



BUDGET BRIEFS

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Food Subsidy and the National Food Security Act (NFSA) GoI, 2022-23

Food Subsidy is provided by the Government of India (GoI) for the supply and distribution of foodgrains and other essential commodities.

With the passing of the **National Food Security Act (NFSA)** in 2013, nutritional security became a right. Under the Act, adequate quantities of quality food at affordable prices are to be provided to two-thirds of India's population.

Against the backdrop of the COVID-19 pandemic, this brief uses government data to analyse:

- Allocations and releases under Food Subsidy;
- Trends in storage/stocking and procurement of foodgrains;
- Trends in foodgrain allocations, offtake, and distribution under NFSA and Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY); and
- Coverage under NFSA.

Cost share and implementation:

Funds are borne by GoI, with state governments having the option to choose between directly undertaking procurement or through centralised procurement via Food Corporation of India (FCI).

HIGHLIGHTS

₹ 2,17,684 cr

GoI allocations for Ministry of Consumer Affairs, Food and Public Distribution (MoCAF&PD) for FY 2022-23

₹ 2,06,831 cr

GoI allocations for Food Subsidy in FY 2022-23

SUMMARY & ANALYSIS

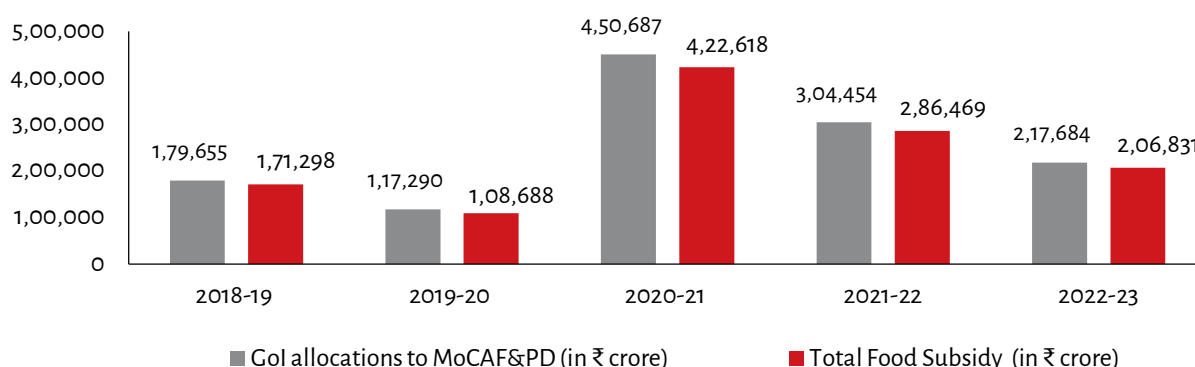
- For Financial Year (FY) 2022-23 Budget Estimates (BEs), GoI allocated ₹2,17,684 crore to MoCAF&PD. This was 28 per cent less from the previous year's Revised Estimates (REs) and 15 per cent less than the BEs.
- Food Subsidy is the largest scheme of the Ministry and followed a similar pattern. Allocations for FY 2022-23 BEs stood at ₹2,06,831 crore, a 28 per cent decrease from the previous year's REs.
- This is despite the fact that allocations of foodgrains increased significantly in FY 2020-21 and FY 2021-22 owing to the additional allocations made under PMGKAY and other pandemic relief measures. With the extension of PMGKAY into its fifth phase, estimated foodgrain allocations for FY 2021-22 are at a record high of 981 lakh tons, 79 per cent higher than FY 2019-20.
- After accumulating a large debt over the years, FCI's outstanding debt reduced to ₹45,572 crore as on 31 December 2021, eightfold lower than the amount incurred on the same date in FY 2020-21. However, with the increase in foodgrains provided by FCI and lower allocations in FY 2022-23, the debt is likely to increase again.
- As of November 2021, the coverage of eligible beneficiaries under NFSA (calculated using projected populations for 2021) was 87 per cent.

- 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.
- 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 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 as 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 Targeted Public Distribution System (TPDS) mechanism to deliver these entitlements.
- In 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. Since then, five phases of the scheme have been announced, with the latest PMGKAY-V being implemented for a period of four months from December 2021 to March 2022.
- This brief looks at the trends in Food Subsidy and implementation of the NFSA.

TRENDS IN GOI ALLOCATIONS AND RELEASES

- For Financial Year (FY) 2022-23 Budget Estimates (BEs), GoI allocated ₹2,17,684 crore to the Ministry of Consumer Affairs, Food and Public Distribution (MoCAF&PD), a 28 per cent decrease from the previous year's Revised Estimates (REs) and 15 per cent lower than the BEs.
- This decrease comes after significant increases in allocations in FY 2020-21 and FY 2021-22, due to additional foodgrains provided to families as part of the COVID-19 pandemic relief package.
- Food Subsidy is the largest scheme of the Ministry. Under the programme, foodgrains are procured by the FCI and states 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 the total cost of procurement of foodgrains (MSP and other incidentals) and CIP is provided by GoI as Food Subsidy to FCI. The subsidy also covers the storage cost incurred by FCI in maintaining buffer stocks to ensure food security in the country.

BETWEEN 2021-22 RES AND 2022-23 BEs, GOI ALLOCATIONS FOR FOOD SUBSIDY DECREASED BY 28%



Source: Union Expenditure Budget, Volume 2, MoCAF&PD, FY 2018-19 to FY 2022-23. Available online at: <https://www.indiabudget.gov.in>. Last accessed on 1 February 2022.

