

RBI/2004/47
IECD.No.3652/9.01.01/2003-04

February,10, 2004.

To
All The Principal Secretaries,
of the State Govts. /Union Territories
(as per list attached).

Dear Sir,

**Bank Credit for Public Procurement of
Foodgrains – Rabi 2004 Season**

In order to assess the likely magnitude of bank credit that would be required to finance procurement/purchase operations during Rabi 2004 season, we require the **estimates** of your Government's procurement programme for the said season, and the need-based operating credit requirements to support such operations. You are, therefore, requested to arrange to furnish detailed cash flow projections as per enclosed proformae I to V as early as possible and in any case not later than **March 15, 2004**. An explanatory note is attached to facilitate preparation of the cash flow statements.

Need to Furnish Realistic Cash Flow Statements

2. As bank credit is required to be earmarked for food procurement operations, you will appreciate the need to assess your State Government's/ Union Territory Authority's credit requirements based on the estimated procurement. It may be mentioned that alterations are not possible in the operating credit limit retrospectively and operations in the food credit account with a lapsed sanction would amount to an irregularity. You are, therefore, urged to ensure that your credit requirement is realistically assessed and that you approach us well in time for a reduction/enhancement/continuation of an existing limit. **The State Governments/Union Territory Authorities are advised to indicate correctly their month-wise cash credit requirements during the season.** We request you to review the credit requirements as per the procurement plans and approach us well in advance for the alterations in the limit, wherever necessary to reassess the position, as also to enable us to know the actual vis-à-vis projected procurement indicated in the cash flow.

Authorisation of Credit Limits directly to the State Governments/
Union Territory Authorities and not to Agencies

3. As in the past, the Reserve Bank of India (RBI) would authorise credit limits only to the respective State Government/Union Territory Authority and not to their procuring agencies. The State Government/Union Territory Authority could, in turn, allocate the limit authorised by way of suitable sub-limits to the authorised agencies according to the scale of procurement operations envisaged. Furthermore, the **State Government/Union Territory Authority should approach the RBI** for any credit limit for food procurement operations including inter-State purchases and neither the State Government/Union Territory Authority nor their agencies should directly approach any commercial bank/co-operative bank for the purpose. Necessary instructions may kindly be issued to the concerned agencies in this regard.

4. It should be ensured that the State Government obtains a Letter of Consent from the concerned Department of the Finance Ministry of Gol for the borrowal of funds from the banking system, under Article 293(3) of the Constitution of India, as soon as the limit is authorised and forward it to State Bank of India (SBI) before drawal under the limit.

Method for Valuation of Stocks

5. As you are aware, the stocks of foodgrains held by the State Government/Union Territory Authority/their agencies should be valued at the **cost of procurement or the issue price, whichever is lower**. The procurement cost would include the cost of foodgrains and the cost of gunny bags used in storage, besides such other incidentals as are related to the procurement operations such as mandi charges, handling charges at the procurement centres and transportation charges from the procurement centres **to the storage points**. **Post-procurement costs such as storage and distribution charges, bank interest and administrative charges should not be reckoned as part of the procurement cost**. Since food credit limits would be authorised only on the basis of proper valuation of stocks, it may kindly be ensured that the stocks are valued strictly in accordance with the norms referred to above, in the cash flow and monthly stock statements.

Value of stocks should cover outstandings

6. The established banking norms for utilising food credit should be strictly observed and food credit outstandings must always be fully covered by the value of paid stocks of foodgrains valued as per the banking norms referred to in paragraph 5 above. For the purpose of determining the extent of credit that can be drawn, the stocks should relate to only those stocks of foodgrains which have been fully paid for by the concerned authorities. The stocks which have not been fully paid for or stocks for which the sale proceeds have been realised by the State Government/Union Territory Authority but have not been lifted by the buyers should not be included in the stocks against which credit is drawn by the

State Government/Union Territory Authority. **Besides, the State Government/ Union Territory Authority cannot draw bank credit against credit sales/book debts/ Receivables/Government subsidy.**

Utilisation of Credit Limit

7. We reiterate that **food procurement credit should be utilised only for financing procurement of foodgrains (viz. Paddy, Rice, Wheat and coarse grains)** within the State/Union Territory (or outside, if so permitted by the GoI) at prices fixed by the GoI and/or for taking delivery of quota allotted by the Food Corporation of India (FCI) for distribution under Public Distribution System and **not** for any other purpose.

