CHAPTER - 1
MINISTRY OF FOOD AND CONSUMER AFFAIRS

Department of Food and Civil Supplies

1. Public Distribution System

Highlights

The major objective of foodgrains procurement by Food Corporation of India is to supply to the Public Distribution System. This arrangement seeks to ensure continued supply of foodgrains and some other essential commodities at subsidised prices, besides moderating the fluctuations in the open market prices of foodgrains. PDS intervention aims to improve the availability, affordability and acceptability of foodgrains for all, besides their accessibility.

Review of management/implementation of Public Distribution System disclosed several shortcomings relating to targeting of the beneficiaries, adequacy of food and nutritional security, meagre income transfer to the targeted groups, high cost of operations, higher prices charged from the consumers, poor quality and non-existent vigilance system, etc. which adversely affected fulfilment of the envisaged objectives of the PDS.

Over 1992-99, the food, sugar and kerosene oil subsidy aggregated to Rs 77379 crore. In addition five state governments provided a subsidy of Rs. 6896 crore on their own scheme of foodgrains distribution. While the objective of remunerative Minimum Support Prices every year for sustained foodgrains production has been achieved to a large extent, the other objectives of supply and distribution to the consumers, particularly to the weaker sections at subsidised rates have, by and large, not been achieved.

Inefficient targeting has affected Targeted PDS, under which 10 kilogram foodgrains per month per family was to be provided to the households below the poverty line at about half the normal PDS price. Many state governments failed to translate this objective into action. Surveys for identification of the BPL families were not completed in 18 out of 31 states and union territories. Even in the states where identification was completed, ration cards were not provided to a significant number of BPL families.

Further, in Andhra Pradesh and Gujarat significantly large population was categorised as BPL, compared to the numbers estimated by the Expert Group of Planning Commission. This had the effect of diluting the prescribed entitlement of BPL population, since the allocations for BPL households by FCI were determined on the basis of the numbers estimated by the Expert Group.

In a large number of cases, the BPL families did not get the prescribed quantity of 10 kg ration at the special subsidised rates and were charged higher rates. The state governments did not absorb the cost, over and above, that provided by the Union Government towards handling, transportation, etc. and passed on the higher cost to the consumers, thereby defeating the main objective of TPDS.

The quantity of mere 10 kg per family at the special BPL price was not significant to provide food security at affordable price, since it fulfilled less than 20 per cent of the monthly requirement of about 53 kg of foodgrains for an average size family consisting of five members. Thus, this intervention by the Government to provide a limited quantity of foodgrains to the BPL households at the reduced price could achieve a reduction in the average price per kg paid by the BPL families of only 75 paise to Rs 1.05 for the entire quantity of foodgrains purchased by them. The average per household per month distribution was as low as mere 6.5 kg. Thus, while the cost to the exchequer was enormous, the gains to the consumer were marginal.

The benefits of subsidised distribution of foodgrains to consumers were negligible. The monthly per household income transfer due to PDS intervention was insignificant at less than Rs 30, except in the North-Eastern states. Even after introduction the TPDS, income transferred per household per month for BPL population was between Rs 22 to Rs 46 per month. In Punjab, it was less than Rs seven.

Significant inter-state variations in the allocations of rice and wheat were noticed. Performance of states with larger population of poor, such as Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal, whose aggregate BPL population was 60 per cent of the total BPL population in the country, was relatively low.

There were wide variations in per capita allocation of kerosene oil by Ministry of Petroleum and Natural Gas. Against per capita allocation of 10 kg per annum to relatively economically weaker states of Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh, comparatively affluent states/UTs of Chandigarh, Delhi, Goa, Gujarat, Maharashtra and Punjab had per capita allocations ranging between 17 kg and 34 kg per annum, which point towards substantial diversion of this subsidised commodity.

Delhi was allotted a disproportionately high quota of sugar with per capita per annum allotment of 15 kg, against actual entitlement of 9.6 kg per capita per annum for consumers of Delhi. For most of other states sugar allocation was only 5 kg per capita per annum.

Several studies on the nutritional status have disclosed widely prevailing mal-nourishment, suggesting that the general public, particularly the BPL population, have not been able to obtain the desired level of nutrition despite availability of foodgrains through PDS network at subsidised price.

The review of the scheme disclosed significant number of cases of diversion of PDS commodities including the kerosene oil, undue benefit to millers in some states particularly in Assam, losses in transit and storage, existence of large number of bogus ration cards, excess charging from the customers than the maximum price prescribed by the Central Government, poor quality of foodgrains supplied through PDS, etc. which reduced the efficacy of the PDS.

To provide infrastructure for distribution and storage of the foodgrains, and doorstep delivery to the Fair Price Shops, Government of India released Rs 58.73 crore and Rs 62.96 crore for construction of godowns and purchase of mobile vans respectively during 1983-99. Responses of the state governments were, however, lukewarm. Large number of godowns for which the Central Government provided funds were not constructed and many were not put to the intended use. Many state governments did not purchase mobile vans for which funds were released by the Central Government. Large number of vans were out of order or used for purposes other than for doorstep delivery of foodgrains. This suggested that the formulation and implementation of these schemes were faulty.

The vigilance and monitoring mechanism either did not function at all or did not function as per the design at all tiers i.e, state, district and fair price shop levels. The failure of the state governments to put in place a proper monitoring and vigilance system deprived the government of concurrent feed back on the execution of the programme.

The services of ORG-MARG were commissioned by Audit for conducting a survey to assess the perception of beneficiaries about the PDS. Beneficiary perception of the scheme was one of general dissatisfaction. They reported problems of inability to obtain ration cards, charging of higher price, infrequent opening of the fair price shops, frequent stock-out situations, under-weighing by the fair price shop owners, inferior quality of foodgrains supplied through the PDS, non-awareness of their entitlement, and non-existence of grievance-redressal channel, etc.

1.1 *Introduction*

The Public Distribution System is one of the important elements of the Government's food security system in India. PDS involves management of supplies of essential commodities and maintenance of their uninterrupted flow at affordable prices to the public. It is also an instrument for moderating the open market prices for food.. Under the PDS, the Central Government through the Food Corporation of India has assumed responsibility for procurement and supply of essential commodities to the state governments/Union Territories for distribution at almost uniform prices to the public through a network of Fair Price Shops.

1.1.1 Public distribution of essential commodities had been in existence in India since the inter-war period. The PDS, with its focus on distribution of foodgrains in urban scarcity areas, had emanated from the critical food shortages of the 1960s. PDS had since then substantially contributed to the containment of rise in food prices and had ensured access of the food to urban consumers. As the national agricultural production had grown in the aftermath of the green revolution, the outreach of PDS was extended to rural areas, tribal blocks and areas of high incidence of poverty in the 70s and 80s. Currently, its focus is on the poor in all areas. The Ninth Plan (1997-2002) targets primarily people below the poverty line and has enunciated a broader view of food security, which also includes nutritional security by ensuring availability, accessibility, acceptability and affordability of balanced food and nutrition for all. With the increased availability of food, another dimension was added to the PDS. This was to sustain the high level of food production by fixing Minimum Support Prices at which Food Corporation of India procured from the farmers. PDS, thus, became an instrument for sustaining the food production as well as for subsidised supply of foodgrains to consumers.

1.1.2 The PDS, till 1992, was a general entitlement scheme to all consumers without any specific target. PDS provided rationed quantity of basic food items (rice, wheat, sugar and edible oils) and other non-food products (kerosene oil and coal) at below the open market prices to consumers through a network of Fair Price Shops.

The access to the system was almost universal. The implementation of the PDS was the joint responsibility of the Central Government, state governments/UT Administrations. The Central Government was responsible for procuring, storing and transporting the PDS commodities up to the central godowns and making them available to the states/UTs. The FCI is responsible for the purchase, storage, movement and distribution of foodgrains. In addition, 12 states had Food and Civil Supplies Corporation or cooperative marketing agencies, which made purchases and sales on behalf of FCI. Details of implementing agencies statewise are given in **Annex 1**. In the rest of the States/UTs the work of PDS was administered and controlled by the state governments/UT Administrations. FCI issued foodgrains to the PDS based on allocations made by the central government.

1.1.3 Under a recently adopted decentralised procurement scheme from 1997-98 Kharif Marketing Season, the State Government of **West Bengal** had started procurement of paddy/rice. The difference between economic cost of rice and Central Issue Price was released to the State Government. The state governments of **Uttar Pradesh** and **Madhya Pradesh** had also shown their willingness to procurement of wheat under the said scheme.

States /UTs had the responsibility for actual distribution to the consumers through a network of FPS (Fair Price Shop). There were 4.53 lakh FPSs in the country as of June 1999.

1.1.4 The Public Distribution System initially had universal targeting. While the universal targeting has continued under PDS, the Government of India launched the revamped Public Distribution System in June 1992 in 1775 blocks and Targeted Public Distribution System from June 1997 with a view to targeting disadvantaged and poor across the country. The salient features of RPDS and TPDS are given below:

	RPDS	**TPDS**
1. Target group	All persons in poor areas approach. Covered 1775 blocks in tribal and hilly, drought prone and remotely located areas.	Poor persons in all areas approach. Focused on people below poverty line throughout the country. Initially TPDS adopted the number of poor household as estimated by the Expert Group of Planning Commission.
2. Scale of ration	5 kg per head subject to the maximum of 20 kg per family per month.	10 kg per BPL (Below Poverty Line) household per month.
3. Issue price	Foodgrains were issued at 50 paise below the CIP (Central Issue Price) and the states were asked to issue the same at a margin of not more than 25 paise per kg.	Specially subsidised rates of Rs 350 and Rs 250 per quintal of rice and wheat respectively.

1.1.5 A multiple criteria was adopted for classification of BPL households, which included qualitative parameters like household occupation, housing conditions, numbers of earners, possession of land operated/owned, live-stock, TV, refrigerators, motor cycle/scooter, three wheelers, tractor, power tillers, combined threshers, etc. State governments had the responsibility of designing and implementing targeting mechanisms for reaching the poor. They were to identify the poor, issue special cards, and deliver foodgrains to the intended beneficiaries.

1.1.6 In addition, the Central Government was operating two major Centrally Sponsored Schemes for strengthening PDS infrastructure; (i) scheme for assistance for construction of godowns. And (ii) scheme for assistance for purchase of mobile vans/trucks as a part of RPDS. The scheme for construction of godowns was intended to provide financial assistance for the creation of storage infrastructure on 25 *per cent* subsidy and 75 *per cent* loan basis up to 1991-92, which was revised to 50 *per cent* subsidy and 50 *per cent* loan from 1992-93. The scheme for purchase of mobile vans was aimed to ensure doorstep delivery of foodgrains to the FPS as also to the consumers directly. During 1983-99, the Central Government released financial assistance of Rs 58.73 crore for construction of 551 godowns of the aggregate capacity of 2.99 lakh tonne and Rs.62.96 crore to 26 states/UTs for purchase of 1536 vans/trucks during 1985-99.

1.2 Scope of Audit

1.2.1 A performance review of the Public Distribution System was carried out to:

- ascertain the extent to which the stated policy objectives of PDS, RPDS and TPDS were met;
- assess the impact of the implementation of these schemes in ensuring household level food security for the targeted population;
- identify supply side bottlenecks and aberrations in the distribution mechanism including issues relating to quality, accessibility, availability, affordability and acceptability of commodities distributed through PDS;
- ascertain the leakages, diversion and pilferages of essential commodities, transportation bottlenecks, ineffective vigilance arrangements, monitoring and inspection mechanism;
- analyse the pattern of off-takes across all states/UTs and to evaluate the resultant welfare gains: and
- identify the constraints in achieving food security as it is broadly understood, which also includes nutritional security to ensure an active and healthy life to the citizens.

