Rising Food Subsidy Budget - NFSA

What is the issue?

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- The implementation shortfalls in National Food Security Act are leading to high food subsidy budget for the Centre.
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- It needs drastic measures to check the spike in food subsidy budget and address fiscal burden.
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What is the NFSA?

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- The NFSA (National Food Security Act) replaced the Targeted Public Distribution System (TPDS).
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- It significantly expanded the coverage of beneficiaries than before.
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- The beneficiaries are entitled to subsidised foodgrains (5 kg per head per month).
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- Post the NFSA period, the above poverty line (APL) and below poverty line (BPL) categories under the TPDS have been done away with.
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- The objective is food and nutritional security by ensuring access to adequate quantity of quality food at affordable prices.
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What is the concern now?

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- It is more than 5 years since the passage of the National Food Security Act

(NFSA), 2013.
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- But the task of supplying highly subsidised foodgrains to the 81 crore people under the PDS is still challenging for the government.
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- NFSA has gradually turned out to be a huge financial burden with mounting burden of food subsidy budget.
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- This is compounded by the huge surplus grain (rice and wheat) stocks currently held by the Food Corporation of India (FCI).
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What are the policy shortfalls?

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- **Procurement** - Open-ended procurement operations is carried out by the FCI and state government agencies.
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- This is for purchasing paddy and wheat from farmers by paying minimum support prices (MSP).
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- The broad objective is to ensure MSP to farmers and availability of foodgrains to weaker sections at subsidised prices.
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- This results in excess procurement of foodgrains against the requirement for the implementation of the NFSA.
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- E.g. the FCI and state agencies procured 69 million tonnes (MT) of foodgrains in both rabi and kharif seasons (2017-18)
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- However, the off-take of foodgrains by states (for the NFSA) during 2017-18 was around 54 MT.
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- The grain off-take for other welfare schemes had been around 3.6 MT during 2017-18.
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- In addition, to carry-forward stock from the previous year, it has led to ‘surplus’ grains held with the FCI, much more than required buffer norms.
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- Ultimately, surplus pushes up the cost of storing foodgrains.
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- Over the years, the economic cost (procurement, distribution and storage) of

holding foodgrains has been rising sharply.
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- This, in turn, is contributing to the rising food subsidy budget.
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- **Price** - The Centre is reluctant to increase the price of highly subsidised foodgrains supplied under the NFSA, 2013.
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- Under the Act, the price of Rs 3/2/1 for rice, wheat and coarse grains, respectively, was capped for 3 years, which ended in 2016.
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- Each rupee (per kg) increase in issue price of grains could result in savings of food subsidy of more than Rs 5,000 crore annually.
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- **FCI** - Along with the rising food subsidy budget, FCI's financial condition is another concern.
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- There is rising outstanding food subsidy dues to the FCI because of the mismatch between the budget allocated to it and the actual expenses incurred.
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- So the finance ministry would soon arrange a loan of Rs 27,000 crore from the National Small Savings Fund (NSSF).
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- In 2016-17, the finance ministry had arranged a five-year loan from the NSSF of Rs 70,000 crore for the FCI.
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- All these measures are likely to push up the food subsidy budget further.
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How could it be addressed?

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- For better management of foodgrains, the NDA government set up a high-level committee (HLC) chaired by Shanta Kumar.
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- The HLC recommended the government to have a relook at the current NFSA coverage of 67% of the population.
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- It should be brought down to around 40% of the population, which would comfortably cover BPL families and some even above that.
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- The HLC also recommended gradual introduction of cash transfers (DBT) in

PDS, which is estimated to save Rs 30,000 crore annually.
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- With a huge spike in food subsidy budget, the Centre has to take some key measures such as
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i. capping procurement for maintaining optimum foodgrain stocks
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ii. increasing issue price of foodgrains
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iii. rolling out DBT in cities
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iv. curbing grain pilferage through digitisation of the entire foodgrain management
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Source: Financial Express

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