

Targeting of Food Subsidy in India

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Abstract

The amount of food subsidy depends on a number of factors such as procurement volume, public distribution system off take, storage levels and efficiency, gap between issue price and procurement price, handling efficiency of the various organizations and interest charges. Public distribution system was made a universal scheme in 1970s, but after the fiscal crisis of 1990s, major changes in food policy have been motivated by the goal of expenditure reduction to reduce the fiscal deficit. As a result, food subsidies were reduced and targeting was introduced in reforms of 1991. With a reduction in explicit food subsidies, structural adjustment usually entails a reduction in implicit subsidies and the result of this was food price inflation. Along with that liberalization eroded the objective of self sufficiency in food production. In 1992, the revamped public distribution system was introduced which involved targeting specific areas. Under revamped public distribution system special preference were given to the population who live in most difficult places of the country, like desert area, tribal areas, drought-prone areas, hilly areas and urban slums. Revamped public distribution system was introduced so that poorer consumers can access the subsidized grains; range of commodities supplied by fair price shops can be increased, selected commodities can be provided at prices lower than general public distribution system and coverage of poor population in targeted areas can be increased. This paper throws light on the need of subsidy on food and grains in India and its effects on Indian Economy.

Keywords: Food Security, Public Distribution System, Below Poverty Line (BPL), Ration Quota

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1. INTRODUCTION

Food is a necessity of our life and, therefore, first priority of any government should be ensuring food availability to all people of the country. Hence food security is one of the most discussed and controversial topics in a country like India where hunger and malnutrition are widespread. The first thing which came to our mind while talking about food security is Public Distribution System (PDS). Today in India, on the one hand, godowns of Food Corporation of India are overflowing and on the other hand, many regions of the country are affected by drought and floods and are yearning for larger supplies of food. From this, we can say that there is no problem of availability of food, while the problem is relating to distribution and, therefore, we need to know about Public Distribution System of India. Public Distribution System refers to a network of retail outlets popularly known as ration shops through which the government sells grain (principally wheat and rice) and kerosene at subsidized prices. Today, in India, there are more than 4.9 lakh fair price shops in India. Public distribution system was started as a war time rationing measure in 1939. Food Corporation of India (FCI), set up in 1964, is the sole central agency in charge of procurement, storage, transport and distribution of food commodities. FCI implements the government's policies on procurement, storage, transport and distribution. Through the FCI, the state governments procure grain at the procurement price and then stores and transport it to the various consuming locations. There are two conditions which govern the sale of subsidized food- first, the buyer must possess a 'ration card' and second, grain purchases are subject to a quota. In India, the food subsidy arises from government procurement and distribution of mainly two commodities: wheat and rice. The amount of food subsidy depends on a number of factors such as procurement volume, public distribution system off take, storage levels and efficiency, gap between issue price and procurement price, handling efficiency of the various organizations and interest charges. Public distribution system was made a universal scheme in 1970s, but after the fiscal crisis of 1990s, major changes in food policy have been motivated by the goal of expenditure reduction to reduce the fiscal deficit. As a result food subsidies were reduced and targeting was introduced in reforms of 1991. With a reduction in explicit food subsidies, structural adjustment usually entails a reduction in implicit subsidies and the result of this was food price inflation. Along with that liberalization eroded the objective of self sufficiency in food production. In 1992, the revamped public distribution system was introduced which involved targeting specific areas. Under revamped public distribution system special preference were given to the population who live in most difficult places of the country, like desert area, tribal areas, drought-prone areas, hilly areas and urban slums. Revamped public distribution system was introduced so that the poorer consumers can access the subsidized grains; range of commodities supplied by fair price shops can be increased, selected commodities can be provided at prices lower than general public distribution system and coverage of poor population in targeted areas can be increased. But according to a field study done by Madhura Swaminathan in a village called Akhar of Maharashtra, the entitlements of food grain have been reduced under revamped public distribution system as she has mentioned in her book called "Weakening Welfare". According to her, 17% of households did not possess a ration card in survey; therefore, full coverage was not achieved and utilization was low in revamped public distribution system. In rural India, the below poverty line (BPL) card has become one of the most valued possession.

