

Demand for Grants 2021-22 Analysis

Food and Public Distribution

The Ministry of Consumer Affairs, Food and Public Distribution has two Departments: (i) Food and Public Distribution, and (ii) Consumer Affairs. Allocation to the Ministry accounts for 7% of the budget of the central government in 2021-22.¹

As 2020-21 had extraordinary expenditure on account of COVID-19 and payment of food subsidy arrears, we have used annualised increase (CAGR) over the 2019-20 figures to compare the 2021-22 budget estimates.

Department of Consumer Affairs is responsible for spreading awareness among consumers about their rights, protecting their interests, implementing standards, and preventing black marketing.² In 2021-22, the Department has been allocated Rs 2,974 crore, a 24% annual increase over 2019-20.³

Department of Food and Public Distribution is responsible for ensuring food security through procurement, storage, and distribution of foodgrains, and for regulating the sugar sector.⁴ In 2021-22, the Department has been allocated Rs 2,42,836 crore (99% of the Ministry's allocation).⁵ This is an annual increase of 48% over 2019-20 expenditure.

Table 1: Allocation to the Ministry (in Rs crore)

Department	2019-20 Actuals	2020-21 Revised	2021-22 Budgeted	% change (annualised) in 2021-22 over 2019-20
Food & Public Distribution	1,15,173	4,38,649	2,53,974	48%
Consumer Affairs	1,923	12,038	2,974	24%
Total	1,17,096	4,50,687	2,56,948	48%

Sources: Expenditure Budget, Union Budget 2021-22; PRS.

This note examines the allocation to the Department of Food and Public Distribution. It also discusses the broad issues in the sector and key observations and recommendations made in this regard.

Overview of Finances

Food subsidy is the largest expenditure by the Department of Food and Public Distribution. 96% of the Department's allocation in 2021-22 is towards food subsidy (see Table 9 in the Annexure for more details). The subsidy is provided to the Food Corporation of India (FCI) and states for procuring foodgrains from farmers at government notified prices and selling them at lower subsidised prices (known as Central Issue Prices), under the National Food Security Act, 2013. The Act mandates coverage of 75% of the population in rural areas and 50% in urban areas, and covers 81 crore persons.^{6,7}

The subsidy also covers the storage cost incurred by FCI in maintaining buffer stocks in order to ensure food security in the country. Table 2 shows the expenditure on food subsidy during 2011-21.

Table 2: Expenditure on food subsidy (Rs crore)

Year	Allocation	Expenditure	% utilisation
2011-12	60,573	72,822	120%
2012-13	75,000	85,000	113%
2013-14	90,000	92,000	102%
2014-15	1,15,000	1,17,671	102%
2015-16	1,24,419	1,39,419	112%
2016-17	1,34,835	1,10,173	82%
2017-18	1,45,339	1,00,282	69%
2018-19	1,69,323	1,01,327	60%
2019-20	1,84,220	1,08,688	59%
2020-21	1,15,570	4,22,618#	366%
2021-22	2,42,836*	-	-

Note: *Budget estimate; #Revised estimate.

Sources: Expenditure Budget, Union Budgets (2011-21); PRS.

The Department was allocated Rs 1,84,220 crore for food subsidy in 2019-20. However, only 59% of the allocation was utilised as the food subsidy provided to FCI decreased from Rs 1,51,000 crore (budget estimate) to Rs 75,000 crore. As directed by the Ministry of Finance, the Department deferred the payment of food subsidy due to FCI, resulting in an underspending of Rs 76,000 crore.⁸ Due to such deferment, more so since 2016-17, the food subsidy paid to FCI has been much lower than the amount allocated in the budget for this purpose. As a result, the food subsidy payment due to FCI increased over the years, from Rs 50,037 crore at the end of 2015-16 to Rs 2,43,779 crore at the end of 2019-20.⁹

In the meanwhile, the government provided loans to FCI from the National Small Savings Fund (NSSF) to meet its operational requirements. NSSF loans worth Rs 2,54,600 crore were outstanding with FCI at the end of 2019-20.¹⁰ In her 2021-22 budget speech, the Finance Minister announced that the government will discontinue the NSSF loans given to FCI and accordingly make budget provisions in 2020-21 and 2021-22.¹¹ It estimates the NSSF loans outstanding with FCI to reduce to Rs 63,712 crore by the end of 2021-22.¹² Thus, the government has significantly increased the allocation for food subsidy to FCI to clear its dues, which in turn will be used by FCI to repay the NSSF loans. In 2020-21, the allocation has increased from Rs 77,983 crore (budget estimate) to Rs 3,44,077 crore (revised estimate). In 2021-22, Rs 2,02,616 crore has been allocated, a 64% annual increase over 2019-20.

Note that the increase seen in allocation in 2020-21 is also on account of the additional expenditure incurred by FCI in providing free foodgrains to poor under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY).¹³ The scheme was announced in March 2020 as a part of the COVID-19 relief package for the poor. Under the scheme, five kg of wheat or rice and one kg of pulses were provided for free every month to persons from poor families during the period April-November 2020. All beneficiaries under the National Food Security Act, 2013 were eligible for these benefits in addition to their existing foodgrain entitlements.

The cost of providing free foodgrains under the scheme PMGKAY was borne by the Department in 2020, which is estimated to be nearly Rs 1,34,030 crore.¹⁴ This expenditure was in the form of: (i) food subsidy to FCI, (ii) food subsidy to states, and (iii) assistance to states for intra-state movement of foodgrains and margin of fair price shop dealers.

In May 2020, the government extended the benefits provided under PMGKAY to migrants (who were not eligible for the benefits otherwise) for a period of two months in 2020 under the Aatmanirbhar Bharat Economic Package.¹⁵ This scheme's cost for the Department is estimated to be Rs 989 crore.¹⁶

Components of food subsidy

Expenditure on food subsidy can be classified under the following three heads (break-up in Table 3):

- **Subsidy to FCI:** The Food Corporation of India (FCI) receives subsidy for procuring foodgrains from farmers at government notified prices and selling them at lower subsidised prices. It also receives subsidy for the storage cost incurred in maintaining buffer stocks.
- **Subsidy to states:** Under the decentralised procurement scheme, states may choose to undertake the operations of procurement, storage, and distribution on behalf of FCI, for which they are provided with subsidy.
- **Sugar subsidy:** Sugar subsidy is provided for giving one kg of sugar per month at subsidised rates to families covered under the Antyodaya Anna Yojana (i.e., poorest of the poor families).

