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The public distribution system in India: A policy analysis

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Abstract
The Public Distribution System has been one the main food security scheme to meet the basic dietary needs of the people. The National Food Security Act (NFSA), 2013, also provides even more grain at subsidized price to 67 percent of population. The existing PDS system has been highly "leaky", with large amounts of grains being diverted to open market. This paper is a policy analysis of public distribution system in the country.

Keywords: PDS, food grain, APL, BPL, AAY, poverty.

Introduction
Partly because of natural disasters, but massively due to a wrongful state policy of food grain distribution, there were frequent famines in British India. The British government in India introduced the rationing system in 1939 in Bombay, and it was subsequently extended to at least four more regions Bengal, Uttar Pradesh, Bihar, Madras. In addition to the introduction of the rationing system, price control measures were also adopted.

In 1943, the first food grain policy committee set up by the food department recommended the continuation of rationing, its extension to rural areas and the maintenance of the reserve stock. By the end of 1943, 13 cities were covered under the scheme, and the number of these cities was substantially added by covering 103 cities in 1944, and 771 cities and towns in 1946. Besides the towns, some rural areas facing chronic deficits were also included in the system. (Bapna, 1990) [1].

At the end of the Second World War, several countries abandoned the rationing system, and India also joined this club by abolishing the system on the recommendation of the second food grain policy committee of 1947. The price of food grains after the war was more than four times the pre-war level. After that, the rise in prices continued and, as a result, rationing was reintroduced in 1950. (Ibid. 105)

When the policy of planned development was introduced in the fifties by independent India, the PDS was continued as a welfare measure. Under the First Five-Year Plan, the PDS was extended to those rural areas where the food grain deficit was most prominent. The scope of rationing was widened to include both urban and rural areas. However, the implementation of the PDS in rural areas remained a marginal phenomenon.

With the setting up of two important organisations, viz. the Agricultural Prices Commission now called the Commission for Agricultural Costs and Prices (CACP) and the Food Corporation of India (FCI), the sixties saw major organisational changes in food distribution. While the former imparted advice on support price and procurement, the latter was to implement the government's policy on procurement, storage, transportation and distribution of food grains and other commodities through Fair Price Shops (FPS). (Ibid. p.107)

Because of the programme of encouraging highly yielding varieties, growth in food grains production and virtual self-sufficiency in food grains was achieved by the late seventies but the fluctuation in production and instability of prices were the major concerns. Therefore, it was decided that the development of an integrated system of PDS was necessary. Several features were considered such as extending the PDS to rural and backward areas, ensuring adequate stocks and supplies to retail outlets, and developing proper monitoring and information system. The commodity coverage was increased to more food commodities, and consideration of viability of retail outlets was emphasised in the seventh plan. (Ibid. pp. 108-9)

The PDS in India has always worked alongside a free market. It makes available fixed quotas of food grains through ration shops at subsidised 'ration' and 'issue' prices. The role and working of the PDS have undergone several changes since its inception. Initially, its objective was to stabilise prices and consumption in the light of fluctuation in food grain output. Later, it also assumed importance as one of the government's most significant anti-poverty programs. The changes witnessed in the nineties were a result of the liberalisation process underway and the structural adjustment programme undertaken by the government since 1991, the year of economic crisis. The reform in the system focused on removing existing inefficiencies, particularly in costs.

In the year 1997, the Targeted Public Distribution System (TPDS) was introduced. It is the largest safety net program in the country which operates by providing a price subsidy for essential commodities to consumers. Among them, rice and wheat are of chief importance. A 2-tiered pricing structure has been introduced for TPDS-one for below the poverty line (BPL) and the other for above the poverty line (APL) households. However, what is most lacking under the current system is the very fixation of below and above poverty lines. Since the choice of these definitions is often left to the state governments, political prescriptions overplay in deciding the real beneficiaries, leaving the deserved individuals and groups aside. It is, however, important to point out that the shift to the TPDS marked a major milestone in the GOI’s food security strategy. When it was adopted in 1997, a larger price subsidy was targeted to the BPL families. This was later adjusted to provide a small subsidy to APL households.

