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A Study on the Efficacy of the Public Distribution System in India

Prof. Sanjay Baijal
Department of commerce,
DDU Gorakhpur University,
Gorakhpur, India

Devendra Kumar
Research Scholar,
DDU Gorakhpur University,
Gorakhpur, India

Ajay Kumar
Research Scholar,
DDU Gorakhpur University,
Gorakhpur, India

Abstract

Public Distribution System in India has been one of the most crucial elements in food policy and food security system in the country and with special emphasis to the functioning of public sector agricultural warehousing agencies such as Food Corporation of India (FCI) and Central Warehousing Corporation (CWC), engaged in the procurement, transportation, storage and distribution of food grains, It is the largest distribution network of its kind in the world. It emerged out as rationing measure in the backdrop of Bengal food crisis as well as a war-time measure during Second World War. It evolved in 1950s and 1960s as mechanism for providing price support to producers and food subsidy for consumers. Over the years it has expanded enormously as poverty alleviation and food security measure to become a permanent feature of Indian Economy. The present paper discusses the present scenario of Public distribution system in India across states. It throws light on the working of PDS and some policy measures for its better working.

Keywords: Public Distribution System, Fair Price Shops, BPL, APL, TPDS (Targeted public distribution system), and FCI (Food corporation of India) and CWC (Central Warehousing Corporations).

Introduction

The origin of Public Distribution System (PDS) in India can be traced from the Second World War (1939-45) and in the backdrop of Bengal famine in 1943, which evolved in 1950s

and 1960s as mechanism for providing price support to producers and food subsidy for consumers. The concept of Public Distribution System has evolved as a major policy instrument to (i) reach essential commodities to the people, particularly the weaker sections of the society, on an assured and regular basis at reasonable prices, (ii) work as an effective anti- inflationary measure and (iii) make significant contribution in raising the nutritional standard of the poor. Over the years, it expanded enormously emerging as food security and poverty alleviation measure to become a permanent feature in Indian Economy and it evolved as a major instrument of government economic policies. In 1992, PDS was replaced with Revamped Public Distribution System (RPDS) as an experiment in geographical targeting because PDS was criticized on the grounds of its being urban biased. Subbarao (1988) observed that the poor in rural areas did not benefit much but the urban population undoubtedly benefitted from PDS. Another scholar (Shah 1986) observed that nearly 57 percent of PDS food grains was for urban areas and only 27 percent was for rural areas. RPDS was started with a view to provide relief to the poor people of desert, hilly, drought prone and Adivasi areas of the country. Finally the system was restructured to target the poor households as Targeted Public Distribution System (TPDS) across all regions in 1997. TPDS aims at providing food grains to people below poverty line (BPL) at highly subsidized prices and food grains to people above the poverty line (APL) at much higher prices than BPL beneficiaries. Thus TPDS adopted by the Government of India maintains the universal character of the PDS but adds a special focus on people living below poverty line. PDS with a wide network of about 4.99 lakh Fair Price Shops (FPSs), better known as Ration Shops, is perhaps the largest distribution network of its kind in the World. The quantity of grains to be procured is determined by the central government considering the existing requirement and by allotting a buffer to meet any emergency arising out of flood, famine or other such natural calamities. The food grains are bought from the farmers through the purchase centres and then sent to FCI warehouse or FCI affiliated warehouse. The food grains are distributed across states depending on the productivity and climate of that state.

Exhibit: Procurement of food grains

Theme of Research

The main objective of this paper is to present the picture of coverage of PDS across states and to throw light on the flaws in the working of PDS. The present study is based on the data obtained from Food grains Bulletin and Census of India 2011. We have taken total cereal quantity not crop specific quantities because the states differ with respect to tastes and preferences across crops. For example, the rice is consumed mainly in south while the wheat in north.

FLAWS IN THE WORKING OF PDS

All is not well with public distribution in India. There are many problems associated with the working of PDS that are:

(a) Large errors of exclusion of BPL families and inclusion of APL families.
(b) Diversion of subsidized food grains to open market.
(c) Prevalence of ghost cards.
(d) Lack of transparency in the selection of procedure of PDS dealers.
(e) Poor quality of food grains (PDS articles).
(f) Lack of Infrastructure and shortage of funds with the governments of many states.
(g) Weak monitoring and lack of transparency and inadequate accountability of official implementing the scheme.
(h) A large number of homeless and poor, without having permanent address are denied ration cards and thus excluded from PDS, despite being Indian citizens.
(i) The poor don't have cash to buy the entire quantity of entitlements at a time.
(j) The present procedure for selection of BPL beneficiaries is not satisfactory.
(k) Cost effectiveness of PDS is very small.
(l) Not lifting their ration quota by APL households as APL price is close to open market price.

