FOOD SUBSIDY

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FOOD SUBSIDY

A large public distribution system supplemented by arrangements for moderating prices in the open market and concerted efforts for achieving self-sufficiency in foodgrains, coupled with measures for maximising procurement from surplus areas, have been the twin objectives of food policy in modern India ever since the Bengal famine of 1943. These objectives have held sway over the last 55 years, though with changes in emphasis and varying degrees of rigidity, from total control to total decontrol, depending upon the prevailing situation and assessment at each point of time. While there have been periods of statutory rationing, total price controls, take over of wholesale trade etc., by and large the policy has been a flexible one with procurement and distribution of about 10% of the total production of foodgrains in the country helping to maintain the system in reasonable order.

2. That these issues were uppermost in the mind of the Government even at the time of Independence is seen from the reference in the first budget presented on 26th November, 1947, "the country has just weathered a serious threat of a breakdown in its rationing system. Results of the grow more campaign have been on the whole disappointing……….. . Whereas steps necessary for making the country self-sufficient in foodgrains must claim the highest priority". In the first full year budget presented on 28.2.1948, the expenditure on "food subsidies, including the bonus to provinces on the internal procurement of grain under the new food policy" was placed at Rs.19.91 crore, representing 14.6% of the total civilian budget.

3. The Food Policy pursued in the last five decades could definitely be considered a success story, though there is room for arguing that the results achieved could have been much better. The overall foodgrains production has witnessed a steady growth, though with some hiccups now and then, topping the 200 million tonnes mark in the last two years (vide statement at Annexe-I). Correspondingly procurement has also gone up, sharply increasing to about 29 million tonnes in 1999-2000 (vide statement at Annexe-II). The reach of the Public Distribution System has improved, with the number of outlets last year being 4.5 lakh. The off take of foodgrains through the PDS has also increased to around 19 million tonnes. (vide statement at Annexe II).

4. While the various constituent elements in the total food policy package are supplementary to each other most of the time, there are occasions when these pull in opposite directions. While in the first 45 years since Independence the country was strapped for foreign exchange, in the last several years there has been a sea-change with the foreign exchange reserves being now over $ 35 billion. If one could utilise

even a part of this for importing foodgrains then it will definitely be possible to make foodgrains available through the Public Distribution System at a much lower price than the economic cost of the Food Corporation of India. If the minimum support price is taken as an indicator of the cost of production then that itself is seen to be in excess of the prevailing FOB price of imported wheat . Of course, if India resorts to large scale import of foodgrains then the import prices could harden, changing the scenario. The high levels of levies by the State Governments on the foodgrains procured and the excessive overheads of the FCI with 63,000 staff members add to the costs considerably. With the total stock now touching 44 millions tonnes, thanks to the generous minimum support price based procurement policy, the buffer stock carrying costs, which form part of the food subsidy bill of the Government of India, will go up sharply. Thus, in today's context, the policy could be considered to be tilted more in favour of the producer, than the consumer.

5. While examining the food subsidy bill, which has increased from Rs.19.91 crore in 1948-49 to Rs.9200 crore in the Revised Estimates for 1999-2000 and to Rs.8100 crores in the current year's budget, it would therefore be necessary to undertake the study in a disaggregated manner adopting the following structure:

(a) Consumer Subsidy - i.e. subsidy incurred on the supply of foodgrains through the PDS at below FCI's economic cost; (In this Report budgetary concept of subsidy has been adopted in preference to the concept of determining the subsidy as the difference between world trade prices and the PDS sale price).

(b) Cost of buffer stock operations;

(i) Of this, one part is the cost related to maintaining a minimum level of buffer stock as dictated by the national food security requirements;

(ii) Cost of holding stocks in excess of the food security and Public Distribution System requirements is the second part. This could appropriately be termed as the Producers' Subsidy, as it is the direct off shoot of the price-support based procurement operations; and

(c) The inefficiencies of the FCI i.e. costs in excess of the permissible limits in its various operations, which, thanks to the present full cost reimbursement arrangements, translates into higher costs to the consumer and to the Government.

6. The need for such a disaggregated analysis becomes self-evident when one looks at the emerging requirements. First, at the present sale price to the BPL population, the consumer subsidy bill could go upto Rs.7500 crore when the off take reaches 14 million tonnes. Second, with the total stock levels touching 44 million tonnes

the average buffer stock this year could be around 17 million tonnes imposing a carrying cost burden of around Rs.3100 crore on the Government, even when estimated on the basis of the present methodology. Third, the cost incurred by FCI on transport, storage, interest, staff overheads etc. will be a staggering Rs.6500 crore, a level at which even if some savings could be effected in each of the operations the net result will be a substantial saving for the PDS consumer and for the Government.

7. The present foodgrains production level of over 200 million tonnes, current stocks of around 44 million tonnes with the FCI, and a comfortable foreign exchange balance, all taken together provide a window of opportunity for a thorough examination of the food policy package, in the quest for containing the burgeoning food subsidy bill within acceptable levels.

8. As far as consumer subsidy is concerned, commencing from the statutory rationing system that prevailed at the time of Independence, there have been major changes in the Public Distribution System. For most of the period, and until 1992, the public distribution scheme was a general entitlement scheme at a slightly subsidised rate to all consumers without any specific target. Then came the revamped public distribution scheme in 1992 under which foodgrains were made available with a higher element of subsidy to people in tribal, drought prone and desert areas spread over 1775 blocks. This scheme was replaced in 1997 by the Targeted PDS, under which 10 kg. of foodgrains was allotted per family per month for the below poverty line (BPL) population at highly subsidised rates while the foodgrains supplied to above poverty line (APL) population also carried an element of subsidy, though at a much reduced level. From the current year onwards, the sections of the population below the poverty line are to be given 20 kg. per family per month at half the economic cost while the sale to all others is to be only at the economic cost. In other words, the subsidy is limited to only supplies made to the BPL population. When the total off take on this account reaches 14 million tonnes then the total consumer subsidy works out to about Rs.7500 crore. Government have recently announced fairly liberal allocations of foodgrains to be sold to below the poverty line as well as above the poverty line populations in the drought affected areas at half the economic cost. If such allocation are also taken into account, the consumer subsidy could go up to Rs.8000-8500 crore depending on the off take. The two major policy changes from the past are the targeting of the subsidy to only the below poverty line sections and indexing the sale price to these sections as a proportion (50%) of the economic cost.

