Evolution of Public Distribution System in India and its Contemporary Challenges

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INTRODUCTION

During World War II, India's Public Distribution System emerged as a war-time rationing measure primarily based on import mechanisms. Later in 1960, the Food Corporation of India (FCI) and Commission of Agricultural Costs and Prices (CACP) were set up to boost food grains' domestic procurement and storage, thus making India self-reliant. However, in 1997 PDS was relaunched as Targeted Public Distribution System (TPDS), transforming the universal provision into a scheme aiming to revamp the targeted poverty-ridden households by providing subsidized food grains through ration shops.

On July 5, 2013, the enactment of the National Food Security Act, 2013 (NFSA, 2013) marked a significant paradigm shift as the distribution of food grains under TPDS was now identified as a "Right" rather than a mere welfare scheme. This legal revolution came into effect through the writ petition filed under PUCL vs. Union of India, 2001. The Supreme Court recognized the "right to food" as a constitutionally protected legal entitlement by interpreting Article 21 and Article 74 together.

Before we dive into the critical working mechanism of NFSA, 2013, we must analyze and understand the challenges and issues that the TPDS mechanism was facing prior to the implementation of the NFSA Act. The following conclusions are derived from the research conducted by PRS Legislative Research.

Working Structure of PDS

The TPDS mechanism was regulated by both the Centre and State governments.

The Centre was entailed with the responsibility of:

- Procuring grains from the farmers at MSP (Minimum Support Price),
- Selling grains to the states at subsidized rates. Allocation is executed via a formula estimate of state-wise poverty (derived as per NSSO Household Expenditure Data), and
- Delivering it to the state depots.

Whereas the State Governments were responsible for:

- identifying the eligible BPL households (As per the criteria derived by the Ministry of Rural Development), and
- transporting the grains from the state depots to all the ration shops.
- Ration Shops are the last point where the beneficiaries get the grains at CIP (Central Issues Prices).

The beneficiaries under TPDS were divided into BPL (Below Poverty Line) and APL (Above Poverty Line). It should be noted that only the BPL category was identified and issued with ration cards. The APL category was eligible to apply for the ration card. However, the allocation to this category was based on the availability of food grains at the central stock and the average quantity brought by the state in the last three years.

As the core principle of the TPDS mechanism is food subsidy for the underprivileged, it is equated into:
MSP + (Additional Cost of transportation and handling) – Central Issues Prices = Food Subsidy.
Food subsidy also includes buffer cost (Storage Cost) incurred by FCI. The Centre reimburses all the costs incurred by the State Governments and FCI.

Challenges and Issues in the TPDS mechanism (Prior to 2013)

Identification of Beneficiaries

- The first significant challenge that surfaced was that the number of BPL families was calculated using 1993-94 poverty estimates by the Planning Commission, despite the release of new poverty estimates of 2004-05 and 2011-12.

  Data showed that from 1993-94 to 2011-12, there was a decline of 23.4 percent of the total rural and urban population identified as poor. This implied that despite decreasing the eligible number of BPL households, the food grain allocation remained the same as the old estimate. It can be concluded that this discrepancy may have contributed towards increasing corruption and financial burden on the governmental front.

- Second, the TPDS mechanism was prone to large-scale inclusion and exclusion error. As per the Tendulkar Committee (2009), it was estimated that around 61% of the eligible population was excluded from the BPL list, whereas 25% of non-BPL households were included. Apart from this, inaccuracy occurred to the prevalence of "Ghost Cards," i.e., cards being registered on the names of non-existent applicants either due to lack of data update or tampering to mobilize grains into the open market, thus hampering the sole purpose of the TPDS scheme.

Leakage in the Delivery System and Allocation/Offtake error

- The TPDS system suffers from a large amount of food grain leakage. As per NSSO consumption data, a total allocation of 47.6 million tonnes was made in 2009-10 out of which the states lifted only 42.4 million tonnes. However, CACP noted that only 25.3 million tonnes were consumed, implying that around 40.4% of food grains were leaked from the TPDS network into the open market.

Rising Food Subsidy leading to Financial Burden

- Food subsidy is the difference between the procurement cost (MSP) and subsidized selling price (CIP) offered to the beneficiaries under TPDS; the Central Government bears this cost as it reimburses FCI and State Governments.

As per the data mentioned in the PRS report, the food subsidy increased from Rs 21,200 crore in 2002-03 to Rs 85,000 crore in 2012-13, causing a financial strain on the central Government.

