

# Public Distribution System in India

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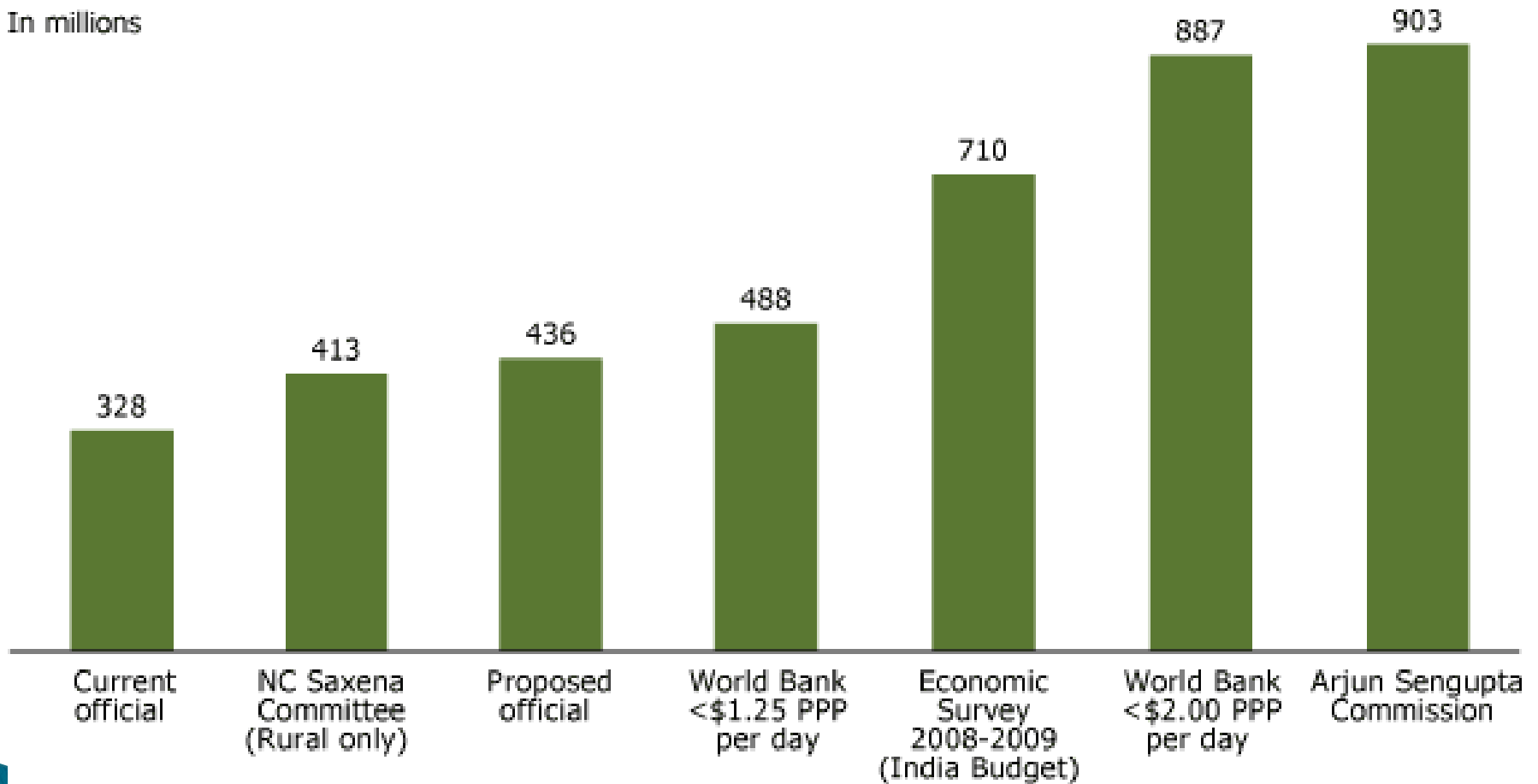
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# Poverty Level In India

In millions



Source: *What Is Poverty, Really? The Case of India* :by Carl Haub and O P Sharma ,Jan 2010 Article on Population Reference Bureau

# Public Distribution System

- ▶ Started in 1960s it was for everyone till 1992 when it was tried for tribal blocks of far and difficult areas to improve the reach and in 1997 it was made targeted to poor people
- ▶ State Government responsibility to identify poor and ensure that they get the benefit
- ▶ When started it aimed for 6 crore (60 million) people with 72 lakh tones of grains

# Public Distribution System in India

PDS evolved - major instrument of the Government's economic policy for ensuring availability of food grains at affordable prices.

