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REAL TARGETING
THE CASE OF FOOD DISTRIBUTION IN INDIA

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REAL TARGETING

THE CASE OF FOOD DISTRIBUTION IN INDIA

Jos Mooij[1]

Abstract

This paper discusses the objectives and practice of targeting of food subsidies, widely promoted and sometimes imposed by the World Bank in its attempt to reduce government expenditures in developing countries. The case studied is the Public Distribution System (PDS) in India, a large-scale rationing programme of subsidised foodgrains. For a long time this programme distributed foodgrains more or less to the whole population, but forced by an ever increasing subsidy burden as well as World Bank pressure the Government of India decided in 1997 to introduce targeting. The paper investigates the impact of this decision in two different contexts: in Bihar, a North Indian State, where the decision meant an increase of foodgrains to be distributed, and in Karnataka, a South Indian State, where the decision meant a sudden reduction of subsidised food. The focus of this analysis is especially on the administration and institutions involved in food distribution. The paper concludes that targeting may seem a very attractive idea, but that, as far as the PDS is concerned, it is unlikely to solve the problem it is meant to solve and that it may have several disadvantages, once implemented. It is therefore not advisable to regard targeting as a standard recipe to be implemented in all those countries which practise universal food subsidies and which have to correct their budgetary deficits.

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Targeting involves the identification and selection of certain groups or households or even individuals, and the distribution of benefits to them. In the present discussion in economic literature and policy documents, targeting is always about social services or subsidies and the poor or the vulnerable. The idea to target social provisions to these sections of the population is not new, but it is especially in the past 10-15 years that it has gained great popularity, among international agencies as well as national governments. The UNICEF publication *Structural Adjustment with a Human Face* in 1987 has helped to put targeting high on the political agenda. It regarded targeting as one of the main elements to protect the most vulnerable groups in times of economic adjustment (Cornia et al, 1987). The World Bank is also very much in favour of targeting, and regards it as an important policy instrument in reducing government expenditures. The 1997 *World Development Report*, for instance, while discussing issues and lessons regarding food subsidies, states that "[o]pen-ended price subsidies are fiscally unsustainable, distortionary, and regressive" and that "[l]eakages can be prevented by innovative targeting" (p. 56).

As in many other developing countries, including India, targeting of general food subsidies became an important issue in political debate. India has an almost universal food rationing programme, the Public Distribution Scheme (PDS), which has been criticised by many observers for being too costly and ineffective. Especially after 1991, when India adopted a Structural Adjustment Programme, the critiques have become more influential. Targeting of the subsidies has been proposed several times by various scholars and policy makers, but it was never introduced in a rigorous manner. In 1997, however, the Government of India converted the universal PDS in a so-called Targeted PDS (TPDS), meant to serve especially those families whose income is below the poverty line.

The main objective of this paper is to analyse the introduction of the TPDS. I will argue that the perceived necessity to introduce targeting is not based on a proper analysis of the problems with the PDS in the past. The concept of targeting has a 'magic charm', which has very little to do with actual achievements. The paper evaluates the introduction of targeting in two different Indian States: Bihar in North India and Karnataka in South India. The experiences are quite different because Bihar suddenly got much more subsidised food to distribute as a result of the new policy, while Karnataka received much less than before. Yet in both States, the introduction of targeting proved to be problematic.

The paper consists of four sections. In the first section I will discuss the general idea of targeting and some of its advantages and problems. There are many studies which emphasise that targeting is difficult and has several disadvantages, but this has little impact on the popularity of the concept among policy makers. The second section is about food distribution in India. It discusses the programme and the contested conversion of a universal system into a targeted one. Section 3 discusses the experiences and problems in two different Indian States. The fourth section draws some conclusions regarding the popularity of targeting in India and the difficulties in the implementation process. In view of these, the paper concludes that there is no reason to regard targeting as a panacea to be implemented in all those countries which practise universal food subsidies and which have to correct their budgetary deficits.

1. The objectives of targeting

The basic idea behind targeting is that general subsidies should be removed becuase they subsidise the better-off as well as the poor. Instead, subsidies should go especially to the most vulnerable sections of the population who need these subsidies most. This idea is based on a simple economic principle. When the costs of reaching whichever individual are the same while the poor gain most from a unit of subsidy, then subsidies are most efficiently used when they are channelled especially to the poor (Alderman, 1991, p. 175).

This idea of targeting is very appealing since it cuts both ways. Targeting is a way to reduce the costs of a particular intervention, while at the same time increasing its effectiveness. It is a means to re-allocate scarce state resources to the poor and vulnerable, which increases effective use of subsidies or resources *and* it reduces state expenditure. An additional advantage is that the removal of general subsidies is supposed to reduce price distortions, something which is also regarded as worth pursuing.

The increasing popularity of targeting in the past one or two decades is not only related to a growing concern with the poor but also to an increasing worry about government expenditure and budgetary deficits. Targeting is always proposed in the context of economic adjustment. On the one hand, almost everywhere economic adjustment has (had) significant social costs. Many governments introduced compensatory measures -- or 'social safety nets' -- in order to mitigate these costs (Vivian, 1995, p. 1). Targeted social policies are usually part of these safety nets. On the other hand, economic adjustment involves bringing down government spending. One of the ways to do this is to cut down on subsidies, for instance by targeting them.

There are two important underlying assumptions in most literature which proposes targeting. The first is that economic adjustment is taken for granted. A reduction of government expenditure is deemed necessary, or in any case inevitable. The second one is that of a benevolent government. The argument in favour of targeting is grounded in traditional welfare economics (Mackintosh, 1995, p. 27), the focus of which is on what governments *should* do (and not on what they actually do, and why). Although it is implicitly acknowledged by many advocates of targeting that governments may have to be forced to make a decision in favour of targeting (otherwise conditionality would not be necessary), it is assumed that governments strive to improve equity and effectiveness of policy and are therefore willing to introduce targeting.