Few researchers have documented the administrative problem in PDS and shown in many states that there is large scale diversion of grain, wastage and low quality. Major flaw in the working of PDS is that it has wrongly excluded a large number of deserving persons and families. Karat (2008) pointed out that planning commission evaluated that 57% of poor had been actually excluded from the BPL system. According to the report of National Sample Survey, at all India level 70.5% of rural households either possessed no card or held an APL card and are effectively excluded from PDS (Swaminathan 2008). Very high proportion of landless and near landless household did not possess BPL or Antyodaya cards in many states (86% in Sikkim, 80% in Goa, 79% in Uttar Pradesh, 76% in Haryana, 75% in Jharkhand and 74% in Uttaranchal for example) and mere excluded from PDS (ibid). Besides the targeting error, there is another serious problem of leakage and diversion. There is 36 percent diversion of wheat, 31 percent of rice and 23 percent diversion of sugar from the system at the national level (Jena 2002). Khera (2011) has pointed out that 44% of PDS grain was diverted at the all India level in 2007-08. According to another scholar (Mishra 2008) about 58% subsidized food grains issued from Central Pool do not reach to the BPL families owing to leakages and diversion. Moreover, the cost of income transfer to poor is much higher e.g. for one rupee worth of income transfer to poor, the government of India spent R.3.65. Due to lack of effective targeting mechanism and large scale leakage due to corruption, the cost effectiveness of extending food subsidy to the poor has been low. According to a scholar (Parikh 1994) the "cost effectiveness of PDS reaching the poorest 20 percent of the households through the PDS cereals is very small. For every rupee spent, less than 22 paisa

reaches the poor in all states excepting Goa, Daman and Diu where 28 paisa reach the poor. This is not to suggest that PDS does not benefit the poor at all, but only to emphasize that this support is provided at highest cost." If one takes Central Government cost into account, Rs. 4.3 was incurred to transfer one rupee of income to the poor (Jena 2002).

The FPS (Fair Piece shops) owner collects the allotted food grains from a block warehouse on a monthly basis. Every month a fixed amount of food grains is taken from the warehouse and is distributed through Fair Price Shops (FPS). Once the beneficiary shows his/her ration cards and the employees at the FPS, food grains are distributed to him/her, verify the same.

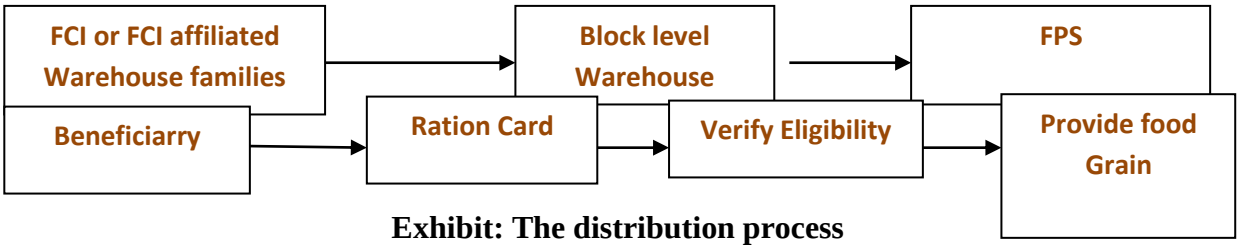

Exhibit: The distribution process

Literature Review:

