CHAPTER-4
NATIONAL FOOD SECURITY ACT, 2013:
PROBLEMS AND ISSUES

I. Prelude

India has been quiet successful in ensuring ample availability of food in the country, be it basic staples like rice and wheat or other food products like edible oils, pulses, fruits and vegetables, milk and milk products, eggs, meat, and fish, etc. Most of these are produced within the country to meet the consumption demand, with some surplus being exported (like that of rice where India has emerged as the largest exporter in 2012), and in others reliance is on imports (like edible oils and pulses). However, making food available is only one aspect of food security, though and important one. The others are economic access to food and its biggest challenge and paradox. Despite buoyant economic growth in recent years, around one-third of India’s population, i.e. 400 million people still lives below the poverty line (in 2010) as per World Bank’s definition. Using the multi-dimensional poverty index\(^1\) of United Nations Development Programme, India ranks at 75 among 109 countries in 2011, much worse than the other (Brazil, Russia, and China) countries\(^2\)-indicating extent of deprivation in terms of living standards, health and education. According to National Family Health Survey, 20 per cent of Indian children under five year old were wasted (actually malnourished) and 48 per cent were stunted (chronically malnourished). The Hunger and Malnutrition survey conducted by Nandi Foundation\(^3\) across 112 rural districts of India in 2011 showed that 42 percent of children fewer than five are underweight and 59

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1 MPI indicates that the share of the population that is multi-dimensionally poor adjusted by the intensity of deprivation in terms of living standards, health and education.
2 Brazil rank 26\(^{th}\); Russia rank 10\(^{th}\); China rank 45\(^{th}\).
3 Retrieved from http:// www.nandi.org.>on2/12/2014/8:02 P.M.
percent are stunted. All these estimates point to the existence of food or lack of absorption food for healthy life.

As is well known, Food and Agriculture Organization\(^4\) defines Food Security as: “Food Security is a situation that exist when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life”. As per United States Department of Agriculture\(^5\), food insecure people are defined as those consuming less than the nutritional target of roughly 2100 calories per day per person. India is the front-runner with 246 million food-insecure people and accounts for close to 30 percent of the total food insecure people in developing countries. Growth alone, though essential, may not be sufficient at least in the short run to ensure food security for the poor and vulnerable, whose spend almost 60 percent of their expenditure on food. These people need a safety net targeting economic access to food and its absorption.

The issues raised earlier required careful scrutiny and assessment of the various provisions and operational guidelines of National Food Security Act, 2013. The Act delves into most of these issues and their implications. The provisions of National Food Security Act are carefully studied and some of the weak links in the Act have been brought out with a view to find out appropriate solution to these. An attempt is also made to access the operational and financial challenges thrown up by the Act and its macroeconomic impact on the agriculture economy like India. This chapter also suggests various options and instruments, which could be gradually dovetailed to make this Act much more effective and efficient.

\(^5\) International Food Security Assessment, United States Department of Agriculture, (2011-12).
II. National Food Security Act: Main Issues

National Food Security Act has a laudable objective of eradicating hunger and malnutrition from India in the shortest possible time. This legislation makes a paradigm shift in addressing the problem of food security- from the current welfare approach to a rights based approach. It is, therefore, important to get it right, not just in terms of making it a legal entitlement under the “rights approach” but making it a success on the ground.

i. Rationale

The rationale for the Act is best summarized be the following excerpts from the Act: Constitution of India⁶, provides that the State shall regard raising the level of nutrition and the standard of living of its people and the improvement of public health as among its primary duties. Eradicating extreme poverty and hunger is one of the goals under the Millennium Development Goal of the United Nation” and “in pursuance of the constitutional obligation and obligations under the international conventions, providing food security has been focus of the Government’s planning and policy. Food security means availability of sufficient food grains to meet the domestic demand as well as access, at the individual level, to adequate qualities of food at affordable prices”.

The National Food Security Act aims to ensure public provisioning of food and related measures, to enable assured economic and social access to adequate food with dignity, for all persons in the country, at all times, in pursuance of their fundamental right to be free from hunger, malnutrition and other deprivation associated with the lack of food and related matters. Although the right to adequate nutrition connects with a wide range of provisions, the main focus of the National Food Security Act should be on legal food entitlements that underscore the duty of Central, State and local governments to provide food to the people, through

⁶ Constitution of India, Article, 47.
subsidized grains, direct feeding programmes and related interventions. Other aspects, such as adequate sanitation and water facilities, ensure enhanced food production, and social security provision should be included mainly as “enabling provisions” that are enjoined upon governments not legally enforceable in a court of law.

National Food Security Act is envisaged as a path-breaking legislation, aimed at protecting all children, women and men in India from hunger and food deprivation. There are compelling economic, social, political and ethical imperatives for such legal guarantee of protection from hunger. Aside from creating new food entitlements, the Act place a range of existing food-related schemes on a new footing and set new standards of delivery, transparency and accountability for social programmes.

The motivation for the National Food Security Act is to provide a guarantee of adequate nutrition and is derived from the right to food as an aspect of the right to life under Article 21 (as interpreted by the Supreme Court as a right to life with dignity), which is a fundamental right of all citizens. Even though the National Food Security Act focuses mainly on food entitlement, the National Advisory Council recommends that it should take a broad view and not restrict itself only to Public Distribution System. The Public Distribution System, while important and essential, is only one of several interventions needed to ensure food security for all. The National Advisory Council also recommends adopting life cycle approach to food security. The food entitlement created by this Act should cover the entire life cycle of human being, starting with overcoming maternal and foetal under nutrition resulting in low birth weight babies, and extending up to old and infirmed persons. The first 1000 days in a child’s life (starting with conceptions up to the end of second year of age) ought to receive

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special attention especially because nutrition deficiencies at the stage need to lifelong physical and cognitive deficiencies.\textsuperscript{8}

\textbf{ii. Salient Features of National Food Security Act}

The Act extends to the whole of India and came into force on 5\textsuperscript{th} day of July, 2013. This Act provide legal entitlement to priority household and as per this Act every priority households are entitled to 5 kgs of food grains per person per month, and \textit{Antodaya} households to 35 kgs per households per months. The combined coverage of priority and \textit{Antodaya} households (called eligible households) shall extend up to 75 per cent of the rural population and up to 50 per cent of the urban population at rate of Rs $3/2/1\$/ per kg for rice/wheat/millets. They are revised after every three years.\textsuperscript{9}

For children in the age group of 6 months to 6 years, an appropriate meal, free of charge, through the local \textit{anganwadi}. For children aged 6-14 years, one free mid-day meals every day (except on school holidays) in all government and government aided schools up to the Class VIII. For children below 6 months, "exclusive breast feeding shall be prompted". For children who suffer from malnutrition, meals will be provided to them free of charge "through the local \textit{anganwadi}'s.\textsuperscript{10} Besides this, every pregnant and lactating mother is entitled to a free meal at the local \textit{anganwadi} during pregnancy and 6 months after childbirth including maternity benefits of Rs 6000, in installments.\textsuperscript{11} All entitlements of women and children are to be delivered by State government through schemes in accordance with guidelines to be prescribed by the Central Government.

The Act does not specify criteria for the identification of households eligible for Public Distribution System entitlements. The Central Government is to determine state-wise coverage of the Public

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\textsuperscript{8} Recommendations of the National Advisory Council released on 23\textsuperscript{rd} October, 2010 are accessible at \url{nac.nic.in}.

\textsuperscript{9} National Food Security Act, 2013; Section 3.

\textsuperscript{10} \textit{Ibid.}, Section 5.

\textsuperscript{11} \textit{Ibid.}, Section 4.
\end{flushleft}
Distribution System (Proportion of the rural/urban population). Then number of eligible persons will be calculated from census population figures. The identification of the eligible household is left to state governments, subject to the Scheme's guidelines for Antodaya, and subject to the guidelines to be “specified” by the state government for priorities households. The identification of eligible households is to be completed within 365 days. The lists of eligible households are to be placed in the public domain and “displayed prominently”.