The government set up a high-level committee in November 2000 for formulating a long-term grain policy with special reference to minimum support price, functioning of PDS, buffer stocking and international trade in food grains. The committee submitted its interim report in May 2001, and the final report in July 2002. Here both short-term issues concerning the reduction of excess stocks, and long-term measures for attaining the basic objectives of food policy were discussed, keeping the government’s budget constraint in view. (Rakhit, 2003: 1777) [11]

The high-level committee documents in detail how the Targeted Public Distribution System (TPDS), introduced in 1997, has failed to provide the intended support to the poor or to reduce the government’s food subsidy bill. The reason lies in exclusion of a large number of deserving families from the below poverty line (BPL) category; difficulty of checking corruption in the face of significant gap between the APL and BPL prices; and erosion of viability of fair price shops as also of the entire PDS system, with APL families not lifting their quotas and FCI’s accumulation of excess stocks assuming enormous proportions. Add to that (a) the endemic nutritional deficiency of a significant part of families not qualifying as BPL under the official criterion, and (b) the near impossible task of tracking frequent, often year-to-year, changes in both the scale and composition of the BPL group, and it is not difficult to appreciate the inefficacy of any targeted PDS for attaining the basic objectives of food policy. (Ibid. pp. 1777-78)

Madhura Swaminathan argues that in any targeted welfare programme, there are two types of errors that occur due to imperfect measurement. Errors of wrong exclusion refer to the exclusion of genuinely poor or deserving households from a programme, while those wrong inclusions refer to the inclusion of non- eligible persons of households in a programme. To put it more explicitly, very narrow targeting is likely to lead to the exclusion of some genuinely poor households from the programme and create divisions among the poor. Such divisions can exacerbate existing forms of caste and gender oppression. Lastly, any programme which targets the poor is likely to get less political support than a universal programme resulting in lower allocation for a targeted programme. (Swaminathan, 2003:388-90) [12, 13].

The AAY was initiated in the year 2001 to provide food security to the poorest of the poor. Initially, the provision was for one crore families, but by 2004 the coverage under the scheme had been doubled, mostly under pressure from the Supreme Court. Gram sabha are involved in selecting families in each village. The selected families are given a special Antyodaya card, with its help, they can claim grain from the Fair Price Shops (FPS) or ration shops, the local outlet of the Public Distribution System (PDS). This card entitles the selected family to 35 kgs of grains each month at Rs 2/kg for wheat and Rs 3/kg for rice. The combination of rice and wheat varies from region to region, even district to district, depending on local diet priorities.

The Annapurna Scheme was launched by the ministry of rural development in 2001. Indigent senior citizens above the age of 65 years, who do not receive the National Old Age Pension Scheme (NOAPS), are covered under the scheme. The Annapurna Scheme envisaged supply of 10 kg. Offoodgrains every month free of cost to destitute old age persons.

Evaluation of public distribution system

The performance of the TPDS so far does not seem to be satisfactory. Although the ration quota for the poor (the BPL population), has been increased, they are unable to make full use of this quota due to their limited purchasing power. The overcharging and poor quality of grain is also found in some of the study (Khera, 2011a) [2, 3, 7-9]. Another problem is that the diversion of grain from the public distribution system. A study by the Programme Evaluation Organization (PEO, 2005) of the Planning Commission is quite relevant in this regard. The study undertook a survey to evaluate the performance of TPDS and defined diversion/leakage as the excess of grains off-taken from the government granaries over what was consumed by the BPL families. Based on the survey results, the report concluded that 58 percent of the subsidized food grains issued from the Central Pool failed to reach the intended beneficiaries (BPL families). It also concluded that to deliver Re 1 of an income transfer to a BPL family, the government had to spend Rs3.65.

In another study, Khera (2011) [2, 3, 7-9] estimated the proportion of grain diverted from TPDS during the years 1999-2000 and 2007-08. It defined diversion as grains off-taken by the states but not delivered to the PDS beneficiaries. It was found that while only 24 percent grain leaked in 1999, by 2004-05 the leakage had more than doubled to 54 percent. Jean Drèze and Reetika Khera (2015) [2, 3, 7-9] summarises NSS-based and India Human Development Survey (IHDS)-based leakage estimates at the all- India level for 2004–05 and 2011–12, the reference years of the two IHDS surveys. Both series point to a significant decline in PDS leakages between 2004–05 and

2011–12, though the decline is larger in the IHDS-based series —from 50% or so to 30% or so.

The main weakness of the TPDS is that it is restricted to certain categories of households and that there are large exclusion errors. Until recently, the PDS was targeted mainly at BPL households in most states. The data from the 61st round of the National Sample Survey, in a report titled Public Distribution System and Other Sources of Household Consumption 2004-2005, show that targeting has led, in rural India, to high rates of exclusion of needy households from the system and a clear deterioration of coverage in States like Kerala where the universal PDS was most effective. (Swaminathan, 2008:5) [12, 13].

