Report of the High Level Committee
on
Reorienting the Role and Restructuring of
Food Corporation of India

JANUARY 2015

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PREFACE

High Level Committee on re-structuring of Food Corporation of India was set up by the Government of India on 20th August, 2014. It is my privilege that I was nominated as Chairman of the committee set up for this important work.

Agriculture plays a significant role in the overall socio-economic fabric of India. After 'green revolution' in food grain production, country accepted the challenge of providing food security by adopting National Food Security Act, 2013. Indeed, it is a fact that without farmer's security, we cannot fulfill the target of providing food security to our countrymen. After wide deliberations, Committee is presenting this report to Government of India.

The major issue before the Committee was how to make the entire food grain management system more efficient by reorienting the role of FCI in MSP operations, procurement, storage and distribution of grains in TPDS so that it can serve the country better and at a lower cost.

The Committee had wide consultations with several Chief Ministers, Food Secretaries and other stakeholders in various States. Their valuable suggestions were invited through various newspapers also. Almost 300 representations were received by the Committee and many of these valuable suggestions have been taken into consideration while finalizing the report. I thank on behalf of the Committee to all the stakeholders who had sent their valuable suggestions. All the distinguished members of the Committee had put in their best efforts to finalize the report, and I remain grateful to them. My special thanks to Dr Gulati, who was always ready to give as much time as needed by the Committee. The Committee is also grateful to Food Corporation of India for providing secretarial services for smooth and efficient functioning of the Committee.

January 19, 2015
New Delhi

(SHANTA KUMAR)
Chairman

Executive Summary

Reorienting the Role and Restructuring of Food Corporation of India (FCI)

I. Backdrop:

- Government of India (GoI) set up a High Level Committee (HLC) in August 2014 with Shri Shanta Kumar as the Chairman, six members and a special invitee (listed in **Annexure 1**) to suggest restructuring or unbundling of FCI with a view to improve its operational efficiency and financial management. GoI also asked HLC to suggest measures for overall improvement in management of foodgrains by FCI; to suggest reorienting the role and functions of FCI in MSP operations, storage and distribution of foodgrains and food security systems of the country; and to suggest cost effective models for storage and movement of grains and integration of supply chain of foodgrains in the country (detailed ToR contained in **Annexure 1**).

- The HLC had wide consultations with various stakeholders in its several meetings in different parts of the country (listed in **Annexure 2**). It also invited comments through advertisements in newspapers and electronic media. HLC would like to gratefully acknowledge that it has benefitted immensely from this consultative process, and many of its recommendations are based on very intensive discussions with stakeholders.

- In order to conceive reorienting the role of FCI and its consequent restructuring, one has to revisit the basic objectives with which FCI was created, and what was the background of food situation at that time. It is against that backdrop, one has to see how far FCI has achieved its objectives, what is the current situation on foodgrain front, what are the new challenges with regard to food security, and how best these challenges can be met with a reoriented or restructured institution like FCI.

- FCI was set up in 1965 (under the Food Corporation Act, 1964) against the backdrop of major shortage of grains, especially wheat, in the country. Imports of wheat under PL-480 were as high as 6-7 MMT, when country's wheat production hovered around 10-12 MMT, and country did not have enough foreign exchange to buy that much quantity of wheat from global markets. Self-sufficiency in grains was the most pressing objective,

and keeping that in mind high yielding seeds of wheat were imported from Mexico. Agricultural Prices Commission was created in 1965 to recommend remunerative prices to farmers, and FCI was mandated with three basic objectives: (1) to provide effective price support to farmers; (2) to procure and supply grains to PDS for distributing subsidized staples to economically vulnerable sections of society; and (3) keep a strategic reserve to stabilize markets for basic foodgrains.

- How far FCI has achieved these objectives and how far the nation has moved on food security front? The NSSO's (70th round) data for 2012-13 reveals that of all the paddy farmers who reported sale of paddy during July-December 2012, only 13.5 percent farmers sold it to any procurement agency (during January-June 2013, this ratio for paddy farmers is only 10 percent), and in case of wheat farmers (January-June, 2013), only 16.2 percent farmers sold to any procurement agency. Together, they account for only 6 percent of total farmers in the country, who have gained from selling wheat and paddy directly to any procurement agency. That diversions of grains from PDS amounted to 46.7 percent in 2011-12 (based on calculations of offtake from central pool and NSSO's (68th round) consumption data from PDS); and that country had hugely surplus grain stocks, much above the buffer stock norms, even when cereal inflation was hovering between 8-12 percent in the last few years. This situation existed even after exporting more than 42 MMT of cereals during 2012-13 and 2013-14 combined, which India has presumably never done in its recorded history.

- What all this indicates is that India has moved far away from the shortages of 1960s, into surpluses of cereals in post-2010 period, but somehow the food management system, of which FCI is an integral part, has not been able to deliver on its objectives very efficiently. The benefits of procurement have not gone to larger number of farmers beyond a few states, and leakages in TPDS remain unacceptably high. Needless to say, this necessitates a re-look at the very role and functions of FCI within the ambit of overall food management systems, and concerns of food security.

II. Major Recommendations of HLC:

Below is a summary of major recommendations of HLC keeping in mind how procurement benefits can reach larger number of farmers; how PDS system can be re-oriented to give better deal to economically vulnerable consumers at a lower cost and in a financially sustainable manner; and finally how stocking and movement operations can be made more efficient and cost effective in not only feeding PDS but also in stabilizing grain markets.

On procurement related issues

- HLC recommends that FCI hand over all procurement operations of wheat, paddy and rice to states that have gained sufficient experience in this regard and have created reasonable infrastructure for procurement. These states are Andhra Pradesh, Chhattisgarh, Haryana, Madhya Pradesh, Odisha and Punjab (in alphabetical order). FCI will accept only the surplus (after deducting the needs of the states under NFSA) from these state governments (not millers) to be moved to deficit states. FCI should move on to help those states where farmers suffer from distress sales at prices much below MSP, and which are dominated by small holdings, like Eastern Uttar Pradesh, Bihar, West Bengal, Assam etc. This is the belt from where second green revolution is expected, and where FCI needs to be pro-active, mobilizing state and other agencies to provide benefits of MSP and procurement to larger number of farmers, especially small and marginal ones.

- DFPD/FCI at the Centre should enter into an agreement with states before every procurement season regarding costing norms and basic rules for procurement. Three issues are critical to be streamlined to bring rationality in procurement operations and bringing back private sector in competition with state agencies in grain procurement: (1) Centre should make it clear to states that in case of any bonus being given by them on top of MSP, Centre will not accept grains under the central pool beyond the quantity needed by the state for its own PDS and OWS; (2) the statutory levies including commissions, which vary from less than 2 percent in Gujarat and West Bengal to 14.5 percent in Punjab, need to be brought down uniformly to 3 percent, or at most 4 percent of MSP, and this should be included in MSP itself (states losing revenue due to this rationalization of levies can be compensated through a diversification package for the next 3-5 years); (3) quality checks in procurement have to be adhered to, and anything below the specified quality will not be acceptable under central pool. Quality checks can be done either by FCI and/or any third party accredited agency in a transparent manner with the help of mechanized processes of quality checking. HLC also recommends that levy on rice millers be done away with. HLC notes and commends that some steps have been taken recently by DFPD in this direction, but they should be institutionalized for their logical conclusion.

- Negotiable warehouse receipt system (NWRs) should be taken up on priority and scaled up quickly. Under this system, farmers can deposit their produce to the registered warehouses, and get say 80 percent advance from banks against their produce valued at

MSP. They can sell later when they feel prices are good for them. This will bring back the private sector, reduce massively the costs of storage to the government, and be more compatible with a market economy. GoI (through FCI and Warehousing Development Regulatory Authority (WDRA)) can encourage building of these warehouses with better technology, and keep an on-line track of grain stocks with them on daily/weekly basis. In due course, GoI can explore whether this system can be used to compensate the farmers in case of market prices falling below MSP without physically handling large quantities of grain.

- GoI needs to revisit its MSP policy. Currently, MSPs are announced for 23 commodities, but effectively price support operates primarily in wheat and rice and that too in selected states. This creates highly skewed incentive structures in favour of wheat and rice. While country is short of pulses and oilseeds (edible oils), their prices often go below MSP without any effective price support. Further, trade policy works independently of MSP policy, and many a times, imports of pulses come at prices much below their MSP. This hampers diversification. HLC recommends that pulses and oilseeds deserve priority and GoI must provide better price support operations for them, and dovetail their MSP policy with trade policy so that their landed costs are not below their MSP.

On PDS and NFSA related issues

- HLC recommends that GoI has a second look at NFSA, its commitments and implementation. Given that leakages in PDS range from 40 to 50 percent, and in some states go as high as 60 to 70 percent, GoI should defer implementation of NFSA in states that have not done end to end computerization; have not put the list of beneficiaries online for anyone to verify, and have not set up vigilance committees to check pilferage from PDS.

- HLC also recommends to have a relook at the current coverage of 67 percent of population; priority households getting only 5 kgs/person as allocation; and central issue prices being frozen for three years at Rs 3/2/1/kg for rice/wheat/coarse cereals respectively. HLC's examination of these issue reveals that 67 percent coverage of population is on much higher side, and should be brought down to around 40 percent, which will comfortably cover BPL families and some even above that; 5kg grain per person to priority households is actually making BPL households worse off, who used to get 7kg/person under the TPDS. So, HLC recommends that they be given 7kg/person. On

central issue prices, HLC recommends while Antyodya households can be given grains at Rs 3/2/1/kg for the time being, but pricing for priority households must be linked to MSP, say 50 percent of MSP. Else, HLC feels that this NFSA will put undue financial burden on the exchequer, and investments in agriculture and food space may suffer. HLC would recommend greater investments in agriculture in stabilizing production and building efficient value chains to help the poor as well as farmers.

- HLC recommends that targeted beneficiaries under NFSA or TPDS are given 6 months ration immediately after the procurement season ends. This will save the consumers from various hassles of monthly arrivals at FPS and also save on the storage costs of agencies. Consumers can be given well designed bins at highly subsidized rates to keep the rations safely in their homes.

- HLC recommends gradual introduction of cash transfers in PDS, starting with large cities with more than 1 million population; extending it to grain surplus states, and then giving option to deficit states to opt for cash or physical grain distribution. This will be much more cost effective way to help the poor, without much distortion in the production basket, and in line with best international practices. HLC's calculations reveal that it can save the exchequer more than Rs 30,000 crores annually, and still giving better deal to consumers. Cash transfers can be indexed with overall price level to protect the amount of real income transfers, given in the name of lady of the house, and routed through **Prime Minister's Jan-Dhan Yojana (PMJDY) and dovetailing Aadhaar and Unique Identification (UID) number.** This will empower the consumers, plug high leakages in PDS, save resources, and it can be rolled out over the next 2-3 years.

On stocking and movement related issues

- HLC recommends that FCI should outsource its stocking operations to various agencies such as Central Warehousing Corporation, State Warehousing Corporation, Private Sector under Private Entrepreneur Guarantee (PEG) scheme, and even state governments that are building silos through private sector on state lands (as in Madhya Pradesh). It should be done on competitive bidding basis, inviting various stakeholders and creating competition to bring down costs of storage.

- India needs more bulk handling facilities than it currently has. Many of FCI's old conventional storages that have existed for long number of years can be converted to

silos with the help of private sector and other stocking agencies. Better mechanization is needed in all silos as well as conventional storages.

- Covered and plinth (CAP) storage should be gradually phased out with no grain stocks remaining in CAP for more than 3 months. Silo bag technology and conventional storages where ever possible should replace CAP.

- Movement of grains needs to be gradually containerized which will help reduce transit losses, and have faster turn-around-time by having more mechanized facilities at railway sidings.

On Buffer Stocking Operations and Liquidation Policy

- One of the key challenges for FCI has been to carry buffer stocks way in excess of buffer stocking norms. During the last five years, on an average, buffer stocks with FCI have been more than double the buffer stocking norms costing the nation thousands of crores of rupees loss without any worthwhile purpose being served. The underlying reasons for this situation are many, starting with export bans to open ended procurement with distortions (through bonuses and high statutory levies), but the key factor is that there is no pro-active liquidation policy. DFPD/FCI have to work in tandem to liquidate stocks in OMSS or in export markets, whenever stocks go beyond the buffer stock norms. The current system is extremely ad-hoc, slow and costs the nation heavily. A transparent liquidation policy is the need of hour, which should automatically kick-in when FCI is faced with surplus stocks than buffer norms. Greater flexibility to FCI with business orientation to operate in OMSS and export markets is needed.

On Labour Related Issues

- FCI engages large number of workers (loaders) to get the job of loading/unloading done smoothly and in time. Currently there are roughly 16,000 departmental workers, about 26,000 workers that operate under Direct Payment System (DPS), some under no work no pay, and about one lakh contract workers. A departmental worker (loader) costs FCI about Rs 79,500/per month (Apri-Nov 2014 data) vis-a-vis DPS worker at Rs 26,000/per month and contract labour costs about Rs 10,000/per month. Some of the departmental labours (more than 300) have received wages (including arrears) even more than Rs 4 lakhs/per month in August 2014. This happens because of the incentive system in notified depots, and widely used proxy labour. This is a major aberration and must be

fixed, either by de-notifying these depots, or handing them over to states or private sector on service contracts, and by fixing a maximum limit on the incentives per person that will not allow him to work for more than say 1.25 times the work agreed with him. These depots should be put on priority for mechanization so that reliance on departmental labour reduces. If need be, FCI should be allowed to hire people under DPS/NWNP system. Further, HLC recommends that the condition of contract labour, which works the hardest and are the largest in number, should be improved by giving them better facilities.

On direct subsidy to farmers

- Since the whole system of food management operates within the ambit of providing food security at a national as well as at household level, it must be realized that farmers need due incentives to raise productivity and overall food production in the country. Most of the OECD countries as well as large emerging economies do support their farmers. India also gives large subsidy on fertilizers (more than Rs 72,000 crores in budget of FY 2015 plus pending bills of about Rs 30,000-35,000 crores). Urea prices are administered at a very low level compared to prices of DAP and MOP, creating highly imbalanced use of N, P and K. HLC recommends that farmers be given direct cash subsidy (of about Rs 7000/ha) and fertilizer sector can then be deregulated. This would help plug diversion of urea to non-agricultural uses as well as to neighbouring countries, and help raise the efficiency of fertilizer use. It may be noted that this type of direct cash subsidy to farmers will go a long way to help those who take loans from money lenders at exorbitant interest rates to buy fertilizers or other inputs, thus relieving some distress in the agrarian sector.

On end to end computerization

- HLC recommends total end to end computerization of the entire food management system, starting from procurement from farmers, to stocking, movement and finally distribution through TPDS. It can be done on real time basis, and some states have done a commendable job on computerizing the procurement operations. But its dovetailing with movement and distribution in TPDS has been a weak link, and that is where much of the diversions take place.

On the new face of FCI

- The new face of FCI will be akin to an **agency for innovations in Food Management System** with a primary focus to create competition in every segment of foograin supply chain, from procurement to stocking to movement and finally distribution in TPDS, so that overall costs of the system are substantially reduced, leakages plugged, and it serves larger number of farmers and consumers. In this endeavour it will make itself much leaner and nimble (with scaled down/abolished zonal offices), focus on eastern states for procurement, upgrade the entire grain supply chain towards bulk handling and end to end computerization by bringing in investments, and technical and managerial expertise from the private sector. It will be more business oriented with a pro-active liquidation policy to liquidate stocks in OMSS/export markets, whenever actual buffer stocks exceed the norms. This would be challenging, but HLC hopes that FCI can rise to this challenge and once again play its commendable role as it did during late 1960s and early 1970s.

Chapter - 1

Administrative, Functional & Financial Structure of FCI

1.1 Introduction and FCI's Mandate

The Food Corporation of India was set up in 1965 under an Act of Parliament namely the Food Corporations Act, 1964 (Act No. 37 of 1964) with the primary duty to undertake purchase, store, move/transport, distribute and sell foodgrains and other foodstuffs. The Board of Directors of the Corporation, while discharging its functions, is required to act on business principles having regard to the interests of the producer and consumer and in doing so, be guided by such instructions on questions of policy as may be given to it by the Central Government under section 6(2) of the Food Corporations Act, 1964.

The main objectives of FCI are (a) procurement of foodgrains from farmers at remunerative prices; (b) distribution of foodgrains to consumers through PDS, particularly the vulnerable sections of society at affordable prices; and (c) maintenance of buffer stock of foodgrains for food security and price stability.

Food Corporation of India (FCI) is a Public Sector Undertaking under Department of Food & Public Distribution, Ministry of Consumer Affairs, Food & Public Distribution. The general superintendence, direction and management of the affairs and business of the Corporation vest in the Board of Directors.

1.2 Board of Directors & Executive Committee

The Board of Directors of the Corporation consists of a Chairman, three directors to represent respectively the Ministries of the Central Government dealing with Food, Finance and Cooperation; Managing Director of the Central Warehousing Corporation (ex-officio); Managing Director, FCI; and six other Directors.

1.3 Organizational Set-Up

Food Corporation of India coordinates its functions through a country-wide network of offices with Headquarters at New Delhi with five Zonal Offices, twenty-five Regional

Offices and 170 District Offices under its control. The organizational structure of FCI as on 31.12.2014 is depicted in **Annexure-3**.

All India position of manpower (category 1 to category IV) was 23848 as on 30.9.2014, which was about 65 percent of sanctioned strength.

Besides this technical and managerial staff, there is large amount of labour that is engaged by FCI to carry its functions smoothly. There were in total 52035 workers as on 30.9.2014, about 88 percent of sanctioned strength. Labour is engaged under different systems: departmental labour system (16908); Direct Payment System (DPS, 27223); and No Work No Pay (NWNP, 7904). Besides these, who are directly under FCI, there are about one lakh contract workers who are engaged through contactors to get the job done.

1.4 Functions

Procurement

The Central Government extends price support for procurement of wheat, paddy and coarse grains through the FCI and State Agencies. All the foodgrains conforming to the prescribed specifications are bought by the public procurement agencies at the Minimum Support Price (MSP) plus incentive bonus announced, if any.

