

# Public Distribution System in India—A few suggestions

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## 1 PDS

With a network of more than 4 lakh Fair Price Shops (FPS) claiming to distribute annually commodities worth more than Rs 15,000 crore to about 16 crore families, the PDS in India is perhaps the largest distribution network of its type in the world. Despite the fact that growth of foodgrain production in the period 1989-2004 was lower than the increase in population during the same period, procurement of cereals on government account went up, suggesting a decline in poor people's consumption and their purchasing power. This may have happened because of the structural imbalances (high MSP, rising capital intensity, lack of land reforms, failure of poverty alleviation programmes, no new technological breakthrough in agriculture, etc.) created in the economy, as well as due to production problems in less endowed regions (erratic rainfall, soil erosion and water run-off, lack of access to credit and markets, poor communications) which led to a dangerous situation of huge surplus in FCI godowns during 2000-03 coupled with widespread hunger. PDS thus became a mechanism both for disposal of surplus grain with government and for augmenting consumption of the poor. Since 2004, high economic growth and falling per capita production have swung the pendulum on the other side, leading to grain shortages, high open market prices, and consequently imports.

PDS is operated under the joint responsibility of the central and state governments, with the former responsible for procurement, storage, transportation (upto the district headquarters) and bulk allocation of foodgrains. The state governments are responsible for distributing these foodgrains to consumers through a network of Fair Price Shops. This responsibility includes identification of families below poverty line (BPL), issue of BPL cards, and supervision and monitoring of the functioning of the Fair Price Shops. States are also responsible for movement of foodgrains from the district headquarters to the PDS shop, which requires storage at the sub-district level. As food was always a non-plan subject, such an infrastructure is often weak in the northern states.

Until 1992, the PDS had universal targeting, being available to all consumers. GoI introduced a revamped PDS (RPDS) in 1992 in limited areas, primarily drought prone, tribal and hilly, and remotely located. The RPDS was a purely location targeted scheme, being available to all in the selected area. This has been substituted in 1997 by the Targeted PDS (TPDS), specifically aimed at BPL people in all parts of the country. State-wise BPL quota is fixed on the basis of the adjusted poverty share determined by the Planning Commission based on official poverty lines in 1993-94, adjusted for growth in population in the interim. There would have been two implications, if the 1999-00 survey was used as the basis for determining the number of eligible households in each state. First, poorer states would have got higher allocation (but these states have poor capacity for lifting), and a very large number of poor people would have lost their status as BPL in states where poverty has sharply declined (Andhra, Tamil Nadu etc).

Under TPDS each poor family was entitled to 10 kgs of foodgrains per month at specially subsidised prices. The allocation of foodgrains for the BPL families was increased to 20 kg wef April 2000, and to 25 Kg. per family per month with effect from July, 2001. It was further increased to 35 kg in 2003-04, which corresponds to 84 kg per annum per unit, taking the average size of family as five. The central issue price for wheat and rice has remained unchanged since April 2000.

The additional allocations are being made at APL rates from December, 1997 subject to availability of foodgrains in the central pool and the constraints of food subsidy. The BPL/APL rates (Rs/kg) have been as follows since 1997:-

**Table 1: BPL/APL rates (Rs/kg)<sup>1</sup>**

Category	Date	Wheat	Rice (common)
BPL	1.6.1997	2.5	3.5
-do-	1.4.2000	4.15	5.65
APL	1.6.1997	4.5	5.5
-do-	1.4.2000	6.1	7.95

### 1.1 Antyodaya

According to the National Sample Survey about 5% of the total population in the country sleeps without two square meals a day. This section of the population can be called as “hungry”. In order to make TPDS more focused and targeted towards this category of population, the “Antyodaya Anna Yojana” (AAY) was launched in December, 2000 for one crore poorest of the poor families. AAY contemplates providing them foodgrains at a highly subsidized rate of Rs 2/ per kg. for wheat and Rs 3/ per kg for rice. The States/UTs are required to bear the distribution cost, including margin to dealers<sup>2</sup> and retailers as well as the transportation cost. Thus the entire food subsidy is being passed on to the consumers under the scheme. The scale of issue that was initially 25 kg per family per month has been increased to 35 kg per family per month with effect from 1<sup>st</sup> April, 2002. The AAY Scheme has been expanded in stages each time by 50 lakh households; in 2003-2004, August, 2004 and the third in May 2005, thus bringing the total number of beneficiaries to 2.5 crore households, which is about 38% of the BPL households.

