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India's public foodgrain intervention policy dates back to pre-independence era when spike in food prices during the Second World War followed by Bengal famine of 1943 prompted government involvement. The present form of public procurement and distribution of foodgrain aimed at enhancing food security and ensuring food affordability came into existence in 1965 to complement the technological revolution ("Green Revolution") in farming. Government intervention became pronounced with subsequent years of severe droughts in 1965-66 and 1966-67.

Under the present system, the central government is in-charge of procurement, storage, transportation and bulk allocation of food grains while the responsibility of distribution to the targeted group rests with the state government. With several modifications and expansion over decades, the programme has assumed gargantuan size through procurement of close to a third of food grain produce and distribution through one of the largest network of fair price shops (FPS) in the world. Through this report we have attempted to provide an overview of this mammoth government programme. This note is first in the series of reports aimed at analyzing the impact of public procurement and distribution on the food economy, the physical and futures markets.

Food Procurement

Public procurement of food grain (primarily rice and wheat) is undertaken by central government through its agency, **Food Corporation of India (FCI)**, in conjunction with state government agencies. Foodgrain conforming to the prescribed specification offered for sale at specified centres are bought by the public procurement agencies at the **Minimum Support Price (MSP)**. The MSP is fixed by the Central government after taking into account the recommendations from Commission of Agricultural Costs and Prices (CACP). The primary objectives of foodgrain procurement are as under:

1. Ensure remunerative prices to the farmers thereby safeguard their interest
2. Incentivize cultivation of targeted crops
3. Build stocks to ensure food security
4. Supply food grain for distribution through FPSs
5. Price Stabilization

FCI maintains buffer stock meant for supplying the public distribution system, in addition to **strategic reserve** of 5 million MT to meet exigency. The strategic reserves have been built since 2008-09. The total annual **buffer stock** of food grain in the central pool is distributed over different quarters of the year depending upon procurement and offtake patterns.

Current buffer stock norms and strategic reserves are given as under:

Table 1: Stock Norms (million MT)

	Buffer Norms			Strategic Reserve		
	Rice	Wheat	Total	Rice	wheat	Total
1st April	12.2	4.0	16.2	2	3	21.2
1st July	9.8	17.1	26.9	2	3	31.9
1st October	5.2	11.0	16.2	2	3	21.2
1st January	11.8	8.2	20.0	2	3	25.0

Source: Department of Food and Public Distribution

In addition to direct procurement by the FCI, the central government promotes **decentralized procurement** of foodgrains. Introduced in 1997-98, decentralized procurement aims at extending the benefit of procurement to larger section of farmers given beneficiaries of centralized procurement are concentrated in surplus states of Punjab, Haryana, some parts of Uttar Pradesh and Andhra Pradesh. The decentralized scheme aims to enhance the efficiency of procurement and extend the benefits of MSP to local farmers as well as to save on transit costs. Under the scheme, state procurement agencies directly purchase paddy, wheat and procure levy rice on behalf of the central government and also store and distribute these foodgrains under welfare schemes. State governments of Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra and Rajasthan also procure local coarse grain. The central government reimburses the entire expenditure incurred by the state governments on the procurement operations.

Table 2: State Governments undertaking Decentralized Procurement

S.N.	Name of the State	Procurement of items
1.	West Bengal	Rice
2.	Madhya Pradesh	Wheat
3.	Chhattisgarh	Rice/Wheat
4.	Uttaranchal	Rice/Wheat
5.	Andaman & Nicobar Islands	Rice
6	Orissa	Rice
7.	Tamil Nadu	Rice
8.	Gujarat	Wheat
9.	Karnataka	Rice
10.	Kerala	Rice

The FCI, in conjunction with Central Warehousing Corporation (CWC) and State Warehousing Corporations (SWCs), has large scale storage and warehousing facility across the country. FCI has 33 million MT (owned and hired) of storage capacity in over 1820 godowns all over India. Private participation in storage and warehousing of foodgrain has been initiated as total procurement exceeds the storage capacity in most years.

