

Implications of National Food Security Ordinance (NFSO)

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Abstract

The implications of National Food Security Ordinance (2013) for farmers and government, and impact on production and consumption pattern have been examined. The study also analysed the trends on food subsidy, production and procurement of foodgrain and storage capacity. The analysis shows that the Ordinance may become adverse to the farmers due to price disadvantage, particularly for small and marginal land holders. Presently, the low procurement rate in total cereal production (one third of total production) and poor storage facilities forced the farmers to sell their produce at open market for a lesser price than the minimum support price. In addition, the proposed subsidised price of rice and wheat would significantly and negatively influence the market price resulting in profit reduction. On the other hand, the food subsidy burden is expected to increase enormously from INR 0.58 lakh crores in 2010-11 to INR 1.24 lakh crores in 2013-14, further widening the fiscal deficit. The mammoth pressure on procurement and handling of foodgrains is also a key concern. Despite 42 mt storage capacity of FCI, about 56 mt of rice and wheat was procured for the central grain pool during 2010-11 leading to a huge wastage. Unless otherwise additional storage facilities are created shortly, under the NFSO the wastage is bound to increase as the government is expected to procure about 75 mt per year. Further, the states takeover of the food economy would shrink the efficiency and crowd out private sector competition. Another major implication of the Ordinance is that cereal centric approach would put pressure on non-cereal crops and would affect the food diversity both in terms of

production and consumption. Although the Ordinance has been notified with the right intention of securing food for the poor, swift introduction and lack of nation's ground work for such a massive welfare programme indicates the weakness outweighing its benefits.

Keywords: Food security ordinance; implications; food subsidy burden; farmers.

1. Introduction

Despite, India's leading position in producing several agricultural food commodities, the mission of ensuring food and nutrition security to all households remains a daunting task (Gulati et al, 2012). As per the estimate from the Food and Agricultural Organisation, about 217 million undernourished people live in India accounting for about one-fourth of global undernourished people. In a developing populous economy like India embedded with several production challenges, sustainability in food production, access to food and gradual elimination food insecurity becomes mandatory for its economic development. The National Food Security Bill which was drafted in the early 2011 has been notified as the National Food Security Ordinance in the recent past with few modifications. The main objective of the Ordinance is to ensure food security with the understanding that foodgrains access to households will fulfill about four-fifth of the total calorie intake (Nasurudeen et al, 2006). As per the Ordinance, 75 and 50 per cent of rural and urban Indian population respectively shall be entitled to highly subsidised foodgrains. Households have the right to get 5 Kg per month of foodgrains at subsidised rates (INR 3 per Kg of rice, INR 2 per Kg of wheat and INR 1 per Kg of coarse grains) through the Targeted Public Distribution System (TPDS). Apart from this, the poorest of the poor will be receiving 35 Kg of foodgrains every month under Antyodaya Anna Yojana at subsidised rates. However, the significant initiative by the Indian government has several implications for farmers and government, and, production and consumption pattern. It raised many pertinent questions which needs rational answers. What kind of significance it will make with respect to farmers and consumers? Will the current economy shoulder the fiscal burden owing to rising food subsidy? Would the current procurement and distribution system enable to achieve food security?. What will be impact on the existing production and consumption pattern? A concerted effort has been made in this paper to elaborate the prospects and challenges of the economy with respect to the Ordinance.

2. Data and Methodology

The study is mainly based on the secondary data. The data on food subsidy, foodgrain production, procurement and minimum support price had been collected from the various ministries' website published by Government of India. The information on per capita consumption of foodgrain had been extracted from the National Sample Survey

Organisation (NSSO) reports. Simple tabular and percentage analyses have been used in the study to draw the conclusions.

3. Results and Discussion

3.1 Trend in production and procurement of foodgrains and impact on farmers

Perusal of Table 1 shows the trend in foodgrain production, procurement and minimum support price (MSP). The production of rice and wheat has increased from about 155 mt in 2000-01 to 199 mt in 2011-12. Although the procurement has increased, it has not matched with the production. On an average, the procurement for both rice and wheat was hovering around 30 per cent of production. The rest of the production was sold in the open market along with farmers' retention for home consumption and seed. The large farmers with better infrastructure facilities for storage and transport could manage their products at reasonably good prices. However, resource poor small and marginal farmers often forced to sell their products to the middleman or traders at much lower prices than the MSP. Dev and Rao (2010) also reported that price realised to MSP was about one for wheat and rice during the 2000s and some of the years, even it was less than the one for rice. In the face of this scenario, the implementation of NFSO would have significant impact on the market prices. As the rice and wheat would be available at INR 2-3 per Kg, the market prices are expected to decline than before and hence farmers' profit would be devastated.

