

How digital reforms in food subsidy settlements can speed up intergovernmental transfers in India

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7 years

is how long it takes, on average, to settle accounts between the Center and the states for expenses incurred to implement the public distribution system (PDS), in India's top paddy procuring states.



From manual data entry in registers to biometric-enabled food ration delivery, the way India feeds its most vulnerable population has undergone a digital revolution. The central and state governments have undertaken several reforms to ensure they procure food grains efficiently from farmers and deliver them to nearly 800 million beneficiaries at the last mile.

Yet a notable contrast persists in the process of claim settlement between the central government and state procuring agencies or state nodal agencies (SNAs), which help move food grains. In some cases, disputes over settlements have escalated into legal battles between states and the Center, and have exposed structural gaps in intergovernmental transfers under the food subsidy program.

Consequently, procuring states often bear financial burden for years. They sometimes wait nearly a decade for reimbursement from the Center. The average time taken to settle accounts for three of the highest paddy-procuring states, Punjab, Madhya Pradesh, and Chhattisgarh, was close to 7 years. Procuring agencies finance these operations with borrowed funds, which creates a mounting financial drain on the exchequer.

In the financial year 2021–22, the Government of India paid off most of the Food Corporation of India's (FCI) longstanding debt arrears. This pushed the revised food subsidy bill to a record high of nearly USD 58 billion, nearly double the average of around USD 30 billion in previous years. A delay in account settlement can potentially destabilize the government's fiscal space and crowd out investment in capacity building and capital goods.



How are accounts between the Center and procuring agencies settled?

Behind the scenes lies a complex ecosystem of actors. Activities under the Public Distribution System (PDS) are jointly managed by state agencies, the FCI, and the Department of Food and Public Distribution (DFPD). The Government of India classifies states to one of the two procurement models for food grains:

Decentralized procurement (DCP) or centralized procurement (non-DCP). Regardless of the model, account settlement is a formidable multi-step process. As seen in Figure 1, involvement of states is greater under the DCP model, which leads to a higher interest burden for those states.