It is an important strategy for poverty eradication and is intended to serve as a safety net for the poor nutritionally at risk.

PDS with a network of large number of Fair Price Shops (FPS) is perhaps the largest distribution network of its type in the world.

# Public Distribution System

PDS means distribution of essential commodities to a large number of people through a network of FPS on a recurring basis. The commodities are as follows :-

- ▶ Wheat
- ▶ Rice
- ▶ Sugar
- ▶ Kerosene

# Public Distribution System in India

- ▶ PDS is operated under the joint responsibility of the Central and the State Governments.
- ▶ The Central Government responsibility for procurement, storage, transportation and bulk allocation of foodgrains,
- ▶ The State Governments responsibility
  - For distributing the same to the consumers through the network of Fair Price Shops (FPSs).
  - The operational responsibilities including allocation within the State, identification of families below poverty line, issue of ration cards, supervision and monitoring the functioning of FPSs.

# Public Distribution System

## ANTYODAYA ANNA YOJANA (AAY)

- ▶ 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 (increased in by 2009 2.5 crore people)
- ▶ Providing them food grains at a highly subsidized rate of Rs.2/ per kg. for wheat and Rs. 3/ per kg for rice.

# What ails PDS?

## 1. Availability



Users often do not get their rightful entitlement in terms of quantity. What's

meant for them is diverted to the open market. This happens at the beginning of the chain itself.

## 2. Timing



Ration shops do not open every day. Nor do they keep regular hours. The

objective would appear to be to limit access to people and divert grain and other produce to the open market.

## 3. Overcharge and undersupply



This is a common practice adopted by most people that run ration shops. They

charge people more than the mandated rates, and they often under-weigh the commodities.

## 4. Bribes



People have to pay bribes for small things, such as getting a ration card in the first

place, adding or deleting the name of a family member, or changing the address mentioned in it.

## 5. Indifference



The staff at ration shops doesn't know the meaning of the term customer

service in most cases. People are harassed and have to make multiple visits.

## 6. Role of middlemen



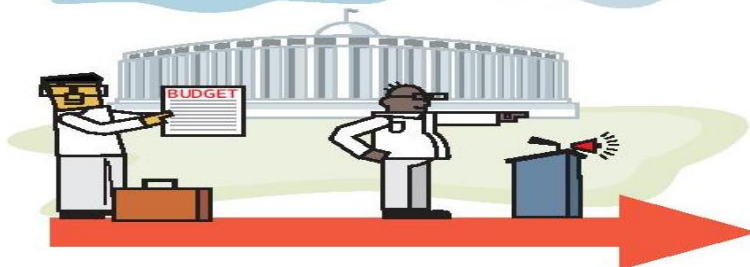
The supply offices are lorded over by middlemen and touts. Procedures are made to

appear so complicated that people usually end up using middlemen for small tasks too.



## 1 The politics of support prices

The government allocates funds for the public distribution scheme. The scheme aims to provide foodgrains and commodities to poor people at affordable prices. The government sources produce for the system from farmers; it sets a minimum support price to do so. The MSP is usually governed by factors such as the monsoon, crop yield, and vote-bank politics.



## 2 Procurement and pilferage

The government-owned Food Corporation of India procures farm produce. Sometimes, the support price is so low that it can only attract low-quality produce; the rest goes to the open market. The government tries to avoid this by upping the support price if it looks like it cannot procure the amount of grain it needs. Still, a portion of the procured grain sometimes finds its way into the open market. The study says that in Nagaland, 100% of the grain procured ends up in the open market. The figure is 70% for Punjab.