Before 1992, each adult was entitled to purchase 10 kg of grain per month from fair price shops at a subsidized rate but in the new scheme a uniform ceiling of 20 kg of grain per month per household was imposed. Clearly, revamped public distribution system did not improve the access of poor to public distribution system. Therefore, as it has been pointed out that area based targeting is not a good approach and poor of all the areas should be covered whereas Revamped Public Distribution System has covered only 20% of the total population, Targeted Public Distribution was suggested and implemented.

2. TARGETED PDS AND ITS PROBLEMS

Targeted public distribution system was introduced in 1997. In Targeted Public Distribution System, households were differentiated between Above Poverty Line (APL) or Below Poverty Line (BPL) households, based on the economic status measured by official income poverty line. Targeted Public Distribution System as its name suggests targets the population into above and below poverty line categories and aims to reach a target of 60 million families below poverty line with 20 kg grains each month. It also introduced a dual price system, with the BPL price for grain set at 50% of the economic cost. These price changes have been criticized for the likelihood of increasing malpractices and information issues resulting in confusion among customers about the appropriate prices to be paid. There are some features of Targeted Public Distribution System which make it different from general public distribution system. First, Targeted Public Distribution System differentiates between BPL households and APL households. State governments are responsible for identifying poor households using multiple criteria. Secondly, the principle of entitlements has been altered from a per capita norm to a family norm. Ration scales are typically defined in terms of certain quantities per person or per unit. In Targeted Public Distribution System, however, each poor family, irrespective of size and need, is entitled to a uniform quantity of food grains. Thirdly, the Targeted Public Distribution System initially fixed the BPL households entitlements to 10 kg of food grains per month and gradually raised them to 35 kg. Since 2000-01, BPL households are entitled to purchase rice from fair price shops for Rs. 5.65 per kg and wheat for Rs. 4.15 per kg. Fourthly, state allocations are determined by the central government on the basis of last 10 years average take up of subsidized food grains. As of 2002, a new Targeted Public Distribution System was implemented, the Antyodaya Anna Yojana (AAY), under which the poorest of the poor are given the option to buy at even more subsidized prices. The prices for AAY households are Rs. 3 per kg of rice and Rs. 2 per kg of wheat respectively.

Given fixed resources, we can provide more to poor; therefore, targeting was introduced so that scarce resources can be efficiently provided to deficit units. Targeting is justified by the need to exclude undeserving beneficiary who unjustly wants to access the public resources. The approach presumes that if a public welfare scheme does not specify 'un-deserving people' then everyone would use these schemes and then people become reliant and lazy. Therefore, it is argued such undeserving people should be defined, targeted and excluded. But despite its stated objective of excluding undeserving people, targeting ends up doing exactly opposite and excludes the people who need it most. Two surveys done by NSSO and NFHS in 2004-05 and 2005-06 respectively also show that people who deserve the most are excluded under targeted public distribution system. According to these reports in some states up to 80% of deserving people are excluded under targeted public distribution system. According to a study done by Deaton and Dreze, over 76% of

the total population of India had nutrition consumption below the norm of 2400 calories in 2004-05 that is, they are below poverty line according to poverty line criterion, but targeted public distribution system targeted only 36.1% of the population according to planning commission's estimates of poverty of 1993-94. Madhura Swaminathan has also rightly mentioned in her book called 'weakening welfare', how the identification of the poor, for purposes of targeting, on the basis of income criteria has many problems. First, the accuracy of data is doubtful as majority of the population does not work in formal sector and, therefore, does not receive their earning on a regular basis and hence income is very difficult to measure. Secondly, incomes fluctuate over time, and hence a classification based on incomes reported on the day of a survey may be a very inaccurate basis for calculating incomes over the year. Thirdly, as the official poverty line in India is very low, a household that earns ten or fifty or hundred rupees more than the poverty line level of income is not less vulnerable than a household with income below poverty line. Therefore, there is a large scope for mis-identifying households and for mis-targeting when an income poverty line is used and, therefore, it should not be used as a criterion of food distribution programme of a country like India where hunger and malnutrition are widespread. As there is so much hunger and malnutrition no targeting can improve the conditions and, thus, universal services are preferred. Despite large inclusion and exclusion errors no sense of urgency shown and the food ministry wants to experiment with targeting again in the recently proposed Food Security Bill of 2012. A World Bank report has said that in 2004-05, only 41% of the grain had reached poor households in 2004-05. Hence, effectiveness of public distribution system can be increased only by adopting the universal access policy not targeting so that subsidized grains can reach poor households. Targeting is also supported with an idea that rather than spreading public resources thinly across population, they should be wisely used to create better and quality entitlements for the deserving population. But instead of providing better quality entitlements, targeted public distribution system has ended up as a means of legitimizing poor quality of grains and services to the identified poor. In the states like Tamil Nadu and Chhattisgarh, where public distribution system caters to most part of the population legitimately public distribution system provides not only higher quality of food grains, but also other essential commodities like sugar, pulses and kerosene. Hence, general public is found more vigilant and caring about the fair price shops and the service providers provide regular and better service. However, in states where the public distribution system is targeting it also remains ignored devoid of attention from general public and ends up having unaccountable service providers, poor quality of grains and no provision of other essential commodities.

