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## Innovative Warehousing

### Abstract :

*Food is one of the basic fundamental need of human being, in prosperity periods or in recessionary period, where its main problem lies in the self life.*

*As per Dr. Kirit Parikh, Chairman of the Working Group on Public Distribution System and Food Security, a great deal of the work had already been done and lot of work is in progress. It is contended that the interventions by the Government were justified in the time of food shortages and scarcity, when marketing infrastructure and institutions were not sufficiently developed and competitive to protect interest of producers and consumers. This study looks at various dimensions of India's foodgrain sector and suggests changes in Government policy on food management that is relevant in the present context.*

### Introduction

This study gave us a great deal of ideas which could provide direction as to how the security problem for food grain should be addressed. Because, a civilized society, in the 21<sup>st</sup> century, cannot allow any of its citizens to die of starvation or go hungry for prolonged periods. In this context it is useful to start by looking at the definition of food security given by the Rome Declaration on World Food Security at the World Food Summit, held in 1996. As per the Declaration "*food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.*" Food insecurity is not the same as hunger. It is a much wider problem. Hunger is, of course, one of the main aspects of food security.

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### Paradox of hunger and declining demand for grains :

In India large population is reported to be below poverty line and is undernourished. Cereals are the main source of calorie and food security for such population. In the recent years huge quantity of rice and wheat has piled up in government stocks which have reached a level of about 60 million MT. This constitutes more than one third of the total production of rice and wheat in the country and is far above the quantity genuinely needed in the buffer stock in the country. *In this context there is increasing need to go for Innovative Warehousing to cater the need of an hour keeping in view the Sustainability of Rural Development as a Strategic Road Map for Economic Excellence.*

Food grains are procured by government to service Public Distribution System and other welfare schemes of the Government. Strong debate is going on about the desirability of continuing present system of PDS and suggestions have been made to replace it with more efficient "food stamp" system. Here, we are not going into the merits and demerits of PDS and feel that for the time being some sort of PDS would be needed as a **safety net** for vulnerable sections of the society.

### Objectives Of The Study

- ◆ The objective of study is to examine the food grains management with a view for "Sustainable Rural Development in terms of creating an Economic Excellence."
- ◆ It also reviews the existing food policy framework, the dynamics of intervention w.r.t. the FCI, the cost implications of the intervention, and its impact on supply. Since the safety net programs, especially the Public Distribution System w.r.t. storage and distribution, are closely related to the markets and the functioning of the FCI; the

study reviews functioning of PDS & safety net programs with a view to suggest holistic and innovative reforms to the food grains management system.

### Existing Warehousing –

#### I) Critical Evaluation :

Following two reviews represents several arguments, supported with data wherever possible, that justify the need to reform the existing pricing policies and grain management policies. The public food grain management in India is motivated by 1960s for attainment and maintenance of self-sufficiency and **food security**. However, times have changed; policies that may have been appropriate 40 years ago are not necessarily optimal today. Today private markets and institutions have strengthened with many of the functions of the market economy and preservation for the future. These actions, with committed governmental investments, significantly improved food security in the country. Some analysts believe that Private market functioning has reduced availability of grain to needy public and is being attributed to various factors like high rise in procurement. Genuinely required quantity includes buffer stock needed for public distribution system and to maintain inter year instability in production.

Besides it is now widely recognized that, dramatic changes in food consumption patterns have taken place in India in the post Green revolution period. Given the cultural diversity of the country, and the wide variations in food habits associated with it, it is important to analyze whether changes in food consumption patterns are specific to certain regions, or whether they are more widespread. An ability to identify regional differences in consumption trends can also enable the design of more effective mechanisms of targeting food securities for different products.

## II) Strength and Weakness :

It is widely accepted that food security of any household is a matter of *economic access to food*. Providing access to food to the poor through Social Safety Net programs (SSN) is thus a valid policy intervention, irrespective of liberalization, functioning of markets, or even the level of development of a given country. Access of the poor can be improved either by providing food at a subsidized price and/or through improving their incomes through employment programs; once the food is properly preserved for the purpose. There is several 'food based' as well as 'cash based' (employment / income generating) SSNs. Amongst the food based programs, the PDS and its later reformed version – the Targeted Public Distribution System (TPDS) – is the most important.