In the report titled Public Distribution System and Other Sources of Household Consumption 2004-2005 (GOI, 2007), presented data from the 61st Round of the National Sample Survey (NSS), shows that in the rural areas of Assam, Bihar, Himachal Pradesh, Jammu and Kashmir, Punjab, Rajasthan and Uttar Pradesh 70 percent or more of Scheduled Caste households had no card or an APL card. Among these only Punjab is a cereals-surplus State. Further, it was found that almost 60 per cent of the Scheduled Caste households in rural areas were effectively excluded from the PDS at the all India level. States with a lower degree of exclusion of Scheduled Caste households were Karnataka (27 per cent excluded), Andhra Pradesh (31 per cent), and Kerala (38 per cent). (Swaminathan, 2008) [12, 13].

Turning to households belonging to the Scheduled Tribes, again, large numbers of households do not have access to the PDS: 90 per cent of rural Scheduled Tribe households in Assam, 79 per cent in Arunachal Pradesh and 68 per cent in Chhattisgarh were excluded from the PDS. Surprisingly, the North Eastern States did not perform too well on this count (though again there may be a problem of data quality). There were only four States —Andhra Pradesh, Orissa, Gujarat and Maharashtra —where more than 50 per cent of rural Scheduled Tribe households had received a BPL or Antyodaya card. (Ibid)

One relates to the extent of hunger, in terms of the frequency of skipping meals. The proportion of below poverty line (BPL) households who had to skip meals sometime during the three months preceding the survey was as high as 70% in Bihar, but only 17% in Chhattisgarh. This is quite striking considering that the levels of rural poverty are much the same in both states, in terms of standard poverty indicators (according to Planning Commission estimates, the headcount ratio of rural poverty in 2009-10 was 56% in Chhattisgarh and 55% in Bihar). This contrast highlights not only the substantial impact of the PDS on rural poverty in states with a well-functioning PDS but also the misleading nature of official poverty estimates that effectively ignore the PDS factor. (Dreze and Khera, 2013: 56) [2, 3, 7-9].

Focusing for now on the national poverty line approach, the estimates of the PDS-induced reduction of rural poverty at the all-India level in 2009-10 was around 11% based on the headcount ratio, and 18% based on the poverty-gap index. At the state level, the impact of the PDS on rural poverty varies a great deal, as one would expect. In states like Jharkhand and Uttar Pradesh, where the functioning of the PDS was very poor at that time, the impact is very small. But in states with a well-functioning PDS, the impact of the PDS on rural poverty is substantial, especially in terms of the distribution-sensitive poverty-gap index: 61% reduction in Tamil Nadu, 33% to 41% in the other southern states (Andhra Pradesh, Karnataka and Kerala), 39% in Chhattisgarh, and around 35% in Himachal Pradesh as well as Jammu and Kashmir. (Dreze and Khera, 2013: 58) [2, 3, 7-9].

The impact of the PDS on rural poverty is well above the all-India average in Odisha, a state where the PDS has significantly improved in recent years. The improvements seem to have continued after 2009-10, with a correspondingly larger impact, hopefully, on rural poverty and economic insecurity. In Rajasthan, on the other hand, the poverty impact of the PDS is below the all-India average. It is worth noting, however, that Rajasthan initiated significant PDS reforms in 2010, with positive results. Finally, the state where there is the least evidence of any impact of the PDS on rural poverty is Bihar. This is not surprising since Bihar seems to have the worst PDS in India. The impact of the PDS on rural poverty is also small in Uttar Pradesh and West Bengal, two other poor (and large) states where PDS reforms have barely begun. (Ibid.)

To reduce the exclusion and diversion of PDS grain and become more inclusive Himanshu and Abhijeet Sen (2011) [5, 6] suggested the universalisation of PDS. The correlation between access to PDS and extent of leakage is strongly negative, both across states and over time. In other words, the more universal the PDS system is, the less likely it is to suffer from leakages. Higher participation almost certainly makes it more difficult to divert supplies from PDS shops and also puts pressure on state governments to carry out governance reforms. But restricting numbers entitled to PDS is no solution since this reduces access, not the leakage ratio. It is more efficient to allow wide access, monitor actual PDS participation, and allocate supplies accordingly. A dynamic response to self-selection is also more suited to a rights approach than BPL targeting. To address some of above-discussed gaps, National Food Security Act has been introduced in 2013. Given that cash is also being discussed as an alternative to the PDS.