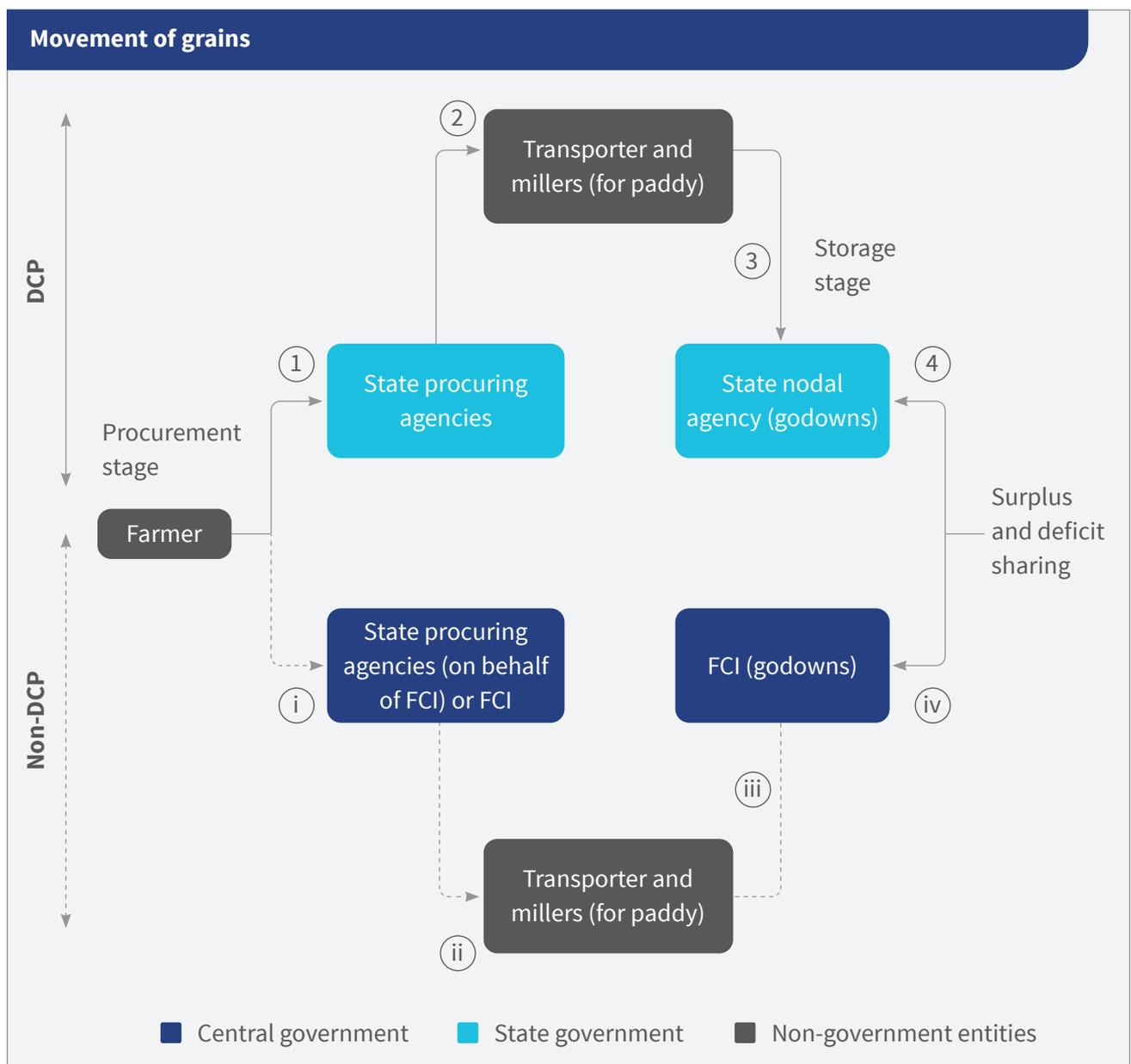


Figure 1: Stakeholders involved in the movement of grains under the PDS (Source: Author's analysis)

The journey begins long before the food grain reaches a beneficiary’s plate. Before the marketing seasons (kharif and rabi) start, the Center and states plan and coordinate foodgrain procurement through joint committees. States prepare provisional cost sheets (PCS) to estimate expenses and then begin to buy grains from farmers on credit. The Center provides periodic provisional subsidies that cover roughly 90-95% of these estimated costs to keep operations running. These costs also include the minimum support price (MSP) for the farmers.

The challenge of account settlement emerges after the grain is distributed. Once the stock of a marketing season has been distributed to beneficiaries, the state CAG can audit the costs of the distributed food grains. The audit reports must be tabled in the state legislature within 9 months, after which the final cost sheet (FCS) is released based on actual expenditure. At this stage, the Center and states reconcile every rupee spent to settle accounts. The process is long and cumbersome, ranging from delays in submitting audited accounts to difficulties in presenting actual bills for reconciliation.