In 2021-22, subsidy to FCI and states form 83% and 16% of the allocation for food subsidy, respectively.

Table 3: Break-up of food subsidy (in Rs crore)

Subsidy	2019-20 Actuals	2020-21 Revised	2021-22 Budgeted	% change (annualised) in 2021-22 over 2019-20
Subsidy to FCI	75,000	3,44,077	2,02,616	64%
Subsidy to states (decentralised procurement)	33,508	78,338	40,000	9%
Sugar subsidy	180	203	220	11%
Total	1,08,688	4,22,618	2,42,836	49%

Sources: Expenditure Budget, Union Budget 2021-22; PRS.

Issues in the Sector

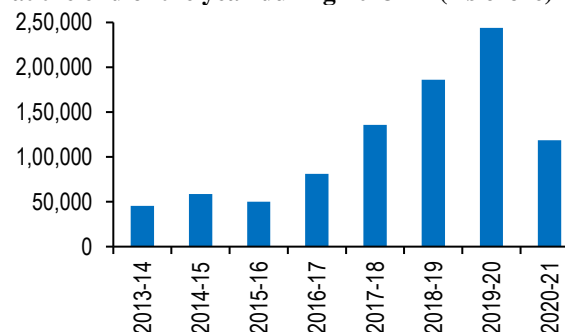
FCI and state agencies procure foodgrains from farmers at the government notified Minimum Support Prices (MSPs). These foodgrains are provided to the economically weaker sections at subsidised prices through fair price shops under the Public Distribution System (PDS). The central and state governments provide subsidised foodgrains to beneficiaries under the National Food Security Act, 2013 as well as certain other welfare schemes such as the Mid-Day Meal scheme. In this section, we examine some issues relating to the: (i) pending dues of FCI, (ii) provision of food subsidy, (iii) PDS, and (iv) sugarcane dues to farmers.

Pending dues of FCI

The central government provides food subsidy to FCI as reimbursement of the loss it incurs in its procurement, storage, and distribution operations. During the period 2016-20, although the Department used to receive sufficient allocation for payment to FCI, due to budget cuts made during the year, the actual amount paid to FCI was much lower. The CAG (2019) observed that when the food subsidy budget is not sufficient to clear FCI's dues, such dues are carried over to the next year.¹⁷ Due to such carryovers every year, payment due to FCI for food subsidy increased from Rs 50,037 crore at the end of 2015-16 to Rs 2.44 lakh crore at the end of 2019-20.

In 2020-21, the allocation for food subsidy to FCI has been increased by 359% over 2019-20 to Rs 3.44 lakh crore (revised estimate). In comparison, the subsidy cost incurred by FCI in 2020-21 has also increased significantly due to the additional benefits provided under the COVID-19 relief packages. The cost incurred by FCI in 2020-21 is estimated to be Rs 2.19 lakh crore, 65% higher over 2019-20. Thus, there is a surplus allocation of Rs 1.25 lakh crore in 2020-21 for clearing the dues of FCI. This would reduce FCI's outstanding dues from Rs 2.44 lakh crore to Rs 1.19 lakh crore by the end of 2020-21.

Figure 1: Food subsidy dues of FCI outstanding at the end of the year during 2013-21 (Rs crore)



Sources: Food Corporation of India; PRS.

In 2021-22, Rs 2.03 lakh crore has been allocated for food subsidy to FCI. Assuming that the subsidy cost incurred by FCI in 2021-22 is the same as that in 2019-20 (Rs 1.33 lakh crore), this allocation would further reduce the outstanding subsidy dues of FCI to Rs 48,703 crore by the end of 2021-22.

Due to the delay in clearing dues by the Department, FCI borrows money for its operational requirements. When FCI uses such borrowings to fill the resource gap, the Department has to provide additional funds in subsequent years for payment of interest on these borrowings. The CAG observed that the central government has adopted this off-budget method of financing the subsidy dues, thereby deferring the payment to FCI.¹⁷ This understates a particular fiscal year's expenditure by keeping deferred expenditure off-budget for that year, and prevents transparent depiction of fiscal indicators. For instance, if the central government had cleared all the subsidy dues of FCI in the year 2019-20 itself, its fiscal deficit (borrowings) for 2019-20 would have increased from 4.6% of GDP to 5.8% of GDP.

Provision of food subsidy

The Targeted Public Distribution System (TPDS), through which foodgrains are distributed at subsidised prices, seeks to provide food security to people below the poverty line. Over the years, the spending on food subsidy has increased and the ratio of people below the poverty line has decreased from 54.9% in 1973-74 to 21.9% in 2011-12 (Table 4).

Table 4: Poverty ratio and no. of poor persons

Year	Poverty ratio (in %)	No. of Poor (in crore)
1973-74	54.9%	32.1
1977-78	51.3%	32.9
1983-84	44.5%	32.3
1987-88	38.9%	30.7
1993-94	36.0%	32.0
2004-05	27.5%	30.2
2011-12	21.9%	26.9

Note: Figures from 1973-74 to 2004-05 have been computed using the Lakdawala methodology, and figures for 2011-12 have been computed using the Tendulkar methodology.

Sources: Planning Commission; PRS.

The proportion of undernourished persons reduced from 18.6% in 2000-02 to 14% in 2017-19 (Table 5). However, due to population growth, the number of undernourished persons has not reduced much (from 20 crore in 2000-02 to 18.9 crore in 2017-19).

Table 5: Undernourishment in India (2000-2019)

Year	Proportion of population undernourished (in %)	Number of undernourished persons (in crore)
2000-02	18.6%	20.0
2003-05	22.2%	25.1
2008-10	16.4%	20.0
2013-15	15.3%	19.8
2017-19	14%	18.9

Sources: Food and Agriculture Organisation, 2020; PRS.

