

THE ROLE OF TARGETED PUBLIC DISTRIBUTION SYSTEM AND FOOD STAMPS IN PROMOTING BETTER ACCESS TO FOOD IN POOR HOUSEHOLDS

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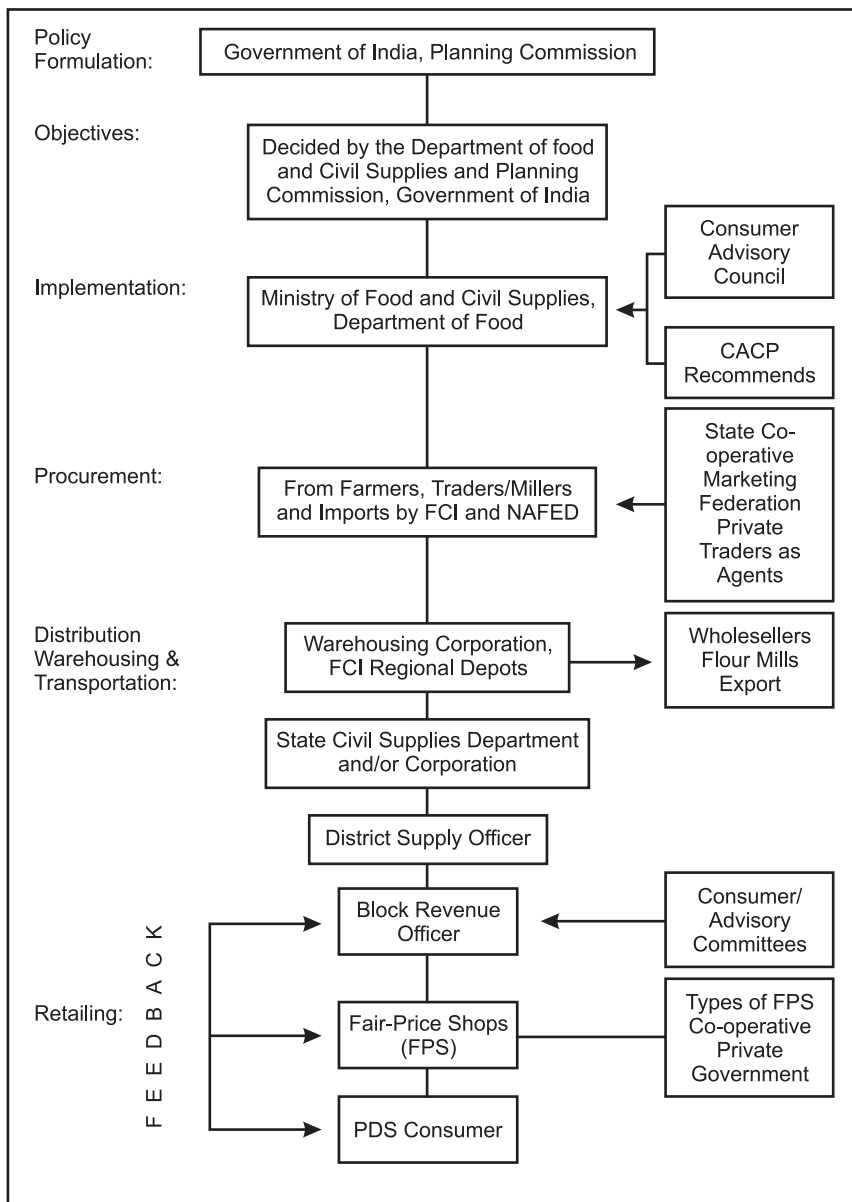
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The Public Distribution System (PDS) was started in 1939 as a wartime rationing measure. The British Government introduced it in Mumbai

and later extended it to 6 other cities and a few regions. The droughts and food shortages in the mid sixties necessitated the Government

of India to continue the PDS. Today India's PDS is one of the largest programmes in the world. It supports food grain producers through purchases by the Food Corporation of India (FCI) at minimum support price (MSP) based on the recommendations of an independent body called the Commission and Agricultural Cost and Price (CANP). FCI allots food grains to the states. Allocation to the states is based on food grain production within a state and the extent of poverty in that state. The organizational structure of the PDS in India is shown in Figure1.

