

CCL (CASH CREDIT LIMIT) FOR BPL (BELOW POVERTY LINE) AND APL (ABOVE POVERTY LINE) POPULATION: AN ALTERNATIVE TO UNIVERSAL PDS (PUBLIC DISTRIBUTION SYSTEM) IN INDIA

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Abstract

The Government of India is making frantic efforts to tackle the food security issue. The country has more than 300 million hungry and malnourished people. On the other hand thousands of tonne food grain is rotting in Government granaries. There is certainly a management problem. There is requisite policy deficit also. The Government is trying hard to address both. Scholars and social activists are suggesting universal public distribution system. But it can complicate the issues further.

Cash credit limit accounts facility in banks for above poverty line population (APL) can go a long way in addressing the food security problem of India. The paper dwells on this aspect.

Key Words: Food Security, Public Distribution System in India, Food Security Bill, Poverty

INTRODUCTION

The government of India is seriously working on the draft of Food Security Bill to fulfill its election promise. Most of the activists are demanding universal public distribution system and they are arguing that this will improve the food security of the nation. There are millions of people who are in the above poverty line, the APL hereinafter, but can slip into below poverty line, the BPL hereinafter, due to numerous reasons like unemployment, illness, accidents or family problems etc. Therefore, it is necessary to address the needs of both the APL and the BPL population.

The Government of India is hesitant to implement universal public distribution system, considering the inefficiency and corruption in the existing public distribution system and its own meager financial resources. The dismal record of its various welfare schemes makes it wary of the same.

This paper addresses the food security issues relating to the BPL and APL population. The paper discusses the alternative solution to the universal public distribution system in the form of revolving cash credit limit or CCL for all, along with existing public distribution system (PDS) beneficiaries. It is found that cash credit limit can play a vital role in creating the real time database of a large percentage of Indian population that can lead to targeted food and nutritional security with lesser burden on Indian fiscal system.

The study measured the perceived impact of cash credit limit on food security and nutrition. The findings and recommendations are based on the informal interviews of about 400 adults and a few children of different economic, educational and social backgrounds over a period of eighteen months.

The survey revealed that cash credit limit accounts could have a positive impact on household's food security. The two main patterns brought out as being a source of mental relief and satisfaction that sufficient food items are stored in household, and providing direct access to food. Direct access to food allows households to consume greater amounts of food and a more diversified diet resulting in richer valuable micronutrients.

FOOD SECURITY AND PUBLIC DISTRIBUTION SYSTEM

Food security has been a major developmental objective in India since the beginning of planning. India achieved self-sufficiency in food grains in the 1970s and has sustained it since then.

But the achievement of food grain security at the national level did not trickle down to poor households and the level of chronic food insecurity is still high.

Millions of people in India suffer from hunger and under-nutrition. It is not surprising that chronic malnourishment and starvation characterize the poor in India, a country burdened by poverty and violence within a deeply corrupt bureaucratic system of governance. A major factor contributing to this problem is food insecurity. This condition exists when people lack sustainable physical or economic access to enough safe, nutritious, and socially acceptable food for a healthy and productive life. According to a recent survey India has the highest number of malnourished children in the world. If India wants to convert its 1.2 billion plus population into a demographic dividend, it will have to devise and implement some concrete, relevant and result oriented policies. Unfortunately, long-term solutions that are likely to address the root of this problem have not gained traction.

The government supplies wheat, rice and sugar to BPL population through ration shops of its public distribution system. There are millions of poor people in India who are in need of BPL ration cards but they do not get it for one or the other reasons. There are also millions of people who are just above the poverty line and facing the impact of food price inflation but they do not get any help from the government. That is why social activists and politicians are demanding universal public distribution system.

Governments are interested in subsidizing and selling food items only to the BPL population but there is always dispute on the real number of poor in India. Different experts and agencies provide different numbers. There are various yardsticks to measure poverty in India. There is huge variation in the reports of various committees as regards the BPL% of population: NC Saxena-50%; Planning Commission-27%; Tendulkar Committee-37.2%; Arjun Sengupta-77%. The new poverty line as measured by Suresh Tendulkar is Rs. 17 per day per person. But a person cannot live with dignity by earning Rs. 17 per day.

A comprehensive package covering all aspects like health, nutrition, education and employment has to be secured for the people in India. This will enhance their social and economic security and ultimately the food and nutrition security.

The problem of food security is multi dimensional. Direct access to in house stored food allows households to timely consume greater amounts of food and a more balanced and wholesome diet resulting in richer intake of healthy micronutrients.