1.2.2 Review of the PDS covering the Eighth Five Year Plan period of 1992-1997 and two years of the Ninth Five year Plan Period i.e. 1997-1999 was carried out by sample checks during May to September 1999 in the Ministry of Food and Consumer Affairs and Food Corporation of India and implementing agencies in 25 states and 6 UTs. The sample for audit review covered 172 districts and 4661 FPSs in these states/UTs.

1.2.3 The services of ORG-MARG Research Limited were commissioned to conduct an all India survey to assess the beneficiary perception of the PDS. The Survey by ORG-MARG covered all states/UTs. The sample for survey covered 285 towns and 1223 villages in 140 districts. In their survey ORG-MARG contacted 64292 households, of which, 43205 were in rural areas and 21087 were in urban areas. The surveyors conducted the fieldwork during July 1999 to October 1999.

The survey findings have been included in the review alongwith appropriate themes / sub-themes covered in the review. A summary of findings of the survey is given in **Annex 2.** The audit findings should be viewed with reference to sample selected for audit.

1.3 Food subsidy

The food subsidy aggregated to Rs 41081 crore during 1992-99

1.3.1 The total food subsidy, which was of the order of Rs.2800 crore in 1992-93, gradually increased to the level of Rs. 8700 crore during 1998-99. According to Planning Commission's estimates, FCI issued on an average about 15-16 million tonne of foodgrains annually to the states at a uniform Central Issue Price fixed by the Central Government. The difference between the economic cost, which represents the minimum support price to the farmers plus the carrying cost and the CIP, which is the price at which FCI issues foodgrains to the state government, is the consumer subsidy. The subsidy is borne by the Central Government. In addition to this, the FCI maintained a large buffer stock of foodgrains for ensuring food security, meeting emergent situations like crop failures, natural disaster and to impart inter-seasonal stability to foodgrains supply and price. The FCI maintained buffer stock of foodgrains on behalf of Government of India. Carrying costs of the buffer stock comprising freight, handling expenses, storage charges, interest charges and transit and storage shortages and administrative overheads were reimbursed to the FCI. The consumer subsidy and the carrying cost of the buffer stock together added up to the total food subsidy. The food subsidy, which aggregated to Rs 41081 crore during 1992- 99, was one of the most significant subsidies from the Government of India. In addition, state governments of **Andhra Pradesh, Kerala, Karnataka, Tamil Nadu**, and **Gujarat** spent an additional Rs 6896 crore on their own food subsidy schemes during 1992-99 as detailed in **Annex - 3**. Details of food subsidy borne by the Central Government were as shown below:

(Rs in crore)

Year	**Subsidy on foodgrains (including subsidy for maintenance of buffer stock)**
1992-93*	2800
1993-94*	5537
1994-95	5100
1995-96	5378
1996-97	6066
1997-98	7500
1998-99	8700
Total	**41081****

* Inclusive of subsidy on distribution of sugar.

** Claims of Rs 4109.14 crore towards foodgrains subsidy were outstanding for payments to FCI as of March 1999.

There was rising trend in the cost of administering the PDS both by FCI and state governments

1.3.2 Food subsidies alone had accounted for over seven *per cent* of Union Government's mounting fiscal deficit in 10 out of twelve years between 1987-88 and 1998-99. Reasons for incremental subsidy were broadly two fold. Non-revision of CIP with every upward revision of Minimum Support Price of rice and wheat announced every year was a significant contributory factor, in addition to rising cost of administering the PDS both by FCI and the states/UTs.

1.3.3 Minimum Support Prices and Central Issue Price

1.3.3.1 The FCI purchased the foodgrains from farmers at Minimum Support Prices and distributed these to states/UTs at the Central Issue Price. Based on the recommendations of the Commission for Agricultural Costs and Prices (CACP) , state governments and central ministries, Ministry of Agriculture fixed the MSP (Minimum Support Price) for various crops annually with a view to evolving a balanced and integrated price structure, inducing farmers to raise productivity. Support prices served the purpose of a floor price and the Government ensured this through the purchase of whatever was offered at that price.

1.3.3.2 MSP, CIP and range of market price for wheat and common rice are given year wise in **Table I under paragraph 1.3.3.5**.

1.3.3.3 The minimum support prices were substantially raised, 85 *per cent* for wheat and 63 *per cent* for common variety of rice between 1992-93 and 1998-99. As a consequence the farmers unloaded huge stocks in the market/FCI procurement centre. Since the FCI had no choice but to buy whatever was offered at the minimum support price, it had to buy more wheat and rice than it could manage efficiently. The quantities of rice and wheat procured year wise are given in **Table II under paragraph 1.3.3.5**.

1.3.3.4 Further, the central bonus (Central bonus is the additional price, paid over and above the MSP announced, to achieve the desired procurement levels.) for wheat announced during 1992-93 as one time measure, became a recurring phenomenon with its continuation in 1993-94 and after that in 1997-98 and 1998-99 at Rs 25, Rs 60 and Rs 55 per quintal respectively. Even in the years when bonus was not announced, the MSP was set at a higher level than previous years procurement price (i.e. MSP plus central bonus). The MSP of Rs 510 including bonus of Rs 55 per quintal was announced on 11 April 1998 for wheat. Commission for Agricultural Costs and Prices in its Reports for the crops sown during 1998-99 had observed that for 1998-99 season that the official purchase price of wheat was set at a level higher than the ruling market prices and this was a contributing factor that led to a large share of the marketable surplus of wheat passing on from the private trade to the Central Pool and the immediate consequence of this was reflected in a sharp increase in the wholesale prices of wheat in almost all the markets during the post procurement weeks with all its attendant macro-economic implications and adverse effect on the poor. (From Chapter VI of the Reports of the Commission for Agricultural Costs and Prices for the crops sown during 1998-99 Season, Ministry of Agriculture, Government of India, New Delhi, 1998.)

1.3.3.5 Besides the increases in the Minimum Support Prices effected over the years, there were also corresponding increases in the consumer prices in the PDS (**Table I**). In fact, increases in CIP of food grains rendered the price of foodgrains under the PDS relatively unattractive compared to the market prices. For instance, when the Central Issue Price was enhanced in 1994 by Rs. 60 for rice and Rs. 38 for wheat per quintal, the price differential between the open market price and PDS issue price had narrowed down. This was perceived to be a contributing factor for declining off takes from PDS.

Year-wise MSP, CIP and range of open market prices are given for wheat and common rice

Table-I

(Rs per quintal)

Year	Common Rice			Wheat		
	MSP	CIP	Market Price	MSP	CIP	Market price
1992	270	377	450-650	275	280	260-575
1993	310	437	420-780	330	330	260-580
1994	340	537	390-850	350	402	350-600
1995	360	537	550-950	360	402	375-750
1996	380	537	650-1250	380	402	460-825
1997	415	550(APL) 350(BPL)	650-1150	475	450(APL) 250(BPL)	500-850
1998	440	550(APL) 350(BPL)	650-1020	510	450(APL) 250(BPL)	525-1100
1999	490	700(APL) 350(BPL)	700-1280	550	650	550-1100

Table - II
Year wise procurement and offtake of rice and wheat during 1992-99

(in lakh tonne)

	Procurement			Offtake		
Year	**Rice**	**Wheat**	**Total**	**Rice**	**Wheat**	**Total**
1992-93	114.51	63.79	**178.30**	91.57	72.18	**163.75**
1993-94	131.75	128.16	**259.91**	87.35	57.64	**144.99**
1994-95	115.32	118.68	**234.00**	78.99	46.97	**125.96**
1995-96	88.09	123.06	**211.15**	93.38	51.60	**144.98**
1996-97	128.20	81.82	**210.02**	110.19	83.71	**193.90**
1997-98	137.37	92.98	**230.35**	97.62	69.37	**166.99**
1998-99	80.35	126.45	**206.80**	97.39	72.39	**169.78**

Table III: Buffer stock norms and actual stock as of 1 July each year

(In lakh tonne)

Year	Buffer norms			Actual stock		
	Rice	**Wheat**	**Total**	**Rice**	**Wheat**	**Total**
1992	92.00	131.00	223.00	73.68	64.82	138.50
1993	92.00	131.00	223.00	92.73	148.89	241.62
1994	92.00	131.00	223.00	132.61	174.88	307.49
1995	92.00	131.00	223.00	164.43	192.21	356.64
1996	92.00	131.00	223.00	128.82	141.31	270.13
1997	92.00	131.00	223.00	109.50	114.20	223.70
1998	92.00	131.00	223.00	120.39	164.76	285.15
1999	100.00	143.00	243.00	NA	NA	NA

Table IV: Carrying cost of buffer stock

Year	(Rs in crore)
1992-93(Actuals)	450.69
1993-94(Actuals)	1245.48
1994-95(Actuals)	1853.48
1995-96(Actuals)	1493.91
1996-97(Actuals)	803.32
1997-98 (Provisional)	1104.00

The buffer stock of foodgrains was far in excess of norms during 1993-96 and 1998 resulting in excessive carrying cost which ranged between Rs 450 crore and Rs 1853 crore during 1993-98

1.3.3.6 In this context, burgeoning buffer stock was also a significant factor. While the recommended stock of foodgrains on 1 July of every year was 223 lakh tonne, the FCI had foodgrains stocks between 223.70 lakh and 356.64 lakh tonne during 1993-99. Maintenance of huge buffer stock requires carrying cost, which had risen from Rs. 450.69 crore in 1992-93 to Rs. 1853.48 crore in 1994-95. The norms of buffer stock and carrying cost during 1993-98 are in **Table-III** and **Table IV under paragraph 1.3.3.5**.

Thus, the increase in the level of procurement year to year, declining offtake, increasing carrying costs of buffer stock, the trend of progressively rising MSP etc. points to the need for review and rationalisation of food management through the FCI. This need for a serious scrutiny is paramount in view of the wide spread perception that the PDS served the interests of producing and food surplus states more than the targeted beneficiaries as the implementation PDS is marred by several inefficiencies as brought out subsequently in this review.