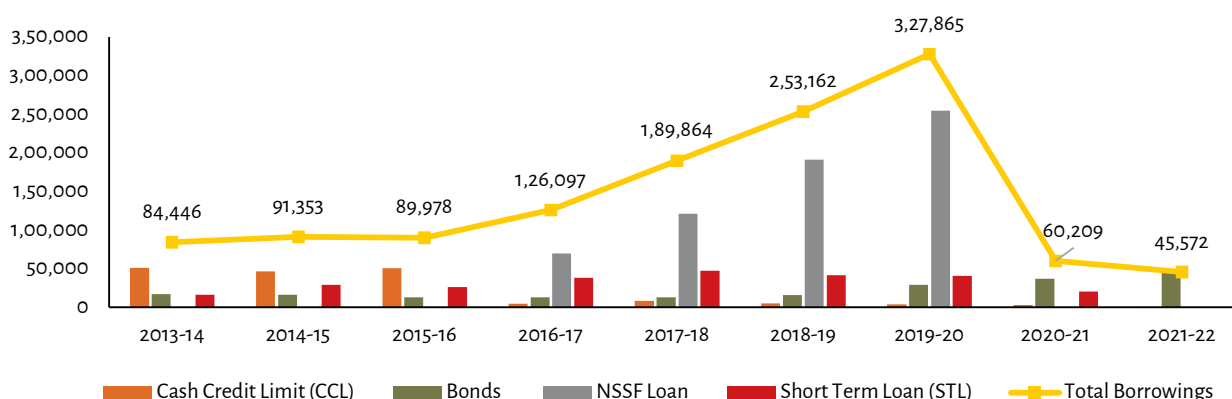
Note: Figures are in crores of Rupees and are Revised Estimates (REs), except for FY 2022-23 which are Budget Estimates (BEs).

- At the start of FY 2020-21 BEs, GoI had allocated ₹1,15,570 crore for Food Subsidy. These were increased by more than three times in the REs and stood at ₹4,22,618 crore. This increase was due to two reasons. First, as part of GoI's effort to provide free ration to citizens under the COVID-19 relief packages of PMGKAY and AtmaNirbhar Bharat Package (ANBP). Second, was due to a one-time pre-payment of around ₹1.5 lakh crore of Food Subsidy to FCI for an outstanding loan.
- However, even with extension of the PMGKAY package till March 2022 and foodgrain allocations reaching a record high of 981 lakh tons in FY 2021-22, REs for Food Subsidy were 32 per cent lower, compared to the previous year. Allocations further decreased in FY 2022-23 BEs and stood at ₹2,06,831 crore, a 28 per cent decrease from FY 2021-22 REs.

Releases

- Allocations for Food Subsidy are released by GoI to FCI. Release of funds by GoI has been falling since FY 2013-14, resulting in large arrears and an increase in debt burden for FCI.
- In FY 2013-14, FCI claimed a subsidy of ₹89,410 crore. Receipts from GoI, however, were ₹75,530 crore or 84 per cent of the subsidy claimed. In FY 2019-20, while the subsidy claimed by FCI stood at ₹1,32,608 crore, FCI received only ₹75,000 crore, or 57 per cent of the subsidy claimed.
- Low releases by GoI had led to an increase in backlog payments and dues being carried over to the next financial year. Consequently, FCI's debt burden had increased from ₹84,446 crore in March 2014 to ₹3,27,865 crore as on March 2020. This is more than a threefold increase.
- The trend however changed in FY 2020-21 when, against a claim of ₹2,16,833 crore, GoI released ₹4,62,789 crore or over twice the subsidy claimed during the year. This was due to a one-time pre-payment by GoI of around ₹1.5 lakh crore for outstanding Food Subsidy related loans of the FCI. As a result, FCI's outstanding debt fell significantly to ₹60,209 crore for the year.
- In FY 2021-22 REs, against the FCI claim of ₹2,17,460 so far, GoI released ₹1,46,600 crore or 67 per cent of the subsidy claimed, till 31 December 2021. Consequently, the debt burden stood at ₹45,572 crore as on 31 December 2021. With the reduction in allocations for Food Subsidy, FCI's debt burden, however, is likely to rise again in FY 2022-23.