This increase in food subsidy is unstable and is likely to increase in the future due to two significant factors:

- ***Dynamics of a stagnant CIP against an increasing MSP***

The MSP increased due to an increase in the cost of production, resulting from the rising input costs, such as labor, energy, fertilizers, pesticides, etc. This was followed by the rising cost of handling and distributing once the Centre procured the grains from the farmers. This post-procurement cost included the rising charges of the state governments for storage and interest, cost of gunny bags, inter-state transportation as procurement was highly concentrated to few states, etc. However, in contrast, the CIP (Price at which it was sold to the beneficiaries) remained constant since 2002, which resulted in widening the food subsidy cost which the central Government incurs. This widening gap in the TPDS mechanism causes financial strain on the governmental budget.

The CACP data for rice and wheat for the years 2003-04 and 2012-13, shows that CIP has remained stagnant all through these years.

RICE (Rs/kg)	*Derived BPL MSP*	*BPL CIP*	*Derived MSP-CIP*
2003-2004	9.3	5.7	3.6
2012-2013	20.5	5.7	14.8
Wheat (Rs/kg)	***BPL MSP***	***BPL CIP***	***MSP - CIP***
2003-2004	6.3	4.2	2.2
2012-2013	13.5	4.2	9.4

- ***Procurement, Production and Population Growth***

The food subsidy is likely to increase initially under the implementation of the new Act, mainly due to two reasons –
First, as part of population growth, the procurement of food grains will increase due to increasing the number of beneficiaries. In 2012-13, about 70 million tonnes of food grains were procured under TPDS, constituting around 36% of the total production. As per the CACP estimate, for implementing NFSA 2013, the Centre will require to procure roughly around 61 million tonnes of food grain consistently every year to fulfill the legal entitlement of the right to food under the Act.

Second, the food subsidy is likely to rise under NFSA 2013 as the average CIP under the new Act is lower than the previous level.

One should not be oblivion that maintaining consistency of such a colossal procurement quantity on an annual basis can only be feasible if the domestic production is high. By any means, if the production of the country gets affected (drought, floods, etc.), we might have to rely on the import mechanism to support the provision guaranteed under the law, or even if we plan to boost our production domestically, it will undoubtedly alter the MSP which may rise with inflation in the input prices as mentioned above.

Hence, to keep the food subsidy under control and sustain the financial sustainability of the TPDS mechanism, the Government must derive a method to revise the CIP upwards according to the changing MSP trends.

Shortage of Government's storage capacity

- FCI's storage guidelines stated that food grains are typically stored in covered godowns, silos, and an open space called – Covered and Plinth (CAP); these spaces were either owned by FCI or hired from state/center warehousing corporations, state governments, and private owners.
- As per PRS data, the storage gap increased from 5.9 million tonnes in 2007-08 to 33.2 million tonnes in 2011-12. As per CAG Audit, the owned storage capacity of FCI remained stagnant, ranging from 15.1 to 15.6 MT during a period of 2006-07 to 2011-12 and was not enough to accommodate the minimum buffer stock of 21.2 to 31.9 MT.

Apart from the shortage in the storage capacity, other issues stemmed, like:

- 64% of storage spaces were concentrated in states with immense procurement power (Punjab, Haryana, UP, Chhattisgarh, Andhra Pradesh)
- Low utilization of existing capacity in various States/UTs
- As per 2003-10 data given by Chief Economic Advisor Kaushik Basu, the Centre kept food reserves significantly higher than the stated buffer norms, which would lead to hoarding and rotting of food grains and affect the weather the grain prices in the open market.
- Storing food grains in CAP (Open) for a long duration results in the deterioration of its quality.
- Lack of Centralised Technological Support, a mechanism left onto the state governments.

Among the challenges mentioned above, the old TPDS system granted state governments the flexibility to effectively introduce state-specific reforms to manage the TPDS mechanism. Hence, many states resorted to different tech-reforms, e.g., use of GPS technology (Chhattisgarh, Tamil Nadu), digitization of ration cards (Gujarat, Madhya Pradesh, Karnataka, TN, etc.), use of web-portal as grievance redressal mechanism (Chhattisgarh).
This concludes that the Indian TPDS mechanism lacked uniform tech support or redressal mechanism from the Central Government's ends, which led to discrepancies and deficiencies across states.

These challenges broke the TPDS setup, hindering our ultimate goal of revamping the underprivileged sections of the society through the achievement of food security, as these obstacles made the mechanism less efficient and feasible. Now, let us try to dive into the key reforms under the new NFSA Act, 2013.

National Food Security Act, 2013

The underlying aim of introducing NFSA, 2013 was not only to guarantee legal entitlement and statutory backing for "Right to Food," but all the provisions of the Act were incorporated to address all the challenges mentioned above and issues.

At the core, NFSA, 2013 is operated by the TPDS mechanism, however with minor shifts in the division of the categories. During the ongoing litigation of PUCL vs. Union of India, SC issued an interim order to reaffirm the implementation of Antyodaya Anna Yojana (AAY) as a legal entitlement. Both the AAY and BPL families were offered the same amount of food grains - 35 kg per household per month.

