Chapter 8

PUBLIC DISTRIBUTION SYSTEM & FOOD SECURITY

With a network of more than 400,000 Fair Price Shops (FPS), the Public Distribution System (PDS) in India is perhaps the largest distribution machinery of its type in the world. PDS is said to distribute each year commodities worth more than Rs 15,000 crore to about 16 crore families. This huge network can play a more meaningful role if only the system is able to translate into micro level a macro level self-sufficiency by ensuring availability of food grains for the poor households.

2. Access of the poor to food is a priority objective for two reasons: Firstly, though the growth of food grain production in 1989-99 was lower than the increase in population during the same decade, procurement of grains was indeed going up, which is suggestive of a decline in people's consumption or in the purchasing power of the poor. This may have happened because of structural imbalances in the economy: rising capital intensity, lack of land reforms, failure of poverty alleviation programmes, growing disparity between towns and villages, and the like. To this may be added production problems in less endowed regions, which have led to a dangerous situation of huge pile-up inside Food Corporation of India's (FCI) godowns and widespread incidence of hunger outside. It is just as important to correct these policy imbalances as to increase food production. Secondly, if consumption of the poor does not increase there would be serious demand constraints on agriculture and could make the growth target of 4.5% per annum unachievable.

3. Huge as it may seem on paper, all is not well with the Public Distribution System. A large subsidy each year keeps the system going (see Table below). A close look at the Table would show that the level of food subsidies as a proportion of total Government expenditure has gone up from about 2.5 percent or below at the beginning of the 1990s to about 3 percent towards the end of the decade. One of the issues in the PDS operation has been how to contain the food subsidy within reasonable levels.

Table-1: Food Subsidy of the Central Government

Year	Amount (Rs.Crore)	% of Total (Govt Expenditure)
1990-91	2450	2.33
1991-92	2850	2.53
1992-93	2785	2.27
1993-94	5537	3.90
1994-95	4509	2.80
1995-96	4960	2.78
1996-97	5166	2.46
1997-98	7500	3.23
1998-99	8700	3.11
1999-00	9200	3.03
2000-01	8100	2.39

Implementation of TPDS

4. As it stood earlier, PDS was criticised on a wide front: its failure to serve the population Below Poverty Line (BPL), for its perceived urban bias, negligible coverage in States with a high density of rural poor and lack of transparent and accountable arrangements for delivery. Given that backdrop, the Government acted to streamline PDS during the Ninth Five Year Plan period by issuing special cards to BPL families and selling to them foodgrains through PDS outlets at specially subsidised prices (with effect from June, 1997).

5. Under the new Targeted Public Distribution System (TPDS) each poor family is entitled to 10 kilograms of food grains per month (20 kg wef April 2000) at specially subsidised prices. This is likely to benefit about six crore poor families, to whom a quantity of about 72 lakh tonnes of food grains per year is earmarked. The identification of the beneficiaries is done by the States, based on state-wise poverty estimates of the Planning Commission. The thrust is to limit the benefit to the truly poor and vulnerable sections: landless agricultural labourers, marginal farmers, rural artisans/craftsmen, potters, tappers, weavers, blacksmiths, and carpenters in the rural areas; similarly those covered by TPDS in urban areas are slum dwellers and people earning livelihood on a daily basis in the informal sector like the porters and rickshaw pullers and hand cart pullers, fruit and flower sellers on the pavements, etc.

6. The allocation of food grains to States is based on consumption in the past, that is, the average annual off-take during 1986-87 to 1995-96. Food grains out of this average-lifting -- in excess of the BPL needs at the rate of 10 kg per family per month – are provided to the States as 'transitory allocation' and a quantity of 103 lakh tonnes is earmarked for this annually. This transitory allocation is intended to continue the benefit of subsidised grains to population above poverty line (APL) to whom an abrupt withdrawal of PDS facility was not considered desirable. The `transitory' allocation is issued at prices which are subsidised but higher than prices fixed for the BPL quota.

