

# Report Summary

## CACP Report on the National Food Security Bill

- The Commission for Agricultural Costs and Prices (CACP) presented a paper on the National Food Security Bill, 2011 in December 2012. In its report, the CACP analysed issues in the Bill, including the operational and financial implications of the Targeted Public Distribution System (TPDS).
- The Bill seeks to deliver food security by providing specific entitlements to certain groups of individuals through the TPDS, a large-scale subsidised grain distribution system. Beneficiaries are categorised into priority and general groups, and are entitled to different quantities of foodgrains at subsidised prices. The Bill also confers legal rights on women, children and other special groups such as destitute, homeless, disaster-affected, starving and emergency affected persons to receive meals free of charge or at affordable prices.
- The Bill makes the right to food a legal right. The CACP was of the opinion that making foodgrain available on a sustained basis may become a constraint given current trends in foodgrain production and yields. Considering the government already procures one-third of the cereal production every year, it also felt that any increase in procurement could have adverse ramifications on the cereal market.
- The CACP opined that operational expenditure of the TPDS would increase under the Bill given the system's inefficiencies (leakage, diversion, pilferage, etc.). The food subsidy would also increase due to the following factors: (i) a lower central issue price of grain (price at which the central government issues wheat and rice to the state governments under TPDS), (ii) a significant increase in the number of entitled beneficiaries, and (iii) the need to keep raising the Minimum Support Price (MSP) to cover the rising costs of production and incentivising farmers to increase production. The CACP calculated the food subsidy to be between Rs 1,25,000 crore to Rs 1,50,000 crore as compared to the government's estimate of Rs 95,000 crore. Moreover, it estimated the total cost of implementing the Bill at about Rs 7 lakh crore over a period of three years.
- The CACP also mentioned that cash transfers have proved to be an efficient alternative to deliver subsidies. It mentioned that globally, countries have moved away from the physical handling of grains and used alternatives. It recommended the government consider programmes in other countries such as Bolsa Familia in Brazil to "develop a more effective and appropriate policy instrument to enhance social and economic welfare". Moreover, it suggested that the Bill have inbuilt flexibility for states to experiment with such approaches.
- The CACP analysed some contentious issues in the Bill which are as follows:
  - i. **The need for food at the time of a crisis:** The Bill provides for a *force majeure* clause that provides immunity to both the centre and states for failure to provide foodgrains in certain conditions. Such conditions include droughts, floods, cyclones and earthquakes.

The CACP suggested restricting the clause to circumstances where all efforts to provide foodgrain fail due to lack of transportation by road and air. In addition, it noted that conditions such as droughts and floods are likely to increase in intensity and frequency due to the effects of climate change. It is in such conditions that market forces would fail and the poor and vulnerable would depend on the government to ensure supply of food. Therefore, it also recommended that the government remove drought from the list.
  - ii. **The Bill imposes a highly centralised model discouraging customised state level initiatives:** The Bill provides for a centralised procurement and distribution model. The centre shall decide: (i) criteria for selecting priority households, (ii) exclusion criteria, (iii) reforms in TPDS, and (iv) the price at which state governments will be required to sell the foodgrains to the entitled

persons, among other things. As per the CACP, this centralised model leaves little room for experimentation by states.

The CACP was of the opinion that with the Act coming into effect, several existing schemes currently being pursued by states will suffer. Currently, state governments can adopt their own PDS structures as the PDS is governed by the PDS (Control) Order, 2001 under the Essential Commodities Act (ECA), 1955. The PDS Order allows states such as Tamil Nadu (TN) to follow a universal PDS with no classification of beneficiaries. However, the Bill creates a new statutory framework governing PDS. Under this framework, TN would not be able to continue with its current system of universal PDS. PDS systems in states would first have to comply with the Bill and in the event of a conflict between the Bill and the ECA, the provisions of the former would override those of the latter.

Although the Bill allows state governments to design their own schemes, the CACP found this section to be ineffective. This is because the Bill imposes an obligation on the state government to procure foodgrains from the Food Corporation of India (FCI) only for TPDS, and procure for its own system separately. This would impose a financial burden on states as they would need to procure the remaining foodgrains at their own cost.

- iii. **Lack of sustainability of centralised procurement:** The Bill mandates that the central government procure foodgrains for the central pool while state governments are responsible for further distribution. According to the CACP, the stress on centralised procurement in the Bill is a regressive step to a model that has been found unsustainable and been subsequently replaced. De-centralised procurement was introduced in 1997-98 in view of the practical difficulties faced by the central government to procure grain on its own. Under decentralised procurement, states such as Madhya Pradesh and Chhattisgarh would assist in the procurement and distribution of foodgrains under the TPDS, helping augment the procurement of paddy and wheat.

- iv. **Consolidation of the existing ineffective food security complex:** According to the CACP, the Bill delivers food security through the existing PDS and procurement system, despite its established ineffectiveness and leakages. The estimated leakages from TPDS are as high as 40%. The CACP opined that the existing TPDS needs to be reformed for efficient delivery of foodgrains. However, the Bill specifies that such reforms are to be decided by the central government, which would bring ongoing PDS reforms in Chhattisgarh and Haryana to a halt.
- v. **Distribution of obligations between centre and states:** The Bill specifies that in case state governments are unable to supply foodgrains to beneficiaries, they are required to pay a food security allowance to beneficiaries. Such a provision would have large financial implications for the state governments.

According to the CACP, it is unclear how the state governments will distribute cash to beneficiaries without having developed a proper financial structure. The amount payable as food security allowance would be specified in the Rules. However, the Bill does not specify that the allowance has to be enough to allow beneficiaries to buy foodgrains at the subsidised prices from the market. If the allowance is in accordance with the subsidised prices (lower than market prices) mentioned in the Bill, then this monetary support during distress conditions, including *force majeure* conditions, would be insufficient to buy foodgrains from the market, when prices will be inflated.

- vi. **Cereal-centric approach:** The Bill only deals with the supply of cereals instead of diversifying demand patterns to include protein rich items. The CACP highlighted the latest consumption data of the National Sample Survey Organisation that shows that the per capita consumption of cereals in each decile expenditure group has been falling. Given that demand for non-cereal foods has been increasing, especially for edible oils, pulses, fruits, vegetables, and protein foods, the prices of such food will be inflated due to the imbalance in demand and supply of cereals versus other foods.

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