CHAPTER - I

INTRODUCTION AND DESIGN OF THE STUDY

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1.1 EVOLUTION OF PUBLIC DISTRIBUTION SYSTEM

The Public Distribution system in India forms an important part of state strategy intervening in the distribution of food grains and other essential commodities. However, the nature of the policy of state intervention is largely determined by the causes and conditions, which are responsible for its emergence and growth. The major causes of the origin of this policy are (i) Drought, famine and war conditions, (ii) Inflation, (iii) Market imperfections, (iv) Poverty and (v) Lack of distributive justice.

The PDS has been an integral part of India’s overall food policy. It has been instrumental in mitigating the plight of the masses that are burdened by low income inflationary conditions, scarcities and the haunting fear of adulteration. Intervention by the government in food distribution started during the Second World War and large urban complexes like Bombay and Calcutta were placed under statutory rationing. This has been beneficial to the broad objective of the government of India since Independence, though the nature and relative extent of governmental intervention have been largely conditioned by fluctuations in agricultural production and price rise. It has been foremost in the minds of the food policy-makers that the interest of the vulnerable sections of the society must be taken care of in the supply of food grains and essential commodities. The fact is,
that PDS has been covering all sections of both urban and rural people irrespective of income.

During the period from September 1939 to September 1942, the British Government convened Six Price Control Conferences. Price control was introduced in India in 1941. The controlled distribution of food grains became necessary after the fall of Burma, the most important supplier of rice to India, in March 1942. The importance of linking price control, with the control on distribution of food grains, was stressed by the Fifth Price Control conference held in April 1942. The British Government issued the Food grains Control Order on May 21, 1942, covering major food grains (wheat, rice and barley), but subsequently the coverage was extended to pulses and millets as well. From 28th May 1942, the features and options in wheat and grams were prohibited as anti-speculative measures, save with the permission of the Central Government or an authorized office, throughout British India. The attitude of the British Government towards the Quit India Movement as well as the Japanese threat further worsened the food situation during December 1942. The Government of India established the Food Department, with a view to integrate all the activities relating to purchase, distribution and movement of food grains on all basis.

In July 1943, the First Foodgrains Policy Committee, under the chairmanship of Dr. Theodore Gregory, was appointed and entrusted
with the task of recommending a sound and effective food policy for the subsequent years. Its recommendations emphasised the need for increased supply, improved procurement machinery, execution of rationing, statutory price control, overhauling of the administrative machinery and a closer co-operation between the centre, provinces and princely states. The Food Grain Enquiry Committee recommended the need for price stabilisation, control over trade of food grains and its “Progressive Socialisation”. The Committee was of the opinion that full control of food grain market was neither desirable nor feasible. Instead, the committee suggested open-market purchases of the wholesale trade and regular imports of rice and wheat to meet local consumption requirements.

A new phase of public distribution system emerged in 1969, exactly after 30 years of its beginning. The Fourth Five Year Plan set out the guidelines for public distribution system. The main feature of this scheme was the creation of buffer stock of adequate size to meet the needs of Public Distribution System.

During 1970-71, the output of food grains reached a record level of 8.6 million tonnes. Consequently, the instrument of public distribution system was thrown out of gear. When the food prices started rising at the close of 1971-72, the Food Corporation of India started open market sales for January 1972. Despite this, the prices kept on increasing and by mid 1972, the policy had to be
abandoned. Foodgrains were imported to meet the requirements of Public Distribution System and the machinery of public distribution system was strengthened. The number of fair price shops increased from 1.21 lakhs in December 1971 to 1.86 lakhs in December 1972. In April 1973, the wholesale trade in wheat was taken over by the Government of India, in order to procure adequate stocks for distribution through Public Distribution System. But, the wholesale trade in wheat never got off the ground and it was abandoned in 1974.

In January 1992, after the implementation of the New Economic Policy, the Rao Government launched a special scheme and revamped the Public Distribution System (RPDS) which aimed to serve in a more efficient way to the tribal, hill and arid area populations located in remote areas and having poor infrastructure. Under this scheme, foodgrains are allocated to states for the proposed geographical coverage of RPDS blocks at prices lower by 50 paise/kg than the issue price for the normal PDS. The retail price at the RPDS shops is not supposed to be higher than the Central Issue Price (CIP) by more than 25 paise/Kg.¹

The “leakages” in the system are pointed out as one argument against PDS and it is argued that the same amount invested in the employment generating schemes would yield better results for the

poor. These arguments are not tenable. There are “leakages” in the employment schemes also. Besides, for a basic necessity like food, a minimum security must be assured to the vulnerable sections. A subsidized PDS for the well-targeted groups is the best form of food security that the government has been able to find out.

