



PERFORMANCE OF PUBLIC DISTRIBUTION SYSTEM IN INDIA

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Abstract

The full monthly quota of food grains for distribution must reach the retail outlets (FPSs) within the first seven days of the month. For this, doorstep delivery of grains to FPS in the presence of PRI members or any other responsible organization is required. Public Distribution System (PDS) is an important instrument of policy aimed at reducing poverty through the mechanism of delivering minimum requirements of food grains at highly subsidized prices to the population below the poverty line. Public Distribution System (PDS) can be distinguished from private distribution in terms of control exercised by public authority and the motive predominantly being social welfare in contrast to private gain. Broadly, the system includes all the agencies that are involved from procurement stage to the final delivery of goods to the consumer.

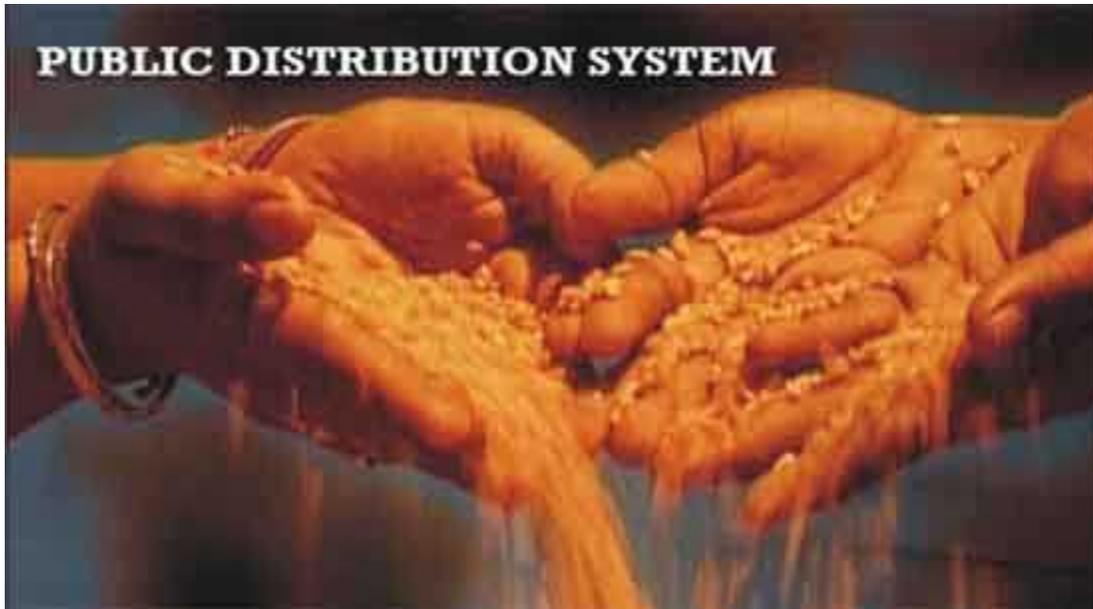
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PUBLIC DISTRIBUTION SYSTEM – AN INTRODUCTION

India, with a population of over one billion is the world's largest democracy. Despite a steady progress in the field of science, technology, defense, trade etc in such a huge nation, there are bound to be problems. Some critical issues and problems which are faced by a massive country like India are unemployment, ill-literacy, poverty etc. Public Distribution System (PDS) can be distinguished from private distribution in terms of control exercised by public authority and the motive predominantly being social welfare in contrast to private gain. Broadly, the system includes all the agencies that are involved from procurement stage to the final delivery of goods to the consumer. The agency that is involved in the process of procurement, transportation, storage and distribution are Food Corporation of India (FCI). At the state level it is the civil supply departments/corporations and fair price shops, which are the agencies, involved in provision of PDS. The fair price shops (EPS) are the last link in this process, which are mostly owned by private individuals. Hence, the most important aspect that distinguishes PDS is the involvement of government agencies and government control over the entire distribution system.

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India, with a population of over one billion is the world's largest democracy. Despite a steady progress in the field of science, technology, defense, trade etc in such a huge nation, there are bound to be problems. Some critical issues and problems which are faced by a massive country like India are unemployment, ill-literacy, poverty etc. In India, an estimated 400 million people are below poverty line (BPL), and mal-nutrition and hunger is a major issue. Around 30% or around 330 million people in India face a problem of malnutrition. This is where the role of the government to provide a solution to such a huge problem arises and it's their responsibility to work for improving the conditions of their citizens. In India, a massive operational exercise is carried out to ensure hygienic food is provided to the needy people, and this tremendous process is known as the Public Distribution System (PDS).



Yojna' targets 6.5 crore people who are extremely poor, and has around 150 million tonnes of food grains PDS is a government scheme which aims at providing basic hygienic food and nutrition to the poor people, who cannot afford to purchase food at normal retail rates. Through the PDS, poor people have an access to four basic food and commodities namely wheat, rice, sugar and kerosene at concessional and affordable rates, which are available at fair price shops (FPS). PDS is a policy which is executed by both the Central as well as the State government, and hence it requires a high degree of transparency and coordination. The Central government is responsible for procurement, distribution at various centres, setting of prices and storage of food grains at various centres across India. The State govt ensures systematic implementation and execution of this policy without any hindrances. As a part of PDS, 'Antyodaya Anna for 150 districts.

