

Cost of Implementing the National Food Security Act

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A number of independent estimates have been made of the cost of implementation of the National Food Security Bill, now an Act. However, these estimates are either based on wrong assumptions or work with numbers that are not in the public domain. The one thing that most of them share is an attempt to demonstrate that the costs will be unaffordable.

The National Food Security Bill (NFSB) was passed by a voice vote in both houses of Parliament earlier this month and it has since become the National Food Security Act (NFSA). The debate in Parliament was telling – almost every speaker, irrespective of his/her past position or statement outside Parliament, came out in support of the right to food and the state's obligations towards the poor and hungry. More than 300 amendments were introduced by various parties, most in favour of expanding the scope of the bill through a universalised public distribution system (PDS), covering pulses, oil and salt as well, and also for introducing other schemes such as community kitchens and feeding programmes for the destitute. While people's representatives in Parliament vociferously argued for an even more ambitious Act, most of the mainstream media mourned its passage, blaming it for everything that was wrong with the Indian economy – from the fall in the growth rate to the declining value of the rupee. This response to the bill once again shows the disconnect between the few who are prospering and the majority of the population that is still grappling with access to basic entitlements related to food, health, education and work.

The arguments against the NFSA are in no small measure supported by inflated accounts of how much it will cost. While it is true that there will be costs to be incurred in implementing this legislation, the question is whether it will be wasteful expenditure or an investment in the country's future. Many of the estimates that are being put forward to show that the NFSA is expensive are exaggerations and need to be countered. Many a times these estimates are based on untenable assumptions and incorrect facts, and are not fully transparent with the data they use. Although only time will tell what the

real costs are, the present purpose is to highlight some of the flaws in the estimates that have been put forward. These estimates are being used to undermine the bill and divert attention from its provisions. It is therefore important to understand that these “estimates” are not always being made on solid grounds. No effort has been made here to provide alternate estimates since official estimates of the financial cost are already available in the public domain. However, some facts related to the PDS that should be taken into account before making any predictions are presented to clarify matters on some of the contentious issues.

According to the estimates put forward by Union Minister for Food K V Thomas in various interviews and in his speech in Parliament, as a result of the NFSA the annual food subsidy will go up to Rs 1.3 lakh crore. Although the details of this estimate are not available, the following calculations could explain the basis. According to Schedule IV of the NFSA, the foodgrains to be allocated to the PDS under the Act will be 54.9 million (mn) tonnes.¹ Further, about 6.5 mn tonnes are now allocated for other welfare schemes. Assuming a subsidy of Rs 21.5 per kg,² then for 61.4 mn tonnes, this comes to about Rs 1.32 lakh crore a year or about 1.3% of the gross domestic product (GDP) at current market prices.³

Other than what the government claims is the cost, there have been three other estimates put forward. Among these, Bhalla (2013a) has argued that implementation of the bill will annually cost over Rs 3 lakh crore or 3% of GDP. Ashok Gulati and his co-authors (2012), in a report of the Commission for Agricultural Costs and Prices (CACP), have argued that to meet the requirements of the NFSA, the burden on the government will be about Rs 6.8 lakh crore over three years (roughly Rs 2.3 lakh crore a year). A recent article by Prachi Mishra from the finance ministry (published in this issue of EPW) estimates that the annual incremental cost of the NFSA will be anywhere between Rs 44,411 crore to Rs 76,486 crore in 2013-14. Some of the basic problems with each of these

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approaches are highlighted in the following paragraphs.