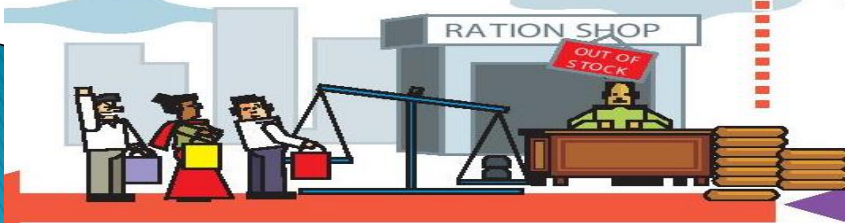
## How Corruption Creeps In

The chain of corruption in the public distribution system begins at the sourcing stage itself. Some of the produce that is sourced by the government for public distribution finds its way into the open market. Then, there are issues related to obtaining a ration card, and the quality of service at the ration shops.



## 4 Pain at the point of sale

People have difficulty in getting whatever little reaches ration shops. Shop-owners usually get licences to run shops on the basis of political patronage or outright bribes. The only way they can earn profits is by diverting produce to the open market. Result: people get less than they are entitled to, or are charged more for what they get.



## 3 Identification, inclusion and exclusion

Ration cards are supposed to be issued to people living below or on the verge of the poverty line. The process of issuing cards is, again, rife with corruption. Money and influence are the usual determinants of who gets ration cards, and who doesn't. Worse, bogus cards are often used to divert supplies to the open market. And it takes a lot to effect changes in ration cards.



## Number of households using PDS

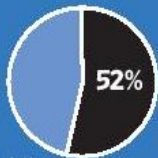
**91 million**

(as against 160 mn claimed by govt)

### PEOPLE USING PDS

URBAN

RURAL

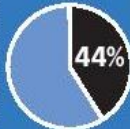


Proportion of population

Low Poverty States

Medium Poverty States

High Poverty States



Proportion of population

## Perception about Corruption

**61%**

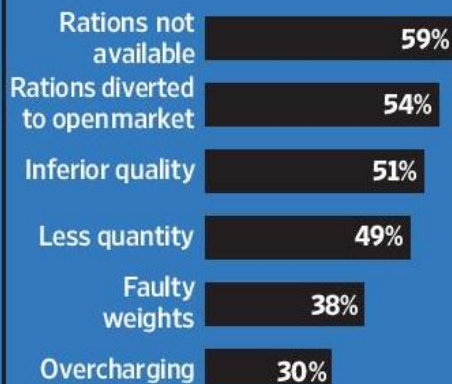
of people using PDS agree that it is rampant with corruption

Is there corruption in PDS?



32% No opinion  
6% Disagree

## COMMON IRREGULARITIES



Total value of corruption in PDS

Rs **358** crore/year

## Increasing Corruption

**49%**

of people using PDS say that corruption has increased in the past one year

Has corruption increased or decreased

49% Increased

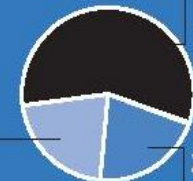


39% Remained same  
13% Decreased

## Department not committed to reforms

**53%**

of PDS users felt that the department was not willing to undertake any reforms. Poor states where there are maximum users of PDS, only 12% of people are hopeful of any reforms



23% No opinion  
24% Committed to reforms

## The harassment (figures in %)

Possessing a ration card is not sufficient. More than half the BPL households faced difficulties accessing PDS.

All India (N=19,934)

### Corrupt staff



### Procedural issues



### Absence of staff



### Interference of middlemen



## The collectors (figures in %)

Bulk of the bribes were picked up by the PDS staff/FPS dealer; making it easier for public policy to target.

All India (N=1,182)

### PDS staff/ FPS dealer



### Agent/middlemen



### Local representative



## Bribing the system (figures in %)

The experience of corruption is far lesser than perception. While 54% believed the system was corrupt, only 10% actually paid bribes or used a contact.

All India (N=19,934)

### Paid bribe



### Used contact



### Did not take the service because asked for bribe



## Measures taken to improve service (figures in %)

Eight out of 10 BPL households felt that grievance redressal had actually deteriorated during the last one year.

All India (N=19,934)

### Check against corruption



### Make information easily available



### Improve grievance redressal



Response to some questions resulted in more than one answer



At a time when inflation is poised to top 12%, for the poor, particularly for families in the so-called below poverty line, or BPL, category, the public distribution system, or PDS, is one means that can mitigate the ill effects as it provides subsidized foodgrains and kerosene. However, a Transparency International India-Centre for Media Studies survey reveals that 6% of the 47.23 million BPL households had to pay a bribe to avail of the services. The study looked at corruption at the point of contact and did not address the issues of leakages from the public delivery system.

