



BUDGET BRIEFS

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

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 allocation, 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

₹3,07,854 cr

GoI allocations for Ministry of Consumer Affairs, Food and Public Distribution (MoCAF&PD) for FY 2021-22 (including supplementary budgets)

₹ 2,89,349 cr

GoI allocations for Food Subsidy in FY 2021-22 (including supplementary budgets)

SUMMARY & ANALYSIS

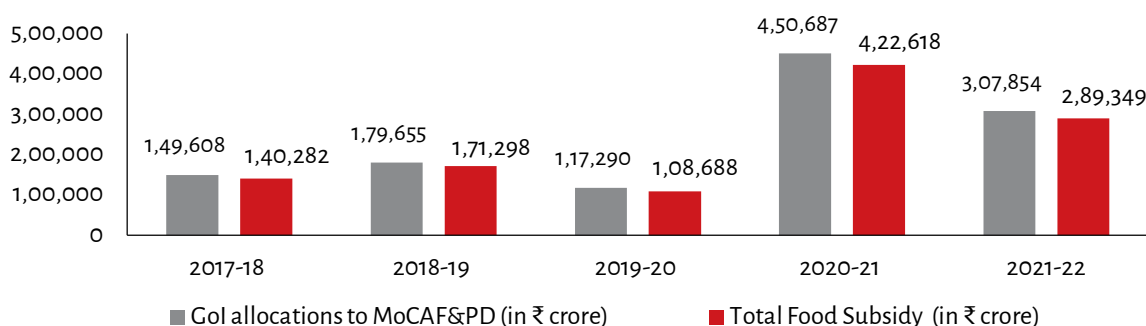
- For Financial Year (FY) 2021-22 Budget Estimates (BEs), GoI allocated ₹2,56,948 crore to MoCAF&PD. Even after the inclusion of additional funds amounting to ₹50,905 crore via supplementary budgets, allocations are 32 per cent less than the previous year's Revised Estimates (REs).
- Food Subsidy is the largest scheme of the Ministry and followed a similar pattern. Allocations for FY 2021-22 BEs stood at ₹2,42,836 crore. Despite additional allocations of ₹46,513 crore through supplementary budgets, it was still 32 per cent less than the previous year's REs.
- 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, the debt is likely to increase again in the REs.
- 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 (Gol'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 Gol and states. At the Gol 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 TPDS mechanism to deliver these entitlements.
- In light of the COVID-19 pandemic, on 26 March 2020, Gol 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

- The last two years have seen a significant increase in allocations to the Ministry of Consumer Affairs, Food and Public Distribution (MoCAF&PD). Between Financial Year (FY) 2019-20 Revised Estimates (REs) and FY 2020-21 REs, Gol allocations increased nearly fourfold.
- For FY 2021-22, Gol had allocated ₹2,56,948 crore Budget Estimates (BEs) to MoCAF&PD. This, however, was 43 per cent or ₹1,93,738 crore less than the REs for the previous FY. However, an additional ₹50,905 crore was added via two supplementary budgets passed in July 2021 and December 2021. Consequently, total allocations increased to ₹3,07,854 crore. Despite these additional funds, allocations remained 32 per cent less than the previous year's REs.

BETWEEN 2019-20 AND 2020-21, GOI ALLOCATIONS FOR FOOD SUBSIDY INCREASED NEARLY FOURFOLD



Source: (1) Union Expenditure Budget, Volume 2, MoCAF&PD FY 2015-16 to FY 2021-22. Available online at: <https://http://www.indiabudget.gov.in>. Last accessed on 13 December 2021. (2) Supplementary Demands for Grants 2021-22. Available online at: <https://dea.gov.in/budgetdivision/supplementary-demands-grants>. Last accessed on 20 January 2022.

Note: Figures are in crores of Rupees and are Revised Estimates (REs), except for FY 2021-22 which are Budget Estimates (BEs). FY 2021-22 includes allocations made through supplementary budget for 2021-22.

