

Report Summary

Report of the Expert Committee on National Food Security Bill

(April 2011)

Background

On October 27, 2010 the National Advisory Council (NAC) submitted a draft National Food Security Bill to the Prime Minister. The Prime Minister set up an Expert Committee under Dr. C. Rangarajan to examine the Bill and make recommendations.

The NAC's proposed National Food Security Bill seeks to address nutritional deficiencies in the population. These deficiencies are illustrated by the following figures: 22 percent of the population is undernourished, 40.4 percent of children under three years are underweight, 33 percent of women aged 15-49 years have a below normal body mass index, and almost 79 percent of children aged 6-35 months are anaemic.

Main Features of the Bill

The Bill seeks to provide food security to a large proportion of the population. The main features of the proposed Bill include:

- Legal entitlement to subsidised foodgrains for 75% of the population (90% rural and 50% urban)
- Government of India to specify criteria for categorization of population into priority and general households
- "Priority" households (46% rural and 28% urban) to be entitled to 35 kg of foodgrains per month (7kg/person) at Rs 1/kg for millets, Rs 2/kg for wheat, and Rs 3/kg for rice
- "General" households (44% rural and 22% urban) to be entitled to 20kg of foodgrains per month (4kg/person) at a price not exceeding 50% of the Minimum Support Price (MSP)
- Minimum coverage, entitlement and price to remain unchanged until the end of the XII five-year plan
- 72% of the population to be covered in Phase I and 75% in Phase II. Phase II to be completed by March 31, 2014
- Legal entitlements for child and maternal nutrition as well as destitute and vulnerable groups
- Reform of the Public Distribution System (PDS) through computerisation and smart cards

The findings of the Expert Committee on the Bill are examined in the following sections.

Foodgrain Requirements

The NAC estimates that 49.36 million tonnes of foodgrains will be needed for Phase I and 55.59 million tonnes for Phase II. These figures are based on two assumptions: (1) 85 percent offtake for Phase I and 90 percent for Phase II and (2) a population for both phases equivalent to National Commission on Population projection for October 2010.

The Expert Committee is of the opinion that these estimates should be revised upwards, and gives two alternate scenarios. In both scenarios, population is estimated based on projections for the year in which each phase is to be implemented (October 2011 for Phase I and October 2013 for Phase II).

The first scenario revises the offtake projections to 95 percent for AAY and BPL households, and 85 percent for APL households. In this scenario, 54.04 million tonnes of foodgrains would be required for Phase I and 58.58 million tonnes for Phase II.

The second scenario revises the projections to 58.76 million tonnes for Phase I and 63.98 million tonnes for Phase II. This estimate is based on 100 percent offtake, which the Expert Committee feels is likely due to the low prices for grains proposed by in the Bill.

Table 1: Foodgrain requirements under different scenarios (in millions of tonnes)

| | NAC | | EC Scenario 1 | | EC Scenario 2 | |
|---------------------------|-------------------------------|-------|--------------------------------|-------|---------------|-------|
| Offtake | Phase I: 85% Phase II: 90% | | Priority : 95% General: 85% | | 100% | |
| Phase | I | II | I | II | I | II |
| Pop. Year | 2010 | 2010 | 2011 | 2013 | 2011 | 2013 |
| Foodgrain Required | 49.36 | 55.59 | 54.04 | 58.58 | 58.76 | 63.98 |

Foodgrain Availability

The Expert Committee projected that the total amount of foodgrain available would be 56.35 million tonnes in 2011-12 and 57.61 million tonnes in 2013-14. These figures are based on an assumption that the government will acquire 30 percent of total foodgrain production.

The Expert Committee noted that it would not be prudent for the government to acquire more than 30

percent of production, which is about 50 percent of the marketable surplus. Acquiring more than 50 percent of the marketable surplus could potentially distort prices in the open market. Price distortions would have an adverse affect even on the priority group as they will need to procure between 25 and 30 percent of their foodgrains from the open market under the Bill.

Therefore, the Expert Committee is of the opinion that it will not be possible to implement the NAC recommended food entitlements for either phase.

Subsidy Implications

The NAC estimates the subsidy needed to implement the Bill will be Rs 71,837 crore in Phase I and Rs 79,931 crore in Phase II. The Expert Committee, after adjusting for figures from Scenario 2 (see Table 1), estimates the required subsidy to be Rs 85,584 crore for Phase I and Rs 92,060 crore for Phase II.

In addition, the Expert Committee believes there will be several other expenses adding to the subsidy which are difficult to quantify. These include scaling up of procurement, warehousing, and supply chain operations, as well as the subsidy required for supplying grain to non entitled households at an issue price equal to MSP.

Implementation

The Bill confers an important legal right. Any approach to implementation must be fully enforceable, taking into account the availability of grain.

Foodgrain Entitlement and Subsidy Implications

The Expert Committee, based on its Scenario 2 estimate, foresees a shortage of 12 million tonnes for Phase I and 16 million tonnes for Phase II. It is the opinion of the Expert Committee that importing grains to fill these gaps is not a viable option as it will push up worldwide prices.

To address this issue the Expert Committee has developed two options. Option 1 is to accept the NAC requirement of 7kg/person for priority households while restricting the general households to an entitlement of 2kg/person. This will require 59.86 million tonnes of foodgrains for Phase I and 62.95 million tonnes for Phase II. This option, with a potentially inadequate entitlement for general households, still leaves a shortfall of 3.5 million tonnes in Phase I and 5.3 million tonnes in Phase II.

Option 2, preferred by the Expert Committee, is to restrict entitlements of Rs 2/kg for wheat and Rs 3/kg for rice to households falling below the Tendulkar Committee poverty line plus ten percent of the BPL population. This is equivalent to 48 percent of the rural and 28 percent of the urban population, which is about the same as the NAC categorisation for priority households. This option will require 50.96 million

tonnes of foodgrains for Phase I and 51.93 million tonnes for Phase II. This leaves 5.4 million tonnes surplus in Phase I and 5.68 million tonnes in Phase II for distribution to the non entitled population at an issue price equal to MSP. The subsidy required for Phase I is estimated to be about Rs 68,539 crore.

Public Distribution System (PDS)

The PDS, with its network of over five lakh Fair Price Shops (FPS) is a clear option for distribution of foodgrains. However, it is plagued with several problems, including poor identification and targeting of beneficiaries, massive leakage of grain, and lack of accountability. For these reasons, reform of PDS will be necessary for implementing the Bill.

The Expert Committee recommends the following reforms to PDS for implementation of the Bill: (1) comprehensive computerization of PDS and (2) introduction of smart cards for beneficiaries. These will help substantially reduce leakages. Additionally, implementing smart cards would allow much of the subsidized grain to go through normal market channels. This, in turn, will reduce the burden on government for procurement, reduce pressure on the PDS network, introduce competition among Fair Price Shops, and allow migrants to collect foodgrains at any location.

Identification of Beneficiaries

Proper and comprehensive identification of beneficiaries is crucial to the success of the Bill. In a letter to the Expert Committee, Smt. Sonia Gandhi, Chairperson of the NAC, recommended a Ministry of Rural Development proposal replacing the existing BPL survey with a socio-economic census or survey conducted by the Registrar General and Census Commissioner of India.

The Expert Committee recommends that the central government indicate the cut off percentage of the entitled rural and urban population to states, while entrusting actual identification of beneficiaries to the states themselves.

(Prepared by Vivake Prasad on April 11, 2011)

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