The Act provides for the creation of State Food Commissions. The main function of the State Food Commission is to monitor the implementation of the Act, give advice to the state governments and their agencies, and inquire into violations of entitlements. State Food Commission also has to hear appeal against order of the District Grievance Redressal Officer and prepare annual reports. The two-tier grievance redressal structure involving the District Grievance Redressal Officer and State Food Commission. State governments must also put in place an internal grievance redressal mechanism which may include call centres, helplines, etc. District Grievance Redressal Officers shall be appointed by state governments for each district to hear complaints and take necessary actions according to norms to be prescribed by state governments. If a complainant is not satisfied, he or she may file an appeal before the State Food Commission. To ensure transparency it is mandatory to place all the Public Distribution System-related records in the public domain and conducting periodic social audits of the Public Distribution System and other welfare schemes. Use of information and communication technologies “to ensure transparent recording of transaction at all levels.” Setting up Vigilance Committees at all levels to supervise all schemes under the Act.

12 Ibid., Section 9.
13 Ibid., Section 10.
14 Ibid., Section 16.
15 Ibid., Section 15.
The Food Commission has powers to impose penalties. If an order of the District Grievance Redressal Officer is not complied with, the concern authority or officer can be fined up to Rs. 5000.\textsuperscript{16} The Commission can authorize “any of its member” to act as an adjudicating officer for this purpose. In case of non-supply of the entitled quantities of food grains or meals to entitled persons, such persons will be entitle to a food security allowance from the state government, as prescribed by the Central Government.

The Act states that the Central and State Governments “shall endeavors to progressively undertake” various Public Distribution System reforms, including door step delivery of food grains, end-to-end computerization, leveraging “Adhaar” for unique identification of entitled beneficiaries, full transparency of records, preference to public institutions or bodies in licensing of fair price shops, management of fair price shops by women or their collectives, diversification of commodities distributed under the Public Distribution System, full transparency of record, and introducing schemes such as cash transfer, food coupons or other schemes to the targeted beneficiaries in order to ensure their food grain entitlements as prescribed by the Central Government.\textsuperscript{17}

The main obligation of the Central Government is to provide food grains (or, failing that, funds) to state governments, at price specified in the Act, to implement the main entitlements. The Central Government has wide-ranging powers to make Rules in consultation with the state governments\textsuperscript{18}. The main obligation of state governments is to implement the relevant schemes, in accordance with the Central Government guidelines. State governments also have wide-ranging powers to make Rules. They are free to extend the benefits and entitlements beyond what is prescribed in the Act, from

\textsuperscript{16} Ibid.,; Section 33.
\textsuperscript{17} Ibid.,; Section 12.
\textsuperscript{18} Ibid.,; Sections 22 & 23.
their own resources. Local Authorities and Panchyati Raj Institutions are responsible for proper implementation of the Act in their respective areas, and may be given additional responsibilities by this Act. Besides these provisions Act has also prescribes various standards like “issue prices,” nutritional standards, provisions for advancing food security and Minimum food grain allocation for each state.

The objective of the Act is "to provide for food and nutritional security in human life cycle approach by ensuring access to adequate quality of quality food at affordable prices to people to live a life with dignity". In line with the stated objective, the Act provides a legal entitlement to receive food grains at subsidized prices by persons belonging to priority households and general households under Targeted Public Distribution System. The entitlement shall provide up to 75 percent of the rural population and up to 50 percent of the urban population. Further, in order to improve the nutritional security, the National Food Security Act brings various ongoing welfare schemes of the governments under one umbrella.

In addition to these provision, the National Food Security Act also trying to revitalize the agriculture by increasing investment in agriculture, including in research & development, ensuring remunerative prices, credit to farmers, crop insurance, etc. Incentivizing decentralizing procurement including procurement of coarse grains, augmentation of adequate decentralized modern and scientific storage etc. Use of information and communication technology tools to improve Public Distribution System, leveraging "Aadhaar" for unique identification of beneficiaries for proper targeting.
of benefits under this Act etc., ensure transparency.\textsuperscript{28} The National Food Security Act also made 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.

\textbf{iii. Modus Operandi}

To operationalise National Food Security Act, the Central Government procure foodgrains for the central pool through its own agencies, the State Governments and their agencies. The Central Government allocates foodgrains to the State as per the defined entitlements and at prices specified. The Central Government provides for transportation of foodgrains to the designated depots to each State and each state creates and maintains required modern and scientific storage facilities at various levels.\textsuperscript{29} Under Targeted Public Distribution System, it is the duty of the State Government to take delivery of foodgrains form the designated depots of the Central Governments in the state. In addition, organize inter-state allocation for delivery of foodgrains through their authorized agencies at the doorstep of each fair price shop and ensure actual delivery of food grains to the entitled persons.\textsuperscript{30}

The local authorities is made responsible for proper implementation of the legislation in their respective areas, to conduct periodic social audits on the functioning of fair price shops, Targeted Public Distribution System and other welfare schemes and publicize its findings and take necessary action\textsuperscript{31} For the efficient operation of Targeted Public Distribution System, every State Government shall create and maintain:

- Scientific storage facilities at the state, district and block levels being sufficient accommodate food grains required under the

\textsuperscript{28} Ibid.; Section 12, Schedule III.
\textsuperscript{29} Ibid.; Section 22, Schedule I.
\textsuperscript{30} Ibid.; Section 24, Schedule I.
\textsuperscript{31} Ibid.; Section 25-26, Schedule III.
targeted Public Distribution System, and other food based welfare schemes;

- Suitably strengthen capacities of their food and civil supplies corporations and other designated agencies; and

- Establish institutionalized arrangements for fair price shops within the State in accordance with the provisions of the Public Distribution [control] Order, 2001)\(^{32}\)

Provisions has also been made in the Act for transparency and accountability including disclosure of records relating to Public Distribution System, social Audits and setting up of Vigilance Committees besides an elaborate grievance redressal mechanism to ensure that the benefits reach the rightful persons, failing which they can approach grievance redressal bodies that are proposed to be setup for this purpose.

In the event, the Central Government is not able to provide the foodgrains to the State Government from the central pool due to any shortfall in the central pool, the Central Government would provide funds to the State Government to the extent of the shortfall, as may be prescribed by the Central Government itself.\(^{33}\) The State Governments are responsible for implementation and monitoring of schemes of the Central Government as well as their own schemes for ensuring food security to the targeted beneficiaries of their states.\(^{34}\)

iv. Contentious Issues in the Act

It is worth noting here that National Food Security Act, in its current form, throws major challenges as in:

\(^{32}\) *Ibid.*; Section 24 (5)
\(^{33}\) *Ibid.*; Section 23
\(^{34}\) *Ibid.*; Section 24 (1)
a. Where is the food at the time of crises?

The Act provides for a "Force Majeure" clause, that the Central Government and State Governments shall be liable for a claim by any person entitled under this Act, except in the case of war, flood, drought, fire, cyclone or earthquake affecting the regular supply of foodgrains or meals to such person under this Act.

This is an exemption for both Central and State Government for failure to supply food grains when such failure is either "directly or indirectly" because of force majeure. It provides immunity to both the Centre and States against any claim by beneficiaries entitled under this Act for loss, damage, or compensation arising out of failure of supply of foodgrains or meals in force majeure conditions, which have defined widely, including droughts and floods, which are likely to increase in intensity and frequency due to climate change effects. It is worthwhile to note that precisely in these conditions a failure of market forces, volatility in prices and resultant distress is expected and at times like this "The poor and vulnerable" would depend on government to ensure their food security. While there may be exceptional circumstances, warranting such exceptions should be restricted to situations where all efforts fail, like in a situation, where neither transportation by road nor by helicopter is possible. Drought does not qualify under this criterion and needs to be removed from the list. This clause needs redrafting.

b. National Food Security Act imposes a highly Centralized Model discouraging customized state level initiatives

The Act in the current shape gives a legal sanction to a highly centralized procurement and distribution model. All guidelines, rules etc. will be prescribed by the Centre including criteria for priority households, exclusion criteria, reforms in Targeted Public Distribution System, price at which the State Government is required to sell the foodgrains to the entitled persons-to name a few. It leaves no room for

35 Ibid.; 2013, Section 44.
experimentation/ customization for the states suited to their specific choices, institutional strengths and weakness.