According to the Food Ministry, there should have been 6.5 crore BPL (including AAY) cards in 2000, but the actual number of cards in 2007 was 7.8 crore BPL and 2.4 crore AAY. Similarly against the figure of 18.03 crore households in the country (as per the population projections, as on 01-03-2000 of the Registrar General of India), the total number of ration cards issued is around 22.32 crore.

### 1.2 Offtake by states

The overall lifting under TPDS (including Antyodya) and welfare schemes such as SGRY and MDM schemes has shown considerable improvement in the last two years, at least on paper. The percentage offtake of BPL/AAY foodgrains as percentage of allocation has gradually improved since 2001-02 from 59% to 78% in 2006-07.

**Table 2: Production, Procurement & Offtake of Foodgrains (in mT)**

	1997- 98	2001- 02	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07
Food Subsidy in billion Rs	79	176	240	270	290	235	242
Production of foodgrains	192.3	212.9	174.8	213.2	198.4	208.6	211.8
Procurement of foodgrains	23.6	42.6	40.3	34.5	41.4	42.2	36.0

<sup>1</sup> Information in Tables and Figures, wherever source is not indicated, is based on the Monthly bulletins issued by the Department of Food, GOI from time to time.

<sup>2</sup> In actual practice, none of the states give margin to the dealers, thus forcing them to corrupt practices.

Distribution through ration shops, incl AAY	17.0	13.8	20.1	24.2	29.7	31.4	31.6
Disposal through other welfare schemes, such as SGRY, NFFW	2.1	8.9	11.4	13.5	10.6	9.7	5.1
Open market sale	0.06	5.6	5.66	9.66	0.25		
Subsidised exports	0	4.7	12.46	10.31	1.0		

Table 2 shows that large amounts of grain, equivalent to some 28 million tonnes from 2001 to date, were exported from India, at almost BPL prices. This fuels the widespread notion that the GoI was feeding the poor of other countries (often cattle), instead of those at home. Had the amount exported been used for welfare schemes like SGRY, MDM, Annapurna, etc, the number of people benefited could have more than doubled.

The breakup of PDS offtake during 2004-05 to 2006-07 between BPL, APL, and AAY is given in Table 3

**Table 3: Allocation and off-take of foodgrains under TPDS (000 tonnes)**

	Allotment			Off-take			% Off-take		
	BPL	APL	AAY	BPL	APL	AAY	BPL	APL	AAY
2003-04									
Rice	12657	19295	2505	9029	1074	2382	71	10	95
Wheat	9913	25163	2050	6774	2251	1783	68	9	87
2004-05									
Rice	11925	19271	3427	10028	3385	3207	84	18	93
Wheat	9347	25454	2633	7423	3344	2264	79	13	86
2005-06									
Rice	11899	23270	4989	9680	4799	4717	81	21	94
Wheat	7300	21447	3079	5962	3503	2726	82	16	88
2006-07									
Rice	12502	24639	6261	9470	5947	5832	76	24	93
Wheat	5503	6004	3107	4769	2791	2830	87	46	92

Almost 60% of the offtake for APL category was confined to the five states of AP, Karnataka, TN, WB, and Assam. The APL allotment for some of the poorer states and their lifting (in 000 tonnes) in 2006-07 was as follows:

