

**GOVERNMENT OF INDIA
CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION
LOK SABHA**

UNSTARRED QUESTION NO:4078
ANSWERED ON:20.04.2010
STUDY ON FCI
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Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION be pleased to state:

- (a) whether the Government had engaged any company/agency to undertake a study of the Food Corporation of India (FCI) to bring about improvement and efficiency in its functioning;
- (b) if so, the details and outcome thereof alongwith the expenditure incurred thereon; and
- (c) the steps taken for proper implementation of the recommendations made by the said company?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF AGRICULTURE AND MINISTER OF THE STATE IN THE MINISTRY OF CONSUMER AFFAIRS, FOOD & PUBLIC DISTRIBUTION (PROF. K.V. THOMAS)

(a): Yes, Madam. M/s. McKinsey & Co. was engaged by the Govt. of India to conduct a study on Food Corporation of India (FCI) to bring about substantial and sustainable efficiency improvements in its functioning.

(b)&(c): The consultant commenced their 1st Stage study on 3rd January, 2005 and submitted its report which was accepted by the Steering Committee headed by Secretary (F&PD) in its meeting held on 28th July, 2005.

The IInd Stage study started on 28.2.2006 and the final report was accepted by the Steering Committee on 26th July, 2006.

An expenditure of Rs. 9.6 crores (Rs. 4.8 Cr. for the Stage-I and Rs. 4.8 Cr for Stage-II) was incurred on the study.

The detailed recommendations of the company and the steps taken / status for implementation of the recommendations made by the M/s.McKinsey & Co. are at Annexure.

ANNEXURE

ANNEXURE REFERRED TO IN REPLY TO PART (b) & (c) OF THE UNSTARRED QUESTION NO.4078 DUE FOR ANSWER ON 20.04.2010 IN THE LOK SABHA.

Steps taken for implementation of the recommendations made by M/s.McKinsey & Co. and its status.

Stage-I study:

Major improvement initiatives suggested in I-stage Report are:-

1. Financial restructuring through multi-tiered debt structure to reduce the interest burden. Refinancing of buffer stocks and receivables through issue of Bonds.

Status:

Cash Credit: The Corporation is enjoying a Cash Credit facility up to Rs. 34495 crore w.e.f. 7.5.2007 and extended up to 31.3.2012 from a Consortium of banks led by SBI. The rate of interest on Food Credit has varied with variation in the Prime Landing Rule (PLR) of five major Banks from 11.40% to 10.25% at present.

Borrowing through Short Term Loan: To reduce the interest cost, the Corporation has raised Rs. 10,000 Crores through Short Term Loan to reduce the utilization of Cash Credit Fund. This activity has reduced the interest burden of the Corporation by Rs. 450.23 Crores during the year 2009-10.

Issue of Bonds: To reduce the cost of funds, the Corporation had mobilized Rs. 8604.90 crores through issue of bonds in four tranches in the year 2005 against a permissible amount of Rs. 10,000 crore. The Bonds having a tenure of 5 years amounting to Rs. 758.50 crore and Rs. 2341.80 crore, has been redeemed on 28.2.2010 and 31.3.2010 respectively. The weighted average annual rate of interest of the total funds mobilized by the Corporation so far through issue of bonds is 7.31%. Thus, savings on account of the issue of bonds would be Rs. 309 crore during 2009-10 as compared to interest rate including penal interest applicable on Cash

Credit.

2. Network optimization by Linear Programming (LP) of rail movement.

Status:

The linear programming software provided by M/s.McKinsey & Co is used for planning railway linkages for movement of foodgrains from Punjab and Haryana. To further improve the system the Board of Directors of FCI has approved to develop the Grain Flow Management software by an agency through tendering process.

3. Consolidation of Handling & Transport contracts.

Status:

Pilots are running in districts of Bhatinda, Faridkot and Ferozepur in Punjab, in Hissar, Karnal and Kurukshetra in Haryana and in Jhansi in U.P. Pilots of Sitapur Shahjahanpur and Agra are underway. However, savings as envisaged by M/s.Mc Kinsey have not materialised.

4. Changes in sourcing pattern of Gunny bags through open tender.

Status:

The initiative found not feasible and purchases are made through DGS&D.

5. Reduction in gunny cost by use of once used gunny in paddy procurement.

Status:

Use of once used gunnies is permitted by the Government on case to case basis. As a policy, however, new gunnies should be used as foodgrains are being stored for 2-3 years due to high procurement.

