

# **Shifts and Trends in Procurement Policy: A Case Study of Paddy Procurement in Orissa**

A Thesis submitted to the University of Hyderabad in partial fulfillment of the  
requirement for the Award of Degree of

**Doctor of Philosophy**  
**In**  
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**By**  
**Tajuddin M.D.**



**Centre for Regional Studies**  
**School of Social Sciences**  
**University of Hyderabad**  
**Hyderabad - 500046**  
**2015**



**Centre for Regional Studies  
School of Social Sciences  
Univeristy of Hyderabad**

### **DECLARATION**

I hereby declare that the work embodied in this Thesis entitled **“Shifts and Trends in Procurement Policy: A Case Study of Paddy Procurement in Orissa”** carried out by me under the supervision of Prof. Sheela Prasad, Centre for Regional Studies, School of Social Sciences, University of Hyderabad is original. The dissertation or part of there of has not been submitted to any other degree at this or any other university.

Place: University of Hyderabad

Tajuddin M.D.

Date:

# UNIVERSITY OF HYDERABAD



## CERTIFICATE

**Centre for Regional Studies**

**University of Hyderabad**

This to certify that the Thesis entitled **“Shifts and Trends in Procurement Policy: A Case Study of Paddy Procurement in Orissa”** submitted by Tajuddin M.D. Reg.No. 03SRPH02 in partial fulfillment of requirement for the award of the degree of Doctor of Philosophy in Regional Studies has been carried out under my supervision. The dissertation or a part there of has not been submitted for any other degree to this or any other university.

Place: University of Hyderabad

Date:

Prof. Sheela Prasad

Research Supervisor

Head  
Centre for Regional Studies  
School of social Sciences  
University of Hyderabad

Dean  
School of Social Sciences  
University of Hyderabad

“That no child, women  
or man should go to bed  
hungry in independent  
india”

Mahatma Gandhi

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Mammuwalla

## INDEX

<b>Sl. No</b>	<b>Particulars</b>	<b>Page No.</b>
1	CONTENTS	I-IV
2	LIST OF TABLES	V
3	FIGURES AND MAPS	VI
4	ANNEXURE	VI
5	ABBREVIATIONS	VII-VIII

## CONTENTS

	Page. No
<b>CHAPTER-1 INTRODUCTON</b>	<b>1-21</b>
1.1 Introduction to study .....	1
1.2 Global Context .....	2
1.3 Indian context.....	4
1.4 The Conceptual Framework.....	13
1.5 Statement of the Problem.....	14
1.6 Objective of the Study .....	15
1.7 Study Area .....	16
1.8 Data Sources and Methodology .....	17
1.9 Respondents .....	18
1.9.1 Farmers .....	18
1.9.2 Millers .....	18
1.9.3 Agencies.....	18
1.10 Questionnaires.....	18
1.11 Limitations of the study .....	19
1.12 Chapterisation .....	20
 <b>CHAPTER- 2 REVIEW OF LITERATURE</b>	 <b>22-51</b>
2.1 Food security Issues .....	22
2.2 Food as Right .....	23
2.3 Price policies.....	26
2.4 Public Distribution System .....	30
2.5 Minimum Support Price.....	34
2.6 Green Revolution .....	39
2.7 Decentralized procurement scheme .....	43
2.8 Summary .....	50
 <b>CHAPTER -3PROCUREMENT POLICY OF FOOD GRAINS</b>	 <b>52-76</b>
3.1 Introduction.....	52
3.2 History of procurement policy .....	53
3.3 Indian Context.....	54
3.4 Types of requisitioning .....	61
3.4.1 Compulsory requisitioning.....	62
3.4.2 Partial requisitioning.....	62
3.4.3 Occasional requisitioning.....	62
3.5 Methods of procurement .....	64
3.5.1 Open market purchase.....	64
3.5.2 Pre-emption method.....	65

3.5.3 Monopoly procurement.....	65
3.6 Levy System.....	66
3.7 The Essential Commodities Act of 1955 .....	67
3.8 Formation of Procurement Agencies .....	68
3.9 Committees for Procurement Policies .....	70
3.10 Summary .....	76

## **CHAPTER -4 INSTITUTIONAL PROCUREMENT AGENCIES 77-110**

4.1 Introduction.....	77
4.2 Food grain Procurement Agencies and Agricultural Marketing Organisations in India ....	79
4.3 Commission for Agricultural Costs and Prices (CACP) .....	82
4.4 M.S. Swaminathan Committee Report for the MSP.....	85
4.5 Food Corporation of India: the largest procurement agency in India .....	86
4.6 Welfare Schemes of the Govt. of India (for which food grains are issued by FCI).....	90
4.7 Some features of FCI .....	91
4.8 Operations of the FCI.....	93
4.9 FCI and Procurement Price .....	98
4.10 The government response to the procurement of food grains.....	99
4.11 Public sector organizations in Procurement.....	103
4.11.1 Cotton Corporation of India.....	103
4.11.2 Jute Corporation of India .....	104
4.11.3 Commodity Boards .....	104
4.11.4 Agricultural and Processed Food Products Export Development Authority .....	105
4.11.5 Directorate of marketing and inspection.....	105
4.11.6 Department of Food Civil Supplies and Consumer Affairs.....	106
4.11.7 North Eastern regional Agricultural Marketing Corporation.....	106
4.11.8 Central and State Warehousing Corporations.....	106
4.11.9 State Agricultural Marketing Boards .....	106
4.11.10 Cooperative Marketing Organisations .....	107
4.11.11 National Agricultural Cooperative Marketing Federation .....	107
4.11.12 National Cooperative Development Corporation .....	108
4.11.13 Tribal Cooperative Marketing Federation of India.....	108
4.11.14 Panchayat Raj Institutions (PRIs) and Self-Help Groups (SHGs).....	108
4.12 Private Procurement Agencies .....	109
4.12.1 National Collateral Management Services Limited (NCMSL) .....	109
4.12.2 National Bulk Handling Corporation (NBHC) .....	109
4.13 Summary .....	110



<b>CHAPTER-5 PADDY PROCUREMENT PROCESS IN ORISSA</b>	<b>111-155</b>
5.1 Profile of Orissa .....	111
5.2 Orissa: Agriculture.....	113
5.3 Orissa: Agriculture Policy.....	117
5.4 Cropping Pattern .....	117
5.5 Fertilizer Use.....	121
5.6 Agricultural Marketing .....	123
5.7 Paddy Procurement in Orissa.....	126
5.8 Agencies Procuring Paddy in Orissa.....	132
5.9 Agencies and their performance in Procurement of Paddy and Delivery of Rice in Orissa .....	134
5.9.1 Food Corporation of India (FCI).....	135
5.9.2 Procurement of paddy by FCI through NCMSL- A Public Private Partnership Model .....	137
5.9.3 National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED)...	139
5.9.4 Orissa State Civil Supplies Corporation Limited (OSCSCLTD) .....	140
5.9.5 Primary Agricultural Cooperative Society (PACS).....	148
5.9.6 Orissa State Cooperative Marketing Federation Limited (MARKFED) .....	150
5.9.7 Tribal Development Cooperative Corporation (TDCC) .....	151
5.9.8 Rice Millers.....	152
5.10 Summary .....	155
 <b>CHAPTER - 6PROCUREMENT PROCESS of PADDY: A CASE STUDY of BARGARH AND BHADRAK DISTRICTS, ORISSA</b>	 <b>156-191</b>
6.1 Introduction.....	156
6.2 District profile of Bargarh.....	157
6.2.1 Agriculture .....	159
6.3 District profile of Bhadrak .....	159
6.3. 1 Agriculture .....	161
6.4 Methods of Marketing and procurement of paddy in Bargarh and Bhadrak district .....	161
6.4.1 Bargarh District.....	161
6.4.2 The facilities provided by the RMC.....	162
6.5 Bhadrak district.....	163
6.5.1 The facilities provided by the RMC.....	164
6.6 Farmers view on the Procurement Policy and Process for Paddy in Bargarh & Bhadrak districts .....	166
6.7 Farmers view on delaying opening of RMCs on time .....	168
6.8 Perceptions of Farmers on Procurement Agencies in Bargarh & Bhadrak Districts .....	170
6.8.1 Bargarh district.....	170
6.8.2 Bhadrak district.....	171
6.9 Agencies Accountability .....	172

6.10 Misuse of the farmer ID cards in both the districts.....	172
6.11 Millers view on procurement policy in both the districts .....	173
6.11.1 District Bargarh.....	174
6.11.2 Millers' role curbed.....	175
6.11.3 Problems which the Millers reported in this district.....	175
6.11.4 Political pressure on Millers .....	176
6.11.5 The reasons for the closure of Mills .....	176
6.12 District Bhadrak .....	177
6.12.1 Insufficient storage capacities of Millers .....	178
6.13 Overview of the millers .....	179
6.13.1 Some suggestions of Millers to the government.....	180
6.14 Farmers Organisations .....	180
6.15 Procurement Agencies view on procurement process .....	182
6.15.1 FCI .....	182
6.15.2 NAFED .....	183
6.15.3 OSCSCLtd .....	183
6.15.4 PACS.....	184
6.15.5 TDCC.....	184
6.15.6 NCMSL and NBHC .....	185
6.15.7 Some Problems reported by the Agencies .....	185
6.16 Some Field Observations related to Procurement in these two districts.....	186
6.17 Summary .....	188
 <b>CHAPTER-7 CONCLUSION</b>	 <b>192-198</b>
7.1 Introduction.....	192
7.2 Summary of Major Findings .....	195
 <b>BIBILIOGRAPHY</b>	 <b>199-208</b>

## List of Tables

T.No	Details of the table	Pg.No.
1.1	Food exports done by FCI in last ten years	10
2.1	Action taken on the audit findings on PDS	47
3.1	Quantum of levy rice from the millers in different states in India	67
4.1	Establishment of offices by FCI throughout the country	93-94
4.2	Procurement done by FCI and state agencies form 2005-06 to 2009-10	94
4.3	Fci procurement of rice for central pool	95
4.4	Import of food grains by FCI	96
4.5	Export of food grains by FCI	97
4.6	Commodity boards set up	104-105
5.1	Socio-Economic Profile of Orissa	112
5.2	Mineral Reserve in Orissa	113
5.3	Agro-climatic zones in the state	114
5.4	Category of farmes in state	115
5.5	Food grains area and production in Orissa from 1950-51 to 2007-08	115-116
5.6	Natural Calamities Occurred in the state	116
5.7	Share of rice crop in area, production and productivity in state	118
5.8	Year wise surplus/deficit of food grains in state	120
5.9	Fertiliser consumption from 1961-62 to 2007-08	121
5.10	Sowing, harvesting and marketing of crops in both Kahrif and Rabi season	122
5.11	Production of different crops in Orissa	122
5.12	Target fixed by the government of Orissa from 2003-04 to 2008-09	130
5.13	Detailed average production of paddy and rice of all districts of state	131
5.14	Procurement done by agencies in last five KMS year from 2004-05 to 2008-09	132-133
5.15	FCI percentage share in target	137
5.16	NCMSL percentage share in target	137
5.17	Paddy procured and rice delivered by both FCI and NCMSL	138
5.18	NAFED percentage share in target	140
5.19	Details of FPS functioning in Orissa	143
5.20	District wise no of ration cards	144
5.21	Percentage change in allocation of ration cards	145
5.22	OSCSCLtd percentage share in target	147
5.23	PACS percentage share in target	150
5.24	MARKFED percentage share in target	150
5.25	TDCC percentage share in target	151
5.26	Details of Mills district wise with millers association	152-153
5.27	MILLERS percentage share in target	153
5.28	NBHC &STC percentage share in target	154
6.1	Market yards and purchase centers in different RMCs in Bargarh District	162
6.2	Procurement done by the agencies in 2007-08 in Bargarh	163
6.3	Paddy procurement in Bhadrak district RMCs	164
6.4	Paddy procurement in Chandbali RMC in Bhadrak district	164
6.5	Procurement centers in Bhadrak RMC	165
6.6	Procurement centers in Chandbali RMC	165
6.7	Mills in contract with agencies in Bargarh	174
6.8	Milling charges by agencies to rice millers Bargarh	174
6.9	Mills in contract with agencies in Bhadrak	178
6.10	Milling charges paid to millers by agencies in Bhadrak district	178
6.11	Comparision during the study period	188
6.12	Comparision as per new Survey	188
6.13	Paddy procurement by ageincies in Bargarh in 2011 KMS	188
6.14	Paddy procuement by agencies in Bhadrak in 2011 KMS	189
6.15	Comparison of study between two Districts	190-191

### List of Figures

<b>Figure number</b>	<b>Particulars</b>	<b>Page number</b>
2.1	States in color indicates Andhra Pradesh, Punjab, Haryana and Uttar Pradesh from where the fci majorly depends	44
4.1	Components of economic costs of FCI	98
5.1	Map of Orissa	111
6.1	Paddy procurement process from arrival to set out	156
6.2	District map of Bargarh	157
6.3	District map of Bhadrak	160

### Annexures

<b>Annexure</b>	<b>Particulars</b>
1	Minimum support price by CACP 2009
2	Recommendations by the committee for development of RMCs in Orissa
3	Procurement policy order government of India
4	Storage capacity by different organisation in Orissa
5	Procurement policy order government of Orissa, 2003-04
6	Procurement policy order government of Orissa, 2009
7	Photos from the field
8	Problems in Paddy Procurement reported in various news paper on Orissa

**ABBREVIATIONS**

AAY: Antyodaya Anna Yojana

APL: Above Poverty Line

AAY: Annapurna Scheme

BJD: Biju Janata Dal

BJP: Bharatiya Janata Party

BPL: Below Poverty Line

CACP: Commission for Agricultural Costs and Prices

CMR: Custom Milled Rice

CP: Centralised Procurement

DPS: Decentralised Procurement Scheme

FAQ: Fair Average Quality

FCI: Food Corporation of India

FPS: Fair Price Shop

GDP: Gross Domestic Product

GOI: Government of India

GSDP: Gross State Domestic Product

KBK: Kalahandi Bolangir Koraput

KMS: Kharif Marketing Season

MARKFED: Agricultural Marketing Federation

MSP: Minimum Support Price

MT: Million Tonnes

NAFED: National Agricultural Marketing Federation

NBHC: National Bulk Handling Corporation Limited

NCMSL: National Collateral Management Services Limited

NDA: National Democratic Alliance

OSCSC Ltd: Orissa State Civil Supplies Corporation Limited

PACS: Primary Agricultural Societies

PDS: Public Distribution System

Qts: Quintals

RMC: Regulatory Market Committees

SAD: Shiromani Akali Dal

SHGs: Self Help Groups

STC: State Trading Corporation

TDCC: Tribal Development Credit Corporation

TDP: Telugu Desam Party

TPDS: Targeted Public Distribution System

URS: Under Relaxation Scheme

HYVs: High Yield Variety Seeds

## **CHAPTER-1**

### **INTRODUCTION**

#### **1.1 Introduction to study**

Food security is a complex issue that has many dimensions and may arise at global, national, sub national or household level. It may be a chronic, temporary, seasonal or perennial in nature, its effect can be on whole or only on certain sections of it. The Food and Agricultural Organisation (FAO) in 1996 at the Rome World Food Summit defined food security as “food security, at the individual, household, national regional and global levels, 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”(Tajuddin 2003:02)

The concept of food security means that all members of every household, should have adequate access to the food grains, but unfortunately, policy makers in India have tended to dilute or ignore this fundamental postulate. This resulted in a situation where the poor often do not have enough food to eat, despite that fact that the country is producing enough food grains to sustain its entire population. (Venugopal, 1992)

Mere availability of food does not mean that it will ensure food security to all sections of society. There are two aspects to understand food security, one the physical access to food and other is the economic access to food. At present the government ensures physical access through its widespread network of Public Distribution System (PDS), backed by the buffer stock policy for national food security. Economic access is attempted through subsidization of food grains in

PDS and by generating several programmes which aim at raising the income levels of poor.  
(Krishnaji&Krishnan : 2000)

Ashok Gulati (2012) argues that making food available is the only one aspect of food security what is more important is enabling access and better nourishment. Gulati further points out that despite buoyant economic growth in recent years still one-third of India's population which is around 400 million people, lives Below Poverty Line (BPL). On a global poverty index, India ranks 75 among 109 countries in 2011, which indicates the extent of deprivation in terms of living standards, health and education<sup>1</sup>.

## **1.2 Global Context**

USAID (1995) describes the causes of the food insecurity as a chronic poverty, with a lack of economic opportunity either to produce adequate food or to exchange labour for the income to purchase food. In some countries, poverty results are from the unequal distribution of economic opportunities and benefits due to political exploitation or the poor economic policies and its pervasive failure of the national economy to grow. This failed in generating abroad based opportunities to produce food or income. Poor infrastructure is also a related factor for contributing towards food insecurity; increase in food grains productivity will not be a solution to food security until the grains make it to the market. For example, no proper access to roads hampers the distribution and access to the food. Well-functioning infrastructure is essential to facilitate exchange and access to markets.

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<sup>1</sup> Ashok Gulati is the present chairman of CACP ,Discussion Paper No. 2, National Food Security Bill : Challenges and Options, December 2012. <http://cACP.dacnet.nic.in>



Inappropriate policies by the governments, resulted in disincentives to local production and efficient marketing, are another cause of food insecurity. Often the local farmers have no incentive to invest in sound agricultural or environmental practice for price controls, the insecure land tenures and or overly centralized government structures, which stifle local initiative<sup>2</sup>.

World Bank predicted that 33 countries would face potential conflict and social unrest due to hike in food and oil prices in 2008. In order to control the situation, UN has called for half-million dollar influx from the developed nations. Rocketing prices and restricted volumes of food are causing some nations to become more possessive for their own food crops; India, China, Cambodia, and Pakistan, for example, have already put major restrictions on exports of basic foodstuffs<sup>3</sup>.

Rapid increase in prices of staple foods from 2006 to 2008 compelled the world into food crisis, causing inflation hikes with severe food shortages in various developing countries giving rise to hunger and depravation among millions of the world poor. These conditions were far-reaching and are far from being resolved. Prices of many commodity crops including corn, rice, wheat, and soybeans doubled over the past two years and millions of people lack access to basic food needs. According to the FAO reports, about 40 million people have been pushed into hunger in 2008 primarily due to the rise in food prices. This brings the overall number of undernourished people in the world to 963 million (compared to 923 million in 2007)<sup>4</sup>

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<sup>2</sup>FOOD AID AND FOOD SECURITY USAID POLICY PAPER, Deputy Administrator, USAID February 1995, ([www.agri-alim.redev.info/Doc/docs/food\\_security\\_usaid.pdf](http://www.agri-alim.redev.info/Doc/docs/food_security_usaid.pdf))

<sup>3</sup><https://www.thetrumpet.com/article/5021.1.0.0/world/soaring-food-prices-spark-unrest>

<sup>4</sup>“Number of Hungry People Rises to 963 Million.” FAO News room. December 9, 2008. <http://www.fao.org/news/story/en/item/8836/icode>. Accessed December 11, 2008. ([www.oaklandinstitute.org](http://www.oaklandinstitute.org)).

The United Nations through its World Food Program (WFP), feeds around 73 million people in almost 80 countries, has warned that it may not be able to meet its food aid commitments and several UN agencies have issued warnings against the impending food riots around the world because of a hike in prices of rice, corn, wheat, and other staples.

Countries like Morocco, Guinea, Mexico, Egypt, Burkina Faso, Indonesia, Mauritania, Senegal, and Uzbekistan have already been rocked by mass protests those spreading across the world. It was in September 2007, that Italian consumer groups announced a buy-no-pasta day in protest of high pasta and tomato prices. Again in April 2008 protesters in Haiti tried to storm the National Palace, were in Yemen the children were taken to the streets to highlight child hunger. Governments are resorting to desperate measures to address this growing social unrest before it destabilizes countries. The military was used for baking bread in Cairo, Pakistan reintroduced ration cards for the first time in two decades; Russia has frozen prices of bread, milk, eggs and cooking oil, whereas Indonesia revised its 2008 budget and increased food subsidies by \$280 million. In Philippines, the National Bureau of Investigation called for raids on traders those suspected of hoarding rice to push up the prices. China, India, Egypt, Vietnam, and Cambodia have imposed export controls on key agricultural commodities<sup>5</sup>.

### **1.3 Indian context**

The Malthusian understanding of population growth outstripping agriculture growth has forced policy makers to rethink about food security. The concern has intensified due to impact of

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<sup>5</sup>Food Price Crisis: A Wake Up Call for Food Sovereignty This briefing paper was authored by Sophie Young and Anuradha Mittal May 2008, ([www.oaklandinstitute.org](http://www.oaklandinstitute.org))

climatic change on agriculture and the increase in population. Indian food policy while responding to some of these concerns, failed to ensure food security to its citizens. Though availability, affordability and accessibility remains the three point objective of food security, they have not translated as effective policy.

The concept of providing food security is not new to India. The great Bengal famine of 1943 is considered as the eye opener to look into the issues of agricultural production, procurement and distribution. Amartya Sen (1989) stated that it is not the availability of food grains but lack of affordability (purchasing power of food) which leads to a famine like situation, which further leads to starvation deaths. He further said that the hysteria related to World War II was a potent factor which made food supply and distribution a low priority for the British rulers and even Indian traders who hoarded food in order to sell food grains at higher prices.

Tajuddin (2003) refers to the 'short tether' policy under PL-480 which is also known as 'ship to mouth' policy, to avoid famine. President Johnson adopted this policy, with a new concept in food aid policy, referred as "self-help", which meant the aid recipient countries had to make an effort to guarantee, that they will not remain perpetually dependent on American aid. In the context of this policy, two objectives were framed for India. One is that the Indian government should give priority to agriculture and raise its food production, while the later objective was to have India obtain food aid from other countries. The large amount of aid sent to India for the severe drought of 1965-67, made India as the largest single recipient of food aid. Spillmann and Wenger (1999) point out that the real problem with India's agriculture was that its output was poor because of the policies where the Indian government deliberately neglected agriculture.

By 1965, India made important progress in the industrial sector and even achieved self sufficiency in the manufacturing of equipment for its infantry. The emphasis on heavy industry showed a relatively neglect of agriculture which skewed the entire economy, most of the public and private investments were made in industrial sector rather in agricultural sector. The poor results in agriculture were the consequence of the policy choices of the government which neglected agriculture, rather than prioritise and to modernise it. India did have a limited progress in agriculture, but even in normal years, with regular monsoon rains, its agricultural production was inadequate for a country of its size. (Tajuddin 2003: 13-14)

According to Jagadish Pradhan (2005), rice (paddy) is the principal crop in India followed by wheat. Food crisis in the mid-60s led to some policy changes in agriculture, to encourage food production and to increase its productivity. The government had set up a procurement and distribution organisation known as Food Corporation of India (FCI) in 1965, which ensured a minimum support price to the farmers. Apart from this the Government also initiated many programmes to provide irrigation, electricity and other agricultural inputs to the farmers at subsidised rates. These policies enabled the farmers to benefit from rise in production but however, the liberalization process of 1991 saw a sharp deterioration of the rural economy with serious implications to farmers all over India. It is seen that even in the most prosperous Green Revolution Belt like Punjab and Haryana farmers committed suicide due to economic distress.

Identifying agriculture as an industry began during the post reform period with growing trends of agribusiness, which led the country into the global market to compete with countries which are more advanced than ours. There were new experiments by the agro based MNCs in introducing new seeds which caused new kinds of rural distress. Studies claim that the large numbers of

farmer suicides in some parts of the country can be attributed to the rapid changes in agricultural sector since 1991.

Vandana Shiva(2002) argues that there is a clear and direct connection between the policies of ‘economic reforms’ and starvation deaths and suicides in rural India. Starvation deaths are a direct result of the withdrawal of food subsidies and dismantling of food security systems and the resulting rise in food prices. She further points out that farmer suicides are a result of withdrawal of regulations in the markets for seeds and pesticides as well as the dismantling of import restrictions.(Shiva 2002 :457)

The worst hit welfare scheme after the economic reforms is Public Distribution System (PDS) which changed from Universal to Targeted Public Distribution System (TPDS), where only the poor and deprived class were identified and provided subsidised rations. This shift was to avoid the annual subsidy on the food grains. But it was difficult to identify the targeted groups and governments faced many challenges like rise in bogus or ghost cards, inclusion and exclusion error in identifying the poor from Below Poverty Line (BPL), diversion of the food grains to the open market and no benefits for the farmers. The neo-liberal model of economic development creates poverty on a wholesale basis and then the governments’ tries to solve the problem it has created on a small scale, almost inconsequential basis. “The government may be pro-poor, but driven by the globalization model, it cannot help but empower the rich”. (Shiva2002:417)

KrishnaKumar (2004) connecting the theoretical debates on liberalization of agriculture, identifies two important variables that explain the differences in the level of agricultural

production in the developing world, one the agricultural share in the total income and two the per capita income. Pointing out that a developing country, as it grows richer, its share of agriculture decreases. He further argues that there is a bias towards the agendas articulated by the industrialists and the workers voices get to be heard by governments, rather than those of the farming community. (cited in Bhatt 2004:130)

According to Anaya Ghosh Dastidar (2004) poverty eradication policies of the government have two broad aspects. On one hand, there is an emphasis on fostering economic growth; on the other, there are the Poverty Alleviation Programmes (PAPs) which are meant to launch a “direct attack” on poverty. However the PAPs are designed to achieve broadly two sets of targets first, guarantee of certain minimum standard of living to the poorest classes when they lack other viable means of sustenance. Second, they are geared to relax certain basic constraints such as poor infrastructure, limited or no access to credit by the poor those rural areas. This in the long run enables the poor for better economic prospects. World Bank in 1998 measured how the government subsidies on the PAPs are distributed across the poor and the non-poor groups in society. The evidence from the studies showed that wage employment programmes were by far the most effective in reaching the poor, while the self employment programmes ranked second with a relatively higher proportion of non poor beneficiaries. Public distribution system fared the worst according to the analysis in terms of both the money spent on the programme and its targeting the poorest classes<sup>6</sup>. (cited in Bhatt, 2004:209)

Even after the implementation of various welfare schemes people are still starving due to non – availability of food grains in time and leading to get it rotten in godowns of Food Corporation of

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<sup>6</sup> Poverty alleviation programmes in India: some issues and concerns ed. M.S. Bhatt

India (FCI). Beginning of the century witnessed the starvation deaths in India particularly in Orissa, though there was enough food stock with the government and it was exporting food grains, it was not reaching the poor.

The Public Distribution System (PDS) is the key element of the government's food security programme, which is an instrument to ensure the availability of certain essential commodities at easily affordable prices especially for the poor. The central government through FCI procures and stocks the food grains which get released every month for distribution through PDS network across the country. The additional commodities like sugar, edible oils and kerosene, food grains, mainly rice and wheat are distributed to the public via network of Fair Price Shops (FPS). The system of procurement is also used by the government to provide Minimum Support Prices (MSP) to farmers which is also used to stabilize the farm output and income.

The substantial increase in MSP effected over the years, considered necessary by the government to keep up the production of food grains which led to an corresponding increases in the consumer prices in the PDS, which adversely affecting the economic access of the poor to have food grain through PDS. This resulted the decline of food by poor in the states those with highest incidence of poverty like Orissa, Bihar, Madhya Pradesh and Uttar Pradesh whose per capita PDS off take has been the lowest. It means that PDS, which existed till recently have not serve the poor well, especially those in the poorer states. (Dev, 2008)

The withdrawal of Universal PDS to Target PDS just to keep the buffer stocks shows the discrepancy in the PDS system. As a result, this led the food grains to rot in the warehouses and be exported.

Table 1.1 showing the details of food exported by FCI in the last ten years

Food grains issued to PSUs/Private parties for the export purposes  
Quantity (lakh MT)

Sl.No	Year	Wheat	Rice	Total
1	2000-01	21.53	0.47	22.00
2	2001-02	37.95	24.69	62.64
3	2002-03	73.91	77.69	151.60
4	2003-04	71.74	27.75	99.49
5	2004-05	8.45	0.65	9.10
6	2005-06	0.00	0.00	0.00
7	2006-07	0.00	0.00	0.00
8	2007-08	0.00	0.00	0.00
9	2008-09	0.00	0.00	0.00
10	2009-10	0.00	0.00	0.00
<b>Total</b>		<b>213.50</b>	<b>131.25</b>	<b>344.83</b>

Source: [www.fciweb.nic.in](http://www.fciweb.nic.in)



Table 1.1 illustrates the trends in the export of foodgrains as issued by the FCI in the last ten years. From 2000-01 to 2003-04 the grains export increased from 22.00 lakh MT to 151.60 lakh MT in 2002-03 and decreased drastically to 9.10 lakh MT in 2004-05. This was the period when there were starvation deaths reported in the country. As a result, till 2009-10 there was no export of food grains.

The Food Corporation of India plays a vital role in providing the food to the people through PDS by procuring and distributing it through Fair Price Shops (FPS) with a wide network of around 5 lakh FPS throughout the country<sup>7</sup>. The subsidy which is provided to the FCI for the transportation and storage of the food grains is more than fifty thousand crores. The FCI depends largely on Punjab, Haryana, Andhra Pradesh and Uttar Pradesh for rice and wheat for its supply to PDS. To streamline the inefficiency in procurement, the central government came up with a new policy known as Decentralised Procurement Scheme (DPS). Under this policy the state governments were encouraged to procure food grains for themselves and the central government will provide the assistance by which the procured grains will be in the state and to be used for its welfare schemes rather than depending on the centre for allocation of the food grains.

Change in procurement policy for the better market price to the farmers was initiated by the then NDA government which allowed the state governments to hire the agencies for procurement of food grains for which the expenses are shared. It authorized the state governments to take decision to procure paddy from the farmers on Minimum Support Price (MSP) by the agencies and directed the FCI to hire or procure paddy from farmers. But later, objections were raised by its own coalition partners (Telugu Desam Party & Akali Dal) and the opposition, but few states

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<sup>7</sup>[https://en.wikipedia.org/wiki/Public\\_distribution\\_system](https://en.wikipedia.org/wiki/Public_distribution_system)

followed it. Orissa is one of the states which allowed the FCI and other state and private agencies to procure paddy directly from the farmers<sup>8</sup>.

Decentralized procurement scheme gives states a major role in procurement at local level as the procurement of foodgrains to the central government stock is through the state rather than the centre. The grains are procured at MSP declared by the government ensuring cost covering price for the producing farmers and distribution of the foodgrains at affordable prices to the needy under privileged through PDS.

Performance of procurement of foodgrains by States under the Decentralised Procurement Scheme was poor, as reported in the 2006 Report No. 16 on Performance Audit of Management of Food grains. Orissa the procurement of rice by the State Government under DCP was 0.68 lakh MT (4.5 percent) and 1.49 MT (7.4 percent) against the total procurement target of 15.00 lakh MT for 2003-04 and 20.00 lakh MT for 2004-05 respectively for the State. Despite the low procurement, 86460MT (40 per cent of total procurement) was supplied to FCI, instead of retaining this quantity for distribution within the State.

In the Andaman & Nicobar Islands, the procurement of rice during 2003-04 under DCP was only 247.65 MT of rice against the target of 12000 MT. Tamil Nadu and West Bengal continued to depend on FCI for distribution of rice under PDS as procurement of paddy in these States was up to 50 percent of requirement for PDS, during the period 2002-05. Low procurement of rice/paddy in Tamil Nadu was attributed to drought during 2002-04.

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<sup>8</sup> News related to procurement in various news papers

In Chhattisgarh under the DPS procurement was much in excess of the capacity for custom milling of paddy, due to the absence of a project plan for procurement, storage and custom milling. Thus, the milling of paddy was delayed from 21 to 30 months, which resulted in excess overhead expenditure by the State Government, mainly on account of interest and loss due to rotting<sup>9</sup>.

#### **1.4The Conceptual Framework**

The present work is based on a critical evaluation of the procurement policy of food grains under decentralized procurement scheme, which was implemented in several states in India. The main objective of the scheme was to curtail the expenditure incurred by the central government in maintaining buffer stocks and transporting the same within and outside the country.

This thesis draws on the conceptual framework of Right to Food in the domain of public policy. Policy is a vital task of planning a course of action; it can be verbal, written or an implied basic guide to action. Policies are framed with the objectives to be implemented to secure and improve the welfare of the population. Jain (1993) says that welfare programmes are part of national development, having their foundation in the Constitution which provides guidelines and directions to welfare endeavors. Any success of social welfare programmes depends on the adequacy of administrative apparatus. Cornwall and Musembi (2004) while emphasising the rights based approach to public policy argue for a need based approach. One that focuses on additional resources for delivery of services to the particular groups by making the process of development more inclusive.

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<sup>9</sup> Report No. 16 of 2006 Performance Audit of Management of Food grains. Ministry of Consumer Affairs, Food and Public Distribution, Department of Food and Public Distribution. <http://www.icisa.cag.gov.in/performance%20audit/Performance%20Audit%20Reports/Performance%20Audit%20on%20Management%20of%20Foodgrains/introduction%20.pdf>

Policy can be successful if participation is involved, but sometimes it needs intervention by the judiciary to achieve the said objectives. In India rights based approach has worked well as it has tried to ensure that government cannot neglect the basic right of its citizens like food, health, education and livelihood issues. Through emerging as the one of the growing economics of the world, India at same time is unable to eradicate hunger and malnutrition which is linked to food security issues. Policies related to Food Security are unable to meet this challenge. The DPS was a policy to improve access to food security through better procurement. To overcome the subsidy burden on the distribution of foodgrains, the new DPS policy was implemented where the states have to procure food grains for consumption and the surplus is given to centre. Agriculture is a state subject but price policies are framed by the centre. The decentralized procurement scheme under new food grains policy made an impact on the procurement process in the states where it was implemented and impacted the food security system in different ways. The thesis draws on the frameworks from public policy studies, particularly the Right to Food and Food Security debates in the Indian context to examine the performance of the DPS in Orissa

### **1.5 Statement of the Problem**

This study is broadly related to procurement policy of food grains as it is one of the essential inputs for food security. The various studies on hunger, poverty and food security have discussed about the public distribution and other welfare schemes, their implications and failures, but there was less focus on procurement policy that involves farmers, markets and government.

Orissa is one among the states to implement the Decentralized Procurement Scheme (DPS) and the results proved to be beneficial with the involvement of both public and private procurement

agencies in the procurement business. This private-public partnership model made a impact on the procurement process in the state. The DPS scheme was mainly to encourage the state in their procurement process, and to minimize the role of the middle men or agents between the farmers and market.

The procurement process differs from one state to another as it depends on the geographical conditions. Orissa one of the most gifted states in terms of natural resources and water, but is one of the least developed states in the country. Decentralized Procurement Scheme was implemented in 2003-04 and one need to look into the process of procurement from the view of farmers, millers and the procurement agencies. The present study is an attempt to critically review the Decentralised Procurement Scheme in Orissa through a case study of two districts, Bargarh in western and Bhadrak in eastern part of the state.

## **1.6Objective of the Study**

The main objective of this study is to examine the implementation of theDecentralised Procurement Scheme under procurement policy for foodgrainin Orissa as well as its impact on the different stake holders. The thesis would like to argue that to achieve Food Security; procurement at MSP to farmers is a necessary pre-requisite.

Specific hypotheses which will be examined in this study are:

1. The decentralised procurement scheme under the Public Private Partnership PPP model in spite of all its drawbacks may actually be a viable farmer friendly model. This was not there earlier in the centralised procurement
2. The procurement under the decentralised procurement scheme was transparent and farmer friendly
3. The millers in the state (Orissa) have an upper hand in centralised procurement but whereas under the decentralised their powers were neutralized.

4. Regional variations in the procurement process and pattern exist between West and Coastal Orissa

### **1.7 Study Area**

The area for the above said research is Orissa. It is one of the poorer states in the country where cases of starvation were reported. It thus provides a case for examining food security issues and procurement. Orissa is one of the major paddy cultivating states without adequate infrastructure for procurement of paddy. Under the DPS the state allowed certain agencies to procure the paddy for the central pool. At present there are both public and private procurement agencies in the procurement process functioning under the guidelines of the government on MSP. FCI also hired private agencies, National Collateral Management Services Limited (NCMSL) and National Bulk Handling Corporation (NBHC) for the procurement of paddy. Other agencies like NAFED, MARKFED, PACs, Orissa Civil Supplies (OSCSC) and TDCC etc. Most of these agencies including the millers procure the paddy from the farmers on MSP, giving the farmer a choice. The paddy which procured by these agencies are send to the millers for milling and then get delivered in the form of rice to FCI, two types of rice is received by the FCI one is LEVY (which is a compulsory percentage of the milled rice given by the millers) and other CMR (Custom Milled Rice) by the agencies.

The thesis uses the term Orissa instead of the present name Odisha as during the period of the study, the state was referred to as Orissa. To examine the hypotheses of the study two districts of Orissa are chosen for detailed study. One is Bhadrak situated in the eastern part and the other one is Bargarh on the western part. These districts are chosen as paddy is a major crop which is cultivated in both these districts. Among these two districts, Bargarh an interior district has the highest paddy cultivation in the state and the highest number of rice mills and with

paddy movement restricted to other parts of the state. Bhadrak a coastal district has considerable acreage under paddy cultivation but less number of rice mills and free movement of the paddy outside the district to other districts and state is allowed. While the agencies procuring paddy are the same in these districts, these districts have different methods of procurement. The whole procurement process is monitored by the Regulated Market Committee (RMC) in the district.

In both districts Bargarh and Bhadrak, private and public agencies participated in procurement of paddy along with the millers. The districts were divided into RMCs to look into the functioning of market yards and Mandis in the state. In Bargarh district there are three RMC divisions and two RMC divisions in Bhadrak district. Krushak Sangathan, a farmer's organisation has a strong presence in Bargarh district, but there is an absence of such an farmer organisation in Bhadrak. FCI was allowed to hire private and government agencies to procure paddy from farmers, the agencies started procuring paddy since 2004-05. These agencies were allowed to procure in selected districts where paddy is cultivated as a major crop, though paddy is major crop throughout the state, but the private agencies were limited to only certain districts and the methods of procurement were different.

The study analyses the performance of the agencies in Orissa from the data available on procurement in the state from 2004-05 to 2008-09.