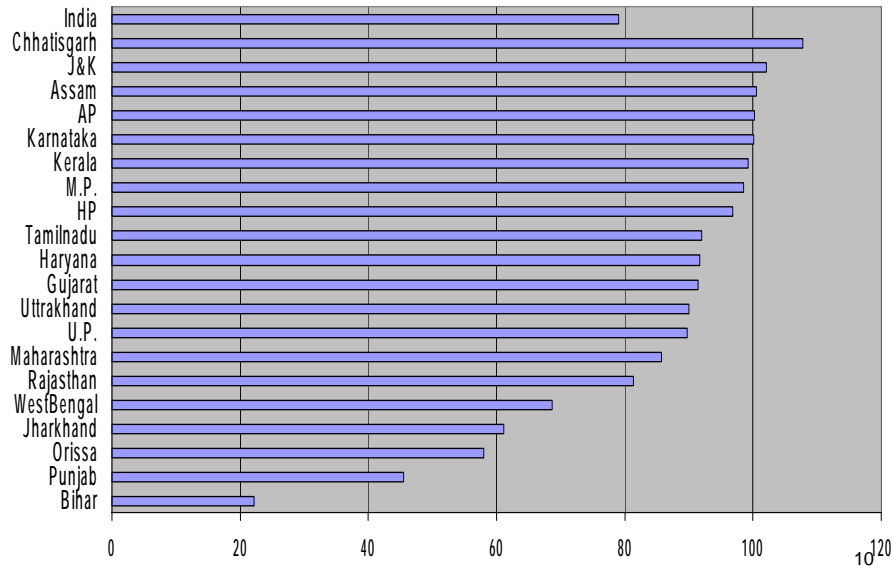
**Table 4: Offtake of APL by poorer states (in 000 tonnes) in 2006-07**

State	APL allotment	Offtake	% offtake
Bihar	1307	9	0.7
Jharkhand	190	13.9	7.3
MP	1042	137	13.1
Orissa	839	138	16.4
UP	3843	326	8.5
Rajasthan	1338	161	12.0

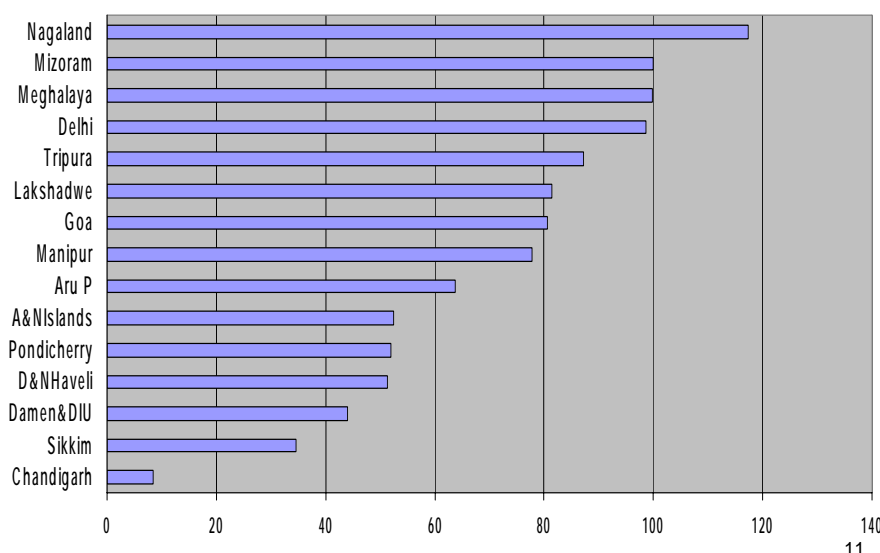
Taking out the APL offtake, the distribution of 22.9 MT of foodgrains in 2006-07 translates to providing the full quota of 84 kg per unit per annum to more than 27 crore units, which covers almost the entire BPL population according to 2004-05 survey. This is presuming that the grain actually reaches them.

However, not all states lift their entire quota, Bihar and Orissa being the worst defaulters, lifting less than half their allotment. In 2006-07, they lifted only 22% and 58% of the allotted food grains for the BPL category.