Under Decentralized Procurement Scheme (DCP), introduced in 1997-98, foodgrains are procured and distributed by the State Governments themselves. Under this scheme, the designated States procure, store and issue foodgrains under TPDS and other welfare schemes of the Government of India. The decentralized system of procurement was introduced to ensure that MSP is passed on to the farmers, to enhance the efficiency of procurement for PDS and to encourage procurement in non-traditional States as well as to save on transit losses and costs.

Before the start of each procurement season, Govt. of India announces uniform specification for quality of wheat, paddy, rice and coarse grains. Quality Control Division of FCI ensures procurement of foodgrains from procurement centres strictly in accordance with Govt. of India's uniform quality specifications.

Feeding Public Distribution System

FCI feeds the PDS through its procured grains so that Government of India fulfills its objective of helping the economically vulnerable sections of society. The role of FCI becomes even more important in the backdrop of National Food Security Act, 2013, that commits to distribute more than 61 MMT through targeted public distribution system (TPDS) and other welfare schemes (OWS), at highly subsidized prices.

Pricing

Government of India, Ministry of CA, F&PD fixes the Central Issue Prices (CIP) of wheat and rice which is uniform throughout the country. The CIPs of wheat and rice were last revised by the Ministry for APL, BPL and AAY in July 2002. In the States where NFSA has been implemented w.e.f. 2013, the CIP has been further reduced.

The details are as follows:

(Rate: Rs./Quintal)

Commodity	APL	BPL	AAY	NFSA	Other than NFSA
Wheat	610	415	200	200	610
Rice Common	795 *	565	300	300	795*
Rice Grade 'A'	830	565	300	300	830

(*): applicable to J&K, Himachal Pradesh, Sikkim, Uttaranchal and NE States.

NFSA aims to cover overall 67 percent of population (75 percent of rural and 50 percent urban). So far only 11 states have implemented NFSA. These are: Haryana, Delhi, Himachal Pradesh, Rajasthan, Punjab, Karnataka, Chhattisgarh, Maharashtra Chandigarh, Bihar and Madhya Pradesh.

Foodgrains stocks are lifted by the State Government / their nominees. Before issue of stocks, they are allowed to verify the stocks and get themselves satisfied about the quality. Three representative samples are drawn and sealed with joint seal from the stocks issued. One is given to the recipient for displaying at the issue/sale point and two are retained by the FCI, one at the depot and the other for District Office.

Buffer Stocking and Buffer Norms

The buffer stocks are required to meet the foodgrain requirement for allocations made by GoI for TPDS and OWS; ensure food security during the periods when production is short of normal demand during bad agricultural years; and stabilize prices during period of production shortfall through open market sales.

The total annual stock of foodgrains in the Central Pool is distributed over different quarters of the year depending upon offtake and procurement patterns. The seasonality of production and procurement is thus a decisive factor in determining the minimum norm of food grains stocks required in a particular quarter of the year. For working out buffer stocking norms and making recommendations for policy decisions, the Government from time to time, has been setting-up Technical Groups.

In addition to buffer norms, Government of India has prescribed a strategic reserve of 30 lakh tonnes of wheat w.e.f. 01.07.2008 and 20 lakh tonnes of rice w.e.f. 01.01.2009.

Accordingly, the existing buffer norms and strategic reserve are tabulated below:

(Figures in Lakh MT)

As on	Buffer Norms (w.e.f. 20.04.2005)			Strategic Reserve		Grand Total
	Rice	Wheat	Total	Rice	Wheat	
1st April	122.0	40.0	162.0	20.0	30.0	212.0
1st July	98.0	171.0	269.0	20.0	30.0	319.0
1st October	52.0	110.0	162.0	20.0	30.0	212.0
1st January	118.0	82.0	200.0	20.0	30.0	250.0

Note: GoI (CCEA) has just approved the new buffer stocking norms on 16th January, 2015. The revised norms are: 21.04 million metric tonnes (MMT) on 1st April; 41.12 MMT on 1st July; 30.77 MMT on 1st October, and 21.41 MMT on 1st January, each year. These norms are revised keeping in mind the enhanced need under NFSA.

The position of actual stock of wheat and rice (inclusive of un-milled paddy converted to rice) in central pool as on 01.01.2015 is given below:

(Figures in Lakh MT)

Rice	Wheat	Total
231.30	251.13	482.43

Open Market Sales Scheme (Domestic)

FCI releases wheat at predetermined prices in the open market, from time to time, to enhance the supply of wheat especially during the lean season to moderate the open market prices. During 2012-13 and 2013-14, a quantity of 7MMT & 6 MMT of foodgrains was offloaded through OMSS, saving carrying cost and creating space for smooth procurement. For transparency in operations, the Corporation has switched over to e-auction for sale under Open Market Sale Scheme (Domestic).

Import & Export

In order to offload the peak stock level of 82 MMT in June 2012, GoI took a decision to export wheat through central public sector enterprises (CPSEs) under the Ministry of Commerce. A quantity of 4.5 MMT of wheat was approved for export by GoI for 2012-13 and 2 MMT in 2013-14. Against this target, actual exports were 5.79 MMT during 2012-13 to 2014-15 at a weighted average FOB rate of US $ 303.35/MT, which was higher than the C-BOT price, indicating a premium.

Storage Management

Existing storage capacity with FCI and State agencies for central pool stocks as on 01.01.2015 is 72.49 MMT, of which 15.71 MMT is in Cover and Plinth (CAP).

To reduce the dependence on CAP storage and to harness the benefits of private participation, Government introduced "**Private Entrepreneur Guarantee Scheme" (PEG)**. Under PEG scheme, assessment of the storage need has been made based on the overall procurement/consumption needs of the area and existing storage capacity. In 'Consuming States' assessment was based on 4 months requirements of stocks for TPDS

and OWS and in 'Procuring States', assessment was based on highest stock level observed in the last three years.

Accordingly, the proposals for construction of godowns at various locations were considered by State Level Committees of each State and a capacity of 202.22 Lakh MT has been approved by High Level Committee of FCI in 20 States under the scheme. Out of this 121.80 lakh MT has been constructed upto 31.12.2014.

Under the National Policy on Bulk Handling, Storage and Transportation of foodgrains, state of the art silos of 5.50 Lakh MT capacity have been created by FCI in 2007 through Private Entrepreneurs under Guaranteed hiring agreement for 20 years. Under this system, two base depots with 2.00 Lakh MT capacity each have been created at Kaithal (Haryana) and Moga (Punjab).

The Corporation is in the process of creation of additional 2 million silo capacity through VGF and non-VGF modes in different parts of the country having facility of railway siding.

Movement

In order to ensure availability of foodgrains for TPDS and OWS, and to maintain reasonable levels of buffer stocks at various strategic locations throughout the country, FCI undertakes transportation of foodgrain (wheat and rice) from surplus States to the deficit States and also within the States by rail, road and riverine modes. About 90% of all India movement is undertaken by railways and rest by road and waterways.

On an average of 25 lakh bags (50 KG) of foodgrains are transported every day from the procuring areas to the consuming areas, covering an average distance of 1500 Kilometre.

All India Movement Plan is prepared on monthly basis at FCI HQs keeping in view: quantity available in surplus States, quantity required by consuming States, likely procurement in procuring States, vacant storage capacity both in consuming as well as procuring States, and monthly allocation/off-take.

1.5 Finance & Accounts

The major source of finances is as under:

(Figures in Rs. crore)

Source of fund	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
A. **Equity Capital**	2,528.30	2,552.73	2,587.73	2,649.67	2,672.95	2,675.95
B. **Debt**						
Long Term Bond	8,604.90	5,504.60	4,044.20	3,914.50	8,914.50	16,914.50
Cash Credit Limit	34,495.00	34,495.00	34,495.00	44,495.00	54,495.00	54,495.00
Short Term Loan	2,615.00	8,985.00	3,800.00	13,500.00	13,080.00	16,250.00
WCL	-	-	5,000.00	-	-	Nil
(B) Total Debt	45,714.90	48,984.60	47,339.20	61,909.50	76,489.50	87,659.50
Total-A+B	48,243.30	51,537.33	49,926.93	64,559.17	79,162.45	90,335.45
Increase of debt over last year	-	3,269.70	(-)1645.40	14,570.30	14,580.00	11,170.00
Average interest cost (%)	11.43	8.62	8.88	10.26	10.16	9.93

Break-up of FCI's cost as per Budgetary Estimates 2014-15 is as under:

Particulars	**Wheat**	**%age**	**Rice**	**%age**	**Fixed by**
Pooled Cost of Grain	1353.25	68%	1935.15	70%	GOI
Proc. Incidentals	348.50	17%	474.87	17%	GOI/ State Govt.
Acquisition Cost	1701.75	85%	2410.02	87%	
Freight	113.85	6%	127.81	5%	Railways/ Open tender
Handling	57.25	3%	57.27	2%	Wage settlement/ Minimum Wage Act/ tendering
Storage	36.57	2%	36.58	1%	GOI/ Open tender
Interest	58.32	3%	82.63	3%	Consortium of Banks
Losses	2.66	0%	18.14	1%	Operational losses incl. recoverable losses
Admn. Overheads	23.30	1%	23.32	1%	GOI as per DPE guidelines
Distribution Cost	291.95	15%	345.75	13%	
Economic Cost	1993.70	100%	2755.77	100%	
Avg. Sales Realisation	539.57	27%	338.44	12%	GOI/ Tender
Subsidy (Rs./qtl.)	1454.13	73%	2417.33	88%	

Besides this economic cost, there is also the cost of carrying the buffer, which comes to Rs. 475/qtl. Once this is included, the real cost of operating the system comes to roughly Rs. 2200/qtl for wheat and Rs. 3000/qtl for rice.

Chapter-2

Performance Evaluation of FCI

2.1 Objectives and Performance

Performance of any institution should be judged against the objectives it was supposed to perform. As elucidated in the last chapter, The Food Corporation of India came into existence in 1965 under the Food Corporation's Act of 1964 to fulfill the following objectives of the food policy:

1. provide effective price support operations to safeguard the interests of the farmers;
2. to distribute foodgrains through-out the country for public distribution system(PDS);
3. to maintain satisfactory level of operational and buffer stocks of foodgrains to ensure National Food Security.

After 50 years of its operations, it is time to re-examine its role and functions in the light of substantial changes on food front, especially cereals, and also in the light of its three objectives it was created for. Without a proper performance evaluation of FCI in the light of its three objectives, any suggestions on restructuring of it may be on weak grounds, if not totally futile.

2.2 Commendable Role of FCI in late 1960s

It may be worth recalling India's situation on cereal front when FCI was created. In 1964 -65, India's wheat production was 12.26 million metric tonnes (MMT), while India imported 6.57 MMT of wheat that year (primarily under PL 480). Imports of wheat amounted to almost 54 percent of domestic production and 35 percent of overall availability of wheat in the country (domestic production plus imports). The total foreign exchange reserves of the country that year were only US $524 million and the price of wheat in the international market was $66.81/MT (fob US gulf). If one adds to this fob price, minimum shipping freight costs at the rate of 15 percent of the price, the landed price in India would have been US $76.83/MT. At this price, if India had spent its entire foreign exchange reserves in importing just wheat, India could have imported maximum 6.8 MMT of wheat. Obviously, that was not feasible, and therefore country had to rely on imports under PL 480, which was more like an aid (against rupee payments) but had its own political repercussions.

The year 1965-66 was even worse. Production of wheat dropped from 12.26 MMT in 1964-65 to 10.40 MMT in 1965-66, a drop of about 15 percent. Imports of wheat increased further from 6.57 MMT to 7.83MMT, an increase by 19 percent.

It was against this backdrop that India's food policy took a drastic turn for the better. In January 1965, the Agricultural Prices Commission was rolled out to give a boost to positive price policy, recommending minimum support prices (MSPs) for basic staples, especially wheat and paddy (rice). The FCI was to ensure that farmer's get this MSP so that they are encouraged to increase the production of basic staples.

In 1966, GoI also imported about 18,000 tonnes of High Yielding Variety seeds of wheat from Mexico and distributed amongst farmers to encourage their production. It is this combination of new technology and positive price policy, which ushered in the famous green revolution in India. By 1971-72, India's wheat production had jumped to 26.41 MMT and imports were down to 0.49 MMT. It is during this period, especially from 1967-68 to 1971-72, FCI played a commendable role in wheat growing areas of Punjab and Haryana by procuring wheat and providing effective price support operations.

But in October 1972, GoI announced taking over the wholesale trade in wheat from the ensuing marketing season, and the following year of rice. This was part of the belief that private sector cannot be relied upon and state must take over the wholesale trade in basic staples, presumably part of the socialist policies of that time. This turned out to be a major miscalculation in procurement policy, which was compounded by international price crisis of 1973-74. Wheat started disappearing from markets, prices shot up, procurement fell, and India was back in the international market for imports, this time without PL 480. Just to get a feel of the situation consider the following hard facts: in 1973 India had to import 2.41 MMT of wheat, which increased to 4.46 MMT in 1974, and to 7.18 MMT in 1975. This happened when the green revolution was still unfolding. The price of wheat (Hard Red Winter from US) in the international market had shot up from US $80.32/MT in 1972-73 to $166.39/MT in 1973-74 and 1974-75 before coming down marginally to $147.74/MT in 1975-76. Against these high price spikes in wheat and rising imports of wheat, the foreign exchange situation in the country was extremely precarious: foreign exchange reserves (foreign currency assets plus gold plus reserves tranche position plus Special Drawing Rights (SDRs)) amounted to just $1.26 billion in 1972-73, $1.36 billion in 1973-74, $1.46 billion in 1974-75 and $2.26 billion in 1975-76. With these meagre foreign exchange reserves, there was no way India could afford to rely on imports of wheat.

GoI realized the wrong move it had taken in procurement policy of taking over the wholesale trade in wheat and rice, and finally gave up that policy in 1975 for the better. There was a subtle policy message in all these events: don't try to take over the markets, let the markets function competitively, wherever they can, and state should enter only where markets fail, and provide an effective floor price to farmers. This message would be worth remembering as we evaluate FCI's performance against its objectives.

2.3 The backdrop has changed dramatically

But where does India stand today on basic staples in terms of domestic production and imports/exports? And how is the situation on foreign exchange front?

During the Financial Year 2012-13 (FY 2013) and 2013-14 (FY 2014), India has emerged as the largest exporter of rice in the world, with more than 10 MMT of exports each year. Total cereal exports (basically rice, wheat and corn) amounted to 22 MMT in FY 2013 and another 21 MMT in FY 2014, thereby amounting to 43 MMT of cereal exports in two years, which India has never done in its entire recorded history. On top of this, the stocks with public agencies have been far exceeding the buffer stock norms, crossing 80 MMT on July 1st 2012 against a buffer stock norm of 31.9 MMT. The foreign exchange reserves in the country have been hovering around US $ 300 billion for quite some years, and even at a landed cost of $400/MT of wheat, if India was ever to import even 10 MMT of wheat, India would be spending less than 1.4 percent of its foreign exchange reserves.

In brief, there is a paradigm shift on food (cereal) front, between the time when FCI was created and today. The production has increased substantially; India has emerged as net exporter of cereals; with more than comfortable stocks with public agencies; and reasonably good foreign exchange reserves, giving ample cushion to leverage global markets for imports, as and when the need arises.

On top of all this, consumption patterns are shifting away from cereals; the per capita consumption of cereals is falling over time, and this is now happening even in the lowest expenditure decile groups. With rising incomes, as one would expect, people are consuming more of non-cereals food products, ranging from oils and fats, to fruits and vegetables, milk and milk products, and eggs, fish and meat.

2.4 Performance of FCI with respect to three objectives

(1) providing effective price support to farmers:

First and foremost objective of FCI is to provide effective price support to farmers to safeguard their interests. GoI announces MSPs (FRP for sugarcane) for 23 commodities, out of which FCI basically concentrates on wheat and rice, either directly or through state agencies. Almost 90 percent of procurement of wheat and paddy today is being done through state agencies. FCI's major role comes in 'accepting' rice from millers, and that's the point where much of the problem arises. But more on that later in the report. Here we concentrate on how many farmers are benefited from procurement system of wheat and rice, which is what FCI does primarily.

The 70th Round of NSSO on The Key Indicators of Situation of Agricultural Households in India shows that there are 90.2 million agricultural households[1] in India. Out of this, during the July-Dec, 2012 period only 18.67 million households reported sale of paddy. Of those who reported sale of paddy, only 32.2 percent were aware of any MSP, only 25.1 percent were aware of any procurement agency, and only 13.5 percent actually sold anything to a procurement agency. This works out to just 2.52 million paddy households who benefitted directly from procurement. Interestingly, of those households who sold paddy to procurement agency, they sold only 27 percent of their sales at MSP.

During the period Jan-June 2013, only 5.46 million households reported sale of paddy, but only 10 percent of these households sold to procurement agency, which works out to just 0.55 million paddy households benefitting from procurement operations during this period. And interestingly, those who sold to procurement agency, they sold only 14 percent of their total sales at MSP.

In case of wheat, during the period Jan-June 2013, there were 13 million households reporting sale of wheat. Of the households reporting sale of wheat, only 39.2 percent were aware of MSP, 34.5 percent aware of any procurement agency, but only 16.2 percent sold to any procurement agency. This works out to just 2.11 million wheat

[1] An agricultural household is defined in this survey as one receiving value of produce, more than Rs 3000/- from agricultural activities, and having at least one member self-employed in agriculture either in the principal status or in subsidiary status during last 365 days.

households benefitting from procurement. And interestingly, of those who sold to any procurement agency, they sold only 35 percent of their total sales at MSP.

In sum, if one adds all agricultural households having sold paddy and wheat to any procurement agency, the number of households comes to just 5.21 million (2.55 million paddy households during July-Dec 2012; 0.55 million paddy households during Jan-June, 2013; and 2.11 million wheat households during Jan-June 2013). This figure of 5.21 million households as a percentage of total number of agricultural households (90.2 million) comes to just 5.8 percent. This is the finding from the latest survey conducted by NSSO, with such detailed questions on issues of households' awareness about MSP and selling their produce to procurement agencies. But if one adjusts this with common households that sell both paddy and wheat, and/or by the percent of quantity sold by each household at MSP, the figure of direct beneficiaries comes even lower. For staples other than wheat and paddy, the situation is far worse. However, there would be some indirect benefits even to those who do not sell directly to government agencies, but its magnitude is difficult to capture.