## **1.8 Data Sources and Methodology**

This study is mainly based upon both the primary and secondary sources. Primary sources include the interaction and discussion with farmers, millers and officials of the various agencies, field visits to the market yards and purchase centers and observing the method of procurement which is carried out in the market yards. Secondary sources includes books and articles

and reports of the various agencies collected primarily by visiting their offices to get access to annual reports, data on procurement of paddy by the agency, and the news papers.

## **1.9 Respondents**

**1.9.1 Farmers:** The farmers are those who regularly sell their paddy at the Mandis or Purchase centers, which fall under the RMC jurisdiction. Most of the farmers who come to the yards/centers have two farmer identity cards issued by district authorities that indicate them as a marginal farmer in one tehsil and small farmer in other tehsil. This is same in two districts as per the records in the register of the agencies/millers. A hundred farmers in total from both the districts were approached for focus group discussion from those who visited the Mandis and purchase centers, by using convenient sampling method.

**1.9.2 Millers:** The millers selected were from those registered with the association of the millers in each district, as these mills procure the paddy for themselves as well as paddy from the agencies for Custom Milled Rice (CMR) or milling by taking milling charges. The total mills in Bargarh district were fifty nine and twenty one in Bhadrak and by using stratified sampling method, six millers from Bargarh district and three millers from Bhadrak district were selected.

**1.9.3 Agencies:** The agencies involved in procuring paddy in the state include both private (NCMSL, NBHC & Millers) and public (FCI, NAFED, MARKFED, STC, TDCC, PACS and Civil Supplies Department). Officials from some of the major agencies were interviewed.

## **1.10 Questionnaires**

The farmers were approached by framing set of questions which related to the procurement process in the district and state. The questions posed were regarding their knowledge on procurement policy by the government and ongoing operations of paddy procurement within the



district. Their views were sought on the procurement policy and the agencies engaged in it including the millers, and the facilities provided by the government towards procurement in the district. Their responses gave a broad understanding of the existing issues regarding disposing the paddy from the field to market yard.

The millers were approached with a set of questions to understand their view on procurement policy and the ongoing procurement under decentralised procurement scheme. The main aim was to derive from the millers their point of view regarding current procurement policy and issues regarding implementation of the same. The agencies were approached to know their role in implementing the policy under decentralised procurement scheme, their achievements and problems regarding implementation of the same.

### **1.11 Limitations of the study**

The present study is limited to only reviewing the procurement process in the state of Orissa for the period of 2006-2008. Individual interviews with farmers were not possible due to language problem. Also, the farmers were reluctant to provide information as they were uncomfortable to answer in front of agents of millers. The millers were too were reluctant to talk the government and agency officials and the MSP. Officials from agencies were difficult to interview for a length of time as they were busy with procurement targets.

The study was unable to conduct in-depth interviews with most of the stakeholders and had to compromise with focus group discussions and short interviews. Also, the study could not address the politics of food security or provide a political economy perspective on agriculture in Orissa in more engaging ways.

One drawback of the thesis is that the field work was done from 2008-2009 and could not be updated due to various reasons. As a result the findings of the study may have lost some of their relevance. This is a preliminary investigation on the process of procurement and it is hoped some questions raised will be picked up for more detailed analysis later.

## **1.12 Chapterisation**

The study is divided into seven chapters.

Chapter-1 Introduction :gives basic background to the study, the objectives and hypotheses and the methodology of the study.

Chapter-2 Literature Review : includes a survey of select literature on the policies in India towards agriculture, Food Security Public Distribution System, Price Policies, Green Revolution, and Decentralised Procurement System.

Chapter-3 Procurement policy of India: provides a brief history about the procurement policy for food grains, methods of procurement in pre and post independent era.

Chapter-4 Institutional Procurement Agencies : discusses the importance of the various organizations dealing with procurement like FCI, CACP and other Commodity Boards. The chapter looks at services of procurement and distribution in the country, their working methods and reviews the functioning of these organisations.

Chapter-5 Paddy Procurement Process in Orissa: reviews the procurement policy and procurement by different procurement agencies in Orissa for the period 2004-05 to 2008-09. The agencies involved in the state and their role were discussed along with the target given and achieved in paddy procurement.

Chapter-6 Case study of paddy procurement in Bargarh and Bhadrak districts of Orissa: compares the procurement of paddy in Bargarh and Bhadrak districts through the views of different stakeholders involved – the farmers, millers, state agencies, private agencies.

Chapter-7 Conclusion: includes a summary of the major finding of the thesis and raises some questions for future research agendas.

## **CHAPTER- 2**

### **REVIEW OF LITERATURE**

#### **2.1 Food security Issues**

India after independence, inherited serious food problems. Food grain production levels were low and the periodic scarcities caused by the droughts which frequently held the threat of a continuous famine. Problem was compounded by the persistence of large scale poverty, unemployment and underemployment; simultaneously for poor the income was insufficient to meet food needs. During the 1950s and 1960s, the government was able to raise the levels of food grain production at an impressive rate mainly through the expansion of areas under cultivation. However, problem relating to available of food remained almost the same because of incidence of poverty continued to be high despite the early success of planned economic development.

Referring to food security, Ahmed (1999) emphasizes that India's agricultural output sometimes falls short of demand. The green revolution howsoever was impressive but not succeeded in making the country totally and permanently self-sufficient in food. Kalahandi one of most backward districts in Orissa, where famine like conditions existed for many years which in result reported starvation deaths even though there was an availability of food in India. (Tajuddin, 2008) Further on hunger, Harsh Mander explains that the hunger survives in the form of individual men, women and children and sometimes entire tribal or dalit communities, subsisting for long periods without sufficient food and they are forced to cut back on their food intake, sometimes by reducing by eating one meal a day or to beg for food or to eat tubers, grass and

mango kernels to fill their stomachs or sometimes just to drink a starch water, which given by their neighbours to them in tight-fisted charity.

Governments, so far have tended to deny starvation and unsuccessful in reversing malnutrition levels of the poor. Before the intervention of the Supreme Court in 2001, there were many food schemes, but were not guaranteed. These schemes could be withdrawn or reduced as there was no obligation on the state that these schemes must cover all the needy. The intervention of Supreme Court which directed the governments not to withdraw any of the food schemes, and further directed that all the children in schools must be given hot cooked meals and the children under age of six years as well as nursing and expectant mothers to be covered under the supplementary feeding through ICDS and the vulnerable groups through PDS (Mander, 2009)

## **2.2 Food as Right**

Over the last decade or so, a series of developments have drawn attention to the problem of food security. These were the persistence of hunger in many parts of the country being juxtaposed with food surpluses and stocks, which is by the adverse impact of globalisation on agriculture and rising food prices resulting in widespread food insecurity, media reports on starvation deaths, hunger and malnutrition and finally the intervention of Supreme Court by response to public interest litigation(PIL). It shows that in the last few years awareness activism has benefited by making this nutrition related schemes into legal entitlements. As a consequence, food security is emerging as a significant policy area for public intervention and public demands stressing a rights-based approach to ensure it. The central idea of the right to food campaign that started in 2001 is simply that the right to food is one of the basic economic and social rights to achieve substantive democracy, and without it the political democracy is incomplete as it is

directly linked to right to life, a fundamental human right enshrined in the constitution. (Hasan, 2009)

The Right to Food played an important role in pioneering the renaissance of Economic and Social Rights during the last two decades. It is the first of the Economic Social and Cultural Rights (ESCR) got studied by the United Nations Human Rights System. In 1987 a report titled “The Right to Food as a Human Right” became the starting point for a series of investigations into the rights contained in the International Covenant on Economic Social and Cultural Rights (ICESCR)

Prior to the Right to Food petition by PUCL in 2001, there was another case concerning specifically on the right to food which went up to the Supreme Court way back in 1986. It was the case of Kishen Pattnayak vs. State of Orissa. The petitioner wrote a letter to the Supreme Court by bringing to the court’s notice that the extreme poverty of the people in Kalahandi of Orissa, where hundreds of people were dying due to starvation and several people were forced to sell their children. The letter prayed that the State Government should be directed to take immediate steps in order to ameliorate this miserable condition of the people in Kalahandi. This case was the first case specifically taking up the issue of starvation and lack of food. (Rathi, 2007)

Article 21 of the Indian constitution, which provides a fundamental right to life and personal liberty have been repeatedly interpreted by the Supreme Court as enshrining within it the right to food. Article 47, obliges the Indian state to raise the standard of nutrition of its people. Still India continues to have the worst record. According to National Family Health Survey (NFHS) in 2006, were the malnutrition rate of India was 46% which is almost double that of sub-Saharan Africa. In spite of being the world’s second fastest growing economy, it ranks 66<sup>th</sup> among the 88

countries in the Global Hunger Index (GHI), survey conducted by International Food Policy Research Institute (IFPRI) in 2005. India's position is below than Sudan, Nigeria and Cameroon and slightly above Bangladesh,

Biraj Patnaik (2009) gives an insight into the rights based issues with regards to food security. Focusing at the global level, there were a slew of legislations across the world in past few years recognizing the right to food as a fundamental right and provided state guarantees. Referring to South Africa, which was one among the first countries in the world to include the guarantee to the right to food in its constitution through its bills of rights. In the Brazilian constitution it introduced as a minimum wage to meet basic needs including food. Further in 2003 they introduced the concept of social rights for every citizen, including right to food. By 2006 they established the set of institutions for monitoring the right to food, under the frame work of Brazil's Nutritional Security Framework Law (LOSAN). This is the most lasting legacy of the president Luiz Inacio Lula de Silva.

Article 16 of the Bolivian constitution explicitly states that "every person has the right to water and food. The state has the obligation to guarantee food security for all through healthy, adequate and sufficient food". Apart from these there were countries like Belarus and Moldova too have clear constitutional guarantees over the right to food. Whereas the Argentina in 2003 and Guatemala in 2005, are the first South American countries to introduce frame work on laws on food security, later followed by Ecuador in 2006 and Venezuela in 2008.

It is incorrect to say that in India there are no such land marks on issues of food security. The case of PUCL Vs. Union of India and others (2001), better known as Right to Food Case. There have been at least 60 orders over the last eight years those emerged as the longest continuing

mandamus (a legal writ where the court orders a person or entity to do something) in the world on right to food. (Patnaik, 2009)

The concept of food security has gradually evolved in recent decades from one relating to only production to one which places equal emphasis on access. The new definition for food security was proposed by the 'Science Academies Summit' at Chennai in July 1996. According to them food security means:

- Every individual should have an access to physical, economic and social environment to a balance diet which includes macro and micro nutrients, safe drinking water, sanitation and environmental hygiene, primary healthcare and education, so as to lead a healthy and productive life.

It suggested that if India wishes to achieve food security as defined, then its agriculture has to produce more food from the diminishing per capita arable land and irrigation water resources, as well as to generate more livelihood opportunities and income to the farming families and landless agricultural labour. (Swaminathan, 1997)

### **2.3 Price policies**

India, from the beginning of its planned development, has pursued the goal of ensuring food security based on the principle of self sufficiency. Adopting appropriate policies and improvements in technology initiatives, by which the growth rate in food grain production has been maintained higher than the population growth. It rouse from acute shortage position which prevailed at the time of Independence. The increase in production made the country that is in an able to provide food from its own resources at present. This made possible because of the efforts of the Government of India (GOI) and the different State Governments in respect of agricultural



technology development and dissemination by build-up of the infrastructure including the irrigation facility, price policies and the Public Distribution System (PDS) were supported by buffer stock policy (NABARD, 1997)

Sharma (1988) points out that the agricultural price policies and allied instruments which evolved in India in the context of shortages and excess demand was during World War II period. The Procurement and distribution of major food grains began and the statutory maximum prices were set for food grains but not enforced strictly. Assurances were given to the farmers that the state would purchase food grains at fixed prices if the market prices fell precipitously; whereas till 1954 there was no sharp decline in food prices. On the basis of the recommendations of the Food Grain Prices Committee, which is also known as the Jha Committee, provided the foundation for a sound agricultural price policy. However, the agricultural price policy in India was more oriented toward consumer's interests until the mid-seventies.

There are three main types of administered prices in India's agricultural price policy these are support price, procurement price and the issue price. The support price is announced generally at sowing time, where the government agrees to buy all the grain offered for sale at this support price, this price guarantees to the farmer that any event of excessive production, leading to a glut in the market prices of his produce will not be allowed to fall below the stated price.

Procurement price is announced and fixed generally in the beginning of the marketing season. It represents the price at which the state agencies will procure grain from producers directly or at the market. Depending upon the methods of procurement adopted at the place, including

compulsory levy. Issue prices are meant for government to release grain stocks from the "central pool" usually concessional or subsidized for PDS, the issue prices are invariably much higher than the procurement prices. (Sharma, 1988)

The major underlying objective of the government's price policy is to protect both producers and consumers. Presently the food security system and price policy consists of three instruments: those are procurement prices/minimum support prices, buffer stocks and public distribution system (PDS). In recent past there have been a concerns regarding the increase in global food prices. On the other side the rise in crude oil prices had an impact on increase on agricultural costs, the use of food crops for bio fuels also pushed up the demand of such crops. It is noted that 20% of the maize production in USA is used for bio fuels. 50% of sugarcane in Brazil is used for bio fuels and the European Union used 68% of its vegetable oil production for bio fuels. Such large usage of food crop use for food and feed are diverted for fuels, increased the food prices due to low output. The international prices for wheat, rice and maize increased significantly in last two years, in fact there was more than 100 per cent increase in some commodities. This was a challenge for India. However, India has done well in protecting the consumers from global food prices. The inflation in food grains was 10% in 2006-07 but 4.7% in 2007-08. (Dev, 2008)

Jyoti Parikh and Chandrashekhar Singh (2007) argue that the importance of agricultural price policy in India is made in the backdrop of food scarcity and price fluctuations those provoked by natural calamities like drought and floods and also sometimes by the international price for exports and imports. The price policy in general is directed towards ensuring reasonable food

prices for consumers by providing food grains through PDS, along with it inducing adoption of the new technology for increasing yield by providing a price support mechanism through Minimum Support Price (MSP).

M Raghavan (2004) suggests that the agricultural price policy has been drawing serious attention and referring to Rakshit (2003) who identified certain factors such as: (a) wrong method adopted to fix MSPs without reference to international supply demand conditions, (b) misplaced emphasis on the provision of subsidies to a section of the producers rather than on alleviation of hunger, and (c) ill-conceived move from universal to targeted public distribution system. The corrective measures that he suggests include fixing MSPs separately for each state, removal of the deleterious effects of input subsidies through the imposition of land revenues, and adjustment of buffer stocks to different crop cycle. Raghavan referring to Narain (1975) who talks that the procurement price is more politics than economics. In recent years, compulsions of the coalition politics have further distorted the farm price policy. Survival of the coalition governments at the centre depends crucially on the support of numerous smaller regional political groups. Despite the miniscule size of some of these political groups, which are dependent on the powerful rural rich, but they are in a position to wreck the government at any time. The method adopted by coalition governments at the centre to flock these disparate groups together and continue in power is to indiscriminately raise and implement the MSPs in those areas where they have sizeable presence. The author explains how the role of politics distorts the economic logic of procurement and price support programmes.

Mohana Kumar (2006) following the reports of farmers' suicides from various states in India, particularly Kerala, Karnataka, Andhra Pradesh and Maharashtra states that farmers' distress has become a major issue of our time. Even though both state and central governments initially tried to sweep the crisis under the carpet, soon it blew into huge proportions forcing most commentators to see it as fallout of the neo-liberal policies pursued by the successive governments since 1991. Referring to the price fall of primary commodities for consecutive years is viewed as a prelude to economic depression as it had occurred during the 1920s. The ongoing spate of farmers' suicides is caused basically due to economic distress rather than psychological and social reasons.

In Kerala over the past one decade the agrarian crisis and farmers' distress are closely linked to the neo-liberal policies. The impact of the policies are associated between the crisis and distress which is more in the state regions where a section of farmers those heavily dependent on export-oriented crops, such as coffee and pepper are the worst affected by these policies. Most of them are the small farmers who found it extremely difficult to pay back the loans, which they took for cultivating these crops when the prices of cash crops are falling. Unless the plight of farmers are addressed in terms of change in the macro-policies regulating taxes, prices and imports, the condition of the farmers cannot be improved on a sustainable basis.(Patnaik, 2002)

## **2.4 Public Distribution System**

Kripa Shankar (2002) explains that if the poor have no money to purchase food grains from PDS it loses its relevance for them. In the past there have been starvation deaths not because no food grains were available in the market but because those who died of starvation were penniless.

Taking the example of the Great Bengal Famine of 1943 where three million people died bears the testimony to this fact.

To banish starvation and poverty the strategy should be to provide wage employment to the poor in the village itself or near about in public works programme. Focusing on water conservation schemes like construction of ponds, check dams and other water harvesting structures. Because of the fast receding groundwater table and frequent droughts which have brought the issue of water management to the fore and all the resources should be diverted to harnessing rain water and its conservation in the first instance. Highly labour intensive activity which can be undertaken in every village which will provide enough employment to the unskilled labour with little possibility of leakages and thus can prove to be the most productive activity as far as raising the income of the poor is concerned.

Commenting on PDS which does not directly create any job for the poor to raise their income and availability of food grains in the fair price shop does not mean that it will automatically reach their hearth and homes. PDS is only a corollary of public procurement of wheat and rice. The government procures nearly one-third of wheat and one-fourth of rice produced in the country with a view that their prices should not fall. Thus the procurement is not in the interest of poor. Author explains that the procurement does not even help the farming community as a whole because it is only the big farmers in Punjab, Haryana and Andhra Pradesh who account for the bulk of the procurement. Big farmers in Punjab account for half of the wheat procured in the country and big farmers of Andhra Pradesh and Punjab together account for nearly three-fourths

of the rice that is procured. Food grain traders have also emerged as gainers who purchase rice and wheat from villagers at low price and sell the same to procurement agencies at higher prices.

Food grains procured is distributed to BPL households and APL households through a network of FPS numbering nearly five lakh in the country. Kripa Shankar (2002) argues that the heavy subsidy which is given to the FCI for the maintain of food stock is a wasteful expenditure, he suggests, it would be better that the money which is subsidies should be allocated for the water conservation and watershed development programmes which can provide jobs to nearly 60 lakh persons and the Old persons from poorest households particularly women should be fully covered under national old age pension scheme. By which it can replace the ongoing Antyodaya and Annapurna Scheme under PDS which is meant for the poorest households.<sup>1</sup>

Dohrmann (2007) asserts that the right to food is much-debated issue now a day's throughout the world. Here the researcher is trying to explain about the discrimination towards the Dalits regarding their rights over food. The concept of right to food in India is through its constitution, its legislation and through Supreme Court decisions, which gave the broadest legal meaning of this indispensable human right. Practically the debatable policies which have led to the accumulation of food stocks, while at the same time most of the undernourished in the world live in India is the another aspect which worsen the situation of the needy is discrimination against

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<sup>1</sup>Kripa shanker in his article on "Starvation Deaths in UP and PDS" Explaining about how the corruption is prevailing in the functioning of PDS system in UP(Uttar Pradesh), and suggesting that PDS under the schemes should be removed and covered under one scheme. where the poor will get money to buy at the fair price shop giving an example of the Antyodya Programme.( Under Antyodya programme one crore persons have been covered who get wheat at Rs 2 per kg and rice at Rs 3 per kg; the subsidy amount of Antyodya programme is Rs 2,400 crore. If these people are brought under old age pension scheme each one can get a monthly pension of Rs 200 out of this subsidy amount. This will be a much more effective way of protecting the poor as compared to the above mentioned schemes)

certain sections of society, particularly the Dalits. Who have to face problems when trying to avail government schemes such as the “mid-day meal scheme” or the PDS, the discrimination against Dalits varies from region to region. Even though the legal framework and the means of producing sufficient food may be available, by this it doesn’t mean that food is actually secured for everyone. It requires the political and societal will of the various stakeholders to overcome the discriminatory situation in order to give the right to food a real meaning.<sup>2</sup>

If food security is a priority, then food grains should remain at the head of the agenda for policy, Qadeer & Priyadarshi (2005) argue that the nutritional problems of the marginalized are to be addressed. Due to decline in pulses production, the nutrition based research came into focus looking towards the nutrition related diseases. Their argument is that the physical activity in India has gone down , it is well known fact that the introduction of green revolution technology, by increasing the number of crops, raised physical activity levels of agricultural labours initially. To overcome nutritional problems for those who are not into the physical activity there are promotions for the packaged health food in the markets. This however helps the state to save itself from the embarrassment of not providing sufficient quantities of food grains through the PDS.

Altaf khan (2004) points out that the most of the benefits of the welfare schemes were harvested by vested interests in Orissa. In many cases the works or projects could not start because of the quarrels between contractors. There are several such instances of misappropriation in works done

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<sup>2</sup>Studies conducted by the Indian Institute of Dalit Studies. This highlighted the specific discrimination of dalits and concluding that the Right to Food, Food Security and Discrimination are closely knit and interrelated issues which require constant vigilance by the government, the stakeholders and matter related NGOs. Whereas the Right to Food, which is universally accepted as one of the Social Rights

under Calamity Relief Fund (CRF) and Food for Work (FFW) programmes in 2000-01. The beneficiaries were misidentified, secondly that there was no positive correlation between the requirements of tribals and welfare schemes of the government. Pointing out the issues of tribals that no projects had been launched for them to generate income regularly by which they were bound to do the unproductive activity by mortgaging of crops and land. Failures of these programmes and policies are due to lack of awareness and interest by the officials and the authorities<sup>3</sup>. (Bhatt 2004:448)

## **2.5 Minimum Support Price**

The system of Minimum Support Prices (MSP) started in India in the mid-1960s to create a favorable incentive environment for the adoption of high-yielding varieties (HYV) of wheat and rice. It seems to possess vast potential for raising food grain production. The impact of this policy helped the country from a situation of massive shortages to emerge as grain surplus country, and also attained food security at national level. A strong base was created for grain production for meeting its demand in the medium term; the Prices of basic food have remained relatively stable. This policy laid a positive impact on farm income by economic transformation in well-endowed but mainly in irrigated regions. However, there was an adverse effect of this policy which was highly favorable to the two crops rice and wheat. Thus resulted a shift of good quality of land and other resources for the cultivation of these two crops, less importance was given to pulses, oilseeds and other crops. This created a serious imbalance in demand and supply of several other agricultural commodities in the country. The country is holding more than one-fourth of its annual production of rice and wheat in public stock on one hand, and on the other every fifth Indian is underfed even by the standard of minimum calorie requirement for a healthy and active life. (Chand, 2003)

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<sup>3</sup> Poverty alleviation in Orissa , ed. .M.S. Bhatt



Ramesh Chand (2009) draws attention to the role of CACP and nutrient level of the masses by implementing of MSPs over a period of time from 1980s, when there was a review and change in policy of MSP through the new body which was renamed from the existing (Agricultural Price Commission to Commission on Agricultural Costs and Prices). The policy was reviewed in 1986, after changing the name of the commission, though the change in terms and reference of this commission could not help much to promote the balanced production pattern. The shift in area towards rice and wheat became more pronounced after 1980s mainly due to advantages of MSP for these two crops. It is also noted that during the period from 1990-91 to 2000-01 there was no increase in per person cereal production, and the entire increase in stocks resulted from decline in per capita cereal consumption caused by the steep increase in prices of cereals. Chand criticized the system of implementing of MSP and how it is underlying the purpose of promoting food security for which it is meant and is causing an adverse impact on the nutrition of the masses, by diverting cereals from consumption to government warehouses.

On wheat market and the role of MSP and difference between the MSP and procurement price, Chand explains that the procurement price was abolished long ago and the governments presently procure food grains only at MSP. He indicated that the MSP serves two purposes one as a check against the price falling below a floor, and two meeting the procurement target determined by the government. The government purchases a significant quantity of wheat in the harvest season, where the MSP has a very strong influence on the open market price, not only at the time of harvest season but throughout the year. Therefore, the MSP on wheat strongly

influences the scale of operations of the private sector in the market. The common perception about the MSP is that it is fixed and based on the level of cost of production.

Kirit S Parikh, et al (2003) point out that the government, through Food Corporation of India (FCI) buys up whatever is offered at procurement prices ensuring that the harvest price for a particular commodity does not fall below its procurement price. Under the pressure from the farm lobby the prices are set high. At these prices, what farmers produce, consumers do not demand for want of adequate purchasing power.

The procurement prices are set by the government on the recommendations of the Committee on Agricultural Costs and Prices (CACP). The CACP's recommendations are based on costs of cultivation and adequate return to farmers. High procurement price gives the farmer an incentive to produce more, for which they have to use more fertilisers to increase yield. But the higher price may also reduce a demand to support a price where in case the FCI have to procure more, to increase the stocks further. The government finances the addition to the stock by cutting some other expenditure. The researchers found that cut in investment in agriculture were less would be invested in this sector by which the consumers those particularly poor may be hurt. The poor consisting of landless labour, small and marginal farmers are net purchasers of food. They were able to buy less food even when one accounts for increase in wage rate that may follow higher procurement price. In order to appreciate better the consequences of a procurement price hike, it would be instructive to analyze the exact quantitative impact of a price hike on the growth and welfare of producers and consumers.(Parikh et.al 2003)

Higher minimum support prices reduce demand and lead to larger stocks, thus the minimum support prices at levels much above market clearing prices are not desirable. One should emphasize here that the adverse impact of increases in MSP is related to the level of MSP to begin with. Only when the increase pushes up prices above the market clearing prices, the problems arise. Thus we conclude that government should announce minimum support prices that remain below the market clearing prices in a normal or modal year. In an exceptionally bumper year the market clearing prices would be lower than the announced MSPs. This, however, is fine as in such years the farmers need support which should be provided<sup>4</sup>.

Vivek Kumar Dhand et al.,(2008) argues that majority of farmers are from the medium and low income groups. These farmers sell out their produce immediately after production, as these farmers do not have adequate storage facilities to store the produce and they require money at the earliest to repay their loans taken for cultivation. Based on this weakness, market forces often try to exploit them, by not procuring immediately and when there is surplus quantity in the market then these farmers are forced to sell at lower rates. As soon as the produce is transferred to middle-men from farmers, scarcity is created by storing the produce for later use making the rates rise high. To overcome this sort of situation of farmers the government gave support to them through MSP.<sup>5</sup>

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<sup>4</sup>Kirit parekh and his team explained how the increase in MSP on wheat and rice leads to overall decline in GDP. The researchers attempt to investigate the role of speculation in driving crude oil price variation after controlling for other influencing factors. They also attempted to quantify the extent to which volatility in the crude oil market transmits into agricultural commodity markets, especially in the corn and wheat markets. They hypothesize that the linkage between these markets has tightened and the volatility has spilled over from crude oil to corn and wheat. The large-scale corn ethanol production has affected agricultural commodity price formation.

<sup>5</sup> Less physical activity of the human being (labour) led them with inadequate food and the depended on market for the food which made them prone to the nutritional level diseases. The National Nutrition Monitoring Bureau data had shown a decline in energy consumption in the late 1970s and 1980s. Further they also argue that the decline in

Singh and Kalra(2002) describe the paddy cultivation in Punjab, from almost zero to hero in one decade in 1970s, and environmental and ecological implications, such as falling yields and water table for the next two decades. While maintaining its status of continuously increasing production, accounting for one-third of the state's food grain production and contributing significantly to the country's food security system, it has also been acquiring the characteristics of a villain by exploiting natural resources thereby threatening the very sustainability. As percent of net area sown, the area under rice increased from less than 10 per cent in 1970-71, to 28 per cent in 1980-81, to 48 per cent in 1990-91 and to 59 per cent in 1998-99. In respect of variety wise yields, it is observed that the newer varieties are better yields. The fields where newer varieties are grown also received more fertiliser application. It raises an important issue because the Farmers give importance to the management inputs better to the newer varieties and alternatively the scientists have developed new varieties which are more responsive to higher doses over time. It was also observed that the indiscriminate use of water on rice was of no significance per se. This raises the issue that irrigation may be related with other variables that need to be scrutinized to find out how to advise farmers to avoid indiscriminate use of water on rice.

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the production of pulses also made an impact on the nutritional level of the people. Here we can see that though this paper argues on the nutritional level decline due to less production of pulses crop Ramesh Chand(2003) also argues on the same that the importance for the two major crops and the rise of MSP for this two crops and neglecting the other crops will reduce the nutritional level of the masses

## **2.6 Green Revolution**

Paroda (2000) has broadly classified the agricultural policies of last five decades under three phases

- In the Pre green revolution phase: It witnessed several agrarian reforms, institutional changes in development of major irrigation projects (which include the highest dam and longest man made canal in the world) and the establishment of input related industries such as fertilizer plants. Despite these major initiatives, there were severe food crisis in the early 60s which made the policy makers to realise that continuous food import at heavy cost would result the instability and may not be sustainable. The then prime minister of India Mrs. Indira Gandhi gave a call for quick breakthrough in agriculture production. She also laid emphasis on better support for research and development (R&D) in agriculture and strengthened the institutional and human resources to meet the challenge of food security.
- Green revolution phase: the government took the bold decision to go in for the import and spread of high yielding varieties seeds of wheat and rice which involved the intensive use of fertiliser and irrigation. This strategy produced quick results and India witnessed green revolution the biggest achievement. This lead to attainment of self sufficiency in food grains. Agrarian reforms during this period however took back seat while agricultural research, education, extension, input supply, credit, marketing price support procurement, buffer stocking and public distribution system were the main thrusts of policy. Nationalisation of commercial banks during this period facilitated an easy credit to priority sectors like agriculture.

- Post-green revolution phase: in this phase policy changes began in the early 80s while there was a clear change in economic policy towards de licensing and deregulate on the industrial sector, agricultural policy lacked direction. In this phase the agricultural growth accompanied by increase in real incomes, led to the emergence of interest groups and lobbies which started influencing farm policy in the country. The rural economy started witnessed a process of diversification in agriculture, which resulted in fast growth in non-food grain output such as milk, meat, poultry, fruits, vegetables and fishery.

The next phase in change in policies in agriculture began in the early 1990s. This was a stage where Indian agriculture moved to a constraint regime, which the country has not been used to historically earlier. The fatigue of the Green Revolution started becoming visible.

According to Peter Rosset (1998) the Green Revolution or any other strategy to boost food production to alleviate hunger and this depends upon the economic, political, and cultural rules that people makes. These rules determine who benefits as a supplier of the increased production, whose land and crop prosper and for whose profit (who benefits as a consumer of the increased production - who gets the food and at what price). Again he argues that the poor pay more and get less describing it that the poor farmers can't afford to buy fertilizer and other inputs in big volumes where as the big farmers get discounts for large purchases. So, the poor farmers can't hold out for the best price for their crops, unlike the rich farmers whose circumstances are far less desperate. On irrigation facilities he argues that the canal irrigation system favors those near the top of the flow but Tube wells often promoted by development agencies favored the bigger operators. Government-subsidized credit overwhelmingly benefits the big farmers. Most of all, the poor can't command the subsidies and other government favors accruing as the rich.

By the Green Revolution farming becomes a petro-dependent, HYV Seeds to produce higher yields which require the right amounts of chemical fertilizer, pesticides, and water. In India, by adoption of the new seeds has been accompanied by a six fold rise in fertilizer use per acre. Yet the quantity of agricultural production per ton of fertilizer used in India dropped by two-thirds during the Green Revolution years. In fact, over the past thirty years the annual growth of fertilizer use on Asian rice has been three to forty times faster than the growth of rice yields.

Mahendra Dev (2007) criticizes the budgetary allocation on agriculture sector where less budget allocation is given for the agricultural research and development package. The agriculture “package” reveals that the approach seems to be incremental rather than a comprehensive and holistic strategy for reviving agriculture. In other words, there is no “new deal” for the farm sector in the budget. The approach seems to be to canvas it as an “agriculture budget” and to sell it politically without substance. Further suggesting that the proposals should have been in tune with the 11th Plan goal of achieving 4 per cent growth in agriculture and there should be consideration of recommendations made by National Commission on Farmers. The crucial sources for growth of agriculture are land and water management technology and cropping pattern shifts in terms of diversification to high value crops and its allied activities. The supply side factors are proper input supplies like (seeds, fertilisers, etc), credit, remunerative prices, marketing and institutions for better delivery systems. Some of state institutions for delivery systems have collapsed over a time. There are no such regulations of the private sector institutions, as a result farmers are suffering regarding input supplies, knowledge gaps on technology and marketing.<sup>6</sup>

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<sup>6</sup>Mahendra Dev (Chairman CACP) Commenting on the budget 2007, by Finance minister P Chidambaram.

Archana S Mathur et al., (2006) highlighted the role of public investment/government expenditure on agriculture by analyzing all India level and state-wise data. This is the crucial determinant in stepping up the rate of growth in agricultural production. The other factors those needed for higher agricultural growth are fertiliser usage and agricultural prices. Explaining about agriculture, which is the core livelihood source for a significant proportion of population in the rural areas of developing countries. At present the sector faces the largest brunt of underemployment, unemployment and poverty. Capacity increase in the productive of agriculture through higher productivity has been an important goal in developing countries. Due to the limited scope for the expansion of arable land, there is a need to increase yields, for which development and infrastructure with appropriate investments in research and extension services could benefit. Some of these issues are very relevant for a country like India where agriculture still continues to be a core sector of the economy where over 60% of its population is dependent for their livelihood.

The author explained the reasons for the decline in growth of the agriculture sector consistently since 1990 compared to the 1980s. It was 4 % per annum during the 1980s on an average, which came down to 3.2 % during the 1990s and 2 % in the last few years. This was accompanied with recent decline in yields per hectare for a number of food crops. There are vast inter-state differences in growth rate of agriculture and even more so for food grains. The analysis at the all-India level for the period 1990-91 to 2003-04 suggests that government expenditure in agriculture, including public investment and subsidy for fertiliser usage and

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electricity consumption for agriculture are the main factors affecting agricultural production in India (Exogenous variables like rainfall and population are also important). Agricultural prices are positively (and significantly) related showing that the supply vis-à-vis demand side is the dominant factor for agricultural output. This is expected to have greater impact on value of food grains production and consequent implications for food security.<sup>7</sup>

There are numerous studies done on food security, but most of the scholars have contributed much to the area of Food Security, from the view point of economics, rather than the social concerns. Most of the policies which are implemented by the governments towards providing food security have been criticized by the various scholars in their works. Some scholars feel that the work done on procurement policy is only focusing on the rise of MSP and its impact, by keeping in view the urban masses and rich farmers, who often change the cropping pattern according to the MSP of the crop. If the roles of procurement agencies are not emphasized, how will the procurement policies have an impact on farmers, then how do we address food security concerns?

## **2.7 Decentralized procurement scheme**

The concept of Decentralised procurement scheme is to bring down the subsidy on the food bills. Jos Mooij (1999) argues that there were several occasions where the Central government raised the PDS retail prices in the first half 1990s, the government never considered to bring down procurement prices, which later became the problem, as the difference between PDS food grains and open market food grains prices were came down by which the willingness of consumers to buy PDS commodities decreased subsequently. Though procurement continued, by which there

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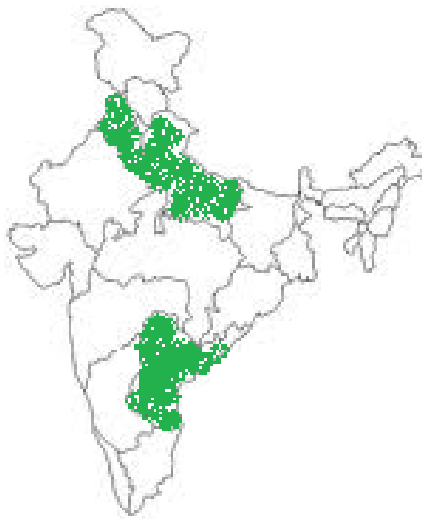
<sup>7</sup>Here the researchers explain about the role of centre and state investments in the agriculture and its allied sectors to achieve the 4% growth rate per annum as one the major component in eleventh plan

were unpredicted high stock level to the subsidy bill. This further led the government to decide to introduce targeting and to transform the universal PDS into a TPDS.

Though, India ranks among top 10 countries in production of various food crops and commercial crops, the sole importance is given to only few crops like wheat and rice the two essential commodities distributed through PDS. The monopoly of FCI to procure food grains for the government made it an important agency in ensuring food security. The burden on the transport of food grains (most of the movement is done from Andhra Pradesh, Punjab, Haryana and Uttar Pradesh) and storage made the government make huge subsidies on food grains which are meant for the distribution under various government schemes.

Figure 2.1 shows the marked portions -the states Andhra Pradesh, Punjab, Haryana and Uttar Pradesh - from where the government buys and transports the food grains to rest of the country for public distribution system.

Fig 2.1 Showing Surplus Food grain Regions



Source: [www.google.co.in/images?=&india+map](http://www.google.co.in/images?=&india+map)

Food grains procurement is handled primarily through the FCI, in association with the State Governments and their procurement agencies. The FCI co-ordinates its functions through a country-wide network with its Headquarters at New Delhi and five Zonal Offices where it divided the operations along with 23 Regional Offices, one Port Office and having 165 Area /District Offices. The procured food grains are transferred out of surplus states to deficit states for storage and eventual distribution. With an objective of reducing the over-dependence of the State Governments on the FCI for TPDS and for reducing transportation costs by ensuring a availability of locally produced food grains, the Government introduced (1997-98) the Decentralised Procurement (DCP) scheme for food grains. Under this scheme, the States/ UTs, themselves procure food grains and retain the quantity required for TPDS and surrender the rest to FCI for the Central Pool. The subsidy is provided by the Government of India to the State Governments, instead of FCI. (Ministry of Agriculture, 2006)

The NDA government took the initiative to start the Decentralised Procurement Scheme (DPS) to reduce the burden of subsidy given to FCI. It was the then Prime Minister, Mr Atal Bihari Vajpayee's call to State Governments for adopting the system of decentralised, State- level procurement and distribution of food grains which met a lukewarm response. The Prime Minister noted that FCI presently is saddled with over Rs 50,000 crores worth of surplus food grains in its godowns, and the cost of centralised procurement, storage and distribution is 'unacceptably high' and suggested for 'better alternatives'. By saying "As a first step, we propose to restructure the FCI. The Budget has unveiled a new system of decentralised, State-level procurement and distribution, instead of providing subsidised food grains from the Central pool. financial assistance will be provided to those State Governments who enables to procure

and distribute food grains to below poverty line families at subsidised rates," (The Hindu, New Delhi, 2001online edition)

The opposition was from its own allies, the Chief Minister, Mr Parkash Singh Badal of Punjab at the Chief Ministers' Conference on 'WTO Agreement on Agriculture and Food Management' 2001, said that "We are in favor of continuing with the present system of procurement through the Food Corporation of India (FCI) which is functioning smoothly. Therefore the concept of decentralised food procurement and distribution is both impractical and inadvisable," (Bureau, The Hindu, New Delhi, May 21, 2001, online edition)

The views of Mr Badal's found a strong support from the Mr.Chandra Babu Naidu, Chief Minister of Andhra Pradesh, who also termed the decentralised procurement system as being 'flawed' Mr. Naidu said that the MSP of food grains is fixed by the Centre and the procurement responsibility too logically rest with them. He felt that the emphasis today should be more on increasing FCI's efficiency rather on decentralising procurement and distribution operations.

