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National Food Security Bill: A Discussion

The Union Cabinet of Ministers recently passed National Food Security Bill (NFSB) which will be introduced in Parliament. The Bill is likely to be approved and become an Act in the upcoming Budget FY 2012-13.

Ever since the Bill was first proposed it has led to an acrimonious debate between the supporters and opponents of the Bill. The supporters of the Bill point to the need to alleviate widespread hunger in the country with many millions sleeping hungry each day. The opponents point to the economic impact of the Bill which will put pressure on already limited food production and increase the total subsidy bill leading to higher fiscal deficits.

This paper analyses the objectives and economics of this new Bill and reviews the debate/discussion on the Bill.

I. India and Hunger – A Blemished Record

Despite high growth in the last decade, India's social indicators still remain very poor. One such indicator is hunger. IFPRI's Global Hunger Report-2011 ranks India at 67th place in a ranking of 81 countries. Its neighbors in the list are African countries like Djibouti, Madagascar, Mozambique, Sierra Leone etc. This is a list India is unlikely to be proud of considering it lists as one of the top growing economies in the world. Other facts from the report are:

- In 1990, India's hunger index was at 30.4 and was ranked 62 in a list of 74 countries. In 2011 the index is at 23.7 and India is placed at 67 in a list of 81 countries. In the period 1990-2011, there are 47 countries that have lowered hunger more than India with Peru topping the list.
- What is even more disappointing is India's track record from 2001-11 a period where India registers its highest growth. In this period, India's hunger index declines from 24.1 to 23.7 registering a decline of just 1.7%. There are 73 countries which have performed better in reducing the hunger levels with Uzbekistan at top. The countries which fare worse than India in 2001-11 period are Burundi and Chad.
- The hunger index is based on three indicators – undernourishment, child underweight and child mortality. Barring child mortality, India fares poorly in all the three sub-indicators.

Similar findings are reported by Prof. Sudipto Mundle of NIPFP who evaluates India's performance in achieving Millennium Development Goals till date. One of the eight goals is Eradicate Extreme Poverty and Hunger and in this the target is to halve the proportion of people who suffer from hunger between 1990 and 2015. The main indicator used for this is percentage of under weight children. India had an initial burden of under weight children of nearly 54% percent in 1990 which was to be lowered to 26.8% by 2015 but is likely to be around 40.7%

We also get some evidence of malnutrition and under-nourishment from NHFS surveys. According to the National Family Health Survey 2005-06, 40.4% of children under the age of three are underweight, 33% of women in the age group of 15-49 have a body mass index below normal and 78.9% of children in the age group of 6-35 months are anemic.



II. National Food Security Bill

The National Food Security Bill (NFSB) aims to address these challenges of food security and undernourishment of Indian public. It is continuation of the inclusive growth agenda followed by UPA government. The idea of providing basic food to majority of the population was first proposed by President Pratibha Patil. In her address to the Joint Parliament in Jun-09, she said:

“My Government proposes to enact a new law -- the National Food Security Act -- that will provide a statutory basis for a framework which assures food security for all. Every family below the poverty line in rural as well as urban areas will be entitled, by law, to 25 kilograms of rice or wheat per month at Rs. 3 per kilogram. This legislation will also be used to bring about broader systemic reform in the public distribution system.”

Based on this, Government prepared a Concept Note after consultations with Central Ministries, State Governments and other stakeholders. Based on initial comments/suggestions and recommendations of National Advisory Council (NAC) and other Experts the Government prepared a draft National Food Security Bill. The draft bill was put up on the website of Ministry of Consumer Affairs, Food and Public Distribution for public comments.

The salient features of the Bill are summarized in Table 1. Apart from food security, NFSB also seeks to provide nutritional support to children and women. The mid-day meals schemes for children in government schools to be fortified with micronutrients and of certain calorific value. The diet to include proteins as well. The idea is to not just provide food but food of certain quality which helps get rid of other deficiencies like iron, proteins etc.