9. More important than the total subsidy is the question whether this subsidy actually reaches the intended beneficiaries in full. To start with, the difference between the sale price to BPL population and others being quite large - 50% - the tendencies for diversion of these stocks could increase. Then there is considerable

unevenness in the reach of the PDS among the States as will be seen from the statement at Annexe III, which sets out the gap between allotment and offtake in the different States last year. More importantly, while the below poverty line population is estimated for the country as a whole and for each state and region on the basis of consumption surveys, the attempt at the state level is to identify these categories only on the basis of incomes. Further, the efforts under the Public Distribution System in many States is to cater to as large a section of the population as possible with emphasis on metropolitan and urban areas, instead of limiting the subsidised supplies only to the targeted sections. A major, independent survey conducted recently has come up with the finding that “the PDS is untargeted”, that “it has an urban bias”, that “in rural India 17 per cent do not own ration cards”, that “18 per cent of the below poverty line households do not own ration cards” etc. Possibly, it is a politically sensitive area as any attempt to give subsidies to only certain targeted sections of the people, however poor and deserving they may be, could well alienate large sections of the people who may be only slightly better off. Given the limitation of resources, there has however to be a concerted effort to target the subsidies to the poorest of the poor even if large sections of the population are to be considered to be poor. Seeking to cover much larger sections of the population, at highly subsidised rates, might appear an easier option, but is definitely not a sustainable proposition even in the short term. It is necessary not only to constantly refine and update the estimate of the size of the population below the poverty line in each State, so that the Centre has better estimates for allocation of foodgrains to meet the requirements of these sections in full in all the States but also build a consensus at the political level that subsidies need to be better targeted and administrative arrangements devised to ensure that the subsidised supplies do in fact reach the targeted sections. The Food for Work Programme and the Employment Guarantee Schemes possibly secure better targetting, but their coverage tends to be inadequate because of limitation of resources. Total coverage of those tribal, drought prone and desert areas, where the proportion of the below the poverty line sections is significantly high, say over 80%, could be another element of such an action plan. Association of grassroots level empowered bodies like Gram Sabha’s and NGOs with a proven track record in the task of identifying the poorest of the poor and in supervising the actual delivery of benefits to the targeted sections might help. Giving wide publicity to the arrival of the foodgrains at the local PDS outlet is a method successfully adopted in some States. It is only when a fully targeted delivery system is in place, would this subsidy stand fully justified on merits.

10. Thus, in the final analysis, there is no escape from identifying the BPL population family-wise, giving each a ration card, have a PDS that reaches every village, and putting in arrangements, like supervision of actual distribution by Gram Sabhas/

NGOs etc, to ensure that the targeted sections do actually get the foodgrains allotted for them and at the prices announced by Government. This responsibility rests squarely with the State Governments. The Government of India, on it's part should extend all assistance to the States in the early completion of the above tasks, say within the next two years. Equally important, Government of India also needs to ensure that adequate stocks of foodgrains are available at all FCI's depots to meet the allocations made for the BPL population in full. There is considerable variation among the States in the yardsticks adopted for defining the poorer sections of the population eligible for subsidised foodgrains through the PDS. Throughout this Report, the term 'BPL population' is used as defined in the Lakdawala Committee report and adopted by Government of India when announcing in the current year's budget that such families would be allocated 20 kg. of foodgrains per month at half of FCI's economic cost.

11. As far as the supplies to BPL population are concerned there is a need to ensure that these sections get them at the same price throughout the year and in whichever part of the country they are located. For this purpose, it becomes necessary to first determine the economic cost for the year as a whole, ironing out the differences that crop up due to differences in transport cost, storage, interest costs etc. However, as far as open market operations of the FCI are concerned there could be a case for having some flexibility in determining the sale price. Likewise, when there is pressure on open market prices, FCI would be undertaking bulk sales and auctions. Such sales should, be at the "economic cost" only, without there being any attempt at making a profit, taking advantage of the situation. Similarly, with a view to liquidating excess stocks FCI could seek to export or sell domestically large quantities at prices below the economic costs. It is but appropriate that all these stocks which are sold at some point or other at prices, lower than the economic cost, are considered as part of buffer stocks and not as part of distribution stocks when determining the economic cost, at 50% of which foodgrains to be issued to the BPL population. The Expenditure Reforms Commission would therefore suggest that only the quantities to be sold through the PDS to BPL & APL population and at the economic cost (technically, for FCI, the sales to the BPL population are also at the economic cost, with the government picking up 50% of the bill by way of subsidy) be treated as distribution stocks while determining the economic cost. The rationale behind this suggestion will be apparent in the last section of this Report.

12. In those States where a quantity larger than the allocation made by Government of India for the BPL populations in that State, is distributed through the PDS at prices equal to or less than half of FCI's economic cost, Government of India could well make available to the States the cash equivalent of the subsidy involved in distributing foodgrains to the BPL population at half the economic cost. This way the

State Government, would be free to take the foodgrains required for the BPL population either from the FCI or procure it themselves directly or through traders either in their own State or from other States. This flexibility is recommended as there is widely held perception, that FCI's overheads are quite high, thus pushing up the economic cost. To the extent a State Government is able to procure at lower than FCI's economic cost, and use it for meeting the requirements of the BPL population, it would be able to effect savings in the subsidy amounts made available by Government of India. This should serve as an incentive to the States to undertake procurement on their own account and such 'competition', in turn, would also force FCI to improve its efficiency and reduce costs.