Targeting was introduced in India because in recent decades, the objective of reducing public expenditure is ideologically tuned towards limiting overall government expenditure, subsidy and fiscal deficit. But the opposite happened of what was expected, food subsidy, in fact has increased massively during the targeted public distribution system. According to a study by the Indian Institute of Management, Ahmadabad, food subsidies have grown by more than 300 percent in a period of six years between 2006-07 and 2011-12. Food subsidy is rising because of increase in procurement prices of food grains which raises the economic cost of food prices. Because of the incentives provided to farmers by Government of India by increasing the minimum support prices given to them and costs have also risen. Excess of food grain stocks are also responsible for

high food subsidy as it raises the carrying costs of stocks. We should not maintain maximum possible size of buffer stocks but the optimum size as it is unviable and leads to inflationary pressures. Therefore, in order to ensure stabilization of food prices we should maintain optimum size of buffer stocks. This increase in stock and associated cost was largely due to exclusion of larger number of purchasers due to targeting and severely reduced purchase from Fair Price shops for many years.

As one of the features of Targeted Public Distribution System, the issue prices of allocations to BPL families were lower than earlier prices of revamped public distribution system and public distribution system allocations. And central issue prices for allocation to APL families were also raised during the same time. As a result, prices of grain rose steeply after the introduction of Targeted Public Distribution System in most states. Now, states can purchase additional quantities of grains and distribute them to all households including BPL families but at APL prices. As a consequence, states that earlier topped the rankings by share of all-India off take lost their positions. Kerala maintained its position but the share of Andhra Pradesh, Tamilnadu, West Bengal and Karnataka in off take fell. The whole distribution of total off take across states has changed after Targeted Public Distribution System was introduced. Therefore we can show that how Targeted Public Distribution System attack the states where public distribution system has been functioning well. So now, we can easily see from this although prices for BPL allocations are low and have remained constant since 1997, the sharp rise in APL prices combined with lower entitlements to BPL families leads to higher expenditure on food grain even for poor families. The poor families which unfortunately classified as 'above the poverty line' under the Targeted Public Distribution System has to face higher prices.

In India nothing is untouched by corruption then how can the public distribution system be. The targeted system excludes genuinely poor and encourages corruption. Public distribution system evolved as a major instrument of the government's economic policy for ensuring food security to poor. Corruption is rampant in obtaining a license, commissions are paid to FCI officials for expediting supplies and amounts supplied are frequently lower than recorded. Below poverty line consumers are often turned away on grounds of inadequate supplies, quality sold is abysmal, and buying quotas in installments is discouraged. Participants can distort information or their incentives can be altered, to qualify for a targeted programme. Dr. Jaya S Anand who is an associate professor in Institute of Management in Government, Kerala, India, in one of her workshop on public distribution strategies, found that food samples that they examined in godowns of Kerala were quite superior whereas the grain at retail shops was not of the same quality in certain cases. From this we can say that there are leakages\malpractices at some level in the chain of distribution. Another reason for poor quality is relaxed specification of quality while procurements are made by states. Many people have the view that food grains released from godowns of Food Corporation of India do not reach the target group in same quality or quantity. Today in India in spite of the fact that the godowns of Food Corporation of India are overflowing with grains, adequate amount of food is not being consumed by the vulnerable sections of the society. One of the reasons for this is accessibility to available food and another is lack of enough purchasing power or income to buy that food. We all know fair price shop is the key-stone in the public distribution system and, therefore, it needs adequate monitoring and supervision, as

