

# Food Vouchers: An effective delivery alternative

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## Abstract

Hunger remains a major hurdle for India in the path towards development; while one part of the country surges ahead in the quest for growth, the other struggles to survive against all odds. The National Food Security Bill which promises to be important ammunition in the battle against hunger lays the legal obligation on the government to ensure that every person entitled to a certain quantity of food gets so in reality. The important debate surrounding the bill is whether to do away with the Public Distribution System and provide the subsidy through cash transfers or opt for new and innovative ways to plug-in leakages in the current system. This paper proposes a voucher model to supplement the current PDS and ensure effectiveness in the last mile of delivery.

## Methodology

My primary research involved tracking down Fair Price Shops in 4 different localities and attempting to talk to their owners. The list of Fair Price Shops in Delhi can be obtained from The findings and conclusion drawn from a few interviews are listed further in the paper. In addition, the interviews conducted with people entitled to benefits were found to be more insightful. The families I talked to presently put up in slums next to the Govindpuri metro station, in Dayal Nagar district of Faridabad, in Maujpur area near Seelampur and in the Tughlakabad extension. The FPS shops targeted were located in the same area.

For information on the voucher scheme being implemented by the Madhya Pradesh government I was provided the entire data by an official associated with the program, currently employed in Edenred which is responsible for the disbursement of vouchers in Madhya Pradesh.

## Introduction

India is a country of plenty, yet 230 million people go hungry<sup>1</sup>. The country is the largest exporter and the second largest producer of rice in the world, yet it accounts for nearly 1/3<sup>rd</sup> of the world's hungry population. The country is the second best only to China in production of wheat, yet around 7000 people die daily due to hunger and hunger related problems<sup>2</sup>. The country produces just enough food to feed its population but instead of doing so, it mandates the putting of food stocks into the hands of corrupt middle men and forgotten warehouses.

India, also, is a country of irony; where puddles of deep wealth are splattered across the vastly poor demography. The country boasted of 2 out of the top 10 billionaires in the world in 2011<sup>3</sup> with a combined wealth of \$58.1 billion, and together the 55 wealthiest Indians had \$246.5 billion in between them<sup>4</sup>. In contrast to the fact that around 360 million are considered to be 'very poor', surviving on an

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<sup>1</sup> [http://articles.timesofindia.indiatimes.com/2012-01-15/india/30629637\\_1\\_anganwadi-workers-ghi-number-of-hungry-people](http://articles.timesofindia.indiatimes.com/2012-01-15/india/30629637_1_anganwadi-workers-ghi-number-of-hungry-people) accessed on 21 Jan 2013

<sup>2</sup> [http://www.bhookh.com/hunger\\_facts.php](http://www.bhookh.com/hunger_facts.php) accessed on 21 Jan 2013

<sup>3</sup> The world's billionaires 2011 – Forbes.com

<sup>4</sup> <http://www.rediff.com/business/slide-show/slide-show-1-meet-indias-55-richest-indians/20110316.htm> accessed on 20 Jan 2013

average of around Rs 27 per day<sup>5</sup>, one might say it is grossly inappropriate for so few to be blessed with so much and so many to be cursed with so less.

Food, which is one of the most essential commodities needed for survival is beyond the reach of millions. The undignified existence that many lead in their struggle to ensure crumbs to replace wholesome meals calls for a caustic, sarcastic speculation on our nation's social, moral and economic health. Food security essentially means that all people at all times have adequate access to sufficient, safe and nutritious food to maintain a healthy and active life (as per World Food Summit, WHO, 1996). The Indian reality is different; perverse political hegemony over economic sense, hand in glove nature of corrupt bureaucrats, ineffective poverty identification, social exclusion due to caste, gender, sexual orientation, religion, and huge inadequacies in a centralized distribution system all contribute to a highly septic and festering endemic hunger. The aforementioned reasons responsible for a food insecure nation do not operate in singularity rather they form deep inter-wined meshes which originate from colonial times. The government has responded to the problem with fascinating ineptness: it has shrugged off, feigned ignorance, made promises and when nothing seemed to have been working, thrown more money at the problem.

The important ammunition in the fight against hunger has been the Public Distribution System – effectively one of the largest food distribution systems in the world. The PDS which has been operational since the British rule, was done away with once after independence, but was brought back to solve the problems persisting with availability of food at affordable prices. The PDS, today, operates on an even larger scale, but it is difficult to comprehend the ultimate motive behind its working – genuine public welfare or political leverage. The problems surrounding the PDS are due to causes which are engrained in the Indian mindset and society, and one that hogs the maximum limelight is that of corruption.

