

## **SCHEME FOR CONSTRUCTION OF GODOWNS FOR FCI – STORAGE REQUIREMENTS THROUGH PRIVATE ENTREPRENEURS - 2008**

### **BACKGROUND**

1. Government had asked FCI (Food Corporation of India ) to identify the gaps in the storage capacities and give plan for construction of further capacity during the 11<sup>th</sup> Plan period. On advice of the Ministry, MANAGE (National Institute of Agricultural Extension Management) Hyderabad was retained to assess the storage gaps in the 11<sup>th</sup> Plan who assessed the substantial storage gap in various States. MANAGE did not identify in detail about the location for construction of godowns to fulfill these identified gaps, however, they did suggest few places in few regions based on their discussions with local FCI officers. FCI had also invited proposals from the respective Executive Director (Zone) and General Managers (Region) who have identified locations and given proposals for creation of about 16 lakh MTs capacity.

2. Subsequently, Government asked FCI to limit the plan of construction of godown out of 11<sup>th</sup> Plan funds to the newly emerging procurement States as also the States with special problems like NE, including Sikkim, J&K and HP to have adequate storage capacity to manage procurements successfully/have buffer to feed the PDS/other eventualities.

2.1 As per estimates, FCI requires funds to the tune of about Rs. 4000 crores to fulfill the gap as indicated in MANAGE report. Even if the need is limited to the proposals already sent by the FCI field offices and for creation of additional godowns at places where SYGS(Seven Year Guarantee Scheme) godowns will complete the guaranteed period during the XIth (about 30 lakh MTs), we need substantial funds for creation of about 45 lakh MTs capacity.

2.2 It is obvious that FCI will have to find ways and means to create this additional capacity outside the Plan funds. Though the FCI owned godowns become valuable assets because it is easier to make long term strategic planning, effect changes in this infrastructure with the changing requirements, administrative convenience and flexibility in managing them and the benefits of value appreciation with passage of time, yet in view of reduced allocation of funds in the 11<sup>th</sup> plan, it is necessary to look for alternative resources to create such a huge capacity. Therefore, the scheme has been formulated to plan for creating additional capacity through private participation.

2.3 The draft scheme as proposed by FCI has been considered in detail in consultation with CWC (Central Warehousing Corporation) and SWCs(State

Warehousing Corporations) of State Governments of Andhra Pradesh, Chhattisgarh, Haryana, Punjab and Orissa. A meeting was also held in this regard in October, 2007. On the basis of the views of the State Governments, SWCs and CWC, the following guidelines will be applicable for hiring of godowns by FCI in the 11<sup>th</sup> Plan.

### **Scheme for hiring of godowns by FCI**

#### **Identification of the location for hiring of godowns:**

3. Subject to other conditions in this scheme, the GM Region, FCI will analyse the storage needs of his region based on overall procurement/consumption, availability of already existing FCI/CWC/SWC/private godowns already hired by FCI on the basis of criteria given in **Annexure** of this scheme. If required, he will also try to negotiate fresh terms and conditions for 5 year of further hiring after their 7 year guarantee period is over for the godowns already constructed under 7 year guarantee scheme provided there is a need to hire such godown on the basis of parameters laid down in this scheme.

- 3.1 This process will be completed by GM(Region), FCI expeditiously, so that in case of failure to reach a satisfactory agreement for further 5 years hiring these godowns, FCI may initiate the process for fresh selection of entrepreneur for construction of new godown through CWC/SWC in these places well in time so as to have another godown ready before earlier godowns 7 year guarantee period is over to enable FCI to continue with its operations smoothly. He will send his recommendations to the concerned ED(Zone) with full justification. After assessment of the storage needs of the region, ED(Zone) concerned shall place his recommendations before the State Level Committee suggested in this scheme.

#### **4. Essential parameters for identification of locations**

- 4.1 The justification by the State Committee and the HLC of FCI for hiring either any existing godown or for opting to create godown facility on PPP model ought to inter alia address the following:

How would hiring of such godown be cost effective to FCI keeping in view:

- i. Past utilization of the godown in the area;
- ii. Lead distance between:

- a. The procurement centre and proposed godown
  - b. Godown and the loading point
  - iii If in the past such godown was not fully utilized, whether space can be taken in part
  - iv Expected utilization of godown with present procurement quantity and keeping in view the de-hiring of storage capacity in the vicinity.
- 4.2 It has to be made sure that the additional godown should be decided in a manner that it does not involve creation of any additional post (including labour) in the FCI.