There are many studies which have shown the difficulties of targeting in the real world (Burgess and Stern, 1991). They have stressed that targeting may be the best theoretical solution in an ideal world, but that "the real world is not so straightforward" (e.g. Besley and Kanbur, 1993, p. 67). To start with, the selection of beneficiaries is a difficult process which may involve considerable costs and, due to its discretionary nature, makes the targeted schemes prone to corruption (Messkoub, 1992, p. 195). The problems with the selection process vary with the type of targeting. Screening is much easier in self-targeted schemes (e.g. public employment works) than in schemes which require a means test or anthropometric measurement. Similarly, the screening process is relatively simple in the case of geographical targeting and targeting on the basis of age- and status-related needs. The disadvantage of these forms of targeting is, however, that also non-deserving individuals (e.g. rich people who happen to live in a so-called backward area) are included, while other deserving individuals (e.g. poor people in developed regions) are excluded.

These two types of errors are, what Cornia and Stewart (1993) have called, E-mistakes and F-mistakes. An E-mistake involves excessive coverage. People who do not belong to the target population are nevertheless included. A F-mistake is the failure in the prime objective of the intervention. Those who deserve to be included are not reached. Interventions which are not or poorly targeted suffer mainly from E-mistakes, but narrowly targeted schemes may have a larger proportion of F-mistakes. As Cornia and Stewart argue, "pursuit of low E [which is what targeting is usually about] tends to raise F-mistakes because some of the target group tend to be eliminated from the scheme along with the non-target population" due to lack of information, costs involved to become included, social stigmas etc. (Cornia and Stewart, 1993, p. 461). The two errors are, of course, of a very different nature. As Swaminathan (1997, p. 14) rightly states, E-mistakes present only a fiscal problem, while F-mistakes are about needful people wrongly excluded.

Apart from these difficulties in the screening process, people may also do or abstain from doing particular things in order to become eligible. This phenomenon is called the 'incentive effect' in the literature (e.g. Besley and Kanbur, 1993; Drèze and Sen, 1989; Grosh, 1994). For instance, as Drèze and Sen (1989, p. 110) note, "[p]articularly in a famine situation, it must be all too tempting for a household to 'ensure' that at least one child remains undernourished in order to retain eligibility for support". Similarly, geographic targeting may be an incentive for some people to migrate to another place.

Another problem related to targeting has to do with the political support, or lack there-of, for schemes that are strictly targeted. "[I]f a universal program is (...) removed and a targeted program substituted, the poor would be isolated in terms of political alliances" (Besley and Kanbur, 1993, p. 74). This argument is further developed by Skocpol (1995), whose main concern is the political viability of anti-poverty and welfare programmes. She argues that targeted programmes may suffer from lack of political support, while "universal programmes may be more sustainable in democracies, even if they are more expensive than policies targeted solely on the poor or other 'marginalised' groups" (Skocpol, 1995, p. 253). Echeverri-Gent (1988, 1993) makes a similar point. Social policies that address only one constituency are more vulnerable. When there are no broad political coalitions in support of them, it is much easier to disestablish them in times of fiscal stress (Echeverri-Gent, 1993, p. 197).

Other authors refer to the legitimacy of the government, which may be at stake (Hopkins, 1988; Mooij, 1996). Food subsidies may have become part of a kind of social contract between state and citizens. When food subsidies are perceived as a right, the introduction of targeting will be very difficult, and may have political costs (Hopkins, 1988).

In short, there is a considerable literature which suggests that 'real targeting'[2] is difficult and is likely to differ from the abstract models and simulations.[3] Nevertheless, under pressure of economic adjustment, the advantages of targeting are attractive and difficult to resist by policy makers. In this light, it is not surprising that "[t]argeting has come to be seen as a panacea in poverty alleviation" (Besley and Kanbur, 1993, p. 67).

2. The Public Distribution System in India

Characteristics of the Public Distribution System

The origins of the Indian public food distribution system (PDS) can be traced back to the Second World War and the Bengal Famine in 1943, when the colonial government felt the need to develop a food policy for the country. Over the years the system expanded enormously, in area covered, in quantity of foodgrains handled and in costs involved (Bapna, 1990; Bhatia, 1991; Chopra, 1988; Mooij, 1998). A major breakthrough came in 1964-65 with the establishment of two institutions: the Food Corporation of India and the Agricultural Prices Commission (now Commission on Agricultural Costs and Prices). The former is a large parastatal trading corporation responsible for procurement, storage, transport and distribution of foodgrains. The latter advises the Indian Government on pricing policy for agricultural commodities. Since the mid-1960s, PDS serves several objectives simultaneously, namely a) to cope with emergency situations, such as droughts; b) to distribute food at fair prices to vulnerable people; and c) to guarantee remunerative prices to farmers (Mooij, 1996).

During the last decade, the PDS involved about 10-15% of the total production of foodgrains in India, which comes down to between 11 and 19 million tonnes per year. The whole system is based on domestic procurement, and not on imports. The Government of India procures

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2. The term 'real targeting' is reference to the work of Mackintosh (1990) and others on 'real markets'.

3. For various types of models or simulations, see e.g. Baker and Grosh (1994), Besley and Kanbur (1988), Binswanger and Quizon (1988).

foodgrains in areas with surplus production. The prices are set at a level attractive to farmers. In this way, the PDS has been instrumental in raising foodgrain production in the country.[4]

Procurement of foodgrains takes place mainly in the food surplus regions in North India. The food is then stored and/or transported to other parts of India. Within the various States the PDS foodgrains are sold to consumers in fair price shops. Households who hold rationcards are entitled to purchase a certain quantity of the commodities. The shops are usually run by individuals who sell these foodgrains for a fixed price, and earn a commission for themselves. Sometimes rationshops are run by Cooperative Societies or the State Food and/or Civil Supplies Corporations.

Before the introduction of targeting in 1997, distribution was very unevenly spread over the country. See table 1. Kerala was the State which benefitted most of foodgrain distribution between the mid 1980s and the mid 1990s, while a very poor State like Bihar hardly benefitted. The average all India per capita distribution in the 1990s was about 16 kilos per year.