After the Act came into effect, the existing schemes pursued by the states will suffer considerably. For example, Tamil Nadu follows a "Universal Public Distribution System" system with no Below Poverty Line/Above Poverty Line classification—which is different from Targeted Public Distribution System. Now Tamil Nadu has to put an end to this system. Till July, 2013, State Governments were adopt their own Public Distribution System" structures as the Public Distribution System" system was governed by Public Distribution System (Control) Order, 2001 and the Essential Commodities Act, 1995.36 Essential Commodities Act empowers the State Governments to issue order for their relevant areas. However, the National Food Security Act creates a new statutory framework to govern the Public Distribution System. Systems in States will have to first comply with the National Food Security Act and in the event of a conflict between National Food Security Act and Essential Commodities Act, the provisions, rules, regulations and orders issued under the National Food Security Act will override the provisions, rules, orders, issued under Essential Commodities Act.

The National Food Security Act allows State Governments to design their own schemes but it rendered practically ineffective as it essentially imposes an obligation on the State Governments to procure foodgrains from Food Corporation of India for Targeted Public Distribution System and procure for its own system separately—for which literally there would be not much grain left. It would additionally impose a financial burden on the states, as they will need to procure the entire requirement of foodgrains at their own cost and

pay through the state treasury rather than incrementally subsidize the same.\(^{37}\)

\section*{c. Centralized procurement has been found to be unsustainable}

National Food Security Act mandate Central Government to procure for central pool. State Governments are responsible for further distribution. Decentralized Procurement System was introduced in 1997-1998 in view of the practical difficulties faced by the Central Governments/ Food Corporation of India to procure on its own. Under Public Distribution System, States were invited to assist in the procurement and distribution of foodgrains under the Targeted Public Distribution System. This experiment has been quite successful in Madhya Pradesh and Chhattisgarh as far as augmenting the level of procurement is concerned. Both these states have taken initiative to open large number of procurement centers and dramatically increased the procurement of paddy in Chhattisgarh and wheat in Madhya Pradesh, almost leading to state monopoly in procurement of these crops.\(^{38}\) National Food Security Act suggesting a retrogressive step of going back to centralized procurement model was which found unsustainable in the first place.

\section*{d. Consolidation of existing ineffective Food security Complex}

National Food Security Act gives the existing Public Distribution System and procurement system a new lease of life in an "as is where is" condition despite its established ineffectiveness and leakages. For fulfilling its goal of food security, it heavily relies on the current institutions which already have had a chequered history of failures. Estimated leakages from the Targeted Public Distribution System go as high as 40 per cent.\(^{39}\) The existing system of Targeted Public

\begin{itemize}
\item \(^{37}\) NFSA,2013, Section 32
\item \(^{38}\) Retrieved from http://dfpd.nic.in/fcamin/annualreport/ann-2013-14.pdf> on22/12/2014
\item \(^{39}\) National Sample Survey Organisation and Department of Food and Public Distribution (NSSO and DFPD); 2004-05 and 2009-10
\end{itemize}
Distribution System needs to be reformed for efficient delivery of food grains but the norms and types of reforms are to be decided by the Central Government. This would bring the ongoing Public Distribution System reforms in states like Chattisgarh and Haryana to a halt.

e. Distribution of Obligations between Centre and State

The Central Government has limited its responsibility to procurement for the Central pool and delivery to the State Governments for distribution or through the Targeted Public Distribution System. The State Governments are made responsible for collection of food grains from Food Corporation of India depots and further ensure that the legal entitlements are enforced. National Food Security Act directs cost sharing in overheads survey costs and for welfare schemes. If the Central Government is unable to provide food grains from its Central Pool, it has to provide funds to the extent of short supplies of food grains from its central pool to the State Government\(^\text{40}\) that also as determined by it. However, if the State Government is unable to provide the entitled grains, then it has to pay a “Food Security Allowance” to the excluded beneficiaries. How with the state governments distribute that cash to ultimate beneficiaries without having developed a proper financial structure for that remains unclear.


National Food Security Act stipulates that in case of non-supply of the entitled quantities of food grains or meals to entitled persons under this Act, such persons shall be entitle to receive such food security allowance from the concerned State Government in such time and manner as stipulated by the Central Government.\(^\text{41}\) This entails that the State would have to provide the entire administrative backup for the food security allowance/decentralized procurement triggered in case of failures by the Central Government and distribution, which

\(^{40}\) NFSA, 2013, Section 23.

\(^{41}\) Ibid.; Section 8.
would then cost the State additionally. This would have large financial implications for the State Governments.

The amount payable would depend entirely on the rules framed in respect of the same. The statute does not mandate that the allowance have to be suitable to enable the relevant entitled persons to obtain the food grains from the market. Since the entitlement is essentially to obtain the identified food grains at the subsidized price, if National Food Security Act is according to these prices (much lower than the market price), then this mandatory support during distress conditions would be grossly insufficient to buy food grains from the market. Whether this National Food Security Act would be triggered in case Force Majeure is also unclear.

g. No clear roadmap for benefits to “general households”

The entitlements of persons belonging to “general households” have been liked to such reforms in the Public Distribution System, and from such date as prescribed by the Central Government.

h. Cereal Centric approach

Though cereals are central to the issue of food security, diversifying demand patterns to protein rich items also needs to be appreciated. National Food Security Act deals only with supply of cereals ignoring the demand side of food consumption. In this context, it is worth noting that the latest data of National Sample Survey Organization show that in each decline expenditure groups, the per capita consumption of cereals has been falling. Thus, while National Food Security will try to make the production basket cereals-centric, diversifying demand will throw pressures on non-cereals segment, creating an imbalance in demand and supply of food items. This will lead to hire inflationary pressures and imports of non-cereals foods, especially edible oil, pulses, fruits and vegetables, protein food, etc.

\[\text{i. Ibid.; Schedule I.}\]

i. Missed opportunity to promote the income approach to food security

Global experience on social safety net programmes show that food coupons/vouchers, Conditional Cash Transfers are better alternatives than transfer of food is. Globally, countries have moved away from physical handling of grains and used such alternatives based on income approach for improving economic access to food. National Food Security could have inbuilt flexibility in it for States to experiment with such an approach.

III. Operational Challenges

The existing system of food grain management is characterized by the dominant presence of government in all the basic aspects of marketing i.e., procurement, storage, transport and distribution, with all these operations being bundled and carried out by the Food Corporation of India. Currently, Food Corporation of India’s operations are intended to built buffer stock to meet any exigency, open market purchase/sales to stabilize domestic prices and provide food security requirements through sale of subsidized grain. It procures, mainly wheat and rice, for the Central Pool at the Minimum Support Price announcement by the Government and distribute it through the State managed Public Distribution System. In addition, several states procure directly for decentralized procurement and distribution. Over the years inefficiency have evident in the operations of Food Corporation of India through concentration of procurement operations to a handful of States, an ever increasing central pool of stocks and growing diseconomies of scale. The following sections elaborate the mammoth operational challenges thrown up by National Food Security as it would entail a huge procurement/distribution infrastructure.
i. Production

Since the National Food Security Act create a statutory entitlement for the included population and its-observes namely a legal obligation for the government, it is important to ensure adequate availability of grain with the public authorities. Attainment of self-sufficiency in food grains at micro level has been one of the country’s major achievements in post-independence period. The production of food grains increased from 51 million tons in 1950-51 to 108.4 million tons in 1970-71 and has touched 257 million tons in 2011-12. Production of rice has increased by almost 5 times from independence from 20.6 million tons in 1950-51 to 104.3 million tones 2011-12. Production of wheat has increased manifold since independence from 6.5 million tons in 1950-51 to 93.9 million tons in 2011-12. India has also be a net exporter of cereals for most years since 1990. The per capita availability of food grains has increased from 394.9 grams per day 1951 to 438.6 grams per day in 2010.\(^4^4\) It should be noted here that as economic growth pickup, it is common to observe a change in dietary patterns wherein people substitute cereals with high-value food.

Agriculture has been growing at a trend rate of growth of 2.9 per cent during 1991-92 to 2011-12 much lower than the targeted 4 per cent in the five year plans. The increasing diversions between the growth trends of the total economy and that of agriculture and allied sectors during the plan periods suggests under performance by agriculture.\(^4^5\) The average growth rate of food grains output has declined from 2.2 per cent in 1990s to 1.8 per cent in 2000s. Similarly, growth rate, of yield of food grains has declined from 2.4 per cent in 1990s to only 1.3 per cent in 2000.\(^4^6\)

Indian agriculture has not witnessed any major break-through since Green Revolution which focused on the two cereals (wheat and

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\(^{4^4}\) Directorate of Economic and Statistic (DES); Ministry of Agriculture (GOI).

\(^{4^5}\) CSO; Data at 2004-05 prices.

