Ahmedabad

MONDAY, JANUARY 25, 2021

1 FINANCIAL EXPRESS

FCI OVERHAUL

Grain purchases may see rejig

PRABHUDATTA MISHRA &
BANIKINKAR PATTANAYAK
New Delhi, January 24

THE GOVERNMENT IS planning to tweak the way state-run Food Corporation of India (FCI) procures and stores grains. It has lined up a raft of proposals to bolster its entire public distribution system (PDS). The proposals include conducting third-party audits, junking archaic standard specifications for purchased goods, implementing end-to-end digitisation and seeking feedback from ration shop beneficiaries.

For operational efficiency

Experts will review FCI's standards set for procured goods 20-30 years ago

New standards for goods and warehousing to be set in sync with global best practices

To ensure end-to-end traceability of stocks and complete digitisation

Nation-wide database of inventory to be set up

Independent audits of various operations to be done

Continued on Page 2
to costly piling up of grain stocks. Efficient procurement is also expected to trim FCI’s costs, which have not just bloated its debt burden but weighed on the already-elevated food subsidy bill of the Centre that stands as a guarantor to the agency’s loans, mostly from the National Small Savings Fund. FCI’s debt was as high as ₹3.3 lakh crore at the end of FY20 and its interest outgo was a tidy sum of ₹19,167 crore, said a source. The debt might have since risen further and could be at least ₹3.5 lakh crore by FY21-end.

FCI directly procured only 1% of its paddy and about 12% of wheat stocks in the 2019-20 marketing year. It relies heavily on state agencies (vendors) to purchase on its behalf, so quality control by it becomes all the more critical, according to the official presentation on “Transformation of FCI” on January 14.

The presentation shows the government intends to introduce key operational changes—from standard specifications for procurement, sampling of stocks and quality testing to audit, warehousing practices, transportation of stocks and distribution through ration shops. A broad range of these changes are targeted to be implemented by April.

The move comes at a time when the government and protesting farmers are engaged in talks to end an impasse over three contentious farm bills. While the farmers are apprehensive about the fate of official procurement, the government has made it clear, time and again, that it would not stop the purchase drive.

“The aim of the latest plan involving the FCI is to further strengthen the procurement system, so that both farmers and end-consumers (PDS beneficiaries) benefit,” a senior government official told FE.

The proposal follows a series of meetings chaired by Piyush Goyal, minister for food, consumer affairs, commerce, industry and railways, with FCI and senior government officials; the latest being on January 14.

As part of the latest plan, the government wants to revise archaic grain standards, which were set 20-30 years ago, keeping with advances in harvesting and handling technologies, and also include chemical and nutritional parameters. The grains to be procured should not be lower than the human-consumption grade. The discretionary power in the hands of field staff to relax the criteria would be curtailed. Gunny bags should be tagged and traders/farmers should map and tag their produce before they sell at mandi to FCI or state agencies, it mulls. The idea is to ensure end-to-end traceability, right from farmers up to beneficiaries.

Similarly, it wants benchmarking of quality and cost of acquisition with regard to private procurement.

To strengthen the PDS, it intends to assess fair price shops on various parameters, including infrastructure, inventory control, licenses and number of customers. Feedback of beneficiaries must be carried out to listen to their grievances, it proposes.

The government also wants to conduct audit by a third-party agency as it believes that such a move will bring in not just transparency and reliability in procurement operations but also a different view to system.

Interestingly, an earlier report by the Commission for Agricultural Costs and Prices had highlighted that FCI suffered from “dis-economies of scale, that is, as its scale of operation increases, the per unit real costs also increase”. “This suggests FCI is on the high-cost segment of the cost curve,” it had said. This may be due to higher procurement incidentals and increasing carrying costs of the buffer stock, it had added.

Also, the steep rise in borrowings by the FCI over the years to keep its operations uninterrupted has inflated an already-high food subsidy bill even further. Thanks to the open-ended procurement policy, the FCI has piled up grains, even as its debt trap widened. The total stocks of rice and wheat in the central pool was about 33 million tonne as on January 1, much higher than the buffer need of 21.4 million tonne.

Despite its claim of minimal waste and quality stocks, FCI has faced a barrage of criticism over its handling of the overflowing inventory, especially during the UPA-11 years when the government had banned exports of wheat and rice, which ultimately resulted in its stocks well exceeding double the buffer norms. While the situation has somewhat improved in recent years, it’s still far from ideal.

Grain purchases may see rejig

While the Centre’s expenditure on procurement and food security through the FCI has ballooned over the years (it was as much as ₹1.73 lakh crore in FY20, according to an official presentation), complaints still pour in over the quality of a portion of the stocks.

At the same time, over the last few years, the government’s National Food Security Act obligations buttressed open-ended procurement policy, leading