However, under the new Act, two major categories are recognized – AAY (poorest of the BPL families) and PHH (Priority Households identified as per the criteria derived by the State Governments, unlike the erstwhile TPDS), each granted with a monthly entitlement of 35 kg per household and 5 kg per person, respectively. Further, the Act is estimated to provide coverage to 81.35 crore beneficiaries (75% rural and 25% urban population).

As per the Annual Report (2020-2021) released by the Ministry of Consumer Affairs, Food and Public Distribution, NFSA, 2013 have achieved quite an achievement to work through the challenges faced by the former TPDS mechanism.

First, the Act de-linked from the former poverty-estimate mechanism and switched to the population estimate mechanism. The revised coverage was estimated as per the 2011 Census. Further, under the Act, the subsided rice/wheat/coarse-grains rates were Rs 3/2/1 per kg for the initial three years (same as previous TPDS). After three years, the Central Government ordered these prices to be altered according to the requirement, but not exceeding the MSP.

Second, to modernize the functioning of the TPDS and bring transparency and efficiency in its operations, Central and all the State Governments implemented an End-to-End Computerization of TPDS Operations. This includes:

- Around 23.5 crore ration cards entailing the data of 80 crore beneficiaries are digitalized and available at the transparency portal of all the States/UT's.
- Around 91% of Ration Cards (at least one household member) have been wholly seeded with the Aadhar number.
- Online allocation of food grains to Fair Price Shops (FPS), implemented in all states/UTs except Chandigarh, Puducherry and Dadra and Nagar Haveli as these UTs are under the Direct Benefit Transfer (DBT) scheme, wherein entitled subsidy (in cash mode) is transferred directly into the bank account of the beneficiary enabling them to purchase food grains from the open market.

- The provision and computerization of supply chain management have been implemented in all States/UTs except Chandigarh, Puducherry, and Lakshadweep. At the same time, it is under process in Arunachal Pradesh and Manipur.
- About 92%, i.e., 4.94 lakh of 5.4 lakh FPSs, are installed with an electronic Point of Sale (ePOS) automation system, ensuring that subsidized food grains are delivered transparently to the eligible beneficiary via the proper manner of biometric authentication.
- Online grievance redressal system and toll-free helplines (1967/1800-series) are available in all States/UTs.
- Further, all the transactions records and the details regarding the allocation and distribution of the food grains up to the district level are available on the central Annavitran Portal (Annavitran: Welcome) and respective ePOS portals States/UTs. The National Food Security Portal (NFSA) monitors the ration cards management system, online allocation, and supply chain management at the national level.

Third, to support and sustain the computerization of TPDS operations, a Central sector scheme – Integrated Management of Public Distribution System (IM-PDS) is been implemented since 2018.
IM-PDS aims to achieve nation-wide portability of ration cards via a "One Nation, One Ration Card (ONORC)" plan, thus empowering all the eligible TPDS beneficiaries to access and collect their entitled food grains from any FPS of their choice across the country. In the previous setup, beneficiaries were restricted from accessing their registered Ration Shop.

Up to December 2020, the ONORC scheme is seamlessly enabled in 32 States/UTs and further extended to 31.03.2022.

Fourth, to increase and modernize the storage capacity, the Central Government has approved an Action Plan to construct 100 LMT silos. Out of these 100 LMT, silos with a capacity of 29 LMT will be constructed by FCI, 2.5 LMT by Central Warehousing Corporations, and 68.5 LMT by State Governments. Currently, a capacity of 8.25 LMT has been completed and put to use, 21.50 LMT are under implementation, and 1 LMT is awarded to State Governments on a Nomination basis. Moreover, new godowns of 1.88 lakh MT and 2,325 MT were completed in 2019-20 and 2020-21 by Private Enterprises and State Governments, respectively.

Fifth, the Act guards the provision by establishing a vigilance committee at State, District, Block, and FPS levels, giving due representation to local authorities, SCs, STs, women, and persons with disabilities. The vigilance committee shall supervise and monitor all the schemes under the Act. Further, the state is bound to send an annual report to the Centre regarding the functioning of these committees.

Sixth, all the tech support schemes are implemented in a center-state collaboration. The End-to-End Computerization costs are shared between the States/UTs on a 50:50 basis, except for the north-eastern states where the allocation sums up to a 90:10 basis. The expenditure incurred under the installation and maintenance of the ePOS system would be shared between Centre and State Governments on a 50:50 and 75:25 basis for General and the Special Category States/UTs, respectively.

Further, as per the recommendation given by the High-Level Committee, the FCI initiated the containerized movement of food grains on specific routes through the Container Corporation of India (CONCOR), which was found to be economical in comparison to conventional Railway rakes. Up to December 2020, around 226 containerized rakes were moved, which resulted in an approx. Freight saving of Rs 329.90 lakhs.