Figure 1: Organizational Structure of PDS in India



The evolution of the PDS took place in 3 phases. In the first phase, from the origin to 1960, the system grew slowly from the initial 7 cities to 13 cities in 1943, 103 cities & towns 1944 and 771 cities and towns in 1946. The first area where rural rationing was introduced was in

Malabar because of the strong grass root political demands for rationing. Rationing was abolished in 1947 at the recommendations of the Food Grain Policy committee, it was re-introduced in 1950 as a welfare measure with the onset of the planning era. In the second phase, between 1960 and 1978, the PDS was made a permanent universal programme to provide food grains in times of crop failures, food shortages and price fluctuations. The droughts of 1965-66 and 1966-67 provided a strong impetus for the expansion of the PDS. During the period 1965-66 the PDS depended on imported foods. During 1966, 10 million tons of food grains were imported for distribution through the PDS.

During the third phase, 1978-1991, the country had comfortable buffer stocks and this provided the basis for the large-scale expansion of the PDS. Besides the PDS, food grains were given for

- Nutrition Programmes
- Mid-day meals
- SGRI and
- Special components of SGRI
- Annapurna
- Welfare institutions and hostels.

From 1978 onwards there was steady growth in the quantity of food grain distributed through the PDS reaching a peak of 20.8 million tons in 1991. The PDS system was streamlined in 1992 so that the poor could have better access to food. Under the Revamped Public Distribution System (RPDS), the Central Government supplied 20 kg of food grains per households per month at a price 50 paise less than the Central issue price. It covered 1700 Blocks (one third of the total 5100 blocks in the country), covering a population of 165 million, including the lowest income groups in drought prone areas, desert areas, certain designated hill areas and urban slums. The scheme did not fair well despite high off take (89%)^{1,2}.

Targeted Public Distribution System (TPDS)

In 1997³, the Government introduced a new scheme called the Targeted Public Distribution

System. The main features of the TPDS are:

- Introduction of targeting i.e the division of the entire population into below-poverty-line (BPL) and above-poverty-line (APL) categories, based on the poverty line defined by the Planning commission for different states for 1993-94.
- Change in center-state control in respect of allocations, as the size of the BPL population and the entitlements for the BPL population are decided by the central government.
- The target was to reach 60 million poor families.

Initially, in the TPDS each BPL family was entitled to only 10 kg of grain per month. This was clearly too low an allocation in relation to monthly needs, so the allocation was raised to 20 kg per month in the Budget of March 2001³. It was raised in March 2002 to 35 kg per household for both BPL and APL families. According to the Indian Council of Medical Research, a person requires about 11 kg of cereals per month (or 330 gm per day). A family of five members would require 55 kg per month. The state-wise balance sheet showing net output, procurement, and the PDS supply indicated that the PDS contributed between 12 and 14% of the total rice consumption and between 5 & 10% of total wheat consumption. The contribution of the PDS in the total grain consumption varied across states and was quite significant in the state of Kerala.

The Antodaya Anna Yojana

Launched by the Prime Minister in December 2000, the Antodaya Anna Yojana (AAY) targets the poorest of the poor estimated by the Planning Commission as 8% of the population who suffer from chronic hunger. Under this scheme 10 million of the poorest families are

Table 1 Coverage of TPDS

Beneficiaries	Number of ration cards (in lakhs)
BPL	687.58
APL	1421.3
AAY	131.7

Table 2 Allocation & off take of Wheat and Rice under TPDS

Year	Allocation	Off take	Percentage
2001-2002	300-1	135.7	45.2
2002-2003	743.3	198.6	26.7
2003-2004	712.3	239.3	33.6

Source: Food Grain Bulletin Sep. 2004, Gol, and New Delhi.

identified from the BPL list and are provided with 35 kg of food grains per month per family at a highly subsidized price⁴. The implementation of this scheme has been expanded in 2003 to cover an additional 5 million destitute, such as old people, widows and terminally ill persons. The scheme is reported to be working well.

Coverage and Scale of Operation

Under the TPDS the estimated percentage of the BPL population varied from 11.35% in Chandigarh to 54.96% in Bihar and Jharkand. Under this scheme, 1803.78 lakh households including 652.03 lakh BPL households were reached through 4.76 lakh fair price shops. The total number of ration card issued amounted to 2240.58 lakhs; the distribution among BPL and other beneficiaries are given in Table 1⁴.

Allocation and off take

Allocation and off take of wheat and rice under the TPDS during the past three years is given in the Table 2⁴. During the year 2003-04, off take of rice and wheat was only 33.6% of the allocation. In the case of the Govt. of Tamil Nadu supply of rice at the subsidized rate of Rs. 3.50 per kg was restricted to poor households. All other households having ration cards have to get a seal 'H' on the card to indicate honorary i.e subsidized rice not provided. But the scheme was withdrawn and the Government restored rice supply to all eligible cards at a uniform price of Rs. 3.50 per kg. Both BPL and others get 20 kg of rice at the subsidized price.

