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**MANAGEMENT OF FOODGRAINS**

**MINISTRY OF CONSUMER AFFAIRS, FOOD  
AND PUBLIC DISTRIBUTION  
(Department of Food and Public Distribution)**

**PUBLIC ACCOUNTS  
COMMITTEE  
2007-2008**

**SEVENTY-THIRD REPORT**

**FOURTEENTH LOK SABHA**



सत्यमेव जयते

**LOK SABHA SECRETARIAT  
NEW DELHI**

SEVENTY-THIRD REPORT  
PUBLIC ACCOUNTS COMMITTEE  
(2007-2008)

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MANAGEMENT OF FOODGRAINS

MINISTRY OF CONSUMER AFFAIRS,  
FOOD AND PUBLIC DISTRIBUTION  
(DEPARTMENT OF FOOD AND PUBLIC  
DISTRIBUTION)



*Presented to Lok Sabha on 29 April, 2008.*

*Laid in Rajya Sabha on 29 April, 2008.*

LOK SABHA SECRETARIAT  
NEW DELHI

*April, 2008/Vaisakha, 1930 (Saka)*

**P.A.C. No. 1874**

*Price : Rs. 119.00*

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Twelfth Edition) and Printed by the General Manager, Govt. of India Press, Minto Road, New Delhi-110002.

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(2007-2008)

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*Lok Sabha*

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18. Vacant\$
19. Vacant\*
20. Vacant#
21. Dr. K. Malaisamy
22. Vacant\$

*SECRETARIAT*

- |    |                              |   |                             |
|----|------------------------------|---|-----------------------------|
| 1. | Shri S.K. Sharma             | — | <i>Additional Secretary</i> |
| 2. | Shri A. Mukhopadhyay         | — | <i>Joint Secretary</i>      |
| 3. | Shri Ramkumar Suryanarayanan | — | <i>Under Secretary</i>      |
| 4. | Smt. A. Jyothirmayi          | — | <i>Committee Officer</i>    |

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\* Shri Suresh Bhardwaj resigned from membership of Rajya Sabha w.e.f. 9th January, 2008.

# Shri Prasanta Chatterjee ceased to be a Member on expiry of his term of Rajya Sabha w.e.f. 2nd April, 2008.

† Shri Raghunath Jha and Shri V. Narayanasamy ceased to be Members on their appointment as Ministers w.e.f. 6th April, 2008.

\$ Shri Janardhana Poojary and Shri Ravula Chandra Sekar Reddy ceased to be Members on expiry of their term of Rajya Sabha w.e.f. 9th April, 2008.

## INTRODUCTION

I, the Chairman, Public Accounts Committee, as authorised by the Committee, do present this Seventy-third Report relating to “Management of Foodgrains” on C&AG’s Report No. 16 of 2006, Union Government (Civil-Performance Audit).

2. The Report of the C&AG of India for the year ended 31 March, 2005 (No. 16 of 2006), Union Government (Civil-Performance Audit) was laid on the Table of the House on 25th August, 2006.

3. The Committee took the evidence of the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) on the subject at their sittings held on 31st July, 2007, 1st and 2nd November, 2007. The Committee considered and finalised this Report at their sitting held on 21st April, 2008. Minutes of the sittings form Annexures to the Report.

4. For facility of reference and convenience, the Recommendations and Observations of the Committee have been printed in thick type in the body of the Report.

5. The Committee would like to express their thanks to the Officers of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) for the cooperation extended by them in furnishing information and tendering evidence before the Committee.

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

7. The Committee also place on record their appreciation for the invaluable assistance rendered to them by the officials of Lok Sabha Secretariat attached with the Committee.

NEW DELHI;  
22 April, 2008  

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2 Vaisakha, 1930 (Saka)

PROF. VIJAY KUMAR MALHOTRA,  
*Chairman,*  
*Public Accounts Committee.*

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# **REPORT**

## **PART-I**

### **BACKGROUND ANALYSIS**

#### **I. INTRODUCTION**

One of the objectives of India's food security policy is to ensure availability of foodgrains to the common man at an affordable price and to enable the poor to have access to food. The policy has focussed essentially on growth in agriculture production and on support price for procurement and maintenance of rice and wheat stocks. The responsibility for procuring and stocking of foodgrains lies with the Food Corporation of India (FCI) and for distribution with the Public Distribution System (PDS) operated by the States. FCI purchases foodgrains from farmers, then distributes it to State Governments to sell at fixed subsidised prices through retail outlets called Fair Price Shops and the issue price is much less than the market rates.

2. Public Distribution System prevalent in India is one of the largest welfare schemes in the world. It represents the direct intervention of the Central Government in the food market to ensure food security. The Public Distribution System has evolved from a food rationing system introduced by the British in India during World War II. A fixed amount of food rations were distributed to the entitled families in specific towns/cities through the Department of Food, which was created in 1942, under the Government of India. After the end of the war, the Government abolished the rationing system only to reintroduce it immediately after Independence *i.e.* in 1950; due to the inflationary pressures of the economy. Ever since, the Government has used the Public Distribution System as a deliberate policy instrument, to overcome chronic food shortages apart from using it for stabilizing food prices and consumption in view of fluctuating food production in the country.

PDS functions through 4,92,000 Fair Price Shops (FPS) across the country. The main objectives of the Public Distribution System are: (i) to provide foodgrains to the poor at affordable prices; (ii) to support farmers by purchasing food from them at reasonable prices; and (iii) to maintain national food security by holding stockpiles of food.

#### **II. GIST OF AUDIT REVIEW**

3. The Performance Audit<sup>1</sup> on 'Management of Foodgrains' for the period 2000-01 to 2004-05 was carried out by sample checks at the Ministry of Consumer Affairs, Food and Public Distribution, Food Corporation of India and various implementing agencies in 34 States and Union Territories. The main objective of this performance audit was to evaluate the effectiveness of the system for

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<sup>1</sup> Report of C&AG of India-Union Government (Civil-Performance Audit) No. 16 of 2006.

management of foodgrains for securing food security in the country. This involved assessment of the following aspects:

- (i) Efficiency of the system of procurement by Food Corporation of India and the States;
- (ii) Efficiency and economy in storage and movement operations; and
- (iii) Effectiveness of distribution arrangements of Government to ensure that all people had access to foodgrains.

4. Audit of procurement, revealed significant inefficiencies with quantified financial effect of Rs. 1310.30 crore and several instances of reimbursement of excessive statutory levies and non-statutory charges comprising procurement incidentals amounting to Rs. 2005.61 crore. There were deficiencies in the distribution of foodgrains, which affected the achievement of food security. Audit found irregularities in identification of Below Poverty Line (BPL) and Antyodaya Anna Yojana (AAY) beneficiaries, including delays in the identification process and issue of ration cards, failure to weed out ineligible/ bogus beneficiaries and issue of ration cards to ineligible beneficiaries. The actual arrangements for quality control, monitoring and inspection was also found to be inadequate. These are discussed in detail in succeeding paragraphs.

### **III. PROCUREMENT OF FOODGRAINS**

5. Foodgrains management policy/ strategy enables farmers to get remunerative prices for their produce and also enables distribution of foodgrains at highly subsidised prices to the poor population of the country covered under Antyodaya Anna Yojana and Below Poverty Line. This policy for foodgrains (rice, wheat and coarsegrains), encompasses the elements of procurement, storage, transportation, public distribution and maintenance of buffer stocks.

The procurement of foodgrains by the Government is intended to:

- (i) Provide remunerative prices to farmers, thereby avoid distress sale of foodgrains; and
- (ii) Build up a stock of foodgrains to ensure the supply of subsidised foodgrains to the needy and poor through the Targeted Public Distribution System (TPDS) and other welfare schemes;

#### **(a) Existing Policy of Foodgrains Procurement**

6. Foodgrains procurement is handled primarily through the Food Corporation of India, in association with the State Governments and their procurement agencies. Food Corporation of India coordinates its functions through a country-wide network of offices with its Headquarters at New Delhi, five Zonal Offices, 23 Regional Offices, one Port Office and 165 District Offices. The foodgrains so procured are transferred out of surplus States to deficit States for Storage and eventual distribution.



7. The Central Government extends price support to paddy, coarse grains and wheat through the Food Corporation of India and State Agencies. All the foodgrains conforming to the prescribed specifications offered for sale at specified centres are bought by the public procurement agencies at the Minimum Support Price (MSP). The producers have the option to sell their produce to Food Corporation of India/ State Agencies at Minimum Support Price or in the open market as is advantageous to them. Foodgrains procured by the State Governments and their agencies are ultimately taken over by the Food Corporation of India for distribution throughout the country.

8. With the objective of reducing the over-dependence of the State Governments on the Food Corporation of India for Targeted Public Distribution System and reducing transportation costs by ensuring availability of locally produced foodgrains, the Government introduced (1997-98) the scheme of Decentralised Procurement (DCP) of foodgrains. Under this Scheme, that is implemented in eleven States/ Union Territories, the latter themselves procure foodgrains, retain the quantity required for Targeted Public Distribution System and surrender the rest to Food Corporation of India for the Central Pool. The subsidy in this case is given by the Government of India to the State Governments, instead of Food Corporation of India.

9. The following table indicates the total procurement of rice (including paddy in terms of rice) and wheat for the Central Pool by Food Corporation of India and Decentralised Procurement States during the marketing seasons covering the period 2000-2005:

**Procurement of foodgrains for the Central Pool**

*(In lakh tonnes)*

	2000-01	2001-02	2002-03	2003-04	2004-05
(a) Wheat	163.57	206.30	190.25	158.01	167.96
(b) Rice	195.87	212.77	164.11	228.28	210.49
Total	359.44	419.07	354.36	386.29	378.45

10. Depositing before the Committee on the issue of the procurement policy of the Government, the Secretary, Department of Food and Public Distribution stated as under :

“Government procures foodgrains at the Minimum Support Price and we do not have a separate procurement price. So, by logic, whatever is offered by the farmer at the Minimum Support Price, the Government of India and the Food Corporation of India is duty-bound to procure that from the farmers. Sometimes we procure more, sometimes we procure less than what we need. This is one of the inherent problems in the present system. We

have not been able to address this in a different manner. For instance, in wheat we would like to procure more than what is offered in the last two years. Distinguishing Minimum Support Price from the procurement price, which has been discussed quite often, has its own problems in operation. Therefore, we have not been able to move to a system of a procurement price being different from the Minimum Support Price”.

**(b) Open Market Sale Schemes**

11. Government of India introduced the Open Market Sale Scheme (Domestic) for wheat with effect from October 1993 and rice from January 1994. The objectives of conducting open market sales of wheat and rice by Food Corporation of India were to contain and control inflationary tendencies in the economy, generate storage space in the surplus states to enable Food Corporation of India to accommodate freshly procured foodgrains and enable reduction in carrying costs incurred by Food Corporation of India and thereby minimise the subsidy burden.

Government of India introduced the Open Market Sale Scheme (Export) with effect from October/December 2000 to liquidate accumulated excess stock held in the Central Pool, which was causing a drain on Food Corporation of India’s resources in terms of storage and handling costs. The excess stock lying in the Central Pool of Food Corporation of India was sold to exporters at highly subsidised rates. Initially, this scheme was restricted to three Public Sector Undertakings, but subsequently, this scheme was extended to other Public Sector Undertakings and private parties.

**(c) Pricing**

12. The Commission of Agricultural Cost and Prices recommends the fixing of Minimum Support Prices of foodgrains based on a complex process of assessment by consulting the State Governments, the Ministry of Consumer Affairs, Food and Public Distribution and other stakeholders like Food Corporation of India, Ministry of Commerce, Indian Council of Agricultural Research, National Agricultural Cooperative Marketing Federation of India, Tribal Co-operative Marketing Development Federation of India and Agricultural and Processed Food Products Export Development Authority. The prices recommended by Commission of Agricultural Costs and Prices are considered by the Cabinet Committee for Economic Affairs for approval.

13. The Commission for Agricultural Costs and Prices recommends the Minimum Support Prices for 24 important crops. The Commission, apart from other factors, considers the cost of production which includes the cost of paid-out inputs, imputed value of family labour and rentals for the own land while recommending Minimum Support Prices. The Minimum Support Prices are normally announced upfront before the commencement of sowing operations of the particular crop and have usually been remunerative and significantly higher than the cost. The Minimum Support Price, by definition, becomes the floor price and farmers are assured of

getting that price. In most of the crops, the Minimum Support Price inclusive of bonus is above the cost of production. The purchase price offered to farmers, particularly in the efficiently producing States, usually is significantly higher than the cost of production.

14. As a contrast to Minimum Support Price (which represents pre-determined procurement price), Central Issue Price represents the price at which foodgrains are issued for the Targeted Public Distribution System and other welfare schemes. Central Issue Prices differ as follows:

- “(i) There are different Central Issue Prices for different segments of beneficiaries under the Targeted Public Distribution System—Above Poverty Line (APL), Below Poverty Line (BPL) and Antyodaya Anna Yojana (AAY).
- (ii) There are separate Central Issue Prices for common rice and Grade “A” rice for Above Poverty Line consumers”.

15. Food subsidy is provided in the budget of the Ministry to meet the difference between the Economic Cost of procurement (which comprises of Minimum Support Price, procurement incidentals and distribution costs) and the Central Issue Prices at which foodgrains are issued under the Targeted Public Distribution System and other welfare schemes. Part of the food subsidy also goes towards meeting the cost of carrying buffer stock. The subsidy is provided to Food Corporation of India for procurement and distribution of foodgrains and for maintaining the buffer stock of foodgrains. In respect of procurement by States under the Decentralised Procurement Scheme, the Government determines the state-specific costs, and the difference between the cost so determined and the Central Issue Price is passed onto the States as food subsidy.

**(d) Lack of Adequate Awareness of the Minimum Support Price**

16. The results of the 59th round of the National Sample Survey of National Sample Survey Organisation (NSSO) revealed that:

- (i) About 71 per cent of farmers had not even heard of the concept of MSP. Even in Haryana and Punjab (which together contribute 56 per cent of all rice procured and 85 per cent of all wheat procured in the country), 37 per cent and 38 per cent of farmers respectively were unaware of Minimum Support Price; and
- (ii) About 81 per cent of farmers were effectively unaware of how to use the Minimum Support Price.

17. Audit scrutiny revealed that although awareness among farmers continued to be low, the Government did not conduct any impact evaluation to determine the extent of deprivation of benefits of Minimum Support Price to farmers, so as to take appropriate remedial action. Further, the NSSO results confirmed that efforts for

launching Minimum Support Price awareness campaigns were inadequate and required further effective intervention by the Government at the Union and State levels.

18. On the issue of lack of adequate awareness of Minimum Support Price, the Ministry in their submission to the Committee stated as under :

“It is informed that instructions have been issued to Food Corporation of India and the State agencies to make arrangements to educate the farmers by giving wide publicity in the local media regarding Minimum Support Price scheme, names of the procurement agencies particulars of purchase centres and Fair Average Quality (FAQ) specifications. During ensuing Kharif Marketing Season (KMS) 2006-07, State Governments have further been requested to instruct its procuring agencies for organizing wide publicity (in association with Food Corporation of India) through print and visual media as well as banners, pamphlets etc. for creating awareness amongst the farmers regarding the Minimum Support Price scheme. Food Corporation of India has been directed to issue instructions to all its regional officers to organize wide publicity on Minimum Support Price operations being carried out by the Food Corporation of India”.

19. According to National Sample Survey Organisation, 71% of the Country’s farmers were unaware of the concept of Minimum Support Price, while 81% were effectively unaware of how to use the Minimum Support Price. On being asked if the Ministry agreed with the National Sample Survey Organisation findings that the Minimum Support Price had not benefited a majority of the farmers, the Ministry replied as under:

“Minimum Support Price operations carried out by Government agencies has immensely benefited the farmers in getting remunerative prices for their produce, since they have the option to sell their produce to Food Corporation of India/State Agencies at Minimum Support Price or in the open market as is advantageous to them. As a result of Minimum Support Price operations purchase of paddy by Government agencies through Minimum Support Price operations has increased from 144.69 lakh tonnes in KMS 2002-03 to 242.20 lakh tonnes in KMS 2005-06. Purchase of paddy in Decentralised Procurement States has also increased from 20.55 lakh tonnes in KMS 2002-03 to 87.66 lakh tonnes in KMS 2005-06. It has also increased in non-traditional States like Bihar, Orissa and West Bengal in the same period. This clearly indicates that more number of farmers are now benefiting from the MSP operations. In our view MSP has ensured a remunerative price to farmers in different States across the country. A number of new States have been successful in increasing their procurement in the last few years.”

The statistical details about the procurement of wheat and rice during 2000-01 to 2007-08 is:

(in lakh tonnes)

Marketing Season	Procurement	
	Wheat (April to March)	Rice (October to September)
2000-01	206.3	212.8
2001-02	190.5	221.3
2002-03	190.2	164.1
2003-04	158.0	228.3
2004-05	167.9	246.8
2005-06	147.9	276.6
2006-07	92.3	235.8
2007-08	107.9 (as on 11.6.07)	(as on 11.6.07)

The Ministry further added :

“The very fact that such large quantities of wheat and rice are being procured every year in the country spread over all the States producing these foodgrains shows that there is wide spread Minimum Support Price awareness amongst farmers. Moreover, since the farmer is free to sell his produce to private parties above the Minimum Support Price, the operations carried out by the Government agencies ensures a remunerative price for the farmers.

The lower procurement of wheat in Rabi Marketing Season (RMS) 2006-07 and RMS 2007-08 is mainly on account of lower market arrival as well as higher private participation. Since Minimum Support Price operations have been carried out in all wheat producing States, it has ensured that the farmers are paid higher than Minimum Support Price for their wheat produce”.

20. On the criteria that was adopted for fixing the Minimum Support Price of various crops, the Ministry in their note stated:

“The Government decides on the support price for various agricultural commodities taking into account the recommendations of the Commission for Agricultural Costs and Prices, the views of State Governments and Central Ministries as well as such other relevant factors, which are considered important for fixation of support prices.

The Agricultural Costs and Prices, while formulating its recommendations on price policy considers a number of important factors, which include cost of production, changes in input prices, input/output price parity, effect on

industrial cost structure, effect on general price level, effect on cost of living, international market price situation and parity between prices paid and prices received by the farmers.

The cost of cultivation/production taken into account includes all paid out costs, such as, those incurred on account of hired human labour, bullock labour/machine labour (both hired or owned) and rent paid for leased and besides cash and kind expenses on use of material inputs like seeds, fertilizers, manures, irrigation charges including cost of diesel/electricity for operation of pump sets, etc. Besides, cost of production includes imputed value of wages of family labour and rent for owned land. The cost also covers depreciation of farm machinery and buildings. As such, the cost of production covers not only actual expenses in cash and kind but also imputed value of owned assets including land and family labour.”

21. To a pointed query as to whether the representatives of farmers were being consulted while fixing the Minimum Support Price of the crops, the Ministry replied as under :

“The Agricultural Costs and Prices undertakes close interaction with farmers, senior officers, agriculture scientists, researchers and managers of relevant organizations before formulating their recommendations.”

22. Regarding the steps taken to ensure that farmers got remunerative prices for their farm produce, the Ministry in their submission stated as under:

“Food Corporation of India and the State agencies during each procurement season take action to open adequate number of purchase centres so that farmers get the Minimum Support Price and to prevent distress sale. Arrangements have also been made to educate the farmers by giving wide publicity in the local media regarding price support operation, FAQ specifications and purchase centres opened. Further, Control Rooms are set up by the Central Government/State Government to look into and investigate complaints of distress sale by farmers.”

23. When asked about the remedial action taken by the Ministry so as to give benefit of Minimum Support Price to the farmers, the Ministry stated as under :

“To ensure that farmers get the benefit of Minimum Support Price, Food Corporation of India and State agencies open their purchase centres in all districts of the country which have marketable surplus of wheat and paddy/rice. The number of centres opened by Government agencies in the last two marketing seasons is given below:

	2005-06	2006-07
Rabi Marketing Season (RMS)	9103	8985
Kharif Marketing Season (KMS)	10323	11552

Meetings are held in the Department of Food and Public Distribution in advance of every marketing season which is attended by the Food Secretaries of States and officers of Food Corporation of India . During this meeting arrangements for procurement are discussed in detail and problems if any are sorted out immediately. The Government agencies make all arrangements for purchase of foodgrains in advance including arrangement of adequate cash credit limit, gunny bags etc.

Control rooms are also set up in the Ministry, Food Corporation of India headquarters and regional offices as well as by the State Governments to monitor the procurement operations and reports regarding distress sales (sale below the Minimum Support Price) are investigated promptly.

News bulletins of Doordarshan and All India Radio carry details of Minimum Support Price during the harvesting season. Press releases are also issued from time to time.

Officers of the Govt. of India and Food Corporation of India headquarters also visit various States to make an on the spot assessment of procurement operations. To encourage farmers to participate in Minimum Support Price operations, in RMS, 2006-07 an incentive bonus of Rs. 50/- per qtl. over the MSP was given for wheat procurement. Similarly, an incentive bonus of Rs. 40/- per qtl. over and above the Minimum Support Price for procurement of paddy/rice has been allowed in KMS 2006-07.”

24. On the efforts made by the Ministry to generate awareness about Minimum Support Price operations among farmers, the Ministry stated as under :

“Instructions have been issued by the Department of Food and Public Distribution to Food Corporation of India and the State Governments to make arrangements to educate farmers by giving wide publicity in the local media regarding the MSP scheme, names of the procurement agencies, particulars of purchase centres and FAQ specifications. For KMS 2006-07, State Governments have been further requested to instruct their procuring agencies to organize wide publicity (in association with Food Corporation of India) through print and visual media as well as banners, pamphlets etc.

For creating awareness amongst the farmers regarding the Minimum Support Price Scheme, Food Corporation of India has also been directed to issue instructions to all its regional offices to organize wide publicity on Minimum Support Price operations being carried out by the Food Corporation of India .

Food Corporation of India and State Governments like Punjab, Haryana, Andhra Pradesh, Chhattisgarh etc have confirmed that they are giving wide publicity about Minimum Support Price in the local media before the commencement of every Kharif and Rabi Marketing Seasons. The Department of Agriculture and Cooperation has also informed that it is

utilizing the platform of the Doordarshan and All India Radio through their agricultural programmes to create awareness about the prevailing rates of the Minimum Support Price and the procurement agencies.”

The Ministry further added:

“The Department of Agriculture and Cooperation have informed that they are utilizing the Doordarshan and All India Radio through their agricultural programme for last one year to create awareness about the prevailing rates of Minimum Support Price and the procurement agencies. Besides this, instructions have been issued from the level of Secretary Food and Public Distribution to Food Secretaries of procuring States for organizing wide publicity (in association with Food Corporation of India) through print and visual media as well as banners, pamphlets etc. for creating awareness amongst the farmers regarding the Minimum Support Price Scheme. They were also requested to direct all procurement agencies to create awareness among the farmers regarding the Minimum Support Price scheme, names of the procurement agencies, particulars of purchase centres and FAQ specifications. CMD, Food Corporation of India has also been directed to issue instructions to all his regional officers to organize wide publicity on Minimum Support Price operations being carried out by the Food Corporation of India.

In response to these letters several State Governments such as Tamil Nadu, Andhra Pradesh, Punjab, Haryana, Chhattisgarh, Kerala etc. have intimated that they have instructed their procuring agencies to give wide publicity about Minimum Support Price operations and take effective steps in this regard. Regional Offices of the Food Corporation of India have also confirmed that they have made special efforts for creating awareness amongst the farmers regarding Minimum Support Price operations.”