Distribution within some States was also uneven (Tyagi, 1990; Jha, 1992). In the initial decades, food was mainly distributed in the cities, but in the course of the 1970s and 1980s the PDS ruralised considerably. At the end of the 1980s, approximately 75 per cent of the ration shops were located in rural areas (Government of India, 1992, p. 53). More than 70 per cent of PDS rice and more than 55% of PDS wheat was sold in rural areas (NSS, 42nd round 1986-87).[5] Still, there are States where PDS does hardly exist in the rural areas.

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4. Apart from foodgrains, the system also includes sugar, kerosene, sometimes edible oil and occasionally even sarees and dhotis. Since these commodities are much less important and essential -- from the perspective of the PDS infrastructure and management, from that of the consumers, and in the discussion about targeting -- this paper focuses only on foodgrains, that is rice and wheat.

5. But it may be that 'rural area' also includes local towns. The NSS reports do not clearly define the terms 'urban' and 'rural'. Generally, the issue of 'urban bias' in the PDS is a contested issue. Recently two pairs of researchers have investigated the issue on the basis of the same NSS data. Dev and Suryanarayana (1991) concluded that "there is no single criterion by which one can unambiguously state whether the PDS is urban biased or not" (p. 2361). The criteria used in this study were a) per capita quantities purchased from the PDS, b) per capita consumption from the PDS, c) the relative dependence on the PDS, and d) the extent to which the PDS meets the needs of those who depend on the market for their food provisioning. A second pair of researchers, Howes and Jha (1992), used different measures of urban bias, namely a) per capita quantities consumed, b) per capita subsidy implied in purchase of rationed goods, and c) accessibility of the PDS. Their conclusion is that "an overall urban bias is present in half of the 18 states (...). Three states (...) show a rural bias. The other six show mixed results" (p. 1072). Both pairs of researchers have worked with a narrow conception of urban bias as only the rationing side of PDS is included. The effects of government procurement and foodgrain price policy on farmers' incomes -- and hence on intersectoral relations -- are left out.

Table 1 State-wise distribution of PDS foodgrains and poverty

States	Average annual lifting of PDS foodgrains (1986-1996) (thousand tonnes)[a)]	Per capita distribution of foodgrains 1993-94 (kilos per year)[b)]	Percentage of people below the poverty line[c)]
Andhra Pradesh	2396	33	22
Bihar	527	6	55
Gujarat	801	13	24
Haryana	97	5	25
Karnataka	900	18	33
Kerala	1776	63	25
Madhya Pradesh	481	6	43
Maharashtra	1489	13	37
Orissa	426	12	49
Punjab	24	1	12
Rajasthan	662	13	27
Tamil Nadu	1011	19	35
Uttar Pradesh	661	4	41
West Bengal	1454	19	36
INDIA	15309	16	36

a) Source: Government of India, 1997a, Annexure-II

b) Source: Radhakrishna et al, 1997, table 3.7

c) Source: Government of India, 1997a, Appendix-IV

In some States special programmes for the poorest people have been introduced during the past two decades, like Food for Work programmes, Noon-Meal schemes, special schemes for the rural poor, for the urban poor, for tribal people, etc. These schemes have introduced an element of targeting within public distribution policy, since they aim to guarantee that part of the foodgrains reach the most needy people. Still, the overall framework remains that of a universal programme. These special schemes have not lead to the exclusion of other categories of consumers (non-poor, non-tribal etc.), as they exist alongside the 'normal' PDS.[6]

6. In fact, it can be argued that some of these schemes made the PDS only more universal. In Karnataka, for instance, there was a special scheme for the poor, which allocated around 40 per cent of the

The PDS in India is made possible by a subsidy from the Government of India. The subsidy was negligible till the end of the 1960s, but since then it has increased steadily. By the mid 1990s, the food subsidy was more than 50.000 million rupees, which is about 3 per cent of the total government expenditure of the central state, and about 0.6 per cent of the Gross Domestic Product. The rise of the subsidy seems enormous, but usually it is regarded only at current prices. At constant prices, as percentage of GNP and as percentage of total government expenditure, the situation is less dramatic. Periods of rising subsidy have alternated with periods of reduction, as is clear from table 2.

The subsidy is the difference between the costs of procurement, storage and distribution on the one hand, and the proceeds from the sale of foodgrains on the other. A substantive amount of the subsidy is due to the carrying charge of the buffer stock by the FCI. In the beginning of the 1990s this was about 13 per cent of the total food subsidy, but after 1993, when offtake came down but procurement continued, it rose to approximately 45 per cent (Radhakrishna et al, 1997, Table 3.2). This is the main reason for the exceptional increase in the subsidy in the years 1993-94 and 1994-95.

The remaining part of the subsidy is sometimes called consumers' subsidy, but this term is slightly misleading. The procurement prices are set at a level which is attractive to farmers. Since the 1970s there is no distinction made between the Minimum Support Price and the Procurement Price. The result is that the procurement price is a floor price and has an upward effect on the market price. The FCI has taken the obligation to procure whatever is offered to it: at times this was more than it could handle or than there was demand. At various levels, rich farmers' lobbies are influential in the price setting (de Janvry and Subbarao, 1986; Radhakrishna and Hanumantha Rao, 1994; Varshney, 1993). In the first half of the 1990s, there have been some steep rises in the procurement prices. By and large, they have been followed (or even by-passed) by rises in FCI issue prices (Swaminathan, 1996).[7] All this suggests that the food subsidy is not only a consumers' subsidy, but that the producers benefit too, perhaps even to an increasing extent (Radhakrishna and Hanumantha Rao, 1994).

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foodgrains to the poorest 40 per cent of the population, thereby contributing to a more equal spread of the benefits of the PDS (Mooij, 1996, p. 78).

