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Whither Food Policy and Institutions in India?

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Abstract

The report of the High Level Committee (HLC) to restructure the Food Corporation of India (FCI) has major implications for the future trajectory of food policy in the country. The Committee has made some important recommendations for improving the operational efficiency of the FCI. These recommendations, particularly the ones related to technology adoption and bulk handling in storage, should go a long way in improving the current situation of grain management. However, the Committee has left many important questions related to food policy and models of food distribution unanswered. Most importantly, the HLC has missed a major opportunity to highlight the importance of evolving a conceptual framework to define and measure food security in the country, which is crucial for a meaningful discourse on food security issues. The methodological errors in calculating leakages from PDS and the absence of discussion of alternative models of food management are the other major shortcomings of the report.

Key words: Food Corporation of India, food security, HLC report, cash transfers, supply chain management

JEL Classification: Q18

Background

The Government of India had set up a High Level Committee (HLC) in August 2014 under the chairmanship of former Union Food Minister, Shri Shanta Kumar, to suggest restructuring of Food Corporation of India (FCI) so as to improve its operational efficiency and financial management. The HLC was requested to suggest measures for the overall improvement in management of foodgrains by the 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. The HLC submitted its report in January 2015. The report has highlighted the major shortcomings of FCI and has made some important suggestions. However, the report has raised more questions than providing answers. Most importantly,

the report has missed an important opportunity to highlight some of the major lacunae in the discourse on food security and food policy in the country.

Firstly, some of the positive recommendations of the report that are mostly related to the operational aspects of FCI. The report has rightly recommended the shifting the procurement focus of FCI to the eastern states of the country and to leave the more developed states to carry out their own procurement. This move would enable the FCI to utilize its overstretched resources better by focussing on the less-developed eastern states and help in building efficient procurement systems in that region.

The second set of recommendations relates to the storage and stocking. The HLC has recommended outsourcing of FCI stocking operations to agencies such as Central Warehousing Corporation, State Warehousing Corporations, private sector and the state governments. There are also recommendations to augment storage capacity, modernize the stocking

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systems by doing away with cover and plinth (CAP), using silo bag technology, building modern mechanized silos, containerized movement of grains and grain trains. All these are very important suggestions, and if implemented, should go a long way in improving the current storage practices of FCI that are leading to rotting of grains.

The third set of recommendations relates to the use of ICTs to modernize the food management system. The HLC has recommended end-to-end computerization of the entire food management system, starting from procurement from farmers, to stocking, movement and finally distribution through Targeted Public Distribution System (TPDS).

Another important recommendation is to devise a transparent liquidation policy that can kick in when stocks rise way above the buffer norms.

All these recommendations are highly significant and would help in improving the operational efficiency of FCI.

These important recommendations notwithstanding, the Committee falls way short of expectations in terms of evolving a clear concept and metric of food security, methodological errors in measurement of leakages under TPDS and in its discussion of food policy.

Some Limitation of HLC Report

Defining Food Security

Chapter 3 of the HLC report undertakes the task of redefining the role of FCI in the context of food security. In a sense, this chapter is central to the whole exercise. This chapter starts by rightly asking the question as to what constitutes food security. The World Food Summit (1996) defined that food security “*exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life*”. A moment’s reflection will show that this concept of food security is near impossible to achieve for any country. Therefore, World Summit on Food Security in 2009 extended this definition and evolved the concept of four pillars of food security as availability, access, utilization, and stability. The HLC has adopted this as the working definition of food security in Chapter 3. However, even

by this definition, there is no metric available to measure the extent of food security (or insecurity). We do not have a clear metric to measure food security, as we have in the case of measurement of poverty. For instance, what percentage of food availability (in relation to consumption) would constitute food security? What percentage of population should possess economic and physical access to food in a country to be called food secure? Similar questions arise in the case of utilization and stability too. This limitation is not specific to the HLC report alone (Suryanaraya, 2015). We have had several expert committees on food policy in the past and even the National Food Security Act, 2013 has been enacted without evolving a concept of food security and a metric to measure that. It is time India should evolve a proper conceptual framework to define and measure food security to enable policymaking. It is here that the HLC has missed a golden opportunity to flag this important issue. Although developing a metric of food security was beyond the purview of the Committee, a recommendation on these lines would have been immensely useful to future policymaking. Such a metric, as in the case of measurement of poverty, would also help in understanding the dynamic improvements (or the lack of) in the food security scenario of the country.

