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Foodgrain Management Policy, FCI and Implications for Food Security

The Government has recently passed an ordinance to enact the Food Security Act (FSA). There has been an intense debate on the merits and demerits of the Food Security Bill draft. The main argument in favour of a coupon based/cash transfer-led food programme is that it would minimise leakages and hence reduce the burden on the exchequer. Further, the proposal is to discontinue the current system of grain procurement and distribution with Food Corporation of India (FCI) as the nodal agency, and restricting the role of the organisation to maintaining only stipulated buffer norms.[1] However, what is most crucial for the FSA to succeed in fulfilling its objective is the availability of adequate foodgrains to meet the entitlement commitments. Official documents have repeatedly claimed that foodgrain production in the country has reached record levels, and that India is not only food self-sufficient but is also emerging as a major exporter. In order to assess the ability of the FSA to meet its objectives, it is important to evaluate two important questions; one, what is the current state of foodgrain production in India; and two, what is the level of food stock available with the government?

The State of Food Production and Consumption

From the point of view of food security, what matters is the trend in per capita production of foodgrains. This would indicate whether food production is keeping pace with increasing population. Chart 1 shows the trends in per capita production and availability[2] of cereals (which continue to provide more than 50 per cent of calorie and protein intake[3]) in India. The chart shows that after increasing consistently from the late-1970s, per capita production and availability have both gone down since the middle of the 1990s, with the latter falling at a faster rate than the former. While per capita production has recovered somewhat after 2007, coming on the back of a 3.5 per cent growth during 2006/07-2010/11, the decline in per capita availability continued unabated. It is ironical that when foodgrains production reached record levels, per capita availability should have decreased.

The findings of National Sample Survey Organisation (NSSO) Consumption Expenditure Surveys on household consumption, as shown in Chart 2, corroborate the fact that the continuous fall in per capita availability denotes a fall in demand for cereals.

Contrary to the increased income-led dietary diversification view which attributes fall in cereal consumption to well-being, falling cereal consumption has been a cause for falling nutritional standards in the country. The 12th Five Year Plan has commented on this issue thus:

> *Another important and related issue is the likely future demand for food. The Twelfth Plan Working Group on Crop Husbandry, Demand and Supply*

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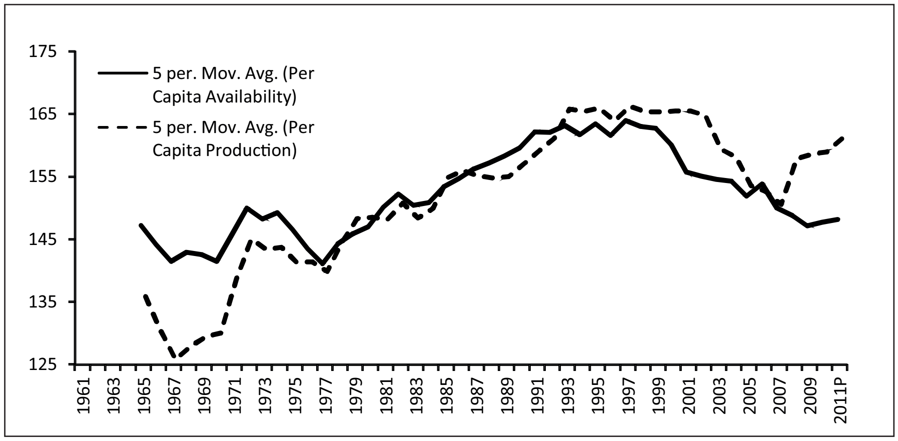
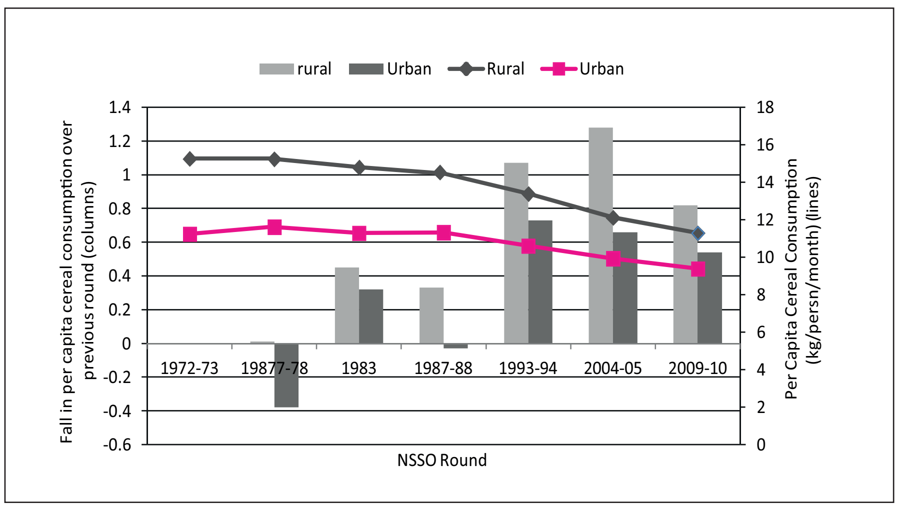
Chart 1: Per Capita Production and Availability of Cereals (kg/person/year)