1.3.4 Cost of operations of FCI

1.3.4.1 Government of India reimburses fully the cost incurred by FCI towards administrative overheads, freight, storage and storage charges. Component-wise absolute and per quintal cost of FCI for rice and wheat for 1992-99 is detailed in **Annex 4** and **Annex 5** respectively. The per quintal average rates of some of the important components of costs to arrive at the economic cost in procurement and distribution of foodgrains and quantity handled by FCI during 1992-99 were as under (The annual accounts of the FCI are pending finalisation since 1995-96.):

The per unit administrative overheads, freight charges, storage charges, interest charges and storage charges of buffer stock of foodgrains fluctuated widely from year to year during 1991-99

Elements of cost of freight, storage, interest, etc. by FCI

(Rs per quintal)

Year	Quantity purchased/ sold		Administrative overheads of				Freight charges		Storage charges		Interest charges	
			FCI		State agencies							
	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice	Wheat	Rice
1991-92	184.90	199.56	-	-			29.35	29.35	-	-	-	-
1992-93	144.31	213.49	13.98	13.98	5.71	2.05	32.24	32.24	12.53	12.53	39.95	39.95
1993-94	219.63	226.64	10.95	10.94	4.68	2.26	50.22	41.82	8.11	8.07	33.06	42.96
1994-95	224.61	215.32	9.21	9.21	5.78	3.17	47.45	28.90	7.94	7.94	25.23	33.77
1995-96	249.28	220.33	12.07	12.07	6.44	4.20	44.21	42.65	10.97	10.97	28.88	35.88
1996-97	225.27	261.69	12.01	12.67	7.71	3.86	44.07	55.81	11.44	14.45	24.98	42.20
1997-98	171.10	259.57	19.58	19.64	7.31	2.29	66.31	61.73	19.90	16.94	40.32	49.75
1998-99	227.04	195.61	16.95	16.95	8.18	4.90	57.26	60.35	12.52	12.52	26.72	33.75

Components of carrying cost of buffer stock reimbursed to FCI during 1992-99

(Rs per quintal)

Item	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99 RE
Handling expenses	8.51	8.02	8.73	10.62	13.66	18.58	17.25
Storage charges	40.13	24.32	23.83	32.91	43.36	51.51	37.43
Interest charges	36.70	62.97	72.06	78.37	74.51	74.88	85.99
Administrative overheads	10.65	8.21	6.91	9.05	9.51	12.06	12.68

Source: Performance budget of FCI of respective years.

1.3.4.2 Analysis of the above average cost elements revealed the following:

- The per unit administrative overheads, freight charges, storage charges and interest charges fluctuated from year to year and there was no consistency in the cost per unit.
- Storage charges of buffer stock also fluctuated from year to year. While interest charges increased more or less consistently.

1.3.5 Subsidy on sugar

1.3.5.1 In addition, subsidy on sugar was another major outgo from the Consolidated Fund of India. There was dual pricing of sugar under which sugar mills were required to give 40 *per cent* of the total quantity of sugar produced by them to the Government of India towards levy and the balance 60 *per cent* was kept for free sale. The Union Government was paying subsidy to FCI for distribution of sugar in 12 states and 2UTs and to state governments and UTs on the same principle as for foodgrains viz. difference between economic cost of sugar and issue price. Where states were in charge of procurement and distribution of sugar, the subsidy was paid to states by FCI and was claimed from the Central Government. Year-wise subsidy paid and expenditure on various components of cost incurred on procurement and distribution of sugar by FCI during 1992-93 were as under:

Levy sugar

Year	Quantity sold (in lakh tonne)	Subsidy paid (Rs in crore)	Freight		Handling expenses		Administrative expenses		Storage charges	
			Rate per quintal (in Rs)	Total expenses (Rs in crore)	Rate per quintal (in Rs)	Total expenses (Rs in crore)	Rate per quintal (in Rs)	Total expenses (Rs in crore)	Rate per quintal (in Rs)	Total charges (Rs in crore)
1992-93	12.04	--#	53.87	64.85	12.10	14.56	17.14	20.63	6.21	7.48
1993-94	12.15	--#	78.76	95.66	13.07	15.88	15.01	18.24	3.15	3.82
1994-95	8.57	566.00	88.85	76.13	17.55	15.04	15.33	13.13	3.10	2.66
1995-96	10.61	422.00	99.82	105.86	22.25	23.60	20.04	21.25	3.52	3.74
1996-97	12.55	900.00	100.37	125.96	16.83	21.12	21.24	26.66	5.63	7.06

1997-98	12.27	400.00	105.05	128.90	17.62	21.62	17.86	21.91	6.30	7.73
1998-99	12.30	463.20*	112.24	138.05	19.00	23.38	19.99	24.59	6.54	8.04

* Estimated

Details of subsidy not separately kept by the Ministry.

Year-wise subsidy for maintenance of buffer stock of sugar had also increased over 1994-99 as under.

There were wide fluctuation in handling, administrative and storage charges. Carrying cost of buffer stock of sugar went up from Rs 1.46 crore in 1994-95 to Rs 177.49 crore in 1997-98

Year- wise subsidy paid for maintenance of buffer stock of sugar during 1994-99

Year	Amount of subsidy (Rs in crore)
1994-95	1.46
1995-96	7.72
1996-97	69.98
1997-98	177.49
1998-99(RE)	133.00

1.3.5.2 There were significant variations in the average unit rates of expenses on various elements of cost. Handling expenses increased by 84 *per cent* during 1992-93 to 1995-96. Administrative expenses and storage charges fluctuated from year to year.

1.3.6 Subsidy on kerosene oil

Subsidy on kerosene oil increased due to non-revision of price of kerosene oil since 1994-95

1.3.6.1 Distribution of kerosene oil under PDS was also subsidised. The subsidy on kerosene oil was not from the budget but was achieved through cross subsidisation by pricing one of the crude products such as petrol, ATF, etc. at higher rates under Administered Price Mechanism. The Government determines the retail prices of petroleum products, which are independent of their intrinsic prices. The pricing structure is such that a loss arising from low priced products are to be made up by profits from high-priced products through pooling of revenues in oil pool. The Ministry of Petroleum and Natural Gas made allocation of kerosene oil to each state on varying scales. The quantity of kerosene oil was to be allocated in the ratio of 60:40 between urban and rural areas even though 75 per cent families and perhaps a much higher percentage of users would be rural. The allocated quantity was supplied to the wholesale dealers from the depot of various oil companies. The consumers having double barrel LPG cylinders were not entitled for kerosene oil. The price of kerosene oil has not been raised since 1994-95 which resulted in increase of total subsidy on kerosene oil.

Annual allocation of kerosene oil had increased from 82.31 lakh tonne in 1992-93 to 104.63 lakh tonne in 1998-99 instead of decreasing on account of increase in allotment of gas connections to consumers

Year wise quantity of kerosene oil allocated to states/UTs, subsidy borne and ex-storage point price during 1992-99.

Year	Quantity allocated (in lakh tonne*)	Subsidy paid (Rs in crore)	Subsidy per tonne (Rs)	Ex-storage point price (Rs per tonne)***
1992-93	82.31	3304	4014.09	2201.54
1993-94	85.80	3773	4397.44	2201.54
1994-95	88.25	3740	4237.96	2001.40
1995-96	87.98	4190	4762.45	2001.40
1996-97	94.80	6540	6898.01	2001.40
1997-98	97.52	5820	5968.01	2001.40
1998-99	104.63	5790**	5533.79	2001.40

***** One tonne of kerosene oil is equal to 1285 litre.
****** Provisional
*** Revised only with effect from 1 April 2000

The Ministry of Petroleum and Natural Gas did not follow any norms for per capita annual allocation of kerosene oil to various states/UTs. Per capita allocations to affluent states/UTs were found to be higher

1.3.6.2 The Ministry of Petroleum and Natural Gas did not follow any uniform norm for per capita annual allocation of kerosene oil to various states/UTs. There were wide variations in per capita annual allocation to various states/UTs ranging between 7.19 kg and 33.92 kg during 1995-99. Against per capita annual allocation of 10 kg of kerosene oil per annum in relatively backward states of **Orissa, Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh** during 1998-99, the per capita allocation in comparatively economically affluent states/UTs of **Punjab, Maharashtra, Gujarat, Delhi, Chandigarh** and **Goa** was 16.88 kg, 19.97 kg, 20.13 kg, 26.36 kg, 33.92 kg and 24.18 kg respectively.

A comparison of number of gas connections for states having lower and higher per capita allocation of kerosene oil is given below:

States	Having lower per capita per annum allocation of kerosene in kg.		States	Having higher per capita per annum allocation of kerosene in kg.	
	Per capita allocation of kerosene	No. of gas connection per hundred persons		Per capita allocation of kerosene	No. of gas connection per hundred persons
Orissa	7.56	1.19	**Punjab**	16.88	5.55
Bihar	7.86	1.01	**Maharashtra**	19.97	5.74
Madhya Pradesh	8.05	2.11	**Gujarat**	20.13	4.12
Rajasthan	8.22	2.29	**Delhi**	26.36	17.8
Uttar Pradesh	8.47	2.55	**Chandigarh**	33.92	20.42
			Goa	24.18	13.43

*Number of Gas Connection is as of 1 April 1997 while per capita allocation of kerosene is for 1997-98.

The comparison clearly shows that the states, which were having higher LPG gas connection density, were getting higher per capita allocation of kerosene oil.

Further the number of gas connection has increased from 2.31 crore in 1995 to 4.39 crore as of 1 January 2000. This covered around 25 *per cent* of total households across the country. Even then, there was no reduction in quantity of subsidised kerosene being allocated to the state governments.

A large number of consumers were not purchasing kerosene oil from PDS

Beneficiary Survey disclosed that in **Punjab, Maharashtra, Gujarat, Delhi, Chandigarh** and **Goa,** where kerosene oil allocations were the highest, a significant proportion of the consumers were not purchasing kerosene oil from PDS. Only 25 *per cent* of the population in **Delhi**, 31 *per cent* in **Chandigarh**, 57 *per cent* in **Maharashtra**, 63 *per cent* in **Gujarat**, 72 *per cent* in **Goa** and 75 *per cent* in **Punjab** were buying kerosene oil from PDS thereby suggesting substantial diversion of this subsidised commodity**.**

1.4. Identification of BPL families - TPDS

1.4.1 RPDS, in 1992, had sought to improve targeting with its emphasis "on all persons in poor areas". Targeted Public Distribution System, introduced in June 1997, further modified the scope and coverage by adopting the principle of "poor in all areas." Therefore, for an effective implementation of TPDS, identification of population Below Poverty Line was critical.

1.4.1.1 State governments were asked to adopt the provisional estimates of BPL households arrived at by the Planning Commission on the basis of the report of the "Expert Group on Estimation of Proportion and Number of Poor" for the year 1993-94. The Expert Group had recommended state specific below poverty line population separately for rural and urban areas taking Consumer Price Index for agricultural labourers for updating the rural poverty line and a simple average of weighted commodity indices of Consumer Price Index for industrial workers and Urban Non-Manual Employees for up-dating urban poverty line. According to the official methodology so far adopted, the number and *percentage* of Below Poverty Line population worked out to 14.98 crore persons and 16.8 *per cent* respectively in 1993-94. As per the Expert Group methodology this worked out to 32.03 crore persons and 35.97 *per cent* of total population. These estimates were found as the closest to ground reality. Estimates as per the methodology of the Expert Group were more advantageous to the states compared to the earlier estimates as per the official methodology adopted hitherto. The state-wise estimates of BPL population as determined by the Planning Commission's Expert Group are presented in **Annex 6.**

1.4.2. The Government of India issued instructions on 7 January 1997 asking the state governments and Union Territory Administrations to conduct survey and complete the process of identification of BPL families by 26 January 1997 for issue of special cards under TPDS. Gram Panchayats and Gram Sabhas were to be involved in the initial identification of eligible families and final selection was to be made after verification of doubtful cases. Urban population comprising of slum dwellers, porters, coolies, rickshaw and hand cart pullers, fruit and flower sellers were to qualify for being included in the group determining the poverty line. Ministry had clarified in February 1997 that this was not exhaustive and the state governments should identify BPL families at micro level.