success of the public distribution system depends on how efficiently and effectively they are run by retail dealers. Selection procedure of fair price shop dealers is not transparent and often based on patronage or bribes. Therefore, we need to make operations of fair price shops more transparent and accountable to reduce leakages and corruption by effective monitoring of the public distribution system. Greater participation by public can be assured only if fair price shops work efficiently. Targeting provides an incentive to cheat and when the number of honest and eligible persons is reduced, there are, of course a large number of dishonest and non-eligible persons who may try to cheat. Restriction on resources leads to more cheating as to gain access to the available limited resources, people may indulge in illegal activities. In this scenario, broad targeting or universal scheme is likely to be better than narrow targeting. But after the introduction of targeted public distribution system, there is problem of low profitability due to low margins in this business; provision of credit is so low that they cannot lift adequate stock from godowns of FCI; they cannot control the quality of grains and they too have to pay bribe to PDS officials to get their quota of supplies. Therefore even though the retail traders are indulge in and blamed for corrupt practices their plight is not completely satisfactory. Various guidelines were also issued by government for monitoring of public distribution system but many of them have either remained on papers or have not been implemented successfully. Also there is no grievance redressal mechanism where people can make their complaints.

One another problem related to targeted public distribution system is that allocations from government of India are valid only for a month. If the state government is not able to lift their allocations within the assigned time their quota lapses and it could be raised to a quarter only. The villagers do not have full information with them, and certainly not in advance. This means that as they do not know when will the food grains arrive in the retail shop, the poorest among them may not have sufficient cash ready available when the food grains arrive in the shop. There is not only problem of incomplete and asymmetric information but also a problem of economic access to PDS, in the sense that the poorest people may not have cash ready at the moment the stocks arrive. The poor may not have adequate cash to buy food grains in bulk at a time, and generally they are not permitted to buy in installments. Except few states in west and south, most of the Indian states suffer from shortage of funds with government parastatals and lack of infrastructure. Therefore government should first ensure that states have adequate infrastructural capacity so that limited resources won't waste otherwise leakages will help only contractors and corrupt government staff, and does not help the poor in any way. Flaw in the delivery mechanism leads to large scale leakages and divert the subsidized grains to unintended beneficiaries. And some section of the APL households who are holding BPL cards are actually not lifting their ration quota and thus a part of the entitlement of these households leaked out of the PDS supply chain.

Some social costs are also associated with targeting, which arise from the disgrace attached to beneficiaries of targeted welfare programmes. Targeting can result in greater social segregation by dividing the population between below poverty households and above poverty households. Targeting can be insidious and disturbing sometimes. Social tensions and polarization can take place by dividing households on the basis of incomes in a country like India, where the poverty line reflects a very low absolute level of income and where there is a volatility of households

around the poverty line. Targeting has converted a purely statistical benchmark, the “poverty line,” into a permanent social division. Therefore, participation in a targeted scheme may be associated with reduce social cohesion and stigma.

Along with social costs, costs of administration of targeting programme are also high in a country like India. The nature of existing institutions and delivery mechanisms and the extent of information available determine the cost of administration of any welfare programme. After the introduction of targeting in public distribution system, the costs of delivery and administration has increased, as now targeting group has to be identified on the basis of particular criterion. Targeting, therefore, needs greater administrative capabilities and expense more. It would be easier to segregate the population into below poverty line households and above poverty line households and then target individuals by some criterion like income if information on personal incomes is perfect and can be obtained at little cost. But in developing countries like India which has a large agricultural and self employed sector and the ability of administrative organizations to collect accurate information, perfect information and perfect targeting are impossible to achieve. And therefore targeting is likely to raise the costs of administration. Administration costs have risen with a shift from universal to targeted welfare programmes. The administration of a targeted programme is undoubtedly more complex than that of a universal transfer and requires greater administrative competence and costs more.