## The circumstances (figures in %)

Ideally, an FPS should be visited only once a month. But the fact: repeat visits.

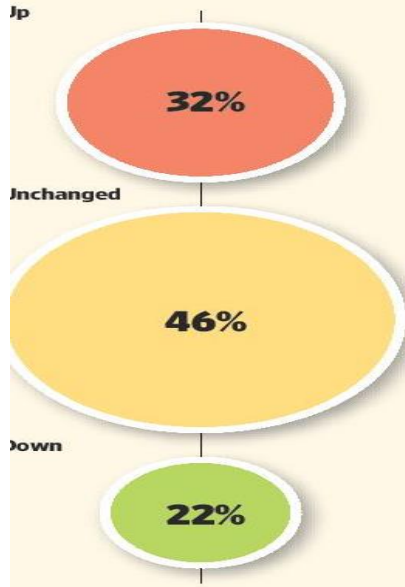
Services\* All India (N=3,692)



\* Required three or more visits.

## Perception of corruption

It is far worse than actual practice. The survey maintains that media reports on diversion of foodgrains from PDS stokes this trend.



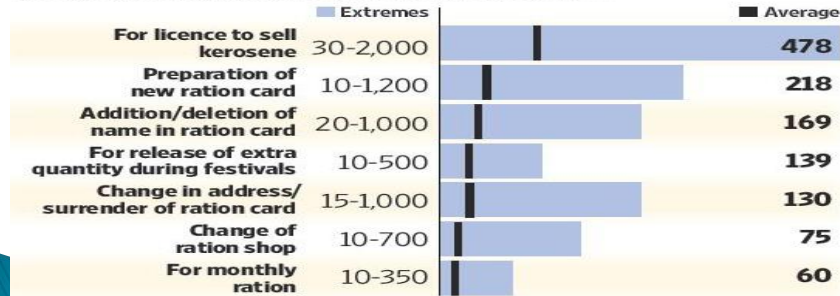
## Where do they stand?

The picture is mixed. Some high offtake states such as Assam and Jammu and Kashmir report very high corruption, while the levels of corruption are moderate in states such as Andhra Pradesh and Himachal Pradesh.



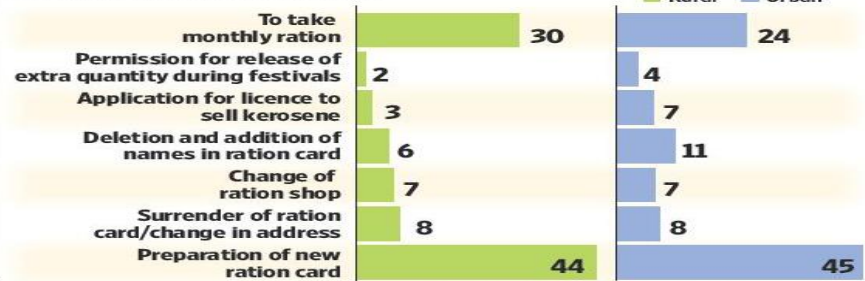
## Amount of bribe paid (in Rs)

Out of the total BPL households in the country, around 2.79 million households were estimated to have paid bribes to avail of PDS services.



## Reasons for paying bribe (%)

More than four out of 10 people paid bribes to get a ration card. Not surprising therefore that studies have shown that a large number of ineligible households in the country possess a ration card.



Source: Transparency International India-Centre for Media Studies survey

# Ranking of states by offtake from PDS

(2006- Dec 2007)