Need to keep Foodgrain Operations distinct from Non-Foodgrain Operations

8. The sub-limits allocated to and operated by the State level agencies, from out of the limits authorised, should be utilised only for transactions relating to foodgrains procurement/distribution operations of the State Government/Union Territory Authority. The other non-foodgrain operations such as sugar, edible oil, etc. of these agencies **should not** be mixed up with the food credit account.

Monthly Stock Statements

9. The Monthly Stock Statement shall be submitted by the State Governments/Union Territory Authorities to SBI with a copy thereof to RBI. It should also be ensured that the monthly stock statement prepared in the format prescribed (Proforma No.VI) and in accordance with the instructions provided in this regard, is submitted to the Local Head Office of the SBI **latest by the 5th of the succeeding month** with a copy thereof to RBI, so as to facilitate timely authorization of food credit.

Physical Verification of Stocks

10. As indicated in the cash flow proforma (No. V) and the footnote to the monthly stocks statements, i.e., proforma (No. VI), you are requested to indicate the date on which the foodgrains stocks were physically verified last and furnish a summary of the findings noticed.

11. State Govts./Union Territories may furnish a certificate stating that the paddy that will be procured by them, where direct procurement from farmers is undertaken, will be as per the specifications stipulated by the Govt. of India.

Kindly acknowledge receipt.

Yours faithfully,

(K. Prasad)
General Manager
Encls. : 12

ANNEXURE

Explanatory Note

Detailed instructions are set out in the footnotes to Proformae I to VI. These may please be studied carefully while preparing data as required in the proformae. The following additional aspects may also please be taken into account:

- (i) While submitting the cash flow data, the implications of the latest available information such as changes in procurement plans (e.g. because of changes in weather conditions) should be evaluated.
- (ii) The actual data relating to procurement/allotment from the FCI as also sales/releases of food stocks during the corresponding period of the previous year should be reckoned while preparing estimates for the current season.
- (iii) As the credit limits are authorised on the basis of the value of closing stocks, the net value of stocks should be arrived at after taking into account the releases to be made under the public distribution system during the season and not merely on the basis of cost of procurement/ allotment.
- (iv) In accordance with the normal banking practice, the stocks of foodgrains held by the State Governments/Union Territory Authorities/their Agencies **should be valued at the cost of procurement or the issue price, whichever is lower**.
- (v) The **credit limit** for food procurement operations, requested for the current season, **should take into account the value of stocks to be procured during the current season only**. With the authorisation of the limit for the current season **all previous limits would be set for adjustment** (unless otherwise specified) and the **State Governments/Union Territory Authorities can operate only the new limits**.
The details of closing stocks of the previous seasons should be indicated separately.
- (vi) In case any large carry over stocks are held with the State Governments/ Union Territory Authorities relating to earlier seasons **a suitable repayment programme should be provided separately. A time-bound programme should be drawn up in consultation with the State Bank of India and this should be strictly adhered to**.

- (vii) The stocks of foodgrains purchased at prices higher than the support prices fixed by the Government of India should be shown separately and not with the normal food stocks procured at support prices fixed by the Government of India or purchases from the Central Pool.
- (viii) While the releases of stocks relating to the previous season are generally expected to be as per the cash flow data estimated by the State Government for the previous season, the reasons for large variations, if any, from the estimates should be explained in proforma IIB and IIIB.
- (ix) A copy of the stock statement compiled in the format prescribed (as per instructions given in the Proforma VI) shall be submitted to the concerned Local Head Office of the State Bank of India **latest by 5th of the succeeding month**. The consolidated stocks statement may also set out the stocks held by each of the agencies of the State Government/Union Territory Authority. It may please be ensured that the stock statements are submitted to the State Bank of India by the State Government/Union Territory Authority and not by the individual procuring agencies. The stock statement should relate to the actual stocks of foodgrains held by the State Government/Union Territory Authority. The stocks paid for to the FCI and released to the State Government/Union Territory Authority, but which are in transit, could be considered as part of the actual stocks. If such stocks are included in the stock statements, those should be separately indicated. **The stocks which have not been paid for by the State Government/Union Territory Authority or stocks which have been sold and the proceeds have been received, but not lifted by buyers should not be treated as stocks** of the State Government/Union Territory Authority and in the event of there being such stocks, these should be shown separately. Similarly, the value of stocks sold on credit terms, if any, should be shown separately in the stock statement. The basis of valuation of stocks shown in the stock statement should be clearly indicated. **Since bank credit cannot be drawn against credit sales/book debts/Government subsidy, these should be excluded from the value of stocks shown in the stock statement.**

