ISAS Insights

No. 226 – 4 September 2013

469A Bukit Timah Road
#07-01, Tower Block, Singapore 259770
Tel: 6516 6179 / 6516 4239
Fax: 6776 7505 / 6314 5447
Email: isassec@nus.edu.sg
Website: www.isas.nus.edu.sg

India's Food Security Bill:

Grave Digger or Game Changer?

Amitendu Palit[1]

The much-debated National Food Security Bill, 2013, was passed by the *Lok Sabha* and the *Rajya Sabha* – the Lower and Upper Houses of the Indian Parliament – on 26 August 2013 and 2 September 2013 respectively. The Bill is the latest legislation in a series of measures (e.g. Right to Information (RTI) Act, Forest Rights Act, Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)) aiming to establish rights-based economic governance in India for achieving inclusive growth. The objective of the Bill is to legally entitle 75 per cent of the rural population and 50 per cent of the urban population to a minimum supply of foodgrains at subsidised prices. With around 800 million people expected to receive subsidised food, the programme is arguably one of the largest targeted food security schemes in the world.

The need for an elaborate food security programme can hardly be over-emphasised in India, which ranks 65th on the Global Hunger Index,[2] despite recording impressive economic growth of more than 8 per cent annually, for several years in the last decade. Nonetheless, the Food Security Bill has been a controversial legislation with the incumbent United Progressive Alliance (UPA) Government being accused of pushing the Bill as a populist measure. There

---

1 Dr Amitendu Palit is Head (Partnerships & Programmes) and Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at isasap@nus.edu.sg. The views expressed in this paper are those of the author and do not necessarily reflect those of ISAS.

2 The Global Hunger Index (GHI) is computed by the International Food Policy Research Institute (IFPRI). The rankings for GHI 2012 can be at seen at 2012 Global Hunger Index, Table 2.1, page 19; http://www.ifpri.org/sites/default/files/publications/ghi12.pdf (Accessed on 2 September 2013)

has also been widespread concern over the ability of the Government to mobilise adequate resources for financing the ambitious programme. This paper reviews the main features of the Food Security Bill and examines the concerns and issues surrounding it.

National Food Security Bill, 2013

The main features of the Bill are:[3]

1. Each individual in priority households will receive 5 kg of foodgrains (rice, wheat and coarse grains) per month from state governments at subsidised rates under the Targeted Public Distribution System (TPDS). The TPDS specifically targets poor or below-poverty-line (BPL) households in each state for targeted supply of foodgrains from the ration (fair price) shops. The Bill specifies poorest families among the BPL households to be entitled for larger supplies. These are families currently receiving subsidised foodgrains under the *Antyodaya Anna Yojana* (AAY) scheme. The AAY covers around 25 million BPL families and provides each family 35 kg of foodgrains per month at subsidised rates.[4] The beneficiaries under the AAY will continue to receive 35 kg of foodgrains per month under the food security programme.

2. The number of persons with entitlements in eligible households for receiving subsidised foodgrains will be 75 per cent of the rural population and 50 per cent of the urban population.

3. Grains will be distributed to households at subsidised prices of Indian Rupees (Rs) 3 per kg for rice, Rs 2 per kg for wheat and Rupee (Re) 1 per kg for coarse grains. These rates, which will be valid for the next three years, are upper ceilings implying that actual issue prices can be even lower. Subsequent issue prices will be fixed by the Central Government with the caveat that such prices will not exceed minimum support prices for foodgrains.

4. Eligible households are entitled to receive food security allowance from the State Governments if they have not been supplied subsidised foodgrains under any circumstances.

5. Foodgrains will be distributed from the Central pool of grains, built and run by the Central Government by periodically procuring grains from farmers through designated agencies like the Food Corporation of India (FCI). The Central Government will allocate grains from the pool to State Governments for distribution

[3] See 'The National Bill Food Security Bill, 2013' for greater details. http://www.thehindu.com/multimedia/archive/01404/National_Food_Secu_1404268a.pdf (Accessed on 30 August 2013)

[4] '*Antyodaya Anna Yojana*' (AAY), Department of Food and Public Distribution, Ministry of Consumer Affairs, Food & Public Distribution, Government of India. http://dfpd.nic.in/?q=node/101 (Accessed on 30 August 2013)

to eligible households. It will also meet the expenses for transporting grains to states, as well as the costs incurred by States in moving grains within their territories including margins paid to ration shop dealers.

6. The Bill proposes extensive revamp and reform of the current functioning of the TPDS through application of information technology and effective targeting of beneficiaries through unique identification contained in '*Aadhar*' numbers. It also proposes the possibility of introducing cash transfers and food coupons for beneficiaries in lieu of grain entitlements in future.

