Chapter-II

Debt Management

2.1 Introduction

FCI procures food grains directly from farmers at MSP[8] and also from various State Government Agencies (SGAs). The MSP is fixed by the GoI and sales are realized at Central Issue Price (CIP)[9]. The difference between the economic cost (acquisition cost including incidental expenses, administrative overheads, handlings, shortages etc.) and sales realization at CIP is reimbursed to FCI as food subsidy.

FCI meets its requirement of funds mainly through subsidy, equity and ways and means advances[10] received from the Ministry. However, this is not sufficient to meet FCI's huge working capital requirement and FCI arranges funds through cash credit, short term loans from banks through open tender, and issue of bonds carrying interest.

The audit covered the areas of funds provision by the GoI from time to time and debt management by FCI during a five year period from 2011-12 to 2015-16. The examination of records at the Ministry and FCI Headquarters at New Delhi, and Zonal (North) Office at Noida was supplemented with field audit in Delhi, Rajasthan and Uttar Pradesh Regional Offices of FCI.

Audit findings

2.2 Sources of funds

As quarterly release of subsidy by the GoI is not adequate to meet daily requirements of funds particularly during procurement seasons, therefore, FCI has to explore alternative sources to fund its operations. The major source of funds during the past five years were as given in the following Table 2.1:

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[8] *Minimum Support Price is the minimum price declared for various agricultural produce by GoI for procurement from farmers, thereby preventing distress sale.*

[9] *Central Issue Price is fixed by GoI for wheat and rice below the economic cost for issue to States and Union Territories for distribution.*

[10] *Ways and means advance is a working capital loan given to FCI by the GoI to meet working capital requirement. Normally it is sanctioned and recovered/adjusted during the same financial year. It carries an interest rate equivalent to 364 days average treasury-bill rate.*

Table 2.1: Sources of funds

(₹ in crore)

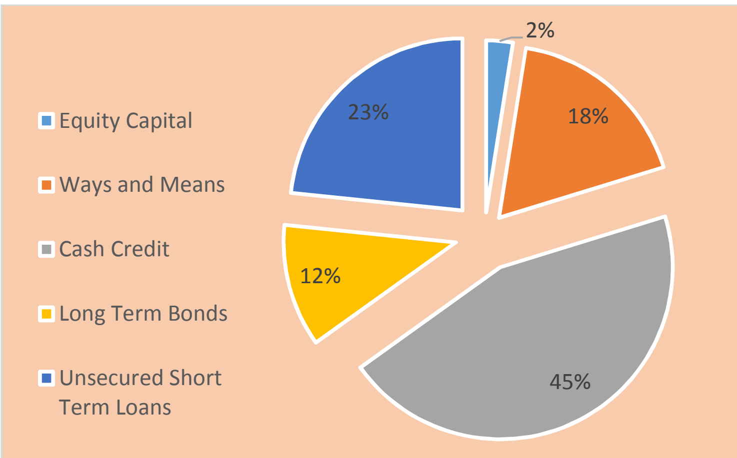
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Equity Capital subscribed by the GoI (as on 31st March)	2,649.67	2,672.95	2,675.95	2,762.79	2,830
Ways and means advance by the Ministry (in April)	10,000	10,000	10,000	10,000	20,000 (10,000 in April 2015 and 10,000 in January 2016)
Cash Credit (CC) availed from banks as on 31st March	44,099.55	49,770.99	51,281.31	46,427.10	50,603.03
Long term bonds (as on 31st March)	3,915	8,914.50	16,914.50	16,121**	13,000**
Unsecured short term loan availed as on 31st March	13,500	13,080	16,250	28,805	26,375
Total	**74,164.22**	**84,438.44**	**97,121.76**	**1,04,115.89**	**1,12,808.03**

Source: Annual Report of FCI *****Bonds pertain to previous years, no fresh bond issued during the year.***

As can be seen from above, equity capital increased from ₹ 2,649.67 crore to ₹ 2,830 crore during 2011-12 to 2015-16 and ways and means advance by the Ministry has increased to ₹ 20,000 crore in 2015-16.