7. Following the TPDS introduction, representations were received from several States / Union Territories (UTs) that the new allocation was much lower than the earlier level of allocations particularly during 1996-97. As a result of this and keeping in view the guidelines for implementation of TPDS, additional allocations -- over and above TPDS quota -- were made to States /UTs at economic cost from June, 1997 to November, 1997. At a Conference in September 1997, Chief Ministers reviewed the TPDS implementation and the states demanded that the additional allocations be made at APL rates. Accordingly, the additional quantiities are being allocated at APL rates from December 1997 subject to availability of food grains in the Central pool and constraints of food subsidy. The BPL/APL rates (Rs/kg) have been as follows during the Ninth Plan:

Table – 2

Issue Price of Food Grains (Rs.)

Category	Date	Wheat	Rice (common)
BPL	1.6.1997	2.5	3.5
-do-	1.4.2000	4.5	5.9
APL	1.6.1997	4.5	5.5
-do-	1.4.2000	9.0	11.35

Diversion of PDS Commodities:

8. In response to complaints, a study was conducted by the Tata Economic Consultancy Services to know how much of PDS supplies were diverted from the system. At the national level, it was found, there was a diversion of 36% of wheat supplies, 31% of rice and 23% sugar. Statistically at 90%-confidence level, the actual diversion of wheat would fall in the range of 32-40%, rice in 27-35% and sugar 20-26%. Table-2 shows the extent of diversion in various States and Union Tterritories. The Table shows that the diversion is more in Northern, Eastern and North Eastern regions; it is comparatively less in Southern and Western regions. A high 64% diversion of rice is estimated in Bihar and Assam. In the case of wheat the diversion is an estimated 100% in Nagaland and 69% in Punjab.

9. It is significant to note that the diversion is estimated less in the case of sugar as compared to rice and wheat. The PDS is better organized in towns where sugar is consumed while its infrastructure is weak in rural areas, especially in poorer Northern, Eastern and North Eastern States. A study in Bihar has reported the following Box.

Box 1

DELIVERY SYSTEM FOR PDS IN BIHAR

- Dealership and even membership of vigilance committees are seen as positions where money can be made
- The procedure to appoint them is highly politicised, and mostly clients of MLAs are appointed
- Sub-district infrastructure to handle food grains is poor; Ranchi had only 11 godowns for 20 blocks
- The Civil Supplies Corporation has no working capital to buy from Food Corporation of India; vans are in poor condition or have no money for petrol, staff does not receive salaries for months
- On the whole, only Government staff, agents and retailers benefit from the scheme

10. Problems of lack of infrastructure and shortage of funds with Government agencies are not unique to Bihar; most States suffer such handicaps except for a few in

the West and the South. The Centre should ensure adequate infrastructural capacities in districts and at block levels to plug leakage of scarce resources which reportedly helps only contractors and corrupt government staff and keeps the poor and the needy away. One study claimed that each fair price dealer has to "maintain" on an average nine government functionaries. It is significant that the allocation to poorer states like UP, Bihar and Assam got more than doubled after the switch-over to TPDS, but the offtake by the States was poor and by actual BPL beneficiaries even poorer. The scheme has not made any impact on nutrition levels in those States.