7. Women's empowerment is strongly emphasised by making the eldest woman in every eligible family the 'head' of the household for receipt of new biometric food security ration cards. The Bill also provides for supplying free meals to pregnant women in eligible households along with maternity benefits in cash. States have been urged to ensure specified minimum nutritional standards in food served to pregnant women and children.

Who Benefits and How

The Food Security Bill is hardly a conceptual novelty and is an extension of the existing TPDS with additional features. A comparison of current entitlements under the TPDS and those proposed by the Bill can be gauged from Table 1.

Table 1: Comparing TPDS and NFSB, 2013

	Targeted Public Distribution System (TPDS)		National Food Security Bill (NFSB), 2013	
Household Category	Foodgrain Entitlement (Kg/Month)	Rate (Rs/Kg)	Foodgrain Entitlement (Kg/Month)	Rate (Rs/Kg)
1. *Antyodaya Anna Yojana* (AAY)	35	Rs 3(rice), Rs 2 (wheat)	35	Rs 3(rice), Rs 2 (wheat)
2. Below-Poverty-Line (BPL) – non-AAY	35	Rs 5.65 (rice), Rs 4.15 (wheat)	5	Rs 3(rice), Rs 2 (wheat)
3. Above-Poverty-Line (APL)	15-35 (depending on availability of stocks)	Rs 8.30(rice), Rs 6.10 (wheat)	5	Rs 3(rice), Rs 2 (wheat)

Source: *1. Department of Food and Public Distribution, Ministry of Consumer Affairs, Food & Public Distribution, Government of India. http://dfpd.nic.in/?q=node/101 (Accessed on 30 August 2013). 2. FAQs on National Food Security Bill, Press Information Bureau (PIB), Government of India; http://pibmumbai.gov.in/scripts/detail.asp?releaseId=E2013PR1051 (Accessed on 30 August 2013)*

The main beneficiaries of subsidised foodgrains under the current TPDS are BPL families. These also include the beneficiaries under the AAY. Currently both the AAY households, as well as the non-AAY BPL families, receive 35 kg foodgrains per month under the TPDS. While the AAY families receive grains at Rs 3 per kg (rice) and Rs 2 per kg (wheat), the non-AAY BPL families face issue prices of Rs 5.65 per kg (rice) and Rs 4.15 per kg (wheat) respectively (Table 1).

Compared with the current TPDS, the Food Security Bill does not provide any additional improvements for the AAY families, except for legally protecting their rights to receive 35 kg of foodgrains per month at specific subsidised rates. For the non-BPL families, the Bill has mixed outcomes. These families are now legally entitled to receive 5 kg foodgrains per month, which is lower than the 35 kg they were receiving under the TPDS. Under the new scheme, they will be receiving their monthly entitlements at lower issue prices of Rs 3 and Rs 2, at par with the AAY families.

With the welfare of AAY families remaining unchanged, and those of non-AAY BPL families uncertain to predict, who does the Bill benefit in terms of unquestionable gains in economic welfare?

The real beneficiaries will be the new households to be covered under the Food Security programme as it extends to 75 per cent of the rural population and 50 per cent of the urban population, amounting to around 67 per cent of the total population. Several households, both BPL and APL, are expected to be included as eligible households. There are complaints over the current TPDS not covering as many BPL households as it should and also over non-poor households being classified as BPL. The new food security programme hopes to rectify these errors by identifying the right beneficiaries and expanding the coverage.

Simple arithmetic helps in illustrating the point. The TPDS currently covers 6.5 crore (65 million) BPL and 11.5 crore (115 million) APL families.[5] Assuming average family size of 4 persons, the current coverage should approximately include around 260 million BPL individuals and 460 million APL individuals. The BPL population also includes the AAY families. This is the priority segment under the TPDS, receiving 35 kg foodgrains per month. In terms of proportion of the national population, the current TPDS therefore prioritises only around 22 per cent. The new scheme aims to expand this coverage to 67 per cent, i.e. around 800 million people. The APL families currently covered under the TPDS that receive rations only after the BPL quota has been taken care of will also now be legally entitled to at least 5 kg per month at lower issue prices. But part of the foodgrains to be distributed to the new beneficiaries will be redistributed from the current non-AAY BPL families, who will now receive lower entitlements at cheaper rates.

5 'Review of Foodgrains Procurement Policy', Ministry of Consumer Affairs, Food and Public Distribution, Government of India, December 17, 2012; http://pib.nic.in/newsite/erelease.aspx?relid=90797 (Accessed on 2 September 2013).

The decision to cut entitlement of non-AAY BPL families to 5 kg has obviously been influenced by the thought of making this minimum amount of foodgrains available to a much larger population on a per capita basis. Indeed, even at 5 kg per household, the total procurement requirement will be much higher than the current average annual procurement of 60.2 million tons.[6] Higher procurement will be one of the drivers of greater fiscal burden imposed by the scheme on Central Government.