Operational execution of public distribution of food grains happens in five main steps. Firstly, the Central govt prepares an exhaustive list of poor people, who are facing the problem of mal nutrition and are need of cheap food grains. These people are mostly landless farmers, laborers, people in slums, jobless people residing on footpaths, rickshaw pullers etc. Reaching out to the right people is a herculean task for the government.

The second stage of PDS is providing 'ration cards' or identity cards to the poor people who can avail these food grains at affordable prices. These cards are distributed to only those below poverty line, who cannot even afford 2 meals a day.

The third stage covers the setting of the price and scale of the food grains to be distributed. Through PDS, wheat is available at Rs.3 per kg and rice at Rs.2 per kg, upto 20 kgs. Thus, analysing and setting the correct prices is also a critical operational factor in PDS.

The fourth stage is the most critical and crucial part of the public distribution system. This part is the actual distribution of these products at various centres across the country, which is known as fair price shops. For ensuring maximum reach to the poor and needy people, the total number of FPS are around 5 lakh or half million. These government run stores are present in small villages and rural areas and provide basic commodities at affordable prices.

The final stage of this huge operational activity is the monitoring and licensing. Licensing of FPS is a huge exercise as such a tremendous process leads to middlemen who often indulge in malpractices and corruption. Monitoring and implementation of the PDS is undertaken by area officers, secretaries of the government, who are

responsible for the smooth administration and functioning of this process at every level. And it is their feedback to the Central Govt, which leads to further improvements in this process.

WINNING WAYS OF DISTRIBUTION SYSTEM

The full monthly quota of food grains for distribution must reach the retail outlets (FPSs) within the first seven days of the month. For this, doorstep delivery of grains to FPS in the presence of PRI members or any other responsible organization is required. For ensuring transparency in delivery, it should be authenticated by the PRI or other designated agencies. The FPS-wise information on delivery against quota/requirement and ration cards should be computerized at the block /village level for onward transmission and monitoring.

Based on the results of the multivariate analysis of the off-take behaviour of BPL cardholders, it is suggested that:

- Consumers may be allowed to draw ration quota in weekly installments.
- The composition of PDS grains in different States should give due weightage to local preferences in terms of cereals and their varieties wherever feasible; and,
- The Government of India may insist that the entitlement to food grains for a BPL household in any State should not be lower than that stipulated by GOI.

Considering the high cost of holding buffer stock and low off-take at Economic Cost, it is felt that both BPL and APL cardholders may be issued additional quantity of grains at less than economic cost. This will involve no additional budgetary subsidies, but will have a significant impact on the off-take of grains, viability of FPS and operational logistics of FCI.

To minimize leakages at FPS level and ensure their transparent operation, these retail outlets must be made financially viable. Through simulation exercises to alternate values of the relevant parameters, the following package of measures is proposed for their viability:

- Licensing of FPS needs to be rationalized. A FPS becomes financially viable only w.r. to certain minimum annual turnover. A viable FPS needs to handle about 122 tonnes of grains annually along with other PDS commodities. Each State must draw up a region/district-wise policy for making FPS viable.
- The PRIs must be empowered to inspect the accounts/transaction records of FPSs and satisfy themselves about transparent functioning of FPSs. Their findings and observations need to be regularly discussed in the *Gram Sabha*.
- FPS level margin be uniformly fixed at 2% of Economic Cost.
- Reduce the issue price for APL households by at least the unit cost of holding buffer stock, so as to induce them to lift food grains from PDS.
- Allow BPL cardholders to lift additional grains from PDS at APL issue prices (5kg. /month/ card);
- Ensure door step delivery of food grains within the first 7 days of the in the presence of the PRI representatives; and,
- House FPSs in community/public building (which can be built through convergence of other programs).

For financial viability of FPS, the possibility of channelizing food grains to the existing beneficiaries of Food For Work Programs (e.g. SGRY) may also be examined. Some States are issuing food coupons to the beneficiaries of SGRY for exchange at FPS (e.g. Rajasthan). This system needs improvement as the beneficiaries have to wait for a long period to get their quota.

These measures will make most of the FPSs financially viable (earning 12% or more return on capital) with a reasonable level of annual income for the owners. For States like, Assam, Himachal Pradesh and other hilly/inaccessible areas, a separate package will be required. Where private FPSs are not viable, the SHGs may be encouraged to take over the operation of FPSs.



In addition to minimizing leakages and diversions of subsidized grains through reform measures suggested above, there is need for bringing down the Economic Cost of grains through rationalization of the cost structure of handling food grains (procurement, storage, transport, etc.) through public agencies.

A rudimentary analysis suggests that the proposed measures, if implemented as a package will entail an additional cost of about Rs. 400 crore/annum for door step delivery (including loading/ unloading). If FPSs are housed in community/ public buildings, as suggested, rental costs will not be borne by them. Transport and rental costs constitute about 44% of the operational costs of FPSs. However, this additional expenditure and other measures suggested will yield a saving of Rs. 4197 crore annually, which is currently being siphoned off the supply chain through nontransparent operation of TPDS. A substantial amount of budgetary subsidies can also be saved through rationalization of the cost structure of handling food grains by public agencies. Thus, the cost of reforming the PDS for efficient and effective delivery will constitute a small proportion of the potential saving from these measures.

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