With increase in costs, targeting may reduce the public support for welfare programme and we all know what does reduced public support implies, lower allocations for targeted programme. If targeting is done perfectly and efficiently with no or lower costs then it will definitely benefit the poor households or the target group. But if budget support for a programme is made endogenous, then targeting will prove worse for poor than universal transfers. Therefore, allocations fall when a programme becomes targeted as budget allocation may change depending on the type of welfare programme. It has been evidently seen that political support differs for targeted and universal transfers and this differences get reflected in the size of transfers. It was also argued by some that it may be helpful to include non-poor in a wellbeing programme because they play an important role in creating, expanding, nourishing, reforming and dismantling the welfare state. Their inclusion can be on purely pragmatic grounds as they are likely to vote and support the continuation of programme they benefit from and very importantly, defend them at the time of expenditure cuts.

3. CONCLUSION

So now, after analyzing all the effects of targeting in food subsidies on Indian economy, we can say that if there is any benefits of targeting welfare programme over benefits of universal welfare programme, they are limited. If our goal is to ensure food security to all, then there is no doubt that universal programme is better than targeted welfare programme as it lowers the errors of exclusion. So, in a country like India where child malnutrition is unacceptably high and half of the child deaths are because of malnutrition, such a targeted scheme won't help. Although in the short run targeting may fulfill the objective for which it was introduced that is, may reduce the fiscal costs of government but in the long run, when all costs are measured and valued, we will find that universal transfers are more cost-effective, as targeting have many other costs related to it like costs of administration, costs of participation and costs of monitoring. Poor access and

unevenness in the utilization of public distribution system in different parts of the country is also because of administrative problems arising out with introduction of targeting in food subsidies. Ration shops also do not function well and therefore, needs improvement. Ration shops should remain open for long hours at regular intervals. Firstly, it would prevent long queues and secondly, poor people will get time to arrange adequate funds to purchase grain as they cannot afford bulk purchases. As poverty and therefore, lack of adequate funds is one of the main reasons for low utilization of public distribution system, households should also be permitted to purchase their ration in several installments so that burden does not fall on them. Minimum purchase requirement should also be lower, so that people like day-wage earners can buy their entitlements in small quantities. Goods provided by public distribution system should also conform to certain quality standards as we have seen that there are leakages in targeted public distribution system and poor quality is also a reason for low purchases from the ration shops. Lack of information is another important factor against targeting. For greater accountability and transparency in targeted PDS, consumers must have adequate information about their entitlements, about their prices and about availability of commodities. As problem of food deprivation and food insecurity persist on a mass scale in India, the leakage from a universal welfare programme will be small and benefits of targeting will be limited. However, targeting can be proved beneficial if problem of food insecurity is low, and therefore only small section of population needs to be targeted. Therefore, when target group is so large in country like India, it does make sense to provide benefits universally. When there is mass hunger and poverty, any welfare programme should give priority to nutritional outcomes and targeting raises the errors of wrong exclusion and associated costs in such circumstances. In such cases broad targeting is preferred as it is more inclusive and therefore lowers the costs of wrong exclusion. The benefits provided to rich under universal welfare programme or broad targeting, can be clawed-back by means of progressive taxing. Another argument in favor of universal programme and against targeting is the way segregation of population is done under targeted PDS in India on the basis of incomes. A one-time identification of the poor that is of target group is likely to be welfare defeating because rich can be identify easily as generally rich people tend to remain rich, the problem is with identification of poor people as there is much more mobility among lower income households. Therefore, division of population between poor and non-poor is very complicated and targeting becomes curse for those who are vulnerable to income fluctuations. Food prices also need to keep in check so that they are reasonable and affordable to poor. We should take a lesson from Kerala, which has a near universal system of distribution, and is the only state in India whose public distribution system is working efficiently and provide subsidized food grains to poor effectively. Kerala also has a strong political support which is essential for maintaining an effective system of food security. Also if we look at the available literature on comparisons between universal and targeted welfare programmes, most of the studies and also the experience of different countries have also concluded that universal transfers is better than targeted welfare programme. Therefore, in my opinion, in India targeting in food subsidies is undesirable and we need to reform our public distribution system of India and expand and strengthen the programmes of food security.

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