PROCUREMENT, STORAGE AND PUBLIC DISTRIBUTION SYSTEM

Central and state governments in India purchase grain specially wheat and rice at procurement prices through their agencies. Following are the main objectives to do so:

1. To support farmers
2. To create buffer stock of food grain for emergency.
3. For PDS (Public Distribution System) to cater to the needs of BPL and APL population.
4. To regulate the market prices by intervening in the market.

The governments procure wheat and rice at higher procurement prices to support the farmers and sell at lower prices through public distribution system. This results into huge stock, for which governments do not have sufficient storage capacity that leads to storage in open. This is evident from the table 1. This leads to wastage of grains and huge storage cost. Thereafter, the governments sell this grain to BPL population at highly subsidized prices through PDS.

TABLE 1

STORAGE CAPACITY OF FOOD CORPORATION OF INDIA IN MILLION TONNES

Storage Capacity Covered

Capacity	01.04.2003	01.04.04	01.04.05	01.04.06	01.04.07	01.04.08	01.04.09	01.04.10
Owned	12.82	12.82	12.91	12.93	12.94	12.95	12.97	12.97
Hired	13.77	10.85	10.46	9.90	9.34	8.71	10.12	12.89
Total	26.59	23.67	23.37	22.83	22.28	21.66	23.09	25.86

Storage Capacity CAP (Cover and Plinth)

Capacity	01.04.2003	01.04.04	01.04.05	01.04.06	01.04.07	01.04.08	01.04.09	01.04.10
Owned	2.226	2.21	2.25	2.21	2.29	2.20	2.17	2.51
Hired	2.88	1.36	0.41	0.51	0.63	0.03	0.02	0.47
Total	5.14	3.57	2.66	2.72	2.92	2.23	2.19	2.98

Total Storage Capacity (Covered & CAP)

Grand Total	31.73	27.24	26.03	25.55	25.20	23.89	25.28	28.84
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Source: http://fciweb.nic.in/storage_management/storage_capacity_with_fci.htm accessed on 3.8.10

At present government godowns are full of grains and governments are ready for another procurement of rice after bumper paddy crop. The stock position is evident from Table 2

TABLE 2
STOCK POSITION

Stock of Wheat & Rice in Central Pool as on 30.06.2010.

(Figure in Million Tonne)

	FCI	State Agencies	Total
Wheat	11.287	22.297	33.584
Rice (Including paddy in terms of rice)	16.796	7.470	24.266
Grand Total	28.083	29.767	57.850

Source: http://fciweb.nic.in/stock_management/Stock_WheatRice_Central_Pool.pdf accessed on 15.8.10

The whole public distribution system is inefficient for the following reasons:

1. Public distribution system is very inefficient due to corruption.
2. Governments do not have sufficient storage capacity and efficient machinery to handle the whole procurement and storage process.
3. In PDS, most of the ration shops are not operated properly by their owners. License to run a ration shop is difficult to obtain due to corruption and when a person gets license by unlawful means and corrupt practices to run the shop, he himself gets involved in corrupt practices.
4. Government subsidizes the items sold in ration shops through PDS. These items are sold in open market at higher prices. This leads to the harassment of the BPL card holders. They spend a lot of time and get poor quality grains. They also get less than what they are entitled to. BPL ration card holders can get ration only from the shop of their locality,

which is decided by the address mentioned in the ration card. Generally workers are migratory in nature and they go to other cities in search of employment. Therefore, they mortgage their ration card to the ration shop owner of their locality and take loans from the ration shop owner on higher interest. Besides earning interest, the ration shop owner sells the food items of their (workers') entitlement in open market at higher prices.

CONSUMPTION PATTERN OF FOOD ITEMS OF INDIAN PUBLIC

Generally, below poverty line poor people purchase cooking items including rice or wheat flour on daily or weekly basis except their ration from ration shops. Lower middle class and middle class people purchase on fortnightly or monthly basis. Food prices are high in open market and average Indians do not have the extra purchasing power to store wheat, rice, pulses and oil for a year or two.

In the survey it was found that consumption pattern is changing very fast in both middle and lower income group. Working class including laborers, artisans, small farmers and land less labor are spending much on items other than basic rice and wheat. Especially the male earning members spend a big portion of their income on consuming alcohol, chewing Gutkha (a tobacco product) and eating out with their friends on roadside food stalls.

The survey also revealed that an average laborer in urban area who gets his weekly wages on Saturdays, after deducting the installment of earlier advances, spends a large portion of his income on that very evening on consuming country made alcohol and eating non vegetarian food in road side eateries with his friends. Then he goes home late at night with a small packet of Indian sweets and the remaining wages, part of which, he hands over to his wife. The next day his wife pays the due bills to the kirana or grocery shop owner of the locality, who sells the daily need items on credit at exorbitant prices to the locals. Sunday is a holiday and on Monday most of the workers do not go to factory, again they spend money on alcohol and cooking non -

vegetarian food at home. On Tuesdays workers go to factory for work after spending all the wages and his wife again takes daily items from the kirana shops or grocery store on credit. The worker takes more advance payments on Wednesday and gets trapped in a vicious circle of debt.