### General Typology of Social Safety Net Programs (Source: Rashid et al (2005) :

In India, the SSNs have largely been food-based, and even those that are cash based typically involve a food component ( income transfer is supplemented with food transfers also). The largest of the SSNs is the PDS. With the transformation of the PDS to TPDS, it has now become an administratively targeted program, using an income criterion for targeting the poor.

**Historic rationale :** We also examine here some of the causes for the accumulation of surplus stock of food grains in the FCI godowns. It is found that, the practice of announcing minimum support prices (MSP) for food grains, often in excess of the levels prescribed by the Commission of Agriculture Costs and Prices (CACP), at levels above the market clearing price, has contributed substantially to the accumulation of surplus stocks with FCI.

## Innovative Warehousing And Suggested Model :

The Department of Food & Public Distribution is operating the following 8 Central Sector Plan Schemes and 4 IEBR Schemes including new schemes proposed for 11<sup>th</sup> Five Year Plan (2007-12). Some schemes are- Construction of Godowns & Railway Sidings in the country by FCI/State Govt./CWC, *Integrated Information System for Food grain management, Computerization and Strengthening of PDS's Capacity Building, Training & Awareness of Negotiable Warehouse Receipt System, & Village Grain Bank Schemes.*

**Pricing Policy :** The purpose of the study initially, was to identify the reasons for increase in the prices of rice & wheat and seek suggestions regarding fixing price band (temporal and spatial) beyond which govt. should start direct intervention in food grain markets. The scope further encompasses to look into the govt. for maintaining buffer stocks and inter-year price stability and also to suggest alternatives and options for food management in the country to achieve various goals like cost effectiveness, growth, efficiency, and equity and *food security*.

### Grain Management Policy:

The study discuss positive contributions of food policy followed in the country indicating the limits beyond which government intervention turns counterproductive. It emphasizes the importance of demand side factors in planning government intervention and favourable environment for participation of private trade in grain markets. *The researchers tried to make innovative and bold suggestions, as a part of their study, for reforms in Government intervention in food grain markets that are consistent with present demand, supply, trade and policy scenario and which would help in promoting private sector participation.*