Estimating PDS Leakages

The second major limitation of the HLC report is with regard to the estimated leakages under TPDS¹. Here, the Committee report is replete with methodological errors and inaccuracies. The incorrect use of number of ration cards instead of all households in calculating the PDS purchases, inclusion of offtake under other welfare schemes (OWS) under that of PDS², use of five *ad-hoc* allocations instead of just two — all have been brought out in Dreze and Khera (2015)³. The over-estimation of leakages on account of these errors at the national level is about 5 per cent, which is not very large. However, the drift of the argument in the HLC Report conceals and indeed sends out a wrong signal that the PDS reforms initiated in

¹ These calculations are based on calculations by Gulati and Saini (2015)

² The 68th Round NSS Report clearly states that PDS purchases do not include these items

³ Also see Rohini Somanathan, Cash vs Kind, *Indian Express*, March 14, 2015

various states have not worked. The coverage, entitlements and implementation of PDS at the state level vary to a large degree. The national level evaluations do not capture these variations. Large variations in the PDS exist at the state level — from a universal PDS with hardly any leakage (with grain, dals and edible oil) in Tamil Nadu to Bihar's TPDS with lot of leakage (Mooij, 1998; 2001; Khera, 2011a; 2011b; Puri, 2012). Bihar had a really poor PDS system until 2011; but the system has shown vast improvement during the past three years and particularly, during the past 12 months, mainly because of the initiatives taken by the Government of Bihar (Dreze and Khera, 2015). The political discourse in the state has also changed by bringing PDS into the electoral debates. These varied experiences of states — from Bihar to Chattisgarh to Rajasthan — would have been illuminating. Since the Committee was entrusted with the task of suggesting measures to improve the operational efficiency of FCI and grain management, some of the states' experiences would have been useful.

Policy and Political Economy Factors

The third limitation of the HLC report is the discussion of the role of policy and other political economy factors in determining the outcomes (related to FCI performance, Chapter 2). The desired and actual outcomes of a policy can differ due to poor policy formulation or faulty implementation or both. FCI is only an implementing agency of food policy and does not have a say in policy formulation, which is in the realm of legislature or the nodal Ministry (Section 13(ii), FCI Act, 1964). Some of the outcomes of FCI are more a result of the poor policy formulation. For example, the FCI is under severe criticism for carrying huge stocks (to the extent of letting the grain rot) and at the same time not being able to extend procurement to states that really need price support. The build-up of stocks is a natural outcome of the price policy, which obliterated the difference between MSP and procurement price. The procurement price has been abolished over the years and at present MSP is treated as the *de facto* procurement price. In addition, the continual increase in MSP, with a ratchet mechanism (no movements in opposite direction possible), will naturally lead to huge stocks. The absence of a clear and transparent liquidation policy has further aggravated this situation. Although the HLC has made

a mention of these aspects (Chapter 2, page 15, paragraphs 1 & 2), an in-depth analysis of the same would have been more useful.

The HLC has made a very useful recommendation about a liquidation policy. However, a more comprehensive discussion of the price policy (which leads to these frequent build-ups of stocks) together with the proposed liquidation policy, would certainly have been useful to the policymakers. The procurement of grains from only a few states may be traced to political economy factors. Strong farmer lobbies emerged in the early beneficiary states such as Punjab, Haryana, Andhra Pradesh and Uttar Pradesh, which influenced the subsequent outcomes (Bardhan, 1984). Although HLC has made the very important recommendation to extend procurement to the eastern states, the political economy constraints can be formidable.

Cash Transfers

Perhaps the most debatable recommendation of the HLC is the (gradual) introduction of cash transfers (Chapter 3, page 26). The HLC has argued that by transferring cash to the tune of ₹ 500 to each priority household (and ₹ 700 to each Antyodaya household), the effective subsidy received will rise by ₹ 5/kg, which amounts to about 25-30 per cent better deal per family. Also, this can save the public exchequer about ₹ 30,000-35,000 crores annually. There are two issues that need thorough discussion here — increase in the transaction costs for the consumers and the form of future procurement, if any.