Table-3: State and National Level Diversion

Name of State/UT	Estimated Diversion (%)		
	Wheat	Rice	Sugar
NORTHERN REGION			
1. Delhi	53	53	25
2. Haryana	53	44	28
3. Himachal Pradesh	47	18	8
4. Jammu & Kashmir	28	29	28
5. Punjab	69	40	6
6. Uttar Pradesh	46	49	36
WESTERN REGION			
1. Goa	23	28	6
2. Gujarat	23	21	18
3. Maharashtra	26	30	22
4. Madhya Pradesh	20	24	32
5. Rajasthan	31	36	17
SOUTHERN REGION			
1. Andhra Pradesh	15	19	16
2. Karnataka	30	18	19
3. Kerala	28	23	25
4. Tamil Nadu	24	33	28
EASTERN REGION			
1. Bihar	44	64	47
2. Orissa	39	54	28
3. Sikkim	52	21	41
4. West Bengal	40	34	24
NORTH EASTERN REGION			
1. Arunachal Pradesh	47	56	23
2. Assam	61	64	52
3. Manipur	48	19	37
4. Meghalaya	62	54	39
5. Mizoram	63	54	41
6. Nagaland	100	46	24
7. Tripura	27	33	13
UNION TERRITORIES			
1. Chandigarh	24	12	35
2. Dadra & Nagar Haveli	18	7	26
3. Daman& Diu	40	38	13
4. Pondicherry	40	20	39
NATIONAL LEVEL	**36**	**31**	**23**

11. A detailed study on TPDS was published in a paper ‘Food Security and the Targeted Public Distribution System in Uttar Pradesh;’ it was presented by Ravi Srivastava in Hyderabad in March 2000. The study was carried out among 2250 households across 120 villages in 25 districts in four economic regions. It showed that savings through TPDS in UP accounts for only 1.3 percent and 1.1 percent of the cereal budget of households in two lowest units. The scheme is seen hardly to help the poor. This, it was stated, is because UP government does not lift its quota due to bad administrative arrangements and a substantial portion of whatever is lifted is often sold in the black market. Pricing provides a hefty incentive for an estimated 41 per cent leakage. Imperfect targeting has led to exclusion of eligible households. The basis for selecting beneficiaries lacks transparency and is too complicated for local officials to administer. There is a lack of political commitment to the TPDS, it was stated, as well as administrative cynicism while the PDS shopkeeper does not have adequate incentive. Multiplicity of agencies, poor co-ordination and low administrative accountability have combined to cripple the delivery machinery. Greater local supervision and a clear enunciation of entitlements could help reduce the extent of leakage.

12. Other problems associated with the scheme are:

- The poor do not have cash to buy 20 kg at a time, and often they are not permitted to buy in instalments.
- Low quality of foodgrains – A World Bank report (June 2000) states that half of FCI’s grain stocks is at least two years’ old, 30% between 2 to 4 years old, and some grain as old as 16 years.
- Weak monitoring, lack of transparency and inadequate accountability of officials implementing the scheme
- Price charged exceeds the official price by 10% to 14%.

13. The Tata report also examines the effectiveness of laws like Essential Commodities Act, 1995 and Prevention of Black-Marketing and Maintenance of Essential Commodities Act, 1980 in checking diversion. The report has found no correlation between the frequency of use of Enforcement Acts and extent of diversion in particular states. In the Northern Region, Uttar Pradesh has more diversion of rice and sugar (compared to Punjab) despite a higher number of raids and convictions. In the West, similarly, Gujarat does not appear to be very much better managed (than Madhya Pradesh and Rajasthan) despite reporting the highest number of detentions in the country under these Acts.

Recommendations for Streamlining TPDS:

14. To make implementation of TPDS more effective, following suggestions have been made:

a. Items other than rice and wheat need to be excluded from the purview of TPDS. Attempts to include more commodities under food subsidy cover should be resisted.

b. Sugar supply through PDS draws well-to-do families to the system.