The upshot of this entire evidence is that the direct benefits of procurement operations in wheat and rice, with which FCI is primarily entrusted, goes to a miniscule of agricultural households in the country. Obviously then, much of the procurement that government agencies undertake comes from larger farmers, and in a few selected states (Punjab, Haryana, Andhra Pradesh and lately from Madhya Pradesh and Chhattisgarh). In some of these states, state agencies procure 70-90 percent of marketed surplus of wheat and rice, literally taking over the markets and crowding out private sector, committing similar mistake as was committed during the wholesale trade take over during 1973-75. It speaks of highly skewed incentive system in favor of larger farmers and the challenge is how to ensure that benefits of procurement operations reach a much larger number of agricultural households, especially smaller ones.

(2) distributing foodgrains all over the country for PDS:

The primary channel where FCI unloads its procured grains of wheat and rice is PDS. PDS has a long history, and has expanded over years, and is currently also sought to be the primary vehicle for implementing National Food Security Act (NFSA), 2013. NFSA promises to give specified quantities of rice/wheat/coarse cereals at Rs 3/2/1/Kg to 67 percent of population. The quantity promised under the Act is 35kg/month for Antyodya households, and 5kg/per person for priority households. As the current average size of

the family in India is around 5, this will work to 25kg/household per month. The total requirement for PDS and other welfare schemes is worked out to be 61.2 MMT per year. By the end of 2014, only 11 states had implemented the Act in some form, while others have been given extension twice.

While states do much of the procurement of wheat and paddy, FCI's role comes in accepting rice, and transporting it from surplus states to deficit ones in a timely and smooth manner so that ultimate beneficiaries of PDS can avail of the benefits of subsidized food. The amount of subsidy is likely to be 90 percent as the cost of rice to FCI is Rs 30/kg and of wheat Rs 22/kg, and the issue price is going to be Rs 3/kg and 2/kg for rice and wheat respectively.[2] The total budgeted subsidy in FY 2015 is Rs 1.15 lakh crores, with pending dues of more than Rs 50,000 crores. GoI believes that through this Act, it can ensure food security to all.

While FCI has a limited function of accepting wheat and rice from surplus states and transporting it to deficit ones, it may be worth asking what is happening under PDS, and what plans GoI has about NFSA, as it will have strong bearing on the role of FCI and all its associated logistics.

There have been several studies earlier which indicated large leakages in PDS. In a performance evaluation report of the Targeted PDS, the Planning Commission (2005) noted that 58 percent of subsidized grains distributed through TPDS do not reach BPL families. The CACP Discussion Paper 2 (2012) on National Food Security Bill points to leakages in PDS to the tune of 54.1 percent in 2004-05, and 40.4 percent in 2009-10, based on NSSO data. Our estimates based on NSSO data of 2011 indicate a leakage of about 46.7 percent **(Annexure 4)**. In many States leakage ranges from 70 to 90 percent.

Given such large leakages, one must question the reasons behind this, and whether it is worth keeping FCI pouring grains into a system that fails to deliver. Leakages don't happen in a vacuum. There is connivance at several levels, breeding corruption. It is now time to think out of the box and find some alternative policy solutions that can plug such large scale leakages and associated corruption, and that can ensure that benefits reach directly to the neediest.

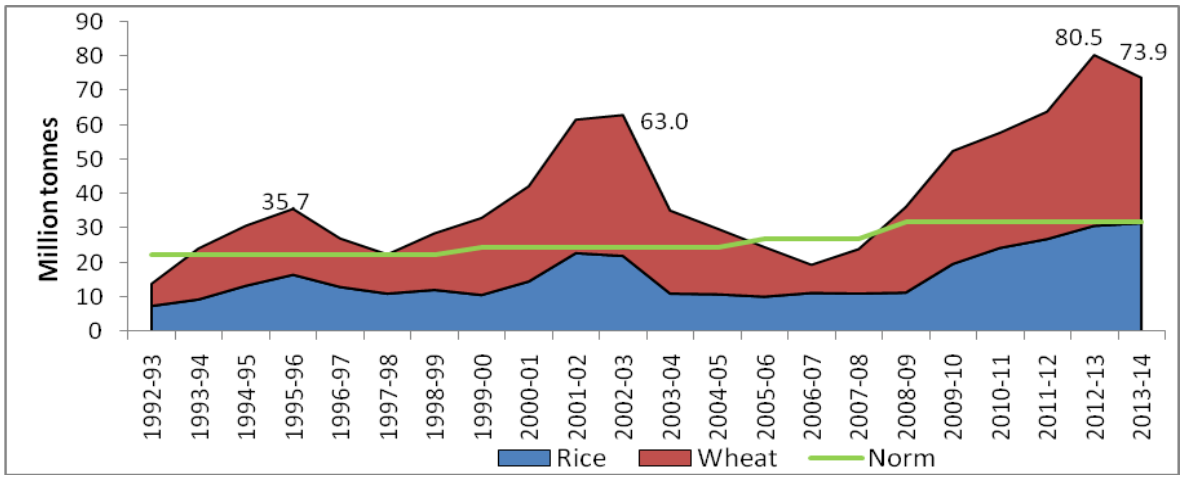
[2] The cost to FCI comprises of economic cost and the cost of carrying the buffer for 2014.

(3) maintaining satisfactory level of operational and buffer stocks of foodgrains to ensure National Food Security:

While FCI is basically a "keeper" of grains, the question of "how much" is a policy issue that Ministry of Consumer Affairs, Food and Public Distribution decides. But both are supposed to work hand in hand to ensure that the country does not have either hugely excessive or deficit stocks in relation to whatever the buffer stock norms are decided based on expert committee reports from time to time. What has been the experience in this regard, say during the last two decades?

Chart-1 gives the position of actual stocks with public agencies vis-a-vis buffer stock norms. It may be noted that in most of the years, stocks have been much higher than the buffer stock norms. In some years, as in 2002-03 and 2012-13, they have been hugely excessive, costing the nation thousands of crores of "dead weight loss". Just taking the last three years for easy calculation, say 2011-12 to 2013-14, the actual stocks were consistently more than double the buffer stock norms, which were fixed at 31.9 MMT for July 1st, taking into account the needs of both operational and strategic stocks. On an average, for the three year period, roughly 40 MMT of "excessive" grains were kept in public stocks without serving much purpose. And this happened when the country did not have enough scientific storage capacity, cereal inflation was ruling high. The cost of these stocks, calculated at economic cost plus the cost of carrying the buffer, would come to nearly Rs 100,000 crores. This much extra money was pumped in the economy, while grains were in FCI stocks, and food inflation was hovering at 10 percent per annum. This is just to illustrate how much economic inefficiency exists in the system. There may be several reasons behind this, ranging from high bonuses and taxes on MSP of wheat and rice, which have crowded out private sector from buying in many states, to lack of any clear cut liquidation policy when stocks build up, to uncertainty looming over what NFSA might entail, to sheer lethargy and incompetency of the system to comprehend what it is costing the tax payer. Interestingly, this is not the first time it has happened, which only reflects that the system refuses to learn from past mistakes. If it continues like this, it will cost the nation heavy in terms of reduced investments, lower growth, and high inflation.

Chart-1: Actual stocks of grains (as on July 1st) with public agencies vis-a-vis Buffer stock norms



To sum up, given the three main objectives of FCI within the ambit of food policy, namely giving an effective price support to farmers, to provide foodgrains for PDS and to maintain satisfactory level of buffer stocks to ensure food security of the country, the results are somewhat as follows: The direct benefit of procurement of wheat and rice does not go to more than 6 percent of 90.2 million agricultural households, indirectly how many farmers gain remains a question of guess and debate; PDS suffers from large leakage, ranging between 40-50 percent raising a question why should FCI keep pouring grains in this broken system, breeding corruption; and finally, quite often the stocks maintained by public agencies have been way above the norms, inflicting thousands of crores of unproductive expenditure without serving any cause.

Of course, FCI is not directly responsible for many of these things as its hands are tied. It does not have much say in policy, but it is part of the system of grain management. So, a desirable solution to FCI's restructuring cannot be found unless one looks at this issue of food security somewhat holistically. And this is taken up in subsequent Chapters.

Chapter-3

Redefining the Role and Functions of FCI within the context of overall Food Security System

3.1 ToR of HLC and concept of Food Security

Two of the key ToR[3] to HLC clearly ask for redefining the role and functions of FCI in management of foodgrains within the overall context of ensuring food security in the country. It would, therefore, be only befitting to first outline what constitutes food security as that is the overarching umbrella under which FCI functions, be it procuring of grains, storing them or distributing grains for PDS.

Food security, widely defined by FAO, has basically four pillars: (1) Availability: food should be available in sufficient quantity at all times and at all places; (2) Affordability: food should be affordable, i.e., people should have economic access (ample income) to buy food; (3) Absorption: food should be safe and nutritious that body can absorb for a healthy life; and finally (4) Stability: food system should be reasonably stable, as high volatility in food systems impacts adversely not only the poor but also endangers the stability of political and social systems.

The policy instruments to achieve various components of this concept of food security have differed from country to country and within the same country over a period of time. In India, price support policies, e.g., be they are in the form of MSPs for outputs or subsidized prices for inputs (like fertilizers, power, irrigation, etc) are basically to encourage farmers to increase production, and thereby "availability" of food.

The policy of giving highly subsidized wheat and rice to some sections of society through TPDS, including as envisaged under NFSA, is an instrument to provide "economic access" to food, the other pillar of food security.

[3] These specific ToR are: (i) To suggest measures for overall improvement in management of foodgrains by FCI; and (ii) To define or give suggestions to reorient the role and functions of FCI in MSP operations, storage and distribution of foodgrains and food security systems of the country.

About "absorption" pillar of food security, GoI follows several programs ranging from Integrated Child Development Scheme to food safety to immunization, etc. FCI's role is basically to supply wheat and rice for "other welfare schemes" to states, which are being covered under NFSA. Many other schemes relevant for "absorption", especially those of safe drinking water and girl child's education go beyond the scope of this Committee.

The instrument of buffer stocking (beyond the needs of PDS), especially strategic reserves, is primarily to provide stability to food system. Currently, only 5 MMT is provided for that. Occasional export controls or allowing imports (especially when actual stocks fall below buffer norms, as happened in 2006-07) are also parts of the same policy package trying to ensure stability of food systems.

3.2 Streamlining Procurement and Reorienting Role of FCI

What is the reality about "availability" of food, especially wheat and rice, in India? As is noted earlier in Chapter-2, India has abundant availability of wheat and rice, more than what is being consumed at home at current price and income levels. For the last 5-7 years, our public stocks are overflowing above buffer stock norms, giving a "problem of plenty", and our exports have been record high. So, if any changes in the role and functions of FCI, and associated policies of the Department of Food and Public Distribution (DFPD), are to be designed, the window of opportunity is now.

What are the changes needed in procurement sphere (both policy and operations) so that the country moves towards higher efficiency and lower losses with respect to food management, while ensuring food security of the country? HLC notes that the current situation of "excessive stocks" costing thousands of crores of rupees to the country without serving any purpose whatsoever is a result of some policies and some operational matters, and they must be streamlined to bring efficiency, and reduce costs and also food subsidy.

First, some states have been giving large bonus on top of MSP announced by GoI for paddy and wheat. A list of those states is provided in the table below:

Table-3.1: State-specific bonus on Paddy and wheat (Rs./qtl.) (2010-11 to 2013-14)

	Mktg. Year	2010-11		2011-12		2012-13		2013-14	
Sl. no	States	Paddy	Wheat	Paddy	Wheat	Paddy	Wheat	Paddy	Wheat
MSP		1000	1100	1080	1170#	1250	1285	1310	1350
1	Chhattisgarh	50	-	50	-	270	-	300	-
2	Karnataka	100	-	250	-	250		290	-
3	Kerala	400	-	420	-	450	-	490	-
4	M.P.	**Comm: 50** Gr A: 50	100	Comm:50 Gr A: 50	100	Comm:100 Gr A: 100	100	150	150
5	Rajasthan	-	-	-	-	-	100	-	150
6	Tamil Nadu	**Comm:50** Gr A: 70	-	Comm:**50** Gr A: 70	-	Comm:50 Gr A: 70		Comm:50 Gr A: 70	-
7	U.P.	-	-	-	50			-	-

Notes: Comm- common variety, Gr A – Grade A variety of paddy; # - including Rs 50 per qtl incentive bonus for paddy procurement announced by Centre; including Rs 50 per qtl incentive bonus for wheat procurement announced by Centre; Sources: FCI & state governments.

While HLC appreciates the pro-farmer attitude of these states, it must be noted that such bonuses distort the market, encouraging farmers to produce and sell more of wheat and rice to the government agencies, crowding out private sector from that state. In some states, the procurement by government agencies goes to 60-80 percent of marketed surplus. This is nothing short of a monopolistic situation in the market, with just one large buyer (the state agencies), *de facto* a wholesale trade take over, somewhat akin to the experiment of 1973-75 by GoI. Such bonuses distort the markets because the country is already burdened with excessive stocks, and with open-ended procurement, the situation worsens. HLC therefore advises that these states can encourage their farmers by giving them assistance on per hectare basis, which is crop neutral. But if any state still gives bonus on wheat and rice, HLC recommends that DFPD/FCI should not accept from that state any quantities more than what is entitled to that state under NFSA. All the excessive quantities beyond this commitment, and their associated costs, would be full responsibility of the state concerned, from procurement

to its liquidation. HLC notes and commends that some beginning is already made in this direction by DFPD, and recommends that it should be put out as the basic rule of operation for streamlining the food management system.

HLC also notes that private sector has been crowded out not only in states that give extra bonus but also those that charge very high statutory levies and commissions, which vary from 3.6 percent in Rajasthan to 14.5 percent in Punjab in case of wheat in 2012-13. In Gujarat and West Bengal it comes to even less than 2 percent.

Table 3.2: Increases in Statutory Levies in Major Wheat & Rice Producing States

Wheat

State	2012-13 (%)	Earlier	
	Rate	Rate	Year
Punjab	14.50	12.50	2010-11
Haryana	11.50	10.50	2010-11
MP	9.20	3.20	2009-10
UP	8.50	7.50	2009-10
Uttarakhand	7.50	6.50	2011-12
Rajasthan	3.60	4.10	2008-09

Rice

State	2012-13 (%)	Earlier	
	Rate	Rate	Year
Punjab	14.50	12.50	2011-12
Andhra Pd.	13.50	12.50	2011-12
Odisha	12.00	8.50	2011-12
Haryana	11.50	10.50	2010-11
Chhattisgarh	9.70	8.70	2010-11
UP	9.00	8.00	2008-09

Source: FCI

While HLC hopes that this issue will be finally dealt with under the rationalization of GST. But in the meantime, HLC recommends that DFPD/FCI should restrict the payment of these levies and commissions to 3 percent, or maximum 4 percent. In due course, this should be incorporated in the procurement price itself. This will bring back the private sector to market, and lessen the burden of excessive stocks on the government. States that lose revenue can be compensated for 3-5 years through a properly designed diversification package through a separate channel by GoI.

HLC also recommends fast ramping up of Negotiable Warehouse Receipt System (NWRS) under the National Warehouse Development Authority (NWDA) to get out of the monopolistic situation in procurement operations. Farmers of wheat and rice should be encouraged through Farmer Producer Organizations (FPOs), cooperatives, etc to hold their stocks in these registered warehouses and get an advance of say 80 percent of the value of produce (valued at MSP subject to FAQ norms) at the time of depositing stocks.

A centralized electronic system to monitor the quantities of these stocks (deposits/sales/carry forward) on real time basis needs to be developed. In due course, GoI can explore whether such a system can be used to shift to compensate farmers whenever market prices go below MSP, without physically handling grains.

HLC notes that currently, GoI announces MSPs for 23crops (primarily food crops but also some non-food crops like cotton and jute) with a view to give farmers a remunerative price.[4] But as noted in Chapter-2, based on 70th round of NSSO results for July 2012 to June 2013 agri-season, not more than 6 percent of 90.2 million agricultural households benefitted directly from selling wheat and rice to any procurement agency at MSP. This is particularly so in states like Uttar Pradesh, Bihar, Jharkhand, West Bengal, Assam, etc. FCI has already "outsourced" much of its main function of providing MSP of paddy and wheat to states, as almost 90 percent of procurement is done by them. FCI comes at the time of accepting rice from millers, and that is where much of the problems and allegations of corruption arise. HLC recommends that at least in states which have gained sufficient experience in procurement and stocking, and those that have taken major strides in that direction lately should be fully handed over the procurement and stocking functions of wheat, paddy as well as rice. These states could be Punjab, Haryana, Andhra Pradesh, Madhya Pradesh, Chhattisgarh and Odisha. Once the states have done full procurement, including receiving rice from millers, they can 'hand over' the surplus (after taking out the state's requirements under NFSA) to FCI to get it transported to deficit states. It may be clearly noted that FCI should have no business to do directly with millers. The quality checking will be at the time of acceptance of rice from state government. If the quality falls short of the norms prescribed, FCI can reject the grains as below quality, and then it would be solely the responsibility of the state to liquidate those stocks.

FCI should move on to States where market prices often go well below MSPs, especially eastern Uttar Pradesh, Bihar, West Bengal, and Assam. This is a region which is

[4] CACP is supposed to take care of various factors in recommending their MSPs, ranging from their overall demand and supply, domestic and international price situation, their costs of production, intercrop price parity, terms of trade, and the likely implications of its recommendations on the cost of living of consumers. Besides that it is also supposed to ensure rational utilization of land water resources keeping the overall needs of the economy. There is no statistical formula, and no specific weights assigned to any of these factors. It is left to the best judgment of the Commission to calibrate and give its recommendations, which are vetted through the system by various Ministries and finally approved (with modifications, if required) by the Cabinet Committee on Economic Affairs chaired by the Prime Minister.

dominated by small farmers, and where farmers suffer most. But this is also a region from where the nation expects second green revolution, strengthening India's food security. Given the vast experience that FCI has in procurement, it can help these states to put in place a modern and robust system of procurement and stocking, by handholding them, by giving them their expertise, by inviting private sector, or even helping to arrange financing through multilateral agencies like ADB, IFC, etc. for building infrastructure of agri-markets and storage of grains.

