



**Operational Guidelines
for
PRICE STABILISATION FUND
(PSF)**



**Government of India
Ministry of Agriculture
Department of Agriculture & Cooperation
Krishi Bhawan, New Delhi
26th March, 2015**

1. Introduction

1.1 Prices of some of the horticulture commodities especially onion and potato are highly volatile. At the harvest time and soon thereafter, a steep fall in the wholesale and retail prices is normally observed. With depletion of the stored stocks, the prices tend to increase. This phenomenon is more apparent in the case of onions and potatoes. Price volatility affects consumers in a big way. Abnormal increase in price of these commodities affect the consumers by way of increase in food consumption budget. Wide price fluctuations also lead to speculation which further impact prices in retail market.

1.2 To mitigate hardships to consumers, a new central sector scheme for providing working capital and other incidental expenses for procurement and distribution of perishable agri-horticultural commodities has been approved. For this purpose, a corpus – “Price Stabilisation Fund” is being created. The intervention is expected to regulate price volatility through procurement by State Govt. and Central agencies of selected produce, maintenance of buffer stocks and regulated release into the market.

1.3 To begin with, interventions would be supported for onions and potatoes only. However, other commodities may be added later.

2. Objectives

2.1 To promote direct purchase from farmers /farmers’ association at farm gate/Mandi.

2.2 To maintain a strategic buffer stock that would discourage hoarding and unscrupulous speculation.

2.3 To protect consumers by supplying such commodities at reasonable prices through calibrated release of stock.

3. Creation of Corpus fund and its management by Price Stabilisation Fund Management Committee (PSFMC) and other incidental arrangements relating to funds:

3.1 Corpus Fund and its management:

3.1.1 It has been decided to create a corpus of Rs. 500 cr. for providing interest free advance towards working capital to eligible proposals from State Government and Central Agencies to enable procurement of perishable agri-horticulture produce. The fund shall be called “Corpus Fund for Procurement and Distribution of Identified Agri-Horticultural Commodities” (referred to as the Central Corpus Fund in this document). To begin with it will be used for Onion and Potato (“notified agri-horticultural commodities”). A separate savings bank account as “**Corpus fund for procurement and distribution of perishable agri-horticultural commodities**” shall be opened by Small Farmers Agri-Business Consortium (SFAC), which will act as Fund Manager, and the amount made available by the Government would be kept in this account. The account will be in a nationalized bank with flexi deposit facility. SFAC will also maintain separate account of receipts and expenditure from the Central Corpus Fund, and will report to the Member Secretary, PSFMC.

3.1.2 From the Central Corpus fund interest free working capital advance would be provided in two streams :

Stream A - A onetime interest free advance to the States based on their first proposal for market intervention for price control, as evaluated by their State Level Committee. This advance to the State Governments will, however, only be released into a revolving fund account set up for the purpose by the State Government and to which the State Government will contribute an equal amount. In case of North Eastern States, the Central advance will constitute 75% of the State Corpus and contribution of NE States will be 25%.

Stream B – Interest free advance to the Central agencies based on their proposal for market intervention for price control. This will be set up as a revolving fund.

Advance received cannot be utilized for any other purpose by any recipient agency.

3.1.3 When retail prices of notified agri-horticultural commodities are anticipated to increase substantially, then their procurement could be undertaken from farm gate/mandi to reduce the cost of intermediation and made available at a cheaper price to the consumers.

3.1.4 The accounts for **Stream A** and **Stream B** will be settled as on 31st March, 2017 or at any further date decided by PSFMC. Losses if any, incurred by Central Government agencies, on

account of their interventions under this scheme, will be met out of this Central Corpus Fund. However, losses incurred in the case of interventions by State Governments will be met from Central Corpus Fund only to the extent of 50% (75% in case of North Eastern States).

3.1.4.1 At the time of closure of accounts, profits earned on interventions will plough back into the Central Corpus Fund to the extent of 100% in case of Central Government agencies and 50 % in case of State Government (75% in case of North Eastern States). PSFMC may consider providing some incentive from the Central Corpus Fund, to Central Government agencies in case there are profits on account of the interventions.

3.1.4.2 At the time of closure of accounts on 31st March, 2017 or any further date decided by PSFMC, the balance amount of advance after adjusting losses/profits shall be refunded to the Central Government by the States and the Central Agencies.

