

# MicroSave – India Focus Note #142

## Cash Coupons – A Viable Alternative?

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### Key Points:

1. *At present there are two systems of public distribution in India - BAPU and Direct Cash Transfers*
2. *Both of them aim to solve the problems that plague public distribution viz. leakages, quality and convenience, but have only managed limited success*
3. *A third alternative - cash coupons - has the potential to vastly improve the scenario of public distribution*

### Background

The introduction of the National Food Securities Act in 2013 by the Government of India (GoI) transformed the nature of food security in the country from state welfare to a fundamental right. The GoI mandated state governments to adopt the Act by modifying their existing Public Distribution System (PDS) so as to ensure that at least 65% of the total population receives state-supported subsidised grains. Given the leakages in the system (almost 46%) and improved penetration of bank accounts and *Aadhaar*, the GoI has developed two models to extend support to the people. The first, Biometric Authentication Physical Uptake (BAPU) and the second, direct cash transfer in the account of the female head of the household under the Direct Benefit Transfer (DBT) scheme. Among the fast moving states, Telangana and Andhra Pradesh chose BAPU while the Government tested cash transfers in Union Territories like Puducherry and Chandigarh. Detailed studies of these systems can be found [here](#) and [here](#).

Based on the analysis and evaluations of these existing systems, Department of Food and Civil Supplies, Government of Karnataka (DoF&CS, GoK) decided to adopt a modified approach – food coupons. These coupons are issued at citizen centres (Bangalore One) run in partnership with the Government and can be redeemed by Fair Price Shops (FPS). MicroSave's research found many issues with the food coupon system. To address these issues, GoK, with *MicroSave's* assistance, designed cash coupon system to help beneficiaries access their entitlements swiftly and easily. The cash coupon system was implemented on a pilot basis in the city of Bengaluru.

In this system, any female member of the household entitled to food subsidies can a government approved *kirana* or private grocery retailer and authenticate her identity using *Aadhaar*. These shops are equipped with finger print readers. Unlike the food coupon system, authentication happens at the store and not the Bangalore One centres. After identifying and authenticating her, a redeemable coupon is

generated through government designed software. This coupon specifies the amount for which the beneficiary may shop – this is the cash value of her food entitlement as calculated by the GoK. The beneficiary can purchase her chosen grains at the store to the value on the coupon. If the items selected total more than the amount on the coupon, the beneficiary pays the additional amount in cash. Once items are selected, a cash memo is generated by the software, which will only register food grains and not accept unregistered items such as aerated drinks. Once the beneficiary verifies her purchase as printed on the cash memo, the shopkeeper completes the sale through a biometric confirmation so that the beneficiary signs off on the exact purchase. The DoF&CS transfers the sales amount into the account of the shopkeeper within one week.

Today, there are four methods to deliver benefits under the ambit of PDS.

1. **Biometric Authentication Physical Uptake (BAPU):** a well-received system that essentially incorporated *Aadhaar*-based authentication into the old system
2. **Direct Benefit Transfers (DBT):** It replaced the old system entirely by transferring money into the account of beneficiaries
3. **Food Coupons:** The beneficiaries pick up food entitlements as specified on printed coupons
4. **Cash Coupons:** A combination of the second and third models

The GoK planned to completely replace Food Coupons with the Cash Coupon system – so we focus on this in the comparison below.

Before understanding how these systems compare with each other, it is imperative to understand the PDS they replaced. A detailed analysis of the system can be found [here](#).

Simply put, problems of the public distribution system were leakages, quality and convenience – the parameters on which the new systems are evaluated. We have added consumer choice as another key parameter on which to assess the alternative options.

Criteria	Direct Cash Transfer	BAPU	Cash Coupon
Beneficiary ease	●	●	●
Beneficiary choice and agency	●	●	●
Ensuring expenditure on food	●	●	●
Lower administrative costs	●	●	●
Infusion in the local economy <sup>4</sup>	●	●	●
Improve conditions of farmers <sup>2</sup>	●	●	●
Diversity in nutrition choices	●	●	●
Vulnerability to market fluctuation	●	●	●

### 1. Leakages

BAPU reduces leakages considerably. It makes difficult for shopkeepers to siphon-off entitlements because of the mandatory biometric authentication. But, the BAPU model is unable to monitor proper weight and quality of grain being disbursed. Direct cash transfer, on the other hand, does away with the existing infrastructure of procurement, transportation, storage and distribution. Instead, beneficiaries receive cash equivalent of the benefits they are entitled to, calculated based on the costs incurred by the government to supply them their entitlement. However, this system comes with its own issues as market prices of grains fluctuate and vary across relatively proximate geographic regions; thus, determining the correct amount of cash to transfer to each beneficiary is difficult. In addition, there is no monitoring of the use of amount transferred. Furthermore, beneficiaries resist cash transfers, because they do not see money as a substitute for grains, and are afraid that it would be misspent on non-food items. In other words, it is difficult to ascertain whether cash transfers are actually serving the purpose of food security.