Direct transfer of input subsidies to farmers

In order to make the deal still better for farmers, HLC recommends that input subsidies being given by GoI be directly transferred to farmers on per hectare basis. Fertilizer subsidy alone would amount to anywhere between Rs 5000 to Rs 10,000/ha[5], and let the prices of fertilizers (including urea) be totally deregulated with imports decanalized at zero duty. This would help in curtailing diversion of urea to non-agri uses as well as to neighboring countries, encourage farmers to have balanced use of N, P and K, which is highly distorted today in Punjab, Haryana, Rajasthan, etc. It would also encourage the use of organic fertilizers, and other natural ways to rejuvenate soil fertility.

HLC would like to emphasize that the "availability pillar" of food security in a large country like India cannot be achieved unless farmers' get due incentives to raise their productivity and augment incomes. Most of the large countries provide effective support to their farmers to ensure food security as well as augment farmers' incomes, and majority of them have been in the process of changing the policy instruments of support from price policy to direct income support, as the latter is less market distorting than the price support **(Annexure 5)**. Even China has lately given US $ 17 billion support on account of input subsidies (mainly fertilizers) on per hectare basis directly to farmers. It is time for India to learn from best global practices and make our procurement policies to be 'farmer centric' rather than just 'tonnage centric'[6].

[5] While the total gross cropped area in the country varies each year and is normally shown to hover between 190 to 200 million ha by the Ministry of Agriculture, the 70th round of NSSO shows that in the agricultural year 2012-13, the estimated total operated area was only 94.48 million ha. (see statement 3.6 page 12 of the survey). Dividing the total fertilizer subsidy by GCA or estimated operated area will give per ha subsidy in the range of Rs 5000-10,000/ha.

[6] In some quarters there is a notion that our MSPs of wheat and rice are very high. But, just to illustrate, it may be noted that MSP of wheat in Pakistan is $320/MT and in China about $388/MT compared to less than $230/MT in India. Similar is a story of rice MSP in India vis-a-vis our comparable countries. For more details, see Annexure-5 on Producer Support Estimates in selected countries.

3.3 Towards cost effective storage and movement

In order to keep quality and reduce storage and transit losses, as eluded in Chapter-4, HLC recommends:

- FCI should gradually outsource this function of storage to central warehousing corporation (CWC), state warehousing corporation (SWC), and private sector (such as under Private Entrepreneur Guaranty (PEG) Scheme) purely based on cost efficiency by inviting competitive bids.

- Modernize storage towards bulk handling. Given the volumes and the average stocking period (2 years), if India has to keep the quality of stored grain and minimize losses, India needs to move fast towards bulk handling mechanized facilities. A minimum of 10 MMT of silos in the next 3-5 years, and may be more in the long run, is what FCI should be targeting with private sector participation. Private sector should be invited to build these and state governments and FCI should lend support or partner with them by providing necessary land at spots that are suitable for bulk handling at rail heads. The CAP storage should not be used for stocks that are there for more than 3 months. It needs to be substituted by silo-bags or convention storage or modern silos.

- Invite FDI in construction of modern silos and grain movement through containers. Railways need to be encouraged to open it for private sector, both domestic and foreign. Scarcity of storage space and lack of timely availability of railway rakes is a major bottleneck in movement of grains in time.

- Each state, especially the deficit ones in difficult terrain (like hilly areas of north-east, Jammu and Kashmir, etc), must have storage of grains for at least three months of their consumption requirement. Surplus states should be able to transport much of their procured stocks to deficit states within 3 months of procurement.

3.4 Economic access to food

Giving a better deal to consumers through direct cash transfers and plugging large leakages under PDS

In September 2013, GoI passed the National Food Security Act (NFSA, 2013), whereby it promised to give rice/wheat/coarse cereals at Rs 3/2/1/kg to 67 percent population (75

percent rural and 50 percent urban) through PDS. The estimated requirement of grains is more than 61 MMT. The cost of handling grain by the govt is about Rs 30/kg for rice and Rs 22/kg for wheat in 2014 (including costs of carrying stocks), against an MSP of rice at about Rs 20/kg (converted from paddy) and Rs 14/kg for wheat (Table-3.3). The budgeted subsidy food subsidy for FY 2014-15 is Rs 1.15 lakh crores and as per discussions with DFPD and FCI, there are pending arrears of almost Rs 50,000 crores that need to be cleared on account of food subsidy. What all this indicates is that the financial burden of this program is already becoming unsustainable, and unless some drastic steps are taken to reform this, the situation is going to become worse very soon.

Table-3.3: MSP and Economic cost (including cost of carrying the buffer)

Minimum Support Price* (Rate Rs./ qtl)				Economic cost *(including Buffer Carrying Cost)* Rate Rs./Qtl			Operation cost as a %age of MSP	
Year	Wheat	Rice #		Year	Economic Cost		Wheat	Rice Gr.A
		COMMON	GRADE A		Wheat	Rice		
2000-01	580.00	761.19	805.97					
2001-02	610.00	791.04	835.82	**2001-02**	**1032.53**	**1293.05**	**69.27%**	**54.70%**
2002-03	620.00	820.90	865.67	**2002-03**	**969.50**	**1255.64**	**56.37%**	**45.05%**
2003-04	630.00	820.90	865.67	**2003-04**	**1001.75**	**1264.72**	**59.01%**	**46.10%**
2004-05	630.00	835.82	880.60	**2004-05**	**1084.13**	**1312.50**	**72.08%**	**49.05%**
2005-06	640.00	850.75	895.52	**2005-06**	**1065.56**	**1342.67**	**66.49%**	**49.93%**
2006-07	700.00	925.37	970.15	**2006-07**	**1199.64**	**1408.91**	**71.38%**	**45.23%**
2007-08	850.00	1268.66	1313.43	**2007-08**	**1370.62**	**1549.86**	**61.25%**	**18.00%**
2008-09	1000.00	1343.28	1388.06	**2008-09**	**1610.04**	**1791.62**	**61.00%**	**29.07%**
2009-10	1080.00	1492.54	1537.31	**2009-10**	**1603.95**	**1964.29**	**48.51%**	**27.77%**
2010-11	1100.00	1492.54	1537.31	**2010-11**	**1639.86**	**2132.52**	**49.08%**	**38.72%**
2011-12	1170.00	1611.94	1656.72	**2011-12**	**1727.04**	**2272.83**	**47.61%**	**37.19%**
2012-13	1285.00	1865.67	1910.45	**2012-13**	**1875.33**	**2490.56**	**45.94%**	**30.37%**
2013-14	1350.00	1955.22	2007.46	**2013-14 (UA)**	**2117.22**	**2781.12**	**56.83%**	**38.54%**
2014-15	1400.00	2029.85	2089.55	**2014-15 (RE)**	**2253.79**	**2924.26**	**60.99%**	**39.95%**

 # MSP of rice is derived from MSP of Paddy at the Out Turn Ratio of 0.67%.

**** MSP is inclusive of Bonus.***

Source: FCI

Some States, most notably Tamil Nadu, Andhra Pradesh and Chhattisgarh, are covering larger population and giving rice at even cheaper rate than Rs 3/kg suggested in NFSA.

- The problem of relying on existing PDS to implement NFSA is that PDS suffers from large leakages (Planning Commission's estimates ranged from 40 to 52 percent; our calculations of 2011 data also indicate leakages of 46.7 percent (Annexure-4). HLC recommends that any state implementing NFSA must first reform its PDS by introducing biometrics and UID. Else, pouring more resources will go waste and never reach the intended beneficiaries. Also, beneficiaries should be given 6 months quota at a time,

immediately after the procurement season is over: wheat after 30th June and rice after 31st March.

- Majority of rural population covered under NFSA are either farmers or those working on farms. The rates fixed for rice, say at Rs 3/kg and current MSP of rice at Rs 20/kg, suggests that they get an effective subsidy of Rs 17/kg (Rs 20-Rs3/kg). But it costs GoI a subsidy of Rs 27/kg (Rs 30-Rs 3/kg) due to various costs involved in procuring, storing and distributing grains to the same persons they are buying from. A better way will be to give cash subsidy equivalent of say Rs 22/kg of rice to these farmers and farm workers. This would amount to giving them a better deal by about 29.4 percent as they get an effective subsidy of Rs 22 instead of Rs 17/kg. This would still save the GoI Rs 5/kg (Rs 27-Rs 22/kg of subsidy on rice). Similar calculation can be done for wheat. Calculations done by HLC suggest that by directly transferring cash to potential beneficiaries of NFSA at the rate of about Rs 700/per month per family for Antyodaya households and Rs 500 per month (for a family of 5) for priority households, it can give them a deal that is 25-30 percent better than physically distributing grain to them. And it can also save the govt large resources (about Rs 30,000-35000 crores), which can be ploughed back to agriculture through investments in irrigation and building better roads and markets network. HLC, therefore recommends, that direct cash transfers in the name of female head of the family be encouraged, starting with cities and surplus state farmers and farm workers. It can be extended over a 2-3 year period to other states, and it should be linked to *Jan Dhan Yojana* and UID. This cash transfer can be indexed with inflation and it will also help the consumers to access better and more nutritious food.

3.5 Providing Stability through Buffer Stocking and Trade Policy

An optimal combination of strategic reserves at home and some reliance on trade (imports) is needed to ensure stability of food system in a cost effective manner. Currently, India holds 5 MMT of strategic reserves, beyond the operational need for PDS. Our analysis of the fluctuation in wheat and rice production over the last 20 years reveals that except in 2002-03, when the production dropped significantly, in other years of drought, wheat and rice production has dropped up to about 10 MMT. In reality, therefore, one needs about 10 MMT of strategic reserves to take care of any contingency to cover roughly 95 percent risk (19 out of 20 years). But should India hold 10 MMT of physical stock as strategic reserve always? It is going to cost quite a bit. HLC has looked into this and recommends that it should continue to have only 5 MMT in

physical stocks, and another 5 MMT should be in the form of foreign exchange reserves that can be used any time the need arises. Reliance on global markets to the tune of 3 MMT of wheat and 2 MMT of rice is a very safe bet that can help India save resources. World markets of wheat hover around 150 MMT and India's entry with a demand of say 3 MMT is not going to cause any disturbance. Similarly, world market for rice is currently hovering around 38-40 MMT and reliance on it for 2 MMT of imports, as and when the need arises is not a bad idea.

On trade policy front, HLC also notes that while India is the largest exporter of rice in the world, it has currently an import duty of 70 percent. This is not a good idea for using trade policy for providing stability. HLC recommends bringing down this duty to 5-10 percent and decanalizing rice imports. This would help India to bring rice in its north-eastern hills through Myanmar route in a cost effective manner and save resources of FCI. Similarly, wheat imports can also be kept open at appropriate duty levels to augment stability of food system. It may be noted that imports of pulses are already coming at zero import duty, and edible oils attract 5-15 percent duty. Therefore, keeping rice and wheat imports open at suitable duty levels will help stabilize India's food security in a cost effective manner.

This entire outsourcing of procurement, stocking and movement to other stakeholders (state agencies and private sector) would need a total change in the functioning and structure of FCI, with more managerial, innovative, supervisory and directional role.

3.6 Issues related to Labour

The new role and structure of FCI, as envisaged above, raises a question of what would happen to large number of workers currently working with FCI, directly or indirectly. As indicated in Chapter-2, there are about one lakh contract workers who work through contractors, and they do the hardest job at market rates, which hovered around Rs 10,000/per month for the years 2012-13 and 2013-14.

In contract, the cost departmental labour turns out to be 7 to 8 times higher than the contract labour as given below:

Table: 3.4 Average Salaries of Workers per Month

Financial Year	Average Salary (in Rs.) (Cost per Worker per Month)			
	Departmental System	**DPS System**	**NWNP System**	**Contract System**
2009-10	38459	11606	n.a.	n.a.
2010-11	53389	14390	6855	4260
2011-12	63763	15490	9835	5223
2012-13	71538	22124	3456	10149
2013-14	78549	22975	4062	9774
April to Nov. 2014	**79588	26606	n.a.	n.a.
Note: Some of the cases where earnings exceed 4 lakhs, include arrears of wage revision w.e.f. 1.1.2012.				
**This figure is not including the Other Account Heads which form about 22% (as per the Accounts Division's statement showing Dept. Salaries for Financial Year 2012-13) of the total emoluments paid to Departmental labour.				

Source: FCI

The contract labour can easily be absorbed by state governments or private sector, which ever agency takes over the functions of FCI with respect to procurement, stocking and movement. HLC recommends that their conditions be improved by offering them better facilities.

However, there is an issue of departmental labour of FCI for loading/unloading etc., which gets an average salary of more than Rs 79,000/per month (in 2014). This is 7-8 times higher than what contract labour gets. There were more than 370 persons in FCI labour that got salaries of more than Rs 4 lakhs/per month. HLC has taken a serious note

of this, and FCI's system of so called incentives that allows this. This practice needs to stop. With transfer of much of storage and movement functions to states, this departmental labour of FCI will become 'surplus'. HLC recommends that they be offered suitable VRS and this cadre be gradually phased out. And to do that, first thing will be to put a cap on the incentive system, where by no labour is allowed to work more than say 1.25 times the daily work agreed with Labour unions. Second, those depots where this problem of departmental labour exists must be mechanized on priority basis so that reliance on such labour reduces substantially. Third, these depots should be de-notified in consultation with Labour Ministry.

With this new role of FCI**,** HLC believes that it can play a pivotal role in ensuring that benefits of grain management policies (from procurement to PDS) reach larger number of farmers and consumers in a more cost effective and sustainable manner, and food security is guaranteed in a sustainable manner.

Chapter- 4

Streamlining Supply Chain of Food Grains for Cost Efficiency

4.1 The restructuring model of FCI should build into it mechanisms by which the concerned stakeholders will have incentives for continuous improvement of the supply chain, especially in working towards cost efficiency in storage and movement, scientific model of storage and rationalized mode of movement.

It is with this objective in mind that HLC has carefully looked at the existing supply chain of food grains in the country, what factors will drive it in near future and how to make it more cost effective, while maintaining the quality of grain, and minimizing storage and transit losses.

Grain supply chain efficiency depends primarily on two things: (a) what is the overall volume (scale) of grain to be procured, stored and moved; and (b) at each segment of the supply chain, what technology is adopted to handle grain so that per unit cost is reduced. Normally, if the scale of operations is large, it would be desirable to introduce bulk handling facilities with better mechanized system at every level so that one can save on not only the time to turn around, but also give some relief to labour from carrying lakhs of bags on their backs.

What is likely to be the scale of operations for handling grains under public system of FCI or its associated state agencies? If India implements the NFSA, 2013 in its current envisaged form, it would require procurement and distribution of about 61 MMT of grains annually as flow variables. Strategic reserves are fungible and they are accounted for in the buffer stocking norm for each quarter. Currently, the highest buffer stocking norm (including strategic reserves) is 31.9 MMT as on July 1st. Keeping in mind the needs of NFSA, GoI has recently approved new buffer norm of 41.12 MMT as on July 1st, but revised downwards the buffer norm of January 1st from the current level of 25 MMT to 21.41 MMT. Efficiency of the entire logistics of grain-chain depends upon how fast one can move around grains from surplus to consuming areas. And this necessitates bulk handling systems in grain supply chain.

As against this envisaged scale of operations, if one views the experience of last three years, one finds that on an average, procurement of grains has hovered around 63 MMT, the offtake from TPDS has been around 60 MMT, and the long distance movement of grains has hovered around 40 MMT (Table-4.1). Almost 70 percent of this long distance movement originates in the north-west, indicating that surplus is concentrated in the north-west.

4.2 The storage and movement requirements can also be brought down if states in the Eastern belt, especially Eastern UP, Bihar, West Bengal, Assam, etc, where market prices go below MSP, start procuring under DCP mode and reduce their reliance on grains coming from northwest. Streamlining distortions in procurement (like state specific bonus/high taxation, etc) will also help in reducing the need for excessive storage and its movement.

Better service levels towards NFSA, OWS and Strategic Reserve can be achieved through decentralized storage, preferably at a district level, with well thought out locations, taking into account the needs of that area (demand), rail transport availability, and risk of being disaster prone.

4.3 For a streamlined supply chain, bulk storage and bulk movement, with packaging just before the retail/consumer end would be the way to go. The international best practices handle food grains in bulk. It is also important to minimize the number of stages of handling.

HLC is of the view that outsourcing storage and movement through Public Private Partnerships (PPPs) on a competitive bidding basis would provide the required investments and managerial competence for effectively managing the supply chain. Where required, existing land/facilities can be provided to the PPPs.

4.4 In the medium term, physical supply towards NFSA and OWS can be gradually replaced by Direct Benefits Transfer (DBT), which would bring down significantly the major activity of FCI, limiting it to physically managing the Strategic Reserve and to supply grains for difficult areas of North-east, Jammu and Kashmir, etc., and without compromising the food security.

Towards Cost Efficiency in Storage and Movement

4.5 The logistics cost for FCI are broken down into two components:

(i) Distribution cost, which involves all physical activities, and considered part of FCI's 'economic cost', and
(ii) Buffer cost, which includes the financing cost of the food grains held.

The total costs incurred by FCI including procurement, but net of sales realization is the total gross subsidy, charged to the Government of India (GoI).

Table 4.1 gives the total procurement, total offtake, distribution cost, buffer cost and total gross subsidy of FCI operations from 2006-07 to 2013-14.