National food security act, 2013

On 10th September 2013 National Food Security Act was notified by the government with the objective to provide food and nutritional security by ensuring access to adequate quantity of quality food at affordable prices to people to live a life with dignity. The Act covers up to 75% of the rural population and up to 50% of the urban population for receiving subsidized food grains under Targeted Public Distribution System (TPDS), thereby covering almost two-thirds of the population. The eligible persons will be entitled to receive 5 Kgs of food grains per person per month at subsidised prices of Rs. 3/2/1 per Kg for rice/wheat/coarse grains. The existing Antyodaya Anna Yojana (AAY) households, which constitute the poorest of the poor, will continue to receive 35 Kgs of food grains per household per month [1].

The Act lays its special focus on the nutritional support to women and children. Besides meal to pregnant women and lactating mothers during pregnancy and six months after the childbirth, such women will also be entitled to receive maternity benefit of not less than Rs. 6,000. Children up to

1 Department of food & Public Distribution (Ministry of Consumer Affairs, food & Public Distribution), web: http://dfpd.nic.in/?q=node/955accessed on 29.3.2015.

14 years of age will be entitled to nutritious meals as per the prescribed nutritional standards. In the case of non-supply of entitled food grains or meals, the beneficiaries will receive food security allowance. The Act further contains provisions for setting up of grievance redressal mechanism at the District and State levels. Separate provisions have also been made in the Act for ensuring transparency and accountability. (Ibid.)

It is clear from the recent development that there is an accelerated push to replace transfers of food grains through the public distribution system (PDS) with cash transfers. The High Level Committee (HLC) on Reorienting the Role and Restructuring of the Food Corporation of India (FCI) (known as the "Shanta Kumar Committee") went beyond its mandate and recommended that the PDS must be progressively replaced by cash transfers, and that the coverage under the National Food Security Act (NFSA) must be reduced from 67% to 40% (GOI 2015a). A shift to cash in place of food grains was argued for on the basis of data showing high leakages in the transfer of grains through the PDS. Using the same argument of leakages and inefficiencies, the Economic Survey for 2015–16 also recommends a shift to direct benefit transfers (DBT).

It is important to note that the idea of cash transfers will reduce the involvement of physical grains and will provide greater autonomy to the beneficiaries to choose their basket of consumption. Also, cash transfer necessarily doesn't replace the physical grain distribution as still there will be need for stocking of grains for strategic reserves and for supplying food to some mountainous, remote and difficult areas, which are food deficit (such as Jammu and Kashmir, north-eastern hill states (NMMT etc.) and/or identified by the State governments. The idea is to link the benefits transfer with the Aadhar card based identification so that in the food surplus region a choice can be given between cash and grains and to people living in major cities with a more than a million (53 cities at present have a population greater than 1 million). Next, the offer can be extended to include areas which are food deficit. (Gulati and Saini, 2015:16) [4].

A Recent study has shown that over two-thirds of the respondents favoured in-kind food transfers rather than cash. The survey findings suggest that choices made by respondents are context-specific—if the PDS functions poorly (e.g., in Bihar), respondents were open to the idea of cash transfers; where the PDS delivers food grains regularly and without much embezzlement, most respondents voiced an emphatic preference for food (Khera, 2014: 118) [2, 3, 7-9].

Studies have also shown that the PDS does contribute to increased consumption of not just cereals, but that it allows saved income to be used to buy better foods such as pulses. Himanshu and Sen (2013) [5, 6] show how the additional income of the same amount raises calorie consumption by only half as much as an equivalent amount of PDS foodgrain does. Given that the levels of food consumption in India are still so low, there is still a need for a direct food programme such as the PDS.

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[2] "The relief that the grain (and other food items in some states) brought came through very clearly in people's statements. Rani (Dharmapuri, Tamil Nadu) said, 'Money will give us happiness one day, but food will help us sleep peacefully throughout the month. It makes us less insecure'. Some respondents became anxious upon hearing of the hypothetical alternative. VijayshankarBhoi, Chhattisgarh said that 10 years ago, when the PDS did not function well, they were forced to sleep hungry. 'Not anymore! We want rice. What will we do with money? Savour it?'Thirty year old Pandit (Bihar) put it quite plainly, 'If we get food, why do we need money?'Note that it was in Bihar that the PDS Survey found serious issues of diversion (i.e., respondents getting less than what they are entitled to)." (Khera, 2014:121)

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