Food Subsidy and the National Food Security Act (NFSA) GoI, 2021-22 (Pre-Budget)

**HIGHLIGHTS**

₹ 1,24,535 cr
GoI allocations for Ministry of Consumer Affairs, Food and Public Distribution (MoCAF&PD) for FY 2020-21

₹ 1,15,570 cr
GoI allocations for Food Subsidy in FY 2020-21

**SUMMARY & ANALYSIS**

- **In Financial Year 2020-21 Budget Estimates (BEs), GoI allocated ₹1,24,535 crore to MoCAF&PD, a 6 per cent increase from previous year’s Revised Estimates (REs). Total allocations to Food Subsidy stood at ₹1,15,570 crore, a 6 per cent increase from previous year’s REs, but a 37 per cent decline from the BEs.**

- Debt burden of the Food Corporation of India (FCI) has increased fourfold since FY 2013-14 largely due to gaps in release of funds by GoI. At the start of FY 2020-21, it stood at ₹3,27,865 crore.

- On average, in 2020, the foodgrains in the Central Pool were twice the required norms.

- Offtake or lifting of foodgrains by states under NFSA has been high. Since FY 2017-18, total allocation of foodgrains has consistently been around 550 lakh tons, and offtake above 94 per cent.

- As of November 2020, while 99 per cent of the population is covered under NFSA as per Census 2011 population, coverage falls to 89 per cent using projected populations for 2020.

- Under PMGKAY, during the eight months of implementation from April to November 2020, 91 per cent of lifted foodgrain was distributed. Distribution of foodgrains to migrant workers under AtmaNirbhar Bharat Package was lower at 42 per cent, as on 18 September 2020.
The Public Distribution System (PDS) is Government of India’s (GoI’s) flagship programme aimed at ensuring food security to Indian citizens through the supply and distribution of foodgrains and other essential commodities.

In June 1997, GoI launched the Targeted Public Distribution System (TPDS) scheme with a focus on providing subsidised grains and essential commodities to six crore vulnerable sections of the society. The families are divided into two categories: Below the Poverty Line (BPL) and Above the Poverty Line (APL).

The implementation of the scheme is the joint responsibility of GoI and states. At the GoI level, the scheme is implemented by the Department of Food and Public Distribution (DoFPD) and the Food Corporation of India (FCI).

In December 2000, TPDS was expanded with the launch of two more schemes with a focus on targeting the most vulnerable and poor. These were the:

- Antyodaya Anna Yojana (AAY) which provides foodgrains at a highly subsidised rate of ₹2 per kilogram (kg) for wheat, and ₹3 per kg for rice to one crore of the poorest families within the BPL category.
- Annapurna scheme which provides 10 kgs of foodgrains per month free of cost, to senior citizens not covered by the National Old Age Pension Scheme (NOAPS).

In 2013, the enactment of the National Food Security Act (NFSA) made the provision of adequate quantities of quality food at affordable prices and ensuring nutritional security a right. The Act is meant to cover about two-thirds of the population and is currently being implemented across all states and Union Territories (UTs). The Act relies on the existing TPDS mechanism to deliver these entitlements.

In the light of the COVID-19 pandemic, on 26 March 2020, GoI announced the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY), providing additional foodgrains to eligible beneficiaries free of cost. The scheme was implemented for a period of eight months from April 2020 to November 2020.

This brief looks at the trends in food subsidy and implementation of the NFSA with a special focus on the PMGKAY.

**TRENDS IN GOI ALLOCATIONS AND RELEASES**

GoI allocations for the Ministry of Consumer Affairs, Food and Public Distribution (MoCAF&PD) have been declining in recent years. In Financial Year (FY) 2018-19 Revised Estimates (REs), ₹1,79,655 crore was allocated to the Ministry. This decreased by 35 per cent in FY 2019-20 to stand at ₹1,17,290 crore.

At the start of FY 2020-21 Budget Estimates (BEs) for the Ministry stood at ₹1,24,535 crore, a 6 per cent increase over the previous year.