% offtake BPL 2006-07



% offtake BPL



The reasons for poor lifting in Bihar and Jharkhand are:

1. Inadequate storage capacity with FCI, which has godowns only in less than 50% districts
2. The State Food Corporation (SFC; the two states have a common SFC) on its part does not have sufficient godowns located in different blocks where foodgrain can be stored for supply to the dealers. The mobile vans, meant to bring the foodgrains from the godowns to the shops are all in need of repair or there is no driver or no fuel. The SFC is in an extremely poor financial shape. There is no working capital to purchase the PDS commodities from the FCI; it is the PDS dealers who have to advance the money every month. There are districts in which the SFC still needs to pay 12-24 months salaries to the depot managers and other corporation staff members.
3. Allocations from GoI are valid only for a month, and if the state government is not able to lift within that time, its quota lapses. It could be increased to a quarter.
4. The villagers are poorly informed, and certainly not in advance. This means that the poorest among them may not have sufficient cash ready available when the foodgrains arrive in the shop.
5. The PDS dealer will only transport so much as he expects to sell within one or two days. In short, there is a physical access problem, in the sense that the commodities may come with irregular intervals or not at all. There is also a problem of economic access, in the sense that the poorest people do not have cash ready at the moment the stocks arrive.

The problem of lack of infrastructure and shortage of funds with government parastatals is not unique to Bihar, most states except the few in west and south suffer from these handicaps. GoI should first ensure that adequate infrastructural capacity is available at the district and block levels, otherwise wasting scarce resources through leakages helps only contractors and corrupt government staff, and does not in any way help the poor. Another study claimed that each fair price dealer has to “maintain” on an average nine government functionaries. It is significant that the allocation of poorer states such as UP, Bihar and Assam got more than doubled, as a result of shifting to TPDS, yet due

to poor off-take by the states and even poorer actual lifting by the BPL families, the scheme has not made any impact on the nutrition levels in these states.

Some other general problems associated with the scheme besides illegal diversion are

- The poor do not have cash to buy 35 kg at a time, and often they are not permitted to buy in instalments.
- Low quality of foodgrains
- Weak monitoring, lack of transparency and inadequate accountability of officials implementing the scheme
- Price charged exceeds the official price by 10 to 14%
- The shop does not open for more than 2-3 days in a month, and the card holders are not allowed to lift their quota of previous months, or in instalments during a month.

### 1.3 Evaluation

All is not well with the Public Distribution System in India. The different weaknesses in the targeted public distribution system (TPDS) include ration cards being mortgaged to ration shop owners, large errors of exclusion of BPL families and inclusion of above poverty line (APL) families, prevalence of ghost BPL cards with weaknesses in the delivery mechanism leading to large scale leakages and diversion of subsidised grains to unintended beneficiaries, section of the APL households holding BPL cards actually not lifting their ration quota and thus a part of the entitlement of these households leaking out of the PDS supply chain.

There are significant inclusion and exclusion errors in possession of BPL ration cards, as shown below:

**Table 5: Possession of ration cards by type, and socio-economic status, 2004/05**

	<b>% of HH that possess ration card</b>	<b>% of HH that possess BPL card</b>	<b>% of HH that possess APL card</b>	<b>% of HH that possess AAY card</b>
Poorest	77.3	44.2	28.2	4.9
Q2	81.6	40.5	38.4	2.7
Q3	83.3	40.0	41.6	1.8
Q4	84.9	30.5	52.7	1.7
Richest	87.5	16.8	70.1	0.6
Rural	84.8	38.7	43.2	2.9
Urban	78.8	20.8	57.0	1.0

Source: World Bank 2007<sup>3</sup>

The Table clearly shows that almost half of the poor are left out from the appropriate category of ration cards.

