

The national food security bill (nfsb) analysis



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Introduction

In 1965, the U. S Government shipped 10 million tons of food grain to India. Today India's most significant challenge is still food security although it produces over 240 million tons(sp?) food grains.

The NFSB came into effect on September 12, 2013. The Act aims to provide food security to 50 % of the urban and 75 % of the rural population by providing them food grains at subsidized prices of Rs 1 per kg for coarse grains, Rs 2 per kg for wheat, Rs 3 per kg for rice through the existing Public Distribution System (PDS). These prices can be revised after first 3 years upto the level of Minimum Support Price (MSP - assured price paid to the farmers by the Central Government while procuring grains from them).

The Act ensures the following benefits:

1. 5 kg of food grains per month to each individual in each priority household.
2. 35 kg per month, per household to Antyodaya Ann Yojna Beneficiary Households (an existing scheme benefiting poorest of the poor)
3. Appropriate meals for children aged 6 months to 6 years through local Anganwadis (Anganwadis centers provide basic health care in Indian villages)
4. Free Mid Day meal for children aged 6 years to 14 years (up to Class VIII) in all government schools
5. Free meal for pregnant and lactating mothers (till 6 months after child birth) through local Anganwadis

Identification of Eligible Households: The criteria for identification of households, eligible for entitlements is not clearly specified in the Bill. The Centre is expected to issue guidelines and the process of identification of the households is left to the State government.

Implementation: The Central Government shall only provide the food grains or cash to the State Government in case of short supply of food grains. State Governments are responsible for inter-state allocation and to deliver the food grains to Fair Price Shops (FSPs). Local authorities are responsible for implementation and monitoring of the schemes in their areas. State Food Commissions shall be created which will monitor the implementation of the Policy and provide recommendation to the State Government for better implementation.

Financial Assistance from the Centre to the States: NFSB states that the Centre Government will provide fund assistance to the State Governments for meeting their expenditure on intra-state movement, storage and distribution of food grains and amount paid to the Fair Price shops.

Reforms in the Public Distribution System (PDS): NFSB states that the Government will bring various reforms to the PDS, such as, IT reform, introduction of schemes like cash transfers, food coupons in order to ensure food grain entitlement for beneficiaries.

Grievance Redressal Mechanism: A grievance redressal mechanism shall be set up at state & district levels.

Cost of implementing the Bill: NFSB estimates the cost of Rs 95, 000 Cr. (\$59, 000 Bln) Finance Minister P. Chitambam has budgeted Rs 10, 000 Cr. (\$ 6200 Bln) over and above the normal current food subsidy allocation in 2013-14 annual budget.

Why the NFSB is important?

Green Revolution (increase in food grain production through introduction of high yielding variety of seeds, use of chemical fertilizers and irrigation) began in India more than 45 years ago. On one hand India has overflowing warehouses and rotting grains, on the other hand millions of people in India sleep on an empty stomach. India ranks 16 among 120 countries in the 2013 Global Health Index (a measure of progress and failure in the global fight against hunger). How can India be among world's fastest growing economies and yet have hunger and malnutrition levels worse than Sub - Saharan Africa?

. India is world's biggest rice exporter in the world, exporting more than 9 million tons of rice each year. Hence the country's food stock should be used to alleviate hunger and malnutrition. No country can claim to be a super power with millions of people living in hunger. The food security bill aims to cover about 67 % of India's population which includes poor, pregnant and lactating mother and children.

Why the NFSB may fail?

Food security is necessary for India to become a super power in the coming decades, but there are various flaws and loopholes in the current policy and its implementations.

Who are the Beneficiaries? No clear eligibility criteria establish who is eligible for entitlements stated by the Centre Government; the identification process is left to the state government. The only clear beneficiaries are those already entitled to the same benefits under the Antyodaya Anna Yojna. In 2009, a study concluded that in the current Public Distribution system, 60 % of the population who were living below the poverty line were excluded as beneficiaries whereas 25 % of the population who were living above the poverty line were included. Errors in identification of deserved beneficiaries of the scheme are prone to happen and no measures are suggested by the government to overcome these.

Jean Dreze, a prominent development economist, wrote in a newspaper article: " For instance, the identification of eligible households is left to the discretion of the government. In the absence of clear eligibility criteria, no one is really entitled to anything as a matter of right; this defeats the law's purpose." (*)

A recent discrepancy was noted when the Act was being implemented in the National Capital, Delhi before election were held in the state. Sheila Dikshit, the then Chief Minister of Delhi had stated that there are 32 Lakhs beneficiated in Delhi, whereas KV Thomas, the Union Food Minister claimed that the number was 72 Lakhs. The discrepancy in understanding and clearly stating that who is the beneficiary is the biggest flaw in this policy.

How will the Scheme get implemented? NFSB in India is proposed to be implemented through the existing PDS already crippled with more than 40 % leakages and inefficiencies, huge operating cost and corruption. In 2009-2010, of the food distribution target of 42 million tons by the PDS only 60 % went to the beneficiaries and 40 % was lost. There is gross food mismanagement and government has failed to provide any efficient food storage and distribution system including a several lack of warehouses across the country.

