Summary and Conclusions

The Public Distribution System was introduced in virtually all the states of India, but Kerala's PDS was the one which evolved as the most efficient and effective measure of food security. The phenomenal success of the Kerala PDS resulted in it being studied and analyzed time and again and being considered as the model for most other states. An analysis of the successive rounds of NSS Surveys as well as the secondary data on ration off-take in the study adequately corroborates the veracity of the above statements. The salient features of the model were its universal coverage, high levels of utilization, physical access made possible through a vast network of retail outlets, rural biased-ness and progressive utilization of the system. The progressive utilization of the system implied higher gains from the system to the economically underprivileged sections of the society\(^1\). The contribution of PDS in addressing the food security concerns of the poor households had played a significant role in the health achievements of the State. Undoubtedly for a State with a vastly dwindling acreage under paddy cultivation, the PDS provided for the necessary succor against the vagaries of the market. The introduction of universal rationing and the evolvement and expansion of the PDS in the State was based on a tacit understanding between the Centre and the State Government, with the former taking the responsibility of adequate food availability to meet the State's food requirements. Thus the PDS in the State was not to be considered as a mere concession to the poor alone but as a system essential for food security in an acute food-deficit State.

The study finds that the above-mentioned salient features of the Kerala PDS that received widespread recognition and appreciation, are no longer true of the present times. Universal coverage has given way to targeted coverage of identified poor beneficiaries, and despite a near universal coverage in terms

\(^1\) More than two thirds of the consumption requirements of the poor population were met through the PDS in the State.
of distribution of ration cards, the identified BPL households, eligible for the highly subsidized foodgrains, form only 30 percent of the total cards distributed. Universal coverage under TPDS thus does not mean universal benefits to all. With extremely high utilization rates, Kerala was truly in a league of her own, prior to the drastic decline in the offtake, post 2000-01 period. One of the criticisms of the universal PDS was that the food grains allotment and offtake was disproportionately higher in States with low poverty levels, Kerala often cited as an example. The present situation is such that the contention of Kerala receiving a disproportionately higher share of PDS subsidy no longer holds true. From 12 percent of the total public distribution of food grains in the country, the proportion of Kerala has come down to about 3.9 percent in 2003.

The combined scale of ration rice and wheat per adult (460 gms per day) in the Pre-TPDS phase satisfied the stipulated requirement by the ICMR (of 370 gms of cereals per day). Even the allotment of rice fulfilled around 80 percent of the ICMR norms. Following the introduction of TPDS, the per capita norm was changed to the per household norm, which became distinctly disadvantageous to the households with larger household sizes, significantly reducing their per capita entitlement. At the time of introduction of the TPDS, the Kerala government identified around 4.85 lakh additional BPL households (i.e. in excess of the GOI estimates), the additional subsidy for which was met from the State exchequer. Following discontinuation of the subsidy in 2001, the grains allotted by GOI is being distributed to all the BPL ration cardholders resulting in a further reduction in the already low per household entitlement of food grains. Though most households do not confine all their purchases of rice from the ration shops, the study shows that lower entitlement has resulted in a supply constraint for at least some BPL households who are now forced to make an involuntary decision to access the market to meet their rice requirements.

A comparison of the Pre-TPDS and Post-TPDS phases shows that there has been a manifold decline in the offtake from the PDS and the utilization from the system has fallen to merely a quarter of what it was during the Pre-TPDS
phases. Ironically, while the system was to serve the poor households, the aggregate utilization levels of the BPL households are also lower than the general utilization levels from the PDS in the pre-TPDS phases\(^2\). The magnitude of reduction in the offtake from the system is almost uniform across districts. It is shown that while the share of PDS offtake was already higher in the food insecure districts prior to the TPDS, post-TPDS, the share of some richer districts like Kottayam and Thrissur, have not only gone up but are also at comparable levels with the poorer districts. The analysis of the factors affecting the ration consumption in the Post-TPDS showed that BPL rice offtake does not show any significant relationship with poverty implying that in per household terms, the utilization levels are not biased towards the poor districts as it ideally should have been, despite the higher share of the offtake in the poorer districts in both the pre and post-TPDS phases. This is further corroborated by the insignificant values of correlation coefficient between share of PDS in total consumption/ per capita offtake and poverty. The study clearly showed that the introduction of the TPDS in the State has not resulted in targeting the districts with higher number of poor at least at the level of offtake which was what it sought to achieve.