Corruption in systemic machinery is a deviation from the ideal path by one of the many people responsible for its working, for the sake of a higher than usual profit which might be monetary or otherwise. Any authoritative system which centralizes power and regulates its working is prone to a deviation, and hence, corruption.

The PDS has failed so far mainly due to high levels of corruption at every level of distribution and due to an ineffective targeting mechanism. The costs due to illegal diversion are estimated to be around 43% (Jha and Ramaswami 2010), while the pilferages in grain supply was put at around 65% (Howes and Jha 1992). Deepak Ahluwalia (1993) pegged leakage at around 36.9 percent for rice and 37.8 percent for wheat. Considering the fact that the current food subsidy bill stands at around Rs 75,000 crore, the costs due to illegal diversion runs up to Rs 32,000 crore – contrast this to the paltry amount that effectively impacts the poor, i.e. 10% (Jha and Ramaswami 2010), even the non poor get a higher share of the subsidy (19%) due to errors in targeting (ibid). The number of households with a legitimate claim to BPL, APL and AAY ration cards in 2000 was estimated to be around 180.3 million while the total number of cards issued in effect was around 237 million, the difference being credited to 'ghost' or 'bogus' owners

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<sup>5</sup> <http://www.hindustantimes.com/News-Feed/ColumnsOthers/A-very-crooked-line/Article1-834032.aspx>  
accessed on 20 Jan 2013

(Food grain bulletin, Nov 2008). The PDS remains the largest program of social welfare with costs that account for 5.8 percent of the total subsidy budget and 1 percent of the country's GDP (Sharma 2012). The dollops of cash being spent to ensure food security should be a matter of great envy; the hunger statistics prevailing should be held as a matter of great shame.

While there has been no deafening outcry over the hunger situation, there have been bold, yet lonely voices which have called ardently for a change from the current PDS. There has been considerable literature examining the feasibility of cash transfers – both conditional and unconditional. There has been mixed evidence and responses to cash transfers (Bastalgi 2011). Hanlon (2010) argues that cash transfer bypasses donors, governments and non-governments, and empowers the poor to make their own decision on what to spend the money on. In India, the validity of such a scheme is precarious – hugely dependent on the people having bank accounts as a prerequisite and the availability of banks at commutable distances subject to increased financial inclusion. Jayati Ghosh (2011) argues that while cash transfers might have been successful in South America, the Indian scenario calls for a different take on perspectives. Transferring cash to the poor is an effective remedy when there are integrated markets available to serve consumer demands; hence, rather than replacing an existing distribution system the need is to give the poor more purchasing power in the existing system.

Another alternative would be a voucher model supplementing the current PDS. The vouchers could be a substitute for cash, but this would add onus on the government to ensure the presence of well supplied shops for the vouchers to be deemed effective, while at the same time ensuring that the poor have increased freedom in their purchasing activity. The World Food Program in its report, "Vouchers and Cash Transfers in Food Assistance" delineates how the use of vouchers and cash transfers can replace, and in many cases, is replacing in kind subsidies in many developing countries. A voucher model to ensure adequate healthcare to BPL households in order to reduce infant and maternal mortality rate is being implemented in Gujarat under the name of *Chiranjeevi Yojana* (Bhat and et al 2006). Vouchers and cash transfers serve a similar objective under the vast ambit of social security, but are very different from each other when put under the scanner.

This paper addresses the inefficiencies associated with the current food distribution system with facts and figures gathered over field trips, interviews and secondary research in the first section and goes on to propose a voucher model. In the next section, the case for vouchers is further strengthened under a mathematical purview. Section 5 articulates and analyses a voucher model supplementing the current PDS in the state of Madhya Pradesh and examines its performance vis-à-vis to the current PDS. The next section addresses a few concerns within the model and makes a humble attempt to suggest reforms wherever possible. A simple analysis of the costs associated with such a model is presented in the next section.

## The problems with the current implementation of PDS

The public distribution system (PDS) over the years has drawn a lot of criticism for its ill conceived design and implementation and its failure to ensure food security to the poor and destitute – the primary motive with which it was implemented – rather it has served well to grease the pockets of corrupt bureaucrats and swindling middle men who all have claimed a fair share of the pie, leaving little for the unfortunately deprived. A report by the Planning Commission's Program Evaluation Organization (PEO) (2005) claims that the PDS (or TPDS) has failed in its attempt to provide meaningful food security to the poor. The study found that around "58 per cent of the subsidized food grains issued from the Central Pool does not reach the BPL families because of identification errors, non-transparent operation and unethical practices in the implementation of PDS. The cost of handling of food grains by public agencies is also very high." According to the study, "for one rupee worth of income transfer to the poor, the Govt spends Rs.3.65, indicating that one rupee of budgetary consumer subsidy is worth only 27 paise to the poor."