A study was conducted in 1999 by the Tata Economic Consultancy Services to ascertain the extent of diversion of commodities supplied under PDS from the system. At the national level, it was assessed that there is 36% diversion of wheat, 31% diversion of rice and 23% diversion of sugar. The diversion is more in the Northern, Eastern and North Eastern regions. Diversion is comparatively

<sup>3</sup> World Bank 2007, Social Protection for a Changing India, Human Development Unit, South Asia World Bank, New Delhi

less in the Southern and Western regions. As extreme cases 64% diversion of rice is estimated in Bihar and Assam. In the case of wheat 100% diversion is estimated in Nagaland and 69% in Punjab.

A Planning Commission study (2005) finds that about 58 per cent of the subsidized foodgrain issued from the Central Pool does not reach the BPL families because of identification errors, non-transparent operation and corrupt practices in the implementation of TPDS. There are errors of wrong inclusion of ghost cards and non-BPL households; only about 57% of the BPL households are covered by it. Over 36% of the budgetary subsidies on food is siphoned off the supply chain and another 21% reaches the APL households. Only about 42% of subsidized grain issued from the Central Pool reaches the target group. The FPSs are generally not viable because of low annual turnover and they remain in business through leakages and diversions of subsidized grains.

The responsibilities for storage, transport and distribution within districts are contracted out to “fair price” shops and the associated contractors. This has created substantial scope for fraudulent practices due to large gap between market prices and prices in fair-price shops. Even then the cost of handling of food grains by public agencies is 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. Thus the cost of income transfer to the poor through PDS is much higher than that through other modes.

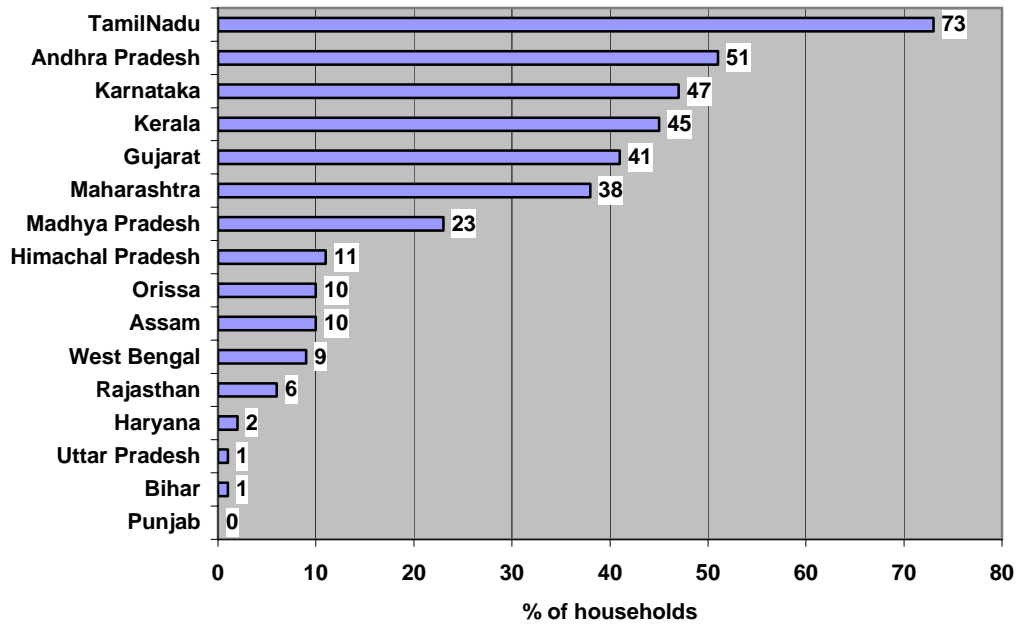
Another evaluation by ORG in September 2005 reported 39% diversion of rice and 53% diversion of wheat.

Average foodgrain consumption from PDS in 1993-94 and 1999-00 was estimated by NSSO. It showed that whereas average lifting from PDS per person in Kerala was 4.58 kg per month, it was only 0.15 kg in Bihar and 0.29 kg in UP.