Food Procurement Credit

Name of State/Union Territory _____

Estimates of Production of
foodgrains in the State/Union
Territory

	(In thousand tonnes)	
Wheat	Paddy/ Rice	Coarse grains
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- i) Estimated Rabi 2004
Production in the State/
Union Territory

- ii) Estimated Marketable
surplus during the season

- iii) Estimated procurement
to be made by
 - a) State/Union Territory

 - b) Agencies (specify)
 - i) _____
 - ii) _____
 - iii) _____
 - iv) _____

- Total of (a + b)

Note: Please give a separate note briefly discussing broad estimates of the volume of production of foodgrains including coarse grains in the State/Union Territory, marketable surplus thereof, the Government's current policy on procurement and prices, system of levy procurement, the likely monthly releases of foodgrains including coarsegrains under the public distribution system, budgetary provisions for such operations, etc.

Estimates of Procurement/Releases/
Stocks in State/Union Territory

(Rabi 2004)

(Please give the details in respect of Procurement within the State/
Union Territory at prices fixed by the Government of India only)

1. Commodity * : _____

2. Name of Agency/
Agencies** _____

3. Procurement

Prices : i) Procurement Price Rs. _____ per tonne
ii) Incidentals \$:
(with details)
Total (i + ii) Rs. _____ per tonne

(Quantity in thousand tonnes and value in lakh of rupees)

End of month	Opening Stocks++		Procurement/		Releases/Sales		Closing Stocks	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value

2004

April Nil Nil

May

June

July

August

September

* **Separate statement for each commodity as well as consolidated statement for all commodities should be given.**

**The names of agencies which will be entrusted with the task of procurement should be mentioned.

\$ Reasons for any large variations in the cost of incidentals with respect to the previous Kharif season's actuals should be indicated.

++ Carry over stocks in respect of the previous Kharif Season (upto March, 2004) should be shown by way of a footnote. Where such stocks are large, specific reasons therefor should also be given.

Note: **Please indicate the rate/s at which the opening stocks, Procurement, releases/sales and closing stocks are valued.**

PROFORMA - IIIA

Estimates of Purchases/Releases/

Stocks in State/Union Territory

(Rabi 2004)

(Please give the details in respect of purchases likely to be made by the State/Union Territory from the Food Corporation of India)

1. Commodity * : _____

2. Name of Agency/
Agencies** _____

3. Purchase
Prices : i) Purchase Price : Rs. _____ per tonne

(Quantity in thousand tonnes and value in lakh of rupees)

End of month	Opening Stocks ++		Purchases		Releases/ Sales		Closing Stocks	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value

2004

April Nil Nil

May

June

July

August

September

September 2003 @

* Separate statement for each commodity as well as consolidated statement for all commodities should be given.

** The names of agencies which will be entrusted with the task of purchase should be mentioned.

++ Carry over stocks in respect of the previous Kharif season (upto March 2004) should be shown by way of a footnote. **Where such stocks are large, specific reasons therefor should also be given.**

@ Please indicate only closing stocks as at the end of Sept. 2003, i.e., previous Rabi season.

Note: **Please indicate the rate/s at which the opening stocks, purchases, releases/sales and closing stocks are valued.**

PROFORMA - IIIAA

Targetted Public Distribution System (TPDS)

Estimates of Purchases/Releases/
Stocks in State/Union Territory

(Rabi 2004)

(Please give the details in respect of **purchases** likely to be made by the State/
Union Territory from the **Food Corporation of India** under the above Scheme)

1. Commodity * : _____
2. Name of Agency/
Agencies** _____
3. Purchase
Prices : i) Purchase Price Rs. _____ per tonne

(Quantity in thousand tonnes and value in lakh of rupees)

End of month _____	Opening Stocks _____		Purchases _____		Releases/ Sales _____		Closing Stocks _____	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value

2004

April **Nil** **Nil**

May

June

July

August

September

@ September 2003

* Separate statement for each commodity as well as consolidated statement for all commodities should be given.

** The names of agencies which will be entrusted with the task of purchases should be mentioned.

@ Please indicate only the closing stocks as at the end of September 2003 i.e., previous Rabi season.

Note: Please indicate the rate/s at which the opening stocks, purchases, releases/sales and closing stocks are valued.

