

Chapter - 5

Structure and Administration of the PSF Corpus

5.1 The Committee noted that the Cabinet Committee on Economic Affairs (CCEA) has approved in principle the PSF scheme as proposed by the Ministry of Commerce with an initial corpus of Rs. 300 crore to be supplemented by the annual contribution of Rs. 125 crore by way of cess payment made by the respective crops and also an amount of Rs. 75 crore to be collected from the beneficiaries interested in and willing to participate under the scheme. Thus the total size of the corpus would be Rs. 500 crore.

5.2 The Committee also took into account the decision of CCEA as well as the terms of reference of the Committee, which stipulate that the question of involvement of the concerned State Governments financially and otherwise with the scheme should also be examined.

5.3 During the visit of the Committee to various States and interaction held with the State Government officials, it drove home the point that since the PSF is ultimately intended for the larger benefit of the growers located in these states, and their production and downstream activities contribute substantially towards processing and manufacturing activities, value addition, domestic and international marketing, State level/Central level revenue earnings of different kinds, and above all employment,

the States also should come forward to participate in the Scheme by making some contribution to the corpus of the Fund.

5.4 The response of the States to this suggestion has been positive in the sense that while they appreciated this viewpoint, they also impressed upon the Committee the current state of affairs of finances of the States, which inhibit them from committing any substantial contribution to this Fund. At the same time, it is necessary to go on record here that all the concerned States agreed in principle to consider making some contribution to the Fund at some stage or the other for making a success of the Scheme designed for the long-term benefit of the growers.

5.5 The Committee recommends, in the interest of making this Scheme genuinely participatory from the standpoint of both the Central Government and the State Governments, that the contribution of concerned States to this Fund could be as follows, taking into account the size and operation of the plantation crops in these States and their relevance for the economy of the States. The break-up of allocation for each of the States has also taken into account the likely number of small growers of 4 ha and below in each of these states with respect to each of the four commodities.

Table 6: Distribution of Number of Growers holding less than 4 ha						
State	Coffee	FCV Tobacco	Rubber	Tea	Total	Percentage Share
Karnataka	45498	19582	35620		100700	7.9
Kerala	74609		829377	4500	908486	71.1
Tamilnadu	13282		34485	46490	94257	7.4
Andhra Pradesh		41052			41052	3.2
W. Bengal				935	935	0.1
Himachal Pradesh				2760	2760	0.2
North-east	10508		87823	30553	128884	10.1
	143897	60634	987305	85238	1277074	100.00
Source: Commodity Boards.						

Table 7: Distribution of Number of Growers to be covered initially under the Scheme on a modest scale with reference to availability of resources						
State	Coffee	FCV Tobacco	Rubber	Tea	Total	Percentage Share
Karnataka	22749.0	9791.0	7124.0		39664.0	11.6
Kerala	37304.5		165875.4	2250.0	205429.9	60.0
Tamilnadu	6641.0		6897.0	23245.0	36783.0	10.8
Andhra Pradesh		20526.0			20526.0	6.0
W. Bengal				467.5	467.5	0.1
Himachal Pradesh				1380.0	1380.0	0.4
North-east	5254.0		17564.6	15276.5	38095.1	11.1
	71948.5	30317.0	197461.0	42619.0	342345.5	100.0
Source: Commodity Boards.						

5.6 Keeping in view the Central Government's contribution up to the level of Rs. 300 crore, and an estimated contribution from

growers of upto Rs.17.12 cr., and the need to have a corpus of Rs.500 cr., the contributions from participating State Govts. may be of the order of Rs.182.88 cr., This has been apportioned amongst the states in proportion to the number of growers in each state as below (Reference Table 7):

Kerala (having predominant presence of rubber and significant presence of tea and coffee)	<u>Rs.109.73 crore</u>
Tamil Nadu (having concentration of small growers of tea, and also significant presence of coffee and rubber)	<u>Rs. 19.75 crore</u>
Karnataka (having predominant presence of coffee, significant presence of tobacco and some presence of rubber)	<u>Rs. 21.22 crore</u>
Andhra Pradesh (having predominant presence of tobacco and small presence of coffee)	<u>Rs. 10.97 crore</u>
West Bengal (accounting for predominant presence of tea in Darjeeling area and other varieties of tea in other neighbouring States of Bengal)	<u>Rs. 0.18crore</u>
Himachal Pradesh (having some presence of tea)	<u>Rs. 0.73 crore</u>
North-Eastern States like Assam, Tripura, Arunachal Pradesh, Nagaland, Meghalaya, Mizoram, Manipur and Sikkim (accounting for substantial/ significant presence of tea and some presence of coffee and rubber)	<u>Rs. 20.30 crore</u>
Total	<u>Rs. 182.88 crore</u>

5.7 The Committee undertook a detailed study of the contribution likely to come to the Fund from the growers willing to subscribe to the fund. As per this exercise, each beneficiary sector is expected to bring in an amount as follows:

Rubber	Rs. 9.87 crore
Tea	Rs. 2.13 crore
Coffee	Rs. 3.60 crore
Tobacco	Rs. 1.52 crore
Total	Rs. 17.12 crore

5.8 The Committee is of the view that the Corpus can be built up over a period of two financial years according to the contributions coming from the Central Government, State Governments and subscribers in suitable instalments.

Augmentation of the Corpus

5.9 During discussions with the officials and non-officials of the Commodity Boards, and growers, it was repeatedly mentioned that for coverage under the scheme should be widened and a larger number of target groups added. It would then be necessary to gradually raise the level of the Fund to Rs. 1000 crore.

