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A GRAIN STOCKIST WITH A ROLE STILL RELEVANT

Relevant for: Indian Economy | Topic: Public Distribution System: Objectives, Functioning, Limitations & Revamping

For several years now, the **Food Corporation of India (FCI)** has drawn attention for all the wrong reasons. Set up under the Food Corporations Act 1964, in its first decade, the FCI was at the forefront of India's quest of self-sufficiency in rice and wheat following the Green Revolution, managing procurement and stocking grain that supported a vast **Public Distribution System (PDS)**.

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Over time, however, many began to see it as a behemoth that had long outlived its purpose. Its operations were regarded as expensive and inefficient, a perception that has come to be accepted as fact. Even in the 1970s and 1980s, poor storage conditions meant a lot of grain was lost to pests, mainly rats; diversion of grain was widespread, prompting a former chairman to declare that there was a problem with "human rats" as well. By the late 1990s, the FCI was often referred to as the "Food Corruption of India", not entirely facetiously.

Notwithstanding its dubious reputation, the **FCI has consistently maintained the PDS**, a lifeline for vulnerable millions across the country. Today, in the middle of the COVID-19 pandemic, it holds the key to warding off a looming crisis of hunger and starvation, especially in regions where lakhs of migrant workers have returned with little in hand by way of money or food. Before the lockdown, many experts had observed that with 77 million tonnes of grains in its godowns and on the eve of a new round of procurement — of a bumper harvest of wheat — the FCI was facing a serious storage problem. This was worrying not just because of a shortage of modern storage facilities but also because the FCI lacked a "pro-active liquidation policy" for excess stocks. Today, this concern has all but disappeared, even if only temporarily, and many have called for opening up the godowns to release food stocks to those affected by the lockdown.

As of April 13, 2020, the FCI had already moved 3 million tonnes (post-lockdown), to States, including Uttar Pradesh, Bihar, West Bengal and Karnataka and those in the Northeast, where demand outstrips within State procurement and/or stocks. The FCI has also enabled purchases by States and non-governmental organisations directly from FCI depots, doing away with e-auctions typically conducted for the Open Market Sale Scheme (OMSS). With *rabi* procurement under way in many States, it seems that the country will secure ample food supplies to cope with the current crisis. Given the extended lockdown, the FCI is uniquely positioned to move grain across State borders where private sector players continue to face formidable challenges. With passenger rail and road traffic suspended, grain can move quickly without bottlenecks. Yet, there is a widespread sense that the FCI is simply not moving fast enough and could do much more.

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First, the FCI is overwhelmingly reliant on rail, which has several advantages over road transport. In 2019-2020 (until February) only 24% of the grain moved was by road. The FCI has, however, long recognised that road movement is often better suited for emergencies and for remote areas. Containerised movement too, which is not the dominant way of transporting grain, is more cost-effective and efficient. Now, more than ever, it is imperative to move grain quickly and with the least cost and effort, to areas where the need is greatest.

Second, given that the coming months will see predictable demand of staples from food insecure hotspots where migrant workers have just returned or where work is scarce, one strategy that has been adopted widely in international food aid by the United States, for example, is “pre-positioning” shipments, where grain is stored closer to demand hotspots. The FCI already has a decentralised network of godowns. In the current context, it would be useful for the State government and the FCI to maintain stocks at block headquarters or panchayats in food insecure or remote areas, in small hermetic silos or containers; this would allow State governments to respond rapidly, not to mention the sense of assurance and psychological comfort that it will offer vulnerable communities. This is especially relevant for regions that are chronically underserved by markets or where markets have been severely disrupted.

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Third, there is a strong case for the central government to look beyond the PDS and the Pradhan Mantri Garib Kalyan Yojana and release stocks over and above existing allocations, but at its own expenses rather than by transferring the fiscal burden to States. Along with a prepositioning strategy, this would provide flexibility to local governments to access grains for contextually appropriate interventions at short notice, including feeding programmes, free distribution to vulnerable and marginalised sections, those who are excluded from the PDS, etc.; it also allows freedom to panchayats, for example, to sell grain locally at pre-specified prices until supply is restored. In many States, there is a vibrant network of self-help groups formed under the National Rural Livelihoods Mission (NRLM) which can be tasked with last mile distribution of food aid other than the PDS. Consultative committees presumably exist already in each State to coordinate with the FCI on such arrangements.

Fourth, typically, the FCI’s guidelines follow a first in, first out principle (FIFO) that mandates that grain that has been procured earlier needs to be distributed first to ensure that older stocks are liquidated, both across years and even within a particular year. It is time for the FCI to suspend this strategy, if it has not already, that enables movement that costs least time, money and effort.

Fifth, today farmers across the country growing for markets are seeking to reach out to consumers directly, many out of sheer despair. In many places, farmer producer organisations (FPOs) have been at forefront of rebuilding these broken supply chains. The FCI along with the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED), is well placed to rope in expertise to manage the logistics to support these efforts. NAFED has already taken the initiative to procure and transport horticultural crops. Several State governments too have put in systems to procure horticultural crops. The FCI should similarly consider expanding its role to support FPOs and farmer groups, to move a wider range of commodities including agricultural inputs such as seeds and fertilizers, packing materials and so on.

There are two major concerns that many articulate regarding the FCI’s role. The first is a long-term concern regarding the costs of food subsidy. An analysis of FCI costs spanning 2001-16 suggests, however, that on average about 60% of the costs of acquisition, procurement, distribution and carrying stocks are in fact transfers to farmers. Not all of what is counted as subsidy therefore represents a waste of resources, even if the distributional consequences and inefficiencies leave a lot to be desired. At the same time, the government needs to address the FCI’s mounting debts — an estimated 2.55 lakh crore in March 2020 in the form of National Small Saving Funds Loan alone — and revisit its current preference for not liquidating these in order to contain the Union government’s fiscal deficit. Some clarity on this aspect would enable the government to be bolder with deploying the FCI in the best possible way. A second concern is that extended food distribution of subsidised grain is akin to dumping and depresses food prices locally, in turn affecting farmers. These are legitimate concerns but perhaps only beyond

the looming emergency this summer.

When the pandemic is past, questions will once again surface on the relevance of the FCI. Even in 2015, the Shanta Kumar report recommended repurposing the organisation as an “agency for innovations in Food Management System” and advocated shedding its dominant role in the procurement and distribution of grain. There is no doubt that the FCI needs to overhaul its operations and modernise its storage. At the same time, the relevance of an organisation such as the FCI or of public stockholding, common to most Asian countries, has never been more strongly established than now, even as we contemplate its new role in a post-pandemic world.

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