FOOD SUBSIDY

The Central Government extends price support for paddy, coarse grains and wheat through the FCI and State Agencies. All the foodgrains conforming to the prescribed specification offered for sale at specified centres are bought by the public procurement agencies at the Minimum Support Price (MSP). The foodgrains so procured are allocated to the States for distribution to the identified beneficiaries under the Targeted Public Distribution System (TPDS) and other Welfare Schemes at subsidized prices. The difference between the economic cost of foodgrains and Issue Prices is incurred by the Central Government as consumer subsidy. In addition to procuring foodgrains for meeting the requirements of the TPDS and welfare schemes, the Central Government is also under obligation to procure foodgrains for meeting the requirements of the buffer stock to ensure food security of the country. Hence, a portion of total food subsidy also goes towards meeting the carrying cost of the buffer stock as buffer subsidy.

Consumer subsidy:

2.1 Till October, 1997, Government of India conducted its operations for procurement and distribution to the States through the Food Corporation of India. The difference between the economic cost and the Central issue Prices/average sales realization is reimbursed to the FCI in the form of consumer subsidy.

2.2 The Scheme of Decentralized Procurement of foodgrains was introduced by the Government in 1997-98 with a view to effecting savings in the form of reduction in the outgo of food subsidy, enhancing the efficiency of procurement and PDS and encouraging local procurement to the maximum extent thereby extending the benefits of MSP to local farmers. States like Andhra Pradesh, Kerala, Gujarat, Orissa, Karnataka, Madhya Pradesh, West Bengal, Chhattisgarh, Rajasthan, Tamil Nadu and Uttarakhand, have undertaken Decentralized Procurement Scheme. The economic cost of procurement, storage and distribution of foodgrains by the State Governments is fixed by the Government of India in consultation with the State Governments, and the difference between the economic cost so fixed and the Central Issue Prices under various welfare schemes is reimbursed to the States as food subsidy. The Government of India is encouraging other States also to adopt the scheme.

2.3 A statement showing subsidy released to FCI and Decentralised Procurement States for the last 5 years is given below: -

(Rs. in crores)

FCI/ State/ UT	YEAR				
	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**
FCI	46867.1412	50729.560	59525.900	71980.00	75500.02
Andhra Pradesh	-	-	-	225.514	1554.83
Madhya Pradesh	1434.320	2013.760	2964.830	3356.71	3398.882
Uttar Pradesh*	5368.600	2485.340	1219.620	39.256	5.182
West Bengal	1103.170	1241.070	1481.730	1816.13	1551.138
Chhattisgarh	1007.510	1923.480	1670.360	2345.39	2374.8744
Uttarakhand	229.880	299.360	217.970	243.77	318.22
Tamil Nadu	672.430	1501.030	1897.720	1176.28	1007.49
Gujarat	40.260	20.150	59.620	115.140	0.000
Orissa	1281.960	2243.970	2934.710	2731.50	3041.11
Karnataka	0.000	0.000	0.000	0.000	492.950
Kerala	237.180	471.840	398.440	524.310	427.82
Rajasthan	0	0	0	0	67.50
States Total	11375.310	12200.000	12845.000	12574.00	14240.00
TOTAL (FCI+States)	**58242.451**	**62929.560**	**72370.900**	**84554.00**	**89740.02**

* Uttar Pradesh has since opted out of DCP Scheme

Release of Subsidy

3.1 To the FCI

Advance Subsidy is released to the FCI on quarterly basis in the first month of the quarter @ 95 % of the total admissible claims submitted by the FCI on the basis of the estimated offtake during the next quarter. The estimated offtake is to be calculated on the basis of offtake during the latest three months. This advance subsidy is adjusted against provisional subsidy released after the end of the year for the actual offtake. Balance 5% subsidy is released after submission of the claims by the FCI on the basis of final audited accounts.

3.2 To the States that have adopted Decentralised Procurement (DCP) System

Advance quarterly subsidy is released to the DCP States @ 90 % of the State's admissible claim for the estimated offtake for the next quarter to be calculated on the basis of past offtake for the last two quarters. Provisional subsidy are also released to the State Govts. after the end of the quarter. While releasing provisional subsidy to the States 100% of fixed cost and 95% of the variable cost of the cost incurred by the States are released to them. Balance 5% of variable costs is to be released after the finalization of the economic cost on the basis of Audited accounts of the States.

Fixation of procurement and distribution incidentals

4.1 Several State Governments are involved in the procurement operations of foodgrains (rice and wheat) either through their Departments or through their Agencies as Agents of the FCI for delivery to the Central Pool or for their own requirement under the Decentralised Procurement Scheme. Before commencement of the marketing season for the procurement of foodgrains, the State Governments forward their proposals to the Government of India (GOI) for fixation of provisional acquisition/economic cost of the foodgrains, as the case may be. These provisional costs are finalized after submission of audited accounts of agencies by the concerned State Govt. In order to introduce an element of transparency in the methodology of fixing of these costs, the Department had issued the ‘principles’ for fixing these costs. These principles have been revised from time to time by the Deptt. The State Governments are advised to base their proposals for arriving at the acquisition cost/economic cost on these “principles”. The GOI scrutinizes the proposals based on these “principles” and concurrence to the same is conveyed accordingly.

4.2 Finalization of incidentals/economic cost of foodgrains.

Provisional incidentals/ economic cost of foodgrains are finalized on receipt of proposals of the State Govts. alongwith audited accounts for each crop of Kharif Marketing Season (KMS) and Rabi Marketing Season (RMS) in consultation with Food Corporation of India (FCI). Before finalizing the cost States are given opportunity to give their comments on the proposed final rates and if desired by the States a meeting with States is also held to sort out the disputes.

Buffer Subsidy:

5 The Food Corporation of India has to maintain a part of stocks of procured foodgrains in the form of buffer as a measure of food security to guard against situations of scarcity of foodgrains and also to enable the Government to intervene effectively and positively to stabilize prices in time of undue increase in the market. Carrying charges for buffer, comprising elements like freight, storage and interest charges, are also reimbursed to the FCI in the form of carrying cost of buffer, as an element of total food subsidy.