18 States/UTs have not completed identification of BPL families, a pre-requisite for effective implementation of the TPDS

1.4.3 Significant time overrun in completion of the identification process by the state governments was noticed in audit. As of September 1999 only 10 state government and three UT Administration had completed the identification, and this process was not completed in 18 states/UT. The number of BPL households in the states where the survey had been completed are given in **Annex 7.** The incidence of absence of ration card holding was, however, high both in the states where identification of BPL households have been completed and those where it has not been completed. This suggests that even after identification of BPL households, the process of providing the beneficiaries with ration cards was not taken up. Two State Governments of **Andhra Pradesh** and **Gujarat,** which had completed identification, had larger number of BPL population as compared to the Expert Group estimate. This implied that criteria of identification were diluted. The higher number identified BPL families also led to decrease in entitlement of a family of subsidised

BPL rations in these states since the Central Government had limited BPL allocations on the basis of number of BPL persons estimated by the expert group.

Nationally 18 per cent of population, and 88 per cent, 64 per cent and 50 per cent families in Nagaland, Manipur and Meghalaya respectively did not own ration cards

In the absence of survey, the objective of targeting was defeated as genuine BPL population was deprived of subsidized rations in the states/UTs of **Assam, Kerala, Himachal Pradesh, Karnataka, Tamil Nadu, Nagaland, Tripura, Sikkim, Goa, Punjab, Delhi, Uttar Pradesh, Maharashtra, Lakshadweep, Bihar, Mizoram, Meghalaya,** and **Arunachal Pradesh**.

1.4.3.1 The Beneficiary Survey findings, revealed that nationally 18 *per cent* of BPL households did not have ration cards and were deprived of access to PDS benefits. 21 *per cent* of households in **Andhra Pradesh**,

50 *percent* in **Meghalaya,** 23 *per cent* in **Jammu & Kashmir,** 35 *per cent* in **Assam**, 64 *per cent* in **Manipur**, 26 *per cent* in **Sikkim**, 21 *per cent* in **Bihar**, 20 *per cent* in **Chandigarh** and 88 *per cent* in **Nagaland** did not own ration cards.

1.4.3.1.1 The survey further revealed that lowest expenditure group with monthly expenditure level of less than Rs 1000 per month was having lowest ration card ownership at 76 *per cent*. The ration card ownership increased with increasing monthly expenditure and for the highest group of expenditure level above Rs 4000 per month, the ration card ownership increased to 89 *per cent*. This demonstrated inability of the government to provide access to PDS to the poorest people. Some of the other significant distortions, according to the Survey, were the following:

The beneficiary survey disclosed negligible difference in prices charged from APL and BPL households though issue prices for BPL were nearly half of that for APL households

- There was no significant price differential between APL and BPL households for their total quantity of foodgrains purchased through PDS though issue price for BPL categories was half of that for APL households. On an average, for all states/UTs, APL households were paying Rs 6.10 per kg for rice and Rs 6.40 per kg for wheat and this was only marginally lower for BPL population with rice at Rs 5.70 per kg and wheat at Rs 5.40 per kg. This suggested that either BPL families were not properly identified and/or Fair Price Shops were overcharging the BPL families. It also suggested that a substantial number of APL households were either getting rations at BPL rate and/or FPS were diverting TPDS commodities and selling these to APL households. The very small difference in the average price paid on the total purchase was also attributable to only 10 kg being supplied to the BPL families at the special BPL prices, while the remaining was supplied at the usual APL prices.
- The prices paid by BPL households were higher than prices paid by the APL households for foodgrains in **Tamil Nadu, Goa, Daman & Diu, Dadra & Nagar Haveli, West Bengal, Arunachal Pradesh, Andhra Pradesh** and **Gujarat,** indicating that the targeting was further skewed.

There was no targeting of BPL families at all in Bihar as all the households were provided foodgrains at same prices

- In case of **Bihar**, there was no targeting at all, as all the households were provided rice and wheat at prices marginally above the issue price for BPL families. Further, in **Bihar**, the average availability of rice and wheat was only 4.70 kg and 6.60 kg per household respectively, implying that TPDS rations were allowed to virtually all households irrespective of their economic status leading to this distortion**.** Viewed in the background of audit findings in the **Annex 13** that APL foodgrains are as good as not lifted, it can be surmised that BPL foodgrains are shared by all in the state.

1.4.3.2 Coverage of target group

Instances of targeting inefficiencies of excessive coverage and failure to reach target (E and F mistakes) across several states identified in audit were as under:

- In **Madhya Pradesh**, ration cards were not issued to 0.78 lakh identified BPL households as of March 1999.

- In **Rajasthan** the identified households having annual income up to Rs 20000 in rural areas and Rs 21405 in urban areas taking a household having five members in urban areas per annum were included against the norm of Rs 11000. While in **West Bengal** the income norm of Rs 15000 per annum was adopted. The income certificate for households living in rural areas was not obtained from panchayat for identification of BPL households.

The Ministry and some of the state governments failed to establish an effective mechanism for identification of BPL families and issue ration cards to the identified households

- State Government of **Andhra Pradesh** issued foodgrains at subsidized rates to 113 lakh BPL households constituting 81 *per cent* of the total of 139.37 lakh households in the State identified for issue of foodgrains at subsidised rates. This was markedly higher compared to the Expert Group estimation of 32.65 lakh to 37.78 lakh BPL families in the State, constituting 22.19 to 25.68 *per cent* of the total households. Even a recent survey completed in April 1999 estimated the *percentage* of BPL families in the State to be only 39.91. Despite this, sample check disclosed that in Adilabad district, which is predominantly tribal, 18444 families were not issued with ration cards thereby denying them the benefits of subsidised supply of PDS commodities.

- In **Tamil Nadu** and **Orissa,** 55 lakh and 42.37 lakh BPL households were identified against 45.79 lakh and 31.82 lakh households respectively identified by the Expert Group. Sample check disclosed that in four districts of **Orissa**, in respect of 1373 identified BPL families, the information regarding occupation and income was not indicated in the identification form.

- Government of **Haryana** had completed the survey in October 1998 and identified 6.95 lakh BPL families in the State. Test check of 16876 survey forms in one district (Panchkula) and one block each in Karnal, Kurukshetra and Sonepat districts, however, revealed that only 6111 families contributing 36.21 *per cent* of the total were eligible for BPL status as per the criteria laid down by Government of India. In **Assam**, the identification in respect of 110755 families out of 140210 contributing 79 *per cent* of the total across 9 districts was suspect, as occupation, annual income, address, etc., were not indicated in survey records and there was also no evidence to corroborate whether identification of BPL families was made after verification from the corresponding records of Panchayats and DRDAs.

- In **Kerala,** 76 *per cent* families in the State were shown to have an annual income of less than Rs 6000 in their ration cards. Test check of ration card registers revealed that families having declared the monthly income of Rs 50 to Rs 300 as per their ration cards possessed LPG connections.

- Government of **Karnataka** had been requesting Government of India to revise the number of BPL households to 31.46 lakh identified by the State Government as compared to Expert Group estimates of 28.75 lakh households. Despite this, the State Government had issued 64.76 lakh ration cards to BPL households.

- In **Himachal Pradesh**, though in December 1998, Urban Development Department identified 11734 BPL families in 48 Municipal Corporations/Nagar Panchayats, benefits under TPDS was not extended to them as of March 1999. In 4 test-checked districts in **Uttar Pradesh**, 6.78 lakh-slum population was not targeted and households having income up to Rs. 9000 *per annum* in rural areas were identified for BPL categorisation thereby depriving a large number of households of the benefits of subsidised foodgrains. In **Jammu & Kashmir,** 5.09 lakh families identified as BPL households included ineligible beneficiaries like pensioners, government servant, self-employed people and businessmen with income above poverty limit.

1.4.3.3 Thus, though the effectiveness and efficiency of the TPDS depended on proper targeting the BPL households for ensuring the benefits from distribution of subsidised foodgrains reaching them, the Ministry and the state governments did not succeed in establishing an effective mechanism for identification of BPL families, a pre-requisite for successful operation of TPDS. Identification of the targeted population within the stipulated period of 3 weeks by the states was inherently unattainable and difficult to administer. This underlines the urgent need for reformulation of policy for identification of BPL families, a task that should draw upon lessons from international experiences and also be easy to administer in a cost-effective manner.

1.5 Allocation and offtake of PDS commodities

1.5.1 Prior to introduction of TPDS in June 1997, the allotments for Public Distribution System to all states/UTs were made from month to month on historical basis after taking into account the recommendations of the Inter-Ministerial Committee, and their relative needs, offtake trend, stocks in the Central Pool and seasonal availability, etc. Under

TPDS, the monthly quota of rice and wheat were not linked to the demands received from the States/UTs. The quota for BPL families was fixed so as to provide 10 kg of foodgrains per BPL family per month at specially subsidised CIP. The target was to achieve 100 *per cent* offtake of foodgrains under BPL category. The quota for APL families was fixed on the basis of past lifting of foodgrains. Besides, normal BPL and APL quota, additional allocations to states/UTs were also made, considering the demands received from them, availability of stocks in the Central Pool, and resource constraints. After introduction of TPDS, additional allocations were made on the basis of demands received from state governments/UT Administrations, availability of stocks in Central Pool from the unlifted stocks against allocations made to the states and without disturbing the subsidy ceiling. As per TPDS guidelines, the state governments/UT Administrations were given the choice of deciding the ratio of quantity of rice and wheat in the monthly quota of foodgrains on the basis of food habits of the consumers in the state. Some state governments/UT Administrations had opted for either rice or wheat as their entire quota. The allocations of rice and /or wheat were made depending on the quantum of rice or wheat adopted by a particular state/UT.

1.5.2 Details of state-wise allotment and offtake of foodgrains for period 1992-99 were as given in **Annex 8, 9, 10, 11, 12** and **13** respectively.

1.5.3 Pattern of allocation

1.5.3.1 Allocation and offtake during 1992-97 (Annex 8)

PDS (1992-97)

Offtake of rice of four southern states of **Andhra Pradesh, Karnataka, Kerala** and **Tamil Nadu** during 1992-97 constituted more than 60.51 *per cent* of the total offtake. The comparative buoyancy in the pattern of offtake was also due to the fact that these states were prepared to give additional subsidy either through reduced retail price as compared to the CIP or through separate subsidised food schemes.

Offtake of foodgrains through PDS was very low in food surplus states of Punjab and Haryana as well as in Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal

Another striking feature was that the offtake of foodgrains was least for precisely those states that had a large BPL population. In **Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh** and **West Bengal,** the cumulative offtake of wheat during the period 1992-97 was only 57.57 *per cent* of their allotment and for rice, it was only 45.62 *per cent*. Country wide, this constituted 46 *per cent* of the total offtake for wheat and 14.92 *per cent* for rice, even though the states had 60.56 per cent of all BPL population in the country.

For the two food surplus states of **Punjab** and **Haryana**, for both rice and wheat, offtake for the period 1992-1997 was very low and ranged between 12 *per cent* and 18 *per cent* for wheat and rice of allocation respectively for **Punjab** and 45 *per cent* and 33 *per cent* for wheat and rice respectively for **Haryana**.

RPDS 1992-97 (Annex 9 and 10)

Under RPDS, lifting was uniformly high during 1992-97. During four out of five years i.e. for 1992-93, 1993-94, 1994-95 and 1996-97, the offtake was either 90 *per cent* or more of allocation. During 1995-96, lifting was only 66 *per cent* of allocations. Offtake was above 89 *per cent* for all states except for **Uttar Pradesh** and **Madhya Pradesh**.