Table 4.1

		2006-07[1]	**2007-08[1]**	**2008-09[1]**	**2009-10[2]**	**2010-11[2]**	**2011-12[2]**	**2012-13[2]**	**2013-14[2]**
Total procurement	MMT	34	40	57	57	56	63	72	56
Total offtake	MMT	37	38	40	50	53	56	66	60
Total movement[2]	MMT				31	34	37	41	45
Total movement[1]	MMT	22	22	23	28	31	33		
Distribution cost	Rs crore	8,945	9,000	8,051	7,019	9,481	11,788	15,438	18,230
	% of TGS	37.2	29.9	23.1	16.4	16.8	17.2	19.2	19.5
Buffer cost	Rs crore	609	692	3,546	5,852	6,337	6,639	8,421	11,550
	% of TGS	2.5	2.3	10.2	13.6	11.2	9.7	10.5	12.4
Total gross subsidy (TGS)	Rs crore	24,028	30,051	34,787	42,873	56,394	68,697	80,563	93,445

Sources:

1. Report of the CAG of India on 'Storage Management and Movement of Food Grains in Food Corporation of India', 2011-12, Performance Audit, Report Number 7 of 2013
2. Opening presentation by Food Corporation of India to the HLC on Restructuring of FCI - 08.09.2014

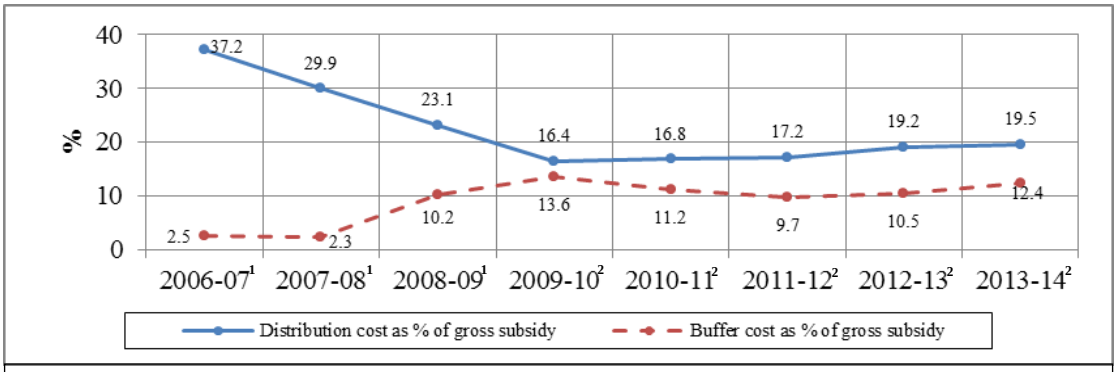
In general, offtake is consistently less than procurement, leading to excess stocks for FCI, until a decision on disposal is taken. From the data given by FCI for 2013-14, offtake has been 82% of the allotment. These reflect inefficiencies in the larger planning process.

The movement figures are lower than either procurement or offtake, reflecting that the balance offtake happens at the procurement centre itself without incurring 'long distance movement'.

The distribution cost as a proportion of total gross subsidy have been coming down over a longer time frame, but increasing in the recent few years. The buffer cost had a major jump in 2008-09 over 2007-08. Since then, the cost as a proportion of total gross subsidy has shown a marginal decline followed by a marginal increase.

Chart 4.1 shows the distribution and buffer cost as a per cent of total gross subsidy from 2006-07 to 2013-14.

Chart 4.1



Sources:

1. Report of the CAG of India on 'Storage Management and Movement of Food Grains in Food Corporation of India, 2011-12', Performance Audit, Report Number 7 of 2013
2. Opening presentation by Food Corporation of India to the HLC on Restructuring of FCI - 08.09.2014

The distribution cost consists of six heads, namely, freight, handling, storage, interest, shortages (losses) and administration overheads. **Annexure 6** gives the cost break up under the six heads for 2013-14.

4.6 The shortages can be examined under three heads, namely, storage loss, transit loss, and non-issuable / damaged food grains. As per FCI's data, the third category is negligible.

Table 4.2

		2006-07[1]	**2007-08[1]**	**2008-09[1]**	**2009-10[2]**	**2010-11[2]**	**2011-12[2]**	**2012-13[2]**	**2013-14[2]**
Storage loss	Rs crore	153.76	182.43	101.31	228.36	323.78	405.36	457.13	370.73
Transit loss	Rs crore	145.38	123.95	117.42	233.32	281.94	333.01	388.18	406.61

Sources:

1. Report of the CAG of India on 'Storage Management and Movement of Food Grains in Food Corporation of India',
   2011-12, Performance Audit, Report Number 7 of 2013
2. Opening presentation by Food Corporation of India to the HLC on Restructuring of FCI - 08.09.2014

The factors contributing to the storage loss are:

(i) Loss in moisture
(ii) Prolonged storage
(iii) Poor texture of gunnies, accentuated by use of iron hooks
(iv) Improper storage practices

The factors contributing to the transit loss are:

(i) Multiple handling
(ii) Poor texture of gunnies, accentuated by use of iron hooks
(iii) Poor quality wagons
(iv) En route pilferages
(v) Inadequate security at rail points, especially during night working and BG/MG trans-shipment

4.7 The buffer cost consists of two heads, namely, carrying cost of buffer and carry over charges paid to State Government Agencies (SGAs). Table 4.3 gives the cost break up under the two heads for 2011-12.

Table 4.3

		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Carrying cost of buffer	Rs crore	434	449	3,019	4,186	4,356	5,004
	%	71.3	64.9	85.1	71.5	68.7	75.4
Carry over charges paid to SGAs	Rs crore	175	243	527	1,666	1,981	1,635
	%	28.7	35.1	14.9	28.5	31.3	24.6
Total Buffer Cost	**Rs crore**	**609**	**692**	**3,546**	**5,852**	**6,337**	**6,639**
Source: Report of the CAG of India on 'Storage Management and Movement of Food Grains in Food Corporation of India, 2011-12', Performance Audit, Report Number 7 of 2013							

4.8 Between the distribution and buffer costs (of approximately Rs 25,000 crores) we can attribute:

(i) Storage, part of handling and shortages, and buffer as direct costs to the storage related activity (approximately Rs 10,000 crores including Rs 6,600 crores of buffer financing),

(ii) Freight, and part of handling and shortages as direct costs to the movement related activity (approximately Rs 9,000 crores), and

(iii) Interest and administrative overheads as indirect costs, due to borrowings for investments and supervision, respectively (approximately Rs 6,000 crores).

4.9 Given the above, HLC is of the considered view that it is important to take the following steps to bring in cost efficiency:

(i) Reduce the need for storage by streamlining distortions in procurement (bonus/taxation, etc.) and gradually introducing DBT (as already explained in detail in previous chapter);

(ii) Improve storage management practices by

- Outsourcing the management of storage and handling
- Focusing on bulk rather than bagged
- Even to the extent bagged storage has to continue, better quality material like HDPE rather than jute should be used.

- The possibility of having 'ears' to a bag to eliminate hook based handling should be considered
- The possibility of palletisation and usage of forklifts should be explored.

(iii) Reduce the number of stages of handling at procurement end
- Rationalize the mandis for procurement
- Ensure bulk storage capacity at such mandis
- Rail connectivity to be provided at such mandis

(iv) Bulk rail movement from mandis to distribution end

(v) Reduce the number of stages of handling at distribution end
- District-wise storage towards NFSA, OWS and Strategic Reserve
- Ensure bulk storage capacity at such locations
- Rail connectivity to be provided at such locations
- Packaging facility to be provided at such locations
- Direct movement from district-wise storage to the retail outlets/schemes consumers

Scientific Model of Storage

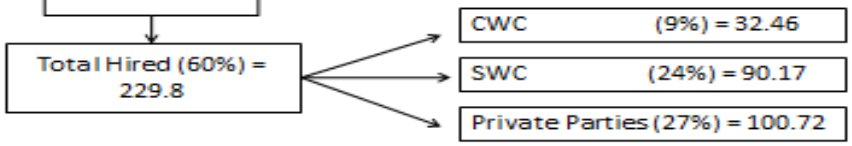
4.10 The current food grain storage scenario is given in Chart 4.2. While hired capacity (60% of the storage capacity of FCI) provides flexibility, wherever it is against a guarantee, the utilization of the hired capacity is higher often at the cost of under utilization of FCI's owned capacity.

Chart- 4.2

Storage Capacity Scenario in India (Covered vs CAP)

As on 31st August, 2014 (Figures in lakh tons)

Storage Capacity with FCI					Storage Capacity with State Agencies (excluding capacities given to FCI)			Grand Total
Covered		CAP		Total	Covered	CAP	Total	
Owned	Hired	Owned	Hired					
130.09	225.38	26.38	4.42	386.27	219.86	150.41	370.27	756.54



Source: Presentation made by Executive Director Storage (FCI), to the HLC for Restructuring of FCI on 08.10.14

4.11 HLC notes that FCI has already moved into the domain of hiring godowns from private parties through a PEG scheme, where private parties construct godowns. Apart from a rent based on quantity stored, they are also offered a guarantee. The rental rates have varied across states ranging from Rs 33.10 per tonne per month and Rs 106.20 per tonne per month. HLC views this as a positive development. But the real challenge would be to outsource the existing FCI storage for modernization and increased efficiency. However, based on the PEG experience, and what is being experimented in Madhya Pradesh, where state has given land to the private parties to build silos, HLC's view is that appropriate contracts both for new storage and existing storage can be developed in the overall interest of efficiency in storage of grains with much better facilities.

4.12 In terms of technology of storage, HLC's view is that the future is through silos. There appears to be a difference in the requirements of silo technology between wheat and rice. The approach should be to bring in appropriate silo technology for bulk storage for both rice and wheat. The FCI has experimented with bulk storage and bulk movement through a PPP model. The silo technology should be part of the larger supply chain of handling wheat and rice in bulk until the last step of movement to retail from the district storage where bagging needs to happen.

4.13 A cost comparison between the silo and conventional godown for stand-alone storage, when done on like to like basis, especially when land value of FCI is factored in cost, the difference in costs between silos and conventional storage is not much (see **Annexure 7** & **Annexure 8** for details).

The benefits for silo would be best realized if movement is direct from farm to silo in procurement areas. Further savings are possible due to reduced losses in storage, reduced handling and losses during transportation to silos near demand centres.

While there is need to work out specific quantity and what places it needs to be through a more detailed study, HLC's overall assessment is that given the overall production in the country, and drought prone nature of many regions, a silo capacity of about 10 MMT (together for wheat and rice) should be created in the next 3-5 years.

Given the need for bulk storage through silos, much of the future storage development should be silo based. This should also apply while outsourcing existing locations for modernizations.

Rationalized Mode of Movement

4.14 The month wise distribution of movement for the year 2013-14 is given in **Annexure 9.** Both in terms of rail movement and total movement, the months of June and November reflect a relative low, while January and March reflect a relative high. However, the variation across the months does not appear to be of significance, reflecting that movement is a steady phenomenon. If at all, variations may be driven by railways' ability to move, including achieving targets in the month of March.

Rail accounts for 88.5% of the movement share. The average per rake (39.6 MMT/12184 rakes) works out to be 3250 tonnes. In addition, 810 rail rakes were moved for exports during 2012-13. (The 810 rakes would amount to a movement of 2.6 MMT, with the loading of 3250 tonnes per rake.)

Inland water transport could be a mode for certain linkages, especially from coastal States with a net surplus of wheat/rice procurement. Exploratory movements of rice from Visakhapatnam, Andhra Pradesh have begun for supply to the North East and Kerala. There may be scope even for movements from/to states not on but near the coast, if the hinterland to port connectivity is well developed.

4.15 The mode-wise movement from North and Other than North is given in **Annexure 10**. North accounts for 70% (31.2 MMT out of 44.8 MMT) of the originating movement. Further, inter zonal movement accounts for 88% (39.6 MMT out of 44.8 MMT) of the originating movement.

The average lead (and therefore the cost) is on the higher side, given that a significant share of the movement is from the North. HLC, therefore, is of view that it is important to procure from states spread across the country, to balance the movement requirements, and consequently minimize the movement cost.

4.16 HLC is also of the view that there is the possibility of moving food grain by containers. IR charges container class rate, which is 10% less than the wagon rate for any notified commodity (including food grain) accounting for more than 30 containers in a rake. The charge is further based on the premise that the total weight of the container is 30

tonnes (irrespective of the fact that loading might be less than 30 tonnes). If the loading is lesser, the effective rate goes up. Table 4.4 provides a comparison of the container vs rail wagon rate.

The container rates would be valid even if the loading were in bulk. Loadability would be a little more both due to saving the weight of the bag and not being constrained by the shape of the bag.

On the other hand bulk loading in wagons would require special purpose wagons which IR would expect a third party to invest in. IR would offer a rate discount of 10% for movement in such wagons.

Table 4.4

	Food grain loaded (tonnes)	**Cost of transportation (Rs/tonne for 1000 km)**
Container[1]	30 (maximum capacity)	990
	28	1061
	26	1142
	24	1238
Wagon[2]		1100

Sources:

1. Presentation on 'Railways: Revenue Management' by G Raghuram, IIMA, 29.11.14, based on various Rates Circulars, starting from RC5 of 2011 issued by IR
2. http://www.indianrailways.gov.in/railwayboard/uploads/directorate/trafiic_comm/Freight_Rate_2K14/Fare-Table_250614.pdf - accessed on 23.12.14

A linear programming (LP) model, as a joint exercise between FCI and Indian Railways (IR), should be developed and used for planning and execution. There have been earlier recommendations on this. Unfortunately, the LP model was never developed in a manner that could be used for planning and implementation.

To wrap up, based on the analysis above, HLC recommends that FCI and associated state agencies need to move towards bulk handling in procurement, storage, and movement. There is need to upgrade the mandis in the north-west for bulk procurement, storage, and movement to other locations. Much of storage and movement can be outsourced.

FCI should invite bids to convert its own conventional godowns to modern silos under PPP mode. The whole system of grain management is lagging behind with technology of 1960s and 1970s, with thousands of workers carrying sacks on their backs, which need to be upgraded to conveyor belts, forklifts, containers and silos. A major modernization drive of this grain supply chains will need lot of investments which should be leveraged by inviting private sector and FCI offering its existing lands with conventional storages, wherever possible. A shift from 'human back' to 'machine back' will promote dignity of labour, will save on time and resources, and be in line with best international practices in storage and movement.

Chapter-5

Restructuring/Unbundling of FCI

5.1 In industrial and organizational behaviour, a firm or organization, when it expands its business operations, is expected to cut down its real costs of operations per unit of commodity produced or handled. This is a benefit what scale of operations provides as it helps to use its scarce fixed resources fully and optimally, and is known as "scale economies". It also signals the firm or organization to scale up its operations as it will emerge even more efficient by cutting down its real costs further. But then comes a stage when its real costs per unit of product handled touch a rock bottom, and thereafter start increasing as the firm/organization becomes unwieldy, monolithic, difficult to manage, leading to all sorts of inefficiencies and pilferages. That's the stage of "diseconomies of scale", and that's the time to restructure/unbundle any firm/organization. Those who don't pay any heed to this basic principle run the danger of getting caved-in under their own weight of inefficiency.

5.2 Where does FCI stand on this issue of scale economies or diseconomies? By plotting the real economic cost of FCI (at 2004-05 prices) against the scale of procurement of rice and wheat separately (Chart-5.1 and 5.2), HLC finds that FCI's real costs of operation increases with every extra MMT being procured. This clearly indicates that FCI has been in the phase of "diseconomies of scale" for quite some time, and its restructuring/unbundling should have been done perhaps long back.

Chart-5.1: Real Economic Cost of Rice (at 2004-05 prices) to FCI and the Scale of Procurement (2000-01 to 2012-13)

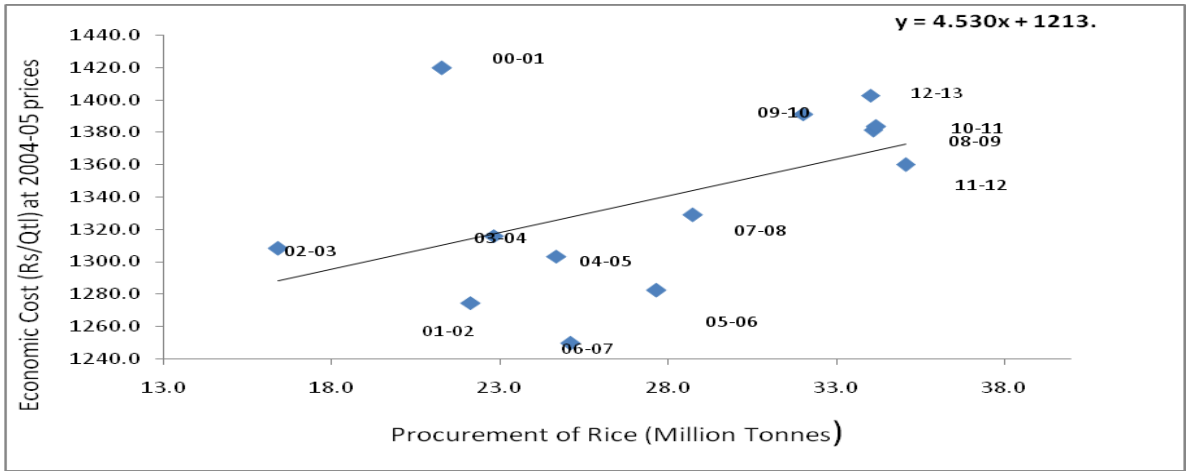
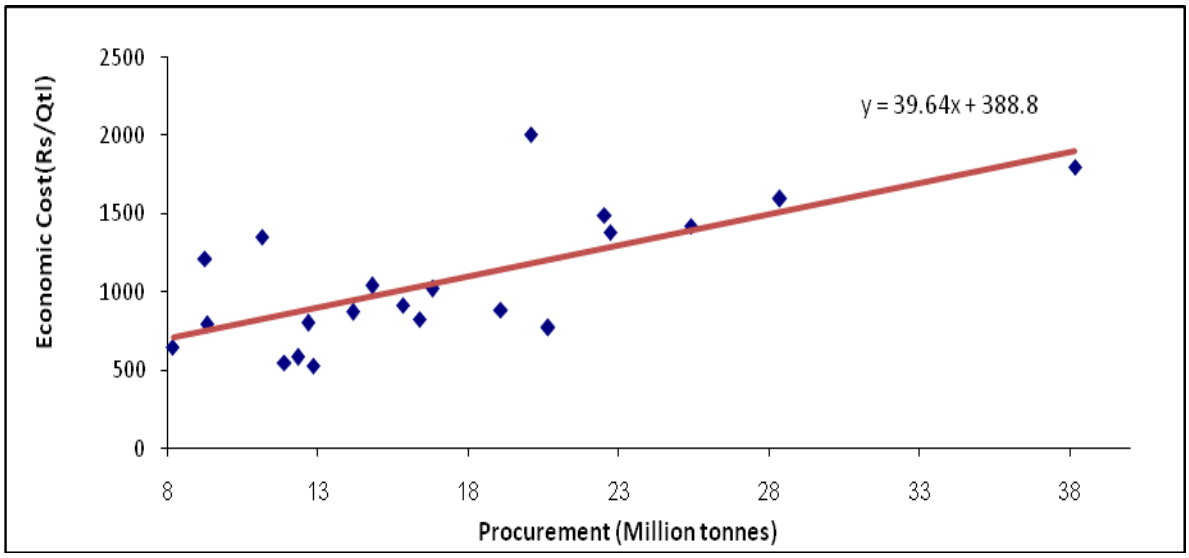


Chart-5.2: Real Economic cost of wheat (at 2004-05 prices) to FCI and Scale of Wheat Procurement (1993-94 to 2013-14)



5.3 However, it is important to note that FCI does not operate on business principles, although in its terms of reference it was mentioned that the Board of Directors will operate FCI on business principles subject to policy guidelines from the DFPD. It is difficult to discern how much policy is responsible for this and how much FCI's own operational functioning adds to this, but the fact remains that this system of food management, of which FCI is an integral part, is becoming expensive (in real terms, not just nominal) with every extra bag it handles. So, the case for restructuring/unbundling has been overdue.