Part of the reason for this decline is the decrease in allocations for Food Subsidy, under the NFSA. DoFPD provides reimbursement to the FCI and states for procuring foodgrains from farmers at government notified prices known as Minimum Support Price (MSP). These are then sold at subsidised prices known as Central Issue Prices (CIPs). The difference between total cost of procurement (MSP and other incidentals) and CIP is provided by GoI as Food Subsidy to FCI. The foodgrain subsidy also covers the storage cost incurred by the FCI in maintaining buffer stocks to ensure food security in the country.

In FY 2018-19, the allocations towards Food Subsidy were ₹1,71,298 crore, but fell by 37 per cent in FY 2019-20 to ₹1,08,688 crore. In FY 2020-21 BEs, allocations marginally increased by 6 per cent from the previous year and stood at ₹1,15,570 crore. As of the fourth quarter of FY 2019-20, Food Subsidy accounted for about 3 per cent of India’s Gross Domestic Product (GDP).
33% DECLINE IN GOI ALLOCATIONS FOR FOOD SUBSIDY BETWEEN FY 2018-20 RE AND FY 2020-21 BE

<table>
<thead>
<tr>
<th>Year</th>
<th>GoI allocations to MoCAF&amp;PD (in ₹ crore)</th>
<th>GoI allocations to Food Subsidy (in ₹ crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>1,43,988</td>
<td>1,49,608</td>
</tr>
<tr>
<td>2017-18</td>
<td>1,35,173</td>
<td>1,49,608</td>
</tr>
<tr>
<td>2018-19</td>
<td>1,49,805</td>
<td>1,79,655</td>
</tr>
<tr>
<td>2019-20</td>
<td>1,40,282</td>
<td>1,71,298</td>
</tr>
<tr>
<td>2020-21</td>
<td>1,17,290</td>
<td>1,24,535</td>
</tr>
</tbody>
</table>


Note: Figures are in crores of Rupees and are Revised Estimates (REs), except for FY 2020-21 which are Budget Estimates (BEs).

Releases

- Funds for Food Subsidy are released by GoI to FCI. Further, to meet the cost of procurement, FCI also meets its debt obligation through Cash Credit Limit (CCL), Ways and Means Advances (WMA), Short Term Loan (STL), National Small Saving Fund (NSSF) Loan, and bonds.

- Over the years, the debt of FCI has been increasing. In March 2014, the total debt of FCI was ₹84,446 crore. This increased nearly threefold to ₹2,53,162 crore as on March 2019.

- At the start of FY 2020-21, the debt burden stood at ₹3,27,865 crore, and outstanding debt had increased to ₹3,74,367 crore as on 31 December 2020.

FCI’s Debt Burden Increased by Almost 4 Times Between 2013-14 and 2019-20

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Credit Limit (CCL)</th>
<th>Bonds</th>
<th>NSSF Loan</th>
<th>Short Term Loan (STL)</th>
<th>Total Borrowings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>84,446</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014-15</td>
<td>91,353</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015-16</td>
<td>89,978</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016-17</td>
<td>1,26,097</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017-18</td>
<td>1,89,864</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018-19</td>
<td>2,53,162</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019-20</td>
<td>3,27,865</td>
<td></td>
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</tr>
</tbody>
</table>

The increase in debt for FCI is mainly due to gaps in the release of funds by GoI, resulting in large arrears over the years. In FY 2013-14, the subsidy claimed by FCI stood at ₹89,492 crore while the subsidy it received was ₹75,530 crore, or 84 per cent of the subsidy claimed.

However, since FY 2016-17, the proportion of subsidy received by the FCI from the GoI has been declining. In FY 2019-20, FCI received ₹75,000 crore, which was only 54 per cent of the subsidy it had claimed.

These lower proportions received by FCI every year have translated to an increase in backlog payments and the dues being carried over to the next FY. Since FY 2013-14, the percentage of subsidy released to FCI the same year as claimed has been declining, and for FY 2017-18 to FY 2019-20, this percentage was zero.