Leakages

Bhalla's calculations have already been challenged on the ground that they contain errors in calculations (Kotwal et al 2013; Sinha 2013). Among other issues such as taking into account the average consumption of PDS grain of the entire population and not just PDS beneficiaries, the main problem with Bhalla's estimate is that he incorporates the existing level of leakage in his estimate of the per capita offtake in the PDS. Although Bhalla does not explain how this will translate into actual expenditure by the government, in effect he can only be assuming that the government will allocate additional grain⁴ to ensure that the beneficiary gets what he/she is entitled to after a leakage of 40%. Therefore, in order to deliver 5 kg per person per month the government will have to allocate about 8.3 kg per person per head and the subsidy on this higher amount will be the government's real expenditure. Needless to say this is an absurd assumption, and anyone who has any experience with public policy knows that this is not how budgets are allocated. Leakage in the PDS is a grave problem which requires serious interventions.

Leakages must be addressed by reforms and not by allocating extra resources so that some of them can leak out. Additional amounts of financial resources have to be allocated for administration, monitoring and evaluation and so on. But while making budget estimates, these cannot be confused with leakages relating to corruption.⁵

Agricultural Production Costs

While the inconsistencies in Bhalla's calculation have been effectively countered by others, the study by Gulati et al needs more attention, especially so as it comes from an institution which is an integral part of the foodgrain management system of the country. In the CACP's estimate of Rs 6.8 lakh crore over three years, other than direct food subsidy,⁶ a large component is what they call "Agriculture Production Enhancement Costs". The CACP report argues that production has

to go up by 25 mn tonnes to meet NFSA needs. The figure is arrived at assuming that procurement must be maintained at 30% of production of wheat and rice. First, it is not clear why procurement cannot be increased by a few percentage points, especially when our current procurement is already more than 30% of production. Second, this calculation assumes a requirement of 75 mn tonnes⁷ for the NFSA whereas what is required is only 62 mn tonnes. Third, the projected increase in agricultural production is not taken into account, and it is assumed that foodgrain production will remain constant (at 190 mn tonnes). Fourth, the production of only wheat and rice is considered, and coarse cereals have not been included in the CACP's numbers.

In any case, it is not fair to attribute public investments in agriculture that need to be or will be made entirely to the NFSA. 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 a majority of our rural population and to ensure that we remain food sufficient and do not become import dependent like in the 1960s. Enhancing agricultural productivity and productions are goals in themselves, whether or not we have a national food security programme. In fact, an expanded and reformed PDS which includes pulses, oil, and decentralised procurement from across the country (which by the way will also reduce transportation costs) can contribute to revitalising agriculture.

Instead of spending time on making unrealistic cost projections, researchers could well spend their energies on studying ways to increase procurement from the non-traditional states, so that as far as possible the foodgrains distributed are procured from the same state or nearby areas. This is something that the CACP report itself mentions would contribute to decreasing costs. With newer states increasing their procurement (e.g., Madhya Pradesh and West Bengal), this is definitely possible.

Some other costs included in the CACP report such as for new schemes for special groups are no longer relevant as

they were removed from the final version of the bill.⁸

Incremental Costs

The estimates by Prachi Mishra are yet another magnified version of how much implementing the NFSA will cost. This article once again does not clearly state the assumptions made or the sources of the data used. The large state-wise variations in PDS entitlements in terms of quantity, price or coverage are not taken into account. To the incremental costs of about Rs 24,000 crore projected by the Ministry of Food, she adds a number of other costs. First is the cost of grandfathering, i.e., if the states want to ensure that nobody is worse off in relation to what they are currently getting they would, according to Mishra's estimates, have to spend an additional Rs 20,474 crore. This is based on two assumptions – (1) all those who are presently in the below the poverty line (BPL) category will lose 2 kg from their current monthly entitlement since the bill proposes only 5 kg per person whereas the current BPL entitlement is 35 kg per household per month (or roughly 7 kg per person per month). But this calculation does not take into account the fact that many states are even now not providing 35 kg to BPL households. Andhra Pradesh, Bihar, Karnataka, Odisha, Madhya Pradesh, Gujarat and Rajasthan are all big states that give less than 35 kg as the BPL entitlement.⁹ (2) Mishra argues that about 18 crore people who are covered under above poverty line (APL) currently will need to be compensated. For this she includes the cost of providing 3 kg per person per head to this category at APL prices. It is not clear how she arrives at these figures. It is well known that the entitlements under APL category are actually given in only a few states, and the quantity given widely varies from some intermittent allocation of 10 kg in Uttar Pradesh (UP), 10 kg in Haryana and Odisha to 25 kg in Assam.¹⁰ To this is added the cost of misclassification, over Rs 11,000 crore, assuming that the BPL classification has misclassified 25% of individuals when they are truly well off. Once again, there is no basis for this assumption. An additional cost in Mishra's