The program, which is one of the largest in the world, accounts for nearly 2% of total subsidy and about 1% of the country's GDP (Jha and et al 2011). The PDS today operates a network of around 4.5 lakh fair price shops to distribute wheat, rice, sugar and kerosene at highly subsidized prices to the poor. Still, millions go hungry and thousands don't get proper food to eat even once in a day. Others purchase food at an unsubsidized price from the outside market due to various problems existing with the current PDS (Khera 2011a), leading to insufficient utilization of a family's quota which is subsequently profited upon by the dealer. Due to inherent flaws in its implementation and coverage, lack of a proper targeting mechanism in identifying the poor and the hapless attitude shown by the government in rectifying the system, questions have been raised on its viability to provide food security in the National Food Security Bill (Kotwal, Murugkar and Ramaswami 2011). However, others (Khera 2011b) have suggested that not all is bad: there are some states which have very low statistics on grain diversion and hence, a well functioning PDS, while others lagging behind are either categorized by 'recovering' or 'dysfunctional'.

The irony lies in the fact that India being a food surplus nation still starves its people: what is to be blamed is a faulty food distribution system that seems to have done more harm than benefits.

In this paper we are more concerned with the delivery side problems associated with the current PDS and will propose and analyze a different model – a food voucher scheme. The scope of this paper is to propose a model based on vouchers and answer certain questions pertaining to the voucher model with examples of a similar scheme being run in Madhya Pradesh. Since the government of Madhya Pradesh has roped in private players to efficiently manage the whole scheme, it opens up another important question as to the level of deregulation or dependency that can be brought about in the system to plug the exorbitant leaks.

## An everyday PDS story

Ramsaran, a resident of Dayal Nagar, a small village on the outskirts of New Delhi lives with 2 of his brothers. The family, primarily comprising of 3 members, has an income of 6000 per month and does meet the bare minimum needed to survive with almost no, or negligible assistance from the government. The family has a ration card, almost 6 years old as Ramsaran recalls but has never put to use as frequently as the government would have liked him to. The reason being many fold, which being told over a cup of tea and some crisp biscuits under the morning sun, turned out to be quite a conversation.

Dayal Nagar is located on the fringes of a few urban settlements and is the main source of domestic help as people, men and women alike, flock to the nearest urban conglomerate for a source of livelihood. Some remain behind as domestic help while others render their services and ply back on a daily routine. The town, which has a population of less than 1000, is served by a *cul-de-sac* which links it to the city. The houses are varied in structure and shape; some more firmly built can pass off as a pucca house on a lucky day while others remain the modest accommodation for big and small families, colours peeling off their walls, framed by a single or no window and the doors barely holding onto their hinges. The threshold is engulfed by the street, a narrow one way road which opens into a more firmly built road going towards the city. And in one of these many houses one can find Ramsaran, sitting hunched in the only room within his house with his three brothers. Most of the time, he is off in the nearby city selling, mending and manuring potted plants; same goes for both of his brothers. When asked on how much his family sustains on in a month, he grins coyly and attempts to side-step an obviously discomfiting question. I persist, saying that the information he provides would ultimately help him and others around him. He gives about a roundabout figure of 2,000 to 3,000 per month, which varies as per the season. It goes up significantly during winters as people are more open to plant saplings due to lessened fear of water scarcity and their plants getting destroyed by extreme heat. After this we move to a pressing concern, I ask him if he knows what a ration card is and if he owns one. He replies in the affirmative and says that he has possessed one for 6 years as far as he could remember, but sadly even the precious piece of paper for which he had taken a lot of pain to assemble safely along with his few other important parchments had yielded little or no benefit. I asked him the reason, already knowing the answer. He replied that their village had 4-5 shops which gave away rations but remained mostly closed throughout the month. Once in a while they would open, but only people nearby got the wind of it and only those families which had children could afford to send them to go and collect the rations while parents remained mostly away, working and earning in the suburbs. Since Ramsaran had no children in his family, he had no possible way of knowing if the shop had opened in his absence; even if he knew, it wouldn't have helped much because by the time he would have returned with his brothers the shop would have long closed its shutters. He distinctly remembered only two occasions within a span of 6 years when he had been home and was lucky enough to visit the store when it had set up shop. Then he had been given 15 kg of wheat at a subsidized price. The remaining months he had to pay the same amount for wheat as rich people pay; in effect he lived a rich man's life on a poor man's money. He was not even sure if his ration card is still valid and distinctly recalls that a drive to issue new BPL cards was



cancelled the previous year. I ask him if he would be happy if there was a change in the working of things around him – he let loose an exasperated sigh and said that if the change resulted in more food for his family or more income in his pocket, he would be satisfied. Happiness, he said, was not for people like them – shivering in the cold and eating half cooked meals while people outside in the city were audacious enough to waste precious food. Standing in that small, dark, dingy room I couldn't have agreed more.