	Rural (75% of rural population)		Urban (50% of urban population)	
	Priority	General	Priority	General
Coverage	Atleast 46% of rural population	Max about 29% of rural population	Atleast 28% of urban population	Upto 22% of total urban population
Foodgrain entitlement	7 kg per person per month	3 kgs of foodgrains per person per month	7 kg per person per month	3 kgs of foodgrains per person per month
Price	Not exceeding Rs 3/2/1 per kg for rice/wheat/coarse grains	Not exceeding 50% of MSP for wheat and coarse grains	Not exceeding Rs 3/2/1 per kg for rice/wheat/coarse grains	Not exceeding 50% of MSP for wheat and coarse grains

Source: NFSB Bill 2011

Apart from this the Bill also looks at other aspects to provide food and nutrition security:

- **Revitalisation of Agriculture:** increase in investments in agriculture, including in research & development, ensuring remunerative prices, credit to farmers, crop insurance, etc
- **Procurement, storage and movement related interventions:** incentivizing decentralised procurement including procurement of coarse grains, augmentation of adequate decentralised modern and scientific storage etc.
- **Reforms in Targeted Public Distribution system:** application of information and communication technology tools to improve PDS system, leveraging ‘aadhaar’ for unique identification of beneficiaries for proper targeting of benefits under this Act etc.



- **Others:** Provision of Safe and adequate drinking water and sanitation, Nutritional health and education support to adolescent girls senior citizens, persons with disability and single women

In a way, the Bill is much more than just provision of food security. The Government is looking forward to use NFSB to usher much-needed reforms in agriculture sector. Since NFSB will become an Act and a legal obligation, it will force both centre and state governments to usher much needed impetus in the entire agriculture chain.

III. Economics of NFSB

PM's Economic Advisory Council released its report reviewing the Food security bill. EAC remarked that NAC had basically used Oct-10 population numbers for both phases. As population grows every year, it is important to look at population projections of the month in which the program begins. Otherwise, the foodgrain requirement will be under-reported. At the time of EAC report, it was assumed that Phase I of the program to start around Oct-11 and Phase II in Oct-13. Hence, EAC updated the numbers based on population projections for Oct-11 and Oct-13 (Table 2). As the program has not started even on Oct-11 these numbers will need to be revised further from the month of inception.

EAC looks at two scenarios apart from the scenario projected by NAC.

- Scenario 2 assumes offtake of foodgrains by 95% of priority households and 85% of general households. Based on this, foodgrain requirement in Phase I will be 64.04 MT against NAC offtake scenario of 57.36 MT and in Phase II the figures are 68.58 MT against 64.04 MT specified by NAC.
- In Scenario 3, offtake is assumed by 100% of both general and priority offtake. Hence food demand is much higher at 68.76 MT in Phase I and 73.98 in Phase II. This is because the proposed prices for foodgrains under NFSB are lower than other food programs. Hence, there are strong chances that there is 100% offtake.

Overall, as per EAC foodgrain requirement is likely to be higher by 11.7 MT in both phases under Scenario I and around 21.8 MT in Scenario II.

	NAC Projection Scenario		Scenario 2		Scenario 3	
	Phase I	Phase II	Phase I	Phase II	Phase I	Phase II
Priority HH	34.4	36.42	38.91	39.83	40.96	41.93
General HH	14.96	19.17	15.13	18.75	17.8	22.05
Sub Total	49.36	55.59	54.04	58.58	58.76	63.98
Other Welfare Schemes	8	8	8	8	8	8
Buffer Stock	-	-	2	2	2	2
Total Foodgrain	57.36	63.59	64.04	68.58	68.76	73.98
Note: Other welfare schemes include Mid Day Meal Schemes, ICDS, Social Welfare Hostels and Natural Calamities.						
Source: EAC						

EAC also analyses foodgrains procured by the government. EAC assumes the program to start around Oct-10 and hence the first phase ends in 2011-12 and second phase in 2013-14. However, it is likely to start in 2012-13, hence we have assumed Phase I to end in 2012-13 and Phase II in 2014-15. The average government procurement of foodgrains in 2000-10 is around 26.4%. EAC estimates the average procurement at 30%. Based on these assumptions, in Phase I the likely foodgrain procurement will be around 57.01 MT and in Phase II around 59.52 MT.