Fiscal Implication

The Bill has been heavily criticised for its adverse fiscal implications. Rating agencies and economists have joined hands in slamming the Government for introducing the bill at a time, when the fiscal health of the economy is precarious.[7] The last financial year (2012-03) ended with the Central Government recording a fiscal deficit of 5.2 per cent of GDP, which has been budgeted to be reduced to 4.8 per cent in the current year (2013-04). But with prospects of revenue collections not particularly bright given the subdued performances of domestic industry and exports, an expansive food security programme is apprehended to worsen the deficit.

How real is the Concern?

The Central Government's subsidy bill is made up of three major subsidies – food, fertilizer and petroleum. Petroleum products accounted for the largest share (39.1 per cent) of subsidies last year, followed by food (34.3 per cent) and fertilizer (26.6 per cent) (Table 2). These shares are budgeted to change significantly in the current year. While food is projected to account for the largest share (40.7 per cent), fertilizer's share is to increase to 29.8 per cent. At the same time, the share of subsidy on petroleum products is expected to decline to 29.4 per cent.

[6] 2. FAQs on National Food Security Bill, Press Information Bureau (PIB), Government of India; http://pibmumbai.gov.in/scripts/detail.asp?releaseld=E2013PR1051 (Accessed on 30 August 2013)

[7] 'Food bill credit negative for India, says Moody's', *The Times of India*, 30 August 2013; http://timesofindia.indiatimes.com/business/india-business/Food-bill-credit-negative-for-India-says-Moodys/articleshow/22154254.cms (Accessed on 1 September 2013)

Table 2: Subsidy Burden

	2012-13 (Revised Estimate)	2013-14 (Budget Estimate)	2012-13 (Share in Total Subsidy Bill)	2013-14 (Share in Total Subsidy Bill)
1. Food Subsidy	Rs 85,000 crore (S$ 18,888.9 million)	Rs 90,000 crore (S$ 20,000 million)	34.3%	40.7%
2. Fertilizer Subsidy	Rs 65,974.1 crore (S$ 14,660.9 million)	Rs 65,971.5 crore (S$ 14,660.3 million)	26.6%	29.8%
3. Petroleum Subsidy	Rs 96,879 crore (S$ 21,528.9 million)	Rs 65,000 crore (S$ 14,444.4 million)	39.1%	29.4%
Total	Rs 247,854 crore (S$ 55,078.7 million)	Rs 220,971.5 crore (S$ 49,104.8 million)		

***Source**: Statement 4, Non-Plan Expenditure by Broad Categories, Expenditure Budget. Volume 1, 2013-14; Page 18; Union Budget (2013-14), Government of India; http://indiabudget.nic.in/ub2013-14/eb/stat04.pdf (Accessed on 1 September, 2013)*
Note: a) Figures have been converted to S$ applying the nominal INR-S$ exchange rate of 1S$=INR45. b) All figures have been rounded off to first place of decimal point.

As far as the current year is concerned, the Government plans to meet the higher subsidy on food by cutting subsidies on petroleum products. The year-on-year increase in food subsidy (5.9 per cent) is much less than the corresponding year-on-year reduction in petroleum subsidy (32.9 per cent). While food subsidy has been budgeted to increase by Rs 5,000 crore (around S$ 1,111 million), petroleum subsidy is budgeted to decline by Rs 31,880 crore (S$ 7,084 million). The more than proportional decline in petroleum subsidy accounts for the projected total expenditure on subsidies for the current fiscal to decrease by 10.8 per cent over last year. The Government hopes to end the year with an overall lower expenditure on subsidies despite allotting higher food subsidy for accommodating the requirements of the Food Security Bill.[8]

The Government's intention of rationalising petroleum subsidies is clear from petrol and diesel prices being increased within a few days after the passage of the Bill by the *Lok Sabha*. The increase in diesel prices is significant given that they are not market-determined and continue to be controlled by the Government. The sharp slide in the value of the Rupee along with the flare-up in global crude oil prices has inflated India's import bill. The pressure on

[8] The aggregate food subsidy bill of INR 90,000 crore (S$ 20,000 million) for the current year includes INR 10,000 crore (S$ 2,222 million) for National Food Security. 'Notes on Demands for Grants 2013-14', Page 63, Ministry of Consumer Affairs, Food and Public Distribution, Demand no. 17, Department of Food and Public Distribution; Expenditure Budget, Volume II, Union Budget (2013-14), Government of India; http://indiabudget.nic.in/ub2013-14/eb/sbe17.pdf (Accessed on 1 September, 2013)

the current account deficit from high imports is unavoidable given that the Government has no handle on global oil prices, more so after the outbreak of volatilities arising from developments in Syria. But what it can control are its own subsidies by increasing retail prices of petroleum products. The latest round of diesel price increase was the 8^{th} in this year. Given the worries expressed by the Petroleum Minister over high petroleum subsidies,[9] and the imperative of rationalising these for funding the food security programme, bigger hikes in petroleum product prices in near future, including even in inflation-sensitive products like diesel, kerosene and LPG, are inevitable.