![54% OF CLAIMED SUBSIDY RECEIVED BY FCI FROM GOI IN 2019-20](chart)


**PROVISIONS UNDER NFSA**

- NFSA legally entitles 75 per cent of the rural and 50 per cent of the urban population to receive subsidised foodgrains under TPDS.

- There are two categories of people receiving subsidised grains: a) Antyodaya Anna Yojana (AAY) which constitute poorest of the poor and are entitled to 35 kgs of foodgrains per family per month; and b) Priority Households (PHH) identified by states and entitled to 5 kgs per person per month.

- State-wise rural and urban coverage was determined by the erstwhile Planning Commission, using the National Sample Survey (NSS) Household Consumption Survey data for 2011-12 and based on Census 2011 population estimates. While GoI determines the total state-wise number of people to be covered under the scheme, states are responsible for identification of eligible households. As per Section 10 of the NFSA, states identify AAY households based on scheme guidelines while the remaining households are covered as PHH in accordance with states’ own specific guidelines.

- Under NFSA, foodgrains are to be made available at a subsidised rate of ₹3 per kg for rice, ₹2 per kg for wheat, and ₹1 per kg for coarse grains to all AAY and PHH.

- GoI makes state-wise allocations of foodgrains based on the number of eligible households. Further, in case NFSA allocations for any state/UT’s allocation is lower than their previous allocations under TPDS, the Act provides for a ‘Tide over allocation’ up to the level of average offtake under erstwhile TPDS during FY 2010-11 to FY 2012-13.
STOCKING AND STORAGE OF FOODGRAINS

- As per GoI guidelines, FCI is to maintain a certain amount of foodgrain stock in the Central Pool to meet operational requirements of TPDS and Other Welfare Schemes plus food security stocks, in case of any shortfall in procurement.

- Over the years, the stock of foodgrains available in the Central Pool has been significantly higher than the stocking norms. In 2020, for instance, stocks available were nearly twice the required stocking norms. The highest difference was on 1 July 2020, with 199.8 per cent more than the required amount. This is despite the additional allocations and distribution of foodgrains as part of the relief measures to mitigate the impact of the COVID-19 pandemic.

IN 2020, STOCK OF FOODGRAINS IN CENTRAL POOL ON AVERAGE WAS MORE THAN TWICE THE STOCKING NORMS

<table>
<thead>
<tr>
<th></th>
<th>Stocking Norms (in lakh tons)</th>
<th>Stock Position in the Central Pool in 2020 (in lakh tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>328</td>
<td>138</td>
</tr>
<tr>
<td>Rice</td>
<td>237</td>
<td>75</td>
</tr>
<tr>
<td>Total</td>
<td>565</td>
<td>214</td>
</tr>
<tr>
<td>Wheat</td>
<td>247</td>
<td>75</td>
</tr>
<tr>
<td>Rice</td>
<td>322</td>
<td>136</td>
</tr>
<tr>
<td>Total</td>
<td>569</td>
<td>210</td>
</tr>
<tr>
<td>Wheat</td>
<td>276</td>
<td>135</td>
</tr>
<tr>
<td>Rice</td>
<td>272</td>
<td>822</td>
</tr>
<tr>
<td>Total</td>
<td>550</td>
<td>411</td>
</tr>
<tr>
<td>Wheat</td>
<td>205</td>
<td>103</td>
</tr>
<tr>
<td>Rice</td>
<td>437</td>
<td>193</td>
</tr>
<tr>
<td>Total</td>
<td>630</td>
<td>308</td>
</tr>
</tbody>
</table>


PROCUREMENT

- States are responsible for lifting allocated foodgrains, also known as ‘offtake’. There are two main types of procurement: the Centralised Procurement System (CPS) and the Decentralised Procurement System (DCP).

  - CPS: Under the CPS, the FCI is responsible for procurement, storage, transportation, and bulk allocations of foodgrains to the state governments. The operational responsibility, such as allocations within the state/UT; identification of eligible families; issuance of ration cards; and supervision of FPS, rests with each individual state government.