USING BUDGETARY PROVISIONS FROM GOI, FCI'S DEBT BURDEN DECREASED SIGNIFICANTLY IN 2020-21



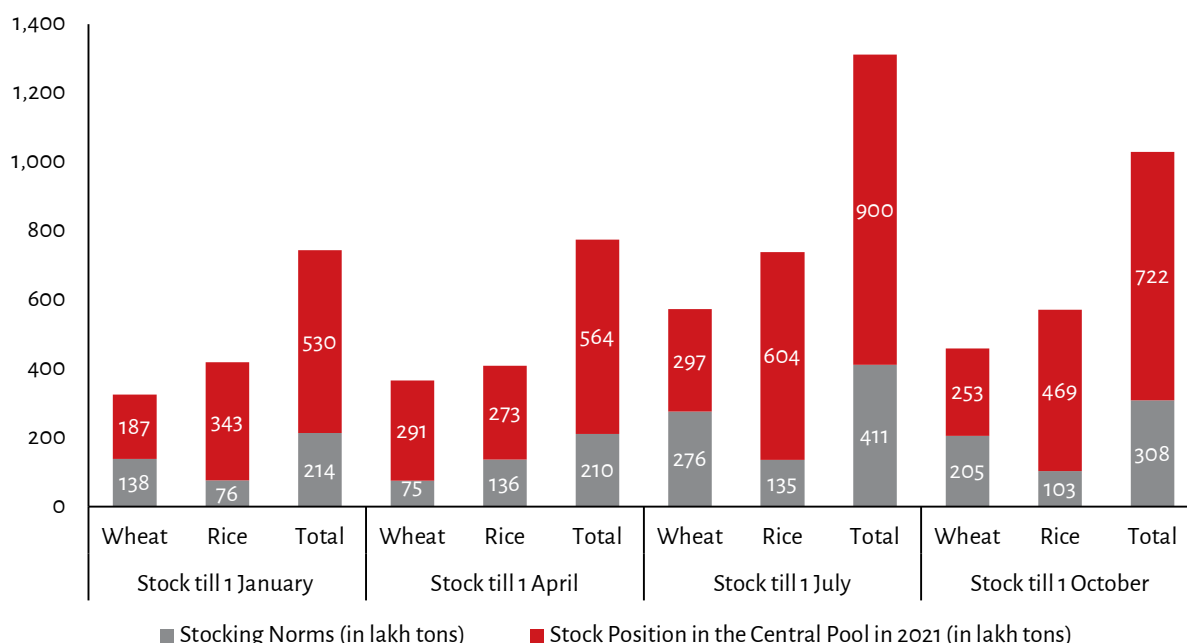
Source: (1) Borrowings from different sources by FCI for FY 2014-15 to FY 2021-22. Available online at: <https://fci.gov.in/finances.php?view=113>. Last accessed on 14 December 2021. (2) Borrowings from different sources by FCI for FY 2013-14. Available online at: https://cag.gov.in/cag_old/sites/default/files/audit_report_files/Chapter_2_-_Debt_Management_of_Report_No.18_of_2017_-_Compliance_audit_Union_Government_Food_Corporation_of_India_Reports_of_Ministry_of_Consumer_Affairs%2C_Food_and_Public_Distribution_1.pdf. Last accessed on 31 December 2021.

- To meet its debt obligation, FCI borrows funds through Cash Credit Limit (CCL), Ways and Means Advances (WMA), Short Term Loan (STL), National Small Saving Fund (NSSF) Loan, and bonds.
- NSSF loans were sanctioned to FCI between FY 2016-17 to FY 2020-21, in lieu of Food Subsidy, as off-balance sheet expenditure of the GoI, and were part of the reason for FCI's rising debt. By March 2020, NSSF outstanding loans with FCI stood at ₹2,54,600 crore, and for FY 2020-21 BEs, another ₹1,36,600 crore was to be financed through NSSF loans.
- With a repayment of ₹3,39,236 crore during FY 2020-21, NSSF loans were fully repaid out of additional subsidy provided by GoI.

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 increasing and is significantly higher than the stocking norms. In 2021, for instance, quarterly stocks available were more than twice the required stocking norms, with the highest difference recorded on 1 April 2021. This was despite the additional allocations and distribution of foodgrains as part of the relief measures to mitigate the impact of the COVID-19 pandemic.
- As on 1 January 2022, the total stock of foodgrains stood at 554 lakh tons, 340 lakh tons more than the required stock for the quarter and 24 lakh tons higher than the stock position last year for the same period.

IN 2021, TOTAL STOCK OF FOODGRAINS IN CENTRAL POOL WAS CONSISTENTLY MORE THAN TWICE THE REQUIRED STOCKING NORMS



Source: (1) Month-wise stock in Central Pool of rice, wheat and coarsegrains. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/food-grain-bulletin.htm>. Last accessed on 13 December 2021. (2) Stocking Norms, Food Corporation of India. Available online at: <https://fci.gov.in/stocks.php?view=18>. Last accessed on 13 December 2021.

PROCUREMENT

- There are two main types of procurement of foodgrains: 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 and UTs, identification of eligible families, issuance of ration cards, and supervision of Fair Price Shops (FPS), rests with individual state governments.
 - **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 Gol costs sheets. Gol assumes the responsibility for the entire expenditure incurred during the procurement operations, as per 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 and UTs fall under the CPS.

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 constitutes poorest of the poor entitled to 35 kgs of foodgrains per family, per month, and b) Priority HouseHolds (PHH) identified by states entitled to 5 kgs per person, per month.
- 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 PHH and AAY households.