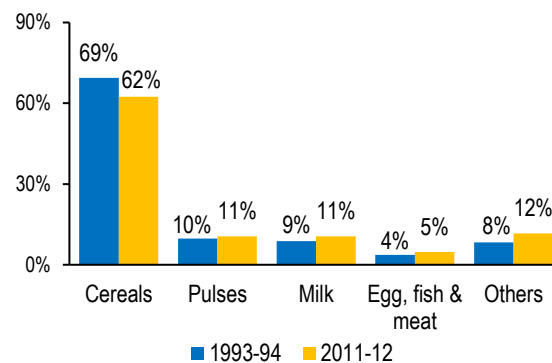
Nutritional balance: The National Food Security Act, 2013 guarantees five kg of foodgrains per person per month to entitled beneficiaries at subsidised prices. Further, Antyodaya Anna Yojana households, which constitute the poorest of the poor, are entitled to 35 kg per household per month at subsidised prices. Presently, the food items

provided by the central government for distribution under PDS are mainly rice, wheat, and sugar.¹⁸

As shown in Figure 2 and Figure 3, there has been a change in the pattern of nutritional intake among people in both rural and urban areas (details given in Table 10 and Table 11 in the Annexure).

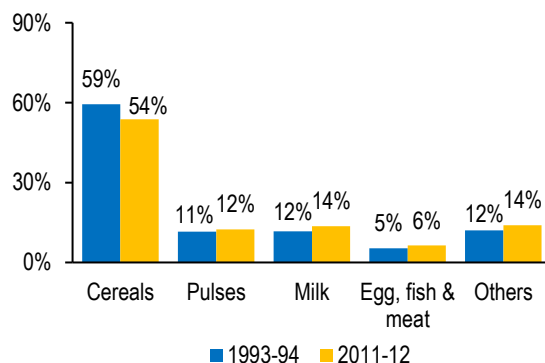
Although cereals or foodgrains contain only 10% protein, their share as a percentage of the total protein intake has been over 50% in both rural and urban areas.¹⁹ However, other food items such as meat and pulses contain more than 20% protein but contribute to only 15% of the total protein intake.

Figure 2: Protein intake (%) in rural areas



Sources: Nutritional Intake in India (2011-12), NSSO; PRS.

Figure 3: Protein intake (%) in urban areas



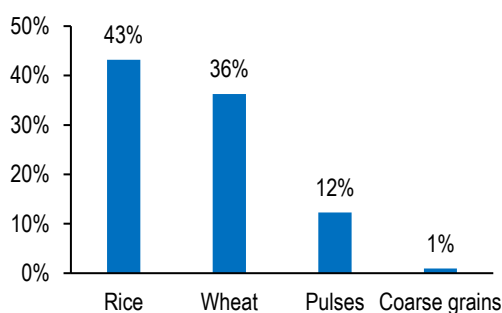
Sources: Nutritional Intake in India (2011-12), NSSO; PRS.

The share of cereals in calorie intake has reduced by 10% in rural areas and 7% in urban areas, whereas that of milk, eggs, fish, and meat has increased (see Table 10 in the Annexure). This indicates a reduced preference for rice and wheat, and an increase in preference towards other protein-rich food items. The National Food Security Act, 2013 requires the central and state governments to undertake steps to diversify commodities distributed under PDS.⁶

Imbalance in farm production: MSP is the assured price announced by the central government at which foodgrains are procured from farmers by the central and state governments and their agencies, for the central pool of foodgrains.⁶ The central pool is used for providing foodgrains under PDS and other welfare schemes, and also kept as reserve in the form of buffer stock. While MSPs are annually announced for 23 crops, public procurement is limited to a few crops such as paddy (rice), wheat, and, to a limited extent, pulses (Figure 4).

The Economic Survey 2019-20 observed that the regular increase in MSP is seen by farmers as a signal to opt for crops which have an assured procurement system (for example, rice and wheat).²⁰ Thus, MSP incentivises farmers to grow crops which are procured by the government. As wheat and rice are major foodgrains provided under the PDS, the focus of procurement is on these crops. This skews the production of crops in favour of wheat and paddy (particularly in states where procurement levels are high), and does not offer an incentive for farmers to produce other items such as pulses.²¹ Further, this puts pressure on the water table as these crops are water-intensive (also applicable to sugarcane which has assured purchase by private sugar mills).²² Note that the National Food Security Act, 2013 requires the central and state governments to undertake steps to diversify commodities distributed under PDS.⁶

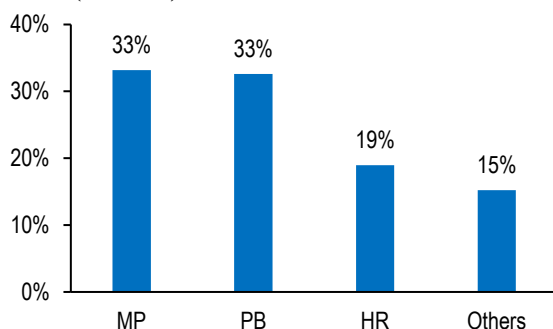
Figure 4: Percentage of crop production procured at MSP in crop year 2019-20



Sources: Unstarred Question No. 331, Lok Sabha, September 15, 2020; PRS.

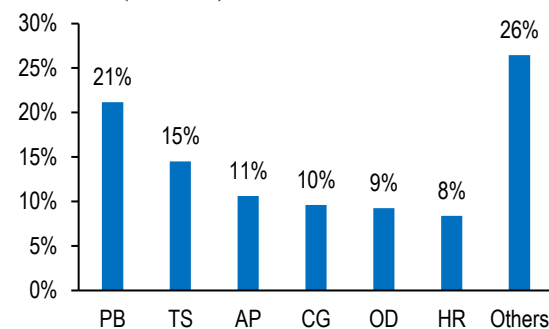
The procurement of foodgrains is largely concentrated in a few states. Three states (Madhya Pradesh, Punjab, and Haryana) producing 46% of the wheat in the country account for 85% of its procurement. Six states (Punjab, Telangana, Andhra Pradesh, Chhattisgarh, Odisha, and Haryana) with 40% of the production of rice have 74% share in procurement. The National Food Security Act, 2013 requires the central, state, and local governments to strive to progressively realise certain objectives for advancing food and nutritional security.⁶ One of these objectives involves geographical diversification of the procurement operations.

