

Policy concerns

i. Food subsidy

5.37 The food subsidy bill, which was Rs.2,450 crore in 1990-91, increased to Rs.27,746 crore in 2004-05 (Table 5.15). The reasons for this increase are not far to find. The increases in MSP every year (Table 5.12), resulted in surpluses replacing shortages. Consequently, despite the recent deceleration in the growth of food-grains output, procurement has increased significantly over the years (Table 5.11). Attractive MSPs and Government's policy of open-ended procurement encouraged farmers to sell their produce to the Government rather than in the open market. During 2000-01 and 2001-02, there was an excessive build-up of public stocks much above the minimum buffer stock norm (Table 5.13). Large volumes of unsold public stocks pushed up the carrying cost, and raised the subsidy burden.

5.38 The enhanced MSP every year, with the associated increase in economic cost (Table 5.17), was not passed on to issue prices under PDS (Table 5.16). But even when the issue price was increased, the misalignment of the MSP – hence the economic costs– with what the market could bear demonstrated the fundamental problem of too high an MSP. Required adjustment of the MSP and realignment of the issue price in line with economic cost can bring about a durable solution to the food subsidy problem.

5.39 Costs incurred by the FCI in carrying out the procurement operations are fully re-

imbursed by the Government. Over the years, the costs incurred by the FCI have been rising. Further, high statutory levies (including mandi charges, cesses and fees to commission agents) on grain purchase at the State and local levels not only discourage private trade but also increase the FCI's cost, thus putting a pressure on the food subsidy bill. The levies imposed by the State Governments differ from State to State and are the highest in the case of Punjab, Haryana and Andhra Pradesh. A possible resolution of the problem can be through the Government announcing only the procurement price (MSP plus 4 per cent) and leaving it to the States to notify how the procurement price will be shared between the farmers and the State/local Governments.

Table 5.15 : Food subsidy

(Rs. crore)

Year	Food subsidy (Other than sugar)
1996-97	6,066
1997-98	7,500
1998-99	8,700
1999-00	9,200
2000-01	12,010
2001-02	17,494
2002-03	24,176
2003-04	25,160
2004-05 (BE)	27,746

Source : Budget documents

Table 5.16 : PDS issue price of wheat and rice				
(Rs/quintal)				
Year	Wheat	Change (per cent)	Rice	Change (per cent)
1990-91	234	-	289	-
1991-92	280	19.7	377	30.4
1992-93	280	0.0	377	0.0
1993-94	330	17.9	437	15.9
1994-95	402	21.8	537	22.9
1995-96	402	0.0	537	0.0
1996-97	402	0.0	537	0.0
1997-98				
BPL	250	-	350	-
APL	450	-	700	-
1998-99				
BPL	250	0.0	350	0.0
APL	650	44.4	905	29.3
1999-2000				
BPL	250	0.0	350	0.0
APL	682	4.9	905	0.0
2000-01				
BPL	415	66.0	565	61.4
APL	830	21.7	1130	24.9
2001-02				
BPL	415	0.0	565	0.0
APL	610	-26.5	830	-26.5
2002-03				
April				
BPL	415	0.0	565	0.0
APL	510	-16.4	730	-12.0
July				
BPL	415	0.0	565	0.0
APL	610	19.6	830	13.7

5.40 The policy of providing price support by raising the MSP continuously has distorted domestic prices and eroded export competitiveness. India is now an exporter of grains and an exporting country cannot have its domestic grain prices greatly out of sync with free-on-board export prices.

5.41 In order to minimize the burden on the budget, as well as the interest cost of funding the buffer stock operations of the FCI, from April 1, 2004, FCI has been permitted to

borrow directly from the market through bonds backed by a Government guarantee. This will enable the FCI to fund its requirements at a cheaper rate, which is closer to the rate that the Government pays for its borrowed funds. This is likely to contribute to a reduction in the revenue expenditure of the Central Government, on account of food subsidy, by a minimum of Rs. 2,000 crore per annum.

ii. Food credit

5.42 Food credit by banks includes credit to the FCI, State Governments and State Co-operative agencies for purposes of food procurement. It accounts for about 5-6 per cent of the total bank credit. Food credit for FCI's procurement operations is provided by a consortium of 50 commercial banks led by the State Bank of India, and equals the amount required to finance procurement, stocking and distribution operations during any cropping season. Credit is secured against the FCI inventory and partially guaranteed (25 per cent) by the Central Government. Food credit is backed by fully paid-up stocks valued at the issue price. The closing stocks of foodgrains are valued at acquisition cost or the issue price whichever is lower. Open-ended procurement requires open-ended bank credit. Food credit is in the nature of an extended running account, with no deadline for repayment. The outstanding food credit is repaid as and when there is a drawdown in stocks through off-take.