estimate is the expenditure on state and district grievance redress mechanisms, maternity entitlements and intra-state transportation. In each of these it is still not clear what the cost-sharing mechanism between the centre and states will be. While these costs need to be added, it cannot be exactly predicted what the burden on the central government will be.

To make fair comparisons of the incremental cost, especially when costs related to aspects other than the direct food subsidy are being taken into account, the current spending of state governments on the PDS and related activities and their savings post-NFSA must also be taken into account. Reserve Bank of India (RBI) data on state finances shows that in 2012-13, Rs 5,648 crore was allocated for "Food Storage and Warehousing" by all the state governments put together and a further Rs 8,305 crore was allocated under civil supplies. It is not clear how this will change post-NFSA. More than Rs 19,000 crore has been allocated by state governments for "nutrition". To the extent that some of this allocation by the state governments goes into providing rations to additional persons, beyond central BPL quotas, the state will save some money as they will now get more grains at cheaper prices from the centre. To arrive at an exact amount of how much the states will save and the additional amount they have to spend would require careful state-wise analysis. Without such an exercise, it would be incorrect to make estimates of incremental costs where some expenditure that states have to undertake is also included but their savings are not taken into account.

Recent Data on PDS and Procurement

Along with various cost projections of the NFSA, there are also some other fears being propagated that this bill can actually harm the economy. One is in relation to the amount of foodgrains required and its impact on farmers, production and procurement. Even the CACP estimates, as mentioned above, assume ensuring procurement for the NFSA can pose a problem. Table 1 shows that production and procurement of cereals has overall been increasing since

2000-01 (coarse cereals are also supposed to be provided under NFSA and have been included here although currently very low quantities are procured). The current procurement at about 30% of production is sufficient for the implementation of the NFSA. Even without including coarse cereals, the required procurement will not be higher than about 32% of production.

Table 1: Production and Procurement of Cereals (2000-13, million tonnes)

Year	Production (Rice + Wheat)	Production (Rice, Wheat and Coarse Cereals)	Procurement of Cereals (including Coarse Cereals)	Procurement as % of Total Cereal Production (including Coarse Cereals)
2000-01	154.7	185.7	35.9	19.3
2001-02	166.1	199.5	43.0	21.6
2002-03	137.6	163.7	35.5	21.7
2003-04	160.7	198.3	39.3	19.8
2004-05	151.8	185.2	42.3	22.8
2005-06	161.1	195.2	43.5	22.3
2006-07	169.2	203.1	34.3	16.9
2007-08	175.3	216.0	40.1	18.5
2008-09	179.9	219.9	58.2	26.5
2009-10	169.9	203.4	57.8	28.4
2010-11	182.9	226.3	56.9	25.1
2011-12	200.2	242.2	63.4	26.2
2012-13	197.8	237.4	70.6	29.8

Source: Agriculture Statistics, Ministry of Agriculture.

The second fear is that it will all be "money down the drain" because of the high leakages/diversion and wastage in the PDS. The extent of leakages in the PDS certainly is a cause for concern, but it is not right to assume that nothing can be done about it. The National Sample Survey Office data shows that the leakages in PDS reduced from 54% in 2004-05 to 44% in 2007-08 and further down to 35% in 2011-12. A leakage of 35% is still unacceptably high. However, it is encouraging that there has been a declining trend. Further, when this data is looked at in a disaggregated fashion state-wise, it is seen that some states show a steep fall in diversion rates while others continue to languish. An analysis of states that are doing well also shows that they are mostly those where coverage has been expanded, prices have been lowered and/or where reforms in PDS such as privatisation, doorstep delivery, computerisation, effective grievance redressal mechanisms, etc, have been put in place (Himanshu 2013; Khara 2011). Therefore, there is reason to expect

leakages to go down further as a result of the implementation of the NFSA.