Table 1: Production procurement and minimum support price of major foodgrains (mt).

Years	Production (mt)		Procurement (mt)		Share of procurement in production (%)		MSP (INR/Qtl)	
	Rice	Wheat	Rice	Wheat	Rice	Wheat	Paddy	Wheat
2000-01	84.98	69.68	22.08	20.63	26	29.61	510	610
2001-02	93.34	72.77	16.41	19.02	18	26.14	530	620
2002-03	71.82	65.76	22.9	15.8	32	24.03	550	620
2003-04	88.53	72.15	24.67	16.8	28	23.28	550	630
2004-05	83.13	68.64	27.58	14.79	33	21.54	560	640
2005-06	91.79	69.35	25.11	9.23	27	13.31	570	650
2006-07	93.35	75.81	28.74	11.13	31	14.68	620	750
2007-08	96.69	78.57	34.1	22.69	35	28.88	745	1000
2008-09	99.18	80.68	32.03	25.38	32	31.46	900	1080
2009-10	89.13	80.8	34.2	22.53	38	27.88	1000	1100
2010-11	95.98	86.87	35.06	28.34	37	32.62	1000	1170
2011-12	104.32	94.89	32.44	38.15	31	40.21	1080	1285

Source: Data compiled from the Ministry of Agriculture and Ministry of Consumer Affairs, Food and Public Distribution (Government of India).

3.2 Trend in food subsidy

The food subsidy had increased more than three times in the last decade and it shared a significant amount (about 40-50 %) of total subsidy (Table 2). Rise in MSP, high off-take of foodgrains for TPDS and inefficient functioning of Food Corporation of India (FCI) were the major sources for increasing food subsidy. It is to be noted that in spite of limited storage capacity (37.73 mt both in covered and, cover and plinth in 2013) with FCI, the government continues to procure more than the available storage capacity and leads to wastage of foodgrains. As foodgrain procurement increases over the years, the wastage is bound to increase unless immediate storage capacity is created. However, the increased storage facility also would result in higher cost of food subsidy. During 2001 to 2012, out of 47 quarters, 37 quarters of wheat and 43 quarters of rice stocks were excessive of foodgrain buffer stocks norms and there was a high correlation between the excessive stocks and food subsidy as storage cost was high during that year (Sharma, 2012). In addition, Gulati et al. (2012) study projected that under the NFSO the government had to incur about INR 1.25 to 1.50 lakh crore in 2013-14 and about INR 6.28 lakh crore in next three years. It clearly indicates the government's subsidy burden would increase enormously and widen the fiscal deficit, consequently would affect the stability of the economy. Besides, excessive involvement of government in food economy would effectively crowd out the private sector competition and overall efficiency of food management would be declined.

Table 2: Trend in Indian food subsidies.

Year	Food subsidy (INR crore)	Change over previous year (%)	Total subsidies (INR crore)	Share in total subsidies (%)
2001-02	17499	-	31193	56.1
2002-03	24176	38.16	43560	55.5
2003-04	25181	4.16	44333	56.8
2004-05	25798	2.45	45986	56.1
2005-06	23077	-10.55	47484	48.6
2006-07	24014	4.06	57176	42.0
2007-08	31328	30.46	70878	44.2
2008-09	43751	39.65	129825	33.7
2009-10	58443	33.58	141508	41.3
2010-11	63844	9.24	173489	36.8
2011-12	72823	14.06	216092	33.7
2012-13	75000	2.99	189873	39.5

Source: Adapted from Sharma (2012).

3.3 Growth pattern in foodgrain production

From the Table 3 it is clearly visible that decadal growth rate has declined for all crop groups during 1950's to 2000's. In particular, pulses had witnessed a highest drop in

the growth rate. Under the NFSO, the importance has been given for rice, wheat and coarse grains. It may result in two types of consequences. First, it is expected that the government may launch or continue the existing incentive programmes to produce more cereals in order to meet the additional requirement for PDS; therefore the production pattern may be shifted or biased towards cereal crops. It would further worsen the pulses production which is already dwindling less than one per cent growth rate. On the other hand, the farmers may not be keen to produce cereals, especially small and marginal land holders. Because, they have been offered cereals at subsidised rate through PDS and they may shift towards non-cereal crops.

Table 3: Estimated growth in foodgrain production (in per cent).