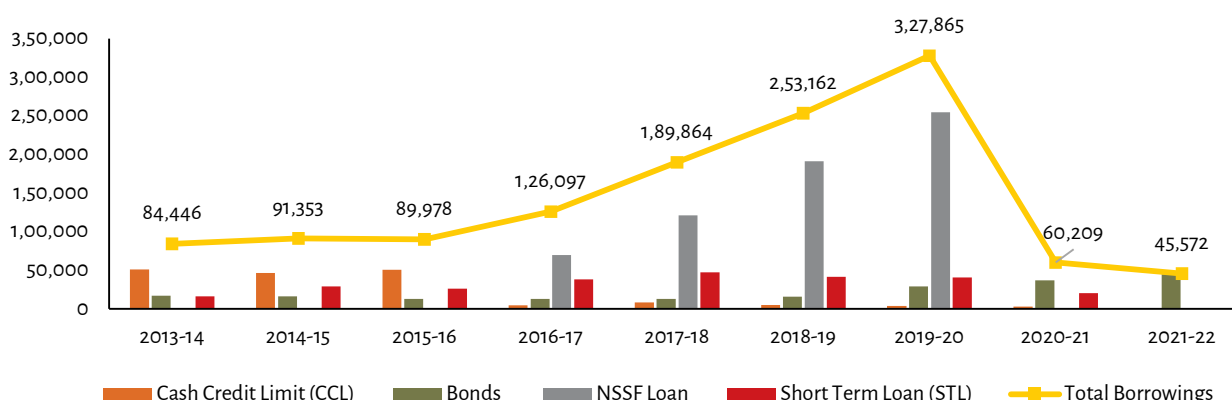
- This increase is driven primarily by increases to allocations for Food Subsidy—the largest scheme of the Ministry. Under the programme, foodgrains are procured by the FCI and states from farmers at government notified prices known as Minimum Support Price (MSP). These are then sold at subsidised prices 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 Gol 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.

- 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.
- Despite an extension of the PMGKAY package, GoI allocations for Food Subsidy decreased in FY 2021-22 BEs. However, the REs for the year are likely to be higher due to the extension of the PMGKAY scheme till March 2022 and record high allocations of 981 lakh tons of foodgrain, an 11 per cent increase from FY 2020-21 and a 79 per cent increase from FY 2019-20. The same is also reflected in the supplementary budget announced in December 2021. Of the total ₹49,805 crore allocated to the Ministry in December 2021, ₹46,513 crore or 93 per cent was assigned to cover the additional foodgrain allocations under PMGKAY.

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.
- 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 have led to an increase in backlog payments and dues being carried over to the next FY. Consequently, FCI's debt burden has been increasing, from ₹84,446 crore in March 2014 to ₹3,27,865 crore as on March 2020 – which 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 and further to ₹45,572 crore as on 31 December 2021. This is one-eighth of the debt incurred as on 31 December of the previous FY.

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



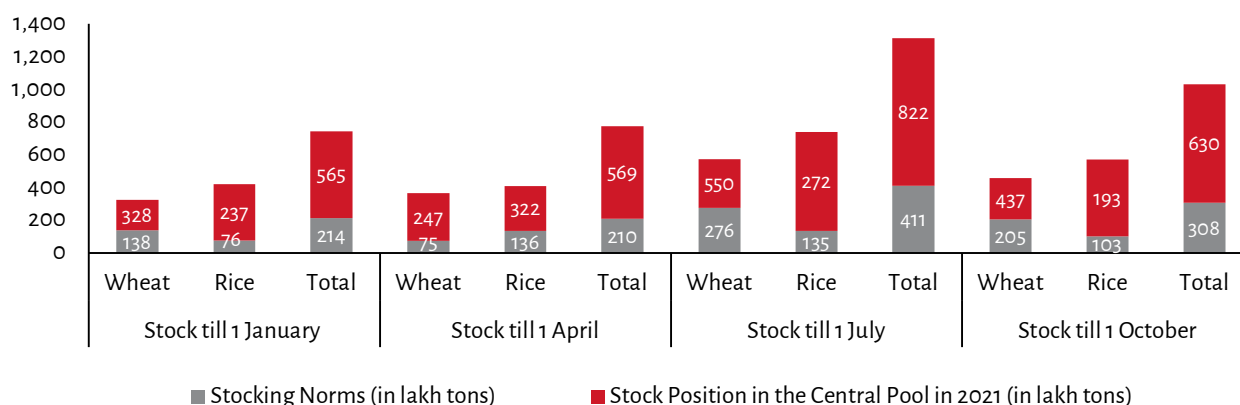
Source: (1) Borrowings from different sources by FCI for FY 2014-15 to FY 2019-20. Available online at: <https://fci.gov.in/finances.php?view=113>. Last accessed on 14 December 2021. (2) Borrowings from different sources by FCI for FY 2013-14. Available online at: https://cag.gov.in/cag_old/sites/default/files/audit_report_files/Chapter_2_-_Debt_Management_of_Report_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 14 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 have been 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 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 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 each individual state government.