A study (EPW Nov 26, 2005) for Madhya Pradesh shows that the selection of AAY beneficiaries is generally fair, and the scheme is directed at genuinely poorer households. However, in some districts such as Tikamgarh only 2% of the BPL families had yet been identified for Antyodaya cards. When compared with their entitlements, they received 17% less. Often they found the shop closed, or when it was open they did not have cash. Despite orders government permitting staggered lifting, shopkeepers insist on the entire quota to be lifted in one instalment.

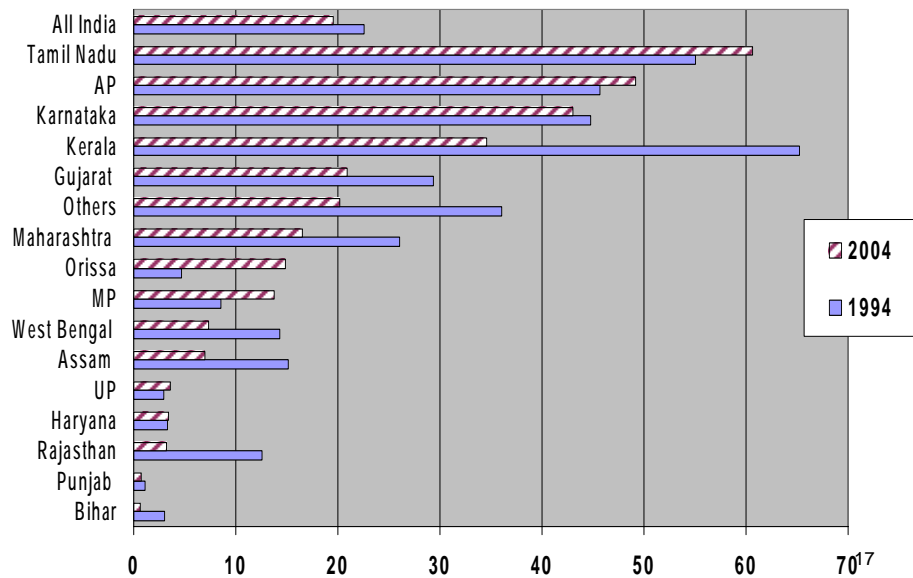
An All-India study carried out by a renowned agency (Public Affairs Committee, Bangalore) and published in the *Economic and Political Weekly*, 28<sup>th</sup> February, 2004, showed that although the percentage of households reporting the use of ration cards is high, only one-fourth of the rural and one-fifth of the urban households reported the regular availability of staple foodgrains at the ration shop. Regular availability is reported by more than half of all rural households in the four southern states, viz. Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. Regular availability is reported by 2 per cent (or less) of the users in the states of Bihar, Haryana, Punjab and Uttar Pradesh.

### Regular Availability of foodgrains



In terms of access to PDS grains nationally, between one fifth and one quarter of households reported purchasing PDS grains, with some drop between 1994 and 2004. Household access in some states – most notably Bihar, UP, Rajasthan, and MP - has remained consistently very low to the point where it cannot be considered a significant program in household welfare terms in several very poor states (World Bank 2007).

### % Households with access to PDS





## 2 Suggestions for improvement

### 2.1 Identifying the problems

To sum up, TPDS, targeting around 400 million people and budgeted around for Rs.25,000 crore annually, is affected by targeting errors (both inclusion and exclusion errors), spurious beneficiaries, diversion and pilferage and even location specific availability. The problems associated with PDS have been identified in this note, and for the sake of clarity are again being summarized below.