Table 3: **Storage Capacity with FCI***

Covered	Storage (million MT)
Owned	13.01
Hired	17.21
Total	30.22
CAP^ (Cover and Plinth)	
Owned	2.63
Hired	0.75
Total	3.38
Grand Total	33.6

*as of April 1, 2012 ^ grain stored in plastic cover on an elevated ground

Source: FCI

Administered Prices

The public procurement and distribution prices of agricultural commodities are administered by the central and state governments. The government also approves minimum purchase price for sugar to be paid by private millers and dealers.

1. **Minimum Support Prices (MSP)** – MSP for 24 crops is announced by the central government based on the recommendation of Commission for Agricultural Costs and Prices (CACP). The commodities included are seven cereals (paddy, wheat, barley, jowar, bajra, maize and ragi); five pulses (gram (*chana*), red gram (*tur*), green gram (*moong*), lentil (*masur*)); eight oilseeds (groundnut, rapeseed, toria, soybean, sunflower seed, sesamum, nigerseed, safflower seed); copra, raw cotton, raw jute and Virginia flu cured (VFC) tobacco. There is no limit for procurement in terms of volume, provided the stock satisfies FAQ (Fair Average Quality) specifications. Whatever stocks which are brought to the purchase centres falling within the specifications are purchased at the MSP. State governments often declare a bonus over and above the MSP paid by the central agency.
2. **Levy price** for rice and sugar – Mills are mandated to sell a certain percentage of their net sugar and rice output as levy to the government, which is then distributed through FPSs at subsidised rates. The percentage of levy is fixed by state governments with the approval of central government taking into account requirements for the central pool, domestic consumption and marketable surplus. Currently sugar mills are required to sell 10% of their produce to the government to meet ration shops' demand but the government is mulling moving to dynamic levy system depending on quantum of production such that levy may be low in years when adequate sugar is available in the open market. In the last 10 years, the levy has been static at

10% except in the year 2009-10, when the obligation was raised to 20% due to low production. Levy on rice millers differ from state to state and ranges from 30% in Madhya Pradesh to 75% in Andhra Pradesh. Price of levy rice is fixed before commencement of kharif season.

3. Statutory **Minimum Prices** for sugarcane – The central and state governments announce Fair and Remunerative Price (**FRP**) and State Advised Price¹ (**SAP**) respectively; higher of the two has to be paid by sugar mills to purchase sugarcane from farmers.
4. **Central Issue Prices** (CIP) for rice, wheat and coarse cereals for sale under targeted public distribution system. CIP of Antyodaya Anna Yojana (AAY) has been kept constant at ₹ 3 per kg for rice and ₹ 2 per kg for wheat since the introduction of this scheme in December, 2000.

CIP of rice and wheat for Above Poverty Line (APL), Below Poverty Line (BPL) and families covered under AAY is as under:-

Table 4: **Central Issue Prices**

₹/Quintal	APL	BPL	AAY
Rice Common	795	565	300
Wheat	610	415	200

Source: Department of Food and Public Distribution

Food Distribution

The current foodgrain distribution programme, Targeted Public Distribution System (TPDS) with target group as institutionally identified poor came into existence in June, 1997. TPDS is operated under the joint responsibility of the Central and the State/Union Territory (UT) Governments. Central government is responsible for procurement, allocation and transportation of foodgrains. Wheat, rice, sugar and kerosene are allocated to states/UTs for distribution currently.

1. Allocation of subsidised foodgrains (rice and wheat) is made by Central Government for 6.52 crore BPL families including Antyodaya Anna Yojana² (AAY) families under TPDS. Monthly allocation for recognised family is 35 kg.
2. Allocation of foodgrains for other welfare schemes such as Midday Meal Scheme and Wheat Based Nutrition Programme, Nutritional Programme for Adolescent Girls, and Emergency Feeding Programme