FCI also raised short term loans (STLs) through open tender as and when there was additional requirement and interest on these STLs ranged between 9.20 *per cent* and 10.75 *per cent*. The short term loan availed by FCI increased from ₹ 13,500 crore in 2011-12 to ₹ 26,375 crore in 2015-16. In addition, during 2012-13 and 2013-14 long term bonds worth ₹ 5,000 crore and ₹ 8,000 crore were issued by FCI at an interest rates of 8.62 *per cent* to 9.95 *per cent* respectively and as on 31 March 2016 the long term bonds were to the tune of ₹ 13,000 crore.

Chart 2.1: Sources of Funds



The percentage contribution of various sources towards funds requirement of FCI in 2015-16 is depicted in the **Pie-chart 2.1** on the left. The chart indicates that major portion (80 *per cent*) of the funds was raised by FCI through interest bearing external financial instruments like Cash credit, Short term loans etc.

Even though the cash credit was costlier than STLs, FCI could not avail STLs because of imposition of a condition by the consortium of banks to first exhaust the CC limit and only then utilize the STLs. Moreover, bonds which were a cheaper source of financing, were not issued by FCI after 2013-14.

The Management stated (May 2016) that from its point of view, the conditions imposed by the consortium on drawal of STL were stringent and have been contested by FCI. The banks, however, contend that the Cash Credit facility extended to FCI is pre-emptive in nature i.e. banks have to keep funds ready for use by FCI and stated that FCI's requirement of funds was necessitated principally on account of insufficiency of Cash Credit, so it is logical and optimal for FCI to raise STL only after exhausting the Cash Credit.

On the matter of issue of bonds, FCI stated that it requires Government guarantee for the same and that mobilization of funds through issue of bonds depends on the rating of the entity and/or rating of the instrument. Given its mandate, FCI does not generate any surplus/profit and getting a good rating for FCI as an entity would be difficult. However, rating of the bond instrument is possible on the basis of Government guarantee, therefore, FCI has requested the Ministry on several occasions for providing guarantee to issue bonds.

Audit observed that FCI had also requested the Ministry to provide adequate funds through issue of Government securities and other sources. However, neither any reply was received from the Ministry nor the request of FCI was agreed to by the Ministry[11] in response.

Thus, due to restrictions imposed by consortium of banks for utilizing STL and lack of permission by GoI to raise bonds, FCI had to resort to costlier source of financing through cash credit at interest ranging between 10.01 *per cent* and 12 *per cent* thereby resulting in extra burden on government exchequer in the form of increased food subsidy.

2.3 Delayed release of subsidy

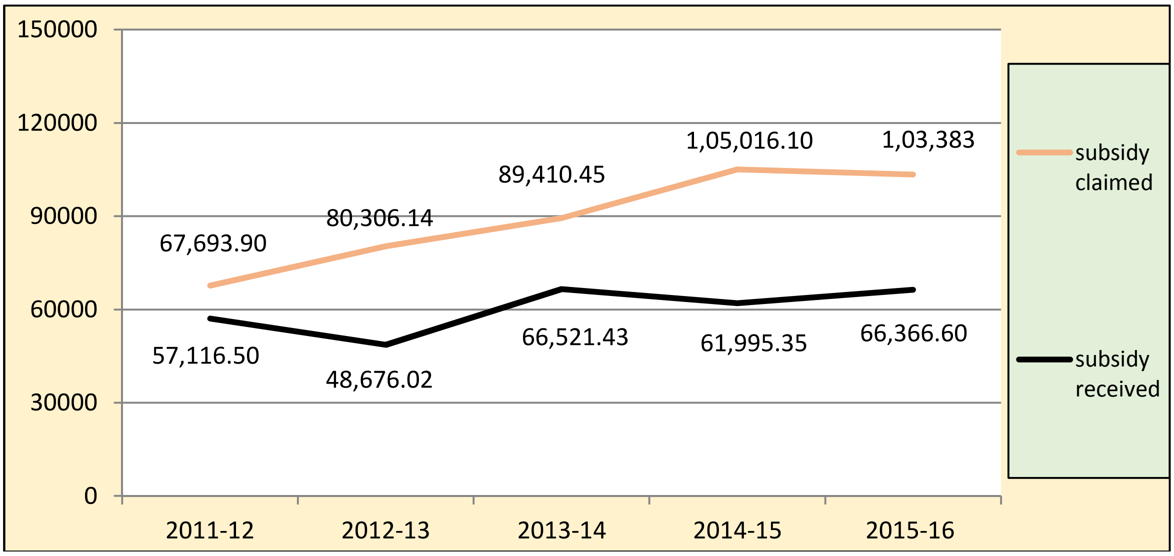
FCI requires a considerable amount of working capital to carry out its activities. During 2011-12 to 2015-16 the main activities of food grains procurement, distribution and other administrative costs amounted to ₹ 1,05,355 crore, ₹ 1,23,687 crore, ₹ 1,28,024 crore, ₹ 1,34,235 crore and ₹ 1,42,487 crore respectively.