1. Large errors of exclusion of BPL families and inclusion of above poverty line (APL) families
2. Prevalence of ghost BPL/AAY cards
3. Diversion of subsidised grains to unintended beneficiaries
4. Section of the APL households not lifting their ration quota and thus a part of the entitlement of these households leaking out of the PDS supply chain.
5. The present procedure for selection of BPL beneficiaries is opaque, bureaucratic, and does not involve gram sabhas. The basis on which village wise cap on the maximum number of entitled beneficiaries is fixed, is not clear and not well defined.
6. Some states, such as Bihar, Jharkhand and UP are not being released the APL quota on the ground that they did not lift it in the past when the market price was low. This policy favours the southern states which have been subsidising the APL quota out of state funds, and punishes the poorer states
7. Selection procedure of FPS dealers is not transparent, and often based on patronage or bribes
8. Some poor states such as Bihar and Orissa are not able to lift their entire quota
9. Inadequate storage capacity with FCI in some districts
10. Poor financial condition of many State Food Corporations
11. Allocations from GoI are valid only for a month, and if the state government is not able to lift within that time, its quota lapses.
12. The poor do not have cash to buy 35 kg at a time, and often they are not permitted to buy in instalments.
13. Low quality of foodgrains
14. Weak monitoring, lack of transparency and inadequate accountability of officials implementing the scheme
15. Price charged exceeds the official price by 10 to 14%
16. The shop does not open for more than 2-3 days in a month, and the card holders are not allowed to lift their quota of previous months, or in instalments during a month.
17. Ration cards are mortgaged to ration shop owners
18. No grievance redressal mechanism
19. A large number of homeless and poor living in unauthorised colonies in urban areas have been denied ration cards, and are thus not able to avail of PDS, despite being Indian citizens.
20. Seasonal and temporary migrants face problems in receiving their entitlements during the period they are out from the village.

## 2.2 Policy and procedural reforms

The following procedural reforms may help in improving both the offtake of PDS rations and availability for the poor:

**Improving procedure for selection of BPL** – The present procedure for selection of BPL beneficiaries is opaque, bureaucratic, and does not involve gram sabhas. The basis on which village wise cap on the maximum number of entitled beneficiaries is fixed, is not clear and not well defined. A white paper should be prepared on the subject, and clear policy laid down by the Ministry of Rural Development.

**Reducing paper work and transaction costs:** Due to cumbersome procedures, often there is a time difference of several days between the FPS dealer depositing his bank draft and the grain being released to him. This unnecessarily blocks the money of the dealer. It is suggested that the dealer should deposit advance directly in the bank account of the SFC/FCI, and there is no necessity of the bank draft being handled physically. The SFC/FCI should put its account number on the web so that anyone can see which dealer has deposited, when, and how much. On the same page SFC/FCI should issue an electronic release order. On the same day SFC/FCI should issue a manual release order too, as not all shop keepers will have computer facility at present. This will bring transparency in the entire operation, and anyone can see where delay is taking place.

**Fixation of APL quota** – The norm for release of APL quota should be transparent and realistic. Some states, such as Bihar, Jharkhand and UP are not being released the APL quota on the ground that they did not lift it in the past when the market price was low. This policy favours the southern states which have been subsidising the APL quota out of state funds, and punishes the poorer states (see Table 4).

**Leakages in APL quota** – One of the main reasons for the black marketing of the APL quota is the fact that GOI does not release full quota as per the number of APL cards, which gives a handle to the dealer to refuse supplies on the ground that the limited quota has already been lifted. In case GOI does not release full quota for APL, the cardholders' entitlement should be reduced accordingly, and this fact must be given due publicity. In other words, there should be foodgrain for each APL card, though the quantity may be much less than 35 kg. A better option is to increase the number of BPL cards from 7.8 to 12 crores, and abolish the APL category. Including AAY, this policy would cover almost 70 to 75% of the population. If the entitlement is reduced to 25 kg per card, the total requirement of foodgrains would be  $14.5 \times 12 \times 25 = 43.5$  mT, which is feasible.

**Elimination of Ghost Ration Cards** – All card holders must be photographed, and their details along with their photographs should be in the public domain. This will make it easy for the civil society or consumers to check the list.

**There should be only one annual order from the district indicating quota of each dealer**, so that the dealer does not have to wait every month for the district to issue allotment order. Government should also issue just one order in the beginning of the year in which quota of all the dealers can be mentioned.

**Making it obligatory for dealers to sell non-cereal items:** Dealers should be asked to improve their viability by selling items of mass consumption other than wheat and rice. They should be encouraged to do so by issuing a specific order to that effect. Gujarat has made FPS multi-product shops, but no such order exists in many states. The dealers' psychology is that "everything is prohibited unless specifically permitted".

