

## **REPORT OF THE EXPERT COMMITTEE ON NATIONAL FOOD SECURITY BILL**

### **CONTEXT**

1. Smt Sonia Gandhi, the Chairperson of the National Advisory Council wrote to the Prime Minister on October 27, 2010 forwarding the basic framework of the proposed National Food Security Bill (NFSB). In another letter on November 16, 2010 to the PM, she suggested a close examination of the proposal of the Ministry of Rural Development (MoRD) to replace the existing BPL survey with a socio-economic census/ survey to be conducted by the Registrar General and Census Commissioner of India. The Prime Minister set up an Expert Committee under the chairmanship of Dr C.Rangarajan to examine the implications of the proposals of the NAC and MoRD and make suitable recommendations. The members of the Expert Committee include Member Secretary Planning Commission, Chief Economic Advisor, and the Secretaries of Departments of Agriculture & Cooperation, Expenditure and Food & Public Distribution. It has also been suggested that views of other Secretaries and Registrar General of India and Census Commissioner may be obtained if required. The Expert Committee has been requested to submit its report within one month.

### **National Food Security Bill (proposed by NAC)**

2. India's high economic growth rate in the past decade has not been fully reflected in the health status of its people, with 22 per cent of its population undernourished<sup>1</sup>. According to the National Family Health Survey 2005-06, 40.4 per cent of children under the age of three are underweight, 33 per cent of women in the age group of 15-49 have a body mass index below normal and 78.9 per cent of children in the age group of 6-35 months are anaemic. These are disturbing statistics which point to nutritional deficiencies. The NAC proposal for a National Food Security Bill is perhaps the most important national effort yet to address these deficiencies in India.

3. It is at times assumed that the relationship between economic growth and health is unidirectional with improving economic conditions leading to better health. In reality, and as confirmed by recent research, the reverse is equally true and health is an 'economic engine.' That is, better health which is an important end in itself leads to and may, in certain cases, be a necessary prerequisite for economic development. Hence besides being an end in itself, the economic role of health and nutrition thus provides an additional and compelling rationale for public policy to support well targeted nutrition improving interventions in ways directly analogous to the support given for increasing other forms of capital investments.

<sup>1</sup> According to Global Hunger Index - IFPRI

4. The NFSB proposed by the NAC is a potentially revolutionary bill that can have a huge impact on the economy. Well crafted and effectively executed, it can transform the lives of people. The salient features of the NFSB proposed by the NAC are:

- Legal entitlement to subsidized foodgrains to be extended to at least 75% of the country's population - 90% in Rural areas and 50% in urban areas
- The priority households (46% in rural areas and 28% in urban areas) to have a monthly entitlement of 35 Kgs (equivalent to 7 Kgs per person) at a subsidized price of Rs. 1 per Kg for millets, Rs. 2 per Kg for wheat and Rs. 3 per Kg for rice
- The general households (39% rural and 12% urban in phase 1 and 44% rural and 22% urban in final phase) to have a monthly entitlement of 20Kgs (equivalent to 4 Kgs per person) at a price not exceeding 50% of the current Minimum Support Price for millets, wheat and rice
- The minimum coverage, entitlement and price to remain unchanged until the end of the XII five year plan
- Government of India to specify the criteria for categorization of population into priority and general households
- In the first phase, food entitlement to be extended to 72 per cent of the population. In the final phase, to be completed before March 31, 2014, full coverage of food entitlement (to 75 per cent of the population) to be ensured
- Legal entitlements for child and maternal nutrition, destitute and other vulnerable groups
- Reform of the Public Distribution System

#### **IDENTIFYING THE MAJOR ISSUES**

5. The NFSB suggests near universal coverage of the population. The underlying logic of this, as understood by the EC, is the argument that typically the identification of beneficiaries in such an exercise is fraught with danger of severe under inclusion. Hence to ensure that the genuinely needy are not left out, universalization is the only way. The richer households will normally opt out of such schemes and hence with tight monitoring of offtake of grains, over time it would be possible to minimize leakage of foodgrains. The Expert Committee understands the logic of this view but is also conscious of the fact that this implies a massive procurement of food grains and a very large distribution network entailing a substantial step up in subsidy. Since the coverage proposed by the NAC is also not 100% and there are differential categories of entitlement, the need for proper identification of beneficiaries still exists. The approach of the Expert Committee in examining these recommendations has been to secure the wholly laudable underlying objectives in a way that is sustainable and administratively feasible. With this end in view the Expert Committee has identified the following major operational issues which need to be resolved to realize the goals of the proposed NFSB:

- Given the current trends of foodgrain production and government procurement, and the likely improvements in these over time, will there be adequate availability of grain with the public authorities to implement the full entitlements for the priority and general category as proposed in the NFSB?
- What will be the impact of such large government foodgrain procurement on the open market prices? This is relevant since both the priority and general category will be purchasing a part of their consumption needs from the open market.
- What are the subsidy implications for both the phases and can these levels be sustained in the future?
- Arriving at a clear definition of priority and general households and the methodology of identification of these households especially the feasibility of involving the Registrar General of India and Census Commissioner in this task.
- Given the inefficiencies and leakages in the current distribution system, identify the principal areas of reform of the PDS and the alternative mechanisms of reaching the foodgrain/subsidy to the entitled households.