7. The issue price is the price at which the FCI sells the commodities to the PDS wholesalers.

Table 2 Central Government Food Subsidy

Year	Expenditure (Rs. millions)		Food subsidy as percentage of	
	At current prices	At 1980-81 prices	GNP	Total government expenditure
1980-81	6500	6500	0.53	2.89
1981-82	7000	6349	0.49	2.76
1982-83	7100	5961	0.45	2.33
1983-84	8350	6466	0.45	2.32
1984-85	11000	7927	0.53	2.51
1985-86	16500	11032	0.71	3.11
1986-87	20000	12511	0.77	3.12
1987-88	20000	11506	0.68	2.84
1988-89	22000	11703	0.63	2.70
1989-90	24760	12172	0.61	2.60
1990-91	24500	10863	0.52	2.33
1991-92	28500	11018	0.53	2.53
1992-93	28000	9903	0.45	2.22
1993-94	55370	17871	0.78	3.80
1994-95	51000	14920	0.61	3.01

Source: Radhakrishna et al, 1997, Table 3.1

Financial considerations and the introduction of targeting

For quite some time, the PDS was seen as a given, as an essential component of India's food security policy. However, in the wake of the Structural Adjustment Programme which was introduced in 1991, the PDS has been increasingly criticised. The main bone of contention is the subsidy, which is considered unsupportable (e.g. Bhagwati and Srinivasan, 1993; Randhawa, 1994). Furthermore, it is stated that there are considerable leakages. Food that is meant to be sold at fair prices in ration shops sometimes never reaches the cardholders because it is lost or sold illegally to others (Ahluwalia, 1993; Mooij, 1996). Another point of critique is related to the persistence of malnutrition. Despite the huge subsidy and the large scale of this intervention, the food security of many vulnerable households is still marginal or insufficient. Distribution to the

States has not been proportionate to the number of poor people in each State, and within States the available supplies have not gravitated in favour of the poor (Tyagi, 1990).[8]

In an attempt to bring down the subsidy, the Government of India has raised the PDS retail prices several times in the first half of the 1990s (but never considered to bring down procurement prices). Ironically, this only added to the problems. It meant that the price difference between PDS foodgrains and open market foodgrains came down and that the willingness of consumers to buy PDS commodities decreased subsequently. Since procurement continued, the result was an unprecedented high stock level, which further added to the subsidy bill. In 1995-96 part of the stocks have even been exported (Ghosh et al, 1996).

All this only added to the feeling that drastic measures were needed. The system was said to be 'in crisis'. It should be 'revamped', 'streamlined', 'pruned' or 'made viable', to mention a few of the terms that figured in newspaper articles and policy discussions in the 1990s. The solution proposed by the Government of India in 1996 was to introduce targeting: to convert the universal PDS into a Targeted PDS (TPDS).

This solution as such was not new. In fact, it had been proposed already many times before by the World Bank, policy makers and economists.[9] However, until 1996 targeting was never introduced, except in complementary programmes. Within India there was considerable opposition, and each time a concrete policy proposal was made to exclude the affluent sections of the population from the PDS, there had been a public outcry, and the proposal was consequently neglected.[10] For a long time, continuing the system with its problems was regarded as preferable to the introduction of radical changes. In view of the political character of food, this attitude is not surprising. In a country with approximately 300 million people living below the poverty line, food is a contested commodity. Cheap foodgrains are absolutely essential for the survival of these people.

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8. Although some of the critical points mentioned above could have been voiced ten or fifteen years ago, and indeed were (e.g. Harriss, 1983), the critique of the PDS has become more outspoken and widely shared in the 1990s.

9. See, for instance, Ahluwalia (1993), Bhagwati and Srinivasan (1993), Pal et al. (1993), Venugopal (1992), World Bank (1991).

10. This happened, for instance, in 1993, when a committee proposed to exclude income tax payers and other better-off sections of the population from the PDS. The State governments "raised a hue and cry". The matter was referred to the National Development Council, and nothing happened. (Gargi Parsai in *The Hindu*, 6.2.1994).

Any government which does not realise the importance of food risks being outvoted for exactly this reason. So, for some time, nobody dared to burn his hands on the issue of the PDS.

However, in the wake of the Structural Adjustment Programme introduced in 1991, the political climate began to change. The political discourse shifted somewhat from one which mostly centred around poverty and welfare issues to one which increasingly (but far from exclusively) focuses on financial sustainability (Mooij, 1995). In any case, in 1996 the United Front government[11] decided to introduce targeting, probably assuming that there was still a long time to go till the next elections (which proved to be mistaken - but they could not foresee by then).

The new policy presents all the characteristics of a compromise. It restricts the subsidy to the poor, but does not exclude the non-poor for the moment. It is introduced to contain the food subsidy bill, but the total costs are only rising (even "exploding", according to recent newspaper reports). These contradictory characteristics have a lot to do with the different political interests: the Finance Ministry wanted reforms that will cut back subsidies eventually, while the Left Parties who were part of the coalition government insisted on the supply of subsidised prices of foodgrains for the poor (Chandrashekar, 1997) and no politician had an interest in a drastic reduction of the PDS.

The TPDS involves a subdivision of the whole population in two sections: BPL families and APL families, where BPL means below poverty line and APL means above poverty line. The policy is that BPL families receive 10 kilos of foodgrains per month at subsidised prices, while APL families receive a variable quantity for a higher price, and only during a transition period.

This new policy implies not only a re-allocation of foodgrains between BPL and APL families, but also a re-allocation of foodgrains between the various States in India. See table 3. The new allotment of foodgrains to the States is based on the number of households below the poverty line. In all States the allotment of foodgrains has decreased as a result of the new TPDS. However, in some cases, the official allotment has decreased, but the objective is to raise the actual supply to these States. Bihar, for instance, lifted less than a quarter of the allotted quantity in 1995-96.[12]

11. This government was a coalition between various regional and leftist political parties. It had come to power in the middle of 1996 and fell in December 1997.

12. The allotment to Bihar was 1.087.000 tonnes in 1995-96, while the State lifted only 251.000 tonnes (based on Radhakrishna et al, 1997, table 3.6).

Under the new scheme it is likely (and supposed) to lift more. There will be more pressure on poor States to do what they can to enhance the use of the Public Distribution System. Moreover, the demand for PDS foodgrains will probably go up, that is, especially for the BPL foodgrains which have become cheaper. In short, some States, with high levels of poverty but relatively little food distribution so far, are likely to benefit from the new policy, while other States with lower levels of poverty and higher levels of PDS in the past will receive less foodgrains.

The TPDS does not immediately mean a reduction of the government subsidy. In the 1997-98 budget there was still an amount of 75000 million rupees allocated for the PDS. It is even so that as long as the APL allotment continues the policy only means an increase in overall subsidy, since the prices of foodgrain for the BPL families have been cut drastically. Nevertheless, the objective is that once the new system is introduced, it will be instrumental in bringing down the food subsidy bill.