13. However, in the case of those States where the PDS sales to BPL population are currently below the quantities earmarked for the BPL population, the present arrangement of making available the foodgrains required, based on the consumption norms in the earlier year should be continued along with strict monitoring on the one hand to guard against misuse or diversion of foodgrains to other sections and encouragement on the other to secure better coverage of the targeted sections. The moment the PDS coverage exceeds the quantities as required for the BPL population and it is established that the sale price is at or below half FCI's economic cost then these States could also be made entitled to the arrangement suggested in the earlier paragraph of receiving, in cash, the amount equivalent to the subsidy involved in providing foodgrains at half FCI's economic cost to the BPL population in their State.

14. The second major element in the total food subsidy bill is the cost of carrying buffer stocks. This consists of two parts. The first part relates to buffer stocks so very necessary for providing a food security cover for the country, particularly given the vagaries of the monsoon. The estimate of the buffer stock to be so held has however varied from time to time. The Technical Group constituted in 1981 by the Department of Food under the Chairmanship of the then Food Secretary recommended that the size of the buffer stock to be maintained by the public agencies should be 10 million tonnes (5 million tonnes of wheat and 5 million tonnes of rice) which would be in <u>addition</u> to the operational stocks required for the Public Distribution System. A more recent study (July 1999) by Professor Kirit Parikh of the Indira Gandhi Institute of Development Research, Mumbai, confirms that a buffer stock level of around 10 million tonnes could be considered as adequate from the National Food Security angle even today, not withstanding the increase in population in the last two decades. This level of stocks could be considered as an "insurance requirement". Unfortunately the picture gets confused as FCI, in its documents, uses the phrase 'buffer stock' in the larger context which includes the base stocks (about 1 million tonnes or so distributed in small quantities over a large number of depots and which cannot be accessed quickly for meeting the

requirements at any one point of time or place), the operational stocks estimated at 1/3rd of the total required for distribution, mostly through the PDS and the balance of stocks which is also termed 'buffer stocks'. Given the large proportion of people depending on the PDS and also given the vagaries of the monsoon, the Expenditure Reforms Commission would strongly recommend that a level of 10 million tonnes, composed of 4 million tonnes of wheat and 6 million tonnes of rice (given the much larger off take of rice from the PDS) be always kept as the food security buffer stock. These stocks should be at storage depots, well spread out in all States, so that these could be moved quickly to the local areas where these may be urgently required. As per FCI's budget for the current year, the cost of carrying such stocks would be around Rs.1800 crore. In addition, there is also the cost of the foodgrains, about Rs.10,000 crore but this is financed as part of the overall stocks of the FCI through bank credit.

15. The next part of the buffer stock relates to the stocks held in excess of the requirements for national food security and for public distribution. If the PDS requirement is taken as 21 million tonnes, including the sales to the APL population, then on an assumption of four months roll over, the average stocks required for this purpose for the year as a whole will be 7 million tonnes. As against this requirement and the requirement of 10 million tonnes as food security buffer stocks, given the present peak holding of 44 million tonnes, the total average stocks this year could be around 24 million tonnes. As the excess stocks are solely due to the very generous minimum support price based procurement policy being followed by Government, the cost of holding these stocks, could be considered as a subsidy to the producers and reflected as such in the budget.

16. While admittedly, the availability of foodgrains today in the country could be said to exceed the purchasing power based demand, three factors - the extent of malnutrition, high population growth rates and a heavy dependency on the monsoons - militate against any let up in the efforts in increasing food production in the country. At the same time, considering the high costs imposed on the country by the excessive stocks of the FCI, the time has come to explore the possibility of the annual average stocks with the FCI being contained within the required, as well as, manageable limits - say around 17 million tonnes - by inducing the State Governments and the private sector to enter the foodgrains trade - procurement, storage and as well as including exports - in an organised and big way. A movement in this direction is already taking place, with some States undertaking "decentralised" procurement in recent years. Some States have been carrying out procurement operations on their own account for some decades now.

17. With the sharp increases in the support prices offered every year, the minimum support price is in fact becoming the maximum support price and the FCI

has become the buyer of the first resort instead of being the buyer of the last resort. In other words, the rationale of the support price mechanism has been totally lost over the years. Last year, FCI ended up by procuring 76% of the paddy and 99% of wheat of market arrivals in Punjab, even though in the entire procurement process, there was no element of compulsion or coercion. This is in total contrast to the position prevailing in the earlier decades when even at times of statutory rationing which warranted compulsory procurement, the attempt of the farmers and the millers was to dodge procurement / levy efforts!

18. The first requirement for bringing in State Governments and the private sector back into the picture in a big way is for the Government of India to moderate the increases effected every year in the minimum support price for foodgrains. In fact considering that the Minimum Support Price, taken together with the statutory and non-statutory levies of the State Government and their agencies, accounts for 73% of the economic cost for wheat, and also the fact that currently open market prices for wheat in and around Delhi are even lower than this level, there is clearly a case for freezing the Minimum Support Prices for Paddy/Rice and Wheat in the forthcoming procurement seasons at the same levels as fixed for the last procurement season. It will be a healthy practice in future to accept the prices recommended by a body of experts like the CACP without making further increases while processing their recommendations. The statement at Annexe-IV shows that the Minimum Support Prices as announced exceeded CACP's recommendations substantially in recent years, particularly for wheat.