The study shows that, post-TPDS, the income gain from PDS has been lesser in districts with greater poverty, implying that comparatively poorer districts have gained less from the TPDS and the benefits of the system have been accounted more by the richer districts. The higher gains accrued by the richer districts from the PDS is likely to get further accentuated in the years to come, if the State procured local variety of rice (CMR) is made available through the PDS only in the districts of Palakkad, Thrissur, Ernakulam, Idukki, Kottayam, Alappuzha, Pathanamthitta and Kollam, out of which Palakkad and Alappuzha are the only income poor districts with large proportion of poor population. Given that CMR rice is the locally produced and preferred variety of rice, the offtakes in these districts would be higher and so would be the benefits of PDS in these districts (if the situation remains status quo). This would not

\(^2\) From a monthly per capita consumption of more than 4 Kgs approx. (NSS Surveys 1987-88, 1993-94 and 1999-2000), the same has declined to just about 1 kg (NSS Surveys, 2004-05) for all households and around 3 Kgs for the BPL households.
augur well from the perspective of extending higher benefits to the poorer regions. This point out to the futility of the introduction of TPDS in a State which was already widely lauded for an efficiently run PDS that bestowed progressively more benefits to the rural and the poor population.

The declining share of the States' own production and the greatly reduced share of the PDS in meeting the food grains requirements of the population since the introduction of TPDS in the State has made majority of the population dependent on the market for their rice purchases. The combined share of these two sources that satisfied more than 70 percent of the rice requirements of the State at the year of inception of TPDS has fallen to around 35 percent now, with the private traders meeting the shortfall. This is seen to have important repercussions on the prices front. As revealed by the econometric analysis, the declining share of PDS and the internal production in meeting the food grain requirements of the population has had a significant positive effect on the open market retail prices of Kerala, with the higher market dependence pushing up the open market prices in the high deficit districts and the increasing inter-district variation in retail prices being indicative of decreasing market integration in the State. Also the wholesale prices in the State for most of the varieties of rice available are still very close to the economic costs pointing out to the significant fact that in terms of the final price, the private traders in the State have not been able to offer a price advantage to the consumers reasonable prices or a better deal than the FCI in distributing rice in Kerala.

Not only have the utilization levels nosedived, its short term adverse effect on profitability of the retail outlets cannot be discounted for, given the closure of a number of shops during the period, adversely affecting the physical accessibility at-least in some regions. The study revealed that more than 60 percent of the dealers surveyed could not even earn an income that could compensate for the current expenditure incurred by them in running the shop. The more serious long term effect has been the manifold increases in malpractices engaged in by the dealers and the increasing diversion of grains to the open market, practices which were less prevalent in Kerala earlier, the
magnitude of which is also likely to increase considerably in the coming periods, if adequate preventive steps are not taken in this regard.

The comparatively lower utilization of the PDS in Kerala in the present times coupled with the fact that majority of even those accessing the System are only partially dependent on it, does not however indicate its declining importance to the genuinely poor households, for whom a major proportion of the consumption requirements continue to be met through the System. It is noteworthy that while the PDS meets about 40-50 percent of the consumption requirements of the BPL households on an average, the proportion is significantly higher for the poorer households. Most of the economically vulnerable groups still access the System to meet a major proportion of their rice requirements and this 'solely PDS dependent segment' is certainly not negligible in some of the regions as revealed by the primary survey.