The eventual fiscal impact of the food security bill in the current year will depend upon the Government's ability to cut petroleum subsidies and 'pass through' higher prices on to consumers at a time, when state elections are drawing close, and elections to the Parliament also eight-nine months away. With almost half the financial year over, it will still be some months before the food scheme is ready to be rolled-out by States. To that extent, the fiscal implications for the current year will be partial. The bigger worries are over funding the scheme in future.

Greater fiscal discipline is essential for successfully funding not only the food security programme but also other major public expenditure programmes introduced by the UPA Government, such as the National Rural Employment Guarantee Scheme (NREGS). For the food security programme specifically, the Government will have to rationalise other major subsidies over time for creating more room for food subsidies and will also need to rein in procurement prices for foodgrains. Larger gap between prices for procuring grains and issuing grains through the TPDS will mean greater subsidies. With the issue prices currently frozen at subsidised rates of Rs 3, Rs 2 and Re 1 respectively, the challenge will be to keep procurement prices low. The current year is expected to be a good year for the Government in this respect with an abundant monsoon and good harvest reducing the need for supporting farmers through high procurement prices. Other years, though, might be different and difficult. Apart from weather, the political economy of influential farmer lobbies exerting pressure for high procurement prices will continue to remain a concern, given that procurement will have to increase under the food security programme. Doing so may not be possible without incentivising procurement through higher prices.

The Big Picture

Once implemented as an Act, the Food Security Bill will be a landmark rights-based economic measure introduced by the UPA Government. Establishing legal rights of almost 70 per cent of the population to entitlement of a fixed minimum quota of foodgrains at subsidised rates can significantly enhance the welfare of the economically marginal

[9] Petrol price hiked by Rs. 2.35 per litre, diesel by 50 paise', 31 August 2013; http://profit.ndtv.com/news/commodities/article-petrol-price-hiked-by-rs-2-35-per-litre-diesel-by-50-paise-325905 (Accessed on 1 September 2013)

population. To that extent, the legislation, despite not being a conceptual novelty and despite being an expanded edition of the food security currently extended through the TPDS, can be a game-changer for India. The fiscal implications of the scheme, however, make it a double-edged sword.

Apart from the Central Government's fiscal capacity, the success of the scheme will depend upon a couple of other factors. The first is the choice of beneficiaries. With the scheme aiming to provide subsidised food to 67 per cent of the population, new households will be brought under the TPDS. These will be selected by states on the basis of a pre-decided per capita consumption cut-off. Much will depend upon the decision on this cut-off and the ability of states to identify eligible BPL and APL households. Identification of beneficiaries has been a problem in India as mentioned earlier for the TPDS. Unless subsidised food reaches the needy, the goal of securing food security will be obfuscated. Second, an equally important factor determining the success of the scheme will be its integration with other measures aiming to reduce systemic leakages like the unique identification '*Aadhar*' scheme and direct transfer of cash subsidies. The challenge in this respect is to synchronise the implementation of these well-meaning but expansive and ambitious schemes which, needless to say, is a tall task given the complexities of the Indian federation.

The successful passage of the Bill in both the *Lok Sabha* and *Rajya Sabha* underlines its political appeal cutting across parties. Despite the proposal of several amendments, the Bill went through unobstructed, as no political party wished to convey an 'anti-poor' signal. The discussion in Parliament on the fiscal ramifications of the Bill, a point being ceaselessly harped upon by analysts and the media, was hardly intense. Indeed, the Bill was passed soon after the Finance Minister's drawing attention to the rising fiscal deficit of recent years as one of the major factors in precipitating the current macroeconomic difficulties.[10]

It is ironical that a potential game-changing and welfare-enhancing legislation like the Food Security Bill is being debated more for its vices than virtues. It reflects the common sentiment of interpreting the Bill as a populist step by the UPA for winning votes while paying scant attention to the deep hole to be dug in the country's finances. Only time will tell whether the sentiment was correct; or whether it was an unduly cynical assessment produced by frustrations over prolonged economic difficulties and the explicit lack of faith in the desire of political parties and their leaderships to think beyond electoral gains.

.. . . .

[10] 'P. Chidambaram unveils 10 steps to redemption of Indian economy', *The Indian Express*, 27 August 2013; http://www.indianexpress.com/news/p.-chidambaram-unveils-10-steps-to-redemption-of-indian-economy/1160852/ (accessed on 1 September 2013)