In terms of damage or wastage of grains as well, there has been an improvement in the last few years. The quantity of damaged/non-issuable grain from the Food Corporation of India (FCI) has come down from 1.35 lakh tonnes in 2002-03 to just 1,454 tonnes in 2012-13 (up to February). In percentage terms the decline has been from 0.1% of offtake in 2007-08 to 0.004% in 2012-13 (Department of Food and Public Distribution, *Annual Report 2012-13*).

Way Forward

Now that the NFSA has been passed, there are a number of grey areas that have to be resolved for smooth functioning of the schemes. The focus should now shift to these implementation issues, rather than the discussion being stuck in what the total cost of implementation might be. Although the bill expands coverage to 67% of the population, it does not provide any identification criteria based on which beneficiaries will be chosen. The Socio-Economic and Caste Census (SECC) data can give some direction on how this can be done, but it has not yet been verified and made public. Experience and studies have shown that rather than trying to identify the poor, an exclusion approach under which the rich are kept out and the rest are all covered will work better. This can easily be done with the increased coverage, especially in rural areas. The Chhattisgarh Food Security Act (CFSA), proposes four such criteria – excluding income tax payees, households owning a pucca house in urban areas that has a carpet area of more than 1,000 square feet, and/or liable to pay property tax and households in non-scheduled areas that hold more than 4 hectares of irrigated land or more than 8 hectares of non-irrigated land. Such simple and objective exclusion criteria can be developed for each of the states.

Some of the poorer states will see a massive expansion in PDS. Assam, Bihar and Jharkhand will have coverage of about 85% of the population in rural areas under the NFSA.¹¹ UP, Odisha and Madhya Pradesh around 80-82%. Many of these

also happen to be states where reform of the PDS has not yet taken off. Systems of storage, distribution, accountability and monitoring have to be put in place to ensure that there is minimal leakage and people get their entitlements. The expansion in PDS under the NFSA in especially these states has the potential to revive the PDS and alleviate hunger. State governments must be pressurised to ensure that this opportunity is not missed. Many state governments have already been spending a lot of additional funds from their own budget to expand the PDS budget. Since they will not get more support from the centre, states can consider adding to this to universalise the PDS in at least the most backward districts, including other commodities such as pulses and oil, giving a larger quantity of cereals, introducing community kitchens serving low-cost nutritious meals and so on.

Even though the NFSA does not include any specific provisions for decentralised procurement, this is another area where work is needed. Newer states need to be brought under the procurement net; and the procurement of coarse cereals increased. Reforms required for enabling such procurement need to be studied. Further, the role of the FCI in coordinating and distributing foodgrains in such a manner that local models at a district or block level are developed needs to be explored.

Similar work is also required for rolling out the universal maternity entitlements under the NFSA. Eligibility criteria, delivery mechanisms and accountability measures have all to be put in place. As of now, other than a small pilot of the Government of India in about 50 districts and state schemes in Tamil Nadu and Odisha, there is no experience of implementing large-scale maternity entitlements. The experiences of these pilots/schemes have to be studied in detail both with regard to implementation issues and how effective they are in improving breastfeeding practices and allowing rest and nutrition to the mother. To be effective, it has to be ensured that the scheme is not linked to any conditionalities, and at the same time is accompanied by supportive services such as breastfeeding counselling and

supplementary nutrition for mothers under the Integrated Child Development Services. Cost-sharing between the centre and states also needs to be worked out in such a manner that states are not overburdened.