PROFORMA - IIB

Actual Procurement/Releases/Stocks in State/Union Territory

(Rabi 2003)

(Please give the details in respect of **procurement** within the State/
Union Territory at prices fixed by the Government of India only)

1. Commodity * : _____
2. Name of Agency/
Agencies** _____
- 3, Procurement
Prices : i) Procurement Price Rs. _____ per tonne
 ii) Incidentals :

 Total (i + ii) Rs. _____ per tonne

(Quantity in thousand tonnes and value in lakh of rupees)

End of month	Opening Stocks		Procurement		Releases/ Sales		Closing Stocks	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value
2003								
April	Nil	Nil						
May								
June								
July								
August								
September								

* Separate statement for each commodity as well as consolidated statement for all commodities should be given.

** The names of agencies entrusted with the task of procurement should be mentioned.

- Note: 1) Large variations as between projections as per cash flow data submitted during the relevant season and the actuals shown in this statement should be clearly explained. **If any large carry over stocks are held which relate to the previous seasons, a suitable repayment programme should be provided separately.**
- 2) **Please indicate the rate/s at which the opening stocks, procurement/ releases/sale and closing stocks are valued.**

PROFORMA - IIIB

Actuals of Purchases/Releases/
Stocks in the State/Union Territory

(Rabi 2003)

(Please give the details in respect of **purchases** made by the State Government/Union Territory from the Food Corporation of India)

1. Commodity * : _____
2. Name of Agency/
Agencies** _____
- 3, Purchase
Prices : i) Purchase Price Rs. _____ per tonne
 ii) Incidentals :

 Total (i + ii) Rs. _____ per tonne

(Quantity in thousand tonnes and value in lakh of rupees)

End of month	Opening Stocks		Purchases		Releases/ Sales		Closing Stocks	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value
<u>2003</u>								
April	Nil	Nil						
May								
June								
July								
August								
September								

* Separate statement for each commodity as well as consolidated statement for all commodities should be given.

**The names of agencies entrusted with the task of purchase should be mentioned.

- Note: 1) **Large variations as between projections as per cash flow data submitted during the relevant season and the actuals shown in this statement should be clearly explained. If any large carry over stocks are held which relate to the previous seasons, a suitable repayment programme should be provided separately.**
- 2) **Please indicate the rate/s at which the opening stocks, purchases, releases/sales and closing stocks are valued.**

PROFORMA - IIIBB

Targetted Public Distribution System (TPDS)

Actuals of Purchases/Releases/Stocks in the State/Union Territory
(Rabi 2003)

(Please give the details in respect of **purchases** made by the State Government/
Union Territory from the **Food Corporation of India** under above scheme)

1. Commodity * : _____

2. Name of Agency/
Agencies** _____

3. Purchase
Prices : i) Purchase Price Rs. _____ per tonne
 ii) Incidentals :

 Total (i + ii) Rs. _____ per tonne

(Quantity in thousand tonnes and value in lakh of rupees)

End of month	Opening Stocks		Purchases		Releases/ Sales		Closing Stocks	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value
2003								
April	Nil	Nil						
May								
June								
July								
August								
September								

* Separate statement for each commodity as well as consolidated statement for all commodities should be given.

** The names of agencies entrusted with the task of purchase should be mentioned.

Note: 1) Large variations as between projections as per cash flow data submitted during the relevant season and the actuals shown in this statement should be clearly explained. If any large carry over stocks are held which relate to the previous seasons, a suitable repayment programme should be provided separately.

2) **Please indicate the rate/s at which the opening stocks, purchases, releases/sales and closing stocks are valued.**

Proforma - IV

Sources of Procurement

Kindly indicate your procurement/purchase/sources of funds, the quantities and value of foodgrains - separately for each foodgrain-from

- A) i) Farmers within State/Union Territory :
 ii) Traders within State/Union Territory :
 iii) Millers within State/Union Territory :
- B) The Central Pool
- C) Other States (Agency from which purchases are to be made should be specified)
- D) Please indicate whether the Government charges a guarantee commission from the procuring agencies in respect of guarantees issued to the banks for the food procurement credit extended by banks. If so, please give details thereof.
- E) **Please give the outstanding food credit and value of foodgrains stocks held with the State Government/Union Territory as at the beginning of the Rabi 2003 season**

- i) Stocks out of the procurement/purchases made by availing of the credit limits authorised to the State Government/Union Territory for procurement of foodgrains at support prices fixed by the Government of India/Purchased from Central Pool.

