



Food Corporation of India

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Food Corporation of India (FCI) is a **Public Sector Undertaking**, under the **Department of Food & Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution**.

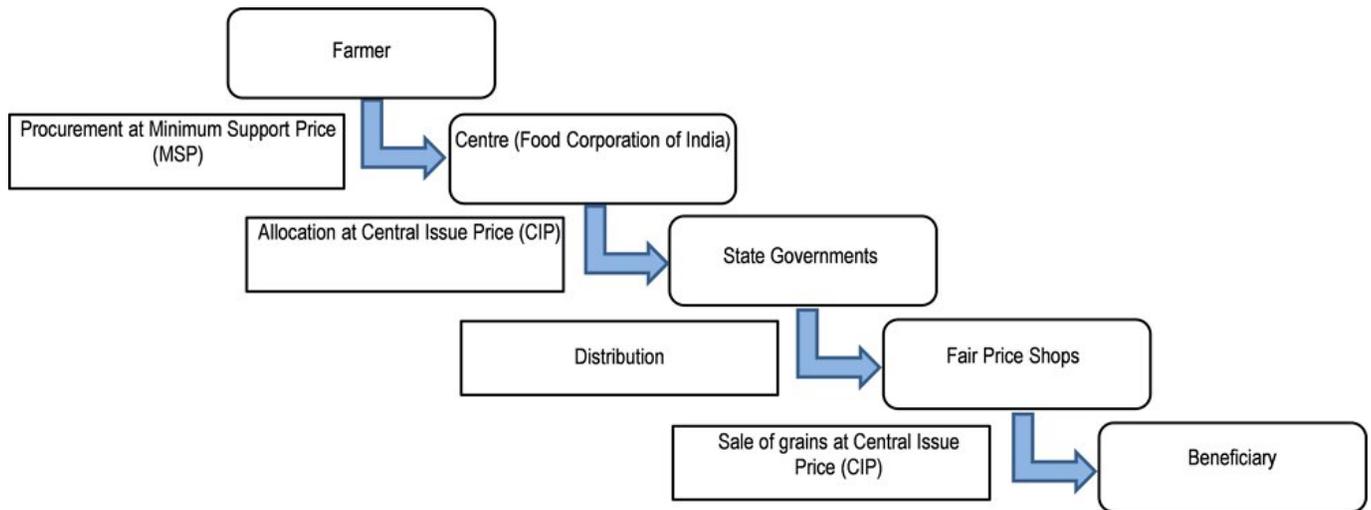
- FCI is a **statutory body** set up in 1965 under the **Food Corporations Act 1964**. It was established against the backdrop of major shortage of grains, especially wheat.
Simultaneously, **Commission for Agricultural Costs and Prices (CACP)** was created in 1965 to recommend remunerative prices to farmers.
- It has primary duty to undertake purchase, store, move/transport, distribute and sell food grains and other foodstuffs.

Commission for Agricultural Costs & Prices (CACP)

- The CACP is an attached office of the **Ministry of Agriculture and Farmers Welfare**. The Commission for Agricultural Costs & Prices (CACP since 1985, earlier named as **Agricultural Prices Commission**) came into existence in January 1965.
- It is mandated to recommend **minimum support prices (MSPs)** to incentivize the cultivators to adopt modern technology, and raise productivity and overall grain production in line with the emerging demand patterns in the country.
- MSP for major agricultural products are fixed by the government, each year, after taking into account the recommendations of the Commission.
As of now, CACP recommends **MSPs of 23 commodities**, which comprise 7 cereals (paddy, wheat, maize, sorghum, pearl millet, barley and ragi), 5 pulses (gram, tur, moong, urad, lentil), 7 oilseeds (groundnut, rapeseed-mustard, soyabean, seasmum, sunflower, safflower, nigerseed), and 4 commercial crops (copra, sugarcane, cotton and raw jute).

Organizational Set-Up of FCI

FCI coordinates its functions through a country-wide network of offices with **Headquarters at New Delhi** with **five Zonal Offices, twenty-five Regional Offices** and 170 District Offices under its control.