  - DCP: Under the DCP, state governments undertake direct purchase of foodgrains, and are also responsible for the storage and distribution under NFSA and other welfare schemes. Excess stocks procured by the states are returned to the FCI in the Central Pool, and the cost incurred on these excess stocks are reimbursed by FCI to state governments, as per GoI costs sheets. GoI assumes the responsibility of the entire expenditure incurred during the procurement operations, as per the pre-approved costing.

- At present, 17 states and UTs are procuring foodgrains under the DCP system. These are: Andaman and Nicobar Islands, Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Jharkhand (6 districts), Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan (9 districts), Tamil Nadu, Telangana, Uttarakhand, and West Bengal. The remaining states/UTs fall under the CPS.
Further, the NFSA provides for direct cash transfers under which cash equivalent of subsidy is being transferred directly into the bank accounts of eligible households to enable them to purchase foodgrains from the open market. The provision was implemented in UTs of Chandigarh and Puducherry in 2015 and in Dadra and Nagar Haveli in 2016. The scheme is optional for states/UTs and operates in identified areas or any specified area within the state or UT.

Total allocations of foodgrains including NFSA and Tide over allocations has remained constant at around 550 lakh tons from FY 2017-18 to FY 2019-20. In FY 2020-21, till December, 378 lakh tons of foodgrains had been allocated to states.

Most of the grain allocated has been lifted though the proportion fell marginally in the last few years. In FY 2017-18, 98 per cent of foodgrains allocated were lifted. This decreased to 95 per cent in FY 2018-19, and stood at 96 per cent in FY 2019-20.

In FY 2020-21, till December, three-quarters of the fiscal year, 92 per cent of the foodgrains allocated had been lifted by states. Within foodgrains, while 94 per cent of rice allocated was lifted till December 2020, the proportion for wheat was only 89 per cent.

There are differences in lifting both across states, and the two eligible category groups. Till December 2020, at an all-India level, lifting was lower for AAY households which are the poorest of the poor, with 86 per cent of the allocations lifted. In contrast, for PHH, 93 per cent of the foodgrains had been lifted.

There are also differences in the proportion of foodgrains lifted across states. For instance, foodgrain lifting till December 2020 was more than 90 per cent in Tamil Nadu, West Bengal, Kerala, Chhattisgarh, and Assam across both AAY and PHH. In contrast, less than 75 per cent of foodgrains were lifted across both categories in Punjab. In Andhra Pradesh and Rajasthan, the proportion of foodgrains lifted for AAY households was significantly lower than for PHH.
Decentralised Procurement System

- For states/UTs which have adopted the DCP system, release of food subsidy by the GoI is a continuous process and the amount released to DCP states depends on the subsidy claim amount, amount of food subsidy found admissible, and the monthly/quarterly availability of budget.

- For FY 2019-20, subsidy released by GoI to states under DCP system stood at ₹44,944 crore, an increase of 45 per cent from the reported ₹31,030 crore of subsidy released in FY 2018-19. As on 17 December 2020, ₹37,133 crore had been released by the GoI for FY 2020-21.

PAYMENT TO FCI

- There are broadly three components that are financed by GoI for Food Subsidy. These are: a) Subsidy to FCI for CPS; b) Subsidy to states for those undertaking DCP; and c) Sugar subsidy provided for giving 1 kg of sugar per month at subsidised rates to families covered under the Antyodaya Anna Yojana (i.e. poorest of the poor families).

- GoI allocations for subsidy through CPS has been declining significantly. In FY 2019-20, GoI allocations decreased by 47 per cent from the previous year to stand at ₹75,000 crore. At the start of FY 2020-21 BEs, allocations increased marginally by 4 per cent.

- In contrast, GoI allocations for DPS have seen an increase in recent years since FY 2018-19 from ₹31,000 crore in FY 2018-19 to ₹37,337 crore in FY 2020-21.