Figure 5: 85% wheat procurement is from three states (2019-20)



Sources: Department of Food and Public Distribution; PRS.

Figure 6: 76% of the rice procured comes from six states (2019-20)



Sources: Department of Food and Public Distribution; PRS.

As procurement of wheat and paddy is done at MSP (which is often above market prices), their stocks have grown over the years. At the end of 2019-20, the stock of these foodgrains was 19% more than the offtake in that year (see Table 13 in the Annexure).

Revision of central issue price (CIP)

Under the National Food Security Act, 2013, food subsidy is given to beneficiaries at the CIP, which was last revised in 2002. Table 6 shows the CIP for wheat and rice for various beneficiaries.

Table 6: Central Issue Price (Rs per kg)

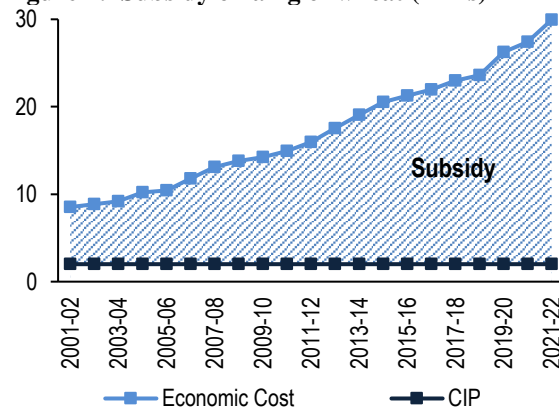
Foodgrain	AAY	BPL	APL
Rice	3.00	5.65	7.95
Wheat	2.00	4.15	6.10

Note: AAY – Antyodaya Anna Yojana, BPL – Below Poverty Line, APL – Above Poverty Line.

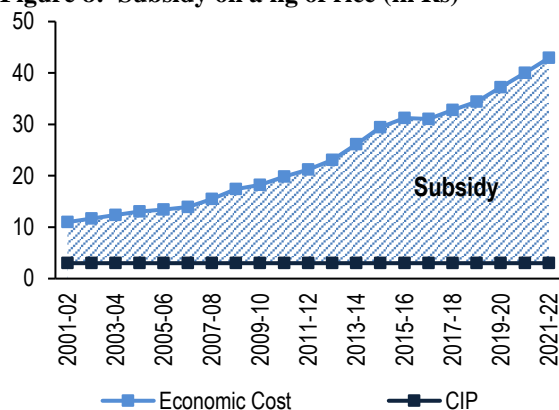
Sources: Department of Food and Public Distribution; PRS.

In comparison to the CIP, the economic cost (including procurement, stocking, distribution) for wheat is Rs 30 per kg and for rice is Rs 43 per kg as of February 2021.⁹ Food subsidy is calculated as the difference between the economic cost of procuring foodgrains, and their CIP. While the economic cost for rice has increased from Rs 11 per kg in 2001-02 to Rs 43 per kg in 2021-22 (Figure 8), and of wheat from Rs 9 per kg to Rs 30 per kg over the same period (Figure 7), their CIPs have not been revised. This has led to an increasing gap between the economic cost and CIP, leading to an increase in expenditure on food subsidy.

Figure 7: Subsidy on a kg of wheat (in Rs)



Sources: Food Corporation of India; PRS.

Figure 8: Subsidy on a kg of rice (in Rs)

Sources: Food Corporation of India; PRS.

The Standing Committee on Food, Consumer Affairs and Public Distribution (2016-17) noted that the reasons for increase in food subsidy include: (i) increase in the procurement cost of foodgrains, (ii) non-revision of the Central Issue Prices since 2002, and (iii) implementation of the National Food Security Act, 2013 in all states.²³ In 2018-19, the Ministry had stated that increasing the CIP could be one of the measures to bridge the gap between the funds it requires, and the funds it is finally allocated.

Delivery of food subsidy

Leakages in PDS: Leakages refer to foodgrains not reaching the intended beneficiaries. Note that recent data on leakage is not publicly available. The latest available data is for 2011. According to the 2011 data, leakages in PDS were estimated to be 46.7% (see Table 12 in the Annexure).^{24,25}

Leakages may be of three types: (i) pilferage or damage during transportation of foodgrains, (ii) diversion to non-beneficiaries at fair price shops through issue of ghost cards, and (iii) exclusion of people entitled to foodgrains but who are not on the beneficiary list.^{26,27} Studies have shown that targeting mechanisms such as TPDS are prone to large exclusion and inclusion errors.²⁸

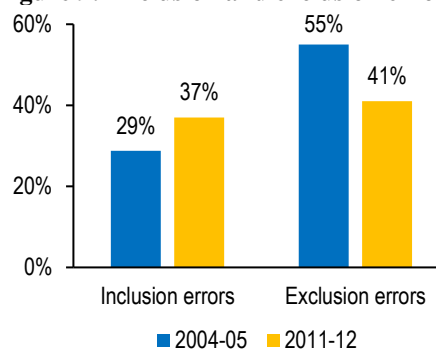
Exclusion errors occur when entitled beneficiaries do not get foodgrains. It refers to the percentage of poor households that are entitled to but do not have PDS cards. Exclusion errors had declined from 55% in 2004-05 to 41% in 2011-12 (Figure 9).

Inclusion errors occur when those that are ineligible get undue benefits. Inclusion errors had increased from 29% in 2004-05 to 37% in 2011-12.

Declining exclusion errors and increasing inclusion errors are due to two reasons. First, increase in the coverage of TPDS has reduced the proportion of poor who do not have access to PDS cards. Second, despite a decline in poverty rate, non-poor are still identified as poor by the government thus allowing them to continue using their PDS cards.²⁹

Note that under the National Food Security Act, 2013, states are responsible for the identification of beneficiaries. In 2016, the Comptroller and Auditor

General of India (CAG) found that this process had not been completed by the states, and 49% of the beneficiaries were yet to be identified by states.³⁰

Figure 9: Inclusion and exclusion errors (%)

Sources: Evaluation study on the role of PDS in shaping households and nutritional security in India, NITI Aayog, December 2016; PRS.