## **5. Extention of existing Seven Year Guarantee Scheme godowns:**

- 5.1 Only after endorsement of the assessment for additional storage need and approval by the State Level Committee and being authorized by it, fresh terms and conditions for a further period of five years should be negotiated by a team constituted at the regional level, headed by the G.M (FCI) in respect of godowns already hired under the 7 years guarantee scheme with due regard for the written down, value of the storage facilities and market rates etc.
- 5.2 The negotiated terms and conditions should be placed before the High Level Committee (HLC) of FCI for decision.

## **Competent Committees/Agencies and their Role:**

### **6. State Level Committee:**

#### **6.1 Constitution:**

General Manager (Region), FCI's recommendations will be considered by a state level Committee formed under the Chairmanship of ED(Zone), FCI which will include GM(Region) FCI & Director/ Food Commissioner of the state or an officer nominated by him, MD State Civil Supplies Corporation(SWC), Regional Manager of Central Warehousing Corporation(CWC) and nominee of General Manager of the Railways under whose jurisdiction the concerned location is situated.

6.1.1 This Committee will examine storage needs as put up by the ED(Zone) on the basis of the criterion given in **Annexure**.

## **6.2 Role:**

The State Level Committee will examine, in detail:

- a) The extent of procurement/likely procurement in the nearby places for which the storage capacity is to be created; as also
- b) The consumption needs of the area (based on current allocation by the Department of Food and Public Distribution, Government. of India) which are proposed to be fed by the proposed godowns;
- c) The existing infrastructure of not only FCI godowns but also of godowns owned by CWC/SWC/State Govt./private parties who have constructed godowns under earlier Seven Year Guarantee Scheme; and
- d) The extent of their(existing godowns/infrastructure) availability for the FCI storage needs.

and wherever it finds that an existing infrastructure, which is likely to be available to FCI, is not sufficient then it will recommend along with justification the capacity required to be constructed alongwith the suggested locations where such capacity should come up.

- 6.3 The State level Committee will send its recommendations from time to time to FCI Headquarters where High Level Committee of FCI will examine and decide whether such storage capacity is really required and the extent to which it is required. While examining such proposals, High Level Committee will also keep in mind the capacity gaps identified in MANAGE Report as also selection criterion given in Annexure.

## **7. Constitution of HLC in FCI**

The HLC of FCI should be constituted by the Board of Directors with Executive Directors dealing with storage, transportation, procurement, distribution and finance as members. The nominees of the other ministries, as are presently in the HLC of the FCI, should continue be members of this HLC also. The Committee should preferably be headed by the CMD, FCI.

- 7.1 The decision of the High Level Committee of FCI shall be forwarded to the Government of India and the Board of Directors of FCI for information.

## **8. Identification of the implementing agencies:**

- 8.1 The FCI will take all such godowns through CWC/SWC only. After the locations have been finalized by the High Level Committee of the FCI, FCI will decide the partner agency out of CWC & SWC. CWC/SWC will get these godowns constructed through private investment.

## **9. Defining roles and duties of Agencies involved**

The following 3 agencies are involved:

- i. FCI
- ii. CWC/SWC
- iii. Private parties

- 9.1 Specification for construction of godowns will be finalized by FCI and communicated to State Government/CWC/SWCs.
- 9.2 The responsibility of maintenance of the godowns would lie with the CWC/SWC to whom the supervision charges will be payable. Further in view of para 9.3 of the scheme CWC/SWC will have full responsibility for the losses in foodgrain stocks, **the storage loss** (in excess of limits prescribed for FCI during the relevant period) **shall be deducted from the total rentals payable to CWC/SWC.**
- 9.3 The CWC/SWCs will be free to take other services like security, preservation of foodgrains stocks etc. from the private investor or to arrange it through their own staff. In both the cases CWC/SWC will have full responsibility for the losses (in excess of limits prescribed for FCI during the relevant period) in the foodgrain stocks.