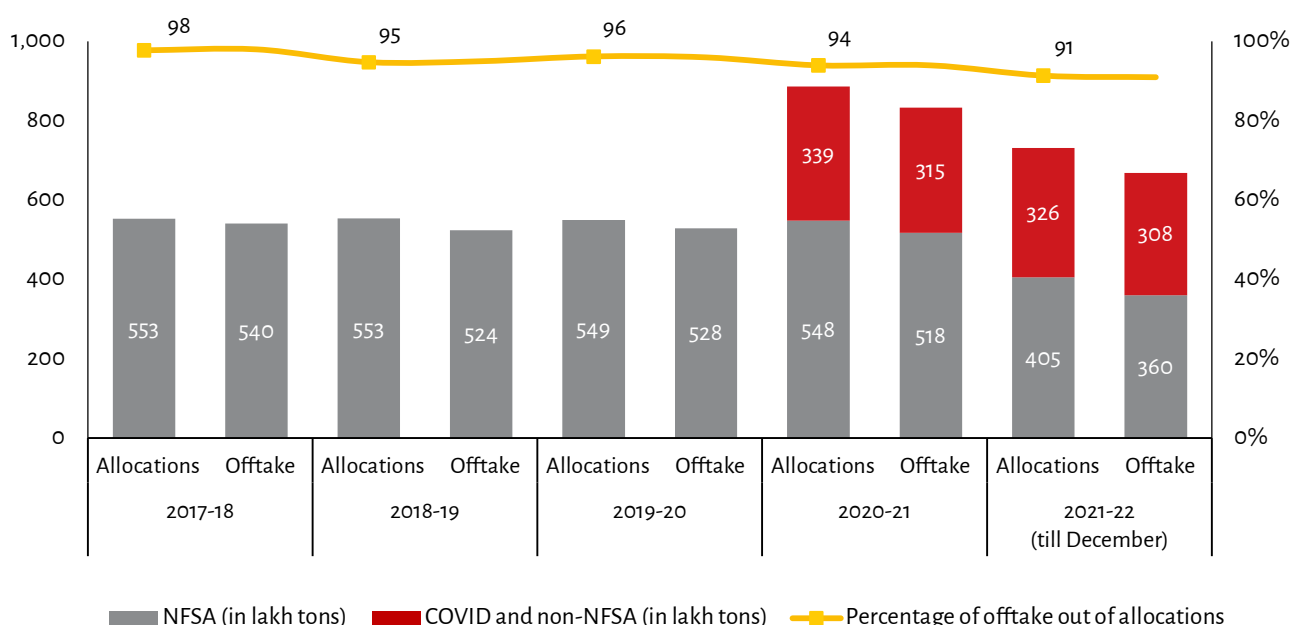
PRADHAN MANTRI GARIB KALYAN ANNA YOJANA (PMGKAY)

- On 26 March 2020, due to the COVID-19 pandemic, Gol announced the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY), which provided 5 kgs of rice or wheat to eligible people, free of cost. This was in addition to the regular quota of foodgrains.
- After initially being implemented for a period of three months from April 2020 to June 2020 (PMGKAY-I), the scheme was later extended till November 2020 (PMGKAY-II). In FY 2021-22, the scheme was restarted for a two-month duration in May and June 2021 (PMGKAY-III) and then continued for a five-month period till November 2021 (PMGKAY-IV). A fifth phase of the scheme was announced for an additional four-month period, from December 2021 to March 2022.
- Additionally, special entitlements were also provided to migrant workers under ANBP. Under this scheme, migrant workers were given 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 2020.

Allocations and Offtake of Foodgrains

- On average, the total foodgrain allocations for NFSA has been 551 lakh tons between FY 2017-18 and FY 2020-21. Allocations, however, increased significantly in FY 2020-21, with an additional 339 lakh tons allocated as part of the pandemic relief measures. For FY 2021-22, 405 lakh tons of foodgrains were allocated to NFSA and 326 lakh tons for PMGKAY, making a total of 731 lakh tons of foodgrains allocated till December, with three more months left for the end of the financial year.
- Not all allocations, however, are lifted. Since FY 2017-18, percentage of foodgrain lifted has consistently been above 90 per cent, but has marginally decreased across years. In FY 2020-21, while total quantum offtake of foodgrains increased significantly, it still remained below the allocations, at 94 per cent. Similarly, for FY 2021-22 till December, 668 lakh ton of foodgrains had been lifted, or 91 per cent of the total allocations.

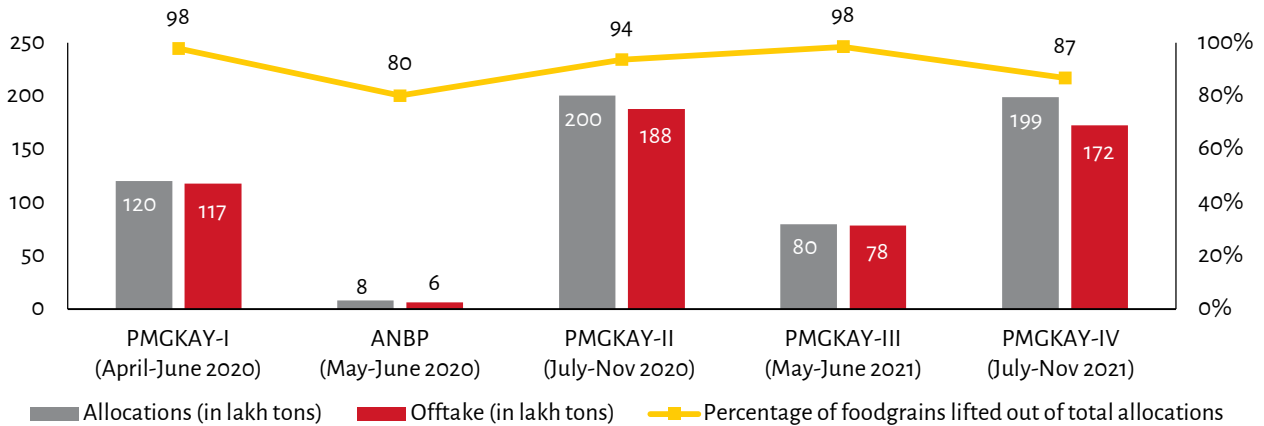
TOTAL FOODGRAIN ALLOCATIONS (NFSA + COVID RELIEF) WERE 61% HIGHER IN 2020-21 THAN THE PREVIOUS YEAR



Source: Allocations and offtake of foodgrains. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/food-grain-bulletin.htm>. Last accessed on 13 January 2022.

