

Transforming the Public
Distribution System to create
an integrated channel to
provide safety net to
secure India's poor



The Public Distribution System (PDS), governed by the National Food Security Act (NSFA), provides highly subsidized food grains¹ to more than 800 million Indians every month through a network of **500,000+** fair price shops (FPS).



¹ 5 kg of rice or wheat per person per month is provided at a rate INR. 3, 2 or 1 per kg for rice, wheat and coarse grains respectively. A few states further subsidize this cost.



The opportunity

Since enactment of the NFSA in 2013, PDS has undergone massive reforms primarily through digitization and policy actions. This has improved delivery efficiency and customer satisfaction.

However, there are still several opportunities for improvement.

While PDS covers 800 million people, it is often criticized, and rightly so, for exclusion. Hence, there is a clear opportunity to address exclusion issues in the PDS. Despite exclusion issues, PDS is still the largest and the most comprehensive database available with the Government of India. However, its database and the vast network of fair price shops are underleveraged to serve India's poor. Hence there is an opportunity to leverage PDS to create an integrated channel to provide reliable, ubiquitous and comprehensive safety net to India's poor population.



Progress and way forward

Reducing exclusion

The NFSA provides food security to 75% of rural and 50% of urban population² based on the latest census . Since census happens every ten years so, the number of beneficiaries covered under the PDS cannot be increased until the next census³. This leads to increase in the number of excluded beneficiaries with every passing year till the next census. As per the latest census of 2011, 67% of the total population or 813 million people can be covered under the PDS.

The population of India in 2020 has been estimated to be around 1.347 billion as per the report of the technical group on population projections, 2019 (MoHFW). Adjusting for different growth rates of urban and rural population, 66% of India's population or 895 million people should be covered in 2020. So, about 81 million people are excluded from the PDS. Several scholars and activists have been highlighting this issue for the last many years.

MicroSave Consulting (MSC), with support from BMGF, is supporting the Department of Food and Public Distribution (DFPD) to explore options to correct this anomaly to reduce exclusion. A white paper has been prepared and is being discussed with various stakeholders to get consensus.

² Section 3(2), National Food Security Act, 2013

³ Section 9, National Food Security Act, 2013



Integrating other cash safety net schemes with PDS

The NFSA provides food security to 75% of rural. Currently, the PDS database is the largest Aadhaar linked database of 800 million+ rural and urban poor people. Since the digitization began, the ministry has cleaned the PDS database and deleted around 30 million duplicate and fake/non-existent households (including some due to migration, death etc.). Central government and state governments are jointly working to authenticate each member on the ration card (RC⁴) through Aadhaar based e-KYC⁵. This will further help to clean the PDS database and eliminate remaining duplicate and fake/non-existent beneficiaries. In addition to this some states are piloting initiatives to link PDS database to other existing databases of various ministries such as rural development, panchayati raj, urban development, labor, and finance etc. to further remove ineligible RC holders from the PDS database. All these database cleaning initiatives together with the inclusion of additional 81 million excluded beneficiaries will provide an error free database of urban and rural poor households.

MSC is supporting DFPD to engage with other central government ministries and other relevant stakeholders to leverage PDS database to target and transfer money for other safety net programs such as pensions, MGNREGA, among others. This convergence can create a single channel to provide food and cash support to poor people. It can also improve predictability and transparency in the process. However, it will be challenging to get other ministries to agree to this plan and to expand PDS database to cater to this requirement.

⁴ Ration card is the physical card given to eligible PDS beneficiaries from state food departments that contain the details of household members and their Aadhaar details.

⁵ e-kyc is a service provided by UIDAI where a person's Aadhaar is used to biometrically authenticate his identity.

FPS dealers as business correspondents (BCs)

The PDS has a network of more than 500,000 fair price shops (FPS) across India. These shop owners can be converted into BC to facilitate financial services. This will serve the triple agenda of increasing financial access points for poor people, increasing income of FPS owners and creating an integrated channel for money transfer and withdrawal for beneficiaries of other safety net programs (as mentioned above and as and when it happens).