**DISTRIBUTION**

- Distribution of foodgrains to eligible people is done through a network of Fair Price Shops (FPS) who are licensed to distribute foodgrains and essential commodities to all ration card holders under the TPDS.

- On average, as on 20 November 2020, one FPS served 1,498 beneficiaries. However, there exists large heterogeneity among states. Sikkim and Mizoram have the lowest number of beneficiaries served per FPS, while over 2,000 beneficiaries are being served on average by a single FPS in Gujarat, Odisha, and Delhi.

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**20% INCREASE IN GOI ALLOCATIONS FOR DPS BUT 44% DECREASE FOR CPS BETWEEN 2018-19 TO 2020-21**

![Graph showing the increase in allocations from 2016-17 to 2020-21](image)

- **Food Subsidy to FCI under NFSA (in ₹ crore)**
- **Food Subsidy for Decentralised Procurement of Foodgrains under NFSA (in ₹ crore)**
- **Sugar subsidy payable under PDS (in ₹ crore)**


**Note:** Figures are in crores of Rupee and are Revised Estimates (REs), except for FY 2020-21 which are Budget Estimates (BEs).
COVERAGE AND BENEFICIARY ELIGIBILITY

- As of November 2020, 80.6 crore beneficiaries were covered under NFSA, of which 11 per cent belong to AAY households. This accounted for 99 per cent of the eligible households as per Census 2011.

- However, accounting for population growth and projecting population to 2020, proportion of coverage fell to 89 per cent of the eligible population.

- There were state variations. Himachal Pradesh had the lowest coverage at 73 per cent. Similarly, states such as Uttar Pradesh, Bihar, and Jharkhand which have a large population living below the poverty line, had coverage lower than India's average. In contrast, over 90 per cent of the eligible people were covered in Odisha, Kerala, and West Bengal.

89% ELIGIBLE BENEFICIARIES WERE COVERED UNDER NFSA AS OF NOVEMBER 2020

![State-wise coverage under NFSA (till November 2020)]


- As per the NFSA, two-thirds or 67 per cent of India's population was legally mandated to be covered under NFSA. Using current projected population of 137.1 crore, NFSA would need to cover 90.55 crore people, approximately 10 crore more than the current coverage. In other words, currently, only 60 per cent of the legally required population is being covered under NFSA.

PMGKAY

- On 26 March 2020, due to the COVID-19 pandemic, GoI announced the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY), providing 5 kgs of rice or wheat and 1 kg of pulses to eligible people free-of-cost. This was in addition to the regular quota of foodgrains. The scheme was to be initially implemented for a period of three months from April 2020 to June 2020 but was later extended till November 2020.

- There are differences in the lifting and distribution of foodgrains by states across months. The highest lifting came in the month of April, after the announcement of the country-wide lockdown at the end of March. Offtake fell to a minimum in June as the scheme was supposed to end but picked up again, following the announcement of its extension till November.
In April 2020, 147 per cent of the allocated foodgrains were lifted by states but distribution was less than 50 per cent of the offtake. On the other hand, in June, offtake of foodgrains was less than 50 per cent but distribution was more than 200 per cent of the offtake.

Similarly, in July and August, as the scheme was extended, lifting by the states was more than 100 per cent of the allocation while distribution was less than 80 per cent of the offtake. In November, the last month of the scheme, only 57 per cent of the allocated foodgrains were lifted but distribution was 144 per cent of the offtake.

There were state-wise variations in the offtake and distribution of foodgrains. Both offtake and distribution for states like Uttar Pradesh, Haryana, Karnataka, Chhattisgarh, Telangana, and Madhya Pradesh was more than 90 per cent. On the other hand, Uttarakhand lifted 75 per cent of the allocated foodgrains and distributed only 61 per cent of it. Similarly, percentage of foodgrains distributed was lower in Punjab (51 per cent) and Sikkim (34 per cent) despite both states lifting more than 80 per cent of their total allocations.