Immediately after its introduction, the Targeted PDS met with much critique. Apart from some of the points mentioned in the previous section, it is argued that States with a well functioning universal system (like Kerala) are penalised, because their allotment is reduced considerably. The quantity allotted to BPL families is considered as insufficient. Furthermore, even when properly introduced, the new system excludes those families which are just above the poverty line but nevertheless very vulnerable. (See various articles in *Frontline*, 31.10.1997.)

Table 3 Reallocation of foodgrains as a result of TPDS

		Before Targeting		*After Targeting*	
State	Percentage of people below the poverty line[a)]	Allotment of foodgrains in 1995-96 (thousand tonnes)[b)]	Allotment for BPL families (thousand tonnes)[c)]	Additional allotment for APL families (thousand tonnes)[c)]	Total BPL and APL (thousand tonnes)
Andhra Pradesh	22	2812	392	2005	2397
Bihar	55	1087	1031	--	1031
Gujarat	24	1244	239	562	801
Haryana	25	263	88	9	97
Karnataka	33	1803	345	555	900
Kerala	25	2385	184	1592	1776
Madhya Pradesh	43	1164	640	--	640
Maharashtra	37	1958	725	764	1489
Orissa	49	1210	382	45	427
Punjab	12	172	52	--	52
Rajasthan	27	1506	260	402	662
Tamil Nadu	35	1900	549	461	1010
Uttar Pradesh	41	1735	1146	--	1146
West Bengal	36	1955	559	895	1454
INDIA	36	25564	7038	9448	16486

a) Source: Government of India, 1997a, Appendix-IV

b) Based on Radhakrishna et al, 1997, table 3.6

c) Source: Government of India, 1997a, Annexure-II

3. Contrasting experiences of targeting in Bihar and Karnataka

This section looks at the impact of targeting at the local level. How is the TPDS introduced, and what has been its impact? The section looks at two States in particular, Bihar and Karnataka. These

States experience different effects. Food distribution in Bihar is supposed to go up as a result of TPDS, while Karnataka experiences a serious cut in foodgrain allocation.

Bihar is a north-east Indian State with approximately 96 million inhabitants. It is one of the poorest and most backward States in India. It has a per capita net State domestic product of Rs. 3816 in 1994-95 (while the per capita net national product of the whole of India was Rs. 8281 in the same year). The literacy rate in 1991 of people above 7 years old is 38 per cent (52 for males, 23 for females), while the all India average is 52 per cent (Government of India, 1997b, Appendix tables 1, 8 and 9.2). In more qualitative terms, the situation is also rather bleak. The State is largely by-passed by industrialisation. There are violent caste conflicts in the rural areas, resulting in occasional massacres, and Bihari politics is dominated by a number of very corrupt politicians. Poverty is widespread. According to the Lakdawala estimates, 55 per cent of the population lives below the poverty line.

Karnataka is more developed in several respects. Its per capita net state domestic product, Rs. 8082 in 1994-95, comes very close to the all India figure. The literacy rate in 1991 was 56 per cent (67 for men and 44 for women) (Government of India; 1997b, table 1, 8 and 9.2). Karnataka houses several industries, the most notable of which is the computer industry. In the rural areas the economic and social relations are less polarised than in Bihar. According to the Lakdawala estimates, 33 per cent of the population lives below the poverty line.

A major difference between Karnataka and Bihar is related to the role food plays in state politics. In 1985 the Government of Karnataka introduced the Green Card scheme, which involved an additional food subsidy to the poorest people. Since then food prices are an issue in State politics. Politicians try to enhance their popularity by revitalising this scheme, re-issuing ration cards and things like these. People in Karnataka have a sense that they have a right to food and that governments have a responsibility to guarantee food that is reasonably priced (Mooij, 1996).[13] In Bihar food has never played a role in state politics, and there is no such feeling as a right to food.

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13. In all South Indian States food plays a considerable role in State politics. In fact, the sense of a right to food is stronger developed in Kerala than in Karnataka. The governments of Andhra Pradesh and Tamil Nadu have introduced very costly schemes, meant among other things to show that the politicians are very concerned with the poor.

The following sections are based on fieldwork and interviews in October/November 1997 (plus earlier work in 1991-92). Although this is very briefly after the introduction of the new policy, a number of difficulties of 'real targeting' are already very clear.

Targeted Public Distribution System in Bihar

Bihar is not only one of the poorest States of India, it is also one of the States which used to be least covered by the Public Distribution System. See table 1. This changed with the TPDS. The new allotment to Bihar is almost twice as much as what the State used to lift on average from the PDS in the past ten years before the introduction of targeting.

At first sight, this seems a positive thing. Since Bihar is one of the poorest States, it deserves a fair amount of subsidised food, one would argue. It is, however, important to realise that Bihar used to lift only a portion of what was allotted to the State. In 1995-96 the actual supplies to the State were even less than a quarter of the allotment. So, Bihar used to make very bad use of the PDS in the past.[14]

Apart from this poor use of the PDS, there were other defects in the PDS. Ahluwalia (1993) calculated coverage, targeting and leakages of the PDS in the Indian States. He found that in Bihar only about 50 per cent of the foodgrains[15] are distributed in rural areas (where more than 85 per cent of the population lives), while he found no urban bias at the all-India level. Less than 40 per cent of the foodgrains goes to the poorest 40 per cent of the people (at the all-India level this was about 50 per cent of the foodgrains). And most strikingly, the leakages in Bihar are not less than 83 per cent (38 per cent for the whole of India). This means only 17 per cent of the foodgrains that are lifted from the Food Corporation of India reach the cardholders. The rest is diverted to the free market or lost during transport or storage.[16] This latter finding makes Ahluwalia (1993, p. 51-

14. Of course, actual supplies are always less than the allotment, but the difference in Bihar is more outspoken than in the rest of India. For India as a whole, 56 per cent of the allotted quantities were lifted in 1995-96 (25.6 million tonnes allotted, 14.3 million tonnes lifted), while Bihar lifted only 23 per cent. Generally, 1995-96 was a very bad year in this respect. In 1993-94 67 per cent of the allotted foodgrain was lifted in the whole of India (and 50 per cent in Bihar). (Based on Radhakrishna et al, 1997, table 3.6)

15. As far as Bihar is concerned, the percentages in this paragraph refer to wheat only, since this is by far the most important PDS foodgrain in Bihar. Rice distribution in Bihar, though, suffers from similar problems.