Alternative subsidy systems: Over the years, several solutions have been suggested to plug leakages, including: (i) Direct Benefit Transfer (DBT) in lieu of food subsidy, and (ii) end-to-end computerisation of the PDS operations.²⁴

The National Food Security Act, 2013 requires the central and state governments to progressively reform TPDS by taking various measures, including introduction of schemes such as cash transfer or food coupon.⁶ Various experts and bodies have also suggested replacing TPDS with a DBT system.^{31,32} Advantages and disadvantages of these two methods of delivering benefits have been discussed below.

- **TPDS:** TPDS assures beneficiaries that they would receive foodgrains, and insulates them against inflation and price volatility. Further, foodgrains are delivered through fair price shops in villages, which are easy to access.^{33,34}

However, high leakages have been witnessed in the system, both during transportation and distribution. These include pilferage and errors of inclusion and exclusion from the beneficiary list. In addition, it has also been argued that the distribution of only wheat and rice may cause an imbalance in the nutritional intake of beneficiaries.⁶ Beneficiaries have also reported receiving poor quality foodgrains under TPDS.

- **DBT:** DBT or cash transfers seek to increase the choices available with a beneficiary, and provide direct financial assistance. It has been argued that the costs of DBT may be lesser than TPDS, owing to lesser costs incurred on transportation and storage of foodgrains.^{33,34}

On the other hand, it has been argued that the cash received through DBT may be spent on non-food items. Further, such a system may expose beneficiaries to inflation. In this regard, one may need to consider the low penetration and access to banking in rural areas.³⁵

In 2015, the Department released two notifications: the Cash Transfer of Food Subsidy Rules and the Food Security (Assistance to State Governments) Rules.^{36,37} As per these notifications, the central government offers two choices to states and union territories for reforming their respective PDS machinery: (i) replacing the existing TPDS with a DBT system, or (ii) Fair Price Shop automation, which involves installation of Point of Sale devices, for authentication of the beneficiaries and electronic capturing of transactions. As of January 2021, the DBT system is under implementation in the union territories of Chandigarh and Puducherry.³⁸

As of February 2021, 4.94 lakh (91%) Fair Price Shops have been automated across the country.³⁹ Details regarding the status of computerisation of PDS are given in Table 14 in the Annexure.

The High-Level Committee on Restructuring of FCI (2015) had suggested that switching to DBT for food subsidy would reduce the food subsidy bill of the government by more than Rs 30,000 crore.²⁴ While making this recommendation, the Committee illustrated this by taking the case of subsidy given on rice (Table 7). It assumed that the government would transfer Rs 22 for per kg rice to a beneficiary.

Table 7: Illustration: subsidy given on rice (2015)

1. CIP	Rs 3 per kg
2. MSP	Rs 20 per kg
3. Subsidy (3=2-1)	Rs 17 per kg
4. Cost to government (Subsidy + Costs on procurement, storage, and distribution)	Rs 27 per kg
5. Cash subsidy to beneficiaries	Rs 22 per kg
6. Government saving (6=4-5)	Rs 5 per kg
7. Increase in beneficiary benefit (7=5-3)	Rs 5 per kg

Sources: High-Level Committee Report on Restructuring of FCI, January 2015; PRS.

Aadhaar: The High-Level Committee (2015) had also recommended the introduction of biometric authentication and Aadhaar to plug leakages in PDS. Such transfers could be linked to Jan Dhan account, and be indexed to inflation.²⁴ As of February 2021, 128.3 crore Aadhaar cards have been generated.⁴⁰

In February 2017, the Ministry made it mandatory for beneficiaries under the National Food Security Act, 2013 to use Aadhaar as proof of identification for receiving foodgrains (deadline for linking Aadhaar with ration cards extended to March 31, 2021).^{41,42} This aims to facilitate the removal of bogus ration cards, check leakages, and ensure better delivery of foodgrains.^{24,43,44}

Note that beneficiaries may face issues with Aadhaar authentication while availing PDS benefits. According to the data submitted by UIDAI to the Supreme Court in *Justice K. S. Puttaswamy vs Union of India*, the Aadhaar authentication failure rate (across all purposes) was 8.5% for iris scans and 6% for fingerprints.⁴⁵ In its judgement, the Court held that services cannot be denied to beneficiaries due to Aadhaar authentication failure.

As of March 2020, while 100% ration cards had been digitised, the seeding of these cards with Aadhaar was at 90%.⁴⁶ As of February 12, 2021, more than 70% of the transactions on Point of Sale devices are done using biometric authentication.³⁹ Further, between 2013 and 2020, nearly 4.4 crore ration cards were deleted due to detection of bogus, ghost, and duplicate cards during Aadhaar seeding.³⁹

Current challenges in PDS

Storage: The Department allocates funds for the construction of godowns and silos to increase the storage capacity of FCI and state agencies. In 2021-22, Rs 60 crore has been allocated for this purpose, whereas this was Rs 63 crore in 2019-20 and Rs 44 crore in 2020-21 (revised estimate).

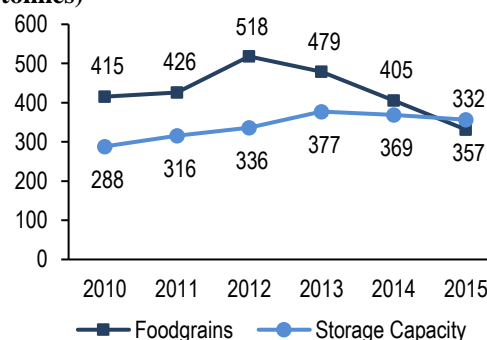
As of December 31, 2020, the total storage capacity in the country was 819 lakh tonnes, against 530 lakh tonnes of foodgrain stock.⁴⁷ Of the total capacity, 699 lakh tonnes was covered storage and 150 lakh tonnes (18%) was CAP (cover and plinth) storage.