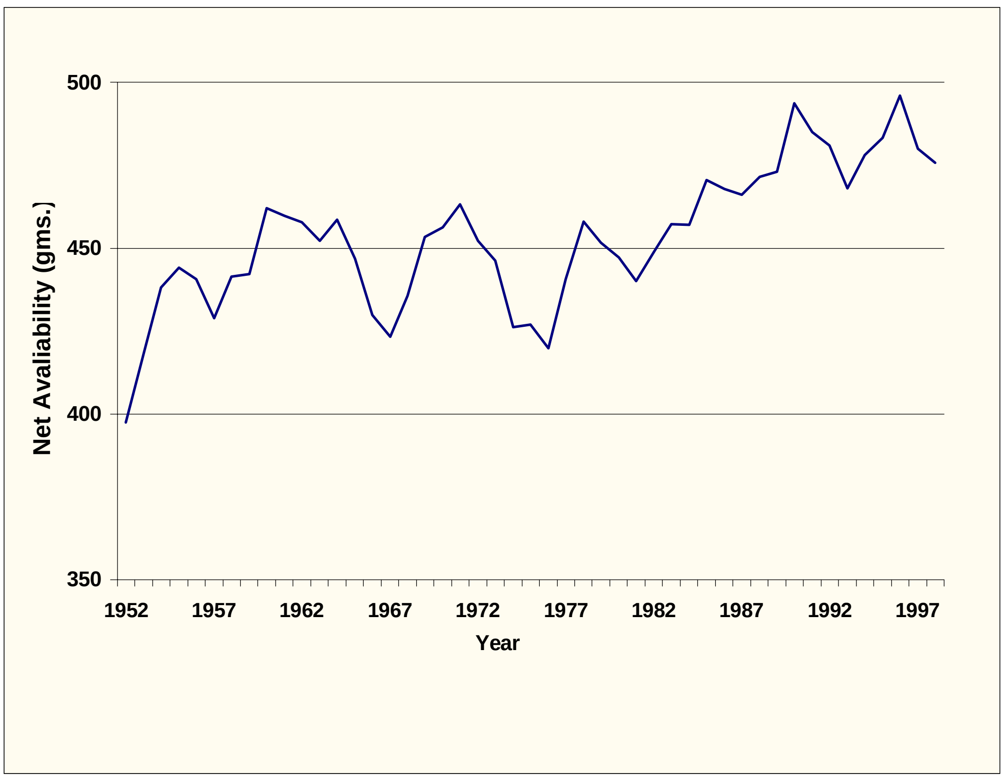
c. Coarse grains are basic commodities purchased by the poor . These grains in any case are available to the poor at low prices. There seems no additional need to supply them through PDS and bring them under the cover of food subsidy.

d. Kerosene oil is also a commodity supplied through PDS and is intended for the poor. But there occurs large scale illicit diversion of this item and benefits meant for the poor are cornered by others. Subsidised kerosene is used for adulteration with diesel. Subsidy on kerosene should be gradually phased out and alternate avenues of marketing it needs to be explored.

e. The coverage of TPDS and food subsidy should be restricted to the population below poverty line. For others who have the purchasing power, it would do merely to ensure availability of grains at stable price in the market -- no need for food subsidy to this population.

f. Ration cards have tended to be used as ID cards to establish people's identity. Many get ration cards issued only for this purpose.

Per Capita Daily Availability Of Cereals And Pulses In Grams



FOOD SECURITY

15. Over the past half a century, the per capita net availability of cereals and pulses per day has shown significant improvement in the country. A three-year moving

average figures of per capita net availability of cereals and pulses show the following: The average for 1951-53 was 397.3 grams per day and this went up to 475.8 grams during the period 1997-99 . This signifies a growth rate of 0.26 per cent per annum during 1951-99 period. In 1980s, the growth rate in availability per capita was 1.20 per cent per annum which has has come down to – 0.28 per cent per annum during the 1990s.

16. The level of grain stocks with Food Corporation of India has shot up. In June, 2000 the Central pool had stocks of rice totalling 14.49 million tonnes and of wheat 27.76 million tonnes. For the country, the total food grain stock during June, 2000 stood at was 42.25 million tonnes against a prescribed level of 24.30 million tonnes. Storage costs keep on piling. The problem is not one of scarcity but it has to do with how to manage surplus so that farmers are not adversely affected by decline in prices. In this connection, the Committee of Secretaries has directed the Department of Food and Civil Supplies to set up a panel of eminent experts to make a study on `foodgrain management in India and related issues;' the study is to include the role of FCI.