25. To the Committee’s query as to whether the Government had conducted any Impact Assessment survey to determine the extent of deprivation of benefits of Minimum Support Price to the farmers, the Ministry replied as under :

“No impact assessment survey to determine the extent of deprivation of benefits of Minimum Support Price to the farmers has been conducted by the Department of Food and Public Distribution. However, before every procurement season, the Department of Food and Public Distribution issues instructions to the Food Corporation of India and concerned State Governments to organize publicity about the Minimum Support Price operations and also to set up Control Rooms in Food Corporation of India headquarters, Regional Offices of Food Corporation of India and in the State Governments. A Control Room is also available in the Ministry which gets daily reports of the quantum of foodgrains procured in every State as well as reports of distress sale (if any).



In case a report of distress sale is received, the concerned State Government and Regional Office of Food Corporation of India is immediately directed to investigate the report.”

26. When asked about the reasons for the delay in declaring Minimum Support Price by the Union Government, the Ministry replied as under :

“The Department of Agriculture and Cooperation has informed that Minimum Support Prices of foodgrains are fixed annually after examination of Commission for Agricultural Costs and Prices recommendations on price policy for Kharif and Rabi Crops.

They have further informed that in a vast country like India with different agro climatic regions and cropping pattern, sowing season is not uniform across States/crops. However, the Government makes all efforts to announce the Minimum Support Prices generally before the start of the sowing season. Dates of announcement of Minimum Support Prices of Kharif and Rabi crops in the recent years are given below:

<i>Year</i>	<i>Dates of Announcement of MSP</i>	
	<i>Kharif Crops</i>	<i>Rabi Crops</i>
2004-05	10.08.2004	03.11.2004
2005-06	20.04.2005	29.09.2005
2006-07	27.07.2006	27&30.10.2006
2007-08	17.05.2007	—

However, decisions regarding providing incentive bonus over and above the announced Minimum Support Price are taken before the commencement of the procurement season after taking into consideration prevailing market prices as well as to procure sufficient stocks of foodgrains in the Central Pool.”

**(e) Procurement Operations**

27. Audit examination of procurement revealed certain inefficiencies which included excess expenditure of Rs. 1047.34 crore by Chhattisgarh Government. It was found that the procurement of paddy in Chhattisgarh under the scheme of Decentralised Procurement (DCP) was much in excess of the capacity for custom milling of paddy, due to the absence of a project plan for procurement, storage and custom milling. Thus, the milling of paddy was delayed from 21 to 30 months, which resulted in excess overhead expenditure by the State Government, mainly on account of interest and driage loss. During the period 2000-05, against the admissible expenditure as per the Custom Milled Rice norms of the Union Government of Rs. 6031.81 crore, the procurement agencies incurred a total expenditure of Rs. 7384.19 crore, resulting in excess expenditure of Rs. 1352.38 crore.

Of this excess, an amount of Rs. 1047.34 crore had actually been paid by the State Government to the procurement agencies, leaving outstanding claims of Rs. 305.04 crore which had not yet been reimbursed by the State Government.

The other inefficiencies in procurement operations totaling upto Rs. 263.01 crore were noticed and these were primarily on account of deviations from norms. They included loss due to improper storage, short delivery of rice *vis-à-vis* Union Government prescribed out turn ratio for paddy, short accountal on account of driage loss/moisture gain and Excess Milling Charges.

28. Depositing before the Committee on the excess expenditure of Rs. 1047.34 crore in respect of Chhattisgarh, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution stated as under:

“Chhattisgarh increased their procurement quickly and they had no milling capacity, so the paddy had to be kept for longer periods and then the interest costs were quite high. Now, it is not there and they are able to mill it within a year and take it forward. So, I do not think this will be repeated.”

It was further added that :

“when Chhattisgarh undertook procurement of paddy under the decentralized operations, the milling capacity in the State was very limited, but over a period of last four years, additional milling capacity to the tune of about 7.5 lakh tonnes per month has been created in the State of Chhattisgarh, and milling paddy to the tune of about 30 lakh tonnes is now completed within a year in the State.”

29. Regarding other inefficiencies in procurement operations, the Secretary in his deposition before the Committee *inter-alia* stated:

“About Rs. 263 crore excess expenditure that was mentioned, most of it is related to Haryana and Punjab; it is related to storage of wheat in the open and the damage caused was due to prolonged storage. This has happened in a year where there was too much procurement and we have tried to strengthen the storage capacity in these States.”

30. While giving the reasons in detail for excess expenditure amounting to Rs. 263.01 crore, the Ministry *inter-alia* stated as under :

“Inefficiencies in procurement operations on the part of various State Governments amounting to Rs.263.01 crore due to the following reasons:—

- (i) Loss due to improper storage of wheat in Haryana.
- (ii) Short delivery of rice *vis-à-vis* prescribed out-turn ratio for paddy in Punjab and West Bengal.
- (iii) Loss of interest in Punjab, Haryana and West Bengal.
- (iv) Short accountal on account of driage loss and moisture gain in Maharashtra, Haryana and Rajasthan.
- (v) Excess milling charges in West Bengal.”

31. Asked if the reasons for excess expenditure had been analysed and if any action had been taken thereof, the Ministry replied as under :

“All these cases of inefficiencies have been examined in consultation with the State Governments concerned as well as the Food Corporation of India (FCI). The Department of Food and Public Distribution reimburses procurement costs incurred by State agencies based on standard principles and procedures and does not reimburse costs incurred by State agencies for their inefficiencies or in cases where the State Governments relax the prescribed norms of the Central Government. For example the Central Government reimburses expenses based on a standard out-turn ratio of 67% for raw rice and 68% for parboiled rice which is applicable throughout the country, even though some States have prescribed lesser out-turn ratios while taking rice delivery. Similarly, the Department has fixed standard drriage allowances and milling charges which are uniformly applicable throughout the country and in cases where the State Governments have prescribed higher drriage allowances and milling charges, the difference in cost is to be borne by the State Government themselves.

Procurement incidentals are initially paid to State Governments on provisional basis till they submit their audited accounts. Final subsidy claims of State Governments are paid only after they submit their final accounts duly audited.”

**(f) Procurement Incidentals**

32. The Procurement Incidentals comprised of Statutory Charges and Non-Statutory Charges. Statutory Charges included the elements of mandi charges (market fee/dami/Arhatia Commission/Rural Development Cess/Auction fee), purchase/trade tax and gunny costs; and Non-statutory charges included the elements of mandi labour, transportation costs, drriage losses, custody and maintenance charges, interest and milling charges for paddy/administrative charges for wheat.

33. Audit examination of Statutory Charges revealed the following :

**(i) Rural Development Cess**

During 2001-05, the Punjab State Agricultural Marketing Board collected Rs. 934.53 crore on account of Rural Development (RD) Cess, in addition to an identical amount collected on account of Market Fee. The amount collected as RD Cess was to be spent mainly for construction of godowns for agricultural produce brought into the market, rural roads, rest houses for dealers and purchasers, and arrangements for drinking water and sanitation. The fund was also to be spent for providing better agriculture facilities for higher production and grant of relief for loss and damage to agriculture produce due to natural calamities.

Audit, however, found no evidence to indicate that the amount collected as RD Cess was utilised for the specified purposes.

**(ii) Commission to Katcha Arhatias**

The rates of commission payable to private commission agencies and Katcha Arhatias (KAs) operating in mandis are fixed by the concerned State Agricultural Marketing Boards. Commission to Katcha Arhatias was allowed on *ad valorem* basis at 2.5 per cent of Minimum Support Price in Punjab and Haryana with effect from January 1998 and April 1998 respectively as against two per cent allowed from 1990 to 1997. The Minimum Support Price for wheat had increased from Rs. 2250/MT to Rs. 4450/MT and for paddy from Rs. 2150/MT to Rs. 4150/MT between 1990-91 and 1997-98. The quantity of wheat and paddy procured in Punjab and Haryana between April 1998 and March 2005 was 961.83 lakh MT and 701.45 lakh MT respectively. This procurement entailed an additional outgo of commission to Katcha Arhatias amounting to Rs. 477.14 crore during the above period. Audit did not notice any evidence of the Ministry's examination of the justification for the increase in the rate of commission by the Governments of Punjab and Haryana to Katcha Arhatias.

According to Audit, the Ministry in their reply had stated (June 2006) that it was not possible for the Union Government to regulate these statutory taxes, as under the Constitution, the States were fully empowered to levy statutory taxes on foodgrains. It further added that the State Governments of Andhra Pradesh, Haryana and Punjab where the level of State taxes/levies were high, had been requested to set up a Regulatory authority to examine and recommend the local taxes on procurement of foodgrains.

34. Audit review of the incidental charges fixed revealed that audited statements of actual expenditure incurred were not submitted by the States and non-statutory incidentals were fixed by the Ministry on *ad hoc* basis, which were at variance with the costs incurred by Food Corporation of India for the same operations.

It was also found that amounts of Rs. 481.67 crore and Rs. 112.34 crore were reimbursed in excess to Punjab and Haryana in respect of non-statutory incidental charges.

35. On the issue of Statutory Charges, the Ministry *inter-alia* submitted that:

“The Central Government reimburses all Statutory Charges levied by the State Governments on the basis of notifications/documents provided by the State Governments. From time to time State Governments are impressed upon to furnish certificates to the effect that the amount collected on account of statutory charges *i.e.*, Market Fee, Rural Development Cess etc., have been properly utilized. Also incidentals of the State for any year are finalized only on the receipt of their final accounts for that year are duly audited.”

36. Regarding Non-Statutory Charges, the Ministry in their written submission made to the Committee stated as under :

“Though Food Corporation of India's recommendation are normally taken into consideration while fixing final incidentals, decision in the Ministry is

taken considering other facts such as actual expenditure incurred by the States, etc. Therefore, in some cases items of final incidentals might be fixed at rates higher or lower than that recommended by the Food Corporation of India.”

37. On the increase in the rate of commission payable to private commission agents and Katcha Arhatias operating in Mandis, the Ministry *inter-alia* stated as under :

“The issue of rate of Commission to Katcha Arhatias is a matter to be decided by the State Governments of Punjab and Haryana. This Ministry reimburses these charges as imposed by the State Governments. The Governments of Punjab and Haryana have confirmed that Katcha Arhatias are performing essential work in procurement of foodgrains such as unloading from Carts and trolley, cleaning of the stocks by power operator cleaner etc. Besides these services they ensure upkeep of non-auctioned stocks. In case of rain they cover the open stocks with their own tarpaulins at their plinth till the auction of the stocks. These Katcha Arhatias are responsible for providing facilities of Pacca Phar, Jharna for clearing and upgradation of the produce of the farmer.”

38. When asked as to why the Ministry had not insisted on audited statements of actual expenditure while approving claims for non-statutory incidental charges, the Ministry *inter-alia* replied as under :

“The State Governments of Punjab and Haryana had expressed their inability to furnish their audited accounts crop-wise and therefore to avoid delays this Department has finalized their accounts on the basis of their claims, Food Corporation of India’s comments thereon and discussions with State Governments. The Government of India has finalized the incidentals of Government of Punjab and Haryana till Rabi Marketing Season 2003-04 based on this procedure.

State Government of Punjab and Haryana have been asked to provide audited accounts for finalizing the incidental from Khariff Marketing Season 2003-04 onwards. The principles for fixation of incidentals were formulated by this Department to streamline the reimbursement so as to avoid delay in finalization of accounts by the State Governments.”

39. Regarding the variance in the costs involved by Food Corporation of India for the same operational charges like Mandi Labour charges, transportation charges for wheat and maintenance charges for paddy/rice, the Ministry *inter-alia* stated that:

“Govt. of Punjab has informed that Food Corporation of India has its own permanent labour which regularly work at their depots and the expenditure of which is booked by the FCI under separate head of accounts whereas the whole operation of State procuring agencies are done by the labour

contractors. Hence there cannot be complete uniformity of rate of mandi labour with the Food Corporation of India labour. They have also informed that the rate of transportation charges are fixed after inviting the tenders by the committee under the chairmanship of Deputy Commissioner of the concerned District, in which District Manager of Food Corporation of India is also a member.

On the matter of transportation charges for paddy within 8 Kms. and beyond 8 Kms. State Govt. has informed that all procuring agencies of State procure paddy from mandis. After procuring the paddy from mandis State agencies store these stocks of paddy in the premises of rice millers allotted to the agencies for shelling in joint custody; whereas Food Corporation of India stores all their paddy in their own storage depots and only after that Food Corporation of India issues the paddy to rice millers for shelling purpose. Therefore, the State Governments have stressed that procedure for storage of paddy by State agencies for shelling purpose differs from the policy of Food Corporation of India for storage of paddy for shelling purpose and all the State procuring agencies have borne the expenditure of transportation charges of paddy within 8 Kms. distance as well as beyond 8 Kms. distance.”

40. While deposing before the Committee regarding the feasibility of having uniform tax regime, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution *inter-alia* stated as under:

“Our efforts to get a uniform taxes regime with State Governments have not had any success at all – the argument being that States like Punjab and Haryana which do produce substantial volumes of foodgrains and contribute substantially to the public food stocks and literally feeds the rest of the nation say that these are the only commodity they have in surplus and if they do not levy taxes on these commodities, their own development programmes get affected because this is the revenue which the State Government has to collect while other States have minerals or some other things to earn revenues from.”

41. When enquired about the reasons for the anomalies in the procurement incidentals, the Ministry *inter-alia* explained as under :

“Fixation of final incidentals is done by the Ministry in consultation with Food Corporation of India, State Government and Internal Finance Division of the Department on the basis of existing principles and policies. However, since several operations of the Food Corporation of India are either not comparable to the State Govt. operations or the expenditure incurred is different due to different set up of the Food Corporation of India and State agencies, therefore, decision of the Ministry is taken considering other facts such as actual expenditure incurred by the States, etc.

All the cases of anomalies pointed out by Audit have been examined by the Ministry in consultation with the concerned State Govts. and Food Corporation of India and the reason for these differences have been found to be due to difference in pattern of working of the State agencies and Food Corporation of India.

For example, Govt. of Punjab has informed that Food Corporation of India has its own permanent labour which regularly work at their depots and the expenditure of which is booked by the Food Corporation of India under separate head of accounts whereas the whole operation of State procuring agencies are done by the labour contractors. Hence there cannot be complete uniformity of rate of mandi labour with the Food Corporation of India labour. They have also informed that the rate of transportation charges are fixed after inviting the tenders by the committee under the chairmanship of Deputy Commissioner of the concerned District, in which District Manager of Food Corporation of India is also a member.

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42. On the steps taken by the Ministry to control the effect of arbitrary levies by the State Government on Minimum Support Price purchases especially in the light of the recommendation of the High Level Committee on Long Term Grain Policy which stated that the Union Government may announce its Minimum Support Price policy by declaring a procurement price inclusive of a uniform four percent allowance for State levies over the Minimum Support Price, it was stated as under :

“High Level Committee on Long Term Grain Policy had *inter alia* recommended that the Central Government should pay a maximum of 4% of taxes and levies on the MSP for purchases of foodgrains. State Governments of Punjab, Haryana and Andhra Pradesh were requested on 14th September, 2006 to review the structure of taxes and levies. The State Governments were requested to inform this Ministry about the use to which these levies have been put so far. Government of Punjab has now intimated that the State earns a major share of its tax revenue through VAT

on foodgrains. Therefore, the rate of VAT on those items cannot be reduced under the Punjab Value Added Tax Act, 2005. Similarly the Punjab Mandi Board has also intimated that as per the 'Punjab Agriculture Produce Markets Act, 1961', 2% market fee is being levied at the time of purchase of foodgrains which is being utilized to develop the Agriculture and Rural Infrastructure. Therefore, the State Government is of the view that there is no need to reduce the taxes (11.5%) in the State of Punjab at the time of purchase of foodgrains.

No reply on this issue has been received from State Governments of Haryana and Andhra Pradesh."

43. The Committee were apprised that the Ministry had suggested to the States of Andhra Pradesh, Haryana and Punjab for setting up of a Regulatory Authority to examine and recommend the local taxes on procurement of foodgrains. When asked about the responses from these States, the Ministry replied as under:

"Government of Punjab has intimated that the funds collected through the taxes which are imposed at the time of purchase of foodgrains are used to develop the agriculture marketing and rural infrastructure and they have informed that there is no need to set up a Regulatory Authority for examining and recommending the local taxes on the procurement of foodgrains.

No information on this issue has been received from State Governments of Haryana and Andhra Pradesh."

**(g) Scheme of Decentralised Procurement**

44. The Government of India introduced the scheme of Decentralised Procurement (DCP), under which the States/Union Territories themselves procured foodgrains, retained the quantity required for Public Distribution System and surrendered the rest to Food Corporation of India for the Central Pool. The main objectives of the scheme were as follows:

- (i) The over-dependence on Food Corporation of India for Public Distribution System supplies of foodgrains would be eliminated;
- (ii) Food Corporation of India would be freed from the task of procurement; and
- (iii) The subsidy burden would be reduced as the economic cost of the States/ Union Territories would be lower than the economic cost of Food Corporation of India.

Currently, the Decentralised Procurement scheme was being implemented in eleven States/Union Territories.

45. Elaborating on the scheme of Decentralised Procurement of Foodgrains, the Ministry of Consumer Affairs, Food and Public Distribution stated as under :

"The Scheme of Decentralized Procurement of foodgrains was introduced by the Government in 1997-98 with a view to enhancing the efficiency of



procurement and Public Distribution System and encouraging local procurement to the maximum extent thereby extending the benefits of Minimum Support Price to local farmers as well as to save on transit losses and costs. This also enables procurement of foodgrains more suited to local taste.

Under the decentralized procurement scheme, the State Government itself undertakes direct purchase of paddy and wheat and procurement of levy rice on behalf of Government of India. Purchase centres are opened by the State Governments and their agencies as per their requirements. The State Governments procure, store and distribute foodgrains under Targeted Public Distribution Systems and other welfare schemes. In the event of the total quantity of wheat and rice thus procured falling short of the total allocation made by the Central Government for meeting the requirement of Targeted Public Distribution Systems and other schemes, the Central Government, through Food Corporation of India, meets the deficit out of the Central Pool stocks.

The procured foodgrains in the Central Pool are transported to various parts of the country and distributed under the Targeted Public Distribution System and various welfare schemes of the Central Govt. The Targeted Public Distribution System has evolved as a major instrument of the Government's food policy for ensuring availability of foodgrains to the public at affordable prices as well as for ensuring the food security for the poor.

The Central Government undertakes to meet the entire expenditure incurred by the State Governments on the procurement operations as per the approved costing. The Central Government also monitors the quality of foodgrains procured under the scheme and reviews the arrangements made to ensure that the procurement operations are carried on smoothly".

46. On the implementation of Decentralised Procurement Scheme and its review by the Ministry, the Committee were apprised as under:

"The scheme of Decentralised Procurement (DCP) of foodgrains was introduced mainly to widen the coverage of MSP operations in order to bring the benefits of MSP operations to more number of farmers and thus to enhance procurement of foodgrains in non-traditional States. It also enables supply of foodgrains more suited to the local taste for PDS consumers and results in savings in transportation costs of FCI. So far 11 States/ Union Territories have adopted this scheme.

This scheme has been very successful in increasing procurement of rice in non-traditional States which has reduced their dependence on FCI to

bring rice for their PDS requirements from Punjab, Haryana etc. The procurement data for DCP States for rice in the last 4 marketing seasons is given below: —

(in lakh tonnes)

Khariff Marketing Season	2002-03	2003-04	2004-05	2005-06
Chhattisgarh	12.9	23.7	28.4	32.7
Karnataka	—	—	0.2	0.5
Kerala	—	—	0.3	0.9
Orissa	8.9	13.7	15.9	17.9
Tamil Nadu	1.1	2.1	6.5	9.3
UP	13.6	25.5	29.7	31.5
Uttranchal	2.3	3.2	3.2	3.4
West Bengal	1.3	9.3	9.4	12.8
A&N Islands	—	Neg.	Neg.	—
<b>Total</b>	<b>40.1</b>	<b>77.5</b>	<b>93.6</b>	<b>109.0</b>

In the case of wheat the procurement in the four DCP States has declined mainly due to increasing private participation in wheat procurement in these States. This is because taxes in these States are much lower than taxes in Punjab and Haryana (taxes on foodgrains in Punjab and Haryana are above 10.5 % as compared to 6.5% in Uttar Pradesh and Uttranchal, 2.2% in Madhya Pradesh and 1% in Gujarat). Moreover, these DCP States are closer than Punjab and Haryana to major consumption centers of wheat in West, East and South India, which makes it more attractive for private traders to purchase wheat from these States due to lesser transportation costs. The procurement of wheat in DCP States in the last 4 marketing seasons is given below:—

(in lakh tonnes)

RMS	2004-05	2005-06	2006-07	2007-08
<b>States</b>				
Uttar Pradesh	17.4	5.6	0.5	5.5
Madhya Pradesh	3.5	4.8	Neg.	0.6
Uttaranchal	0.6	0.4	Neg.	Neg.
Gujarat	0.0	0.0	0.0	0.0
<b>Total</b>	<b>21.5</b>	<b>10.8</b>	<b>0.5</b>	<b>6.1</b>

In order to increase wheat procurement in these DCP States in RMS 2007-08 the following action was taken:—

- (i) Commission to Societies/sub-agents was enhanced to 2.5% of MSP for these States on the lines of Arthiya Commission in Punjab and Haryana.

- (ii) NAFED was engaged to procure wheat on behalf of FCI in UP.
- (iii) Letters were sent to these States to ensure that private traders paid the mandi and other Statutory taxes so that they do not get price advantage over FCI on this account”.

**(h) Economic Cost for Decentralised Procurement States**

47. Audit scrutiny of comparison sheets of economic costs prepared by the Ministry revealed that in some States, the economic cost of Decentralised Procurement was higher than the corresponding cost of Food Corporation of India’s operations in the same State.

48. In a written submission made to the Committee on the audit’s observation regarding economic cost of Decentralised Procurement, the Ministry *inter-alia* stated as under:

“Though Decentralised Procurement States’ economic cost cannot be compared to Food Corporation of India’s All India economic cost, however, a statement showing Food Corporation of India’s economic cost for 2005-06 (RE) and Decentralised Procurement State, economic cost (provisional) of 2005-06 of both rice and wheat was earlier sent to Audit. Even after deducting the freight element (which is mainly for transportation of grains from one State to another State) from Food Corporation of India’s economic cost, Decentralised Procurement States, economic cost is still less. However, while fixing final economic cost of the Decentralised Procurement States incidental items of the Food Corporation of India such as mandi labour, transportation charges, storage charges are taken into consideration”.

49. To a query, as to whether the Ministry had compared year-wise the various components of economic cost of wheat and paddy/rice separately for each of the Decentralised Procurement State/Union Territories with that of corresponding Food Corporation of India costs, the Ministry replied as under:

“Food Corporation of India’s economic cost is fixed on All India basis and State-wise economic cost of the Food Corporation of India is not computed. Many of the expenditure items of the Food Corporation of India like transportation cost, labour charges, administrative overheads etc. are apportioned on All India basis. Therefore, economic cost of Food Corporation of India is not available State-wise and so State-wise economic cost of Food Corporation of India and Decentralised Procurement States cannot be compared”.

50. When asked if there was a mechanism for verification of cost savings from the implementation of Decentralised Procurement Scheme, the Ministry in their written note submitted as under:

“It is difficult to quantify the cost saving from the implementation of Decentralised Procurement Scheme as in Decentralised Procurement States

procurement operations which were earlier performed by Food Corporation of India are now being done by State agencies with a different pattern of working. The Decentralised Procurement Scheme was introduced to also encourage local procurement so that farmers are able to get remunerative price for their crops and consumers are provided local foodgrains, which would be more suitable for their taste. Also Decentralised Procurement Scheme has reduced freight/transport charges which GOI/Food Corporation of India had to incur from transportation of grains from higher producing States such as Punjab and Haryana to deficit States”.