\(^{4^6}\) Based on calculation from data available from DES.
rice) and concentrated on north-western India. Punjab and Haryana are the two states that contribute the largest two food grains production but this is at the cost of annual negative balance in the ground water reserves for these states. According to the latest assessment of ground water situation in India,\(^\text{47}\) 75 per cent blocks in Punjab are over exploited, only 18 per cent are considered safe. As a step-towards demand management of water, a gradual shift of these water guzzling crops from North-Western India to Eastern States is required. Under “Bringing Green Revolution to Easter India”, eastern States like Bihar, Madhya Pradesh and West Bengal are emerging as large producers but gross lack of marketing and procurement infrastructure has, caused distressed to farmers despite record production. This raises doubts on sustainability of production without commensurate investment in agri-infrastructure, especially marketing.

### a. Volatility in Production

Volatility in the food system due to exogenous shocks from weather related events or instability in international markets, compromises national food security. While India has achieved much in augmenting food grain production, especially of rice and wheat, curving volatility in year-to-year production remains a critical challenge\(^\text{48}\). The volatility in coarse cereals is much higher than that of rice and wheat, intensifying the pressure on rice and wheat in drought years. Indian agriculture is still highly dependent on rain fall and drought years cause production and stocks declines. Which can take a couple of years to be made up. A case in point is the drought year 2002-03 where the production of wheat and rice fell by 28.5 million tons over the previous year (over all food grains production dropped by 38 million tons). It took 3 years to make up and it was only in 2006-07 that the production expected the 2001-02 level. With the gross irrigated area as a percentage of gross cropped area having

\(^{47}\) CGWB 2009-10.
increased from 34 per cent in 1990-91 to 45.3 per cent in 2008-09\textsuperscript{49}, agriculture now has better capacity to bear the brunt of deficit rainfall. However, more than 50 per cent area under cultivation is still at the mercy of monsoon. Further, sustainability of irrigation is also significantly dependant on rainfall. Increasing reliance on Indian agriculture against drought and managing water resources sustainably remains are formidable challenge.

\textbf{b. Yield}

India is the second largest producer of both wheat and paddy but its productivity level are still lower than the world average and that of major producing countries.\textsuperscript{50} The challenges before India is to raise the productivity of its basic staples like rice and wheat with increasing pressure of urbanization and industrialization on land and water availability. Currently more than 60 per cent of cropped area is under grains and more than 80 per cent of water resources is used for irrigation in agriculture.\textsuperscript{51} Increased in food grain production will have to come from investment in productivity enhancing technologies in irrigation, power, fertilizers, seeds and post-harvest technology to reduce loses.

\textbf{c. Volatility in Prices}

Because of the low price elasticity of demand for food staples and the thinness of market, problems in food availability translate into large spikes in domestic prices and reduction in real incomes of poor consumers. Rice and wheat experience wide fluctuations in wholesale prices during a year. As 2009-10 was a drought year, which shows a wide fluctuation in monthly prices of wheat and rice. This volatility in prices creates uncertainty in the “economic access” pillar of food security.

\textsuperscript{49} DES. \\
\textsuperscript{50} Food and Agriculture Organisations (FAOSTAT, 2010). \\
\textsuperscript{51} Water and Related Statistics 2010, Central Water Commission.
ii. **Procurement**

National Food Security Act requires procurement Central Pool and would depend upon existing system particularly Food Corporation of India. Currently, Food Corporation of India procures mainly paddy and wheat (primarily through state agencies) from farmers (at Minimum Support Price) and in the form of rice from rice millers (at levy price). It is essentially a system of open-ended procurement under which Food Corporation of India is obligated to buy all the grains that farmers of a to sell at the prescribed procurement price (Minimum Support Price plus Bonus) as long as the grains meet a certain quality standard. The high cost of operations has been evident and well documented.

a. **Concentrated procurement**

Although, in principle the system is applicable to the country as a whole, effectively the system operates primarily in a few surplus states such as Punjab, Haryana, Western Uttar Pradesh and Andhra Pradesh. 70 per cent of rice procurement is done from Punjab, Haryana and Madhya Pradesh alone. It is a known fact that states of Punjab and Haryana have a very high incidence of taxes and such large scale procurement from these two states increases the procurement costs. Around Rs. 7000 crore (10 per cent of the food subsidy in 2011-12) have been collected in 2011-12 from Food Corporation of India through levies in states like Punjab, Haryana, Andhra Pradesh and Madhya Pradesh. 52

Further, logistics point of view it could be cheaper to procure food grains from states like Madhya Pradesh, Bihar, Gujarat etc and deliver the food grains to neighboring deficit states in central, eastern and western India rather than procure form a handful of surplus states in North and South and distribute food grains across the deficit states in India. However, such a system would need ramping up of

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procurement efforts in emerging surplus or self-sufficient states in cereals, such as Uttar Pradesh, Bihar, West Bengal, Assam and Orissa. It is often lack of effective price support operations, especially when cereal markets are controlled by restricting exports, or imposing restrictions on their free movement across the country or putting stocking limits on private trade, etc., that open market price go below Minimum Support Price.\textsuperscript{53} This inability of farmers to get even Minimum Support Price in these states does not allow farmers to augment their incomes by increasing production of rice and wheat.

Agriculture marketing infrastructure is inadequate across states in India barring a few. Unlike in Punjab and Haryana which have a well-laid out network of 'mandis' and procurement centers, other major producing states of Uttar Pradesh, Bihar, West Bengal, Assam and Orissa present a somewhat dismissal picture. Lack of adequately equipped mandis/procurement centers and storage possess a major challenge for procurement from other states. Even in states like Chhattisgarh and Madhya Pradesh, which have recently ramped up procurement of paddy and wheat, respectively, infrastructure for proper procurement and storage is woefully inadequate. This leads to large wastage of grain.

iii. Stocks

As against the buffer stock norms of 31.9 million tons of rice and wheat as on 1\textsuperscript{st} July of each year from 1992 to 2013, total Central Pool stocks were more than double at 80.5 million tones on 1\textsuperscript{st} July 2012.\textsuperscript{54} Periodic overstocking by the public sector has huge implications on the fiscal side, apart from distorting the free functioning of food grains market. Higher level of buffer stock carry the risk of higher wastage of food grains along with higher cost of maintaining the buffer. Currently, Food Corporation of India is facing an acute storage crisis with covered capacity estimated at around 45.0

\textsuperscript{53} Ibid.
\textsuperscript{54} FCI Report, 2013.
million tones and covered and plinth storage of 17.2 million tons against the stocks crossing so million tones. Periodic over stocking be the public sector has huge implications on costs, apart from distorting the food grain market.

The additional procurement because of National Food Security Act will put enormous pressure on the existing infrastructure, which is inadequate to handle the current procurement norms. Even though modern silo storage and bulk handling is required for preservation of quality and efficiencies there are several impediments to the same such as non-availability of rail heads at all Food Corporation of India storage, limited locations with Food Corporation of India for the same, non availability of bulk wages with Indian railways.

iv. Economic Cost of Food Corporation of India

The economic cost of procurement to Food Corporation of India has been increasing over time with rising procurement levels demonstrating that it suffers from diseconomies of scale with increasing levels of procurement.\(^5\)\(^5\) Currently, the economic cost of Food Corporation of India for acquiring, storage and distributing foodgrains is about 40 per cent more than the procurement price. To illustrate the costs involved, in terms of storage and interest cost alone, the cost of carrying wheat for a year with government agencies is about Rs. 2400 tone-as on 1 November 2012, the wheat stocks in the central pool are 40.5 million tones -almost three times the buffer norm.