These habits have an adverse effect on the food security of household. The main sufferers are naturally women and children. They do not get sufficient nutritious food on time. They cannot store the basic food items like wheat, rice, pulses and oil in the house due to lack of purchasing power in the hands of house lady.

Economically poor class and middle class face day to day problems and cannot save enough money to purchase dry ration for a year. They cannot get money on credit easily and if they get the money on credit from money lender they have to pay at least three to five percent a month in interest. They cannot return the money in installment to the money lender. The money lender always demands the whole money back at one instance. So people take loan money from money lender only in emergency and pay heavily for that.

REASONS FOR IMPLEMENTING (CCL) CASH CREDIT LIMIT IN PLACE OF UNIVERSAL PDS (PUBLIC DISTRIBUTION SYSTEM)

There is no doubt that death due to hunger is a shame for a nation. India cannot deserve to be called a super power even if it makes colonies on moon and gets the veto power in United Nations if people die due to hunger and malnutrition.

It is true that BPL population needs more help from the government in form of subsidies on food, health, education, housing, sanitation, drinking water etc. But in absence of sound policies, shoddy implementation of poor policies by corrupt machinery does not give desired results. Therefore, it is necessary to create such policies that can give good results despite poor implementation and corruption. Example of good policy amidst corruption can be the

telecommunication policy, where millions of mobile users are enjoying the benefits of mobile services and they have forgotten the era of landline telephone service by the government of India.

There are many pitfalls in implementing universal PDS in current form based on subsidized food grains through ration shops. Governments do not have sufficient resources to subsidize the universal PDS on a sustainable basis. In the current form the universal PDS will not only lead to more corruption but will also reduce the motivation to hard work in some sections of the society. It will also impact the welfare of BPL population because government will make indirect efforts to reduce the financial burden on exchequer. It can also impact the market mechanism of food grain in the long run.

People talk about improving the procurement, storage and public distribution system by introducing technology and professional management. Although technology and professional management can play a vital role in improving the system and should be continuously tried but in country like India implementation will take its own time. People are getting restless to see the consumption of newly rich population.

Not many people of the middle class population like to go and stand in the queue to obtain ration even if it is lower in price than the open market. It doesn't mean that these people do not want inexpensive food but they know the hassles, quality of food sold in ration shops and their opportunity cost. These people are also feeling the pinch of inflation but they are somehow managing their life.

It is said that the government has not sufficient resources and will to implement the universal public distribution system in its proposed food security bill. The government seems to be agreed on giving ration to APL population at seventy five percent of the market price. Here again comes

the question of opportunity cost. Not many people of the top fifty percent of the population will go to the ration shops looking at their consumption pattern and life style.

If government implements this policy then that allotted food grain to APL will be sold in open market by the corrupt machinery.

Besides other measures government can provide revolving cash credit limit to public for purchase and store of basic food items. The Government can introduce a scheme for general public without exclusion of any class, where people can get revolving cash credit limit up to Rupees ten thousand or less to purchase and store basic food items like wheat, rice and oil in bulk at the time of harvest from the open market when the prices are lower due to supply.

Food security can be achieved if each house in the country stores the basic food items like wheat flour for two months or wheat, rice, pulses and oil for at least one year or till the next harvest season. This allows the house lady to cook food without waiting for the cash from husband or buying food items on credit from local grocery store at higher prices.

It is true that millions of people do not have houses or sufficient space to live, but it is also true that millions of houses exist, where family members specially women, children and old parents do not get food at the time of hunger in absence of stocked food items and lack of purchasing power in hand.

HOW TO PROVIDE PURCHASING POWER IN THE HANDS OF HOUSE LADY TO STOCK THE FOOD ITEMS IN HOUSE

The Government can provide the facility of opening cash credit limit bank account in the name of house lady, where she can withdraw money to purchase the required food items of her choice

in the open market in bulk at the time of harvest when the prices remain comparatively low due to good supply.

This can only be achieved by the government mandate otherwise the banks will never allow an individual to open cash credit limit account for food consumption. Banks should charge interest up to twelve percent on outstanding amount and pay eight percent on the amount deposited. This will motivate people to deposit money in the account to clear outstanding and earn interest on the deposited amount.

To attract large section of the population to open such accounts government should make earning by interest from this type of accounts tax free and put a cap on the maximum amount deposited each year. Amount deposited other than for repayment of outstanding amount can be given exemptions in income tax like PPF accounts or infrastructure bond.