Previous studies on different public distribution systems yielded mixed conclusions. The benefits of PDS were well recognized by emerging economies. Public distribution schemes in Bangladesh, Cambodia and Pakistan have helped to get more girls into education (Ahmed et al., 2007).The PDS in India has been operational for more than five decades. Growth of the PDS, its functioning, coverage and its efficiency on providing food security was discussed by (Bapana, 1990). Several developing countries including India achieved food self-sufficiency because of well organized PDSs for agricultural produce. The PDS makes food accessible and transfers income in the form of subsidy. As per Jha (1992), about 40-50 % of the population buys subsidized rice and wheat and about half of them are non-poor. It means that a substantial part of PDS benefits accumulates to the non-poor. It was previously reported about the PDS, that the access to resources and utilization of commodities has been low and it has hardly impacted the nutritional status of the targeted populations. (Khera, 2011; Radhakrishna et al., 1997). Arora (2013) examined food subsidy in India and investigated the reasons behind the failure of PDS in many parts of the country. The study reports the system failed to reach the poor in most of the states other than the southern states like Andhra Pradesh, Tamil Nadu and Kerala, where it has been partially successful. Rashpaljeet and Kaur (2014) studied the organization and working of PDS in Punjab and reported the major leaks and weaknesses in the functioning of the scheme in the state. The study found that in Punjab, nearly 76% of the food grains were diverted to the open market and another 13% was diverted APL households. A mere 10% of the grains reach the BPL beneficiaries. It has been argued that „common issue price" could be a possible way to reduce leakages and

misappropriation of commodities. However, considering the enormity of food insecurity and hunger in India the provision of food subsidy and rationalizing the distribution of grains is not adequate for the population (Jha et al., 2010) In another comparative study on PDS conducted by the same authors (Jha et al., 2013) based on the factors like food subsidy, income transfer and the involvement of the poor, revealed that the program is not well targeted and the poor as well as the non-poor receive subsidy benefits. The inefficiency of state institutions in controlling food prices and managing PDS with implications on quality of the products was previously reported by Ramaswamy and Balakrishnan (2002). The study shows that demand switches will not occur as long as the market price of food grains remains higher than the subsidized grains. However, the quality of the product becomes the determining factor when the price of the open market is similar to that of the subsidized commodities.

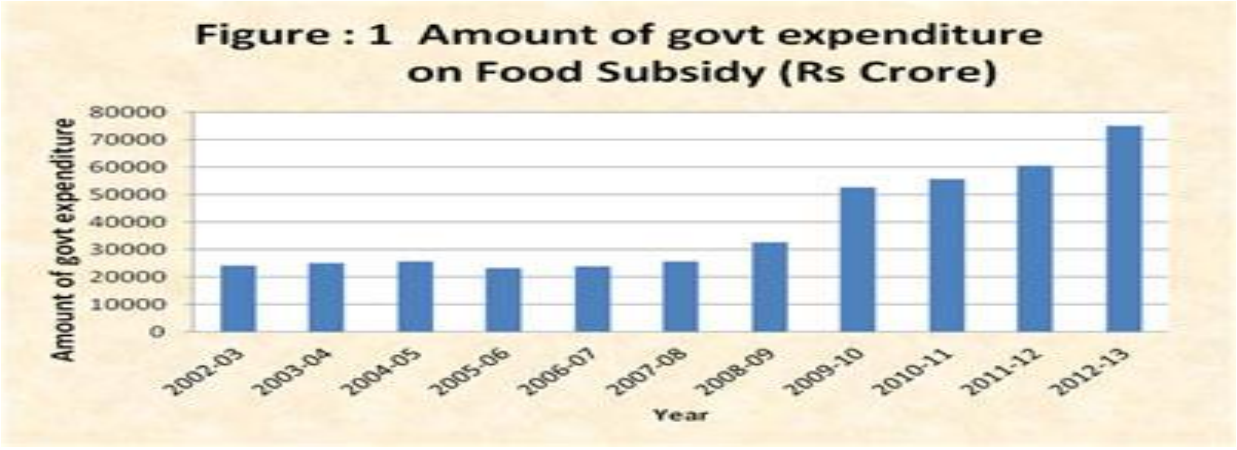

FIG: Amount of Government Expenditures on Food Subsidy

Many among scientists, policy reformers and other stake holders argued that the PDS need to be reformed so as to target specifically the poor and needy (Jha 1992; Ahluwalia 1993; Pal et al., 1993). Consequently, the Government relaunched PDS as Targeted Public Distribution System (TPDS) which aims to reach a provide 60 million families below poverty line with 20 kg grains each month. According to the study conducted by Sivakkolundu and Loganathan (2013), about six crores families the nation is benefited by the TPDS. The functioning of organizations like Food Corporation of India and Central Warehousing Corporation in ensuring procurement, transportation, storage and distribution of commodities provided by the public distribution system was critically analyzed by Pal (2011).