19. Any significant role for the State Governments/private sector in this area will call for substantial investments in setting up modern storage facilities (grain silos) and also for major efforts in building backward and forward linkages, including exports. The backward linkages will have to be such as to win the confidence of the farmers and embolden them to deposit the stocks in such grain silos, get a part payment straightaway and keep an option on the sale of stocks at a future date when the price is considered to be more attractive. Today, no doubt there are no restrictions either on traders picking up stocks from the farmers or moving these across the border from Punjab or Haryana. Exports are also permitted. But the fear that restrictions would be imposed - the onion crisis two years back is a classic example - the moment there is any problem on the production front, inhibits any investment other than by the FCI. What is therefore necessary is an assurance of continuity of policy, an assurance that could be given, if government announces in advance that in the event of drop in foodgrains output in any year, it would resort to imports to meet the requirements rather than roll back the policies relating to States / private sector procurement and marketing, including exports. Considering the level of food production in the country in the last few years and also

the current excessive stocks with the FCI, the time is perhaps appropriate to introduce these major changes. As the statement at Annexe-V (A & B) shows, the country could well have taken such a decision even a few years back to export say three million tonnes each of wheat and rice every year. During this five year period this approach would have led to problems only during brief periods and the situation could have been tided over by resorting to imports. The Expenditure Reforms Commission would therefore urge the Government to announce that State Governments with surplus foodgrains production and private trading agencies would be allowed to freely procure, sell and also export up to 3 million tonnes of rice and 5 million tonnes of wheat every year and also that this policy will remain unchanged for at least 15 years and that in the event of a drop in foodgrains production in any year, domestic consumption requirements would be met through imports.

20. The induction of the State Governments/private sector would also indirectly lead to a reduction in the cost of procurement to FCI. For instance, even though the minimum support price for wheat in 1999-2000 was only Rs.550/- per quintal the costs by way of statutory and non-statutory charges paid to agencies in Punjab and Haryana totalled up to an additional Rs.60/- per quintal. Of these, the Mandi charges were Rs.28.46 per quintal, and the purchase tax was Rs.17.12 per quintal . While for the current year the minimum support price has been increased by Rs.30/- per quintal to Rs.580/- per quintal it is seen there is also an increase of Rs.20/- per quintal in these levies. These include a new levy - infrastructure cess - of Rs.5.80 per quintal! While some of these are in the nature of economic costs and unavoidable, like mandi labour, local transport cost, forwarding charges etc. the remaining items clearly reflect an attempt by the State Government and various other agencies involved in the process to maximise the returns to themselves on these transactions. The phenomenon of extending various concessions and exemptions, some extending even upto 20 years, to private sector undertakings, even while seeking to maximize revenues on transactions of Central Government Undertakings is observed in many States and on many transactions - be it on foodgrains procured, oil drilled, coal mined, or on naphtha used in fertiliser production etc. It is necessary, that the Government of India should take up these issues, for an early resolution, with the State Governments in the interest of consumers of the country. The induction of private sector in a big way and also encouraging the State Government themselves to undertake procurement operations, could lead to a moderation of these levies and the savings in the procurement cost for FCI could be quite significant.

21. Considering the wide variations in the incidence of taxes and other levies on procurement effected in the different States, one option would be for Government of India to move towards a procurement price, that will include the minimum support price

as well as ‘reasonable’ levels of taxes and other levies that can be imposed by the States, thus leaving it to the States to decide on what they should retain by way of taxes and levies and what should be passed on to the farmers.

22. While the above suggestions will apply to both wheat and paddy/rice, there is one problem peculiar only to paddy/rice. In some States, the procurement generally takes the form of a levy i.e. a proportion of the rice milled which the miller has to surrender to the procuring agency. The farmers get their payment from the millers to whom they sell their paddy and in the absence of any large scale complaints the presumption is that they do get the minimum support price which forms the basis for determining the levy price paid to the miller for the rice surrendered by him. In Punjab also the purchase of paddy by the millers was generally high in the earlier years, reaching 98.25% in 1988-89, but it has dropped steadily to 23.89% in 1999-2000. As a result FCI ends up by procuring a large proportion of the paddy either directly or through the State Government agencies and thereafter negotiating with the millers for the outturn as well as the rate to be paid. In the process FCI ends up by having to take the entire quantity of rice milled and also allowing considerable deviations from the quality standards prescribed. Various factors tend to affect the quality of rice so procured. The first is the proportion of the paddy prematurely harvested partly because of the timing of the return of the migratory labour from Bihar. Second, is the milling of some of the quantities, with high moisture content leading to a high proportion of brokens and subsequent discolouration. As the FCI is required to take the entire rice milled in such transactions, the millers have no stake in ensuring high quality standards. On the other hand, if the pattern is brought back, wherein the farmer sells the paddy to the millers, and the FCI takes a proportion (levy) of the rice milled, leaving it to the miller to sell the balance in the market through his own efforts, then the miller would have a stake at every stage of the operation to ensure high quality. One other point merits attention. Earlier there were three rates - for super fine, fine and common varieties of paddy/rice. Now there are two rates. The Expenditure Reforms Commission would recommend that there be only one rate, i.e. the rate for the common variety, as is already the case with wheat, so as to minimise disputes and reduce scope for malpractices. This will also encourage farmers and millers to look for better and more profitable markets elsewhere for the superior varieties of paddy/rice grown in these States.

23. The objective should be to move towards an arrangement whereby FCI procures rice through a levy system. One approach could be to stop procuring paddy altogether, except when there is a crisis. The other would be to effect suitable changes in the price offered for paddy in the form of minimum support price and the price offered to the miller on levy rice. Obviously, it is a change in the relative prices over the years

that have led to a drastic change in the proportion of paddy that the FCI has had to directly procure. In Punjab where the paddy is harvested in September and October and the milling process continues till June next year, the paddy is required to be stored for a certain length of time before it is milled. It has been pointed out that while the FCI willingly picks up the charges for such storage, whether it is held by itself or by the State Government agencies on FCI account, it does not allow such a margin to the millers when they procure the paddy directly. Clearly there is a case for closely examining the price to be paid to the miller for the rice procured from him on a levy basis and with reference to strict quality standards. The Expenditure Reforms Commission would recommend that this exercise be undertaken without delay by the Department of Expenditure and Ministry of Food with the FCI and the revised rates announced before the coming season. In those areas and during the period when levy is “imposed” - this word has become an anachronism, in the present context - the proportion could be anywhere between 50% and 70% as the miller may choose. It has to be at least 50% so that the FCI is enabled to get adequate stocks of rice to meet the PDS commitments. At the same time it should not be excessive - say more than 70%, as it would then reduce considerably the millers’ stake in the entire process.

