

How to Slash Subsidy & Boost Productivity

Much to gain from restructuring the FCI

The Shanta Kumar panel's report on restructuring and reorienting the Food Corporation of India (FCI) should be adopted by the government as a valuable guide to time-bound action, to make huge savings for the exchequer, improve efficiency in food handling and diversify the country's agriculture. While it does not explicitly say so, the report is a first step towards overhauling India's convoluted food subsidy system that conflates producer subsidy and consumption subsidy, so that the two can be separated out to insulate India's subsidy regime against challenge by trade partners on breaching subsidy limits.

The FCI is a messy, inefficient body that presides over a public distribution system that suffers leakages of 46% at the last count, in 2011-12. The report calls for unbundling FCI's operations, outsourcing some (quality assessment, storage and distribution) to the private sector and state-level agencies, phasing out some others (procurement in surplus states) and adopting new roles (procurement in Bihar and Bengal, supporting pulses and oilseeds). It calls for modernisation of storage (silos in place of stacking sacks in godowns, elimination of storage in the open) and of transport and handling (containers and machinery, instead of gunny bags and loaders). It calls for increasing reliance on cash transfers to households, ending subsidisation of the grain itself. If the government limits stocking to the buffer stocking minimum and discourages state-level levies on sales, the private sector would do an excellent job of procuring, storing and distributing the grain far cheaper, as compared to the FCI.



The committee has not recommended this, but the government should take into account other cash transfers, such as under employment guarantee, while ensuring food security. Identifying beneficiaries has to be open and transparent, with redressal mechanisms in place. Alongside, the Centre and the states must shift their farm support from subsidy to investment, using trade to benchmark productivity. Restructuring the FCI is, thus, only a beginning; a lot of hard work remains ahead.

The committee has not recommended this, but the government should take into account other cash transfers, such as under employment guarantee, while ensuring food security. Identifying beneficiaries has to be open and transparent, with redressal mechanisms in place. Alongside, the Centre and the states must shift their farm support from subsidy to investment, using trade to benchmark productivity. Restructuring the FCI is, thus, only a beginning; a lot of hard work remains ahead.