51. When the Committee enquired about the hindrances faced by the Government in implementing the Decentralised Procurement Scheme, the Ministry replied as under:

“The State Governments that adopted the DCP scheme had requested for adequate attention on the following issues:

- (i) Sanction of adequate Cash Credit Limits (CCL) by the RBI.
- (ii) Full reimbursement of expenses and timely release of subsidy by the Central Government”.

52. On the steps initiated by the Ministry to remove the hindrances in implementing the Decentralised Procurement Scheme, the Ministry enumerated as under:

“The Department of Food and Public Distribution has been making suitable recommendations to the RBI for sanctioning of adequate CCL to Decentralised Procurement States for handling the procurement operations. The Department has also taken up with Banking Division and RBI the problem of valuation of stocks of State agencies at acquisition cost only for 3 months and has recommended that these stocks should be valued at acquisition cost for 12 months.

The Department also releases advance subsidy to these States on Quarterly basis as well as provisional subsidy and final subsidy on receipt of the respective bills. The Central Govt. reimburses all expenses borne by the State agencies of Decentralised Procurement States on their procurement operations of foodgrains for the Central Pool as per the approved costing principles finalized in mutual consultation with the Decentralised Procurement States.

With regard to reimbursement of expenses, the following additional components of costs have been sanctioned in recent years:

- (i) Transportation cost from the procurement center to the storage point and from the storage point to the milling point.
- (ii) Commission to societies at 1% of Minimum Support Price.

- (iii) Payment of cost towards transportation of gunnies from rail heads to procurement centers.

Moreover, a meeting of the State Food Secretaries is held under the Chairmanship of Secretary (F&PD) before the onset of every Rabi and Kharif Marketing Season during which any difficulties being faced by the Decentralised Procurement States are discussed and mutually resolved”.

53. To a specific query as to whether the Government intended to extend the Decentralised Procurement Scheme to more States/Union Territories, the Ministry *inter-alia* replied as under:

“The position of adoption of the DCP Scheme for States producing rice and wheat is given below:

- (i) For rice—Most of the non-traditional States producing significant marketable surplus of rice which are Chhattisgarh, Orissa, Tamil Nadu, West Bengal and Karnataka have already adopted the Decentralized Procurement Scheme. Among the non-traditional States which produce substantial quantity of rice only Assam, Bihar and Maharashtra have not yet adopted the DCP Scheme. However, in Bihar and Maharashtra State agencies also procure rice in addition to FCI. This rice is delivered by them to FCI for Central pool.

Among the traditional States’ Uttar Pradesh has already adopted the DCP Scheme while in Punjab and Haryana State agencies procure most of the rice and hand over the same to FCI for the Central Pool. In Andhra Pradesh, most of the rice is procured through the levy route, and it is given to FCI for Central pool.

- (ii) For wheat – There are much fewer States having marketable surplus of wheat as compared to paddy/rice. Out of these States, Uttar Pradesh, Madhya Pradesh, Gujarat and Uttranchal have already adopted the DCP Scheme while in Punjab and Haryana State agencies do most of the procurement and hand over the wheat to FCI for the Central Pool. The other States in which the DCP Scheme is not in operation are Bihar and Rajasthan in which State agencies also procure wheat in addition to the FCI. However, the procurement of wheat in these States has not shown an increase in 2006-07 as compared to previous years”.

54. While furnishing details about how the Ministry proposed to control and minimize the inefficiencies in procurement of foodgrains, it was *inter-alia* stated as under:

“The Department of Food and Public Distribution is the nodal Department of the Central Government to formulate the Food Policy for foodgrains (rice, wheat and coarsegrains) and for the overall planning and coordination of the activities related to procurement of foodgrains for the Central Pool. The actual operational activities of procurement including detailed planning

for each State/District with regard to setting up of procurement centres, arranging gunny bags, getting sanction of Cash credit limits, making storage plans, entering into milling contracts for paddy etc. are carried out by the Food Corporation of India or the designated procurement agencies of the State Governments.

The Central Government reimburses all expenses of the State agencies on the basis of standard principles formulated by the Department to fix the incidental charges of procurement/distribution of foodgrains. Before the start of every season, each State Government sends proposals on the likely incidentals they are likely to incur during the procurement season. The Department sanctions the provisional incidentals for any State based on standard principles of the Department as well as proposals of the State Governments and after consideration of this matter by the Internal Finance Division (IFD) of the Department. The reimbursement of costs in the form of subsidy are done provisionally on receipt of claims from the State Governments which are based on these sanctions.

Final incidentals of each State for any year are finalized on the receipt of their final accounts for that year duly audited by the Auditors of the Comptroller and Auditor General. Fixation of final incidentals is done by the Ministry in consultation with Food Corporation of India, State Government and IFD on the basis of existing principles and policies.

As can be seen from above the incidental costs to be reimbursed to the State agencies are examined at several stages and through detailed examination of each issue, thus inefficiencies in procurement are minimized”.

55. During his deposition before the Committee on the issue of diversified procurement and the Decentralized Procurement Programmes, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution stated as under:

“Government have taken a conscious decision to allow a decentralized procurement programme in some of the new States like Chhattisgarh, Orissa, West Bengal etc. There is a mention that the cost of this is higher than the Food Corporation of India’s cost. Our problem in this is that the economic cost of Food Corporation of India is different and differently calculated on a pan-India basis. Food Corporation of India has to move foodgrains across the whole of India. It has also to hold a huge buffer whereas the decentralized procurement scheme does not envisage that kind of holding”.

56. On the issue of comparing cost between diversified procurement and the decentralized procurement, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution *inter-alia* deposed before the Committee:

“...comparing the economic costs may not be relevant. What we would compare are the incidentals which are being paid to these States. We have taken serious note of this observation and we have appointed a Committee

under a Joint Secretary and with Advisor (Cost) and the ED, Finance of Food Corporation of India to look at the incidental costs of each State and compare it with comparable costs in Food Corporation of India”.

57. Replying on the issue of continuing Decentralized Procurement Scheme, the Secretary stated as under:

“...we would like to continue with this decentralized procurement scheme for two reasons. First, it does give fillip to agricultural production in various States. For example, Chhattisgarh today contributes to the Central Pool more than Haryana. That in the larger agricultural development scenario of this country is a welcome sign, so also is Orissa. Secondly, there is a preference among people for their local rice and wheat, if it is a wheat-producing State, but mostly rice. We would think that the DCP Scheme would give more acceptable quality of rice to the population there”.

**(i) Avoidable Handling Operations Leading to Additional Cost**

58. Audit scrutiny revealed that under the Decentralised Procurement Scheme, the States were to retain the quantity required for Public Distribution System and surrender the rest to the Central Pool. However, due to improper estimation, Uttar Pradesh and Uttaranchal delivered foodgrains to the Central Pool, and then again lifted foodgrains from the Central Pool for BPL requirements.

This resulted in payment of avoidable incidental charges to the State Governments for the expenditure on handling operations and movement on the foodgrains initially transferred from procurement centres to Food Corporation of India godowns and again from the Food Corporation of India godowns to their storage point. The avoidable payment worked out to Rs. 72.64 crores and Rs. 20.10 crore in respect of Uttar Pradesh and Uttaranchal, respectively.

59. In a written submission made to the Committee on the issue of improper estimation which resulted in foodgrains being surrendered to Central Pool and then again being lifted from Central Pool for BPL requirements, the Ministry stated as under:

“Under Decentralised Procurement scheme, States are required to procure foodgrains and distribute the same under different schemes. During any procurement season, States are to keep that much quantity of foodgrains which is required for the consumption in the State for one year and to deliver the excess quantity to the Food Corporation of India in the Central Pool.

As far as both delivery and lifting from the Central pool is concerned it might be possible that in areas where there is no local procurement State Govts. might have lifted foodgrains from the Food Corporation of India and where there is excess procurement and not much consumption demand State Govts. might have delivered excess quantities to the Food Corporation of India”.

**(j) Poor Procurement Performance under Decentralised Procurement Scheme**

60. Audit scrutiny of procurement of foodgrains by many States revealed that their performance under the Decentralised Procurement Scheme was poor as detailed below:

- (i) In Orissa, the procurement of rice by the State Government under DCP was 0.68 lakh MT (4.5 percent) and 1.49 MT (7.4 percent) against the total procurement target of 15.00 lakh MT for 2003-04 and 20.00 lakh MT for 2004-05 respectively for the State. Despite the low procurement, 86460 MT (40 per cent of total procurement) was supplied to FCI, instead of retaining this quantity for distribution within the State.
- (ii) In the Andaman and Nicobar Islands, the procurement of rice during 2003-04 under DCP was only 247.65 MT of rice against the target of 12000 MT. For the purpose an advance of Rs.4.00 crore in October 2003 was given to the UT procurement agency, which has not submitted the utilisation certificate and refunded only Rs.2.45 crore in January 2005 against the unutilised amount of Rs. 3.78 crore. . Out of the advance of Rs. 4.00 crore, the UT procurement agency refunded Rs. 2.45 crore, retaining a balance of Rs. 1.33 crore.
- (iii) Tamil Nadu and West Bengal continued to depend on FCI for distribution of rice under PDS as procurement of paddy in these States was upto 50 per cent of requirement for PDS during the period 2002-05. Low procurement of rice/paddy in Tamil Nadu was attributed to drought during 2002-04.

**IV. FOOD STOCKS**

61. Food stocks are maintained by the Government of India:

- (i) to meet the prescribed Minimum Buffer Stock norms for food security;
- (ii) for monthly releases of foodgrains for supply through TPDS and other welfare schemes;
- (iii) to meet emergent situations arising out of unexpected crop failures, natural disasters etc.; and
- (iv) for market intervention to augment supply so as to help moderate the open market prices.

62. On the issue of adequate procurement of foodgrains in order to build up buffer stocks for ensuring foodgrain security in the Country, the Ministry explained as under:

“The existing system of procurement by Government agencies by carrying out Minimum Support Price operations enables the farmers to get remunerative prices for their produce and prevents them from resorting to distress sale. Under this system all the foodgrains conforming to the prescribed specifications offered for sale by farmers are bought by the



public procurement agencies at Minimum Support Price. The farmers have the option to sell their produce to Food Corporation of India/State agencies at Minimum Support Price or in the open market as is advantageous to them. The success of the procurement system is shown by the fact that rice procurement showed an increasing trend from 164 lakh tonnes in Khariff Marketing Season 2002-03 to 276 lakh tonnes in Khariff Marketing Season 2005-06, which was an all-time high procurement. In Khariff Marketing Season 2006-07 also rice procured is more than the requirement of approximately 250 lakh tonnes of rice for the Targeted Public Distribution System and welfare schemes. However, procurement of wheat has shown a declining trend from 167.8 lakh tonnes in Rabi Marketing Season 2004-05 to 92.3 lakh tonnes in Rabi Marketing Season 2006-07. Due to the several steps taken to maximize wheat procurement in RMS 2007-08, 111 lakh tonnes of wheat was procured in Rabi Marketing Season 2007-08. However, this was less than the requirement of 150 lakh tonnes for the Targeted Public Distribution System and welfare schemes. Procurement was lower than this requirement mainly due to low market arrivals and high private participation.

To make up the shortfall the Government has decided to import wheat as per the requirement, but upto 50 lakh tonnes in 2007-08 to cater to the requirements of the Targeted Public Distribution System and welfare schemes and to build up adequate buffer stocks, since the Government is committed not to compromise on food security.”

63. The shortage in the procurement of wheat had resulted in the import from other countries at a higher price. The Committee, had therefore, wanted to know the reasons for shortage in procurement of wheat. To this, the Ministry elaborated as under :

“The Government took a number of steps to increase wheat procurement in RMS 2007-08 as given below:—

- (i) The Government of India fixed an MSP of Rs. 750 per quintal for RMS 2007-08, which was Rs. 100 per quintal more than MSP of RMS 2006-07. This led to increased area coverage of wheat and wheat production is now estimated to be 74.9 million tonnes compared to 69.4 million tonnes last year.
- (ii) A bonus of Rs. 100 per quintal over and above the MSP was also announced.
- (iii) 13128 centres for procurement of wheat were opened in different States compared to 8985 centres in RMS 2006-07.
- (iv) 1.1 lakh tonnes of wheat was released through open sale in February-March, 2007 to cool down the wheat prices before the start of RMS 2007-08.
- (v) 55 lakh tonnes of wheat was imported in 2006-07 which improved the stocks of wheat in the Central Pool to more than the buffer norm of 40 lakh tonnes as on 1st April, 2007.

- (vi) A notification titled “Wheat (Stock Declaration by Companies or Firms or Individuals) Order 2007 was issued by the Department of F&PD under the Essential Commodities Act 1955 on 1.3.2007. The order provides that any Company or Firm or Individual who purchases wheat beyond 50,000 tonnes during RMS 2007-08 shall furnish to the Central Government a return indicating the name and address of the company, quantity of wheat purchased and quantity held in stock.
- (vii) Export of wheat from the country was banned till 31.12.2007. Export of wheat from Central Pool is also banned.
- (viii) Import of wheat on private account with zero duty is permitted upto 31.12.2007.
- (ix) State Governments have been permitted to impose stock limits on wheat upto 31.8.07.
- (x) Officers of Department of F&PD and FCI visited wheat procuring States frequently during the procurement season to make an on-the-Spot assessment of wheat procurement.
- (xi) Commission to Societies/sub-agents was enhanced to 2.5% of MSP in States like UP and MP on the lines of Arthiya Commission in Punjab and Haryana.
- (xii) NAFED was engaged to procure wheat on behalf of FCI in Bihar, UP and Rajasthan.
- (xiii) Letters were sent to wheat producing States to ensure that private traders paid the mandi and other Statutory taxes so that they do not get price advantage over FCI on this account.

Due to the above steps wheat procurement in RMS 2007-08 was 111 lakh tonnes against 92 lakh tonnes procured in RMS 2006-07. However, this was less than the requirement of 150 lakh tonnes for the TPDS and welfare schemes. Procurement was lower than this requirement mainly due to low market arrivals and high private participation.

To make up the shortfall the Government has decided to import wheat as per the requirement, but upto 50 lakh tonnes in 2007-08”.

64. Regarding the norms for buffer stocks of foodgrains and the buffer stock position in respect of various foodgrains in the country, the Ministry in their written information stated as under:

“Norms for buffer stocks of foodgrains to be maintained in the Central Pool are fixed taking into consideration requirement of foodgrains under TPDS, welfare schemes and emergency situations during a particular quarter, procurement season, lean period, offtake in preceding years, etc. As per the present Buffer Stocking Policy, certain minimum stocks of foodgrains are to be maintained by FCI/ State Agencies in the Central Pool on the first day of each quarter.”

The existing minimum buffer norms for stocking of foodgrains in the Central Pool with effect from April 2005 are as follows:—

(In lakh tonnes)			
	Wheat	Rice	Total
1st April	40	122	162
1st July	171	98	269
1st October	110	52	162
1st January	82	118	200

65. When asked, if the buffer stocks were sufficient to maintain the food security in the Country, the Ministry replied as under:—

“The stock of foodgrains (rice and wheat) in the Central Pool as on 1.7.2007 was as follows:

(Qty. in lakh tonnes)		
Commodity	Stock as on 01.07.2007	Buffer Norm for 01.07.2007
Wheat	129.27	171.00
Rice	109.76	98.00
Total	239.03	269.00

It would be seen from the above table that while the stock of rice was more than the buffer norms, the stock of wheat in the Central Pool on 01.07.2007 was lower than the buffer norms.

During 2007-08, the anticipated requirement of wheat and rice in the country for TPDS, welfare schemes and emergency relief and market intervention is 150 lakh tonnes and 260 lakh tonnes, respectively. Considering the requirement, the stocks available in the central pool, especially of wheat are less. Therefore to meet the requirement, apart from domestic procurement of 111 lakh tonnes of wheat, the Government has decided to import upto 50 lakh tonnes of wheat during the current year.”

66. To a specific query about the total storage capacity of foodgrains available in the Country, the Ministry in their reply stated as under:—

“The total storage capacity available with FCI as on 31.07.2007 was 243.83 lakh tonnes. In addition adequate storage capacities are also available with State Government Undertakings for procurement of foodgrains for the Central Pool.”

67. Enquired whether the storage capacity of foodgrains was sufficient enough to store the foodgrains required to maintain food security in the Country, the Ministry replied that:—

“As per the buffer norms a peak stock of 269 lakh MT of wheat and rice needs to be maintained in the Central Pool as on 1st July. The existing storage capacity with FCI and State Governments at the macro level is sufficient for meeting requirements of storage capacity of 269 lakh MT of foodgrains.”

68. On being asked if any steps were initiated to create additional capacity, the Ministry replied as under:—

“Though the capacity available at macro level with FCI is quite adequate, yet in order to overcome the gap at micro level, following steps have been taken:

FCI has proposed to construct 4.00 lakh tonnes capacity with an estimated cost of Rs. 158.60 crores during the XI Five Year Plan in various States as per the Policy of Government of India. An EFC Memo on Plan Scheme for construction of storage godowns during the XI Five Year Plan (2007-2012) for financial outlay of 291 crores for achieving 5.77 lakh MTs capacity is being finalized and will be submitted to Expenditure Finance Committee (EFC) in due course.

Further, under the National Policy of Bulk Handling, Storage and Transportation of foodgrains, a capacity of 5.5 lakh MTs is being created on Build Own and Operate (BOO) basis. The project is likely to be completed by the end of current financial year.

In addition, full powers have been vested with the General Managers (Region)/ Executive Director (Zone) to hire additional godowns capacity at micro level for meeting the emergent requirement from the CWC/ SWC/ State Government and with the approval of CMD for the Private Parties godowns.”

## V. MOVEMENT OF FOODGRAINS

### (a) Railway Claims Pending

69. In order to ensure that foodgrains were accessible to the population throughout the country, FCI was to ensure:—

- (i) efficient co-ordination and monitoring of the movement of foodgrains from surplus regions to deficit regions;
- (ii) proper storage; and
- (iii) close liaison with the Railways, handling and carriage contractors, and most importantly with the State Governments.

70. Audit scrutiny revealed that as on March 2005, FCI's pending claims against the Railways amounted to Rs. 796.45 crore. This included 7583 cases of claims for refund of freight amounting to Rs. 37.41 crore, which had been pending for periods ranging from 12 to 27 years.

Audit review of rejected claims revealed that Railways had intimated no reasons for rejection of claims, and FCI did not pursue such claims further. Further, a review of the register of closed files for the period January 2003 to March 2005 at Regional Office, Lucknow revealed that 110 claims amounting to Rs. 0.46 crore were rejected by the Railways under the provisions of an internal Movement Commercial Circular to which FCI had no access.

71. Elaborating the reasons for the railway claims pending for 12 to 27 years, the Ministry in their written note stated as under:—

“It is a fact that the claims are pending with the Railways for a pretty long time, but these claims are being regularly pursued by the FCI with the Railways. As a matter of fact, several meetings at higher levels were held between Food Corporation of India and Railways for expeditious settlement of the pending railway claims. The last meeting in this regard was held by ED(T), Food Corporation of India Hqrs. on 11.4.2005 with the CCO/C and Dy. CCM/C of Railway. The Executive Director, North Zone, FCI has also taken up the matter with the CCO and AFA&CO for settlement of the pending claims. The pendency of the railway claims is also due to the fact that Railways have shown their inability to settle the old cases as their records of the relevant period are not available. It has also been stated by the Railways that due to non-availability of original Physical Delivery Certificate, the railway freight claims are pending. In the meeting held on 21.3.2005, it was agreed by the Railways that Food Corporation of India may produce their shadow file to the concerned Zonal Railways so that these cases may be built up again and settled accordingly. However, the Northern Railway in the meeting held on 11.4.2005 and 17.7.2005 with CCO, Dy. CCM (Claims) and ACM(Claims) stated that the instructions issued by the Railway Board on 1.7.2002 are applicable only to the cases of compensation claims and not for the refund of freight claims on account of which there is huge pendency. The ED(North Zone), FCI have also been advised to bring down the pendency by proper examination of the claims and that if after proper examination of any claim(s) the conclusion is that it is not possible to get anything from the Railways, then such claims may be written off according to the Delegation of Powers after proper examination/ investigation and fixing responsibility in each case.

However, the Food Corporation of India Headquarter has been pursuing with the concerned ED(Zone)/ GM (Region) and also with the Railway Board for early settlement. Besides that feasibility of approaching the Committee on Disputes/ Railway Lok Adalat are being explored.”

**(b) Demurrage Payments**

72. Delay in loading and unloading of Railway wagons attracts demurrage from Railways. While in respect of operations carried out on contract basis, demurrage/wharfage for delays is recoverable from contractors, FCI is responsible for demurrage relating to operations carried out through departmental labour. Such demurrage payments in case of operation by departmental labour were on account of poor productivity, absenteeism, non-synchronisation of working hours of FCI with that of Railways and absence of labour on Saturdays and holidays.

During the period 2000-2005, FCI paid total demurrage of Rs. 51.57 crore, despite paying Overtime Allowance (OTA) and incentive of Rs. 70.81 crore and Rs. 599.9145 crore respectively to the departmental labour.

73. While furnishing the measures taken in this regard, the Ministry stated that in order to avoid demurrage, efforts were being made to persuade labour to work on Sundays as well as to unload the wagons on the same day till late hours and added that the OTA was likely to go up even though concrete results on curbing the demurrage were yet to be seen.

74. Explaining the reasons for payment of huge demurrage charges, the Ministry *inter-alia* stated as under:—

“The accrual of demurrage during the year 2004-05 was Rs. 22.66 crore and during 2005-06 it was Rs.20.33 crore (prov.). Though the demurrage has shown a decrease during the last year, the main reasons for accrual of demurrage are:

- (i) Non-synchronizing of the working hours of FCI with that of the Railways is increasing as round the clock working at West Bengal, Orissa, MP, few stations in UP and Gujarat have been added;
- (ii) Non-presence of labour on Sundays and holidays;
- (iii) Increase in the load ability of the wagons with effect from 27.4.2005;
- (iv) Decrease in the free time allowed by Railways for loading/unloading of rakes from 10 hours to 9 hours with effect from 15.7.2005;
- (v) Rates have also been revised by the Railways on 1.12.2005, 1.4.2006 and 1.6.2006;
- (vi) Loading of 50 KG bags instead of 95 KG bags used earlier;
- (vii) Poor productivity of the departmental labour;
- (viii) Rakes are being placed in two placements whereas calculation of demurrage is being made by the Railways from the time of the first placement, although rationally speaking, the demurrage should be calculated separately for each placement. Moreover, the Railways also include the time taken by the Driver for removing the empty wagons of the first placement as well as for placing wagons of the second placement while calculating the demurrage in certain cases.

In order to avoid demurrage, FCI has been asked to make efforts to persuade labour to work on Sundays as well as to unload the wagons on the same day till late hours.”

75. During the deposition before the Committee on movement of foodgrains by Railways, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution *inter-alia* stated that:—

“On movement by Railways, there are two issues which have come up in the report. We are trying to optimize the movement using the linear programming software. It has not been completed and we are working on it. So that we can ensure that most cost effective movement is achieved and double handling or double movement is avoided. One of the issues that has come up recently in Railways *vis-à-vis* food movement, is that the freight has gone up. It has gone up in our calculation by roughly about 45 per cent. This is what Food Corporation of India is paying more compared to last year. Therefore, there is a cost increase in our transport of foodgrains.”

