

MicroSave India Focus Note # 116

Setting Public Distribution System Right: The Case for 'Direct Benefit Transfers' - Part I

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May 2015

India is a social welfare state. This is clear from the "Preamble and the Directive Principles of State Policy (DSDP)" of The Constitution of India. India has made a determined effort to fulfil its ideal of a welfare state, not only in principle but also through economic planning. The welfare [budget allocation of about Rs.2,270 billion \(\\$36 billion\), which is about 40% of the total budget outlay for the country for the year 2015-16](#), reflects this fact. However, the proportion of this that actually reaches the intended beneficiaries is a matter of speculation. According to "[Shanta Kumar Committee](#)" on "Reorienting the Role and Structure of Food Corporation of India" total food subsidy is about Rs.1,150 billion (\$18 billion). After the success of direct benefit transfer (DBT) for the liquefied petroleum gas subsidy, the government is contemplating the introduction of DBT for PDS as well. In this series of Notes, we will specifically talk about what ails the PDS, the various alternative methods for distribution being piloted and necessary steps required to run a successful PDS scheme. The [Economic Survey presented before the tabling of the budget states that about 15% of rice, 54% of wheat and 48% of sugar distributed under PDS is diverted](#). MicroSave's assessments corroborate these observations.

Understanding Public Distribution System (PDS)



There are three broad categories of ration card holders:

- The poorest, Antodaya Anna Yojna (AAY) beneficiaries are eligible to avail 35 kgs/month of food grains (proportion of rice and wheat varies by region) along with 3 kgs of sugar and

3 litres of kerosene for a total of Rs.180-190 (\$3).

- The Below Poverty Line (BPL) beneficiaries are eligible to avail 35 kgs/month of food grains (rice and wheat) along with 3 kgs of sugar and 3 litres of kerosene for a total of Rs.280-290 (\$4.60).
- The Above Poverty Line beneficiaries can avail only 2.5 litres/month of kerosene for Rs.45 (\$0.73).

The eligibility of households for a ration card category is solely at the discretion of the *Gram Panchayat*. The different categories of ration cards are designed to ensure that the quantity of ration and the price paid reflects the household's economic status.

Challenges in Existing PDS

The PDS is plagued with multiple challenges. Our research, conducted across 16 districts in five states, highlights a range of issues. These fall into two broad categories:

- Distribution-related challenges (Front end), and
- Policy-related challenges (Back end).

This note discusses these challenges in depth.

Distribution challenges

These challenges are classified as those that arise after the food grains reach the FPS. These are as follows:

1. Leakages

In no village in our survey did the consumers receive their full entitlement. They receive only 30-33kgs of food grains. When beneficiaries ask about the shortfall, the FPS owners typically reply something along the lines of "This is how much FCI [Food Corporation of India] warehouses released. Take it or leave it". [Shanta Kumar Committee report puts the figure of leakage to 46.7%](#). The food grain thus siphoned off is diverted to the open market where some consumers buy it for Rs.20 (\$0.32)/kg. Interestingly same food grain costs GoI Rs.30 (\$48)/kg to transport up to the village. This was also highlighted by the Shanta Kumar Committee.

2. Accessibility to Fair Price Shop

The FPS should be open all 30 days of the month. The ration dealers have, however, created barriers to access by setting "designated times" for different categories. This, of course, limits beneficiaries'

access to the shop. *MicroSave* research found that a typical FPS shop opens only on few days – generally two-three - in a month. If a beneficiary fails to purchase his/her entitlement in the month, the ration is not carried forward to the next month. Instead, it is diverted to the market.

Though beneficiaries find the limited opening hours of the FPS inconvenient, they have become resigned to them. This is probably because beneficiaries are used to poor service standards. Perhaps unaware of the mandated opening hours, and certainly unable to change them, the beneficiaries have, instead, adjusted and accepted limited access to the FPS as the norm.

FPS Dealers' Profits from PDS

Average number of AAY and BPL card holders in one *Gram Panchayat* – 250

Number of ghost ration cards – 65 (extrapolating MDBTL figures of ghost beneficiary connections blocked)

Diversion from ghost beneficiaries – $65 \times 35\text{kgs} = 23$ quintals

Diversion through shortfalls given to BPL/AAY beneficiaries – $185 \times 3\text{kgs} = 5.65$ quintals

Total diversion of food grains – 28.6 quintals

Market price of wheat = Rs.42,000 (\$677) /month

The above, of course, does not include similar diversion of sugar and kerosene or the commodities not distributed because the beneficiary was unable to visit the shop in the limited window it was open (see below).

3. Absence of Grievance Redress Systems

Why then are there so few complaints about these irregularities in the system? Most beneficiaries are not aware of any grievance mechanism other than the *Gram Panchayat*. Thus, beneficiaries are not willing to risk losing their ration card by challenging the very *Panchayat* that decides their eligibility for it. This leads not only to increased dissatisfaction with regard to the PDS system, but also helps to develop a negative perception of the functioning of all government officials.

Policy challenges

Underlying these distribution challenges are policies that exacerbate them.

1. Selection error

Errors in beneficiary identification are common. Citizens who need food subsidy support do not own a card, while others are given cards when they do not qualify for PDS. Others are in the wrong beneficiary category. (For example, a beneficiary deserving a BPL-card has an APL card). [A study by PRS Legislative Research highlights that inclusion error is as high as 61% and exclusion error is 25%.](#) Similarly the [erstwhile Planning Commission of India](#) also estimated inclusion error to be as high

[as 49.65% in the state of Tamil Nadu and exclusion error to be 47.29% in the state of Assam.](#)

2. Quality of food grains

The quality of grains is another major concern for the consumer. Of the three major food commodities available at a typical FPS, the quality of wheat is found to be satisfactory, while all beneficiaries have expressed issues with regard to the quality of rice and sugar. The quality of rice was found to be so poor at some places that the consumers were forced to grind it and make chapatis instead of eating it boiled. The quality issue may not be wholly due to FPS dealer – it is also due to issues with procurement, storage or transportation of the ration to the distributor.

To overcome these challenges, the Government of India is piloting a number of alternatives. However, not all of these will have an equal impact.

In the next part of this series, we will discuss these alternatives and their pros as well as cons to address the challenges in the current PDS.