24. These suggestions, taken together with the earlier ones for moderating the increases in minimum support price and an assurance of continuity of policy in regard to participation of the private sector in foodgrains trade, should result, over a two to three year period, in FCI’s annual procurement being contained at around 21 million tonnes - a level that is adequate to meet the PDS requirements. If there had been an accretion to the Food Security buffer stocks level of 10 million tonnes in one year, then to that extent procurement in the subsequent year would stand reduced. If there had been a draw down from the food security buffer stock in any year then to that extent the procurement would stand increased in the next year. This will also be the level that could be managed by the FCI in a most cost effective manner given its present level of handling capabilities. The resultant saving in buffer stock carrying costs arising from the elimination of excess buffer stocks over and above the food security buffer stock of 10 million tonnes, would be around Rs.1300 crore, compared to the likely expenditure in the current year. There would also be a substantial reduction in the quantum of bank credit that FCI today pre-empts from the banking sector for financing its stocks. Equally importantly, the quantity of foodgrains that deteriorate due to lack of rotation and storage losses would also come down drastically.

25. The last item relates to FCI’s costs at all points along the chain, from procurement to sale. This year this is estimated at around Rs.6500 crore, covering a number of items like transport, storage, interest, transit and storage losses, staff salaries etc. Unfortunately, in the present system in which FCI operates on a full reimbursement

basis all this gets passed on either to the consumer or to the Government. Once every few years when audit establishes shortages clearly then that is written off with the amount being debited to the food subsidy bill of the Government. It is ascertained that the Administrative Staff College, Hyderabad, is currently examining in depth all aspects of FCI's functioning and is expected to lay down, inter alia, the norms - the ceilings - for expenditure at every stage of the entire operations from procurement to distribution. As there is a widely held perception that there is considerable scope for reduction in FCI's costs it is necessary that speedy action is taken on all cost reduction measures as may be recommended by the Administrative Staff College. FCI's overheads being so large, even a small saving here and there could add up to a very sizable amount leading to a reduction in the economic cost, which will benefit the consumers, particularly the BPL population and also lead to a reduction in the buffer carrying costs.

26. There are, however, four issues on which action needs to be taken straightaway. The first relates to the allocation of the FCI's overhead costs as between distribution and buffer stocks. The manner in which the allocation has to be made between distribution and storage is laid down in the Ministry of Agriculture & Irrigation, Department of Food's letter No.F-3 (iii)/FF-I/77 dated 31st January, 1979 to their Managing Director, FCI (Copy at Annexe-VI). FCI's current year's budget places the total average stocks at 20.9 million tonnes. Of this, 8.2 million tonnes representing one-third of the 24.6 million tonnes expected to be distributed through the PDS and open sales is treated as distribution stocks while the balance of 12.7 million tonnes is treated as buffer stock. This break up is one of the inputs in the calculations for apportioning the total overhead expenditure as between distribution and buffer costs. If, as suggested earlier only the sales through the PDS, to the BPL population at 50% of the economic cost and to the APL population at economic cost, i.e. a maximum of 21 million tonnes is reckoned as quantity "distributed", then as the average stocks required in the year for this purpose would be only 7 million tonnes, of the currently estimated total average stocks of nearly 24 million tonnes, the balance of 17 million tonnes will qualify as buffer stocks. Thus the ratio for allocation purposes would be 7:17 instead of 8.2:12.7 as between distribution and buffer costs.

27. The second point relates to whether or not any depreciation of stocks should be provided in the 10 million tonnes to be maintained on a long term basis as food security stocks. This becomes relevant in the allocation of the transport costs and transit losses. The existing instructions provide for the allocation of these costs in the ratio of quantities expected to be distributed and the "accretion" to the buffer stocks. As a result in the FCI's current year's budget, where no significant accretion to buffer stock was expected, bulk of the transport cost of over Rs.1431 crore and transit losses of Rs.265 crore have been allotted to the distribution cost. Theoretically, even if there is

no distribution through PDS, it would still be necessary for the Government to 'rotate' the stocks held as food security stocks over a two-three year period as otherwise the entire stock would get spoiled, requiring to be sold at a throw away price and what is worse would not be fit for human consumption when the need arises. If it is agreed that such a rotation of these buffer stocks is necessary in national interest, then even if there is no accretion to these buffer stocks, one third of the stocks - on the basis of a three year rotation - will have to be taken into account in the allocation of transport costs and transit losses. Thus in the current year transport costs and transit losses relating to 3.4 million tonnes required for rotation purposes and another 6.9 million tonnes representing the accretion to buffer stocks would need to be taken into account when estimating the buffer costs.

28. The next item relates to carry over charges. With the excessive levels of procurement, a good part of the wheat procured is held by the Punjab Government agencies and brought in to the FCI account during the course of the next year. A sum of Rs.330 crore payable to the Punjab Government this year on this account is included in the calculation of the economic cost for wheat at Rs.31.75 per quintal in the current year. As the average stocks required for distribution is independently determined with reference to the quantity required for distribution it is indeed anomalous that this expenditure also should be debited to the distribution costs. Correctly this should be debited to the buffer stock costs.

29. Quick calculations by the FCI, show that with the changes arising from the sharp increase in stock levels compared to earlier expectations and the changes in the methodology in allocation of costs as now suggested by this Commission and also taking into effect of 'pooling' (i.e. taking into account stocks procured last year at lower prices and still available with FCI), the economic cost of foodgrains to be distributed through PDS would come down to around Rs.8.30 per kg. for wheat and Rs.11.30 per kg. for rice. The Expenditure Reforms Commission would urge the Government to adopt these prices with immediate effect for purposes of determining the issue price in the PDS. The reduction in PDS sales realisation as a result of these changes in the remaining part of the current year could be of the order of Rs.700 crore. The buffer carrying costs would stand increased by a corresponding amount.