16. Ahluwalia calculates leakages as a residual by subtracting the total quantities of wheat and rice that were actually bought from the PDS between July 1986 and June 1987 (NSS, 1989) from the quantities that

52) conclude that a further expansion of the PDS in Bihar would only be worthwhile after an administrative strengthening.

The new TPDS requires that new ration cards are distributed to all households living below the poverty line. In October 1997, when I visited Bihar, and when the new policy was supposed to have been in operation already during 4-5 months, the distribution of new ration cards to BPL families was still largely under way. In principle, as was argued by several officials involved, this screening process would not be difficult. In 1992 there was a survey to select beneficiaries for the Integrated Rural Development Programme (IRDP). These data could be used again for the distribution of ration cards. As per official guidelines from the Government of India, "Gram Panchayats and Gram Sabhas[17] should be involved in the initial identification of eligible families" (Government of India, 1997a, p. 3) In Bihar, this is a problem, because these institutions "are in a sleepy condition", as a former Food Commissioner in Bihar explained to me. As a result the identification of the beneficiaries is dominated fully by the administration. It is done by the Block Supply Officer, the Block Development Officer and the Subdivisional Officer.[18]

In a small survey I conducted in a slum and a semi-rural locality in Ranchi, South Bihar, I found that none of the households I visited possessed a new card, even though they were all eligible according to the official criteria. In one locality there had been a kind of survey (i.e. an official had visited the huts), and some households were listed as future beneficiaries. These people had all handed in their previous cards, and had been given a slip, at best, as a symbol of their entitlement. This slip enabled them, in principle, to purchase from the Fair Price Shop, but in reality the shop was of no use due to "irregular supply", lack of cash among the slum households during the days the shop was open, or unclarity about whether or not particular families were included in the list. In the other locality some families were given notebooks instead of new ration cards. Some people suspected that the fair price shop dealer had received the cards already but refused to issue them.

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the government of India supplied to the system in this period. This estimate seems rather crude, especially since the reliability of NSS data is debatable (see Chandrasekara Naidu, 1983; Hill, 1984; Vaidyanathan, 1983). Nevertheless, the contrast between Bihar and other parts of India is telling.

17. Gram Panchayats and Gram Sabhas are the smallest units of electoral democracy.

18. Information from the Food Commissioner's Office.

Also the shop was of no use to the slum dwellers (except for kerosene), because foodgrains were never available.

Despite the fact that the new cards were not yet issued, additional quantities of foodgrains had arrived in some of the FCI warehouses, and some fair price shop dealers had been forced to lift these foodgrains. They had received special instructions not to indulge in any black marketeering with these foodgrains, and told that they would be prosecuted in case of any malpractice. For these ration dealers there was, hence, a difficult situation, since it was unclear how to dispose of the stock. Collectively they had already complained to the Food Commissioner about this fact.

As in other places in India, including Bihar, there is an in-built problem in the PDS: the official earnings of the PDS dealers are very low. Let us take the example of Ranchi district in South Bihar. The monthly allotment to this district is: 1853 tonnes wheat for BPL families, 1237 tonnes rice for BPL families, 629 tonnes wheat for APL families, 419 tonnes rice for APL families,[19] 1218 tonnes sugar and 1836 kiloliters of kerosene. There are 1624 PDS dealers in Ranchi district. The commission for the PDS dealers is 3.15 percent for foodgrains, Rs. 0.09 per liter kerosene and Rs. 5.85 per 100 kilo sugar. Altogether this means an average monthly income for each PDS dealer of Rs. 479.57.[20] This is based on full offtake of the commodities. When only 50 per cent is available or lifted by the PDS dealers, the income is proportionately less. There are some additional earnings from the sale of the gunnybags, but there are also expenses. The PDS dealers themselves have to pay the transport of the commodities from the warehouses to their premises. This involves a bullock cart and some payment for the coolies who load and unload the cart. All this means that, when the whole business is run according to the official rules, the earnings are not more than Rs. 500-700 per month. This is comparable to what a landless labourer earns on average, and much lower than the salary of the lowest office staff (attendant or sweeper).[21]

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19. According to the official guidelines of the Government of India, there should be no distribution of foodgrains to APL families in Bihar. See table 2.

20. On average each PDS dealer can sell 1141 kilo BPL wheat, 761 kilo BPL rice, 387 kilo APL wheat, 258 kilo APL rice, 750 kilo sugar and 1131 liter kerosene. BPL wheat costs Rs. 3 per kilo. BPL rice costs Rs. 4 per kilo. APL wheat costs Rs. 5.12 per kilo and APL rice costs Rs. 8.38.

21. It is important, however, that being a fair price shop dealer is normally not a full time job. Sometimes the dealers do not need more than one week per month to finish the job. However, their urgency to get rid of the commodities as quickly as possible (and therefore not lift more from the warehouse than they can sell in a short time span) adds to access problems of the consumers/cardholders.

In addition to the official expenses, there are many unofficial expenses. To illustrate I will quote from an interview with one of the PDS dealers at the outskirts of the capital of Ranchi District.[22]

> Each month I get 10 bags of sugar, which I have to collect from the FCI warehouse. First, I have to obtain a release certificate. This costs me 10 rupees. Then I have to go to the bank for a demand draft, which costs me 15 rupees. Then I go back to the FCI. The coolie who carries the bags demands 10 rupees per bag. I have to pay 10 rupees to the person who counts the bags and certifies the release order. Then I have to get a gatepass, 7 rupees. Transportation charge is about Rs. 10 per bag, and the coolie for unloading demands Rs. 5 per bag. This is for sugar. In the case of rice and wheat there are similar costs involved, with the exception that these have to be weighted in the godown, which means 5 rupees per bag for the person who fills the bags. In addition to all this, there are other expenses. I have to pay Rs. 250 per month to the Supply Officer and Rs. 150 to the Marketing Officer. Twice a year, during festival season, they demand the double amount.