Source: Table 1.16 (Economic Survey 2012-13).[4]

Chart 2: Cereal Consumption in India (kg/person/month)



Source: NSSO Report Numbers 538, 508, 402 and 374.

Projections, Agricultural Inputs and Agricultural Statistics has made projections for foodgrains and other food items by the terminal year of the Twelfth Plan, that is, 2016–17 … which would suggest that present levels of cereals production already exceed likely demand at the end of the Twelfth Plan. These projections are based on actual past patterns of observed demand and the fact that cereals consumption per capita has declined since at least mid-1990s. However, it is also the case that India has very high levels of malnutrition and, although there are many reasons for this, deficiencies in calorie intake remain one of the most important. With cereals supplying over 50 per cent of total calorie intake even now, falling cereals consumption is the main reason why per capita calorie intake has not increased despite rising incomes. It is not just that the share of cereals in total food expenditure is falling; even poor people are reducing the share of income spent on all foods in order to meet other non-food needs. In such a situation, where there is a disjunction between such a basic element of human development as nutrition and other demands in an increasingly consumerist society, there is need to ensure that minimum nutrition requirements are actually met.[5]

1 See (Basu 2011) and (Parikh 2013).

2 Availability = production + net import –addition to stock. Availability can be taken as a rough estimate of aggregate demand in an economy.

3 According to NSSO Report Number 540 (66th Round held in 2009-10) on Nutritional Intake in India contribution of cereals to calorie and protein intake was more than 60 per cent in rural areas and more than 50 per cent in urban areas.

4 The Population estimates used for getting per capita figures have been calculated by first calculating the rate of growth of population in each decade by using census figures and then interpolated for each year. The annual population figure used in the Economic Survey seems to be inappropriate. For example during 1991 to 1995 the increase in population each year (1991 to 1992 and so on) is 19.1, 16.1, 16.1, 16 and 22.1 million, respectively. There is no basis for such fluctuations in annual population growth.

5 Chapter 12, Page 17, Volume II, Twelfth Five Year Plan (2012-17).

Foodgrain consumption in India has lagged behind production for four decades and this phenomenon became more marked in the recent past. It is ironic that this has also been the period when, for the first time, foodgrain production had exceeded 250 million tonnes. With the government unable to ensure proper distribution of foodgrains, particularly among the economically deprived sections, food stocks and their management has become a piquant issue.

The Question of Food Stocks

Food stocks are at their highest ever levels in India today, way above the required buffer norms. The situation has surpassed the build-up of stocks seen in early years of 2000. These unused stocks, which are also being wasted, have attracted criticisms about the food management policy of the government. So, is the government procuring way in excess through the FCI?

