

A grain of sense

INCLUSIVE economic growth is a political, economic and social necessity. The question is: what is the right strategy to ensure this? Most of our programmes to help the underprivileged have suffered from leakages and inefficiencies, so that the benefits have not accrued to the targeted groups but the strain on our fiscal deficit remains. Subsidies are a classic example of this failure. The task of distributing them is colossal and we have not been able to arrive at a proper system. This article will focus on the issues with the creaking public distribution system (PDS).

The PDS assumes greater importance with the passing of the National Food Security Act, which entails a manifold increase in food-grain distribution. It would be unable to meet the objective of food security even with substantial investment. The former chairman of the Commission for Agricultural Costs and Prices estimates a minimum investment of Rs 6.8 lakh crore in production and infrastructure over the next three years to make the system work well. This is in addition to the Rs 1.15 lakh crore budgeted for subsidies this year, considered by most analysts to be a conservative figure. From a fiscal perspective, this seems unviable.

The problems with food distribution have always seemed too large to tackle, and the programme doomed to inefficient execution. The choice has been to live with it or dismantle the system altogether.

But there seems to be a middle path. Recently, the Kellogg business school-educated Adesh Pratap Singh Kairon, food and civil supplies minister of Punjab, updated us on the new PDS that the state had introduced to address the shortcomings of the prevailing system. The system he outlined was elegant, simple and effective. While it underlines the need for administrative and process reforms, it also highlights the fact that there are workable solutions to improve the system.

Today, the PDS operates through a network of approximately 5.3 lakh fair price shops, which reach out to more than 90 crore people. There is a multilevel process in place, through which the Centre and the states share the responsibilities of procuring and disbursing grain. But a World Bank study showed that just 41.1 per cent of the grain reaches the intended beneficiaries.



How Punjab is making the best use of the flawed public distribution system

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The Punjab food and civil supplies ministry has studied the process changes required to ensure efficient implementation. In Punjab, the process used to start with *artiyas* or commission agents aggregating wheat from farmers and selling it to the procurement agencies in the mandi. This grain was bought by five agencies from 1,750 mandis across Punjab. These would supply the wheat to the Food Corporation of India (FCI), where it would be stored in Central godowns. The government would then release the monthly quota through the FCI, which transported this stock back to the state depots. Finally, at the state depot, the grain was distributed to the end users.

This multilayered process had several drawbacks. First, the grain had to move from the farmer to the

food security programme, the situation looks grim. But I take heart from the initiatives of states like Punjab, which have initiated reforms to address the gaps. While the Centre plays a big role in implementing the PDS, states have the flexibility to customise it to meet their own priorities.

Punjab, in recent months, has completely overhauled the method of procurement and distribution. Under the new process, wheat is procured from the farmer through *artiyas*, who then sell it to the mandis. But that is where the similarity with the previous system ends. Rather than transporting the wheat to an FCI warehouse, this grain is packed in 30 kg bags, equivalent to six months' requirement for one beneficiary. These packages are then delivered directly to the villages from

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Centre and then back to the state before it was distributed. This involved heavy transportation costs. Further, the FCI has insufficient storage space and has to incur additional costs to build warehouses or hire them. Then there are the costs of fumigating and preserving the wheat at the Central godowns.

Due to this lengthy process, the grain that was finally disbursed would often be of old stock or of poor quality, particularly if the preservation process had been inadequate. This is still common across the country. Research by independent evaluators shows that, at the national level, the government spends Rs 3.65 to deliver Re 1 of subsidised food and just 40 per cent of the disbursed food is usable.

If this grossly flawed system is flogged to meet the needs of the

mandi, where the food and civil supplies inspector distributes it to the BPL families, in the presence of the depot holder, at Re 1 per kg. This quota is released twice a year rather than on a monthly basis, and end users are issued blue cards — ration cards that rely on data and photographs available directly from the UID portal. This innovative measure ensures that the grain reaches the intended beneficiary.

This change in the supply chain has immediate positive repercussions. The beneficiaries get fresh wheat that has been procured from a nearby mandi. The quality of the grain is far superior to what they received under the earlier system. With the grain being delivered just twice a year at predetermined times, the state spends far less on distribution and storage costs are almost eliminated.

Initial reports suggest that, on the whole, the Punjab government will save Rs 190 per quintal of wheat disbursed. This includes savings on transportation, administrative costs, maintenance and custody charges. Taking into account the fact that the state government distributes approximately 87 lakh quintals annually, this translates into savings of roughly Rs 165 crore each year.

Punjab is not the only success story. Other states have also customised the PDS to reap more benefits. Tamil Nadu has a universal PDS, which entitles every household to subsidised grain, thus reducing the incentive for last-mile shops to sell grain at market prices. States such as Chhattisgarh and Madhya Pradesh have implemented IT measures to modernise the PDS, digitising ration cards, using point of sale terminals to record transactions and the GPS to track delivery.

But this is just part of a larger overhaul that our procurement and distribution system needs. Take the minimum support prices (MSPs) declared by the government for key crops. If the objective of hiking MSPs is to improve the lot of poor farmers, the question we need to ask is whether farmers indeed get paid these prices. Improvement in the distribution of subsidies and the procurement of food is just one way of achieving inclusive growth. The implementation of a land or land holding policy in rural areas could also go a long way in achieving this end.

Major reforms are also warranted in the case of perishable commodities. The Agricultural Produce Market Committee Act that governs the sale of fruit and vegetables leads to the centralisation of purchase and the creation of a needless chain of intermediaries. It also leads to enormous wastage. This must be addressed immediately, given that inflationary spikes are the sharpest for perishables.

If we implement the right administrative and process reforms, we can eliminate wastage and inefficiencies, and move a step closer to reaching subsidies to the intended beneficiaries. Associated changes like legal leasing and the overhaul of the APMCs will help in the better movement of food from farm gate to plate.

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