- Looking at phase-wise trends specifically for PMGKAY, there are some differences in foodgrains lifted out of allocations. During the peak of the first and second COVID-19 waves, 98 per cent of total grain allocated in PMGKAY-I (April-June 2020) and PMGKAY III (May-June 2021) were lifted. On the other hand, in Phase II (July to November 2020) and Phase IV (July to November 2021) offtake was lower at 94 per cent and 87 per cent, respectively.
- Offtake for ANBP was the lowest, with only 80 per cent of foodgrains lifted from total allocations.
- In terms of quantum of grains, for PMGKAY-III and IV, the total per month allocations was 39.8 lakh tons, marginally lower than the per month allocations of 40.1 lakh tons for the previous two phases of the scheme.

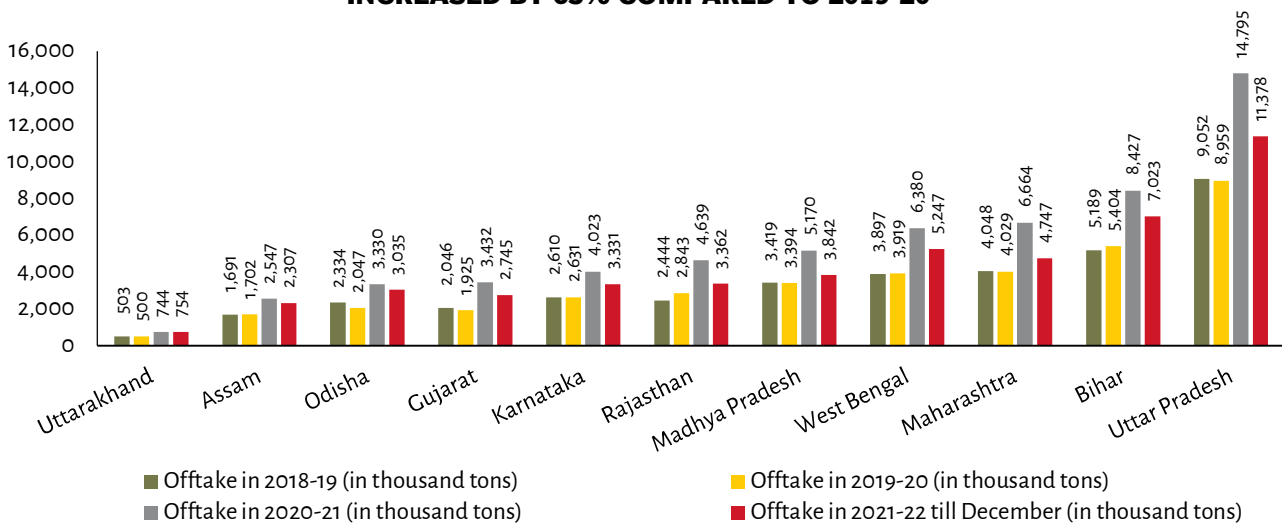
PERCENTAGE OF FOODGRAINS LIFTED OUT OF TOTAL ALLOCATIONS WERE LOWER FOR PMGKAY-IV COMPARED TO PREVIOUS PHASES



Source: (1) Allocations and lifting of foodgrains under PMGKAY. PIB dated 21 September 2021. Available online at: <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1756998>. (2) Allocations and lifting of foodgrains under ANBP Rajya Sabha Question AS 209. Available online at: <https://pqars.nic.in/annex/254/AS209.pdf>. (3) Lifting of foodgrains under PMGKAY-IV. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/writereaddata/Portal/Magazine/FoodgrainBulletinforNovember2021.pdf>. Last accessed on 13 December 2021.

- While there were differences across states in the total quantum of foodgrains lifted, most states and UTs witnessed a significant increase in offtake in FY 2020-21. Seventeen states saw an increase of more than 50 per cent in foodgrains lifted compared to FY 2019-20.
- In FY 2020-21, Uttar Pradesh saw the highest increase of 5,836 thousand tons foodgrains (65 per cent), followed by Bihar and Maharashtra at 3,023 thousand tons (56 per cent) and 2,635 thousand tons (65 per cent), respectively.
- In FY 2021-22, till December, most states had lifted more foodgrains than in previous years from FY 2017-18 to FY 2019-20, with Uttarakhand and Andhra Pradesh already having lifted a higher amount than their offtake in FY 2020-21.
- The states with the highest offtake in FY 2021-22 (till December) were Uttar Pradesh (11,378 thousand tons), Bihar (7,023 thousand tons), and West Bengal (5,247 thousand tons).