## Why has the PDS failed – A spoken analysis

The reasons for the failure are many-fold; some more obvious than the others. The PDS would have reaped great rewards had it been better planned and taken into account the incentives and disincentives of each and every individual involved in its proper functioning. The incentive to deviate for an individual arises, when in a given economic boundary he can accrue more benefit by a slight change in his personal course of action, from what is the prescribed systematic need. This explains the case of swindling fair price shop owners or the corruption that exists in between the process of collection of food grains by the Food Corporation of India (FCI) at Minimum Support Price (MSP) and final delivery to the poor.

- Out of 30 fair price shops visited around different localities in Delhi, most were located in residential complexes, conveniently hidden within buildings and at considerable distances from a normally crowded market place. The shops are separated by considerable distance within a locality and a few of them even engaged in selling other everyday utilities along with wheat, rice and sugar. The lack of accessibility of such shops makes it inconvenient for people to travel long distances and wait in long queues for grains. This has proved to be a major factor discouraging the use of PDS shops in the past, but few people quoted this as a primary reason for their not availing the benefits of the PDS.
- Most of the FPS shops have erratic “business timings”. The owners set up shops at their whims and seem least interested to serve the general interest of the public. Out of the 30 shops visited on a single day, during different hours, 10 were found shut for good, while 7 had shut after doing morning business and remaining were found open. Many of the shut shops, on further enquiry in the neighbourhood, were found to have been closed for the majority of the week. Many of the in-business shopkeepers were willing to share their normal duration when they remained open while a few gave ambiguous answers to a straightforward question, and still others who refused to answer.
- Many of the poor people interviewed complained that there had been countless instances when they had felt that the quantity of grain supplied to them had been less than what they were entitled to. The shop keepers used their position of authority and deemed their customers ignorant enough to exploit them.
- Also every household is mandated to buy a month's worth of ration in one go – say 35 kgs of rice or wheat. Many families do not have the lump sum to buy the entire ration in one go, leading to shopkeepers manipulating records on their end to show sale of that much amount, while the beneficiary was able to buy a fraction of that.
- Most working families don't find the time to go and stand in long queues for their ration so they send their children instead. The families without children, very often, self select out and instead buy their basic ration from the market at a higher price.

- While interviewing the families of the poor, many of them admitted to buying additional grains from outside PDS at 10 times a higher price than that in a Fair Price Shop. The reasons of such a behaviour has been discussed above; but in a few other dialogues, anger at having not been given the full measure of their entitlement was superseded by a thin satisfaction of having accrued, maybe, even a fraction of that amount; it was almost as if their purchase of grains from PDS shops was a luxury, an appendage to their spending. They didn't seem to be angry at having been outdone by a swindling middleman but seemed to make their happiness with the amount they got.
- *Exclusion and inclusion errors* - These errors arise due to inefficiencies in the targeting mechanism (Mahamallik and Sahu 2011; Hirway 2003)
- *Duplicate Ration Cards* - Families that own two or more than two ration cards, and hence avail benefits disproportionate to their entitlements.

Since in a PDS the fair price shop owner serves as a focal point, i.e. the point of contact between the government and its policies and the poor, it should be of primary importance to build a system that should provide enough incentive for a FPS to function, if not to its full capacity, at least to next to an ideal situation. The same thing can be done by analyzing the main reasons as to why such a shopkeeper is tempted to deviate.

- Opportunity Cost – Last time checked the compensation for such a shopkeeper was a measly amount, which is hardly commensurate with the important position of authority he holds with regards to the smooth working of the whole system. A higher compensation in lieu of his better services would go a long way in solving the problem.
- Cost of legality – Such a shopkeeper does very well for his low wage by selling the grains meant for the poor at subsidized prices in the outside market at a higher price. To enlist in such activities he seldom opens his shop so as to discourage buyers, forges records on his end and in the black of the night sells of his grains to traders who act as the henchmen, before ultimately selling it off in the open market. Therefore, where being legal would have fetched him some specific amount on every unit mass of grain sold, he makes a bigger gain by buying them at a subsidized price from the government, with the intent of selling it to the poor, fudges some records, closes his shop and pockets the subsidy amount by selling it off at a higher price.
- Cost of ignorance – The very fact that most of his customers remain oblivious to their food entitlements puts him at an advantage with respect to his customers. He can pass off any measure as government policy, say reduced quantity or sub standard quality of grain that he delivers and, thus, exploit the poor. The poor, in turn, harassed and humiliated, and lacking faith in the system, can only turn their agitation inwards most of the time and hence feel shy and fulfilled with whatever is put in their hands.

