

Food Security Bill – Would it Wipe out Hunger and Malnutrition?

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THE FOOD Security Bill (FSB) passed by Lok Sabha provides for 5 Kg per person per month of cereals – rice, wheat and coarse grains at RS 3.00, RS, 2.00 and RS 1.00 per kg respectively- to priority households and 35 kg per month to Antyodaya households. The persons covered may be as many as 75 percent of rural and 50 percent of urban population. A number of questions arise concerning

1. Need
2. Coverage
3. Beneficiaries
4. Effectiveness, impact on
5. Hunger
6. Malnutrition
7. Food grains production, cost and financial implications

Also, one wonders if this is the best way to reach the objectives.

What was the need for the Food Security Bill (FSB)? Since we have the Targeted Public Distribution System (TPDS), which provides foodgrains, sugar and oil at highly subsidized prices to the poor what is the need for the FSB? The main problem with the TPDS is that it does not effectively reach the poor. The effectiveness of PDS in reaching the poor consumers was first examined by me (Parikh, 1993) based on household level NSS

data for the year 1986-87. I found as follows:

- In most states more than half the poor did not get any cereals from PDS. Among those who got any cereals from PDS, the average among the poor was less than 3 kg per person per month.
- The value difference between PDS price and the price at which the households in the five percentile group brought from the market came to around Rs 3 per person per month for all five percentile groups constituting the poor.
- For reaching Re 1 of income support to the poor, the government spent more than Rs 5 for PDS operations.

This story has not changed much. As per the 2004-05 NSS survey, households in the bottom quintile obtained 17 per cent of their foodgrains consumption from PDS for the country as a whole. The percentage varied from 2 percent for Bihar, 6 percent for UP to 50 percent for Tamil Nadu and 68 percent for Karnataka (Dev and Sharma (2010)).

Himanshu and Sen (2011) note that even with TPDS in 2004-05 only 35.5 per cent of the households in the bottom quintile purchased rice/wheat from PDS. A recent paper by Himanshu and Sen (2013) shows that PDS reach has increased. In 2009-10,

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58 percent of the bottom 40 percent of the rural households and 46 percent of the urban households accessed cereals from PDS. Still it excludes 40 percent of the poor. Jha and Ramaswamy (2011) have estimated that the income support provided to the poor in 2004-05 through PDS was Rs. 21 billion whereas the total subsidy expenditure was Rs. 204 billion. Of these Rs 204 billion, only 10 percent accrue to poor, 19 percent to non-poor, 28 percent is due to excess cost of operation and 43 percent is due to illegal diversions. Himanshu and Sen (2013) on the other hand, see that in 2009-10, the income support provided to the bottom 40 percent of the households was 32 percent of the total centre and state expenditure.

To sum up

- PDS has a large exclusion error and doesn't reach most of the poor.
- It provides only a fraction of food grain consumption of the poor households.
- The money value of income transfer through PDS grains is also modest.
- The poor get a bit more than 10 per cent of the total subsidy expense of the government. More recent figures shows that they receive 32 percent of the total expenditure.
- More than 40 percent of the PDS grains do not reach the consumers.

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Since a large part of the poor are excluded, the FSB aims at effectively reaching all the poor.

Is the coverage right? One way to deal with the exclusion error is to go for a universal right to food under which everyone is entitled to get subsidized food grains from the PDS as proposed by the National Advisory Committee. The food security bill aims to cover up to 75 percent of the rural households and 50 percent of the urban ones are to be covered. If you want to ensure that no poor person is excluded though many non-poor may be included, this is perhaps the right level of coverage.

How would the beneficiaries be identified? Our experience of identifying the poor has been very poor. I had suggested that instead of identifying the poor, make PDS and other entitlements universal but exclude the clearly and easily identifiable rich, so that all poor will be covered even at the cost of some undeserving rich getting covered. If all those who pay income tax, those who own motorized vehicles and all those in organized sector, including government, with monthly emoluments of more than say Rs 15000, are excluded, the inclusion error could be reduced. We have some 35 million PAN cards and 100 million registered motorized vehicles. Since rich households will have more than one PAN card and vehicles and also many of these belong to commercial establishments, it is not easy to say how many households will be disqualified on these grounds. A rough estimate can be around 30 to 40 million households. Further, reduction can be achieved through self-selection if as observed by Kotwal, Murugkar and Ramaswamy (2011), households are themselves required to purchase ration with an Aadhar card, as many relatively well-off would not find it worthwhile to claim their ration. In any case, the inclusion error would be less than the present PDS where many poor were excluded and the undeserving rich constituted 40 per cent of all BPL card holders in 2004-05.