FOR MAHARASHTRA AND UTTAR PRADESH, OFFTAKE OF FOODGRAIN IN 2020-21 INCREASED BY 65% COMPARED TO 2019-20

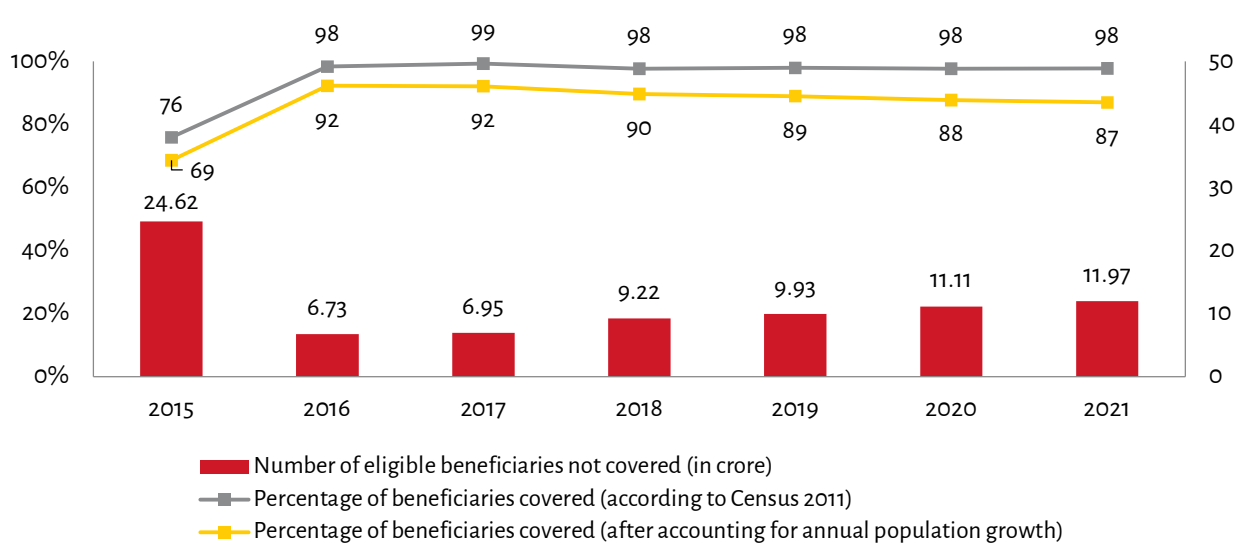


Source: Offtake of foodgrains. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/food-grain-bulletin.htm>. Last accessed on 13 January 2022.

COVERAGE AND BENEFICIARY ELIGIBILITY

- State-wise rural and urban coverage under NFSA 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 Act, states identify AAY households based on scheme guidelines, while the remaining households are covered as PHH in accordance with state-specific guidelines.
- Two-thirds or 67 per cent of India's population are legally mandated to be covered under NFSA. Using India's current projected population of 136.1 crore for 2021, NFSA would need to cover 91.5 crore people.
- Since 2016, after all the states and UTs were included in NFSA, the gap in percentage of eligible beneficiaries covered and actual beneficiaries covered has been increasing. For 2021, as of November 2021, 79.5 crore beneficiaries were covered under NFSA. This accounts for 98 per cent of eligible households as per Census 2011. However, considering population growth and projected population, coverage falls to 87 per cent of the eligible population, lower than the 92 per cent coverage in 2016. Therefore, approximately 12 crore beneficiaries are excluded under the current coverage.

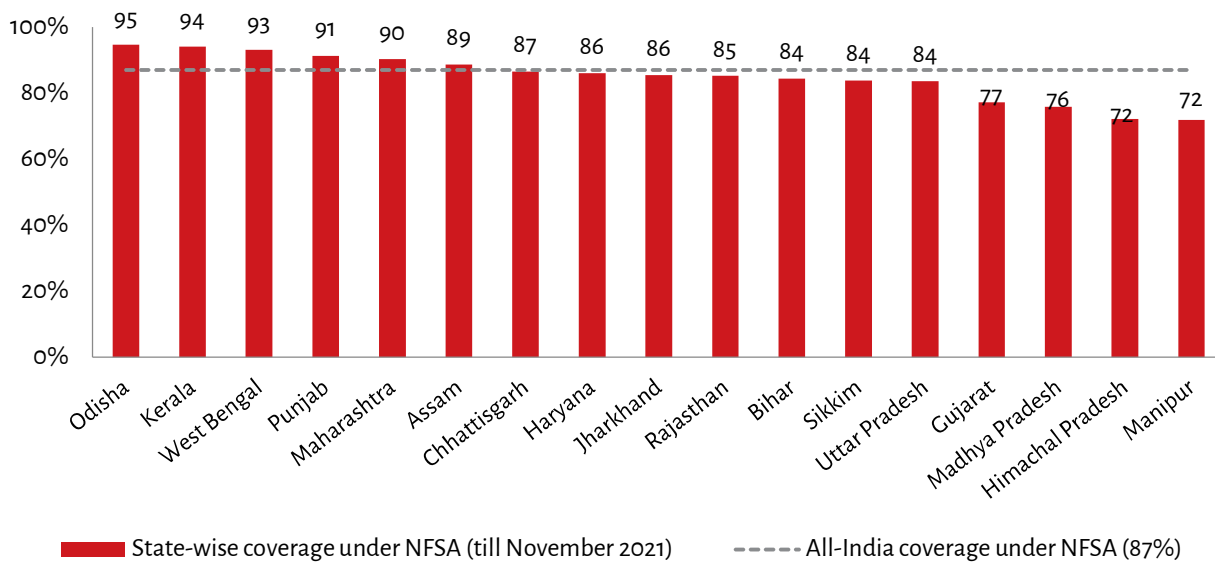
OVER 11 CRORE ELIGIBLE BENEFICIARIES LEFT OUT OF NFSA IN 2020 AND 2021



Source: (1) Persons/families covered under National Food Security Act, 2013 as on 30 November 2021. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/food-grain-bulletin.htm>. Last accessed on 13 December 2021. (2) Projected Population 2021 as per Ministry of Health and Family Welfare (MoHFW). Available online at: https://nhm.gov.in/New_Updates_2018/Report_Population_Projection_2019.pdf. Last accessed on 13 December 2021.

