GOVERNMENT OF INDIA
MINISTRY OF CONSUMER AFFAIRS, FOOD & PUBLIC DISTRIBUTION
DEPARTMENT OF FOOD AND PUBLIC DISTRIBUTION

LOK SABHA
UNSTARRED QUESTION NO. 1310
TO BE ANSWERED ON 28TH JULY, 2015

RESTRUCTURING OF FCI

1310. SHRI OM PRAKASH YADAV:
SHRI RAJESH KUMAR DIWAKER:
SHRI BHAGAT SINGH KOSHYARI:
SHRI NANDI YELLAIAH:

Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION उपभोक्ता मामले, खाद्य और सार्वजनिक वितरण मंत्री be pleased to state:

(a) whether the Government proposes to restructure the Food Corporation of India (FCI);

(b) if so, the details thereof and the reasons therefor;

(c) whether the Government has examined the recommendations of the High Powered Committee set up for this purpose; and

(d) if so, the details and the outcome thereof along with the time by which the recommendations of the Committee are likely to be implemented?

A N S W E R
MINISTER OF CONSUMER AFFAIRS, FOOD & PUBLIC DISTRIBUTION
(SHRI RAM VILAS PASWAN)

(a) & (b): Government of India had constituted a High Level Committee (HLC) on 20.08.2014 under the chairmanship of Shri Shanta Kumar, Hon'ble MP (Lok Sabha) to make recommendations on restructuring of FCI.

The details of the High Level Committee and the terms of references of the HLC are enclosed at Annex-1.

The HLC submitted its report on 21.01.2015 to Government of India.

(c) & (d): Yes, Madam. The decision taken by the Government of India on the recommendation of the Shanta Kumar Committee is at Annex-II. Since the implementation of various decisions will take varying time, no general time limit has been fixed for implementation of the recommendations of the Committee.

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Annex-1

ANNEXURE REFERRED TO IN REPLY TO PARTS (a) and (b) OF THE UNSTARRED QUESTION NO. 1310 DUE FOR ANSWER ON 28.07.2015 IN THE LOK SABHA

High Level Committee (HLC):-

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. Gummadi 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:-

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(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.

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Annex-II

ANNEXURE REFERRED TO IN REPLY TO PARTS (c) and (d) OF THE UNSTARRED QUESTION NO.1310 DUE FOR ANSWER ON 28.07.2015 IN THE LOK SABHA

The decision taken by the Government of India on the recommendation of the Shanta Kumar Committee.

Sl. No.	Recommendations	Decisions taken
1	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	All States excluding Punjab and Haryana are Decentralisedly Procuring (DCP) States where Food Corporation of India (FCI) is not involved in procurement. FCI has decided to stop procurement in Punjab and Haryana, only on getting request from the concerned State Governments. The State Government of Haryana has already given consent for not to involve FCI in procurement of wheat for RMS 2015-16, consequently, FCI has not taken part in procurement of wheat there. Similarly, FCI has decided not to take part in procurement of paddy in KMS 2015-16 in Haryana as per consent of the State Government. FCI has taken part in procurement of wheat in RMS 2015-16 as per the request of State Government of Punjab.
2	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 is of the view that transfer of stock of rice from one state to another is to be done by FCI, therefore, if they do not check the quality of rice themselves, it will create problem. If FCI would not accept the rice later on, due to poor quality of rice procured by State Governments, then it would create problems to the State Governments also. Therefore, the existing system has been decided to be continued.

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3	**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.** **.**	**FCI provides only guidance and outside support in procurement work in case of DCP States.** **In Non-DCP States, FCI has decided to help in the following manner-** **Procurement plan to be prepared in consultation with the State Governments.** **FCI, as far as possible, to open its procurement centers in larger numbers.** **Where FCI and State Government Agencies are not able to open procurement centers, procurement would be done through of private agencies.** **Training would be imparted to State Governments on quality and storage for doing arrangements like States of Madhya Pradesh, Chhattisgarh etc from time to time.** **For creating infrastructure in these States, development of Agricultural Mandies, arrangements of storage, arrangements of machines equipments etc could be done with the support of Ministry of Agriculture.**
4	**DFPD/ FCI at the Centre should enter into an agreement with states before every procurement season regarding costing norms and basic rules for procurement.**	**There is already agreement with DCP States. FCI has prepared a draft agreement for Non- DCP States for holding consultation with State Governments.**
5	**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/ OWS.**	**Decision has already been taken by the Government vide orders dated 12.06.2014 on this issue.**
6	**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).**	**State Governments have not agreed for uniform Taxation. It is not justified to include taxes, commissions etc. in MSP.**