The transition from the universal system of rationing to one where the benefits were to be distributed to only the targeted segment of the population required transparent identification of beneficiaries, which in turn required an elaborate framework, objective criteria of identification of targeted beneficiaries, and an agency which could execute the same in a just manner. The study critically evaluating the identification process points out that lack of objective criteria for inclusion/exclusion of households, limited time given for the finalization of lists and considerable autonomy to the local officials paved way for personal prejudices and biases governing the final outcome. The process of identification has resulted in the inclusion of non-deserving non-poor households, while omitting large numbers of genuinely poor households from the targeted programme. There are large variation in the proportion of population identified as BPL in the latest BPL census and the actual distribution of BPL ration cards in some districts. The primary survey results also finds that the magnitude of errors, both inclusion and exclusion are considerable in Kerala. Further, case studies of some prominent localities inhabited by the extremely vulnerable people revealed that majority of households were in possession of APL cards instead of AAY/ BPL cards.
A major argument for the introduction of TPDS was to ensure the transfer of benefits to the genuinely poor households. The study finds that there is a self-targeting mechanism working in Kerala, whereby the economically well off are voluntarily opting out of the System despite being included amongst the targeted beneficiaries. The study points out that despite the high inclusion errors, the adverse impact on the transfer of benefits to the non-poor is negligible considering the voluntary withdrawal of the economically well off from the system, though one cannot really discount the problem of increasing diversion of food grains (of grains unutilized by the households) by the dealers to the open market. On the other hand, the exclusion errors has had considerable effect on the concerned households, majority of whom are forced to the market and these sections cannot be insulated from the high food grain prices. The net effect of the high market dependence and the consequent high prices in certain districts would be the possible fall in the consumption levels of the poor unidentified households. However if the given household chooses to maintain their current level of consumption, then the result could be a significant reduction in the income left for other purposes, adversely affecting their general standard of living. The excluded households would also be denied benefits of the subsidized health facilities and adverse effects on the health front remains a possibility with a possible dent on the high social achievements of the State in the long run. Given that the utilization levels from the PDS are much higher for the socially and economically deprived sections and the PDS is still a major source of meeting food grains requirements of the genuinely needy, exclusion errors, as pointed out above would be highly costly for the society.

The primary survey revealed that despite the low entitlements, many of the households were seen not purchasing their allotted quota. The most cited complaints for the underutilization of the PDS were directed at both the poor quality of grains distributed from the system and the non-availability of locally

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3 At least 50-60 percent of these households do not access the ration shops, while those that do consume relatively low as compared to their economically disadvantaged counterparts. The average consumption from the PDS of these households are about 5-15 percent of the total consumption while the average for all the households in the State is about 40-50 percent of the total consumption.
preferred rice. The reasons given for the poor quality of grains include adulteration, foul smell, insect infestation and stickiness when cooked. The most common complaint was that the ration rice unlike the local variety was sticky when cooked and boils very fast. The complaints were directed against the government for the poor storage facilities which the households felt was primarily responsible for the foul smell and insect infected supplies. The complaint regarding the adulterated supplies was more in the urban areas and since adulteration is generally done at the retail level, it seems that the retailers at the urban shops were generally resorting more to the practice. The better management of the PDS resulting in the improvement in the quality is therefore desirable not only in itself but also because it can moderate the switches out of PDS which can have a direct impact on the open market prices. Also the scope of reducing the food subsidy of the government is constrained by the quality differentials between the grain supplied through the PDS and in the open market. Thus quality is a big factor that has to be paid attention for revitalizing the system in Kerala.

The primary survey results indicate that the 80-90 percent of the rice requirements of the APL households are met from the open market. The APL offtake saw a drastic decline following the price hike in the early years of the current decade. Though the prices were reduced in the following years, the offtake did not revert to the Pre-TPDS levels. Further though the APL issue prices have remained stable since 2001, the offtake is seen increasing in the final period considered. This implies that factors other than the price is influencing the off take. Also contrary to the widely held perception about the reducing gap between the market price and the APL price, it is observed that the relative prices have not changed much for the State as a whole in the pre and the Post-TPDS periods. The study points out that, while the price hike had played an important initiating role in the withdrawal of the people from the PDS, there are other factors primarily responsible for the APL households continuing to meet their rice from the open market. The high implicit costs of the PDS grains owing to preference for better quality, high exclusion errors, economic considerations like affordability for majority of households, non-economic considerations like low prestige associated with purchase of ration
and the changing food habits etc. have all resulted in the withdrawal of APL households from the system. The offtake of the APL households can be seen increasing lately, the increase being much higher in the comparatively poorer districts (per capita income taken as the proxy variable) of the State, which could be pointing towards the rising food insecurity amongst the households in these areas, although a concrete conclusion can be arrived only after studying the trend for some more years. The study thus points out that there are multitude of factors responsible for the fall in the offtake of the APL consumers and the same cannot be interpreted solely in terms of the worsening relative prices.