**(c) Irregular Hiring of Godowns**

76. With a view to developing capacity in areas and regions with gaps in storage, Food Corporation of India extended guarantees to the Central Warehousing Corporation (CWC) and State Warehousing Corporations for construction of godowns under the ‘Seven Year Guarantee Scheme (SYGS)’. Audit review revealed that irregular hiring of godowns in Andhra Pradesh under this scheme resulted in avoidable expenditure of Rs. 18.31 crore by Food Corporation of India. The losses were on account of:—

- (i) The godowns to be hired by FCI were to be located within 8 kms. from the Railways goods shed. This was not ensured, which resulted in avoidable expenditure of Rs. 1.47 crore towards handling and transportation in Andhra Pradesh.
- (ii) SYGS godown at Jalcherla was injudiciously selected for taking over, while CWC godown at Mahaboobnagar was more advantageous. This resulted in a loss of Rs.1.43 crores.
- (iii) SYGS Godowns with a capacity of 25,000 tonnes or more were supposed to have railway siding facilities which were not followed which resulted in losses to the tune of Rs.13.88 crores till December, 2004 on account of handling of stocks at railway goods sheds.
- (iv) Godowns at Renigunta and Jankampet were hired before completion of railway siding which resulted in a loss of Rs. 1.53 crores.”

77. Elaborating the reasons for these losses, the Ministry in their written note to the Committee submitted as under:—

- (i) 76 Godowns were taken under Seven Year Guarantee Scheme (SYGS) from APSWC in AP Region. Out of these 48 godowns were within the radius of

8 kms. from the goods shed and the remaining 28 were situated beyond the distance of 8 kms. from railway goods shed. Out of these 28 godowns beyond 8 kms. 6 are in Medak District which is without the railway track. Thus, the condition of having godowns within 8 kms. from the railhead for these godowns could not be applied for these 6 godowns. 4 godowns have been provided with the railway siding facility. Thus only 18 godowns were acquired beyond the distance of 8 kms. The site selection for construction of godowns was done by a High Level Committee. Since sufficient sites were not available within the radius of 8 kms. the High Level Committee selected these sites to maintain the Buffer Stock and to accommodate Mill Levy rice in AP Region under compulsion.

- (ii) The existing 30,000 MT capacity godown of CWC at Mahaboobnagar was being utilised by State Agencies/General customers. Keeping in view the high occupancy of this godown by others, the High Level Committee recommended to construct 10,000 MT godown under SYGS by CWC at Mahaboobnagar besides another 10,000 MTs godown by AOSWC at Jadcherla to avoid dislocation of PDS and procurement operations during peak season of Kharif and Rabi. The distance between Mahaboobnagar and Jalcherla is above 25 kms. The procurement in Mahaboobnagar district during 2001-02 was 1.77 lakh MTs and PDS issues were 2.34 lakh MT. As such, the expenditure of Rs.1.43 crore incurred towards Handling and Transport was unavoidable and hiring of godown at Jalcherla was necessary.
- (iii) The importance of having own siding facilities in the FCI godowns having capacities of 25,000 MTs or more is for reducing expenditure on Handling and Transport. Since godowns under SYGS were constructed through CWC/SWC for a limited period of 7 years only, the cost factor towards railway siding cannot be ignored. Moreover, railways have also limitation to provide sidings wherever required and they do not ordinarily agree to provide siding wherever desired.
- (iv) Though the godowns at Renigunta and Janakampet were taken without completion of railway siding, the storage charges were regulated at 60% till the siding is completed.

**(d) Transit and Storage Losses**

78. Audit scrutiny revealed that during the period 2000-04, Food Corporation of India incurred a total loss of Rs. 0.60 crore on account of transit shortages of 6.37 lakh MT of foodgrains amounting to 0.6070 per cent of total stocks moved, which represented additional subsidy burden to the Union Government. The factors responsible for transit loss in foodgrains were pilferage and theft *en route*, driage, multiple handling, different modes of weighment, weak texture of gunnies and brushing bags, use of hooks on bags by labourers, spillage through wagon holes and flap doors/cleaves and spillage at transshipment points.

Audit noted that FCI had not set any norms for transit and storage losses till date. Norms were stated to have not been set for transit losses, as this could



have encouraged inefficiency and pilferage. However, as per the laid down procedure, all cases of transit losses were to be investigated and disciplinary action, where necessary, taken against staff/officers found responsible for such losses.

FCI had incurred storage losses of Rs. 842.31 crore involving a quantity of 8.49 lakh MT of foodgrains, which amounted to 0.33 per cent of the total quantity of foodgrains issued, during the period 2000-2004. These losses were mainly due to loss of moisture, insect infestation, and sliding down of stocks, fungus infestation with deterioration of stocks, bird trouble, rodents, spillage of grain from gunny bags and long period of storage. Except for moisture loss, all the other factors spelt out were controllable. However, despite the Ministry's instructions of 1980 that FCI should prescribe limits of storage losses due to driage, deterioration of stocks etc. and the stipulation in FCI's Quality Control Manual that the District Manager should fix the norms of storage shortages on a reasonable basis for each depot according to local conditions, no norms had been fixed.

Audit noted that as of March 2005, cases involving transit and storage losses of Rs. 532.87 crores were pending, mainly due to abnormal delays in investigation at various levels of Food Corporation of India.

79. In response to the Audit observations on transit and storage losses, the Ministry submitted to the Committee as under:—

“The Food Corporation of India (FCI) has been constantly endeavouring to minimize Transit and Storage Losses by undertaking speedy regularization write off losses by the competent authorities. However, the occurrences of such losses in the operational functioning of FCI on a gigantic scale is inevitable, being a regular phenomenon, the same is added to the pendency every month/year. The FCI Headquarters reviewed the progress made by the field units regularly in the monthly performance review meeting. The loss free transportation and storage of foodgrains may not be possible as the same are part and parcel of FCI's large scale field operations, where some percentage of loss cannot be avoided by adopting any means of storage and long distance transportation, although large measures have been introduced to minimize the transit and storage losses including administrative measures, introducing web-based on line MIS, providing insurance coverage against losses in transit in movement of foodgrains by rail *w.e.f.* 20.9.2005, besides studies assigned to NCAER for suggesting suitable norms for storage and transit losses. M/s RITES had also been entrusted a special study for proposing measures for reducing transit losses and fixing responsibility. The findings and recommendations given by M/s RITES have been thoroughly examined and some of them are being implemented. The certification of consignments by an independent officer not associated with the custody/preservation of stocks at the time of loading/unloading of wagons has been introduced to control and minimize the transit losses during movement of stocks by rail.”

80. To a specific query as to whether the Government had fixed any norms for transit/storage losses, the Ministry in their submission stated as under:—

“A Committee of experts was appointed by FCI in the year 2002 to evaluate the factors responsible for storage and transit losses and quality complaints in accordance with the judgement of Punjab and Haryana High Court. This Committee gave its report in April, 2002 recommending, *inter-alia* that no uniform norms could be fixed for storage for the country as a whole as factors responsible for storage shortages vary from grain to grain and place to place, therefore, fixing of norms was not considered to be in the interest of the FCI as the same could be misused by the field functionaries.

Therefore, Government has not fixed any norms for transit/ storage losses. FCI investigates each and every case of abnormal storage and transit loss considering the various factors involved.

However, in order to ensure that FCI continues to make all efforts to reduce storage/transit losses, Government has fixed annual targets in the MOU signed with FCI. For 2007-08, a target of curtailing transit losses to 0.36% and storage losses to 0.18% has been fixed by Government.”

81. When asked about the factors responsible for transit and storage losses, the Ministry enumerated as follows:—

“Storage losses of foodgrains caused mainly due to the following factors:—

- (i) Loss of moisture
- (ii) Insect infestation and sliding down of stocks
- (iii) Fungus infestation and deterioration of stocks
- (iv) Bird trouble
- (v) Rodents
- (vi) Bleedings/spillage of grain from gunny bags for inadequate stitches/ weak texture
- (vii) Period of storage.

The following are the factors responsible for causing transit losses:—

- (i) Pilferage and theft enroute
- (ii) Driage of moisture during long transit
- (iii) Use of hooks by labour
- (iv) Weak texture of gunnies and bursting of bags
- (v) Spillage through wagon holes and flap doors/cleaves at loading/ unloading points
- (vi) Spillage and theft at transshipment points
- (vii) Different modes of weighment.

82. On the measures taken by the Government to reduce the percentage of transit and storage losses, the Ministry in their reply stated as under:—

- (i) Physical measures like installation of barbed wires fencing of the boundary walls, provision of streetlights for illumination of godowns and proper locking of the sheds are taken to secure the godowns.
- (ii) Security staff of FCI as well as other Agencies like Home Guards, Special Police Officers are deployed for safety of the stocks.
- (iii) Deployment of Central Industrial Security Force and State Armed Police has been done at some depots/godowns, which are vulnerable.
- (iv) Security Inspections as well as surprise checks of the Depots are also conducted from time to time at various levels to detect and plug the security lapses.
- (v) Adoption of 50 kg packing to avoid use of hooks.
- (vi) Double line machine stitching of bags.
- (vii) Periodical prophylactic and curative treatment of stocks, as prescribed.
- (viii) Streamlining of procedure and documentation for transparency and accountability in operations at each level.
- (ix) Special Squad checking at selected railheads, transshipment and destination/dispatch centers.
- (x) Identification of vulnerable points.
- (xi) Inspection of Depots by Senior officers of the HQs, Executive Directors(Zones)/ General Managers(Regions)/ Area Managers.
- (xii) Inspection and monitoring of calibration of weighbridges.
- (xiii) Maintaining priority list for issue of stocks observing the FIFO principle.
- (xiv) Proper weighment and accounting at the time of receipt and issue.
- (xv) Undertaking pre-monsoon fumigation.
- (xvi) Improvement in dunnage material.
- (xvii) Movement of foodgrains from one place to another by safe means *i.e.* covered wagons etc.
- (xviii) Ensuring proper quality checking of foodgrains at the time of procurement.
- (xix) Ensuring that all FCI owned godowns are constructed and maintained on scientific lines for storage of foodgrains.
- (xx) Insuring transit losses in movement of foodgrains by rail.
- (xxi) Providing escorts while transporting foodgrains from Depot to Rail head and *vice-versa*.

- (xxii) Transfer of officials whose integrity is found doubtful as per extant instructions.

Besides, the following other preventive measures are also being taken by FCI for reducing storage and transit losses:—

- (a) Component-wise analysis of storage losses, *i.e.* losses occurring due to loss of moisture/theft and pilferage/other reasons.
- (b) Detailed analysis of transit losses for identification of areas of improvements.
- (c) Analysis of reasons leading to delay in carrying out investigations in storage and transit losses.
- (d) Monitoring/reviewing of storage and transit losses at higher levels in the FCI Headquarters in consultation with Chief Vigilance Officer.

## **VI. DISTRIBUTION OF FOODGRAINS**

83. Despite massive subsidies given by the Central Government towards food distribution to the poor, most of these subsidies had failed to serve the population who are below the poverty line. The subsidized foodgrain provision through the Public Distribution System had been universal and not specifically targeted at the poor. Against this backdrop, the Government acted to streamline Public Distribution System during the Ninth Plan period by issuing special cards to Below Poverty Line families and selling to them foodgrains through Public Distribution System outlets at specially subsidized prices (with effect from June, 1997). Under the new Targeted Public Distribution System, each poor family was entitled to 20 kg. of foodgrains per month. The identification of the beneficiaries was done by the States, based on State-wise poverty estimates of the Planning Commission. The thrust was to limit the benefit to the truly poor and vulnerable sections. States were required to formulate and implement foolproof arrangements for identification of the poor and delivery of foodgrains to them through FPS in a transparent and accountable manner. TPDS also covered the Above Poverty Line (APL) population, although the Central Issue Prices for APL beneficiaries were kept higher than BPL beneficiaries.

84. Subsequently, the Government launched the Antyodaya Anna Yojana which was a step in the direction of making TPDS aim at reducing hunger among the poorest segments of the BPL population. It was launched in December 2000 for one crore poorest of the poor families so as to make Public Distribution System benefits more substantial in terms of both quantity and nutrition for this section of the population. The Central Issue Prices for Antyodaya Anna Yojana beneficiaries were set at Rs. 2/Kg for wheat and Rs. 3/Kg for rice, which was substantially lower than the Below Poverty Line rates. The States/UTs were required to bear the distribution cost, including margin to dealers and retailers as well as the transportation cost. Thus the entire food subsidy was being passed on to the consumers under the scheme. In the First Expansion of AAY, the AAY Scheme was expanded in 2003-2004

by adding another 50 lakh BPL households headed by widows or terminally ill persons or disabled persons or persons aged 60 years or more with no assured means of subsistence or societal support. With this increase, 1.5 crore families were covered under the AAY. In the Second Expansion of AAY the Scheme was further expanded by another 50 lakh BPL families by including, *inter alia*, all households at the risk of hunger. In the third Expansion, the AAY was further expanded to cover another 50 lakh BPL households thus increasing its coverage to 2.5 crore households (*i.e.* 38% of BPL).

85. Apart from issues under Targeted Public Distribution System (comprising Above Poverty Line, Below Poverty Line and Antyodaya Anna Yojana schemes), foodgrains from Central Pool are also released for other foodgrains based welfare schemes such as the Mid Day Meal Scheme, Annapurna Scheme, Sampoorna Gramin Rojgar Yojana and other schemes like Wheat Based Nutrition Programme, Nutritional Programme for Adolescent Girls, Supply of foodgrains to SC/ST/OBC Hostels/Welfare Institutions and National Food for Work Programme.

**(a) Poor offtake under APL Scheme**

86. The following table gives the position of allocation and offtake of foodgrains during 2000-05.

**Percentage of offtake of foodgrains w.r.t. allotment under BPL, APL and AAY during 2000-05**

(in lakh tonnes)

Year	Commodity	Offtake		
		BPL	APL+Additional	AAY
		% of allotment	% of allotment	% of allotment
<b>2000-01</b>	RICE	66.59	26.97	20.00
	WHEAT	52.74	4.10	80.95
	<b>TOTAL</b>	<b>60.44</b>	<b>18.46</b>	<b>42.86</b>
<b>2001-02</b>	RICE	58.81	21.27	87.85
	WHEAT	53.08	13.15	83.13
	<b>TOTAL</b>	<b>56.26</b>	<b>18.03</b>	<b>85.62</b>
<b>2002-03</b>	RICE	57.04	5.66	83.15
	WHEAT	64.53	6.11	88.93
	<b>TOTAL</b>	<b>60.27</b>	<b>5.91</b>	<b>85.73</b>
<b>2003-04</b>	RICE	71.34	9.69	95.06
	WHEAT	68.49	8.43	86.98
	<b>TOTAL</b>	<b>70.08</b>	<b>8.98</b>	<b>91.43</b>
<b>2004-05</b>	RICE	83.51	16.91	93.35
	WHEAT	79.37	12.68	86.21
	<b>TOTAL</b>	<b>81.69</b>	<b>14.50</b>	<b>90.25</b>
<b>2000-05</b>	<b>GRAND TOTAL</b>	<b>66.33</b>	<b>10.88</b>	<b>88.75</b>

87. Audit observed that the total offtake of foodgrains by the APL category was just 10.88 per cent of the total allotment during 2000-05, with the annual APL offtake ranging from 4.10 per cent to 13.15 per cent in the case of wheat and 5.7 per cent to 27.0 per cent in the case of rice.

88. The detailed analysis of the offtake *vis-a-vis* allocation across the States revealed the following position:—

- (i) In Punjab, practically no rice was lifted under the APL scheme, and BPL offtake of rice was only 10 per cent of the allocation.
- (ii) In Punjab and Haryana, APL offtake of wheat was only 10- 11 per cent of the allocation.
- (iii) In Uttar Pradesh, APL offtake was just 0.3 per cent of allocation.
- (iv) In Orissa, the shortfall in offtake of BPL rice ranged from 30 to 67 per cent, despite 48 per cent of the State population living below the poverty line. In 14 blocks of three test-checked districts, BPL rice was not lifted by the storage agents for periods ranging from two to 20 months.

89. While responding to the Audit observations on poor offtake under APL Scheme, the Ministry in their submission to the Committee stated as under:—

“Most of the years referred to in the report are those years where the stock of foodgrains was much above the buffer norms. Since large stocks of foodgrains were available in the open market at competitive prices, the offtake under APL was quite less. Further, the allocation under the APL was revised from historical basis to 35 Kgs. per family per month in 2002 which led to substantial increase in allocation of foodgrains under APL to some States. This led to reduction in offtake percentage under APL.”

90. Reasons contributing to low offtake by State Governments were attributed to the following:—

“...Non-availability of foodgrains in FCI godowns, resource crunch faced by State Government, non-availability of railway rakes for movement, administrative or infrastructure problems created by natural calamities and the price differential between APL issue prices and market prices.”

The Ministry further added that:

“However, an effort has now been made to rationalize the wheat allocation to States. The present position of stocks of foodgrains in the Central Pool

has undergone a sea change as the stocks of wheat have gone below the buffer norms while the stocks of rice are sufficient to meet the requirements.

Since large stocks of foodgrains were available in the open market at competitive prices, the offtake under APL was quite less.”

**(b) Identification of Targeted Beneficiaries**

91. Audit has observed that the Ministry allocated foodgrains to States based on estimates of BPL households determined by it in 2000. However, the State Governments adopted their own norms for identification of BPL for distribution of foodgrains. In cases, where the States’ figures were higher than the estimates of Union Government, it would lead to scaling down of ration entitlement than prescribed by the Ministry and where the States’ figures were lower, it would lead to the quota released remaining undrawn by the States.

As per the Ministry’s records, while the number of BPL households based on Union Government estimates was 651.99 lakh, the States had identified 861.76 lakh BPL households, which was 32 per cent higher. This had the effect of scaling down of ration.

As per Ministry’s records, the position of State-wise number of BPL households based on Union Government estimates and identified by the State Governments is as follows:

*(Figures in lakh)*

State/UT	BPL households		Excess/short households identified by States/UTs
	As per Union Government	As per States/UTs	
1	2	3	4
Andaman & Nicobar Islands	0.28	0.17	(-) 0.11
Andhra Pradesh	40.63	140.46	99.83
Arunachal Pradesh	0.99	1.20	0.21
Assam	18.36	18.91	0.55
Bihar	65.23	71.63	6.40
Chandigarh	0.23	0.23	–
Chhattisgarh	18.75	17.48	(-) 1.27
Dadra & Nagar Haveli	0.18	0.16	(-) 0.02
Delhi	4.09	4.11	0.02
Goa	0.48	0.28	(-) 0.20
Gujarat	21.20	36.41	15.21
Haryana	7.89	8.12	0.23
Himachal Pradesh	5.14	2.98	(-) 2.16

1	2	3	4
Jammu & Kashmir	7.36	7.36	–
Jharkhand	23.94	22.21	(–) 1.73
Karnataka	31.29	70.10	38.81
Kerala	15.54	20.58	5.04
Lakshadweep	0.03	0.01	(–) 0.02
Madhya Pradesh	41.25	52.05	10.80
Maharashtra	65.34	73.60	8.26
Manipur	1.66	1.29	(–) 0.37
Meghalaya	1.83	1.83	–
Mizoram	0.68	0.69	0.01
Nagaland	1.24	1.24	–
Orissa	32.98	48.95	15.97
Pondicherry	0.84	0.95	0.11
Punjab	4.68	7.14	2.46
Rajasthan	24.31	23.74	(–) 0.57
Sikkim	0.43	0.44	0.01
Tamil Nadu	48.63	65.51	16.88
Tripura	2.95	2.95	–
Uttar Pradesh	106.79	106.79	–
Uttaranchal	4.98	4.90	(–)0.08
West Bengal	51.79	47.29	(–) 4.50
<b>Total</b>	<b>651.99</b>	<b>861.76</b>	<b>209.77</b>

92. The Ministry in their submission on the issue of number of BPL families stated as under:—

“...the Ministry allocates foodgrains to the States on the basis of poverty estimates of 1993-94 as determined by Planning Commission based on the projected population of March, 2000 as given by the Director General of Census. The issue regarding increase in number of BPL families as desired by the State Governments was taken up with the Planning Commission. The Planning Commission is of the view that the State Governments are free to issue as many cards as they like, but Central Government support would be limited to the number officially estimated by the Planning Commission. The difference would have to be met by the State Governments. It would be inappropriate to violate this principle as it would send a perverse incentive to all States to increase the number of BPL cards issued without any real justification. Therefore, this proposal cannot be concurred with. The Department is following the decision of the Planning Commission.”



93. On being asked about the identification system available in the Ministry for identifying the APL, BPL and AAY beneficiaries in the country, the Ministry stated as under:

“The operational responsibilities including allocation within the State, identification of BPL families, issuing of ration cards, supervision and monitoring the functioning of the FPSs rest with the State Governments. However, to streamline and strengthen the operations of TPDS, in the States, the Central Government issued a control order *i.e.* PDS (Control) Order 2001. Thereafter, the Central Government has been holding meetings with Food Secretaries of all States/UTs to ensure smooth functioning of TPDS in the country. In the recent past, meetings of State Food Secretaries were held on 19.1.2007 and 11.4.2007.

PDS (Control) Order, 2001 provides that the State Governments shall formulate suitable guidelines for the purpose of identification of BPL families including AAY families as per the estimates adopted by the Central Government. The Order further stipulates that ‘elimination of bogus ration cards as well as bogus units in the ration cards shall be a continuous exercise by the State Governments to check diversion of essential commodities’. The State Governments have been requested from time to time to take urgent steps to review the BPL and AAY lists. In some States, this review resulted in elimination of a large number of bogus ration cards.”

94. Asked about the problems faced by the States/UTs in identifying the AAY families, the Ministry in their reply stated as under:

“The Antyodaya Anna Yojana was launched in December, 2000. At that time, it was expected to cover one crore poorest of the poor families in the country. Subsequently, coverage under the scheme has been expanded thrice to cover additional 50 lakh families each time. By 30th November, 2007, against the estimated 2.5 crore poorest of the poor families, State and UT Governments have identified 2.426 crore AAY families and issued ration cards to them. Identification of AAY families by State and UT Governments under the last expansion was to be completed by March, 2006. However, extension of time was allowed upto 15th August, 2007.

For completing identification of the estimated AAY families, the Department has been regularly pursuing with the State and UT Governments. However, by the end of November, 2007, 23 States and UT Governments have identified AAY families as per the targets. 12 States and UT Governments have not yet identified all the estimated AAY families. These are Bihar, Delhi, Goa, Gujarat, Haryana, Jammu and Kashmir, Maharashtra, Uttarakhand, West Bengal, Andaman and Nicobar Islands, Chandigarh and Dadar and Nagar Haveli.

For not completing identification of all estimated AAY families, no specific major reasons have been communicated by the State Governments. Some

of them have mentioned work of on-going local election, BPL census, etc. for the slow progress.”

95. When asked about the reasons for variation in the numbers of BPL, APL and AAY beneficiaries identified by the Union Government and those identified by States/Union Territories, the Ministry *inter-alia* stated as under:

“TPDS is operated under the joint responsibility of the Central and State Governments. The Central Government has taken the responsibility for procurement, storage, transportation and bulk allocation of foodgrains to States and UTs. The responsibility for effectively distributing the same to the consumers through the network of Fair Price Shops (FPSs) lies with the State/UT Governments. The operational responsibilities for allocation of foodgrains within the State, identification of eligible families living below poverty line, issuance of ration cards to them, supervision over and monitoring of functioning of FPSs rest with the State/UT Governments concerned.

Further for smooth functioning of TPDS in the country and in order to maintain supplies and securing availability and distribution of essential commodities, Public Distribution System (Control) Order, 2001, has been notified by the Government of India on August 31, 2001. The Government of India in the Ministry of Food and Public Distribution has not issued any additional specific guidelines for identification of BPL families (except for identifying Antyodaya Anna Yojana families).