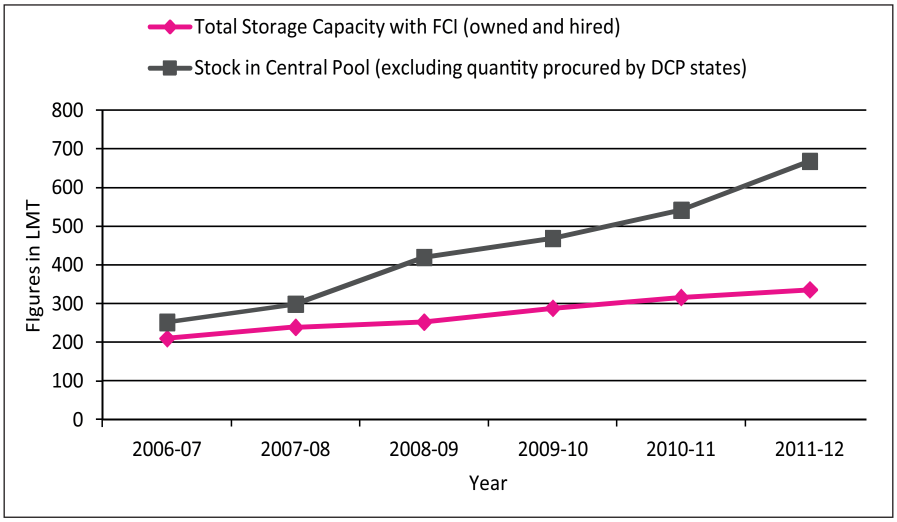
The Report of Comptroller and Auditor General of India on Performance Audit of Storage, Management and Movement of Food Grains in Food Corporation of India, which covers the period from 2006-07 to 2011-12, makes several interesting observations:

- During 2006-07 to 2011-12, the average procurement of 514 lakh metric ton (LMT) by various agencies for the central pool was lower than the average allocation of 593 LMT made by the Government of India (GOI) for Targeted Public Distribution System (TPDS); Other Welfare Schemes (OWS), etc.
- In the last three years, 2009-10, 2010-11 and 2011-12, the gap between allocation and procurement was 46, 118 and 75 LMT respectively. This shows that current procurement levels would not be enough to meet the allocations required in the future, should the FSA come into effect. In the past, the situation has remained under control because lifting against the sanctioned off-take has been much lower: the figures being 80 per cent and 77 per cent in 2009-10 and 2010-11 respectively. The Food Ministry has claimed that existing levels of procurement are adequate given the gap between allocation and off-take.

Thus, what we have in reality is a situation where far from procuring extra foodgrains, FCI has been procuring less than what the government needs to distribute. How does the government then plan to fulfil the commitments it has made under the FSA? Three situations can be considered here.

The FSA provides for covering "up to" 75 per cent and 50 per cent of the rural and urban population under the subsidy net by identifying them as 'Priority' and 'Antyodaya' households. These promises run into the serious risk of not being fulfilled if the present scenario of actual

Chart 3: Gap in Storage Capacity and Stock of Foodgrains with FCI



Source: Chart 3.1 (FCI Performance Audit 2013).

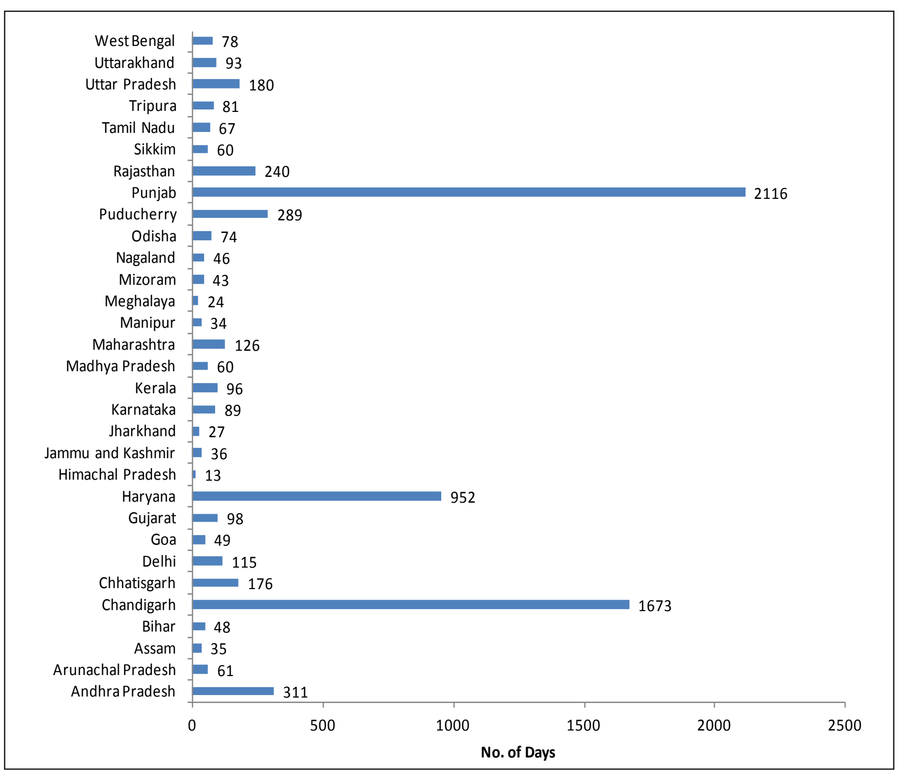
off-take being always lower than the sanctioned off-take persists. Concerns have been expressed as to how the government would go about successfully identifying these households, given the none-too-happy experience of identifying Below Poverty Line households in the Targeted Public Distribution System (TPDS). Unless there is a sincere attempt to correct the erroneous exclusions detected in the TPDS, FSA would not be able to make any positive impact on the food security scenario.