Not only the states who contribute more than 60-70% of food grains to central pool opposed this scheme, but also the states which depend on central pool, Mr. A.K. Antony the then Chief Minister of Kerala noted that the decentralised system of procurement and distribution entailed the deficit states procuring their foodgrain directly from the surplus states. He said that the Centre is avoiding responsibility and passing on the buck. The West Bengal Finance Minister, Dr Asim Dasgupta, too demanded that no decision shall be taken on withdrawing the existing centralised system of procurement and distribution until the High Level Committee on Long-

term Grain Management under Prof Abijit Sen submits its report. Other states, including Orissa and Karnataka, rejected the proposed system on the grounds that they neither had the required financial resources nor infrastructure to procure, store and to distribute food grains on their own. (The Hindu Business online, 22/5/2001)

The performance of PDS in the VIII Five Year Plan period 1992-97 and the two years of IX Plan i.e. 1997-99 was reviewed by audit in between May and September 1999. and the findings were included in Report No. 3 of 2000 of the C&AG of India in March 1999, Union Government (Civil). The main audit findings and action taken by the Ministry are summarized in the Table 2.1

Table: 2.1 Action taken on the audit findings on PDS

<b>Audit Findings</b>	<b>Action taken</b>
1. The procurement was inefficient, leading to high cost.	1.The Decentralized Procurement Scheme was strengthened by inclusion of more states under the scheme to reduce the cost impact of subsidy
2. Impact of subsidy on sugar was large.	2. The distribution of sugar to APL families had been discontinued to reduce the impact
3. The coverage of BPL population was inadequate.	3. With effect from December 2000, the number of BPL families had been increased by shifting the base of the population to the projections of the Registrar General as on 1.3.2000 instead of the earlier population projections of 1995.
4. There was need for increased allocation and off take of PDS commodities in view of larger quantities being procured.	4. (i) The allocation to the BPL families had been doubled from 10 kg to 20 kg per family per month which was further increased to 25 per kg and thereafter to 35 per kg. (ii) To address the needs of the poorest of the poor families in the country, the Government launched Antyodaya Anna Yojana (AAY), which provided 25kg of food grains per family per month at highly subsidized prices of Rs. 2 per kg for wheat and Rs. 3 per kg for rice.
5. Non-assurance of micro level food security as well as nutritional security.	5. The Government had launched the Antyodaya Anna Yojana Scheme targeted towards the poorest of the poorer and needy sections of society.
6. There were undue financial benefits to millers.	6. The old scheme was discontinued.
7. Distribution network of Fair Price Shops suffered from operational deficiencies.	7. The Ministry had forwarded the findings of the report to the State Governments for remedial action.

SOURCE:Ministry of Consumer Affairs, Food and Public Distribution, 2006

Table 2.1 explains the actions taken by the government after the report on Eighth five year plan and first two years of Ninth five year plan. Here we can see that procurement is given priority.

Brinda Karat (2007) commenting on this DPS policy refers to the reports from the various newspapers, stating that a threaten attitude of the Central government spokespersons to some of state governments that the central supplies of the PDS to their states would be cut off if they fail to procure enough wheat from their states for the central pool. She further argues that the central government who initiated the changes in the relevant law as to encourage private procurement agencies and have even asked state governments to follow suit, now resort to this kind of blackmailing it only shows up the utter bankruptcy of the policy itself. In fact the FCI under instructions from the ministry has already started outsourcing its own task of procurement to private companies. She concludes that it is absolutely essential for the central government to reverse these policies and check the trend of low official procurement while protecting farmers' interests.<sup>8</sup>

Vandana Shiva (2002) argues that World Bank and WTO driven policies of the central government are the policies of corporatization of India's food and agriculture system. The dismantling of PDS and the sudden withdrawal of FCI from procurement, without any support to states and without a transition time to create alternatives for food security, is a recipe for corporation control, not 'decentralisation', further criticising the central government that it knows that states are in no position, either in terms of financial resources or in terms of infrastructure to take over food procurement. The central government has not given any interim

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<sup>8</sup>Brinda karat arguing that this policy has involved the private companies to procure for the fci which itself shows the inefficiency in the government policy which is not in interest to protect the farming community

subsidy or time to the states to develop such resources or infrastructure. (Vandana Shiva 2002:468)

Since its operation in 1997 the decentralized procurement scheme, under the scheme the designated state procures, stores and also issue food grains under TPDS as per allotments. The difference between the economic cost of the State Governments and the Central Issue Price is passed on to the State Governments as subsidy. This scheme apart from helping to cover more farmers under the MSP operations had the merit of economizing the transport and administrative costs which involved in procurement and distribution operations. Further, this scheme helps in minimizing the dependence of State Governments on FCI for PDS requirements thus reducing the complaints about quality. As the consuming States they themselves are the custodians of the procured food grains.

However, this scheme evoked a limited response from the State Governments. The total food grains in the initial year the states agencies procured are at only 33 percent of rice and 13 percent wheat. Whereas 58percent of total rice and 80 percent of total wheat was procured by the FCI, presently the State Governments of West Bengal, Madhya Pradesh, Uttar Pradesh, Chhattisgarh, Uttaranchal and Tamil Nadu are implementing this decentralise scheme in a limited way. The other states like Assam, Nagaland and the Union Territory of Andaman & Nicobar Islands have also evinced interest in this scheme.

The State Governments major concerns were broadly related to the financing of operations and reimbursement of expenses and release of subsidy by the Central Government. These major

issues relating to the reimbursement of expenses and release of subsidy have been largely addressed through a process of consultation of the stakeholders concerned. On the request of the States, the issues relating to valuation norms have been taken up with the RBI. The decentralized procurement scheme is ongoing at present, in the states of West Bengal, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Uttarakhand, Gujarat, Orissa, Tamil Nadu, and Union Territory of Andaman & Nicobar Islands, Karnataka and Kerala. There was a record procurement of 10.9 million tonnes of rice under this scheme by these States in Kharif Marketing Season (KMS) 2005-06 (Parikh and Singh, 2007)

## **2.8 Summary**

From the overall literature survey it is observed that the major arguments were on the government initiatives towards welfare policies and right to food approach which is traced back to Bengal famine and the mid 60s foreign aid. The government initiatives to setup organizations for betterment of Indian agriculture to attain food security came through the Green revolution helped the country to attain self sufficiency in food and thereby helped in food security. But many researchers argue that the Green revolution also increased disparities among the states, with poorer states left out. The literature review also discussed the impact of economic reforms on agriculture.

Some of the key arguments of the various scholars reviewed in this section are summarized briefly.

1. Ahmed, Mander, and Hassan want the government to be more efficient in providing basic rights of food and argue for monitoring by Supreme court to ensure food security. They are critical of the food policies and insist better policies would have saved the lives of poor who died of starvation.



2. Patnaik and Mahendra Dev emphasise the rising prices and the government inability to provide enough budget for agriculture. They point to the global increase in oil prices leading to food riots in most countries.
3. Kripashanker, Dohrmann and Qadeer demand a continuation of the PDS, though there is corruption, and distribution to some sections were not fully covered.
4. Shiva, Mooij and Swaminathan emphasise that the impact of liberalisation was much more on the PDS which has to be addressed not by targeting PDS. They also suggest that FCI should not be involved in procurement business; rather it has to be in distribution.
5. Vandana Shiva and Bindra Karat criticise the policy of encouraging private sector in procurement, which the states implemented in a hurry without providing any proper infrastructure and guidelines.

## **CHAPTER -3**

### **PROCUREMENT POLICY OF FOOD GRAINS**

#### **3.1 Introduction**

Government interventions in food grain market in India began in a big way in mid-60s. It meant to create a favorable incentive environment to adoption of new technology based on high yielding varieties of wheat and rice, which possess with vast potential for raising grain production. When facing with a severe shortage of food grains the new technology provided a ray of hope to tackle the problems by adopting the new technology with use of non-conventional inputs and investments by the farmers. This made necessary to create a stable environment for farmers by adopting the new seeds with assurance that the increase in production benefits the consumers. Several measures were taken and initiated to achieve the twin objective of raising food production and improving the food availability. These measures include:

- By giving price assurance to producers under the system of Minimum Support Price implemented through obligatory procurement.
- There should be a Inter and intra-year price stability through open market operations and
- Maintaining of buffer stocks, and Distribution of the food grains at reasonable prices through public distribution system (PDS)

Prices of agricultural commodities are important from the policy angle because agricultural development is one of the important goals for developing countries. Agricultural commodities are all land based in a more intimate sense than other commodities. Production in agriculture is subject to vagaries of climate. Since production is biological in nature, output in agriculture is generally seasonal. Because of given production jags, and biological nature of production,

producers cannot control or shift production quickly when an increase or decrease in demand occurs. Under natural conditions in a poor economy instability would imply uncertainty regarding production and prices.

Procurement of food grains from the farmers or from intermediaries such as traders and millers were taken up either under the support price obligations or either to meet the requirements of the PDS. Most of the procurement operations until mid-1960s were for the PDS requirements, and this was not vigorously followed up when food grains were available through the PL-480 imports. (George, 1996)

Prior to initiating economic liberalization policies in 1991, the central and state governments in India intervened at almost every state of marketing of major agricultural commodities. Minimum support prices were announced for 21 commodities and every activity of marketing such as transportation, storage, credit supply, and international trading of all these as well as other commodities were regulated. The process of withdrawal of government intervention though initiated along with the liberalization of the economy, accelerated with the implementation of the Agreement on Agriculture under the World Trade Organization (WTO). As a result prices of agricultural commodities are determined increasingly by market forces and therefore fluctuating demand and supply of agricultural commodities is expected to result in high price risk for agribusiness. To help manage price risks, the central government has been encouraging revival of futures trading. (Naik, 2002)

### **3.2 History of procurement policy**

Till World War II most of the countries of Asian continent were under the British, Dutch, American or Japanese colonial regimes. There is no denying the fact that the conditions created

under colonial regimes greatly influenced the subsequent patterns of land utilization. This can be explained in terms of broad cropping systems which have evolved over a long period of colonial regime. Four types of cropping systems prevalent in Asia are: a) paddy cultivation, b) cultivation of plantation crops, c) dry farming, and d) shifting cultivation.

In the Asian context in the period following World War II, two things were noted:

- There had been a shrinkage in the international demand for the products which Asian countries were exporting, and
- A rapid increase in the population in conjunction with a slow rise in agricultural production had reduced the capacity to exports food stuffs while heightening the need to import them, which resulted in most of the Asian countries becoming food deficit.

The provision of food security to its citizens is the aim of most countries of the Third world. Modern science and technology have effectively proved the fallacy of the Malthusian specter of famine, since rise in food grains production in the world as a whole has by far exceeded the rate of population growth. Yet, enhancing food grain supplies even to the level of minimum requirement remains a dream for many developing countries. (Tyagi, 1990)

### **3.3 Indian Context**

The history of procurement policy is not a new one if we go through the pages of Indian agricultural history. The most important reason was the Bengal famine after which the new frame work for the procurement of food grains took a new phase in India during and after the British regime. During the reign of Murshid Kuli Khan (1704-1727) rice price was about 200 kg for a rupee. The Nawab used to exert himself to keep the food prices low by not allowing the rich

to hoard food grains. After winning the Battle of Plassey in 1757, the British East India Company gained control of the trade in the country. The Diwani (tax collection) was entrusted to the company by the Nawab in 1765. The situation of Famine and scarcity began in 1768 to 1789, where the country was never entirely free from scarcities or famines, either regionally or nationally. This situation saw a rise in prices for rice which increased to 10-15 kg for a rupee. During the first half of the nineteenth century (1800-1858) under the administration of the East India Company, the price of rice generally remained in the range of 40-50 kg for a rupee. After the Sepoy Revolt of 1858, the British government took control of a greater part of sub continent and the whole of Bengal which includes the present Bangladesh under its jurisdiction. During 1858-1900, common varieties of rice, except in famine years, generally remained available at 25-30 kg for a rupee<sup>1</sup>.

During 1901 to 1940, the rice price remained in the range of 10-12 kg for a rupee except in 1914-1929, where it got doubled. The Great Bengal Famine of 1943, this period price of rice soared to half kg or less for a rupee, whereas in some areas it was available at 1.75 kg for a rupee. About 2.5 million people died due to starvation in spite of the regular source of supply of rice were from Burma and the wheat and wheat based products from western areas. The undivided Bengal in the 1930s had a demand of estimated 7.5 million tons of rice and wheat and had to import about 0.5 million tons, half in wheat and half in rice, through private traders. The food situation in Bengal began to deteriorate by occupation of Rangoon by the Japanese forces in 1942; the rapidly advancing hostile forces put food grains markets into double jeopardy. The rice supplies

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<sup>1</sup>Murshid kuli khan, he was the first Nawab of Bengal, in fact the first independent ruler of Bengal after Aurangzeb. It is noted that during his rule rice was sold at five maunds per rupee, which makes a man who is making a rupee a month can have two full meals for his family with “pulao” and “kalia” the Bengali delicacy of rice and river fish delicacy ([http://en.wikipedia.org/wiki/Murshid\\_Quli\\_Khan](http://en.wikipedia.org/wiki/Murshid_Quli_Khan))

were cut off from Burma which was a major traditional exporter to Bengal. The great cyclone struck in west Bengal coast near Midnapur, the flooding caused extensive damage to the crops. The air raids by Japanese forces on Calcutta (Kolkata) spread terror thus halting the city's rice trade, by which the prices doubled and it quadrupled by May 1943, creating a massive failure of purchasing power and culminating in the great Bengal famine of 1943. British India redoubled its efforts to control wartime food grains distribution, it established a central food department in 1942 and issued a food grains control order by instructing provinces to prohibit the export of food grains except under permit. (Ahmed, Haggblade, Chowdhury 2000)

Food officials in Bengal focused only on two objectives first; by denying the rice to advancing Japanese troops by purchasing and removing stocks from border districts by removing boats from coastal areas. This move seriously impeded internal food grains movements within the province. Secondly, Statutory Rationing System popularly known as SR system, under the Bengal civil supplies department constituted in October 1943 by which regular supply of food grains was ensured to defense personals, special priority groups, employees of large establishments, staff of local government authorities and the urban people. Under this system specialised ration shops were opened and ration cards were issued to the residents of notified areas.<sup>2</sup>

The Food grains Policy Committee of 1943 provided a policy frame work for the Indian food economy. The famine enquiry commission (GOI, 1945) endorsed the recommendations of the food grains policy committee and suggested an appropriate food policy for the immediate post

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<sup>2</sup> History of Public Food Interventions in Bangladesh (ed) Raisuddin Ahmed, Steven Haggblade and Tawfiq-e- Elahi Chowdhury. P 121-122

war years during 1948, and for a second time in 1954. Government tried the policy of decontrol which lasted for a few months in 1948 and later it lasted for two years in 1954. Since then, the government intervention more or less continued with varying intensity depending upon the supply and price situation of food grains. In its most intensive form the intervention included procurement of food grains, distribution through statutory or informal rationing, movement restrictions, wholesale and retail price controls etc.(Rao 1991:45)

India was not self sufficient in cereals though a small quantity of wheat was exported, large quantities of rice were imported for the year 1941-42 the deficit was estimated to be two million tonnes of rice and four lakh tonnes of wheat. Imports of rice from Burma were cut off so long as Burma rice was available prices remained stable at reasonable level. Provinces like Punjab, Sind, central Orissa and Assam were surplus provinces either in wheat/rice or coarse cereals, North-West Frontiers Provinces (NWFP) and Bihar were slightly deficit provinces but experienced no shortages during those years. Many of these provinces has exportable surplus.

Deficit provinces had an overall deficit of only 50,000 tonnes though heavily deficit in rice to the extent of 174,000 tonnes, production was satisfactory during 1942-43. Madras was a deficit province to the extent of 496,000 tonnes and the state of Travancore and Cochin to the extent of 430,000 tonnes. Bombay a deficit province suffered from drought in certain parts of the province like Bijapur, Bengal was deficit to the extent of 430,000 tonnes. Population affected by drought and scarcity was estimated at 150,000 in Bijapur districts and 500,000 in other districts of Bombay. Nearly 400,000 people in ceded districts of Madras province suffered due to drought. ( Rao 1991:47)

Many of these deficit provinces were successful in averting famine conditions and did not suffer any exceptional mortality. But in case of Bengal and parts of Orissa it failed to avert famine and starvation deaths. The famine enquiry commission 1945 estimated the death toll during 1943 in Bengal at 1.5 million people. The question that arises in this context is to what extent shortage of food grains estimated at less than half a million tonnes could explain a death toll of 1.5 million people. Under similar circumstances other deficit states like Madras and Bombay successfully tackled the famine like conditions, which shows the failure of Bengal administration to meet the conditions arising out of marginal shortfall in supply. This was instructive to India's food grain policy in the subsequent years.

As the Famine enquiry commission observed "the atmosphere of fear and greed, which in the absence of controls was one of the causes of the rapid rise in the price level. Enormous profits were made out of this calamity and in the circumstances profits for some meant death for others. A large part of the community level in plenty while others starved"<sup>3</sup>. (Rao 1991:50)

The Government of India's failure to follow a consistent policy with emphasis on inequitable distribution and lack of coordination in food policies pursued by different provinces were responsible for the circumstances leading to Bengal famine. The government of India food grains policy was initiated with the Price Control Conference in 1939, which in 1940 concluded that the control of primary wholesale prices and the regulation of primary wholesale markets should rest in provinces governments.

In 1941, the central government gave the provinces concurrent powers, under defence of India rules, to exercise the power of prohibition of movement and requisitioning of food grains.

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<sup>3</sup> Referring to the report of Famine Enquiry Commission 1945, page no 63



However, there was no price control on rice whereas a wholesale price was fixed for wheat. It is noticed that the surplus provinces refused to abandon food grains or showed interest to share with the deficit provinces. This compelled the central government to come up with uniform price control mechanism for food grains<sup>4</sup>. (Rao 1991 :56)

In Sixth Price Control Conference held in September 1942, a scheme of centralized purchase by a single agency emerged to meet both civilian and defence commitments. By this scheme government realised that food grains price control must be accompanied by control over supplies and distribution.

The Food Department was set up in December 1942 and entrusted with the responsibility of regulating prices, procurement, movement and distribution of food grains on a centralised basis. This department also attempted to assess the 'surplus' and 'deficits' of the provinces and the princely states. To overcome the soaring prices due to shortages arising out of the hoarding and speculation, the government under this circumstances, unilaterally fixed the 'target figures' for procurement from the surplus pockets to meet the needs of deficit ones. This provided the background of the 'Basic Plan' in the food economy of India. (Mishra 1985:47)

Basic plan came into operation in April 1943. This plan was drawn up on the annual basis in two stages corresponding to the two chief harvests Kharif and Rabi. For each of these crops, every State provided the Central Government with returns of supply and demand and the extent of their surplus or deficit, the government after compelling the returns worked out the balance sheet and made allocations of the surplus to the deficit pockets according to the ascertained needs. Thus the basic plan was the chief instrument by which the government tried to maintain a balance between

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<sup>4</sup> Referring to Sir Henry Knight's(1954) Food Administration in India 1939-47 p.49

the supply and demand for food grains in the country as a whole.

But the grave food situation of 1943, called for a departure from the Basic Plan and Government of India introduced 'Modified Free Trade' policy in food grains under which the Regional Food Commissioner issued licenses to the private traders. This policy was first implemented in the eastern region as it was hoped that it would bring out the hidden supplies of region, but it met with serious difficulties. The traders of Bengal nearly captured the whole of the supplies of Bihar, Orissa and Assam leading to further hoarding, speculation and rising prices. The Famine Enquiry Commission 1943 reported "the decision to introduce Free Trade in the Eastern Region was a mistake. It could only result, not in the solution of food problem in Bengal, but in the creation of similar conditions in other areas of the Eastern Region."<sup>5</sup>(Mishra 1985:48)

After considerable deliberations at the two consecutive food conferences held in December, 1942 and February, 1943 it was realised that procurement of food grains both for the army and civilians should be undertaken by a single agency at the provincial level. The Food Grains Policy Committee of 1943 also suggested the creation of a single procurement agency to procure the entire marketable surplus in a province and then make necessary arrangements for the equitable distribution. Accordingly, each provincial government was to operate its own procurement plan.

During the war period, the mode of procurement widely differed in different parts of India and no single and uniform procurement scheme was evolved for the country as a whole to command over the supplies. On the other hand, procurement schemes in different provinces were geared in the light of local conditions. As a matter of fact, in the southern provinces of India, monopoly procurement proved to be successful and these provinces include Madras, Cochin, Mysore and

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<sup>5</sup> Referring to the report of Famine Enquiry Commission 1943, p.93 by Mishra p.48

Travancore. In some other provinces like Bombay, Orissa and Bengal the procurement system approximated monopoly purchase models because all sales of food grains by the producers had to be made to the government agents or sub agents. But in other provinces where there was no monopoly procurement, barring the two surplus provinces of Punjab and Sind, the food situation was not satisfactory. It was, therefore realised that monopoly procurement has to be adopted by all the provinces in India. (Mishra, 1985: 60)

Monopoly procurement drive was considered at the fifth All India Food Conference held in January, 1945 where in it was suggested that the system should be in direction of acquiring grains by the government offered for sale voluntarily and in those areas where it deemed advisable, it was to be extended by compulsory levy and requisitioning. As regards the agency of procurement, the trend was in favor of one single official agency to undertake procurement drive. But though it was the responsibility of the provincial government, the central government had to exercise general control and supervision so that the procurement operation would not suffer on any account. In order to speed up the procurement drive the central government requisitioned the stocks with the surplus growers with the help of provincial governments.

### **3.4 Types of requisitioning**

Three types of requisitioning were made operative for the procurement drive during the war period:

- a. Compulsory requisitioning,
- b. Partial requisitioning; and
- c. Occasional requisitioning.

**3.4.1 Compulsory requisitioning:** This type of requisition was largely regulated in southern provinces wherein the growers would not get the opportunity to hold back the grains after their needs were met and the surplus grains were requisitioned by the government. This system of monopoly procurement did not brought any success because of the ill-equipped administrative machinery.

**3.4.2 Partial requisitioning:** Under this system, a part of the marketable surplus either from the entire provincial area or from the selected pockets of it was requisitioned. This type of requisition was first introduced by the government of Bombay in 1944 in some districts. Later it was followed by Madras and Central province and Travancore governments. This type of system too met with failure.

**3.4.3 Occasional requisitioning:** This system of requisitioning was resorted to against the farmer who refused to part with the surplus to the monopoly procurement machinery of the provincial government. It created fear among the small farmers who had very little or no surplus after meeting their normal need.

With the failure of the requisitioning system, the government at the war period adopted the levy system of procurement for the purpose of greater procurement. This producer's levy is of three types: a) levy per acre; b) proportional levy; and c) the graded producers levy. These schemes of levy in the absence of the adequate yield data were haphazardly operated and there were large scale evasions. Moreover due to the frequent changes in the levy rates it made policies very uncertain. Thus the scheme designed for requisitioning of stocks for greater procurement drive did not bring the desired results. (Mishra, 1985: 61-63)

The Government of India in the post-war period attempted to encourage production of food grains so that there can be marketable surplus by which the supply situation would improve but it did not improve. This led to change in official food policy from increased production and procurement to increased imports of food grains during the mid fifties. The Food grains Enquiry Committee observed: *imports has certain advantage over procurement. All the imported grain comes into the hands of the authorities and the entire amount is available for distribution. On the other hand, procurement can only be a function of production.*<sup>6</sup>(Mishra, 1985: 157)

It is observed that in post-independence period there was no pressure from the producers for the procurement of food grains. This served as a turning point in our food policy by obtaining food grains thorough imports under PL-480. The purpose of any food policy should be an equitable distribution of available supplies at reasonable prices. This involves procurement from producers for both marketed and marketable surplus. The amount of procurement of food grains has to be adequate to meet the commitment for running of public distribution system.

The procurement is also advocated on grounds of implementing the price support programmes, as there is a large section of producers in India comprising of small and marginal farmers who sell their marketed surplus just after the harvest to meet their cash needs. In absence of effective procurement machinery they hardly get a remunerative price. It is also observed that even in many non-socialist countries such as Australia, Canada, Japan and Italy there is a social control on principal food grains by means of procurement and public distribution systems. (Mishra, 1985: 158)

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<sup>6</sup> Referring to Report of Food grains Enquiry Committee, 1957 p.93

### **3.5 Methods of procurement**

For purpose of procurement the government may adopt any one of the combination of the following methods:

1. Open market purchase
2. Pre-emption purchase
3. Monopoly procurement and
4. Levy system

#### **3.5.1 Open market purchase**

This is the simplest and easiest method of procurement. The government enters into the market either directly or through agents appointed by it as buyers in competition with the traders and makes procurement at the going market price. By this open market purchase the government enters the market as a big buyer which leads to the price competition among the other buyers in the market and there are fluctuations in the price.

But this method of procurement was criticised by the Food grains Policy Committee in 1966. It ruled that this method of procurement at freely competitive prices will not fulfill the purpose of holding buffer stocks or for public distribution system. The committee observed that “government purchase prices are likely to turn out to be so high that neither the objective of holding the price nor that of equitable distribution to all, including the low income group, can be expected to achieved”<sup>7</sup>(Mishra, 1985: 159) This method of procurement is more suited to implement the price support when the market prices of food grains start falling on account of the supply glut and the public policy is to prevent such a fall below a certain minimum.

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<sup>7</sup> Referring to Food grains Policy Committee report of 1966

### **3.5.2 Pre-emption method**

This method involves the procurement of food grains at the ongoing market price without the government entering into the competitive bidding. Under this method the price is determined through the normal market process and the government reserves the right of pre-emption to lift any stock at the prevailing price. Since the government does not enter into competitive bidding it does not push up the price.

This method of procurement was appropriate to wheat and cereals in which the market was regulated with possibilities of sale by auction and not applicable to rice in which the procurement is to be made from the producers as well as from the millers. The report of Agricultural Prices Commission on the price policy for Kharif cereals 1965-66 pointed that “ the method of pre-emptive purchase under which the government pays the price determined in the market, but has a pre-emptive right of first deliver, is more appropriate to the purchase of wheat than to the purchase of rice because of the difference in systems of market”.<sup>8</sup>(Mishra, 1985: 160) This method is successful in Punjab and Haryana where wheat is procured but not for the rice growing states like Orissa, West Bengal, etc.

### **3.5.3 Monopoly procurement**

This method of procurement was first recommended by the Food Grains Policy Committee of 1950. In this method the government is the sole agent for the buying, which involves a complete socialisation of interstate trade along with imposition of restrictions on movement of food grains. This type of procurement implies that each farmer is to be assessed for his production, consumption and outlay in kind for farming and finally for the surplus which he would sell to the government at the fixed price. This rigorous method is possible under conditions of universal procurement and rationing of the entire population along with a ban on private trade channels

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<sup>8</sup> Referring to report of Agriculture Prices Commission on the price policy for kharif cereal, 1965-66 season :Note of Dissent, Govt of India by RajKrishna

and restrictions on movements of food grains even beyond the village boundary. The controls on this method were not possible because of the fact that a large number of producers in our country are not only small and marginal farmers but also widely scattered.

Despite the fact that monopoly procurement enables the government to control the market and the prices of food grains, the system suffers from many drawbacks. At the outset there is a problem of fixing the appropriate price. Even if the monopoly procurement is made at a fairly high price, it gives rise to a strong feeling of grievance amongst the farmers that they would have sold their produce in the market. This method of procurement leads to black marketing of food grains for the fairer price, besides that it involves heavy administrative costs and the risk of petty corruption. (Mishra, 1985: 160-161)

### **3.6 Levy System**

This is one of the most efficient and important method of procurement under the state government which imposes levy on producers, millers and traders. By this method there is enforcing of levy which is very important for the public distribution system and to increase procurement.

Food Grains Policy Committee of 1966 pointed out that “it is necessary that there should be a realization throughout the country that procurement is an essential feature of food policy. It is also necessary that in the long run, system should be developed which, while suitable to each state, ensure that as much as feasible is procured from all states (See Table 3.1). We recommend that, as an important part of the national food policy, each state surplus or deficit should introduce the minimum graded levy on the producer in respect of all food grains.”<sup>9</sup> (Mishra, 1985: 162)

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<sup>9</sup> Referring to Humphry Don, “The Price of Food”. Reading Agriculture Development , 1968



The Food Policy Committee suggested an interventionist government policy in food grain markets, which started in the form of administrative controls and monopoly procurement schemes for public distribution. Now it encompasses a wide array of restrictive tools, under the premise of private trade which function efficiently in normal periods but not much efficiently in droughts and crop failure. Otherwise the profits motive would lead to hoard supplies and earn abnormal profits. Decontrol and re-control policy was followed by the Indian government for agricultural markets.

Table: 3.1 Quantum of Levy rice from the millers in different states in India

State	Category	Quantum of levy
Andhra Pradesh	Millers	50%
Assam	Millers	50%
<b>Bihar</b>	<b>Millers</b>	40% or 2500 Qtls 25% or 500 Qtls on whole sellers
Gujarat	Millers	10%
Haryana	Millers	75%
Himachal Pradesh	Millers	50%
Karnataka	Millers	33.33%
Madhya Pradesh	Millers	30% Raw rice
Maharashtra	Millers	30%
Orissa	Millers	75%
Punjab	Millers	75%
Rajasthan	Millers	50%
Tamil Nadu	Millers	50%
Uttar Pradesh	Millers	60% western U.P 40% eastern U.P
West Bengal	Millers	50%
Chandigarh	Millers	75%
Delhi	Millers	75%
Pondicherry	Millers	10% (20% transport levy)

Source: [www.fcamin.nic.in](http://www.fcamin.nic.in)

### 3.7 The Essential Commodities Act of 1955

Intention of helping the poor, the Government of India has promulgated the Essential Commodities Act (ECA) to control and regulate production, manufacture and the distribution of essential commodities in the country in 1955. Essential Commodities Act is “*An Act to provide in the interest of the general public, for the control of the production, supply and distribution of,*

*and trade and commerce, in certain commodities”<sup>10</sup>*. By this act the central government gives the power to states to control its own markets. Lists of essential commodities are specified in the act which can be introducing control orders from time to time in the situation of short supply. The list as of now is for 30 items, further it is an enabling act that allows the state governments to frame rules under this central act. Though Act itself does not lay the rules and regulations of the policy but it allows the states to issue orders in case of malpractices like hoarding and black marketing. The state authorities can invoke this act at any given point of time which provides a potential threat to trade in agricultural commodities. Besides being a potential this act has various administrative problems in terms of implementation. The punishments (in case of failure to abide by the act) under the act, various orders with respect to food grains have been made by the Central and State governments. These are:

1. Issuing of the Licensing of dealers/retailers to trade in food grains
2. Restrictions on movement of food grains
3. Regulations of storage limits
4. Regime of Control-quota (compulsory sale to the government)

### **3.8 Formation of Procurement Agencies**

In 1959, Dr. Frank W. Parker wrote a note entitled “Essentials of an Agricultural Production Programme”, for Ajit Prasad Jain, Minister,, Food and Agriculture of Government of India. In his note he emphasized that to conquer food scarcity agriculture must become a commercial enterprise and incentive prices must be given to the growers.

In the note Dr. Parker pointed out that the development process in most of the countries agriculture become a commercial enterprise. It found that in those countries they have successfully met the requirements for their economic and industrial development of their

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<sup>10</sup> Referred by Mayank Wadhwa , Research Internship Papers 2001 on Parking Space for the Poor: Restrictions Imposed on Marketing & Movement of Agricultural Goods in India, Centre for Civil Society[www.ccs.org](http://www.ccs.org)

country. This note made the following observations that the government should consider agricultural production a business or commercial enterprise that is operated for a profit and to develop policies and programmes to make the enterprise more profitable. In India the cultivator has not enjoyed such incentives in the past. There have been large fluctuations in the prices of major crops from year to year and from season to season.

These variations were much greater than the variations in prices of labour, industrial products and other things that the cultivator must buy, unless this situation is corrected by governmental action there will not be a favorable climate for the adoption of the technological changes required for increased agricultural production.

A support price, at a local market, can remove much of the uncertainty the cultivator now, has by protecting him from very low prices that are commonly associated with harvest time and large crops. It should be high enough to encourage investment in good seed, fertilizers and other things required for technological change. The support price, on the other hand must not be enough to work a hardship on the labour and other urban consumers.

The more efficient and increased production promoted by price supports should give a profit to the cultivator and protect consumers from recurring shortages and high prices. The consumer may be further protected by ceiling prices. This is by establishing minimum or support prices for all major crops at least one year before harvest.

Minister for Food and Agriculture, C.Subramanian in 1964, took a bold and resolute stand and got the policy of incentive price for the growers accepted by the government of India. Apart from this, he constituted an Agricultural Prices Commission. To make purchases of food grains by the government, he also founded the Food Corporation of India. (Randhawa, 1986: 222-227)

### **3.9 Committees for Procurement Policies**

Dependence on food grains imports increased from period 1946-50 2.7million tonnes, to 3.8 million tonnes in 1949. By 1950 it was realized that procurement and production have to be organized more effectively and pursued as matters of highest priority. Soon, it was followed by appointment of the Food Grains Procurement Committee under the chairmanship of Tirumala Rao, Member of Parliament. (Rao 1991:67)

The committee was asked to:

- Enquire into the system of procurement and distribution adopted in the states,
- Recommend such changes as may be necessary in the existing system of procurement and distribution to minimize imports in the case of deficit states and maximize exports in the scale of surplus states and to reduce the difference between the prices in the market and the prescribed control price,
- Recommend such modifications as may be necessary in the food organization of the state to ensure efficient procurement and distribution,
- Recommend the extent, to which uniformity is desirable and practicable with reference to the circumstances prevailing in different areas,
- Recommend any changes necessary in the central government's organization to supervise and coordinate procurement and distribution in the state.

Reviewing the existing system at that time the committee pointed out the confusion, even a contradiction in the objectives of food grains policy, without a definition of priorities or absorption of these into a single system. Some of the contradictions pointed out by the committee were:

- Controlled food grains prices and uncontrolled prices of other crops,

- Attempt to reduce imports being determined largely by financial and not supply considerations,
- Government endeavouring to stabilize food prices simultaneous with permitting open market prices to find their own level resulted in wide divergence between procurement price and market price even within a state,
- Government permitting open market sales of food grains in rationed areas that make the task of procurement difficult. This in turn meant difficulty in enforcing controlled price and thus reduced commitment,
- Rationing and FPS were considered interchangeable.( Rao 1991 :68)

The result is that each state finds its own answer to this fundamental distribution problem. Control and decontrol flourish simultaneously in several states and even in different parts or at different seasons, in the same state. The result of this confusion on objectives was that the food administration failed to comprehend wholly what it wanted to achieve.

The committee rejected the dual price policy and recommended monopoly procurement at the first point of marketing the village to eliminate leakages, statutory rationing of all urban areas with population of above 50,000, the informal rationing of other urban areas and provisioning on a rough system of distribution, in deficit rural areas if and when necessary.

The period of 1951-54 was most appropriate to try out the policy of monopoly procurement and rationing of all urban areas in view of stable price level and good harvests. However, no such policy was pursued further. Instead, the prices were increased on financial considerations, adversely affecting the off take from fair price shops. As prices continued to decline and the crop prospects of 1953 improved, grain was completely decontrolled with effect from Jan 1954. Procurement of food grains was undertaken as a limited price support operation, imports were curtailed embargo on exports was lifted, interstate movements were freed and statutory rationing

was given up by the end of 1954. This was a complete reversal of food grains procurement committee recommendations.

By the end of 1955 food grains prices started rising again, some immediate measures like credit restrictions against food grains opening more fair price shops, entering into long term agreements for importing grain, releases from government stocks etc., were taken during 1956. As the situation worsened in spite of a good harvest in 1956-57, another Food grains Enquiry Committee (GOI, 1957) was constituted under the chairmanship of Asoka Mehta to review the food situation.

After reviewing the overall situation the Committee concluded that the basic weakness is the absence of a well defined and coordinated policy or price stabilization. The weak mechanism of implementation can be attributed to the government's preoccupation with current issues to the comparative neglect of long term considerations or to the interaction of different policies pursued. Some of the major recommendations made by the committee were:

- Progressive and planned socialization of wholesale trade,
- Price stabilization and suitable machinery to implement the policy,
- Establishment of food grains stabilization organization.
- Controls over traders through licensing.
- Maintenance of reserve stocks
- Arrange regular imports of certain specified quantities of rice and wheat
- Distribution through fair price shops and local relief works in the short run, etc.,

As the immediate pressure of price rise eased, the recommendations of the food grains enquiry committee were shelved. (Rao 1991:69)

Between 1957 and 1964 a less vigorous system of procurement and price controls was adopted. There was little concern or inner compulsion either to produce more or to procure more as imports have been used to control the situation turning from bad to worse. Between 1957 and 1965, the annual average imports were 4.6 million tonnes, the highest being 7.2 million tonnes in 1965 and the lowest 3.2 million tonnes in 1958. Internal procurement of rice was confined to surplus states. Wheat movement restrictions and price control orders were relaxed or rescinded.