The general reasoning for the continuation of the TPDS is on the premise that it covers the majority of the food insecure who are poor, but excludes those sections/regions whose consumption patterns have changed by choice owing to improvement in their economic conditions. The study does not wholly agree with this view as it finds that there are diverse reasons for the withdrawal of the BPL households from the PDS in Kerala. TPDS essentially seems to have resulted in a class divide in this largely image conscious society. The near complete withdrawal of the APL households has resulted in a change in the general perception of the ration shops/ PDS from one being a 'significant contributor in meeting cereal requirements' to a 'System providing poor quality low priced grains', the purchase of which is considered low on prestige'. The almost sudden withdrawal of people from the system cannot be explained solely on grounds of poor quality, a complaint associated with the PDS even prior to targeting. The study points out that the economically disadvantaged sections have certainly been affected by the withdrawal of the better off sections from the PDS and their perception of the quality of food grains distributed through the ration shops. The field observations revealed that even those who lived in extremely poor conditions purchased some grains from the market. The hidden reason of withdrawal of some households thus seems to be a result of 'demonstration effect' on the BPL households propelling them to base their consumption decisions on what their economically advantageous neighbours purchase and consume. Thus a complete explanation for the
underutilization of the System by the BPL households includes the inclusion errors (inclusion of non poor households who can afford the purchases of superior quality of cereals available from the market), 'demonstration effect', besides factors like poor quality of PDS grains, preference for the local variety etc.

POLICY IMPLICATIONS

A chronically food deficit State like Kerala with a vastly dwindling acreage under paddy cultivation requires immediate and special policy attention. It is well established in the literature on Kerala that with an efficiently run PDS, the rural and the needy population were insulated from the vagaries of the market. Therefore despite the deficiency in its internal production to meet its food grain requirements from earlier times, the fact that an efficiently run PDS network existed provided solace to the people of the State.

The current situation in Kerala on the rice front is dismal as revealed by the study. The vastly dwindling acreage under paddy and conversion of the existing land under paddy cultivation to more remunerative cash crops and the greatly reduced share of the PDS in meeting the food grains requirements of the population since the introduction of TPDS in the State has made majority of the population dependent on the market for their rice purchases. The study clearly points out that there did not exist sufficient grounds for introducing TPDS in a State which was already performing well on all given criteria. Further, for a chronically food deficit and distant State like Kerala, any system that was put in place should have had an inbuilt mechanism to keep the open market prices of cereals at reasonable levels, given that even the non-poor does have a legitimate right to availability of food grains at reasonable prices, if not at the highly subsidized rates.

Given the declining role played by the TPDS, below given are some of the suggested options with regard to addressing the issue of food security in Kerala.
1. Given that there are no grounds for continuation of TPDS, a switchover to the universal system would at least ensure access to PDS to all the genuinely poor households. However the considerations of subsidy burden may go against such a policy change. A feasible alternative would be to bring down the targeting errors, particularly the exclusion errors to a negligible level (inclusion errors are not a major problem for Kerala given that the economically well off voluntarily opt out of the system). However, adherence to a strict criteria of having an income level below Rs 22,000 for being eligible to be categorized under the BPL category are not likely to serve the purpose of reducing the targeting errors, as experience of implementation of TPDS has shown. A better option would be to exclude the high income group from the ambit of the System by using exclusion criteria like income tax payees/possession of land above a certain size limit, while making the system available to all others. This would result in bringing back the forced market dependents back to the ration category thereby helping improve their consumption levels.