### **9.4 Agreement between parties**

- 9.4.1 For defining role/duties, the relevant parties shall enter into agreement in the following manner:
- a) Agreements shall be entered between the FCI and the concerned CWC/SWC;
  - b) Agreements shall be entered between the concerned CWC/SWC and the private party. The FCI shall prescribe the format of such agreement. Any changes in the prescribed format should be done in consultation

with the FCI. A copy of the agreement (duly entered) shall invariably be forwarded by the partner agency (CWC/SWC as the case may be) to the FCI;

- 9.4.2 The agreement, as above, should be a part of the tender document itself. The agreement should interalia specify the agency that will be providing infrastructural facilities (like weigh bridge, computers, equipments etc.), manpower (like workers, godown keepers etc.), Information technology facilities and preservation facilities like fumigation etc.

### **Rates for hiring:**

## **10. Fixing of ceiling rates for proposed godowns:**

- 10.1 FCI will fix ceiling rates for proposed godowns on the basis of local conditions after due study and in consultation with the implementing agencies (decided vide para 6 above) before giving out advertisements for inviting offers for a particular godown. These rates will form only the upper ceiling of rates and will be either equal or less than the rates payable to CWC.
- 10.2 Rates of already existing SYGS godowns could be capped with a certain percentage of (written down value of the existing godowns plus the cost of repair/maintenance/renovation which would be incurred by the owner before entering into fresh agreement) and keeping in view the market rates for similar quality of godown in that area. The rental rate could be such that it provides return on investment of 10%, of the above value (WDV+cost of repair/renovation) and is in consonance with market rates.
- 10.3 In case offers for rentals are higher than suggested a detailed analysis about:
- (i) Desirability of storage space in such area;
  - (ii) Alternative storage space including storage arrangement being adopted uptill now may be analyzed;
  - (iii) Economics of clubbing of storage requirements with nearby storage facility may be carried out.

### **Salient features of the godowns:**

11. The salient features of these godowns will be as follows:

- 11.1 All godowns of 25000 MTs or above capacity will be preferably Railway siding godowns and all other godowns should be preferably within 8 Kms. of a Railway goods shed with full rake Railway siding facility.
- 11.2 The entrepreneur will be allowed to develop additional storage capacity in the same premises for storage of other agricultural commodities including facilities for cold storage, food processing etc. to optimize asset utilization so long as it does not adversely affect storage and operations of FCI. However, such additional facility will not be covered under guarantee scheme and the concerned entrepreneur will use the normal market channel for hiring out these additional storage facilities. Before development of any such additional storage facility the entrepreneur will take permission from FCI so as to ensure that such activity will not hamper FCI operations and safety of its stocks.

### **12. Godowns with flexi-storage capacity**

- 12.1 The godowns to be henceforth hired should preferably be able to accommodate storage different commodities thus ensuring better utilization.
- 12.2 The godowns would be suitably structured so as to ensure that storage of foodgrain and the movement of FCI stock is not disturbed and also to ensure that the possibility of the deterioration of the stock is eliminated.
- 12.3 Restrictions should, however, be imposed on the commodities which can be stored in separate compartments of the godown for which prior permission of the FCI would be required.

### **13. Flexible guarantee period in case of high utilization locations**

- 13.1 In case at a particular location the percentage utilization in the past years has been high, say more than 75%, the bids can be invited for guarantee period of more than 5 years. This is because if the percentage utilization has been high, the godowns would in any case be needed for a longer period of time and renewal period could be accordingly extended. Higher Guarantee period would ensure competitive bidding and lower rentals.

Therefore in case of high utilization capacity areas/godowns, the bids may be invited as follows:

Guarantee period (years)	Bid
5	
6	
7	
8	
9	
10	

**13.2** The FCI will, however, be at liberty to release the godown after the minimum guarantee period of 5 years.

**Payment Rates for Implementing Agencies:**

**14.** CWC and SWCs will be paid on the basis of payments made by them to the private party **[A]** + expenses on foodgrain preservation, security etc.**[B]** (to be pre-determined by FCI and specified in the agreement) + supervision charges (upto maximum limit of 15% of **[A]**) subject to the ceiling of CWC rates for FCI for normal hiring under one year guarantee.