The Planning Commission is the nodal agency in the Government of India for estimation of poverty in the country. The Commission estimates poverty across all the States by following a uniform methodology and releases the poverty estimates from time to time.

For different poverty alleviation programmes/schemes being implemented in rural areas in the States and UTs, Ministry of Rural Development, Government of India, in consultation with Planning Commission issues guidelines for identification of Below Poverty Line families.

For poverty alleviation programmes/schemes in urban areas, the Ministry of Housing and Urban Poverty Alleviation, Government of India issues guidelines to States and UT Governments on the basis of State Specific Poverty Lines made available by the Planning Commission.

The Planning Commission's methodology for making estimates of poverty are designed to yield comparable estimates of poverty across the States. However, the actual identification of BPL families in rural and urban areas is done by the State and UT Governments by using the methodology laid down by the Ministries of Rural Development and Housing and Urban Poverty Alleviation, and guidelines formulated by the State and

UT Governments themselves. Therefore, the number of BPL households identified the State and UT Governments may differ from the estimates made by the Planning Commission.”

96. While deposing before the Committee on the issue of BPL cards being distributed to more than what was approved by the Planning Commission and the Department of Rural Development, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution *inter-alia* stated as under:

“Most State Governments have issued BPL ration cards more than what is approved by the Planning Commission and the Department of Rural Development. For the purpose of public distribution, we had accepted the poverty estimates of the Planning Commission of 1993-94 projected on to the population of 2000, which comes to 6.52 crore families, but the number of BPL cards in most States is much larger than this. If we were to look at the latest NSSO statistics on poverty and even if we take the higher level of 27.5 per cent poverty in the country, projected on the current population, the number of BPL families should actually come to about 5.5 crore families. Unfortunately, most States argue that they have more poor than what is estimated by the Planning Commission. This is a genuine problem that we are confronted with in this area.”

97. When the Committee enquired as to why a uniform methodology was not adopted for identifying BPL, APL and AAY families, the Ministry in their reply stated as under:

“The guidelines issued by Ministry of Rural Development and Ministry of Urban Development and Poverty Alleviation in consultation with Planning Commission are the same for identification of BPL families. These guidelines are similar to those issued by this Ministry for identification of BPL families for implementation of TPDS issued in 1997. So the methodology adopted is uniform.”

It was further added that:

“For BPL Census 2002, for identification of BPL families in rural areas, the guidelines issued by the Ministry of Rural Development have prescribed a set of 13 socio-economic indicators. They were:

- (i) Size group of operational holding of land;
- (ii) Type of house;
- (iii) Average availability of normal wear clothing;
- (iv) Food security;
- (v) Sanitation;
- (vi) Ownership of consumer durables;

- (vii) Literacy status of the highest literate adult;
- (viii) Status of Household Labour Force;
- (ix) Means of livelihood;
- (x) Status of children (5-14 years);
- (xi) Type of indebtedness;
- (xii) Reason for migration from household; and
- (xiii) Preference of assistance like wage employment, self-employment, training and skill upgradation.”

98. To the Committee’s query as to what was the average per capita income of the families identified under the AAY, the Ministry replied as under:

“For identification of eligible families under Antyodaya Anna Yojana, detailed guidelines have been issued to States and UT Governments. Under these guidelines, no specific income limits have been prescribed. However, the State and UT Governments are expected to cover the poorest families from among the Below Poverty Line families for identification of which specific income levels were in use during the IX Plan period. Thereafter, identification of the BPL families in rural and urban areas is to be done as per the detailed guidelines issued by the Ministry of Rural Development, and Ministry of Housing and Urban Poverty Alleviation. Once the BPL families are identified on the basis of socio-economic indicators, the families with the lowest ranking scores on those indicators are to be designated as AAY families. Under this scheme, the families having no source of income or dependable earning members in the family such as landless labourers, widows, terminally ill persons and disabled persons are also covered.”

99. When asked as to how the Government considered the AAY beneficiaries to purchase foodgrains as per their prescribed rates of Rs. 3 per kg. and Rs. 2 per kg. for rice and wheat respectively, the Ministry replied as under:

“Under the AAY, allocation of foodgrains is being made at nominal cost of Rs. 2 per kg. for wheat and Rs. 3 per kg. for rice. The subsidy provided by the Government in this process is 85% on wheat and 79% on rice. These issue prices being nominal, it is reasonable to consider that a family with minimum resources or means of earning would also be able to buy the foodgrains from the fair price shops.”

100. On inquiring if the Government concurred with the view of the Planning Commission that it would send a perverse incentive to all States to increase the number of BPL cards issued without any real justification, the Ministry in their reply stated as under:

“The Department agrees with the view of the Planning Commission that support of the Government of India under the TPDS should remain limited

to the number of BPL families accepted by the Government of India based on poverty estimates of the Planning Commission even though the number of BPL cards issued by the State and UT Governments is higher and in many cases such cards might be without real justification. The Department is also of the view that for the purpose of allocation of foodgrains to States and UTs for BPL families, the number of such families should be updated as per latest estimates of the poverty for 2004-05 released by the Planning Commission in March, 2007, according to which the level of poverty in the country during 2004-05 was 27.5% only as compared to 36% in 1993-94. Even if the poverty of 2004-05 are projected on population estimate of March, 2006, the number of BPL families would be 5.77 crores *i.e.* 75,000 less than the presently accepted 6.52 crores.”

101. On being asked if the Government proposed to take the services of NGOs to enumerate the numbers of BPL, APL and AAY beneficiaries instead of the local teachers as they would be under pressure to incorporate the names of undeserving people, the Ministry replied as under:

“Under the TPDS, identification of targeted eligible BPL families, issuance of ration cards to them, distribution of foodgrains to them and supervision of FPSs are responsibilities of the State and UT Governments. As provided under the PDS (Control) Order, 2001, the State Governments have to formulate suitable guidelines for proper identification of the beneficiaries by ensuring that all the vulnerable sections of the society are covered within the limits prescribed by the Central Government. For the process of identifying BPL and AAY families for issuing them ration cards under the TPDS, the agencies are to be selected by concerned State/UT Governments. If they think appropriate, they may also utilize services of NGOs as well.”

102. To a pointed question, as to how the Government ensured that no deserving BPL, APL and AAY beneficiaries would be left out of the coverage of Public Distribution System/Targeted Public Distribution System, the Ministry replied as under:

“The Central Government has made the required statutory provisions for this purpose. The PDS (Control) Order 2001 mandates State/ UT Governments to ensure that no eligible applicant is denied a ration card under the TPDS.

The nine-point action plan formulated in 2006 and under implementation in States and UTs includes continuous reviewing of BPL and AAY lists to eliminate bogus ration cards. The revised Citizens’ Charter issued in July, 2007 further facilitates use of provisions of RTI Act, 2005 for public scrutiny of functioning of the TPDS and coverage of eligible families.

Since the required statutory and other framework is already in place to ensure it, the responsibility to actually operationalize in practice is of the

State and UT Governments. The Central Government makes all attempts through review/ reports to secure compliance with these stipulations by the State and UT Governments.”

103. The Committee were apprised that the identification of the beneficiaries was done by the respective State and Union Territories Governments. The Committee wanted to know the reasons as to why the Government was not accepting the numbers of the beneficiaries which was arrived at by the State and Union Territories Governments. To this, the Ministry replied as under:

“The Planning Commission estimates poverty across all the States following a uniform methodology. The estimates are based on the quinquennial National Sample Survey conducted by NSSO, Ministry of Statistics and Programme Implementation. The estimation of poverty is made for the year for which NSSO data on household consumer expenditure from the large survey are available. The Planning Commission’s methodology is designed to yield comparable estimates of poverty across the States. However, the actual identification of BPL families is done by the State and UT Governments based on a methodology laid down by the Ministry of Rural Development, and hence the number of BPL households as identified by State Governments may differ from the estimates of Planning Commission. The number of BPL ration cards issued by the State Government are higher than the number of such families accepted by the Union of India for making allocation.

A few State Governments have made representations to enhance allocation of foodgrains to their States on the basis of the number of BPL cards issued by them. On this issue, the view taken by Planning Commission is that because of inter-play of local considerations and forces, it is likely that the number of BPL households identified by a State/UT may be more than the number of poor persons estimated by the Planning Commission. In view of this, the estimate of poor persons by the Planning Commission may be considered more scientific and objective. Wherever the estimate of BPL families is more than the estimate of poor by the Planning Commission, the State Governments concerned may provide subsidized foodgrains etc. to the additional persons from out of their own budgetary resources.

At present, foodgrains are allocated to the States on the basis of number of BPL households as per poverty estimates of 1993-94 and population estimates of 01.03.2000. The percentage of below poverty population was 36% in 1993-94, it has come down to 27.5% in 2004-05. Calculations show that likely increase in the number of poor due to increase in present population since March, 2000 will be more than offset by the reduction in the poverty ratio between 1993-94 and 2004-05. By this norm, allocation of foodgrains for BPL families will get reduced. However, the Government of India is continuing allocations based on March, 2000 population only.

The difference between the number of families to whom BPL cards have been issued by the State Governments and the number accepted by Government of India is too high. Also, the claim of State Governments is that their numbers are of the real BPL families. These two vastly different sets of figures cannot be reconciled.”

104. When asked if the Government proposed to frame uniform norms for the identification of BPL households, the Ministry in their written submission stated as under:

“For identification of BPL families in rural areas in the country, the Ministry of Rural Development in consultation with Planning Commission issues detailed guidelines for conducting BPL census at the start of every Five Year Plan. Based on those guidelines, the BPL families are expected to be identified by State and UT Governments in their respective rural areas. For identification of BPL families in Urban areas, the Ministry of Housing and Urban Poverty Alleviation in consultation with the Planning Commission issues the guidelines. For identification of BPL families, the Department of Food and Public Distribution specifically does not issue separate guidelines. The Government in the Ministry of Consumer Affairs, Food and Public Distribution finalizes norms for working out the total number of estimated BPL families in each State and UT. The presently accepted norm for this purpose is the numbers worked out by projecting the poverty estimates of Planning Commission for 1993-94 on the estimated population on 1.3.2000. By this norm only the number of the estimated BPL families accepted by this Department has been worked out (6.52 crores). In view of this position, the Government does not propose to frame uniform norms for identification of BPL households.”

105. About the measures taken by the Government to reconcile the figures relating to number of BPL, AAY beneficiaries as arrived at by the Centre and the States, the Ministry in their reply stated as under:

“While the number of BPL families identified by some of State and UT Governments tally with the estimates of the Planning Commission, those by other State Governments differ from them. Since only a uniform basis is to be followed for all the States and UTs by the Government of India for making allocations under the TPDS, the basis accepted in November, 2000 has been continued.

When TPDS was introduced in 1997, the poverty estimates released by the Planning Commission for the year 1993-94 were available. According to those estimates, percentage of population below poverty line was 36%. Population estimates made by the Registrar General of India and Census Commissioner for 1995 were also available at the time. So, Government

decided to use poverty estimates of the Planning Commission for the year 1993-94 and population estimates of 1995 for working out the number of BPL households in the country for the purpose of making allocations of foodgrains under the TPDS. This number of households was 5.96 crores.

Subsequently, in November, 2000, the Government decided to use the population estimates of 1st March, 2000 instead of 1995 for working out the number of BPL households in the country for the purpose of TPDS allocations. The number of BPL households in the country worked out on this basis is 6.52 crores. Since then, Government has continued to use this number of BPL households for making the allocations under the TPDS.

In March, 2007, the Planning Commission has released poverty estimates for 2004-05 which are comparable with the poverty estimates of 1993-94. According to these estimates, in the country as a whole the percentage of population below poverty line was 27.5%.”

106. In his deposition before the Committee, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution *inter-alia* stated as under:

“Normally, the poverty estimates are given by the Planning Commission and this is normally vetted by the National Development Council. We have been following the estimates of the Planning Commission for the number of BPL families. This applies not only to the Food Ministry, but also to the Rural Development Ministry. Many State Governments have gone beyond that list and issued BPL ration cards. Some of them are getting APL quota and some of them are selling at BPL prices or bringing down the scale from 30 to 25 and allocating. This has to be resolved through a process of mutual discussion. I do not see a resolution at the official level on this. We have placed it before the hon. Minister. He is consulting the State Governments for developing some understanding on the issue.”

107. To the Committee’s query as to whether Government had issued any directives/instructions to State Governments to arrive at a realistic estimate of AAY, BPL and APL families, the Ministry in their reply stated as under:

“The instructions issued by the Government of India to ensure that the BPL families identified are really the poor and as per the estimate adopted by the Government of India for making allocations of foodgrains under the TPDS are given in the PDS(Control) Order, 2001.

Since the number of BPL ration cards issued by the State and UT Governments are in excess of the number of BPL families accepted by the Government for the purposes of allocations under the TPDS as per the details given in the statement enclosed, requests have been received from a number of State/UT Governments for accepting higher number of BPL families for allocations under the TPDS. Views of the State Governments have been solicited for taking a final view on this issue.



For identification of the poorest of the poor families to be covered under the Antyodaya Anna Yojana launched in December, 2000, specific guidelines have been issued by the Government in the Department of Food and Public Distribution. These guidelines were issued on 25th December, 2000 at the time of launching of the scheme and also subsequently when expansion of coverage was directed in three rounds.

Based on these guidelines, actual identification of the poorest of the poor (AAY) families is to be done by the concerned State and UT Governments. As against the total estimated 2.5 crores AAY families, 2.39 crore such families have been identified. The Government of India makes allocations of rice and wheat @ 35 kg. per AAY family per month for all the families.

Under this scheme, 5% of total population was to be covered. This number would be 5.61 crore persons, even if population of October, 2006 is considered. As against this, 2.39 crore families have been covered so far under the Scheme, which means 12.67 crore population is being already covered.”

**(c) Irregularities in identification of beneficiaries and issue of ration cards**

108. Audit scrutiny of records in States/UTs indicated various irregularities in the identification of BPL/AAY families and/or issue of ration cards. These irregularities included:

- (i) Beneficiaries did not receive the benefits as either the identification process was incomplete or ration cards were not issued.
- (ii) Though the scheme included 70 per cent of population of primitive tribal groups in 3 districts of Jharkhand, who were to be categorized as AAY in terms of a Supreme Court directive, the process of identification for inclusion and extending the benefits was yet to be completed. By contrast, the names of 35 per cent of BPL and 29 per cent of AAY beneficiaries were not in the BPL register of the Department, but were drawing benefits under the Scheme.
- (iii) AAY households were not deleted from the BPL lists in Meghalaya which resulted in issue of excess foodgrains costing Rs. 1.72 crore.
- (iv) In Karnataka no firm figure of BPL families was available, which ranged between 31.29 lakh and 56.32 lakh according to surveys at different intervals. Despite this, 36 lakh families applied afresh (as of September 2003) for being included as BPL families and 34.66 lakh temporary cards were issued to such families. The position of temporary status was not further reviewed.

109. Furnishing the total number of BPL and AAY beneficiaries in the country and the actual number of beneficiaries covered under these two Schemes as on 31.12.2006, the Ministry stated as under:

“The total estimated number of BPL families are 6.52 crore. Out of this, the total number of estimated AAY beneficiaries in the country are 2.5 crore

households and number of identified AAY beneficiaries as on 31.12.2006 is 224.5 lakh households. However, the State/UT Governments have identified and issued ration cards to 7.44 crore BPL and 2.25 AAY households respectively.”

It was further added that:

“The rationalization has been done after detailed analysis of allocation and offtake figures for this category during the last three to four years. The allocation to States and UT Governments for BPL including AAY families is done for a total number 6.52 crores or the number of ration cards actually issued, whichever is less. Those States and UTs which have issued BPL ration cards in excess of the number accepted by this Department, they resort to distribution of foodgrains to BPL families at scale to some extent lower than the prescribed scale. The Department regularly insists upon the State Governments to distribute foodgrains to BPL families at the scales prescribed by the Government of India only. However, there are practical limitations in enforcing this in the context of Federal system of Government in the country. The Department is conscious of this issue and detailed information from all the States and UT Governments is being collected so that a final view on this aspect can be taken.

As regards completion of identification of AAY families, it is stated that out of 2.50 crore targeted AAY families, 2.39 crore AAY families have already been identified up to 31.5.2007 and the foodgrains are being allocated for them. The Antyodaya Anna Yojana was launched in December 2000 for one crore poorest of the poor families. The Scheme was expanded in 2003-2004 by adding another 50 lakh households from amongst the BPL families, was again expanded with effect from 1st August, 2004 by another 50 lakh BPL families by including, *inter-alia*, all households at the risk of hunger and then was further expanded to cover another 50 lakh BPL households thus increasing its coverage to 2.5 crore households.

Some States/UTs, which have not completed the target of identification of Antyodaya families, are being reminded from time to time to complete the remaining target. They have been assuring to complete it at the earliest.”

110. On the steps taken by the Government to check the irregularities in identification of BPL, AAY beneficiaries and issue of ration cards, the Ministry stated as under:

“The subject of ration cards has been elaborately dealt with in the PDS (Control) Order, 2001. It very clearly stipulates that States and UT Governments have to ensure that no eligible applicant is denied ration card, distinctive ration cards are issued to APL, BPL and AAY families, and periodical checking of ration cards is done to weed out ineligible and bogus ration cards and bogus units in the ration cards. This is to be a

continuous exercise. These provisions mandate the State Governments to prevent and overcome irregularities in the issuance of ration cards.

The State Governments have also adopted the Citizen's Charter issued by the Govt. of India. This charter is being revised now to enable effective use of the provisions of Right to Information Act by citizens. To carry out the process of proper identification of eligible families and issuance of ration cards to them, apart from the stipulation under the PDS (Control) Order, 2001, this Department not only obtains reports from the State and UT Governments, periodical reviews with the State Governments are also taken. Apart from these measures, the nine point action plan jointly finalized by the Government. of India, States and UT Governments for strengthening the TPDS includes one part on continuous review of BPL and AAY lists by the State/UT Governments for the elimination of ineligible ration cards. As a result of this, as per the reports of the seven States (Assam, Delhi, Gujarat, Karnataka, Meghalaya, Orissa and West Bengal) 22,75,879 ration cards (ghost/ineligible) have been cancelled during 2006 and 2007. Implementation of the nine point action plan is also being monitored by this Department."

111. To a question, as to whether there was any proposal under consideration to issue multipurpose identity cards to all citizens so that fake ration cards could be eliminated, the Ministry replied as under:

"No such proposal is under consideration in this Department."

112. On the efforts made by the Union Government with respective State Governments to reduce the fake ration cards, the Ministry replied as under:

"At present the mechanism in operation for ensuring required action by the State and UT Governments consists of (a) regular reporting by them on various aspects as stipulated under the existing PDS (Control) Order, 2001, (b) reports submitted for reviews taken with representatives of State and UT Governments, and (c) reports on implementation of nine point action plan under which one of the actions is to continuously review lists of BPL cards to eliminate bogus/fake ration cards. The State and UT Governments are mandated to report monthly progress made on this issue. The Department is also in the process of taking up computerization of TPDS operations all over the country through a Centrally Sponsored Scheme during the current five year plan."

113. Further, in his deposition before the Committee on the issue of elimination of bogus ration cards, the Secretary, Ministry of Consumer Affairs, Food and Public distribution *inter-alia* stated as under:

"The administrative measures to be put in place and steps to be taken to eliminate the ghost ration cards to the extent possible because the State Governments say that there are a large number of poor families, therefore, they have no option but to continue them in those lists."

114. When asked about how many States/UTs had reviewed the BPL/AAY lists so as to eliminate bogus ration cards, the Ministry replied as under:

“Thirty State/UT Governments have reported that they have undertaken the review of BPL/AAY lists and resulted elimination of more than one crore bogus/ghost cards. Fifteen State/UT Governments have reported that they are displaying allocation of foodgrains towards public scrutiny on their State Webs.”

115. On the issue of cards Principal Secretary, Department of Food and Civil Supplies, Government of Uttar Pradesh deposed as under:

“As far as the question of cards is concerned, we have issued instructions to the District Magistrate to undertake checking of these cards through verifications in the villages. In UP, at present we have one crore and six lakh cards roughly, which are both under BPL and Antyodaya Anna Yojana, and these cards are subject to periodic checking to see and eliminate the ones which are bogus.

One is the BPL list which is actually prepared by the Rural Development Department and the other list is the Food Department’s list based on the number of ration cards.”

116. On being probed further as to how there could be two lists, the Principal Secretary, Government of Uttar Pradesh replied as under:

“Now, instructions have been issued to have one consolidated list and undertake a re-survey of the BPL list. This will be jointly done by the Revenue Department, the Rural Development Department and the Food Department. Based on this, we will have open Gram Sabha meetings. With this list, people will be identified and the list will be placed before the Gram Sabha in the open meeting. Finally, we will be adopting this list. On the basis of which, fresh ration card will be issued.”

117. When asked if the criterion was different which resulted in two lists, the representative from Government of Uttar Pradesh replied in the affirmative. Further, it was added that they were trying to arrive at a joint criterion.

118. On being queried as to who did the identification for the Rural Development’s BPL list, the Secretary of UP Government deposed as under:

“It is done by the village level workers, the Panchayat adhikaris and other people at the village level.”

119. To the persistent problem of the inconsistencies in the number of beneficiaries, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution deposing before the Committee stated as under:

“Sir the Food Department had used the 1993-94 poverty estimates and we have taken the 2000 population. The latest poverty estimates are actually lower than those. This is only 27.5 per cent now. The survey is done by the Rural Development Department. The only issue is that it cannot exceed the limit which has been set by the Planning Commission and that seems to be the real crux of the problem.”

120. The Committee during the detailed examination of the subject sought to know if the Planning Commission had any proposals for sorting out the differences in the estimates of the number of BPL families. To this, the representative from the Planning Commission deposed as under:

“The Planning Commission, constituted in September 1989 an Expert Group under the Chairmanship of Dr. Lakdawala to consider methodology and computation of proportion and number of poor in India. This Committee submitted its Report in July 1993. This Committee has accepted Task Force definition of poverty line. The Task Force set up by the Planning Commission in 1979 defined poverty line as the per capita expenditure level at which the average per capita per day calorie intake was 2435 in rural areas and 2095 calories in urban areas. This calorie requirement has been rounded off to 2400 calorie for rural areas and 2100 calorie per capita for the urban areas. This calorie requirement corresponds to average consumer expenditure of Rs. 49 per capita per month for rural areas and Rs. 56.64 per capita per month expenditure for urban areas on the basis of 1973-74 prices. So, at present the Planning Commission is using these criteria given by the Expert Group for assessment of the poor people in the country. This system is useful for the Planning Commission for evolving policies for eradication of poverty.

As regards identification of BPL families in the country, this is done by the Ministry of Rural Development on the basis of the census which they normally carry out once in five years. In actual practice, we find that the number of BPL families identified on the basis of census is sometimes more than the estimates given by the Planning Commission. This is largely because at the State level there may be certain operational reasons for reporting higher number of BPL families. The view of the Planning Commission is that the PDS supply under the Central Government programme should be limited to the number of poor estimated by the Planning Commission. In case the State Governments are desirous of giving foodgrains at cheaper prices to excess BPL population, this should be financed by the State Governments themselves.

At present, the Planning Commission does not have any fresh proposal for sorting out this difference in estimates of eradication of BPL families based on the census and the estimation of poor people based on the Lakdawala Committee.”

121. On being asked about the official figure of the Planning Commission on the estimates of poverty, the representative of Planning Commission deposed before the Committee as under:

“Sir, based on the 61st round of National Sample Survey, the estimate of poverty in the year 2004-05 is 27.5 per cent.”