2. When statutory rationing was extended to whole of the State in the mid 1960’s, the Centre had undertaken the responsibility of adequate food availability in Kerala, given its chronic food deficit status. To now base the allotment on poverty considerations alone when the internal production has itself declined by several folds would be exposing the State once again to dangers of shortages and violent fluctuations in the food grain prices. Hence, Kerala deserves immediate and adequate policy attention on the food security and therefore on the distribution front. However for the majority of partially dependents and non-dependents, who had moved out of the system owing to perceived quality differentials, the mere switchover to the earlier universal PDS is unlikely to bring them back to the System. In other words, protecting the food consumption of the poor by means of the PDS cannot be done effectively until the consumers perceive improvements in the quality of grains supplied by the PDS.
It is pertinent to recall the definition of food security given by FAO in 1996. "Food security means that food is available at all times, all persons have the means to access to it, it is nutritiously adequate in terms of quality, quantity and variety and is acceptable within the given culture". Only when all this is achieved can there be food security. The distribution of rice through the PDS in Kerala is not only of poor quality but is also widely different from the local preferred variety. Thus it has to be to be ensured that the food grains distributed through the ration shops are in accordance with the consumption preferences and requirements of the people of Kerala. This can effectively be done if rice is procured from Andhra Pradesh and other southern states growing the par boiled variety and then made available through the ration shops to the consumers in Kerala. It is observed that despite GOI bearing considerable costs for transferring the stocks of foodgrains for the PDS, the System is on the way to decline and only a step like the one contemplated above would help in the revival of the PDS in the State.

3. The distribution of Custom Milled Rice (CMR), i.e. rice procured by the State Government from the farmers and distributed through the PDS is a step in the right direction and Civil Supplies Officials confirm that the offtakes have improved in the concerned districts. However, questions remain over the ability of the government to sustain the subsidy burden and continue with the Scheme in the future. It is pertinent that the subsidy should be brought down to sustainable limits (given that it is the locally preferred quality, the issue prices can certainly be raised to reasonable limits) for the continuation of the Scheme in the long run. However, this would not be an adequate step given that most of the economically poor districts do not have access to the CMR. The milled rice is at present made available through the PDS only in the districts of Palakkad, Thrissur, Ernakulam, Idukki, Kottayam, Alapuzha, Pathanamthitta and Quilon, where the mills are located. This is a big drawback that would ultimately improve the offtake only in the comparatively rich districts and increase the differential between the
richer and poorer districts in accessing the benefits of the System. Further, the low level of internal production would mean that paddy procurement remain far below requirements. There are two steps that can improve things in this regard in the future. One, by increasing the paddy production in the State and second, by making CMR rice available in the neighboring districts. The State Government is already incurring additional subsidy of around 90 crores to further subsidize the BPL households and improve offtakes from the System. This subsidy can be discontinued and incurred for meeting the requisite transportation costs of transferring of grains to the other districts as well. The improvement in the quality is the most important factor for revitalizing the System as of now and the FPS dealers may therefore be asked to collect the grains from a central point, considering that they would also be benefiting from the increased offtake.

4. Kerala has the unique advantage of having a well established second tier of distribution system run by the KSCSC in the form of Maveli stores. It was pointed out that owing to the irregular supply and lack of sufficient price differential between the open market price and the issue prices from the Maveli stores, the System has not been able to really have a long term stabilizing effect on the open market price of rice. Since rice is procured from the millers, it is not possible to offer the same at very low prices in the event of lack of additional subsidy. However the lower margins of the Corporation have in the past enabled it to offer rice at a price lower than the open market price. The quality of rice offered through these outlets are satisfactory and there is no associated feeling of lack of prestige amongst the general public in making purchases from these stores. Therefore the problem of low offtake associated with the centrally owned PDS would not be a hampering factor in case of Maveli stores. The supply of adequate supplies at a lower price would go a long way in stabilizing the open market prices and addressing the food security concerns of the vulnerable sections of the society. A suggested step in this regard would to channelise the subsidy incurred by the Centre for PDS in
Kerala to the KSCSC, which can then offer the consumers with good quality rice at lower prices. At present, despite the huge subsidy burden of the Centre and the State Government in supporting the PDS, the System is grossly underutilized and falling short of expectations of all segments of the society. The step contemplated above would therefore be in the right direction.