In 2021-22, out of the Rs 60 crore allocation for creation of storage capacity, Rs 45 crore has been allocated for the north-eastern region. The Standing Committee on Food, Consumer Affairs and Public Distribution (2020) noted that FCI could not achieve the targets set for construction of godowns in 2019-20.⁴⁶ In the north-eastern region, against the target of 25,000 tonnes of storage, only 10% of the target was achieved. In other states, no new godown was constructed, whereas the target was 2,240 tonnes.

The Committee observed that FCI faces various issues in construction of godowns in the north-eastern region such as difficult terrain, frequent bandhs, and difficulty in acquisition of land. The Committee recommended that the Department should coordinate with the state governments to resolve these issues. It further recommended that a roadmap should be chalked out by the government for creating mini-godowns across the country.

In 2016, the CAG observed that, until 2014, the foodgrain stock in the central pool was higher than the FCI's storage capacity (Figure 10).³⁰ It noted that in 2015, the foodgrain stock in the central pool became lower than the storage capacity due to an increase in decentralised procurement by states.

Figure 10: Stock and capacity of FCI (in lakh tonnes)



Sources: CAG; PRS.

Under the decentralised procurement system, the state governments and their agencies undertake procurement, storage, and distribution of foodgrains on behalf of FCI. The expenditure incurred by them is reimbursed by the central government in the form of food subsidy. The Standing Committee (2020) observed that the decentralised procurement system reduces FCI's handling and transportation cost and increases the efficiency of procurement.⁴⁶ As of March 2020, 17 states had adopted the decentralised procurement system. The Committee recommended that more states should be encouraged to adopt the decentralised procurement system.⁴⁶ FCI should create necessary infrastructure for procurement of foodgrains in coordination with state governments.

Fair Price Shops: Fair Price Shops are licensed ration shops which provide foodgrains and kerosene under the public distribution system. They may also sell certain other goods in some states. It has been observed by various experts and the Ministry that the margins on which the Fair Price Shops operate are low.⁴⁸ Further, in the absence of economic viability, there may be cases where the dealer resorts to unfair practices. In order to make these shops viable, some states have taken steps such as:

- Chhattisgarh provided interest-free seed capital of Rs 75,000 to each fair price shop for 20 years. It also increased the commission on foodgrains from Rs 8/ quintal to Rs 30/ quintal.
- States such as Assam and Delhi have permitted the sale of non-PDS items at these fair price shops. Such items include oil, potatoes, onion, tea, and mobile recharge coupons.

Sugarcane dues

The Department is also responsible for formulation of policies and regulations for the sugar sector. In 2021-22, Rs 4,337 crore has been allocated for providing assistance to sugar mills through various measures, an annual increase of 10% over 2019-20 (Table 8). These measures include: (i) direct assistance to mills for clearing the sugarcane dues of farmers, (ii) reimbursing the mills for maintaining buffer stock, (iii) facilitating export of sugar, and (iv) improving their ethanol production capacity.

Table 8: Assistance to sugar mills (in Rs crore)

	2019-20 Actuals	2020-21 Revised	2021-22 Budgeted	% change (annualised) in 2021-22 over 2019-20
For facilitating export of sugar	551	350	2,000	91%
Direct assistance for clearing dues	2,155	5,073	1,200	-25%
For maintaining buffer stock	530	650	650	11%
For ethanol production	50	150	300	145%
Other measures	310	594	187	-22%
Total	3,595	6,818	4,337	10%

Sources: Expenditure Budget, Union Budget 2021-22; PRS.

The assistance is being provided with the aim of improving the liquidity of sugar mills in order to facilitate payment of sugarcane dues of farmers.^{49,50} Note that as of January 31, 2021, payment of Rs 19,260 crore is pending with sugar mills as dues for 2019-20 and previous years.⁵¹ State-wise details of the dues are given in Table 16 in the Annexure.

These sugarcane dues accumulate due to delay in payments to farmers for their produce. In years of surplus production, the sugar prices fall impacting the sale of sugar and liquidity of mills.⁵² As a result, mills are unable to pay farmers leading to delay in payments and accumulation of dues. Note that sugar mills are obligated to purchase sugarcane from all farmers within their specified area at a price fixed by the government. Conversely, farmers are bound to sell to the respective mills.

Rationalisation of sugarcane pricing has been recommended as one of the steps for improving the efficiency of the sugar industry. The central government fixes the Fair and Remunerative Price (FRP) for sugarcane, which is the minimum price that must be paid by sugar mills to farmers.⁵³ The FRP is fixed based on the recommendations of the Commission for Agricultural Costs and Prices (CACP). It is recommended taking into consideration: (i) the cost of production, (ii) rate of recovery of sugar, (iii) availability of sugar to consumers at a fair price, (iv) returns to farmers from alternative crops and the general trend of prices of agricultural commodities, (v) realisation from sale of by-products, and (vi) reasonable margins for farmers on account of risks and profits.

State governments can also intervene in sugarcane pricing by announcing a State Advised Price (SAP). SAPs are usually much higher than the FRP. This creates a distortion in the industry as SAP is neither linked to sugar recovery nor it takes into account domestic and global prices and other relevant parameters. As a result, when sugar prices are low, mill owners are unable to pay farmers resulting in delayed payment and accumulation of dues. The CACP (2018) recommended that the FRP must be implemented in all states and the announcement of SAP by states should be stopped immediately.⁵³ In case state governments decide to continue with SAP, the difference between SAP and FRP should be paid by the state governments directly to farmers.