TPDS from 1 June 1997 to March 1999 (Annex 11, 12 and 13)

From 1 June 1997, after introduction of TPDS, pattern of offtake in most states did not improve significantly except **Bihar, Uttar Pradesh** and **West Bengal** with large number of BPL population where there was marked improvement in lifting *percent*ages which was 85 *per cent* to 90 *per cent* of BPL allocations of wheat. Offtake in **Haryana, Rajasthan** and **Madhya Pradesh,** however were low at 50 *per cent*, 52 *per cent* and 60 *per cent* respectively during June 1997 to March 1999. For **Punjab** it was less than 20 *per cent*. In case of rice, however, the offtake for BPL was not very good in bigger states except for **Orissa, Karnataka, Kerala** and **Andhra Pradesh** where it was above 90 *per cent.*

Beneficiary survey also disclosed that poor offtake through the PDS was mainly attributable to diffused nature of its targeting corroborated by the fact that proportion of purchase accounted by the weaker sections in society does not vary greatly from that of the other sections. The average quantities purchased by different segments through PDS were lifted towards urban and APL households.

In fact, overall foodgrain offtake declined after introduction of TPDS. From 194 lakh tonne during 1996-97 under RPDS, the overall offtake declined to 167 and 169 lakh tonne in 1997-98 and 1998-99 respectively.

Lower offtake of foodgrains was attributed to non-availability of stock, short allocation, poor quality, etc

1.5.3.2 Predominant reasons for lower offtake in various states/UTs were attributed to non availability of stock with FCI; insignificant difference between prices in open market vis-à-vis PDS prices; self-sufficiency / availability of foodgrains; adhoc/unrealistic/short allocation; lack of preference for PDS foodgrains; poor demand of foodgrains; poor quality of foodgrains distributed through PDS, etc.;

1.5.4 Allocation and offtake of sugar

Allocation of sugar was disproportionately higher in Delhi as compared to other states/UTs

1.5.4.1 In contrast to cereals, almost all the states lifted 100 *per cent* of their quotas of sugar during 1992-99. The quota allocations for all states were based on individual entitlement of roughly 5 kg per annum. However, **Delhi** was given a disproportionately high quota of sugar with per capita allotment varying between 10 kg in 1992-93 and 15 kg in 1998-99 per annum. The allocation and lifting at15 kg per person per annum was very high compared to state government rate of entitlement of 9.6 kg per person per year in 1998-99.

1.5.5 Allocations and offtake of kerosene oil

Allocation of kerosene oil was increasing every year even after increase in allotment of gas connection and cylinders to consumers

1.5.5.1 During 1992-99, the allocation of kerosene oil witnessed an increasing trend in almost all the states/UTs. Significant increase in allocations was observed in **Andhra Pradesh, Bihar, Haryana, Himachal Pradesh, Jammu & Kashmir, Karnataka, Madhya Pradesh, Meghalaya, Orissa, Punjab, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh** and **West Bengal**. This should be viewed in the context of high incidence of leakages brought out in paragraph 8.2.3. In fact, increased supply of gas cylinder should have had corresponding downward effect on allocation of kerosene oil **(Annex 14).**

1.5.6 Purchase through PDS and from open market

Beneficiary survey disclosed less purchase of PDS foodgrains and sugar from FPS than purchased from open market

1.5.6.1 In this context, the findings of the beneficiary survey as regards purchase of essential commodities are relevant, since they indicate the efficacy of PDS at the level of beneficiaries The findings disclosed that except for kerosene, the average quantities of essential commodities purchased from ration shops was much less than that purchased from open market.

	Open market	Ration shops
Rice	30 kg	12.6 kg
Wheat	31 kg	7.8 kg
Sugar	5.0 kg	2.4 kg
Edible Oil	3.6 kg	1.9 kg
Kerosene	5.4 litre	5.3 litre

Offtake of foodgrains from PDS accounted for less then 10 per cent of the requirement of beneficiary in 13

states / UTs

In fact, according to the survey, the offtake from the PDS was found to be low in absolute terms and vis-a-vis offtake from the open market. In **Assam, Bihar, Chandigarh, Haryana, Jammu & Kashmir, Madhya Pradesh, Manipur, Nagaland, Orissa, Punjab, Rajasthan, Uttar Pradesh** and **West Bengal** people were purchasing/getting less than 10 *per cent* of their requirement of foodgrains from PDS. Thus, it was evident that despite large amount of subsidy, PDS was able to meet only a fraction of requirement of consumers for foodgrains and essential commodities.

1.6 Micro level food security

1.6.1 One of the significant objectives of PDS was to ensure micro level food security. To ascertain this, per capita distribution of foodgrains and income transfer in favour of the beneficiaries were analysed. For this purpose, the total offtake, the average per household distribution per month, the central issue price for rice and wheat, the retail price for rice and wheat for all states/UTs were analysed for 1993-94, 1994-95 and 1998-99 as detailed in **Annex 15, 16,17 and 18**.

1.6.1.1 The per household distribution, the per household income transfer and the per household food subsidy have been computed on the following basis:

Per household distribution:

Average per capita monthly distribution was obtained by dividing the average total offtake of foodgrains in a month by total number of ration cards in each State.

Per household income transfer: Average per household income transfer was obtained by multiplying per household distribution with price difference between open market (Open market prices have been calculated for the states by taking average retail prices over the year for lowest priced varieties of rice and wheat in major mandi of the state or in the neighbouring state.) and PDS.

Per household food subsidy:

Average per household per month food subsidy for the country was derived by dividing the average monthly subsidy given to FCI by total number of ration cards.

Average per household subsidy for the states was calculated by multiplying per household distribution of foodgrains with per kg subsidy on foodgrains

1.6.2 Per household distribution

After introduction of TPDS, per household distribution under PDS decreased to 3.18 kg and 2.27 kg per month for rice and wheat respectively in 1998-99 as compared to 4.53 kg and 2.99 kg in 1993-94

All India per household distribution to ration card holders was only 4.53 kg of rice and 2.99 kg of wheat per month in 1993-94, which declined to 4.09 kg and 2.43 kg per month for rice and wheat respectively in 1994-95. After introduction of TPDS per household distribution under normal PDS further decreased to 3.18 kg and 2.27 kg per month for rice and wheat respectively in 1998-99. For BPL households it was at a relatively higher level of 3.87 kg and 3.03 kg per month for rice and wheat respectively. In 1993-94 and 1994-95, North Eastern states were having highest per household distribution of foodgrains ranging between 19 kg and 160 kg per month. Among other states, **Goa, Kerala** and **Andhra Pradesh** were having per household distribution varying between 13 kg per month to 28 kg per month.

1.6.2.1 For states, having highest incidence of poverty viz. **Uttar Pradesh, West Bengal, Rajasthan, Orissa, Madhya Pradesh** and **Bihar**, the per household foodgrains distribution ranged between 8.37 kg and 2.16 kg per month only in 1993-94. In 1994-95, it ranged between 7.35 kg and 1.40 kg per month in these states.

In all most all the states/UTs the per household distribution of foodgrains under TPDS ranged between less than 5 kg to 25 kg

1.6.2.2 However, for BPL household under TPDS in 1998-99, the highest distribution of foodgrains was between 11 kg and 25 kg per month for **Jammu & Kashmir, Manipur, Meghalaya, Nagaland** *and* **Daman & Diu**, for **Bihar, Goa, Gujarat, Haryana, Himachal Pradesh, Madhya Pradesh, Orissa, Rajasthan, Tamilnadu, West Bengal** and **Dadra** and **Nagar Haveli**, it was only between 5 kg to 8 kg per month.

The distribution of foodgrains per household per month was less than 5 kg in **Andhra Pradesh**, **Karnataka** and **Punjab**. In the case of **Andhra Pradesh**, the quantity of foodgrains distributed at BPL rates was higher than central government allocations, which was made possible by additional subsidy from the state government.

1.6.3 Per household income transfer

1.6.3.1 The income transfer (Actual income transfer would be lower as dealer's commission and transportation charges, which were added to CIP in arriving at consumer prices, were not considered. This was done to eliminate the effect of further subsidies given by various state governments and to make an objective and fair comparison of PDS performance across the states. The income transfer was calculated without reckoning the leakages; diversion and mis-appropriations from PDS, which will depress the income transfer even further.) to a family due to PDS intervention is the difference in the price between the open market and FPS price for the quantity he/she is provided through PDS. State-wise income transfer for 1993-94, 1994-95 and 1998-99 (for APL and BPL) were as given in **Annex 15 to 18**.

Per household per month income transfer due to distribution of subsidised foodgrains was insignificant ranging between Rs 70 and Rs 440 per month

1.6.3.2 In 1993-94 and 1994-95, only **Kerala** and **Goa** were having per household per month income transfer of above Rs. 50. In the North Eastern states, which were food deficit having high per household foodgrain distribution and where open market prices were substantially higher than FPS prices; the per household per month income transfer was between Rs 70 to Rs 440. This benefit of apparently higher income transfer on the basis of PDS data is questionable in view of survey findings of very low incidence of purchase from PDS in the North-Eastern Region. In fact, during 1994-95, per household income transfer for **Punjab, Haryana** and **Madhya Pradesh**, was less than a rupee, while it was less than rupees four for **Bihar, Orissa, Uttar Pradesh, Rajasthan** and **West Bengal**, for **Gujarat** and **Karnataka**, it was less than rupees nine. If leakages, which have been analysed subsequently in this review, were factored in to the amounts of income transfer, the benefits of income transfer would be further lessened.

Under TPDS per household per month income transfer was only upto Rs 22 and Rs 46 in most of the states. In Punjab it was below Rs seven per month

1.6.3.3 The scenario changed after introduction of TPDS from June 1997, since the prices were kept at roughly half of economic cost of FCI for BPL population, leading to very low prices as compared to market. Per household income transfer to BPL families was relatively better. With the reduced prices for foodgrains under TPDS maximum per household income transfer in 1998-99 was between Rs 64 and Rs 86, Rs 78 per month in case of **Kerala, Assam, Meghalaya, Tripura** and for most of the other states it was between Rs 22 per month to Rs 46 per month. However, it remained at Rs seven per month for **Punjab** despite very low prices.

1.6.4 Per household food subsidy (Arrived at by dividing the total subsidy given to FCI (net of subsidy given towards carrying cost of buffer stocks) by total population.)

1.6.4.1 The per household per month subsidy on PDS was Rs 16.45, Rs 12.18 and Rs 32-93 per month for 1993-94, 1994-95 and 1998-99 respectively. These figures did not include the carrying cost of bufferstock from total subsidy in arriving at per household food subsidy, while costs of buffer for distribution included carrying costs also.

1.6.4.2 For some of the states, for which data was available, a comparison of the state- wise per household subsidy and per household income transfer was made to ascertain which states were performing better in implementing PDS in terms of income transfer to beneficiaries vis-à-vis per household subsidy given.

1.6.4.3 It was disclosed that during 1993-94 and 1994-95 **Andhra Pradesh, Assam Goa, Kerala, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura** and **Maharashtra** had higher average per household income transfer than average per household subsidy for these states. For other states, per household income transfer was very low compared to per household subsidy.

1.6.4.4 The price difference for PDS foodgrains went down for APL population in 1998-99. The analysis showed that only **Kerala, Goa, Meghalaya** and **Tripura** had per household income transfer of more than Rs 40 per month in 1998-99. Income transfer was negative in **Andhra Pradesh, Haryana, Madhya Pradesh, Rajasthan, Uttar Pradesh** and **West Bengal** as the price of foodgrains made available to APL population was more than the year-round average retail prices.