- There were variations across states. Manipur and Himachal Pradesh had the lowest coverage at 72 per cent, followed by Madhya Pradesh (76 per cent) and Gujarat (77 per cent). Similarly, states such as Uttar Pradesh and Bihar, which have a large population living below the poverty line, had coverage lower than India's average.
- In contrast, 12 states and UTs had over 90 per cent coverage, with Odisha having the highest proportion at 95 per cent.

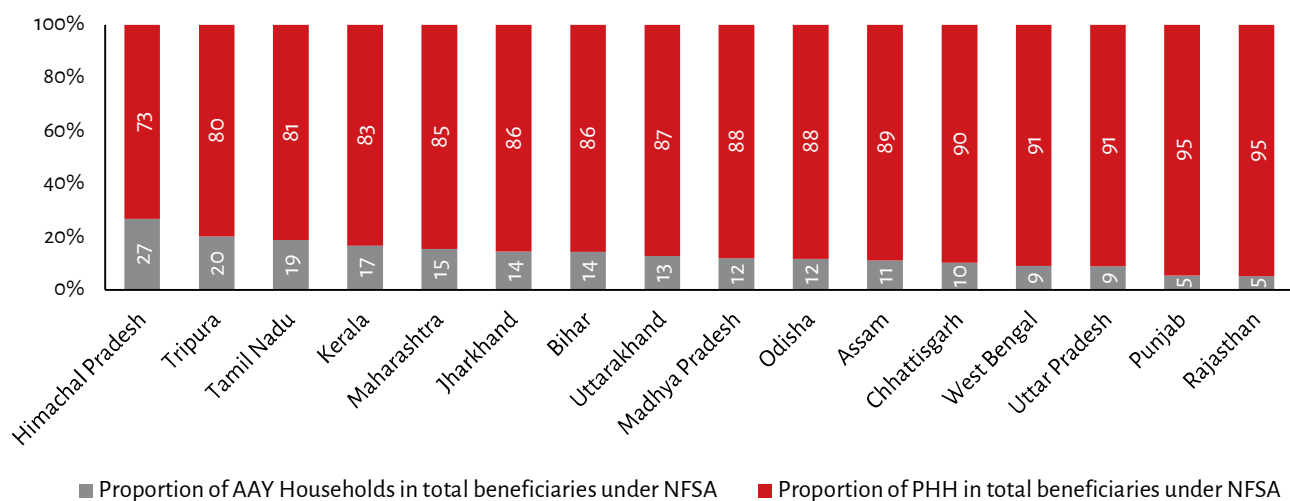
87% OF ELIGIBLE BENEFICIARIES UNDER NFSA COVERED TILL NOVEMBER 2021



Source: (1) State-wise number of persons/families covered under National Food Security Act, 2013 as on 30 November 2021, Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/food-grain-bulletin.htm>. Last accessed on 13 December 2021. (2) Projected Population 2021 as per Ministry of Health and Family Welfare (MoHFW). Available online at: https://nhm.gov.in/New-Updates_2018/Report_Population_Projection_2019.pdf. Last accessed on 13 December 2021.

- Coverage for the two types of beneficiaries (AAY households and PHH) under NFSA also differed among states. Himachal Pradesh had the highest percentage of AAY households in the total beneficiaries covered under NFSA at 27 per cent, followed by Tripura and Tamil Nadu. Punjab and Rajasthan had the lowest proportion among all states, at 5 per cent.

RAJASTHAN AND PUNJAB HAD THE LOWEST PROPORTION OF AAY HOUSEHOLDS IN TOTAL BENEFICIARIES COVERED UNDER NFSA IN 2021-22

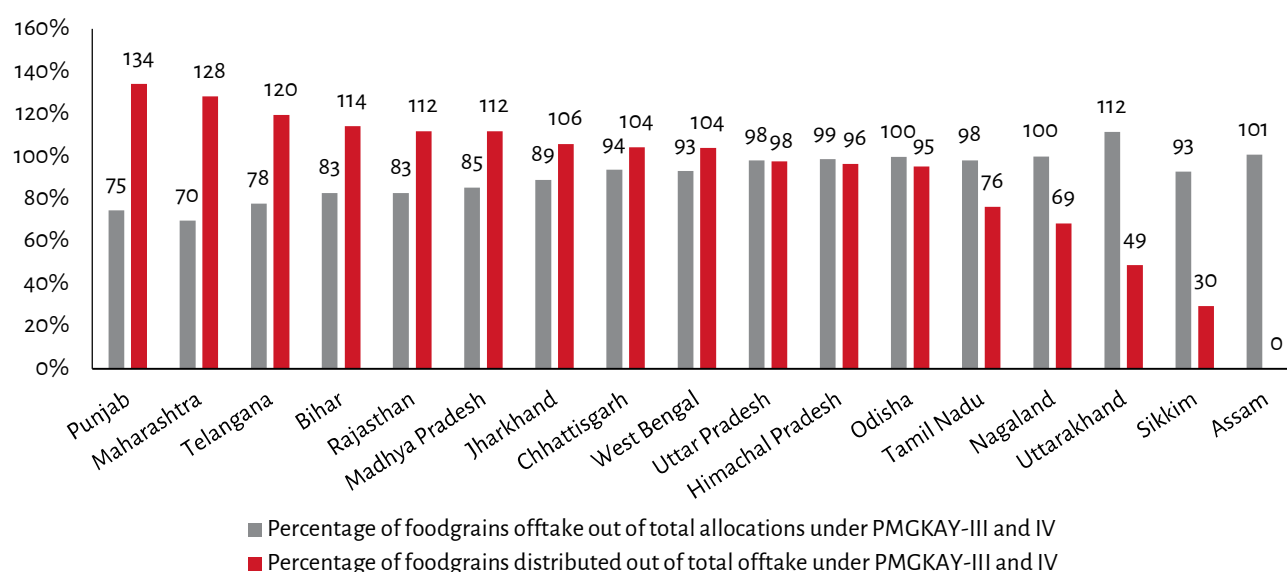


Source: State-wise number of persons/families covered under NFSA. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/food-grain-bulletin.htm>. Last accessed on 13 December 2021.