6. Cost reduction by direct procurement of food grains at FCI Depots.

Status:

Incentive of Rs. 10/- per quintal was given for direct procurement in FCI godowns but procurement was not very high as farmers prefer to bring their produce to mandies.

7. Exploring avenues for revenue generation by optimum utilization of assets and renting out/ de-hiring of excess storage capacity.

Status:

This recommendation was implemented but it has led to serious shortage of storage capacity in the country due to high procurement in last two years.

8. Revision of Staffing norms, rationalization of Manpower, better Performance Management System.

Status:

Action completed. Revised strength fixed at 36318 personnel.

9. Reduction of obligatory charges such as Arthiya commission, purchase tax etc.

Status:

State Governments have not agreed with these suggestions.

10. Improving efficiency by implementing Management Information System.

Status:

A Consultant National Collateral Management Services Limited (NCMSL) has been appointed to give weekly update on production prices and global trends.

11. Reduction of establishment cost by rationalised deployment of manpower and outsourcing of non-critical activities such as security, housekeeping etc.

Status:

FCI is meeting part of its requirement of security through outsourcing.

12. Advance payment of carry over charges to state Agencies to reduce interest burden.

Status:

Due to inadequate provision in the budget this has not been possible.

13. Rationalisation of labour and redistribution of labour across depots.

Status: Revised handling norms kept in abeyance due to industrial dispute before CGIT, New Delhi, proceedings are fixed for 14.5.2010.

Stage-II study:

The major suggestions of Stage-II Report are:

1. Original mandate of FCI need to be honoured

Status: FCI is successfully carrying out its given mandate.

2. Increasing the yield to unleash export potential and to meet the demands.

Status: The matter relating to production of food grains is under the Department of Agriculture and Cooperation. The Department has already launched Food Security Mission to increase the production of foodgrains. The Ministry of Water Resources and other Departments of the Government are already taking various actions to increase the production and productivity of Agriculture.

3. Smart Trading Options

Status: The decision to allow import or export of wheat is not taken by the Food Corporation of India. Instead, this matter is decided by Director General of Foreign Trade, Ministry of Commerce, Government of India. In case of agricultural commodities, the Ministry of Commerce consults the Department of Food also. Export of wheat and non basmati rice is currently banned in view of price rise in recent years except for diplomatic reasons and bilateral agreements

4. Independent management of PDS by States

Status: The Department has already allowed procurement operations in a decentralized manner so that procurement of locally preferred varieties of grains can be maximized and expenditure of transportation can be saved. Government of India tries to motivate more and more States to become Decentralized Procurement States.

5. Launching integrated grain mission

Status: McKinsey & Co. had recommended creation of an Integrated Grain Regulator so as to create a level playing field for Govt. agencies and private players. In the last two years due to high procurement of wheat for Central Pool, participation of private trade has not been very high. It is noted that participation of private trade is limited when the Central Pool stocks are high as private trade anticipates release of foodgrains under Open Market Sales Scheme (OMSS) at subsidized prices. Presently, the job of Grain Regulator is performed by the Central Govt which makes policy in the interest of food security of the nation.

6. Increase procurement in non – traditional states

Status: Procurement in non-traditional states like Bihar, West Bengal and Orissa have been encouraged which has resulted in substantial increase in procurement of rice in these States over the last 3 years, as per details below:

Rice:

(Figs. In lakh MT)

State 2006-07 2007-08 2008-09

WB 6.42 15.08 16.67

Bihar 4.76 5.12 10.83

Orissa 20.02 23.38 27.91

7. Creation of Price Monitoring Cell

Status:

On the orders of the Government of India, FCI has engaged a Consultant NCMSL to provide an analysis of domestic and international

trends of prices. A daily report of wheat, rice, sugar, pulses and coarse grains is prepared by the Consultant and the same is sent to FCI and Department of Food & Public Distribution.

8. Management of Operational Costs

Status: The areas identified are Interest cost, Road freight and Storage cost. For reduction in interest cost FCI has raised funds through Short Term Loans & issue of Bonds. In consonance with the Memorandum of Understanding (MOU) with Government of India, Transit loss/Storage loss are reviewed regularly in Monthly Performance Review Meetings in FCI.

9. Management of Idle Assets etc.

Status:

M/s. McKinsey & Company had recommended hiring out of excess storage capacity. Accordingly, FCI hired out 7,53,933 MT capacity during the period from 2005 to 2010.