It is not an absolute guarantee that a rise in the monetary payment to the FPS dealers would help in plugging the leaks of grain diversion – least make it worse with the government paying a higher amount for bleeding out its own money. Hence, the need is to design a model where the FPS dealers do not need, and also do not get an opportunity to deviate for their own good, ultimately helping in increasing the impact of a targeted public distribution system. Such a scheme favours the implementation of vouchers or food stamps or coupons, as goes per the vagaries of conversation. In this paper, I will do a case study of a distribution system based on food coupons which has been implemented by the Madhya Pradesh government in association with Edenred, HCL and Virgo Softech Pvt. Ltd.

## Making a Case for Vouchers

Demand Side Financing (DSF) and Supply Side Financing (SSF) are two different concepts that governments use to ensure social security for the people in a country. In DSF, the government enhances the purchasing power of the consumers by providing cash transfers and vouchers; rather than in the case of SSF where the government buys provisions and provides them to the consumers and beneficiaries. In DSF the consumers are independent to choose between a range of services and products, helping in the development of a proper market, where suppliers compete against to win the preference of the buyers, ultimately resulting in better products at lower costs.

The four basic types of methods by which governments ensure social security are-

- Public Provision
- Vouchers like Food Stamps
- Cash Transfer
- Flat Rate Subsidy

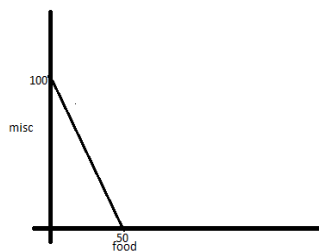


Fig 1

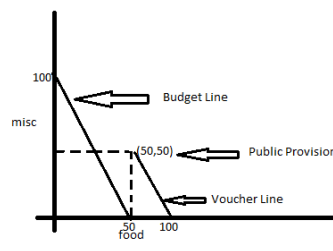


Fig 2

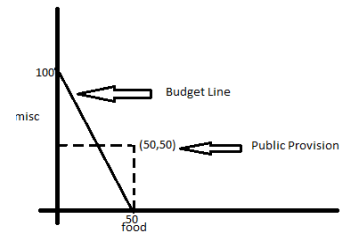


Fig 3

Public Provision: In this method, let's assume that a consumer has a total 100 units of currency to spend, and he can do so by spending only on 2 items – food and any other commodity (Fig 1). Every item of food costs around 2 units while the other commodity has a price of 1 unit per item. The maximum amount of food that can be bought with the money is around 50 items while 100 items of the other commodity. If the government decides to give food worth 100 units for 50 units, the consumer can well avail this offer and finally have 50 units of food and 50 unit of other commodity (Fig 2). On the other hand, if the consumer lets go of the offer then his choice continues to lie on the Budget line.

Vouchers: In this method, in addition to the 100 units of money that the consumer already has with him if the government provides him with an additional voucher to buy 50 units of food, then the maximum amount he can spend on food increases to 200 units and the maximum on any other commodity – 100 units, while at the same time ensuring for himself a minimum of 50 items of food (Fig 3). The voucher, in effectiveness, is equivalent to cash – cash that is only intended to buy food. In the voucher system, what essentially is ensured that people no matter how much they spend of their income on other commodities, will surely spend a bare minimal on food. Also, in addition to the voucher amount, they get the freedom to choose whether they want to spend more or not.

Cash Transfer: If 100 units of additional money are given to the consumer is, then his total capacity to spend increases to 200 units (Fig 4). He can go all out and spend all 200 units on miscellaneous items or spend all the money on food and get 100 units of it; or, maybe split the amount equally or unequally over these two options. By giving more freedom to the consumer to spend the way in which he deems fit, the capacity of the spender to make a sound judgment for himself is inherently being trusted upon.

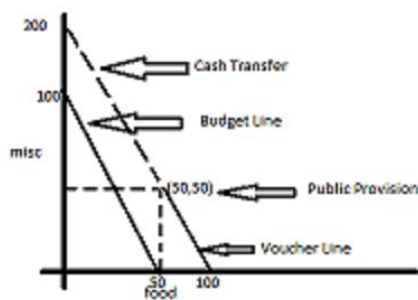


Fig 4

Flat Rate Subsidy: In this case the government gives a flat percent of subsidy on the cost price of a commodity. If the consumer buys food worth 50 units of money and the government gives a flat discount of 50%, then the consumer gets a relief of 25 units on the price and ends up paying 25 units. However, if the consumer decides to spend the entire 100 units on food, then he gets an additional discount of 25 units, a total of 50 units of discount and pays 50 units. Thus, in flat rate subsidy the amount of discount increases with increase in the amount spend to purchase. Hence, people with more money tend to spend more and avail a greater discount as a percentage of the subsidy, thereby making the sole purpose of subsidy redundant.