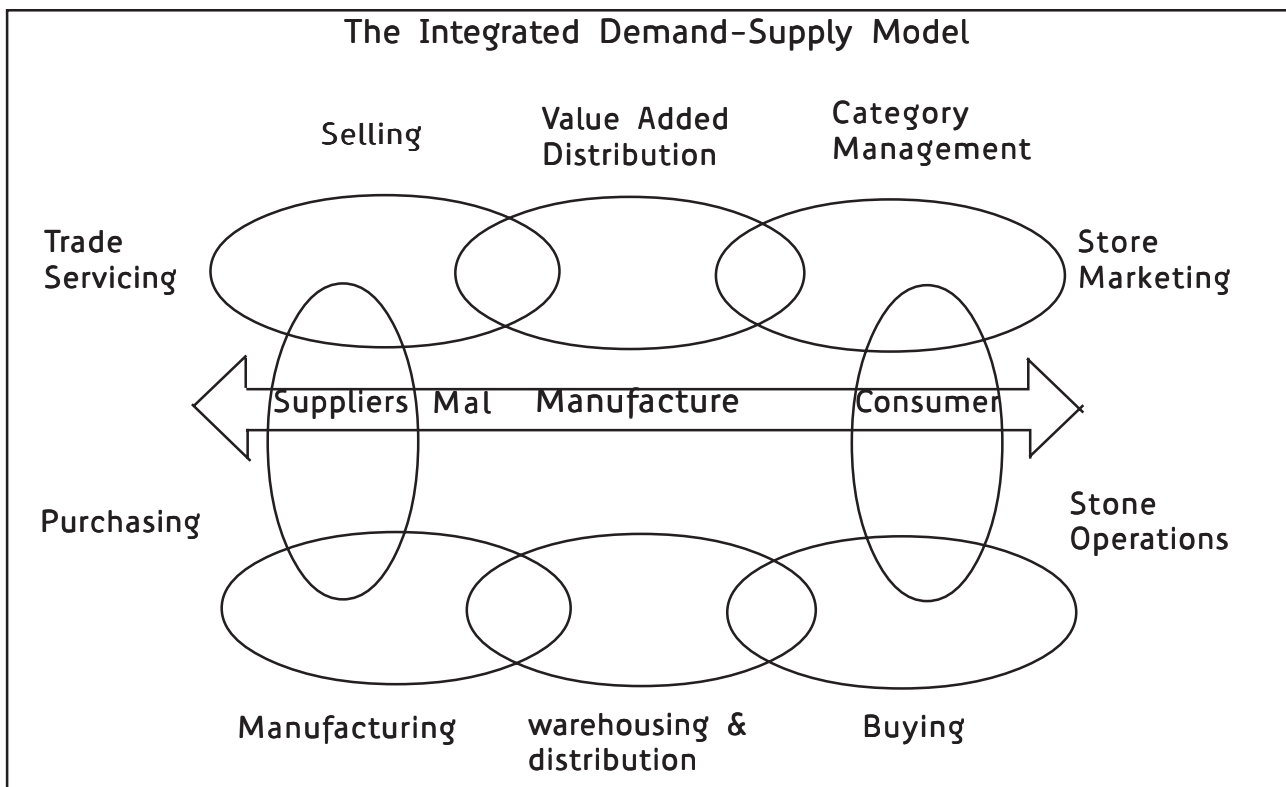
**SUGGESTED MODEL :**

Study	Major suggestions/recommendations
Expenditure Reforms Commission's Report on Food Subsidy (2000)	Greater involvement of the State govt. & Private sector in procurement & <b>storage</b> operations. Rationalize the tax/levy structure on procurement.
Cost of Acquisition & Distribution of Food grains by FCI (2001).	Restructure FCI, Federalize FCI among states.
Working Group on PDS and Food Security for the X <sup>th</sup> 5 Year Plan.	Decentralized PDS, MSP in line with cost of cultivation, Review Essential Commodities & APMC Act.
Excess Food Stocks, PDS and Procurement Policy (2001).	State government and private sector's participation in procurement and storage, Decentralized PDS.
Long Term Grain Policy (2002).	Universal PDS, MSP in line with cost of cultivation, Improve FCI's performance & Private participation.
Buffer Stock Policy for the X <sup>th</sup> 5 Year Plan (2003).	Lower buffer norms, Allocation to states according to previous off-take pattern
Report on Central Government Subsidies in India (2004).	Reduction of MSP, Replace the present 2-tier system of APL-BPL issue price with food-coupons for BPL.

**Demand-supply nexus :**

Demand and supply scenario for agriculture in India has undergone profound changes during last 10-15 years. However, price policy and policy for food management have not been changed to adjust to new situation. This has created serious imbalances in production and raised several

problems like accumulation of huge grain stocks, and regional bias in govt. support to agriculture. Here, FCI has remained in the centre stage of govt. intervention in agriculture due to scale of its operation & its *role in food security*. Following fig. shows a typical Demand-Supply relationship.



Source: This model is based on the work done by Bill Copacino

### Implications & Conclusions :

- ◆ The preservation of food grains in good and sound condition is an important activity of QC wing of the Corporation. The stocks of food grains in FCI are stored in godowns built on scientific lines. Storage in open under CAP (cover and plinth) only is resorted to when covered accommodation is already occupied by food grains. The *innovative methods*, the system developed and followed in FCI to store food grains in open on scientific lines are foolproof to maintain good condition of the stocks.
- ◆ Regular inspection of Stocks by trained and experienced QC officials is undertaken and periodical disinfestations measures are adopted. Prophylactic and Curative treatments are undertaken with the permitted insecticides to ensure that the health of the stocks is preserved in the highest category possible. Preventive measures are also undertaken to control rodents, birds and other pest infestation by appropriate measures.

- ◆ Timely inspection and preservation of food grains have yielded better results as evident from the fact that as on 1.10.1998 the FCI is maintaining 12.27 million MT of highest (A&B) category stocks 77.31% conforming to the standards of PFA Act rules, out of the total stocks position of 15.87 million MT with FCI.
- ◆ Allowance of private participation in the food grain management operations, so that the trade will come in picture and thus reduces the strain on the warehousing by itself.
- ◆ Promotion of warehouse receipt system as a part of tradable promissory note so as to avail the facility of warehousing more frequently by the farmers.
- ◆ Implementation of Social Safety Net programs and Grain Banks so that exchange of NEW food grains is very much possible, this will further reduce the strain on maintenance of warehouses. And also will help the needy there and then only, whereas government wouldn't loose in fact the expenditure on relief would come down drastically.

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