

National Food Security Ordinance: Anything But Expensive

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While critics have overblown the cost estimates of the National Food Security Ordinance, the ordinance itself is a missed opportunity. What is needed is a more comprehensive Act which incorporates measures such as procurement, storage and distribution through a decentralised, strengthened and universal public distribution system, among others and a strong grievance redressal and monitoring mechanism.

With the promulgation of the National Food Security Ordinance (NFSO) last week, there have been many shrill voices warning the nation about the high costs of its provisions. The media, especially the TV news channels, have been continuously flashing figures on how expensive, and therefore harmful to the Indian economy the food bill will be. The most popular figures seem to be 3% of the GDP annually as estimated by the economist Surjit Bhalla (Indian Express, 6 July 2013) and Rs. 6 lakh crores over the next three years as estimated by Ashok Gulati, the Chairperson of the Commission of Agriculture Costs and Prices (CACP) (The Economic Times, 4 July 2013). It is necessary to understand how these figures have been arrived at, based on extremely dodgy assumptions. Further, there is a need to look beyond this superficial discussion and investigate how far this ordinance will go in addressing people's hunger and malnutrition.

Surjit Bhalla uses an erroneous method to arrive at this estimate of Rs. 3 lakh crore per year. He assumes the actual consumption and outreach of PDS as reported by people in the NSS survey to be the current provision of the government and adjusts it to the proposed coverage and lower prices under the ordinance. So, he argues that according to National Sample Survey (NSS), 44% of the people get access to Public Distribution System (PDS) at an average of 2.1 kgs per head^[1]. To expand this to 67% coverage and 5 kgs per head at lower issue prices as proposed by the ordinance, the food subsidy of 2011-12 (Rs. 72000 crores) has to be increased 4.3 times. The implicit assumption here is that the present level of leakages as reflected in the NSS will remain the same even after the ordinance is rolled out and further, that the government will allocate resources taking into account leakages. His calculations do not take into account the fact that the allocation of foodgrains under the Act will in fact go up only by 2 mn tonnes from 60 mn tonnes to 62 mn tonnes or that the current allocations are at three different issue prices for the Above the Poverty Line (APL),

Below Poverty line (BPL) and Antyodaya Anna Yojana (AAY) populations; or that currently the allocations are at the scale of 35kgs per household per month or even that the expenditure of many state governments on food subsidy will now go down as they will be getting grains cheaper from the central government. By using statistics to one's own convenience without clearly mentioning the assumptions being made, such a method of estimating the food subsidy is only misleading.

Overblown Costs

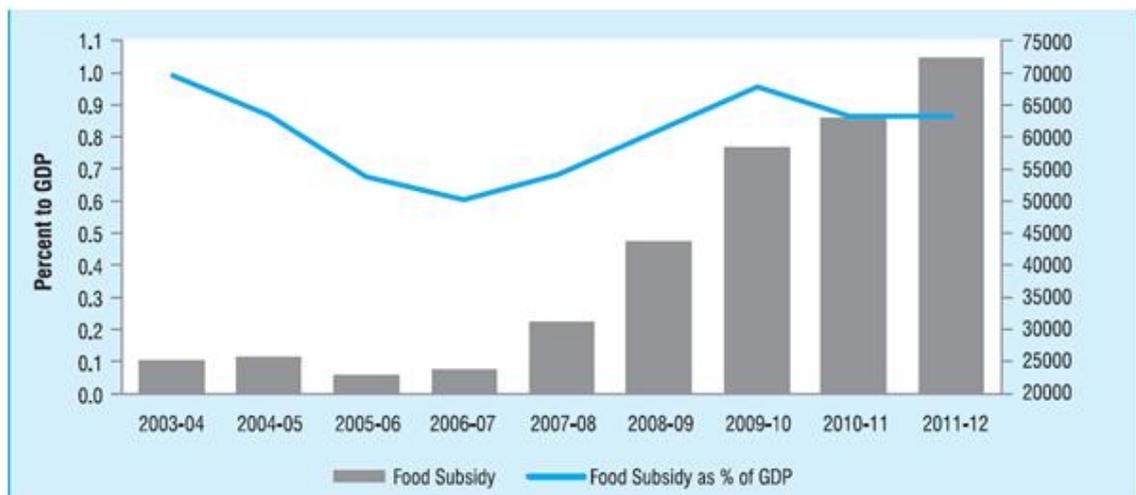
By challenging readers to counter his calculations Bhalla tries to convince them that there can be nothing wrong with it. In fact the counter-question to be posed to Bhalla is how he proposes the Rs. 314,000 crores will be put to use. Food subsidy is the difference between the economic cost and issue price; which is currently around Rs. 20 per kg. To spend Rs. 314,000 crores the government will have to procure 157 mn tonnes of foodgrains, which is even more than the total marketable surplus of cereals produced in the country. Is he by any chance imagining that the NFSO will nationalise the foodgrains market? That would be too far-fetched for even someone like Bhalla!

