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## Should states provision food or cash transfers, or a combination?

Two important debates relate to 1) whether states should substitute food transfers with cash, and 2) whether food should be provided cooked or as grain.

The Indian system currently provides for grain supply through the Public Distribution System (PDS) as well as cooked food for children.

### 1) CASH TRANSFER

#### ARGUMENTS IN FAVOUR

- The PDS is an inefficient and expensive system, liable to high leakages; cash transfers are less prone to corruption and cheaper to deliver efficiently
- Cash transfers allow for dietary diversity and better quality food for poor people
- Cash gives households greater choice

#### ARGUMENTS AGAINST

- Cash transfers also can be affected by leakages and irregularities, and could be difficult to implement in remote rural areas
- The PDS provides rations at a constant price, protected against inflation
- Cash would not necessarily improve diets as cash may be used for non-food priorities in households
- Opposition is not to cash transfers, but to replacing food with cash



## 2) UNCOOKED FOOD

### ARGUMENTS IN FAVOUR

- Provides support price to farmers and contributes to price stabilization
- Packaged food allows for micronutrient fortification

### ARGUMENTS AGAINST

- Transfer of food from surplus areas to those with shortages may weaken supply response in these areas
- Nutritious, fresh, and balanced home-prepared meals are much better nutritionally than packaged food
- Cooked food schemes are more effective for groups with special nutrition requirements

Even if it is accepted that the state should provision food to some or all of its people, there are still heated debates about whether it is more beneficial as food or as a cash transfer, and also (less hotly debated) whether food should be cooked or delivered as grain, or a combination of both. India has chosen against substituting food transfers with cash, but the language of the law leaves open some possibility to make this change in the future. It currently provides for grain supply through the PDS and cooked food for children, complemented by cash transfers in the form of maternity benefits for pregnant women.

The proponents of cash transfers mostly focus on just one segment of the NSFA, namely the PDS. Critics rarely suggest substitution of cash for other food transfers mandated by NSFA, namely school meals and young child and maternal feeding (the other major element of India's NFSA is near-universal maternity benefits, and these in any case are cash transfers). But they believe that the PDS is an inefficient mode of transfer of subsidies, one that is prone to enormous leakages. Indeed, studies confirm very high leakages into the black market, gross mis-targeting, and high waste in the costs of transferring subsidies in the form of food transfers.

Cash transfers in lieu of the PDS would involve the transfer of money directly into bank accounts of Below Poverty Line (BPL) card holders; the amount of cash transferred would then be the difference between the market and subsidized

price of the grain. Instead of going to their local ration shop to purchase subsidized grains, recipients would withdraw this money to buy the food of their choice from the market.

The arguments in favour of replacing food with cash include the conviction that providing subsidies in the form of cash directly to the poor would enable them to access goods currently denied them by a PDS beset by corruption. Further, it would enable people to buy the food of their choice from the open market and not be restricted to items sold in the PDS, which are often inferior in quality and very limited in range. People could also buy better-quality food, as the food in the open market is sold at market price and subject to competition.

Providing subsidies directly to the poor would both bypass brokers as well as reduce the waste and holding costs of storing grains in government silos. The amount of grain actually required for India's buffer stock needs (for price stabilization) could be held in better quality warehouses, eliminating waste and rotting. Cash transfers would help reduce the fiscal deficit by curbing the amount of expenditures earmarked for the PDS that are siphoned off through corruption, as well as avoiding the substantially higher costs of transferring food rather than cash.

Most opponents of cash transfer clarify that what they oppose is not the principle of transferring cash to people, but the *substitution* of food transfers with cash. After all,

many forms of important social protection involve cash transfers, including maternity benefits and old age pensions.

They are unconvinced that cash transfers would bring about drastic reductions in leakages in welfare programmes, as there is nothing intrinsic to cash transfers which renders them less vulnerable to leakages: empirical irregularities are already found to be high in existing cash transfer programmes. There are also practical concerns that India's banking system will take a long time to be genuinely inclusive of people in remote rural regions. When the nearest bank or post office branch is distantly located from a village, each cash withdrawal entails additional cost and time requirements, and thus the process could turn out to be more burdensome than current modes of food transfers.

Proponents favour cash transfers because it enables people to use cash to buy whatever they want, and also to improve their nutrition by diversifying their diet. However, it is also possible for people to spend cash transfers on non-food items, which would decrease the amount of

household money left for buying food. Research confirms that decisions relating to cash in households tend to be made by men, who may or may not spend the money on food. Decisions relating to food are culturally made by women in almost all cultures, and these are more likely to end up as food in the child's stomach.

Opponents of cash transfers further favour the PDS as it provides rations at a constant price, irrespective of the fluctuations in market prices. This therefore provides a shield against inflation, a benefit that cash transfers cannot match.

Finally, the PDS requires the government to procure food from farmers. It is feared that replacing this with cash transfers would dismantle this obligation of government, with adverse impact on agriculture and farmer protection. Indeed, the guarantee of minimum support price (MSP) purchase by the government for wheat and rice is the most important instrument for protection of farmers' income in India, and this would become unfeasible if the government could not offload a lot of this grain back through the PDS.

Coming now to the second debate of whether food should be transferred as grain or cooked food, there is wide consensus across governments and political parties for relying on a well-functioning PDS for household transfers of uncooked cereals. Faith in the PDS – when it works well – derives from several decades of experience with the food rationing system, which has remained the paramount instrument for ensuring MSP support to farmers (mainly for cereals); for price stabilization, by moving grains from surplus areas to those with shortages; and for ensuring the provision of cheap grain to millions of households. Critics on the other hand argue that the purchase of food in surplus areas for transfer to those with shortages may also weaken supply response in those shortage areas (through lower demand and lower prices).

Experts estimate that average calorie requirements translate into 50 kg of cereals for a family of five per month: NFSA assures half this amount, assuming the household is able to grow or buy the rest. Critics suggest that high poverty levels dictate that the amount should be raised. They also feel that NFSA should guarantee not only *food* security, but also *nutrition* security. Therefore, instead of restricting



PDS entitlements to rice and wheat, these should also include millets, pulses and oil. Millets are indeed included, but fiscal prudence prevents the inclusion of pulses and oil.

Critics focus on corruption and poor targeting of the PDS, which is confirmed even by official studies. But states in India like Tamil Nadu and Chhattisgarh demonstrate that given political will, the PDS can be reformed. These reforms include *inter alia* expansion in coverage, reduction in prices, doorstep delivery of grains to ration shops to enhance transparency, and end-to-end computerisation.

However, there is no way of ensuring that the food rations bought by a family under the PDS are distributed equitably within a household. Governments, courts and experts agree therefore that cooked food transfers are effective for those who have special nutritional requirements – children, adolescent girls, pregnant women, lactating mothers, and those who are unable to cook, such as the homeless and destitute.

The debates connected with cooked food transfers have dealt mainly with micronutrient fortification and commercial supply of complementary food to children below 3 years. Some policy-makers and experts suggest that it is only high-end factories which can prepare meals with the correct mix of micronutrients. Others suggest that local women's groups can best produce both complementary food and hot-cooked meals for older children, with greater local



transparency and accountability than factory-produced, ready-to-eat meals. They are convinced that nutritionally the best meals for children are hot, fresh, culturally appropriate and balanced meals, rather than any commercially prepared packaged food. This has also been the view of India's Supreme Court, but it has been strongly contested by commercial interests and some experts.

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