In the alternate scenario, under which the government increases procurement and sincerely fulfils the commitment of bringing 50 per cent and 75 per cent of the urban and rural population under a food subsidy programme, there could be a serious infrastructural bottleneck. The FCI has not been able to augment its storage capacity to meet the increasing procurement levels. Chart 3 shows the increasing gap between FCI's storage capacity and stock of foodgrains in the last 5 years.

FCI's own storage stock has grown by only 4.1 LMT (0.6 Covered and 3.5 Covered and Plinth) between 2007 and 2012. The hired capacity of FCI increased by 80 per cent from 99.7 LMT in 2006-07 to 179.6 LMT in 2011-12, leading to an increase in hiring charges of storage space incurred by the FCI from Rs 321.5 crore in 2006-07 to Rs 1119.0 crore in 2011-12. The shortage of storage space also led to an increase in FCI's carry over charges to State Government Agencies from Rs 175 crore in 2006-07 to Rs 1981 crore in 2010-11. These remained at Rs 1635 crore in 2011-12. The average annual expenditure on hiring and carry over charges paid by the FCI was Rs 2265 crore during 2008-09 to 2011-12. As per the Report, 157.46 LMT out of 163.4 LMT of storage capacity was to be augmented through public and private hiring between 2006-07 and 2011-12. It is clear that lack of own storage space has been a source of major financial burden for the FCI. If the increase in storage costs for the FCI continues at the same pace, it would not bode well for the financial health of the FCI, which has been making losses anyway. The Report notes this:

The gap between owned and hired storage capacities will reach a critical proportion. This also indicates that hiring

Chart 4: State-wise Position of Storage Capacity (in days) vis-à-vis the requisite 120 days for Operational Stock as on March 2012



Source: Chart 3.3 (FCI Performance Audit 2013).

charges of FCI would continue to go up substantially in future unless owned storage capacity is augmented proportionally as against creation of storage capacity for guaranteed hiring by FCI. Thus the position needs serious consideration.[6]

However, instead of building its own storage capacity, a Private Entrepreneur Guarantee scheme is the main route that the FCI has chosen to augment its storage capacity. This scheme entitles private players to build warehouses against a 10 year guarantee of storage from the FCI. This has been accompanied by budgetary provisions to further incentivise private players in this sector.[7]

One simple way for the government could be to start construction of FCI warehouses as a part of the MGNREGA scheme. This would relieve the FCI of labour costs in construction of additional storage capacity, as the government is anyway bound to provide employment in public works. By rough estimates, this should reduce at least 30 per cent of the construction costs of building such facilities. There is a big scope for such a programme, given the regional concentration of storage capacity in the country. Currently 64 per cent of the total storage capacity is located in only five states, namely, Punjab, Haryana, Andhra Pradesh, Uttar Pradesh and Chhattisgarh. Another 13 per cent of FCI's total capacity is in the states of Rajasthan and Maharashtra, with the remaining 24 states and UTs sharing the rest of 23 per cent. Moreover, only six states/UTs had the required storage capacity to hold the required operational stock of foodgrains for four months during the period 2006-07 to 2011-12. Chart 4 shows the widespread divergence in storage capacity among states/UTs as on March 2012.

