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Buffer Stock Management:
Involving private players

Uncertainty is an integral part of agricultural production that results in production shocks and price volatility of agricultural produce. Over time, based on past experience and/or political and economic considerations, Indian government has devised different strategies to combat volatility in food availability and prices. Maintaining a buffer stock of food grains is one of them.

In India, buffer stocking of food grains is conceptually seen as a vehicle to deliver strategic food and agricultural domestic support policies through which the government caters multiple objectives such as providing famine relief, ensuring food security to consumers and providing production incentives to farmers.

According to the norms, food stocks are maintained under two heads: operational and strategic. Operational stocks are maintained to cater the distribution requirements under public distribution scheme and other welfare schemes. FCI maintains stocks of grains in excess of what is needed for meeting operational needs, and these stocks are called strategic stocks. These are maintained for ensuring price stability in the country and for meeting any exigent grain requirements. The government fixes the buffer stock norms, prescribing the minimum quantities of food grains to be maintained in the central pool at the beginning of each quarter, namely for January, April, July and October.

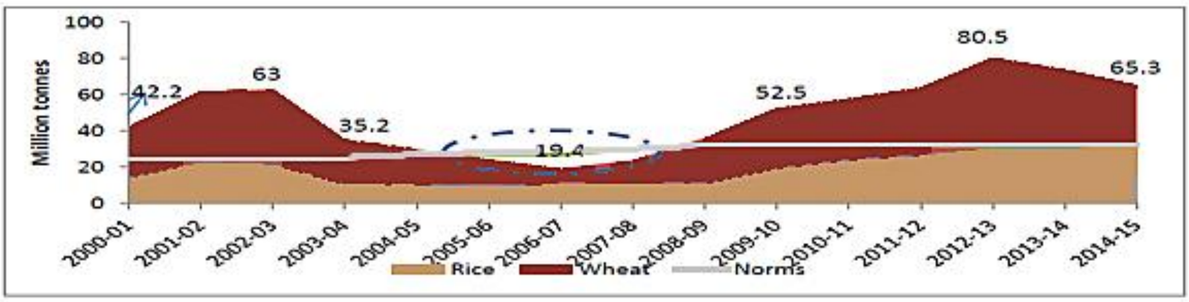
According to existing norms, five million tonnes (3 million tonnes of wheat and 2 million tonnes of rice) are to be kept aside as strategic stock whereas for operational stocks, states have to maintain stocks equivalent to twice the average off-take of food grains during the last three months.

Food grain stocking norms (in million tonnes)

As on	Operational Stocks		Strategic Reserve		Total
	Rice	Wheat	Rice	Wheat	
1st April	11.58	4.46	2	3	21.04
1st July	11.54	24.58	2	3	41.12
1st Oct	8.25	17.52	2	3	30.77
1st Jan	5.61	10.8	2	3	21.41

Source: Department of food and public distribution, GOI

Levels of buffer stocks vs. norms for rice and wheat (million tonnes)



Source: FCI

Our country spends almost 1 per cent of its GDP on its extensive food management system. The government procures, on an average, one third of the rice and wheat produced in the country. The current annual food subsidy under National Food Security Act (NSFA) implementation is estimated at around Rs.125,000 to 150,000 crore.

The existing system of food grain management in India is characterised by the dominance of the government in production, marketing and stocking. The central government extends price support to paddy, wheat and coarse cereals through the Food Corporation of India (FCI) whereas state governments participate in the decentralized procurement programme (DCP) where they procure, store and distribute food grains under the targeted public distribution system (TPDS) and other welfare schemes (OWSs) on behalf of the central government.

The entire grain management system is fully controlled by the government that edges out private players. Allowing private players in buffer stock management could bring the market forces in the system that in turn could increase the overall efficiency of the system.

Process

Continuously rising food security bill and need for improving the efficiency in the system calls for a review of the buffer stock management policy to involve private traders in procurement whilst the government retains total control on the whole stock management process.

The government can set buffer stock targets keeping 3-5 years' timeframe in sight and some select stockists can be licensed by them to participate in buffer stock management with quantity allocation.

1. Procurement

License stockists/traders should be allowed to participate in buffer stock management. A quantity band is specified for each licensed trader for stocks under the scheme. Stockists/traders would themselves determine the time and price to procure based on their market knowledge. Exempt licensed traders from any stock limits.