DISTRIBUTION

- Distribution of foodgrains to eligible people is done through a network of Fair Price Shops (FPS), which are licensed to distribute foodgrains and essential commodities to all ration card holders under the TPDS.
- There were state-wise variations in offtake and distribution of foodgrains under PMGKAY-III and IV. Both offtake and distribution for states like Uttar Pradesh, Himachal Pradesh, and Odisha were above 95 per cent. On the other hand, Sikkim lifted 93 per cent of the allocated foodgrains but distributed only 30 per cent of it. Similarly, the percentage of foodgrains distributed out of offtake was lower in Uttarakhand (49 per cent) and Nagaland (69 per cent), despite both states lifting 100 per cent or more of the allocated foodgrains.

16 STATES AND UTs DISTRIBUTED 100% OR MORE OF THE TOTAL LIFTED FOODGRAINS



Source: (1) Allocations and lifting of foodgrains under PMGKAY-III and IV. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/writereaddata/Portal/Magazine/FoodgrainBulletinforNovember2021.pdf>. Last accessed on 13 December 2021. (2) Distribution of foodgrains under PMGKAY-III and IV. Annavitran Reports. Available online at: <https://annavitran.nic.in/avPMGKY>. Last accessed on 13 December 2021.

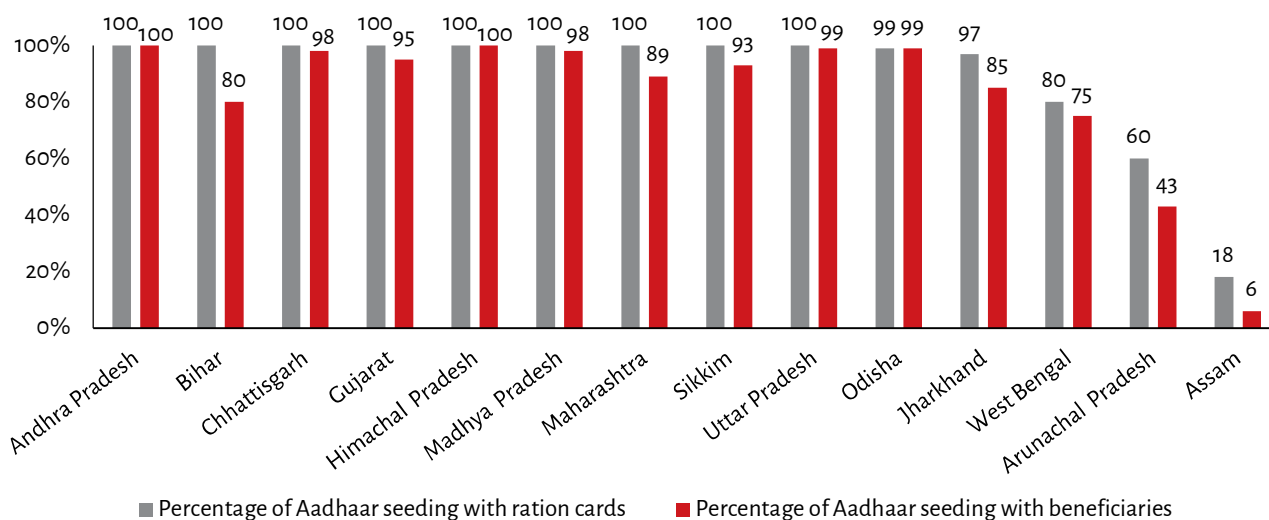
- As on 23 July 2021, nearly 4.98 lakh or 93 per cent FPS in the country had an Electronic Point of Sale (e-PoS) device, and Aadhaar seeding of ration cards had been completed for around 21.91 crore ration cards (93 per cent). Aadhaar seeding of NFSA beneficiaries, however, was lower at 70.94 crore (90 per cent).

ONE NATION, ONE RATION CARD

- The 'One Nation, One Ration Card' (ONORC) scheme was launched in August 2019, to allow for nationwide portability of NFSA benefits. The scheme provides flexibility to migrant beneficiaries to lift their foodgrains from any FPS of their choice in most parts of the country, by using their existing ration card with biometric authentication of identity on an e-PoS device.
- For beneficiaries to avail the facility, a copy of either their ration card or seeded Aadhaar card is required.

- As of January 2022, ONORC was being implemented in 34 states and UTs and covered nearly 75 crore beneficiaries or 94 per cent of NFSA population in 2021-22.
- During the period between 1 April 2020 and 30 September 2021, about 24.32 crore portability transactions under NFSA were carried out across states and UTs.

ALL-INDIA PERCENTAGE OF AADHAAR SEEDING WITH RATION CARDS STOOD AT 93% WHILE AADHAAR SEEDING WITH BENEFICIARIES WAS LOWER AT 90% AS OF JULY 2021



Source: State-wise percentage of Aadhaar seeding with ration cards and beneficiaries. Rajya Sabha Question AU 1356. Available online at: <https://pqars.nic.in/annex/254/AU1356.pdf>. Last accessed on 13 December 2021.