

NFSA: Budgetary Implications for Adequate Provisioning of 'Storage Capacity'

Nilachala Acharya



Instead of holding on to excessively large stocks (a sizable portion of which is reportedly lost due to poor infrastructure etc.), it would be prudent to use at least half of current stocks for easing supply 'constraint'. With the country's hunger and malnutrition situation on the rise, the government's policy to not distribute foodgrains on one hand and with the rotting foodgrains with huge buffer stocks in godowns on the other, needs careful examination

THE NATIONAL Food Security Act (NFSA), 2013 clearly mentions that additional costs will be required for construction of new storage capacity, carrying buffer stock, transportation, storage and handling of foodgrains etc., beyond the existing provisions under the Public Distribution System (PDS). This obviously points to the inadequate storage capacity in the country to carry buffer stock or procured foodgrains for distribution provisioned under the Act, as well as for other food based welfare programmes of the government. As is known, inadequate storage facilities would have serious implications on effective implementation of NFSA, particularly during the time of emergencies and hence, it would be prudent to address such inadequacies before the Act is fully implemented. Though, distribution of foodgrains under the PDS rests entirely with the State governments, however, provisioning of resources for storage facilities is shouldered largely by the Union government. And so, in order to address the issue of inadequate storage facility, the present Act provides some pointers on the magnitude of resources required to have such facilities in place both in the Union and state government budgets.

As per NFSA, an additional amount to the tune of Rs. 8300 crore would be required by the state governments

towards creation of storage capacity, transportation of foodgrains etc.; which is over and above the amount already borne by the states as reflected in their annual budgets towards for this purpose. But before examining the feasibility of additional costs for the state governments, let's take a look at the resources being spent by the Union and state governments on warehousing/ other such heads. It would also be useful to take into account the critical issues of procurement, off-take and stock of foodgrains; the existing food storage capacity and other concerns in the context of implementation of the present Act.

Procurement, Off-take and Stock of Foodgrains in the Country

As part of the Government of India's foodgrains management strategy towards ensuring food security in the country, the overall responsibility of management of foodgrains rests with the Department of Food and Public Distribution of the Ministry of Consumer Affairs, Food and Public Distribution. Procurement of foodgrains is done centrally through the FCI, besides the scheme of Decentralized Procurement (DCP) of foodgrains since 1997-98. The storage capacity is planned in order to meet the storage requirements for buffer, operational stocks, PDS and farm level storage.

Trends related to foodgrains procurement, off-take and stocks in

The author is with the Centre for Budget and Governance Accountability, New Delhi.

the country since 2000-01 show that procurement of total foodgrains has increased to 66 million tonnes in 2011-12 as compared to 35 million tonnes in 2000-01.

In comparison to cereal procurement, trends on off-take of rice and wheat depict a dismal trend from 2000 to 2010, though improvements are seen during the last couple of years. The relevant figure on off-take of foodgrains from the Central Pool was 56.4 million tonnes in the year 2011-12 (out of which off-take of rice was 32.1 million tonnes and that of wheat was 24.3 million tonnes). Out of this total quantity of foodgrains off-take, almost 38 million tonnes of foodgrains were distributed under the Targeted PDS. The remaining was distributed under various schemes such as Mid-Day Meal Scheme (MDMS), Wheat Based Nutrition Programme (WBNP), Emergency Feeding Programme (EFP), SC and ST Hostels etc.

The government keeps a certain part as buffer stock every year and the quantum of foodgrains stocks in central pool varies as per the norms decided

from time to time. Looking at the stock of food grains since 2000-01, there has been a record increase in stocks of both rice and wheat in the Central Pool for last couple of years, particularly since 2008-09. Total amount of cereals parked in the Central Pool was to the tune of 35.6 million tonnes in 2008-09 which has increased to 53.3 million tonnes in 2011-12.

Food Storage Capacity and its Underlying Concerns

There have been serious concerns about rotting of huge quantities of foodgrains due to inadequate storage facilities and faulty storage techniques. It has been reported that lack of proper storage facilities resulted in declaring 50,000 MT of wheat unfit for human consumption. There are a number of unreported cases where huge quantity of foodgrains became unfit for human consumption. This has attracted heavy criticism from various quarters, including parliamentarians, and has been linked to the broader question of feeding India's poor.

The storage facilities available

with Government agencies both at the Central and State levels are primarily used for keeping central pool stocks of foodgrains for the PDS and OWS. Total covered storage capacity available with FCI and state governments for storing foodgrains is about 45.53 million tonnes.