3.1.5 In order to determine the amount of profit/loss in the operations, the admissible items of overhead costs, may include labour, grading, packaging, transport, storage, local & mandi taxes, and all other statutory levies. In addition, service charges as specified in para 4.2.6 will be treated as operational expenses for the purpose of calculating profit/loss.

3.1.6 Accrued interest will be deemed to be a part of the Central Corpus Fund and will be utilized for the purpose for which the Fund is created.

3.1.7 No diversion of either the Central Corpus Fund or the interest accrued thereon is permitted. The accounts of the Fund will be subject to audit by CAG.

3.1.8 Expenditure by the department/fund manager on scheme administration, monitoring etc, limited to 1% of the advances made in a year, duly approved by PSFMC may be met from the Fund.

3.1.9 Fund Manager shall submit to the Ministry a Statement in form GFR 20 showing the details of outstanding loans from the Fund as on 31st March, 2016 and again on 31st March, 2017. This Statement should indicate the aggregate of outstanding balance of loans, details of defaults, if any, in repayment of the sanctioned loan against each loan account. (Rule 232 of GFRs). PSFMC will review the situation for taking appropriate action.

3.1.10 Releases from the Fund will be made subject to approval of PSFMC only.

3.2 Price Stabilization Fund Management Committee (PSFMC)

3.2.1 The Fund shall be managed by a “Price Stabilization Fund Management Committee (PSFMC) under the Chairmanship of Secretary (DAC) with the following members:-

- 1) Additional Secretary, DAC (In charge of Marketing) – Member
- 2) AS&FA, DAC – Member
- 3) Joint Secretary (Deptt of Consumer Affairs) – Member
- 4) Joint Secretary, DAC (Crops) – Member
- 5) Joint Secretary, DAC (Horticulture) – Member
- 6) Chairman & Managing Director,
Food Corporation of India – Member
- 7) Managing Director, National Horticulture Board – Member
- 8) Joint Secretary, DAC (Marketing) – Member Secretary

3.2.2 PSFMC will invite, appraise and approve proposals received from State Governments and Central Agencies. PSFMC will approve the amount of advance.

3.2.4 PSFMC will take decisions regarding investing surplus available in the Central Corpus Fund, in other bank instruments like fixed deposits, etc for better returns. While doing so, it will be guided by extant guidelines on this subject.

3.2.5 PSFMC will monitor the progress of implementation of the Price Stabilization Operations by the implementing agency. PSFMC will advise suitable measures/corrective actions, if any, during the course of implementation, keeping in view the overall aim & objective of the scheme.

3.2.6 PSFMC will meet regularly to review the wholesale and retail prices of essential agri-horticulture commodities and will guide/propose required interventions.

4. Procedure for availing working capital advance from the Central Corpus Fund:

4.1 Advance from the Central Corpus Fund can be availed by State Governments and Central Govt. Agencies wanting to make interventions for which they will submit specific project proposals to PSFMC.

4.2 Submission of proposals by State Government /Union Territory (UT) Administration & Central Govt Agencies

4.2.1 State Govts/ UT Administrations will designate a nodal administrative department for this scheme. Proposal of State level agencies and Central agencies, wherever requisitioned by States, will be routed through the nodal department in the State Govt. after evaluation by the State level Committee and addressed to the Member Secretary. In case of market intervention proposals of Central Govt agencies, they may submit directly to the Member Secretary.

4.2.2 The advance from Govt. of India to the State Governments based on their first proposal will be released subject to prior setting up of Corpus Fund account by the State Governments at their level for the purpose. The States will further also contribute equally to this fund i.e. in the ratio of 50:50 between the State Governments and Govt. of India. The ratio in the fund between States and the Govt. of India in case of North East States will be 25:75. The corpus thus created will function as a revolving fund for providing interest free working capital advance for all future market interventions at the State level. Accounts of the State level revolving fund will be settled with the Centre on 31st March, 2017 or on a further date if decided subsequently by PSFMC.