- o **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 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 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 and 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.
- 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 PPH households.

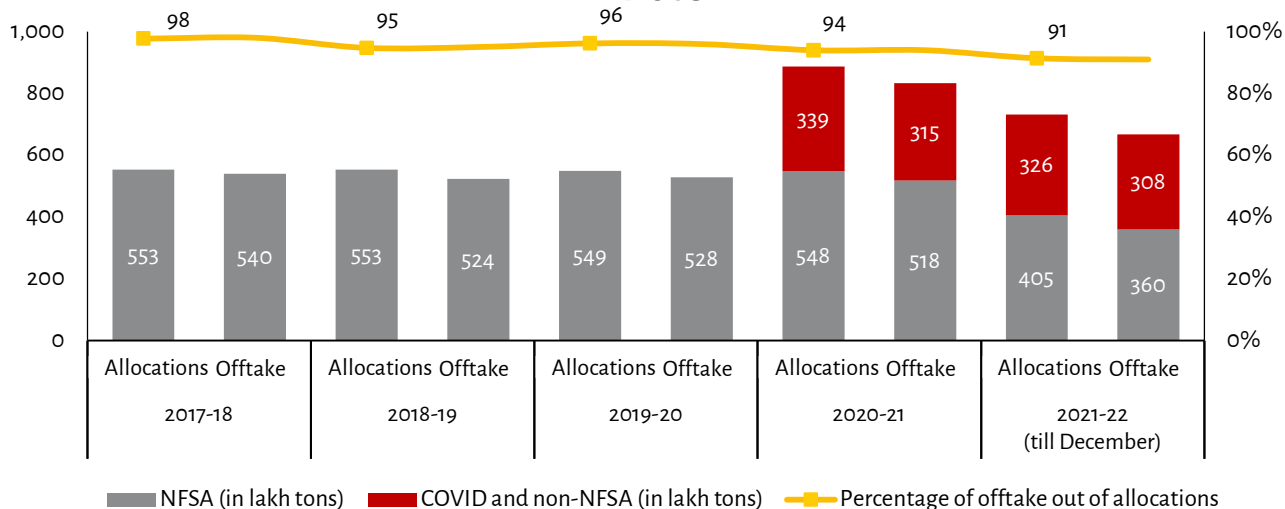
PRADHAN MANTRI GARIB KALYAN ANNA YOJANA (PMGKAY)

- On 26 March 2020, due to the COVID-19 pandemic, Gol announced the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY), providing 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 provided to migrant workers under the AtmaNirbhar Bharat Package (ANBP). Under the ANBP, 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 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 been marginally decreasing 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 foodgrain has been lifted, or 91 per cent of the total allocations.

