

The challenges pertain to the inaccurate identification of households and a leaking delivery system. Expert studies have shown that PDS suffers from nearly 61% error of exclusion and 25% inclusion of beneficiaries, i.e. the misclassification of the poor as non-poor and vice versa. Another challenge is the leakage of food grains during transportation to the ration shop and from the ration shop itself into the open market.

There are other issues to consider with regard to trends in procurement vis-à-vis production of food grains. As recent data show, the central government procures about a third of the quantity of cereals produced domestically. However, the amount slated for procurement is expected to increase under the Act, raising concerns regarding the sustainability of such a food delivery mechanism. There are also concerns regarding the financial feasibility of such a system. The centre bears a large financial burden, the food subsidy, because the cost of procuring and delivering food grains is about six times its sale price. It is anticipated that the food subsidy will rise steadily due to the increased procurement of grains under the Act, related costs and other factors. Furthermore, a performance audit by the Comptroller and Auditor General has revealed a serious shortfall in the government’s storage capacity. Given the increasing procurement and incidents of rotting food grains, the lack of adequate covered storage is bound to be a cause for concern.

Other alternatives to TPDS include cash transfers and food coupons. Beneficiaries would directly be given either cash or coupons which can be exchanged for food grains. There are several arguments both in favor and against the effectiveness of such measures. Efforts have been made to introduce cash transfers for various schemes with the Unique Identification Number as a way to improve identification and prevent leakage of subsidy.

**Cash Transfer**

Cash Transfer schemes cover a wide range of policies designed at providing an increased level of purchasing power in the hands of the poor. As Bhagwati and Panagariya argue, adding to the purchasing power of the poor is an important policy recommendation for poverty alleviation (Bhagwati and Panagariya, 2012 pp. 185).

A Cash Transfer Scheme involves the direct provision of cash into an account held by a beneficiary at a Bank; in India, these bank Accounts are usually linked to the AADHAAR Card held by household members, for the identification and the biometric verification of the identities of beneficiaries. Cash Transfer Schemes have been implemented, so far, only on a pilot basis in certain areas of the Country; the Central Government’s ambitious Direct Benefit Transfer (DBT) Scheme8, as of 22 April 2013, covered 121 Districts.

Example: In Delhi, the programme of Cash transfers intended to substitute for the Food Subsidy through the PDS. the Dilli Annashree Yojana (DAY), provides poor households with annual incomes less than Rs 100,000 lacking a ration card9 with Rs 600 a month per household, which is transferred into the AADHAAR-linked bank account held by the eldest woman of the household. The DAY was recently expanded to include within its ambit widows. As of May 7, 2013 the DAY was claimed to have reached out to 60,000 beneficiaries, and expected to reach 1,20,000 by the end of July.

**Cash Transfer and Nutrition**

The impact of cash transfer and nutrition value of the food consumed by a typical individual who has received the benefit is an important parameter to determine the success of such a scheme. Prior to implementing cash transfer scheme, a baseline survey has been done to collect data on nutrition levels among below poverty level and above poverty level households (BPL and APL respectively). The scheme is then implemented across both the segments and a survey of nutrition is carried after six months from the date of implementation.

**Questions:**

1. Test whether BPL and APL households are consuming more than 2300 calories per day
2. Is there any difference in percapita nutition value (measured in calories per day) between pre and post implementation of cash transfer mechanism within each group?
3. Is there any difference in the percapita value of calorific consumption across the two segments, BPL and APL?

**Data file:** cashtransfer.csv