Despite these expenses, it is lucrative to be a fair price shop dealer. People are willing to pay large amounts of money to get a licence to become such dealer. The same person explained to me how he manages.

> According to official policy, each shop should have at least 300 card attached to it. Of these 300 cards, 50 per cent are genuine, and the rest are held by me. [He showed me some of the bogus cards held by him. He also showed me a pile of application forms which he could use to apply for (bogus) cards.] These forms are sold by the Supply Officer to us for about 40-50 rupees each. So, I can lift a much larger quantity of all the commodities and sell it in the free market. The only thing I take to my shop is 50 per cent of the kerosene, and some of the BPL foodgrains, and that only rarely. I estimate that my net earnings are around Rs. 10,000 per month.[23]

As long as the fair price shop dealers pay their monthly bribes to the officials of the Food and Civil Supply Department these officials do not undertake any action to stop the malpractices. On the contrary, they even help the PDS dealers to cover up their activities. As part of the new TPDS an

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22. This story was confirmed by other PDS dealers. In Patna, the capital of Bihar, the fixed monthly payments to the Rationing Inspector seem even higher than in Ranchi.

23. This picture is confirmed by official figures. In 1995 there were 32 million ration cards in Bihar, while there are only 15.6 million households. This means more than 50 per cent of the cards are bogus cards. In the whole of India this was 14 per cent (based on Government of India, 1996, Appendix II).

inspection team from the Central Government was expected in Bihar. The dealers had been advised by a high-placed civil servant to select five people themselves, to be ready for that inspection. According to the same informant, "these five people (my relatives and close friends) now put their signature each month to give evidence of the fact that distribution took place satisfactory".

There is no reason to believe that the percentage of leakages, as calculated by Ahluwalia, have come down as a result of the new policy. The PDS has become targeted, in name, but the system still suffers from the same structural weaknesses as before. It is therefore unlikely that it will have a significant impact on the 55 per cent of the population who live below the poverty line.

Targeted Public Distribution System in Karnataka

The situation in Karnataka is different from that in Bihar, since the allotment to Karnataka has come down as a result of the new policy. The allotment was reduced from 150,000 tonnes (120,000 rice, 30,000 wheat) to 75,000 tonnes per month (60,000 rice, 15,000 wheat). Lifting was always less than the allotment, but this will remain the case, especially because there is not much demand for wheat and APL rice, which is almost as expensive as free market rice. There is, hence, a serious reduction in the availability of PDS foodgrains.

In Karnataka every household is entitled to a ration card, but there are several types of cards. Since 1985 there is a special distribution scheme, the Green Card Scheme, meant for the poorest 40 per cent of the population. The foodgrains sold to green card holders is additionally subsidised by the Government of Karnataka. The problem that rose with the introduction of the TPDS is that there were 6.0 million green cards in Karnataka, while the TPDS allotment for BPL families is based on 2.9 million poor households only. This means the number of green cards has to be reduced by about 50 per cent. In November 1997, when the new policy was in operation during 5 months, this selection still had to take place.

The new policy resulted in a reduction of the amount of foodgrains distributed to each cardholder. Previously, in Bangalore, the capital, cardholders were entitled to a maximum of 21 kilos of foodgrains (depending on family size). This was reduced to 10 kilos for BPL families and 5 kilos for APL families. So cardholders experienced a severe reduction of foodgrain distribution. This even stimulated some cardholders/politicians to establish a Rationcard Holders Society in August 1997 in order to voice a collective protest against the new policy.

According to the objectives of the TPDS, BPL families would benefit because BPL commodities are sold at a cheaper rate. In Karnataka, however, Green Card holders profited already from a cheaper rate because they received an additional subsidy from the Government of Karnataka. Before the introduction of the TPDS they paid Rs. 3.20 for a kilo of rice.[24] Under the TPDS this is Rs. 3.50. So, there is no advantage for the BPL families. There are only disadvantages: the reduced availability of PDS foodgrains plus the fact that half of the people who benefitted from the previous scheme will be excluded from the new one.

Not only cardholders, but also fair price shop dealers suffer from the reduced distribution. Already in 1991-92 I found that the financial situation of many ration dealers was precarious. Their net income at that time was about Rs. 550-600 monthly,[25] but they had to make large investments relative to their small earnings. In Karnataka, the dealers have to collect the allotted quantities of foodgrains and sugar once per month only.[26] This means they have to dispose of a relatively large amount of money: the value of one month's stock, which came to approximately Rs. 15,000 in 1991-92. Many of them survived by selling a part of the foodgrains and sugar in the free market.

The reduction of PDS foodgrains only increased the financial problems of the fair price shop dealers. The monthly allotment to their shops has been cut by 50 per cent. This reduces the monthly cash requirement, but also the incomes have come down because the commission remained unchanged. This problem is acknowledged by the Government of Karnataka, and in order to meet the problems of the dealers the government started to allow the PDS dealers to trade in other non-controlled commodities as well. Previously, this was forbidden, because this non-PDS

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24. When the scheme started in 1985, Green Card rice was sold at Rs. 2. Gradually this increased to more than Rs. 5. In 1995, to redeem an election promise, the price was reduced again to Rs. 3.20.

25. In 1991-92 773,700 tonnes foodgrains were distributed through 17,364 fair price shops. This means each fair price shop sold 44,558 kilos of foodgrains on average. That is just over 3700 kilos per month. The profit margin for the retailer was Rs. 10 per 100 kilos. This means that by selling PDS foodgrains the fair price shop dealers could earn an average monthly income of Rs. 370. The profit margin on sugar was Rs. 3.50 per 100 kilo. On average there was 800 kilo sugar per month per fair price shop in 1991-92. Kerosene was sold through other outlets. The price of used gunnybags was 7 rupees. This means that the total monthly gross income of a fair price shop owner came to Rs. 750. The expenditure (rent, labour, travel expenses to and from the warehouses, small tips and bribes, electricity and stationary) came to Rs. 200 on average.