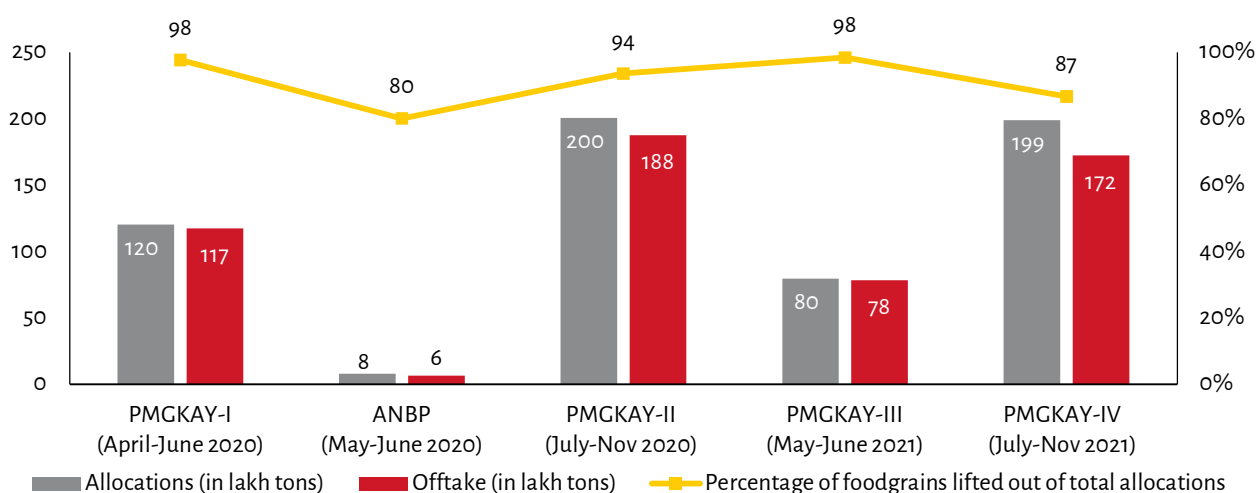
TOTAL FOODGRAIN ALLOCATIONS (NFSA + COVID RELIEF) WAS 61% HIGHER IN 2020-21 THAN THE PREVIOUS YEAR



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 the phase-wise trends specifically for PMCKAY, 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 PMCKAY-I (April-June 2020) and PMCKAY 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 PMCKAY-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.

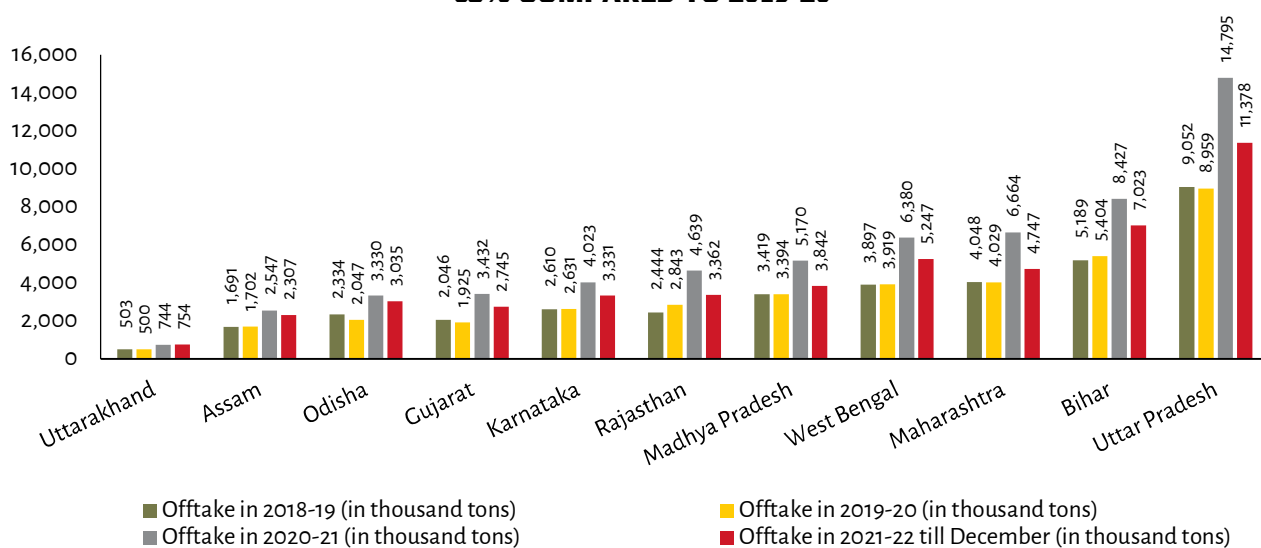
PERCENTAGE OF FOODGRAINS LIFTED OUT OF TOTAL ALLOCATIONS HAS BEEN LOWER FOR PMCKAY-IV COMPARED TO PREVIOUS PHASES



Source: (1) Allocations and lifting of foodgrains under PMCKAY. PIB dated 21 September 2021. Available online at: <https://pib.gov.in/PressReleaseSelfframePage.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 PMCKAY-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 are differences across states in the total quantum of foodgrains lifted, most states and UTs have seen 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 have lifted more foodgrains than in previous years from FY 2017-18 to FY 2019-20, with Uttarakhand and Andhra Pradesh already lifting a higher amount than their offtake in FY 2020-21.
- The states with the highest offtake in FY 2021-22 (till December) are 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