Prices

The TPDS introduced a dual price system with the BPL price set at 50% of the economic cost, while the price for grain for APL a households will be economic cost (Table 3). With the introduction of the Antyodaya Scheme in 2001,

Table 3 Central issue prices for rice and wheat (Rs. Per Kg)

Category	Rice	Wheat
BPL	5.65	4.15
APL	8.30	6.10
AAV	3.00	2.00

a third price, the price for Antyodaya households, has been introduced (and these are lower than the BPL prices). In 2001-2002, a certain amount of grain was give for free to certain calamity-affected states for use in the Food-for-Work programmes³.

There are two implications of the price changes in the TPDS since 1997:

- It creates, opportunities for leakages and other malpractices among traders and officials.
- As far as consumers are concerned, it can create information problems. When the PDS prices are frequently changed, rolled-back, and differentiated according to scheme and card, there is a confusion among consumers as to the appropriate prices to be paid
- There can also be social problems because of perceived unfairness in different households paying different prices.

The Government of Kerala, in a background note for the Committee, stated that different schemes with different prices and different stock registers had made administration more complex and complicated the inspection and audit mechanisms.

Buffer Stock

Buffer stock is created to meet fluctuating demands. The Expenditure Reforms Commission (ERC) had stated that a buffer stock of 10 million tones, comprising four million tones of wheat and six million tones of rice would be adequate from the point of view of national food security. The Working Group on the Public Distribution system and Food Security for the 10th Five-year plan endorsed this recommendation⁵. A recent estimate shows that 14-15 million tones would be adequate to take care of the needs of the PDS providing 450 gm

Table 4 Components of the estimated food subsidy of the Central Government 2001-2002

Year	Subsidy (Rs. In crore)	Percentage of total subsidy
Antyodaya	1148	5.5
BPL	5,392	25.7
APL	488	2.3
Total for PDS	7,026	33.5
Carrying cost	13,915	66.5
Total food subsidy	20,943	100

Note: This is based on FCI data but excludes subsidies on offtake other than PDS

of cereals per day per person for the below poverty line category. At the moment, the Targeted PDS supplies just 166 g of cereals per capita per day. Buffer stock as of 1st October 2004 stood at 18 million tons. Major reasons for such a large stock are:

- Attractive minimum support price
- An increasing statutory levies on grain purchase
- Poor offtake after the introduction of TPDS
- Poor quality of grain stocks.

Subsidies

The various components of food subsidy provided by Central Government in 2001-02 is given in Table 4.

During the years 2001-2002, the total subsidy was Rs. 20,943 crores. The share of carrying cost was in the order of 66.5% of the total subsidy. The total cost of transferring one rupee of income under the TPDS to the poor was estimated by Radhakrishna (1997) at Rs. 5.37. An estimate of per household income transfer revealed that Kerala and Goa had an income transfer of Rs. 50 and above. In the case of Bihar, Orissa, UP, Rajasthan and West Bengal it was less than Rs. 4/- per household⁶.

Evaluation of TPDS

The TPDS has been in place for seven years, since 1997, without any large scale evaluation of its working. However, there were several problems associated with it.

- The major criticism of TPDS is that it has wrongly excluded a large number of deserving persons and families.

- No survey had been done in 18 out of the 31 states and Union Territories for identification of BPL families.
- Ration cards have not been provided to many BPL houses in states that had completed the identification survey.
- Nationally, according to the ORG-MARG survey conducted for the CAG, 18 per cent of BPL households did not have ration cards.
- An evaluation of the TPDS in Uttar Pradesh during 1997-98 by the World Bank showed that 56% of the household in the lowest quintile did not get BPL cards. Given both the conceptual and operational problems in identifying households below the poverty line, the chances of mis-identification and of excluding the vulnerable population from the TPDS appear to be high.
- The performance of TPDS was poor in states with a large BPL population.
- 31% of rice and 36% of wheat were diverted to either open market or to recycle to the FCI procurement channel. Diversion exceeds 50% in states with larger BPL population.
- Lack of coordination and synergy from the national level to the village level is another major problem that plagues the delivery of services under the various programmes including the TPDS.