5.4 Of the three major functions that FCI had been involved, namely procurement, stocking and distribution from surplus to deficit states, HLC has already recommended in earlier chapters that procurement of wheat, paddy and rice be totally outsourced to states, at least in those ones that have sufficient experience or have recently scaled up their procurement operations (Punjab, Haryana, Andhra Pradesh, Chhattisgarh, Madhya Pradesh and Odisha), and FCI should move on to help states in the eastern belt to build innovative procurement systems that are suitable to small holders.

On stocking and movement functions also, HLC recommends outsourcing to states/CWC/SWC/private sector on competitive bidding basis. There is lot of investment needed in modernizing storage facilities (say silos), and FCI should leverage the private

sector investments, and its managerial and technical expertise, in building such facilities by offering many of current conventional storages to be modernized. The whole effort has to be to move towards bulk handling facilities, with an eye on bringing cost efficiency in the entire supply chain of foodgrains, as is emphasized in previous chapter.

5.5 With its major functions outsourced to states and other agencies, FCI will not require its expanded organizational structure. For example, its zonal offices can be gradually trimmed/disbanded, and its central team can directly be in touch with its district offices/depots till the time those depots are outsourced to states or other agencies (CWC/SWC/private parties) on mutually agreeable terms. The effort should be to make FCI much leaner and nimble, that can innovate towards reducing overall costs of food management in the country.

So the new face and structure of FCI will not be of large procurer of grains in established States, but it would be an organization that will explore new vistas. It will venture in those areas, where farmers, even after 50 years of procurement operations have often not been able to receive MSPs, where entire supply chain of grains needs major modernization towards bulk handling, from silos to grain trains, where entire grain movement from farmer to godowns to rails to final consumers in deficit states can be integrated through an end to end computerization, and is made available on real time basis. It will be a challenge, but FCI can rise to this challenge, and once again play that commendable role it did once in late 1960s. But this time it is in modernizing the whole grain management system, reducing losses and increasing efficiency. In order to realize this vision, a part of FCI can be carved into an Agency for Innovations in Foodgrain Management Systems with its sole objective of modernization towards bulk handling and cutting costs. This is the need of the hour.

Below is a summary of various recommendations as per the ToR of the HLC:

Terms of Reference and Summary of Recommendations

Terms of Reference	Findings and Recommendations of HLC within domain of DFPD/FCI	Recommendations of HLC within domain of other agencies of Govt.
ToR (i) To examine the present day administrative, functional and financial structure of FCI and modus operandi of its various operations.	**Performance Evaluation of FCI** with respect to its three basic objectives- providing effective price support to farmers, supplying grains to PDS and having sufficient stocks to ensure stability of food system- reveals that: (1) even after 50 years, very limited number of farmers (only 6 percent of total farmers in the country) gain from selling wheat and paddy directly to any procurement agency (NSSO, 70th Round), though indirect benefits may accrue and vary from state to state; (2) that TPDS suffers from large (40-50%) leakages (46.7% based on NSSO 68th round, 2011-12); and (3) during last 4-5 years country had grains stocks which were more than double the buffer stock norms, even after exporting 42 MMT of cereals during 2012-13 and 2013-14. **What all this indicates is that the larger food management system, of which FCI is an integral part, has not delivered on its primary objectives very efficiently. Of course, FCI may not be directly responsible for many of these.** **But it necessitates a major reorientation in the role of DFPD/FCI with a view to benefit larger number of farmers and consumers in a cost effective manner.**	

ToR (ii) To study various models of restructuring or unbundling of and to suggest a best suited model for restructuring or unbundling of FCI to improve its operational efficiency and financial management. **ToR (iii)** To suggest measures for overall improvement in management of foodgrains by FCI. **ToR (iv)** To define or give suggestions to reorient the role and functions of FCI in MSP operations, storage and distribution of foodgrains and food security	**A. FCI to outsource all procurement operations of wheat, paddy and rice to States that have gained sufficient experience and created infrastructure for procurement** (Punjab, Haryana, Andhra Pradesh, Chhattisgarh, Madhya Pradesh, Odisha). **FCI to move to states where farmers suffer most from distress sales (at prices much below MSP), and which are dominated by small holdings** (e.g., Eastern Uttar Pradesh, Bihar, West Bengal, Assam, etc). **B.** DFPD/FCI to enter into an agreement with States before every procurement season regarding costing norms and basic rules for procurement such as: (1) in case any state pays **bonus on top of MSP**, Centre will not accept grains under the Central pool beyond the quantity needed by that State for its own PDS/OWS; (2) **statutory levies including commissions to be brought down uniformly to 3 percent** (states losing revenue can be compensated through a diversification package for the next 3-5 years); (3) **abolish levy on rice millers**; and (4) **quality checks to be fully adhered to** through a transparent and mechanical process. **C. Negotiable Warehouse Receipt System (NWRs) to be scaled up on priority** to bring back private sector. DFPD/FCI to help building of these warehouses with better technology, keeping an on-line track of grain stocks. GoI to explore possibility of switching to a system of cash compensation whenever market prices dip below MSP, without physically handling grains. **D. Beneficiaries under TPDS be given 6 months**	**A. GoI needs to revisit its MSP policy. No point in announcing MSPs for 23 commodities if Govt. cannot create an effective support system even for paddy and wheat. Pulses and oilseeds (edible oils), deserve priority.** **B. Synchronize trade policy with MSP policy**; No use of any MSP if imports of pulses come at prices much below their MSP. **Implementing Agency: M/o Agriculture and M/o Commerce, GOI.** **C.** Give fertilizer subsidy directly to farmers (works out to about Rs 7000/ha) and deregulate the fertilizer sector. It will go a long way to help those who take loans from money lenders at exorbitant interest rates to buy fertilizers or other

systems of the country.	**ration at a time, immediately after the procurement season**. They be also given well designed grain-bins at highly subsidized rates. **E. Gradually introduce cash transfers in TPDS**, starting with large cities with more than 1 million population; extending it to grain surplus States, and then giving option to deficit States to opt for cash or physical grain distribution. Cash transfers can be indexed with inflation, given to the female head of the family, and routed through Prime Minister's Jan-Dhan Yojana (PMJDY) and dovetailing Aadhaar and Unique Identification (UID) number. It can be rolled out over the next 2-3 years. **F. FCI to gradually outsource its stocking operations to CWC/SWC/Private Sector** under Private Entrepreneur Guarantee (PEG) scheme, and even state governments that are building silos through private sector on state lands (as in Madhya Pradesh) on competitive bidding basis. **G. Convert FCI's old conventional storages into silos** with the help of private sector and other stocking agencies. Mechanize operations even in conventional storages. **H. Gradually phase out Cover and plinth (CAP) storage** with no grain stocks remaining in CAP for more than 3 months. **I. Introduce a pro-active liquidation policy to off-load stocks in the market whenever they are in excess of buffer norms.** Greater flexibility to FCI needed to operate in OMSS and export markets.	inputs, thus relieving some distress in the agrarian sector. **Implementing Agency: M/o Fertilizer & Chemicals, GOI** **D.** GoI to have a second look at NFSA, its commitments and implementation. Defer implementation of NFSA in states that have not done end to end computerization; have not put the list of beneficiaries online for anyone to verify, and have not set up vigilance committees to check pilferage from PDS. **Implementing Agency: MoCAF&PD in consultation with M/o Finance.** **E.** Reduce coverage from 67 percent of population to 40

	J. Incentive scheme of departmental workers is an aberration due to which a (loader) costs FCI about Rs 79,500/per month (April-Nov 2014 data) vis-a-vis DPS worker at Rs 26,000/per month and contract labour at about Rs 10,000/per month. This must stop by de-notifying these depots, or handing them over to states or private sector on service contracts, and by putting a ceiling on the incentives at say 1.25 times his daily work quota. These depots be mechanized on priority, reducing reliance on departmental labour. **Departmental labour be given suitable VRS and gradually phased out**. If need be, FCI should be allowed to hire people under DPS/NWNP system. The **condition of contract labour**, which works the hardest and are the largest in number, should **be improved by giving them better facilities.** **K.** With its major functions outsourced to States and other agencies, FCI to trim/abolish its Zonal Offices, and its central team can directly be in touch with its Regional Offices /District Offices/Depots till the time those depots are outsourced to states or other agencies (CWC/SWC/private parties) on mutually agreeable terms. **L. FCI to reorient/restructure itself into an Agency for Innovations in Food Management System with sole purpose to cut down costs of operation at every step in the grain supply chain, from farmer to consumer.** It can work to suggest innovative policies towards that end, introduce innovative technologies looking at global standards and local needs, introduce innovative practices and products that help	percent; raise allocation to priority households from 5kg to 7 kg per person per month. Issue prices for non-Antyodya households be fixed at 50 percent of MSP of wheat and rice. **Implementing Agency: MoCAF&PD & M/o Finance.** **F.** Invest more in agriculture in stabilizing production and building efficient value chains to help the poor as well as farmers. **Implementing Agency: M/o Agriculture & M/o Finance**

	reduce costs. It is the need of the hour and FCI needs to rise to this challenge**.**	
ToR (v) To suggest a way forward for strengthening and integration of supply chain of foodgrains in the country. **ToR (vi)** To suggest most efficient and cost effective model from the point of view of storage and least cost option of moving grains. **ToR (vii)** To recommend scientific model of storage. **ToR (viii)** To recommend rationalized mode of moving grains including tracking of carriage.	– **Movement of grains needs to be gradually containerized** which will help reduce transit losses, and have faster turn-around-time by having more mechanized facilities at railway sidings. – Each state, especially the deficit ones in difficult terrain (like hilly areas of north-east, Jammu and Kashmir, etc), must have storage of grains for at least three months of their consumption requirement. Surplus states should be able to transport much of their procured stocks to deficit states within 3 months of procurement. – (i) Reduce the need for storage by streamlining distortions in procurement (bonus/taxation, etc) and gradually introducing DBT; (ii) Improve storage management practices – Outsource the management of storage and handling – Focus on bulk rather than bagged – Even to the extent bagged storage has to continue, better quality material like HDPE rather than jute should be used. – The possibility of having 'ears' to a bag to eliminate hook based handling should be considered – The possibility of palletisation and usage of forklifts should be explored. (iii) Reduce the number of stages of handling at procurement end – Rationalize the mandis for procurement – Ensure bulk storage capacity at such mandis	

	– Rail connectivity to be provided at such mandis – Bulk rail movement from mandis to distribution end – Reduce the number of stages of handling at distribution end – District wise storage towards NFSA, OWS and Strategic Reserve – Ensure bulk storage capacity at such locations – Rail connectivity to be provided at such locations – Packaging facility to be provided at such locations – Direct movement from district-wise storage to the retail outlets/schemes consumers – A linear programming (LP) model, as a joint exercise between FCI and Indian Railways (IR), should be developed and used for planning and execution.	
ToR (ix) To suggest the up-gradation of technology in management of foodgrains.	**End to end computerization of the entire food management system**, starting from procurement from farmers, to stocking, movement and finally distribution through TPDS, on real time basis to track every bag and plug large leakages in TPDS.	

Annexure 1

No. F.13-6/2014-Py.I(Pt.)
Government of India
Ministry of Consumer Affairs, Food & Public Distribution
Department of Food & Public Distribution
Krishi Bhawan, New Delhi

Dated the 20th August, 2014

ORDER

The Food Corporation of India (FCI) is vested with vital responsibilities of the Government, such as procurement, management of Central Pool stocks and distribution of foodgrains to State Government Agencies for various food security programmes. It is commonly perceived that FCI is plagued today with several functional and cost inefficiencies, which need to be removed for efficient management of foodgrains and saving costs. Therefore, it has been decided to set up a High Level Committee (HLC) of distinguished panel of experienced persons and experts to recommend on restructuring of FCI after considering various aspects of present structure and functional areas of the organization and consulting various stakeholders. The composition of the Committee is as follows:-

(i)	Shri Shanta Kumar, M.P -	**Chairman**
(ii)	Chief Secretary, Govt. of Punjab or his representative -	Member
(iii)	Chief Secretary, Govt. of Chhattisgarh or his representative -	Member
(iv)	Prof. G. Raghuram, Dean, IIM, Ahmedabad -	Member
(v)	Dr. Ashok Gulati, Former Chairman, Commission for Agricultural Costs & Prices, GOI -	Member
(vi)	Prof. Gunmadi Nancharaiah, Dean, School of Economics, University of Hyderabad -	Member
(vii)	Chairman-cum-Managing Director, FCI -	Member & Convener
(viii)	Shri Ram Sewak Sharma, Secretary (Electronics & IT) -	Special Invitee (For the use of technology)

2. The terms of reference of the HLC are as under:-

(i) To examine the present day administrative, functional and financial structure of FCI and modus operandi of its various operations.

(ii) To study various models of restructuring or unbundling of and to suggest a best suited model for restructuring or unbundling of FCI to improve its operational efficiency and financial management.

(iii) To suggest measures for overall improvement in management of foodgrains by FCI.

(iv) To define or give suggestions to reorient the role and functions of FCI in MSP operations, storage and distribution of foodgrains and food security systems of the country.

(v) To suggest a way forward for strengthening and integration of supply chain of foodgrains in the country.

(vi) To suggest most efficient and cost effective model from the point of view of storage and least cost option of moving grains.

(vii) To recommend scientific model of storage.

(viii) To recommend rationalised mode of moving grains including tracking of carriage.

(ix) To suggest the upgradation of technology in management of foodgrains.

3. The HLC will prepare a Consultation Paper relating to its TORs for circulation among the various stake holders as well as placing it in public domain to invite comments/suggestions. The HLC may visit a few States of both DCP and non-DCP category and will take evidence from State Government authorities, farmers, various players of foodgrains supply chain, public persons etc.

4. The Department of Food & PD will provide all support to HLC for seeking information/data from various Central and State Government agencies and will facilitate its interface with the State Government authorities and others. The FCI will serve as Secretariat of the HLC and will provide office space, required manpower and other facilities for its functioning. The Chairman and members of the HLC will be provided TA/DA and transport facilities for official purpose as provided to the Directors of the Board of FCI. The non-official Committee members of FCI will be provided accommodation in Delhi and other places and a sitting fee for attending the meetings of HLC at par with the Directors of FCI in its Board.

5. HLC will finalize its report and submit it to the Government within a period of 3 (three) months.

Yours faithfully,

S/d

(U.K.S. Chauhan)

Joint Secretary to the Government of India

Tel No. 22382512

To,

(i) Shri Shanta Kumar, M.P, 23, Ashok Road, New Delhi
(ii) Chief Secretary, Govt. of Punjab
(iii) Chief Secretary, Govt. of Chhattisgarh
(iv) Prof. G. Raghuram, Dean, IIM, Ahmedabad
(v) Dr. Ashok Gulati, Former Chairman, Commission for Agricultural Costs & Prices, GOI
(vi) Prof. Gunmadi Nacharaiah, Dean, School of Economics, University of Hyderabad
(vii) Chairman-cum-Managing Director, FCI
(viii) Shri Ram Sewak Sharma, Secretary (Electronics & IT)

Copy for information to :

(i) PS to Minister(CA&FPD)
(ii) PS to MOS (CA&FPD)
(iii) PS to Secretary, Food & Public Distribution
(iv) PS to AS&FA, Food & Public Distribution
(v) PS to JS(P&FCI)/JS(BP)/JS(Impex)/JS(Stroage)/JS(S&SA)/JS(Admn.)