By the middle of 1964, the price situation caused concern to the government. A number of measures were taken by the government that included re imposition of movement restrictions. As the situation became grave, anti-hoarding and austerity measures were introduced. Even profit margins of wholesalers and retailers were fixed by government under the Defence of India Rules.

Another Committee was appointed in 1964-65, the Jha committee. It recommended the need to control the food grain prices and distribution through coordinated food policy at national level, zonal or interstate movement restrictions, regulation and licensing of wholesale trade and strengthening of administrative machinery in the states. The Committee immediately recommended an increase of 15 percent in the procurement prices, and in October 1964 an announcement was made that for the next crop season a 15% increase would be given. It was an ad-hoc decision all the way.

There was a suggestion that an incentive study should be made of the price structure of the agricultural sector, and in this context the Agricultural prices commission was set up in 1965. It started with wheat and rice, later on examined coarse grains and then other commodities, such as sugarcane, cotton and oilseeds. The prices of food grains are annually reviewed by the

government of India.(Randhawa, 1986)

The main objectives of this commission were:

- To advice government on the price policy of agricultural commodities with a view to evolving a balanced and integrated price structure in the perspective of the overall needs of the economy and with due regard to the interests of the producers and consumers.
- To recommend the measures taken necessary to make the price policy effective in respect of different agricultural commodities from time to time.
- To examine the cost of marketing of the agricultural commodities in different regions and suggest measures to reduce marketing costs and recommend farer margins for different functionaries at different stages of marketing,
- To keep reviewing under the developing price situation and to make appropriate price recommendations within the framework of the price policy,
- To keep under reviewing studies related to price policy and the arrangements for collection of data regarding agricultural prices and other related issues and suggest improvements in them, and
- To advise the government on problems relating to agricultural prices and production referred to them by the government from time to time.

The commission has been helping the government in evolution of stable and positive price policy for agricultural commodities. The terms of reference of the commission were made on broad based in 1980 with a change in its name to Commission for Agricultural Costs and Prices (CACP)

The revised terms of reference of CACP were:

- To advise the government on the price policy of the selected agricultural



commodities from time to time with a view to evolving a balanced and integrated price structure in the perspective of overall needs of the economy and with due regard to the interests of producers and consumers;

- To keep a view the needs to provide an incentives to the producers for adoption of improved technology, need to insure rational utilisation of different production resources and examine the effect of the price policy o the rest of the economy particularly on cost of living, level of wages and industrial cost structure while recommending the price policy and the relative price structure;
- To also recommend non price measures as it would facilitate the objectives set out;
- To suggest and to measure necessary to make the price policy effective in respect of different agricultural commodities;
- To take into account the changes in terms of trade between agricultural and non agricultural sectors;
- To examine the cost of marketing of different agricultural commodities in different regions and suggest the measures to reduce the cost of marketing and to recommend fair price margins for different stages of marketing;
- To keep under review the developing price situation and make appropriate recommendations within the frame work of overall price policy;
- To undertake studies in respect of different crops as prescribed by the government;
- To review studies relating to the price policy and make arrangements for collection of price information and other related date, suggest improvements in them and organise research studies in the field of price policy; and
- To advise on any problem relating to agricultural prices production referred to it by the government from time to time.

CACP has been recommending both price and non-price measures. The central government after considering the report from CACP and the views of the state governments, and by keeping in view the demand and supply situation of the commodity in the country, it take decision on the level of administered prices and other non-price measures.(Randhawa,1986)

### **3.10 Summary**

India in pre and post independence period has struggled to provide food security to its citizens. The food grains shortage and its results have caused irreparable damage to the country's food security. The Green Revolution, which made the country self sufficient in food grains production, is lagging behind to achieve food security. To overcome these problems the government initiated many programmes and schemes for providing the food to its masses. It has set up certain institutions and boards which are in function today and catering to the needs of the farmers by helping them in production and procurement as well as distribution of food grains through its institutions. Even now the government is planning to improve the procurement process by initiating the new decentralised procurement scheme by which the food grains are directly procured from the farmers on minimum support price fixed by the government and its agencies. This chapter traces the history of procurement policy from the colonial times and draws attention to the politics that govern these policies.

## **CHAPTER -4**

### **INSTITUTIONAL PROCUREMENT AGENCIES**

#### **4.1 Introduction**

Marketing is the last link in the chain of production process. An efficient marketing system which ensures reasonable return to the producers is an essential boost for production. Agriculture, in the pre-independence period was stagnant and there was hardly any marketable surplus, the system of marketing was very defective and did not draw much attention to the policy makers. Post independence period particularly after the green revolution, agricultural marketing has become a concern for the policy planners due to increase in agricultural productivity.

Marketing systems of India vary: we find a traditional system where the sale of produce to moneylenders and village traders, another system is the sale of produce in the *Hats* and *Mandies*. (*Hats* are village markets held once or twice a week and serve a small cluster of villages. *Mandies* are village markets held longer intervals on special occasions). Another component of the marketing system is the widespread network of regulated wholesale markets; these markets are generally located near or in a township and serve a number of surrounding villages. Farmers sell their produce to the commission agents with the help of brokers. It is well known fact that various types of malpractices exist in these markets.

Involvement of government agencies with the marketing of agricultural produce is a welcome development. Co-operative societies and government agencies have helped the farmers escape the exploitative practices of the private dealers. (Prasad 2006)Public sector organisations,

cooperatives and other formal and informal bodies were created for the marketing system of agricultural commodities.

The partition of the sub-continent caused a net loss of 7-8 lakh tons in the annual supply of food grains to Indian union with the surplus areas of Punjab and Sind which ordinarily supply 1 to 1.2 million tons every year to the areas now in Pakistan. By partition, India got 85 per cent of the total population of the sub-continent and 75 per cent of the cereal production. The disadvantage was greater in the matter of supply of the two principal food grains, rice and wheat. As against 82 percent of the total population, the Indian union got 65 per cent of the total output in wheat and 68 per cent in rice. (Bhatia 1970)

The objective of price policy in a country is defined by the nature of problems that the country is facing; agricultural problem in a developed country is different from that in an under-developed country. In a developed country the chief concern of price policy is to prevent a drastic fall in agricultural incomes resulting from surplus production and decline in prices. This is usually achieved through a policy of price support and price stabilization; here the state fixes the minimum prices and undertakes to purchase agricultural produce from the farmer at those prices. This guarantees not only a certain minimum price fixed, it would not allow a fall in price and also ensures a certain amount of stability in agricultural incomes. The farmers were protected by this action against losses resulting from increase in agricultural production and supply.

In developing countries, inflation is the chief cause of concern for the government prices. Governments, under these conditions, are forced to resort to price controls in an attempt to keep

down prices of food grains and essential consumer goods. If the policy succeeds in keeping down prices of food when prices of industrial goods and raw materials are rising, production of food grains is adversely affected. Not only is the farmer discouraged in making investments for better quality seeds, fertilizers, pesticides and irrigation for production of larger quantities of food grains but he is also likely to substitute with crops which pays well. Crop prices which are not controlled become the crux of the price problem which is faced by most of the undeveloped countries today. (If an unbridled rise in food prices is allowed, consumers are hit hard which in turn causes widespread dissatisfaction and agitation, if food prices are kept unduly low by controls, production shrinks which forces increasing dependence on imports of food grains from abroad. This is the dilemma the policy makers in India have found themselves in last decades) (Bhatia 1970:: 105-107)

#### **4.2 Food grain Procurement Agencies and Agricultural Marketing Organisations in India**

The food department of the government of India was set up in December 1942, with the object of integrating all activities in regard to the purchase, distribution and movement of food grains on an all India basis. In 1943 the Foodgrains Policy Committee recommended the imposition of statutory price control on principal food grains, introduction of rationing in cities and towns with a population of more than 75,000, procurement by the provincial governments of the surplus food grains from producers for meeting the rationing commitment and import from abroad on emergency basis to meet immediate deficits and to build up central reserves. These recommendations were accepted and a comprehensive system of food controls was introduced in the country. (Bhatia 1970::119)

This system worked fairly well during the war days but with the end of the hostilities there was a general expectation that controls would be lifted and normal conditions for free trade in food grains restored. This popular sentiment with the powerful support of Mahatma Gandhi, led to the adoption of a policy of gradual decontrol of food grains in December 1947, this policy caused an immediate rise in food prices. The floods and droughts in 1948 further caused deterioration in the overall food situation the country. This situation made the government to re-introduce the controls on food prices. The revised Food Policy announced on 24<sup>th</sup> September, 1948 envisaged

- The cordoning of surplus, deficit, and self-sufficient areas by prohibiting exports from one state to another except on government to government basis;
- Procuring surplus grains by an agency appointed by the state government at the prices approved by the central government;
- Licensing of dealers for engaging in the purchase, sale or storage of food grains and requiring them to submit periodical reports; and
- Extension of rationing policy also included provisions for the payment of subsidies on imported grains and bonus to states of half a rupee for every maund of food grains procured and an additional half a rupee for every maund made available to deficit areas. (Bhatia 1970::120)

Controls were gradually relaxed till 1954, as a result of the emergence of surpluses in rice and wheat, controls on prices and inter-state movement of these grains were lifted completely. Control over rice was withdrawn in July 1954, and restrictions on zonal movement of rice were removed in March 1955, the Essential Supplies Act, 1946, lapsed and with it the food grains licensing and procurement order, 1952, also lapsed. Inter-zonal restrictions on movement of wheat and its products, the last vestiges of controls, disappeared with effect from 18<sup>th</sup> March

1956. At the same time the government undertook to purchase food grains if prices fell below a prescribed minimum.

In 1956, India entered a long term agreement with Burma for the import of 2million tonnes of rice over the next five years and in the same year it also signed PL-480 with United States of America. The food grains imported through PL-480 were 3.1 million tonnes of wheat and 0.19 million tonnes of rice for over a period of three years. These agreements marked the beginning of imports which became a integral part of India's food economy. The dependence on imports increased year after year and till 1963-64, controls on food grains were brought back in 1957 in a bid to hold prices of food grains from rising. The action taken by the authorities in this sphere were 1)maintenance of imports of food grains at a high level, (2) the extension of internal procurement and increase in sales through fair price shops and (3)measures to curb hoarding and profiteering , including the continuance of selective credit controls and fixation of maximum controlled prices. Again in November, 1958 government announced its decision to introduce state trading in food grains as part of its long term policy in regard to food grains. From 1960-64, controls existed but were not many, except rice there was no restriction on the movement of food grains on their prices, purchase, and sale throughout the country. Government on other hand also distributed annually 3 to 4 million tonnes of imported food grains through fair price shops throughout the country. In case of rice the country was divided into four large rice zones each combining contiguous deficit and surplus states, there were no restrictions on movement, purchase and sale of rice within each zone. (Bhatia 1970: 121-122)

The food situation took a worse turn in 1962 to 1964, due to bad crops. This time the prices showed a tendency to rise and scarcity conditions developed in number of states. To meet the

situation, zonal restrictions on the movement of wheat were re imposed in May 1964. Statutory rationing was re-introduced in big cities and procurement operations in rice were stepped up, compulsory levy on rice millers and dealers was imposed in 1964-65 in a number of states. The agricultural situation was bad again from 1965 to 1967, the food situation in the country showed further deterioration. Price and other controls were further tightened and heavy imports became necessary to reduce famine in certain parts of the country.

The Jha Committee was appointed to look on the situation of food grains prices on August 1<sup>st</sup> 1964, marked the beginning of a new phase in the evolution of agricultural price policy in India. The committee was asked to advise the minister of food and agriculture on the fixation of prices of rice and wheat for the 1964-65 seasons. The committee recommended the establishment of Agricultural Price Commission to advise the government on a continuous basis on the price policy of agricultural crops particularly paddy, rice, wheat, jowar, bajra, maize, pulses, sugarcane, oilseeds, cotton and jute with a view to evolving a balanced and integrated price structure and resolving the claims of competing crops on limited resources in the perspective of overall needs of the economy. The Agricultural Prices Commission was set up in January 1965, to advise the government on the price policy of agricultural commodities. Since then the commission has been tendering advice on a continuous basis on minimum prices of both Kharif and Rabi crops. (Bhatia 1970:: 121-124)

#### **4.3 Commission for Agricultural Costs and Prices (CACP)**

The Agricultural Prices Commission which was set up in January, 1965 to advise the Government on price policies of major agricultural commodities with a view to evolving a balance and integrated price structure in the perspective of the overall needs of the economy



and with due regard to the interests of the producer and the consumer. The commission was later renamed in March 1985, as Commission for Agricultural Costs and Prices.

While formulating the recommendations, on the prices the Commission first analyses a wide spectrum of data. Since the price policy involves certain considerations of long-run consequences, so that the Commission also looks at the yield-raising research being conducted by institutions like ICAR. The basic data which is collected from the Directorate of Economics and Statistics, State Governments, Central Ministries and the nodal agencies those concerned with the implementation of agricultural price policy. Besides this the Commission undertakes field visits for close interaction with farmers in different parts of the country and also have wider understanding and consultation with senior officers, researchers and managers of relevant organizations.

The Commission makes use of both the micro-level data and aggregates at the level of district, state and the country. Presently Twenty five agricultural commodities are currently covered under the mandate given to the CACP which advise the government in respect of the price policy. The Commission is required to convey its recommendations to the Government before the sowing period /season of the crop. (<http://dacnet.nic.in/cacp>)

The CACP acts like an intermediary in between centre and state governments in fixing of MSP as agriculture is a state subject, but major decisions are taken by the Central government. There are many criticisms towards the functioning of the organisation. The farmers associations are demanding the recommendations of the M.S. Swaminathan committee to be implicated. P.V Subbaiah Choudary and S.M.Ahamed Ali (2008), suggest that the CACP should improve the

deficiencies in fixing MSP. They argue that the methodology which used to contemplate under MSP scheme is working against the farmers. The unchanged pattern of methodology followed regarding imputing family labour, rental value of land, interest on capital depreciation on fixed assets and agricultural machinery, cost of transportation, marketing charges and storage is against the farmer's interest. Their main argument lies in the computation of costs regarding family labour and bullock power and other parameters which have no relevance with the cost of cultivation but actually incurred by farmers. Further it is observed that the data pertaining to previous years is also adopted for the current year without giving cognizance to the increase in the cost of inputs.<sup>1</sup>

In view of the deficiencies explained above, the farmers are getting only half of the prices which consumers pay. The intermediary margins are very high, thus it assumed that recommended and fixed prices by CACP and GOI respectively are not based on the actual costs incurred for cultivation / production. It appears to be a ritual and the price fixed is a Political Support Price (PSP), but not Minimum Support Price (MSP). Their argument is supported by Madhura Swaminathan (1999) who states that setting up the procurement price is a political decision in India's parliamentary system. These organisations demand implementation of the MS Swaminathan report recommendations for MSP.

Government of India constituted a Committee to look into the problems of the farming community in 2004, under the chairmanship of eminent agricultural scientist and parliamentarian M.S. Swaminathan.<sup>2</sup> The report was submitted to the government of India in 2006, which was

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<sup>1</sup> Consortium of Indian Farmers- National level Farmers Organization suggesting some changes in pattern followed by CACP to M.S. Swaminathan

<sup>2</sup> Chairman for the National Commission on Farmers GOI 2006

put into consultation by the state governments and the central ministries, the government approved the National Policy for Farmers in 2007.

#### **4.4 M.S. Swaminathan Committee Report for the MSP**

Several significant market reforms have already been initiated by the Central and the State Governments. These reforms provide more options to farmers for selling their produce, allowing the private sector, including cooperatives, to develop markets, promote direct sales to consumers, processors and retail chain suppliers / exporters and remove scope for corruption and harassment.

The following steps were recommended by the Swaminathan Committee:

- The Minimum Support Price (MSP) mechanism should be implemented effectively across the country.
- The Market Intervention Scheme (MIS) should be strengthened to respond speedily to exigencies especially in the case of sensitive crops in the rainfed areas.
- Establishment of community food grains banks should be promoted to help in the marketing of underutilized crops and thereby generating an economic stake in the conservation of agro-biodiversity.
- The food security baskets will be large by storing and selling nutritious millets such as bajra, jowar and ragi and other crops through the network of the Public Distribution Systems (PDS).
- Efforts would be made to develop a single national market by relaxing internal restrictions. All controls and regulations hindering increase in farmers' income will be reviewed and abolished.
- Terminal markets for agriculture should be developed by having public private partnership mode to provide better market access to farmers with better price realization in a transparent trading environment with suitable backward linkages to give technical backstopping services needed for quality and demand driven production.
- The role of the Agriculture Produce Market Committees and State Agriculture Marketing

Boards would be transformed from mere regulatory focus to promotion of grading, branding, packaging and development of markets for local produce. (National Policy for Farmers, 2007)<sup>3</sup>

The report mentioned that CACP should justify the twin goals by ensuring justice to the farmers in terms of remunerative price for their produce and to the consumers in terms of fair and affordable price to buy the staple food. To achieve these goals the government while taking the decisions on MSP, must ensure that the farmers' interests in receiving the better price for their produce are safeguarded and stable and efficient market environment in implementing of MSP in rainfed areas, would add to improve productivity and income in dry land farming. The committee further recommended that CACP should be a autonomous body.

CACP is one of the important bodies which recommends to the governments to procure the food grains on the prescribed support price which would be a base price in the market. Based on the support price given by CACP the government agencies procure food grains on MSP.

#### **4.5 Food Corporation of India: the largest procurement agency in India**

Prior to the establishment of the Food Corporation of India (FCI) in 1965, procurement from internal sources was limited; it was the responsibility of the state department of revenue and the department of civil supplies to procure food grains by imposing a levy on farmers, traders and millers. The major source of procurement prior to the mid sixties was imports under PL-480 handled by the government of India through the state trading corporations.

Jos Mooij (1998), describing further the role of PL-480 and its impact on Indian agricultural and price policy, explains in her work that the expansion of PDS in the period 1957-65, in terms both

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<sup>3</sup> Prior to formation of the National Policy of Farmers, the National Commission on Farmers submitted five reports from 2004-2006.

of food distributed and number of shops, was greatly facilitated by the large-scale imports under US Public Law-480 (PL-480) conditions. India imported cheap wheat from USA partly as a gift and partly to be paid in local currency. These rupees were put into a fund that could be utilised for development purposes. But For the United States, PL-480 was a way of disposing of their wheat surpluses and of supporting US domestic farm prices.

Further, Friedmann (1982), Bhatia, (1991) and (Byres and Crow, 1983), argue that this policy made India surrender herself in harsh conditions for the sake of providing the food to its subjects. There were certain conditions, which were laid down by the US before India for the further import of food grains. Several times the apparent charity was used against India by withholding the grains until the last minute which made India to accept the conditions laid down by the US foreign policy. Those conditions were: for seven years the Indian government should no longer have control over the pricing and distribution of fertilizers by private fertilizer firms; that the Indian government should drop its demand for fifty-one per cent ownership of joint ventures in the fertilizer field; that greater latitude be allowed to American private firms operating in India; that India should stop trading with North Vietnam. Apart from this, India's devaluation of the rupee by 36.5 per cent on 6 June 1966 was strongly influenced by American pressure. (Mooij, 1998)

The Food Corporation of India (FCI) was set up under an Act of Parliament in 1965, with a primary duty “to undertake the purchase, storage, movement, transport and distribution and the sale of food grains and other food stuff”. Further the corporation was expected to function as a major instrument of state policy in securing the following objectives:

- To ensure a reasonable support price which will induce the farmer to adopt improved methods of cultivation for increasing production,

- To ensure that consumer prices do not rise unduly,
- To avoid excessive price fluctuations and reduce the disparity of prices between states, and
- To build up sizeable buffer stocks of wheat and rice from imports and internal procurement.<sup>4</sup> (Randhawa 1986:229)

The initial year of the FCI saw its activities limited to southern region in states like Andhra Pradesh, Madras (Tamil Nadu), Mysore (Karnataka) and Kerala in which procurement and purchase on central or state government account had already been undertaken by the government agencies under appropriate legal authority and where restrictions on price and on the movement of grain were also in force. In 1966, the service of the corporation extended its operation to Orissa, Punjab, Rajasthan, Gujarat and Pondicherry. Food grains subject to price control were purchased by the Corporation at the rates notified by the state government. Other food grains not subject to such control were bought at market rates under a ceiling determined in consultation with the state governments concerned. The disposal of grain purchased in each state was decided by the state government even where an appropriation was made to the central pool, the state – wise allocation was made by the central government. Under section 6 (2) of the FCI act, the Corporation has to function in the interests of both the producer and the consumer. The Corporation, therefore readily responded to the requests of the state governments in undertaking price support operations in the interest of the producer, in order to make consumer food grain availability at a reasonable price (Randhawa 1986 : 230)

The operations of the Corporation differed from state to state, in some states like Andhra Pradesh it was given a comparatively free hand, and it acted as the agent of the state government for the

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<sup>4</sup> Referring from Annual Report of FCI 1964-65

purchase, storage and distribution of rice in the state. In other states like Orissa the Corporation affected its purchases of rice intended for despatch to other states on central government account, through the state government itself. In Assam, it was the sole responsibility by the state government of purchasing storing and distributing paddy and rice. In some other states, it had to act only as one of the several procurement and purchase agencies operating in the state. Under these circumstances the working of the Corporation could not be as free and successful as originally intended.

The Food grains Policy Committee, in 1966, after reviewing the working of Food Corporation of India then recommended:

- The corporation should be entrusted with the entire responsibility of carrying out all the inter-state transfers of food which are envisaged in the national food budget;
- The Corporation should act as an inter-state distributor of food grains;
- In those state where private trade in food grains is functioning, the Corporation should be allowed to function as a trader;
- Where a state government employs a number of procurement agencies, food corporation should be allowed to act as one of them;
- The corporation should be entrusted with the responsibility of the management of the buffer stocks. As a part of that management, the Corporation should ensure that the stock is rotated with adequate frequency and not allowed to deteriorate on account of unduly long storage.

These recommendations did not receive much attention by the authorities concerned and no difference was made in working of corporation.

However the food situation changed as a result of the bumper crop of 1967-68, and again in 1968-69, the Corporation was allowed to make open market purchases in state of Rajasthan, Madhya Pradesh, Punjab and Uttar Pradesh to meet its own needs. For the rest of the states, it continued to operate within the frame work of polices set by the state and central governments. The Corporation which used to procure only rice for the domestic supplies in the initial years of its existence later spread its operations to wheat, jowar, maize, bajra, barley, gram, and other pulses and other variety of miscellaneous products. The Corporation also set up 30 mechanical drying centres in Thanjavur district of Tamil Nadu<sup>5</sup>. The Corporation set up rice mills, imported components parts for setting up these mills and helped in other ways in modernising the rice milling industry in the country. (Bhatia 1970::190)

#### **4.6 Welfare Schemes of the Govt. of India (for which food grains are issued by FCI)**

The objective of growth with social justice along with progressive improvements in the living standards of its population and to make it imperative to ensure that these food grains are made available at reasonable prices. Public Distribution of food grains has always been an integral part of India's overall food policy. It has evolved to reach the urban as well as the rural population in order to protect the consumers from fluctuating and escalating price syndrome. Continuous availability of food grains are ensured through nearly 5 lakhs fair price shops throughout the country. A steady availability of food grains at fixed prices are assured which are lower than the actual costs due to Govt. policy of providing subsidy that absorbs a part of the economic cost (about 45%). The Govt. of India introduced a scheme known as Targeted Public

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<sup>5</sup> FCI started its operation in Thanjavur by having its first office in January 1965. The R&D laboratory as Paddy Processing Research Centre was established in 1967, which renamed now as Indian Institute of Crop Processing Technology (IICPT), under the Ministry of Food Processing Industries, Government of India.



Distribution Scheme (TPDS) in 1997, and under the scheme the stocks are issued in the following categories:

1. **Below Poverty Line (BPL):** Under this category a fixed quantity of 35 Kg of Foodgrains per family per month is issued, at highly subsidized Price of Rs 4.15 per Kg. for wheat and Rs.5.65 per Kg. for rice.
2. **Antyodaya Anna Yojana (AAY):** this scheme was launched in 2000-2001, under this scheme the poorest of the poor among the BPL are identified are covered. Foodgrains are provided at subsidized rates of Rs.2/- per kg of wheat and Rs 3/- per kg of rice by FCI.
3. **Above Poverty Line (APL):** under this category families those got not covered under BPL are placed the stocks are issued at Central Issue Price of Rs 6.10 per Kg for wheat and Rs 8.30 per Kg for rice. Apart from these the FCI issue food grains to the various welfare programmes, in the country by both state and central governments.

#### **4.7 Some features of FCI**

The FCI implements various policies of the government by purchasing wheat and rice from farmers at the MSP, as well as storing, transporting, and distributing food grains to supply the requirements of the PDS. Reaching the large number of poor as well as the constraints in resource performance of the FCI is critical to evaluate the effectiveness of India's food policies. However ensuring the accessibility to food grains in a country like of India's is a Herculean task. The food grains are transported from the surplus States to the deficit States.

- The surplus food grain is mainly confined to the Northern States and transportation involves long distance throughout the country. The stocks procured in the markets and

purchase centres is first collected in the nearest depot and from there they dispatch it to the recipient States within a limited time.

- FCI moves about nearly 270 Lakh tonnes of food grains over an average of distance covering 1500 Kms.
- Regularly rice and wheat procured in the Northern States is moved to far flung corners of Imphal, Manipur or Kanyakumari in Tamil Nadu and also to the higher reaches of the Himalayas in the North.
- Every day an average of 1,20,0000 bags (50 Kg) of food grains are transported to the consuming areas, by rail, road, etc.
- The effective planning and Management of the transport System of FCI regularly moves food grains and sugar from the procuring Region to the consuming region.  
([www.fciweb.nic.in](http://www.fciweb.nic.in))

Farmers retain 60-70 percent of their rice and wheat production for seed, animal feed, and for their own consumptions. The FCI procures wheat and, to a lesser extent, paddy from farmers at minimum support prices. The FCI procurement policies are intended as an insurance mechanism for farmers, providing price and income stability. Additionally, procurement meets the requirements of the public food distribution program as well as to maintain the buffer stock. However, farmers are required to sell a share of their output to the FCI, where the share is based on the farmer's holding size, the state, and the region. Slightly less than half of the marketed food grain surplus (22 million tons in 1997-98) is handled by the public sector, while the residual is handled by private trade. Private markets in India handled 30-50 percent of domestically traded wheat and 50-60 percent of rice (World Bank, 1999c). The FCI procures food grains from farmers for the central pool, which is then sold to state governments (at a central issue price),

based on interstate allocation rules established by the central government<sup>6</sup>. (Persaud and Rocse, 2003)

The Dept. of Food, GOI has issued a note for Central government Undertaking /State Govt. Undertakings to procure food grains for the Central Pool by expanding the scope of MSP operations in the areas where the government agencies infrastructure for procurement is weak and unable to carry out MSP operations. In such areas where procurement exists to ensure that farmers are not denied the benefit of MSP.

#### 4.8 Operations of the FCI

Table4.1 Establishments of offices throughout the country by the FCI

State/UT	Zonal Office	Regional Office	Dist. Offices
Andhra Pradesh		1	15
Arunachal Pradesh	-	-	1
Assam	1	1	9
Andaman&Nicobar	-	-	1
Bihar	-	1	12
Chhattisgarh	-	1	3
Chandigarh	-	-	1
Delhi	-	1	2
Goa	-	-	1
Gujarat	-	1	3+1*
Haryana	-	1	5
Himachal Pradesh	-	1	2
Jharkhand	-	1	2
Jammu&Kashmir	-	1	2
Karnataka	-	1	5
Kerala	-	1	9
Madhya Pradesh	-	1	7
Maharashtra	1	1	6
Manipur	-	-	1
Meghalaya	-	1	1
Mizoram	-	-	1
Nagaland	-	1	1

<sup>6</sup> Special article on India's Consumer and Producer Price Policies: Implications for Food Security, Economic Research Series/ USDA February 2003.

Orissa	-	1	7
Punjab	-	1	11
Rajasthan	-	1	8
Sikkim	-	-	1
Tamil Nadu	1	1	6
Tripura	-	-	1
Uttar Pradesh	1	1	19
Uttaranchal	-	1	3
West Bengal	1	1	9
India	5	23	165+1*

Source:www.indiastat.com,Lok Sabha Unstarred question no.4670, dated 22.05.2006

For the smooth functioning of the operations throughout the country the FCI has established its offices which includes zonal, regional and district offices.(See Table 4.1) This includes five zonal offices and 23 state offices and 166 district offices (area offices), these districts offices are located where there is more production of rice and wheat.(\*).indicates the port office in Adipur.

Table 4.2 Details of the procurement done by the FCI and state agencies from Kharif Marketing Season (KMS) 2005-06 to 2009-10.

STATES	KMS 2005-06				KMS 2006-07				KMS 2007-08				KMS 2008-09				KMS 2009-10 (As on 18.10.10)			
	FCI	STATE AG.	TOTAL	FCI Share %	FCI	STATE AG.	TOTAL	FCI Share%	FCI	STATE AG.	Total	FCI Share%	FCI	STATE AG.	Total	FCI Share%	FCI	STATE AG.	Total	FCI Share%
AP	1.92	2.84	4.76	40.34	1.08	6.07	7.15	15.10	0.58	4.99	5.57	10.41	1.95	9.66	11.61	16.80	1.48	3.04	4.52	32.72
ASSAM	-	-	-	-	-	-	-	-	-	-	-	-	0.04	-	0.04	100.00	0.12	-	0.12	100.00
BIHAR	0.85	5.88	6.73	12.63	1.23	5.54	6.77	18.17	2.22	5.42	7.64	29.06	4.03	8.32	12.35	32.63	1.94	8.74	10.68	18.16
CHANDIGARH	-	-	-	-	0.15	-	0.15	100.00	0.13	-	0.13	100.00	0.09	-	0.09	100.00	0.20	-	0.20	100.00
CHHATISGARH	11.98	23.91	35.89	33.38	12.33	23.31	35.64	34.60	7.16	15.28	22.44	31.91	8.52	22.07	30.59	27.85	2.00	42.28	44.28	4.52
HARYANA	0.95	22.61	23.56	4.03	0.11	20.36	20.47	0.54	0.10	17.75	17.85	0.56	0.10	18.12	18.22	0.55	0.43	25.93	26.36	1.85
JHARKHAND	0.01	-	0.01	100.00	0.07	-	0.07	100.00	0.21	0.04	0.25	84.00	0.28	0.10	0.38	73.68	0.03	0.11	0.14	19.04
J&K	-	-	-	-	-	-	-	-	-	-	-	-	0.02	-	0.02	100.00	-	-	-	-
KARNATAKA	-	0.02	0.02	-	-	0.01	0.01	-	-	-	-	-	0.00	0.00	-	-	0.15	0.15	-	-
KERALA	-	1.40	1.40	-	-	2.26	2.26	-	-	2.51	2.51	-	-	3.54	3.54	-	-	3.89	3.89	-
MADHYA PRADESH	0.61	1.07	1.68	36.31	0.73	0.36	1.09	66.97	0.77	0.26	1.03	74.76	0.63	1.61	2.24	28.13	-	2.07	2.07	-
MAHARASHTRA	-	1.51	1.51	-	-	1.27	1.27	-	1.13	1.26	2.39	47.28	-	1.65	1.65	-	-	2.33	2.33	-
ORISSA	3.84	8.39	12.23	31.40	9.37	17.06	26.43	35.45	7.73	26.70	34.43	22.45	0.91	39.37	40.28	2.26	1.79	34.19	35.99	4.98
PUDUCHERRY	-	-	-	-	0.10	-	0.10	100.00	0.09	-	0.09	100.00	0.11	-	0.11	100.00	0.01	-	0.01	100.00
PUNJAB	10.58	105.71	116.29	9.10	2.28	103.36	105.64	2.16	1.32	101.88	103.20	1.28	2.05	118.78	120.83	1.70	6.70	131.36	138.06	4.86
TAMIL NADU	-	13.82	13.82	-	-	16.08	16.08	-	-	14.46	14.46	-	-	17.90	17.90	-	-	18.15	18.15	-
UTTAR PRADESH	-	10.47	10.47	-	-	9.57	9.57	-	6.00	16.16	22.16	27.08	8.74	23.97	32.71	26.72	0.01	13.98	13.99	0.06
UTTRAKHAND	-	0.18	0.18	-	-	0.09	0.09	-	-	0.18	0.18	-	-	0.10	0.10	-	0.02	0.33	0.35	5.24
WEST BENGAL	7.64	4.99	12.63	60.49	0.18	3.97	4.15	4.34	0.09	12.19	12.28	0.73	0.15	11.73	11.88	1.26	-	8.32	8.32	-
TOTAL	38.38	202.80	241.18	15.91	27.63	209.49	237.12	11.65	27.53	219.08	246.61	11.16	27.62	276.92	304.54	9.07	14.74	294.89	309.63	4.76

Source:[www.fciweb.nic.in,2010](http://www.fciweb.nic.in,2010)

The paddy procurement operation by FCI is declining in the states where the Decentralised Procurement Scheme is ongoing and where there is central procurement the FCI has procured well. The procurement by FCI in Orissa which was 12.23% in 2005-06 decreased to 4.98% by 2009-10. In Punjab the state agencies procure more than the FCI, the centralised procurement in Andhra Pradesh the FCI share is more than the state agencies. (See Table 4.2)

Table 4.3 Details of the FCI procurement of rice for the central pool

[Figs. in lakh tonnes]

S.No.	STATES/ UTs	KMS 2005-2006				KMS 2006-2007				KMS 2007-08				KMS 2008-09				KMS 2009-10 (as on 18.10.2010)			
		F.C.I.	State Agency	Total	FCI Share %	F.C.I.	State Agency	Total	FCI Share %	F.C.I.	State Agency	Total	FCI Share %	F.C.I.	State Agency	Total	FCI Share %	F.C.I.	State Agency	Total	FCI Share %
1	A.P.	47.82	1.90	49.72	96.18	49.22	4.07	53.29	92.36	72.63	3.34	75.97	95.60	84.13	6.48	90.61	92.85	72.08	2.04	74.12	97.25
2	Assam	0.01		0.01	100.00									0.03		0.03	100.00	0.08	-	0.08	100.00
3	Bihar	1.16	3.94	5.10	22.75	1.04	3.71	4.75	21.89	1.92	3.63	5.55	34.59	5.25	5.58	10.83	48.48	3.05	5.85	8.90	34.24
4	Chandigarh	0.02		0.02	100.00	0.10	-	0.10	100.00	0.10	-	0.10	100.00	0.10		0.10	100.00	0.14	-	0.14	100.00
5	Chattisgarh	16.64	16.02	32.66	50.95	13.04	13.61	26.65	49.51	17.19	10.24	27.43	62.67	13.69	14.79	28.48	48.07	5.16	28.33	33.49	15.41
6	Gujarat									0.23	-	0.23	100.00	-		-		-	-	-	
7	Haryana	5.39	15.15	20.54	26.24	4.13	13.64	17.77	23.24	3.85	11.89	15.74	24.46	2.11	12.14	14.25	14.81	0.81	17.37	18.19	4.47
8	Jharkhand	0.02	-	0.02	100.00	0.05	-	0.05	100.00	0.17	0.02	0.19	89.47	1.29	0.06	1.35	95.56	0.15	0.07	0.23	67.36
9	J&K	0.04	-	0.04	100.00									0.06		0.06	100.00	-	-	-	
10	Karnataka	0.47	0.01	0.48	97.92	0.21	0.01	0.22	95.45	0.19	-	0.19	100.00	1.07		1.07	100.00	0.76	0.10	0.86	87.94
11	Kerala		0.94	0.94	-		1.51	1.51	-		1.68	1.68	-		2.37	2.37	-	-	2.61	2.61	-
12	M.P.	0.64	0.72	1.36	47.06	0.50	0.24	0.74	67.57	0.52	0.17	0.69	75.36	0.68	1.77	2.45	27.76	-	2.14	2.14	-
13	Maharashtra	0.92	1.02	1.94	47.42	0.12	0.85	0.97	12.37	0.76	0.84	1.60	47.50	1.50	1.11	2.61	57.47	0.64	1.56	2.20	28.93
14	Nagaland													-		-		-	-	-	
15	Orissa	12.23	5.62	17.85	68.52	8.59	11.43	20.02	42.91	5.68	17.89	23.57	24.10	1.48	26.42	27.90	5.30	2.05	22.91	24.96	8.23
16	Pondicherry					0.07	-	0.07	100.00	0.06	-	0.06	100.00	0.07		0.07	100.00	0.08	-	0.08	100.00
17	Punjab	17.82	70.82	88.65	20.10	9.04	69.25	78.29	11.55	11.55	68.26	79.81	14.47	5.94	79.59	85.53	6.94	4.74	88.01	92.75	5.11
18	Rajasthan	0.23	-	0.23	100.00	0.10	-	0.10	100.00	0.19	-	0.19	100.00	0.11		0.11	100.00	-	-	-	
19	Tamilnadu		9.26	9.26	-		10.77	10.77	-	-	9.69	9.69	-		11.99	11.99	-	-	12.16	12.16	-
20	U.P.	5.26	26.25	31.51	16.69	2.41	23.18	25.59	9.42	4.88	24.03	28.91	16.88	7.85	29.02	36.87	21.29	4.04	23.22	27.26	14.82
21	Uttaranchal	1.98	1.38	3.36	58.93	0.65	1.11	1.76	36.93	0.43	1.04	1.47	29.25	1.79	1.70	3.49	51.29	2.07	1.69	3.75	55.09
22	West Bengal	7.77	4.32	12.09	64.27	1.76	4.65	6.41	27.46	3.03	11.26	14.29	21.20	4.33	12.34	16.67	25.97	2.52	9.88	12.40	20.29
Total		118.43	157.35	275.78	42.94	91.03	160.03	251.06	36.26	123.38	163.98	287.36	42.94	131.48	205.36	336.84	39.03	98.36	217.94	316.31	31.10

Source: www.fciweb.nic.in, 2010.