30. It will be necessary for the Ministry of Finance and the Department of Food in consultation with the FCI to review in its entirety the 1979 order and make changes wherever necessary ensuring that the economic cost, which determines the sale price to BPL population is not inflated in any way.

31. The last point relates to gunny charges. It is seen from the various reports that use of synthetic bags could reduce the gunny charges by 50% in the

case of both wheat and rice. Earlier 100% of the packaging of foodgrains was to be in gunny bags, while recently the Textile Ministry has permitted the use of synthetic bags upto 10% in this sector. Discussions with the FCI officials reveal that the question whether synthetic bags could be used for packaging of wheat is under examination in consultation with the Health Ministry, as wheat needs to 'breathe' and cannot therefore be stored in synthetic bags without suitable modifications. On the other hand there is no such limitation in the case of rice. Considering that a large part of the sales through the PDS are to the BPL population, the Expenditure Reforms Commission would recommend use of synthetic bags straightaway for packaging of rice. Gunny bags could continue to be used for packaging of paddy. This measure would result in a further reduction of about Rs.20 per quintal or 20 paise per kg. in the economic cost of rice. At the same time this should not have any significant impact on the jute farmers in the country as it is ascertained that currently about 15% of the jute required by the industry is met from imports.

32. To sum up, the Expenditure Reforms Commission would recommend the following:

(a) The decision of the Government to allocate 20 kg. per family per month to the BPL population at half the economic cost is a welcome one. On the one hand it ensures better targetting of the subsidy, while on the other the indexation of sale price helps to moderate the increase in subsidy bill in the future years.

(b) Every effort has to be taken to ensure that the quantities allocated for the BPL population actually reach them and at the prices at which the Government of India releases them. Towards this end, the State Governments will have to put in a major effort for identifying the BPL population, giving them ration cards and reaching the foodgrains intended for them in a transparent manner.

(c) In those States where the total distribution under the PDS is in excess of the quantities earmarked for BPL population and at prices at or below the price at which the sales are to be made to the BPL population, the Government of India could provide the subsidy amounts directly to the State Governments leaving it to them to procure the foodgrains required for the BPL population required either from the FCI or by their own efforts or through private traders either from their own States or from other States. This would not only lead to the State Governments being able to save some money in the bargain but also make the FCI sit up, thanks to the emerging competition, and seek to carry out its operations more efficiently.

(d) A National Food Security buffer stock of 10 million tonnes - 4 million tonnes of wheat and 6 million tonnes of rice - should be maintained at all times.

(e) The cost of buffer stocks held in excess of the above requirements should be treated as “producer’s subsidy” and action taken to phase it out over the next three years through

(i) moderating the increase of minimum support prices - Expenditure Reforms Commission would in fact recommend a freezing of the MSP at the last year’s level for the forthcoming season;

(ii) moving towards procurement of a single (common) variety of paddy/ rice, as in the case of wheat, and also, through a suitable adjustment in the pricing mechanism, reduce procurement of paddy and increase procurement of rice through a levy system;

(iii) encouraging State Governments and private sector to enter procurement, trade and export of foodgrains through an assurance of continuity of policy over the next 15 years and an indication that if in any one year foodgrains output goes down, then Government would resort to imports for bridging the gap and not tinker with the policy package announced for supporting State Governments and private sector. The objective of the procurement policy should be to maintain a food security buffer of 10 million tonnes and availability of 21 million tonnes per annum for distribution through the PDS to APL and BPL population. On this reckoning, the total average stocks to be maintained for distribution and buffer stock should be no more than 17 million tonnes or so compared to a likely level of 24 million tonnes in the current year.

(f) Every effort should be taken to minimise FCI’s overhead charges and the methodology for allocation of FCI’s overheads as between distribution and buffer stocks needs to be modified to ensure that the consumers, particularly those below poverty line are not made to pay for the cost attributable to excess stocks or FCI’s inefficiencies.

(g) In particular, the four suggestions set out earlier and which would lead to a reduction in the economic costs, thus benefiting the APL and BPL populations alike, should be taken up for implementation straightaway.

ANNEXE-I

AGRICULTURE PRODUCTION – FOODGRAINS

(in million tonnes)

	Cereals				Pulses	Total Foodgrains
	Rice	Wheat	Coarse Cereals	Total (2 to 4)		(5 + 6)
	2	3	4	5	6	7
1970-71	42.23	23.83	30.55	96.61	11.82	108.43
1971-72	43.07	26.41	24.60	94.07	11.09	105.17
1972-73	39.25	24.74	23.14	87.12	9.91	97.03
1973-74	44.05	21.78	28.83	94.66	10.01	104.67
1974-75	39.58	24.10	26.13	89.81	10.01	99.83
1975-76	48.74	28.85	30.41	108.00	13.04	121.04
1976-77	41.92	29.01	28.88	99.81	11.36	111.17
1977-78	52.67	31.75	30.02	114.43	11.97	126.41
1978-79	53.77	35.51	30.44	119.72	12.18	131.90
1979-80	42.33	31.83	26.97	101.13	8.57	109.70
1980-81	53.63	36.31	29.02	118.86	10.63	129.59
1981-82	53.25	37.45	31.09	121.79	11.51	133.30
1982-83	47.12	42.79	27.75	117.66	11.86	129.52
1983-84	60.10	45.48	33.91	139.49	12.89	152.37
1984-85	58.34	44.07	31.17	133.58	11.96	145.54
1985-86	63.83	47.05	26.20	137.08	13.36	150.44
1986-87	60.56	44.32	26.83	131.71	11.71	143.42
1987-88	56.86	46.17	26.36	129.39	10.96	140.35
1988-89	70.49	54.11	31.47	156.07	13.85	169.92
1989-90	73.57	49.85	34.76	158.18	12.86	171.04
1990-91	74.29	55.14	32.70	162.13	14.26	176.39
1991-92	74.68	55.69	25.99	156.36	12.02	168.38
1992-93	72.86	57.21	36.59	166.66	12.82	179.48
1993-94	80.30	59.84	30.81	170.95	13.31	184.26
1994-95	81.81	65.77	29.88	177.46	14.04	191.50
1995-96	76.98	62.10	29.03	168.11	12.31	180.42
1996-97	81.73	69.35	34.11	185.19	14.25	199.44
1997-98(P)	82.30	65.90	31.16	179.36	13.07	192.43
1998-99(P)	84.74	71.01	30.90	186.65	15.89	202.54
1999-2000(P)	88.55	70.10	29.36	188.01	13.55	201.56