Annexure

Table 9: Allocation to major heads of expenditure under the Department in 2021-22 (Rs crore)

	2019-20 Actuals	2020-21 Budgeted	2020-21 Revised	2021-22 Budgeted	% change (annualised) in 2021- 22 over 2019-20
Food subsidy	1,08,688	1,15,570	4,22,618	2,42,836	49%
Subsidy to Food Corporation of India (FCI)	75,000	77,983	3,44,077	2,02,616	64%
Subsidy to states (decentralised procurement)	33,508	37,337	78,338	40,000	9%
Sugar subsidy payable under PDS	180	250	203	220	11%
Assistance to state agencies for intra-state movement of foodgrains and for margin of fair price shops' dealers	1,679	3,983	8,000	4,000	54%
Investment in equity capital of FCI	1,000	1,000	1,000	2,500	58%
Scheme for defraying expenditure on transport and marketing of sugar exports, including handling and processing	551	200	350	2,000	91%
Assistance to sugar mills for the seasons 2017-18 to 2019-20	2,155	700	5,073	1,200	-25%
Scheme for creation and maintenance of buffer stock of sugar	530	200	650	650	11%
Financial assistance to sugar mills for enhancement and augmentation of ethanol production capacity	50	50	150	300	145%
Schemes for development of sugar industries	210	172	176	187	-6%
Scheme for extending soft loan to sugar mills	100	120	418	-	-
Department	1,15,173	1,22,235	4,38,649	2,53,974	48%

Sources: Demand no. 15, Department of Food and Public Distribution, Expenditure Budget, Union Budget 2021-22; PRS.

Table 10: Share of calorie intake from different food groups (%)

	Cereals	Pulses, nuts, & oilseeds	Vegetables & fruits	Meats, eggs, & fish	Milk & milk products	Miscellaneous
Rural						
1993-94	71.0	4.9	2.0	0.7	6.2	15.2
1999-00	67.6	5.5	2.0	0.8	6.2	17.9
2004-05	67.5	5.0	2.2	0.8	6.4	18.1
2009-10	64.2	4.5	1.8	0.7	6.8	22.0
2011-12	61.1	5.2	1.9	0.8	7.1	23.9
Urban						
1993-94	58.5	6.1	3.3	1.0	8.0	23.1
1999-00	55.1	6.9	2.9	1.1	8.2	25.8
2004-05	56.1	6.7	3.2	1.1	8.6	24.3
2009-10	55.0	5.9	2.6	1.0	9.4	26.1
2011-12	51.6	6.4	2.6	1.1	9.1	29.2

Sources: Table T18, Nutritional Intake in India, 2011-12, NSSO; PRS.

Table 11: Share of protein intake (%)

Year	Cereals	Pulses	Milk and milk products	Egg, fish, and meat	Other food
Rural					
1993-94	69.4	9.8	8.8	3.7	8.4
1999-00	67.4	10.9	9.2	4.0	8.4
2004-05	66.4	9.5	9.3	4.0	10.8
2009-10	64.9	9.1	10.0	4.0	12.0
2011-12	62.5	10.6	10.6	4.7	11.7
Urban					
1993-94	59.4	11.5	11.7	5.3	12.1
1999-00	57.0	13.1	12.4	6.0	11.5
2004-05	56.2	11.0	12.3	5.5	15.0
2009-10	56.4	11.3	13.8	5.6	13.0
2011-12	53.7	12.4	13.6	6.4	13.9

Sources: Table T21, Nutritional Intake in India, 2011-12, NSSO; PRS.

Table 12: Leakages in PDS for wheat and rice (in lakh tonnes)

State/ UT	Total consumption from PDS	Offtake (2011-12)	Leakage	% Leakage
Andhra Pradesh	36.1	40.7	4.6	11.3%
Arunachal Pradesh	0.8	1.0	0.2	20.0%
Assam	9.5	24.4	14.9	61.1%
Bihar	11.3	36.2	24.9	68.8%
Chhattisgarh	16.7	16.7	0.0	0.0%
Goa	0.4	0.8	0.4	50.0%
Gujarat	4.4	15.7	11.3	72.0%
Haryana	2.2	7.3	5.1	69.9%
Himachal Pradesh	4.9	6.3	1.4	22.2%
Jammu and Kashmir	8.8	9.1	0.3	3.3%
Jharkhand	3.1	12.4	9.3	75.0%
Karnataka	16.2	30.1	13.9	46.2%
Kerala	11.4	20.1	8.7	43.3%
Madhya Pradesh	15.5	30.7	15.2	49.5%
Maharashtra	19.3	42.7	23.4	54.8%
Manipur	0.0	2.0	2.0	100.0%
Meghalaya	0.8	2.5	1.7	68.0%
Mizoram	0.9	1.1	0.2	18.2%
Nagaland	0.1	2.0	1.9	95.0%
Odisha	15.4	24.4	9.0	36.9%
Punjab	3.4	8.7	5.3	60.9%
Rajasthan	10.1	29.8	19.7	66.1%
Sikkim	N/A	N/A	-	-
Tamil Nadu	39.5	45	5.5	12.2%
Tripura	2.7	3.3	0.6	18.2%
Uttar Pradesh	43.2	82.9	39.7	47.9%
Uttarakhand	4.6	6.6	2.0	30.3%
West Bengal	13.4	43.9	30.5	69.5%
Total	295.5	554.5	259	46.7%

Note: Data from National Sample Survey 2011-12.

Sources: Table 1, Working Paper 294, "Leakages from Public Distribution System", ICRIER, January 2015; PRS.

Table 13: Procurement, offtake, and stocks of foodgrains (in million tonnes)

Year	Procurement			Offtake			% Offtake	Stocks		
	Rice	Wheat	Total	Rice	Wheat	Total		Rice	Wheat	Total
2004-05	24.7	16.8	41.5	23.2	18.3	41.5	100%	13.3	4.1	18
2005-06	27.6	14.8	42.4	25.1	17.2	42.3	100%	13.7	2	16.6
2006-07	25.1	9.2	34.3	25.1	11.7	36.8	107%	13.2	4.7	17.9
2007-08	28.7	11.1	39.8	25.2	12.2	37.4	94%	13.8	5.8	19.8
2008-09	34.1	22.7	56.8	24.6	14.9	39.5	70%	21.6	13.4	35.6
2009-10	32	25.4	57.4	27.4	22.4	49.8	87%	26.7	16.1	43.3
2010-11	34.2	22.5	56.7	29.9	23.1	53	93%	28.8	15.4	44.3
2011-12	35	28.3	63.3	32.1	24.3	56.4	89%	33.4	20	53.4
2012-13	34	38.2	72.2	32.6	33.2	65.8	91%	35.5	24.2	59.8
2013-14	31.9	25.1	57	29.2	30.6	59.8	105%	30.6	17.8	49.5
2014-15	31.6	28	59.6	30.7	25.2	55.9	94%	23.8	17.2	41.3
2015-16	34.1	28.1	62.2	31.8	31.8	63.6	102%	28.8	14.5	43.6
2016-17	36.5	23.6	60.1	32.8	29.1	61.9	103%	29.8	8.1	38.1
2017-18	37.6	30.6	68.2	35	25.3	60.3	88%	30	13.2	43.3
2018-19	42.7	35	77.7	34.4	31.5	65.9	85%	37.7	34.9	72.7
2019-20	46.1	34.1	80.2	35	27.2	62.2	78%	49.2	24.7	74