## **FOODGRAIN REQUIREMENT Vs CURRENT PRODUCTION & PROCUREMENT**

### ***Estimates of Foodgrains Required for Implementing the NFSB***

6. NAC has estimated the entitled foodgrain requirement (PDS) for phase 1 at 49.36 million tonnes and for the final phase at 55.59 million tonnes. These estimates are based on the assumption of 85 per cent offtake of foodgrain during Phase 1 and 90 per cent offtake of foodgrain during the Final Phase. It is understood that NAC has used the population projections of the National Commission on Population for October 2010 for estimating the grain requirement for both the phases.

7. On examination, it appears that the foodgrain requirement projected by the NAC need to be revised, as population projections for October 2010 have been used by the NAC for both the phases. To obtain more realistic foodgrain requirement, EC has used the population projections pertaining to the year for which the phases are to be implemented. In other words for phase 1, population projections for October 2011 have been used and for the final phase, projections for October 2013 have been used<sup>2</sup>. Moreover the offtake percentages used by NAC would also need to be revised upwards. The current three-year average AAY and BPL household<sup>3</sup> offtake for wheat and rice is around 95 per cent while the offtake for APL households<sup>4</sup> is around 85 per cent as per the Department of Food and Public Distribution. Using these two assumptions we have worked out a scenario (scenario 2) where the entitled foodgrain requirement (PDS) for phase 1 works out to 54.04 million tonnes and for the final phase to 58.58 million tones

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<sup>2</sup> October population projections have been used as these can be used as a proxy for the average of the relevant financial year.

<sup>3</sup> These can approximate for the 'Priority' household

<sup>4</sup> These can approximate the general households

(Table 1). It is important to note that the current issue price for BPL and APL household is higher than the foodgrain price proposed in the NFSB for priority and general households respectively and in all likelihood at these prices the offtake is likely to be 100 per cent<sup>5</sup>. Based on this we have worked out a Scenario 3 according to which the foodgrain requirement for the two phases works out to 58.76 million tonnes and 63.98 million tonnes. In all the three scenarios to obtain the total foodgrain requirement, we must add another 8 million tonnes required for the other welfare programmes of the government like Mid Day Meal Scheme, ICDS, Social Welfare Hostels and Natural Calamities. Moreover there is a need for maintaining a buffer stock which is an important tool for food security especially in times of droughts, natural and other calamities. According to some estimates a food security reserve of about six million tonnes is required. However, after the procurement in the initial year, the stocks will be recycled every year if there is no drawdown. To convert this stock number into a flow we are assuming a two million tonne buffer stock requirement every year. Detailed calculations of these scenarios summarized in the table below are at Annexure 1(a) and 1(b).

Table 1- Foodgrain Requirement for Implementing the proposed NFSB

Million tonnes

	NAC Projections* Scenario 1		Scenario 2* Offtake – priority- 95% ; general-85%		Scenario 3* Offtake-100%	
	Phase 1	Final Phase	Phase 1	Final Phase	Phase 1	Final Phase
Priority Households	34.40	36.42	38.91	39.83	40.96	41.93
General Households	14.96	19.17	15.13	18.75	17.80	22.05
Sub Total	49.36	55.59	54.04	58.58	58.76	63.98
Other Welfare Schemes	8.00	8.00	8.00	8.00	8.00	8.00
Buffer Stock	-		2.00	2.00	2.00	2.00
Total Foodgrain	57.36	63.59	64.04	68.58	68.76	73.98

\*Population - Scenario 1 – October 2010; Scenario 2 & 3 – Phase 1-October 2011; Phase 2- October 2013

### ***Foodgrain Production and Procurement – Trends and Projections***

8. Indian agriculture is still highly dependent on rainfall and drought years cause production 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

<sup>5</sup> In the currently operational AAY scheme where grain allocations are made at the NAC 'proposed' prices the offtake is close to 100 per cent.

fell by 28.53 million tonnes over the previous year. It took 3 years to make up and it was only in 2006-07 that the production at 169.17 million tonnes exceeded the 2001-02 level (Table 2). Similarly 2009-10 witnessed a production decline of 10 million tonnes (in rice) which was however expected to be made up this year but the current monsoon position has introduced some uncertainty. The implication of this for future projections is that to estimate the total available foodgrain (wheat and rice) for the first and final phase of the NFSB it is best to be somewhat conservative and use the long term trend growth rates. According to the projections made by Department of Agriculture, the total projected foodgrain production (wheat and rice) is expected to be 187.82 million tonnes for 2011-12 and 192.02 million tonnes for 2013-14.