Annexure 2

List of Stakeholders consulted by HLC

Field Visits

Raipur	**State Govt. Representatives**
(17.10.2014)	Dr. Raman Singh, Hon'ble Chief Minister, Chhatisgarh
	Shri Vivek Dhand, Chief Secretary, Govt. of Chhattisgarh
	Shri Sunil Kumar, Vice Chairman, Chhattisgarh State Planning Commission
	Shri D.D. Singh, Secretary (Co-operative)
	Shri R. Prasana, Director (Food)
	Shri Bharthi Dasam, MD, Markfed
	Shri Anil Tuteja, MD, CGSCSC
	Other stakeholders
	Chhattisgarh Rice Miller Association
	Chhattisgarh Farmers' Association
	Chhattisgarh Sahkari Samiti Sangh
	BJP Kissan Morcha
Bhopal	**State Govt. Representatives**
(18.10.2014)	Shri Shivraj Singh Chauhan, Hon'ble Chief Minister, Madhya Pradesh
	Shri Ashok Barnwal, Principal Secretary (Food), Govt. of M.P.
	Shri Ajit Keshri, Principal Secretary (Co-operative), Govt. of M.P.
	Ms Neelam Sharma Rao, MD, MPSCSC,
	Dr. Manohar Agnani, Commissioner (Food), Govt. of M.P.
	Shri G.P. Bitthawo Deputy GM, MPSCSC,
	Shri Mahavir Jain AGM, MPSCSC,
	Shri R. Bhandari, MPSCSC,
	Dr. Manju Sharma ED (F), MPSCSC,
	Shri S.K. Vidhan GM (Fin), MP Warehousing & Logistic Corporation
	Shri U.K. Pandey, Secretary, MPSWLC
	Shri B.K. Chandel, DS(Food), Govt. of M.P.
	Other stakeholders
	Madhya Pradesh Rice Miller Association
	Madhya Pradesh PEG Godown owners
	Madhya Pradesh Transporters
Kolkata	**State Govt. Representatives**
(27.10.2014)	Shri Jyoti Priya Mallick, Food Minister, Govt. of W.B.
	Shri D.P. Sharma, Secretary Food, Govt. of Sikkim

	Shri Anil Verma, PS-cum-Commissioner (Food), Govt. of West Bengal. Shri B.K. Pradhan, Principal Secretary (Food), Govt. of Bihar. Shri D.P. Sharma, Secretary (Food), Govt. of Sikkim. Shri R.N. Mohanty, Additional Secretary, Govt. of Odisha Shri Naveen, MIS Manager, Govt. of Jharkhand. **Other Stakeholders** Representative of H & T Contractors Rice Millers' Association, Odisha Roller Flour Millers Association, West Bengal
Aizawl (28.10.2014)	**State Govt. Representatives** Shri Lalthanhawla, Hon'ble Chief Minister of Mizoram Shri John Rotluangliana, Food Minister, Govt. of Mizoram Shri R. Lalvena, Secretary & Director, FCS & CA Govt. of Mizoram Shri Llyon Borang, Director, FCS & CA, Govt. of Arunachal Pradesh Shri Shyam Lal Mewara, Principle Secretary, FCS & CA, Govt. of Assam Shri T. Kheto Sema, Secretary, Food & CS, Govt. of Nagaland Shri D. Chakraborty, Joint Director, FCS & CA, Govt. of Tripura Shri Y. Thamkishor Singh, Commissioner, CAF & PD, Govt. of Manipur
Thiruvananthapuram (14.11.2014)	**State Govt. Representatives** Shri Anoop Jacob, Food Minister, Govt. of Kerala Shri Jokey Angu, IAS, Secretary , CS & CA, Puducherry Shri Shyam Jagannathan, IAS, Commissioner Of Civil Supplies, Kerala Shri Madhusoodanan Ashari, Addl. Secretary, F & CS, Kerala Shri S. Gopalakrishnan, IAS, Commissioner CS & CP, Tamil Nadu Shri G. Ravi Babu, IAS, Director of Civil Supplies, Andhra Pradesh Shri P. K. Ahammed, President, Kerala Roller flour mills Association Shri M. Mehaboob, President, Lok Jan Shakhti Party Kerala Shri T. P. Sathosh, FCI- INTUC Shri Suresh Kumar, FCI Mazhdoor Sangh Shri Peethambaran E.N, FCI -WACITU Kerala Shri Jacob Pater, Sect. General, Kerala LIP Shri N. K. Mohammed, Kerala Rollers flour Mill Federation Shri B. Shansily, President, Karnataka RFM Association, Bangalore.
Chandigarh (28.11.2014 & 29.11.2014)	**State Govt. Representatives** Shri Prakash Singh Badal, Hon'ble Chief Minister, Punjab Shri Manohar Lal, Hon'ble Chief Minister, Haryana Shri Adesh Pratap Singh Kairon, Food Minister, Govt. of Punjab Shri Ram Vilas Sharma, Food Minister, Govt. of Haryana Shri S.S. Parsad, Secretary (Food), Haryana

	Shri Basheer Ahmed, Secretary (Food), J&K Shri Anil Kumar, Secretary Home & Civil Supply, Chandigarh Shri Danish Ashraf, Jt. Director (Food & Civil Supply), Chandigarh Shri K.C. Gaur, Jt. Director (Food) Himachal Pradesh Shri R.P. Sehgar, Addl. General Manager, Delhi Shri Satwant Singh, MD, Pungrain Shri Bhupinder Pal Singh, Joint Director, FCS&CA, Govt. of Pb. Shri N.S. Multani, GM Proc., Pungrain Shri H.S. Grewal, Addl. Director F & S Punjab Shri H.S. Sidhu, Addl. Director F & S Punjab Shri Survesh Kumar, GM (Finance), Pungrain Shri Amit Khanna, CFS Office, Punjab Shri S.S. Bhatoa, Advisor, Pungrain **Other Stakeholders** Bhartiya Kissan Union Agri Market Association, Punjab. Aarhtiya Association, Punjab. Rice Miller Association, Distt. Ludhiana Rice Miller Association, Distt. Khana Rice Miller Association, Distt. Moga Rice Miller Association, Mansa Federation of Arhtiya Asso. Punjab Arhtiya Association Rajpura Arhtiya Association Patiala Agri Market Association Punjab
Ahmedabad (19.12.2014 & 20.12.2014)	**State Govt. Representatives** Shri Bhupendersinh Chudasma, Food Minister, Gujarat Shri R.P. Gupta, IAS, Principal Secretary (Food), GOG Shri Faizi O. Hashmi, IAS, Food Secretary, Govt. of Goa, **Other Stakeholders** Shri Ram Avtar Agrawal, President, G.R.F.M.A. Shri Ramanbhai Patel, President, Rice Miller Association. Shri Trilok Agrawal, Secy., Gujrat Roller Flour Millers Association.

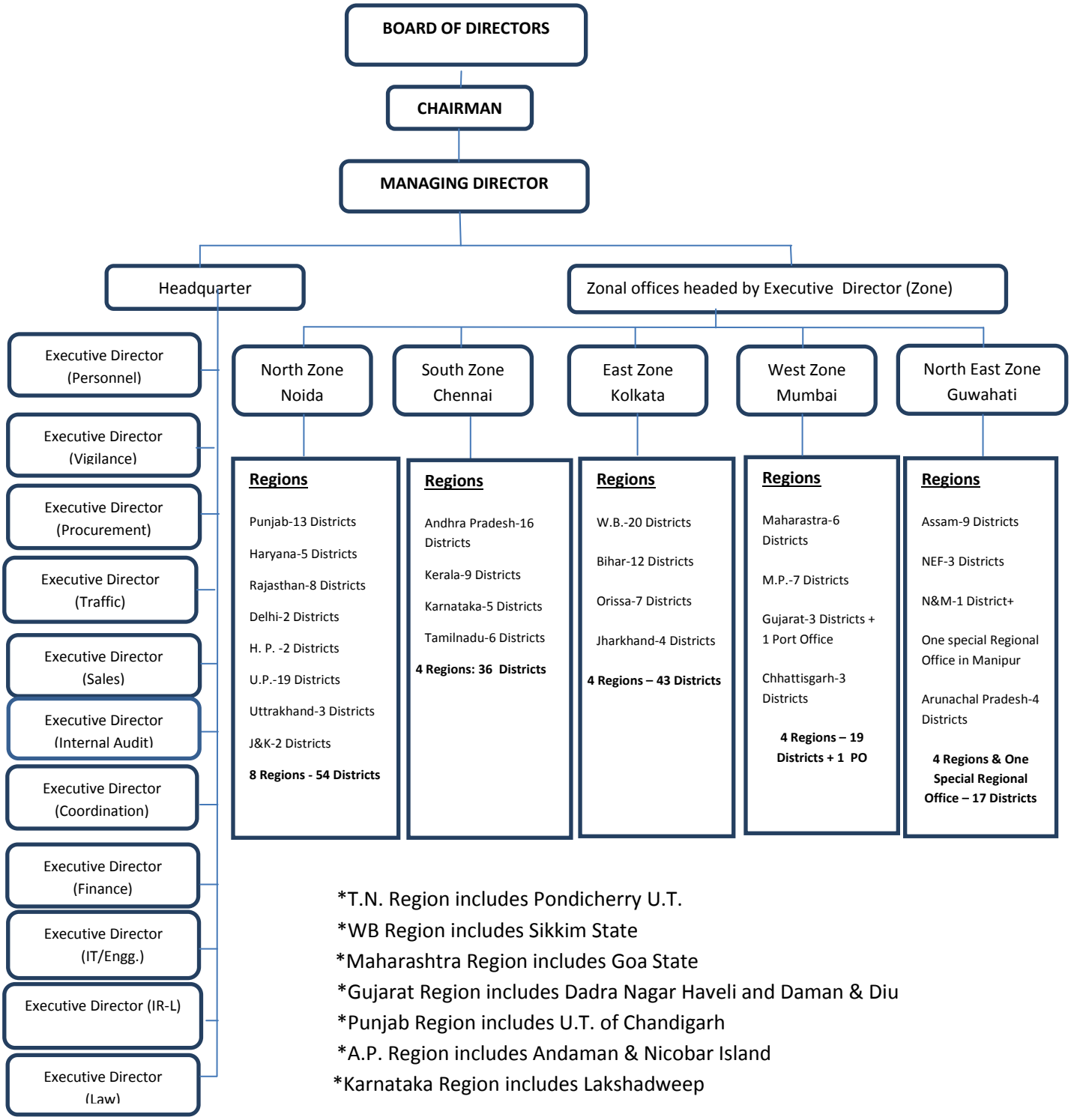
FCI Head Quarters

1st HLC meeting (08.09.2014)	Chairman and members
2nd HLC meeting (15.09.2014)	Chairman and members Representatives of M/s Adani Logistics Pvt. Ltd.
3rd HLC meeting (26.09.2014 & 27.09.2014)	Chairman and members Shri B. Pradhan, PS (Food, Consumer Protection), Govt. of Bihar Shri Brij Mohan Meena, PS (Food), Govt. of UP Shri Ashok Kumar Barnwal, PS (Food & Civil Supplies), Govt. of MP Shri U.K.S. Chauhan, JS (P & FCI), Deptt. of Food & PD, MOCAF&PD Mrs. Neelam Shami Rao, MD MPSCSC, Bhopal Shri R. Bhandari, GM, MPSCSC Representatives of by LT foods (Dawat) Representatives of M/s. Hind Terminals Pvt. Ltd. Representatives of Cargill India Pvt. Ltd.
4th HLC meeting (07.10.2014 & 08.10.2014)	Chairman and members Representative of M/s Trinity Insurance Pvt. Ltd.
5th HLC meeting (17.11.2014)	Chairman and members Ms. Meetu Kapur, ED, CII FACE Shri Gokul Patnaik, Chairman, Global Agri-systems. P. Ltd. Shri Sanjay Kaul, MD and CEO, National Collateral Mgmt. Services Ltd. Shri Abhram Seth, MD, Aqua Agri Processing P. Ltd. Shri Rajnikant Rai, COO-Agri Business, ITC Ltd. Shri Nitin Puri, Group Executive Vice President, Food Agri-Strategic Advisor Research, Yes Bank Ltd. Shri Rahul Srivastava, Merchandising Manager for Feed grains business, Cargill Shri Devinder Sharma, Agriculture Specialist **Staff Unions** Bhartiya Khadya Nigam Karamchari Sangh, FCI FCI Executive Union, FCI FCI S.C. & S.T. Associations FCI Executive Staff Union FCI Officers Association, FCI **Labour Unions** FCI Workers Union

	FCI Handling Workers Union AITUC Sharamik Union
6th HLC meeting (18.12.2014)	Chairman and members
7th HLC Meeting (07.01.2015 & 08.01.2015)	Chairman and members Shri Ashish Bahuguna, Secretary, Agriculture and Cooperation Shri Jugal Kishore Mohapatra, Secretary, Fertilizers Shri M.K. Akhouri, ED TTF, Railways Shri P.K. Jha, AS&FA, MoCAF&PD – BOD, FCI Shri U.K.S.Chauhan, JS(P&FCI) – BOD, FCI Shri Sanjay Lohiya, JS(Crops) – BOD, FCI Shri Harpreeet Sigh, MD, CWC – BOD, FCI Shri Surinder Singh Khurana, Former Chairman, Railway Board – BOD, FCI Shri Gopal Krishnan, Chartered Accountant - – BOD, FCI Shri Deepak Kumar, Joint Secretary (BP & PD) Shri H. S. Sindhu, Addl. Director, Food, Punjab
8th HLC Meeting (15.01.2015)	Chairman and members

Annexure 3

Organizational Structure of FCI



*T.N. Region includes Pondicherry U.T.
*WB Region includes Sikkim State
*Maharashtra Region includes Goa State
*Gujarat Region includes Dadra Nagar Haveli and Daman & Diu
*Punjab Region includes U.T. of Chandigarh
*A.P. Region includes Andaman & Nicobar Island
*Karnataka Region includes Lakshadweep

Annexure 4

Leakages from PDS(%) (1999-2000 to 2011-12)

	1999-2000*			2001-02*			2004-05%			2006-07*			2007-08%			2009-10^			2011-12#		
	Rice	wheat	food grains	Rice	wheat	food grains	Rice	wheat	food grains	Rice	wheat	food grains	Rice	wheat	food grains	Rice	wheat	total	Rice	wheat	total
Andhra`	15.2	14.4	15.2	12.3	-210.8	11.2	22.3 (24.6)	93 (87.1)	23.2 (25.4)	16.1	66.9	17	19.2 (16.4)	50.3 (53.2)	19.6 (16.8)	15.9	25.9	16.0	11.65	53.64	11.13
Assam	54.7	100	65.3	69.4	98.1	74.9	83.5(83.2)	100(99.9)	88.7(88.5)	72.4	98.4	76.6	73 (71.3)	97.5 (97.2)	77.5 (76.1)	64.4	98.8	69.9	49.25	97.71	60.94
Bihar	94.6	75.2	80.2	77.3	91.6	88.3	84.8(85.3)	92.8 (93.1)	91 (91.3)	83.6	84.4	84	92.4 (92.1)	85.1 (85.3)	89.5 (89.3)	87.8	86.1	87.0	70.49	65.78	68.68
Chhattisgarh`				45.8	33.4	43.2	45.1(45.4)	82.6 (84.6)	51.8 (52.1)	28.9	65.3	30.9	-3.1 (-6.3)	57 (72)	-1.5 (-3)	-15.0	42.7	-6.0	-5.38	47.93	-0.04
Gujarat	-23.9	8.2	-2.5	35.6	27.3	29.8	52.7(51.6)	51.3 (52.7)	51.7 (52.3)	66.1	39.6	53.2	73 (72.5)	53.3 (50.5)	63.1 (61.6)	43.9	52.2	49.7	64.07	76.47	72.20
Hayrana	0	100	100		94	94	-	82.7 (83)	82.7 (83)	39.5	29.4	31.4	61.8 (64.4)	48.8 (46.8)	51.1 (50.2)	0.0	26.0	25.7	64.06	71.83	70.34
HP	-	-	-	26	43.8	31.2	7(7.1)	46.2 (43.1)	27 (25.1)	11.6	32.4	21.8	12.9 (13.1)	14.3 (13.7)	13.6 (13.4)	10.6	15.8	13.8	20.08	25.83	22.49
J&K`	-1.4	-80.3	-12.3	54.1	79	60.7	-8.9()	79.4 ()	23 ()	-36.5	66.4	-1	7.6 ()	59.1 ()	24.3 ()	-25.6	17.6	-12.9	-1.45	13.76	2.28
Jharkhand				71.5	83	79.1	82.3 (81.2)	87.9 (87.6)	85.2 (84.6)	86.4	80.9	84.4	83.3 (81.5)	85.2 (84)	84 (82.4)	72.2	73.8	72.8	74.94	74.54	74.98
Karnataka`	17.1	21	18	47	53.7	48.4	25.8(28.4)	41.7 (39.9)	28.7 (30.4)	32.6	34.4	32.9	42.2 (40)	33.4 (30.6)	41 (38.6)	13.5	5.9	12.4	46.90	44.92	46.40
Kerala	-44.7	5.9	-36.9	-28.6	66.9	0	-1.9 (-0.2)	78.9 (77.8)	25.6 (25)	0.8	55.3	14.8	3.5 (2.9)	55.6 (56.8)	16.2 (16.4)	28.8	51.3	32.9	38.39	62.57	43.22
MP	59.3	18.2	46.9	50.8	46.4	47.4	12.9 (11.5)	56.7 (54)	50.1 (47.2)	52.8	64	61.1	20.8 (24.5)	39.9 (38.5)	35.5 (35.1)	-22.8	51.0	44.8	37.35	55.69	49.32
Maharashtra	24.4	33.3	29.9	40	53.2	48.3	46.5 (44.4)	51 (52.2)	49.3 (49.4)	44.6	38.5	41.4	40.7 (36.3)	44.1 (39.1)	42.5 (37.8)	45.7	49.1	47.7	50.95	58.82	54.86
Odisha	26.8	87.5	36.7	21.4	-	21	74.1(72.8)	99(100)	76.3 (75.5)	53.4	91.5	57	46.2 (41.2)	97.1 (97.3)	50.2 (45.9)	25.3	87.4	36.4	30.21	81.29	36.83
Punjab	100	-107	-52.9	92.5	87.7	87.9	100 ()	93.1 (94.3)	93.2 (93.9)	71.9	81.1	78.5	17.6 (81.6)	18.4 (1.2)	18.4 (5.2)	0.0	62.2	62.2	91.94	61.08	60.67
Rajasthan	100	53	53.4	76.1	75.8	75.8	100 ()	93.9 (55.8)	93.9 (55.8)	69.8	83.5	81.9	75.7 (75)	82 (52.3)	81.2 (55.4)	0.0	62.1	62.0	-19.17	66.81	66.31
TN`	-12.3	-21.7	-13	-79.2	-	0	9.4 (4.5)	-86.7 (-16.7)	7.3 (4)	2.4	-105.6	-0.7	8.7 (9.9)	-186.1 (-33.3)	4.4 (8.9)	-1.5	-69.6	-5.2	17.81	-28.23	12.22
UP	46.6	17.4	31.1	77.4	67.1	69.7	85.4 (84.4)	36.7 (83.5)	58 (83.9)	72.3	7.8	50.5	52.9 (52.8)	-14.5 (50.9)	26.7 (52.1)	20.0	58.4	43.5	34.76	59.93	47.92
Uttarakhand				-109.8	-810	0	44.2 ()	84.8 ()	59.4 ()	44.2	88.3	63.3	33.3 ()	70.9 ()	48.5 ()	31.6	56.3	45.7	24.13	35.20	30.05
WB	23.8	70.9	57.3	42.4	84	67.3	70.4 (68.9)	85 (92.4)	80.6 (85.2)	72.4	80.4	76.8	70.8 (65.7)	77.9 (86.2)	74.8 (77.9)	61.6	79.9	72.7	52.69	79.70	69.45
Manipur																91.8	99.8	92.7	97.5	100.0	97.8
Meghalaya																38.7	99.8	45.7	61.80	99.04	67.00
Mizoram																-13.5	91.1	-3.2	9.82	90.31	15.17
Nagaland																100.0	100.0	100.0	93.31	99.83	94.72
Tripura																38.6	80.5	42.3	19.49	71.99	19.17
India	9.9	48.6	23.9	18.2	66.8	39	41.3 (40.5)	70.3 (73.1)	54 (54.8)	39.6	61.9	46.7	37.2 (35.9)	57.7 (57.2)	43.9 (42.8)	45.9	59.7	41.2	36.15	62.88	46.72