As seen in the Table 4.3, the rice procured for the central pool by the FCI is high in Andhra Pradesh as it has share of 96.18% in 2005-06 and at present it is 97.25% in 2009-10, States like Orissa, Chhattisgarh and Punjab the share of FCI is decreased it shows that the state agencies involvement in the procurement is positive and healthy under the decentralised procurement scheme. (The share of rice procurement by FCI is arrived at by adding the levy received by FCI plus paddy in terms of rice procured by FCI)

Table: 4.4 Import of Foodgrains by Food Corporation in India from 1982-83 to 2007-08(in '000 Tonnes)

Year	Wheat	Rice	Total
1982-83	1952.1	-	1952.1
1983-84	3738.8	465.5	4204.3
1984-85	689.5	380.9	1070.4
1985-86	-	10.0**	10.0**
1988-89	2011	683.8	2694.8
1989-90	-	532.7	532.7
1990-91	-	44.9*	44.9*
1991-92	-	44.9	-
1992-93	2589	-	2675
1993-94	476	86	532
1994-95	-	56	-
1996-97 (P)	798	0	798.00@
1997-98 (P)	1970.46	0	1970.46@
1998-99 (P)	1414.54	0	1414.54@
2006-07	5380	NIL	5380
2007-08 (Upto 1st May, 2007)	35.5	NIL	35.5

<http://www.indiastat.com/table/foreigntrade/12/importoffoodgrains>,

Abbr. : P : Provisional.

Note : \* : Received in Repayment of Commodity loan.

\*\* : Received from Vietnam in Repayment of Commodity Loan of 1980.

@ : Quantity Discharged.

\$ : As on June 2008. Compiled from the statistics released by : Ministry of Agriculture and Foodgrains Bulletin, 2004. Dept. of Food & Public Distribution, Ministry of Consumer Affairs, Food & Public Distribution, Govt. of India.

The years from 1986-87, 1987-88, 1995-96, 1999-00 to 2005-06 are not reported in this table as there were no imports of food grains by the FCI. There was a partial import of wheat and rice in regular intervals either to control prices or due to crop failure but from the year 1999-00 to 2005-06, India never imported food grains from outside. Whatever is produced was sufficient for consumption. From 2006-07 saw an import of wheat, though there was enough wheat but due to the involvement of the corporate houses in procurement most of the wheat is procured by these corporate houses by giving slightly higher than the MSP announced by the government.(See Table 4.4)

Table4.5 Export of Foodgrains by Food Corporation of India from 1993-94 to 2004-05 (figures in 000' tonnes)

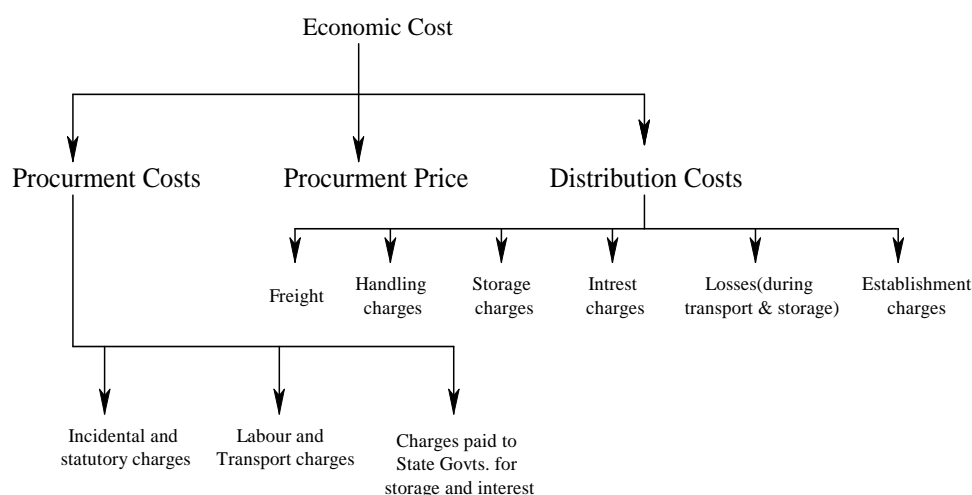
Year April- March	Rice		Wheat	Cotton	Jute Hessian
	Basmati	Other			
1993-94	527.23	565.19	0.39	312.56	-
1994-95	423.14	448.5	86.63	70.75	-
1995-96	373.31	4540.7	632.47	33.28	-
1996-97	523.16	1989.04	1145.9	269.58	-
1997-98	593.79	1795.74	1.52	157.53	102.42
1998-99	597.79	4365.89	1.76	41.96	65.13
1999-00	638.38	1257.79	Neg.	15.91	52.4
2000-01	849.02	682.27	813.49	29.7	56.77
2001-02	667.07	1541.49	2649.37	8.23	51.28
2002-03	708.79	4259.08	3671.25	11.75	-
2003-04	771.49	2640.57	4093.08	179.61	-
2004-05	1126.13	3645.87	1996	73.6	-

Source:www.indiastat.com

As observed in Table 4.5, the export of food grains increased over the time from 527.23 thousand tonnes in 1993-94 to 1126.13 thousand tonnes in 2004-05 for basmati rice and for general rice from 565.19 thousand tonnes to 3645.87 thousand tonnes. It was also seen that there was increase in wheat export also, as in 1993-94 it was 0.39 thousand tonnes and raised to more than four thousand tonnes by 2003-04 and there was also substantial export of wheat in 2004-05.

#### 4.9 FCI and Procurement Price

Figure 4.1 Components of Economic cost of FCI



Source: Madhura Swaminathan, epw, Dec25, 1999

As seen in Figure 4.1 the economic cost is defined as the sum of procurement price, procurement related costs and distribution costs.  $\text{Subsidy} = (\text{Procurement Price} + \text{Procurement Costs} + \text{Distribution Costs}) - \text{Sales Realisation}$ , Therefore  $\text{Subsidy} = \text{Economic Cost} - \text{Sales Realisation}$ .

The procurement price is the price paid by the FCI to producers for the purchase of grain. Procurement costs are the initial costs incurred during the procurement of grains at mandis or other procurement centers. Procurement costs or incidentals are reported under the following subheadings: statutory charges, labour charges, amount paid to state agencies for establishment,



storage and interest for stocks procured, port clearance costs (in case of imports) and other costs. Distribution costs are the cost involved in storing and transporting grain to the final distribution points. The components of distribution costs are freight, handling expenses, storage charges, interest charges, transit shortages (loss during transit), storage shortages (loss during storage) and establishment costs. The subsidy is defined as the difference between the economic costs and the price obtained from sales realization (See Figure 4.1) (Swaminathan, 1999)

In an attempt to bring down the subsidy, the government of India has raised the PDS retail prices several times in the first half of 90s but never considered to bring down procurement prices. Ironically, this only added to the problems, the price difference between PDS food grains and open market food grains came down and that the willingness for consumers to buy PDS commodities decreased subsequently. Though the procurement continued it resulted in unprecedented high level of stocks, which further added to subsidy bill. (Mooij, 1999)

#### **4.10 The government response to the procurement of food grains**

The CACP wanted the government to be cautious as there were withdrawals of the state agencies in procurement. It is noted that corporate groups staying out of procurement in the states where there are restrictions on licensing, payment of taxes etc, with the removal of these restrictions in some states have made them procure for their business purpose. The Centre through FCI procures rice mainly from Punjab, UP, Odisha, Haryana, Chhattisgarh and Andhra Pradesh. The food ministry hired National Collateral Management Services Limited (NCMSL) and National Bulk Handling Corporation (NBHC) (subsidiaries of commodity exchanges NCDEX and MCX, respectively) for Kharif season 2006-07 to procure paddy in Madhya Pradesh, Odisha, Bihar and Rajasthan. Though the procurement was enough and expected to meet TPDS and welfare

scheme needs. Private sector wheat procurement, on the other hand, was higher in states where taxes are low. Punjab and Haryana where the taxes are above 10.5%, the procurement is lower allowing higher marketable surplus where as in Uttar Pradesh, Rajasthan, Bihar and Madhya Pradesh, where the taxes are far lower at 6.5%, 3%, 1% and 2.2%, respectively, the private participation has been higher over the last few years.

Meanwhile, the domestic market was poised to witness further changes with entry of international agencies. The Australian Wheat Board (AWB) which has received Government of India's permission to set up a wholly owned subsidiary in India. The Board intends to purchase and sell wheat, rice, maize and other permitted agricultural commodities. The AWB also perceives India as a prospective market for Australian wheat in the medium term and is certain that India would start importing wheat in future.<sup>7</sup>(<http://www.rupe-india.org/42/failure.html>)

Further commenting on the import of the wheat from other countries the then union agricultural Minister Shri Sharad Pawar said "As representative of the government, I know better than the papers. Suppose I purchase wheat from Punjab and Haryana and if I have to sell it to the entire South India, my yearly storage charges and my transport charges alone cost me Rs 1,150 to Rs 1,160 per quintal. My import price from Australia in southern India is somewhat close to Rs 950. It is my responsibility to protect the interests of the consumer, and for the sake of protecting the interests, I have to build up my buffer stock, and essentially in southern India. For the sake of

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<sup>7</sup> Response by the government agencies were poor as the price offered by the government was less than what is offered by the corporate houses (the situation in case of wheat where corporate like ITC, Cargill, Reliance) paid more than the MSP offered to the farmers. Even raise in MSP was of no use and to overcome the shortage the government decided to import wheat for PDS and to stabilize the price.

building the buffer stock, in the case of an eventuality, I have no choice, I will import from anywhere”<sup>8</sup>([www.IndianFood Policy. in](http://www.IndianFood Policy. in))

In March 2001, the then Prime Minister of India Mr. Atal Bihari Vajpayee told peasants at a meeting in Haryana to “Look beyond wheat and paddy” switch to “horticulture, floriculture, oilseeds and vegetable production and have a good export potential.” With the removal of restrictions on imports under the World Trade Organisation, he said, Indian farmers would have to grow less food and more of other crops. Thus it became official the Government policy to discourage food grains growth and thus ensure dependence on imports. This policy was also defended by falsely claiming Indian farmers are growing too much grain more than consumers consume. Agricultural Minister Mr. Sharad Pawar in 2005 said that the days of importing of food grains were over; he boosted the some states in satisfying the country’s hunger. He wants the Punjab and Haryana to reduce their production of wheat and rice, which is in abundance, as there is a allocation of Rs.150 billion nation horticulture mission, the budget allocation increased in agriculture in 2005-06 and 2006-07 and devoted much to the horticulture and micro-irrigation projects<sup>9</sup>. ([www.rupee-india.org/42/crisis.html](http://www.rupee-india.org/42/crisis.html))

Interestingly, in Rabi season 2006-07 the food ministry engaged National Collateral Management Services Limited(NCMSL) and National Bulk Handling Corporation(NBHC) for wheat procurement in UP. Not for surprisingly, the dip on government procurement in two successive years has laid to have a new policy with guidelines on allowing the government to outsource

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<sup>8</sup> Agriculture minister Mr. Sharad Pawar justifying the import of wheat

<sup>9</sup> Aspects of India’s Economy: How the Wheat Crisis of 2006 Created, issues no 42. December 2006

grain procurement to private sector companies and this action face stringent criticism on the track record on wheat procurement made for the central pool in 2006-07.

For Rabi marketing season (April-March) 2007-08, FCI also hired NAFED as its agent to buy wheat for the central pool from states of UP, Madhya Pradesh, Rajasthan, Bihar and Uttarakhand. Significantly the UP which is the third most important procurement state for wheat, faltered on its normal share of supplies to the Centre both in 2005-06 and 2006-07, leaving an indelible mark on the overall amount collected for the central pool. That necessitated huge wheat imports to beat sky-rocketing domestic prices.

Increase in the private sector procurement by corporate led a shortfall of four million tonne in 2006-07, against a target of 15 million tonnes. These developments are being seen as a deliberate strategy by the government for relaxing MSP operations in favor of bigger private sectors to procure food grain in the future. However, the 18th report of the Parliamentary Standing Committee on food had asked the ministry for a specific clarification on why FCI was using the services of certain private subsidiaries of commodity exchanges for foodgrain purchase when forward trading in wheat and rice was banned by the government. The panel recommended that buying foodgrain through private companies be discouraged. The ministry of food in response to the panel said that the NCMSL and NBHC are the service providers not the procurement companies and they are not even paid the one percent of the trade fees.

From the situations that arose with difficulties in procuring by the government agencies, it is noted that the Government adopted a policy of keeping the Minimum Support Price low in order

to reduce food procurement. The Economic Survey of 2005-06 states that in recent years the Government deliberately restrained increases in the MSPs “the price policy for Rabi and Kharif crops announced modest price increases in the past five years. The Government’s policy of restraint in announcing hike in MSP of principal cereals is likely to address the problems associated with excessive concentration on production of two crops, namely, wheat and rice.” The reason behind restraining the MSP is that it deliberately wants the peasants to shift away from wheat and rice to other crops <sup>10</sup>. (See Annexure1 for the MSP Recommended by CACP for different crops) The new guidelines by the government which allows the private sector involvement primarily in those areas where procurement major FCI had weak infrastructure and state government establishments were not adequate for the procurement operations.(<http://www.rupe-india.org/42/failure.html>)

#### **4.11 Public sector organizations in Procurement**

Apart from the FCI there are other organisations established for the purpose of procurement and marketing of various crops at both state and national level.

##### **4.11.1 Cotton Corporation of India**

The Cotton Corporation of India (CCI) was established as a public sector agency in the year 1970. CCI was organized for handling imports, purchasing domestic raw cotton to safeguard the interest of growers and consumers, imparting the needed stability to cotton prices in the long run and for maintaining the supplies to government and private textile mills. It makes the price support as well as commercial purchase to provide price support to the cotton growers in different states except Maharashtra. Maharashtra does not allow the traders to buy cotton from

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<sup>10</sup>The Government’s official *Economic Survey 2005-06*, claims that large Government procurement hurt private traders and discouraged them from expanding in the field of agricultural marketing: “Reduction of private trade in wheat and rice in the northern states of Punjab and Haryana also possibly led to the ‘crowding out’ of private investment in agricultural marketing channels.” So the Government wants to encourage private investment in agricultural marketing by keeping the MSPs low, and diverting more grain into the hands of private trade.

farmers. The Maharashtra state cooperative cotton growers marketing federation has been designated as the state agency to buy all the cotton offered by the farmers at a pre-decided price.

#### **4.11.2 Jute Corporation of India**

Jute Corporation of India was set up in 1971, by the government of India to implement the policy of price support to farmers. The main objective of the JCI is to ensure the jute growers set a reasonable price for their produce and save them from exploitation by the middle men. It undertakes purchase of raw jute from the growers at the minimum support price so that the market price of raw jute does not fall below the MSP level at any time

#### **4.11.3 Commodity Boards**

The commodity boards are essentially producer controlled organisations with government monopoly power over a broad range of functions starting with production, processing and marketing of crops. These boards function under the purview of ministry of commerce, government of India. The state government has little control over these boards; these boards are mainly confined to plantation and commercial crops in India.(See Table 4.6)

Table-4.6 Important commodity boards set up and functioning in the country

Coffee Board	1940
Rubber Board	1947
Central Silk Board	1949
Tea Board	1953
Tobacco Board	1975
Spices Board	1986
Cardamom Board	1966
Areca nut Board	1966

Coconut Board	1981
Cashew nut Board	1966
National Horticulture Board	1984
National Dairy Development Board	1965
National Oilseeds and Vegetable oils Development Board(NOVOD)	1983

Source : [www.agrico-op.nic.in](http://www.agrico-op.nic.in) ,[www.dacnet.nic.in](http://www.dacnet.nic.in)

#### **4.11.4 Agricultural and Processed Food Products Export Development Authority**

The Agricultural and Processed Food Products Export Development Authority (APEDA) was established by the government of India under the ministry of commerce in 1986, under the agricultural and processed food products export authority act, 1985. The main objectives of APEDA are to maximize foreign exchange earnings through increased agro exports for providing higher incomes to the farmers through higher unit value realization, to create employment opportunities in rural areas for encouraging value added exports of farm products and to implement schemes for providing financial assistance to improve post harvest facilities to boost their exports. APEDA has brought qualitative changes in the agricultural marketing system and environment and has increased the credence of agri- business in the products. (Acharya,2004: 328)

#### **4.11.5 Directorate of marketing and inspection**

The Directorate of Marketing and inspection (DMI) earlier known as Central Marketing Department was established under Agricultural Produce (Grading and Marking) Act of 1937, and later amended in 1986. The present AGMARK standards cover quality guidelines for 205 different commodities.

#### **4.11.6 Department of Food Civil Supplies and Consumer Affairs**

At national level this department manages the affairs connected with the procurement, distribution and import-export of food grains. The objective of this department is to monitor the prices of essential commodities, maintenance of regular supply of food by regulation of stocks, collection of levy and implementation of policy relating to public distribution system. At state level also there are departments of food and civil supplies with almost the same objective

#### **4.11.7 North Eastern regional Agricultural Marketing Corporation**

The government of India set up the North Eastern Regional Agricultural Marketing Corporation (NERAMAC) in 1982 to help foster development of agricultural marketing in North-Eastern states of Assam, Arunachal Pradesh, Tripura, Mizoram, Manipur, Meghalaya and Nagaland. The main activities assigned to NERAMAC are to promote domestic marketing, processing, post harvest handling and exports. It acts as a central agency to implement the central government policies and programmes and coordination in the states to ensure overall development of agricultural and allied commodities marketing.

#### **4.11.8 Central and State Warehousing Corporations**

The Central Warehousing Corporation (CWC) was established on 1957 under the central warehousing corporation act, for scientific reliable storage facilities for agricultural commodities and to act as an agent of government for the purchase, sale, storage and distribution of these commodities. CWC has created warehouses at places at all India level whereas in the states, state warehousing corporations (SWCs) have been established for carrying similar functions in the important markets and towns of the state.

#### **4.11.9 State Agricultural Marketing Boards**

Agricultural produce market acts of the state agricultural marketing boards in the early seventies state agricultural marketing boards were established in 19 states. However, there is considerable



variation in the organisation, functioning and composition of the state agricultural marketing boards from state to state.

The main functions of these boards are:

- To tender advice the government on the functioning of the market committees and on improvements in agricultural marketing as and when referred to
- To frame bye-laws, help in the functioning of market committees supervise their operations and help auditing their accounts,
- To create market infrastructural facilities for grading and standardization, construction of market yards and sub-yards, market roads and link roads in the markets, and
- To carry out the training of officers and staff in various marketing activities and also conduct research in solving the problems connected to marketing of agricultural commodities. (Acharya, 2004 : 328-336)

#### **4.11.10 Cooperative Marketing Organisations**

In the last few decades a large number of farmer's cooperative marketing organisations have been established in the states for undertaking marketing and processing functions on behalf of farmers. Cooperative marketing in India is four tiered structure. The primary marketing societies are at the base level and district/regional federations function at the district level. There are state marketing federations at the state level and national federations at the country level. NAFED and NCDC are national level federations.

#### **4.11.11 National Agricultural Cooperative Marketing Federation**

The National Agricultural Cooperative Marketing Federation of India is an apex organisation of marketing cooperatives in the country. It was setup in 1958 to strengthen cooperative marketing by promoting interstate trade and export of agricultural commodities with the primary objective of helping the farmers. The state level marketing federations, a state level commodity marketing

federations are its constituent members.

#### **4.11.12 National Cooperative Development Corporation**

The National Cooperative Development Corporation was set up in 1963, under the act of parliament for promoting, guiding and supporting rural economic activities on cooperative principles. The corporation supplements the efforts of the state governments in promoting cooperatives. It provides financial assistance to cooperative societies through or on the guarantee of the state governments.

#### **4.11.13 Tribal Cooperative Marketing Federation of India**

The Tribal Cooperative Marketing Federation of India (TRIFED) was established in 1987 to develop the system of marketing of forest products produced by the tribal's in the country. It arranges marketing and export of minor forest products produced by the tribal's in their areas to protect them from exploitation by the private traders because of poor demand.

#### **4.11.14 Panchayat Raj Institutions (PRIs) and Self-Help Groups (SHGs)**

The Panchayat raj system is a nationwide movement ensuring democratic decentralization and creating a sense of confidence among the villagers in the sphere of decision making. Government of India has recently accorded PRIs a constitutional status. Today we have 2.2 lakh Panchayat, 4,567 Panchayat samitis and 349 zilla parishads. Having acquired status of self governance, Panchayats are appropriate bodies to undertake various marketing activities in rural areas for the benefit for the farmers by making the system more efficient and sensitive to the marketing requirements.

Apart from panchayati raj institutions, voluntary non-governmental organisations and self-help groups plays an important role in the improvement of the marketing system at the farm and village levels. (Acharya, 2004)

## **4.12 Private Procurement Agencies**

### **4.12.1 National Collateral Management Services Limited (NCMSL)**

NCMSL is one of the country's leading organizations providing a bouquet of services to manage risks across various stages of commodity and inventory handling under a single umbrella. Incorporated in 2004, under the provisions of the Indian Companies Act, 1956, their pan-India operation provides commodity handling and risk management services to clients across the country. Apart from this they are geared to handle operations encompassing the sale, purchase, trading, and movement of commodities & inventories.

NCML is the first private procurement agency to be engaged by the Government of India (GOI) to procure commodities under the Minimum Support Price (MSP) operations. It was a leading private service provider to Food Corporation of India (FCI) in Orissa (Odisha), Madhya Pradesh, Bihar, Rajasthan and Uttar Pradesh. It procured and handled close to two million tonnes of paddy and wheat on behalf of FCI under MSP operations since 2005-06. By these services alone they reached more than 0.5 million farmers.

Their procurement services are provided through 40 regional offices, 500 Centers / Mandis. Apart from the procurement, they also encourage the farmers to open the bank accounts in Orissa so that they can get pay cheque from the agency on their name for the paddy delivered. Along with procurement team consists of agri - professionals with experience in handling agricultural commodities in various parts of the country. With over three years experience in handling logistic-intensive procurement operations for the FCI, STC, Private Companies etc, NCML is also fully geared to offer procurement services to Corporate & Traders.  
(<http://www.ncmsl.com/index.asp>)

### **4.12.2 National Bulk Handling Corporation (NBHC)**

NBHC is one of the India's leading integrated commodities and collateral management company

distinguished as the first such service provider in the country to obtain an ISO 22000:2005 certification and a 'Category F' membership of GAFTA (The Grain and Feed Trade Association, UK). It is part of a unique commodity ecosystem, which provides Complete Solutions in Commodity and Collateral Management. It delivers customized and secure solutions to enable customers to increase revenues, decrease costs, mitigate risks and leverage business opportunities on a pan-India level. It has demonstrated its ability to "Add Value to Commodities" which is exhibited by its track record of consistently delivering invaluable quality service to its customers and associates. It has a pan-India presence managing storage facility (warehouses and cold storages) under the lease and franchisee basis, covering an expanse of over million MT capacity. (<http://www.nbhcindia.com/aboutus/aboutus.html>)

#### **4.13 Summary**

India carefully built a food security system which was based on the dual objective of protecting small farmer's livelihoods through price regulation, and the food rights of the poor through the Public Distribution System with a network of 5 lakh fair price shops to provide affordable food. Having created a scarcity in the public distribution system, the government is now proposing to increase food prices and reduce ration quotas even for the households below the poverty line. As it is, 90 percent of the rural poor spend 60 percent of their income on food, and recently UNICEF has reported that one third of the worlds mal-nourished children are in India. However this food security and food sovereignty network is being ignored. By inviting the private agencies to procure food grains on the government's behalf might give good response initially, but in the long run it has to be monitored as farmers concerns should be the responsibility of the government not corporate sector. If India has to be close to achieving food security, it has to have effective procurement and for that the government needs to be the major player.

## **CHAPTER-5**

### **PADDY PROCUREMENT PROCESS IN ORISSA**

#### **5.1 Profile of Orissa**

Orissa is situated in the east coastal region of the country. Its geographical area is 4.7% of India's landmass making it 8<sup>th</sup> largest state and 3.47 percent of India's total population making it eleventh largest as per 2011 census (see Table 5.1); nearly 85% of its population lives in the rural areas and depends mostly on agriculture for their livelihood.

Figure 5.1 Map of Orissa including districts



Source: [www.maps of india.com](http://www.maps of india.com)

Table 5.1 Socio-Economic Profile of Orissa

Sl.No	2011 Census	In Figures
1	Total Geographical Area in sq. kms	1,55,707
2	Total population	4,19,74,218 Male: 2,12,12,136 Female: 2,07,62,082
3	Decadal growth rate 2001 – 2011 (in %)	+14 %
4	Density of Population per Sq. Km.,	270
5	Sex Ratio (Females per 1,000 males)	979
6	Total Urban Population	70,03,656
7	Total literate & Literacy rate (Excluding 0 – 6 population)	2,67,42,595 72.9%
8	Total male literate & literacy rate Total female literate & literacy rate	1,50,89,681 (81.6%) 1,16,52,914 (64.00%)
9	Total Scheduled Castes Population & percentage to total population	71,88,463 (17.1 %)
10	Total Scheduled Tribes Population	95,90,756 (22.8%)
11	Number of Districts	30
12	Number of Tehsils	317
13	Number of Grama Panchayats	6,232
14	Total Number of Villages	51,313
15	Number of statutory towns including census towns	116
16	Number of Municipal Corporations	03
17	Number of Municipalities	47
18	Number of Assembly Constituencies	147
19	Number of Lok Sabha Constituencies	21

Source: <http://rcOrissa.gov.in/socio-economic>

Orissa is blessed with rich natural resource endowment, having forest area of 58,136 sq kms (37% of Geog. Area), coast line of 480 km, abundant water resources and net irrigated area 28.56 lakh hectares. It is also a mineral rich state in the country with large reserves of many important minerals. (see Table 5.2) In spite of this natural wealth, Orissa is one of the poorest states in India.

Table 5.2 Mineral Reserves in Orissa

Sl.No	Mineral Reserve	In Million Tonnes	All India percentage
1	Coal	65,121	27%
2	Iron Ore	5,074	33%
3	Bauxite	1,806	55%
4	Nickel	174	92%
5	Chromite	170	95%

Source: [http://planningcommission.nic.in/plans/stateplan/present/Orissa .pdf\(2011-12\)](http://planningcommission.nic.in/plans/stateplan/present/Orissa .pdf(2011-12))

## 5.2 Orissa: Agriculture

Orissa is primarily and essentially an agricultural state. Agricultural sector supplies the bulk of wage goods required by the non-agricultural sector and the raw material for a large section of industry. Transport, marketing, processing and utilisation also have a strong bearing on the tertiary sector of the economy. It also provides a chief source of capital for the exploitation of vast natural resources like minerals and forests in which the state is rich. By examining the paramount importance of agriculture for the overall economic development of the state, P.S. Lokanathan Committee recommended for a rise in productivity of agricultural sector for an impressive increase in the state per capita income in early sixties. (Mishra, 2000). It is stated that agriculture sector provides the both direct and indirect employment to around 65% of its total workforce as per the 2001 census. Agriculture in the state continues to be characterised by low productivity due to traditional agricultural practices with inadequate capital formation and low investment, the inadequate irrigation facilities and uneconomic size of land holdings. 62% of cultivable land is under the rain fed and is exposed to the vagaries of the monsoons. (Ray, 2005)

The per capita availability of cultivated land which was 0.39 hectare in 1950-51 has declined to 0.16 hectares in 2002-03. 81.98% of the cultivable land is held by small and marginal farmers as per agricultural census 1995-96, most of these farmers do not have the means to make adequate

investment in agriculture because of poverty. Though agriculture is the complex and multi-dimensional enterprise its development largely depends on the actors like agro-climatic conditions, technology inputs, system of landholdings and other socio-economic factors.

Agriculture in state which contributes about 26% of the state SGDP and about 65% of the workforce still depends on agriculture. The average size of land holding is 1.25 ha.in the state. Most of the small and marginal farmers constitute about 83% of the farming community, the state is divided into the ten agro climatic zones on the basis of its soil structure, topography, vegetation, humidity and rainfall .(See Table 5.3)

Table 5.3 Agro climatic zones of the state.

Agro climatic zone	Districts
One- North-Western Plateau	Sundergarh and Deogarh
Two- North-Central plateau	Mayurbhanj and Keonjhar
Three -North Eastern coastal Plain	Balasore, Bhadrak and Jajpur
Four -East and south eastern coastal plain	Cuttack,Jagatsinghpur,Kendrapada,Puri,Khurda,&Nayagarh
Five-North eastern Ghat	Ganjam, Gajapati,Rayagada,Phulbani
Six-Eastern Ghat high land	Koraput,Nowragpur
Seven-South eastern Ghat	Malkangiri
Eight-Western undulating zone	Kalahandi,Nauapada
Nine -Western central table land	Bolangir,Sonepur,Bough,Sambalpur,Bargarh,Jharsuguda
Ten- Mid central table land	Dhenkanal,Angul

Source: Status of Agriculture in Orissa, 2008.

These agro climatic zones are important for the various crops which are cultivated in these districts.

The average rainfall is 1452mm, of which about 80% is confined to monsoon months (June-September). Total irrigation potential is 27.63 lakh hectares in Kharif and 13.31 lakh hectares in Rabi season, the total food grains production in the state during 2007-08 was 92.13 lakh tones, which is 4.06 % of the national food grain production.



The per capita availability of cultivated land which was 0.39 hectares in 1950-51 declined to 0.13 hectares in 2006-07. In 2000-01 there were about 40.67 lakh operational holdings in the state out of which marginal and small land holding accounts for 83.8%, medium for 15.9% and the large farmer holding is less than 1%. The majority small size of the operational holdings along with the poverty of people poses a big challenge for its agricultural growth.(See Table 5.4)

Table 5.4 Category of farmers in state

Farmers land holding	No. Of Holdings In lakhs	Area in lakh hectares.	% to Total
Marginal (<1.0 ha)	22.95	11.55	23
Small (1-2 ha)	11.4	15.44	30
Semi-medium(2-4 ha)	5.00	13.44	27
Medium (4-10 ha)	1.45	8.17	16
Large (> 10 ha)	0.13	2.21	4
Total	40.67	50.81	

Source: Status of Agriculture in Orissa, 2008.

According to the agriculture report (2008) the present scenario in land holdings is that more than 50% of the farmers in the state either own or rent a piece of land for cultivation. The reasons for the low productivity is largely connected with the financial ability to have more inputs in cultivation by the small and marginal farmers in the state

Table 5.5 Food grains, area and production in Orissa from period 1950-51 to 2007-08

Years	Area in lakh ha.			Production in lakh MT			Productivity in Kg per ha.		
	Cereals	Pulses	Total	Cereals	Pulses	Total	Cereals	Pulses	Total
1950-51	40	4	44	21	2	24	510	520	546
1960-61	40	5	45	38	2	40	943	443	906
1970-71	49	8	57	44	5	49	898	552	847
1980-81	52	17	69	51	9	60	982	514	865
1990-91	50	21	71	59	11	70	1181	551	992
1998-99	49	16	65	58	6	64	1180	391	989
1999-00	51	16	67	56	7	63	1108	403	937
2000-01	49	14	63	50	5	55	1032	365	884
2001-02	49	17	66	75	7	82	1526	400	1232
2002-03	47	13	60	36	4	40	767	349	675
2003-04	49	16	65	71	6	77	1444	379	1178
2004-05	49	17	66	70	6	76	1414	378	1154
2005-06	49	19	68	74	8	82	1513	422	1211

2006-07	49	19	68	74	9	83	1520	444	1213
2007-08	49	20	69	83	9	92	1695	458	1339

Source: Status of Agriculture in Orissa 2008.

In Table 5.5 food grain consists of cereals and pulses from the above table we can see the area, production and yield of food grains from 1950-51 to 2007-08 of the state. Years of high production are the years where there is no natural calamity. We can refer to Table 5.6 on natural calamities in Orissa and correlate it with Table 5.5 on food grain production.

Table 5.6 Natural Calamities occurred in the state year wise

SL.No.	YEARS	NATURAL CALAMITY
1	1965	Severe Drought
2	1966	Drought
3	1967	Cyclone & Flood
4	1968	Cyclone & Flood
5	1969	Flood
6	1970	Flood
7	1971	Cyclone & Flood
8	1972	Drought & Flood
9	1973	Flood
10	1974	Flood&Severe drought
11	1975	Flood
12	1976	Severe Drought
13	1977	Flood
14	1978	Tronados,&Hailstorms
15	1979	Severe Drought
16	1980	Flood&Drought
17	1981	Flood,Drought&Tornado
18	1984	Drought
19	1985	Flood
20	1987	Severe Drought
21	1990	Flood
22	1992	Flood& Drought
23	1996	Severe Drought
24	1998	Severe Drought
25	1999	Severe Cyclone
26	2000	Drought & Flood
27	2001	Flood
28	2002	Severe Drought
29	2003	Flood
30	2004	Moisture stress
31	2005	Moisture stress
32	2006	Moisture stress&Flood
33	2007	Flood

Source: Status of Agriculture in Orissa,2008.

### **5.3 Orissa: Agriculture Policy**

Recognizing the importance of this sector and its contribution to the state's economy the state government has come up with a comprehensive agricultural policy. This gave agriculture the status of an industry. During the tenth plan the agriculture sector is projected as one of the growth engines for accelerating the pace of development of the state. The first State Agriculture Policy of 1996 was set up with the aim of doubling the production of food grains and other crops by generating adequate employment opportunities in the rural sector and eradication of rural poverty within a specific time frame. The main objectives those set out in the State Agriculture Policy of 1996 was to uplift the agriculture with integrating the employment opportunities in the state.

- Encouraging the rural youth to participating in agricultural activities by promoting the commercial marketable crops, to create the entrepreneurship by encouraging horticulture which will also creates an opportunity to have skilled labours for the modern agricultural practices. By providing mechanisation for agriculture, establishing of agro based industries and food processing units to help the farmers.
- Providing of irrigation facilities up to 50% of the land by completing the incomplete irrigation projects and also by adopting integrated programmes for the problematic soils such as water logging, soil erosion, waste land, saline and alkaline lands along those with silt cultivation .
- By promoting private players in marketing of the agricultural produce along with identifying of the thrust crop in the different agro climatic areas and to reorient the agriculture towards exports. (Ray,2005:193)

### **5.4 Cropping Pattern**

Rice/paddy is the principal food crop of the state. The “Integrated Cereal development programme for Rice” was adopted and being implemented in the state since 1995, with an objective of augmenting paddy production and enhancing productivity in terms of rice by

adopting a package of scientific practice. A major component of this programme was to increase coverage of area under High Yield Variety (HYV) seeds. Despite of having inadequate irrigation facilities, shortage of HYV seeds, low use of fertilizers and pesticides, there has been a significant expansion of area under HYV crops in the state. HYV paddy Area increased by 97.76% during the period of 1998-99 to 2002-03.

The paddy crop in the state occupies about 44.47 lakh ha. (41.18 lakh ha. during Kharif season and 3.29 lakh ha. during rabi season). The entire Rabi area in the state is irrigated and covered by HYV paddy where as the Kharif paddy area by irrigation is about 36%. The yield rate of rice is 1.7 tonnes/ha. as against national average of 2.1 tonnes/ha. (See Table 5.7)

Table 5.7 Rice crop share in area, production and productivity

Years	Area in lakh ha.			Production in lakh MT			Productivity Kg/ha		
	Kharif	Rabi	Total	Kharif	Rabi	Total	Kharif	Rabi	Total
1950-51	38.5	0.1	38.6	20.0	0.1	20.1	520	600	520
1960-61	37.7	0.3	38.0	37.2	0.2	37.4	988	697	986
1970-71	43.3	1.4	44.7	39.1	1.9	41.0	902	1387	917
1980-81	40.2	1.7	41.9	40.3	2.7	43.0	1003	1571	1026
1990-91	41.9	2.1	44.0	48.4	4.3	52.7	1156	2019	1198
1998-99	41.8	2.7	44.5	48.9	5.0	53.9	1169	1889	1212
1999-00	42.2	3.8	46.0	42.8	9.1	51.9	1013	2389	1127
2000-01	42.3	2.0	44.3	41.7	4.4	46.1	987	2136	1041
2001-02	42.3	2.7	45.0	65.7	5.8	71.5	1154	2127	1589
2002-03	40.9	1.8	42.7	28.2	4.2	32.4	690	2352	759
2003-04	42.5	2.5	45.0	62.0	5.3	67.3	1459	2112	1496
2004-05	42.0	2.9	44.9	58.8	6.5	65.3	1401	2230	1455
2005-06	41.54	3.25	44.79	62.49	7.14	69.63	1504	2193	1554
2006-07	41.36	3.14	44.50	61.96	7.32	69.28	1498	2328	1557
2007-08	41.18	3.29	44.47	68.26	7.88	76.14	1658	2393	1712

Source: Status of Agriculture in Orissa, 2008

The Agricultural Policy of 1996 accords priority to multiplication of high yielding variety of seeds by replacing the traditional varieties which is being used in the state for long time. The seed multiplication is through the departmental agricultural firms such as , Orissa State Seeds Corporation, Seed Village Programme and along with private registered seed growers. The

Certified seeds are supplied to the farmers through its 628 departmental sale centers located in all over the 314 blocks of the state. (Ray, 2005:195)

With a hope of getting more yields the Kharif areas were brought under irrigation, where as the Kharif rice/paddy is cultivated in all types of lands even on sub-marginal lands. The tribal hill areas where tribal farmers cultivate paddy with a least or no agri inputs by which they obtain low yield. These farmers generally go for mixed cropping so as to compensate with the other crop.

As the operational units are small and fragmented, and less scope of small and marginal farmers adopting to the new technology. The farmers were brought under the institutional finance for getting the crop loan for better productivity. The government initiated to improve the productivity by implementing the centrally sponsored programme “work plan rice development”. Functioning since 2001-02, under this programme farmer were given trainings and to have rich experience they were taken to exposure visits to other areas. This scheme is now replaced with National Food Security Mission since 2007-08.

To achieve the target of 25% Seed Replacement Rates (SRR) for the paddy by the end of eleventh plan, 6lakhs quintals of seed will be produced. It is observed that in Orissa the SRR is low by which there is less productivity(The SRR refers to the percentage of area of crop in which improved/certified seeds are being used in a given crop season)at present the SRR rate is 10% for paddy the most important crop of state. (Orissa Agricultural Policy Report, 2008)

To provide better returns for the farmers, the government of Orissa in its eight plan had made efforts to divert more than 2 lakh hectares of paddy cultivable land into remunerative

cropping,(commercial cropping) it is observed that 70% of the cultivated area is covered under paddy cultivation. The shift from paddy to cash crops to ensure better returns were encouraged. It also encouraged the farmers to go for other crop along with paddy those suitable for their cultivation. Most of these programmes were in low rainfed districts of the KBK region, cotton crop was promoted in 2002 where it recorded 0.47 lakh bales and it went on increased to 1.42 lakh bales by 2003-04. Apart from this crop promotion of horticulture, vegetables, potato in river bed regions, oilseeds, spices were also promoted as the alternative farm income crop to the farmers.