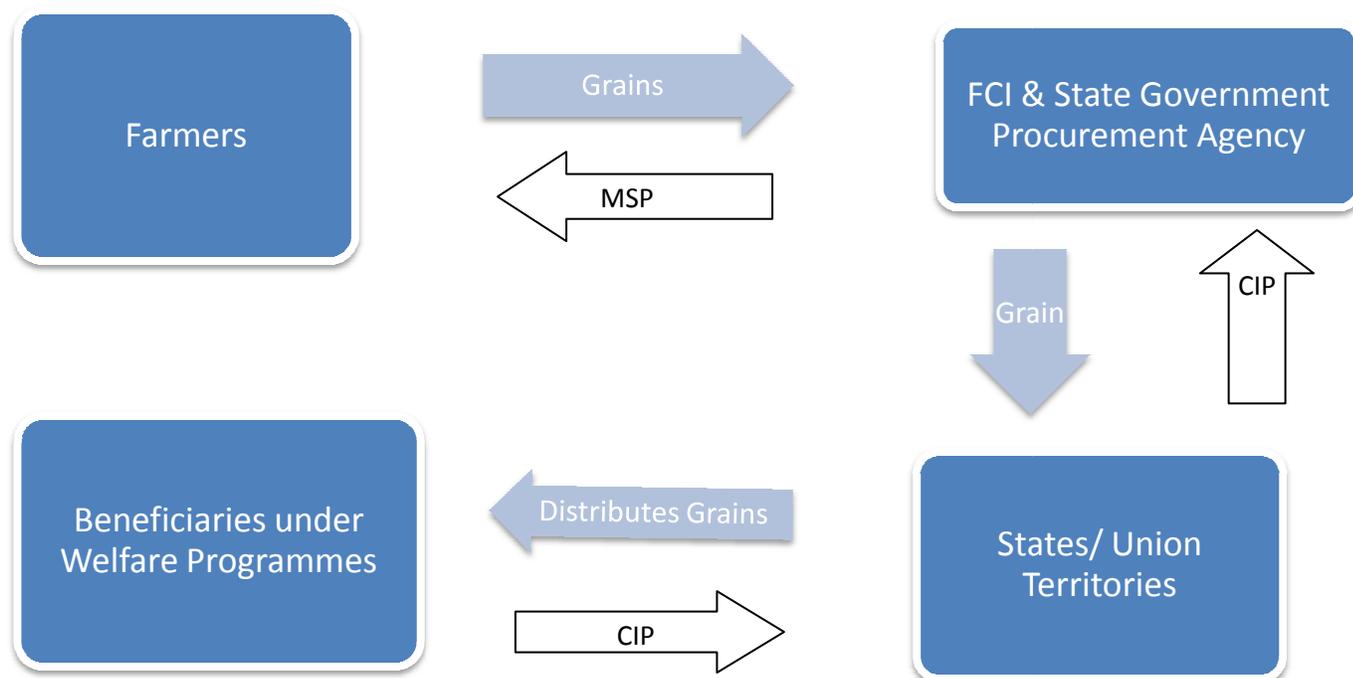
¹ Only five states fix SAP such that FRP solely determines the minimum price in other states.

² AAY was launched in December, 2000 to distribute highly subsidised foodgrain for 1 crore poorest of the poor families identified within the BPL families. Coverage under this scheme has been expanded thrice since then i.e. during 2003-04, 2004-05 and 2005-06, to cover 2.50 crore families. State bears the cost of distribution and transport such that entire food subsidy from the Centre is passed on to the beneficiary families.

3. Occasional allocation of foodgrains depending upon the availability of stocks and need of State/UTs
4. Allocations of subsidised foodgrains for APL families are made depending upon availability of foodgrain stocks in the central pool and past offtake by the State/UT. The allocation to APL families range between 15 to 35 kg per family per month.

The state government agencies are responsible for identification of eligible Below Poverty Line (BPL) families, issuance of ration cards, allocation, distribution and supervision of foodgrains within states and union territories through fair price shops (FPS). The difference between the economic cost of foodgrains and issue prices is incurred by the Central Government as food subsidy. Few states/UTs also distribute additional items such as pulses, edible oil and iodised salt through the FPSs.

Following flow-chart diagrammatically explains the complete system of food procurement to distribution:



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