122. Placing before the Committee the magnitude of the problem of inaccurate estimates of BPL families and expressing the fact of the matter in this regard, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution, *inter-alia* deposed as under:

“The Department of Food and Public Distribution does not do any identification. In fact, we follow the Planning Commission’s over all norms and we go by the machinery of the Ministry of Rural Development to identify. Now a point was raised that the Planning Commission has come out with this estimate of 27.5 per cent based on the National Sample Survey. That has been the sequence of events in the history of poverty estimation. I think they use the same formula. Therefore, the States which are more poor than others will have higher figure of population below poverty line. In 1993-94, we were talking about 36 per cent below poverty line and the Department of Food has used those estimates and we are still with those estimates. We have used 2000 population as the base. That is why, we have arrived at a figure of 6.52 crore families. Now if we were to shift to the present estimate of 27.5 per cent and take the current population of 112 crore then, we come up to a figure of 5.70 crore families. Roughly about 80 lakh families will go out of the BPL list. The problem of the States is that when they do the identification many Gram Sabhas recommend almost entire village as below poverty line. Now if we were to have an open ended freedom, I think the management of both foodgrains and the budget will become a major problem. It is also because it is popular to have more poor people in the States because that gives them access to cheaper food. So, a consensus has to emerge on this. I would suggest that Planning Commission probably place this before the next NDC meeting. I think this is where the issue has to be resolved. If we accept the fact that food has to be made available to 10 per cent or 20 per cent more population, let us come to that conclusion and then plan for that kind of eventuality. But we cannot have a situation where Karnataka will say 70 per cent and some other States will say 80 per cent families are poor. It becomes a competitive kind of race which is not in the national interest. So, I would very humbly urge the Committee to give a thought to this and come to some kind of manageable principle on the identification.”

123. Asked if the Central Government had analysed the impact of State Government’s present policy wherein rations allotted for a number of identified people was distributed amongst a large number of people which thereby resulted

in cutting down the actual supply to the most needy section of the society, the Ministry replied as under:

“The allocation of foodgrains under TPDS for AAY and BPL families are made every month @ 35 kg. per family. Allocation to APL category households are made by the Department depending upon the availability of foodgrains in the Central Pool. The allocations to the APL category have been recently rationalized. The allocations of wheat have been rationalized since June, 2006 and the allocation of rice for this category has been rationalized from April, 2007. This rationalization has been done after detailed analysis of allocation and offtake figures for this category during the previous three years. Since the allocation to States and UT Governments for BPL category is done for a total of 6.52 crores BPL families or the number of ration cards actually issued, whichever is less, those States and UTs which have issued BPL ration cards in excess of the number accepted by this Department resort to distribution of foodgrains to BPL families in quantities to some extent lower than the scale prescribed by the Government of India. The Department regularly insists upon the State Governments to distribute foodgrains to BPL families at the scales prescribed by the Government of India only. However, there are practical limitations in enforcing this as the State Governments are not able to reduce the number of BPL ration cards to the numbers accepted by the Government of India for making allocations. The Department is conscious of this issue and detailed information from all the States and UT Governments is being collected so that a final view on this aspect can be taken.”

124. On the allotment of ration to the card holders who exceeded the number of beneficiaries, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution in his deposition before the Committee *inter-alia* stated as under:

“The allocation of foodgrains per family goes down because the States are not able to reduce the number of cards and since we insist on giving allocations only at 6.52 crore families, the pro rata issue of foodgrains does go down for these families, which has been noticed in many States, but this is a much larger problem that we have not been able to address significantly because of the States’ insistence that they have more poor than what is accepted or approved by the Planning Commission.”

125. Dwelling further on the matter regarding variation in the number of identified beneficiaries the Committee wanted to know if the Union Government had ever discussed the matter with the concerned States/Union Territories. To this, the Ministry replied as under:

“The State Governments have been requested to furnish their views to resolve this issue. Views of some State Governments have been received and from others they are awaited.”

**(d) List of beneficiaries not updated leading to continuance of bogus cards**

126. As per the PDS (Control) Order 2001, States/UTs were required to get the lists of APL/BPL/AAY families reviewed every year for the purpose of deletion/inclusion of ineligible/eligible families. They were also required to conduct periodical checking of ration cards to weed out ineligible and bogus ration cards and bogus units in ration cards and were also required to continue this exercise to check diversion of essential commodities.

Audit observed that either no yearly review was conducted or there was no evidence of such a review having been conducted in Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Himachal Pradesh, Chandigarh, Kerala, Manipur, Orissa, Sikkim, Rajasthan, Andaman and Nicobar Islands and Lakshadweep during the period 2000-05. In Maharashtra, ration cards attached with 505 out of 978 shops test checked were not reviewed during 2002-05. There were delays in annual review and detection and elimination of bogus ration cards in other States as well. Audit noticed that there were 8.55 lakh ineligible families in Andhra Pradesh, 5.22 lakh BPL and AAY bogus cards in Uttar Pradesh and delays in cancellation of 1063 cards for over 12 to 16 months in Maharashtra. In Delhi, the renewal of APL cards was last done in 1996-97. It could be taken up only in August 2004 leading to weeding out of 14 lakh APL cards. Audit observed that in Bihar, instead of carrying out a proper exercise for weeding out ineligible beneficiaries in pursuance of the Chief Secretary's orders, the Department of Food Supply prepared an imaginary list of inclusion and deletion of an identical number of 21,00,226 BPL cards, with a district-wise break-up for 37 districts which also represented identical figures for inclusion and deletion. There were no records in support of the inclusion and deletion.

127. When asked if the Government had issued any directive to States/Union Territories to weed out the bogus ration cards so as to plug the loop holes in Public Distribution System/Targeted Public Distribution System, the Ministry replied as under:

“The PDS (Control) Order, 2001 has mandated this. The subject of elimination of bogus/ration cards is reviewed from time to time in the meetings held with the representatives of State and UT Governments. During these review meetings, the State and UT Governments are requested to regularly update the ration cards and in the process eliminate the bogus ration cards.

The nine-point action Plan for strengthening of TPDS formulated in 2006 includes elimination of bogus ration cards as one of the action points. Implementation of the Action Plan is being done by State and UT Governments and this is being monitored by the Government of India.”

128. When the Committee sought to know the problems faced by the States/UTs in executing the Nine Point Action Plan, the Ministry submitted as under:

“Since implementation of the Action Plan is mainly through streamlining of functioning of the field machinery entrusted with the TPDS, additional



resources required are not high. However, some of the State Governments have intimated that they have lack of funds for taking up computerization of PDS operation and for implementation of doorstep delivery in their States. Some of them are also experiencing shortage of manpower.”

129. Upon being asked if the Government had thought that Planning Commission had underestimated the beneficiaries belonging to BPL, APL and AAY, the Ministry in their reply stated as under:

“Estimation of poverty by the Planning Commission across all the States is made by following a uniform methodology. Therefore, the estimates also reflect the poverty situation in States like Bihar, Orissa and M.P. Based on 1993-94 poverty estimates and the population estimates of March, 2000 the number of BPL families was 65.23 lakh BPL families in Bihar (64.96% BPL population), 41.25 lakh in M.P. (42.52% BPL population) and 32.98 lakh in Orissa (48.56% BPL population) as against the national average of 36% population below the poverty line. The number of BPL families as well as percentage of population living below poverty line in these States were more than in many other States as well as the national average of below poverty line population. Similarly, the poverty estimates of 2004-05 indicate 41.4% of population below poverty line in Bihar, 38.3% of population below poverty line in M.P. and 46.4% of population below poverty line in Orissa as against the National average of 27.5%. This explains that the poverty estimates made by the Planning Commission reflect the realistic proportion of population living below the poverty line in all States/UTs.

The estimates made by the Planning Commission are for the BPL population from which the numbers of BPL families are worked out. The Planning Commission has not given any estimate for the Antyodaya Anna Yojna. The estimated one crore number of the poorest families to be covered under it was on the basis of 50th round of National Sample Survey (NSS). This estimate was used when the Antyodaya Anna Yojna was formulated and launched in December, 2000. Thereafter, Government. decided to expand the coverage upto 2.5 crore families. Therefore, the Department does not think that the estimates of poverty made by the Planning Commission are under-estimation of BPL families.”

**(e) Issue of ration cards to ineligible beneficiaries**

130. As per directives of the Ministry, the States were required to follow the Census of the Registrar General for 2000 for extension of benefits of TPDS to various categories of beneficiaries. Some of the irregularities found during Audit examination were BPL cards being distributed in excess of identified beneficiaries, AAY beneficiaries were not removed from the BPL list and were availing the benefit of both BPL and AAY cards/scheme and against 38.19 lakh eligible BPL families, as per the Rural Development Department’s survey, 73.47 lakh cards were issued in the State of Maharashtra.

131. In response to the Audit observation on irregularities in identification of beneficiaries, the Ministry replied as under:

“The irregularities in identification of beneficiaries and issue of ration cards reported by the audit pertains to different States. All States/UTs have been informed about the findings/observation/recommendation with the request to take immediate necessary corrective step to ensure the smooth functioning of TPDS in their State/UT.”

132. On the issue of elimination of bogus cards, the Secretary deposing before the Committee *inter-alia* stated as under:

“At the macro level, we have managed to eliminate, between July, 2006 and today, about 61 lakhs bogus cards in 13 States.”

**(f) Ration cards were denied or issued late**

133. Under the PDS (Control) Order 2001, the ration cards were required to be issued within one month of the date of receipt of applications. Also, separate ration cards were required to be issued for different categories of consumers.

During the Audit examination it was found that there were lapses in issue of ration cards which included delays in issue of ration cards, BPL ration cards not received by 16 per cent of BPL families in Jharkhand and delay in identification of AAY families resulting in AAY families having to bear extra burden of Rs. 2.23 crore on the purchase of foodgrains at BPL rates.

**(g) Discrepancies in distribution**

134. The scale of issue for different categories of beneficiaries was prescribed as follows:

- (i) In June 1997, BPL families were allocated 10 kg. of foodgrains per month at specially subsidised prices.
- (ii) In April 2000, the allocation for BPL families was raised to 20 kg. per month at 50 per cent of economic cost, while the rate for APL consumers was raised to economic cost. The scale of issue for BPL families was increased to 25 kg. per month from July 2001.
- (iii) In December 2000, the AAY scheme was launched with a monthly limit of 25 kg. per family at highly subsidised rates.
- (iv) From April 2002, the scale of issue for all categories — APL, BPL and AAY was raised to 35 kg. per family per month.

Audit scrutiny revealed that foodgrains were distributed lower than the prescribed scale of issue in several States like Arunachal Pradesh, Gujarat, Jharkhand, Manipur, Orissa, Tamil Nadu and Pondicherry. Certain deficiencies were noticed which included

- (i) Distribution of prescribed ration could not be ensured due to excess BPL families being identified in Kerala.

- (ii) Gujarat Government had unauthorisedly disallowed APL cardholders with annual income of more than rupees one lakh from Targeted Public Distribution System.
- (iii) In Tamil Nadu, the Government did not demarcate between the BPL and APL population while drawing the full quantum of BPL allocation and distributed the foodgrains to ration cardholders with the scale of issue ranging from 12 to 20 kg. per family per month in violation of Union Government norm of 35 kg. per family per month for BPL families.

135. The Committee had noted that the Government provided highly subsidized foodgrains to only BPL families under Targeted Public Distribution System. The Committee felt that the APL families who were just shades above the poverty line were to be provided with subsidized foodgrains. In this regard, the Committee wanted to know if the Ministry had proposed to give subsidized foodgrains to deserving and poor APL families. To this, it was replied as under:

“Under TPDS, allocations of foodgrains are made for APL category of ration cards as well. While the allocations for all AAY and BPL families are being made @ 35kg. per family per month to all States and UTs, for the APL category, the allocations are made in such quantities as are available in the Central Pool, linking them with offtake in previous years.

During last five years, offtake of rice and wheat in the APL category has been as follows:—

(In lakh tons)

Year	Commodity	Offtake
2002-03	Rice	12.801
	Wheat	17.980
	<b>Total</b>	<b>30.780</b>
2003-04	Rice	19.740
	Wheat	22.505
	<b>Total</b>	<b>42.245</b>
2004-05	Rice	33.850
	Wheat	33.439
	<b>Total</b>	<b>67.289</b>
2005-06	Rice	47.989
	Wheat	35.034
	<b>Total</b>	<b>83.023</b>
2006-07	Rice	59.47
	Wheat	27.91
	<b>Total</b>	<b>87.38</b>

The existing Central Issue Price (CIP) of rice and wheat issued under TPDS for APL category is Rs. 830 per quintal and Rs. 610 per quintal respectively against the Economic Cost for 2007-08 (BE) *i.e.* Rs. 1444.89 per quintal and Rs. 1307.41 per quintal, respectively. The CIP has not been revised even for APL category since July 2002. So the present level of subsidy to this category is 53.34% and 42.56% on wheat and rice. These details show that the Government is already allocating foodgrains for the APL families too.”

136. On being enquired if the Government had envisaged to distribute the whole quota of grains to the BPL beneficiaries at a time in a year so that the problems associated with storage of grains could be solved to greater extent, the Ministry replied as under:

“It cannot be done as there are very serious practical limitations as follows:—

- (i) Procurement of foodgrains especially rice is done throughout the year in different parts of the country and, therefore, the total quantity required cannot be available at any one given point of time.
- (ii) The foodgrains procured from different parts of the country are transported to the places where they are to be distributed to different PDS beneficiaries. Movement of foodgrains at one point of time to all the destinations is not possible because the Railways have their own constraints in making the facility for the movement of foodgrains.
- (iii) Movement of such a huge quantity of foodgrains at a given point of time may also create a problem for storage facilities.
- (iv) If the beneficiaries are getting foodgrains at one time, then the problem of storing the same by the BPL/AAY families in their residences is a difficult task. The foodgrains may get damaged due to pest and moisture, etc.
- (v) The poor people, especially the BPL/AAY families, may not have such a huge amount of money to buy all the foodgrains required for the entire year at one time.”

137. Analysing the reasons for the poor offtake by the BPL Cardholders living in rural areas of Bihar, Haryana, Punjab, Rajasthan and U.P., the Ministry submitted as under:

“The Government issues the foodgrains for the BPL Cardholders living in the rural areas of all the States/UT, including the States of Bihar, Haryana, Punjab and Uttar Pradesh at highly reduced/subsidized rates. As such, offtake of the foodgrains under the various categories, including the Below Poverty Line are monitored on a regular basis. As would be seen from the Statement annexed, the offtake of the BPL category has been varying over the years in these States, except Punjab where it has been declining. The relatively higher income of families in the rural Punjab and abundant

availability of foodgrains in the local market seem to be reasons for low offtake for the State of Punjab.”

138. To a specific query, as to how the FPSs accounted for the foodgrains not purchased by the APL beneficiaries, the Ministry replied as under:

“The quantities of foodgrains (rice, wheat and coarse grains) allocated to FPS for APL beneficiaries in a particular month are carried forward for distribution/sale during succeeding month. The State Governments release foodgrains for APL beneficiaries to FPS in subsequent months keeping in view the unsold stock of the previous month available with FPS.”

139. When asked about the details of the prescribed quantity of rice and wheat per month supplied to the beneficiaries and if the beneficiaries were able to get the prescribed quantity, the Ministry *inter-alia* stated as under:

“The allocations of foodgrains under TPDS for AAY and BPL families is made every month @ 35 kg. per family. Allocations to APL category households are made by the Department depending upon the availability of foodgrains in the Central Pool. The allocations to the APL category have been recently rationalized. The allocations of wheat have been rationalized since June, 2006 and the allocation of rice for this category has been rationalized from April, 2007. This rationalization has been done after detailed analysis of allocation and offtake figures for this category during the last three to four years. Since the allocation to States and UT Governments for BPL is done for a total number of 6.52 crores or the number ration cards actually issued, whichever is less, those States and UTs which have issued BPL ration cards in excess of the number accepted by this Department they resort to distribution of foodgrains to BPL families in quantities to some extent lower than the prescribed scale.”

140. Regarding the policy adopted by the Ministry to prevent the distribution of foodgrains lower than the prescribed scale of issue in several States/Union Territories, the Ministry replied as under:

“The Department regularly insists upon the State Governments to distribute foodgrains to BPL families at the scales prescribed by the Government of India only. However, there are practical limitations in enforcing this in the context of Federal system of Government in the country. The Department is conscious of this issue and detailed information from all the States and UT Governments is being collected so that a final view on this aspect can be taken.”

141. When asked about suggestions to prevent distribution of foodgrains lower than the prescribed scale of issue, the Ministry putforth the following suggestions:

- “(i) Foodgrains allocations by the Government of India should be linked with strict compliance with the stipulations under the PDS (Control) Order, 2001

and other directions of the Government of India by State and UT Governments so that failure of a particular State or UT Government in compliance should lead to curtailment of the allocations.

- (ii) The Programme Evaluation Organization in the Planning Commission should take up the responsibility for continuous evaluation of functioning of TPDS in all the States and Union Territories so that continuous feedback becomes available to the Government of India on regular basis.
- (iii) Based on the evaluation feedback to be received from the PEO, there should be provision of penal action against defaulting States and UT Governments. This may be in the form of reduction in Central assistance in monetary value linked to the value of foodgrains diverted and leaked.
- (iv) In major States, FCI may retain the role of only MSP based procurement operations. The rest all responsibility for procurement, storage, transportation and distribution of foodgrains under TPDS should be delegated to the concerned State Governments. By this the concerned State Governments will have full responsibility for all the operations under the TPDS and would be fully answerable for performance. To such State Governments, Government of India may release funds for the subsidy involved in the form of Central assistance.
- (v) Food stamps/coupons should be introduced under the TPDS. Under this scheme the targeted beneficiaries can be issued food stamps/coupons of monetary value equivalent to the amount of subsidy distributed to them in the form of foodgrains at present. These families can buy food items from notified outlets/shops against the stamps/coupons. Reimbursement of money to the outlets/shops can be done by the Government through a particular agency.
- (vi) Transfer of Government of India subsidy to targeted families can also be done in cash, instead of foodgrains as is being done currently, by crediting respective amounts of money to their accounts in specified banks. However, this will still suffer from exclusion/ inclusion errors which is the major area of concern.”

142. On the efforts made by the Ministry to overcome the shortcomings which were mentioned in the various evaluation reports on the functioning of Targeted Public Distribution System, the Ministry stated as under:

“to strengthen the TPDS, including curbing of leakages and diversions, a 9-Point action plan was formulated in 2006. This is being implemented by State Governments/UT Administrations. Its implementation is being monitored by the Central Government. The State Governments/UT Administrations have been directed to take stringent measures to eliminate leakages and diversions of the TPDS commodities and other malpractices.

To make functioning of the TPDS more transparent, recently a revised Citizens’ Charter has also been issued for adoption and implementation by

the State Governments/UT Administrations. This would facilitate use by citizens of provisions of the Right to Information Act, 2005 in relation to the functioning of Targeted Public Distribution System.”

**(h) Operation of Fair Price Shops**

143. As per the PDS (Control) Order 2001, the FPS owners were required to display on a day to day basis the stock position, retail issue prices of foodgrains, number of beneficiaries, scale of ration admissible to different categories of consumers, and sample of foodgrains on a day-to-day basis. Further, the State Government was also required to monitor the functioning of the FPS.

Audit scrutiny of the performance of FPS revealed that there were irregularities in the way the FPS operated and these included the following:

- (i) Stock beneficiaries attached and scale of ration allowed had not been displayed.
- (ii) Signature/thumb impression of beneficiaries had not been obtained.
- (iii) Beneficiary-wise ledger account of foodgrains issued had not been maintained.
- (iv) Money Receipt was not issued.
- (v) Ration card register/sale register was not maintained.

144. The evaluation study conducted by ORG Marg at the instance of the Ministry revealed that 35 per cent of the dealers in urban areas and 45 per cent in rural areas provided the information on the date and time of distribution of foodgrains through public announcements. Only 44 per cent of urban dealers and 30 per cent of rural dealers provided such information through the notice board available in their shop. Around 27 per cent of rural FPS intimated their customers through the local panchayat system. More than 70 per cent of the dealers in urban and rural areas admitted that there were no samples for display in their shops.

145. On being asked about the steps taken by the Ministry on the Audit observations on the way Fair Price Shops were functioning, it was stated as under:

“The deficiencies pointed out in the audit report pertained to proper maintenance of record at Fair Price Shops in some of the States. The Government of India has formulated the TPDS and its implementation is being done jointly with the State and UT Governments. To ensure that the Fair Price Shops function as per the prescribed norms, rules and guidelines, the field machinery of the State and UT Governments has been created to ensure compliance with rules and guidelines by the Fair Price Shop owners. The Ministry is obviously not in a position to itself carry out all supervision and inspections in the field. On the deficiencies pointed out by the audit, the concerned State/UT Governments are the appropriate Governments to take the required remedial action. For this purpose required enabling

environment in the form of PDS (Control) 2001, guidelines and other operational prescriptions have been issued by the Ministry. The Ministry also regularly monitors operation of TPDS by obtaining reports from the State and UT Governments and also by holding review meetings. The deficiencies pointed out by the audit have been communicated to the concerned State and UT Governments in October, 2006. They are mandated to comply with the requirements of audit reports. The Ministry follows up with the concerned State Governments for rectification of the deficiencies pointed out by the audit. These measures taken by the Ministry should not be interpreted to mean that merely instructions have been passed to State and UT Governments.

The kinds of deficiencies noticed by the audit team can be eliminated or minimized if the vigilance committees at the Fair Price Shop level are actively functioning and the citizens are aware about the details of functioning of TPDS. That is why involvement of PRI institutions in the vigilance committees has been repeatedly emphasized by the Ministry. This is also one of the action points under the nine-point action plan for greater awareness among citizens about the Targeted Public Distribution System.”

146. Regarding the aspect of monitoring and inspections of the Fair Price Shops, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution in his candid admission before the Committee, stated as under:

“On the monitoring and inspections of the fair price shops, it is true that this is one area which needs a larger intervention and much more severe action. We have been writing to State Governments. In fact, in the year 2005-06, the Minister himself took a large number of meetings with the State Food Ministers and they agreed on a 9-point action plan which will *inter alia* reduce the number of ghost ration cards or cards which are in the wrong category, constitute vigilance committees and ensure that these committees are functional, both in terms of inspection of the quality and quantity and also send regular reports to the Central Government on the implementation of all these points, but unfortunately many States have not been regular in sending these reports, though some States have done significant work in this regard.”

**(i) Viability of Fair Price Shops**

147. A reasonable return for FPS owners is an important requirement for securing efficient functioning of FPS. Audit survey showed that the only source of earning for 54 per cent of urban based outlets and 41 per cent of rural based outlets was earnings from FPS.

During examination of the FPS in States like Assam, Gujarat, Rajasthan and Lakshadweep it was found that FPS were found to be running uneconomically.



148. On the total number of FPSs functioning in the country it was stated as under:

“As on 31.10.2007 there are 4.92 lakh Fair Price Shops in the country.”

149. When asked as to how many of these Fair Price Shops were financially viable, the Ministry replied as under:

“In the evaluation studies done by PEO of Planning Commission and ORG Marg, New Delhi, it has been reported that generally Fair Price Shops are not financially viable.”

150. On the measures taken by the Ministry to make the FPSs financially viable and sustainable, it was stated:

“In order to improve the viability of Fair Price Shops the following measures have been taken:—

- (i) The State/UT Governments have been advised to allow Fair Price Shops dealers to sell non-PDS items of daily use such as exercise books, iodised salt, pulses and tea etc.
- (ii) This Department has taken up with the Ministry of Railways and the Department of Posts to explore the possibility of selling Railway tickets and postal stationery etc. through Fair Price Shops. The issue is being pursued with these departments.
- (iii) This Department *vide* letter No. 6(4)/2001-PD.I dated 28th August, 2007 has decided to give flexibility to the States/UTs in the matter of fixing margin for the Fair Price Shops by removing the restriction on difference between retail issue price and the Central Issue Price for distribution of foodgrains to BPL families under TPDS, which was 50 paise per kg. earlier.
- (iv) Some State Governments like Gujarat and Kerala have taken up modernizing of the Fair Price Shops to increase their viability.”