17. In addition to TPDS, two other schemes – Integrated Child Development Scheme (ICDS) and mid-day meal programme of the Central Government -- aim to alleviate household mal-nutrition. The schemes cost more than Rs.13,400 crore in a year, of which roughly Rs.400 crore is external contribution. However, operational inefficiencies limit the impact of the schemes and more than half of the children 1-5 years old in rural areas are under-nourished, with girl children suffering even more severe malnutrition.

18. While provision of food subsidy is an important element of the food security system in India, an equally important role is played by food procurement and buffer stock operations. The agricultural production is subject to climatic swings and market forces and there is likely to be wide fluctuations in food grain prices. To bring about price stability, it is necessary to build and maintain an adequate level of buffer stock. For now, the challenge however is to reduce the present stock level to roughly half without detriment to farmers. This would need several legal and policy changes , which could enhance the role of private sector and make markets less distorted.

Changes in law –

19. A key legislation, Essential Commodities Act (E C Act), was enacted during a time when the country was faced with severe food shortages and scarcity. Restrictions under the Act, which were relevant 30 years back, could hamper productive/ commercial activity in the market in an era of self-sufficiency/surplus in food grain output and in other primary commodities.

20. There are several licences and permits to be obtained from the authorities under the E C Act. Apart from this a large number of registers are to be maintained and returns filed periodically. Inspections are carried out to ensure compliance. All these

have pushed operational costs to traders. Some examples of such controls are given below:

21. Gujarat limits stock-holding in pulses to 25 quintals for licence holders and to just nine quintals for others. The Government of Maharashtra has set a maximum storage period of 15 days for wholesale dealers. In Kerala, stocking of sugar is limited to 250 bags. In Andhra Pradesh, the stockholding in pulses and oils can be up to one month's stock of raw material and half a month's stock of finished goods. In Uttar Pradesh, wholesale dealers have a stockholding limit of 1,000 quintals. In Punjab, a limit of 250 quintals is applied on rice stored while West Bengal has similar storage limits for rice (750 quintals) and wheat (400 quintals) for wholesale dealers. In Assam the wholesale dealer can store up to 10 quintals without licence.

22. Some Orders/Notifications under the E C Act restrict movement of goods from surplus States to deficit States. State Governments issue Movement Control Orders to enforce the restrictions. The Government may specify that transportation of certain commodities can be undertaken only after obtaining a general permit or a special transport permit. Most of these orders and notifications come into force at harvesting time and are published in the official gazette, beyond the ordinary reach of the public.

23. In Andhra Pradesh and Tamil Nadu, farmers are not allowed to do direct sales outside the State. Permits are required for such sales. In Hyderabad, a permit from Managing Director of the Civil Supplies Corporation is required while in other cases in A.P the District Collector or Civil Supplies Officer of the district issues the permit. . In Tanjore district of Tamil Nadu, the State Government imposes restriction on movement of paddy out of the district. Maharashtra, similarly, controls movement of cotton.

24. Such inter-state movement restrictions tend to depress prices and are seen as `anti-farmer,' especially when Government and agencies like Food Corporation of India do not have adequate storage capacity available. Free movement will benefit consumers in deficit regions such as Kerala, besides securing a good price to farmers in producing States without burdening the exchequer via subsidy route.

25. Orders like Cold Storage and Fruit Products Orders specify storage rent to be determined by the authorities and the licensee is liable to punishment if he does not rent out space to Government agencies or cooperatives.

26. Controls/restrictions under E C Act are seen as a disincentive to production and distribution of essential commodities. Traders reportedly operate at high margins and share a part of these with inspectors. With the increased production in essential commodities, it is recommended that all agricultural produce and its products be deleted from the definition of "essential commodities" under Section 2(a) of E C Act and all Control Orders relating to or affecting agricultural produce/products be rescinded. Action in this direction may be initiated for wheat and sugar to begin with,

it is suggested. Also, State intervention may now be directed to make the markets friendly to the poor.