26. There is no official rule prescribing that all monthly allotted commodities should be collected at once. However, due to late arrival of stocks, subsidised transport of the commodities once a month and bureaucratic obstinacy, many fair price shop owners are forced to collect and pay for the whole monthly allotment at one time.

business was thought to interfere with the PDS. This relaxation of the rules, however, only solves the problem of a small number of PDS dealers: those with skills, necessary capital and contacts to build up another business. For the majority the new policy remains a problem.

Also the PDS wholesalers are suffering a severe blow. The main wholesaler in Karnataka is the Karnataka Food and Civil Supplies Corporation, which runs about 130 outlets.[27] The Karnataka Food and Civil Supplies Corporation depends fully on the wholesale of PDS commodities. It is a parastatal with approximately 1500 staff members and an annual turnover of more than 3000 million rupees. The Corporation had some financial difficulties already before the 50 per cent reduction of PDS foodgrains, but the new policy is probably the worst thing that could happen to it. The only solution is to diversify the activities of the Corporation drastically, but in view of the bureaucratic mode of operation and lack of flexible management it is very doubtful whether this is at all possible. (See Mooij, 1996 for an analysis of the Karnataka Food and Civil Supplies Corporation.)

In short, the TPDS has been and will be very harmful to the system of food distribution in Karnataka. BPL families do not profit, and many poor, who benefitted from the Green Card system, will be excluded altogether. Moreover, the viability of PDS retail and wholesale gets undermined with present margins. A substantial change in the margins is unlikely, because this is a very unattractive decision to make for a government. The income of the PDS dealers was already a weak point in the organisation, but the problems of the retailers and wholesalers will only aggravate. In due course this may prove to be a time-bomb under the PDS foodgrains delivery system.

4. Discussion

To conclude, I would like to raise the following points. First, the name of the new policy, Targeted PDS, is somewhat misleading. The TPDS is presented as a break with the past, because finally the

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27. In addition there is an equal amount of wholesale depots run by cooperative societies. I did not investigate the impact of the new policy on their performance, but it is very likely that they suffer from the same problems as the Karnataka Food and Civil Supplies Corporation.

PDS would become targeted. In reality so far, however, the TPDS has not excluded families above the poverty line altogether. Targeting is still complementary to universal distribution.

Second, the issue of targeting has become very prominent in Indian politics, but its popularity is based on two wrong (but very influential) premises, namely a) that food subsidy costs have exploded in the 1980s and 1990s, and b) that this is mainly due to the fact that the subsidies are untargeted. As regards to the first premise, the rise of food subsidies at constant prices is much less dramatic than at current prices. Moreover, the big increase in the subsidies in 1993-94 had a very particular reason, which has little to do with the fact that the PDS was untargeted. In fact, it was the attempt to reduce the subsidy bill by increasing the FCI issue prices, which led to a decreasing demand for PDS foodgrains and a trebling of the FCI carrying charges. The remaining part of the food subsidy bill has remained more or less stable (at constant prices) since the middle of the 1980s.

In relation to the second premise, it is noteworthy that the present discussion about the food subsidy neglects the issue of procurement altogether, while this issue is crucial to the subsidy. If the procurement prices remain high and the FCI continues to procure all that is offered, the subsidy will remain high, whatever the FCI issue prices and whether distribution is targeted or not. This is so because in case of high FCI issue prices the offtake will come down and the FCI carrying charges will increase, while low FCI issue prices imply greater losses on each quantity of foodgrain handled. So, the issue of procurement is essential to a debate on the subsidy and should be put on the agenda. I am not arguing here that PDS should no longer help to raise farmers' incomes. The only point I want to make is that neglecting the issue of procurement leads to an one-sided interpretation of the food subsidy.

To conclude this point, there is no reason to assume that targeting, even when strictly applied, will help to solve the problems of the PDS. Despite this fact, the concept is very influential and has become almost an article of faith. This was particularly evident in 1993-95. Even in those years, in which it was very difficult to get rid of the foodgrains in the first place and in which the FCI had to resort to exports of foodgrains, targeting was seen as a solution. This firm belief in the benefits of targeting is, I guess, more related to international agencies who push the idea and the fact that a discussion of targeting conveniently leaves out the issue of procurement, than with the miracles we can expect of its implementation.

Third, the first experiences with the introduction of the TPDS in Bihar and Karnataka show that its impact at the local level is minimal or negative. Bihar receives more foodgrains than in the past, but the delivery system remains weak. This means that there is no reason to believe that the TPDS will be of much help to the poor. In Karnataka, there used to be an almost universal PDS, with a relatively efficient delivery system. This system has been squeezed as a result of the fifty per cent reduction in the allotment. This problem is to be taken very seriously. A weakening of the delivery system may happen in a short period of time, but its effects may last much longer than the policy which brought it about.

There is no reason to assume that Bihar and Karnataka are exceptional cases. There are more States like Bihar which suffer from huge leakages and bureaucratic corruption, but which are going to receive more foodgrains as a result of the TPDS. There are also more States like Karnataka where PDS was relatively well organised but which are going to receive less foodgrains, which may undermine the efficiency of the delivery system.

Fourth, the TDPS challenges the idea of a 'right to food'. As mentioned, this idea is weakly developed in Bihar, but in Karnataka there is a sense of a right to food and a duty of the government to contribute to this. In itself, this sense of a right to food is a positive thing. It enhances political awareness and possibly political mobilisation in the long run.

Finally, all these points provide enough reason to view proposals to convert universal subsidies into targeted schemes with some suspicion. There seems to be no reason to regard targeting as a standard recipe that should be implemented in all those countries which practise universal food subsidies and which have to correct their budgetary deficits. It may well be that in some countries targeting could be beneficial, but before embracing the idea, it is important to be sure a) that targeting is indeed a solution to the problem, and not primarily an article of faith; b) that targeting is not necessarily cheap; c) that the institutions responsible for the implementation are capable enough; d) that the delivery system is given the opportunity to adapt itself to the new situation; and e) that it will not undermine a fragile process of empowerment of citizens vis-à-vis the state.

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