9. There was a sharp increase in the procurement of wheat and rice in the year 2007-08 both in terms of absolute quantity and as a percentage of the total production (Table 2). The procurement peaked at 59.07 million tonnes for the production year 2008-09 reaching almost 33 per cent of the production in that year. In the subsequent year, the absolute procurement fell sharply, decreasing to 54 million tonnes, but the fall in the relative procurement was muted because production had also fallen sharply. In the period 2000-01 to 2009-10 the average procurement as a percentage of production was at 26.6 per cent. However, for projections this may be too conservative in the light of higher procurements in the last few years. Accordingly, we have assumed that it will be possible to procure 30 per cent of the total production which translates to 56.35 million tonnes in 2011-12 and 57.61 million tonnes in 2013-14. In view of the cycles in agricultural procurement, it may be imprudent to assume an average procurement level of more than 30 per cent. It has been estimated by the Department of Agriculture that the marketable surplus of wheat and rice in 2010-11 was about 106.5 million tonnes. The expected procurement of 53.22 million tonnes in 2010-11 works out to about 50 per cent of the marketable surplus. A larger procurement has the danger of distorting the food prices in the open markets. This is an important consideration, since the proposed entitlement of 7kgs per capita per month for the priority category, does not cover their total consumption requirement, necessitating the purchase of the balance foodgrain from the open market. Higher government procurement will lead to a lower availability of foodgrain for the open market, pushing up prices. According to the NSSO consumption expenditure survey 2004-05 the average monthly per capita rural consumption of wheat and rice for the lowest MPCE classes constituting 49.9% of the rural population was 10.11 kg while the urban consumption for the lowest MPCE classes constituting 30.2% of the urban population was 9.35 kg<sup>6</sup>. This implies that even the priority households which constitute the most vulnerable section of the population will have to procure 25 to 30 per cent of their consumption

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<sup>6</sup> For the lowest MPCE classes constituting 30.2% of the urban population which covers the priority households

requirement from the open market. The actual requirement is likely to be higher since people consume wheat and rice in processed forms like bread, biscuits, sooji, maida etc which are not reflected in the consumption estimates worked out here. In other words the market prices are extremely relevant for the household budgets of both the entitled and other households.

Table 2 - Production and Procurement of Wheat and Rice

Million tonnes

	Production			Procurement	
	Wheat	Rice	Total	Wheat + Rice	As ratio of production (%)
2000-01	69.68	84.98	154.66	41.91	27.10
2001-02	72.77	93.34	166.11	41.18	24.79
2002-03	65.76	71.82	137.58	32.22	23.42
2003-04	72.16	88.53	160.69	39.62	24.66
2004-05	68.64	83.13	151.77	39.47	26.01
2005-06	69.35	91.79	161.14	36.88	22.89
2006-07	75.81	93.36	169.17	36.24	21.42
2007-08	78.57	96.69	175.26	51.43	29.34
2008-09	80.68	99.18	179.86	59.07	32.84
2009-10	80.71	89.13	169.84	53.98	31.78
2010-11	82.00	95.41	177.41*	53.22**	30.00
2011-12 (Phase 1)	83.61	104.21	187.82*	56.35**	30.00
2013-14 (Final Phase)	85.61	106.41	192.02*	57.61**	30.00

\* Projections as per Department of Agriculture & Cooperation, Govt. of India

\*\*Assuming an optimum procurement of 30 per cent of total production

## SUBSIDY IMPLICATIONS

10. In addition to the physical foodgrain requirement, the proposed NFSB has large subsidy implications. The total subsidy outgo is expected to be higher than the projections by NAC on account of a number of factors. Firstly, according to the NAC projections the total subsidy will work out to Rs 71,837 crores in the first phase and Rs 79,931 crores in the final phase (Table 3). However this figure needs to be revised upwards if we change the population figures to October 2011 and 2013 projections for the two phases and assume 100 per cent offtake. The subsidy then increases to Rs 85,584 crores and Rs 92,060 crores respectively (Scenario 3 of Table 3). Secondly, with the current procurement and storage capacity of a little above 42.5 million tonnes, providing 68.76 million tonnes of foodgrain in the first phase and 73.98 million tonnes in the final phase (Table 1) implies significant scaling up of the procurement, warehousing and supply chain

operations. This involves large financial outgo which has not been quantified as yet. Thirdly, since the promised entitlements are legally enforceable we will need to either scale up the procurement by large increases in the MSP or imports. Both these options imply a large fiscal burden which are difficult to quantify. Fourthly, this does not include the subsidy on supplying grain to the non entitled households at MSP based prices which are lower than the economic cost of procurement, storage and carrying this grain. Moreover there are other components like the cost of carrying the buffer stock and the increase in the economic cost over time, all of which will inflate the subsidy outgo.

Table3- Subsidy Implications of Alternative Scenarios

Rs Crores

	NAC Projections* Scenario 1		Scenario 2* Offtake – priority-95% ; general-85%		Scenario 3* Offtake-100%	
	Phase 1	Final Phase	Phase 1	Final Phase	Phase 1	Final Phase
Priority Households	54,449	57,652	61,636	63,093	64,880	66,414
General Households	17,388	22,279	17,598	21,799	20,704	25,646
Total Subsidy Requirement	71,837	79,931	79,234	84,892	85,584	92,060
Current Subsidy**	56,700	56,700	56,700	56,700	56,700	56,700
Additional Subsidy	15,137	23,231	22,534	28,192	28,884	35,360

\*Population - Scenario 1 – October 2010; Scenario 2 & 3 – Phase 1-October 2011; Phase 2- October 2013

\*\*Source : NAC

NAC has assumed a foodgrain mix of 60% rice and 40% wheat to make the subsidy calculations. To ensure comparability we have used the same proportions for calculation of subsidy in scenario 2 and 3. According to DFPD the actual ratios are 66% rice and 34% wheat. Even if these ratios are used there is a modest increase in the subsidy figure.