Objectives of FCI

- To provide remunerative prices to farmers.
- To help in **transforming the crisis management oriented food security** into a **stable security system** to ensure **availability, accessibility** and **affordability** of food grains to all people at all times so that no one, nowhere and at no time should go hungry.
- Ensuring food security of the nation by maintaining satisfactory level of **operational buffer stocks** of food grains.
- **Distribution** of food grains throughout the country for **Public Distribution System**.
- Effective **Price Support Operations** for safeguarding the interest of farmers.

Food Security

According to **Food and Agriculture Organization (FAO)**, food security has basically four pillars:

- **Availability:** food should be available in sufficient quantity at all times and at all places;
- **Affordability:** food should be affordable, i.e., people should have economic access (ample income) to buy food;
- **Absorption:** food should be safe and nutritious that body can absorb for a healthy life; and finally.
- **Stability:** food system should be reasonably stable, as high volatility in food systems impacts adversely not only the poor but also endangers the stability of political and social systems.

Major Activities Undertaken by FCI

Procurement

- The Central Government extends price support for procurement of wheat, paddy and coarse grains through the FCI and State Agencies. All the food grains conforming to the prescribed specifications are procured by the public procurement agencies at the **Minimum Support Price (MSP) plus** incentive bonus announced, if any.

- Procurement is undertaken both in direct and in-direct mode.
 - Under **Decentralized Procurement Scheme (DCP)**, introduced in 1997-98, food grains are procured and distributed by the State Governments themselves. The designated States procure, store and issue food grains under **Targeted Public Distribution System (TPDS)** and other welfare schemes of the Government.
 - The decentralized system of procurement was introduced to **enhance the efficiency** of procurement for **PDS** and to encourage procurement in non-traditional States as well as to save on transit losses and costs.
- Before the start of each procurement season, Central Government announces uniform specification for quality of wheat, paddy, rice and coarse grains.

Quality Control Division of FCI ensures procurement of food grains from procurement centres strictly in accordance with Govt. of India's **uniform quality specifications**.
- FCI has also been nominated as an additional **nodal Agency for procurement of Pulses and Oilseeds**.

Distribution

- FCI meets the requirements of **TPDS** through grains procured which are issued at **Central Issue Price** fixed by Government to fulfill the objective of helping the **economically vulnerable sections of society**.
- FCI delivers food grains to State Govt./ State Agencies from its base depots for distribution by the latter through Fair Price Shops.
- The role of FCI becomes even more important in the backdrop of **National Food Security Act, 2013**, that commits to distribute grains through **TPDS** and **other welfare schemes**, at highly subsidized prices.

Public Distribution System

- Public distribution of essential commodities was in existence in India during the inter-war period. However, PDS, with its focus on distribution of food grains in urban scarcity areas, had emanated from the critical food shortages of 1960s.
- PDS had substantially contributed to the containment of rise in food grain prices and ensured access of food to urban consumers. As the national agricultural production had grown in the **aftermath of the Green Revolution**, the outreach of PDS was extended to tribal blocks and areas of high incidence of poverty in the 1970s and 1980s.
- **PDS is supplemental in nature** and is not intended to make available the entire requirement of any of the commodities distributed under it to a household or a section of the society.
- PDS is operated under the **joint responsibility of the Central and the State Governments**. The Central Government, through **FCI**, has assumed the responsibility for procurement, storage, transportation and bulk allocation of food grains to the State Governments.
- The operational responsibilities including allocation within the State, identification of eligible families, issue of Ration Cards and supervision of the functioning of Fair Price Shops etc., rest with the State Governments.
- Under the PDS, presently the commodities namely wheat, rice, sugar and kerosene are being allocated to the States/UTs for distribution. Some States/UTs also distribute additional items of mass consumption through the PDS outlets such as pulses, edible oils, iodized salt, spices, etc.

Revamped Public Distribution System

- The **Revamped Public Distribution System (RPDS)** was launched in June, 1992 with a view to **strengthen and streamline the PDS** as well as to improve its reach in the **far-flung, hilly, remote and inaccessible areas** where a substantial section of the poor live.
- It covered 1775 blocks wherein area specific programmes such as the **Drought Prone Area Programme (DPAP), Integrated Tribal Development Projects (ITDP), Desert Development Programme (DDP)** were being implemented and in certain **Designated Hill Areas (DHA)** which were identified in consultation with State Governments for special focus.