**15 Hiring out of vacant space:**

15.1 With the consent of FCI even during the guaranteed period, the vacant space may be hired out to other parties with the rent received being adjusted against the guaranteed amount for the period so hired out and surpluses, if any, being shared in the ratio of 50:50 between the FCI and the CWC/SWCs. Moreover, FCI on its own can also ask CWC/SWCs to hire out surplus space for a specific period and these bodies will be obliged to sincerely make efforts in this direction.

15.2 It will be ensured by FCI while giving consent that only such commodities are allowed to be stored which do not affect FCI stocks as also such storage does not adversely affect FCI operations.



- 15.3 The surplus space shall be physically segregated before being hired out. It shall be ensured, by the concerned party, that in this exercise there is no risk whatsoever to the foodgrain stored in the godown.

**Tenders for hiring of new godowns:**

**General:**

16. After the High Level Committee of FCI has finalized a location and capacity of godown and FCI has conveyed it to the implementing agency i.e. CWC/SWC, advertisements will be issued by the implementing agency (CWC/SWCs) through its websites, the FCI website and other websites prescribed by the CVC as also at least in one National & one Regional leading newspapers with regional language having large circulation in the concerned State.

17. It has been seen in the past that there is wide variation in specifications of godowns of CWC and SWC and CWC and private parties. Therefore, clear specifications of construction should be laid down to examine whether the specifications have been complied with during construction of godowns. Such specifications should also be a part of the tender document.

18. Two part bid system will be applied for the offers as laid down by the CVC.

18.1 In the first part (technical bid), in addition to the basic evidences to establish the financial strength and relevant experience of the party, proposal for the proposed land/site for construction of godown shall also be obtained from the party.

18.1.1 The criteria of evaluation of technical bids shall be identified and the weights, to be attached to them, shall be indicated in the tender document itself.

18.2 The second part(financial bid) will be opened only for those parties who are found to be technically qualified and have given proposal for a suitable site.

19. In the second part(financial bid) parties shall be asked to indicate the monthly rates of rent for guaranteed utilization on the terms and conditions prescribed for guaranteed hiring. All the parties who have been considered fit after evaluation of Ist part will be treated at par while evaluating the offers received in the second part(subject to normalizing in case of situation as per para 16) and will be finalized on the basis of minimum rates received (provided they have agreed to all the laid down conditions in the tender and have not added any conditions of their own).

20. Negotiations with the approved parties will be done only as per CVC guidelines taking into consideration the investment proposed to be made by the private party, distance of the proposed storage capacity from the railway siding with full rake facility availability of suitable infrastructure for transportation etc. For this purpose 10% ROI be considered for negotiations.

**Normalizing of financial bids:**

21. There is every possibility of godowns, located far from railway siding, offering less price, though additional transportation cost would be involved. In such cases the cost of hiring plus transportation involved has to be analyzed. The financial bids ought to be normalized. Therefore, the rate quoted for godowns, having location more than 8 kms, would be normalised by:

- a) The prevailing transportation charges as notified by the FCI or the State Government (where FCI rates don't exist) in the immediately preceding year; and
- b) Appropriate average storage factor suitable to that area based on past data.

22. All details like other conditions, tender and agreement forms, earnest & security deposits, payment terms and conditions etc. will be finalized by the FCI keeping the conditions laid down in the scheme as above in mind.

**Criteria for accepting technical bids:**

23. For 25000MT or above capacity godowns, if after opening of 1<sup>st</sup> part of the tender, two or more acceptable proposals are received for railway siding godowns and all other parameters like road linkage, drainage, distance from Mandi etc.etc. is found satisfactory, only such tenders will be treated as eligible for opening of the financial bid.

24. Similarly, for other godowns with lower capacity, if two or more acceptable proposals are received for godowns within 8 kms. of full rake railway siding and with all other parameters satisfactory, then only such tenders will be treated as eligible for opening of the financial bid.