As depicted in the table-2, as on 31 March 2011, the country's total storage capacity can accommodate 78.47 million tonnes of foodgrains, 50 percent of which is with FCI (through both owned and hired) and the rest with state governments and private agencies (under Private Entrepreneur Guarantee Scheme). Approximately 61.3 million tonnes of storage capacity out of this 78.47 million tonnes of storage capacity in the country is under covered area, and 17.17 million tonnes of storage capacity is under covered and plinth. Data on stock of foodgrains available in the central pool shows that almost 82.32 million tonnes of foodgrains were in stock as on 1 June, 2012. This clearly indicates that there is a shortage of storage capacity of

Table-1: Procurement, Off-Take and Stock of Wheat and Rice since 1973-74 (in Million Tonnes)

Year	Procurement			Off-Take			Stocks		
	Rice	Wheat	Total	Rice	Wheat	Total	Rice	Wheat	Total
2000-01	18.9	16.4	35.3	10.4	7.8	18.2	23.2	21.5	45.0
2008-09	32.8	22.7	55.5	24.6	14.9	39.5	21.6	13.4	35.6
2009-10	32.6	25.4	58.0	26.9	22.0	48.9	26.7	16.1	43.4
2010-11	31.1	25.9	56.8	29.8	23.1	52.9	28.8	15.4	44.4
2011-12	37.9	28.3	66.4	32.1	24.3	56.4	33.4	20.0	53.3

Note: Total stocks include coarse cereals; for 2010-11, procurement date is up to August 18, 2011, off-take data for the period April 30, 2011 and stocks as on August 1, 2011.

Source: Handbook of Statistics on Indian Economy, 2012, RBI.

Table-2: Storage Capacity Available with Government Agencies (both at the Central and the State levels) as on 1st April 2012 (In Million Tonnes)

Sl. No.	Storage Agencies	Covered	Cover and Plinth (CAP)	Total
1	With FCI	30.22	3.31	33.6
1.1	Out of which Owned	13.01	2.64	15.64
1.2	Out of which Hired	17.21	0.75	17.96
2	With State Agencies *	15.35	13.78	29.13
3=1+2	Grand Total	45.53	17.17	62.7
4	Capacity being Created	15.74	--	15.74
5=3+4	Total Capacity after Creation of new Capacity	61.30	17.17	78.47

Note: * Data as on 31 March, 2011 and excluding hired by FCI.

Source: Reproduced from the data given in Eighteenth Report of the Committee on Estimates 2012-13, p-153.

foodgrains (at the existing level) to the tune of almost 4 million tonnes.

Let's examine the cost implications of having such buffer stocks of foodgrains in the Central Pool. As noted above, for carrying buffer stocks of foodgrains, FCI claims subsidy from the annual budgets of the Union government (which is part of Food Subsidy). While looking at data on buffer subsidy since 2007-08 (table-3), it has been found that the total amount of buffer subsidy was only Rs. 692.43 crore in 2006-07, which has gone up to Rs. 6336.38 crore in 2010-11 and estimated to be Rs. 6168 crore in 2011-12 (RE). During a period of five years, the amount of buffer subsidy claimed by FCI has been more than nine times.

It is also observed that there have been substantial increases in freight, handling and storage charges leading to increase in buffer subsidy incurred by FCI over the years. Further, there has been a huge amount of carryover charges paid to states and its agencies during the period of analysis. The important point is that the buffer subsidy given to FCI, as part of food subsidy, could have reduced if the amount of foodgrains parked under

buffer stock is maintained as per the policy norm.

Food Storage and Warehousing

Apart from provisioning of funds towards food storage in the Union budgets, the state governments (a few) allocate some resources in their annual budgets towards storage and warehousing purposes. Data on the state governments' contribution from their own resources, towards food storage and warehousing, in addition to the Union budget funds present the following results.

Regarding the 'revenue' expenditure on 'storage and warehousing' by states from their respective budgets, it is found that Arunachal Pradesh, Gujarat, Jammu & Kashmir and West Bengal have been spending small amounts of resources during the period (table-4). Trends related to the amount spent on 'food storage and warehousing' under capital head (considers only the amount booked under the major head 4408-capital expenditure on food storage and warehousing, which is reported in the reports of the Comptroller and Auditor General of India) show that the total capital expenditure, by both the Union

and state governments, made under 'food storage and warehousing' was Rs. 1004.13 crore during 2007-08 (out of which, Union government spent Rs. 47.89 crore and the rest was by the state governments) which has increased to Rs. 6461.34 crore in 2009-10. Amount spent during 2010-11 however, drastically declined to Rs. 243.93 crore. It is worth noting here is that states were spending huge amount towards creation of storage facilities of foodgrains (as we know, capital expenditure is meant for creation of assets) and the trends for such expenditure show that states are already incurring a substantial amount in their respective budgets (table-5).

Food Storage, Transportation and Other Related Costs

The Twenty Seventh report of the Standing Committee on Food, Consumer Affairs and Public Distribution on the National Food Security Bill, 2011 estimated certain expenditure that would be required for creation of storage facilities while implementing the Bill; such expenditure was subsequently reiterated in the NFSA, 2013. The said report noted that on some of the heads, direct expenditures is borne by the Union government,

Table-3: Details of Buffer Subsidy incurred by FCI during the period 2007-08 to 2011-12 (in Rs. Crore)

Items	2007-08	2008-09	2009-10	2010-11	2011-12 (RE)
FCI Storage Charges	116.41	663.28	762.32	929.39	831.0
Carryover Charges Paid to State Agencies	243.45	527.24	1663.53	1980.61	2565.0
Total Buffer Subsidy *	692.43	3545.91	5851.83	6336.38	6168.0

Note: * These includes: costs for FCI freights, handling charges, storage charges, interest and admin charges as well as carry over charges paid to state agencies.