This skewed distribution of storage capacity is a major impediment to the expansion of procurement, which is also equally skewed. It is no wonder that the FCI has failed to act on recommendations calling for expansion of procurement activities in other states, particularly in the eastern region.[8] Expansion in storage capacity in the low procurement areas would encourage procurement and hence also provide a boost to agricultural production.

Finally, let us assume that the FCI were to stop procurement and storage beyond the minimum buffer norms. Even if one forgets the impact it would have on agricultural production, what would it mean for the government's food security programme? Since the government would not have physical stock of foodgrains, it would have to provide coupons to those under the subsidy net. Now if these coupons are of a fixed monetary value, inflation would erode the food entitlement of poor people. Any effective food security programme would require that such coupons/cash transfers are indexed to inflation so that they guarantee access to the promised level of foodgrains. This would translate into a situation where a very large number of people, i.e. those promised coverage under the FSA, would add to the demand for foodgrains in the open market, on the basis of purchasing power bestowed upon them by the government. Such a large increase in demand is to bound to lead to an increase in prices. What is worse is that these inflationary pressures can be abated by speculative activities, given large amount of future trading in agricultural commodities.[9] Such a situation would force the government to keep on spending more and more on food subsidy to maintain the effectiveness of its food security programme.

The Larger Picture

It has to be understood that these policy prescriptions are in keeping with the demands for overall opening up of the agriculture sector in India. Currently the most pressing articulation of this lobby can be seen in the demand for removal of quantitative barriers to export of foodgrains from India. International markets in food and cereals have been showing an unprecedented tightness after the food price spikes in 2007-08. For the first time since 1950s, the WTO index of value of agricultural exports is at a higher level than indices of volume of agricultural exports and production. India being a major producer of cereals is not only a potential major supplier of foodgrains, but also has the capability to bring down international prices if it offers a significant part of its production for trade. This can be seen in India's rice exports and movement in international prices. There are many within India and outside who would not be happy if a large part of food production in India were to

[6] Chapter 3, Page 37, (FCI Performance Audit 2013).

[7] The 2012-13 budget provided for investment linked deduction of capital expenditure on warehouses for storage of foodgrains to be enhanced to 150 per cent from 100 per cent.

[8] For example, the High Level Committee on Long Term Grain Policy under the chairmanship of Abhijit Sen made such recommendations

[9] In his supplementary note to The Report of Expert Committee to study the Impact of Futures Trading on Agricultural Commodity Prices (ECFT), Abhijit Sen, who was also Chairperson of the Committee noted the possibility of future trading leading to inflation. He writes, "It is clearly necessary in the immediate inflationary situation that there be a clear statement of the government's intent to maintain and expand the current system of public procurement and PDS in order to ensure remunerative prices to farmers and affordable prices to consumers. In this context, combining prudence with benefit of doubt, the best course of action would be to identify those commodities where there is possibility of futures trading affecting expectations that may influence inflation in essential commodities and insulate these from futures. Therefore, the suspension of futures trading in the four sensitive commodities should continue and, in the case of sugar and edible oils, discussions with processors held on how much hedging benefits they currently derive from futures markets, and a decision taken accordingly."

be procured by the government and supplied to the poor at subsidized prices instead of it being available for private trading. However, it would not hurt if the government decided to pay the poor for their FSA entitlements in the open market. In the absence of government supply of foodgrains, private traders would have a field day, where they can fill their coffers with the food subsidy, possibly at an ever increasing cost to the exchquer.

It must be kept in mind that it takes a long time to build a procurement and storage network like the one FCI has today. Once diluted, it cannot be rebuilt easily or quickly when a crisis erupts. This is why foodgrain management is considered to be a strategic sector. If we are serious about providing food security to our people, we would be better off if the government strengthens and expands its activities in this sector. Leaving welfare to the market will not yield the desired result when it is saddled with distortions. Moreover, markets always work on the principle of pay and use. There are many who are willing to pay much more for the food being produced in India. Once the government loses its control on the food market, there would always be a threat of domestic food production being bid away from the poor and the hungry.

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