

MicroSave India Focus Note #131

Fair Price Shop Ownership: How Viable Is It?

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Background

India's [Targeted Public Distribution System \(TPDS\)](#) is the largest food security distribution network in the world. The National Food Security Act (NFSA) 2013, aims to cover 75% of the rural and 50% of the urban population through this network. The network also provides employment for [478,000 Fair Price Shop \(FPS\) owners](#), their employees, and hired labour, who work across the supply chain in corporations and godowns.

In [MicroSave's 'India Focus Note \(IFN\) #116: Setting Public Distribution System Right: The Case for Direct Benefit Transfers - Part I'](#), we discussed the distribution challenges and policy-related issues (front-end and back-end). We also discussed the profit/income of FPS owners through diversion of subsidised rations and their sale in the open market. It was estimated that an FPS outlet with 250 ration cards mapped to it, can make approximately Rs.42,000 (US\$617) per month through the illegal diversion of rations (i.e. wheat and rice) alone.

If we include the diversion of sugar and kerosene, or of commodities that remain unsold because the beneficiary was unable to visit the FPS outlet, the earnings of FPS owners would be even higher. These findings echo the observations made in the [Shanta Kumar Committee report](#).

FPS Automation: A Panacea

In order to curb diversions, [FPS automation](#)¹ was proposed. In FPS automation, digitisation and de-duplication of beneficiary database are essential steps (Figure 1). These processes result in elimination of ghost/fake beneficiaries from the system. During physical off-take, biometric authentication, digital weighing of rations, and online stock management prevent diversion of rations/unsold rations by the FPS owners. These initiatives, however, inevitably restrict earnings of FPS owners.

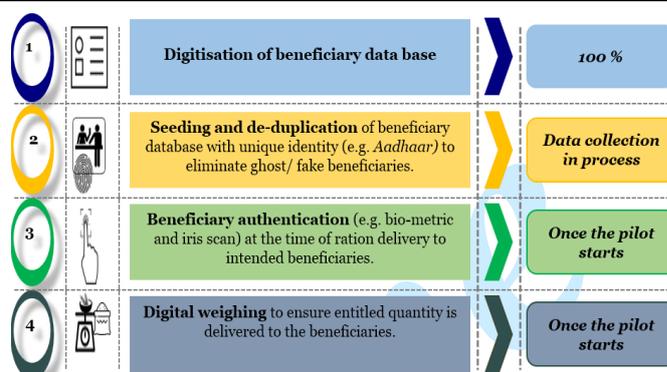


Figure1: Major Steps in FPS automation

FPS Viability: A Concern

In the automated environment, FPS owners' earnings come almost exclusively from commission for rations handled – although these are still slightly augmented by adulteration (and consequent diversion), short measurements, and/or over-charging. This compromises their viability. Table 1 presents the current revenue structure for FPS owners in different rural and urban setups:

With [minimum wages of Rs. 160 \(US\\$2.35\) per day, a labourer can earn up to Rs. 4,800 \(US\\$70\) per month](#); earnings of FPS owners in an automated environment will drop below these levels. Even with the [revised commissions proposed by the Cabinet Committee on Economic Affairs \(CCEA\) of Rs.70 \(US\\$1\) per quintal of ration and an additional Rs.17 \(US\\$0.25\) per quintal for FPS owners making sales through Point of Sale \(POS\) devices](#), the net profit would be Rs.6,270 (US\$92), Rs.6,312.50 (US\$93),² and Rs.6,009 (US\$88) for Bihar (rural), Hyderabad (urban), and Telangana (rural), respectively. Even these may not be enough for FPS owners.

With these levels of commissions, many FPS owners are likely to close their shops. Hence, while the automated environment has brought about significant efficiencies and consumer satisfaction, it is equally important to ensure financial viability of FPS owners to maintain the network of FPSs

¹ FPS automation is 'end-to-end computerisation of TPDS operations'. This includes activities; namely, digitisation of beneficiary/ration card and another data; computerisation of supply chain management; setting up of transparency portals, and grievance redressal Mechanism.

² Quantity of rations allotted to urban (Hyderabad) FPS is higher as compared to rural FPS, i.e., 187 quintal in urban (Hyderabad) but only 110 quintal and 107 quintal in rural (Bihar) and rural (Telangana), respectively. Hence, in new commission scenario, proportionate

³Absolute increase in per quintal commission from the existing commission is more for urban (Hyderabad) than rural (Bihar). Commission increases from Rs.25 to Rs.87 in urban (increase of Rs.62), but from Rs.40 to Rs.87 in rural (increase of Rs.47). Hence, the increase in income is higher in urban FPSs than rural FPSs.