5. The effect of the reduced offtake has had a disastrous effect on the viability of the FPS retail dealers. The low margins place them in a precarious circumstance prompting them to indulge in various malpractices like under-weighment and diversion of PDS food grains to the black market. It may be mentioned that these malpractices were relatively less in Kerala as compared to the other States in the country. These illegal practices are now slowly degrading the System, which was known for its effective and transparent functioning in the past. To maintain the PDS infrastructure, the fair price dealers have to be compensated against the rising transportation costs and other expenditure and the falling revenues owing to the reduced offtake. The long pending demand of ensuring door delivery of ration commodities would go a long way in ensuring the viability of the ration shops. Further to reduce or check the diversion of ration commodities to the open market, margins allowed to the dealer per commodity should be improved. However the most important step that would positively affect the System would be to improve the offtakes from the system.

6. The PDS which is to be run on a regular basis needs continuous supervision and monitoring for its effective implementation. This is particularly so since a well established system like the one in Kerala is also prone to fast deterioration due to the laxity of the supervisors, both at the state and the district level. Therefore the seriousness and alertness with which those in charge of PDS at different levels operate would affect the smooth functioning or success of the System. The interest taken in and the priority assigned by the local bodies and the district administration was one of the most important determinants of
operating PDS efficiently. It was revealed from the survey that the local bodies played no role in the supervision of the functioning of the FPS. The TPDS had originally envisaged the constitution of Vigilance Committees consisting of officials, cardholders and consumer organizations so as to make the functioning of the FPS more transparent. The non-functioning of the Vigilance Committees have also acted as an obstacle in the success of TPDS in the State and therefore adequate steps are immediately required on the vigilance front to curb the malpractices in the System.

7. The experience on the price front points out that the market forces cannot be solely relied upon to ensure reasonable prices for food grains or control fluctuations in prices in a chronically food deficit state like Kerala. It was observed that the private traders in the State have not been able to offer reasonable prices nor reduce the inter-district price differentials of rice in Kerala. The study also shows that the inter district price differential of rice has increased in the recent years, implying decreasing market integration and the inability of the market to stem the price variation of an essential commodity like rice. However, the high price charged by the private traders has to be understood in the context of the present situation in the country where there are controls and restrictions exercised by multiple authorities, at various levels. Studies on market integration in wholesale rice markets in India points out that there are barriers to market integration across the states and that internal trade is amongst the most repressed sectors of the economy, even today. Given that the traders have to get entangled in a lot of bureaucratic hurdles in the interstate trade and pay bribes at the various check posts, these ultimate hindrances in free trade of rice result in high market prices for the commodity in the distant food-deficit States like Kerala.

Thus given the above, efforts should also be made in the direction of stabilizing the open market prices in Kerala which can only be done by reforming the rules governing inter-state commerce and overhauling the
attendant state government tax policies and regulations, thereby improving the efficiency of market signals and resulting in freer trade of food grains between the surplus and the deficit States. Given that a part of the economic cost of the private traders is due to the statutory and non-statutory charges paid to the state government and other agencies, freer trade and relaxation of the existing controls would go a long way in lowering the prices of essential commodities like rice in the distant regions.

The introduction of TPDS, while resulting in the massive withdrawal of people from the System, does not seem to have contributed to any additional benefit in Kerala. Not only have the offtakes greatly declined but also the attendant benefits of progressive distribution to the poorer regions, have not materialized. The highly arbitrary identification of beneficiaries and the resultant inclusion and exclusion errors has further degraded the system and gone a long way in undermining the effective functioning of the PDS in the State. Given that a kind of self targeting exists in the State and the genuinely poor household are still highly dependent on the PDS to meet their food security needs, the conferring of benefits of the ration subsidy to only the government selected households, which are often erroneous, has only resulted in depriving sizeable eligible households from the benefit of the food security cover.

A significant policy decision to augment the availability of food grains in the State is the immediate need of the hour. The options given above are considering the broad concerns of food security in the State and not merely to improve the functioning of TPDS, which has been adequately addressed by a large number of studies on the topic. The drawbacks of TPDS, more apparent in its implementation than its implicit objective can only be ignored at the cost of food insecurity in this chronically food deficit State of Kerala.