The organisational set-up of PDS is a mixture of Union and State tasks and responsibilities. The Government of India decides, in dialogue with the relevant states, how much food grain should be procured in each state. It also decides on procurement prices. This is done on the basis of advice from the Commission for Agricultural Cost and Price (CACP), which calculates the cost of production and estimates a reasonable remunerative price for the farmers. In principle, these prices are the same for each state. There are different prices for different qualities, but there are no price differentials that relate to ecological and or other production conditions. In the implementation of procurement policy, individual states make small adjustments always upwards to these recommended prices.

The FCI has many large warehouses, in different parts of the country where foodgrains are stored after procurement. Food may be transported according to decisions made by the Government of India (GOI) in consultation with state governments. Apart from allocation to the states, the GOI also fix the issue price which is the selling price of the FCI. As far as distribution within the states is concerned, the
state government is, again, the policy-making institution. It can decide the method of distributing the allocated food to everybody, to targeted groups only, to concentrate on cities or on rural areas etc.

Each state has its own distribution policy. The state Department of Food and/or Civil Supplies, monitors this distribution process. In many states, parastatal, trading corporations have been established which act as PDS wholesalers. They bring food from FCI warehouse to storage places near the retail points, the so-called Fair Price Shops (FPS). The retail sale of PDS commodities is undertaken either by this state corporation or by co-operative societies or by private fair price shops.

It is important to add that not all procured foodgrains are readily available for distribution in times of severe scarcity. Furthermore, the above described scheme is: (a) cross-cut by several GOI distribution programmes meant for selected categories of people, in which not the state government but the central government formulates the distribution policy, and (b) supplemented with additional state government programmes in the sense of procurement and distribution activities.

**1.2 PDS UNDER FIVE YEAR PLANS**

The First Five Year Plan emphasized the distribution of foodgrains through the statutory rationing system in cities/towns with
population above 50,000 and also in highly deficit areas and for other areas a non-statutory ration system was introduced. During the Second Five Year Plan, the coverage of PDS was extended from foodgrains to other essential commodities. The Third Five Year Plan placed the importance on public procurement and distribution system for price stabilization. The approach was to introduce institutional changes in the private trade mechanism by including consumer co-operatives. In the Fourth Plan, the scope of PDS was further widened. This system was extended to all the rural areas and other goods of mass consumption were also distributed with the help of co-operative stores. In the Fifth Five Year Plan, PDS was focused on the poor and it was related to prices, income and wage policy. The Sixth Plan emphasized public distribution of foodgrains to the disadvantaged groups. In the Seventh Plan, it was included as an item of the Minimum Needs Programme. In the Eighth Plan, emphasis was on intensification of PDS in rural/disadvantaged areas, covering several mass consumption articles (salt, pulses, soaps, tea etc.) in addition to the six mandatory commodities namely rice, wheat, sugar, edible oil, kerosene and softcoke and developing infrastructure in terms of creation of new fair price shops and godowns. The Ninth Five Year has taken a broader view of food security to include nutritional security. It categorically states that food and nutrition security is one of the main objectives. It calls for long-term measures for eradication
of hunger and starvation, by ensuring availability, accessibility and affordability of balanced food and nutrition for all.

During the Tenth Five Year Plan, the approach, is to meet the challenge to reduce increase in food stocks to roughly half its present level and use it for reducing malnutrition without adversely affecting the farmers. And also to reduce leakages and massive saving in the food subsidy that can be used for direct income transfer for the poorest and for improving land and water productivity in backward areas and to reduce subsidies by encouraging decentralized procurement of foodgrains and private sector participation in increasing godown capacity. The fund allotment for Annapurna Mid-Day Meal scheme and Integrated Child Development Scheme (ICDS) should be doubled in those districts where 30 per cent or more people are below the poverty line. These measures will improve the purchasing power and consumption by the poor, without leakages of the magnitude seen in Targeted Public Distribution System (TPDS).