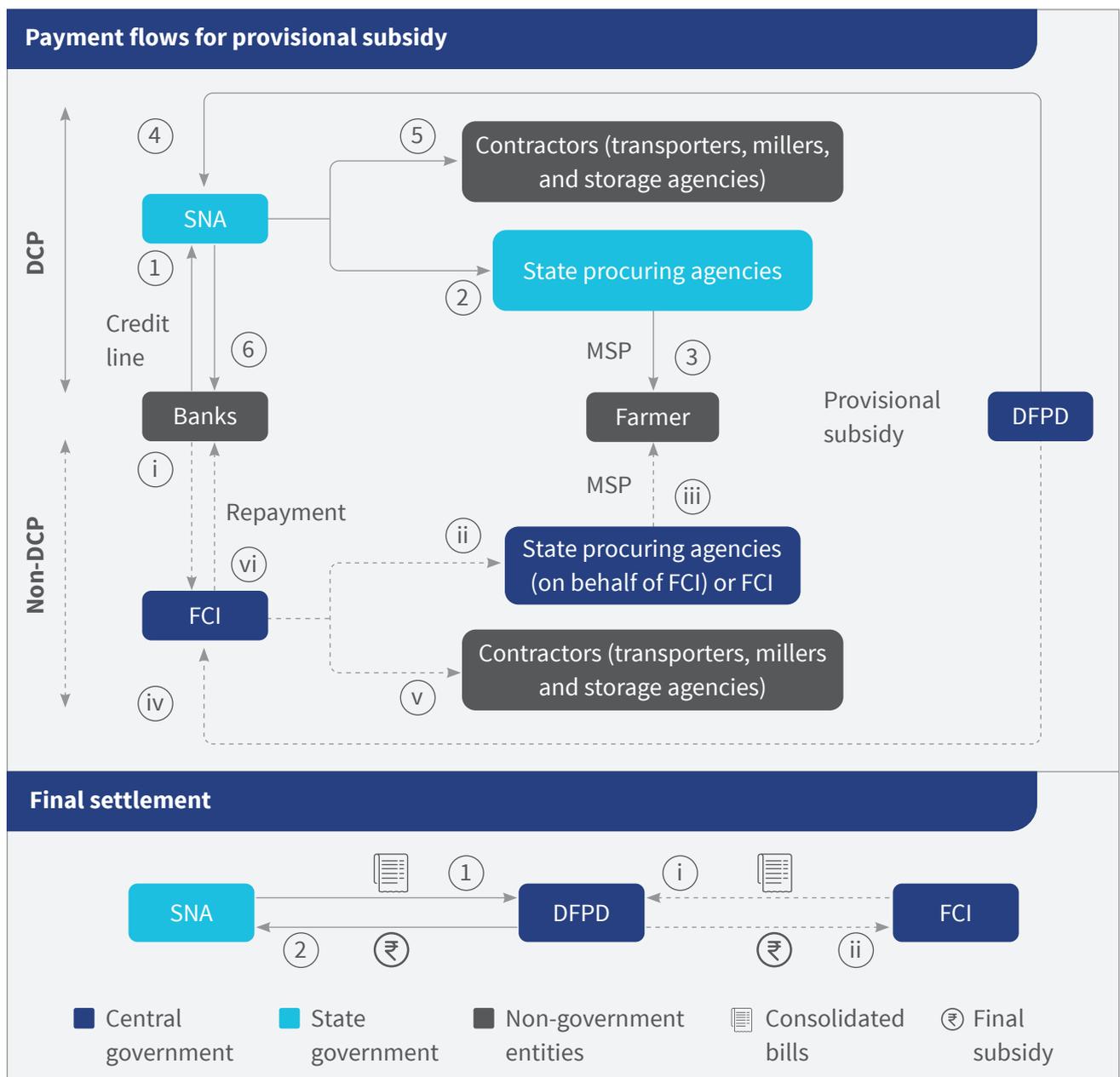


Figure 2: Payment flows under the account settlement process of the food subsidy program (Source: Author’s analysis)



What is the magnitude of the delay, and what are its financial implications?