This time, the approach is to identify the rich and exclude them. The Ministry of Rural Development and the Ministry of Urban Development have

carried out socio-economic and caste census in 2011 in rural and urban India respectively. Criteria such as those who own a motorized vehicle, those who own certain amount of land, those who live in a home of certain size, etc., are being worked out and one can be reasonably sure that some 30 percent of rural and 50 percent of urban people can be excluded on that ground. This way, while some undeserving rich may be included, no poor would be excluded. The problem of identifying the Antyodaya households still remains and some deserving households may be excluded unless an effective and innovative way is found. In 2011, some 24.5 million households were covered under the Antyodaya Yojana.

Would it affect food grains production?

If, and that is a big if, Food Corporation of India (FCI) can effectively procure food grains at Minimum Support Price (MSP) from all over the country, farmers would have the incentive to produce food grains. Since, at present, FCI largely

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operates only in few selected states, farmers in other states often get a price lower than the MSP. Those who were not covered earlier would now get a higher price and would have the incentive to produce more.

If, on the other hand, FCI is not able to expand its operation to cover the country, farmers who grow food grains for their own consumption would stop growing food grains, as it would be more profitable to grow something

else and obtain food grains at low price from the PDS. This is already being observed in Chhattisgarh. The total food grains production can collapse and to meet the obligation, government may be forced to import food grains, which may push up world prices and increase our costs. Thus, till the time FCI expands its coverage, the implementation of distribution of food grains under the food security act could be very risky.

Even when FCI operations were to cover the whole country, the task is daunting. Currently 75 per cent of rice and 60 per cent of wheat are marketed out of the around 100 to 105 mt of rice and 90 to 95 mt of wheat produced. Of this 40 to 45 per cent is procured by FCI amounting to 65 mt of rice and wheat on an average over the last two

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years. FCI also procures about 0.15 mt of coarse grains out of production of 40 mt. With universal procurement, the marketed surplus would increase by 5 to 10 percentage points for wheat and rice and nearly 100 per cent for coarse grains as all poor farmers who retain food grains for self-consumption will sell them to FCI. FCI's share of procurement will increase also as the demand in the free market will be much lower and traders would buy smaller quantities. Thus, FCI's procurement of wheat and rice could reach 80 mt. Also, almost all coarse grains would be sold first to the FCI. So additional 35 mt of coarse grains would have to be procured by FCI. The amount to be distributed under FSB is around

60 mt. What would the FCI do for the additional procurement?

It is unlikely that FCI can gear up to this task in less than two years, if at all. The risks of breakdown of FCI operation and severe local hardships and unrest should not be underestimated. The low price at which food grains are to be distributed would certainly increase consumption, which is what one wants. However, it could also divert food grains to feed animals. In the Soviet Union, where bread prices were not changed for 15 years, farmers fed bread to animals.

Would this wipe out hunger? I doubt it. Consumption of cereals on average is 10.7 kg/person/month. Thus, a consumer after getting 5 kg cereals as per the FSB will still need to buy 5.7 kg from the market. What would be the impact of FSB on market price of cereals is difficult to assess. It will depend on how effective is the procurement of food grains at minimum support price (MSP). If procurement is 100 percent effective, market price would be at least as high as MSP. To-day, procurement operations are effectively carried out only in few states and districts. Thus, market price in rural areas of many states is less than MSP. Thus, a poor person will get a subsidy of RS 50 for the 5 kg she will get from the FSB at Rs 10/ kg., she may have to spend Rs 20 to Rs 30 more for the 5.7 kg she buys from the market. The likely net impact would be net additional income of Rs 20 to Rs 30/person/month or at most Rs 50/person/month if there is no change in market price. It has been estimated that the net income transfer to the bottom 20 per cent of the rural beneficiary from the existing targeted PDS was Rs 55 /person/ month in 2009-10 from food and Rs. 32 from cereals. The FSB would at most add Rs 15 to the rural poor's consumption budget, which was Rs 488/ person/month in 2009-10 for the poorest 20 per cent. Of course, those poor persons who were not covered by the existing TPDS would have larger benefits. The impact on reduction of rural poverty and by

implication, hunger will depend on the additional coverage and is difficult to assess but is likely to be small.