For the quarter ending March, 2012, Food Corporation of India employed 1.55 lakh workers out of which 1 lakh are contract workers, 19441 are departmental labour, 30112 are Direct Payment System workers and rest were under the no work no pay' system. The average handling cost per metric tonne for Food Corporation of India for 2011 contract Labour was Rs 41.4 while for departmental labour, it was Rs. 311.1 (7.5 times the cost of contract labour) and for workers under

\(^{55}\) Price Policy Report for Kharif crops for 2012-13 marketing season CACP.
the Public Distribution System it was Rs 136.9 (3.3 times the contract labour). This indicates contractual labour of Food Corporation of India were the least expensive. However, the Ministry of Labour & Employment has prohibited employment of contract labour in the depots of Food Corporation of India. In years to come, it is quite possible that Public Distribution System and contract workers would become part of departmental labour, which would raise the costs of labour by three-seven times.\footnote{Fakir Lohar and Ors. vs Food Corporation of India and Ors. (1996) IILLJ 80 Cal.}

v. Imports

In case of deficit production, countries tend to resort to imports from global markets. While this is a feasible policy option, especially in emergencies, price volatility and availability of preferred quality in global markets because relevant especially with the experiences of 2007-08 global food and fuel crisis. Rice is a very thinly traded commodity. While smaller imports can meet small deficits in domestic production to bridge the supply gap, if quantities demanded are too large, they can send the global markets into a tizzy. Sometimes, an impending food price rise (as happened in 2007-08) can invoke knees jerk policy decisions that restrict flow of food to net importing countries.

This is especially true in the case of rice, as global markets are much smaller. India's entry into international market as a large buyer could exert significant upward pressure on prices. Given that National Food Security Act commits for legal entitlements of food (especially rice and wheat), India will have to carry a much larger stock of these to avoid any eventuality of large scale imports of rice and wheat in the event of domestic shortfall (as happened in 2003-04 when grain production fell by 38 million tonnes). If this is not done, India will risk high cost of cereal imports in times of need, especially drought years. Although exchange reserves do provide the cushion to India to enter
the global markets for its needs, yet the large country impact on global price (especially for rice) cannot ruled out.

vi. Distribution: Targeted Public Distribution System

Public Distribution System with a network of 4.78 lekh Fair Price Shop is perhaps the largest retail system of its type in the world. However, the Public Distribution System has virtually collapsed in several States in India due to weak governance and lack of accountability. There are, however, exception like Kerala and Tamil Nadu. In 2004-05, compared to an off take of 29.4 million tonnes of rice and wheat by states, only 13.2 tonnes were actually lifted by households for consumption- suggesting a leakage of 54.1 per cent. In 2009-10, the people under Public Distribution System received 25.3 million tons while the off take by States was 42.4 million tonnes indicating a leakage of 40.4 per cent.57

a. Reforms in Targeted Public Distribution System

A number of states have addressed the problem of fake ration cards by computerization of databases and using hologram-enabled technologies to eliminate the duplicate cards. A key reform being proposed involves using Aadhaar number based application for improving delivery of foodgrains through Public Distribution System. The task report58 recommends setting up of Public Distribution System Network with the aim of providing support in the areas of development, operations, and maintenance of technology, supply chain management, transparency and electronic payments. The solution aims to tackle the primary issue of identifying eligible beneficiaries, removal of bogus ration cards and provide choice of Fair Price Shop to the beneficiary to procure foodgrains. With respect to private sector participation in Public Distribution System reforms, Madhya Pradesh has taken a significant step and used private sector


to put in place a system to computerize the Public Distribution System and beneficiaries with their Aadhar number and provide the food coupons to the beneficiaries.

IV. Financial Challenges

The large-scale subsidized grain distribution to almost two-thirds of the country's population of 1.2 billion implies massive procurement of foodgrains and a very large distribution network entailing a huge financial burden on the already burdened fiscal system. The stated expenditure of Rs. 1, 20,000 crore annually in National Food Security Act is merely the tip of the iceberg. To support the system and the welfare schemes, additional expenditure is needed for the envisaged administrative setup, scaling up of operations, enhancement of productions, investments for storage, movement, processing and market infrastructure etc. The existing Food Security Complex of Procurements, Stocking and Distribution—which National Food Security Act perpetuates, would increase the operational expenditure of the Scheme given its creaking infrastructure, leakage and inefficient governance.

Over and above that, the yearly food subsidy bill itself is likely to gallop. The estimate of food subsidy would depend upon economic cost, central issue price of foodgrains, number of beneficiaries covered and quantities of food grains allocated and lifted. The food subsidy in the coming years will balloon due to the lower central issue price of grain, a significant rise in the number of entitled beneficiaries and the need to keep raising the Minimum Support Price to cover the rising costs of production. These issues raise doubts on the sustainability of the financial obligations entailed in National Food Security Act.

i. Financial obligations under National Food Security Act

To support National Food Security Act, the government would need to enhance production, storage and marketing infrastructure, its own procurement and distribution set up, the entire envisaged
paraphernalia of National and State Commissions'. There will be a requirement of providing additional man power at various levels for effective implementation of the Act, social audits and evaluation studies, training and capacity buildings etc. It also has to beef up operations in relation to the multitude of welfare schemes that have been envisaged particularly for mid-day meals, feeding the poor etc.

ii. Financial obligations of Centre

Government of India estimates that as per the current buffer norms of a stock of 5 million tonnes of food grains would be kept and the carrying costs would be borne by Central Government as recurring expenditure. At the rate of buffer carrying costs for 2011-12 and current buffer norms, annual estimated carrying costs will be about Rupees two thousand and sixty one crore. This requirement may not cause any additional financial obligation as buffer stocks are already being maintained by the Government of India for its ongoing Targeted Public Distribution System.

Every person belonging to priority households and general households, shall be entitled to receive every month from the State Government under the Targeted Public Distribution System, 7 Kg of food grains per person per month for priority households and not less than 3 Kg of food grains for per person per month for general household, at subsidized prices. The difference between the economic costs of food grains and the issue prices in respect of the coverage and entitlement will be borne by the Central Government as food subsidy. At the above coverage and entitlement, the economic cost for the year 2011-12 and the prices for food grains as per the Act, the total annual expenditure on food subsidy under Targeted Public Distribution System is estimated at about Rupees 79,800 crore. In case of short supply of food grains from the central pool to a State, the central government shall provide funds to extent of short supply to the State Government for meeting obligations.

59 NFSA, 2013, Schedule I (Section 3(1),22(1)(3) and 24(2)(3)).
Central Government shall constitute The National Food Commission to perform the functions assigned to it under the legislation and provide for the salary and allowances of chairman/chairpersons, other members and member secretary and support staff and other administrative expenses, required for the proper functioning of the National Commission. The annual expenditure for this would be known after constitution of the Commission and will be of recurring nature.

Central Government shall provide food grains in respect of entitlements for welfare programmes to the State Governments. the difference between the economic cost of food grains and the issue prices in respect of above schemes will be borne by the Central Government as food subsidy and will be of recurring nature. The estimated expenditure is however depend upon economic cost, central issue price of food grains, number of beneficiaries covered and quantities of food grains allocated and lifted, and therefore subject to change with changes in any or of the variables.

Central Government shall creates and maintained required modern and scientific storage facilities at various levels, and the expenditure on which will be of a non-recurring nature and be borne by the Central Government.

### iii. Financial Obligation of Centre and State: Cost Sharing

Central and the State Governments shall endeavour to progressively undertake reforms in Targeted Public Distribution System. As per the provisions of the Act “All other costs incurred under this Act, shall be shared between Central and State Governments in such a way that Central Government bears at least 70 percent of all costs.

Nutritional support to pregnant and lactating women and children below the age of 14, currently being delivered through the Integrated Child Development Services and Mid-Day Meals schemes
will continue to be implemented as per prescribed norms, including norms for cost sharing between Central and State Governments.

Assuming a coverage of about 2.25 crore pregnant and lactating women, the expenditure for Central Government and States together would be around 13500 crore. The actual annual expenditure will depend on the number of identified entitled beneficiaries and those actually availing the benefit. The expenditure will be shared between Central and State Government in accordance with a scheme to be prescribed by the Central Government.

Expenditure to be incurred on supply of meals to other groups will be of recurring nature and will depend upon number of persons identified, and will be shared between the Central and the State Governments, in accordance with schemes to be prescribed by the Central Government. Cost of survey for identification of household will be borne by the Central Government and the State Government in accordance with the prescribed by the Central Government. The list of the identified priority households and general household shall be placed by the State Government in the public domain and displayed prominently, for which expenditure will be borne by State Government.