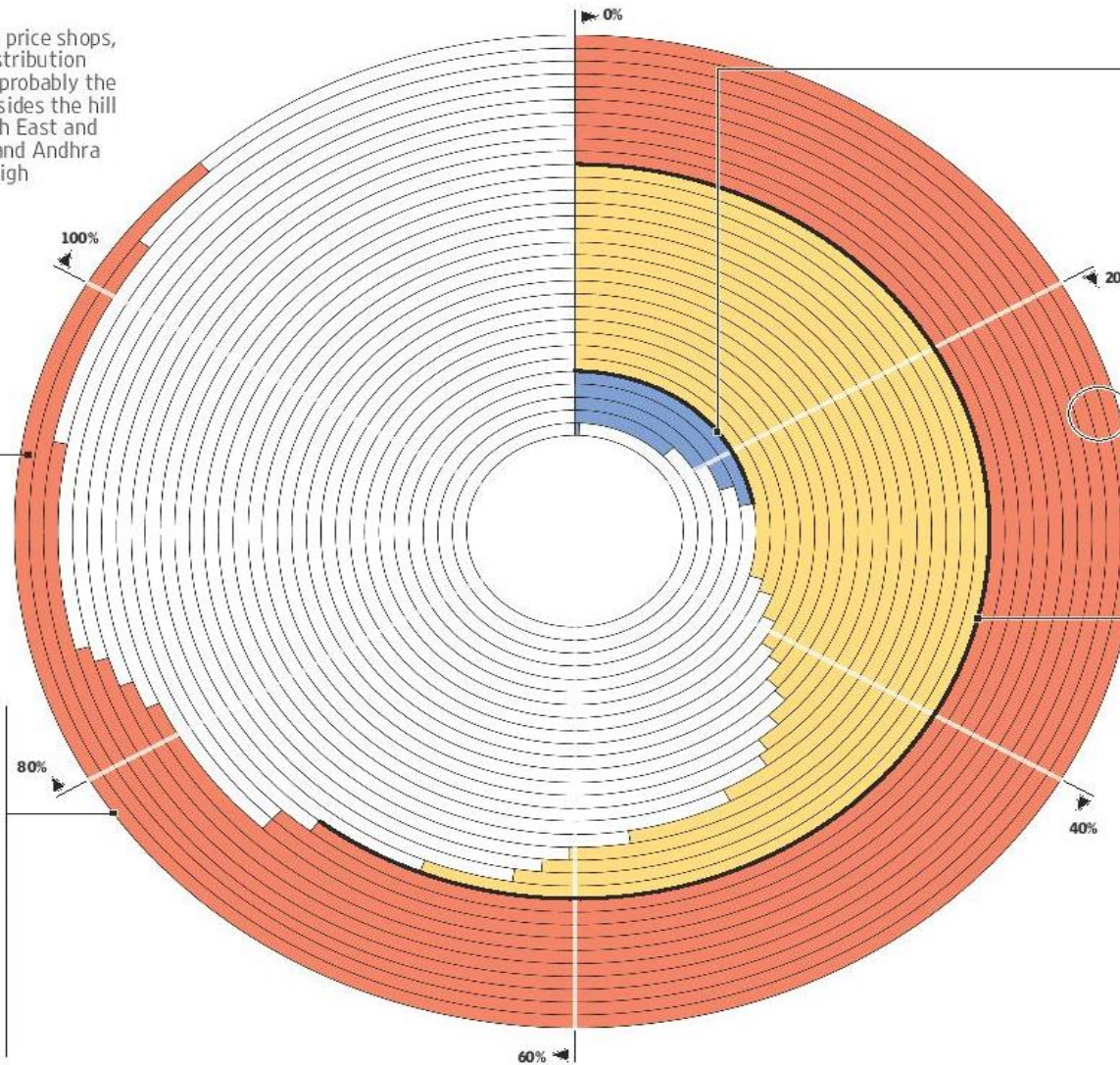
With about 492,000 fair price shops, or FPS, India's public distribution network for the poor is probably the largest in the world. Besides the hill states, both in the North East and north India, Karnataka and Andhra Pradesh reported very high offtake from PDS.

## Categorization of states by offtake

- Low
- Moderate
- High

Nagaland reported the highest offtake

High	% offtake
Nagaland	106.08
Mizoram	102.41
Meghalaya	93.74
Jammu and Kashmir	85.2
Assam	84.62
Himachal Pradesh	83.16
Andhra Pradesh	81.9
Arunachal Pradesh	74.64
Tripura	74.4
Karnataka	72.81



Low	% offtake
Puducherry	26.85
Bihar	24.06
Goa	20.14
Punjab	15.35
Chandigarh	0.98

Each ring represents one state/Union territory

Moderate	% offtake
Manipur	67.54
Madhya Pradesh	63.33
Delhi	61.94
Jharkhand	60.37
Tamil Nadu	57.2
Orissa	51.03
Maharashtra	48.17
Chhattisgarh	47.65
Uttarakhand	45.89
Kerala	44.27
West Bengal	43.84
Uttar Pradesh	42.15
Rajasthan	41.58
Sikkim	39.03
Gujarat	36.7
Haryana	35.56

# Possible Solutions

## 1. Food vouchers



The current system makes ration card holders captive customers of specified ration shops. The government could consider issuing food vouchers to card holders.