Would it wipe out malnutrition? Even if the additional income is spent on nutritious food, malnutrition would not be wiped out. An extremely important factor in malnutrition in India is the disease environment to which children are exposed. It is estimated that within a square kilometre some 200 persons defecate openly. Till this is controlled, increasing food consumption could have only marginal

I have argued for many years for use of smart cards or food coupons, which was endorsed by Economic Survey 2009-10. A person can go to any shop and buy a designated food item at market price paying part of the cost through smart card or food coupons. The trader can exchange the coupons for money at any bank. These coupons would eliminate the diversion of PDS grains by the traders. In fact, it will eliminate the PDS itself.

impact on malnutrition as can be seen from the incidence of child malnutrition even among the richer classes. Right to a latrine may be more important than FSB for reducing malnutrition.

How much would FSB cost? The FSB targets about 900 million persons each of whom will get Rs 50 per month. This amounts to a net transfer of RS 900x50x12 million, or Rs 54000 crores per year. In addition, the 12.5 crore persons belonging to Antyodaya households have additional allocation of 2 kg per month. This will provide an additional support Rs. $2 \times 12 \times 12.5 \times 10 = \text{Rs. } 3000 \text{ Crores}$. The cost of administration of the programme has to be added. In 2009-10, the cost of administration was around 62 per cent of the value net transfers. This would lead to a cost of $57000 \times 1.62 = \text{RS } 92000 \text{ crores}$. This is a lower bound estimate. This does not include the additional cost of administering such a large programme, nor the cost increases due to inflation. Cereal and cereal

products price inflation is more than 12 percent at the moment.

As per the latest MSP announced (and farmers are demanding higher prices due to increase in costs) the difference between MSP and proposed sale price would be more than Rs 10/kg. If one counts the cost of procurement, mandi charges, distribution cost, etc at FCI's customary efficiency, the cost would be around Rs 4 to 5 more. Even if the efficiency of reaching Re 1 to the poor improves efficiency substantially, the cost would be anywhere near Rs 100000 crores to Rs 150 000 crores.

Is there a better way?

If farmers decide not to produce food for self-consumption as they will get food at throw away price under the FSB, production may be seriously affected. Since, in essence, FSB is only providing income support, a direct cash transfer would be a better way. It would eliminate all the distortions in food production and markets that FSB would involve.

Those who support food grains distribution in kind argue that it would increase consumption. Himanshu and Sen (2013) have shown that food in kind has a higher impact on consumption of cereals than cash transfer. However, cash transfer can be twice as large as income support provided by PDS with the same outlay by the government as the cost of operating cash transfer would be much smaller. With this, the impact on cereal consumption would be similar to in kind provision by PDS. I have argued for many years for use of smart cards or food coupons, which was endorsed by Economic Survey 2009-10. A person can go to any shop and buy a designated food item at market price paying part of the cost through smart card or food coupons. The trader can exchange the coupons for money at any bank. These coupons would eliminate the diversion of PDS grains by the traders. In fact, it will eliminate the PDS itself. It would however, involve the problem of printing and distributing the coupons to the poor, who will have to be identified.

This will eliminate the problems of having to procure and distribute more than 50 million tonnes of food grains every year as also the problem of diversion. Of course, with cash transfer, the problem of traders charging high market price in remote areas can be a real one. In such selected areas co-operative societies may be encouraged to run fair price shops which stick to prices announced every week by the government. International experience indicates that this can work, as in the case of the 22000 cooperative stores in remote areas of Mexico who sell food and other necessities, and provide competition to private traders in thin markets of remote areas.

An unlinked cash transfer will enable the family to spend the money as it wishes, say on milk or on sending the child to a better school. As is now well recognized, the transfer should be made in the name of the woman of the household to empower her. If this is done through Aadhar cards, only she can use the money

Should entitlements be linked to purchase of food grains, or should one do cash transfer? Linking transfer to purchase of food grains increases the transaction cost for the consumer which will encourage self-selection and better off consumers will stay away. A problem of linking entitlements to Aadhar card is that the entitled woman or person may be unable to go to a shop due to sickness or some emergency. This can be taken care of by permitting two members of a household to avail of the entitlement.

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Since cash transfer linked to Aadhar can significantly reduce, if not eliminate, diversion, the total outlay even with near universal coverage can be much smaller than the present outlay. Thus, Rs 100000 crores can provide Rs 5000 per year to each of the 200 million households. If we assume that of the 240 million households in the country, 40 million relatively rich households can be excluded the cost of administering cash transfers should not be more than Rs 5000 crores.

If resources are required for implementing FSB, they have to be found. It would be great if the government can find these by eliminating many other subsidies, such as on diesel and LPG. If not, FSB will only add to inflation, increasing poverty and hunger and neutralising any benefit that may accrue to the poor from FSB.

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