7	**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.**	**FCI is strengthening its quality control infrastructure and modernize its laboratories.** **FCI is making arrangements for quality checks by External agencies, as per need.** **FCI is contacting premier institutions of the country for mechanized quality checking.**
8	**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.**	**Levy has been withdrawn with effect from Kharif Marketing Season (KMS) 2015-16.**
9	**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.**	**At present farmers of the country are totally dependent on government procurement and they do not have adequate knowledge and arrangements to bring their produce directly in the market. However, steps would be taken in this direction with the help of WDRA and Finance Ministry.**

10	**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.**	**Department has agreed for procurement of pulses and oilseeds through FCI on the pattern of NAFED under the Price Support Scheme of the Department of Agriculture & Cooperation. This will not create burden on food subsidy and FCI will create separate fund for this procurement with the assistance of Department of Agriculture & Cooperation.**
	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.	**Department of Commerce has been requested for making changes in the trade policy in such a manner that prices of imported pulses and oilseeds would not be lower than MSP.**
	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.	**Import duty is being imposed as per the recommendations of High Level Committee for import of rice from Mayanmar.**

11.	**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.**	**FCI would outsource of management of newly constructed godowns under Plan Schemes.** **Godowns of CWC/ SWC will be hired as per existing arrangement and where such godowns are not available; private godowns will be hired on the basis of competitive bidding.**
12.	**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.** **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.**	**FCI will undertake construction of approx. 43.5 lakh tons capacity of silos in next five years.** **FCI depots having railway sidings, will be upgraded to Silos first.** **Where FCI or State Agencies do not have their own land, Silos would be built on Private land.** **FCI has already engaged a Consultant for this work.**
13.	**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.**	**FCI will de-hire its currently hired CAP capacity of 1.94 lakh MT within 1 month.** **There are 8.90 LMT FCI owned CAP capacity. CAP Complexes having 5000 MT or above capacity will be taken up for conversion into silos.** **In addition, grains kept in CAP will be evacuated within 6-8 months.**
14.	**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.**	**As Railways do not have facilities of containerized movement at present, it is not feasible to implement it as of now.**

15.	**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.**	**The construction work of godowns is going on in the States of North-East region under Plan Schemes. By the end of September, storage capacity of two months consumption requirement of grains, will be available in the States of North-East region.** **On construction of additional 5 LMT storage capacity, it would be feasible to store foodgrains for 3 months consumption requirement in NER.** **Efforts will be made to increase storage capacity in J&K to store foodgrains for 3 months requirement against existing two-month capability.**
16.	**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 labour (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.** **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.**	**FCI has already requested the Ministry of Labour & Employment to de-notify the depots. Only contractual labour will be engaged in the depots after their de-notification.** **If, Ministry of Labour & Employment agrees, contractual labour would be engaged in all its depots and the cadres of Departmental Labour will be declared as dying cadres.** **The restructuring of labour force of FCI would be done by taking the labour unions in confidence.** **Capping of incentive being given to the regular workers of FCI is not advisable as it would lead to delay in unloading at the railheads.** **Regular strict vigil would be kept to provide better facilities to contractual labour prescribed under various labour laws.**

17.	**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.**	**A decision has already been taken in this regard under which FCI would sell surplus wheat and rice in the open market in smooth manner.**
18.	**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.**	**FCI has invited tenders for Depot Online Project. It will be done in phases. Depot Online Project will be done in 10 depots in current year and all other depots of FCI in the next year. Depot on line project would be implemented in hired Depot in third phase.**
19.	**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 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 Cabinet Note has been prepared by this Department for seeking relaxation for essential packing of wheat in jute bag. Other aspects have been mostly covered elsewhere.**

20.	**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.**	**Department of Fertilizers is actively considering this matter.**
21.	**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.**	**There is no proposal to make amendments in the NFSA, 2013.**

22.	**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.**	**Government has made all States and Union Territories aware about NFSA and asked to implement it, so that leakage in the PDS can be reduced.**
23.	**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.**	**Ministry has already issued instructions for release of foodgrains upto 6 months requirement at a time.**
24.	**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.**	**This Department has decided to implement this with an appropriate strategy to maintain a balance between the cash transfer of subsidy and availability of foodgrains in the market. It will be implemented in the States/ UTs which are agreed to and ready for it..**

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