- (i) States will also notify a Committee which will manage this fund and receive proposals from State Agencies / Central Agencies for carrying out procurement of notified agri-horticultural Commodities for stabilization of market prices.
- (ii) The Contribution of GOI to the corpus will however be limited by the proposal submitted by the State Govt. to PSFMC and approval accorded by PSFMC subject to availability of funds.
- (iii) PSFMC may decide to prescribe a ceiling for contribution to be made by GOI to the State Corpus.
- (iv) The overall losses incurred (if any) in conduct of market intervention operations under the scheme will be shared in the ratio of 50:50 between States & GOI (25:75 in case of NE States), the Central share being subject to the ceiling of its contribution to the Corpus.
- (v) Profits, if any, will also be shared in the same ratio at the time of settlement of funds with the Central Corpus Fund.
- (vi) The liability of GOI in cases of losses will be limited to the operations undertaken against the total amount specified in the Corpus (in the ratio of 50:50 or 25:75 as the case may be) at

the time of approval by PSFMC. Profits generated, if any, will be ploughed back to the Corpus and shall be used in subsequently procurement operation under the scheme.

(vii) The states will submit a consolidated proposal to PSFMC at the first instance clearly outlining the need for carrying out such procurement along with details of notification of the Committee at the State level, the designated Fund Manager and the agencies designated for carrying out the procurement, the probable places for procurement, storage and plan for disposal etc. The proposal should be approved by the State Level Committee.

(viii) The State Committee shall have to ensure creation of detailed protocols of price & quality for procurement, storage, packaging, transportation etc and the concerned agency carrying out procurement shall be responsible for adhering to all the norms prescribed.

(ix) The fund in the State Corpus shall be used for procurement of notified agri-horticultural commodities and the receipts of sale and profits shall be ploughed back into the State Corpus Fund. State Govt. shall open a separate A/c in a Nationalized bank with flexi deposit facility.

(x) States may consider proposals of implementing agencies against a Bank Guarantee equivalent to the advance sought.

(xi) The State Corpus shall be liable for audit by CAG.

(xii) In case of any doubt regarding objective of the fund, conditions and procedure for setting up of the State level Committee and the Corpus Fund and its usage, it is stated that these shall be the same in all respects as for PSFMC at the Centre and the Central Corpus Fund.

4.2.3 The proposal should include, *inter alia*, need for interventions backed by likely production data, prevailing and anticipated market prices (likely market prices in coming 2-6 months as well as historical data of prices over last 2-3 years), the quantity to be procured, amount of working capital requirement. The proposal will outline the methodology of procurement including procurement centres and maintenance of stocks, details of storage/cold storage locations and arrangements with owners of such storages. To the extent feasible, the procured produce should be stored in warehouses accredited under WDRA.

4.2.4 To the extent possible, the procurement should be directly from the grower farmers or FPOs/ FPCs of such produce at farm gate/Mandi and prompt payment to them should be ensured.

4.2.5 The implementing agency will be required to maintain subsidiary accounts of the interest free advance / loan and audited statement of accounts, along with profit & loss statement, income & expenditure statement, and detailed physical & financial progress report and provide to SFAC/DAC a final statement of settlement of the accounts.

4.2.6 Service charges admissible for the implementing agency will be upto 2.5% of procurement price i.e. net payment to the farmers for procuring the produce.

4.2.7 For procurement by Central Agencies of National Agricultural Cooperative Marketing Federation of India Limited (NAFED) and SFAC, they will jointly prepare along with National Horticultural Research and Development Foundation (NHRDF) a detailed prescriptive manual in a time bound manner. The manual will detail quantity/quality parameters and all precautions necessary for every operation at each stage of procurement/distribution. The manual will be approved by the Executive Body chaired by MD, SFAC.

4.2.7 In case of proposals of Agencies other than State Governments and wholly owned Govt. Companies, a loan Agreement specifying all the terms and conditions shall be executed. A clause shall invariably be inserted in all such Agreements enabling Government at any time to call for accounts of the applicant relating to any accounting year with power to depute an officer specially authorized for this purpose to inspect the applicant's books, if necessary.

4.2.8 In the Agreement/Sanction Letter, prompt repayment should be made a condition for the grant of interest-free loans. The sanction letter in such cases should provide that in the event of any default in repayment, interest at rates prescribed by Govt. from time to time will be chargeable on the loans.

5. Implementation Period

Scheme will be implemented during 2015-16 to 2016-17. The Fund may be allowed to roll on to future years also.

6. Revision of Scheme Guidelines:

Based on experience acquired in the initial period of operation of the scheme, the scheme may be modified, if required.