These vouchers can be exchanged for food from any shop. The owners of these shops can trade these vouchers in for cash. The quality of the produce, its price, and the way shop-owners (private shop owners) procure their supplies will all be market-determined. As will be the quality of customer service and efficiency, from procurement to distribution.

## 2. Local procurement and distribution



One reason for the inefficiencies and corruption that plague the current system is the long distribution chain. Food supplies go waste or are diverted at each step of the process. It also takes a long time for food produce to reach ends of the chain (this also increases the cost of managing the public distribution system). If the local administration takes charge of procurement (unless certain foods are not available locally), it can collect food produce locally. This can then be distributed locally to eligible households.

## 3. Community grain fund

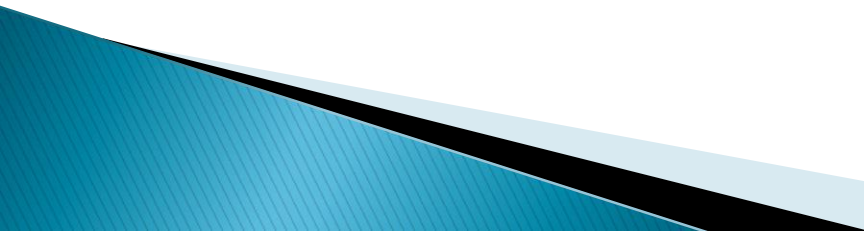


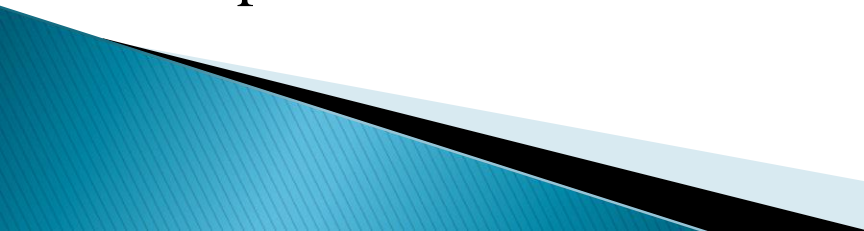
The problems can also be addressed by involving local people in the process. Thus, procurement and storage of grain is done at the local level, and could be managed by local women. These locals also identify eligible households through a participatory wealth ranking process. This addresses issues related to exclusion and inclusion, a major problem in the current public distribution system. The fund can also lend money to farmers to cultivate crops and take a part of the produce as repayment in kind, further simplifying the procurement process.



# Restructuring of PDS:

Tenth plan provides the following outline for restructuring PDS

1. Since wheat and rice are the basic necessities of the poor, the items other than these two should be excluded from the scope of food subsidies.
  2. Sugar should be kept outside the purview of PDS.
  3. The subsidy on kerosene should be phased out by raising its supply price for PDS shops since studies show that the subsidy on kerosene is cornered by the non-poor. Alternatively, if kerosene is to be retained under PDS, the extent of subsidy provided should be reduced to that there is less incentive for diversion.
  4. The coverage of PDS and food subsidy should be restricted to BPL population.
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1. To reduce malpractices, food stamps should be issued to female members of the family who can be designated as heads of households for the purpose. Under the system of food stamps, the state government should issue a subsidy entitlement card (SEC) instead of ration cards.
  2. Food card system could be a superior alternative to the prevalent Fair Price Shop (FPS) system and perhaps even a food stamp system.
  3. A food coupon scheme was introduced in Andhra Pradesh in 1998-99 for distribution of rice and kerosene through PDS. This system has resulted in saving about 20,000 tonnes of rice, 71 lakh liters of kerosene every month. The AP experiment may be replicated with suitable adaptation in other states as well.
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**Thank you**