## PUBLIC DISTRIBUTION SYSTEM

11. The Public Distribution System (PDS) with its network of about half a million Fair Price Shops (FPS) is the most obvious choice for the distribution of the entitled foodgrain under the proposed NFSB. However in its current form it is plagued by a number of deficiencies like poor identification and targeting of beneficiaries, massive leakage of grain especially from APL allocations, low margins of FPS creating perverse incentives for diversion of PDS foodgrains and general lack of accountability. There are several studies which have pointed out that a significant amount of the foodgrain under the TPDS misses the targeted poor. Since the basic objective of the NFSB, is to eliminate hunger and malnutrition, the distribution system must be able to efficiently and effectively deliver to the correctly identified beneficiary. This implies major systemic reforms in the public distribution system.

12. In 2006, in response to a PIL on the PDS the Supreme Court had appointed a Central Vigilance Committee, headed by Justice D.P. Wadhwa who has given a number of reports on the reform of the distribution system. Moreover in July 2010, in a conference the state food secretaries passed a resolution on the best practices and reform of the PDS. Some of the suggestions that are common to both are:

- Precise identification of beneficiaries
- Timely delivery of foodgrains to FPS. States to strive to make doorstep delivery to FPS
- Rapid roll out of IT in PDS on priority. End to end computerization of the TPDS network, digitized allocation of foodgrains starting from the FCI/State government, smart card based delivery of foodgrains, issue of ration cards with biometric identification and iris technology
- Creation of additional storage capacity both at central and state level. States to create decentralized storage facilities at block/village/ panchayat levels by construction of Fair Price Shop-cum-godowns using funds available under various schemes
- Better monitoring of distribution of foodgrains by using technology (GPS tracking, SMS alerts to beneficiaries, CCTV monitoring of FPS and creation of public awareness through campaigns in the media) and social audit by local bodies / community groups / NGOs
- Better governance - administrative action, recovery of financial losses and fixing criminal liability

13. In the case of FPS, Justice Wadhwa suggests that the state civil supplies organizations should takeover the FPS network to deal with the large scale corruption. However the state food secretaries suggest allotment of FPS to community based organizations like co-operatives/SHG's and measures to improve the viability of the FPS by rationalizing commissions, extending credit and encouraging sale of non PDS items. Justice Wadhwa has also suggested that the maximum diversion occurs in the APL category, hence it should be abolished. If this is not possible, he has suggested creation of another category – 'marginally above poverty line'.

14. Others have suggested alternatives to the PDS like food stamps, food coupons and generic smart cards which can be used both in the FPS and open market. However barring some limited experiments at the state level with food coupons and smart cards tied to a designated FPS, no major scalable alternative to the PDS is currently available.

## **IDENTIFICATION OF BENEFICIARIES**

15. Smt Sonia Gandhi in her letter to PM has pointed out that the deficiencies in the BPL surveys conducted in the past have led to significant inclusion and exclusion errors. With sizeable government resources being targeted at BPL and with NFSB on the anvil it is crucial that the BPL lists and cards be prepared correctly and the methodology adopted inspire confidence in the stakeholders. She has supported the contention of the MoRD that unlike in the past when states conducted the surveys to identify the beneficiaries, this time the socio economic survey which will form the basis of this identification may be conducted by the RGI and Census Commissioner. According to MoRD the benefits of doing this are that (a) RGI has the requisite expertise to conduct these surveys and is an uninterested party unlike the state governments which are much more likely to be subject to pressure groups; (b) The socio-economic census can be clubbed with the caste census which is being undertaken by the RGI in June 2011. This will save a lot of resources and reduce the stress on the field machinery.

16. The Home Minister however holds a contrary view and wrote to the Prime Minister stating that conducting the socio economic census and the 6<sup>th</sup> Economic Census along with the caste census has a number of disadvantages namely (a) cause delay in the caste census which has a simple questionnaire as opposed to the elaborate and complicated questionnaires for the other two surveys; (b) caste enumeration is individual based while the other two are individual, household and enterprise based;(c) caste enumerator will only visit household while for the economic census he will also have to visit non residential buildings also;(d) BPL census will attract interest groups which may impact the integrity of the census and caste enumeration. In view of this the Home Minister has suggested that caste enumeration may be done as a stand alone exercise and RGI may extend co operation to organizations that will conduct the BPL and Economic Census.