(a) Transaction Costs

The underlying logic of HLC recommendations appear to be driven mainly by the fiscal considerations, with emphasis on reducing government expenditure through cutting down transaction costs of storing, transporting and distribution of grains. The projected saving to the public exchequer of about ₹ 30,000 crores is mainly on account of these heads. However, implementation of these recommendations will only *transfer* the transaction costs from the government to the consumers, but may not reduce the overall costs. These transaction costs can be prohibitive, particularly for the poor consumers in the remote and inaccessible regions (Narayanan, 2011; Khera, 2014). Consumers

in the remote regions will have to make at least one trip each to the bank and food outlets every month to avail the benefit of cash transfers. The PDS outlets are often located within the village or closer to the village, whereas the banks and markets (when exist) are much farther. The poor transport network makes it further difficult to access the banks and markets. Some of the poor consumers may even be forced to forego their daily wages in order to make these trips to the bank and market. All these factors may force some of the beneficiaries to drop out of the program. The overall social cost may be much higher in the final analysis, though the costs to the government may come down.

(b) Future Form of Procurement

This is another important issue related to the cash transfers. Presently, the FCI and the state agencies procure foodgrains from the farmers and these are used to feed the PDS. If the physical grain distribution is replaced with cash transfers, two possibilities emerge on the procurement side. The physical procurement may be replaced with a deficiency payment system, wherein, the farmer will sell in the open market and if the open market price falls below the MSP, the difference is reimbursed as a deficiency payment by the FCI. The other model is to continue with the physical procurement, but unload the stocks in the domestic and export markets (instead of PDS) through the Open Market Sales Scheme (OMSS). In this case, the possible effects of unloading large quantities of government stocks in the market need to be factored in. The HLC report is completely silent on the form of procurement proposed in case of cash transfers.

Supply Chain Management Models

Another important task of the Committee (as per the ToR) was to suggest cost effective models of supply chain management of the grain economy. Although the Committee has suggested a few models, a systematic *ex-ante* evaluation, or even a discussion of the merits / limitations of these models, is missing. For instance, the HLC has recommended disbanding of FCI in the efficient states and moving over to the eastern states. Similarly, a PPP model has been suggested wherein bulk handling and storage are to be undertaken by the private sector and the distribution by the FCI. A negotiable warehouse receipts (NWR) system has also been suggested. Lastly, a gradual move towards cash

transfers has been recommended. A thorough discussion of the possible merits and demerits of each of these models would have been useful. For example, how to prevent the state agencies from being afflicted with similar problems as FCI, namely, procurement being limited to a few regions in the state and open-ended procurement leading to large stocks. According to the recommendations of the HLC, as long as the states do not provide a bonus above MSP, the surplus stocks from the states become the responsibility of the FCI. The recommendation on NWR also needs more clarity. The system appears to be modelled on the commodity loan program of the USA. As per the proposed NWR, a farmer can deposit his harvest in a registered private warehouse and can use the receipt to raise a loan up to 80 per cent of the value of the harvest. However, there is no mention of what would happen if the market price falls below the loan rate (or MSP) and the farmer does not repay the loan. Will such stocks become property of the FCI?

Loading System

The HLC report has recommended that the loading system of the FCI be fixed and less reliance be placed on the departmental labour (page viii and ix). This recommendation is based on the fact that about 300 departmental loaders earned more than ₹ 4 lakhs in one month (August 2014) by misusing a faulty incentive system. The total number of departmental workers is 16,000 and the percentage of workers inappropriately benefiting from the defective incentive system comes to a mere 2 per cent. The solution should then be to fix the incentive system rather than use less departmental labour.

Finally, the Committee met various stakeholders (Annexure 2, pages 53-57), but most of the stakeholders were representatives of the state governments, farmers' organizations and the private sector. Consultations with beneficiary groups of PDS, particularly from the geographically remote and inaccessible regions, civil society organizations, and journalists working in these regions would have given a very useful perspective of the end-users of the PDS system to the HLC.

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