Ashok Gulati on the other hand inflates his estimates by including "the investment in agriculture that will be needed to stabilise production, the investment that would be needed in storage and the investment that would be needed in transportation through railways". The question to ask here would be whether these costs can all be attributed to the NFSO. "Food subsidy" only includes the cost to the exchequer on account of procuring foodgrains at minimum support prices, storing and transporting the grains and then selling them at a subsidised price to the consumers.

It is only fair that when we are comparing how much higher the food subsidy will be as a result of the NFSO, only these aspects are included in the Ordinance being taken into account. Moreover, is Gulati suggesting that the government (or he) does not think it is necessary to invest in agriculture and the only reason to do it would be to provide for the NFSO. The public investment in agriculture has stagnated since the 1990s leading to stagnation in the agrarian economy and this needs to be corrected to protect the lives and livelihoods of majority of our rural population and to ensure that we remain food sufficient and do not become import dependent like in the 1960s. This is a goal in itself whether we have a PDS or not. An expanded and reformed PDS can only contribute to revitalising agriculture by increasing decentralised procurement (which by the way will also reduce transportation costs) and including newer crops such as pulses and oilseeds.

The NFSO in fact is only a very small step towards ensuring food security. It is a myth that it is very expensive and that it will result in food shortages in the open market. The current food subsidy is around Rs. 90,000 crores. With an average subsidy of Rs. 20 per kg; the food bill will cost about Rs. 1,24,000 crores (for 62 mn tonnes). This is around 1.2% of the GDP and not 3% as projected by media reports. The other figure that is repeatedly quoted by the

media is that food subsidy was only Rs. 25,000 crores 10 years back and it has been constantly increasing at a rapid rate. The reality is that as seen in the figure below from the Economic Survey of 2013 over the last 10 years the food subsidy has hovered around 1% of GDP. Interestingly, the percentage of households accessing foodgrains from the PDS has gone up from 28% in 2004-05 to 39% in 2009-10 and 44% by 2011-12 despite the expenditure remaining constant at less than 1% of GDP. This has also been accompanied by steep reduction in leakages in the PDS. In fact it is the improvement in efficiency of PDS which has been ignored by Bhalla's calculation. But that also explains why the NFSO can still deliver subsidised foodgrains to 67% of the population without much additional costs if the PDS is made efficient.



Source: Economic Survey, 2013

This unfortunate discussion around the cost of the NFSO has only served to divert the attention away from the real issues. Similar attempts were made to derail the NREGA when it was being passed, with one estimate stating the Act will cost up to Rs. 2,08,000 crores a year. After it was passed, the expenditure on NREGA has been less than Rs. 40,000 crores a year.

So, how far does the NFSO go in addressing hunger and malnutrition? Is it indeed the “gamechanger” that it is being made out to be?