The primary source of funds for FCI is the food subsidy released by GoI on account of the consumer subsidy (wheat, rice), subsidy on coarse grain and carrying cost of buffer stocks (buffer stock held by FCI and reimbursement of carryover charges to State Government/Agencies). However, the subsidy released every year by the GoI was lower than the subsidy claimed by FCI. The Chart 2.2 depicts the increasing subsidy gap, as follows:

[11] ***In 10 correspondences the Ministry did not reply and in one case did not agree.***

Chart 2.2: Year-wise subsidy claimed/received from GoI

(₹in crore)



As can be seen from the above Chart, during the period 2011-12 to 2015-16 there was always a substantial gap between the subsidy claimed by FCI and subsidy received from GoI due to which FCI had to borrow from other sources resulting in heavy interest burden on the exchequer, which is discussed in succeeding paragraphs.

Every year the provisional quarterly bills of subsidy by FCI, are submitted to the GoI based on the approved Budget Estimate[12]. As per GoI's instructions, the Ministry is to release 95 *per cent* of the estimated food subsidy to FCI during the relevant financial year and balance five *per cent* is to be released after submission of accounts of FCI to the Parliament. However, the GoI had released only 67 *per cent* of subsidy on an average over the last five years due to which FCI had to resort to other costlier means of finance *viz.* CC, Short term loans etc. Though FCI, from time to time, requested for additional funds from the Ministry but the request was either kept pending with no reply or only part amount was received. FCI had also requested the Ministry (17 June 2016) to permit it to raise funds from financial institutes like National Bank for Agriculture and Rural Development (NABARD), however, the response from the Ministry was still awaited (February 2017).

The amount of subsidy claimed/received and interest incurred on financing by FCI during the period 2011-12 to 2015-16 is depicted in the following Table 2.2:

[12] ***Approved by the Board of Directors (BOD) of FCI except for first quarter bill (which is submitted before the start of the financial year)***

Table 2.2: Amount financed and interest accrued

(₹ in crore)

Year	Outstanding subsidy pertaining to previous years	Subsidy claimed during the year	Total subsidy received			Amount financed*	Interest incurred
			Against earlier years	For the year	Total		
(1)	(2)	(3)	(4)	(5)	(6)=(4)+(5)	(7)	(8)
2011-12	15,668.87	67,693.90	2,819.45	57,116.50	59,935.95	71,514.55	5,227.16
2012-13	23,426.82	80,306.14	23,308.98	48,676.02	71,985.00	81,765.49	6,392.07
2013-14	31,747.96	89,410.45	9,008.54	66,521.43	75,529.97	94,445.81	7,190.72
2014-15	45,628.44	1,05,016.10	30,000.00	61,995.35	91,995.35	1,01,353.10	8,244.30
2015-16	58,649.19	1,03,383.00	45,633.40	66,366.60	1,12,000.00	1,09,978.03	8,647.56
						Total	**35,701.81**