		2009-10 Per capita consumption (kg)			2004-05 Per capita consumption (kg)			% of households consuming PDS	
		PDS	Other sources	PDS %	PDS	Other sources	PDS %	2009-10	2004-05
Rural	Rice	1.408	4.594	23.5	0.839	5.537	13.2	39.1	24.4
	Wheat/atta	0.619	3.625	14.6	0.307	3.885	7.3	27.6	11
	Sugar	0.097	0.563	14.7	0.062	0.587	9.6	27.8	15.9
	Kerosene	0.511	0.081	86.3	0.477	0.142	77.1	81.8	72.8
Urban	Rice	0.814	3.706	18	0.53	4.181	11.3	20.5	13.1
	Wheat/atta	0.371	3.706	9.1	0.167	4.192	3.8	17.6	5.8
	Sugar	0.08	0.7	10.3	0.054	0.763	6.6	18.7	11.5
	Kerosene	0.295	0.169	63.6	0.35	0.268	56.6	33	32.8

FIG: Consumption of Food in Rural and Urban Areas

The study reveals that that the current system is extremely corrupt and fails to address issues related to stoke shortage, fake supply entries in ration cards, diversion of commodities for sale to open market, , irregularity and poor quality of food grains etc. The situation calls for urgent technical up gradations and policy reforms to ensure transparency, and improve performance to solve the above mentioned problems.

Hypothesis:

Several debates on the functioning of PDS in India have been centered about its role in ensuring food security or providing adequate food safety especially to vulnerable sections of the population. Nevertheless, the system formulates the most important channel through which the Government ensures food security at micro level. The present study is exploratory in nature, which analyses the adequacy and efficacy of the PDS in India with special emphasis to the functioning of agricultural warehousing agencies like FCI and CWC engaged in the procurements, transportation, storage and distribution of food grains.

Methodology:

The data for a period 5 years from 2007-08 to 2011-12 has been collected from secondary sources such as annual reports of Food Corporation of India, Central Warehousing Corporation, Warehousing Development and Regulatory Authority (WDRA), CAG report on storage management and movement food grains in FCI, Planning Commission report on warehousing development and regulation for the twelfth plan period (2012-17) and Agricultural Statistics -2013, Directorate of Economics and Statistics. The data has been analyzed to find the capacity, stock position and percentage of utilization of warehouses during the last 5 years. Furthermore, the aggregate food grain procurement, per-capita availability of food grains, consumer subsidy on food grains etc. was also evaluated.

Results and Discussion

The total operating capacity and percentage of capacity utilization of CWC and FCI warehouses during the 2007-08 to 2011-12. The overall percentage of utilization of CWC warehouses increased from 73.61% in 200-08 to 91% in 2011-12. However, a marginal 3% increase was recorded in the capacity utilization of FCI warehouses during the period of

study. The average operating capacity and the utilization of storage capacity per warehouse. The average utilization of storage capacity per warehouse has been calculated by dividing total utilization of storage capacity during the period of study by the number of warehouses. The CWC warehouses have 0.215 lakh metric tons (LMT) average operating capacity in 2012 of which 0.194 LMT is utilized whereas, FCI warehouses has 0.089 LMT in average storage capacity. The average storage utilization recorded in 2012 was 0.074 LMT. The results indicate that the average utilization per warehouse was less than the average storage capacity per warehouse in all the 5 years because the average storage capacity of the warehouses was not fully utilized by the depositors over the study period. On the other hand, owing to the provision of higher minimum support prices (MSP) for food grains, an elevated level of procurement of was recorded during the last five years, This in turn, not only ensured remunerative prices to farmers but also caused strain on available storage capacities with the State agencies involved in procurement. States have been facing severe deficits for covered storage capacity. FCI recorded an annual turnover of Rs. 97719.59 crores in 2011-12. The capital employed turnover ratio reduced to 16.10 from 5.35 in 2007-08. The net worth reduced from Rs. 2433.66 to 2155.04 crores. The annual turnover of CWC was Rs. 1218.65 crores with a capital employed turnover ratio of 0.99. The net worth increased substantially from 1080.24 crores in 2007-08 to 1304.08 crores in 2011-12. The capital employed turnover ratio shows how efficiently capital employed in the corporation has been utilized in generating revenue and establishes the relationship between the amount of sales and capital employed. The reduction in capital employed turn over ration of FCI in on account of the subsequent growth in working capital as compared to slight growth in overall sales. A consistent increase in net worth indicates good financial health of CWC; conversely, the net worth of FCI may be depleted by annual operating losses such as transient and storage losses of commodities or other depreciations etc.