One of the positive aspects of the NFSO is that it presents the opportunity to move the PDS away from the current APL-BPL system (linked to the poverty line) which is fraught with problems of identification and ensuing exclusion of many poor to one where only the rich are identified and excluded and the rest are covered with uniform. The NFSO proposes to do this by covering 67% of the population at uniform prices of Rs. 3 for rice, Rs. 2 for wheat and Re. 1 for millets; while excluding the rest. The 67% is to be divided across the states based on their level of development. So states like Bihar, Uttar Pradesh and Rajasthan can expect to cover 80% or more of their rural population under the PDS. Such an expansion, if

accompanied by some reforms, can be expected to go a long way in strengthening the PDS in these states. In fact, the NFSO can also be expected to contribute to lowering of leakages in the PDS. Recent studies based on NSS data and field surveys have shown that the extent of leakages in the PDS have been going down in many states. The PDS is functioning better in states where the BPL coverage has been expanded, where issues prices have been decreased and reforms in PDS have been initiated (Drèze and Khera, 2011; Himanshu, 2011; Khera, 2011; Sen and Himanshu, 2011) which is precisely what the NFSO aims to do.

Concerns with the NFSO

However, there are problems with the way in which the PDS entitlements have been currently defined. While the principle of excluding the rich and covering the rest is a sound one (of course, it would be even better if the PDS is universalised) the ordinance does not specify the identification criteria for exclusion. Moreover, a cut-off (75% for rural areas and 50% for urban areas) is prescribed at the national level but there is no clarity on what the percentages will be in each state. There is once again the danger of some poor being left out arbitrarily. What can be hoped is that the state governments take this opportunity to universalise coverage, at least in the poorest districts, by using state funds. The NFSO also provides only a limited quantity of 5kgs per head per month and restricts itself to cereals; where the minimum basket should have included pulses and oils. By doing so, the extremely inadequate diets of the poor could have been addressed to some extent.

The NFSO is also very limited in its entitlements for children, who ideally should have been central to a food security act. Child malnutrition levels in India are extremely high and it is well known that interventions to address malnutrition must focus on children under two years of age, pregnant and lactating women and adolescent girls. While the NFSO converts the existing schemes for mid day meal and take home rations in schools and anganwadi centres into legal entitlements, this is not accompanied by essential interventions for treatment of malnourished children, provision of calorie-dense local foods, growth monitoring, and nutrition and health education and so on. Addressing malnutrition would also require other complementary interventions such as access to basic health care, sanitation and drinking water.

The NFSO introduces a limited but extremely critical entitlement for women in the form of maternity entitlements for all pregnant women. By doing this, for the first time we recognise the right of children under six months to breastfeeding and that most women in our country are in fact 'working' women. However, once again the ordinance fails us by not going far enough - maternity entitlements are wage compensation for women to be able to stay home for rest and exclusive breastfeeding. They should therefore have been linked to minimum wages. But, the ordinance at least makes a beginning by including this very important entitlement.

The Congress is now in a hurry to implement the ordinance and reap electoral benefits.

Such hurry without working out proper identification criteria and mechanisms can derail the entire process. On the other hand, many state governments over the last few years have moved many steps forward in improving their PDS - these states can now take advantage of the additional resources to universalise coverage and even provide other items such as pulses and oils if they are not already doing so.

In many ways the NFSO is a missed opportunity. A comprehensive Act which includes procurement, storage and distribution through a decentralised, strengthened and universal PDS, universal nutrition services for children, special provisions such as community kitchens in urban areas, provision of cooked meals for the destitute persons, social security pensions for the aged and strong grievance redressal and monitoring mechanism is the need of the hour^[2]. One can only hope that when the ordinance is debated in the Parliament amendments towards strengthening its provisions as introduced by the Left and some regional parties are discussed and passed.

References:

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[1] 2.1 kg per head is the average consumption from PDS for the entire population and not just the 44% who are accessing PDS.

[2] See www.righttofoodindia.org for the Right to Food Campaign's demands in relation to the Food Security Act. It covers all of these aspects.