25. In case if less than two tenders are received in the above two cases, the implementing agency with the consent of FCI, may agree for considering the Non Railway Siding/more than 8 kms. from existing railway siding (as the case may be) proposals and accordingly may open the financial bids of those parties who have been found technically qualified after opening of the 1<sup>st</sup> part.

26. It is reiterated that while technically evaluating a proposal, not only financial strength and past experience should be considered but the proposal of the site where godown is proposed to be constructed should be thoroughly examined and only proposals with appropriate site should be considered for the opening of the financial bid.

**Post tender obligations:**

27. After the selection process is over & the proposal is finally accepted by FCI, an agreement may be signed between FCI & the implementing agency & a separate agreement may be signed between the implementing agency & the private entrepreneur.

28. FCI will have right to reject any offer without giving any reason at any stage before the agreement is signed.

29. The party finalized after the tender process will get 15 days to sign the agreement and further maximum one year in case of non Railway siding godown and two years for Railway siding godowns for completion of the project.

30. The delay in construction of maximum upto one year may be allowed with a clause of similar reduction in the guarantee period. In case of delay beyond one year the agreement will stand cancelled.

31. FCI will have freedom to choose a date of taking over the godown within 6 months of the completion of the godown and the guarantee period will start from the date of taking over the godown.

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**Criterion for selection of location of godowns under Five Year Guarantee Scheme 2008**

Storage needs of the FCI can be broadly classified as follows:

**i) In consuming States**

**ii) In Procurement States**

- a) In wheat procurement States
- b) In rice procurement States

2. The common criterion for selection of creation of space in any of the above categories will be as follows:

- 2.1 **No godowns for less than 5000 MTs in plain areas and less than 1670 MTs** in J&K, Himachal, Uttrakhand, North-Eastern States and Andaman & Nicobar Islands will be constructed.
- 2.2 All godowns should be on National/State Highways.
- 2.3 All godowns of 5000 MTs and above capacity should be preferably within 8 Kms. of full rake capacity Railway goods shed except if they are in a revenue district where there are no full rake capacity railways goods shed or for some other reason such construction is not possible.
- 2.4 **All 25000 MTs and above** capacity godowns should be preferably Railway siding godowns except if they are in a revenue district where there are no railway line or for some other reason such construction is not possible. Moreover, as far as possible the site should be parallel to the existing Railway track for the Railway siding godown and the land required for laying the Railway line should be in possession of the private party.
- 2.5 If in a radius of 100 kms. in plain areas and 50 kms. in J&K, Himachal, Uttrakhand and NE of the proposed godown, sufficient capacity are available in existing FCI, CWC, SWC or private godowns already hired by FCI and likely to remain available in future, than preferably these capacities will be utilized rather than creating the new capacity. If for some reason inspite of sufficient capacity being available in

these godowns the need of additional capacity creation is felt, the reasons should be enumerated in detail by the State Level Committee for the consideration of High Level Committee of FCI.

3. In addition to above following principles will be used:

**For consuming depots :**

3.1 If the requirement of three months of PDS and other schemes etc. of any proposed location(proposed to be covered) is less than 1670 MTs in J&K, Himachal, Uttrakhand, North Eastern States and Andaman & Nicobar Islands and less than 5000 MTs in other areas **no godown space** shall be hired.

**For procurement depots :**

3.2 For wheat procurement, the highest stocks availability in last 3 years will form the basis for decision.

3.3 For rice procurement district the criterion will be the highest stock of rice in last 03 years plus procured paddy stock awaiting milling as on 1st June in last 03 years will form the basis for decision.

3.4 If such past position is more than 5000 MTs and sufficient capacity godown of FCI/ CWC/ SWC State Procurement Agencies/Private godown already in use of FCI or State Government for the same purpose and not available within a radius of 100 kms. than the construction of godowns under PPP mode can be considered provided shortfall of capacity is more than 5000 MTs.

3.5 In wheat as well as paddy procurement areas, godowns should be as near to procurement centres as possible, preferably within 8 Kms. of the procuring mandi.

4. The above principles should be taken as a broad guidelines. In cases where for some reasons, inspite of above conditions not being fulfilled, the creation of storage needs is considered necessary by the State Level Committee, it may recommend the case with full justification to High Level Committee of FCI which will be competent to take final decision.