## **RECOMMENDATIONS OF THE EXPERT COMMITTEE**

17. As noted at the outset the Expert Committee is fully in agreement with the idea that 60 years after independence the Indian State should be in a position to ensure that the country is rid of hunger and malnutrition caused by poverty. To that extent provision of minimum food entitlements at affordable prices to the vulnerable is a goal that few can quarrel with. However while operationalizing this idea, the consequences of conferring legal entitlements and failing to meet them have to be fully weighed in. Given the various constraints on stepping up production and procurement of food grains as well as its country wide distribution with minimal leakage - all of which are fixed in the short term - the implementation of the entire set of NAC recommendations may have to be calibrated, to prevent the state from being accused of renegeing on such an important right. The

recommendations of the Expert Committee have to be seen in this spirit. The implementation of the proposed NFSB would require resolution of a number of issues that have been noted earlier. The Expert Committee recommendations on the four primary issues i.e. foodgrain entitlement, subsidy, PDS reform and the agency for identification of beneficiaries are discussed in the following sections.

### ***Foodgrain Entitlement and Subsidy Implications***

18. As estimated by the Expert Committee the total foodgrain requirement to roll out the NAC recommendations covering 72 per cent of the population in the first phase and 75 per cent in the final phase is 68.76 million tonnes and 73.98 million tonnes respectively (Scenario 3:Table 1). Based on past performance and on best effort basis, we can assume that the government will be able to procure about 30 per cent of the total production in any year. As discussed earlier a larger procurement has the danger of distorting prices in the open market which are likely to hit the vulnerable sections who purchase almost 25-30 per cent of their consumption requirement from the open market. If we look at the production and procurement data the likely procurement on this basis works out to 56.35 million tonnes for the first phase and 57.61 million tonnes for the final phase (Table 2). This implies a shortage of about 12 million tonnes for the first phase and 16 million tonnes for the final phase for the NAC suggested population coverage. Imports are clearly not an option since India's entry into the international market as a large buyer exerts significant upward pressure on prices. If we were to use imports as a permanent strategy, the market expectations regarding India's huge demand will lead to international prices ratcheting upwards, rendering this a high cost option which will be unsustainable in the long run due to the heavy fiscal burden. Clearly, we will have to depend on domestic production and productivity increase to deliver the entitlements under the NFSB.

19. Since the NFSB creates a statutory entitlement for the included population and its obverse namely a legal obligation for the government, it is important to mandate enforceable entitlements keeping in mind the availability of grain. The government must be capable of delivering on its promise even in the situation of two successive drought years. To pragmatically move this idea forward, there are two options available. Option 1 is to accept the NAC recommendations of 7kg per capita entitlement to the 'priority' households and restrict the per capita grain entitlement to 2kgs for the 'general' households. This implies a foodgrain requirement of 59.86 million tonnes in the first phase and 62.95 million tonnes in the final phase (Annexure 2). This option is difficult to implement in the first phase and even harder to implement in the final phase since the projected foodgrain availability will be short by 3.5 million tonnes and 5.3 million tonnes respectively. Moreover this monthly entitlement of 10 kgs for the general households may be considered less than adequate especially for poor households at the margin. Covering the general households under a

mandated regime will be feasible only if the entitlement of the priority is less than 7kg per person.

20. Option 2 favoured by the EC is to restrict the assured delivery of foodgrains at Rs 2 per Kg for wheat and Rs 3 per kg for rice, to the really needy households and cover the rest through an executive order with a varying quantum depending on the availability of foodgrains. Strictly speaking, the really needy households can be defined as those falling below the Tendulkar poverty line according to which 41.8 per cent of the rural and 25.7 percent of the urban population are poor. However, since in option 2 the assured entitlement is only confined to the really needy households the Expert Committee feels that the coverage must go beyond the BPL numbers to include families at the margin which tend to be vulnerable. **The Expert Committee accordingly recommends that the entitled population may be defined as the percentage of population below the official poverty line + 10 per cent of the BPL population. Using the Tendulkar poverty line, this works out to 46 per cent rural and 28 per cent urban population. These percentages are the same as those recommended by the NAC for categorization as the 'priority' households. This captures not only the poor but also some at the margin, which is desirable given the objectives of the NFSB.** Thus the entitled category for food security may be anchored to the officially defined poverty line. The statewide percentages of the entitled population are in Table 4 below. The total foodgrain requirement for the entitled population, buffer stocks and other welfare programmes will be 50.96 million tonnes in the year 2011 and 51.93 million tonnes in the year 2014 (Table 5). As regards the entitled category as stated earlier, in the first phase the foodgrain may be supplied at Rs 3 per kg for rice and Rs 2 per kg for wheat. These prices may be set in 2011 when the NFSB is implemented and thereafter these prices should be inflation adjusted. The Expert Committee feels that these can be indexed to the Consumer Price Index. Since there are currently three indices being generated we could use an average of the indices to adjust the issue price of the foodgrain suitably. **In this option, in 2011, after meeting the entitlement of the entitled category, other welfare schemes which must also be treated as mandatory and buffer stock, there will be around 5.4 million tonnes of foodgrain which can be used for distribution to the remaining population at an issue price equal to MSP (Table 5). In 2013-2014, according to the current projections on production and procurement we will have 5.68 million tonnes of grain that can be distributed to the non entitled population at an issue price equal to the MSP (Table 5).** As production and procurement improve, the coverage can be increased through executive orders. Moreover the actions of the government through the OMSS (Open Market Sale Scheme), when undertaken, help to keep the market prices of foodgrains under check, which benefit the non-entitled category. The aim should be to ensure that the market in general functions better.