5.10 To achieve this purpose over a period of time, the Committee would suggest operation of the Scheme on efficient lines from the very beginning so that the Fund becomes self-sustaining. This would subsequently justify its augmentation to higher levels. Furthermore, the Fund, depending upon its efficient operations, may attract contributions from IDA credit (soft loan window of World Bank) or other multilateral funding

agencies sympathetic to commodities price stabilization. It is also suggested that commercial banks having maximum exposure to the plantation sector should also come forward and participate in the scheme at some stage by contributing to the Fund appropriately.

Deployment of the Fund

5.11 The chief hallmark and fundamental principle that should govern operation of the Scheme is that the corpus of the Fund remain undisturbed and the interest earnings alone be utilized for operations with respect to different commodities.

5.12 Keeping this principle in view, it is proposed that the contribution of the Central Government should be kept in the Public Deposit Account and the interest earned on the amount should be credited to a separate account to be operated by NABARD (or other designated nationalised bank) on behalf of the Government under this Scheme.

5.13 As far as the State Governments' contribution and the growers' contribution are concerned, these should be credited to the NABARD/designated bank account which should keep these funds in an interest-earning corpus and the interest earnings thereon should be added to the interest amount coming from the Central Government's corpus contribution.

5.14 From time to time, the withdrawal from this interest account should be utilised towards pay-outs to the growers

affected by negative price fluctuations while the periodic contributions by the growers should be credited to their individual accounts.

5.15 Regarding operation of the Fund on these lines, NABARD representative on the Committee was of the view that currently the interest earnings on its account attract payment of income tax and to that extent this outgo will affect the operation of the Scheme. From this angle, he suggested that a Trust Fund could be created for operating this Fund which would ensure that there would be no outgo by way of income tax on the earnings from this Fund. The Committee endorses this view and recommends the establishment of a Trust Fund account to operate the scheme.

Administrative backup for operation of the Fund by NABARD/Designated Bank.

5.16 The NABARD/designated bank will set up a Plantation Cell. The Cell should be suitably structured for implementing the PSF Scheme with a multi-disciplinary and professional team drawn from the concerned Commodity Boards and other financial institutions/commercial banks having experience and exposure to the problems of the commodity sectors.

Chief Executive Officer of the Fund

5.17 A senior officer with suitable background and experience should be appointed by the NABARD/designated

bank, with the concurrence of the Ministry of Commerce, as the Chief Executive Officer of the Fund and head the Plantation Cell.

High Powered Committee for the Fund

5.18 The monitoring and operation of the Fund should be entrusted to a High Powered Committee comprising the following:

Commerce Secretary/Additional Secretary (Plantations), Department of Commerce	<u>Chairman</u>
Additional Secretary and Financial Advisor, Department of Commerce	<u>Member</u>
A representative of the Ministry of Finance	<u>Member</u>
Chairman, NABARD/Designated Bank	<u>Member</u>
Chairman, participating Banks	<u>Member</u>
Representatives of the State Governments of Kerala, Assam, Tamil Nadu, West Bengal Karnataka and Andhra Pradesh	<u>Members</u>
Three distinguished Economists/Commodity experts having wide-ranging national and international exposure to the problems of the commodity sector	<u>Members</u>
Chief Executive Officer of the Fund	<u>Member Secretary</u>

The High Powered Committee from time to time can invite Chairpersons of the Commodity Boards to suitably address the emerging issues, modalities of intervention and other factors.

5.19 The terms of reference of the High Powered Committee, inter alia, could be

- (i) To decide and notify the price spectrum band in each crop year
- (ii) Broad allocations of the available resources from the corpus earnings
- (iii) Other policy issues related to the operation of the scheme keeping in view the medium as well as long term perspectives

5.20 Meeting of the High Powered Committee should coincide with the commencement of the concerned crop seasons. The Committee should from the beginning function on professional and business-like lines and endeavour to make the Scheme under this corpus self-sustaining and assist the growers to become increasingly self-dependent and forward-looking.

5.21 The Committee recommends that the Plantation Cell for operation of the Fund with the CEO should be based at Delhi to achieve proper co-ordination with the Government, Commodity Boards and other stakeholders.

5.22 The Committee further recommends that the Scheme should be reviewed after a period of 5 years. If such review reveals that in respect of any of these crops there is secular decline in prices from the date of commencement of its operations, new features should be incorporated in response to emerging needs and requirements of exit of uncompetitive growers.

Implementation of the Scheme at the level of Commodity Boards

5.23 While the Plantation Cell under the stewardship of the Chief Executive Officer in the NABARD/designated bank will be responsible for administering the Fund, the Cell in turn should develop relationship and linkages with the Commodity Boards for the purpose of actual disbursement of the pay-outs and receiving of the contributions.

5.24 Keeping this arrangement in view, the Committee recommends the establishment of a wing, comprising personnel having relevant experience, in each of the Commodity Boards for disbursement of compensation and receipt of contributions from the growers. The Committee does not recommend addition of any new staff to the Commodity Boards for this purpose and they have to re-train and re-deploy their existing personnel for discharging responsibilities in this area.

5.25 Since the Committee has categorically recommended adoption of alternative scheme number 2 (MPSF), the Commodity Boards should also work out their relationship with the various banks concerned in which the subscribing growers will have MPSF Accounts.