P – Provisional

Source: *Ministry of Agriculture, Government of India*

ANNEXE-II

PUBLIC DISTRIBUTION SYSTEM - PROCUREMENT AND OFFTAKE

1972-73 to 1999-2000

(in million tonnes)

Year	Procurement			Off take		
Ending March	Rice	Wheat	Total	Rice	Wheat	Total
	2	3	4	5	6	7
1973	2.51	5.00	7.51	3.69	7.24	11.38
1974	3.93	4.53	8.46	3.23	6.90	11.43
1975	3.58	1.96	5.54	3.78	6.15	11.11
1976	5.96	4.05	10.01	3.00	6.92	10.27
1977	5.23	6.59	11.82	4.06	5.53	10.18
1978	4.57	5.16	9.73	4.32	7.06	12.02
1979	6.15	5.47	11.62	3.20	6.75	10.02
1980	4.43	7.99	12.42	4.88	8.04	13.04
1981	5.34	5.86	11.20	5.88	7.51	13.54
1982	7.02	6.59	13.61	6.74	6.69	13.59
1983	7.14	7.71	14.85	7.69	7.90	15.73
1984	7.58	8.29	15.87	7.67	7.45	15.34
1985	9.82	9.30	19.12	6.61	6.72	13.40
1986	9.62	10.35	19.97	7.40	11.72	19.28
1987	9.36	10.54	19.90	9.03	10.35	19.61
1988	7.04	7.88	14.92	10.11	12.78	23.00
1989	7.64	6.53	14.70	9.08	8.66	17.97
1990	11.17	9.00	20.17	7.48	7.51	14.99
1991	12.92	11.07	24.16	7.91	8.58	16.49
1992	9.41	7.75	17.16	10.28	10.48	20.74
1993	12.72	6.38	19.78	9.89	8.06	17.96
1994	13.56	12.84	26.40	9.46	9.14	18.61
1995	13.12	11.87	24.99	8.85	10.59	19.44
1996	9.91	12.33	22.24	14.00	12.82	26.82
1997	11.87	8.16	20.04	12.44	13.26	25.70
1998(P)	14.51	9.30	23.82	11.36	7.76	19.12
1999(P)	11.43	12.65	24.08	11.83	8.90	20.73
1999-2000 (P)	14.37	14.14	28.51	10.95	4.99	15.94

P – Provisional

* **–** Includes Coarse cereals

Source: *Ministry of Food & Consumer Affairs, Government of India*

ANNEXE-III

Statement indicating allotment (A) and Offtake (O) and Gap (G) for Rice and Wheat from the Central Pool during Apr'99 to March, 2000 (Provisional)

(in '000 tonnes)

Sl.No.	States/Union Territories	Rice			Wheat		
		A	O	G	A	O	G
1	Andhra Pradesh	2300	2282	18	141	99	42
2	Arunachal Pradesh	109	101	8	8	5	2
3	Assam	670	529	141	214	219	-5
4	Bihar	507	237	271	861	680	181
5	Delhi	155	75	79	725	54	671
6	Goa	76	45	31	34	12	22
7	Gujarat	293	166	127	740	293	447
8	Haryana	0	0	0	157	53	103
9	Himachal Pradesh	147	65	82	142	55	87
10	Jammu & Kashmir	433	332	101	365	45	319
11	Karnataka	900	794	106	420	230	190
12	Kerala	1744	1266	478	453	236	217
13	Madhya Pradesh	412	316	96	504	71	433
14	Maharashtra	762	676	87	1208	1074	134
15	Manipur	125	46	79	23	1	22
16	Meghalaya	208	192	15	14	15	-1
17	Mizoram	125	89	37	14	15	-1
18	Nagaland	125	114	12	23	19	4
19	Orissa	1170	857	313	420	168	252
20	Punjab	12	2	10	62	6	56
21	Rajasthan	16	3	13	633	241	392
22	Sikkim	88	70	18	2	1	1
23	Tamilnadu	1815	1804	10	360	164	196
24	Tripura	198	150	47	17	7	10
25	Uttar Pradesh	740	364	376	1529	336	1193
26	West Bengal	519	200	319	1061	744	317
27	A&N Islands	30	26	4	9	7	2
28	Chandigarh	4	0	4	22	0	22
29	D&N Haveli	7	1	5	3	0	3
30	Daman & Diu	7	1	6	2	0	2
31	Lakshadeep	6	7	-1	1	0	0
32	Pondichery	24	10	14	9	2	7
	TOTAL	**13725**	**10820**	**2905**	**10175**	**4855**	**5320**

ANNEXE-IV

PROCUREMENT/MINIMUM SUPPORT PRICES OF FOODGRAINS

(Rs. per quintal)