**IN 2020-21, PROPORTION OF FOODGRAINS LIFTED FELL TO A MINIMUM AND PROPORTION OF FOODGRAINS DISTRIBUTED INCREASED TO A MAXIMUM IN JUNE**

![Graph showing percentage of foodgrains lifted and distributed from April to November 2020.](Link to graph)


**UNDER PMGKAY, BIHAR DISTRIBUTED 100% OF THE LIFTED FOODGRAINS WHILE UTTARAKHAND AND SIKKIM DISTRIBUTED LESS THAN 65%**

![Graph showing percentage of foodgrains lifted and distributed by states from Chhattisgarh to Uttarakhand in 2020-21.](Link to graph)

MIGRANTS COVERED UNDER ATMANIRBHAR PACKAGE

- Under the AtmaNirbhar Bharat Package (ANBP) introduced in May 2020, GoI announced various economic measures for migrant workers across India, including the provision of free-of-cost foodgrains at 5 kgs per person, per month and whole chana at 1 kg per household, per month for the months of May and June. The distribution period was extended till August 2020. A total quantity of 8 lakh Metric Ton (MT) of foodgrains, and 27 thousand MT of whole chana was allocated to this scheme, which was specifically designed to cover all migrants/stranded workers not covered under the NFSA or any other state PDS scheme.

- Offtake of foodgrains under the scheme was high. Out of total 8 lakh MT of foodgrains allocated, 6.4 lakh MT, or 80 per cent was lifted.

- Differences, however, exists among states. Twenty-one states/UTs lifted 100 per cent of their total allocations, while lifting was below 5 per cent for Odisha, Madhya Pradesh, and Chhattisgarh.

- Foodgrain distribution was low. Only 2.7 lakh MT, or 42 per cent of the foodgrain lifted was distributed. While distribution was high for Bihar and Odisha with the entire foodgrain lifted also being distributed, 11 states/UTs reported distributing less than 20 per cent of their total offtake amount including Uttar Pradesh (8 per cent), Jharkhand (3 per cent), and Gujarat (1 per cent).

![Out of total offtake, only 42% of foodgrains were distributed to migrants as on 18 September 2020](image)


- Part of the reason for low distribution as per GoI was due to the lack of data on the number of stranded migrant workers. Initially, with the national lockdown, GoI released an estimate of intending to provide for 8 crore migrants/stranded workers, which was equivalent to 10 per cent of the total beneficiaries currently covered under NFSA.

- Subsequently, guidelines for identifying migrants and distributing the foodgrains were independently decided by each state/UT. Through these processes it was assessed that many migrants had returned to their respective states and a revised estimate of covering 2.8 crore migrants/stranded workers was set.

- Some states also issued ration cards or temporary identifications for additional people who were earlier not covered under NFSA and therefore, PMGKAY. States such as Uttar Pradesh, Bihar, and Tripura reported issuing new ration cards to 45 lakh, 15 lakh, and 25,000 persons, respectively.
As on 1 September 2020, GoI reported covering 2.35 crore persons in May, 2.48 crore in June, 0.31 crore in July, and 0.16 crore persons in August under ANBP.

STATUS OF ADULT MALNUTRITION IN INDIA

The National Food Security Act (NFSA) aims to provide food and nutritional security, by ensuring access to adequate quantities of quality food at affordable prices to people that would enable them to live a life with dignity.

The National Family Health Survey (NFHS) collects information on adults whose Body Mass Index (BMI) is below the normal BMI of 18.5 kilograms per meter squared.

There has been a marginal improvement of 3 percentage points in the percentage of men and women with below normal BMI between NFHS-4 in 2015-16 and NFHS-5 in 2019-20. There are state-wise variations. In Sikkim, less than 6 per cent of men and women had below normal BMI. On the other hand, more than 20 per cent of men, and more than 25 per cent of women had below normal BMI in Bihar and Gujarat.

AROUND 25% OF THE WOMEN IN BIHAR AND GUJARAT WERE BELOW NORMAL BMI