Table 4 - State wise cut off for the entitled population Under NFSB

State/UTs	Rural		Urban	
	As per Tendulkar Report	Cut Off*	As per Tendulkar Report	Cut Off*
(1)	(2)	(3)	(4)	(5)
Andhra Pr.	32.3	35.5	23.4	25.7
Arunachal Pr.	33.6	37.0	23.5	25.9
Assam	36.4	40.0	21.8	24.0
Bihar	55.7	61.3	43.7	48.1
Chattisgarh	55.1	60.6	28.4	31.2
Delhi	15.6	17.2	12.9	14.2
Goa	28.1	30.9	22.2	24.4
Gujarat	39.1	43.0	20.1	22.1
Haryana	24.8	27.3	22.4	24.6
Himachal Pr.	25.0	27.5	4.6	5.1
J & K	14.1	15.5	10.4	11.4
Jharkhand	51.6	56.8	23.8	26.2
Karnataka	37.5	41.3	25.9	28.5
Kerala	20.2	22.2	18.4	20.2
Madhya Pr.	53.6	59.0	35.1	38.6
Maharashtra	47.9	52.7	25.6	28.2
Manipur	39.3	43.2	34.5	38.0
Meghalaya	14.0	15.4	24.7	27.2
Mizoram	23.0	25.3	7.9	8.7
Nagaland	10.0	11.0	4.3	4.7
Orissa	60.8	66.9	37.6	41.4
Punjab	22.1	24.3	18.7	20.6
Rajasthan	35.8	39.4	29.7	32.7
Sikkim	31.8	35.0	25.9	28.5
Tamil Nadu	37.5	41.3	19.7	21.7
Tripura	44.5	49.0	22.5	24.8
Uttar Pradesh	42.7	47.0	34.1	37.5
Uttaranchal	35.1	38.6	26.2	28.8
West Bengal	38.2	42.0	24.4	26.8
Pondicherry	22.9	25.2	9.9	10.9
<b>All India</b>	<b>41.8</b>	<b>46.0</b>	<b>25.7</b>	<b>28.3</b>

Table 5 – Foodgrain Entitlement for Wider Coverage of Entitled Category (Option 2)

	Foodgrain Requirement (Million Tonnes)	
	Phase 1	Final Phase
Rural (46%)	32.44	33.06
Urban (28%)	8.52	8.87
All India (41%)	40.96	41.93
Other Welfare Schemes	8.0	8.0
Buffer Stock	2.0	2.0
Total Foodgrain	50.96	51.93

**Assumptions**

1. Population as on Oct 2011 for Phase 1 and as on Oct 2013 for final Phase
2. Entitlement of 7kg per person per month
3. 100% Offtake of food grains

***Subsidy Outgo***

21. In the case of Option 2 recommended by the Expert Committee, the subsidy outgo works out to Rs68,539 crores in the first phase. This subsidy calculation is only for the foodgrain for the entitled population but to obtain the total subsidy outgo, we must add other components. According to the calculations by Department of Food and Public Distribution, if we add to the above the subsidy required for the other welfare schemes and maintenance of buffer stock then the total subsidy for phase 1 is around Rs83,000 crores.

***Foodgrain Production and Procurement***

22. It has been brought to our notice by Secretary Agriculture that the per capita availability of foodgrains shows a declining trend. In the year 2000 the per capita availability of rice was 203.7 gms per day while that of wheat was 160 gms per day. The availability had declined by 2009 to 188.4 gms and 154.7 gms respectively. This is a matter of grave concern as assuring food security with falling (per capita) production will, in the long run, translate to the government reneging on its statutory obligation for the entitled population and a worsening of

nutritional deprivation for the rest of the population. Both of these outcomes are unacceptable. Department of Agriculture and Cooperation has suggested a number of measures to increase foodgrain production which need to be immediately implemented in mission mode. Since land is limited, production increase in foodgrains will have to come from investment in productivity enhancing technologies in irrigation, power, fertilizers, seeds and post harvest technology to reduce losses. Moreover to encourage investments by farmers in better inputs, interventions for better credit availability and risk coverage through customized insurance products is important. The other intervention to ensure foodgrain availability is to create a stable procurement regime. The average procurement in the period 2000-01 to 2006-07 was 24 per cent of production and it is only in the last three years that it has increased beyond 30 per cent. Procurement has to be maintained around this level to ensure grain availability to the entitled population. One method of doing this is to increase the MSP which will ensure higher procurement but the limitation here is the potential inflationary impact on food prices. In this context decentralized procurement and focus on states which have not hitherto contributed significantly to procurement may be explored.