The above brief account of the Food Policy and public distribution in the last five decades, shows that barring two spells of decontrol – a brief one in 1947–48 and a long one from 1954 to 1956, some sort of food control was prevalent. As observed in a democratic set up, with a government responsible to the people, in a situation of overall shortage of food and fluctuation in agricultural production, the
distribution could not be left to the private trade and free market mechanism on ideological grounds.\textsuperscript{2}

1.3 STATEMENT OF THE PROBLEM

Public Distribution System (PDS) is an important service delivery mechanism in rural development. The basic objective of PDS is to ensure that essential commodities of daily use are made available, at reasonable prices, to the public, particularly, the vulnerable sections of the society, both in urban and rural areas. This system operates in the Indian economy as an anti-inflationary device, which at the same time, makes a significant contribution to the nutritional standards of the poor, by providing essential commodities at reasonable prices. Besides, it also protects the real income of the beneficiaries, by enhancing their purchasing power, through the availability of essential commodities at reasonable rates. At present, the budget allocation, for food subsidy on an average is of the order of Rs. 4,000 to Rs. 5,000 crores annually. Since the Seventh Five Year Plan, PDS has been included as an item under the Minimum Needs Programme, which aims to establish a network of basic services and facilities of social consumption, in all the areas of the country, up to the nationally-accepted norms, within a specified time-frame. The programme is meant to assist in raising the living standards and in reducing the regional disparities in development. The programme is

essentially an investment in human resource development. In the context of the new economic policy, the PDS is regarded as a safety net for the rural poor. It contributes to the security system and further management of surplus stocks, also facilitative of poverty alleviation, employment generation and minimum needs programme (JRY, IRDP, ICDS, DWCRA and mid-day meals scheme) oriented to maintain social justice in the supply management of essential commodities.

The central and state governments are required to arrange for procurement, stocking, transportation and distribution of various essential commodities. For public distribution, procurement of foodstuff is done by the Food Corporation of India (FCI) and then the state government purchases from FCI according to its needs and requirements. Thereafter, they are transported to different storage points at the sub-division and block levels, through storage agents under the state government control. After this, the commodities are lifted by the retailers from the storage go-downs in blocks, to be sold in different villages. Finally, it is the retailer, who is responsible for selling the commodities to the people in different villages, depending on the area of operation, under the supervision of the Civil Supplies Department. The department is also responsible for transportation, stocking, distribution, inspection and monitoring of these commodities at the local level. At present, there are more than four lakhs Fair Price
Shops (FPSs) functioning in the country. Nearly three-fourths of the FPSs are located in rural areas.

Different studies reveal that there are infrastructural gaps in terms of location of FPSs, storage and transport. The consumers’ grievances are generally related to irregular supply, non-availability, inadequate quantity, inconvenient location of FPSs, information gaps regarding arrival of stocks, delay in availability, diversion of stocks, mistakes and malpractices with regard to issue of ration cards and unhelpful attitude of dealers, poor supervision, monitoring etc.

The Planning Commission’s Evaluation Study (1995) identified the major deficiencies in the implementation of Revamped Public Distribution System (RPDS) to be: (a) proliferation of bogus ration cards (b) inadequate storage arrangement (c) ineffective functioning of vigilance committee and (d) failure to issue ration cards to all eligible households. Further, the study emphasized that the FCI needs to improve storage facilities and strong quality control is necessary to supply good quality foodgrains. Along with storing facilities there is also the need to improve doorstep-delivery and mobile Fair Price Shop services. Further, the report has also emphasized the watch-dog role of vigilance committees, without which it will be very difficult to operationalize the PDS effectively. Besides, there is the problem of unaffordability of the prices of essential commodities distributed through the revamped PDS in respect of some sections of the people in
rural areas. All-round efforts have to be made to monitor and supervise the working of Fair Price Shops, in terms of their opening time, working hours, regularity in distribution and communication to the consumers.\(^3\)

The government’s main concern, now, is to identify the consumer groups to be targeted by the PDS. In states like Tamil Nadu and Kerala, PDS users account for about 10 per cent of the state’s population. It will be difficult for the central government to impose its policy on the states. The policy of selective and targeted PDS creates, therefore, a difficult situation in its implementation.

Government intervention in food grain markets was meant primarily, for promoting food security that has reached a stage, where consumers are being deprived of basic food, when a large proportion of the output is diverted from the market to government warehouses. High prices for grains paid to producers, completely ignoring demand-side factors and costs involved in building and holding grain-stocks have put them outside the reach of consumers. Stocks are being liquidated by releasing them to private trade for export at a heavy discount. This implies a sort of taxation for domestic consumers and provides a perverse incentive for private trade to withdraw from the primary market.

The present study attempts to analyse the performance of Public Distribution System in Kanyakumari District of Tamil Nadu.

1.4 SCOPE OF THE STUDY

PDS plays an important role in alleviating the problems of the rural poor. More than 80 per cent of the people are availing the service of PDS. After the implementation of the new economic policy in India, PDS are redesigned as revamped PDS and at present it targets only at the poorest of the poor. This approach has the double advantage of helping the really needy while reducing the cost of subsidy to the government. However, the scheme has to meet with several operational hurdles as those who had enjoyed the benefit for quite long a time, would not easily give up. The study attempts to highlight such problems and suggests some measures, which if adopted, will help for the smooth functioning of the administration of Public Distribution System (PDS).