BPL population was not receiving the desired benefit of subsidized distribution of foodgrains

1.6.4.5 Thus, it can be seen that in the states where PDS was well managed or the states, which were food deficit, PDS had resulted in per household income transfer that exceeded the average per household subsidy. However, most of the states viz. **Andhra Pradesh, Bihar, Gujarat, Haryana, Madhya Pradesh, Orissa, Punjab, Rajasthan, Uttar Pradesh** and **West Bengal** had lower level of per household income transfers than the per household subsidy for BPL families. Thus, despite focused targeting, the BPL households were not receiving the desired benefit. In contrast, the APL households were consuming more than 70 *per cent* of the total offtake. Even on per household basis, the drawal of foodgrains for BPL population was significantly lower than APL population. Even a highly inadequate provision of 10 kg per family was not fully met through the PDS. This low availability of foodgrains, along with lower level of income transfer through PDS vis-à-vis per household subsidy pointed to inefficiency in achieving the micro level food security. These comparisons of per household income transfer with per household subsidy have been made without allowance for the leakages, large-scale diversion, misappropriations and other inefficiencies, which would depress the magnitude of income transfers further.

1.7 Food and nutritional security

1.7.1 Low availability of foodgrains through PDS assumed importance in the face of acute nutritional inadequacy in diet and very low per capita calorie intake of BPL population in the country. Several studies had indicated that the per capita cereal consumption of the poor had remained the same despite a significant improvement in their real per capita expenditure and a decline in the cereal prices compared to prices of non cereal food, which was attributed to changes in consumer preference for consumption from cereal to non-cereal food.

1.7.2 Stagnation in cereal consumption would not have been a major concern, had the food energy levels of the poor been nutritionally adequate. In 1993-94, the per capita calorie intake for the lowest 30 *per cent* of the population was 1678 cal per day in the rural areas and 1682 cal per day in the urban areas. The per capita protein intake in 1993-94 was 46 grams per day in the rural areas and 47 grams per day in the urban areas. Thus, the lowest 30 *per cent* of the population was deprived of nutritionally adequate diet that would have provided them with the required food energy affecting their health and nutritional status. Reports of National Nutrition Monitoring Bureau had indicated in 1994 that 46 *per cent* of the rural adult population suffered from chronic energy deficiency, bringing the extent of malnutrition among adults closer to that prevalent among 51 *per cent* children. Further, NSSO survey conducted in 1993-94, revealed that five *per cent* of the rural families and two *per cent* of the urban families did not get two square meals a day - some only for few days in a month and some others only for some months in a year. Viewed in the context, another finding of NSSO in 1997 disclosed that the monthly requirement of foodgrains (rice and wheat) was 52.5 kg per family of five members per month, the stipulated 10 kg per month of ration under TPDS which was less than 20 *per cent* of the foodgrains requirement of a household was grossly inadequate. Besides the inadequacy, this level of entitlement ignored the poverty profile across states, failed to accommodate intra-households and specific needs of women, growing children, children below five years of age, the disabled population, etc.

1.8 Leakages

1.8.1 A significant portion of the subsidized foodgrains and other essential commodities did not reach the beneficiaries due to their diversion in the open market. No firm estimates, however, existed regarding the magnitude of diversions.

18.47 lakh tonne of foodgrains were diverted to purposes not connected with PDS

1.8.2 Diversion of subsidised PDS commodities

1.8.2.1 In 16 states and **A & N Islands**, 18.47 lakh tonne of foodgrains were diverted to purposes not connected with PDS and or to other departments, organisations and schemes as detailed in **Annex 19**.

Records of distribution of 3.58 lakh tonne of rice were not kept in Nagaland

In **Nagaland**, records of distribution of 3.58 lakh tonne of rice were not kept by the Food and Civil Supplies Directorate and stockiest.

In **Kerala**, 10.18 lakh tonne of foodgrains were diverted to hostel, hospital, canteens, etc.

PDS sugar was diverted to non-existent units, government departments, etc

1.8.2.2 Diversion of sugar

In **Haryana, Meghalaya, Orissa, Andhra Pradesh** and **Punjab,** 11672 tonne of sugar were diverted by issuing sugar to non-existent units, government departments, drawal in excess of requirement, etc. as detailed in **Annex 20.**

5.83 lakh kilo litre of kerosene oil involving subsidy of Rs 157.33 crore was diverted in four states

1.8.2.3 Diversion of kerosene oil

In **Kerala, Punjab, Haryana** and **Assam**, 5.83 lakh kilo litre of kerosene oil meant for distribution to PDS consumers, involving subsidy of Rs.157.33 crore were diverted and sold to permit holders for fishing, agricultural, industrial use government departments; holders of non-existent ration cards; distribution in excess of prescribed scales, etc. at PDS rates instead of at industrial rates as detailed in **Annex 21**.

1.8.2.4 Misappropriation

PDS commodities valued at Rs 84.37 crore were misappropriated in 12 states

PDS commodities valued at Rs 84.37 crore were misappropriated in **Andhra Pradesh, Karnataka, Haryana, Nagaland, Jammu & Kashmir, Tripura, Manipur, Andhra Pradesh, Maharashtra, Orissa, Bihar** and **Mizoram** as detailed in **Annex 22**. Signifcant cases of mis-appropriations were noticed in **Andhra Pradesh** : Rs 8.21 crore, **Bihar :**Rs.13.30 crore, **Orissa** :Rs 6.96 crore, **Manipur** : Rs 3.15 crore and **Mizoram :**Rs 7.41 crore.

1.8.2.5 Loss in transit

Loss of PDS commodities in transit valued at Rs.4.30 crore was identified in **Sikkim, Tamil Nadu, Gujarat** and **Madhya Pradesh** as shown in **Annex 23.**

1.8.2.6 Loss in storage/non-accounting of stock

PDS commodities amounting to Rs 5.53 crore were lost in storage due to various reasons

In **Tamil Nadu** and **Jammu & Kashmir**, PDS commodities valued at Rs 5.53 crore were lost in storage in godowns and warehouses as detailed in
Annex 24.

1.8.2.7 Loss due to employee's mistakes

In **Andhra Pradesh** and **Orissa**, foodgrains stock valued at Rs.15.28 lakh was lost due to non-observance of due diligence by concerned employees as shown in **Annex 25.**

1.8.2.8 Loss detected during physical verification of stores/godowns

PDS commodities valued at Rs.25.20 crore were found short during physical verification of stock in **Uttar Pradesh, Jammu & Kashmir, Tripura, Nagaland** and **Andhra Pradesh** as detailed in **Annex 26.**

1.8.2.9 Bogus ration cards

1.93 crore bogus ration cards were found to be in circulation in 13 states

Circulation of over 1.93 crore bogus ration cards was noticed in 13 states leading to possibility of large scale diversions to open markets, excess drawal of foodgrains, sugar, etc. as detailed in **Annex 27.**

1.8.3 According to a study prepared by the Tata Economic Consultancy Services for the Ministry of Food and Consumer Affairs in February 1998 based on a sample survey covering wheat, rice, sugar and edible oils, the extent of diversion at the national level was 36 *per cent* in wheat, 31 per cent in rice and 23 per cent in sugar and 55 per cent in edible oils (According to TECS's study, statistically at 90 *per cent* confidence level, the actual diversion of wheat would fall in the range of 32-40 *per cent*, rice in 27-35 *per cent* and sugar in 20-26 *per cent*.). The diversion of more than 50 *per cent* of offtake of wheat occurred in **Delhi, Haryana, Punjab, Sikkim, Assam, Meghalaya, Mizoram** and **Nagaland** and in respect of rice it was in **Bihar, Orissa, Delhi Andhra Pradesh, Assam, Meghalaya** and **Mizoram.** In **Assam** 52 *per cent* of PDS sugar was diverted. State-wise estimates of diversions of wheat, rice, sugar and edible oil are detailed in **Annex 28.**

1.8.3.1 Results of the study attributed leakages to bulk diversion from State godowns in **Bihar***,* storage and transit losses in **Delhi**, **Himachal Pradesh** and **Jammu & Kashmir**; under-weighment in **Assam**, **Delhi** and **West Bengal**; bogus units in **Assam**, **Delhi** and **West Bengal**; constant movement of the floating population in **West Bengal**; low margins and low salaries to staff working in Fair Price Shops and commission to FPS dealers in **Assam**, **Bihar**, **Himachal Pradesh**, **Jammu & Kashmir**, **Nagaland**, **Tripura** and **Uttar Pradesh**, etc.

1.9 Distribution network-Fair Price Shops

1.9.1 A network of Fair Price Shops was envisaged in the PDS for speedy distribution of foodgrains and other essential commodities of day-to-day use. The responsibility for distribution of PDS commodities to the consumers through the FPS and administration of PDS including opening of FPS rested with the state governments/UT administrations. A norm of one fair price shop for around 2000 persons was suggested to the state governments/UT administrations to ensure economic viability of FPS as lesser number of persons attached to FPS would make it economically unviable and encourage malpractices by FPS owners. However, there could be exception in view of population density, terrain of the areas, etc. Requests were made to states/UTs to ensure that no consumer/card holder had to travel more than three km to reach his FPS.

Average number of ration units tagged per FPS were less than the norms of 2000 units in 10 states rendering them economically unviable

1.9.2 Total number of 4.53 lakh FPS had been opened as of June 1999. State-wise distribution is indicated in **Annex 29**. It would be seen that while the average number of ration units per FPS for the entire country was satisfactory at around 2167 in many states it was not as comfortable. In **Andhra Pradesh**, **Arunachal Pradesh**, **Assam**, **Bihar**, **Himachal Pradesh**, **Manipur**, **Meghalaya**, **Mizoram**, **Orissa** and **Sikkim**, the average number of ration units tagged per FPS were not satisfactory which ranged between 616 and 1872 against the norm of 2000 units. The average ration units per FPS was more than 2500 in five states/one UT more than 3000 in four states and one UT; and more than 4000 in two states and one UT.

1.9.3 Test audit across the states/UTs revealed the following:

Uttar Pradesh: Against the requirement of 14024 to 18959 FPS in ten test checked districts, only 12643 to 16878 FPS existed. Shortfall ranged between 10 *per cent* and 11 *per cent* during 1993-99.

Haryana: Out of 6988 villages that required at least one FPS, only 5137 FPS, were functioning as of March 1999.

Remaining 1851 villages had no FPS.

Gujarat: In Surat, Mehsana, Godhra and Bharuch districts, the urban areas had 856 FPS against the requirement of 784. On the contrary, in the rural areas against the requirement of 2011 FPS only 1860 FPS were opened.

In Kalahandi, Koraput, Mayurbhanj, Keonjhar, Bolangir and Phulbani districts only 5172 FPS were functioning against the requirement of 7301 FPS, thereby not ensuring easy accessibility of foodgrains to the households

Orissa: In Kalahandi, Koraput, Mayurbhanj, Keonjhar, Bolangir and Phulbani districts only 5172 FPS were functioning against the requirement of 7301 FPS as of 1998. These districts had predominantly tribal population and inaccessible areas. In contrast, in Cuttack and Puri districts 746 FPS were opened in excess of requirement.

Chandigarh: 183 FPS were operating as general provision stores where foodgrains were also being sold under open sale.