The purpose of this paper is to support vouchers over any other mechanism, build a strong case for its implementation by clearly demarcating the benefits from its deficiencies and quantifying the same against other mechanisms.

### **A Case Study of Food Voucher Scheme being implemented in the state of Madhya Pradesh**

The Public Distribution System in the state of Madhya Pradesh seems to have taken a step in the right direction by opting for a Food Voucher Scheme to reduce the ever rising cost of food subsidy due to the inefficiencies associated with the TPDS.

## How does the Voucher Scheme work?

The entire distribution system remains the same, up until the point of delivery to the customer/beneficiary. Here's how the system delivery differs:

- ❖ A unique identification card which is a bit different from an Aadhaar card is issued to a potential beneficiary. Under this scheme, each and every card is mapped to a family which is supposed to have a designated Head (of family). The overall process of targeting remains the same more or less, when compared to TPDS, with primary emphasis on impacting the BPL and AAY categories.
- ❖ Enrolment of an individual/family is done, and after eventual filling up of details, a specific number of coupons for yearly allotment are printed and delivered to the doorsteps of the beneficiaries. A coupon or voucher may contain the following information – name of the beneficiary, quantity of subsidized grain that can be claimed, a ration card number and some other basic information like an FPS code (in identifying the exact shop), name of the shop, address, barcode, validity period of the coupon etc.
- ❖ To prevent the usage of counterfeit coupons/vouchers each voucher has some essential features which are either visible to the naked eye or under UV radiation and can be used to easily distinguish from a counterfeit.
- ❖ A family might be provided with an entire year's worth of coupon in one go. The coupons for an entire year/quarter are individually delivered to the doorsteps of families and every monthly quota of entitlement might have a following breakup
  - 2 or more coupons for wheat – if a family is guaranteed to 35 kg of wheat in total for one month then the individual breakup of the coupons can be say 20 and 15 kg.
  - 1 or more coupon for rice
  - 1 for sugar
  - 1 for kerosene

This practice ensures that families and individuals have adequate freedom to buy what they like and when they like. Since the food is not being handed out but at a subsidized amount, there might be instances/months during a year when the household income is low (high) such that it may not be possible to buy the whole supply for the month; hence coupon system ensures ample flexibility and security so that the benefit reserved for an individual or family is not siphoned off for private profit or disbursed illicitly to fake accounts. A coupon, in general, holds its value for good over a period of time.

- ❖ To claim the ration for a month, an individual has to approach a pre designated Fair Price Shop with a ration booklet and the coupons. The FPS owner matches the number printed on the coupon with that on the ration card and then only provides the grains at a subsidized cost. The FPS owner can then claim the 'subsidized amount' by redeeming the coupons that he collects from the customers. Thus, to stake a claim to the subsidy amount the FPS dealer must provide coupons worth his claim, which can only be provided if he has engaged on his part in a fair barter with the beneficiaries. The incentive to divert grains from the 'poor's mouth' to an open market is eliminated.

- ❖ At each and every FPS, the owner has to fill up 3 forms; all of them containing the same information. The information to be filled in primarily comprises of the amount of grain disbursed monthly and the number of coupons and specific quantities subsidized per coupon collected under each category of wheat, rice, sugar and kerosene.
- ❖ All the coupons are stashed in a well-packaged durable bag along with 1 copy of the aforementioned form and sent to a *collection center*. A second copy of the form is sent to the collection center separately while the FPS owner retains the third copy for record keeping purposes. At the collection center, both the forms received are checked for uniformity.
- ❖ The bag, along with the coupons and the form, is sent to Bhopal at a Redemption centre where the number on the form is crosschecked with the number of received coupons. If any discrepancy is found an exception report is generated. If repeated discrepancies are found then the FPS owner might be penalized.
- ❖ At the intermediate check point i.e. the collection center, it is ensured that all the three forms contain the same information and the packet containing all the coupons is packed properly.
- ❖ Coupons are made with a counter foil; so that if any discrepancy is found at the detection center at Bhopal, then the FPS owner can present a counter claim by providing adequate proof with the counter foils that are present with him. For instance, if the records show that 20 coupons of wheat have been sent (which implies that 20X amount of wheat has been given out by the shop), and, if on the receiving end only 18 coupons are received, then the FPS owner can claim diligence on his behalf by presenting 20 counter foil coupons to the District Supply Officer, which eventually implies that 2 coupons are lost in transition. If, on the other hand he is unable to prove his diligence, he may be penalized.
- ❖ If a beneficiary loses his coupon then he has to inform the nearest grievance redressal center with his ration card and inform of his loss. The first loss of such a kind is not liable to amount to a fine; henceforth every loss is accompanied by a nominal amount that a beneficiary has to pay as a penalty to receive fresh coupons in lieu of the lost ones.
- ❖ The FPS are provided with a specific amount of grains as per the demand that is evident from the number of coupons collected over the previous few months. So, in effect, the FPS are more concerned to meet the demands of the people registered at the shop rather than engage in grain diversion, engage in profit sharing with ghost beneficiaries and/or other illicit activities.