They should be allowed to procure as their will either locally or through imports. The complete procurement should be done through a competitive online platform so that the procurement prices are fully transparent and recorded.

2. Transportation and Storage

The transportation and handling costs are to be determined in a fully transparent manner. The procured material has to be stored in pre-approved warehouses at pre-approved storage rates.

3. Distribution

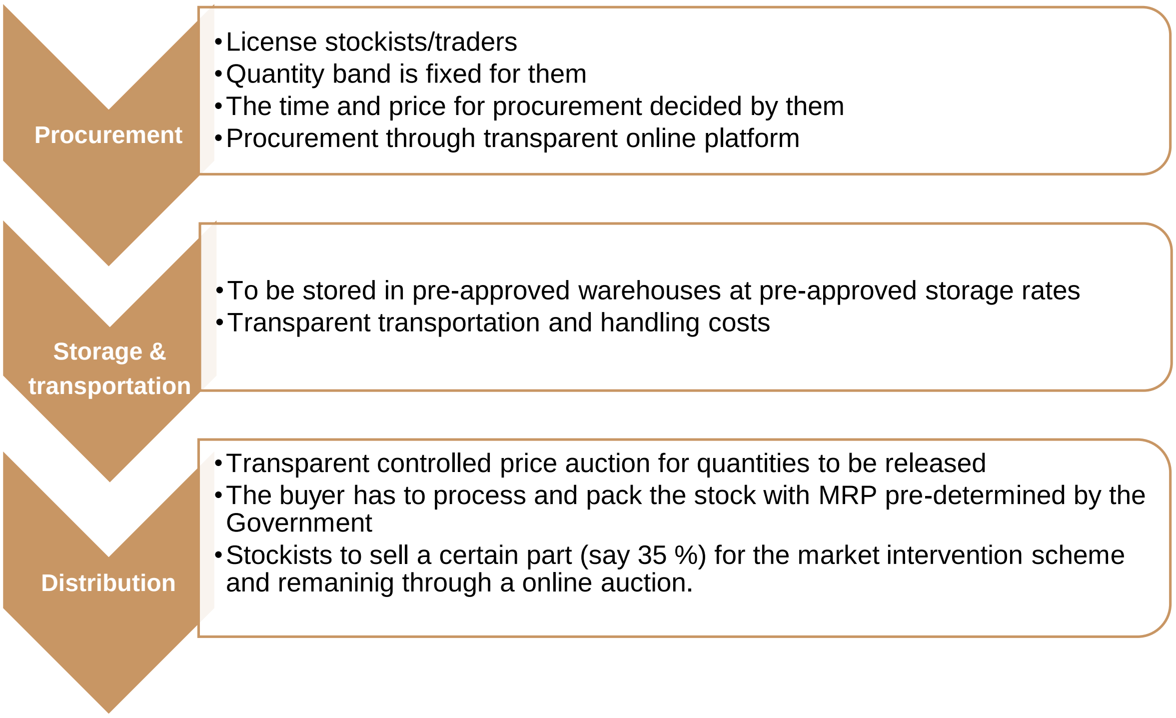
Government appoints agencies for retail sales of the stock whenever market intervention is required. The quantity and retail price for market intervention is determined by government.

A transparent controlled price auction should be held for quantities to be released to the market so that the stockist gets the best possible price within the constraints. The buyer has to process and pack the stock with MRP pre-determined by the Government.

All stockists are obliged to sell a certain part (say 35 %) of their stock for the market intervention scheme. The balance stock has to be sold, whether good or damaged, through a transparent auction mechanism.

Government underwrites losses, if any, of stockists based on the actual realization for stocks that are released through controlled auctions only.

The process flow is given below:



Benefits

- Since all costs and prices are transparently determined, there is no scope for price manipulation.
- Private players are stocking the grains so government does not have to tie-up the funds for the same. Also it does not have to incur losses due to damages and handling.
- Further, stockists could be allowed to hedge their price risks through suitable futures contracts.

Conclusion

There is a need for evaluation and rationalisation of buffer stock management policy so as to reduce the burden on the central and state exchequers and to promote efficiency in the system. Involving private players in the same will create greater competition, promote the desired efficiency and growth in the ecosystem.

Questions may be directed to the following:

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