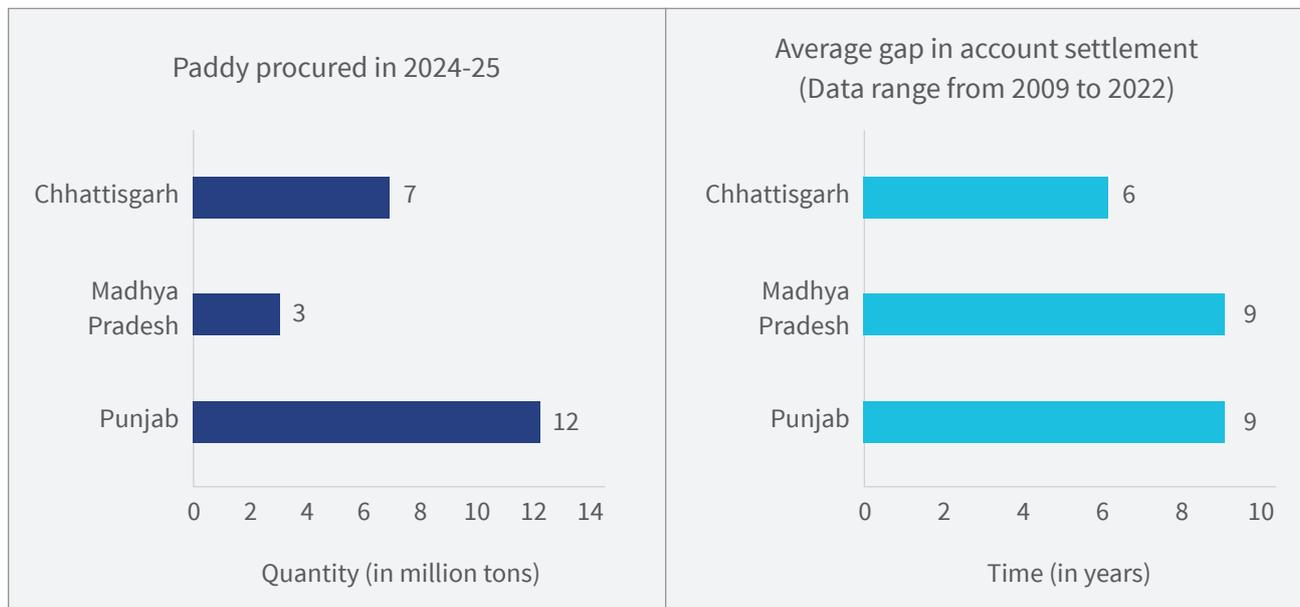


Figure 3: Average gap in accounts settlement (Source: [DFPD](#)) and paddy procured by three major paddy procuring states (Source: The Ministry of Agriculture and Farmers Welfare ([MoAFW](#)))

Figure 3 shows the magnitude of delay in account settlement for Chhattisgarh, Madhya Pradesh, and Punjab. These states have consistently procured large quantities of food grains for nationwide distribution. State-owned corporations finance these operations through cash credit limits (CCL), as shown in Figure 2.

Audit reports of state civil supplies corporations show how delays in account settlement lead to mounting financial debt. For the State Civil Supplies Corporation of [Madhya Pradesh](#), pending dues from the Center, FCI, and the state government grew by 140% in just 4 years. This forced the Corporation to borrow heavily, which pushed its annual interest costs from around USD 81 million to USD 198 million within 3 years. Due to this mounting debt, the DCP state, Madhya Pradesh, has [requested a transition from DCP to non-DCP status](#), as fewer activities are involved under the non-DCP model (Figure 1). In [Punjab](#), the Civil Supplies Corporation has accumulated

losses of approximately USD 231 million, with an additional USD 70 million in new loans raised in 2021–22 to sustain procurement operations.

When accounts remain unsettled for years, state governments may step in to absorb the burden through grants or subsidies. The pending dues and rising losses of the states’ civil supplies corporations create financial risks in two ways. First, they increase non-discretionary spending and create a crowding-out effect. This happens because procurement-related debt ties up fiscal space, compels governments to divert resources away from welfare priorities, and constrains credit availability for productive investment. Second, pending dues and losses inflate subsidy outlay and make annual budgeting less predictable for the Indian government. When accounts are settled long after procurement is complete, expenditures no longer reflect the actual fiscal cost of procurement in the year it occurred.



Why did account settlement take so long?

At the DFPD's end, a set of underlying issues led to delays across the different phases of the settlement process, which can be broadly categorized as follows:

1. **Administrative burden:** The states and the DFPD relied on manual or semi-manual, siloed processes, which led to significant back-and-forth over missing compliance evidence. Multi-layered manual approvals further delayed the overall settlement process.
2. **Poor accountability:** The DFPD also lacked a centralized standard operating procedure (SOP) that specified roles and responsibilities, escalation mechanisms, or turnaround
- times (TATs) to submit and process claims. Additionally, no real-time visibility or digital traceability of claim status was available. This led to low accountability across all stages of the claims process.
3. **Friction in payments:** During FCS finalization, high discretion and weak coordination persisted between the Center and states. The states were not part of the Center's PCS finalization committee. This discrepancy led to repeated clashes with the Center over claim amounts and supporting compliance documents, and increased friction throughout the claim settlement process.



Our solution: Digital governance reforms

In 2023, MSC supported the DFPD to reengineer its payment systems and processes for state governments. We reviewed existing procurement payment processes across the DFPD, the FCI, and major procuring states to identify gaps and opportunities for improvement. We then redesigned end-to-end payment workflows, developed functional and technical requirements, and created an implementation roadmap to enable efficient account settlements.

MSC introduced three interconnected solutions to resolve the challenges identified above:

1. **Process reengineering through a revised SOP:** The first step redesigns the scheme processes to improve accountability and lower administrative burden. It defines clear TATs for each stage of claim settlement, maps roles and responsibilities across stakeholders and
- introduces escalation matrices to address delays. The centralized SOP serves as the single source of truth for all actors involved in account settlement.
2. **Process digitization with the SCAN portal:** MSC proposed improvements within the existing centralized digital system called the SCAN portal through rule-based automation to complement process reengineering. Through this intervention, six modules are being integrated into SCAN to digitize claim submission, validation, and approval workflows. The enhanced system will improve data traceability and provide real-time visibility into claim status.
3. **Standardization of procurement incidentals (PI) fixation:** This intervention standardized the calculation for 12 out of the 15 PIs such

as administrative costs, milling charges, and storage, among others. Earlier, the states decided on these rates with significant discretion, which often delayed finalization.