## **VII. DIVERSIONS OF FOODGRAINS**

### **(a) Diversions in distribution of foodgrains**

151. The procedure for distribution of foodgrains was to be as follows:

- (i) The Food Departments of the respective States/UTs were to submit their requirement of foodgrains to the Ministry who, after considering the availability of foodgrains in Central Pool and projected population of PDS beneficiaries, allocated foodgrains to the States/UTs for distribution under PDS.
- (ii) After receiving the allocation through FCI, the State Food Department allocated foodgrains to Districts/Zones/Divisions, for further allocation to blocks/circles under their jurisdiction.
- (iii) The Block/Circle officers allocated foodgrains to various FPS for distribution to the beneficiaries as per the prescribed scale.

- (iv) Certain States also arranged for issue of atta to the consumers through FPS after getting APL wheat ground through flourmills.

Audit scrutiny of records in States/Union Territories revealed that there was diversion of a total quantity of 44.04 lakh MT of foodgrains meant for distribution under TPDS in the States of Assam, Chhattisgarh, Gujarat, Jammu & Kashmir, Karnataka, Kerala, Maharashtra, Meghalaya, Nagaland and West Bengal.

152. The evaluation of Targeted Public Distribution System by the Programme Evaluation Organisation of the Planning Commission revealed that:

- (i) There was abnormal leakage/diversions of more than 75 per cent of the total off-take of BPL quota in Bihar and Punjab; 50 to 75 per cent in Haryana, Madhya Pradesh and Uttar Pradesh; 25 to 40 per cent in Assam, Gujarat, Himachal Pradesh, Karnataka, Maharashtra and Rajasthan and up to 25 per cent in Andhra Pradesh, Kerala, Orissa, Tamil Nadu and West Bengal.
- (ii) In the year 2003-04, out of 14.07 million tonnes of foodgrains issued to 16 States at BPL issue prices from the Central pool, only around 5.93 million tonnes was delivered to poor families. Of the remaining 8.14 million tonnes, 5.12 million tonnes leaked out from the supply chain (FCI godowns to retail outlets) because of corruption in the delivery system.
- (iii) The unintended unit subsidy was very high in States where offtake by consumers was low and leakage high and it was low in States where offtake was high and delivery system was relatively more efficient. The States with abnormally high unintended unit subsidy were Bihar, Madhya Pradesh, Karnataka, Punjab, Tamil Nadu and Uttar Pradesh.
- (iv) In Punjab, 76.5 percent of total highly subsidised foodgrains meant for BPL families through PDS was diverted to the market, and another 13 percent was diverted going to the APL families. Only 10.5 per cent reached the BPL families through TPDS.
- (v) Similarly, in Haryana 55.65 per cent of total highly subsidised foodgrains meant for BPL families through PDS was diverted to the market, and another 11 percent was going to the APL families. Only 33.35 per cent reached the BPL families through TPDS, 55.65 percent of foodgrains were diverted, with 36 percent being siphoned off in the supply chain and 21 percent of the subsidised grains reached the APL families. Only 42 percent of the subsidised grains issued from the Central Pool reached the targeted group.

153. Reviewing the working of the TPDS was a continuous process. However, to get independent feedback about the functioning of TPDS, the Ministry of Consumer Affairs, Food and Public Distribution got two evaluation studies done, one by Programme Evaluation Organization (Planning Commission) and second by

ORG Marg, New Delhi. The study reports were received in 2005. The main findings of the study done by PEO were as under:—

- (i) The implementation of TPDS is plagued by targeting errors, prevalence of ghost cards and unidentified households;
- (ii) Though the off-take per household has shown some improvement under TPDS, yet only about 57% of the BPL households are covered by it;
- (iii) The FPSs are generally not viable because of low annual turnover and they remain in business through leakages and diversions of subsidized grains;
- (iv) Leakages and diversions of subsidized grains are large and only about 42% of subsidized grains issued from the Central Pool reach the target group;
- (v) Over 36% of the budgetary subsidies on food is siphoned off the supply chain and another 21% reaches the APL households; and
- (vi) The cost of income transfer to the poor through PDS is much higher than that through other modes.

154. The evaluation study conducted by ORG Marg at the instance of the Ministry also concluded that the overall diversion of rice and wheat at the all-India level was as high as 39 per cent and 53 per cent respectively.

The findings of ORG Marg Report were as follows:

- (i) There has to be an increased allocation under TPDS and AAY primarily targeting India's poor in the deficient States.
- (ii) Allocation to APL does not seem to be justified.
- (iii) Overall grains earmarked for AAY seems to have remained intact and sold as per prescribed pricing.
- (iv) The AAY scheme seems to have been fairly successful with 85% households lifting rice. This scheme needs to be further highlighted through large-scale publicity campaigns, as presently, very few are aware of how beneficiaries are being selected.

155. On diversion of foodgrains the report mentioned that:—

- (i) The overall diversion of rice and wheat at all India level was 39% and 53% respectively; and
- (ii) The diversion of foodgrains is high in North Eastern States namely Manipur, Nagaland, Meghalaya and Mizoram.

The diversion figures are low in Southern States namely Andhra Pradesh, Tamil Nadu and Kerala.

156. In their deposition before the Committee on the issue of diversion of foodgrains the Principal Secretary, Government of Uttar Pradesh *inter-alia* stated as under:

“The first important thing is that we have a system of three stage checking. When foodgrains arrive at the godown level, it is verified by a Gazetted Officer. When issue is made to the FP shops, this is also done in the

presence of officials nominated by the District Magistrate like the SDM, etc.

And, at the third stage, the arrivals in the premises of the fair price shops are also verified by the Lok Pal in the Gram Panchayat. So, we have a three-stage checking system. In order to strengthen this further, what we have done recently, which has produced very good results, is that whenever foodgrains are distributed, it is on a fixed date. The date is known to all the beneficiaries. Public proclamation is made in the village and all the beneficiaries are called on that particular day to the shop and the foodgrains are actually distributed in the presence of an officer who is nominated by the District Magistrate.

Now, this is done as an inter-departmental arrangement. It is not done by the Supply Department. The Supply Department does not have the kind of staff to check and verify whether each of this distribution is actually being done. Therefore, the District Magistrate is almost inter-departmental arrangement. It could be Revenue Department. It could be Rural Development Department. It could be Rural Engineering Services. At different levels, officials are deputed on a particular day, which is known in advance, and the foodgrains are distributed. This is one very important step which has been taken in the last few months, and this has led to an improvement in the situation as far as lifting and distribution are concerned. This is on the administrative side.

On the punitive side, the matters of diversion have been referred to what is known as Special Investigation Team which has been constituted. They have powers to register cases against officials or other people like the transport contractors and others who have been involved in this diversion.”

157. Elaborating on the system devised to check the widespread problem of diversion in distribution of foodgrains in view of the Audit findings and the evaluation reports of Programme Evaluation Organisation and ORG Marg, the Ministry stated as under:

“The problem of leakage/diversion of foodgrains under PDS, as pointed out by ORG Marg Report, and PEO Report of the Planning Commission has been discussed in five regional conferences and a National Conference of States Food Ministers/ Food Secretaries held on 29th March, 2006. On the basis of the discussion held, this Department has chalked out a nine point action plan for curbing leakage/diversion and sent it to all States/UTs for taking action thereon. The nine point action action plan is as under:—

- (i) States should undertake a campaign for Review of BPL/AAY lists, to eliminate ghost ration cards.
- (ii) Strict action should be taken against the guilty to ensure leakage free distribution of foodgrains.

- (iii) For sake of transparency involvement of elected PRI members in distribution of foodgrains be ensured. As far as possible, FPS licenses be given to SHGs, gram panchayats, cooperatives, etc.
- (iv) BPL/AAY lists should be displayed on all FPSs.
- (v) District-wise and FPS-wise allocation of foodgrains should be put up on websites and other prominent places, for public scrutiny.
- (vi) Wherever possible, door step delivery of foodgrains should be ensured by States instead of letting private transporters/wholesalers to transport goods.
- (vii) Timely availability of foodgrains at FPS level and fixed dates of distribution of ration cardholders should be ensured.
- (viii) Training of members of FPS level Vigilance Committees should be ensured. Proposals for funding training can be sent to the Government of India.
- (ix) Computerization of TPDS operations be undertaken.

In addition, the government has also taken steps for introducing electronic transfer of funds to FCI and issued instructions for display of Banners/Boards on the wind shield as well as rear end of the truck/vehicles carrying PDS articles indicating name of State Government, destination, commodity and agent's name."

158. When asked about the Action Taken by the Ministry in respect of those responsible for the diversion of 44.04 lakh MT of foodgrains meant for distribution under Targeted Public Distribution System, the Ministry replied:

"The concerned States have been requested to furnish Action Taken Report on the Report of the CAG and the same are awaited."

159. On the issue of diversion, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution deposed before the Committee as under:

"For the record, I would also like to submit that these diversion percentages that have been calculated consist of three distinct categories. The first is where APL families have been calculated as below poverty line family which is seen as inclusion error which in the PEO report is 21 per cent. When the PEO report talks about 57 per cent diversion, 21 per cent is attributed to families who should not have been BPL families, but identified as BPL families, 16 per cent is attributed to ghost ration cards and 19 per cent as direct leakage through the Fair Price Shops itself."

Explaining it further, the representative from Food Corporation of India stated:

"When this audit happened around that time most of the fair price shops were being run by private individuals. After that in the year 2004, the State Government issued, under the PDS control order, where the privately run

fair price shops were totally abolished. There are fair price shops which are run by the Panchayati Raj institutions and the self-help groups.

So, that is actually a major change. We have very actively been functioning the Monitoring Committees at the fair price shops. The Monitoring Committee is chaired by the Sarpanch and as a matter of policy, we make payments to the transporters of the fair price shop commodities only after he gets the signature of the sarpanch that the commodities have been received at the fair price shops. At the block level, the Vigilance Committee is chaired by the panchayat president and at the district level, it is chaired by the Minister in charge of the district and the zila panchayat president is a member in it. There are other people's representatives who are members. These Monitoring Committees meet regularly and their minutes are sent to the State Government and we take action on it.

After this, a lot of things have happened in Chhattisgarh and diversions and leakages have definitely come down.”

160. Regarding the monitoring mechanism that had been set up by the Ministry so as to ensure that diversion of Public Distribution System foodgrains could be prevented, the Ministry replied as under:

“The monitoring mechanism consists of these:—

- (i) For prevention of diversion of foodgrains, the Department formulated the nine point action plan and the implementation reports on the action plan received from State/ UT Governments are monitored/ reviewed by the Central Government in the meetings of State Food Secretaries held from time to time.
- (ii) For easy check on movement of TPDS foodgrain in vehicles from FCI and other godowns to FPS, instructions have been issued in November, 2006 to display details such as the vehicle being on PDS ration duty and names of concerned Government, destination, commodity and agent on a board/ banner on windshield as well as rear end of the vehicle.
- (iii) To minimize scope for diversions and to make allocations realistic, allocations of wheat and rice to States and Union Territories under APL category have been rationalized based on offtake of previous three years (from June, 2006 and April, 2007 respectively).
- (iv) To minimize scope for diversions, strict norms have been adopted for extending validity of period for lifting of wheat and rice against allocations, new instructions have been issued and extension is being granted in exceptional cases only.
- (v) Revised instructions and format have been issued for submission of Utilization Certificates (UCs) for foodgrains lifted under TPDS, and submission of Utilization Certificates is now being monitored more strictly.

- (vi) Revised Citizens' Charter on TPDS operations has been issued to facilitate use of provisions of RTI by citizens with respect to functioning of Targeted Public Distribution System."

As of now, 30 State/UT Governments have reported that they are adhering to delivery of foodgrains as per prescribed delivery schedule of FPS quota.

161. Regarding the remedial steps that have been taken to ensure that the foodgrains reached the targeted beneficiaries, the Ministry *inter-alia* stated as under:

"To ensure that the foodgrains reach the targeted beneficiaries the Department has taken the following steps:—

**(i) Involvement of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) in identification of BPL families and in Vigilance Committee**

In order to make the TPDS more transparent, efficient and accountable with built in provision of social audit, guidelines for involvement of Panchayati Raj Institutions in functioning of the Targeted Public Distribution System (TPDS) were issued to all State Food Secretaries in November 1999. The revised Citizens' Charter issued in July, 2007 has again highlighted participation of PRIs and ULBs as well as members of Parliament and State legislatures in vigilance committees for monitoring functioning of the TPDS.

**(ii) PDS (Control) Order, 2001**

In order to maintain supplies and securing availability and distribution of essential commodities, Public Distribution System (Control) Order, 2001 has been notified on August 31, 2001.

The order mainly contains provisions regarding:—

- (i) Identification of families below the poverty line
- (ii) Ration cards
- (iii) Scale and issue price
- (iv) Distribution of foodgrains
- (v) Licensing
- (vi) Monitoring

The Order requires all State Governments/UTs to ensure that the BPL and Antyodaya families identified are really the poorest of the poor. It also requires the State Governments/UTs to get the lists of BPL and Antyodaya families reviewed every year for the purpose of deletion of ineligible families and inclusion of eligible families. It further devolves on the State Governments/UTs to conduct periodical checking of ration cards to weed out ineligible and bogus ration cards. The State and UT Governments are required to submit Utilization

Certificates to the Central Government, confirming that the foodgrains have been lifted and distributed to the intended beneficiaries under the TPDS. An offence committed in violation of the provisions of this order shall invoke criminal liability under provisions of the Essential Commodities Act, 1955.

**(iii) Issue of Citizens' Charter**

- (a) A Citizens' Charter was issued in November 1997, for adoption by the State Governments to provide services in a transparent and accountable manner under PDS.
- (b) Again as a step towards promoting accountability to provide services under TPDS in a responsive and efficient manner, in March 2006, a revised format of Citizen Charter on TPDS was formulated in this Department and circulated to All Members of Parliament (Lok Sabha and Rajya Sabha) and all Food Secretaries of all States/UTs. The Charter contains, *inter alia*, the basic information of interest to the consumers and sets out the model procedure and time schedule for the provision of services to the intended beneficiaries of the TPDS.
- (c) Recently the Model Citizens' Charter has been revised and sent *vide* letter dated 30th July, 2007 to all State and UT Governments for its adoption and implementation. The revised charter facilitates effective use of RTI Act provisions in relation to TPDS operations.

**(iv) Meetings/ Conferences**

After receipt of reports of PEO and ORG Marg on evaluation of TPDS in 2005, this Department organized five Regional Conferences for strengthening the Targeted Public Distribution System during 2005-2006. A National Conference of State Food Ministers'/ Food Secretaries was organized on 29.3.2006 at New Delhi for evolving effective mechanisms for curbing the diversion of foodgrains under the TPDS. Based on discussions in these conferences, a 9-point action plan was formulated for strengthening the TPDS. In the recent past, review meetings with State Food Secretaries were held in January, 2007, April, 2007 and August, 2007. Besides this, Secretary (Food and Public Distribution) has written to State Chief Secretaries to check diversion of foodgrains. The Minister of Agriculture, Consumer Affairs, Food and Public Distribution has also taken up the issue with State Chief Ministers drawing their personal attention to streamline functioning of TPDS.

**(v) Implementation of Nine Point Action Plan**

It is under implementation by State/UT Governments since July, 2006. One of the points in nine point action plan is to review the APL/BPL list annually so that the ghost/fake ration cards could be eliminated and the inclusion and exclusion error could be rectified. The State Governments/UT Administrations have been directed to take stringent measures to eliminate leakages and diversions of the TPDS commodities and other malpractices.



**(vi) Food Coupons**

Food Coupons have been introduced under the TPDS by some of the State Governments *viz.* Andhra Pradesh, Jammu and Kashmir and Bihar. These coupons are counterfoils of receipts issued by FPS owners to ration card holders, which are retained by the Fair Price Shops dealers while issuing foodgrains. The retained counterfoils/ coupons are then deposited with Food and Civil Supplies Department Offices. With their help the Department Staff then verify/cross check the quantities of ration commodities lifted from FPSs. This increases accountability and transparency in functioning of FPSs. Thus it is a tracking mechanism, which has been tried in some of these States.

**(vii) Computerisation of TPDS operation**

The Computerisation of PDS operations would be an improvement on the existing ration cards, *i.e.* the present manual system of making entries, *etc.* will be done electronically. The system will have personal details of all members of the family including their entitlement and the entire network of PDS from Taluk to State level will be linked. With this kind of system in place, the objective of Food Credit Card Scheme of checking diversion of foodgrains and arresting the problem of bogus ration cards is expected to be met, leading to strengthening of PDS and improvement in delivery. It is an innovation to improve upon the existing ration cards.

**(viii) Innovations by some States**

Andhra Pradesh Government has introduced IRIS based system to identify the beneficiary. Out of 35 States/UTs 13 States are implementing door delivery system to FPS. Government of Chhattisgarh has introduced innovative scheme wherein the global positioning system is used to track the movement of vehicle carrying foodgrains meant for Targeted Public Distribution System”.

162. The Committee during the course of examination had found that some States were lifting foodgrains under APL Quota at the rate prescribed for the APL beneficiaries and distributing the same to BPL beneficiaries at the rate prescribed for BPL beneficiaries. When asked if this was not a sort of diversion of foodgrains from APL to BPL, the Ministry replied as under:

“The foodgrains allocated for APL category of ration cards at Central issue price prescribed for the APL beneficiaries are lifted by some State Governments and are distributed to APL beneficiaries at the issue price prescribed for BPL beneficiaries. This practice is being followed by the State Governments of Tamil Nadu, Andhra Pradesh and Karnataka. The gap in the issue price of APL and BPL categories is met by State Governments from their own budget. However, it cannot be termed as diversion of foodgrains of the APL to BPL, as the foodgrains under APL quota are distributed to APL families only.”

163. Regarding the leakages and diversions, the Secretary, Ministry of Consumer Affairs, Food and Public Distribution apprised the Committee as under:

“One of the findings was that between the FCI godowns and the fair price shops, there is a chance of leakage. 13 States have started door delivery system through own corporations. Some States still use intermediaries and that is an area of concern. They call them authorised transporters and wholesalers. In fact, we have had discussions with some of the States which have agreed to have a relook at the system and try to introduce the door delivery system. Twenty States have reported that panchayatraj institutions are now being involved in the monitoring of fair price shops and the same 20 States have reported that the list of BPL families are available for inspection in the fair price shops so that if anybody wants to check to see if some wrong name is there, it can be done. We have now circulated a model citizens’ charter which incorporates all the provisions of the Right to Information Act but the States have to issue it in the regional languages. They have not yet reported compliance we have sent it across to them in July, 2007. So, we want to make it available as the right to citizens to inspect both the list and the quality at a given point of time. We have suggested that they earmark a particular day and a certain hour for people to inspect records so that there are no discrepancies. So, two hours on one afternoon on any day of the week will be available for people for inspection of the documents and the foodgrains.”

164. To a query of the Committee as to what was the estimated loss due to pilferage and diversion of foodgrains to the open market during the last four years, quantity-wise and value-wise, the Ministry submitted as under:

“FCI has informed that no pilferage has been reported to them from FCI godowns during the last four years. Foodgrains are issued from FCI godowns to State Government/Corporation as nominee of State Government. After lifting the foodgrains from godowns of FCI, the distribution of foodgrains to the consumers through PDS is the responsibility of the State Government. It is therefore, not possible for Government of India to estimate the quantity of diversion of foodgrains in the open market.”

It has been further added that:

“However, surveys conducted by Programme Evaluation Organisation of Planning Commission (PEO Report) and ORG Center for Social Research (ORG Report) for evaluating performance of Public Distribution System (PDS) have reported diversion of PDS foodgrains to the open market. According to the Org Marg Report the diversion for both rice and wheat at all India level was 39.0 and 53.3 per cent respectively.”

165. To curb leakages and diversion of foodgrains meant for TPDS the Committee were informed that, the Department had taken the following measures:—

- “(a) Based on these reports, the Government organized five regional conferences and one national level conference of State Food Ministers/Food Secretaries during 2005-06. On the basis of the discussions held in these conferences, the Government evolved a nine point action plan to curb leakages/diversion and directed all States and UT Governments in July, 2006 to implement it. Progress of its implementation is being reviewed by the Department. Reports received from State and UT Governments on implementation of 9 point action plan have been compiled. The Department has been pursuing with the States and UT Governments to implement the 9 point action plan effectively so that leakages are curbed and functioning of TPDS is streamlined.
- (b) For easy check on movement of TPDS foodgrains in vehicles from FCI and other godowns to FPS, instructions have been issued in November, 2006 to display details such as the vehicle being on PDS ration duty and names of concerned Government, destination, commodity and agent on a board/banner on windshield as well as rear end of the vehicle.
- (c) To minimize scope for diversions and to make allocations realistic, allocations of wheat and rice to States and Union Territories under APL category have been rationalized based on offtake of previous three years.
- (d) To minimize scope for diversions, strict norms have been adopted for extending validity period for lifting of wheat and rice against allocations. New instructions have been issued and extension is being granted in exceptional cases only.
- (e) Revised instructions and format have been issued for submission of Utilization Certificates (UCs) for foodgrains lifted under TPDS, and submission of UCs is being monitored strictly.

For facilitating public scrutiny of functioning of the TPDS, a revised Citizens' Charter has been circulated to State and UT Governments in July, 2007 incorporating provisions of Right to Information Act, 2005 for public scrutiny of functioning of TPDS.”

166. On the Action Taken in respect of cases of diversion of foodgrains highlighted in the Audit Report it was stated as under:

“The State Governments have reported initiation of suitable action against those responsible for malpractices in Targeted Public Distribution System”.

Further it has been added that :

“100.76 lakh bogus cards were deleted and eliminated after implementation of Nine Point Action plan *i.e.* from July, 2006 onwards.”

## VIII. QUALITY CONTROL

### Deficiencies in Quality Control in Procurement and Distribution

167. Millers were required to deliver rice conforming to specifications fixed by the Union Government to State Agencies and FCI, by processing the Fair Average Quality (FAQ) (*i.e.* fit for human consumption) paddy supplied by FCI/State Agencies. The quality control personnel [(Technical Assistants) (TAs)] of FCI were responsible for acceptance of rice of prescribed specification from millers. District Managers — Quality Control (DMQC) and Assistant Managers—Quality Control (AMQC) were required to check 10 per cent and 25 per cent respectively of the rice received in the depots. District Managers (DMs) were thereafter to check 10 per cent of rice for Kharif Marketing Seasons (KMS) 2002-03 and 2003-04, which was subsequently reduced to 2 per cent for 2004-05.

Sub-standard rice was to be rejected by the FCI and the millers were required to replace such rice. Alternatively, it was to be disposed of by the concerned district office in the local market. Under no circumstances was such rice to be moved to other locations for distribution through the PDS.

FCI had prescribed that a Zonal Manager should inspect at least one depot in a month and a Senior Regional Manager (SRM) two depots in a month. Subsequently, however, Food Corporation of India issued instructions (September 1999) to the effect that SRMs had to inspect at least two depots in each district every year by rotation and that the District Managers were to inspect all the depots within their jurisdiction every year. Audit examination revealed significant deficiencies in the quality control system for procurement of rice by FCI and widespread acceptance of sub standard rice in Punjab and Haryana Regions. Food Corporation of India needed to follow up each quality related complaints scrupulously and promptly. However, in Punjab region, 1480 quality related complaints were pending as on 31 July, 2005, of which 722 complaints related to the period prior to October 1991.