Huge buffer stocks and low off take from TPDS in the past few years has created a crisis in the food grain management of the country. The stocks are deteriorating because of a shortage of storage space. The center was spending more on food subsidy than what it expends on agriculture, rural development, irrigation and flood control taken together. In view of this, the Government of India constituted a high level committee for the formulation of a Long Term Grain Policy for the country on 17th November 2000. The terms of reference for the committee was to examine the following areas.

- Minimum Support Price (MSP) and Price Support Operations
- The Role of the Food Corporation of India (FCI)

- Functioning of the Public Distribution System (PDS)
- Policies regarding buffer stocks, open market sales and foreign trade
- Allocation of grain for rural development and other welfare programme.

These cover almost all aspects of the present system of national food security. The Committee's task was to examine the functioning of this present system and to recommend policy changes, which can improve the effectiveness, provide producer incentives, and ensure price stability for consumers, particularly the poor. The Committee presented the final report recently⁷. This report contains a number of important suggestions for improving the PDS system in the country.

Historically, the objectives of the PDS have been

- Maintaining price stability,
- Raising the welfare of the poor (by providing access to basic foods at reasonable prices to the vulnerable population),
- Rationing during situations of scarcity, and
- Keeping a check on private trade.

The Committee felt that the price stabilization remains the most important objective of the PDS. The second objective, regarding welfare of the poor, is equally important in view of the large scale under nutrition in the country. The committee felt that the last two objectives require modification because the country has adequate buffer stocks.

Suggestions for Reform of the TPDS

Several Expert Bodies and Committees have made suggestions regarding the PDS in recent years. These suggestions are summarized below:

- Narrow targeting, that is, to "the poorest of the poor even if large sections of the population are to be considered to be poor".
- Distribution of grain through the PDS be supervised by Gram Sabhas and Non Governmental Organisations (NGOs).

- Separate costs of holding buffer stocks and distribution stocks, and charge only the latter cost to consumers.
- For States that distribute quantities larger than allocated for BPL, cash may be paid instead of supplying food grain.
- Grain may be sold at below APL price to traders to clear the stocks available with the Government.

The Tenth Plan Approach Paper (May 2001 version) recognized that the TPDS has failed to improve the PDS in some of the poorer northern states⁸. The approach paper recommended the following:

- Food subsidy can be allocated as cash to states
- A uniform price for APL and BPL households may be announced.

The Note on the PDS and Food Security (prepared by the Development Policy Division, November 2001) made the following suggestions:

- Since the needs of five-member family exceed 20 kg, given current stocks, as a temporary measure, the BPL quota may be raised to as much as 40kg per month.
- Since poor families lack the capacity to buy their monthly quota in one go, permit the poor to buy rations on a weekly basis.
- Continue to fix BPL prices at 50% of economic cost and APL at 100% of economic cost.
- Merge all welfare schemes that involve the distribution of food grain
- Introduce food stamps in areas not currently covered adequately by Fair Price Shop.
- Distribute the food subsidy among states according to a formula applicable to other anti-poverty programmes and let state governments decide all other matters pertaining to the PDS.

The Approach paper (May 2001) suggested returning to a general PDS with a common issue price⁸. The Note on the PDS, however, prefers the continuation of the TPDS. It has one set of

suggestions for improving the TPDS, such as area targeting increasing the quantity for BPL households. A second set pertains to alternatives such as food stamps and distribution of the food subsidy in cash to states.

Food Stamps

In recent times, advisors to the Government of India and the World Bank have suggested a shift from rations to a system of food stamps or coupons^{9,10}. The food stamps have been tried in United States, Sri Lanka, Zambia, Jamaica, and Tunisia. Each country used their own approach for targeting the poor under the food stamps or food coupons. All countries have faced severe administrative problems with regard to the issue of food stamps and the reimbursement to the shops delivering foods based on the coupons or food stamps. However, the scheme is worth trying selectively in places where fair price shops are not available. The danger of counterfeiting and erosion of value due to inflation may have to be carefully considered. The scheme will be advantageous to the very poor people living on day to day hand to mouth basis.

Conclusion

The year 2002 witnessed severe drought situations in 17 States in India with a substantial fall in the output and large variations in food production among various sub-regions of the affected States. Rajasthan, for example,

suffered five successive droughts. Yet the operation of the PDS and other food-based interventions avoided hunger-related death. The year experienced one of the biggest food distribution operations ever executed. State governments received 17 million tones of food grains free of cost for employment generation and execution of other welfare programmes in the drought-hit areas. The PDS plays a major role by ensuring access to certain minimum quantities of grain throughout the country and in all seasons at uniform prices.

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