Other policy changes –

27. In new initiatives, several State Governments have initiated their own food procurement operations. More such initiatives are likely in the future. It is conceivable that some of Central agency FCI's godowns (with staff) are transferred to the State Governments. In this context the task of maintaining buffer stocks will become a responsibility of Central and State Governments. There is also a possibility that FCI play a more active role in undertaking open market operations within a prescribed price band. It can release stocks in the open market when shortages are prevalent and prices are high. The FCI could also become an active player in the international food grains market.

28. Most storage godowns with FCI are small-scale, low -quality structures; sometimes, grains are also stored in the open (known as covered and plinth storage -- CAP) leading to heavy storage losses. On other issues, the present extraction rates for wheat and rice are about 10 % to 30 % below the international standards due to reservation of agro-processing units for small sector who uses inefficient technologies. Private transporters get a low priority on railway movement forcing them to rely on more expensive truck transport.

29. As regards the Minimum Support Price, there is a need strictly to adhere to what the Commission for Agricultural Costs and Prices recommends rather than fix procurement prices much in excess of estimated costs of production.

Recommendations:

- There is need to amend law to ban controls and restrictions on trade between States. There should be free movement of all kinds of commodities including agricultural produce.
- While it would be expedient to continue with support price for agricultural produce like wheat, paddy, cotton etc, the need to abolish or phase out levy or monopoly purchase should be considered. Levy acts as a tax on the processors which is then passed on to the producers. Government should buy rice for its public distribution system through an open tender system.
- Remove licensing controls on Roller Flour Mills and other food processing industry. De-reserve food processing units, especially rapeseed and groundnut processing units, from Small Scale Industry (SSI) list.
- Impose tariff on import of wheat and encourage roller flour mills to buy from the farmers.
- Even during 1999-2000 when food stocks were at its all-time peak, restrictions were imposed on export of rice. Export needs to be encouraged; broken rice could be imported for the TPDS.

- FCI should be allowed to intervene in the food grains market within a predetermined price band to moderate prices and facilitate management of surplus food stocks.
- Scrap Essential Commodities Act; or at least take wheat, rice and sugar out of its purview.
- Completely decontrol sugar and take it out of PDS.
- Limiting public distribution of essential items to targeted groups; abolishing PDS for APL while retaining TPDS.
- Lifting of the ban on Futures Trading of agricultural commodities. This will help in containing the wide fluctuations in commodity prices, besides cutting down the cost of marketing by hedging the risk.
- Abolish Milk and Milk Products Order (MMPO), which restricts private sector investment in milk processing.

Allotment/Offtake of Rice and Wheat (April, 1999 - March, 2000) In '000 tonnes

State	No.of BPL household	No.of APL household	Allotment		Offtake		Offtake of BPL foodgrains per BPL household per month
			BPL	Non-BPL	BPL	Non-BPL	
	(lakhs)	(lakhs)					
Andhra Pradesh	37.78	118.65	453	1988	455	1926	10.0
Assam	19.06	25.53	229	655	216	535	9.4
Bihar	85.90	73.39	1030	338	876	40	8.5
Gujarat	19.95	66.35	241	792	241	216	10.0
Haryana	7.33	23.70	88	69	51	2	5.8
Karnataka	28.75	64.43	345	975	343	682	9.9
Kerala	15.35	53.22	184	2013	221	1281	11.9
Madhya Pradesh	53.34	85.33	640	276	333	53	5.2
Maharashtra	60.45	114.88	726	1246	646	1104	8.9
Orissa	31.82	35.48	478	1112	704	321	18.4
Punjab	4.30	35.02	51	21	7	1	1.4
Rajasthan	21.66	65.49	260	389	191	52	7.3
Tamil Nadu	45.79	91.86	549	1625	530	1440	9.6
Uttar Pradesh	95.48	171.99	1146	1122	581	119	5.1
West Bengal	46.59	96.74	549	1031	377	567	6.7
ALL INDIA	**596.20**	**1181.28**	**7206**	**17056**	**5969**	**9978**	**8.3**