## Vouchers vs The Current System

The above model professes to solve the problems of ghost beneficiaries, grain diversion and black marketing, and makes the dealers more accountable and responsible towards helping the poor. The basic points of difference between the two models are summarized in the form of a table below:

The current PDS	Food Voucher Model
1. The shop dealers engage explicitly in practices of grain diversion. Since the system is inherently flawed, it champions no string motive for the PDS dealer to stick to his role. Hence, to compensate for what he feels to be far from a commensurate compensation for	1. Under this model, the PDS dealer can engage in no such practice as in addition to records filled up on a form, the dealer also has to provide coupons that he gets from the consumers to support his documented credentials.

<p>his services, the FPS dealer is tempted to sell off his stock in the open market after buying at a subsidized price from the government, pocketing the difference in the whole transaction.</p> <ol style="list-style-type: none"> <li>2. There is no effective tracking of the impact on the beneficiaries. Hence, the quantity of grains leaving the godowns and that effectively reaching the poor vary widely. To maximize his profits from black marketing a dealer can urge for more grains at his shop by inflating demand figures up to a certain limit.</li> <li>3. In this system, the poor are at the mercy of the dealers for their share of food. Hence, they eventually end up getting bullied and talked down to. The dealers can play truant at their own will and deal only when they feel like.</li> <li>4. The losses due to fake or ghost beneficiaries are substantial. Individuals with more than one ration card avail more than the entitled benefits, and since the PDS dealers are least concerned about who gets the benefit or not</li> <li>5. There is no flexibility for the poor to spend as per their monetary situation as the entire worth of a month's ration has to be bought in one go. Since most of the poor are daily wage earners, it's not possible for them to buy the entire ration in one go.</li> <li>6. Grievance redressal cells are almost "non-existent".</li> </ol>	<ol style="list-style-type: none"> <li>2. Since the coupons are sent back and the effective sale is calculated on a weekly/monthly basis the whole system works on a feedback loop. The demand over the past few months at a shop is monitored and a specific quantity of grains is sent to the shop, thus discouraging malpractices.</li> <li>3. The balance of power shifts to the consumers, who hold the coupons. The PDS dealers, in turn, have to minimize their absenteeism and open shops more often to get the maximum number of coupons, so as to claim more compensation as a percentage of higher sale.</li> <li>4. The risk of people getting more than what they deserve due to bogus ration cards is eliminated due to the system of coupons. Hence, it is not enough to claim one's ration with just a card but also provide with an equivalent amount of coupons, the serial number on which should correspond to the card provided. Thus precious less is not lost due to human apathy, but is checked by a self correcting system.</li> <li>5. The coupons have various denominations of the total entitlement of a commodity. Say, for example, for 35 kgs of wheat the break up might be 10 and 25 kgs. This proves a plus point for many daily wage earners and encourages them more to exercise their right.</li> <li>6. Excellent grievance redressal cells to effectively listen and settle complaints/losses of coupons.</li> </ol>
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## Shortfalls and suggested reforms

No system is perfect, especially when it involves layers of human logistics. The voucher system proposed is bound to have a few flaws that can be pointed at, but it aims to cut down on losses to a maximum. The probability of error due to involuntary human negligence still remains, but the losses are far less when compared to voluntary errors arising out of human stupidity.