**Making SFC transport grain to the FPS:** SFC should be asked to transport foodgrains up to the shop, and if necessary, state government should either give some subsidy to the SFC, or partly increase the retail issue price by about 0.10 Rs per kg.

**Selecting FPS dealer:** In many states the selection needs approval by the Minister or a committee of MLAs and thus the process is highly subjective and opaque. There is no involvement of civil society or consumers in the selection, nor involvement for them in operation of FPS. FPS should be allotted to people who are already running a viable shop in the area. This will ensure that the shop remains open on all working days. The present system of choosing unemployed youth etc. acts against the interests of the consumers, as the selected candidates do not possess entrepreneurial capabilities, and end up by selling the shop to others. In Delhi most dealers run more than ten shops, although the shop may be in some one else's name. The existing shopkeeper may be given a year's time to start selling other items, and the annual turn over from those items should be at least twice from the allotted foodgrains. If he/she fails to fulfil this condition, his licence may be cancelled.

**Reduce control of inspectors over shops:** Whereas government should set up and strengthen transparent arrangements for social audit, it may be desirable to remove some of the irritants, such as no distribution can take place unless the arrival of the stock has been verified by the Inspector. The Inspectors should on the other hand meet the consumers regularly and collect Report Cards from them as regards satisfaction.

**Take photographs of the stock in the shop:** Supply Inspectors should be supplied with cheap digital cameras so that they can show the stocks at the FPS along with that day's newspaper and consumers, and send it to their superiors with a copy to the dealer. This would show that the grain had actually reached the shop, which often does not happen in the rural areas.

**Oversight by citizens** – There should be quarterly meeting of the dealer with all consumers which should be attended by senior staff. A list of responsible citizens should be prepared in the open meeting (its photographs should be taken to record the size of the gathering). These people should be permitted to inspect the shop (preferably in group of two or three people, so as to avoid the complaint of favouritism).

**Involve civil society** – Many states have a large number of reputed NGOs. Their list may be prepared in a transparent manner, and localities/villages may then be divided amongst them. They should be authorised to inspect the shops, meet the people and take their grievances to the higher authorities.

**Develop grievance redressal mechanism** – State Governments should provide a free toll number, where complaints can be registered online. The entire operation should be outsourced and web-enabled, so that anyone could see how many complaints have come from each shop, and how many been satisfactorily disposed off.

**Launch a drive to cover the poorest** – A large number of homeless and poor living in unauthorised colonies in urban areas have been denied ration cards, and are thus not able to avail of PDS, despite being Indian citizens. A drive should be launched in collaboration with civil society to cover them in a timebound manner with ration cards, preferably Antyodaya cards.

**Provide cash subsidy** – The economic price of foodgrains in FCI godowns (which is the cost to government after adding storage and transport) is between 9 to 11 Rs per kg. It is distributed to the consumers at Rs 2 to 6=50 per kg. Thus the Government spends about 2 to 8 Rs per kg on PDS. Since the entitlement is 35 kg per month, there is a subsidy of Rs 70 to 300 Rs per family per month. In certain urban areas government should try to give the subsidy amount as cash to the consumers and ask them to buy grain in the open market. People should be asked to open a bank account and the amount should be centrally transferred from the bank without involving any intermediary or bureaucracy. The results of the pilot experiment should be carefully analysed before extending it.

To sum up, procedural and policy reforms should be encouraged. Banking and Information technologies have advanced rapidly and should enable governments to bring transparency and speed in all applications without extra expenditure. In addition, computerisation can help in modernising

the PDS. A number of states are already innovating in PDS implementation, and improved performance can be seen in some cases. Although the introduction of modern tools such as smart cards may not be a panacea for all the evils, it can solve many of the problems particularly that of pilferage and spurious beneficiaries. They are like low hanging fruits which can be picked up easily.