	Production			Government Procurement	
	Wheat	Rice	Total	Wheat + Rice	As ratio of production
2000-01	69.68	84.98	154.66	41.91	27.1
2001-02	72.77	93.34	166.11	41.18	24.8
2002-03	65.76	71.82	137.58	32.22	23.4
2003-04	72.16	88.53	160.69	39.62	24.7
2004-05	68.64	83.13	151.77	39.47	26.0
2005-06	69.35	91.79	161.14	36.88	22.9
2006-07	75.81	93.36	169.17	36.24	21.4
2007-08	78.57	96.69	175.26	51.43	29.3
2008-09	80.68	99.18	179.86	59.07	32.8
2009-10	80.8	89.09	169.89	53.98	31.8
2010-11	85.93	95.32	181.25	54.38	30
2011-12	84	102	186.00	55.80	30
2012-13 (Phase I)	85.6	104.4	190.04	57.01	30
2013-14	87.2	107.0	194.18	58.25	30
2014-15 (Phase II)	88.9	109.5	198.40	59.52	30

Note: From 2010-11 onwards there are just projections.
 Source: EAC

If we look at both demand and supply of food grains due to NFSB, one can clearly see deficit in procurement. Either the government has to take measures to increase production or increase its procurement ratio from 30% to around 31-33% for Scenario II and 35-38% for Scenario 3. EAC says in view of the cycles in agricultural procurement, it may be imprudent to assume an average procurement level of more than 30%. This shortfall will imply government will have to procure food from open market which will push up food grain prices for the entire population.

	NAC Scenario		Scenario 2		Scenario 3	
	Phase I	Phase II	Phase I	Phase II	Phase I	Phase II
Total Foodgrain Needed	57.36	63.59	64.04	68.58	68.76	73.98
Total Foodgrain Procured	57.01	59.52	57.01	59.52	57.01	59.52
Surplus/Shortfall	-0.35	-4.07	-7.03	-9.06	-11.75	-14.46

Source: EAC

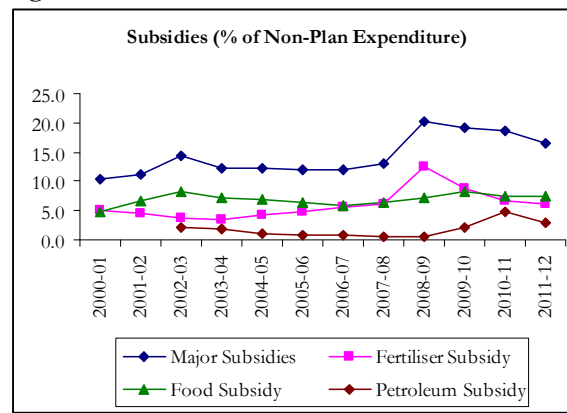
Interestingly as per NSS findings, the average per capital monthly intake of wheat and rice in rural areas is around 10.11 kg and for urban it is 9.35 kg. NFSB provides 7 kg per capita which is lesser than the average monthly intake. This would mean both rural and urban will have to buy the remaining demand from the market. As government starts to buy foodgrains from open market pushing higher prices, it will lead to higher prices for both rural and urban population. This will hurt the budgets of the populations which the government is attempting to protect at the first place. Looking at the economics of NFSB, increasing foodgrain production needs to be one of the most important priorities of the government.