Jammu & Kashmir: Against the requirement of 3791 sales centres, actual number of sales centres was 3421.

Nagaland: Against the requirement of 605 FPS, only 323 shops were functioning as of March 1999, which deprived the beneficiaries of easy accesses to ration shops.

Andhra Pradesh: In five districts Adilabad, Anantapur, Visakhapatnam, Mahboobnagar and East Godavari 65010 families were compelled to draw their quota of foodgrains from FPS not located in their vicinity due to non-appointment of dealers for running FPS. 19800 beneficiaries of 8 villages in Visakhapatnam district had to cover a distance of 10 to 15 km to draw their essential commodities from 12 FPS.

The beneficiary survey disclosed other problems with the ration shops as indicated below.

Beneficiary survey disclosed that only 48 per cent of the ration shops were opened once a week in rural areas and 16 per cent opened less than once a week in urban areas

The Beneficiary Survey disclosed that although all ration shops opened throughout the year, they were open infrequently. On an average nearly 30 *per cent* FPS opened less than once a week. In the rural areas, 48 *per cent* of ration shops opened once a week or less while in the urban areas 16 *per cent* opened less than once a week. States where the large number of shops opened less than once a week included **Bihar** : 81 *per cent*, **Jammu & Kashmir**: 70 *per cent*, **Rajasthan**: 57 *per cent*, **Punjab**: 53 *per cent*, **Orissa**: 52 *per cent*, **Uttar Pradesh**: 51 *per cent*, **Andhra Pradesh**: 41 *per cent* and **Haryana**: 40 *per cent*. Besides infrequency in opening of the shops, 26 *per cent* of beneficiaries felt that commodities were not weighed correctly at ration shops and about 19 *per cent* of consumers were ignorant of the fact that entries of quantities of rations issued were to be made in FPS registers and ration cards. In addition, about 29 *per cent* of the consumers felt harassment at ration shops across all states, primarily due to long queues or stock-out and incorrect weighing of commodities.

1.10 Excess charging from consumers - Rs 435.71 crore

1.10.1 Under the PDS, the state governments were allowed to add handling and transportation charges plus dealer's commission over and above the CIP in determining the consumer end retail price. One of the important decisions taken by the Ministry with regard to the RPDS was that CIP of wheat and rice per quintal was to be less by Rs. 50 in RPDS blocks as compared to the price of these commodities supplied under the normal PDS. Under RPDS, out of additional subsidy of Rs 50 per quintal, at least Rs 25 per quintal was to be passed on to the consumer directly and the remaining Rs 25 was to be utilised for transportation and handling charges. The consumer end retail price of foodgrains in identified areas had to be more or less uniform throughout the country and was not to exceed the specially subsidised CIP of these commodities for the identified RPDS areas.

1.10.1.1 With regard to TPDS, the state governments were asked to keep the consumer end retail price at not more than 50 paise per kg over and above the reduced CIP for BPL population. Where in exceptional cases, overheads could not be met within Rs 25 per quintal under RPDS and Rs 50 per quintal in the case of TPDS for BPL population; the state governments were to bear the additional expenditure from their own sources. In so far as the prices for the APL population are concerned, the state governments were free to fix the margin limiting it to the actual expenses incurred.

Consumers were charged Rs 435.71 crore in excess due to passing on extra expenditure to the consumers instead of absorbing these from state budgets

1.10.1.2 Scrutiny revealed that the state governments did not absorb the extra expenditure over and above Rs 25 per quintal and instead passed on the additional burden to the consumers by including higher cost of transportation, overhead charges, cost of printing of ration cards, trade tax, mandi tax, leakage allowance on kerosene oil, administrative, storage charges of edible oils, higher whole-sale/retail margins in the sale of PDS commodities available in the fair price shops, etc. Thus, the main objective of providing wheat and rice at uniform and affordable rate was not fulfilled. Sample checks disclosed that Rs 435.71 crore was over charged from consumers by the state governments since they did not follow the instructions about absorbing the additional cost as detailed in **Annex 30.**

In **Tamil Nadu**, consumers were overcharged by Rs 251.44 crore due to passing on the retail margins to consumers for foodgrains and kerosene oil, though the charges were to be borne by the State Government.

In **Gujarat** and **Tripura**, Rs 64.47 crore and Rs 5.20 crore respectively were overcharged from consumers on account of recovery of additional handling charges.

1.10.2 Undue financial benefit to millers

1.10.2.1 Keeping in view the local conditions, Government of India had permitted state governments to convert wheat into atta, maida and sujji in a limited quantity of wheat supplied monthly under PDS, with the condition that these items should be distributed through PDS outlets at prices fixed by the state governments. The state governments were not to make any profit out of it. In case of excess quantity over and above PDS requirement were sold in the open market, the differential cost between the controlled price and price fetched in the open market was to be credited to the Government of India. In any case, the quantity of wheat issued to roller flour mills was not to be more than one half of the normal allocation of PDS wheat during the month. The entire realization towards sale of bran produced in the milling was to be remitted to the Government of India.

8 states governments gave undue benefit of Rs 372.56 crore to the millers due to non-compliance of government orders

1.10.2.2 The State Governments of **Assam**, **Karnataka**, **Kerala**, **Tamil Nadu**, **Maharashtra**, **Meghalaya**, **Orrisa** and **Delhi** gave undue benefit of at least Rs 372.56 crore to the millers as they did not comply with Government of India’s instructions as per the details in **Annex 31**. Thus, while Government of India paid subsidy for the benefit of consumers, the millers made profit.

The major amount related to the Government of **Assam**, which allowed undue benefit of Rs 322.76 crore to millers by not collecting the difference between the market price and PDS price of atta from millers. Besides the TNCSC (Tamil Nadu Civil Supplies Corporation Limited) Corporation did not remit the differential cost of market price and PDS price of atta aggregating Rs 62.75 crore.

1.10. 3 Quality control

The quality of PDS commodities was perceived to be poor and in some states sub-standard quality of foodgrains were distributed

1.10.3.1 In order to ensure that foodgrains and other essential items supplied under PDS through FPS were of good quality, state governments and other agencies were required to monitor at every stage to ensure that foodgrains were of good quality and conformed to the norms laid down in the Prevention of Food Adulteration Act. The quality of the foodgrains distributed through fair price shops was to be ensured by drawing samples from the FPS and analysing them in Central Grain Analysis Laboratory. The shortcomings in regard to quality noticed during laboratory tests were to be brought to the notice of the concerned authorities for taking remedial measures.

1.10.3.2 Sample checks revealed distribution of sub-standard quality of foodgrains to the beneficiaries between May 1992 and March 1999 as detailed in **Annex 32.**

1.10.3.3 Governments of **Assam**, **Kerala**, **Orissa**, **Karnataka**, **Gujarat** and **West Bengal** issued 2.90 lakh tonne of sub-standard rice to the consumers. 8757 tonne of sub-standard wheat were distributed in **Orissa**, **Himachal Pradesh, Pondicherry** and **West Bengal**. 837 tonne of sub-standard sugar were issued in **Himachal Pradesh** and **Punjab**.

Beneficiary survey also reported distribution of average to poor quality of foodgrains to the consumers in many states/UTs. Some key reasons for poor quality as perceived by beneficiaries were too much sand/dust in rice and wheat, small stones, broken rice, bad smell, discolouring, bad taste, more husk, insects, etc.

1.10.4 Arbitrary cut in ration quota

1.10.4.1 Government of India had fixed the scale of issue of wheat and rice to households in RPDS blocks at 5 kg per head subject to maximum of 20 kg per family. Under TPDS, foodgrains at the rate of 10 kg per month per family at specially subsidised rates were to be supplied to BPL families. Any cut in the scale of ration deprived the beneficiary of the intended benefits under the scheme.

1.10.4.1.1 Sample checks of records in the states/UTs revealed following shortcomings:

Four state governments arbitrarily cut the scale of ration

Governments of **Andhra Pradesh**, **Orissa**, **Tamil Nadu** and **Bihar** had arbitrarily scaled down the prescribed ration quota and thus, deprived the beneficiaries of the subsidised foodgrains as discussed below:

In **Andhra Pradesh**, under RPDS, foodgrains was issued at the scale of 4 kg per head per month subject to a maximum of 16 kg per family during June-December 1992 against the envisaged 5 kg per head subject to a maximum of 20 kg per family and a maximum of 20 kg from August 1996 to May 1997, thereby denying the benefit of subsidy of Rs 5.48 crore on 65598 tonne of subsidised rice to 25.79 lakh households and 44011 tonne to 13.60 lakh households respectively during the two periods. Similarly, under TPDS, the State Government issued 4 kg of foodgrains per head per month at special TPDS rates subject to a maximum of 20 kg per family instead of 10 kg per household per month. This resulted in denial of 6 kg of foodgrains per month to 4.02 lakh single member households and 13.02 lakh two member households.

In Kalahandi district of **Orissa**, 3080 quintal of BPL rice for the month of November 1998 were not supplied to the BPL families due to arbitrary cut in the scale from 10 kg to 5 kg per BPL family.

In **Tamil Nadu**, against the admissible quantity of 20 kg of rice/wheat per family per month under RPDS, State Government issued at the rate of 12 kg per month per family during June 1992 to December 1995. Due to this cut, 21230 tonne of rice were distributed less in Dharampuri district, as compared to the entitlements during January 1996 to May 1997 to RPDS beneficiaries.

In **Bihar**, against the prescribed provision of 20 kg per family per month under RPDS, the State Food Corporation distributed only 14 kg due to short lifting of foodgrains every year.

1.10.5 Avoidable transportation charges

1.10.5.1 The transportation charges comprised rail, road and steamer freight incurred for movement of foodgrains from the designated base depots of FCI/rail heads. These charges were reimbursed to the state governments. The state governments were to avoid criss-cross movement of foodgrains to contain the transportation charges.

There were avoidable expenditure of Rs 41.51 crore on transportation due to criss cross movement of foodgrains , payment of higher transportation charges, etc

1.10.5.1.1 Sample checks of records of various states/UTs, however, disclosed avoidable expenditure on transportation due to criss-cross movement of foodgrains, fixation and payment of higher transportation charges, lifting of foodgrains from a longer distance, etc. involving avoidable expenditure of

Rs 41.51 crore as detailed in **Annex 33**.

In **Tamil Nadu** excess transportation charges of Rs 11.37 crore were spent due to charging of higher than the prescribed rates by cooperative societies and fixation of higher charges for transportation by TNCSC as compared to FCI rates. In **Jammu & Kashmir** the State Government incurred an additional cost of Rs 6.57 crore due to lifting of foodgrains from distant depots in four districts despite stock being available in FCI's godowns of concerned districts.

1.10.6 Construction of godowns

1.10.6.1 Under RPDS, construction of godowns for facilitating storage and availability of good quality foodgrains were contemplated. The Ministry released Rs 58.73 crore during 1983-99 to state governments/UT Administrations for construction of 551 godowns of the capacity upto 2000 tonne each, especially in the interior and disadvantaged areas to ensure timely and regular supplies of foodgrains. The Central Government provided financial assistance in the form of 50 *per cent* loan and 50 *per cent* subsidy. Sample checks of records relating to construction of godowns in 17 states and one UT revealed failure of almost all state governments in construction of godowns, or construction at locations where capacity of the existing godowns were not being utilised optimally, godowns lying unutilised, etc. as shown in **Annex 34**.