- Single shop for a family – Under the voucher system, a single family can avail subsidized grains only from a single shop. The voucher system makes it next to impossible for dealers to exploit the poor out of their entitlements but opening up more than one shop will encourage free market competition amongst dealers, and promote a ‘consumer-first’ policy.
- Conspire with shop keepers to exchange money for coupons – There is no effective remedy against this: If a person wants to throw away his right, then he deserves nothing better. Still, shopkeepers can be trained to refrain from such complicity. The more inconspicuous losses will amount due to the poor selling off their entitlement themselves at a higher price in the open market and using the same money to buy other commodities. This remains a point of contention in every system, whether it is a cash transfer, in-kind transfer or a voucher model.
- Expensive/needs a lot of IT man power plus additional cost of printing counterfeit proof coupons (More on this in the next section).
- Over dependence on the success of Aadhar – Only those families which have been registered under the Aadhar scheme are eligible to receive coupons. Financial inclusion, under the Aadhar scheme, is a big debate – but when something as important as food security is concerned, surety shouldn’t leave scope for debates.
- There is a risk of bigger scams when involving private players; the blow-up in such a case might seriously undermine the food security of a state or a nation. The government, hence, in such a case should take more of a regulatory and a monitoring role, with independent, stringent watch bodies to oversee the government’s as well as private activity.
- The scope of grain diversions is magnified by the fact that a vast majority of the beneficiary population has minimum literacy, and the people in power ruthlessly exploit this for unconditional benefits. In Bihar, a similar scheme when implemented provided little relief as the coupons never reached the poor or the dealers charged double the number of coupons for grains half the amount. Such measures can be discouraged by surprise visits or checks on dealers within regular intervals and by strict monitoring of the quantity of grains sold vis-à-vis the number of coupons collected from a shop.



## A Simple Analysis

India's food subsidy has already increased tremendously over the last 2 decades: it increased from Rs 2,850 crore in 1991-92 to about Rs 72,823 crore in 2011-12 – an increase of over 25 times in 21 years<sup>6</sup>. It has proved to be one of the major reasons for an ever widening fiscal deficit. If focus is dealt to the costs occurring just due to illegal diversion the figure comes out to be around 31,000 crore (43% of total subsidy bill) while the poor get 7,000 crore (Jha and Ramaswami 2010). The need of the hour is to ramp up the efficiency in a decrepit system by enabling more private participation; this has to be done not only in effective delivery via vouchers or cash transfers but also through reducing the “excess costs” by enabling private partners in procurement, storage and distributions of food grains. True, food is the essential commodity and it should not be allowed to go into the hands of a few private players, but so was the telecom sector: today, every village has better mobile connectivity rather than wholesome food security. The irony is not that many people have to go hungry because they don't earn enough, but it's that many people who earn enough and have access to mobile phones don't have access to cheap and quality food. Isn't it high time we let our common sense prevail over our 'better judgment' and make the right choice?

The food voucher scheme which has been implemented in the state of Madhya Pradesh with active private participation of private entities in the form of HCL handling the IT infrastructure and UID registration further linking it to a beneficiary's food entitlement through a PDS, while Edenred is responsible for printing, delivery, collection and redemption of the vouchers. The extra costs incurred by the government are reported to be around Rs 454 crore for a period of 60 months with around 10 million transactions every month.<sup>7</sup> This is easily offset by checking the losses occurring just due to 'bogus ration cards'; the benefits accrued by plugging illegal grain diversion by dealers is secondary and additional.

Expanding the same model across the rest of the states, making a few modest assumptions and scaling up the numbers we come across the following calculations:

Number of people living below the poverty line: 360 million (or 36 crore)<sup>8</sup>

Splitting into families/individual entitlements (average 1.8/family): 200 million (or 20 crore)

The cost of one transaction per month: Rs 11<sup>7</sup>

Total, for one year: Rs 26.4 billion (or Rs 2640 crore)

Present losses due to illegal diversion alone: Rs 32,000 crore

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<sup>6</sup> [http://articles.timesofindia.indiatimes.com/2012-08-18/ahmedabad/33260773\\_1\\_food-subsidy-expenditure-on-food-items-rural-areas](http://articles.timesofindia.indiatimes.com/2012-08-18/ahmedabad/33260773_1_food-subsidy-expenditure-on-food-items-rural-areas)

<sup>7</sup> <http://www.thehindu.com/news/states/other-states/article2350323.ece>

<sup>8</sup> <http://www.hindustantimes.com/News-Feed/ColumnsOthers/A-very-crooked-line/Article1-834032.aspx>

accessed on 20 Jan 2013

## Parting Comments

The calculations performed on the back of a paper might appear too conservative to say the least. Also, the assumptions taken might overdo the impact of vouchers. But in a country where the only solution is to pump in more money, it won't harm to have a technological edge to battle hunger. The voucher model might not solve problems of hunger arising out of social exclusion or exploitation, but if implemented with a stringent motive to counter perverse forces of corruption it might empower the lives of millions laying in want and put a lid on an ever increasing food subsidy bill.

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