Table 5.8 Surplus/Deficit of food grains Production & Consumption

<b>Years</b>	<b>Projected Population in Lakhs</b>	<b>Adult Population @88% in lakhs</b>	<b>Total Requirement in MTs</b>	<b>Total Production in MTs</b>	<b>Surplus/ Deficit in MTs</b>
1998-99	350.85	308.75	73.54	63.78	-9.76
1999-00	357.91	314.96	75.02	62.65	-12.37
2000-01	365.10	321.28	76.53	55.35	-21.18
2001-02	371.03	326.51	77.77	82.33	4.56
2002-03	377.06	331.81	79.04	40.44	-38.60
2003-04	383.19	337.21	80.32	77.37	-2.95
2004-05	389.41	342.68	81.62	75.89	-5.73
2005-06	395.74	348.25	82.95	82.21	-0.74
2006-07	402.16	353.90	84.29	82.98	-1.31
2007-08	408.70	359.66	85.67	92.13	6.46

Source: Status of Agriculture in Orissa, 2008.

From Table 5.8 we can analyse that the surplus and deficit of food grain for the population of the state. We can see that only two years show a positive surplus trend, in 2001-02 and 2007-08. While Natural calamities continue to be there in one form or the other in the state, there are numerous projects implemented in the state with help of both state and central government for development of agriculture.

## 5.5 Fertilizer Use

For any better output of agriculture productivity manure plays a very vital role, in protecting the land fertility, whether it is chemical or organic/ natural in nature. The use of the chemical fertilizers increased in the state. It was 33.52 kg per hectare in 1989 and increased to 39 kg per hectare by 2003. This was very much emphasized in the 1996 agricultural policy of state to use for usage of fertilisers (Ray, 2005:205)

According to the State Agricultural Policy 2008, the fertilizer consumption in the state is 53 kg per hectare as compared to the national average which is more than 100 kg per hectare. (see Table 5.9) The policy mainly emphasized on the balanced fertilization with application equal to the plant need and soil nutrient content.

Table 5.9 Fertilizer consumption per hectare from 1961-62 to 2007-08

Year	Consumption kg/hect.
1961-62	0.76
1971-72	7.25
1981-82	9.68
1991-92	19.96
2001-02	41.00
2002-03	39.00
2003-04	39.00
2004-05	43.00
2005-06	46.00
2006-07	47.00
2007-08	53.20

Source: Status of Agriculture in Orissa, 2008

The chemical fertiliser usage in the state has taken a great strides from a meagre 0.76kg/ha. during 1961-62 to 53.2kg/ha. by 2007-08 but below the national average, further it can be raised on with the availability of the materials and required quantities at affordable price.

Table.5.10 showing the details of Sowing, Harvesting and Marketing period of different crops in both the seasons

### KHARIF

Crops	Sowing period	Harvesting period	Peak marketing period
Paddy	May – August	September-December	October-January
Ragi	May-July	August-November	September-November
Mung	June-August	August-October	September-November
Biri	June-August	August-October	September-November
Groundnut	June-July	September-November	October-December

### RABI

Crops	Sowing period	Harvesting period	peak marketing period
Paddy	December-February	April-May	May-July
Wheat	November-December	February-April	March-May
Mung	October-February	January-May	December-April
Biri	October-February	January-May	December-April
Kulthi	September-November	December-January	January- February
Groundnut	October-February	January-May	February-May
Mustard	September-December	December-March	January-April
Potato	October-December	January-March	February-March
Onion	November-December	March-April	March-April

(Source: Directorate of Agriculture & Food Production, Orissa ([www.Orissa.gov.in](http://www.Orissa.gov.in)))

From Table 5.10 it is noticed that only few crops like paddy, Mung, Urad and Groundnut is cultivated in both the Kharif and Rabi seasons in Orissa.

Table.5.11 Production of Different Crops in Orissa from 2000-01 to 2007-08(figures in000'MT)

Sl.No.	Crops	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08(p)
1	Rice	4613.00	7148.98	3243.6	6734.00	6537.00	6963.00	6928.00	7613.58
2	Wheat	20.12	27.26	18.91	25.18	21.83	23.67	23.78	27.86
3	Ragi	151.55	144.59	127.49	139.71	142.01	141.81	144.25	165.29
4	Mung	153.88	239.58	151.5	200.14	211.02	269.11	293.13	306.05
5	Urad	142.87	225.96	134.28	184.41	184.95	218.32	242.83	254.7
6	Groundnut	228.41	333.55	217.23	336.68	351.28	342.39	378.91	428.89
7	Sesamum	59.79	103.9	43.8	76.5	88.38	103.79	105.95	N.R
8	R&M	25.54	39.21	25.33	32.51	29.01	39.63	40.71	41.37
9	Potato	85.86	78.4	70.32	75.82	16.51	16.44	79.31	94.25
10	Onion	229.42	172.53	238.79	240.34	241.85	243.87	260	277.37

(Source: Directorate of Agriculture & Food Production, Orissa([www.Orissa.gov.in](http://www.Orissa.gov.in)))

Note: R-Rape seed, M-Mustard, NR-Not Reported



Table 5.11 clearly indicates that rice /paddy is the major crop cultivated in Orissa and there is not much substantial change in production in last eight years. But we can see that there is an increase in production of other crops especially oilseeds (sesame, groundnut, rapeseed & mustard), pulses (Mung & Urad), millet crop Ragi, wheat and crops like onion & potato. This new Agricultural Policy adopted by the government of Orissa also has given importance for the development of other commercial crops in the region to avoid dependence on other states. The state is willing to provide all the infrastructure help for the cultivation of these crops.

### **5.6 Agricultural Marketing**

In Orissa markets are generally classified as primary markets, secondary wholesale markets situated at the district headquarters or near railway stations and terminal markets, where the produce is assembled for further distribution within the state or for exports. (Mishra.R.C, 2000)

Mishra pointed out that the regulation of the marketing is done in Orissa, under the provisions of Orissa Agricultural Produce Market Act 1958 and marketing rules of 1958. The basic objective of this regulation is to protect the producer-sellers from the clutches of unscrupulous businessmen and to ensure competition in the market yard to provide better price to the producer and sellers. (Mishra. R.C, 2000:50)

The marketing federation works as the apex organisation under a two tier structure supported with 52 regional co-operatives marketing societies and 15 cooperative cold storages. Apart from this there is Orissa State Tribal Development Cooperation and Orissa Oil Seeds Growers' Federation those functioning as apex marketing institutions. Along with the supporting of the institutions there are another 214 Large Size Agricultural and Multipurpose Societies (LAMPS) who provides a package of services at a single contact point.

The other Cooperative Societies which functioning in state:

- One society of the Jute Marketing Cooperative,
- Two societies of Coconut Growers Marketing Cooperative,
- Nineteen societies of the Cashew-nut Marketing Cooperative,
- Two societies of Betel Leaf Marketing Cooperative,
- Four societies of Forest Marketing Cooperative,
- Twenty seven societies of Fruit and Vegetables Cooperative,
- Twenty five societies of Cotton Growers Cooperative,
- Three societies of Sabai Grass Cooperative and One society of Onion Cooperative. (Roy 2005: 207)

Orissa is a major rice producing state with total sale of paddy within and outside the village by different categories of cultivators at 44.20% of production. Major quantity of the produce is sold within the village, small and medium cultivators sell major portion of their marketed surplus within the village while the large cultivators sell a major proportion of their marketed surplus outside the village. Total sales in the post-harvest period are larger than those in the rest of the year.

Regulated Market Committees (RMCs) were established as per the provisions of the Agricultural Market Produce Acts. The main objective of RMCs is to facilitate backward and forward market integration of agricultural produce, which ultimately leads to remunerative price realization to the producers and availability of quality produce to the consumers. Orissa State Agricultural Marketing Board (OSAM) is the authority and controlling body of all the RMCs in functioning in the state.

The agricultural policies of state emphasized more on marketing of agriculture produce there was an amended in The Orissa Agricultural Produce Marketing Act (OAPM) in June 2006 which allows the 'Establishment of Private Markets' and 'Contract Farming' by any person or Company or a Cooperative Society in the state. By this reformin the legal framework for agricultural marketing will enable a private sector investment in agribusiness and permit contract farming activities which benefits the farmers of the State. (Orissa Agricultural Policy, 2008)

Mr. Khan<sup>1</sup> (2008) pointing to the Agriculture situation in Orissa, referred to the Economic Survey of 2006-07, placed before the State Assembly. According to the report, agriculture forms 27 per cent of the GSDP of state and its growth rate is slower than the national average. The reasons for the slower growth is partly attributed to lower or negative growth in agriculture, the per capita income of state is around Rs.12, 000 compare to all India average which is around Rs.20, 000. The known fact is that it has one of the highest levels of poverty in the country. Where the scope for non-farm income is slow and the stagnation of agriculture will have serious livelihood implications on the small and marginal farmers, who account for more than 80 per cent of the farming community as well as agricultural labourers. There is potential immense for agricultural development of state as it has good water resources and blessed with 10 agro climatic zones, making use of it to grow various crops, along with other commercial crops. This will give a lot of scope for agro industries for value addition in the agricultural sector which has largely remained undeveloped.

A summary of the challenges from the survey regarding agricultural development in the state is presented:

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<sup>1</sup>. This is the text of speech delivered on 15<sup>th</sup> February 2008 at the valedictory session of the Programme on Financing Agriculture in Orissa by Mr. Khan (Executive Director, Reserve Bank of India) organized by the College of Agricultural Banking, Pune in Bhubaneswar.

1. Low productivity due to small holdings and recurrent natural calamities
2. One-third of the agricultural land is alkaline or saline, need of remedial treatment
3. Agriculture in the State is cereal focused and mono-cropping
4. Poor extension and research support (e.g. water, fertilizer, seeds, etc.)
5. Low fertilizer usage compared to national level.
6. Low credit flow and Fragmented markets
7. Poor social infrastructure in terms of health and education
8. Focus of Self-Help Groups and microfinance is less on agriculture relatively to turnover activities like dairy and less focus on untapped allied sectors (viz. fisheries, poultry) and Low use of Information Technology. (Khan 2008)

The National Policy of 2008 for farmers has envisaged by focusing more on the economic wellbeing of the farmers, rather than just on production. The decline of public investment in agriculture is one of the main reasons behind the low productivity and low capital formation in this sector. Private investment in agriculture which is also been slow must be stimulated through appropriate policies.

The need for the better procurement depends on better marketing facilities. As of now there are not much marketing facilities in the state as it is mentioned in the reports.

### **5.7 Paddy Procurement in Orissa**

The history of procurement of food grains in Orissa dates back to World War II and immediate post war years when there was acute shortage of food in the country as a whole. Rice was the only food grain which was procured from Orissa and there exists no single and uniform method of procurement during this period.

Orissa was all along a surplus state in rice and the scarcity was not felt till 1940. There was a scarcity of food due to failure of rice crop in Orissa during 1940-41 coupled with the difficulties in obtaining rice from the central government as the war broke out and there was also a large scale purchase of food grain by the government for the army posted in India. Soon after World War II, with the enactment of Defense of India Rule, 1939 and the subsequent passage of the Essential Supplies Act in May, 1940, the provincial governments were empowered to exercise control over prices of the food grains and the government of India issued notification on 5<sup>th</sup> December 1941 for fixing the maximum wholesale price of wheat/rice and asked the other provincial governments to enforce this control order in their geographical areas. The government of Orissa accordingly issued various control orders in the state such as fixing maximum statutory prices for all major food grains, issuing fair price lists, publishing whole sale price bulletins and forming price advisory committees. However no maximum prices are fixed or enforced in the state in the respect of paddy and rice which was the major food grain in the state.

Orissa cooperated with the centre and participated in the working of the basic plan as a surplus state. But during the period of “Modified Free Trade Policy” which operated in eastern India to unearth the hoarded supplies of rice, the rice traders from Bengal took advantage of the situation. As there was no control imposed by the government on the movement and stock of rice, Bengal traders captured Orissa supplies of rice at a higher rate and the price in Orissa rose almost to Bengal level. As a result the harvest price for rice in Orissa on an average rose by 50% every year from 1941-42 to 1943-44 and the discrepancy in the prices in Orissa and Bengal increased.

This led to an impact on the poor consumers in Orissa and there were some starvation deaths during 1943-44.(Nayak,2002)

Faced with the scarcity of food and inflation during the war period, the government realised the futility of price control and rationing without any control over supply of food grains. Thus in order to control supply, procurement of foodgrain was considered essential in 1943. The government of Orissa procured more than 10% of the total produced paddy by means of monopoly procurement. It meant directing the flow of all rice/paddy sold in the wholesale market into the hands of the government. This system of monopoly procurement was voluntary in character under which the stocks offered by the producers were purchased by the government. The producer's price for paddy and rice were fixed by the government of Orissa for the whole of the crop year. The procurement operation was carried on through one or more of the purchase agents appointed by the government in the primary markets of both paddy and rice. The director of civil supplies closely supervised the entire procurement operation. The private channel in marketing and procurement of rice and paddy also existed but no private trader was allowed to buy or sell more than 10 mounds of paddy and rice under the provision of food grain control order of 1940. It also further provided that no license holder was entitled to hold a stock of more than 10 mounds of rice and paddy at any time unless he was a procurement agent or sub-agent of the government.

Strict regulations were enforced by the state on movement of food grains from one part to another part of state, the export movement from two border districts Balasore and Mayurbhanj

were completely prohibited. All this facilitated the government to have procurement machinery to command over the market surplus of paddy and rice in the state.

Orissa continued to be a marketable surplus in rice in the post war years. In 1946 when the government of Orissa fixed the statutory prices of rice and paddy, there was a move to fix the prices at a higher level in the interest of the growers of the state. The Rath committee's<sup>2</sup> main argument was that rice and paddy being a cash crop and commercial assets of the province, reduction in their prices would affect adversely the trade balance of the province, and secondly that the neighbouring provinces were not reducing the prices and therefore it is not justifiable to lower the prices in Orissa. (Mishra 1985:66)

The procurement policy is drafted on the guidelines by the Department of Food and Civil Supplies, Government of India for the concerned states where the procurement operations are to be taken under the guidelines by the concerned state governments. It is the state government which fixes the target of procurement on the data availability on production and it divided among the procurement agencies which are in operation of paddy procurement.

The need for procurement of food grains is to build up buffer stocks and to stabilise prices seasonally. A large section of agricultural producers in our country comprises of small and marginal farmers who sell their surplus just after the harvest to meet their cash needs. In absence of effective procurement machinery they hardly get any remunerative price for their produce mainly due to the supply glut during the period. These farmers are to be supported as well as proper incentives are provided through a system of support cum incentive price.

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<sup>2</sup> Committee Chairman on State Civil Supplies Price Enquiry Committee, Government of Orissa, 1969

For the procurement operations there were many organisations which were given permission for the procurement of paddy in the state. These agencies procure on the guidelines given by both the governments at the state and centre. Paddy procurement depends on the production of the crop though it varies from district to district but the total state production is taken in account and procurement target is fixed.

Table5.12 Target fixed by the Government of Orissa from 2003-04 to 2008-09

Year	Target in Lakh MT of Rice
2003-04	15
2004-05	20
2005-06	20
2006-07	22
2007-08	25
2008-09	31

Source: policy papers of procurement govt of Orissa.

Table 5.12 presents the target fixed by the government for the procurement of rice in terms of lakh MT and the target is distributed among the procurement agencies throughout the state. (For further details see Annexure 5&6policy papers for procurement of paddy in Orissa)



Table 5.13 Detailed district -wise production of Paddy and Rice from 2003-04 to 2007-08.

**DISTRICT-WISE PRODUCTION OF PADDY AND RICE IN ORISSA**

(Fig. in 000' MT)

DISTRICT	2003-2004		2004-05		2005-06		2006-07		2007-08(P)		AVERAGE	
	PADDY	RICE	PADDY	RICE	PADDY	RICE	PADDY	RICE	PADDY	RICE	PADDY	RICE
Angul	247.46	168.27	225.40	153.27	263.42	179.12	230.14	154.19	133.53	89.46	219.99	148.86
Balasore	557.02	378.77	642.45	436.87	567.40	385.83	987.38	364.15	541.06	362.51	659.06	385.63
Baragarh	969.48	659.25	798.75	543.15	833.14	566.53	915.01	613.06	844.76	565.99	872.23	589.60
Bhadrak	467.63	317.99	541.73	368.37	509.84	346.69	451.58	302.56	493.77	330.83	492.91	333.29
Bolangir	485.92	330.43	380.16	258.51	456.00	310.08	477.92	320.20	593.90	397.91	478.78	323.42
Boudh	198.04	134.67	147.81	100.51	157.62	107.18	169.60	113.63	162.21	108.68	167.06	112.93
Cuttack	243.75	165.75	421.90	286.89	455.63	309.83	310.80	208.24	392.57	263.02	364.93	246.75
Deogarh	108.85	74.02	62.82	42.72	102.76	69.87	101.22	67.82	86.03	57.64	92.34	62.41
Dhenkanal	321.75	218.79	254.36	172.96	344.56	234.30	245.80	164.69	332.99	223.10	299.89	202.77
Gajapati	98.28	66.83	95.30	64.81	71.24	48.44	103.09	69.07	112.06	75.08	96.00	64.85
Ganjam	669.21	455.06	581.12	395.16	514.23	349.68	865.47	579.86	926.88	621.01	711.38	480.15
Jagatsinghpur	190.66	129.65	268.65	182.68	256.40	174.35	207.00	138.69	240.54	161.16	232.65	157.31
Jajpur	249.67	169.78	273.31	185.85	362.78	246.69	270.65	181.33	307.30	205.89	292.74	197.91
Jharsuguda	154.89	105.33	101.49	69.01	154.31	104.93	170.89	114.50	152.21	101.98	146.76	99.15
Kalahandi	535.79	364.34	436.70	296.96	464.97	316.18	438.51	293.80	556.23	372.68	486.44	328.79
Kandhamal	126.74	86.18	115.52	78.55	109.48	74.45	115.48	77.37	109.50	73.36	115.34	77.98
Kendrapada	265.96	180.85	312.12	212.24	355.19	241.53	227.42	152.37	313.49	210.04	294.84	199.41
Keonjhar	517.60	351.97	419.98	285.59	428.10	291.10	395.42	264.93	516.07	345.77	455.43	307.87
Khurda	236.30	160.68	274.34	186.55	312.38	212.42	297.59	199.38	281.44	188.57	280.41	189.52
Koraput	298.10	202.71	316.42	215.16	337.57	229.54	334.67	224.23	410.60	275.10	339.47	229.35
Malkangiri	171.30	116.48	180.84	122.97	195.24	132.76	185.77	127.47	215.10	144.12	189.65	128.76
Mayurbhanj	752.68	511.82	742.00	504.56	704.79	479.26	748.40	501.43	850.86	570.07	759.75	513.43
Nayagarh	231.02	157.09	181.56	123.46	239.79	163.05	227.98	152.75	264.57	177.26	228.98	154.72
Nowrangpur	406.55	276.45	353.00	240.04	308.72	209.93	326.50	218.76	343.09	229.87	347.57	235.01
Nuapada	209.85	142.70	141.49	96.21	156.14	106.18	179.69	120.39	300.75	201.50	197.58	133.39
Puri	302.98	206.03	407.09	276.82	429.96	292.38	368.01	246.57	414.92	278.00	384.59	259.96
Ravagada	164.81	112.07	162.93	110.79	108.25	73.61	164.58	110.27	196.69	131.78	159.45	107.71
Sambalpur	386.97	263.14	385.40	262.07	445.71	303.08	437.28	292.98	459.04	307.56	422.88	285.77
Sonepur	259.13	176.21	310.63	211.23	381.98	259.74	417.12	279.47	356.83	239.08	345.14	233.15
Sundargarh	373.99	254.31	369.96	251.57	364.89	248.13	413.36	276.96	454.56	304.56	395.35	267.11
<b>TOTAL</b>	<b>10202.38</b>	<b>6937.62</b>	<b>9905.24</b>	<b>6735.56</b>	<b>10392.49</b>	<b>7066.89</b>	<b>10784.33</b>	<b>6931.12</b>	<b>11363.55</b>	<b>7613.58</b>	<b>10529.60</b>	<b>7056.96</b>

(Source: Directorate of economics and statistics, govt of Orissa)

Table 5.13 shows the district wise paddy and rice production for the years from 2003-04 to 2007-08. From the Table, it can be noted that Bargarh (the district chosen for a case study) tops the state in both paddy and rice in all the years, followed by the Mayurbhanj, Ganjam, Gajapati, Balasore, Bhadrak, Kalahandi.

## 5.8 Agencies Procuring Paddy in Orissa

Table 5.14 Procurement done by the agencies for the last five KMS from 2004-05 to 2008-09

Paddy purchase year	Name of the agency	Target fixed for the KMS	Target allotted to the all agencies	Target fixed for govt. agency	Total paddy procured	Total rice delivered to the FCI	% procured by agency to total procurement
KMS 2004-2005	Miller Agent	<b>2000000</b>	1536721	0	2633081	1313463	86%
	OSCSC		125000	125000	140119	90341	4.52%
	PACS		60000	60000	86973	56946	2.85%
	MARFED		45000	45000	53849	35536	1.78%
	NAFED		48000	48000	46825	30898	1.54%
	FCI		200000	200000	83909	55030	2.75%
	<b>TOTAL</b>		<b>2014721</b>	<b>478000</b>	<b>3044756</b>	<b>1582214</b>	
KMS 2005-2006	Miller Agent	<b>2200000</b>	1304200	0	1967152	963442	61.4%
	OSCSC		270000	270000	385700	253279	11.51%
	PACS		116700	116700	121421	78978	3.59%
	MARFED		111000	111000	154668	100464	4.57%
	NAFED		161000	161000	178216	116982	5.32%
	FCI		140000	140000	93625	61852	2.81%
	NCMSL		200000	200000	301125	190885	8.68%
	<b>TOTAL</b>		<b>2302900</b>	<b>998700</b>	<b>3201907</b>	<b>1765882</b>	
KMS 2006-2007	Miller Agent	<b>2200000</b>	467000	0	482031	229694	15.44%
	OSCSC		579000	579000	812003	535169	24.33%
	PACS		113000	113000	117235	76285	3.47%
	MARFED		248000	248000	290904	194033	8.82%
	NAFED		400000	400000	465719	307425	13.97%
	TDCC		15000	15000	20050	13103	0.6%
	FCI		149830	149830	185738	122451	5.57%
	NCMSL		520000	520000	750015	491635	22.35%
	<b>TOTAL</b>		<b>2491830</b>	<b>2024830</b>	<b>3123695</b>	<b>1970795</b>	
	Miller Agent		176000	157000	131763	62027	2.48%
	OSCSC		800000	1003000	1404164	944238	37.77%
	PACS		140000	87500	121316	78998	3.16%
	MARFED		255000	285000	393144	260308	10.41%

KMS 2007-2008	NAFED	<b>2500000</b>	366000	543000	754330	511572	20.46%
	FCI		190000	50000	62037	38556	1.54%
	NCMSL		390000	420550	558595	376522	15.06%
	NBHC			196000	149977	98288	3.93%
	TDCC		55000	64000	58138	38270	1.53%
	STC			20000	1856	1250	0.05%
	<b>TOTAL</b>		<b>2372000</b>	<b>2826050</b>	<b>3635320</b>	<b>2410029</b>	
KMS 2008-2009	Miller Agent	<b>3100000</b>	100850	215050	202764	96127	3.10%
	OSCSC		1030000	1721000	2489799	1679216	54.17%
	PACS		150000	299150	304715	179415	5.79%
	MARFED		285000	450000	584326	394239	12.72%
	NAFED		425000	597000	717942	484324	15.62%
	FCI		755000	755000	106612	66979	2.16%
	TDCC		55000	77000	86293	58189	1.88%
	<b>TOTAL</b>		<b>2800850</b>	<b>4114200</b>	<b>4492451</b>	<b>2958489</b>	

Source:FS&CW Dept. Govt of Orissa, 2009.

In Orissa from the beginning the paddy procurement business or methods were not followed systematically. Since, five years there are few national, state, private agencies including millers who are actively working in the procurement business yielding mutual benefits for both farmers and themselves too. The agencies involvement gave the farmer a wider choice to sell his produce on MSP. This highlights a healthy practice of procurement system which must be encouraged.

The changes in the procurement percentage of the various agencies in the last five years of Kharif Marketing Season (KMS) as seen in Table 5.14 are briefly discussed:

**KMS 2004-2005:** In this marketing season the millers dominated the procurement as their share stood at 86% of total state procurement of paddy. Other agencies had minimal procurement.

**KMS 2005-2006:** The monopoly of the millers reduced with involvement of new procurement agencies including private. Millers share dropped to 61.4%, with OSCSC share rising to 11% and private sector NCMSL share around 8%.

**KMS 2006-2007:** This year the share of both OSCSC and NCMSL rose to 25% and 22.35% respectively, while the share of the millers fell sharply to about 15%. This shows how the implementation of the decentralized procurement scheme had an impact of healthy procurement process in the state.

**KMS 2007-2008:** This season saw a continuation of the highest procurement by OSCSC at 38%, while NCMSL share was 15%. Two new private agencies entered the state for procurement - NBHC and STC. This season saw the growing role in procurement of NAFED (20%).

**KMS 2008-2009:** This year as the private procurement agencies were banned the share of govt. agencies increased steeply. OSCS share was more than fifty percent of the procurement of state and NAFED continued to be a major player. The FCI share gradually came down because of private agencies staying away. The domination of the millers that was seen before the decentralized procurement scheme was lost and millers became small players in procurement.

### **5.9 Agencies and their performance in Procurement of Paddy and Delivery of Rice in Orissa**

Paddy is a crop and after harvesting and milling it is Rice. The agencies procure paddy and get it milled, the paddy milling specification differs from each state to state depending on the quality of the paddy cultivated. In Orissa the specification is that between 66%-68% of paddy should be milled (Example: if a mill receives 1000 quintals of the paddy after milling under specification the amount of 660 quintals of rice should be delivered). The levy is 75% on the millers in the state, which means out of 660 quintals they have to give 495 quintals to government and the rest 165 quintals is allowed to sell in the open market by the millers.

The objectives of levy in Orissa are to : i) Minimizing the smuggling of paddy and rice to the adjoining deficit states like west Bengal and Bihar. ii) Ensuring a remunerative price to the producers and iii) securing maximum stocks of rice for effectively operating of the Public Distribution System and for buffer stock requirements of the state<sup>3</sup>. (Mishra, 1985:174)

### **5.9.1 Food Corporation of India (FCI)**

According to the act of FCI, it started its operation in Orissa in year 1967, and the main functions were:

- To undertake the purchase, storage, movement, distribution and the sale of food grains in the state; To set up or assist in the setting up of the rice mills, flour mills and other undertakings for the processing of food grains and other food stuffs;
- To procure paddy, mill and supply rice to the fair price shops at the direction of the state government and to export rice to the deficit states and to import wheat and wheat products from the surplus states to Orissa .
- The role of Food Corporation of India in Orissa has been in respect of procurement, storage, movement, distribution of rice for internal consumption and export to other deficit states as an agent of the government of Orissa .(Mishra 1985: 98)

The bulk supply of paddy and rice are marketed in the post harvest period while the demand for them is spread throughout the year. The FCI in Orissa, from its inception till 1975 has played a dominant role in the procurement of paddy and rice in the state. After 1975 the corporation ceased to be a procurement agent of the state government of Orissa and departmental

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<sup>3</sup> Referring to the report submitted under the chairmanship of the Food Commissioner Mr.Kukreja a Committee known as “Committee on Improvement of Procurement System and Costing of Rice” which submitted its report in october 1974. P.8

procurement drive by the government was resorted. The FCI has also implemented the price support programme while undertaking the procurement of rice and paddy. It is pointed out that in Orissa the FCI has appointed agents and subagents for the procurement of paddy who were millers and non-miller agents. Their number varied from district to district the study revealed that miller sub agents are more than non-miller agents and this provided an ample scope for the smuggling of rice from Orissa to other states as these miller sub-agents mostly dominate the procurement drive on behalf of the corporation, leading to a price differential for rice in the home market and the outside market. This narrows down the best opportunities present in procurement. The wide year to year variations in the number of sub-agents of the corporation has affected efficiency in the procurement drive, as the agents appointed for one year are not sure about being continued for the next year.

FCI in Orissa was purchasing only rice in form of levy from the millers since 1982-83. To meet the requirement of food grains under various schemes of Government it started intervening in the market by purchasing paddy directly from the farmers in Kharif Marketing Season of 2001-02, Under the Decentralized Procurement scheme. Under this scheme of procurement the State has to procure and utilize the rice in the Public Distribution System. The State participated in the procurement operation by direct purchase of paddy through the Orissa State Civil Supplies Corporation and 4 (four) other state agencies. But the major target was put on FCI during the KMS 2006-07. The State Government has fixed a target of 22 lakh MT of rice out of that 4.67 lakh MT is fixed for Levy rice to be procured by FCI from Rice Millers and 6, 49,180 MTs of CMR through direct purchase of paddy by FCI and its agency National Collateral Management

Services Limited (NCMSL). The balanced Custom Milled Rice (CMR) target is been given to the State Government Agencies for procurement.

National Collateral Management Service Limited (NCMSL) is a private warehousing company. It is the first private agency to work with the government in procurement process of paddy in Orissa, as an agency of FCI.

### **5.9.2 Procurement of paddy by FCI through NCMSL- A Public Private Partnership Model**

The Ministry of Food through its vide letter No.167 (23)/2005-PY.I dated 24.11.2005 has approved NCMSL to purchase paddy on behalf of FCI which is also approved by Govt. of Orissa, that the agency will purchase of paddy on behalf of FCI in Orissa as per the state Food and Procurement Policy.

Table: 5.15 FCI percentage share of the agency in delivery of rice to the state target

Year	Target of the state (lakh MT)	FCI percentage share
2004-05	2000000	55030(2.75%)
2005-06	2200000	61852(2.81%)
2006-07	2200000	122451(5.57%)
2007-08	2500000	38556(1.54%)
2008-09	3100000	66979(2.16%)

Source: FS&CW Dept., Bhubaneswar.

Table 5.16 NCMSL percentage share in delivery of rice to the state target

Year	Target of the state (lakh MT)	NCMSL percentage share
2005-06	2200000	190885(8.68%)
2006-07	2200000	491635(22.35%)
2007-08	2500000	376522(15.06%)

Source: FS&CW Dept., Bhubaneswar.

Table 5.17 Paddy Procurement and rice delivered by NCMSL and FCI for the year 2006-07

KMS (2006-07)	Target allotted in MT	Target fixed in MT	Total paddy in MT procured	Total rice delivered in MT to FCI
FCI	149830	149830	185738	122451
NCMSL	520000	520000	750015	491635
<b>Total</b>	669830	669830	935753	614086

Source: FS&CW Dept., Bhubaneswar.

From the Table 5.15, 5.16 & 5.17 it is observed that the paddy procured by the NCMSL and FCI combined is high i.e. 27.29% of the total share among the state target. The procurement throughout the state achieved for the same target of 22 lakh Mt of rice in 2005-06 was 80.27% has increased to 89.58%. It is also clear from the three tables that procurement of rice by the new private agency NCMSL is much higher than the older FCI.

While paddy procurement by Food Corporation of India (FCI) in the State is not very encouraging, the discriminatory policy adopted by the Food Ministry is discouraging many leading commodity management agencies from the procurement business. Agencies like National Collateral Management Services Limited (NCMSL), National Bulk Handling Corporation (NBHC) and State Trading Corporation (STC) were in the procurement business on behalf of the FCI (details of procurement by NBHC & STC See Table-5.28). The FCI had procured about five lakh tonnes through these agencies but these warehousing companies stayed away from paddy procurement for the year 2008-09 as the price offered by the FCI was not remunerative.

None of these agencies responded to the FCI tenders as the procurement price offered was Rs 70 less than the benchmark price. While the State agencies are paid Rs 1,535 per quintal of rice, the regional office of the FCI was asked to keep the benchmark price at Rs 1,465. As these agencies



were deprived of incidental charges, none of them showed interest in procurement. Ironically, STC is a Government of India concern. The State became the ultimate loser because of the dual pricing policy of the FCI. The National Agriculture Federation (NAFED), an apex cooperative body, stopped procurement mid-way as FCI refused to provide incidental charges that include transportation and gunny bag cost. NAFED which was procuring paddy on behalf of FCI last year was appointed as the State agency this Kharif season. However, FCI agreed to pay the incidental charges to NAFED following the intervention of the then Union Food Minister Sharad Pawar, after the then CM Mr. Naveen Patnaik took up the case with the central government. After the central government intervention the state had set a rice procurement target of 8 lakh tonnes for FCI as against the total target of 31 lakh for KMS2009-10 whereas the central agency has procured about 48,000 tonnes till January 2010<sup>4</sup>.

### **5.9.3 National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED)**

NAFED was established in 1958, and it is registered under the Multi State Co-operative Societies Act. It was setup with the aim to promote Co-operative marketing of Agricultural Produce to benefit the farmers. The farmers are the main members of this organisation, who have the authority in the form of members of the General Body, in the working of NAFED.

NAFED in Orissa started procuring paddy from 2004, having its presence in 14 districts. The pressure from the state government to procure paddy from entire state made NAFED keep itself away from paddy procurement due to lack of infrastructure and manpower for paddy procurement. Ironically, NAFED procures other crops also in the same state.

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<sup>4</sup> See Express buzz, Wednesday, January 06, 2010 on Agencies staying away from procurement

Table 5.18 NAFED percentage share in delivery of rice to the state target

Year	Target of the state (lakh MT)	NAFED percentage share
2004-05	2000000	30898 (1.54%)
2005-06	2200000	116982 (5.32%)
2006-07	2200000	307425(13.97%)
2007-08	2500000	511572(20.46%)
2008-09	3100000	484324(15.62%)

Source: FS&CW Dept., Bhubaneswar.

From the table 5.18 it is clear that the share of NAFED has increased from 13.97% in KMS 2006-07 to 20.46% in KMS 2007-08 but the percentage share has come down to 15.62% in the year 2008-09. As there was a problem relating with the FCI in paying of the incidental charges in year 2008-09, as the procurement of the NAFED was 30 thousand MT in 2004-05 and it rose to 1 lakh MT in 2005-06 and 3 lakhs MT in 2006-07 and 5 lakh MT in 2007-08 but slightly decreased in 2008-09 to 4 lakh MT. The reasons for this given by the agency is lack of infrastructure and the increase in number of districts compared to last season.

#### **5.9.4 Orissa State Civil Supplies Corporation Limited (OSCSCLTD)**

OSCSCLTD was established in 1980 as a fully owned State Government company under Companies Act, 1956. This Corporation makes efforts to devise new approaches to expand its horizon of activities with changing needs. The Corporation maintains a no profit no loss status, in order to fulfill its commitment to serve the poor segments of the society. The corporation activities are supported by the State government which in times recompenses the losses of the Corporation after taking into account of all the revenue generated and expenses incurred by means of subsidy.

This civil supplies department caters the public distribution system in the state and at present is the major paddy procurement agency in the state. PACS, SHGS and other social organizations' are working with civil supplies to achieve the target. It operates throughout the state and

monitors the procurement process and even checks the mills and movement of the paddy from one district to another. If there is a movement of any grain without proper paper work or permission from the concerned authorities people are booked under the Essential Commodities Act.

#### **5.9.4.i The Public Distribution System (PDS)**

The PDS has played an important role in ensuring food security and reducing poverty. The system operates through a network of fair price shops where the central government is in charge of procurement, storage, and supply of PDS commodities and also bears the cost of the operations. The state government 'lifts' the commodities and distributes them to the retail PDS outlets (fair price shops) across the state at subsidized prices. The efficacy of PDS in Orissa, in terms of the extent of utilization and degree of income transfers affected through PDS, is briefly reviewed.

The degree of utilisation of PDS depends upon several factors like the extent of PDS in relation to allocation, the effective functioning of the fair price shops, the extent of food beneficiaries in the state, and above all the difference between the issue price and the open market price is adjusted for quality differences.

The state government claims that the functioning of the PDS is satisfactory in the state. As against the claim, Justice Wadhwa committee suggested that, there are still certain critical evaluations to be done for more effective functioning of PDS. In the report the committee highlighted that the state still adopts the MoRD survey criteria of 1997 to identify the BPL families, resulted in large number of inclusion and exclusion errors. It further says that, the approval of MoRD survey (of 2002) in 2005 by central government to form a basis of BPL census is not followed strictly by the State in issuing of BPL cards to authentic beneficiaries due to which there is an increase in BPL ghost cards leading to discrepancies in functioning of effective PDS in the state. The PDS control order 2001, which states that the state governments

shall get the list of BPL and Antyodaya Families reviewed every year for the purposes of deletion of ineligible families and inclusion of eligible families<sup>5</sup>.(<http://pdscvc.nic.in/orissa-report.htm>)

#### **5.9.4. ii Targeted Public Distribution System**

Targeted Public Distribution system (TPDS) introduced by the Central government in June 1997, Government of India has identified 32.98 lakh BPL families in the state and they were issued separate ration cards to families belonging to BPL and APL. Foodgrains are allotted every month for distribution to these families at a price fixed by the Government of India. The BPL price of rice is on the basis of central issue price. Keeping in view of the low purchasing power in some of its tribal areas, the state government further subsidised the price of foodgrain to provide 16 kg of rice per month at Rs 4.75 per kg. The state government has made a provision for the supply of subsidised rice to 48.58 lakh families, those including 5.06 lakh BPL families under Antyodaya Anna Yojana (see below). It is reported that BPL families of the state are entitled to get the benefits under the TPDS.

