REINING IN BOGUS CLAIMS

According to the Medium-Term Expenditure Framework [MTEF] statement recently released by the Finance Ministry, the alarming food subsidy bill of the Central Government is projected to increase from Rs 145,000 crore during the current year to Rs 175,000 crore during 2018-19 and further to Rs 200,000 crore during 2019-20.

◆ By Uttam Gupta

A depiction of food wastage in india.

The food subsidy bill projections come as a big disappointment. The food subsidy, a big resource guzzler next only to interest payments and pensions, ought to be right on top of the Modi Government's reforms agenda. Considering that such an assessment has been made less than two years before the NDA regime's term comes to an end implies that no reform is in the offing till 2019.

What has gone wrong? Has the Government made corrective moves in this direction? Or things have gone haywire on ground zero.

The maladies afflicting India's food sector can be broadly categorized in four heads: (i) a good chunk of food subsidy is allegedly appropriated by corrupt bureaucrats, politicians and dubious traders, (ii) the subsidy on each kg of food sold under the National Food Security Act [NFSA] is unusually high, (iii) a large number of rich/better-off households continue to be the beneficiaries of the subsidy and (iv) the extant system of procurement, handling, storage and distribution led by the Food Corporation of India [FCI] is reportedly riddled with monumental inefficiencies and high cost.

The Government's attention thus far has been focused on implementing a nation-wide programme of monitoring transactions at fair price shops [FPSs].

Electronic point of sale (ePoS) machines are being installed at these shops and the Aadhaar-seeding of ration cards made mandatory. While the former helps in preventing manipulation of purchase and sale and in turn, diversion of grains to the open market, the latter ensures that the beneficiary is genuine.

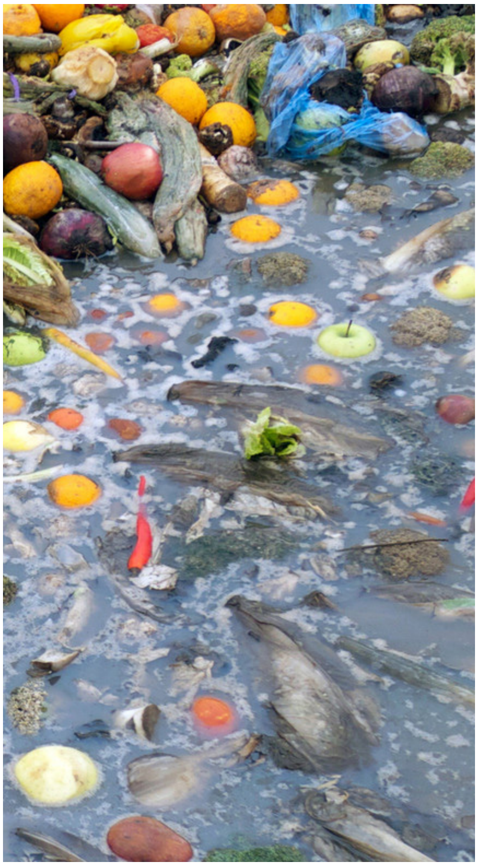
GOOD RESULTS

The effort is yielding good results. For instance, in Haryana after all 9,500 FPSs were ePoS-enabled, around three million out of a total of 12.4 million persons covered under the NFSA have been identified as bogus beneficiaries. In Rajasthan after 25,000-odd FPSs were ePoS-enabled last year [September], the beneficiaries have declined by about 20%. Other States which have come under its fold are Madhya Pradesh, Tamil Nadu, Andhra Pradesh and Chhattisgarh.

When e-PoS machines are installed in all States, this would yield a saving of about Rs 14,500 crore or 10% in the total food subsidy bill for 2017-18. Seen in isolation and considering that no previous government ever bothered to look into this, the amount may look significant but it is still small in the overall subsidy.

Sadly, the Government has not yet attended to the other three maladies which contribute in large measure to the galloping food subsidy. Under the NFSA, food is sold at a throwaway price of Rs 1/2/3 per kg for coarse cereals, wheat and rice. The cost of making

ALONE IS NOT REFORM



it available to consumers [the minimum support price plus the handling, storage and distribution cost] is at least 10 times higher. The entire difference is reimbursed as subsidy by the Union Government.

A MUCH BIGGER PROBLEM

The sale price close to almost zero is the surest invitation to skyrocketing the subsidy. This apart, a much bigger problem waits in the wings and there is an element of inevitability about it. When the price of reasonable quality rice in the market place is a minimum Rs 50 per kg and public distribution system [PDS] supplies under the NFSA are available at a mere Rs 3 per kg, there exists a strong incentive for dubious operators to divert and sell ration shop rice in the open market.

A well-orchestrated system involving all key stakeholders viz. bureaucrats, politicians and officials of State agencies is bound to emerge and fully utilize this arbitrage opportunity and sharing of the bonanza. While one can plug leakages at the FPS level by installing the e-PoS, it may not be possible to prevent it at the higher level, especially in view of the huge money involved. For instance, last year there were reports of disappearance of stocks worth Rs 20,000 crore in Punjab.

Under the NFSA, about 2/3rd of India's population [75% in rural areas and 50% in urban ones] is entitled to subsidized food. Taking the current population of 1,300 million, the coverage comes to a whopping 867 million. Surely, this cannot be the number of poor persons in India who alone should qualify for the benefit of subsidized food. Such a large number which includes millions of better-off/higher income persons will only increase the burden of food subsidy.

With respect to the fourth head, under existing arrangements, the FCI and other State agencies are compensated for the cost of handling, storage and distribution on an "actual" basis. This acts as a convenient cover for "inefficiencies" in operations besides incentivizing cost padding. It opens up a Pandora's box for nepotism and corruption. One could think of reimbursing these agencies on the basis of "norms" but that seems to be far from the government's radar.

SHANTA KUMAR PANEL SUGGESTIONS

The three areas cry for major reforms, yet these have not received the requisite attention. In early 2016, a committee headed by Shanta Kumar, a senior BJP leader, had recommended (a) reduction in coverage under the NFSA from the existing 2/3rd to 40%; (b) restricting the eligibility of subsidized [albeit heavily] food viz. Rs 1/2/3 per kg only to the poorest of poor households included in the Antyodaya Anna Yojna [AAY] and (c) making the rest pay 50%

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of the MSP paid to farmers. The committee had also mooted increased focus on decentralized procurement and distribution of food, especially in the surplus producing States, besides participation of the private sector in marketing. Unfortunately, none of these recommendations have been taken on board.

An ideal regime would require dismantling of the extant system [this is virtually a monopoly dominated by State agencies] to make way for competitive markets involving the participation of the private sector and Direct Benefit Transfer [DBT] of the subsidy. The amount of subsidy to be restricted only to the poor i.e. 25-30% of the population – should be credited to the account of a beneficiary who must have the freedom to buy from a shop/outlet of his/her choice.

While it may not be possible to immediately latch on to this regime, the government could make a beginning by implementing the Shanta Kumar Committee package. This will bring about significant savings in the subsidy and its better targeting.

But even this does not seem to be in the offing. The subsidy projections for 2019-20 in MTEF say it all. ■

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