The cash coupon system addresses the question of leakages, as coupons can only be generated on authentication, spent on specific shops, and the shopkeeper can only receive benefits once the transaction has been signed off by the beneficiary, again through biometric authentication. Further, there is no cash money or grain involved, just a government mandated coupon, which can only be used on authentication.

### 2. Quality

BAPU has no mechanism to monitor the quality of grain being supplied, or the degree of adulteration that might exist. Andhra Pradesh has tried to monitor transport by geo-tagging its grain-bearing buses and using barcode on each sack of grain, which is weighed on receipt at the ration shop. However, such expensive technologies only check for quantity and do not necessarily guarantee quality grain being delivered.

Direct cash transfer ensures that the beneficiaries choose the quality and quantity of grain they desire. Similarly, cash coupons can be redeemed at multiple private retailers and gives beneficiaries' choice to avail grains from the retailer who gives them best quality at the best price.

### 3. Convenience

Real-time tracking of disbursement in BAPU ensures that fair price shops are open until they distribute most of the ration for the month. However, in many states, this is not being adequately enforced. Both cash and cash coupons allow beneficiaries the choice among the approved shops (that are open for business on most days and throughout the day), from where they can buy ration at their convenience. Cash coupons also allow beneficiaries to access their rations without having to make multiple trips. Access to banks and comfort with using financial infrastructure remains challenging for many – going to a bank/ATM to withdraw their entitlement in cash in order to buy food is inconvenient for them.

### 4. Choice

Choice is increasingly viewed as a desirable quality in every government programme. Under the BAPU system, the government has tried to offer choice between ration shops by introducing interoperability, so that beneficiaries can take rations from the fair price shop that gives the best service. But these efforts have been stymied by FPS owner cartels, which refuse to serve beneficiaries from shops of beneficiary's choice. Furthermore, beneficiaries do not have any choice in terms of the grains on offer and have to take what is available at the store, irrespective of whether it suits their dietary habits or needs. Cash transfers give beneficiaries complete freedom of choice, but there is no supporting infrastructure to ensure that the amount transferred is enough for the beneficiaries to purchase a satisfactory quantity of grains.

Cash coupons restrict some choice because only female beneficiaries can buy rations from approved stores on biometric authentication. This provides some government oversight to ensure that cash is spent on food, while giving the option to buy a range of items that includes not just grains like rice and wheat, but also high proteins items like pulses, which are not available under BAPU. Thus, while cash coupon systems are not entirely without limitations, they are sufficient to achieve the intended purpose of ensuring flexibility and amplifying beneficiary agency.

**Way Forward** Programmes similar to cash coupons, conducted worldwide, have lower administrative costs<sup>3</sup> (as the government will not spend on the large-scale procurement, transportation and distribution). Thus it can improve efficiency without abdicating the responsibility for food security. Also, in other parts of the world cash coupons have been lauded for offering dignity to beneficiaries and stimulating the local economy<sup>4</sup>. Cash coupon-based systems also have a track record of increasing nutritional uptake<sup>5</sup> by giving beneficiaries the choice of purchasing food that suits their dietary needs. To summarise, the cash coupon system draws from both existing systems and amalgamates their desirable features to create a viable alternative that should be tested by state governments, particularly in urban areas where access to markets and connectivity is good.

<sup>1</sup>If local vendors are roped in under the new system the money spent by beneficiaries will have a multiplier effect on the local economy rather than being transferred between the central and state governments with a petty commission being given to FPS owners <sup>2</sup>Under the current system rice being distributed is procured from far off states, given a choice beneficiaries will prefer to purchase local pulses and millets giving impetus to farmers cultivating them <sup>3</sup><http://www.cbpp.org/research/policy-basics-introduction-to-the-supplemental-nutrition-assistance-program-snap> <sup>4</sup><http://www1.wfp.org/cash-based-transfers> <sup>5</sup><http://www.enonline.net/fex/49/literaturereview>