- Lastly, unlike in the former TPDS mechanism, States/UTs were solely responsible for financing the Intra-state transportation of food grains. However, under NFSA, the central Government has allocated Rs 3,679.82 crore in the Financial Year 2020-21 to assist the expenditure of States/UTs on intra-state movements of food grains and FPS dealer's margin.

Apart from this, NFSA, 2013 asserts that state governments grant preference to public institutions/ bodies like panchayat, Self-Help Groups, Cooperatives while issuing FPS licenses. Around 1.43 lakhs FPS are currently falling under the preference as mentioned above purview. Proper Training Programmes for TPDS/NFSA functionaries are also started.

ANALYSIS AND CONTEMPORARY CHALLENGES

It can be concluded that NFSA's provision of revising the coverage estimate and providing constant tech support across India were much-needed changes. They certainly help to eliminate the inclusion and exclusion errors, ghost withdrawal, and bogus beneficiaries. Whereas establishing central monitoring systems via nfsa and annavitran portal ensures transparency and effective end-to-end delivery, thus improving the leakage issues.

The 2013 Act also seems to be minimizing the financial strain on the Central Government as experienced under the former TPDS mechanism by opting to associate with CONCOR or reaching a cost-benefit collaboration between the states and Centre. The Act has also made the TPDS system beneficiary-friendly by implementing the ONORC scheme, Vigilance/Redressal Mechanism, enlarging the ambit of issuing licenses of FPSs with the focus to empower specific communities and groups.

NFSA, 2013 is a well-furnished progressive policy framework to achieve food security in India. However, this foundation will only suffice when the Act's provisions are effectively implemented. One must not be oblivious that the new mechanism still faces implementation and technological errors at the basic ground level that need to be addressed.

The dynamics of stagnant CIP against increasing MSP has been a significant cause for widening the food subsidy cost incurred by the Government. Although the 2013 Act ordered a timely renewal of prices, the same has not been implemented as no revision to CIP prices has been made under the Union Budget 2021. Thus, the continuation of the same old CIP marks a question to the financial sustainability of the TPDS system under NFSA.

As per Lokniti- CSDS study (2019) – a survey carried out on 12,000 + electors of which four-fifth interviewers possessed a ration card concluded that around 28% or over one in four households (India-wide) were deprived of their food grain rations for lack of Aadhaar, or due to other Aadhaar-related problems such as biometric authentication glitches or failure to link their ration card with Aadhaar. This percentage increased to 39 % among low-income households and 40% in the erstwhile BIMARU states. In 2020, LJP President Chirag Paswan alleged the State Government of Bihar failed to send an updated list of the beneficiaries to the Centre, which excluded the details of 14.5 lakh families (Bihar) – about 60 lakh beneficiaries depriving them to avail the benefits of the TPDS.

There have been a lot more cases/reports about beneficiaries' fingerprints not getting confirmed by the e-PoS device at the ration shop, iris scanners not being there as backup, and a poor Internet connection. Amid these cited irregularities and OTP misuse, the Delhi Government has suspended the ePOS system since 2018. However, Delhi started the ePOS and ONORC scheme pilot project in April this year in Seemapuri Circle.

With the implementation of ONORC as a promising scheme for the migrant laborers and their families as it grants them access to any FPS of their choice across the country, experts have raised worries about keeping track with inter-and-intra mobilization of migrants, as no accurate data can be derived at. Thus, studying, recording, and updating migrant data across India would be a tedious task to carry out. This critical challenge needs to be tackled efficiently as food grains are allocated to the state every month. Any discrepancy will not only deprive the beneficiaries but may also lead to black marketing and hoarding.

Further, a survey to analyze the effects of post-NFSA in Odisha, Uttar Pradesh, and Bihar concluded that most respondents were neither aware nor understood the ONORC scheme (57% in Bihar, 62% in Eastern UP, 72% in Odisha). The same survey also draws upon that many of the beneficiaries were unaware of the shift in categories. Thus, greater information dissemination is needed to generate awareness regarding NFSA provisions to garner support to and from underprivileged families.

Lastly, I would like to shed light upon the effect of the Essential Commodities Act, 2020 upon the TPDS mechanism under NFSA. The ECA, 2020 has been a cause of a significant uproar across India as the Act is seen to stimulate hoarding behavior from the giant private corporations leading to price inflation. However, Government ensures that "nothing contained in this sub-section shall apply to any order relating to the PDS or the Targeted PDS, made by the Government under this Act or any other law for the time being in force, the Kisan Union (AIKSCC) views "the time being in force" very sinister. Further, the farmers are also critical towards dismantling the APMC system as it may have a ripple effect on the public procurement mechanism at MSP. However, the farm laws have many interpretative ambiguities that may or may not directly affect the NFSA mechanism. All this remains to be seen.

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