Period	Rice	Wheat	Total cereals	Pulses	Total foodgrains
1950-51 to 1959-60	4.46	5.17	4.27	4.10	4.24
1960-61 to 1969-70	1.19	6.82	2.33	-1.29	1.85
1970-71 to 1979-80	1.90	4.31	2.33	-0.39	2.07
1980-81 to 1989-90	3.62	3.58	2.85	1.49	2.73
1990-91 to 1999-00	2.02	3.57	2.20	0.86	2.10
2000-01 to 2009-10	1.59	1.89	1.85	2.68	1.90
Overall	2.56	4.72	2.69	0.59	2.47

Source: Authors estimation based on the data available at www.indiastat.com

3.4 Consumption pattern of foodgrains

The Ordinance has a serious implication on the existing pattern of cereal consumption in general and rice and wheat in particular. Perusal of Table 4 indicates that over the past four decades, the rural and urban per capita consumption of cereals have declined sharply despite the narrowing of rural-urban differential (Nasurudeen et al, 2006; Sendhil et al, 2012). Among the cereal food items, consumption of coarse grains witnessed a drastic reduction both rural and urban India. Nasurudeen et al. (2006) observed that the consumption of coarse grains was replaced by fine grains (rice and wheat) and subsequent replacement of fine grains by non-cereals with the exception of wheat in rural India. The plausible reason was the availability of the nutritious cereal for the rural masses. Similarly, the entitlement of subsidised rice, wheat and coarse grains will increase their per capita consumption. Further, thrust on production and procurement will be targeted for coarse grains apart from rice and wheat, the principal crops of India. However, it may have a deleterious effect too. Providing the neglected coarse grains or ignoring their consumption may lead to huge inventory loss.

Table 4: Per capita consumption of cereals (Kg/month).

NSS Round	Rural India			Urban India		
	Rice	Wheat	Total Cereals	Rice	Wheat	Total Cereals
1972-73 (27th)	6.59	3.88	15.26	4.94	4.82	11.24
	(43.18)	(25.43)	-	(43.95)	(42.88)	-
1977-78 (32nd)	7.12	4.05	15.68	5.48	4.87	11.62
	(45.41)	(25.83)	[2.75]	(47.16)	(41.91)	[3.38]
1983-84 (38th)	6.63	4.46	14.80	5.32	4.82	11.30
	(44.8)	(30.14)	[-5.61]	(47.08)	(42.65)	[-2.75]
1987-88 (43rd)	7.04	4.94	14.97	5.35	4.98	11.19
	(47.03)	(33)	[1.15]	(47.81)	(44.5)	[-0.97]
1993-94 (50th)	7.00	4.40	13.40	5.28	4.72	10.63
	(52.24)	(32.84)	[-10.49]	(49.67)	(44.4)	[-5.00]
1999-00 (55th)	6.78	4.55	12.72	5.22	4.77	10.42
	(53.30)	(35.77)	[-5.07]	(50.1)	(45.78)	[-1.98]
2005-06 (62nd)	6.54	4.35	11.92	4.79	4.53	9.76
	(54.87)	(36.49)	[-6.29]	(49.08)	(46.41)	[-6.33]
2006-07 (63rd)	6.56	3.97	11.69	4.80	4.43	9.63
	(56.12)	(34.00)	[-1.93]	(49.84)	(46.00)	[-1.33]
2007-08 (64th)	6.36	4.12	11.68	4.75	4.51	9.68
	(54.45)	(35.27)	[-0.09]	(49.07)	(46.59)	[0.52]
2009-10 (66th)	6.00	4.24	11.35	4.52	4.08	9.37
	(52.86)	(37.36)	[-2.83]	(48.24)	(43.54)	[-3.20]

Note: Figures in parentheses indicate the percentage to total cereals and square bracket indicates percentage change over previous row. Source: Data compiled from Nasurudeen et al. (2006) and Sendhil et al. (2012).

4. Conclusion

India's food policy and food security are much linked with the production, procurement, stocks and its distribution. With the Ordinance being notified recently, the country has come under attack owing to the implications on farmers and government coupled with the existing pattern on production and consumption. The Ordinance is expected to be antagonistic to the farmers since it ignores stiff market competition between public and private and will strictly rule out the private sector in procurement. With the current overall low procurement rate which is specific to a group of states and additional thrust on foodgrain production, the Ordinance will add more pressure to the storage stocks which is already beyond the existing norms. Further, the entitlement to subsidised foodgrains at the cost of huge food subsidy will increase the fiscal deficit. The cereal centric Ordinance will exert a pressure on nutritional security which can be ensured by supplementing non-cereals along with

cereal food items. Despite the country's aim to ensure food security for all in the right spirit, lack of appropriate bench work embedded with poor distribution system and escalated food subsidy may hamper the harvest of the welfare benefits of the Ordinance.

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