The development report states that apart from the TPDS other two major schemes like Antyodaya Anna Yojana (AAY), Annapurna Scheme (APY) and indirect income transfers have been launched. It found that the flexibility is must for public distribution system to cater enough to the requirement of the BPL families, majority of who are wage earners on daily or weekly basis. It is felt that majority of them cannot afford to purchase the increased quota of BPL rice in one installment so in view of this; the State Government issued a necessary instructions to issue the BPL rice to the BPL card holders at least in two installments in a month. (Orissa Human Development Report, 2004, [www.orissa.gov.in](http://www.orissa.gov.in))

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<sup>5</sup> Justice Wadhwa committee report on Public Distribution System in Orissa (Orissa ), submitted to Supreme Court in 2009 under Right to Food Case

The food grains through PDS is supplied throughout the state with the network of 29945, fair price shops which includes private, SHG, cooperative, municipality, G.P, and Maitry in both urban and rural areas.

#### 5.9.4.iii Position of FPS and Ration Cards in the state

Table 5.19 FPS functioning in Orissa.

CATEGORY	As on 31.05. 2008		
	URBAN	RURAL	TOTAL
Private owner	3633	13918	17551
Co-operatives owned	134	687	821
O.S.C.S.C. through Maitry	43	11	54
Municipality/NAC	11	NIL	11
By Grampanchayat	NIL	3236	3236
By Self Help Groups	653	6996	7649
TOTAL	4474	24848	29322

CATEGORY	As on 31.03. 2009		
	URBAN	RURAL	TOTAL
Private owner	3499	14125	17624
Co-operatives owned	130	658	788
O.S.C.S.C. through Maitry	38	14	52
Municipality/NAC	12	NIL	12
By Grampanchayat	NIL	3466	3466
By Self Help Groups	657	7346	8003
TOTAL	4336	25609	29945

Source: F.S& C.W. Department, Govt of Orissa.

From Table 5.19 it is noticed that the private traders are encouraged in rural areas compared to 2008 they have increased in 2009. The cooperatives decreased and the self help groups have increased from 7649 in 2008 to 8003 in 2009 the overall total increase in the FPS is 623 throughout the state. The entitlement and allocations are fixed for the schemes and the food grains are distributed as per the scheme wise to the card holders under the subsidized price announced by the government.

Table 5.20 District wise No. of Ration Cards as on 2007-08

Sl. No.	Name of the District	BPL	APL	AAY	AY
1	Angul	98047	96463	29750	1967
2	Balasore	187498	154958	84010	3472
3	Bargarh	140841	137280	51453	2471
4	Bhadrak	103885	125099	46080	2263
5	Bolangir	166343	152742	52959	2519
6	Boudh	58382	24794	17186	650
7	Cuttack	167896	311966	48605	4038
8	Deogarh	34128	8930	12922	480
9	Dhenkanal	100732	79758	36145	1940
10	Gajpati	58706	46669	20872	932
11	Ganjam	276168	289606	79620	5534
12	Jagatsinghpur	73791	208307	25421	2076
13	Jajpur	137497	131809	45662	2837
14	Jharsuguda	36608	83397	8560	914
15	Kalahandi	153388	103299	55122	2315
16	Kandhamal	92111	29459	29567	1118
17	Kendrapada	108503	197900	36536	2353
18	Keonjhar	185975	115419	59890	2736
19	Khurda	126300	260096	39385	3074
20	Koraput	186176	77242	64305	2108
21	Malkangiri	76422	41582	24127	864
22	Mayurbhanj	295782	166557	99640	3857
23	Nawarangpur	113426	32206	51539	1733
24	Nayagarh	101045	94973	30049	1602
25	Nuapada	85130	34067	26601	961
26	Puri	150546	119540	42111	2672
27	Rayagada	105975	58103	43824	1461
28	Sambalpur	96393	133068	28930	1656
29	Sonepur	62514	56650	25836	976
30	Sundargarh	178506	233370	48013	3221
	<b>Total</b>	<b>3758714</b>	<b>3605309</b>	<b>1264720</b>	<b>64800</b>

Source: food security section, F.S &amp; C.W, Orissa.(2007-08)

Table 5.20 gives details of the ration cards for the year of 2007-08, as it shows that number of BPL cards are **378714**, APL cards **3605309**, AAY cards **1264720** and APY cards **64800**, as

published by the Government of Orissa . According to them in 2009 the BPL cards are **3791091**, APL cards **3627761**, AAY cards **1264500** and APY cards are the same **64800**. This indicates that people in BPL and APL category has increased while people under AAY scheme decreased and there is no change in AY scheme.

Table 5.21 percentage change in the cards allotted for PDS in the state for the year2008 and 2009.

<b>Cards</b>	<b>2008</b>	<b>2009</b>	<b>% change</b>
BPL	3758714	3791091	1.72
APL	3605309	3627761	1.24
AAY	1264720	1264500	-0.03
APY	64800	64800	0.00

Table 5.21 indicates that BPL cards increased by 1.72% and 1.24% in APL cards. Whereas the decline in AAY cards by -0.03%, but there is no change in APY cards. It shows that the number of people belonging to below poverty line and above poverty line are increasing it means there is existence of bogus cards.

Agarwal (2011) in her study found that there is discrepancy in issuing of BPL cards in the Kalahandi Bolangir Koraput (KBK) region. PDS in this region is universal and state government allocates food grains to all including the APL families. It was found that corruption prevails in issuing of BPL cards which shows the exclusion of original beneficiaries. Maximum number of beneficiaries of PDS in the region wanted better food grains instead of cash transfer to buy food at market. They want better quality food grains supplied to them on time instead of cash<sup>6</sup>.

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<sup>6</sup> Survey report of 12 villages in KBK region where the beneficiaries of PDS rejected cash for food by Ankita Agarwal : The PDS in Rural Orissa: Against the Grain, EPW 2011.

Another study on the TPDS found that 61.4 percent of the ration card holders in rural Orissa have a ration shop within their village and for the rest 30.3 percent of card holders it is within a radius of 2 km. However, available evidence suggests that the access to and the utilisation of PDS by the poor in Orissa is very limited as pointed out by a local NGO SPREAD in KBK region. ([www.spread.org.in/documents/PH\\_PDS\\_2010.pdf](http://www.spread.org.in/documents/PH_PDS_2010.pdf))

The state government under the Orissa Public Distribution System Control Order 2002, have issued instructions to all the district collectors to see that the BPL beneficiaries can lift their quota on installment basis and as well as to keep the fair price shops open throughout the state during the stipulated period. Along with the food grains an amendment has been made to sell some of the essential commodities through the FPS for the cardholders strictly on the retail issue price fixed by the government. Vigilance Committees were formed from retail to the district level to oversee the functioning of the PDS at each level. It is also noted that strict measures would be taken against the errant dealers and government officials. To avoid fake entries in the ration cards, necessary provisions have been made through this Control Order.

In its human development report it is concluded that the PDS by itself would not provide an adequate food security to the poor. Improvements should be done by increasing the incomes of the poor through abroad-based agricultural growth strategy, which needs to be put in place on a medium to long-term basis.

Apart from the various operations in the state the civil supplies department is the major agency for the paddy procurement in the state for the state pool (See Table 5.22)

Table 5.22 OSCSC Ltd, Percentage share in delivery of rice to the state target

Year	Target of the	OSCSC Ltd
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	state (lakh MT)	percentage share
2004-05	2000000	90341 (4.52%)
2005-06	2200000	253279(11.51%)
2006-07	2200000	535169(24.33%)
2007-08	2500000	944238(37.77%)
2008-09	3100000	1679216(54.17%)

Source: FS&CW Dept., Bhubaneswar.

As the responsible department to cater to the needs through PDS in the state, the civil supplies department not only supplies but also procures under the decentralised procurement scheme. It is a state agency to procure paddy and get the rice delivered under the state pool quota which can be used for the state welfare schemes purpose and the excess is transferred into the account of central pool. There is a increase in procurement by this agency as it has increased from 4.52 % in 2004-05 to 54.17% in 2008-09. It not only procures by itself but also through some agencies like PACS, TDCC, MARKFED, NAFED and SHGs. Along with these agencies it has the contract with the millers by giving them percentage on paddy procured and rice delivered by the mill on its behalf. After exercising the systematic approach in procurement it is observed that there is certain increase in the target of the civil supplies which is a sign of policy implemented well. From the achievement of 90 thousand MT to 16 lakh MT in the span of five years itself shows that how the agency is implementing the policy. As an agency with authority it not only procures but also controls the movement of the food grains in the state. As the agency for the public distribution system in the state, it follows the norms of the central and state sponsored schemes and implements the price policy towards the food grains which has to be delivered through the PDS. Here we see some of the prices of the commodities for the different target groups.

#### **Rice:**

- 12.645 lakhs of Antyodaya Anna Yojanafamilies are supplied 35 kgs of rice at a specially subsidised price of Rs 2.00 a kg Per month since August 2008.

- 37.59 lakhs of BPL families as per 1997 BPL survey and APL families of KBK Districts receives 25 kg of rice at a specially subsidised price at Rs.2.00 a kg.
- 15 kg of rice to each ST/SC student per month for 10 months a year for the hostels run by ST& SC Development Department.
- 10 kg of rice free of cost to 64,800 number of Annapurna beneficiaries in state

**Wheat:** Up to 15 kg per APL card holder per month at Rs.7.00 per kg but subject to availability.

**Levy Sugar:** 2 kg per BPL/AAY card per month at Rs.13.50 per kg.

**Kerosene:** 4 liters per card per month irrespective of APL or BPL families<sup>7</sup>. (Consumer & Welfare Department, Govt of Orissa 2008-09)

### **5.9.5 Primary Agricultural Cooperative Society (PACS)**

Cooperation department was created with the objective of strengthening cooperative movement in the state. Initially it was a part of development department, after bifurcation it functioned under cooperation and forest department. Later it was attached to agriculture and cooperation department entrusted with the responsibility of administration, regulation and monitoring of cooperative societies and regulated market committees in the state.

The directorate is entrusted with the responsibility of implementation of policies and programmes lay down by the government of India and as well as government of Orissa for the benefit of farmers and other economically weaker sections through cooperatives. The directorate looks after administration, supervision monitoring and regulation of cooperative societies in the state.

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<sup>7</sup> Food supplies at a glance a report by Market Intelligence Wing, Food Supplies and Consumer Welfare Dept. Govt of Orissa 2008-09

The cooperative credit structure in the state consisting of 2707 Primary Agricultural Cooperative Societies (PACS) including 213 Large Sized Adivasi Multipurpose Cooperative Societies (LAMPS) those functioning in the tribal sub-plan areas and other six Farmers Services Societies (FSS) at the grass roots level. It has 17 district central co-operative banks (DCCBS) having 323 branches in the state and Orissa state cooperative bank (OSCB) with 14 retail branches to outreach in the rural areas which can be access by the small and marginal farmers and the other marginalized population have been playing a vital role in dispensation of agricultural credit. Till March 2007 there were around 46.35 lakh of agricultural families enrolled in the cooperatives out of 50.14 lakh agricultural families in the state.

The Kisan credit card scheme was introduced in 1998-99 to provide timely credit support to farmers from the banking system with a flexible hassle free cost. The state cooperative banks have issued 26, 90,872 Kisan credit cards to farmer members till march 2007. (Annual Report of the Society, 2009)

PACS was selected as one of the state agency for the paddy procurement under decentralized procurement scheme by the food and civil supply and consumer welfare department.

Table 5.23 PACS percentage share in delivery of rice to the state target

Year	Target of the state (lakh MT)	PACS percentage share
2004-05	2000000	56946(2.85%)
2005-06	2200000	78978(3.59%)
2006-07	2200000	76285(3.47%)

2007-08	2500000	78998(3.16%)
2008-09	3100000	179415(5.79%)

Source: FS&CW Dept., Bhubaneswar.

PACS is not only procuring the paddy for the civil supplies but also for FCI in other districts of the state. There is an increase of the target for this agency in KMS 2008-09 the percentage increase is more than 3% compare to previous year 3.16 %.( See Table 5.23)

#### **5.9.6 Orissa State Cooperative Marketing Federation Limited (MARKFED)**

MARKFED Previously known as Orissa State Cooperative Marketing Society got registered in the year 1949 under Bihar-Orissa Co-operative Societies Act, 1935. It started functioning since 1949. The main objectives of the MARKFED are to distribute chemical fertilizers, pesticides, and other agricultural implements to the farmers of the state. Procurement of agricultural commodities under price support scheme is also carried out by the society to help farmers get fair price of their produce.

Table 5.24 MARKFED percentage share in delivery of rice to the state target

Year	Target of the state (lakh MT)	MARKFED percentage share
2004-05	2000000	35536(1.78%)
2005-06	2200000	100464(4.57%)
2006-07	2200000	194033(8.82%)
2007-08	2500000	260308(10.41%)
2008-09	3100000	394239(12.72%)

Source: FS&CW Dept., Bhubaneswar.

Table 5.22 shows the MARKFED share from the year 2004-05 to 2008-09 has increased more than 10 percent as it stood 1.78% in the initial year of the procurement done by the agency and later increased to 12.72 % by 2008-09. For a government agency it is a positive achievement in paddy procurement.

### 5.9.7 Tribal Development Cooperative Corporation (TDCC)

TDCC is a cooperative society registered under co-operative society act 1962, and it started its functioning in Orissa in year 1969. Prior to its establishment the Tribal's used to sell their collected Minor Forest Products & Surplus Agricultural Products (MFP / SAP) to the private Traders/Money lenders and Sahukars and got exploited in the process.

Food Supplies and Consumer Welfare Department (FS&CW) declared TDCC as the Govt. Agency for procurement of paddy in the State especially in the Tribal Sub Plan (TSP) areas. Under the decentralised procurement scheme, the Corporation procured paddy directly from the farmers in the following tribal districts Kalahandi, Koraput, Malkangiri, Nabarangpur, Nuapada, Sundergarh, Rayagada, Mayurbhanja, Keonjhar, Gajapati and Balasore on payment of Minimum Support Price (MSP) declared by government and supplied Custom Milled Rice (CMR) to FCI / OSCSC. This corporation not only procures paddy but also the minor forest produce is collected from the tribals as well as non tribal communities who are engaged in non-farming activities in these districts.

Table 5.25 TDCC percentage share in delivery of rice to the state target

Year	Target of the state (lakh MT)	TDCC percentage share
2006-07	2200000	13103 (.60%)
2007-08	2500000	38270 (1.53%)
2008-09	3100000	58189 (1.88%)

Source: FS&CW Dept., Bhubaneswar.

Table 5.25 shows the TDCC role in procurement business from the KMS 2006-07 and we can see that their target increased year by year. The share of the corporation in terms of rice in the state target has increased from 0.60% in 2006-07 to 1.88% in 2008-09. The rice procurement

target increased by the government to this agency, in initial year it was given 15 thousand MT and later increased to 55 thousand MT in year 2008-09. The agency also delivered the rice beyond the target given to it as the target for the year 2008-09 was 55 thousand MT and the agency delivered 58 thousand MT of rice to FCI.

### 5.9.8 Rice Millers

Millers play a very vital role in procurement of paddy in state. Earlier these millers were the only procurement agents of the government, to procure paddy from the farmers and give the levy rice to government, the procurement by these millers were not on MSP. For the past 4 years the farmers are getting the MSP from the procurement agencies.

There are 271 rice millers associated with the association of the millers in the state and these mills are both big and small with the total milling capacity of 847.1 MT /hr. Till 2009, the total number of mills associated were divided into three categories of milling of boiled rice, raw rice and both. There are 215 rice mills for boiled rice, 19 mills raw rice and 16 rice mills for both raw and boiled rice and for the rest 21 rice mills data is not available.

Table 5.26 Details of the Rice mills district wise association

Sl.No	Name of the District	Total No. of Mills
01	Angul	03
02	Balasore	19
03	Bargarh	59
04	Bhadrak	20
05	Bolangir	08
06	Boudh	02
07	Cuttack	09
08	Dhenkanal	04
09	Ganjam	18
10	Jajpur	03
11	Jharsuguda	04
12	Kalahandi	24
13	Kendrapada	02
14	Keonjhar	05
15	Khurda	14

16	Koraput	02
17	Malkangiri	01
18	Mayurbhanj	05
19	Nawrangpur	01
20	Nayagarh	14
21	Nuapada	11
22	Puri	08
23	Rayagada	01
24	Sambalpur	26
25	Sonepur	07
26	Sundergarh	01

Source: www.agribusiness.com, 2009

Table 5.26 shows district wise number of mills operating in the state. There are total 271 rice mills in 26 districts whereas Orissa is divided into 30 districts which means 4 districts do not even have a rice mill and those districts were Kandhamal, Gajapati, Jagatsinghpur and Deogarh. Highest number of rice mills is in Bargarh district with 59 rice mills followed by Sambalpur 26, Kalahandi 24 and Bhadrak 20. The millers association of each district decides the rates of commission and milling charges from the agencies and it differs from district to district.

Table.5.27 Rice Millers percentage share in delivery of rice to the state target

Year	Target of the state (lakh MT)	Millers percentage share
2004-05	2000000	1313463(65.67%)
2005-06	2200000	963442(43.79%)
2006-07	2200000	229694(10.44%)
2007-08	2500000	62027(2.48%)
2008-09	3100000	96127(3.10%)

Source: FS&CW Dept., Bhubaneswar.

From the Table 5.25, it is clearly visible that the role of millers in procurement has declined. These millers used to enjoy a monopoly in the business of procurement as the sole agencies to procure and deliver rice to FCI in the state. After the decentralised procurement system, the millers became a mere agency to mill for the procurement agencies in the state. Their share of procurement and delivery has declined from 65.67% to 3.10% in the last five years, the millers

whose target was more than 15 lakh MT in 2004-05, has declined to 1 lakh MT in 2008-09. This is because the MSP given for the CMR rice is more than the levy rice and the millers are unable to buy the paddy on the MSP which made the millers only to go for outsourcing the milling for the agencies by charging the milling price.

Apart from these agencies there were other agencies like NBHC and STC which were in procurement for one marketing year only from 2007-08.

Table 5.28 NBHC and STC paddy procured and rice delivered

KMS (2007-08)	Target allotted in MT	Target fixed in MT	Total paddy in MT procured	Total rice delivered in MT to FCI
NBHC	-	196000	149977	98288
STC	-	20000	1856	1250

Source: FS&CW Dept., Bhubaneswar.

Table 5.28 gives the combine figure of NBHC (private agency) and STC(govt agency) as these two agencies were involved in procurement business for a year only i.e. for the marketing year of 2007-08. The total procurement done by these agencies are 98288MT of rice by NBHC having percentage share of 3.93% and 1250MT of rice by STC and percentage share of 0.05% respectively. It is seen that the procurement done by the private agency is higher than the government agency.

The agencies mentioned in this chapter are procuring paddy in the state apart from the agencies there are self help groups and Pani Panchayat which are procuring paddy on behalf of the civil supplies on commission basis in the villages. We look at the views of the different stake holders in the procurement process in the next chapter.



## **5.10 Summary**

The performance of the government procurement agencies is fairly good. Though these agencies are without proper infrastructure and manpower they are fulfilling the criteria for procurement in the state. These agencies are performing better and their target is increasing year by year which indicates that the new decentralised policy for procurement is not only encouraging the agencies to procure more but at the same time it also ensures that the farmers get the MSP. Private procurement agencies are a strong player in Orissa with high procurement levels. Farmers have benefited from this new DPS as it ensures they get the MSP soon.

In case of rice millers the new system of procurement is not suiting them. This scheme of procurement and the variations in the procurement methods makes the agencies depend on them for only milling. The government has not increased the price of levy rice as of the Costumed Milled Rice (CMR), and the millers lobby felt that they will become the milling agents to these agencies in the state. If this trend continues then the millers will either close down their operations or they will unite to bring pressure on government to implement policies according to their wish. If this happens then it will signal a failure of this new procurement policy that is benefiting the paddy farmers of Orissa.

## CHAPTER - 6

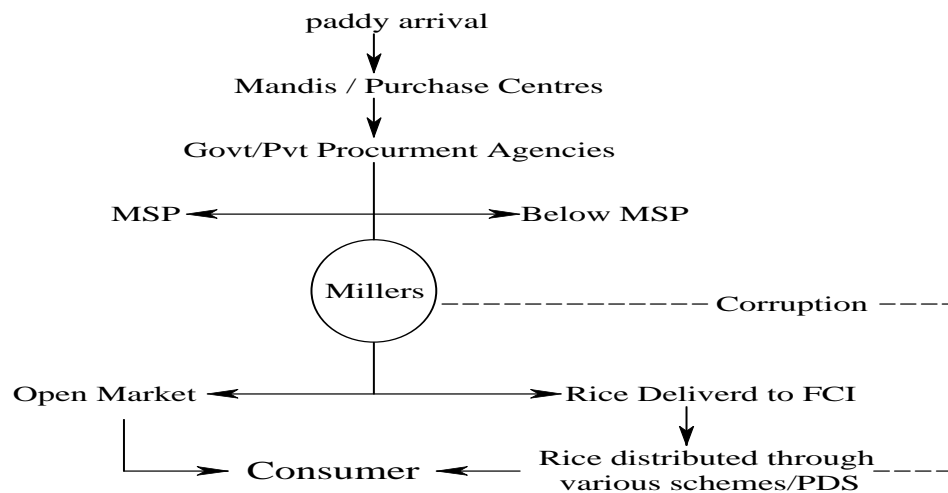
### **Procurement Process of Paddy: A Case Study of Bargarh and Bhadrak Districts, Orissa**

#### **6.1 Introduction**

The previous chapter has given the background information about the agencies procuring paddy in the state. The targets fixed and achieved by the agencies at the State level were explained briefly. The present chapter is a case study where the impact of the procurement policy, the views and knowledge about procurement is examined in the two districts namely Bargarh and Bhadrak of Orissa State. These two districts are chosen as in these districts paddy is the major crop, and these districts are prone to natural calamities like drought and floods. Hence procurement of paddy assumes greater relevance.

Figure 6.1 shows the process of how paddy is procured, processed and delivered.

Fig 6.1 Paddy Procurement process from arrival to delivery



Source: Field Observation by scholar

## 6.2 District profile of Bargarh

Bargarh is one of the western most districts of Orissa. It was carved out as a separate district in March 1993; two sub-divisions namely Bargarh and Padampur separated from the Sambalpur district and formed this new district.

Fig 6.2 Map of District Bargarh



Source: [www.maps of india.com](http://www.maps of india.com)

The district lies between 82° 39' to 83°58' East longitude and between 20°43' to 21°41' north latitude. It is bounded by the Jharsuguda district in north, Bolangir district in south, Sambalpur

district in the east and Nuapada district and small portion of Chhattisgarh in west. The total area of the district is 5832 sq.kms and the administrative headquarter is located at Bargarh.

The district, particularly the area under Padampur sub-division consists of wide expanse of fairly open country fringed by forest clad hills and series of low hill ranges. Another region comprising the blocks in the Bargarh sub-division consists of undulating up lands with elevations between the 146 meters and 288 meters above sea level. This region contained vast area of plain land and consequent upon the construction of Hirakud dam has become a fertile tract. The south western boundary of the district is formed by the hills known as “gandhamardhan” which lies in Padampur area.

The climatic condition of this district is generally hot with high humidity during May and June and cold during December and January. The monsoon generally breaks during the month of June, with annual rainfall of the district 1653.2 mm in 2006-07 which is higher than the normal rainfall(1527.0 mm)

In 2011, Bargarh had population of 1,481,255 of which males and females were 749,161 and 732,094 respectively. In 2001 census, it had a population of 1,346,336. There is a growth of 10.02 percent in the population in between 2001-2011. In 2001, the district recorded increase of 11.53 percent to its population compared to 1991. The density in 2011 was 254 people per sq. km, compared to 231 people per sq. km. in 2001. Bargarh district covers 5,837 square kilometers in area. In 2011, the literacy rate was 74.62 compared to 63.99 in 2001, Sex Ratio was

977 females per 1000 males compared to 976 in 2001 census. 89.87% population of Bargarh districts lives in rural areas<sup>1</sup>.

### **6.2.1 Agriculture**

The net area sown in the district was 317 thousand hectares against 5691 thousand hectares of the state in 2005-06. The production of paddy was 8331367 quintals, 3511 quintals of wheat, 985 quintals of maize, 35327 quintals of Mung, 18903 quintals of Biri, and 3755 quintals of kulthi, 2091 quintals of till, 199554 quintals of groundnuts, 2524 quintals of mustard, 25653 quintals of potatoes and 338315 quintals of sugarcane. The total fertilizer used in the district was about 48.62 thousand MT. The irrigation facility is for 91.22 thousand hectares for Kharif and 57.06 thousand hectares in Rabi season respectively, through major/medium irrigation projects namely Hirakud project, Dhambarbahal extension, improvement to Hirakud Development Plan, Jharbandha Ong dam (P) and Saipal (P)<sup>2</sup>

### **6.3 District profile of Bhadrak**

Bhadrak district is located in eastern part of Orissa. It was carved out as a separate district in 1993 from Balasore. It lies between 86°6'E to 87°E longitude and between 20°43'N to 21°13'N latitude. It is bounded by Balasore district in north, Jajpur district in south, Bay of Bengal in the east and Keonjhar district in the west.

The climatic condition of this district is generally hot with high humidity during April and May and cold during December and January. The monsoon generally breaks during the month of

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<sup>1</sup><http://www.census2011.co.in/census/district/394-bargarh.htm>

<sup>2</sup> District Statistical Handbook, Bargarh 2007, Directorate of Economics and Statistics Orissa.

June. The annual rainfall of the district was 1350.6 mm. in 2006 which is lower than the normal rainfall (1568.4 mm.)

**Fig 6.3 Map of District Bhadrak**



Source: [www.mapsofindia.com](http://www.mapsofindia.com)

In 2011, Bhadrak had a population of 1,506,337 of which males and females were 760,260 and 746,077 respectively. In 2001 census, Bhadrak had a population of 1,333,749 of which males were 675,642 and 658,107 were females. There was growth of 12.94 percent in the population between 2011 and 2001, and between 2001 and 1991 the growth was 20.61 percent. The density in 2011 was 601 persons per sq. km, compared to 532 persons per sq km. in 2001. Bhadrak being a coastal district has a higher density than Bargarh an interior district. Bhadrak district covers

an area of 2,505 square kilometers. In 2011 the literacy rate was 82.78 compared to 73.86 in 2001, Sex Ratio was 981 females per 1000 males compared to 974 in 2001. 12.34% population of the district lives in urban regions of district and 87.66 % population lives in rural areas<sup>3</sup>

### **6.3. 1 Agriculture**

The net sown area of the district in 2006-07 was 169 thousand hectares against 5654 thousand hectares of the state. The agricultural production of the district was 4515748 quintals of paddy, 1428 quintals wheat, 10494 quintals Mung, 4223 quintals Biri, 8 quintals Kulthi, 399 quintals Til, 171 quintals groundnuts, 239 quintals mustard, 4530 quintals potatoes and 131 quintals of jute and 119711 quintals sugarcane. During 2006-07 the total fertilisers used in district was 24.20 thousand MT.

The irrigation facilities during Kharif and Rabi are 88.19 thousand hectares and 12 thousand hectares respectively, through major/medium irrigation projects namely Salandi, Anandapur, Baitarani system, Badahripur creek, Koidoa creek, Haladiganda creek, Nuani creek and Karanji creek.<sup>4</sup>

### **6.4 Methods of Marketing and procurement of paddy in Bargarh and Bhadrak district**

**6.4.1 Bargarh District:**As explained earlier this district is one of the highest paddy cultivating districts in Orissa which is divided into two blocks and three RMCs (Regulated market committees), one in each Bargarh, Attabira and Padampur. Bargarh and Padampur are the two blocks and each RMC has its own market yard for the marketing purpose.

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<sup>3</sup><http://www.census2011.co.in/census/district/402-bhadrak.htm>

<sup>4</sup> District Statistical Handbook , Bhadrak 2007, Directorate of Economics and Statistics Orissa.

### 6.4.2 The facilities provided by the RMC

The RMCS are supposed to have storage facilities, drinking water, shadowtrees, open platform, light facilities, covered platform, grading facility, weighing platform, scientific balance and moisture meter. A visit to the RMCs reveals that all these facilities are available only on paper but not in reality. The weighment (process of weighing paddy) of paddy is done in the mill where the farmers are directed by RMC officials.

After harvesting, the crop is directly brought to the market yards and procurement is done by the procurement agencies by giving MSP to farmers. The paddy is then diverted to the mills for milling by the agencies who send their share of paddy to the mills for which they have contract for milling. Along with the agencies, the millers are also part of the procurement. The market yard system gives accountability for the administration because no farmer is allowed to sell his paddy without FIC (Farmer Identity Card), which is issued by the revenue department of the concerned tehsil. Procurement is done by the government procurement agencies like OSCSC Ltd, NAFED, MARKFED, PACS and FCI, and there were two private procurement agencies NCMSL & NBHC in 2007-08 Kharif Marketing Season (KMS)

Table-6.1 Market yards and Purchase centers in different RMCS in Bargarh District

<b>RMC</b>	<b>Market Yards</b>	<b>Purchase Centers</b>
Bargarh	18	20
Attabira	19	18
Padampur	11	12

Source: Data collected from the respective RMC office

The market yards are open throughout year where as the purchase centers change due to availability of paddy crop. There is a central market yard in Bargarh town where anybody can



come and sell their produce. Generally the farmers were allowed to sell their produce at the market yards within the radius of 2 to 3kms in the respective yard periphery.

Table 6.2 Paddy procured by the agencies in the Bargarh district for the KMS2007-08

Procurement Agency	Paddy procured in MT
FCI	7684.56
PACS	33273
MARKFED	1428515.65
NCMSL	111684.44
NBHC	N.A
OSCSC	N.A

Source: Respective RMC records, Bargarh

The officials of the RMC in this district were unable to provide the accurate data of the paddy procured; the accurate data of the paddy procured by the agencies will be recorded once they pay their RMC tax on paddy, which are calculated 2% on overall paddy procured by the agency and simultaneously 1% on the rice delivered. Once the taxes are paid then they update the records according to it. Till the end of the marketing season the accurate figure will not be given by the RMCs. *(One RMC official said that it is difficult to note down the figures as agencies follow different patterns, some register the quantity in bags and some in quintals, the miller records will give the correct figure which is taken into consideration and the taxes are collected accordingly. The ratio of fee collection is same all over the state)* See Table 6.2 for the figures by RMC.

## 6.5 Bhadrak district

In this district paddy is procured by the agencies from the purchase centers, which are established by them. The agencies have either permanent or temporary purchase centers according to the arrival of paddy and demand for procurement. The procurement is long drawn and spread over many sites, as the farmers are requested to come to purchase centers nearby to them. The agency staff then directsthe farmer to the mill where they have a contract for milling,

the weightment is done in the mill and then the agency prepares the account payee cheque according to the net weight. This is different from the process in Bargarh which is more centralized with the market yard the main site of operations.

### 6.5.1 The facilities provided by the RMC

The farmers are not allowed to sell at RMC market yard, as per condition they have to sell only at the centers. Though there are yards in the district but they are used for live stock and vegetables, not for paddy. The services provided by these RMCs are in very poor condition. As the authority for monitoring the agricultural commodities it collects the RMC tax from the procurement agencies for the paddy as well as the proportionate rice delivered to FCI. The taxes are same as in Bargarh.

Paddy procurement in the district by these agencies is given separately for each RMC for the Kharif Marketing Season (KMS) 2007-08 in Tables 6.3 & 6.4

Table 6.3 Bhadrak RMC : Paddy Procured

Name of the agency	Paddy procured in Qts.
PACS	6526
MARKFED	229.50
NAFED	45890.51
MILLER AGENTS	3438.00
CIVIL SUPPLIES	551914.25
NBHC	48231.52
STC	1647.00
NCMSL	10437.00

Table 6.4 Chandbali RMC : Paddy Procured

Name of the agency	Paddy procured in Qts.
PACS	3246.82
MARKFED	##
NAFED	79096 *
MILLER AGENTS	@ @
CIVIL SUPPLIES	NA
NBHC	12631.23
STC	@ @
NCMSL	17859.39

(Here \* indicates the approximate assumption of the agency as per the tax is collected, ##indicates no presence and @@ default in paying RMC tax and NA figure not available)

Source: Respective RMC records

From the Tables 6.3 and 6.4, it is noted that in both the RMCs the agencies which are procuring paddy are not the same as there are fewer agencies in Chandbali RMC circle compared to Bhadrak RMC. Also, the procurement done by the private agencies in Chandbali is much higher than the government agencies.

Table-6.5 Procurement centers in Bhadrak RMC

<b>Procurement Agency</b>	<b>Purchase Center</b>
DPC	07*
NCMSL/STC	12
NBHC	07
NAFED	18
FCI	01*

Table-6.6 Procurement centers in Chandbali RMC

<b>Procurement Agency</b>	<b>Purchase Center</b>
DPC	02*
NCMSL	01
NBHC	01
NAFED	01
PACS	05

Source: Data collected from the respective RMC office

(\*indicates the permanent centers which will not change, rest of the centers may change accordingly to the availability of the paddy)

From the Tables 6.5 and 6.6 it is noted that while all the agencies have procurement centers in both the RMCs, the number of centers in Bhadrak RMC are much more than in Chandbali, 40 in Bhadrak and 10 in Chandbali. (This data is for the year 2007-08 when there was more number of procurement agencies, both government and private).

## **6.6 Farmers view on the Procurement Policy and Process for Paddy in Bargarh & Bhadrak districts**

Bargarh district has a local chapter of the Krushak Sangathan, a farmer's organization that is strong in western Orissa. This Sangathan in Bargarh works closely with the farmers and is active in giving a voice to the demands of farmers. As a result, the farmers of Bargarh district are aware of the procurement policy as there was an agitation by the Krushak Sangathan in the past that compelled the state to procure paddy on MSP from them. The success of this movement forced some changes in the procurement policy in the district.

The farmers say, that even though there are norms for the agencies to procure the paddy still the administration is not properly following the process for procurement. The facilities provided by the government for procurement is very poor, there are no weightment facilities at RMCs and they are unable to deliver their paddy in time. Some farmers allege that this DPS policy has benefited the big farmers. According to them in Bargarh block earlier there were no agencies except the millers and they had to wait for the millers to lift the paddy from the field. But now after the agencies have entered in the market they are advised to open the bank accounts and were given the farmer ID cards for the sale of paddy. One farmer said that, *“not a single agency member has visited my village, they only visit the mills and interact and ask them to deliver the paddy in their account”*. Another farmer said *“chasitohchasihotahaichotayabadamehnat sab kartey”*(a farmer is a farmer, big or small, all work hard). Small and marginal farmers feel that they worry about their produce, but in case of big farmers they are not bothered about who is buying their paddy, they want to get the MSP for their produce and cheques prepared on time. These big farmers sometimes act as agents of the mill. (In the market yard of Bargarh block, the

researcher observed that farmers from Attabira block were also present to sell their paddy as this yard is a central yard where any farmer can get their paddy for sale).

The farmers in the Padampur block said that most of the farmers here are small and marginal and they have irrigation facilities for only one crop. With the harvests of paddy most of the farmers want to sell at the RMC but they can't as they have to pay the commission agents for selling the paddy to the millers as they take a commission (the agents act as the non institutional credit for the farmers at the sowing and harvesting time and they take the paddy along with the FIC and cheque book to sell it to the mill. They take their commission and the rest of the amount is given back to the farmers). The farmers who have capacity to sell directly will go to the market yards. They said that the paddy cutting percentage is allowed at 3% but it is the millers who decide how much percentage has to be cut. Further they said, that while this policy is good as it has made the system accountable, still the poor farmers have to suffer as there is a lot of corruption and they have to depend on the agents for selling of paddy.

The farmers are unhappy at the RMC functioning. They say that the market yard opens in the morning, but till 12:00 P.M they have to wait for the officials. By this delay, the farmers have to pay the detention charges for the transport. Once the office is open the officials will divert the paddy to the mills which also consumes more time. *“There are very facilities at the RMCs in Bargarh district as compared to the neighboring state of Chhattisgarh (Bargarh district shares a border with Chhattisgarh)”*, said PrasanthBhusan Panda, a farmer from a village bordering Chhattisgarh. He further said *“the market yards are not maintained properly by the RMCs and are not in a good condition. There are weightment bridges, but not in working condition in the*

*all three RMCs of the district and there is no proper drinking water and shelter facilities for the farmers.”*

Bargarh farmers want the government to remove the restrictions on paddy movement in the district, so that they can sell their produce in Chhattisgarh which is close to the district and the facilities there are good as every agency is provided with a office space and well maintained infrastructure. In Bargarh the farmer has no choice to choose the mill because the miller agents bribe the RMC officials to direct the paddy to their mills so to fulfill the target of the miller/procurement agency.

#### **6.7 Farmers view on delaying opening of RMCs on time**

- They want the farmers to wait and then dispose the paddy where they want,
- The officials do not want a gathering of huge number of farmers at one place as any dispute will develop into a movement/agitation ,
- A big gathering of farmers will force the officials to go for auctioning of the process which should not be less the MSP and so the RMCs are bribed by the agencies to open the yards late so that there will not be enough time for an auction, just disposal of paddy,
- Services fees is collected from the farmers and yet there are no facilities provided to the farmers like drinking water, weightment bridge, shade, shelter etc., The list of facilities provided are only on paper not in practice.

The procurement system of **Bhadrak** district is very different as there are no such markets yard purchases but RMCs monitor the procurement through the purchase centers operated by the agencies now. Earlier it was the millers who directly lifted the paddy from the farmers or their agents collected the paddy from the farmers and delivered it to the millers. There was not much

change in procurement methods even though the agencies entered the business under the DPS in the district.