State Food Corporation in Bihar misutilised Rs 2.31 crore on liquidating its dues under cash credit with State Bank of India

In **Bihar**, Rs 11.52 crore remained unutilized with State Food Corporation, of which, the Corporation misutilised Rs 2.31 crore on liquidating its other dues under cash credit with State Bank of India.

In **Uttar Pradesh**, out of Rs. 6.23 crore released during 1995-97, Rs 5.78 crore were remained unutilised.

The Commissioner, Food and Civil Supplies, **Karnataka** withdrew Central assistance of Rs 1.32 crore and kept in PD account in February 1993, of which, Rs 45.89 lakh were released between March 1996 and January 1997 to the KFCSC (Karnataka Food and Civil Supplies Corporation Limited) and the balance was lying in PD account as of March 1999.

1.10.7 Purchase of vans

1.10.7.1 For strengthening the transportation infrastructure for distribution of PDS commodities in the rural, hilly, remote and other geographically disadvantaged areas where static and regular FP Shops were not viable or feasible, the Ministry provided financial assistance to State/UTs in the form of loan and subsidy in the ratio of 50:50 for procuring delivery vans/big trucks. Ministry released financial assistance of Rs 62.96 crore to 23 state governments and three UTs during 1985-99 for purchase of 1536 vans.

201 vehicles in 14 states remained idle due to non posting of drivers or were used for purposes other than PDS

1.10.7.2 Sample checks revealed that 201 vehicles in 14 states remained idle due to non-posting of drivers or were used for purposes other than PDS, etc., thereby defeating the very purpose for which the scheme of provision of vans was launched **Annex 35**.

Government of **Haryana** transferred all the 10 vehicles procured at Rs 40 lakh out of the Central assistance to Haryana State Cooperative Supply and Marketing Federation Ltd. (HAFED), an agency not associated with PDS.

State Government of **Himachal Pradesh** purchased two oil tankers out of the Central assistance of Rs 3.65 crore and used them for transporting POL to the petrol pumps run on commercial basis.

Government of **Karnataka** did not purchase any van out of the assistance of Rs 48 lakh. It repaid the loan of Rs 24 lakh with interest during 1994-98 but did not return the subsidy portion of Rs 24 lakh, which was not utilised for purchase of vans.

1.10.7.3 Government of **Bihar** released Rs 7.44 crore to State Food Corporation for purchase of 269 mobile vans during 1985-93. The Corporation spent Rs 5.26 crore for the purchase of 185 vans and adjusted Rs 2.01 crore on cash credit account for other purposes in 1990-91 and misutilised Rs 17.15 lakh for other purposes. The loan of Rs 1.33 crore received from the Central government and interest of Rs 1.41 crore thereon was pending recovery from the State Food Corporation. Only 36 vans were in working condition.

In **Nagaland** no vehicles were purchased out of the assistance of Rs 24 lakh received during 1992-93.

1.11 Monitoring and evaluation

1.11.1 Efficient functioning of PDS was the joint responsibility of the Central and state governments/UT Administrations. The Ministry at the Central level was responsible for ensuring 'Availability'; 'Affordability' and 'Acceptability' of the foodgrains while the state governments were to ensure `Accessibility' to the people. The state governments were also responsible for creation of efficient distribution network of retail Fair Price Shops. The guidelines contemplated supervision of the implementation and execution of the PDS at the state, district and FPS levels to ensure that foodgrains meant for the consumers of PDS commodities actually reached the targeted beneficiaries. The state governments/UT administrations were to formulate schedules of inspection of FPS and a report on findings of inspections was required to be obtained by the state governments/UT administrations for transmission to the Ministry. The District Collector/Magistrate was to hold weekly review meeting of PDS to ensure that problems or bottlenecks were identified for taking remedial measures. Secretary in charge of the PDS in respective state governments/UT administration was asked to conduct similar review meetings at least once in a month. Monitoring of activities under the scheme was envisaged also through Vigilance Committee at state/district/FPS level. At the Government of India's level, monitoring of the scheme was done through progress reports in the prescribed format submitted by the states/UTs every month.

Monitoring of PDS was lax as it failed to reach the target group in many states. Vigilance committees for supervision of implementation of PDS were not formed in many states

1.11.1.1 Scrutiny of documents relating to monitoring and inspection disclosed that the vigilance committees for supervision of implementation of PDS were not formed in **Sikkim**, **Goa** and **A&N Islands**. The committees though formed in **Assam**, **Jammu & Kashmir**, **Chandigarh**, **Meghalaya**, **Manipur**, **West Bengal**, **Andhra Pradesh**, **Orissa**, **Rajasthan**, **Karnataka**, **Himachal Pradesh**, **Nagaland**, **Tripura**, **Mizoram** and **Uttar Pradesh** were ineffective. In **Gujarat**, **Kerala** and **D&N Haveli,** the meetings of the vigilance committees were inadequate. Thus, there was absence of effective and efficient vigilance mechanism in almost all the states/UTs.

1.11.2 Evaluation studies of PDS could provide substantial feed-back on implementation. Between June 1987 and December 1997, Government of India had commissioned 8 research and evaluation studies by different agencies at a cost of Rs.30.63 lakh to assess the effectiveness of the implementation PDS, the prevalence of bogus units, pattern of offtake, extent of leakage, diversion of PDS commodities to open market, etc.

1.11.3 In addition, Programme Evaluation Organisation under the Planning Commission had evaluated the programme delivery under RPDS for the period 1992-94. The study had identified many deficiencies such as (a) proliferation of bogus ration cards, (b) inadequate storage arrangements, (c) ineffective functioning of vigilance committees, and (d) failure to issue ration cards to all eligible households etc. Further, the study had emphasized that FCI needed to improve storage facilities and strong quality control was necessary to supply good quality foodgrains. A need to improve doorstep delivery and mobile Fair Price Shop services was also emphasised. The study had also emphasized the watchdog role of vigilance committees without which it would be very difficult to operationalise PDS effectively.

1.11.4 Several shortcomings and problems in implementation as brought out in this performance audit suggest that the major findings of the evaluation studies were not acted upon in an effective manner. Kalahandi district of **Orissa** offered a microscopic insight into the deficiency of the programme implementation.

Economic backwardness and poverty of Koraput, Bolangir, Kalahandi (KBK) districts of **Orissa** had attracted nation wide attention. Kalahandi, in fact, had attracted world attention due to its recurring droughts and consequent poverty, hunger, out migration, outbreak of serious diseases and in some cases distress sale of children. Implementation of PDS in Kalahandi revealed several shortcomings and failures in almost all aspects of the implementation of the scheme.

- 3026 bogus ration cards were in circulation. Of this, 2457 BPL cards related to Bhawanipatna municipality only.
- Four blocks of this district namely Bhawanipatna, Dharmagarh, Junagarh and Kalampur declared eligible for benefits under Drought Prone Areas Programme by Government of India in 1994 were not extended the benefit of subsidised foodgrains under RPDS by the State Government.
- 2767 tonne of rice were short-lifted during 1995-96 in this district, thereby depriving 11528 consumers the benefits of subsidised foodgrains.
- In 14 Gram Panchayats in Keshinga block, subsidised rice was not distributed for 4 - 34 months during 1994-97, despite availability of stock. Similarly, BPL rice was not distributed in Bhawanipatna municipality during June 1997 to December 1998, as the Executive Officers did not supply the list of BPL persons, though allotment was received.
- Several cases of complaints were reported by BDOs, Gram Panchayats, MLAs, etc. regarding shortfall in receipt of foodgrains. This had affected distribution of subsidised rice to 123960 beneficiaries.
- Shortfall valued at Rs.15.31 lakh was noticed during physical verification in certain blocks due to non-maintenance of prescribed records and non-submission of monthly stock returns by the Marketing Inspectors functioning as departmental storage agents in certain blocks.
- CSO, Kalahandi diverted 6698.24 quintal of foodgrains valued at Rs.23.4 lakh to other schemes.

1.11.5 By adopting an Index of Efficiency (IOE), (The Index of Efficiency was derived by multiplying five different indices i.e. weighted purchase index showing proportion of purchase through PDS; weighted purchase index showing the incidence of purchase through PDS; incidence of ration card ownership showing *percent*age of ownership of ration cards; weighted quality index showing quality perception for various commodities offered in PDS; and weighted price index showing price difference between actual prices and central issue prices for rice and wheat. The index of efficiencies were calculated for each State and then appropriately scaled. While computing the index, all five indices used were given equal weightage as all of these were considered of equal importance and any additional parameter would have high degree of correlation with one or more indices.) the beneficiary survey showed that the efficiency of PDS was higher than the national average in **Andhra Pradesh, Himachal Pradesh, Delhi**, **Kerala**, **Tamil Nadu**, **Maharashtra**, **Tripura**, **Andaman & Nicobar Islands, Goa**, **Mizoram**, **Andhra Pradesh** and **Karnataka**. The efficiency was around national average in **Orissa**, **Gujarat**, **West Bengal**, **Pondicherry** and **Jammu & Kashmir**. The efficiency was lower than the scaled national average in **Haryana**, **Punjab**, **Rajasthan**, **Uttar Pradesh**, **Bihar**, **Sikkim**, **Nagaland**, **Manipur**, **Chandigarh**, **Assam**, **Madhya Pradesh**, **Daman & Diu**, **Meghalaya** and **Dadra & Nagar Haveli**. This is exhibited in the efficiency map drawn below: The survey also disclosed better efficiency in rural India and among APL across all states/Uts. The states/UTs which had lower Standard of Living Index (The standard of living index was derived from accessibility to six amenities: source of drinking water, type of house, source of lighting, fuel for cooking, toilet facility and ownership of items. Different weightages were given different levels for these amenities and the consolidated scores were scaled. for different levels.) disclosed lower index of efficiency.

1.12 Conclusion

In summary, PDS has had several shortcomings, most significant of them being targeting inefficiencies. Leakages were widespread. Ineffective implementation, poor administrative arrangements and blurred accountability structure impaired the effectiveness of delivery. Distribution infrastructure and the quality of foodgrains supplied needed significant improvement. Besides, under PDS, per capita entitlement was inadequate and per capita offtake was still worse. It delivered food at highly subsidized cost to poor in the states, which provided additional subsidy, but state governments, which had the highest population of poor, and incidence of poverty did not fully utilise PDS. This impacted on the efficacy of PDS.

The basic pitfalls of the scheme were mostly in design.

a) Universalisation of the scheme making every one eligible made the scheme very expensive without any perceptible benefit,

b) Selective targeting in a universal programme is bound to fail as borders become seamless. Many APL become BPL for the purpose of the enjoying additional subsidy. This pushed up the cost of the scheme without necessarily benefiting only the targeted group,

c) Successive increases in Minimum Support Prices, sometimes more than the market prices tended to benefit the producers and farmers more than the consumers. These increases coupled with the inefficiencies of handling by the food corporation of India had a spiraling effect on the subsidy bill,

d) The obligation thrust on FCI to procure all offered grains at MSP, irrespective of the requirement led to unnecessary carrying cost of the huge buffer stock, and

e) A massive universal programme of this nature needed continuous and intensive supervision and monitoring on a countrywide basis, this is a mammoth task, not under taken seriously. Thus, much of the leakages that could have been arrested by proper vigilance, continued to happen.

Overall, the benefit to the consumers in terms of food availability, income transfer, coverage of the needy and nutrition support did not accrue. However, the government incurred enormous expenditure for these very objectives over the years.