

March 3, 2005

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

Dear Sir,

Credit for Procurement of Foodgrains – Rabi 2005 Season

In order to assess the likely magnitude of bank credit that would be required to finance procurement/purchase operations during Rabi 2005 season, it is necessary to obtain estimates of your Government's procurement programme for the said season and the need-based food credit requirements to support such operations. You are, therefore, requested to arrange to furnish detailed cash flow projections in the enclosed proformae I to V (also available on our website) as early as possible and in any case not later than **March 21, 2005**.

Need to furnish realistic Cash Flow Statements

2. As financing of your procurement operations is done under a special credit dispensation arrangement, you are requested to ensure that the credit requirements are realistically assessed based on the estimated procurement. 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 taken into account while preparing estimates for the current season. Large variations between projections made during the previous year and the corresponding actuals being shown now in proformae IIB/IIIB/IIIBB should be clearly explained. You may forward the Cash Flow Statements in proformae I to V well in time to enable us to process them and authorize the required cash credit limits.

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 its 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, only the **State Government/Union Territory Authority should approach the RBI** for any credit limit for food procurement operations including inter-State purchases. Neither the State Government/Union Territory Authority nor their agencies should 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 Finance Ministry, Government of India 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 the same to State Bank of India (SBI) before drawal under the limit.

5. 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 limit. The details of closing stocks of the previous seasons should be indicated separately.

Method of Valuation of Stocks

6. 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 (Minimum Support Price) and the cost of gunny bags used in storage, besides such other incidentals as are related to the procurement operations such as mandi charges (including authorised purchase cess/tax), 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.

Valuation at 'issue price'

7. Normally, the 'issue price' being lower than the 'procurement cost' under the Minimum Support Price (MSP) Scheme, the stocks procured should be valued at 'issue price' only and the gap between the two should be made up by receipt of subsidy from Government of India. However, with a view to ensure the availability of adequate funds for the procurement operations, it has been decided to allow valuation of food stocks at 'procurement cost' during the peak procurement period for a maximum of three months. Accordingly, with Rabi procurement starting in April, you may value stocks at 'procurement cost' upto June 2005 and, thereafter, at 'issue price'.

Value of stocks should cover the outstandings

8. 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 elsewhere in this letter. 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

9. 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 Foodgrains Operations distinct from Non-Foodgrains Operations

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

Monthly Stock Statements

11. The Monthly Stock Statements 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 limits.

Physical Verification of Stocks

12. As indicated in the cash flow proforma (No. V) and the footnote to the monthly stock 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 of the verification.

13. State Governments/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.

14. 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.

Kindly acknowledge receipt.

Yours faithfully,

(Mridul Sagar)
Director

Encls. : 10

PROFORMA - I
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
-----	-----	-----

- i) Estimated Rabi 2005
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 coarse grains under the public distribution system, budgetary provisions for such operations, etc., to enable us to analyse the estimates given in the cash flow statements.

PROFORMA - IIA

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

(Rabi 2005)

(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 Procurement Releases/Sales Closing Stocks

Stocks++ _____

Qty. Value Qty. Value Qty. Value Qty. Value

2005

April Nil Nil

May

June

July

August

September

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

******Only the names of agencies which will be entrusted with the task of procurement should be mentioned. Only one statement showing consolidated procurement by all the agencies should be furnished.

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

++Carry over stocks in respect of the previous Rabi Season (upto September 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 2005)

(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	Purchases	Releases/ Sales	Closing
	Stocks ++	_____	_____	Stocks _____
<u>Qty. Value</u>	<u>Qty. Value</u>	<u>Qty. Value</u>	<u>Qty. Value</u>	

2005

April **Nil** **Nil**

May

June

July

August

September

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

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

++ Carry over stocks in respect of the previous Rabi season (upto September 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, 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 2005)

(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	Purchases	Releases/	Closing
	Stocks		Sales	Stocks
<u>Qty. Value</u>	<u>Qty. Value</u>	<u>Qty. Value</u>	<u>Qty. Value</u>	

2005

April **Nil** **Nil**

May

June

July

August

September

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

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

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 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 : _____

Total (i + ii) Rs. _____ per tonne

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

End of month	Opening	Procurement	Releases/	Closing
	<u>Stocks</u> _	_____	<u>Sales</u> _	<u>Stocks</u> <u>Qty.</u>
	<u>Value</u> <u>Qty.</u>	<u>Value</u> <u>Qty.</u>	<u>Value</u> <u>Qty.</u>	<u>Value</u>

2004

April

May

June

July

August

September

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

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

Note:

- 1) Large variations 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 disposal and re-payment 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 2004)

(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	Purchases	Releases/	Closing
	Stocks		Sales	Stocks
_____	<u>Qty. Value</u>	<u>Qty. Value</u>	<u>Qty. Value</u>	<u>Qty. Value</u>
<u>2004</u>				
April				
May				
June				
July				
August				
September				

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

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

Note:

- 1) Large variations 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 disposal and 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.

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

Note:

- 1) Large variations 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 disposal and 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 the State/Union Territory :
ii) Traders within the State/Union Territory :
iii) Millers within the 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 2005 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 <u>on February 28, 2005</u>	Outstanding credit as on <u>February 28, 2005</u>
---	--

		Quantity(in thousand tonnes)	Value (Rs.lakh)	Value (Rs.lakh)
1.	Paddy	_____	_____	_____
2.	<u>Rice</u>			
	a) Central Pool	_____	_____	_____
	b) Procured within State	_____	_____	_____
3.	<u>Wheat</u>			
	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 28, 2005.</u>	Outstanding credit as on <u>February 28, 2005</u>	
	Quantity (in <u>thousand tonnes)</u>	Value \$ <u>(Rs. lakh)</u>	<u>(Rs. lakh)</u>
1. Paddy	_____	_____	_____
2. Rice	_____	_____	_____
3. Coarsegrains	_____	_____	_____

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

PROFORMA - V

Information relating to Prices

Please give the procurement and issue prices proposed to be offered by the Government during the Rabi 2005 season.

	<u>Commodity</u>	<u>Procurement Price</u>	<u>Issue Price</u>
		<u>(Rs per tonne)</u>	
1.	_____		
2.	_____		
3.	_____		
4.	_____		
5.	_____		

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 Numbers

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

Commo- dity _____	<u>Opening stocks</u>				<u>Purchases</u>				<u>Sales</u>				<u>Closing stocks</u>			
	Proje- cted		Actuals		Proje- cted		Actuals		Proje- cted		Actuals		Proje- cted		Actuals	
	<u>Q.</u>	<u>V.</u>	<u>Q.</u>	<u>V.</u>	<u>Q.</u>	<u>V.</u>	<u>Q.</u>	<u>V.</u>	<u>Q.</u>	<u>V.</u>	<u>Q.</u>	<u>V.</u>	<u>Q.</u>	<u>V.</u>	<u>Q.</u>	<u>V.</u>
1.																
2.																
3.																
4.																

Q : Quantity

V : Value

Please indicate the rate at which the opening stocks, purchases, sales and closing stocks are valued.

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, Monetary Policy Department, 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 foodgrain 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 stated in paragraphs 6,7 and 8 of the present circular letter. 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 date on which the foodgrains stocks were physically verified last and a summary of the findings noticed may also be furnished.