5.43 Increase in procurement results in an increase in stocks as well as in the outstanding food credit, while increased off-take results in decline in stocks and in the outstanding credit. During the last one year, the increase in off-take has been much higher than the increase in procurement resulting in a decline in both stocks and outstanding food credit. However, the decline in food stocks has been higher than the decline in credit reflecting the particular method of stock valuation.

iii. Food security

5.44 The fiscal unsustainability of providing food security through buffer stock operations is becoming increasingly evident. The carrying cost of the buffer stocks have been rising substantially in recent years, currently

Table 5.17 : Economic cost of rice and wheat						
<i>(Rupees per quintal)</i>						
	1999-00	2000-01	2001-02(P)	2002-03(P)	2003-04(RE)	2004-05 (BE)
Rice						
A. Acquisition Cost	887.30	1014.04	1052.66	1015.18	1045.58	1069.60
(i) Pooled cost of grain	831.24	930.41	961.16	944.27	970.68	993.23
(ii) Procurement incidentals	56.06	83.63	91.50	70.91	74.90	76.37
B. Distribution Cost	187.50	166.43	151.61	168.49	207.46	192.91
Economic Cost (A+B)	1074.80	1180.47	1195.55	1183.67	1253.04	1262.51
Wheat						
A. Acquisition Cost	685.51	716.60	739.13	754.55	778.04	784.54
(i) Pooled cost of grain	518.08	580.66	571.93	601.33	621.74	627.78
(ii) Procurement incidentals	117.06	135.94	167.20	153.22	156.30	156.76
(iii) Carry over charges to State Governments	50.37	-	-	-	-	-
B. Distribution Cost	202.00	141.66	132.17	160.16	174.47	140.28
Economic Cost (A+B)	887.51	858.26	859.20	914.71	952.51	924.82

accounting for about 25 per cent of the food subsidy bill : Storage losses are high. The procurement incidentals, distribution and administrative cost, together with the carrying cost form a very high proportion of the actual purchase cost of the grain. A redesign of the food security framework is an imperative need for maintaining fiscal sustainability.

5.45 In the last two years, food stocks have been used as a principal resource for poverty alleviation programmes under the various welfare schemes. The Mid Day Meal scheme, Sampoorna Gramin Rozgar Yojana are the two major welfare schemes that absorbed a substantial off-take of food-grains. In the longer run, with resources currently being spent on holding stocks, it should be possible to eliminate hunger, make a significant dent on the current appalling levels of malnutrition among India's children, and augment the quality of our human resources.

5.46 From April 1, 2004, coverage of the Antyodaya scheme was raised by another 50 lakh by the Interim Budget 2004-05, thus raising the number of beneficiaries to 2 crore of the poorest of the poor families.

iv. Decentralisation

5.47 The proposal to decentralise procurement of foodgrains is intended to benefit both the farmers and the consumers, while reducing the fiscal burden of the Government. Under the decentralisation scheme, instead of the FCI procuring the grains, the States carry out the procurement operations locally, and are paid the difference between the economic cost and the Central Issue Price as subsidy. FCI would continue to procure foodgrains for maintaining food security reserves and for such State Governments who would assign it this task on their behalf. Decentralised procurement has already been initiated in a limited way in Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh.

5.48 Despite its merits, decentralised procurement has not gained much ground as States feel that they do not have the necessary infrastructure and financial resources to undertake procurement operations on the required scale and for a long period. Further, additional storage capacity would have to be created before decentralised procurement

could be initiated. States also feel that decentralised procurement should be preceded by a proper network of roads and market places in rural regions, or farmers would suffer from distress sales and only traders would benefit.

5.49 There is no alternative to decentralisation in the long term. Decentralised procurement operations will help save transport cost, and reduce the overall economic cost of procurement. State Governments and private trade need to be induced to enter into food-grains trade covering procurement, storage and exports, and all barriers to private trade, economic as well as legal, should be removed.

v. Crop diversification & food processing

5.50 Given the changing dietary patterns, crop diversification is critical at the current stage of India's agricultural development. One consequence of the recent MSP policy has been to disturb inter-crop price parities, leading to a shift of area towards cereals — even as there are huge stocks — often from crops such as oilseeds, when there are huge edible oils imports.

5.51 Food processing industry is of enormous significance for India's development because of the vital linkages and synergies that it promotes between the two pillars of the economy, namely industry and agriculture. Economic liberalization and rising consumer prosperity are opening up new opportunities in the food processing sector. Liberalization of world trade will open up new vistas for growth. Presently India's share in the world trade of processed fruits and vegetables is still less than one per cent. Abundant investment opportunities exist in the expanding domestic and international markets. The comparative

advantage that the country has in the production of non-cereals and horticultural crops, like fruits and vegetables, need to be harnessed, and efforts directed at expanding their markets. With trade barriers gone, the country can look to the global market for export of processed agro-products. To compete, what is needed is not only cost-efficiency, but also appropriate product and quality standards. What is required is an investment strategy on the same lines and vigour, as was adopted to usher in the green revolution in cereal crops.

vi. Exports

5.52 In view of the surplus position of foodgrains much above the norms stipulated for the Ninth Plan, a series of measures were taken to liquidate the stocks. From a peak level of 648.3 lakh tonnes in June 2002, stocks in August 2003 fell below the minimum requirement. Reflecting the effort to liquidate the surplus stocks of foodgrains, off-take from the Central Pool for exports picked up considerably during the last two years. India, exported over 20 million tonnes of foodgrains during the last two and half years, and emerged as one of the leading exporters of foodgrains (second in case of rice and seventh in case of wheat) in the world grain market. The subsidy incurred on exports is estimated to be much lower than the expenditure that would have been incurred on carrying these foodgrains had they not been exported. There is need for a more pro-active policy in respect of export of foodgrains, rather than using exports simply as an adjustment mechanism to dispose of surplus food grains, if any. There is need for establishing India as a reliable exporter of foodgrains to get a profitable outlet for channelising the country's surplus foodgrains.