Sources: Himanshu and Sen, A. (2011): "Why Not a Universal Food Security Legislation", Economic & Political Weekly, 46(12), 38-47

Khera, R, (2011). Trends in diversion of PDS grains. Economic and Political Weekly, 46(21), 106-114;

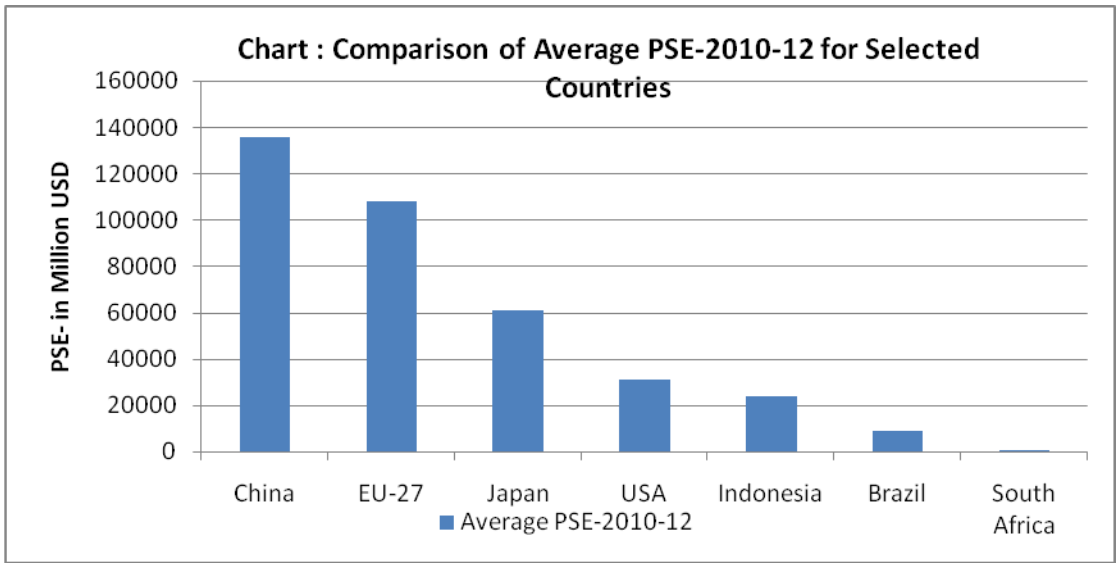
Gulati, Ashok and Shweta Saini (2015): Leakages from Public Distribution System (PDS) and the Way Forward, forthcoming paper from ICRIER

Himanshu & Sen numbers in the parenthesis

Annexure 5

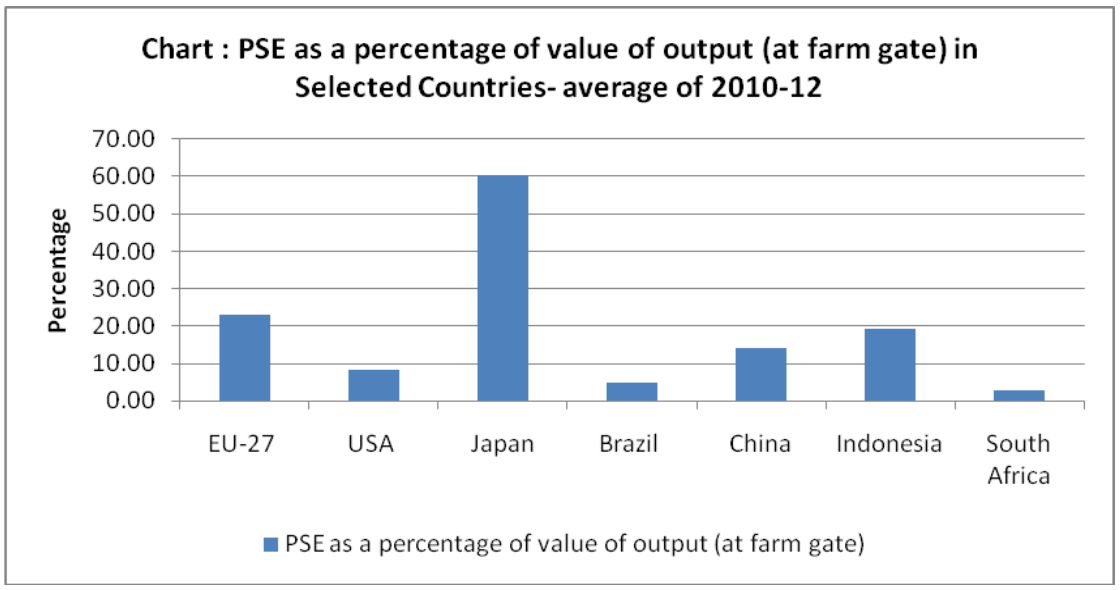
Producer Support in Selected Countries

In Million US $ (average of 2010-12)



Source: OECD

As percent of value of agri-output (%)

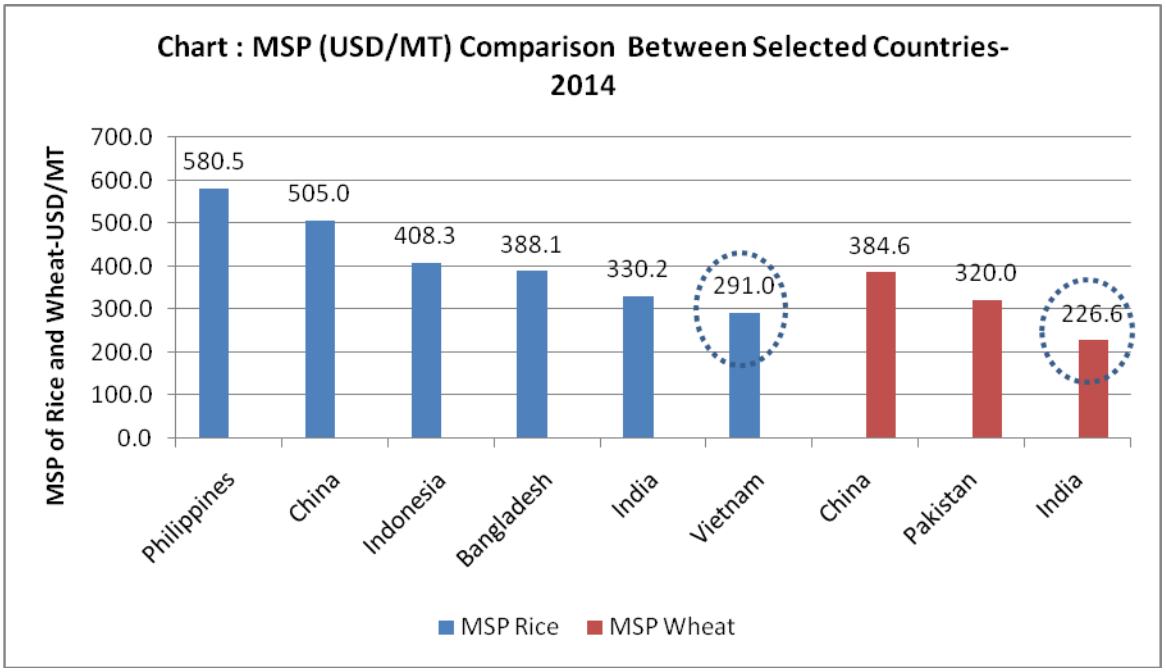


Source: OECD

India's MSP support to farmers in relation to select countries:

Sometimes an impression is created that Indian MSPs of wheat and rice are very high that have led to accumulation of stocks with public agencies. It may be worth noting that in our comparable countries in the neighborhood, our MSPs are one of the lowest. Only Vietnam has lower MSP of rice than ours.

MSPs of Rice and Wheat in Selected Comparable Countries in Asia



India seems to have followed a policy of low output and low input prices. Frequent export bans on wheat and rice, e.g, between 1996-2000, and then again between 2007-11; high levies on rice millers, stocking limits on private trade, etc. are all indicative of the desire to keep prices of wheat and rice low for the consumers, and so is the expansive system of PDS which gives highly subsidized food to a large section of society (67% population as envisaged under the NFSA, 2013). So the whole idea behind this set of policies is to protect the poor consumers. But low output prices for wheat and rice may not be very attractive to farmers, and therefore to ensure that sufficient quantities of wheat and rice are produced, GoI and state governments often give cheaper inputs. For example, at the central level, fertilizers (particularly urea) are highly subsidized, so much so that for FY 2015, budgeted fertilizer subsidy amounted to almost Rs 73,000 crores, and on top of this there were arrears of anywhere between Rs 30,000-35,000 crores. Irrigation is subsidized at state level and in varying degrees: e.g, power for ground water irrigation being supplied at extremely low prices (in many states even free) and canal irrigation charges are so low that they do not cover even a quarter of operational and maintenance expenses, not to talk of recovering any amount of capital costs. Together, these irrigation subsidies (including power) cross more than Rs 60,000 crores.

The problem with such a price policy approach are two-fold: first, low output prices work as "brake" on the production incentives while input subsidies act as "accelerator", and one does not know fully whether the production incentive system is moving forward, or backward or stationary; and secondly, extremely low prices lead to misuse of scarce resources, particularly when targeting is poor. So the efficiency losses mount. The benefit, however, especially in case of output pricing, is that they can be targeted towards selected commodities. For example, if one wants to promote production of wheat and rice, higher MSPs for those crops can be designed and procurement operations widened.

Annexure 6

Break-up of distribution cost under different heads

		2009-10	2010-11	2011-12	2012-13	2013-14
Freight	Rs crore	2,617	3,245	3,710	5,555	6,640
	% of Total	37.3	34.2	31.5	36.0	36.4
Handling	Rs crore	1,545	2,009	2,304	2,836	3,096
	% of Total	22.0	21.2	19.5	18.4	17.0
Storage	Rs crore	899	1,247	1,349	1,612	1,968
	% of Total	12.8	13.2	11.4	10.4	10.8
Interest	Rs crore	948	1,560	3,028	3,761	4,708
	% of Total	13.5	16.5	25.7	24.4	25.8
Shortages (losses)	Rs crore	163	279	263	434	596
	% of Total	2.3	2.9	2.2	2.8	3.3
Administration overheads	Rs crore	847	1,141	1,134	1,240	1,222
	% of Total	12.1	12.0	9.6	8.0	6.7
Total Distribution Cost	**Rs crore**	**7,019**	**9,481**	**11,788**	**15,438**	**18,230**

Source: Opening presentation by Food Corporation of India to the HLC on Restructuring of FCI - 08.09.2014

Annexure 7

Comparison of Costs (construction and operational) of Silos and Conventional Godowns of 50,000 tonnes capacity as provided by a private party (PP) and FCI

Components of cost		Silo	Godown
Land (acre)	PP[2]	7.00	17.50
	FCI[1]	7.00	18.50
Land cost (Rs crore per acre)	PP[2]	0.50	0.50
	FCI[1] (Assam)	0.35	0.35
Total land cost (Rs crore)	PP[2]	3.50	8.75
	FCI[1] (Assam)	2.45	6.47
Construction cost (including civil work, roads, ancillary units, weigh bridges, electrical, plant & machinery (in case of silos) (Rs crore)	PP[2]	26.00	25.00
	FCI[1]	29.75	57.95[4]
Total construction cost (Rs crore)	PP[2]	29.50	33.75
	FCI[1]	32.20	64.42
Construction cost per tonne (Rs)	PP[2]	5900.00	6750.00
	FCI[1]	6400.00	12890.00
Operational cost per tonne[3] (Rs)	FCI	4,442.20	4,530.61

Sources:

1. 'Comparison of construction cost of silos and conventional godowns, submitted by FCI to the HLC for Restructuring of FCI on 26.12.14
2. 'Cost Analysis by the PP', submitted to the HLC for Restructuring of FCI on 26.12.14
3. 'Comparison of operational cost of silos and conventional godowns', submitted by FCI to the HLC for Restructuring of FCI on 26.12.14

Note:

4. The cost estimate of construction of conventional godown by FCI is based on its already constructed godown at Changsari, Assam, where the cost of construction was on the higher side as land required filling, and land development cost was about Rs 23.80 crore.

Annexure 8

Detailed Operational Cost Comparison between Silo & Conventional Godowns

(All figures in Rs per tonnes)

S No	Item of operation	In case wheat is purchased in mandis and stored in conventional depots as per existing practice	In case wheat is purchased in Bulk directly from farmers at existing Silo in Moga	Remarks
1	Unloading of wheat brought by farmers in mandi	0.00	0.00	The cost of this operation is presently borne by farmers and is paid directly to Arthias by farmers.
2	Cleaning by power cleaner	0.00	0.00	The cost of this operation is presently borne by farmers and is paid directly to Arthias by farmers.
3	Putting Marka on bags	0.00	0.00	
4	Filling of wheat in bags and placing it on beam scale platform	99.20	0.00	Rates prescribed by Punjab Mandi Board.
5	Weighing charges		0.00	
6	Unloading of bags from balance		0.00	
7	Machine stitching charges	23.60	0.00	Rates prescribed by Punjab Mandi Board.
8	Loading into trucks for further dispatch to storage point	21.80	0.00	Tendered Rates.
9	Transportation from mandi to depot	359.50	0.00	Tendered Rates. (Average Transportation rate from mandi to depot.)
10	Unloading from trucks and stacking inside godowns	40.42	0.00	Contract Labour rate as per schedule for stacking upto 16 height has been taken into consideration.
11	Unloading at debagging platform, removing machine stitching and dumping in elevator Hopper	0.00	0.00	This item of operations will be applicable in case wheat is brought in bag form at Silo.
12	Bardana Jharai, making bundles of 25 bags, sticking and covering of bundles	0.00	0.00	This item of operations will be applicable in case wheat is brought in bag form at Silo.

13	Loading of bundles into trucks	0.00	0.00	This item of operations will be applicable in case wheat is brought in bag form at Silo.
14	Arthia Commsion @ 2.5% of MSP	350.00	350.00	Arthiya Commission is payable at each mandi yard including SILO complex.
15	Market fee @ 2% of MSP	280.00	280.00	
16	RD Cess @ 2% of MSP	280.00	280.00	
17	ID Cess @ 2% of MSP	280.00	280.00	
18	VAT @ 5% of MSP	700.00	700.00	
19	Cost of gunnies in case of jute gunnies	767.20	767.20	In case of storing in bulk , the use of gunnies will be deferred and will be used at the time of end use. Further in case stock is utilized for distribution in bulk, there won't be any cost on account of gunnies.
20	De-stacking from stacks and loading into trucks	48.10	0.00	Contract labour @ 200 % ASOR has been assumed for calculations (2013-14).
21	Transportation from depot to Rail Head	119.94	0.00	Tendered Rates.
22	Bag filling, weighing, stitching and stacking at the time of dispatch	0.00	0.00	
23	Unloading from trucks and loading into wagons	57.72	0.00	Contact labour @ 200 % ASOR has been assumed for calculations.
24	Freight Charges			Currently railway freight is same as the private party (PP) is getting no rebate for owning wagons.
25	Unloading from wagons & loading into truck	48.60		
26	Transportation from Railhead to depot	155.00		
27	Unloading from trucks & stacking in godown	58.30		

28	De-stacking from stacks & loading into trucks for issue	58.30		
29	Storage charges	852.93	1750.00	Currently CWC rate of 6.14/ quintal / month is for 2011-12. Assuming 5% increase every year, rates for 2014-15 have been extrapolated.
30	Storage gain (Less)	140.00	0.00	
31	Transit loss	70.00	35.00	FCI T/L is around 0.50%. At PP owned Silos, 0.25% operational loss is allowed.
	Total in case of jute bags	**4530.61**	**4442.20**	
	For movement purpose, freight for movement from Silo and normal railhead/railway siding is the same.			
Note 1	Storage cum handling charges in case of PP owned Silo are Rs. 2,000 per MT per year at Base Depot and 415 per MT per year at Field depots.			
Note 2	Storage and preservation charges in case of conventional godowns being hired from CWC/PSWC is Rs. 614 per MT per year. (Though this rate is for 2011-12).			
Note 3	The above calculations as regards operations at PP owned are with assumption that 100 % of the stocks are accepted at Silo in bulk directly from farmers with involvement of Arthiyas.			
Note 4	In case wheat stocks are stored in conventional godowns, gain @ 1% by weight is realised.			
Note 5	Average RTL in FCI operations is around 0.50% whereas at PP owned, 0.25% handling cum transportation loss is allowed.			
Source: 'Comparison of operational cost of silos and conventional godowns, submitted by FCI to the HLC for Restructuring of FCI on 26.12.14				

Annexure 9

Food grains transported by FCI in 2013-14

	Rail (MMT)	Rail rakes (no)	Road (MMT)	Total (MMT)
April	3.4	1,033	0.4	3.8
May	3.3	956	0.4	3.7
June	2.8	845	0.4	3.2
July	3.1	1,000	0.5	3.5
August	3.3	1,113	0.4	3.7
September	3.2	1,025	0.4	3.6
October	3.4	1,114	0.4	3.8
November	2.8	817	0.3	3.1
December	3.2	935	0.4	3.7
January	3.8	1,040	0.4	4.2
February	3.6	1,066	0.5	4.0
March	3.8	1,240	0.6	4.4
Total	**39.6**	**12,184**	**5.2**	**44.8**
Average per month	3.3	1,015	0.4	3.7
Share	**88.5%**		**11.5%**	**100%**
Source: Data provided by FCI to the HLC for 'Restructuring of FCI', 24.12.14				

Annexure 10

Mode-wise movement from North and Other than North

2013-14	Inter movement (MMT)			Intra movement (MMT)			Total movement (MMT)		
	Railway	Road	Total	Railway	Road	Total	Railway	Road	Total
Ex North	27.9	2.5	30.4	0.4	0.5	0.9	28.3	2.9	31.2
Ex Other	9.1	0.1	9.2	2.3	2.1	4.4	11.4	2.2	13.6
Total	**37.0**	**2.6**	**39.6**	**2.7**	**2.6**	**5.3**	**39.7**	**5.1**	**44.8**
Source: Data provided by FCI to the HLC for 'Restructuring of FCI', 24.12.14									