With the bill being passed in Parliament, it is now time to ensure that the entitlements do reach people. Those who are lamenting the passage of the NFSA must realise that the NFSA is not going to do much more than redesign the existing PDS into a more equitable and simple system. As a result, the PDS will move away from being linked to the poverty ratios which resulted in high exclusion errors. Many states have already made this shift, others will now have the opportunity to do so. What is of significance, but not so much in terms of additional cost, is that it brings the right to food within the framework of legally mandated entitlements. This can be a tool for people to demand the state's accountability for hunger.

What is disappointing is that in some ways a historic opportunity was not fully utilised by the bill which is still quite narrow in its vision. The demands for more comprehensive interventions related to decentralised procurement, a universal PDS that included adequate cereals, pulses and oil, and special interventions for the destitute, aged, people living in starvation and severely malnourished children remain unfulfilled. While including these would have of course added to the costs of the NFSA, maybe the real question we need to ask is about the "Cost of Inaction" on hunger and malnutrition.

NOTES

- 1 This includes the grain required to meet the entitlement of 5 kg per month per individual for 67% of the population, of which the AAY households get 35 kg a month per household. Further, it also includes the additional roughly 3 mn tonnes that will be allocated to states such as Tamil Nadu, Andhra Pradesh, Kerala, Himachal Pradesh to ensure that they continue to get as much their current offtake under PDS is.
- 2 The current economic cost for rice is Rs 27.51 per kg and wheat is Rs 19.10 per kg. Assuming that the foodgrain allocations consist of rice and wheat in the ratio of 60:40, the average economic cost is Rs. 24.14. The average issue price is Rs 2.6 per kg (Rs 3 per kg rice and Rs 2 per kg wheat), and therefore average subsidy is Rs 21.54 per kg.
- 3 54.9 mn tonnes is what will be allocated for PDS under NFSA as given in Schedule 4 of the

Act with state-wise details. The price at which additional allocation will be made to state governments is not mentioned. Here, it has been assumed to be the same as for the entitlements under the bill, however it is more likely to be at APL prices. This would lower the estimate of government subsidy.

- 4 Bhalla does not say it explicitly that more grains need to be allocated but the argument is that the government needs to allocate more resources commensurate to leakages if it wants to provide beneficiaries with their entitlement and because it is a legal entitlement they will have to. In this case, since the leakage is of grains, one can safely presume that Bhalla imagines 40% more grain than the legal entitlement will have to be actually allocated. If this is not the case, one would like to know how this additional money is supposed to be spent. All government spending will ultimately have to be accounted for in the account books, there cannot be an "expenditure head" saying "leakages".
- 5 Bhalla has recently written in response to Kotwal et al's critique of his estimates. Here he claims that the storage costs are Rs 20.30 per kg and that therefore Rs 40,000 crore needs to be allocated for storage. Once again he is misrepresenting facts. In this case, he is confusing the subsidy per kg with storage cost. The FCI data shows that the buffer carrying cost is about Rs 6 per kg. In the same article he also claims that Rs 30,000 crore is the value of food that is lost due to rotting. One is again not sure where this number comes from (Bhalla 2013b).
- 6 Economic cost minus issue price.
- 7 Possibly because the procurement 2012-13 was about 75 mn tonnes. But the current entitlements under the bill require only 62 mn tonnes.
- 8 They also include over Rs 6,000 crore per annum for PDS reforms, and another Rs 10,000 crore for infrastructure and logistics, the basis of which is not explained.
- 9 In fact, the current entitlement in Andhra Pradesh, Tamil Nadu, Karnataka and Madhya Pradesh is 20 kg or less per household.
- 10 Data on scale of issue is from website of the Food Department: fdpd.nic.in
- 11 Even Chhattisgarh is part of this list but in this state the coverage is already high due to state government schemes. So while Chhattisgarh will get more grain at cheaper prices, thereby sharing some of the cost burden. On the ground the issue of identification and expansion is already underway.

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