Public Sector Activity in Food Security: The Case of Food Corporation of India

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1. Background and Objective: The Food Corporation of India (FCI) exists as a statutory body under the ownership of Ministry of Consumer Affairs, Food and Public Distribution (GOI) and operates as the main public sector activity to manage the necessary procurements, storage and distribution operations for the national food and buffer stock policies. It was setup to fulfill the three precise objectives of the food policy, viz., effective price support operations for safeguarding the interests of the farmers, distribution of food grains throughout the country for public distribution system, and maintaining buffer stocks of food grains. For a long time, the FCI operation have been viewed as major grain market interventions by the government and furthermore has caught the public policy attention due to its high operational costs and corresponding budgetary subsidies.
The Covid-19 pandemic may have caused all-round economic and social disruptions, but has also opened up an opportunity for the FCI to address the issues of people running the risk of falling into extreme poverty or undernourishment. It may be remembered that the Indian government started distributing free food grains to the people during the pandemic time to ensure food security under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) welfare program. Experts have argued that the exercise of distributing FCI's surplus food grains has helped manage FCI's business by a drawdown of the excess buffer stocks. In recent months, the FCI in addition to meeting the regular requirements of food grains under NFSA and additional allocation under PMGKAY, is providing food grains directly to various state governments for respective programs. Further, the Central Government has extended PMGKAY for 5 months i.e. July-November 2021and further allocation of 198.79 LMT food grains have been made under PMGKAY-IV (July-November 2021).It may be noted that the central governments remain responsible to settle the subsidy originating to FCI, and the costs occur due to FCI procurement and distribution operations as well as the carrying cost on central reserves. While the social benefits of the consumer-oriented food subsidy during the pandemic remain very timely initiatives, the effects of this subsidy would be felt as the subsidy burden at the macro-economic level. This paper would attempt to examine the costs and subsidy incurred by the central government for the FCI's operation in various grain handling operations.

2. Methodology and Plan of Study: We would first analyze the trends in FCI sales, expenses and subsidy during the last 10 years to understand its business operations. Subsequently, we examine the different cost components like procurement cost; distribution cost and carrying cost from various rounds of annual data. The tentative plan of study could be as follows: Section 1: Introduction, Section 2: Review of literature on FCI Reforms and Greater Private Participation, Section 3: Analyses of FCI Costs and Scale Economies, Section 4: Examining the Subsidy Burden, Section 5: Conclusions.

3. Data Source: The examination of the FCI’s operation would be provided by using the available Annual Reports data.

4. Policy Implications: It is important to note that government policies bear a substantial impact on FCI’s business, viz., every MSP revision results in higher costs of grains, and stock maintenance above buffer norms adds to its carrying cost. The counter-critics therefore claim that subsidies may not be an appropriate pointer to FCI’s uneconomic operations, since it arises due to the multiple objectives of providing price support to the producer, consumer subsidy to the poor as well as prevent the nation’s food insecurity. The FCI however enjoys autonomy in its field operations, viz. procurement decisions, negotiation for RBI credit, storage decisions, grain movement plans and the choice of transport. It therefore appears that while the government policies may remain responsible for the high FCI costs, a part of the high cost can presumably be attributed to the inefficiencies in FCI operations. The results of our examination can provide some useful insights on the issue.