IV. Other Issues with NFSB

Food Subsidy: This is one of the most criticized aspects of food subsidy bill. Subsidies as percent of Non-Plan expenditure (NPE) have been a worrying trend in recent years. It was around 11.9% of non-plan expenditure between 2000-03 (before FRBM) and actually rises to 12.3% of NPE in FRBM phase. Following the great recession FRBM was scrapped and subsidies as a % of NPE rose sharply to touch 18.6% of NPE. Within subsidies, share of food subsidy remained steady around 6.5% of NPE between 2000-08 and rose to 7.6% of NPE in 2008-12 period. The average annual growth in food subsidy in 2000-12 period is 17.2%. This is lower than 18.6% average growth rate for all the subsidies which are driven by surge in petroleum subsidies.

Figure 1



Source: Union Budget Documents

Food subsidy for 2011-12 is budgeted at Rs 60,573 Cr which is marginally higher than Rs. 60,600 Cr for 2010-11. In the Second Supplementary Demand for Grants for Expenditure of the Government, an additional Rs 2,297.52 Cr is added to the food subsidy bill. Most market analysts believe these numbers are still lower and final numbers released during Budget 2012-13 likely to be higher.

EAC has projected the additional food subsidy bill under various scenarios listed above. EAC assumes current food subsidy at Rs 56,700 Cr which is lower than the Budgeted figure for 2011-12. We just replace Rs 56,700 Cr with the budgeted figures for 2011-12.

	NAC Scenario		Scenario 2		Scenario 3	
	Phase I	Phase II	Phase I	Phase II	Phase I	Phase II
Priority HH	54,449	57,652	61,636	63,093	64,880	66,414
General HH	17,388	22,279	17,598	21,799	20,704	25,646
Total	71,837	79,931	79,234	84,892	85,584	92,060
Current Subsidy	62,871	62,871	62,871	62,871	62,871	62,871
Additional Subsidy	8,966	17,060	16,363	22,021	22,713	29,189

Source: EAC

Based on EAC's methodology, additional subsidy burden under various scenarios is in the range of Rs 9000 Cr to Rs 22700 Cr in Phase I and Rs 17000 Cr to Rs 29,000 Cr in Phase II. It is again important to point that these numbers are based on Oct-11 populations and if it starts from Apr-12 onwards, the final numbers expected are to be higher.

As third scenario is the most likely scenario and with revised numbers for population, food subsidy



could easily touch a figure of Rs, 1,00,000 Cr which has raised huge concern in the markets. This will lead to higher fiscal deficit and higher market borrowings. Planning Commission chief Mr. Montek Singh Ahluwalia suggested that as we now have a food security bill, we should do away with oil subsidies in the budget. As this looks unlikely in the near future due to political reasons, NFSB will either be funded via higher tax revenues or via higher borrowings.

Pressure on Food Inflation: Food inflation has been a long term challenge in India. Dr Subir Gokarn in a recent speech pointed how food inflation has remained high since the 1960s and it is just that drivers have changed from cereals and sugar to protein items (pulses, milk, eggs, meat etc) recently. With NFSB demand for food is expected to rise sharply but as supply remains sluggish it will put pressure on already elevated food inflation. As Food security bill also talks about increasing the nourishment in population, it will put pressure on prices of protein items as well.

Identifying the Beneficiaries and Fixing Leakages: This has been a perennial problem for India's social programs. India has social and poverty schemes touching most aspects of human life but still continues to fare poorly in most social indicators. As India had abject poverty even at time of Independence, policymakers have introduced programs for food, poverty, housing, health etc. However, due to corruption and delays there have been leakages in most of the schemes leading to much lesser benefits reaching the people. There has been numerous research pointing how the several programs are not benefitting the poor and are actually being used by better-off population.