Farmers are unhappy by the way the procurement process is going on. According to PrithivaSahu, a farmer from Bhadrak, *“we are cheated by the agencies and millers because of the few rice mills and more supply of paddy, and hence paddy is transported to other state below the MSP due to lack of rice mills. The new decentralised policy is good as for the first time the farmers were able to get MSP because of the private agencies but now these agencies are not procuring, why? What happened to them, (referring to NCMSL exit)? The present situation is worse as the agencies just open purchase centre and middle men take care of everything.”*

Another farmer added, *“the RMC officials are very corrupt, they demand commission if the farmer is selling his paddy to other states, instead of asking the millers to take the paddy.”* The situation in Chandbali block is even worse as it has only one delivery point for the millers to deliver the rice and the miller can only store as much the storage capacity, rest they are helpless so the farmers in this area sell their paddy to neighbouring districts, Kendrapada or to other states (West Bengal and Andhra Pradesh). A farmer from Chandbali area says, *“there is no market yard facility and the block is flood effected if it rains heavily, and then we face problem of storage and reaching the mill as the connectivity to the main town is poor. This made the middle man take advantage of the situation.”*

From the observation and interactions with the farmers it is noted that the most farmers are aware of the MSP fixed for paddy for that year. But many are not able to get the MSP on their paddy sold. More than 75% of farmers in Bargarh district are able to sell their paddy at MSP, but less than 50% of the farmers in Bhadrak district are able to get MSP. The reasons for this difference

are that the farmers in Bargarh district were issued the farmer ID card which is a must to sell the farm produce. Further, the presence of Krushak Sangathan acted as a pressure group and helped improve working of the RMCs and ensured payment in account payee cheques. These are absent in Bhadrak district, as few farmers have the IDcard as the district administration havenot issued them and most of the farmers sell their produce by providing their voter id or an affidavit from the advocate showing that the land belongs to the farmer. The agencies were instructed by the government to purchase paddy only from the farmer who have proper identity. Otherwise there will be a black marketing of the paddy and the small and marginal farmer will be unable to get the MSP. But the slow issue of these ID cards has adversely impacted the very small farmers whom it was supposed to help. (See Annexure for the sample of the farmer ID card which is issued by the government of Orissa for the farmers)

## **6.8 Perceptions of Farmers on Procurement Agencies in Bargarh & Bhadrak Districts**

After the introduction of the Decentralised Procurement Scheme (DPS), there are many changes in the procurement pattern in the state. This scheme can be termed as a better method of procurement in terms of the state government to procure for its needs rather than depending on the Centre for help. But at the same time this policy has introduced many players in the procurement business.

### **6.8.1 Bargarh district**

The method of procurement in this district is through market yards and when asked about the FCI role in procurement of paddy, farmers said the FCI needs to do more for them. FCI also procures paddy from the farmers at their storage depots following the government given specifications, but the farmers consider this to be a time taking tedious job and they sometimes bribe the official to accept their paddy without any rejection. The other procurement agencies



have to open their counters in the market yards only where they can buy the paddy from the farmers and send it for milling.

Over 80% of the farmers of this district are unhappy with the agencies procuring paddy. They said that these agencies have never interacted with the farmers, they have appointed the millers as their agents and it these agents who procure for these agencies. They have not seen any agency employee sitting in the market yard. Only the RMC officials allot the mill where the paddy has to be delivered by the farmers, and then their cheques are prepaid once the weighment is done in the mill. The farmers say that they do not even get the empty gunny bags from the mills as they (millers) say that the agencies have to take care of it, whereas the agencies say that the millers have to give the gunnies back to farmers. Farmers refer to most of new agencies, both the private and public, as the “Bombay Companies” (the farmers believe that most of the procurement agencies are from Bombay/Mumbai) this is more so with reference to the private agencies

#### **6.8.2 Bhadrak district**

The procurement method is different in this district, (See Tables 6.5& 6.6). Earlier the farmers used to approach mills to sell their paddy but after the new procurement system the farmers are directly eligible to sell their paddy to the agencies, but here they face logistic issues. It is observed that millers are the major non- banking source of finance for the farmers at the time of sowing who in return demand that the farmers sell their paddy to only those agencies with whom they have a contract. This makes the farmer helpless as he is forced to approach only those agencies who direct him to those mills from where he took loan. Though the farmers are paid in account payee cheque, they have to sell their ID card for the 30% of the total amount of paddy delivered to the agency and the balance goes to the miller.

## **6.9 Agencies Accountability**

During the visits by the representatives of the agencies to the farmers in this district, it is observed that they visit only the mills and meet the agents to see that the paddy is delivered into their account in the mill. When enquired about the agency's role in approaching them, most farmers replied that they are unhappy as most of the staff don't have the adequate knowledge on agriculture and belong to marketing side with no benefits to farmers. But many farmers supported one private agency NCMSL which was part of the procurement system. Unlike others, the representatives of this agency used to visit the villages and talk to the farmers and millers and then establish their purchase centers and also saw that the paddy is delivered and the cheque is given to the farmer on the same day. This agency not only lisoned with the miller, but also sometimes argued with the millers to reduce the cutting percentage in the paddy, to help the farmers.

## **6.10 Misuse of the farmer ID cards in both the districts**

The Farmer ID (FID) card is issued on the basis of land owned by the farmer and he/she is allowed to sell his produce on given MSP at the Mandis/centers in the district. The farmers who do not have the card are not allowed to sell in Mandis, they have to sell it to the agents. It is also observed that farmers sell their ID cards to the millers for example: if the crop failed and the yield is less than what it should be, then the farmer sells his card to the miller who in return gives more than the MSP for the crop (the farmer is allowed to sell say 50 bags of paddy out of his land but if the crop failed and only 15 bags of paddy is produced then the farmer sells his remains 35 bags of quota to the miller) who in turn sells the paddy to the agencies on the card which he purchased from the farmer.

Apart from this, there was an issue of fake cards in another district of Orissa (Nuapada) that was unearthed by RTI activists. According to them, the government officials are involved with the rice millers as they allege that in 2008 KMS, 50% of the entries are fake. It is stated that the millers are printing the duplicate cards and the rice for BPL and APL is diverted to the millers for recycling. This issue surfaced when it was found that the excess paddy was procured by the agencies despite severe drought that year in the district<sup>5</sup>. This type of procurement will lead to the black marketing of paddy, as the millers buy the paddy below MSP to fulfill their target; they buy farmer ID cards from the agents by paying commission and enter the same old paddy in the name of the agency and deliver the rice to the FCI. This creates a mismatch between the actual production and procurement data and also adversely impacts the policy. This policy was framed to not only make the state independent with food stocks but also to eradicate the middle man from this business. But this is clearly not happening in most parts of the country. This clearly sends a message to the policy makers that any policy which is made for the betterment of the farming community is hijacked by the brokers or agents.

#### **6.11 Millers view on procurement policy in both the districts**

A miller plays a very important role in ensuring smooth functioning of the procurement business. Ten percent of the mills are taken as the sample from each district which are working and associated with the millers association in the district. Though there are many more rice mills than shown in the Table 6.7 but it is the millers with association who are milling agents for these agencies.

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<sup>5</sup> The tool of RTI has benefited and made the authority response. Though this robbery of food grains is only a tip but it drains the pds, Ajit Panda views on Corruption involve in paddy procurement operations in Naupada district ([www.ndtv.com/new/indi/rti\\_activist\\_unearths](http://www.ndtv.com/new/indi/rti_activist_unearths), Sunday December 20, 2009, Naupada)

### 6.11.1 District Bargarh

Table- 6.7 Select Mills in contract with Agencies

Name of the Mill	Milling capacity per hour	Levy/Cmr	Contract with agencies
JAY JAGANNATH RICE MILL	Six tonnes	CMR	4
SIDDESHWAR RICE MILL	Two tonnes	CMR	4
UTKAL RICE MILL	Four tonnes	CMR	2
SRI BALAJI RICE MILL	Two tonnes	CMR	2
GANESH RICE MILL	Two tonnes	CMR	2
GODAVARI FOODS	Two tonnes	CMR	2

Table-6.8 Milling charges by agencies to Millers

Name of the agency	Milling charges per quintal of rice
OSCSCLTS	4% on paddy and Rs 25 on rice per Quintal.
PACS	Rs 55
NAFED	% share in paddy and rice
MARKFED	% share in paddy and rice
NCMSL	Rs 55
NBHC	Rs 55
FCI	Rs 55

Source: From respective millers of the District

The millers in the district were instructed not to go for contract with more than the two agencies as there are more number of rice mills in the district and the contribution of this district is more in paddy cultivation and production due to the irrigation facilities through Hirakud dam. But some millers are in contract with the four agencies due to closure of many mills they were compelled to take them. They too are unable to procure paddy to function, so they are just milling agents and taking milling charges from the agencies.

### **6.11.2 Millers' role curbed**

When asked about the procurement policy its implications and impacts, the millers said that this policy has made a miller a mere milling agent for the procurement agencies from the earlier important role of providing the milled rice to the government in form of levy.

As of now there is not much levy delivered, as most of the mills are milling for the agencies and delivering the CMR to government on the account of the procurement agency, for which they are paid the milling charges (See Table 6.8). The millers argue that the government does not listen to their problems, and they have no say in front of the government as they have to just obey or else get blacklisted.

The milling charges are fixed by the government for the agencies procuring and it may change accordingly. The present milling charge for per quintal of paddy milled is Rs.55, but we can see that the agencies like NAFED, MARKFED in both the districts give the miller the Percentage share in paddy and rice as due to no support staff the miller will do all the work for these agencies from procuring to transporting and delivering etc.. In Bargarh the civil supplies pay 4% on paddy and Rs.25 for milling charge for the services, whereas in Bhadrak it pays normal milling charges of Rs.55.

### **6.11.3 Problems which the Millers reported in this district**

- They have to go as per the directives of the government issued to them by the district authorities regarding procurement target,
- They have to take the paddy Under Relaxation Scheme (URS) or Fair Average Quality (FAQ) though the paddy is not of that quality as compared to the paddy cultivated in Andhra Pradesh and Punjab,

- Lack of storage facilities by the government due to which they are unable to deliver the rice in time (this is because of the increase in procurement target in recent years),
- The agencies depend on them as they need the rice on their account to be delivered as soon as possible,
- Corruption (they have to bribe the officials of FCI and civil supplies to get clearance for the enforcement certificate for delivery of rice).

#### **6.11.4 Political pressure on Millers**

Apart from the problems of the DPS, millers are haunted by the political parties as they have to affiliate with and felicitate the leaders. At the time of the elections these millers who have an association in the district will have to contribute to the political parties. Their donations are in the ratio of 50% for the ruling party and rest 50% is divided among the opposition and other local parties. They are forced to do this just to have their support in times when they need.

There are more than 90 mills in the district but around 57 mills are registered with the milling association and the millers who are associated follow the same pattern of the contract with the agencies in the district. The mills which are working are about 60 and the rest have been closed. Most of the closed mills are either small or new mills.

#### **6.11.5 The reasons for the closure of Mills**

- The Increase in MSP for the paddy in last few years (it went to Rs1000 a quintal) which makes it highly impossible for the small millers to procure paddy at this price,
- The MSP for the levy rice is less than the CMR ,
- The burden of interest on the credit taken from the banks,

- Increase in labour charges,
- The restriction on movement of paddy from and to other districts,
- Delay in getting the EC from the authorities to deliver the rice (this is because the FCI has to give clearance on the storage space available with them, then only they can deliver their rice. Big millers are given preference).

These are some of the reasons mentioned by the millers for the closure of rice mills. But there are some mills which re-open when the procurement starts and close after the season. The millers argue that if the situation goes on like this then most of the rice mills will become seasonal. They also argue that they have to bribe the various government offices for the delivery of the rice without any hurdle.

One thing about this district after the observation from the farmers and the millers is that the farmers are a strong lobby because of the Krushak Sangathan movement. The millers in this district are therefore advised by agencies to deal with the farmers carefully.

## **6.12 District Bhadrak**

There are 21 Rice mills functioning in the district and all the mills are registered with the association of millers. The mills concentrated in this district face a problem of storage facility as they have to deliver the rice to FCI godown at Bhadrak and other one at Chandbali which are under of State warehousing corporation.

Table- 6.9 Selected Mills in contract with Agencies

Name of the Mill	Milling capacity per hour	Levy/ Cmr	Contract with agencies
BIJAYRICE AND FLOOR MILL	Six tonnes	CMR	4
SHRI HANUMAN RICE MILL	Four tonnes	CMR	4
MAHVEER RICE MILL	Four tonnes	CMR	2

Table- 6.10 Milling charges paid by Agencies to Millers

Name of the agency	Milling charges per quintal of rice
OSCSCLTS	Rs 55
PACS	Rs 55
NAFED	% share in paddy and rice
MARKFED	% share in paddy and rice
NCMSL	Rs 55
NBHC	Rs 55
FCI	Rs 55

Source: From respective millers of the District

The mills in this district are less compared to the district of Bargarh. But even though they are less in number they too have got affected by the decentralized procurement scheme. Unlike the mills in Bargarh district here they can go with any number of agencies for contract. The charges are same as it is applicable to other district millers in the state.

#### **6.12.1 Insufficient storage capacities of Millers**

The millers in this district are also milling for the agencies and delivering the Custom Milled Rice (CMR) to the FCI and civil supplies. As the mills are medium scale their storage capacity is minimal and they can store only a limited amount, but still there is a pressure from the farmers



and district administration to procure paddy from the farmers. The millers lobby is strong here as they refuse to procure paddy. Lack of storage facilities with the millers has forced the farmers to sell their paddy to the other districts and states like West Bengal and Andhra Pradesh. The movement of paddy to other states is banned but still these people sell the paddy outside with help of the commission agents and some local leaders by getting the permission from the RMC officials. The price for the paddy which is sold out of the district is less than the MSP. Even then the farmers sell their crop as they want to get rid of the paddy stock for much needed cash. The government is trying to increase the storage space in the state as explained in the earlier chapter.

The millers in this district say that this DPS policy has benefited the farmers as they enjoy the MSP, whereas the millers are unable to sell Levy due to less MSP for it than CMR which is a matter of concern in the whole state.

### **6.13 Overview of the millers**

The millers are not happy with the new procurement policy as they feel left out by the government bodies as their share in procurement has decreased in last 5 years. Yet they still play a vital role in the procurement process. This new policy has narrowed down the scope of millers as sole agencies in the procurement process.

According to the millers they feel that this policy will have a negative impact on the procurement business as the increase in MSP will be a burden on the government because sometimes the farmers do not cultivate the premium quality of paddy equivalent to MSP. In most of the cases the paddy was below standard but still it was bought Under Relaxation Scheme on farmers demand to take in Fair Average Quality which is not logically correct.

The owner of Utkal Rice Mill says that more or less the situation is same in the state with regards to procurement. Under this new scheme *“farmers nor millers only traders are enjoying the benefits of procurement. Due to this system mills have shut down, no Levy only CMR is delivered to FCI. The government requires 68% of milling paddy from FAQ which is too much and has to be reduced as the quality of paddy cultivated is not par with Punjab and Andhra Pradesh.”*

The millers of both the districts have similar views though they follow different methods of procurement. From their responses it is clear that they need to be taken into consideration while framing a policy related to procurement of both paddy and rice in the state. Otherwise there are fears that millers may be forced to shutdown their operations leading to uncertainty in paddy procurement in the state and a crisis for farmers.

#### **6.13.1 Some suggestions of Millers to the government**

- Relaxation should be given in the quality measurements of paddy,
- Power tariff for the millers should be reduced,
- Movement of paddy from other districts (in case of Bargarh district where paddy movement from other districts is not allowed) should be allowed,
- More storage facilities to be provided, so that they can deliver the rice in time.

#### **6.14 Farmers Organisations**

There is one farmer's organisation in Bargarh district known as Krushak Sangathan, it is for the whole state but is mostly concentrated and active in western Orissa. This organisation has led an agitation in year 2000, the protests for demands of farmers by placing nearly 65000 paddy bags on roads for ten days to bring down the district administration to knees. As a result they

have made certain changes in the procurement policy in the district. The impact of their ‘Rasta Roko’ made the government agree to buy the paddy on MSP. This organization represents the farmers voice, especially in Bargarh district.

The main arguments of the Krushak Sangathan are :

- There should not be a minimum support price as everybody is entitled to get it, it should be a proper price which should be given to the agricultural commodities,
- FIC card system to be removed as it controls the farmers and allows corruption,
- Government institutions should give more loans to the farmers, as farmer are forced to depend on money lenders and millers.

The farmer’s organisations complain that the donations given by the millers to the political parties made the government patronize them. The millers are therefore the sole agencies and the procurement agencies are appointing them directly for procurement from farmers.

The farmers from Bargarh allege that though the Krushak Sangathan played a crucial role in farmers movement earlier in early 2000, now they have lost their focus as they are busy with the elections as their leader is contesting.

Due to the absence of an active organisation of farmers in Bhadrak, a farmer says that “ *they have to fight the system themselves and sometimes take help of the press (media) to make officials respond*”. One farmer said that organisations might exist for farmers, but now days everybody wants to be a leader. A skeptical response from Lenka, a farmer from Bhadrak was “*no educated person wants to be in a village everyone wants a city life*”. Most farmers in Bhadrak complain about the paddy that continues to be stored in the fields as no millers are taking it due to lack of storage facilities. They agree that if a strong farmer’s organisation would

have been there they would have done something about this. In Bhadrak it appears the millers are more organized than the farmers, while in Bargarh it is the opposite.

### **6.15 Procurement Agencies view on procurement process**

The agencies which are involvement in procurement in Orissa are not new for agricultural marketing business, but they are new to paddy procurement. Agencies like FCI, NAFED, MARKFED and STC have been in agricultural marketing for long. But since 2005 new players entered this business like the private warehousing companies who have no previous experience in the procurement business like NCMSL and NBHC.

#### **6.15.1 FCI**

As described in the previous chapters it is one of the largest agency to procure paddy and rice in the state. It again started to procure paddy from the KMS year 2004 under the decentralized procurement scheme system. Due to lack of the staff it hired private agencies to procure paddy on its behalf by paying for their services under its account.

The FCI officials of the state say that this Decentralize Procurement Scheme (DPS) is good as they too want the state government to be independent in achieving their target of food stocks for their welfare schemes. Earlier there was a blame game between the state and central government for the implementation of schemes and FCI was simply blamed as it is the only agency which procures food grains for PDS and distributes throughout the country. This DPS scheme made the state accountable in procurement and ensured that the farmers are given MSP for their produce and the CMR which is procured by the FCI from the agencies in the state is kept under the state pool for its requirement and the rest handed to the central pool.

When asked about the present role of FCI, the response from an official was that “*FCI role will not be reduced, only the burden of maintaining the buffer stocks and transporting costs will be reduced*”. Most FCI officials want the state agencies to participate more in this decentralized pattern of procurement to minimize the burden on it.

#### **6.15.2 NAFED**

In Orissa this agency used to procure other crops but later under DPS it got permission from the state government to procure and it is the first agency to get permission to procure paddy in the state. Initially it started in few districts, later it was given permission to procure in some more districts. The NAFED officials say that due to less manpower they have had to step back on paddy procurement. But NAFED continues to procure other crops in the state, like horticulture crops, oil crops etc., on MSP as declared by the government on the crop. The share of NAFED in paddy procurement in Orissa has gone up from 2007-2008.

#### **6.15.3 OSCSCLtd**

Orissa State Civil Supplies department was mainly meant for the distribution of the food grains through fair price shops in the state and also to monitor the requirements of the state in terms of food grains and to check the movement of the food grains in the state. It is an important organization as it is the channel for the both the state and central governments to implement their policies on social welfare schemes where the allocation of food grains are required. At the same it is also involved in procurement operations of paddy in the state.

The response for the role of department in the decentralized procurement scheme was that by this new system of procurement there is a gain in procurement and increase in stocks but the entitlements are the same for the welfare schemes as there is no increase in the ratio of entitlement. This scheme has made the department more accountable as it is also involved in procurement and it has hired some agencies in particular districts where their presence is strong like PACS and TDCC and SHGS. It is procuring paddy throughout the state. The share of OSCSC in paddy procurement in Orissa is the highest from 2007.

#### **6.15.4 PACS**

Basically a cooperative society for the farmers; this agency is also involved in the procurement business in the state. It is seen that it is not only procuring for the state, but for other agencies too. The officialsof this agency said that by this procurement business they do get some profit for the organization. It is a agricultural cooperative society which deals with providing credit to the farming community and SHGS

#### **6.15.5 TDCC**

A tribal development council in the state which functions only in the tribal districts, used to implement various schemes in these areas by training the local tribal youth,formarketing the jungle produce and some valuable medicinal crops for ayurvedamedicine.By the involvement under the decentralized procurement scheme the organization has gained profits which is utilised in conducting various training programmes for the tribal youth and women. Initially it was given permission to procure in few tribal districts later on in all the tribal districts gradually.

#### **6.15.6 NCMSL and NBHC**

The NCMSL, a private agency, got permission to procure paddy on behalf of FCI in the state initially in 4 districts in 2006-07. Later in next season they got permission to procure in whole state. This agency has made a definite impact on the procurement business in the state as the farmers now get the cheques on the same day of the delivery of paddy. These agencies are not in business now due to differences with FCI which did not renew the contract with them after 2011. The study shows that NCMSL won the trust of the people as it was seen by the farmers as the only agency which stood for the farmers. The government has stopped these private agencies in 2011 to procure in the state and gave permissions only for the government agencies/bodies to take part in the procurement operations. NBHC was in the business for a year only.

The observations and responses from the officials of these agencies, clearly indicate that the government is more interested to fulfill the targets than policy implementation. It is more concerned about how to keep required stocks of food grains required for its needs, rather than ensure farmers get the MSP on time. If the attention of the state is given to the both government and private agencies who are actively involved in the food procurement policies it would have largely benefited the farmers.

#### **6.15.7 Some Problems reported by the Agencies**

- Most of them are inexperienced in paddy procurement operations
- Lack of manpower
- Increase in targets every year
- No cooperation among the other government organisations
- Patterns of procurement different in every district

- Millers attitude
- Media interference .

#### **6.16 Some Field Observations related to Procurement in these two districts**

- The District Collector, who is responsible to look into the procurement operations in the district, does not even make a visit. This was a complaint by the farmers in Bhadrak district, where as in Bargarh district there are frequent visits by the Collector and other officials. This could be due to the strong farmers' organisation in the district.
- The Pani Panchayat is also a part of procurement agency as some SHGs. This Pani Panchayat has made the farmers save more on waterpumps in Bargarh district where as there is no such policy on Pani Panchayat in Bhadrak district.
- The presence of a strong farmers organisation is effective as a pressure group in Bargarh district, there are no such organisations in Bhadrak.
- Though Bargarh has a large number of rice mills, there is restriction on paddy movement in the district from outside by which the millers are unhappy as they have to procure only in home district, where as in Bhadrak due to less number of rice mills the paddy is disposed to other states or districts in the state for milling, but often at lower MSP.
- RMC facilities are poor in both the districts.
- Farmers in Bargarh district are unaware of procurement agencies procuring paddy, the farmers of Bhadrak district are aware of these agencies.



- Farmers in both the districts complain that the agencies have no experience in procurement as most of the staff of these agencies deals with the millers and is guided by them.
- Most of the procurement is done on MSP if there is valid farmer identity card, if not below MSP in both the districts.
- The selling of the card to the agents is different in two districts. In Bargarh district the farmer sells his card to the miller above the MSP on the amount of paddy entered in his card with the availability of the land he holds. In Bhadrak district the cards are sold on 20-30 % commission on each quintal.
- The details of land holding and yield are mentioned on the card. If it is dry land then the crop per one acre is 15-20 bags of paddy and for wet land it is 20-25 bags which mean the farmer is permitted to sell the paddy on the land he holds. If the crop fails and the output is less then it is mentioned on card and he sells his card to the agent, or if the farmer holds two cards in different blocks then he sells his other card for commission on the quantity mentioned on his card in the other block.

Recently government made promises in the new agricultural policy, for the betterment for the agricultural marketing and opened 40 market yards for the benefit of the farmers. These yards opened for the procurement for other commercial crops and marketing as the importance for these crops were given in the new policy of 2007.

## 6.17 Summary

A comparison of the two districts is presented in the Tables below to bring out the similarities and differences between them.

Table 6.11 During the study period (2007-09)

District	Bargarh	Bhadrak
Population as per 2001 in lakhs	13.46	13.36
Paddy production in quintals	8331367	4515748
No. of Rice Mills operating	80 (59 operating)	21

Source: District Statistical Handbook of Bargarh and Bhadrak, 2007, Directorate of Economics and Statistics

Table 6.12 As per new survey, Govt of Odisha

District	Bargarh	Bhadrak
Population as per 2011 in lakhs	14.81	15.06
Paddy production in 000'Mts	705.29	293.31
No. of Rice Mills registered as on 2014-15	107	38

Sources: Odisha Agriculture Statistics 2010-2011

(<http://agriodisha.nic.in/pdf/AGRICULTURE%20STATISTICS%20%202010-11.pdf>)

<http://portal.foododisha.in/FPS/OnlineMillerReport.aspx> (Mills as per 2014-15 registered for procurement with Food supplies and Consumer welfare department, Govt of Odisha.)

Table 6.13 Paddy procurement in Bargarh district by agencies in 2011 KMS (fig in Mt)

Agency	Target allotted (Rice)	Equivalent to paddy	Paddy procurement in total	Percentage achievement in delivery	Percentage of procurement
OSCS	560,000	823,523.41	98,147.42		
PACS			711,553.34	98.32	92.2%
TOTAL	560,000	823,523.41	809,700.76	98.32	
NAFED	26,000	8,235.29	-	-	
MARKFED	46,000	67,647.06	67,647.06	100	7.7%
FCI	7,000	10,294.12	-	-	
LEVY (Millers)	14,000	20,588.24	81.23	0.39	
<b>Total</b>	<b>653,000</b>	<b>960,294.12</b>	<b>877,429.05</b>	<b>91.37</b>	

Source: [http://www.ordistricts.nic.in/important\\_sectors/index.php?id=227#](http://www.ordistricts.nic.in/important_sectors/index.php?id=227#)

From Table 6.13 it is noticed that the Orissa Civil Supplies with other government agencies is procuring more than any other agency in this district. Its procurement with partners stood at 92.2% of total paddy procurement.

Table 6.14 Table showing target and paddy procurement and Rice Delivered and Balance for KMS 2011 in Bhadrak (fig in MT)

Name of the Agency	No. of Centers opened	Target in terms of rice	Target in terms of paddy	Paddy procured	Rice due	Rice delivered	Balance CMR to be delivered	% of Procurement
OSCSC	138	85000.000	125000.000	122991.082	83633.936	34397.961	49235.975	90%
NAFED	14	30000.000	44117.647	10599.734	7207.819	6433.574	774.245	7.8%
MARKFED	3	40000.000	58823.529	402.230	273.578	100.000	173.578	0.3%
Levy(Millers)	3	18000.000	26470.588	1984.495	1349.457	905.000	444.457	1.4%
<b>Total</b>	<b>158</b>	<b>173000.000</b>	<b>254411.764</b>	<b>135977.631</b>	<b>92464.790</b>	<b>41836.535</b>	<b>50628.255</b>	

Table 6.14 shows that the paddy procured by the Orissa civil supplies along with its sub agencies PACS, SHGs, PPCs and Panipanchayat. (Panipanchayat was involved later as it was not there earlier in this district in procurement) is 90%. While paddy procured is 90% by OSCSC, when it comes to rice delivery 60% of CMR is yet to be delivered. This is due to less number of rice mills and more agencies in Bhadrak, the millers sometimes are deliberately delaying in delivering the rice by blaming the government for improper space to deliver the rice in the district (as per the information from the source there were 22 rice mills operating in Bhadrak in 2011)

From the Tables 6.12 & 6.13 it is noticed that the OSCSC has grown to be a monopoly player in procurement in Orissa, while the millers levy is reduced as seen in Table 6.11. The increase in rice mills in Bhadrak in recent years might be triggered by the recent development of DhamraPort , which is seen by millers as an opportunity to export rice.

Note: Miller's registration is a must to do operations in state. How many millers will be allowed to procure for levy will be decided by the government according to the situation of production

and performance of the mills. This figure varies year to year and it is up to the miller to go for levy or not.

Table 6.15 Comparison between the two districts on procurement of paddy

<b>Bargarh</b>	<b>Bhadrak</b>
Collector, other officials often visit to the market yards and purchase centers	No visits
Pani Panchayat helped them save more on water pumps	No presence of Pani Panchayat
Farmer's organisation is very strong (but only for the political interest) leaders are contesting elections	No farmers organisation take help of media
Movement of paddy outside is restricted and the paddy from other districts also restricted	Free movement of paddy to other districts
Millers unhappy with this movement restriction	Millers are very few in the district and farmers have to dispose their paddy to other states/ districts
Millers are about to close and number of millers have closed down	Requirement of new mills for the procurement and milling of paddy
RMC facilities are poor	RMC facilities are poor
No idea of agency procurement to farmers, only the miller knows it	Agencies are well known here for both farmers and millers
Farmers unhappy by the facilities provided by the government for the procurement as the millers play the monopoly role	Farmers unhappy by the facilities provided by the government for the procurement as the millers play the monopoly role but happy with the private agencies who sometimes argue with the millers on behalf of the farmers
Farmers view on procurement agencies is they don't have experience in procurement, the gunny bags are not provided, business is done with the millers and no interaction with the farmers	The private agency staff used to meet the farmers and millers.
Farmer ID then pay MSP if not pay less than MSP	Farmer ID or Kisan card or notary from the lawyer
Farmer sell the card to miller on above MSP price so that the entry is not done on the card (Ex: 200 bags allowed on card then 100 bags on high then MSP rest 100 bags for the miller) is corruption but miller justifies that sometimes small farmer without card quota will sell the paddy but below MSP.	Miller agents and the agency agents will buy the cards from the farmers and pay 20-30% commission to the farmer
Small farmer depends on the agents for selling the paddy	Small farmer sells his paddy and card to agents

Procurement agencies have no storage capacity except FCI but which will take time to receive paddy as they follow the strict measurements for the quality.	The agencies direct the paddy to the millers from the centers, no storage facilities
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Source: Field Work

The government policies were meant to develop the agricultural and its allied sectors but the drawback is that there is no effective implementation. In most of the villages the farmers largely depend upon the non-institutional credit for cultivation of crops and paddy which is the primary and essential crop for the farmers as source of income for their food. The state has to address the provision of better infrastructure for marketing by minimizing the role of commission agents/middle men.

It is increasingly seen that there is no unique pattern of procurement in the state and it is functioning without much concern for the farmers in the state. It is seen that state agricultural policies give priority to the commercial agriculture rather than sustainable agriculture. Less importance is given to aspects of policy implementation, farmer's interests and support systems to the agencies involved in procurement. The DPS in Orissa through the PPP model seems to have worked better with sharp rise in procurement and payment of MSP to farmers.

## **CHAPTER-7**

### **CONCLUSION**

#### **7.1 Introduction**

This study discusses the various aspects of government policies regarding procurement policy for food grains and their implications. Some interesting observations that emerged from the research are briefly summarized.

Successive governments in India have adopted different policies with regard to the improvement of agriculture and to ensure food security of people in the country. Having understood the vulnerability of the Indian agriculture conditions in pre and post- independence period, which forced the country to seek foreign aid, it became necessary on part of the government to formulate different policies to improve and develop the existing the pattern of agriculture. Formation of committees and based on their recommendations, government established institutions and organisations for the development of India's agriculture. The FCI, CWC and CACP, came into existence along with other agricultural commodities development boards and credit bodies for the improvement of Indian agriculture. Main emphasis was given to research and development on different crops cultivated in the country along with its allied sectors.

One of the most significant strategies to increase food production in India was the adoption of Green revolution. From mid 60s and till 80s it paved the way for the country to attain self-sufficiency in food grains. Despite the success of the green revolution, however, the government could not reach the grass root levels of Indian population in mitigating rural poverty. To overcome the problem of poverty, it adopted different programmes like, 'Food for Work', JRY

etc. but these were not implemented effectively. Due to various complex issues there are some serious lapses in the implementation process.

Green revolution brought immense benefits and economical scope for agriculture in India as a whole. There were benefits of Green Revolution, as there was increase in food production and large sale of fertilizers and other products which are related to agriculture. The development of commercial agriculture began and there was a shift from the food crops to commercial crops as these crops were also needed for the industrial development of the nation as these crops supply the raw material. Besides the benefits, there were many drawbacks of the Green Revolution, as it majorly benefited the rich states which had good irrigation facilities. The poor states were neglected and importance was given to two crops, rice and wheat which is largely procured and distributed by the FCI through PDS in the country.

In the post 90s era, when India entered into the globalised world market, great emphasis and concentration was given to the commercial crops to cope with the world economy and export market. The government encouraged farmers to shift in their agricultural practices from food crops to cash crops. These policies of the government helped various MNCs to enter the Indian market for marketing of their commodities. To increase the volumes of agricultural production, usage of HYV of seeds, pesticides and chemical fertilizers was increased and this led to a few MNCs capturing the market for these products. These practices had a significant impact on environment and soil fertility in the regions of intensive commercial agriculture.

The distribution programme was going smoothly even after the reforms but the burden of subsidy by the central government on the storage and transport charges led the government to discontinue with the Universal PDS and it went for the Targeted PDS. In the Targeted PDS only the specified people who are below poverty line are included in the rationing system and people above the poverty line are excluded. There were no specified indicators to identify poverty and this created problems of measurement of poverty, with the number of people BPL increasing year by year.

The BJP led NDA formed the government in 1998 at centre with the help of many regional parties. These regional parties were in power in their respective states and it is these states on which the central government largely depends for the food grains for its PDS, (Punjab, Haryana and Andhra Pradesh) The pressure from the regional partners made the government to increase the MSP for the paddy and wheat, by which the farmers benefited, but at the same time the government had to increase the subsidy for the FCI which rose to Rs50,000 crores. This was a burden for the central government and the impact of this rise in subsidy was an increase in the price of the PDS grains, it became costlier than the market price and there were doubts about the closure of this scheme.

When the decentralised procurement was proposed as the solution to make PDS more effective the, partners and other state governments protested. There was lots of criticism for this policy as the state governments wanted the FCI to continue to procure and distribute rather than the state intervene in it. But there were a few states which wanted to implement this scheme because there was high agricultural production but no proper procurement mechanism and the high



dependency on the central government, led them to go for the new scheme. It was initially started in 10 states out of which Orissa is one.

## **7.2 Summary of Major Findings**

The present work is about the impact of this DPS policy in Orissa on the different stake holders in the area of procurement that is an important aspect of food security. Orissa itself has a long history of procurement, as it was the main source to supply rice to Bengal and other provinces in British India. After independence the establishment of the institutions like FCI, CSD and agricultural bodies in the state were made responsible for the procurement in the state

The Decentralised Procurement Scheme which was implemented in the state in the year 2003-04 was limited to few districts and FCI was allowed to procure paddy from the farmer's after a gap of nearly three decades. Later on national agencies like NAFED also requested the government for permission to participate in the procurement business in the state along with the horticultural crops. The FCI hired the private warehousing companies for the procurement of paddy in Orissa and in other states on its behalf, which were NCMSL and NBHC. Later, with the rise in paddy production agencies like OSCSC Ltd, MARKFED, PACS, TDCC, STC and SHGs joined procurement. Along with them another stakeholder group were the Millers who were the main procurement agencies till the implementation of this new policy.

The volume of procurement went up with the DPS and the entry of new agencies. The coming of the private agencies spurred the dormant governmental agencies to spread out to gain market share. The payment of cheques to farmers on the spot made them aware of their rights, MSP and their role as a major player. DPS through the public private partnership model as experimented in

Orissa made procurement more effective by reaching out to farmers in districts that did not earlier participate in the procurement process.

The impact of this new policy has made certain impact on the procurement pattern in the state of Orissa. The target of the procurement increased two fold from 15 lakh MT to 31 lakh MT in terms of rice and is divided among the agencies in the state. This policy provided the millers to mill the paddy and delivers the rice for the agencies, but at same time the millers felt that their role is declining under the DPS. They argue that the MSP given for the rice of levy is less than that of CMR which is unfair towards them.

The study of two districts (Bargarh and Bhadrak) shows that this DPS, policy has made the district administration accountable regarding procurement. The farmers were issued identity cards based on their land records and they were given account payee cheques for their paddy at the time of sale. Most of the farmers now have bank accounts in the different banks. But there are problems still, there were no facilities provided by the government through RMCs which maintain the market yards, every paddy procured by the agencies has to be entered in their records for which they collect the tax. In the recent agricultural policy of the state, it has promised to provide good facilities and construction of market yards but this is still on paper.

The misuse of the farmer card is another problem prevalent in both districts which is leading to corruption. The farmers sell their farmer ID cards to the commission agents or the millers on the percentage, these cards are used by the miller to enter the paddy in records of the farmers showing that purchase is done on MSP which he already purchased by paying less than MSP and

then sells the same to the agencies. The RMC officials are bribed to give transit pass to allow the paddy to be sold to other districts/states.

The study suggests that the public private partnership model worked well in both the districts as the private agencies had the interests of the farmers as compared to government agencies. Under this PPP model, the farmers for the first time saw their paddy procured on MSP and the cheque is delivered on the same day, whereas in the old system they had to wait for a week to get the amount as millers were the sole agencies. The PPP model also diluted the monopoly and control enjoyed by the millers, by bringing in many agencies into procurement.

Under DPS, the procurement process was transparent as the purchase of paddy was done based on farmer ID card and the same was entered in records of the agency registers. This system enabled more transparency and accuracy in procurement process. But the study also found that though farmer ID has made procurement more transparent, farmers are misusing these cards.

The study observed that the roles of millers were curbed under this new procurement scheme as from sole procurement agencies they have become largely milling agencies. Their targets decreased and only CMR is delivered rather than levy and as a result a number of mills have closed their operations. If the same situation continues then this will lead to the failure of the policy as the millers are the backbone for the procurement business. Any policy to be effective has to be fair to all the stakeholders.

In the larger perspective the policies should not only aim at small term goals but also consider long term benefits in the social, political and economic domain. Employment, food security, gender and caste concerns, awareness of the global market must be taken into consideration while making the policies. In case of Orissa this Decentralised Procurement Scheme seems to yield considerable benefits, but due to poor infrastructure facilities and lack of awareness about the policy these benefits are not passed on to all the stake holders.

This study seeks to generate debate on food security through the lens of procurement as there is less work done on the procurement issue. This area demands scholar's attention towards more micro level district research on food production, procurement, distribution and politics. The major argument of this study is that if food security is to become a reality, then procurement economics and politics has to be understood more deeply. Frameworks from public policy need to be critically reviewed to make them relevant to studies on procurement. The present thesis is a small step in this direction.

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