***Excluding equity**

As can be seen from the Table 2.2 above, the outstanding subsidy pertaining to previous years increased from ₹ 15,668.87 crore in 2011-12 to ₹ 58,649.19 crore in 2015-16. This was on account of short release of subsidy by the GoI in each of the years necessitating FCI to raise funds through interest bearing loans, bonds etc. The short release of subsidy resulted in extra interest burden of ₹ 35,701.81 crore on FCI and an increase in food subsidy by an equal amount. Further examination of records in the Department of Food and Public Distribution, revealed that though the Ministry did duly incorporate FCI's demand for subsidy in its budgetary requirements sent to the Ministry of Finance (MoF) but the budget allocation by the MoF was consistently low with the gap ranging between ₹ 7,348 crore to ₹ 34,471 crore during the period 2012-13 to 2015-16.

FCI stated (June 2016) that release of lump-sum advance subsidy was largely dependent on many factors such as revenue collection of the Government, cash liquidity position, budgetary provision by the Ministry of Finance and other financial commitments etc.

FCI's reply indicates that short allocation of funds by the MoF towards food subsidy is due to competing financial priorities of GoI. This compels FCI to seek financing from external sources (towards working capital) thus increasing the interest burden, which gets added to the existing subsidy claims thereby increasing the claimable subsidy which is again followed by further short receipt of subsidy from the Ministry. This vicious cycle eventually leads to an increase in the overall food subsidy burden of the GoI which at least to the extent of interest paid for external financing was avoidable if timely subsidy claims were released by the Ministry.

2.4 Non recovery/ Delay in recovery of dues in respect of food grains supplied to various Ministries/Central Public Sector Enterprises (CPSEs)

As per instructions of the Ministry (20 November 2001), FCI issues food grains to various State Governments under welfare schemes of various Ministries. FCI submits bills to the Ministries from time to time as per the respective scheme. Payments are made on submission of original bills and certificate from the concerned authorities.

However, Audit observed that ₹ 2,897.17 crore was outstanding from various Ministries/Departments which compelled FCI to seek external financing and incur an avoidable interest burden of ₹ 1,617.48 crore as detailed below:

Table 2.3: Interest burden on outstanding dues from various Ministries/CPSEs as on March 2016

Name of Ministry/ Department	Details	Amount (₹ in crore)	Pending since	Avoidable interest (₹ in crore)
Ministry of Rural Development (MoRD)	Dues pertaining to food grains issued during the period 2000-01 to 2007-08 under welfare schemes (Sampoorn Gramin Rozgar Yojna) to State governments authenticated from designated officers of State Governments.	2,452.96	2008-09	1,298.35
Ministry of Human Resources Development (HRD)	Non-settlement of bills of Mid Day Meal scheme by various State Governments and non-submission of bills by Area Managers within the time frame stipulated in the guidelines and non-reconciliation of outstanding amount of FCI and State governments' records (North East region).	326.35	2010-11	139.59
Ministry of External Affairs (MEA)	Outstanding against export of wheat issued to World Food Programme for supply of biscuits to Afghanistan during 2004 to 2012 from MEA.	48.32	More than 10 years	68.94
Central Public Sector Enterprises (CPSEs)	Dues from MMTC[13], STC[14] and PEC[15] for exports proceeds on account of disputed claims for settlement.	69.54	Since 1991	110.60
	Total	**2,897.17**		**1,617.48**

The Management stated (June and November 2016) that persuasion was going on with the Ministry of Rural Development vigorously through the Administrative Ministry and that in respect of dues from Ministry of HRD, due to regular persuasion with the Ministry of HRD and concerned SGAs, the dues under MDM scheme came down to ₹ 291.34 crore as on September 2016. Moreover, in case of North East Frontier (NEF) zone, RO Assam

[13] ***Metals and Minerals Trading Corporation of India.***
[14] ***The State Trading Corporation of India Limited.***
[15] ***The Project & Equipment Corporation of India Ltd.***

had reconciled the figures of outstanding dues. It further stated (December 2016) that the matter regarding dues from the Ministry of External Affairs was being pursued vigorously and the amount of ₹ 47.99 crore was receivable as on November 2016. Regarding dues from MMTC, STC and PEC it stated that claims were being pursued vigorously with these three Central PSUs.