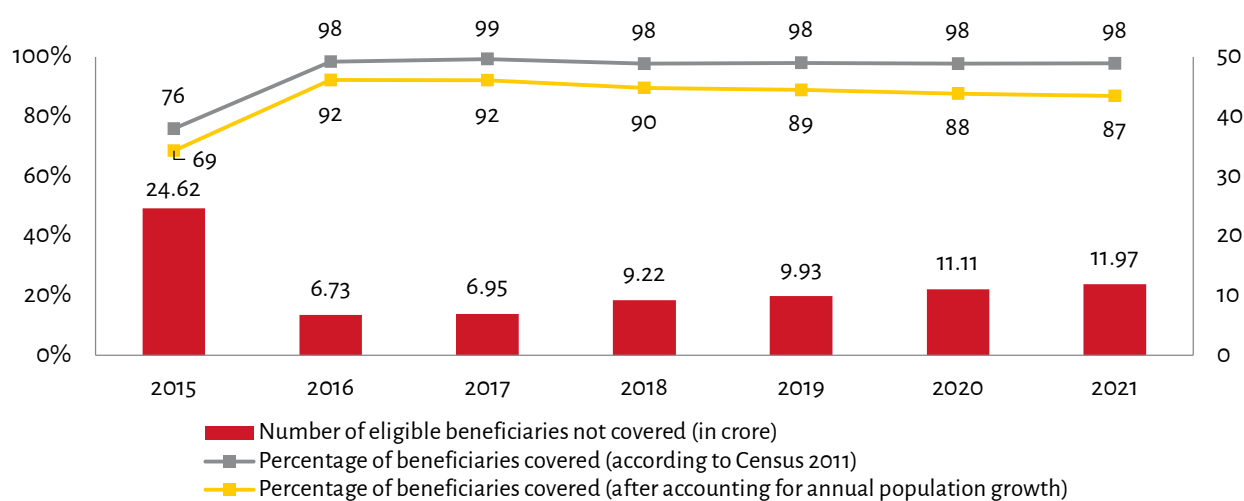


Source: Offtake of foodgrains. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/food-grain-bulletin.htm>. Last accessed on 13 January 2022.

COVERAGE AND BENEFICIARY ELIGIBILITY

- State-wise rural and urban coverage 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 households 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 projecting 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.

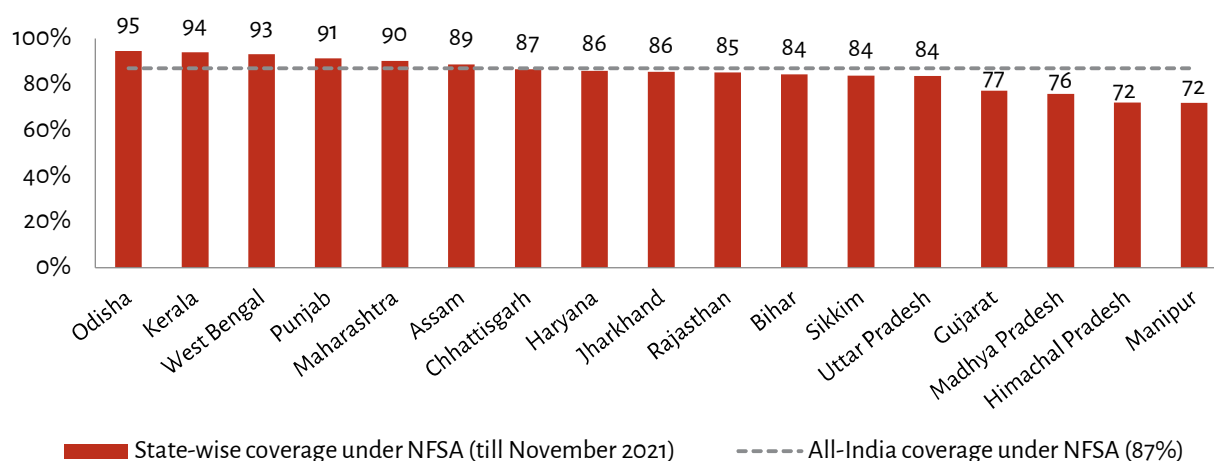
OVER 11 CRORE ELIGIBLE BENEFICIARIES LEFT OUT OF NFSA IN 2020 AND 2021



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.