Source: Reproduced from the data given in Eighteenth Report of the Committee on Estimates 2012-13, p-156.

Table-4: Revenue Expenditure on 'Storage and Warehousing' by the Union and State Governments during 2005-06 to 2010-11 (in Rs. Crore)

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Union Govt.	10.72	13.42	10.18	14.91	17.84	18.85
Arunachal Pradesh	24.35	34.95	56.79	77.56	93.27	49.42
Gujarat	5.04	5.04	7.09	5.23	16.30	16.70
Jammu & Kashmir	0.99	0.54	0.85	1.80	2.73	0.93
West Bengal	1.48	1.71	1.88	2.06	3.17	3.07
Total Expenditure (Union and all State Govts.)	43.93	61.02	77.76	102.73	135.44	90.45

Note: The minus (-) figures are due to excess of receipt and recoveries over expenditure.

Source: Compiled by the Author - Combined Finance and Revenue Accounts brought out by the Comptroller and Auditor General of India (Various Years).

Table-5: Capital Expenditure on 'Food Storage and Warehousing' by the Union and State Governments during 2007-08 to 2010-11 (in Rs. Crore)

Year	2007-08	2008-09	2009-10	2010-11
Union Government	47.89	60.96	65.14	140.35
State (all) Governments	956.24	3608.57	6396.2	103.58
Total Expenditure (Union and State Govts.)	1004.13	3669.53	6461.34	243.93

Source: Compiled by the author from - Combined Finance and Revenue Accounts brought out by the Comptroller and Auditor General of India (Various Years).

Table-6: Budgetary Implications for Storage, Transportation and Carrying Buffer Stock of Foodgrains in the Food Security Act.

Sl. No	Provisional Heads of Expenditure	Norms Defined	Amount Required	Whose Responsibility
1	Cost for carrying buffer stock	The annual estimated carrying cost of a stock of five million tons of foodgrains at 2011-12 (cost prices) and is a recurring expenditure	Rs. 2, 061 crore	Union Government (already borne by the Union Government as part of TPDS)
2	Transportation, storage and handling of foodgrains	Transportation cost from designated Central Storage points to the point of delivering foodgrains; management of fair price shops; and cost of storage (if required) etc.	Rs. 8,300 per annum as mentioned in the Twenty Seventh Standing Committee Report, GoI.	By the State governments
3	Construction of storage capacity	Creation of storage capacities to distribute foodgrains under TPDS and other welfare schemes at the state, district or at the local level to ensure timely distribution of foodgrains	One time expenditure; yet to be specified.	Entirely by the State governments

Source: Compiled by the author from basic information provided in NFSB, 2011.

for some other heads, it would be done by the state governments and for some other heads, the amount is be shared between the Union and state governments. With regard to the costs to be incurred by the state government for creation of storage capacity, table-6 provides details.

The above report proposes an annual recurring expenditure of Rs. 2061 crore to be borne by the Union government towards the cost for carrying buffer stock. Regarding the transportation costs from designated central storage points to the point of delivery of foodgrains, management of fair price shops and cost of storage etc., Rs. 8300 crore will be borne by the state governments annually. Further, one time expenditure towards creation of storage capacities for foodgrains under TPDS and other welfare schemes at the state, district or

at the local level for timely distribution of foodgrains would be required. However, as the sharing of the financial burden is yet to be decided, there is no clarity regarding the scale of resources required. It would be safe to conclude that while implementing the Act, the poorer states might be hit harder with the addition of this cost for creating storage capacity.

Concluding Observations

The buffer stock policy says that certain minimum stocks of foodgrains are to be maintained by FCI and the state/ its agencies in the Central Pool on the first day of every quarter. However, it has been noticed that as of 1 April 2012, government has a minimum buffer stock of around 21.2 million tonnes and the foodgrains stocks in the central pool have been well above the buffer norms since 2007-08, barring some quarters. Instead of holding on

to excessively large stocks (a sizable portion of which is reportedly lost due to poor infrastructure etc.), it would be prudent to use at least half of current stocks for easing supply 'constraint'. With the country's hunger and malnutrition situation on the rise, the government's policy to not distribute foodgrains on one hand and with the rotting foodgrains with huge buffer stocks in godowns on the other needs careful examination.

Further, given the financial commitments that the state governments have in their respective annual budgets, particularly the poorer states, additional costs which would be required to create storage capacity in honouring the NFS Act, may be compromised unless Union government supplement such efforts with additional grants to states. □

(E-mail : nilachala@cbgaindia.org)