Commodity	Quality	Year (Crop Year)	Year (Marketing Year)	Price Recommended by the CACP	Price announced by the Government
1. Paddy (Common)	F.A.Q.	1978-79	1978-79	82	85
		1979-80	1979-80	90	95
		1980-81	1980-81	100	105
		1981-82	1981-82	115	115
		1982-83	1982-83	122	122
		1983-84	1983-84	132	132
		1984-85	1984-85	137	137
		1985-86	1985-86	140	142
		1986-87	1986-87	146	146
		1987-88	1987-88	150	150
		1988-89	1988-89	160	160
		1989-90	1989-90	172	185
		1990-91	1990-91	205	205
		1991-92	1991-92	235	230
		1992-93	1992-93	260	270
		1993-94	1993-94	310	310
		1994-95	1994-95	340	340
		1995-96	1995-96	355	360
		1996-97	1996-97	370	380
		1997-98	1997-98	415	445
		1998-99	1998-99	440	440
		1999-2000	1999-2000	465	490
2. Wheat	F.A.Q.	1978-79	1978-79	110	112
		1979-80	1979-80	115	115
		1980-81	1980-81	117	117
		1981-82	1981-82	127	130
		1982-83	1982-83	142	142
		1983-84	1983-84	151	151
		1984-85	1984-85	155	152
		1985-86	1985-86	157	157
		1986-87	1986-87	162	162
		1987-88	1987-88	165	166
		1988-89	1988-89	173	173
		1989-90	1989-90	183	185
		1990-91	1990-91	200	215
		1991-92	1991-92	225	225
		1992-93	1992-93	245	250 @
		1993-94	1993-94	305	330 @@
		1994-95	1994-95	350	350
		1995-96	1995-96	360	360
		1996-97	1996-97	380	380
		1997-98	1997-98	405	475 #
		1998-99	1998-99	455	510 *
		1999-2000	1999-2000	490	550
		2000-2001	2000-2001	575	580

@ : Effective price of wheat between 1.4.92 to 30.6.92 was Rs.280/- per quintal comprising of Rs.250/- MSP + Central Bonus + Rs.5/- State bonus.

@@ : Including a central bonus of Rs.25/- per quintal.

: Effective price of wheat between 1.4.97 to 30.6.97 comprising Rs.415/- MSP + Rs.60/- central bonus.

* : Effective price of wheat between 1.4.98 to 10.6.98 comprising Rs.455/- + Rs.55/- central bonus.

ANNEXE-V(A)

BUFFER NORMS & ACTUAL STOCKS OF RICE DURING LAST FIVE YEARS

Buffer Norms (in million tonnes)		Actual Stock (in million tonnes)					
		1995	1996	1997	1998	1999	2000
1st April	11.08 (3.7)	18.08	13.06	13.17	13.05	11.74	14.93
1st July	10.00 (9.2)	16.44	12.88	10.95	12.04	10.74	—
1st October	6.5 (6.0)	13.00	9.34	7.04	8.96	12.78	—
1st January	8.4 (7.7)	17.42	15.41	12.94	11.49	11.68	14.18

Figures in bracket indicate Buffer norms from April 1995 to September 1998.

ANNEXE-V(B)

BUFFER NORMS & ACTUAL STOCKS OF WHEAT DURING LAST FIVE YEARS

Buffer Norms (in million tonnes)		Actual Stock (in million tonnes)					
		1995	1996	1997	1998	1999	2000
1st April	4.0 (3.7)	8.72	7.76	3.24	5.08	9.92	14.93
1st July	14.30 (13.1)	19.22	14.13	11.42	16.48	21.64	—
1st October	11.6 (10.6)	16.95	10.54	8.30	15.24	9.92	—
1st January	8.4 (7.7)	12.87	13.15	7.08	6.76	12.69	17.17

Figures in bracket indicate Buffer norms from April 1995 to September 1998.

ANNEXE-VI

No.F-3(3)/FF-I/77
Government of India
Ministry of Agriculture & Irrigation
(Department of Food)

New Delhi, the 31st January, 1979

To

The Managing Director,
Food Corporation of India,
16-20, Barakhamba Lane,
New Delhi.

Sub: Allocation of costs between normal operation and buffer stocks – Principles reg.

Sir,

I am directed to state that a sub-group was constituted to examine the principles for allocation of total costs by the Food Corporation of India between the operational stocks and buffer stocks. The report of the sub-group and also the suggestions of FA(FCI) and CCAO in this regard were considered by the Committee set up by the Government of India to examine ways and means of reduction in the cost of maintenance of buffer stocks of foodgrains and it decided to refer the various suggestions to the Comptroller and Auditor General of India for his expert advice. After taking into account the views expressed by the C&AG, it has been decided that the following principles should be adopted in the allocation of the total cost between the operational stocks and buffer stocks.

1. **Transportation Cost**

Transportion costs should be allocated in the first year in the ratio of sales plus operational stocks to average buffer. In the subsequent years, the allocation should be in the ratio of sales plus accretion to operational stocks; accretion to buffer (Accretion in the case of both buffer and operational stocks would be with reference to the highest level reached earlier).

2. **Transit Losses**

The same principle as for transportation costs should also be applied in the case of transit losses.

3. **Handling Charges**

The distribution of handling charges may be made in the ratio of sales plus average operational stocks: average buffer stocks.

4. **Storage Charges**

These charges may be apportioned in the ratio of operational stock; average buffer stock (in term of quantity)

5. **Storage Losses**

Storage Losses may be apportioned in the ratio of average operational stocks: average buffer stocks, on value basis.

6. **Interest Charges**

The interest on the value of average buffer stocks should be first worked out at the appropriate rate of borrowing and the amount so determined should be charged to the average buffer stock. The balance amount of interest should be taken as representing the interest charges to be allocated to operational stock.

7. **Administrative Charges**

Administrative charges may be allocated on the basis of ratio of sales; average buffer stock for the first year and ratio of sales plus average operational stock; average buffer stock for the subsequent years.

Kindly acknowledge receipt.

Yours faithfully,

Sd/-

(P A C Rao)
Under Secretary to the Govt. of India