In case of non-supply of the entitled quantities of food grains or meal to entitle person under the Act, such person shall be entitled to receive food security allowance from the concerned state government, which shall be responsible for making payment of such food security allowance within such time and manner as may be prescribed by the Central Government. The State Government shall bear all expenses of food security allowance which will be of recurring nature. Central Government and the State Governments shall put in place an internal grievance redressal mechanism, which may include call centers, help lines, designation of the nodal officers, or such other

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60 Ibid., Chapter II, III, and IV.
61 Ibid., Chapter VII (section 14).
mechanism as may be prescribed by the respective Governments. Costs of setting up internal grievance redressal mechanism will be borne by the respective Governments.

iv. Financial Obligations of State

State Government shall identify persons households, groups, or communities living in starvation or conditions akin to starvation, for which the expenditure shall be borne by State Governments. For expeditious and effective redressal of grievances of aggrieved persons in matter relating to distribution of entitled food grains or meals under the Act, a District Grievance Redressal Officer, with requisites staff, shall be appointed by the State Government for each District, to enforce these entitlements and investigate and redresses grievances. The expenditure towards salary and allowances of District Grievances Redressal Officer and other staff, and such other expenditure as may be considered necessary for their proper functioning, which will be of recurring nature will be borne by State Governments.

Every State Government shall constitute a State Food Commission for the purpose of monitoring and review of implementation of the provisions of the National Food Security Act and also provide for salary and allowances of chairperson, other members, member secretary, support staff, and other administrative expenses required for proper functioning of the State Commission. Expenditure on the State Food Commission will differ from State to State and will be of recurring nature.

For Targeted Public Distribution System it shall be the duty of State Government to take delivery of food grains from the designated depots of the Central Government in the state, at price specified in the Act; organize inter-state allocations for delivery of the allocated food grains through their authorized agencies at the doorstep of each fair

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62 Ibid., Section 15.
63 Ibid., Section 16 and 17 of chapter 7.
64 Ibid., Schedule I (Section 3(1), 22(1)(3) and 24(2)(3)).
price shop; and ensure actual delivery or supply of the food grains to the entitled persons at the prices specified in the Act. The cost of storage, transport and handling of food grains till it is finally delivered to the beneficiary will be borne by State Government.

State Government shall create and maintain scientific storage facilities at State, District, and Block levels, being sufficient to accommodate food grains required under the Targeted Public Distribution System and other food based welfare schemes. Expenditure on creation and maintenance of storage facilities will be of a non-recurring nature and will be borne by State Government. State Government may by notification, assigned additional responsibilities to local authorities in implementing Targeted Public Distribution System or other schemes of Central and State Government prepared to implement provisions of the legislation. Expenditure on strengthening of local authorities, required if any, will be borne by the State Government.

Every local authority, or any other authority or body as may be authorized by the State Government, shall conduct or cause to be conduct, periodic social audits on the functioning of fair price shops, Targeted Public Distribution System and other welfare schemes as cause to publicist its findings and take necessary action, in such manner as may be prescribed by the State Government. Expenditure on such social audits will be borne by the State Government. The Central Government may, if it consider necessary, conduct or cause to be conducted social audit thorough independent agencies having experience in conduct of such audits, expenditure for which will be borne by the Central Government.65

Setting up of Vigilance Committees at various level by the State Government for ensuring transparency and proper functioning of Targeted Public Distribution System. Expenditure on Vigilance

65 Ibid., Section 28.
Committees will be borne by State Governments and will be of recurring nature.  

Central Government, the State Government and local authorities shall, for the purpose of advancing food and nutritional security, strive to progressively realize the objective specified under the Act. Necessary efforts for realizing these objectives will be required to be taken by both the Central and the State Governments in their respective areas and they will also be expected to bear the corresponding expenditure. This Act shall not preclude the Central Government or the State Governments from continuing or formulating other food based welfare schemes. Expenditure for such schemes will be borne by respective Governments, in accordance with provisions of schemes.

The Central Government will bear the expenditure in relation to implementation of this Act in so far as the union territories are concerned. Apart from this, the expenditure will be involved in implementing the Act will also include expenditure to be meet out of budget of other Ministries or Department in order to operationalize the provision of the National Food Security Act, besides strengthening of the organizational structure for proper implementation.

v. Additional Expenditure Required

a. Food Subsidy

Food subsidy bill represents the basic direct cost incurred by the Central Government on procurement, stocking and supplying to various food based safety nets such as Public Distribution System. During the last ten years, food subsidy has more than quadrupled from Rs. 17494 crore in 2001-02 to 72823 crore in 2011-12 (Revised Estimate) at current prices. As a ratio of Gross Domestic Product-agri, it has increased from 3.6 per cent to 5.1 per cent in the same period. Increasing economic cost of handling of food grains, record

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66 Ibid., Section 29.
procurements in recent years and widening difference between the 
economic cost of food grains and the Central issue price have been the 
major factors leading to the ballooning food subsidy.

Pooled cost of grains (Minimum Support Price and bonus) 
accounts for two-thirds of economic cost of wheat and rice. Minimum 
Support Price for paddy and wheat have increased at a compound 
annual growth rate of 10.9 per cent and 8.6 per cent over the last five 
years (2007-08 to 2012-13 marketing sessions). The cost of 
production of rice and wheat have gone up by more than 45 per cent 
during last 3 years (2010-11 to 2012-13 marketing sessions), i.e., on 
an average, by about 15 per cent per year (according to cost 
projections made by Commission for Agricultural Costs and Prices 68 
based on comprehensive survey done by based on comprehensive 
survey done by Directorate of Economics and Statistics, Ministry of 
Agriculture). This is primarily due to sharply rising labour and energy 
cost, including fertilizers. There is an acute shortage of labour in 
agriculture that has suddenly cropped up in these 3 years. In some 
states, labour costs have gone up by more than 100 percent over the 
same period. Due to these rising costs the margin of production for 
farmers have been declining both for paddy and wheat.69 Therefore, 
government may have to raise procurement prices for rice and wheat 
to encourage farmers to increase production of these staples, as the 
cost of production of crops is rising, Minimum Support Price cannot 
be kept frozen. The increase in the food subsidy will primarily depend 
on the rate at which the Minimum Support Price for wheat and rice 
increases and the economic cost of handling grains (their 
procurement, stocking and distribution to the targeted households).

The procurement incidental (which includes market fee, 
development cess, Arhatia commission, cost of gunny bags, charges of 
State Government for storage and interest, etc.) contribute to around 
1/6 of the economic cost for both rice and wheat. A major

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68 Commission for Agriculture Cost and Prices.
69 Computed from CACP Cost projections (2009-12).
contribution to the increasing procurement incidentals is from the high rates of statutory levies imposed on the market by States like Haryana (11.5 per cent) and Punjab (14.5 per cent). These add to the cost of procurement for Food Corporation of India, which ultimately add to the food subsidy bill. The concentration of the procurement by Food Corporation of India in a few states leads to increased distribution cost for the Public Distribution System where the grains are sent to states like Uttar Pradesh, Madhya Pradesh and Rajasthan.

The difference between the economic cost and issue price is the consumer subsidy, which is reimbursed by the Central Government to Food Corporation of India. This segment has been increasing during the last 10 years, as despite increasing economic cost, the issue prices have remained unchanged since July 2000 for Below Poverty Line families, December 2000 for Antyodaya Anna Yojana households and July 2002 for Above Poverty Line families. In real terms, the current issue prices are around 55 per cent of the original Current Issue Prices implying that rice and wheat are available at almost half the price through the Public Distribution System.

b. Investments required for enhancement of agriculture productivity

One of the objectives of National Food Security Act relates to revitalization of agriculture. Based on the requirements under National Food Security Act, the production of wheat and rice need to be enhanced by 25 million tones. India has reaped a bumper harvest in 2011-12 and has procured a record 34.9 million tons of rice in Kudra Market Scheme 2011-12 and 38.1 million tons of wheat in Retail Market Scheme 2012-13. However, to sustain these levels of procurements, additional agricultural investment to increase production would be required.