Now, the remaining three PIs are decided in advance through consensus between the Center and the states.

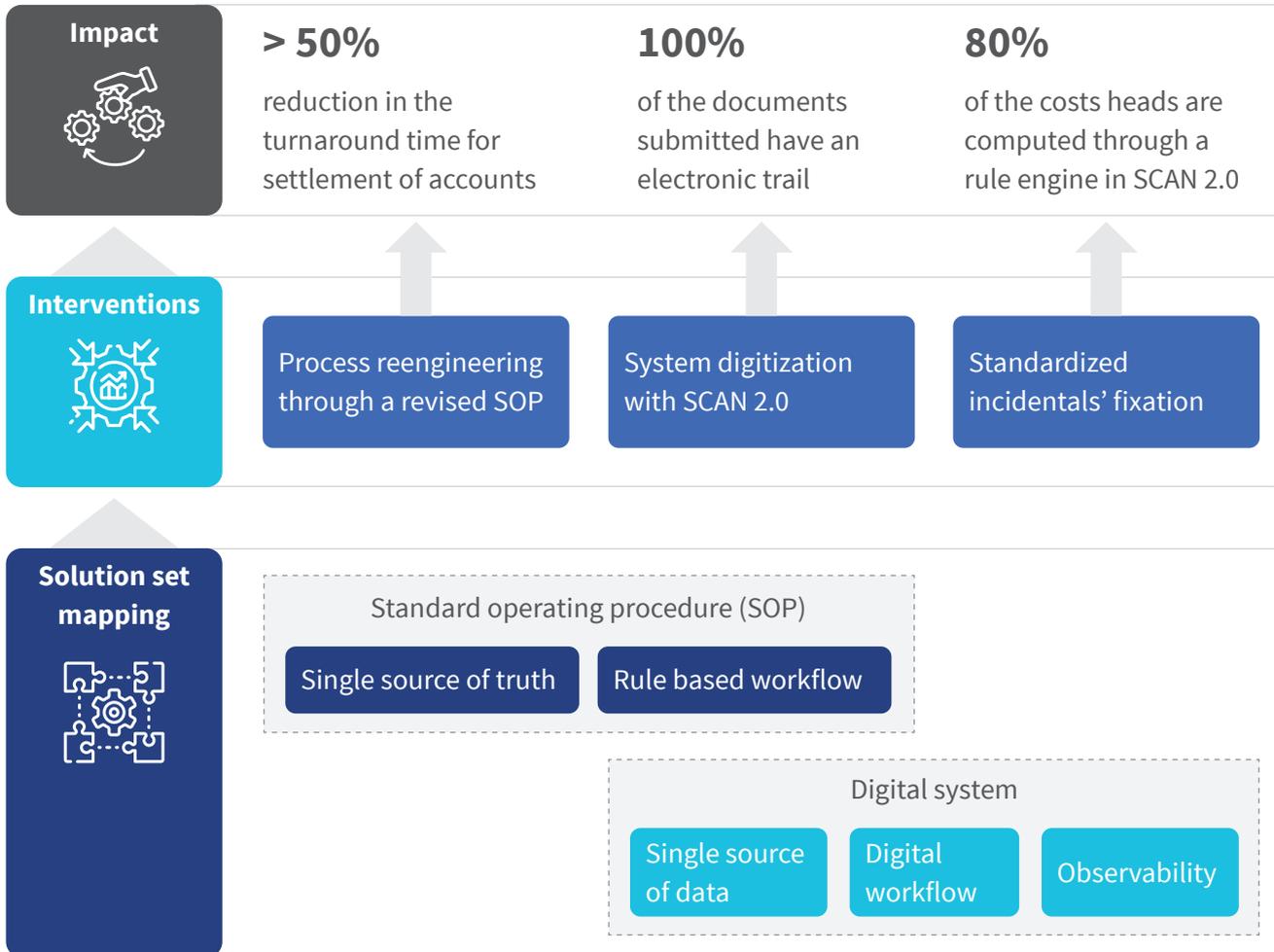


Figure 4: Estimated impact of MSC's interventions (Source: Author's analysis)