1.5 OBJECTIVES OF THE STUDY

The specific objectives of the study are

(i) To analyse the performance of Public Distribution System in Tamil Nadu State

(ii) To study the functioning of PDS in Kanyakumari district, with special reference to the utilization of PDS by the poor,

(iii) To review the problems faced by the PDS beneficiaries and PDS implementers in the study district and
(iv) To suggest concrete measures for the effective implementation of PDS in Tamil Nadu.

1.6 CONCEPTS

A clear definition of the concepts used in this study on the performance of Public distribution System would help any reader to understand the different issues dealt within the present study. Hence, before proceeding with the actual discussion and analysis, an attempt was made to define the various concepts used in the present study.

Beneficiary

‘Beneficiary’ as per the Government norms is one who has ration card of PDS. In the current study, beneficiaries are “those who have ration cards and are receiving or purchasing commodities from ration shops with their own cards or by using other persons’ cards”.

Non-beneficiary

‘Non-beneficiary’, in this study includes not only non-card holders but also the persons who do not get any commodity from the ration shop, though they are having ration cards.

Essential commodities

Basic necessary items like rice, wheat, sugar, rava, maida, kerosene and palmolin oil are considered as essential commodities.
**Issue price**

‘Issue price’ refers to the price fixed by the central government for the essential commodities supplied through PDS. It includes the procurement cost, transport and storage cost and rate of interest.

**Procurement**

Procurement is done through direct purchase centres opened at the village level. In addition to the minimum support price fixed by the Government of India, state government also orders to pay incidental charges/incentives to benefit the farmers.

**Stock**

The Government of India purchases and stores the essential food items for supplying to consumers through the Food Corporation of India (FCI).

**Allotment**

Every month, the Government of India allots necessary food items to the state government, from central pool for eventual distribution through Public Distribution System.

**Off-take**

‘Off-take’ refers to the quantity of commodities supplied to the PDS by the state government from the total allocation of central government and on the other hand, it means the utilization of
essential PDS commodities from the total allocation of PDS commodities of each district.

**Scale of issue**

The supply under PDS to the cardholders by the government by determining the quantities of essential commodities is called ‘scale of issue’.

**1.7 METHODOLOGY**

The study is based on both primary and secondary data. The primary data were collected from the PDS beneficiaries and non-PDS beneficiaries, with the help of a structured interview schedule.

For collection of secondary data, various sources were tapped. The predominant among them were Ministry of Food and Civil Supply, Government of India, Ministry of Finance, New Delhi and Kanyakumari District Food and Civil Supplies, Nagercoil. Data on production, procurement and distribution of wheat and rice were also gathered from various Bulletins of food statistics.

For the micro level analysis, Kanyakumari district was purposively selected for the study because the researcher is familiar with the District. One taluk (Agestheeswaram Taluk) from the district was selected on the basis of the larger number of PDS beneficiaries in the taluk.
240 samples were selected for the study. Out of them 120 respondents were PDS beneficiaries and 120 respondents were non PDS beneficiaries. Hence, the applied sampling procedure is stratified random sampling method.

1.8 TOOLS USED FOR ANALYSES

The collected data were analyzed with the help of various statistical measures such as Percentage, Gini Ratio, Log linear Regression model.

1.9 PERIOD OF THE STUDY

This study was analysed on the basis of the primary data collected for one year from April 2009 to March 2010. The secondary data relating to food subsidy, procurement, supply, prices and their respective performance available in the relevant documents for the years 1999-2000 to 2008-2009 were collected.

1.10 LIMITATION OF THE STUDY

The present study is subjected to the following limitations:-

   1. The primary data used in this study have been collected only from 120 PDS beneficiaries and 120 Non-PDS beneficiaries. It is difficult to analyse the performance of PDS in the study area with this small sample size and some other factors also influence the changes in the socio-economic conditions of the poor

   2. The study pertains to a period of ten years from 1999–2000 to 2008-09.
3. The sample size of the study has been purposively determined for the study.

1.11 CHAPTERISATION

This thesis entitled “A Study on performance of Public Distribution System in Kanyakumari District” is presented in six chapters:-

Chapter I presents the statement of the problems objectives, concept, and methodology of the study.

Chapter II deals with the past studies and review of literature on Public Distribution System.

Chapter III highlights the profile of the study area.

Chapter IV deals with the performance of Public Distribution System.

Chapter V analyses the Public Distribution System in Kanyakumari district.

Chapter VII presents the summary of findings, suggestions and conclusion.