BENEFITS OF CCL ACCOUNTS

Government will be able to analyze the data of CCL accounts and will easily find out the profile of CCL account holders. In case of NPA (Non Performing Accounts) accounts, government can subsidize the bank and it will be less burdensome than subsidizing the PDS for APL. Government will not have to procure and sell food grains and sugar for APL population. They will purchase and store their required food items from open market on their own discretion.

Most of the NPA accounts will come from vulnerable population of APL (vulnerable population is that which is just on the threshold and can slip into BPL any time) and from BPL. Government should take care of defaulters by developing need based objective criteria to resolve their food security problems.

Table 3 shows that government is spending at least rupees 1.20 per kg extra on wheat as other cost other than the price it is paying to the farmers at procurement price of rupees 10.80 per kg.

The government spends money on procurement, transportation, storage, administration and redistribution of grains.

TABLE 3
 SUBSIDY PER PERSON PER YEAR

Procurement Price Wheat in rupees	10.80	10.80	10.80	10.80
Other Costs per Kg	1.20	2.70	4.20	5.70
Total Cost per Kg	12	13.50	15	16.50
Selling Price PDS Rs per kg	3	3	3	3
Subsidy per Kg	9	10.50	12	13.50
Grain per month in kg	35	35	35	35
Grain per year in kg	420	420	420	420
Total Subsidy in Rs	3780	4410	5040	5670
Subsidy Price Ratio	75%	77.77%	80%	81.81%

In PDS governments will have to give subsidy every year while in CCL accounts government will have to tackle only NPA accounts and the interest incurred on those accounts.

In PDS state governments sell the subsidized wheat, rice, sugar and kerosene through fair price ration shops. The subsidy on food grains has been increasing every year with the increase in number of poor and total population.

If government allows CCL accounts for all, it will have to take care of only BPL population and vulnerable population of APL.

A BPL cardholder is getting 420 kg of grain in a year at rupees three per kg on which the government gives subsidy of at least rupees three thousand seven hundred eighty (Table 3). The money spent on 420 kg of wheat comes out to be rupees 5040 at the rate of rupees twelve per kg. This amount is taken in Table 4 to calculate financial impact of cash credit limit accounts.

TABLE 4

FINANCIAL IMPACT OF CASH CREDIT LIMIT ACCOUNTS

US\$1=Rs45

	CCL Account for 1 Family	CCL A/c for 1 million families	CCL A/c for 10 million families	CCL A/c for 100 million families
Principal Amount	Rs5040	Rs5.04 billion	Rs50.4 billion	Rs504 billion
Interest@12% pa	Rs604.80	Rs604.8 million	Rs6.048 billion	Rs60.48 billion
Principal Amount	\$112	\$112 million	\$1.12 billion	\$11.2 billion
Interest@12% pa	\$13.44	\$13.44 million	\$134.4 million	\$1.344 billion

Storage of food items in individual houses will reduce the burden of storage by government agencies. This is explained in the Table number 5.

TABLE 5

STORAGE IMPACT OF CASH CREDIT LIMIT ACCOUNTS

US\$1=Rs45

	CCL Account for 1 Family	CCL A/c for 1 million families	CCL A/c for 10 million families	CCL A/c for 100 million families
Principal Amount	Rs5040	Rs5.04 billion	Rs50.4 billion	Rs504 billion
Principal Amount	\$112	\$112 million	\$1.12 billion	\$11.2 billion
Wheat @Rs12/- per kg	420 Kg	0.420 million tonne	4.2 million tonne	40.2 million tonne
Rice @Rs20/- per kg	252 kg	0.252 million tonne	2.52 million tonne	25.2 million tonne

It is obvious from Table 5 that purchase and storage of food grains by households will not only reduce the financial burden of the government but it will increase the food security of India. Table 5 suggests that if government will provide cash credit limit accounts facility to the 100 million families then they will be able to store more than what Food Corporation of India is presently storing as buffer stock in their granaries. If government extends this facility only to ten million families, then they will be able to store more than what the Food Corporation of India is storing in open under cover and plinth facilities.

This will also bring stability in the market prices. People will not only store wheat and rice but they will store pulses, edible oil and other food items. This will enhance the food and nutrition security of women, children and older people in the family.

Conclusion

Facility of cash credit limit accounts in banks for the APL and BPL population for the purchase and storage of food items like wheat, rice, pulses and oil etc will increase the food and nutrition security of India. This will reduce the financial burden of government and it will be a good substitute of universal PDS for the APL population in India. It will also reduce the pressure on government agencies to procure grains more than their storage capacity which leads to wastage of food grains.

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