It is worth noting here that income of FPS owners has gone down due to digitization of PDS. Digitization eliminated ghost/fake beneficiaries from the system, made Aadhaar authentication mandatory for sale of food grains and automated stock management. These initiatives, however necessary, inevitably have restricted earnings of FPS owners. In the automated environment, FPS owners' earnings come almost exclusively from commissions for rations handled – although these are still slightly augmented by adulteration (and consequent diversion), short measurements, and/or over-charging. Government is now grappling with the challenge of FPS shop viability where automation has eliminated the business case for these FPS owners. Since these FPS outlets are extremely important as last-mile delivery agents, there is a need to look at options to improve the viability of the FPS outlets.

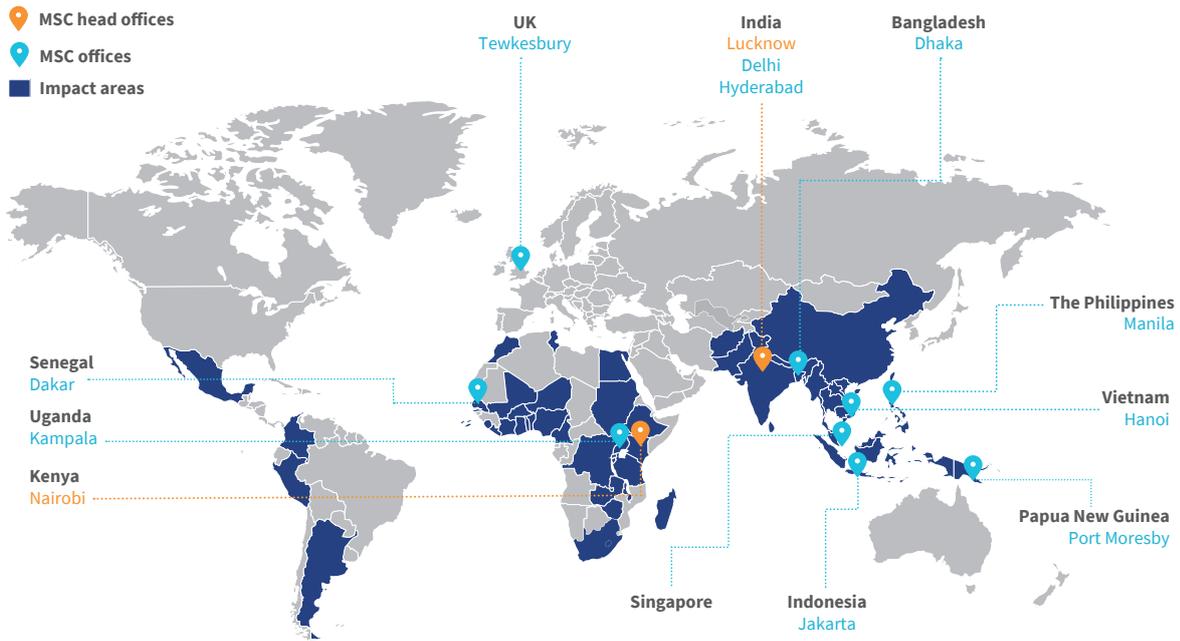
MSC is working with DFPD create a concept note and a plan to convert these FPS shops into business correspondents. The initial idea is to conduct a pilot and subsequently draw a pathway for scale-up. Although it might not be possible to get 100% of FPS owners to become BCs due to various reasons, even a conversion of half, FPS owners to BCs will enable great penetration of financial service delivery into the Indian hinterland and into an outlet where we have dedicated footfall of poor people. This move also presents us with an opportunity to make transactions cashless across a majority of PDS outlets.





Moving to basic monthly income

Making the PDS database dynamic and comprehensive by addressing exclusion issues as outlined above, convergence with other safety net programs and leveraging FPS network to deliver both food and money can create an initial template for India to transition to a quasi-universal basic minimum income (BMI) regime.



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