The same criticism has been applied to NFSB as well. As we still do not know how to classify and define poor, identifying beneficiaries of NFSB again remains a major question mark as seen in other schemes as well. Unique Identification Program (UID) is to be used for this program (and other programs as well) but that is far from complete and has recently run into rough weather with higher authorities. So, UID's status is itself not clear as of now.

Then distribution via the PDS system is going to be an issue as the PDS system still needs major overhaul. It is a very ambitious program with a near universal coverage and also becomes a legal entitlement for the government. Without proper identification of the beneficiary and continued leakages in the system, the scheme will turn out to be another costly program with limited benefits.

Ideally, all these various issues should have been first settled before launching a program as ambitious as NFSB. It is like putting the cart before the horse. The policymakers however see NFSB as a way to achieve the much needed reforms in agriculture and social sector. It is like the classic chicken and egg problem as of now.

V. Debate on NFSB

The passage of NFSB has divided the experts into two camps.

- **Opposing camp:** Here arguments mainly look at the economic reasons pointed above. Some others in the camp have remarked that government should not determine the prices of private goods like food. It should instead take measures to augment the income levels of poor by increasing education and employment opportunities. By providing highly subsidized food to so many people just distorts private markets and sends wrong signals. Most draw comparisons to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) which had similar noble intentions but the experiences have been mixed. It has provided a floor for rural wages and reversed migration to urban areas. But has created its own problems as finding labor for work in urban areas and has reported increase in corruption. The work done under



MGNREGA has also been found of low quality and is seen as a wasteful expenditure by most analysts.

There are others who claim one should not rely on hunger and poverty statistics published by international think-tanks as they always look at sensationalizing and exaggerating these numbers. If one looks at Indian sources, the situation has become better over the years. And then India's growth story is just around 7-8 years old. With higher sustained growth, these numbers will only become better overtime. India had very poor numbers at the time of independence and due to wrong policies these problems of poverty and hunger were never really addressed. We have only got our priorities right in the last few years and it is a matter of time before these problems will be addressed. They say focus should be on growth and equity will follow.

- **Supporting camp:** Those who argue in favor of the bill say that we should not look at economics alone especially when we are looking at the hunger numbers. Their point is simple. In the world's largest democracy and now one of the fastest growing economy as well, one cannot have so many people sleeping hungry. They argue over utility of 9% growth when a large number of people and moreover children remain deprived of as basic things as food and nourishment. They point economic growth itself will be under pressure as we fail to maintain a healthy population. They point how lower poverty and high growth move hand in hand and as in India's case this has been limited and given the scale of deprivation, government intervention is needed.

On subsidies they say it is not the rich and middle class that are providing subsidies for the poor but the other way round. Poor people provide plenty of cheap services which otherwise will cost much more if there is a proper market for the same. On cost of subsidies to the government they assert how can a government in a democratic country like India keep people hungry? They even say that Food security Bill is actually not inclusive but actually excludes people. Earlier there were no targets like 90% of rural population and 100% inclusion was assumed. But with the new NFSB Bill this basic human right has been taken away from people and argue for a 100% coverage against the 90% in the proposed Bill. They also criticize that the Bill fails to look at the inter-state differences as in some states populations could be better off and worse-off in others. How will this inter-state disparity be resolved is not clearly stated in the Bill.

VI. Concluding Thoughts

Both camps provide equally strong points on the issue and it is extremely difficult to take a side towards one camp. Hence, it is not surprising to read such diverse views on the food security issue. As both have a point, instead of being divided both camps should work together to come out with a more practical approach towards eliminating the severe hunger problem in the country. If not the best of both of the worlds there could be some consensus on a middle ground. Now as the food security bill is to become a reality we cannot avoid it. However, the debate can move on to how it can be made more effective. The Government should release updated projections of the economics of the food bill and subsidy burden that will help guide the debate. If this hunger problem is not resolved quickly it could shake the basic democratic foundations of the country. People are unlikely to tolerate a scenario where one section of the population gains from the growing economy and other is just deprived of something as basic as food.



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