Sources: Database on Indian Economy, Reserve Bank of India, as of February 18, 2021; PRS.

Table 14: Status of end-to-end computerisation of PDS operations (March 2020)

State/ UT	Digitisation of Ration Cards	Aadhaar Seeding with Ration Cards	Online Allocation of Foodgrains	Computerisation of Supply Chain	% of Fair Price Shops with Operational ePoS
Andhra Pradesh	100%	100%	Implemented	Implemented	100%
Arunachal Pradesh	100%	57%	Implemented	-	1%
Assam	100%	0%	Implemented	Implemented	0%
Bihar	100%	76%	Implemented	Implemented	96%
Chhattisgarh	100%	98%	Implemented	Implemented	97%
Goa	100%	98%	Implemented	Implemented	100%
Gujarat	100%	100%	Implemented	Implemented	100%
Haryana	100%	100%	Implemented	Implemented	100%
Himachal Pradesh	100%	100%	Implemented	Implemented	100%
Jharkhand	100%	95%	Implemented	Implemented	100%
Karnataka	100%	100%	Implemented	Implemented	99%
Kerala	100%	100%	Implemented	Implemented	100%
Madhya Pradesh	100%	90%	Implemented	Implemented	100%
Maharashtra	100%	99%	Implemented	Implemented	100%
Manipur	100%	82%	Implemented	-	12%
Meghalaya	100%	0%	Implemented	Implemented	0%
Mizoram	100%	93%	Implemented	-	0%
Nagaland	100%	70%	Implemented	-	23%
Odisha	100%	99%	Implemented	Implemented	100%
Punjab	100%	100%	Implemented	Implemented	100%
Rajasthan	100%	97%	Implemented	Implemented	100%
Sikkim	100%	91%	Implemented	Implemented	99%
Tamil Nadu	100%	100%	Implemented	Implemented	100%
Telangana	100%	99%	Implemented	Implemented	100%
Tripura	100%	100%	Implemented	Implemented	100%
Uttar Pradesh	100%	100%	Implemented	Implemented	100%
Uttarakhand	100%	94%	Implemented	Implemented	65%
West Bengal	100%	80%	Implemented	Implemented	92%
Andaman and Nicobar Islands	100%	98%	Implemented	Implemented	96%
Chandigarh	100%	99%	Direct Benefit	Direct Benefit	NA
Dadra and Nagar Haveli	100%	100%	Implemented	Implemented	100%
Daman and Diu	100%	100%	Implemented	Implemented	100%
Delhi	100%	100%	Implemented	Implemented	0%
Jammu and Kashmir (including Ladakh)	100%	84%	Implemented	-	100%
Lakshadweep	100%	100%	Implemented	NA	100%
Puducherry	100%	100%	Direct Benefit	Direct Benefit	NA
Total	100%	90%	34	28	89%

Sources: Report no. 3, Standing Committee on Food, Consumer Affairs and Public Distribution, Lok Sabha, March 13, 2020; PRS.

Table 15: Minimum Support Prices for paddy and wheat during 2011-21 (in Rs/quintal)

Year	Paddy (common)	% increase over last year	Wheat	% increase over last year
2011-12	1,080	8.0%	1,285	14.7%
2012-13	1,250	15.7%	1,350	5.1%
2013-14	1,310	4.8%	1,400	3.7%
2014-15	1,360	3.8%	1,450	3.6%
2015-16	1,410	3.7%	1,525	5.2%
2016-17	1,470	4.3%	1,625	6.6%
2017-18	1,550	5.4%	1,735	6.8%
2018-19	1,750	12.9%	1,840	6.1%
2019-20	1,815	3.7%	1,925	4.6%
2020-21	1,868	2.9%	1,975	2.6%

Sources: Commission for Agricultural Costs and Prices, Ministry of Agriculture and Farmers' Welfare; PRS.

Table 16: Sugarcane dues as of January 31, 2021 (Rs crore)

State	2017-18	2018-19	2019-20	2020-21	Total Arrears
Andhra Pradesh	-	37	44	91	171
Bihar	0	58	85	411	554
Chhattisgarh	2	6	-	55	63
Goa	-	2	-	-	2
Gujarat	2	-	0	1,044	1,046
Haryana	-	-	4	670	674
Karnataka	-	11	49	3,585	3,645
Madhya Pradesh	-	-	-	257	257
Maharashtra	27	118	0	2,030	2,176
Odisha	-	-	-	22	22
Punjab	-	-	137	576	713
Tamil Nadu	61	74	30	56	221
Telangana	-	-	12	114	126
Uttar Pradesh	34	-	1,406	7,555	8,995
Uttarakhand	75	105	-	416	596
Total	200	410	1,766	16,883	19,260

Sources: Lok Sabha Starred Question No. 113, February 9, 2021; PRS.

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⁵² Report of the Committee on the Regulation of Sugar Sector in India: The Way Forward, October 2012, http://eac.gov.in/reports/rep_sugar1210.pdf.

⁵³ Report on Price Policy for Sugarcane, 2019-20 season, Commission for Agricultural Costs and Prices, Ministry of Agriculture and Farmers' Welfare, August 2017, <https://cacp.dacnet.nic.in/ViewReports.aspx?Input=2&PageId=41&KeyId=622>.

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