However, it was noticed by Audit that although the dues from the Ministry of Human Resource Development (MoHRD) had come down only by ₹ 35.01 crore, a huge outstanding amount of ₹ 291.34 crore since 2010-11 was still pending which needs to be recovered. In case of dues from MoRD, the outstanding amount had remained the same since 2008-09. MEA had informed FCI that relevant record bills were not traceable and had requested FCI to produce duplicate bills and the issue remained unresolved (February 2017).

Thus, due to short receipt of its dues from Central ministries and Central PSUs, FCI had to arrange funds from other sources (Cash Credit/STL) and accordingly made an avoidable payment of interest of ₹ 1617.48 crore for the period 2011-12 to 2015-16 with an increase in the subsidy burden by an equivalent amount.

2.5 Non recovery in respect of food grains supplied to various State Governments

Audit observed that ₹ 47.54 crore was pending for food grains supplied to various State Governments as detailed below:

Table 2.4: Pending claims from State Governments

State	Amount Pending (₹ in crore)
Maharashtra	10.00
Bihar	18.44 (since 1979-80)
Kerala	4.53 (since 1981-82)
Assam	14.57 (since 1967 onwards)
Total	**47.54**

The Management stated (November 2016) that the matter was being pursued regularly with the Bihar region and that these claims were not reflected in the books of accounts of FCI on the ground of being too old. It further stated that in case of Maharashtra, an amount of ₹ 1.38 crore against various parties for non-lifting of Under Relaxed Specifications (URS) rice was subjudice and for the rest of the amount, matter was being pursued for early realization. Regarding Kerala it stated that an amount of ₹ 1.44 crore was received from the State of Kerala as final settlement. Regarding Assam, the Management stated (February 2016) that the outstanding amount of ₹ 14.57 crore was not disclosed in the books of accounts, adjusted or written off as bad debts.

The reply furnished by the Management indicates that full amount to be recovered from the State Governments of Assam and Bihar were not shown as recoverable. Hence, it is not clear how FCI proposes to write off such unaccounted amounts, a fact which is a pre-requisite for claiming subsidy from the Ministry. Moreover, amount-wise, party-wise and year-wise details could not be furnished by FCI. In absence of requisite information, the claims of FCI remain unverifiable.

Due to non/short receipt of its dues from various State Governments, FCI had to arrange funds from other sources (Cash Credit/STL) and made an avoidable payment of interest of ₹ 25.16 crore during the period 2011-12 to 2015-16.

2.6 Delay in regularisation of storage and transit losses

As per the instructions of FCI (31 May 2004), the storage and transit losses pending upto the period 1999-2000 were required to be brought to zero level and the current losses were to be regularized in the following month and were not to be allowed to accumulate in any case. Moreover, the concerned zones/regions were given a time frame of three months to regularize the cases of storage and transit losses prior to 1990-91, as losses to the tune of ₹ 35.67 crore were pending regularisaton prior to 1990-91 under different zones/regions. However, Audit noticed that an amount of ₹ 24.01 crore (storage loss - ₹ 14.77 crore and transit loss - ₹ 9.24 crore for the period prior to 1990-91) remained unregularised as on April 2016 which could not be claimed as subsidy. Moreover, full details of unregularised storage and transit shortages were not being maintained separately by FCI to take a meaningful action to regularize the same.

The Management stated (June 2016) that cases of regularization were processed expeditiously and that these cases were very old and lacked essential information such as percentage of loss, name of centres where losses occurred, hence, it would take some time to clear the pendency.

The reply confirms the fact that FCI records do not contain even requisite details of these old cases and, thus, the feasibility of regularization of these cases remains uncertain.