The procurement volume of rice steadily increased from 287.36 LMT during 2007-08 to 344.64 LMT in 2011-12. Wheat procurement during the period also observed similar trend i.e 111.28 LMT during 2007-08 to 283.35 LMT in 2011-12. However, as per the recent CAG report on storage management and movement of food grains in FCI, The average food grains procurement of 514 LMT during the period was lower than the average allocation of 593 LMT made by the Government of India to states for distribution under **Targeted Public Distribution System (TPDS)** and other welfare schemes (CAG Report 2013). With the objective of reducing the overdependence of the State Governments on the FCI for TPDS and reducing transportation costs by ensuring availability of locally produced food grains, the Government introduced the scheme of **Decentralized Procurement (DCP)** of food grains. Under this scheme, which is being implemented in eleven States and UnionTerritories can retain the quantity required for TPDS and surrender the rest to FCI for the Central Pool. The actual wheat stocks at the beginning of 2012 were 256.76 LMT against the minimum buffer stock of 122 LMT as stipulated by the government. The rice stocks recorded a total volume

of 297.18 LMT against the minimum buffer stock of 138 LMT. Buffer stocks are maintained by FCI in order to stabilize the availability and prices of food grains, and, thereby, to achieve national food security. Maintenance of low buffer stocks adversely affects the national food security, whereas carrying too high stocks is costly and inflationary (Gulati et al., 1996). The annual wheat purchase volume steadily progressed from 114.1 LMT in 2007-08 to 226.8 LMT in 2011-12 whereas rice purchase increased from 197.1 LMT to 226.8 LMT during the period. Consequently the sale volume also recorded higher progressions. The total food grain sales increased 311.2 LMT in 2007-08 to 468.8 LMT in 2011-12. A minimum support price (MSP) for the producers is fixed by the Government of India and procurement is done at this rates. There are various programs under the TPDS and other welfare schemes in which a Central Issue Price (CIP) of food grains are fixed and specific quantities are allocated to each state. The difference between the economic cost (MSP plus the post procurement and distribution cost) and the CIP is the operational loss of the corporation which is reimbursed by the Government of India as food subsidy. Besides this, Government of India also reimburses the cost of carrying of buffer stock of food grains maintained by FCI as a part of subsidy (FCI annual report 2011-12). The Antyodaya Anna Yojana (AAY) scheme was launched in December 2000 in which ten million poorest households among the 65 million below poverty line (BPL) families were identified and provided them with 25 kg of food grains per family per month at a low price of Rs 2/kg for wheat and Rs 3/kg for rice. As a result, the average consumer subsidy on wheat has increased from Rs. 1148.70 per quintal in 2007-08 to Rs. 1451.90 in 2011-12, whereas subsidy on rice increased from Rs. 1271.40 to Rs. 1880.20 per quintal. In the case for BPL households the subsidy on wheat was raised from Rs.738.70 per quintal to Rs.1041.90 per quintal and for rice the subsidy was increased from Rs. 741.40 to Rs.1354.20 per quintal during the corresponding period. The consumer percentage share in total FCI subsidy was ranged between 87 to 90.3% during the study period whilst, the share of buffer stock subsidy was reduced from 13.9 % to 9.7%. According to the economic survey (2011-12), the main reasons for increasing in consumer subsidy are steep rises in minimum support or procurement prices, accumulation of large stocks of grains, rising economic costs of food grains, and a constant central issue prices of food grains. The per capita net availability of rice and wheat declined from 71kg and 56.5 kg respectively in 2008 to 69.4 kg and 55.9 kg in 2012. However the total availability of cereals and other pulses increased considerably. The per capita availability of food grains has been widely accepted as an indicator of food security at household level. It is estimated that the post harvest loss of total agriculture food grain produce in India is about 7-10% and another 4-5% is lost during the marketing and distribution processes. An overall loss of 11-15% which estimates to 12-16 million metric tons that can feed another 70-100 million people in the country, since the average per capita consumption of food grains in India is 15 kg per month. (Rehman et al., 2012).

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