	Value of closing stocks as on <u>February 29, 2004</u>		Outstanding credit as on <u>February 29, 2004</u>
	Quantity (in thousand tonnes)	Value \$ (Rs.lakh)	(Rs.lakh)
1. Paddy	_____	_____	_____
2. Rice	_____	_____	_____
a) Central Pool	_____	_____	_____
b) Procured within State	_____	_____	_____
3. Wheat	_____	_____	_____
a) Central Pool	_____	_____	_____
b) Procured within State	_____	_____	_____
4. Coarsegrains	_____	_____	_____

- ii) Stocks out of the purchases made by availing credit limits authorised for procurement at prices higher than those fixed by the Government of India/inter-State purchases of foodgrains.

	Value of closing stocks as on <u>February 29, 2004.</u>		Outstanding credit as on <u>February 29, 2004</u>
	Quantity (in thousand tonnes)	Value \$ (Rs. lakh)	(Rs. lakh)
1. Paddy	_____	_____	_____
2. Rice	_____	_____	_____
3. Coarsegrains	_____	_____	_____

\$ Please indicate the rate of valuation by way of footnote.

PROFORMA - V

Information relating to Prices

Please give the procurement prices proposed to be offered by the Government during the Rabi 2004 season.

	Commodity _____	Price per tonne (Rs.) _____
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
6.	_____	_____

Details regarding communication

To enable us to convey the authorisation quickly, kindly let us know :

- i) Name of the Secretary
 - a) Food and Civil Supplies Department
 - b) Finance Department
- ii) Present office telephone number/s
- iii) Fax Number

Physical Verification of Stocks

The stocks were physically verified last on _____ and the same fully covered the outstanding bank credit.

Undertaking by the State Government/
Union Territory Authority _____

We have noted that the authorised credit limits under the food credit consortium will be utilised only for financing procurement of foodgrains within the State/Union Territory at prices fixed by the Government of India, and/or for taking delivery of quotas allotted by the Food Corporation of India for the distribution of foodgrains under the Public Distribution System.

Signature : _____

Name : _____

Designation: _____

Date : _____

**(TO BE SUBMITTED TO THE LOCAL HEAD OFFICE, STATE BANK OF INDIA
with a copy to Reserve Bank of India, Mumbai)**

PROFORMA - VI

Monthly Stock Statement for the month of _____

Quantity : Thousand tonnes

Value : Rupees Crore

Commodity	Opening stocks		Purchases		Sales		Closing stocks	
	Proje- cted	Actuals	Proje- Cted	Actuals	Proje- cted	Actuals	Proje- cted	Actuals
	Q.	V.	Q.	V.	Q.	V.	Q.	V.
1.								
2.								
3.								
4.								

Q : Quantity

V : Value

- NOTES: 1. Please ensure that the monthly stock statement as per the above proforma is submitted promptly and regularly so as to reach the State Bank of India on or before the **5th of the succeeding month** and also a copy thereof to Reserve Bank of India, Central Office, IECD, Mumbai. The State Government/Union Territory Authority should submit consolidated monthly statements in respect of all agencies, reflecting the position of actual total stocks held by the State Government/Union Territory Authority. The stock statement should be duly authenticated by the authorised officials of the State Government/Union Territory for the purpose.
2. The stock statement should cover only foodgrains items and non-food items should be excluded from the stock statement.
3. The stocks paid for to the Food Corporation of India and released to the State Government/Union Territory but which are in transit could be considered as part of the actual stocks. If such stocks are included in the stock statement, these should be separately indicated. However, unpaid stocks or stocks for which the sale proceeds have been realised but which have not been lifted by the buyers should be shown separately and credit cannot be drawn against such stocks. Further, credit cannot be drawn against credit sales/book-debts, Government subsidy and, therefore, these items should be excluded from the value of stocks shown in the stock statement. The value of stocks sold on credit, if any, should be shown separately.
4. Kindly ensure that valuation of stocks is on the basis of normal banking norms indicated on page 2 of the present circular letter i.e. at procurement cost or issue price, whichever is lower and that the outstandings should be fully covered by value of stocks. A separate stock statement should be submitted in respect of purchases made at prices higher than those fixed by the Government of India and/or for inter-State purchases of foodgrains.
5. Please indicate the rate at which the opening stocks, purchases, sales and closing stocks are valued.
6. Please indicate the date on which the foodgrains stocks were physically verified last and a summary of the findings noticed may also be furnished.