2.7 Loss of interest on idle funds

The Board of Directors (BOD) of FCI approved (August 2009) a proposal to raise ₹10,000 crore through STLs, in addition to the CC facility. The CC facility consortium was requested to give its approval on this proposal. On the request of FCI, a meeting of Standing Committee of CC facility consortium was held on 3 March 2011, wherein FCI was permitted to raise STL on unsecured basis. The committee agreed that debit would be raised by FCI branches in the main account and the amount in excess of ₹ 34,495 crore (the then CC ceiling) would be swept from STL account at the end of each day. In the meeting (3 March 2011), SBI clarified that as the FCI's requirement of funds was necessitated principally on account of insufficiency of CC limit, it was logical and optimal for FCI to raise STLs only after first exhausting the CC limit. The conditions of raising STLs *inter alia* included that the tenure of the proposed STLs should be based on cash flows and FCI was to raise the amount in tranches based on its cash flows.

The BOD approved (March 2011) proposal for raising STLs of ₹ 3,800 crore. The bids were invited on 4 March 2011 and STLs of ₹ 3,800 crore were availed from seven banks[16]. Similarly, FCI availed (September 2011) STLs of ₹ 2,975 crore from four banks[17]. The amounts of these STLs were deposited (17 March to 23 March 2011 and 2 to 9 September 2011) in a separate current account opened with SBI, Industrial Finance Branch, New Delhi for onward sweeping to the CC account against excess utilization of funds beyond the CC ceiling. Audit observed that though the STLs of ₹ 3,800 crore were received by FCI from 17 March 2011 to 31 March 2011, the same were swept to CC account belatedly between 21 March 2011 and 7 April 2011. In respect of STLs of ₹ 2,975 crore availed during September 2011, an amount of ₹ 575 crore was received on 2 September 2011 whereas its sweeping to CC account was carried out on 5 September 2011. Keeping STLs amount idle led to avoidable amount of interest to the tune of ₹ 11.27 crore (₹ 10.78 crore + ₹ 0.49 crore).

The Management replied (July 2013) that the utilization pattern of the CC account for future dates immediately after resumption of payments was not predictable with 100 per cent accuracy and minor variation of two to three per cent was bound to happen with any projection and the loss of interest on idle funds was approved by the BOD of FCI respectively in April 2011 and September 2011. The Management further replied (July 2014 and November 2016) that it availed STLs in March 2011 due to precarious fund position.

The reply of the Management is not tenable as there exists a specialized Funds Division, entrusted with the responsibility of estimation of funds requirements, however, there was no evidence to show that there was a foolproof system of daily transmission of funds utilization from field offices to FCI Headquarters in order to accurately project the aggregate funds requirement. As a result, the STLs were availed much before the actual requirement of funds. Further, as per the terms and conditions there was an enabling provision that the loan had to be used within seven days from the date of acceptance of the offer by FCI. Considering this margin of seven days, the money received from the STLs should have been optimally planned for disbursement.

2.8 Excess payment of interest on cash credit

FCI instructed (March 2015 and January 2016) all its Zonal Executive Directors (EDs), in respect of transfer of day end balance, to nominate an official of Assistant General Manager level as Nodal officer to monitor the bank statements of all Unit offices under their region on daily basis. Also, instructions were issued by FCI headquarters to monitor day-to-day end operations of bank accounts within their zone as well as to check calculation of interest charged by the bank and report instances where the day end balances particularly credit balance in the bank account of field offices were not transferred to the Zonal cash credit account or the Central CC account, which led to loss of interest to FCI.

Test check of bank statements of cash credit accounts of District Office, Jaipur (April 2011 to March 2016), Nellore (2014-15 and 2015-16) and Zonal Office (East) (January to

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[16] ***Federal Bank, IDBI, Union Bank of India, Indian Bank, Punjab & Sind Bank, Vijaya Bank and Central Bank of India***

[17] ***Federal Bank, HDFC, Corporation Bank and Dena Bank***

March 2016) revealed that credit balances were not transferred to zonal/central CC account on all dates. Similar deficiencies were noticed in other zonal/regional/district offices also. Non-compliance of the instructions in respect of day to day transfer of end balance to ZCC/central CC account led to avoidable interest burden of ₹ 29 lakh on FCI.