Particulars		Bihar (Rural)	Hyderabad (Urban)	Telangana (Rural)
Allotment	Average ration cards per FPS	400	900	500
	Average number of PHH (Priority Household) cards per FPS	300	750	400
	Average number of AAY (Antyodaya Yojana) cards per FPS	100	150	100
	PHH allotment per month (Quintal) ¹	75 (=300*5*5)	135 (=750*6*3)	72 (=400*6*3)
	AAY allotment per month (Quintal) ²	35 (=100*35)	52.50 (=150*35)	35 (=100*35)
	Total allotment per month (Quintal)	110 (=75+35)	187.50 (=135+52.50)	107 (=72+35)
In-	Commission earned on ration (Rs) ³	4,400 (=110*40)	4,687.50(=187.50*25)	2,140 (=107*20)
	Earnings from sale of gunny bags (Rs) ⁴	1,100 (=220*5)	1,875 (=375*5)	1,070 (=214*5)
	Total earnings per month (Rs)	5,500 (US\$81)	6,562 (US\$96)	3,210 (US\$47)
Cost	Transportation/ loading/ unloading/ handling cost (Rs) ⁵	1,100 (=110*10)	3,375 (=187.50*18)	1,070 (=107*10)
	Rent (shop) (Rs)	1,000	4,000	1,000
	Wages (helper) (Rs) ⁶	2,000	4,000	2,000
	Electricity (Rs)	300	500	300
	Total expenses per month (Rs)	4,410 (US\$65)	11,875 (US\$175)	4,370 (US\$64)
Net profit (Rs)		1,100 (US\$16)	(5,312.50) (-US\$78)	(1,160) (-US\$17)

Assumptions:
¹ Average household size of 5, 3, and 3 for Bihar (rural), Hyderabad (urban), and Telangana (rural) respectively, and per member ration allotment for PHH is 5 kg, 6kg, and 6 kg for Bihar, Hyderabad, and Telangana respectively.
² Ration allotment per card for AAY is 35 kg, irrespective of the number of members in the family.
³ Commission on ration is Rs. 40 per quintal, Rs. 25 per quintal, and Rs. 20 per quintal in Bihar, Hyderabad (urban), and Telangana (rural).
⁴ One gunny bag contain 0.50 quintals of ration and an empty gunny bag sells for Rs. 5.
⁵ For Bihar and Telangana (rural), unloading and handling cost up to Rs. 10 per quintal; and for Hyderabad (urban), transportation and unloading cost up to Rs. 18 per quintal. Transportation cost from State Food Corporation (SFC) go-downs to FPS is borne by FPS owners in Hyderabad (urban).
⁶ Wage rate of Rs. 200 per day and FPS opens for 10 days a month for Bihar (rural) and Telangana (rural); and Rs. 4,000 per month for Hyderabad (urban).

Table 1: Revenue Generation and Costs for Fair Price Shop Owners

Recommendations

FPSs are essential part of the value chain to deliver rations to the low-income segment. Ensuring FPS viability is essential; we suggest developing an economic model to optimise the business case for FPS owners. The model can, among other cost and revenue items, take into account the investment in working capital to manage an FPS outlet and the returns that will be expected /reasonable. On the basis of the model:

- Enhance remuneration by increasing commission per transaction. The additional financial burden of increased commission can be met by [the savings accrued to the respective states through FPS automation](#).
- Encourage cross-selling of daily consumer goods (soap, shampoo, etc.), and other food items (pulses, cooking oil, etc.) for sale through FPS. These commodities can be provided to FPS through [government-owned networks, e.g. Telangana](#), or through private players, such as [multi-brand retail corporates, e.g. Rajasthan](#). However, one of the concerns of this model flagged by colleagues at MicroSave is, “Will this model lead to creation of a

private sector monopoly in villages which rides on the foot-falls generated by government subsidised rations?” We do not have an answer to that, at least not yet!

Conclusion

FPS automation has been a tremendous success in terms of the efficiencies that it has brought about and the leakages / diversions that have been plugged. However, automation has eliminated the business case for FPS owners. Since these FPS outlets are extremely important as last-mile delivery agents, there is a need look at options to improve the viability of the FPS outlets, which are essential for the PDS.