### ***PDS Reform and Alternative Distribution Mechanism***

23. Comprehensive recommendations on the reform of the PDS are available with the government. A large number of states have undertaken large scale reforms and one excellent example is Chattisgarh which is in the process of turning around the PDS system with the help of improved practices, governance and technology. The Expert Committee feels that it will add better value if it just drew the attention of the government to two interventions which can make the maximum impact namely comprehensive computerization of the PDS and introduction of smart cards for the beneficiaries. At present there are a number of initiatives for computerizing the PDS operations which range from use of smart cards for beneficiaries in an experimental way in Haryana and Chandigarh, use of Global Positioning System in Tamil Nadu, Chattisgarh and Delhi, bar coded bags in Gujarat and SMS alerts on grain availability in UP and MP. However each of these initiatives target a part of the system and are not comprehensive and replicable at the all India level. The Central Government has initiated a computerization project, which envisages tracking of food grain bags using barcode from FCI godown upto the Fair Price Shop in stage 1 and beneficiary related transactions in stage 2. It is important to fast track the implementation of this project and involve the state governments in executing this project expeditiously. The comprehensive computerization of the PDS network starting from the allocation of the grain to the final delivery to the targeted beneficiary will go a long way in plugging diversion of grain, bogus ration cards and delivery of poor quality of foodgrains to beneficiaries.

24. As an alternative to the existing PDS we may switch over to the use of smart cards which simply means that the food subsidy may be directly transferred to the beneficiaries instead of to the owners of PDS stores. This in turn gives the people an opportunity to go to any store of their choice and use their smart cards or food coupons to buy food. In fact with the biometric identification system, people will have the freedom to migrate to any part of the country without the fear of losing their food rations. Since under this system the poor will be paying the stores the same price for food grains as the others the shopkeeper, including PDS stores, will have no incentive in selling adulterated grain to the poor. This will finally lead to a system where there are no leakages and distortions of food grains and will create incentives for PDS stores to be more efficient.

25. In terms of the fiscal burden, the smart cards will not impose an additional burden and the subsidy may in fact reduce. Let us take the case of rice which is proposed to be supplied at Rs 3 per kg. Since the average market price is currently around Rs 20 per kg, a subsidy of Rs 17 will need to be provided. Currently the Economic Cost of procurement also works out to Rs 20.43 per kg, which implies a subsidy of Rs17.43 per kg. In other words, the subsidy under the current system and the subsidy given under the smart card system will be virtually the same. However given that under the smart card system there will be virtually no leakage, while under the present system there is a large leakage, the subsidy under smart card is likely to reduce. Moreover, under the smart card based system, since a lot of subsidized grain will go through the normal market channels it will also reduce the burden on the government procurement and PDS network. Inflation may in time erode the real value of this subsidy which can be tackled by annual (or six monthly) revisions of the subsidy amount.

26. The introduction of the smart card system described above can be in two stages. In the first stage, keeping the current method of foodgrain allocation to the FPS unchanged we can introduce smart cards for the beneficiaries only. These biometric cards may simply contain details of the beneficiary and his entitlement. Only when the beneficiary swipes the card at the FPS, will it be deemed that the targeted grain has been delivered. Allocations to the FPS will depend on the electronic proof of delivery of the grain to the targeted beneficiary. This will prevent large scale leakages of foodgrains which happens under the present system of manual record keeping at the FPS's. These cards can initially be linked to a FPS which has been mandated to service the beneficiary and as the system stabilizes the beneficiary may be permitted to use the smart card at any FPS that is convenient to him. The advantage of this will be introduction of some competition amongst the Fair Price Shops and making it easy for migrant poor to access the entitled foodgrains irrespective of their location. Depending on the success of the first stage the scheme can be extended to non PDS retail shops in the second stage. A pilot of the stage 2 can be introduced even now in a few metropolitan areas which is likely to have a large network of retail shops. The

UID project which would make the unique identification of each beneficiary possible is currently underway. It is extremely important to explore the synergies between these two programmes which will go a long way in streamlining the food delivery mechanism.

### ***Identification of Beneficiaries***

27. In view of the forthcoming food security legislation, it is critical that the beneficiaries are reasonably accurately identified in the shortest time-frame possible. Since this is a national legislation, there is also need for some broad uniformity of approach for the identification of the beneficiaries for this purpose. Given that state governments are closest to the field situation and are aware of the various local nuances and realities, they are best placed to carry out the actual identification. In the very nature of things, it will be difficult to evolve uniform national criteria which can be applied to all states and districts. Using the pilot exercises that the Ministry of Rural Development is at present undertaking, it will be possible to come up with the broad guidelines and indicative criteria which can then be communicated as guidelines to the states. Thereafter, it will be best to entrust this socio economic survey work for the identification of the beneficiaries under the NFSB to the state governments. However to ensure that the number of people identified in the entitled category (for the purpose of the foodgrain entitlements under the NFSB) is within the ceiling of BPL + 10% of BPL, the central government must indicate the cutoff numbers of the rural and urban population percentage (Table 4) to the states. This will ensure that the number of persons identified by the states as entitled do not exceed the statewide prescription and are totally within the overall all India coverage figure of 46 per cent rural and 28 per cent urban population. In other words the central government will indicate the percentage of the entitled population, while the actual identification of the beneficiaries will be the responsibility of the states.