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70 FCI, Figures for 2012-13 are budget estimates.
71 FCI, Ministry of Consumer Affairs, Food and Public Distribution.
c. Increased requirement of marketing and processing infrastructure

Government in Punjab and Haryana already procures almost 100 percent market arrivals of wheat and common paddy. Therefore, growth will have to happen in newer territories especially from Eastern States. Many of these states have a very scanty level of market infrastructure with lower market surpluses and handling per market. The states would then have to heavily invest in the market infrastructure to facilitate procurement. Presuming that the market and processing infrastructure will be required for an additional handling of 18 million tones and the additional investment in mandis will be to the tune of Rs 5000 crore for 3 years.\(^3\)

d. Increased requirement of storage/warehouse capacity

The increased level of procurement and distribution of the food grains as result of the Act will require higher storage and warehouse capacities.\(^4\) The implementation of the Act will require storage capacity addition between 22-32 million tons (current covered storage capacity is 45 million tons). Some rough estimates shows that the additional cost of storage infrastructure would be Rs 2500 to 18500 crore depending upon whether the government invests in soil or traditional storage. Indian railway too would have to invest in procurement of rolling stock.

e. Total expenditure over next three years

As per the calculations made within the Government set up, the food subsidy alone will cost the exchequer about Rs 95,000 crore to start with. If one count the other part of the Act, and associated set up etc. to get this moving through the existing channels of Public Distribution System, the Act may touch and expenditure of anywhere between Rs 125000 to 150000 crores. And if one adds to it the money

\(^3\) [http://agrioutlookindia.ncaer.org/events/Agrinews_February_2014.pdf> on 23/12/2014

\(^4\) NFSA, 2013, Section 31 (Schedule III).
needed to produce extra food grain on sustainable basis (the Ministry of Agriculture) indicates in its submission that an expenditure of Rs. 1,10,600 crores would be needed over a five years period if one is to ensure ample grain supplies on sustainable basis under the National Food Security Act. For the success of the Act in its current plan, this expenditure will have to be front load in the first 3 years, lest a severe drought upsets the entire calculations about legal commitment.

As explained earlier, the increase in the food subsidy bill, say over the next 3 years, will primarily depend upon at what rate Minimum Support Price for wheat and rice increases, and what is the economic cost of handling grains (their procurement, stocking and distribution to the targeted households). There is an acute shortage of labour in agriculture that has suddenly cropped up in the last 3 years. In some states, labour cost has gone up by more than 100 percent over the same period. Even if the Government raise Minimum Support Price of rice and wheat by say 25 per cent over 3 years, the food subsidy bill will go up straight away as the costs of handling grains are also increasing at about 6 to 7 per cent a year.

At present, the largest contributor of food grains to the Central Pool is Punjab. However, Punjab imposes 14.5 per cent statutory levies (taxes, commissions, cess, etc.) on the top of the Minimum Support Price for any procurement of grains being done from the states. Suppose, Punjab decide to raise these statutory levies to 20 per cent, and other states that contribute to the Central Pool also follow suit raising their taxes and cess etc. from 5 per cent to 20 per cent. With a procurement target of 60 to 70 million tonnes and procurement prices having been raised by say 25 per cent to the next 3 years, taxation burden too will increase over a 3 years period. This is presuming that labour costs in Food Corporation of India do not


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escalate much. Any increase would add further to the cost, and so would be the cost of setting up extra logistics, from railway to storage. Crude back of the annual calculation is that it would add another 10,000 crores per year. Therefore, the total financial expenditure entailed will be around Rs 682,163 crores over a 3 year period.  

V. Microeconomic Impact on National Food Security Act provisions

i. Increase in Subsidies: Subsidies vs. Investment

As already discussed in earlier section, National Food Security Act would requires huge funds and thereby huge subsidies by the Central Government. The source for these subsidies could be increasing fiscal deficit, additional revenue generation or shift of funds from investment to subsidies. Green Revolution was not an outcome of subsidies but rather of enhanced investment in technology, institutions (Research and Development) communication and physical infrastructure. Public investment in agriculture as a percentage of agri- Gross Domestic Product has increased from 1.8 per cent in 2000-01 to 3.4 per cent in 2010-11. However, input subsidies, as a percentage of agri- Gross Domestic Product, have increased at a faster pace than public investment, from 8.9 percent in 2000-01 to 17.2 per cent in 2009-10. Together, only food and fertilizers subsidies, as a ratio of Gross Domestic Product (agri) accounted for 12.4 per cent in 2010-11 up from 6.0 per cent in 2000-01 in comparison, public investment in agriculture is only around ¼ of this, which is reflective of the imbalance between use of subsidies and investments as policy instrument for agriculture growth. It may be worth noting here that during the last three Five Year plans, agricultural growth has failed to achieve the modest targeted growth of 4 per cent.

78 Directorate of Economic Statistics (DES), Ministry of Agriculture and CSO.
ii. **Forcible low-level equilibrium trap for Indian agriculture**

The structural composition of agriculture has been evolving over the years. Currently, cereals constitute only about one fifth of the total value of output from agriculture and allied sector, which is less than the contribution from the livestock sector and almost equal to the fruits and vegetables. The share of fruits and vegetables and livestock has shown and increasing trend in recent years implies that they have been growing at a much faster rate than the traditional crops sector. Given the rising share of high value commodities in the total value of agricultural output and their growth potential, this segment is likely to drive agricultural growth in the years to come. Being highly perishable in nature, this segment requires faster and better linkages between farms and firms in the logistics, processing and organizing retailing.

The Act's focus on rice and wheat goes against the trend for many Indians who are gradually diversifying their diet to protein-rich foods such as dairy, eggs and poultry, as well as fruits and vegetables. There is a need for a more nuanced food security strategy, which is not obsessed with macro-level foodgrains and with National Food Security Act is clearly reversing the movements of Indian Agriculture from high value items to foodgrains. This will trap the Indian agriculture sector in a low-level equilibrium trap, as returns are generally higher in high value agriculture. However, a faster movement towards high value agriculture needs large investments infrastructure and risk unification strategies. The National Food Security Act is likely to show down this natural process, and at places even reverse this trend.

iii. **Restricted Private initiative in Agriculture**

In pursuit of the food sufficiency regime a regulatory framework has been created with massive government intervention in terms of policing powers under the Andhra Pradesh Municipal Corporation Act and Essential commodity exchanges etc. this will be even further
tightened to enable government to carry out its procurement functions now. A combination of the quantum of public procurement and a stringent regulatory framework would drive the private sector out of the food grains sector.

For example, Punjab experienced an increasing rate of growth for about 25 years, but from 1997-98, Punjab has experienced a declaration in its rate of growth. Cultivation of high-yielding varieties of paddy, particularly under assured-tube well irrigation has resulted in an alarming depletion of the underground water table, decline in soil fertility, an increased incidence of insect pests, weeds, and increased resistance towards use of chemical inputs, and decelerating rates of growth in yields. Further, almost complete takeover by state of the foodgrain markets caused much of the private sector to withdraw and there was not much moderation and scaling up of its agro processing (mills etc.) and storage infrastructure. Punjab rice and wheat may not be even globally competitive without large subsidies through free power and water. It is surviving on government support and without much value addition. As a result, Punjab's agri-Gross Domestic Product growth during the decade of 2000 remained pitiably low at less than 2 per cent.

Gujarat, in contrast, has focused on commercial crops and diversified into non-farm activities like milk, alone with a strong focus on investments in value adding infrastructure. This holds the key to the stupendous growth in agriculture of more than 9 per cent per annum witnessed during the decade of 2000. Gujarat remained almost free from any large-scale government intervention and regulation, and leveraged its private entrepreneurs to drive growth. Through incentives to attract private sector by providing a favorable investment climate, several non-farm income generating employment opportunities have created in rural areas supplementing rural income.
iv. State takeover of food grain economy would cripple competition

Since 2006-07, the procurement levels for rice and wheat have increased manifold with more than one-third of the total production procured for Central Pool.\(^7\) This will be even more pronounced if procurement is taken as a share of marketed surplus—more than 40 per cent for rice and more than 50 per cent for wheat. Currently, piling stocks of wheat with Food Corporation of India has led to an artificial shortage of wheat in the market in the face of a bumper crop. Wheat prices have gone up in domestic markets by almost 20 per cent in the last three years alone, because of these huge stocks with the government that has left very little surplus in markets apart from imposing a huge additional cost to procure, store, transport and distribute grains, increasing public procurement strangulates the domestic grain market.

v. Inflationary pressure on food prices

India has recently been experiencing high food inflation in the face of record production of foodgrains, robust buffer stocks and growing resilience of agriculture to monsoon uncertainties. A distinct feature of recent food price inflation has been the sustained price pressure in protein rich items (pulses, milk, fish, meat and eggs). According to Reserve Bank of India, the inflationary impact of National Food Security Act will depend on the extent to which it will raise demand for foodgrains relative to the normal increase in supply. This will create demand pressures, which will inevitably spillover to market prices of foodgrains. Furthermore, the higher food subsidy burden on the budget will raise the fiscal deficit, exacerbating macro level inflationary pressure.\(^8\) Additionally, the need to procure large amounts would need a consistent rise in Minimum Support Price of the foodgrains to incentivize their production function fuelling the

\(^7\) Report of Department of Food and Public Distribution, 2011-12.
inflationary pressures. This will create further microeconomic imbalances.