- State variations exist. Manipur and Himachal Pradesh have 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, have 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.

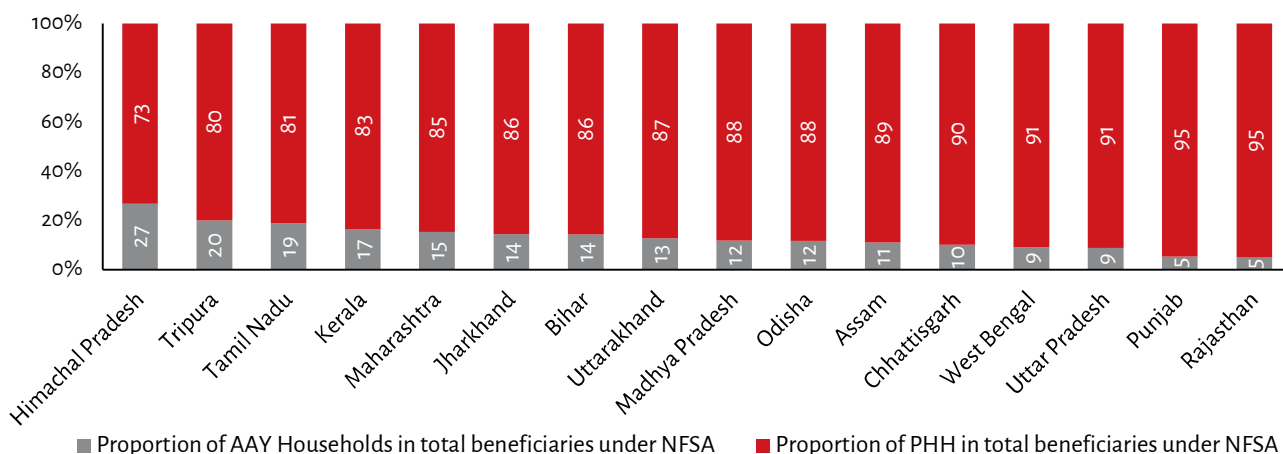
87% OF ELIGIBLE BENEFICIARIES UNDER NFSA ARE BEING COVERED TILL NOVEMBER 2021



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 differs among states. Himachal Pradesh has 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 have the lowest proportion among all states, at 5 per cent.