ANNEXURE 1 (a)  
Three Alternative Scenarios of Proposed NFSB  
Phase 1

	As per NAC Recommendations		As per current offtake status		As per 100% offtake	
	Scenario 1 Offtake (85% & 85%)		Scenario 2 Offtake (95% & 85%)		Scenario 3 Offtake(100% & 100%)	
Population Coverage	Food Grain requirement. ( Million Tonnes)	Total Subsidy Requirement. (Rs Crores)	Food Grain requirement. ( Million Tonnes)	Total Subsidy Requirement. (Rs Crores )	Food Grain requirement. ( Million Tonnes)	Total Subsidy Requirement. ( Rs Crores )
Rural						
Priority (46%)	27.30	43216	30.82	48812	32.44	51381
General (39%)	13.22	15369	13.36	15535	15.72	18277
Total (85%)	40.52	58585	44.17	64347	48.15	69658
Urban						
Priority (28%)	7.10	11233	8.10	12824	8.52	13499
General (12%)	1.74	2019	1.77	2063	2.09	2427
Total (40%)	8.84	13252	9.87	14887	10.61	15926
All India						
Priority (85%)	34.40	54449	38.91	61636	40.96	64880
General (40%)	14.96	17388	15.13	17598	17.80	20704
Total (72%)*	<b>49.36</b>	<b>71837</b>	<b>54.04</b>	79234	<b>58.76</b>	<b>85584</b>

\* According to October 2010 population used by NAC the total entitled population works out to 71.53% but in scenario 2 and 3 which use October 2011 population the total entitled population works out to 71.43%

Assumptions

1. Population as on Oct 2010 for Scenario 1 and October 2011 for Scenario 2 and 3
2. Issue price for priority is Rs 2/Kg for wheat and Rs 3/Kg for rice and for general is 50% of MSP (Rs. 7.69 for rice and Rs. 5.5 for wheat)
3. Entitlement for priority is 7kg per person per month and for general is 4kg per person per month

ANNEXURE 1 (b)  
Three Alternative Scenarios of Proposed NFSB  
Final Phase

	As per NAC Recommendations		As per current offtake status		As per 100% offtake	
	Scenario 1 Offtake (90% & 90%)		Scenario 2 Offtake ( 95% & 85%)		Scenario 3 Offtake(100% & 100%)	
Population Coverage	Food Grain requirement. ( Million Tonnes)	Total Subsidy Requirement. (Rs Crores)	Food Grain requirement. ( Million Tonnes)	Total Subsidy Requirement. (Rs Crores)	Food Grain requirement. ( Million Tonnes)	Total Subsidy Requirement. ( Rs Crores)
Rural						
Priority (46%)	28.91	45758	31.40	49742	33.06	52360
General (44%)	15.80	18359	15.36	17861	18.07	21013
Total (90%)	44.71	64117	46.76	67603	51.13	73373
Urban						
Priority (28%)	7.51	11894	8.43	13351	8.87	14054
General (22%)	3.37	3920	3.39	3938	3.98	4633
Total (50%)	10.88	15814	11.82	17289	12.85	18687
All India						
Priority (90%)	36.42	57652	39.83	63093	41.93	66414
General (50%)	19.17	22279	18.74	21799	22.05	25646
Total (78%)	<b>55.59</b>	<b>79931</b>	<b>58.58</b>	<b>84892</b>	<b>63.98</b>	<b>92060</b>

Assumptions

1. Population for Scenario 1 is as on October 2010 while for Scenario 2 and 3 it is as on Oct 2013
2. Issue price for priority Rs 2/Kg for wheat and Rs 3/Kg for rice; for general 50% of MSP (Rs7.69 rice and Rs. 5.5 wheat)
3. Entitlement for priority is 7kg per person per month and for general is 4kg per person per month

**ANNEXURE 2**  
**NAC mandated entitlement for priority and lower entitlement to general category (Option 1)**

Category	Phase 1				Final Phase			
	Population Coverage ( Per cent)	Entitled Population (Crores)	Food Grain Requirement ( Million Tonnes)	Total Subsidy Requirement (Rs Crores )	Population Coverage ( Per cent)	Entitled Population ( Crores )	Food Grain Requirement ( Million Tonnes)	Total Subsidy Requirement (Rs Crores )
<b>Rural</b>								
Priority	46	38.62	32.44	51381	46	39.35	33.06	52360
General	39	32.74	7.86	9,138	44	37.64	9.03	10506
Total	85	71.36	40.30	60519	90	76.99	42.09	62866
<b>Urban</b>								
Priority	28	10.15	8.52	13499	28	10.56	8.87	14054
General	12	4.35	1.04	1,214	22	8.30	1.99	2316
Total		14.50	9.56	14713	50	18.86	10.86	16370
<b>All India</b>								
Priority	85	71.36	40.30	64880	90	76.99	41.93	66414
General	40	14.50	9.56	10352	50	18.86	11.02	12822
Total	72	85.86	49.86	75232	75	95.85	52.95	79236
Other Welfare Schemes	-	-	8.0	-	-	-	8.0	-
Buffer Stock	-	-	2.0	-	-	-	2.0	-
Total Foodgrain	-	-	59.86	-	-	-	62.95	-

**Assumption**

1. Entitlement of 2 Kg per person per month for the General Category
2. Population for phase 1 is October 2011 and for final phase is October 2013