National Food Security Act focus on cereals is likely to induce severe imbalance in the production of oilseeds and pulses, resulting in substantial imports in the coming years. Assured procurement gives an incentive for farmers to produce cereals rather diversity the production basket. Import intensity will intensify at higher prices creating inflationary pressures. Vegetable production too may be affected—pushing food inflation pressures. Vegetable production too may be affected—pushing food inflation further.

vi. Impact on 'Absorption' pillar of food security

National Food Security Act also aims at improving the nutritional status of the population especially of women and children. However, studies have shown that the challenge of improving absorption lies in linking nutrition with health, education and agriculture interventions. Access to sanitation facilities and women’s literacy in particular are found to be strong factors affecting malnutrition. The Indian government has recognized malnutrition as a serious problem in every plan document. However, a pressing issue is the absence of a comprehensive and functioning National nutrition strategy. Direct nutrition intervention through the special nutrition programme under the Integrated Child Development Scheme; now called the Supplementary Nutrition Programme and the Mid-Day Meals Scheme and currently in force to address the nutritional needs of children and women and would continue to be the channels through National Food Security Act. It needs to be recognized that malnutrition is a multi-dimensional problem and needs a multi-pronged strategy. Women’s education, access to clean drinking water, availability of hygienic sanitation facilities are the prince prerequisites for improved nutrition. If we include the costs to create such rural and

81 NFSA, 2013, Section 4 & 5.
urban infrastructure, enormous financial expenditures and effective strategies are required.

VI. Exploring Conditional Cash Transfer as an alternative Model

For decades, India has largely followed a ‘price policy’ approach to achieve essentially, what are equity ends. It has subsidized food (rice and wheat) and agricultural inputs (fertilizers, power, cannel water, etc.) so that poor consumers and small farmers can have economic access to these. However, the ground evidence suggests that this may not be the best way to achieve equity objectives. It has led to major distortions in grain markets, high cost in handling grain and large scale diversions of wheat and rice to non-targeted groups. These have resulted in large ‘efficiency losses’ without achieving commensurate results on equity front.

Literature on best practices around the world shows that ‘income policy’ approach rather than ‘price policy’ is more efficient in achieving equity ends and this has been adopted successfully by many countries across the world. Specific criticism on untargeted subsidies arise from the fact that (i) the benefits from general subsidies are often regressive; (ii) the administrative costs of subsidy schemes can be high; (iii) subsidy schemes are particularly open to corruption and mismanagement; (iv) subsidy can distort the market through crowding out private traders and distorting the incentive for producers; (v) subsidy, especially those that benefit the non-poor, can be popular and difficult to eliminate, given large constituencies opposed to change; and (vi) subsidy can pose an increasingly heavy burden on the government budget when placed on items (e.g., food and fuel) in times of increasing domestic or international price.\(^82\)

Arguments in favour of Conditional Cash Transfer stress that they contribute to economic growth and make it more inclusive in two

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ways. First Conditional Cash Transfer motivate and enable parents to invest in their children's education and health, thus improving the potential for children to "break out" of the cycle of poverty. Second, to the extent that there are positive externalities from household level investment in Human, these positive externalities will accrue to society as a whole. Conditional Cash Transfer are arguably more efficient than general subsidies, and overtime data basis and mechanisms can be developed to improve targeting efficiency. 83

It is imperative that India learns from the social safety net experiences across the world and evolves an innovative strategy that is based on more effective and appropriate policy instruments to enhance social and economic welfare. It is high time to revisit the food grains policy with movement from physical handling and distribution of food grains to cash transfers/food coupons/smart card linking it with 'Aadhar'. This will be in line with changing consumption patterns, will avoid the need to keep 80 million tones of stocks, and help cut down the costs of storage and taxes on procurement, avoid duplication of beneficiaries and therefore being much more efficient and quick in reaching the poor. Pilot projects in India that tested cash transfer/smart card system, have shown drastic reduction in leakages as compare to the existing Public Distribution System, which, in case of cereals, go as high as 40 per cent.

VII. Sum Up

The above analysis shown that it is imperative that we look at the entire system of food production, food procurement and the release and distribution of food for achieving food security. Trying to correct one segment of this complicated system is likely to end up in failure or, at best, and limited success. While food grains are central to food security, diversifying demand patterns need to be appreciated for holistic approach to food and nutritional security. It has to be appreciated that the issue of food security is not so much about

83 Ibid.
availability of food grains but more the composition of the overall food
basket as observe in changing consumption patterns. In light of the
issues raised earlier, the long-term feasibility of the envisaged strategy
under National Food Security Act needs to be carefully debated in
national interest.

The role of Food Corporation of India needs to be redefined and
should be limited to managing buffer stocks and welfare programmes,
price stabilization and imports, exports and market intervention for
price stabilization and contingencies. In order to include efficiency and
enable equitable distribution in the entire supply chain of
procurement to delivery (which should also include productivity
enhancement for increasing the basket size) there is a huge scope for
private sector participation either by itself or in Public Private
Partnership mode. Increasing the coverage and scope of the Public
Distribution System will result in escalating operational stocks, which
would strangulate food grains trade in the country.

It needs to be recognized that malnutrition is a multi-
dimensional problem and need a multi-pronged strategy. The
challenge of improving absorption lies in linking nutrition with health,
education and agriculture interventions. Women’s education, access
to clean drinking water, availability of hygienic sanitation facilities are
the prime prerequisites for improved nutrition. To begin with, an
effective convergence of schemes like Mid-Day Meals, Integrated Child
Development Scheme etc. can be attempted. Conditional Cash
Transfer have been widely adopted across the world for social welfare
needs with statistically significant improvements. India needs to adopt
these schemes to its specific needs and gradually move towards
Conditional Cash Transfer if it wants to achieve food and economic
security for its people. In addition, for this to happen, the National
Food Security Act needs to be flexible allow experimentation on those
line, starting with cities and cereals surplus states. Only then, it is
hoped, that National Food Security Act will be able to achieve its
objectives more efficiently and on sustainable basis. The biggest benefit of using this Conditional Cash Transfer, or in other words, income approach in place of price approach to achieve equity ends, will be that it will not adversely affect the functioning of agri-markets and the natural process of agri-diversification. This will go a long way in propelling efficiency based and demand driven growth of agriculture. This, in turn, wills mainstream many millions by raising their productivity and augmenting income. That will provide long-term food and nutritional security.

The Act is related to the reforms in the Targeted Public Distribution System. In this, government has suggested and mentioned some steps towards reforms such as doorstep delivery of food grains, implementation of communication technology, leveraging ‘Aadhar’ for unique identification, transparency of records, participation of public institutions in licensing in fair price shops, introducing schemes of cash transfer, food coupons etc. As per the latest available data 58.86 crore ‘Aadhar’ cards are issued by 25th February 2014. However, in 2013 the Supreme Court of India has made ‘Aadhar’ cards non-mandatory for getting social benefits. Here government will have to rethink about unique identification of the targeted beneficiaries of food security.

Government has also mentioned about cash transfer in case of non-availability of food grains. As per planning commission, around 58.7 per cent households avail banking facilities. If we assume that all the Above Poverty Line category households has access to banking services then around 4.6 per cent (58.70 per cent - 54.11 per cent) households from poor class has banking facilities. This reveals that out of 45.89 per cent of the poor, only 4.6 per cent has bank account, which is just 10 per cent of the poor population. Around 90 per cent

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84 Section 12 of NFSA, 2013.
poor do not have bank account, then how the government will pass on the benefit to them?

Computerization of all Fair Price Shop for implementation of communication technology is itself a big challenge because there are 515108 Fair Price Shop. Many of those might be in remote areas where electricity and internet facilities will be required. The computerization of all the Fair Price Shop should be done for proper implementation of National Food Security Act. Besides this government has also suggest providing doorstep delivery of food grains. This will require well established delivery system having proper data base of every ration card holder with their address. This type of mechanism requires highly secure and transparent delivery system. Government should be in opposition to confirm that the delivery of the food grains has reached to the right person also it may increase the scope of diversion of the food grains, before it reaches to the actual beneficiaries.