RAJASTHAN AND PUNJAB HAVE THE LOWEST PROPORTION OF AAY HOUSEHOLDS IN TOTAL BENEFICIARIES COVERED UNDER NFSA

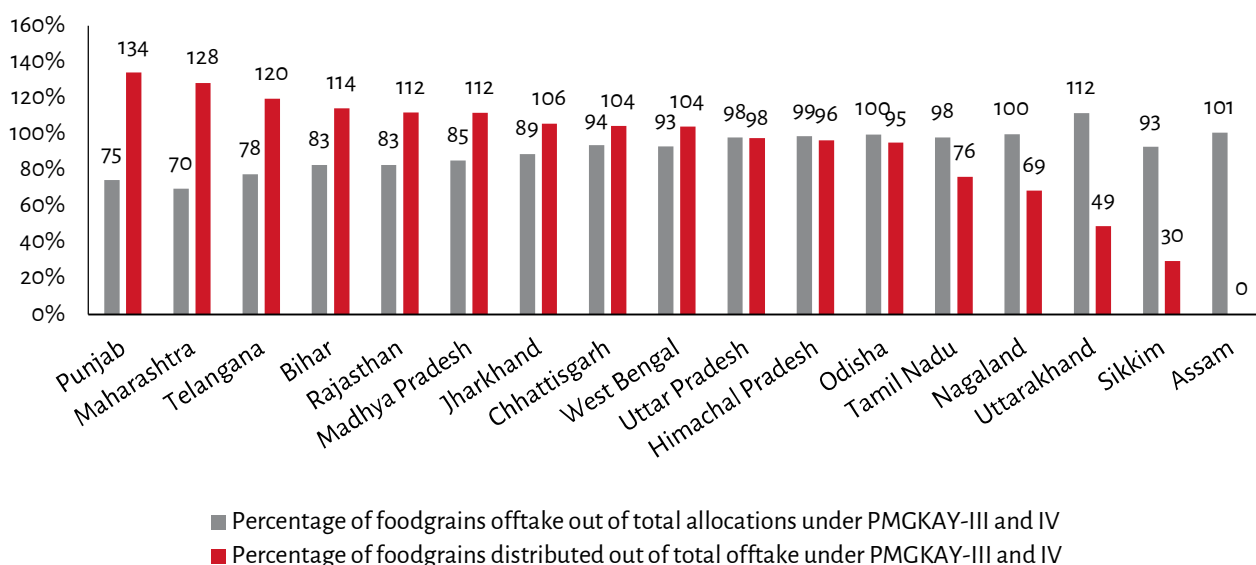


Source: State-wise number of persons/families covered under NFSA. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/food-grain-bulletin.htm>. Last accessed on 13 December 2021.

DISTRIBUTION

- Distribution of foodgrains to eligible people is done through a network of 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 was 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



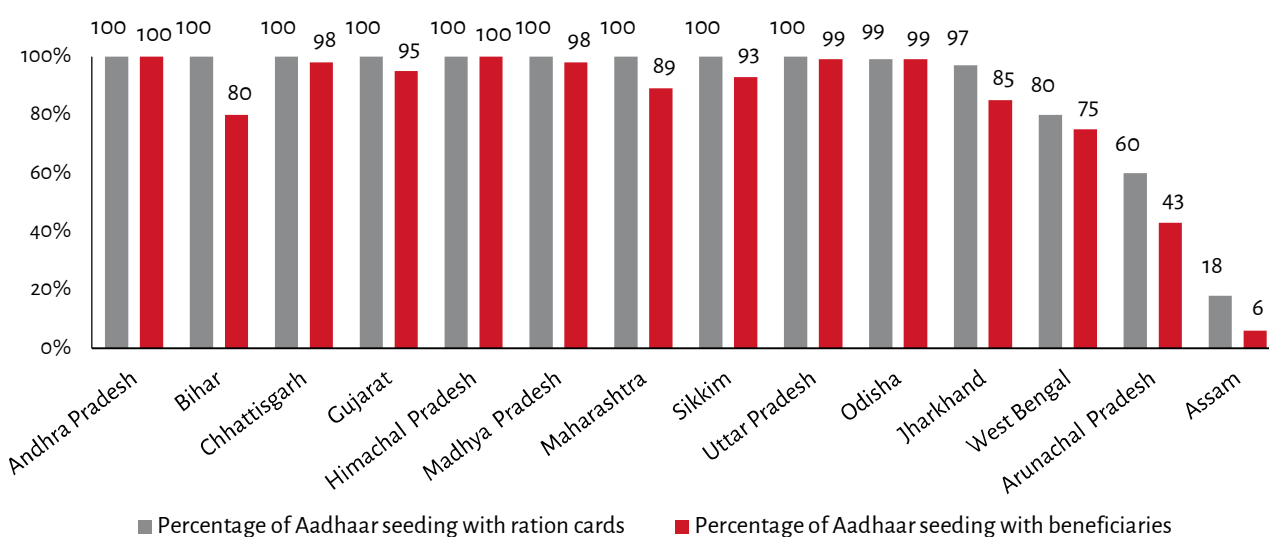
Source: (1) Allocations and lifting of foodgrains under PMGKAY-III and IV. Food Grain Bulletin, Department of Food and Public Distribution. Available online at: <https://dfpd.gov.in/writereaddata/Portal/Magazine/FoodgrainBulletinforNovember2021.pdf>. Last accessed on 13 December 2021. (2) Distribution 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 Electronic Point of Sale (e-Pos) device, and Aadhaar seeding of ration cards had been completed for around 21.91 crore (93 per cent). Aadhaar seeding of NFSA beneficiaries, however, was lower at 70.94 crore (or 90 per cent).

ONE NATION, ONE RATION CARD

- The 'One Nation, One Ration Card' (ONORC) scheme was launched in August 2019, to allow for nation-wide 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.
- ONORC is currently being implemented in 34 states and UTs and covers nearly 75 crore beneficiaries or 94 per cent of current NFSA population.
- 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%



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.