The reforms suggested in the PDS are also flawed with schemes such as cash transfers being vulnerable to targeting errors while also possibly exposing the beneficiary to price volatility and inflation. Moreover the cash transfer implementation may itself be problematic due to limited access to banks in many areas. Food coupons are known to have delays in issuing and reimbursing them.

How will it affect the Farmers? In India there is a policy of MSP for rice and wheat and some other specified crops. It provides the farmers a guaranteed price for their produce if they are unable to sell in the open *mandis* (whole sale food markets). But only 30 % of the farmers get the benefit of the minimum support price, 70 % depend on the markets. The low price of food grains through this scheme is expected to distort the market; prices would be pushed down because of the low demand in the market. This will affect the farmers who are already living in the vicious cycle of debt.

Three hundred thousand farmers have taken their lives in the 17 years, and more than 75 % are carrying debts. The share of agriculture in the economy

is dipping and agriculture is becoming less and less feasible economically. Between 2007-2012, 32million people have abandoned farming, sold their meager land holdings and moved into cities looking for unskilled jobs. But the economic growth in India has fallen to less than 5 % in 2013, leading to negative growth in the manufacturing sector and city jobs drying up. They are forced to return back to the villages and depend on MNREGA wages. More than 60 % farmers are dependent on MNREGA wages (Mahatma Gandhi Rural Employment Guarantee Scheme) to earn their livelihood.

What are the financial implications?

A bill that aims to provide food security will have massive financial implications. The annual cost as stated in the bill (Rs 95, 000 Cr) is just the tip of the iceberg. Experts have been varying estimates on the cost. Ashok Gulati, Chairman , Commission for Agricultural Costs and Prices, feels that the NFSB does not take into account the other costs that would be needed to implement it effectively like increasing warehouses and making distribution efficient etc and estimated the cost at Rs 2 Lakhs core (\$124, 000 Bln) per year.

Dr Surjit S Bhalla, a prominent financial expert on emerging economies, said that the bill will cost 3 % of the Indian GDP in the first year rather than 1 % which is claimed by the Indian Government. According to the NSS (XXXX) data, only 45 % of the population had access to PDS in 2011-12. With the Act it will be 67 %. This leads to approximately 50 % increase in the subsidized grain being supplied. The NSS data sates that in 2011-12 the average subsidy was 2. 1 kg per person per month. So with greater consumption of 5

kg, subsidy bill increases by 150 %. With the subsidized prices coming down from Rs 5 Kg to Rs 2 kg, the subsidy increases from Rs 13. 5 per kg to Rs 16. 5 per kg. In 2011-12, the total food subsidy was Rs 72, 000 Crores (\$ 45000 Bn). So after the food security act it will increase to around 3, 00, 000 Crores (\$ 185, 500 Bn) or approximately 3 % of the GDP.

What is the impact on the economy?

NFSB would require huge funds and therefore a huge subsidy by the Central Government. These subsidies will increase the fiscal deficit and cause a shift in funds from investment to subsidy. Higher fiscal deficit will lead to macro level inflationary pressure. Additionally, procurement of large scale food grains would result in a rise in MSP, to provide incentive for the production to farmers and further fuelling inflationary pressure and creating macro- imbalances Moreover, shifting the nature of resource allocation from investments towards subsidies will affect long term growth and sustainability of food security.

From growing at an average rate of 9 % between 2006-2011, India's GDP growth rate has now fallen below 5 %. Slower growth means a steep fall in tax revenue. If the growth slows further, the credit rating agencies could downgrade India's investment rating and the corporate sector in India would find it harder and costlier to raise funds for investment.

The way forward

According to the World Bank, two-third of India's population still lives on less than \$2 a day. The population of India is growing rapidly and is expected to

surpass China in the next 20 years. The Government needs to revamp initiatives related to health, family planning and education. The NFSB, despite its flaws, is a necessity and the following recommendations would help ensure an economically effective bill.

1. Growth and diversification in agriculture, extending the green revolution to North-Eastern states in India has already increased rice production. Farmers need to provide their due share by setting up a network of *mandis* across the country.
2. Providing bonus to farmers over and above the MSP will provide incentive to farmers to produce more, this has been followed in the state of Madhya Pradesh in India. Moreover, the policy of MSP should also be made applicable to pulses, millets etc which is essential to ensure that the nutritional security is also met.
3. Mr P. K Joshi, South Asia Director of the International Food Policy also states in the Wall Street Journal that the NFSB should only be targeted to the Poor.
4. Making the PDS more effective and efficient is central to a functional food security programme. It is important to plug in leakages by allowing private sector to handle the storage and movement of food grains while bringing in more investments in storage and distribution capacity.
5. Since the success and failure of the scheme will depend on the states as they need to implement and monitor them. States should be given more autonomy in deciding what kind of Food Security programme they would like to implement. For example, states like Chhattisgarh,

Madhya Pradesh and Tamil Nadu in India are already running well established and efficient food security schemes.

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