2.9 Non-compliance of the instructions of the Ministry of Consumer Affairs, Food and Public Distribution

With a view to avoid interest burden by way of release of food subsidy, on monthly basis instead of quarterly basis the Ministry issued (August, 2004) instructions to FCI to conduct an efficiency analysis on interest payment to SBI and to carry out analytical study of the monthly CC limit of the FCI comparing with it subsidy released by the GoI.

However, it was noticed in audit that neither any efficiency analysis was conducted nor any analytical study done of the monthly CC limit used by FCI of the subsidy released by the GoI.

The Management stated (June 2016) that the Ministry was fully aware of interest savings that would accrue to FCI if advance was released quarterly and FCI was apprising the Ministry of its level of fund utilization on a daily basis.

The reply is not acceptable as instructions of the Ministry in respect of conducting efficiency analysis and analytical study have not been adhered to by FCI which if implemented could have quantifiably determined if there would have been any savings in terms of interest payable by FCI had it received the subsidy on a monthly basis from the Ministry. This indicates a lackadaisical approach by FCI to approach the issue of mounting subsidy burden.

2.10 Inadequacy in Risk Management Policy of FCI

In a meeting of Board of Directors (BOD) held on 26 September 2013, the “Risk Management Policy” of FCI was approved which stated that FCI shall identify the possible risks associated with its business and commit itself to put in place a Risk Management Framework to address the risks involved on an ongoing basis to ensure achievements of the business objective without any interruptions. The Risk Management Policy of FCI was to educate and sensitise the working level personnel on the requirement and listing of the risks and the mitigating measures in place at their respective areas of operations.

Audit noticed instances where there was shortage of funds even after availing STLs/ cash credit facility due to short provision of subsidy by GoI. This resulted in restrictions on release of payment for the then ongoing procurements and taking over of the stock. However, no details were available to depict as to what specific measures the Corporation undertakes to mitigate the risks especially of lack of liquidity affecting the procurement payments. Moreover, there was no information that FCI has taken steps to sensitise the working level personnel regarding the listing of risk and mitigating measures in place in this area of operation. The policy was not sufficiently detailed to address the complex financial needs of the FCI.

The Management accepted the observation and replied that there had been occasions in the past where FCI was constrained to defer payment to its service provider's viz. SGAs and millers due to shortage of funds and even after exhausting the cash credit limit and STL source, there was no other mitigating measure to deal with such situation of deferring payment to its service providers.

The Management should, based on a quantified risk analysis, consider suitable alternatives to tide over situations like non-payments for procurement because of sudden shortage of funds to guard against the risk of having an adverse effect on the supply chain of Targeted Public Distribution System (TPDS).

2.11 Conclusion

The main reason for indebtedness of FCI was delayed/insufficient release of subsidy by the Ministry. This compelled FCI to secure external financing by incurring heavy interest burden. The short/delayed release of subsidy created a vicious cycle whereby funds taken on interest for working capital further increase the claimable subsidy eventually leading to avoidable increase in the overall food subsidy burden of GoI. Further, there was pendency in recovery of long outstanding dues from some Central Ministries/Central PSUs and State Governments. Moreover, the risk management policy of FCI also did not sufficiently address the complex financial needs of the Corporation.

2.12 Recommendations

We recommend,

(i) The Ministry of Finance may make full allocation on time to the Ministry of Consumer affairs, Food and Public Distribution, Department of Food and Public Distribution towards the food subsidy component to be given to FCI.

(ii) FCI may approach the consortium through the Ministry of Consumer Affairs, Food and Public Distribution for allowing it to utilise short term loan before exhausting the cash credit limit.

(iii) FCI may approach the Ministry of Consumer Affairs, Food and Public Distribution again to obtain guarantee for issue of bonds so as to have access to cheaper source of finance.