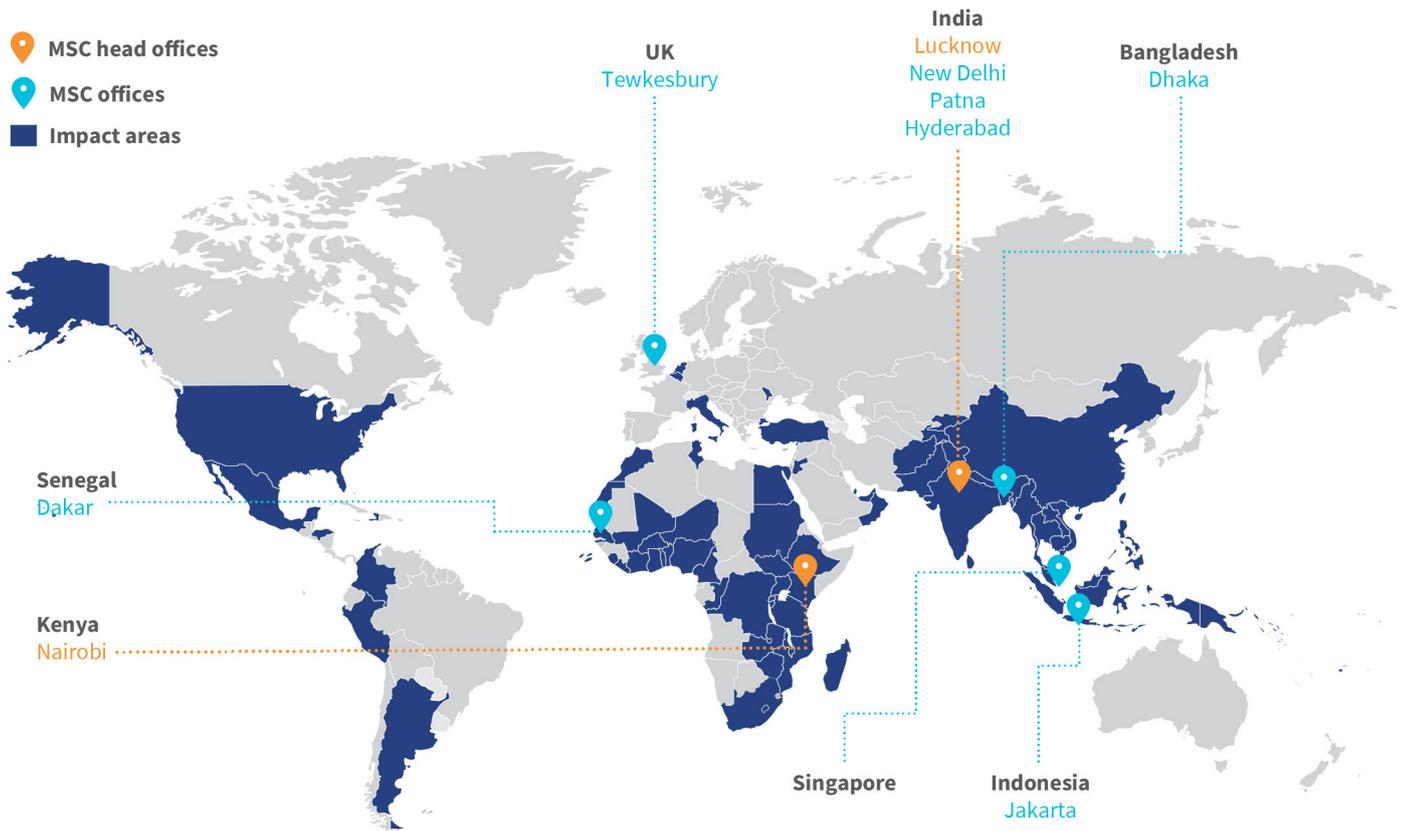
The way forward

These reforms, enabled by the SCAN portal, are expected to reduce the turnaround time for account settlement from a current average of about 7-8 years to 2-3 years. MSC is also working with the DFPD to augment the potential of the SCAN 2.0 platform through artificial intelligence (AI) enabled tools, such as anomaly detection in submitted claims based on historical data and predefined rules. This will allow early error

detection and faster claim settlement through real-time monitoring across the claim lifecycle.

Beyond efficiency, these reforms intend to strengthen financial transparency. They seek to ensure that India's USD 23 billion in food subsidies continues to feed millions and operate with greater oversight, economic efficiency, and accountability.

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