Targeted Public Distribution System

- The **Targeted Public Distribution System (TPDS)** was launched in 1997 to benefit the poor and to keep the budgetary food subsidies under control to the desired extent following failure of the earlier PDS system.

Conceptually, the transition from universal PDS to TPDS was a move in the right direction, as it was designed to include all the poor households and raise the unit subsidy and ration quota considerably for them.
- TPDS aims at providing food grains to people below the **poverty line at highly subsidised prices** from the PDS and food grains to people above the poverty line at much higher prices than the poverty line.

Thus, the TPDS adopted by the Government of India maintains the universal character of the PDS but adds a special focus on the people below the poverty line.
- The **National Food Security Act, 2013 (NFSA)** has been notified which provides for all India coverage of upto 75% of the rural population and up to 50% of the urban population of the country for receiving highly subsidized foodgrains.

National Food Security Act

- The enactment of the National Food Security Act (NFSA) 2013 on July 5, 2013 marks a paradigm shift in the approach to food security from welfare to a **rights based approach**.
- The Act legally entitled upto 75% of the rural population and 50% of the urban population to receive subsidized food grains under **Targeted Public Distribution System**.
- About two thirds of the population therefore is covered under the Act to receive highly subsidised foodgrains.
- The National Food Security Act (NFSA) 2013 is being implemented in all the States/UTs, on an all India basis. Out of maximum coverage of 81.35 crore, around 80 crore persons have been covered under NFSA at present for receiving highly subsidized foodgrains.
- The identification of beneficiaries by States/UTs is a continuous process, which involves exclusion of ineligible/fake/duplicate ration cards and also exclusion on account of death, migration etc. and inclusion on account of birth as also that of genuine left-out households.

Restructuring of FCI

- The **shortfalls of FCI** in its **major objectives of procurement, storage and distribution**, lead to the formation of the **High Level Committee (HLC)** under the chairmanship **Shanta Kumar** for the restructuring for FCI.
- **Some of the recommendations include:**

- **On procurement related issues:** HLC recommends that FCI should 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 (**Andhra Pradesh, Chhattisgarh, Haryana, Madhya Pradesh, Odisha and Punjab**).
 - FCI will accept only the surplus (after deducting the needs of the states under NFSA) from these state governments to be moved to deficit states.
 - 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.
- **Negotiable warehouse receipt system :** it 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.
 - Government (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, Government 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.
- **Revisit the 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. While country is short of pulses and oilseeds (edible oils), their prices often go below MSP without any effective price support.

HLC recommends that pulses and oilseeds deserve priority and Government 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.
- **On stocking and movement related issues:** HLC recommends that FCI should outsource its stocking operations to various agencies such as **Central Warehousing Corporation, State Warehousing Corporation, the Private Sector under Private Entrepreneur Guarantee (PEG) scheme**, and even state governments that are building silos through private sector on state lands.
 - It should be done on competitive bidding basis, inviting various stakeholders and creating competition to bring down costs of storage.
 - **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 wherever possible should replace CAP.
 - Movement of grains needs to be gradually **containerized** which will help reduce transit losses, and have a faster turn-around-time by having more mechanized facilities at railway sidings.

- **Buffer Stocking Operations and Liquidation Policy:** One of the key challenges for FCI has been to carry buffer stocks way in excess of buffer stocking norms. FCI have to work in tandem to liquidate stocks in **Open Market Sale Scheme** 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.
- **HLC had recommended that the government should relook at the coverage (67% of the population) under the NFSA as it's on the 'higher' side'.**
- **On end to end computerization:** 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.
- The new face of FCI will be akin to an agency for innovations in Food Management System with a primary focus to create competition in every segment of food grain supply chain, from procurement to stocking to movement and finally distribution in TPDS, so that overall costs of the system are substantially reduced, leakages plugged, and it serves a larger number of farmers and consumers.