As per the PDS (Control) Order, 2001, the representatives of the States/UT or their nominees and FCI should conduct joint inspection of the stocks intended for PDS to ensure that the quality of foodgrains conformed to the prescribed specifications.

Scrutiny of records pertaining to Quality Control during distribution revealed that test reports were being submitted late, testing facilities were not available in certain States, wheat issued in Rajasthan was below Fair Average Quality and in certain States no joint inspection had been conducted on regular basis of the Food Corporation of India stock.

168. On the observations of Audit, the Ministry, while putting forth the reasons for discrepancies stated:

- (i) Substandard rice at the time of procurement/acceptance is rejected by FCI and the Millers are required to replace such rice.

- (ii) With regard to shortfall in checking, FCI has informed that there was no shortfall in checking by DM/Deputy Manager (QC) for crop years 2001-02 to 2004-05.
- (iii) There was nominal shortfall during 2002-03 in respect of checking by DMs to the tune of 0.03%.
- (iv) During 2000-01, there was a shortfall of 0.85% by DMs and 3.81% by Deputy Managers (QC) respectively.
- (v) Regarding pendency of 1480 quality complaints, it is stated that 889 have been settled, leaving a balance of 591 as on 31.1.2007. In respect of quality complaints prior to 1.10.1991, out of 722 quality complaints pending, 260 complaints have been settled.
- (vi) For expediting settlement of quality complaints prior to 1.10.1991, a special Cell has been constituted to examine and monitor the settlement.

169. On the steps initiated to deal with the quality related problems, the Ministry *inter-alia* stated:

“Despite having an effective mechanism to ensure that only foodgrains conforming to uniform specifications are procured, stray incidences of acceptance of beyond specification stocks cannot be ruled out due to heavy volume of operations within a short span of time. During crop year 2004-05, complaints against rice procured in Punjab Region were received from various destinations which were due to negligence of few unscrupulous officers/officials of the Corporation. All such officers/officials found responsible for acceptance and dispatch of such sub-standard rice have since been proceeded against.”

170. When asked about the measures taken by the Ministry to ensure that quality of foodgrains was maintained at the time of procurement, the Ministry replied as under:

- “(i) The foodgrains for Central Pool are procured by Food Corporation of India (FCI) and State procuring agencies conforming to the Uniform Specifications laid down by the Government of India. These Uniform Specifications are formulated by Government and declared before the commencement of respective marketing season. These specifications are circulated among all the field offices of FCI and State Governments and its agencies with the request that foodgrains conforming to these specifications should be procured by them.
- (ii) The Quality Control officers of the Department of Food and Public Distribution, FCI, State Governments and its agencies regularly monitor the quality of foodgrains at the time of procurement. Samples of procured foodgrains are drawn from the procurement centres and are got analyzed in the laboratories in order to ascertain the physical quality parameters

including moisture content. Shortcomings noticed, if any, in the quality of procured foodgrains are immediately brought to the notice of concerned authorities of the FCI and State Governments for taking immediate remedial measures.

- (iii) Availability of moisture meters, physical analysis kits, dunnage material and tarpaulins etc. required for the procurement and safe upkeep of foodgrains is also ensured by the Quality Control officers during their visits.
- (iv) The quality of custom milled rice and levy rice is also monitored at the time of procurement/ receipt in the godowns of FCI and State Governments.
- (v) In case of rice, 100% inspection is carried out at the time of procurement in the depots. In addition to this, super checks are also being carried out by senior officers of FCI as per laid down norms. 25%, 10% and 2% rice consignments accepted by each Technical Assistant on each depot on day-to-day basis are super checked by Manager (QC), Assistant General Manager (QC) and Area Manager respectively. Besides, 10,4 and 2 depots in each month are also checked by DGM(QC), GM (Region) and GM(QC) respectively.
- (vi) In addition to above, the following steps are also taken to ensure the procurement of good quality of rice:
  - (a) Samples of rice are drawn from each lot and are analysed before acceptance. Only those lots which conform to the laid down quality norms are accepted by the Quality Control staff of the FCI/ State Governments.
  - (b) Quality Control teams of FCI's District office, Regional office, Head office and Department of Food and Public Distribution make surprise visits to Food Storage Depots to super check the quality of procured rice.
  - (c) In case the quality of some lots is not found conforming to Uniform Specifications, the concerned rice mills are instructed to replace the rice stock.
  - (d) Penal action is taken by FCI/ State Governments against their officials found responsible for acceptance of poor quality rice stocks.
  - (e) Quality of rice at the time of despatch from procurement centre/ depots as well as at receipt points in the consuming areas is also checked to ensure the despatch/ receipt of only good quality rice stocks for Targeted Public Distribution System."

171. On being asked if the Ministry had reviewed their quality control measures so as to ensure that quality foodgrains were delivered to the Consumers, the Ministry replied as under:

"With a view to ensure good quality of foodgrains to consumers through TPDS, the procedure was reviewed and the following guidelines have been

issued to FCI and State Governments:

- (i) Ample opportunities are provided to the officials of the State Governments/ UT Administrations to inspect the stocks prior to lifting from the FCI godowns.
- (ii) Instructions have been issued to all the State Governments/ UT Administrations that an officer not below the rank of Inspector should be deputed to check the quality of foodgrains before lifting from the FCI godowns.
- (iii) The samples of foodgrains are to be jointly drawn and sealed by the officers of the State Governments/ UT Administrations and the FCI from the stocks for display at the counters of Fair Price Shops for the benefit of consumers.
- (iv) The officers of the State Governments and the Ministry pay surprise checks to the Fair Price Shops (FPSs) to oversee the quality of foodgrains being distributed through Targetted Public Distribution System (TPDS).

Wherever incidence of distribution of poor quality of foodgrains to consumers are brought to notice, action is taken against the officials found responsible.”

## **IX. SUBSIDY**

### **(a) Subsidy recoverable**

172. An amount of Rs.825.65 crore in respect of the Mid Day Meal (MDM) scheme and Rs.17,396.67 crore in respect of Sampoorna Gramin Rozgar Yojana (SGRY) and Food For Work (FFW) programmes was outstanding as on 31 March 2005 from the respective Ministries. Non-receipt of the amounts claimed by FCI resulted in additional interest burden on FCI and consequent additional subsidy burden on the Union Government, which amounted to Rs.1973.69 crore as on 31 March 2005.

173. On the Action Taken by the Ministry in respect of subsidy burden on account of dues from other Ministries, the Ministry of Consumer Affairs, Food and Public Distribution replied as under:

“There are dues of the FCI outstanding from the Ministry of Rural Development towards the foodgrains provided under the SGRY Scheme. The Cabinet decided that Ministry of Finance in consultation with Department of Food and PD should work out the modalities for issue of special securities *in lieu* of cash payment to FCI to the extent of Rs.16,200 crore for liquidation of the outstanding dues of the Ministry of Rural Development till 30.04.2005. A detailed proposal for issue of special securities to the FCI was sent to the Ministry of Finance, Department of Economic Affairs on 15th May, 2006. Ministry of Finance has since issued a notification on 16th October, 2006 for issue of 8.15% Government of India FCI Special Bonds for an aggregate amount of Rs.5000 crore.”

174. While furnishing the steps taken by the Ministry to recover Rs. 825.65 crore outstanding in respect of foodgrains released for the Mid Day Meal Schemes, the Ministry submitted as under:

“The FCI has informed that due to close monitoring, the outstanding dues of FCI against the Ministry of Human Resource Development (MoHRD) on account of issues under Mid Day Meal Scheme have come down to Rs. 312.08 crore as on 31.1.2007. This sum is however, without setting off the revolving fund of Rs. 300 crore received by the FCI from that Ministry. Thus the effectual outstanding against the Ministry of HRD as on 31.1.2007 stood at Rs. 12 crore.”

**(b) Hill Transport Subsidy**

175. Under this Scheme, the Union Government reimbursed the full transportation cost of foodgrains upto the designated Principal Distribution Centres (PDCs) in predominantly hilly States to enable the State Governments to make available foodgrains in interior areas. To ensure that the foodgrains had actually reached the consumers, HTS was released to the State Governments but only after it had been certified by the State concerned (supported by documents and accounts) that the foodgrains had been transported up to the PDCs. In Arunachal Pradesh, FCI suspended payments of HTS with effect from September 2004 in view of steep rise in HTS claims from Rs. 4.30 per Kg. (2000-01) to Rs. 32.78 per Kg. (2003-04) and complaints about irregularities in the head load carriage system in the State. Audit of subsidy claims revealed the following:

- (i) Payment of Rs. 378.84 crore of HTS claims made during 2001-04 by the Directorate/Secretariat could not be checked in audit for want of supporting records such as cash books, details of payees (carriage contractors) and payment order of FCI in individual cases.
- (ii) District Supply Officer (DSO), Lower Subansiri received Rs. 1.41 crore and Rs. 0.88 crore from FCI, North Lakhimpur during 2000-01 and 2001-02 respectively on account of HTS. The entire amount was paid to carriage contractors without recording details of payment in the cash book.
- (iii) Excess allotment of foodgrains beyond the prescribed norms led to claims of Rs.29.91 crore for their transportation to destinations that had no storage facilities/ godowns.

176. In response to the Audit observations on Hill Transport subsidy, the Ministry in a written submission stated as under:

“Besides factual information, the para mainly raises specific issues about non-release of Hill Transport Subsidy payments for want of supporting documents and releasing payments to contractors without recording details *etc.* All these issues are to be taken care of by the State Government and not by the FCI. The FCI is releasing the Hill Transport Subsidy payments direct to the State Government. Further release of the amounts to individual



contractors has to be done by the State Government. The claims are passed by the FCI only on receipt/verification of full supporting documents”.

177. While deposing before the Committee, the Secretary, Ministry of Consumer Affairs, Food and Distribution stated as under:

“Misuse of hill transport subsidy in Arunachal Pradesh is a major case that has been pointed out. Unfortunately, this is a case which has been referred to CBI for investigation because we feel that there was pilferage on that account. CBI has not completed its investigation and I think in between there was a stay order by the Guwahati High Court which has now been vacated and the CBI is proceeding with the investigation. Therefore, the observation of the audit that records were not made available is there because the records are with the CBI. But that has created another problem for us in the sense that Arunachal Pradesh’s food distribution had gone to a low level. There are problems on the border as well. So, we have come out with a temporary solution to ensure that food goes into Arunachal Pradesh. We have taken care of it.”

## **X. MONITORING OF THE SCHEME**

### **(a) Non-receipt of Utilisation Certificates (UCs) for distribution**

178. The PDS (Control) Order, 2001 stipulated that future allocation of foodgrains to States should be linked to the receipt of regular reports and furnishing of Utilisation Certificates (UCs) from the respective States within a period of two months from the month for which the allocation was made. Scrutiny of records in the Ministry, however, revealed that these instructions were not being adhered to by the States/UTs and the Union Government continued to release the foodgrains without ensuring that the condition of submission of regular reports/UCs was satisfied.

179. While furnishing the Action Taken on the audit observation of non-receipt of Utilisation Certificates, the Ministry stated as under:

“The Ministry has been pursuing with all the State and UT Governments to implement the nine point action plan seriously. This has been communicated to the State Governments by the Secretary of this Department *vide* letter dated 23rd March, 2007. It has further been emphasized that unless concrete action is taken to implement the nine point action plan, punitive action in the form of curtailment of allocations would be taken by the Ministry. Because of the increased monitoring of Targeted Public Distribution System by the Ministry, of late, encouraging results on implementation of the nine points action plan have started coming in.”

Further, it has been added that:

“All allocations of foodgrains are made by the Department from time to time. Submission of UCs by State/UT governments for foodgrains lifted under Targeted Public Distribution System being mandatory, this is mentioned in every allocation order. A format for submitting UCs was circulated to all State/UT governments by

the Department in November, 2001. Thereafter, State/UT governments are requested repeatedly to submit UCs. This item is also reviewed in every review meeting by the Department. Making foodgrains allocation conditional to submission of UCs in each case may lead to disruption in supply of foodgrains to AAY and BPL families, thus it may be against the objectives of Targeted Public Distribution System. However, recently format of the UCs has been further amended and now the UCs are to be signed by the Secretary to the State/ UT government concerned. Since these mechanisms being employed by the department are in addition to obtaining UCs, it is to be appreciated that credibility of UC system is not undermined.”

**(b) Effectiveness of Vigilance Division in FCI**

180. The Vigilance Division of FCI was responsible for conducting regular and surprise inspection of sensitive spots, reviewing and streamlining of procedures which appeared to afford scope for corruption or misconduct, initiating other measures for the prevention, detection and punishment of corruption and dealing with vigilance cases. However, audit examination of the status of functioning of the Vigilance Department of FCI in Punjab and Haryana regions revealed that no separate vigilance squads were constituted for conducting surprise field inspections. Also, on no occasion did the vigilance sections make suggestions for streamlining the procedures intended to control corruption after scrutiny of closed vigilance cases and ex-post facto scrutiny of contracts.

181. The Ministry’s submission with regard to the audit findings on the effectiveness of Vigilance Divisions in Food Corporation of India is as under:

“Regular and surprise vigilance squads of Food Corporation of India are deputed to Punjab and Haryana Region for checking of quality and quantity specifically during procurement season. However, various squads are deputed for screening the files pertaining to storage and transit losses, handling and transport contracts, construction works *etc.* About 50 squads were deputed during 2005. Instructions for checking quality and quantity of stocks and awarding exemplary punishment against the employees involved in acceptance and dispatch of such stocks have been regularly conveyed to the FCI Zonal Office and Regional Office Punjab and Haryana. Further, officers/officials on the Agreed List or having Doubtful Integrity are not posted on sensitive seats like procurement of foodgrains. It is a fact that separate vigilance squads were not constituted in FCI Regional Office, Punjab and Haryana. However, the Regions draw officers from various branches constituted squads and deputed them for checking of stocks. Such exercise is also being done at District level also. In order to have regular squads in position, SRM, FCI, Punjab and Haryana have been directed to constitute separate squads for having regular and surprise checks.

It is a fact that as on 31.12.2005, 552 and 1593 major and minor vigilance cases were pending and more than one third cases were more than 3 years

old. Since the volume of work in Punjab is quite huge and it was difficult for General Manager, FCI (Punjab) to finalise the pending cases, the Board of Directors of FCI in its meeting held on 29. 6.2006 approved the posting of one additional General Manager (Vig.) for clearing the backlog in vigilance cases. As a result of this during the month of July and August, 2006, 526 cases were finalized. The endeavour is to finalise all the pending vigilance cases more than 3 years old by the end of December, 2006.”

182. Elaborating the steps taken by the Ministry to prevent recurrence of a large number of vigilance cases in the procurement and supply of foodgrains, the Ministry *inter-alia* stated as under:

“Following steps have been taken to prevent recurrence of large number of Vigilance cases in procurement and supply of foodgrains.

- (a) Exemplary punishment was awarded by FCI to those who indulged themselves in procurement of poor quality of rice.
- (b) Officials/Officers who figured in the list of doubtful integrity and agreed list were precluded from the sensitive postings.
- (c) Millers/ Depots having bad track records of delivery/acceptance of bad quality of stocks were identified by FCI and a close watch was kept on them apart from black listing the millers and stoppage of procurement operation of such depots.
- (d) Rotational transfers were made in FCI so that employees posted on the same posts for long are detached from such postings where they could have chances of entering into corrupt practices.
- (e) Employees involved in such practices of procurement of poor quality of rice stocks were shifted to other Regions by FCI on non-sensitive postings apart from imposing heavy penalties.
- (f) Number of regular and surprise checks were increased by FCI during 2006-07. Following are regular surprise checks conducted during the last two years.

Year	Regular Checks	Surprise Checks	Total
2005	3247	2105	5352
2006	3764	2663	6427
2007 (Upto Sept.)	3436	1876	5312

Further, intensive checking was conducted in respect of operational points:

- (g) A special Cell namely Depot Inspection Monitoring Cell (DIMC) at FCI Hqs. Vigilance Division is monitoring the inspections by Senior Officers and action is taken wherever is warranted.

- (h) Screening of damaged foodgrains more than 1000 MT is done by Vigilance Division of FCI to ascertain the facts and circumstances leading to such damage and if the officials/officers are found to be involved have been appropriately dealt with by imposing appropriate penalties.”

**(c) Monitoring through Vigilance Committees (VCs)**

183. The PDS (Control) Order, 2001 envisaged constitution of VCs at State/ UT, district and block levels for implementation and monitoring of the functioning of FPS. Audit examination revealed that the system of VCs was ineffective and there was no additional mechanism for verifying distribution of foodgrains to the beneficiaries. VCs were either not formed at any level or were found defunct in Arunachal Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Karnataka, Punjab, Andaman and Nicobar Islands, Dadra and Nagar Haveli, Pondicherry and Lakshadweep.

Further, Audit observed that the system of inspection by District Level Officers (DLOs) and Vigilance Committees (where constituted and functional) over the functioning of FPS were also found to be deficient during 2000-05.

184. In their submission to the Committee on the aspect of monitoring through Vigilance Committees, the Ministry stated as under:

“The Supreme Court has recently set up a Central Vigilance Committee under the Chairmanship of Retd. Justice Mr. O.P. Wadhwa to look into the maladies that are affecting the proper functioning of the system and also suggest remedial measures.

The term of reference of the Committee are:—

- (a) The mode of appointment of the dealers,
- (b) The ideal commission or the rates payable to the dealers,
- (c) Modalities as to how the Committees already in place, can function better, and
- (d) Modes as to how there can be transparency in allotment of the food stock to be sold at the shops.”

185. Regarding the measures taken by the Ministry to ensure that Vigilance Committees are constituted at all levels in the States and function effectively, the Ministry *inter-alia* stated as under:

“The Ministry is consistently insisting through letters to the State Governments and meetings at various levels to form and activate the Vigilance Committees at all levels. Besides this, all States/UTs have been requested to furnish information in the prescribed proforma sent to them on 27th July, 2006. It seeks information on quarterly basis on (i) Status of

Constitution of Vigilance Committees at all levels and number of members; (ii) Detailed note on functioning of these Vigilance Committees; and (iii) Its efficacy/the results achieved in functioning of the Vigilance Committees. Because of high importance of proper functioning of Vigilance Committees for Targeted Public Distribution System, their constitution at State District, Block and Fair Price Shop levels and ensuring of their functioning have been included as one of the points in the nine-point action plan.”

Further, it has been added that for constitution of Vigilance Committees by State/UTs Governments, the following steps were taken. They were:

- (i) Issued the Citizens’ Charter in 1997 for adoption by the State/UT Governments wherein it had been stipulated that the State/UT Governments will constitute Vigilance Committees to review the functioning of the TPDS periodically at Shop, Panchayat, District and State level associating the members from Government, social organizations, consumer organizations, local body members *etc.*
- (ii) Notification of PDS(Control) Order, 2001 was issued in August, 2001. It stipulates formation of Vigilance Committees in TPDS at State, District, Block and FPS level and should hold their meetings on a regular basis.
- (iii) Issued guidelines in 1999 which emphasized involvement of PRI Members in the functioning of TPDS taking members in the Vigilance Committee.
- (iv) In July 2007, this Department further revised the Citizens’ Charter reiterating the constitution of Vigilance Committees at FPS/Panchayat/Municipal Council/Corporation, Block/Taluk/District and State/UT level.
- (v) Besides above, this Department has been stressing upon the State/UT Governments from time to time to form the Vigilance Committees and to communicate this Department the status of their formation and functioning”.

186. On being asked if the Ministry thought that there was a need to redesign the Targeted Public Distribution System to achieve food security to the people of the country, the Ministry putforth as under:

“The Targeted Public Distribution System has been designed with joint responsibility of the Central Government and the State and UT Governments in its operation. The TPDS is, therefore, neither exclusively in the domain of the Central Government nor in the domain of the State and UT Governments. The Government of India discharges its own share of responsibilities and the share of responsibilities devolved upon the State and UT Governments is expected to be discharged by them. The working of the system is expected to take place in a harmonized manner and in a spirit of mutual cooperation.

Operation of the TPDS being a jointly shared arrangement and distribution of foodgrains being closely linked to basic requirement of food of the targeted persons/families, perceptions and understanding on certain aspects of this whole arrangement may differ sometimes between the Government of India and some State and UT Governments. For example, the number of BPL ration cards to households. In such situation, if the instructions/directions of the Central Government are not followed in total by a particular State or UT Government, under present arrangements of TPDS coercive measure or penal action cannot be resorted to straightway by the Government of India in the context of federal system of the Government in the country. There are practical limitations in doing so especially because the executing field agencies are of State/UT Governments. This process does produce results but it takes longer time and requires more sustained efforts.

In this regard the following suggestions are made:—

- (i) Foodgrains allocations by the Government of India should be linked with strict compliance with the stipulations under the PDS (Control) Order, 2001 and other directions of the Government of India by State and UT Governments so that failure of a particular State or UT Government in compliance should lead to curtailment of the allocations.
- (ii) The Programme Evaluation Organization in the Planning Commission should take up the responsibility for continuous evaluation of functioning of TPDS in all the States and Union Territories so that continuous feedback becomes available to the Government of India on regular basis.
- (iii) Based on the evaluation feedback to be received from the PEO, there should be provision of penal action against defaulting States and UT Governments. This may be in the form of reduction in Central assistance in monetary value linked to the value of foodgrains diverted and leaked.
- (iv) In major States, FCI may retain the role of only MSP-based procurement operation. The rest all responsibility for procurement, storage, transportation and distribution of foodgrains under TPDS should be delegated to the concerned State Governments. By this the concerned State Governments will have full responsibility for all the operations under the TPDS and would be fully answerable for performance. To such State Governments, Government of India may release funds for the subsidy involved in the form of Central assistance.
- (v) Food stamps/coupons should be introduced under the TPDS. Under this scheme the targeted beneficiaries can be issued food stamps/coupons of monetary value equivalent to the amount of subsidy distributed to them in the form of foodgrains at present. These families can buy food items from notified outlets/shops against the stamps/coupons. Reimbursement

of money to the outlets/shops can be done by the Government through a particular agency.

- (vi) Transfer of Government of India subsidy to targeted families can also be done in cash instead of foodgrains as is being done currently, by crediting respective amounts of money to their accounts in specified banks. However, this will still suffer from exclusion/ inclusion errors which is the major area of concern.”

## **PART- II**

### **Recommendations and Observations**

**187. Management of food pricing and distribution in India seeks to achieve the twin objectives of providing remunerative prices to farmers and building up a buffer stock, together with availability of foodgrains at affordable prices to the common man and targeted distribution of foodgrains for the survival of the poor. The food policy of Government is based on ensuring minimum support prices for farmers and managing a Targeted Public Distribution System (TPDS) policy. The process of foodgrains management thus involves pricing policy, procurement, storage, movement and distribution. The Commission for Agricultural Costs and Prices is the recommendatory body for suggesting minimum support prices to the Government, which are meant to mitigate risks that farmers face and also to reward the efficient farmer. Procurement of foodgrains is handled primarily through the Food Corporation of India (FCI), with decentralized procurement allowed in eleven States/Union Territories. The food stocks are maintained by the Government of India in order to meet prescribed Minimum Buffer Stock norms, monthly releases for supply through Targeted Public Distribution System and welfare schemes, meet emergent situations and for market intervention to help moderate the open market prices. In order to make foodgrains accessible to the population throughout the country, Food Corporation of India has been entrusted the responsibility to ensure efficient co-ordination and monitoring of the movement of foodgrains from surplus to deficit regions, proper storage and close liaison with Railways, handling and carriage contractors along with the State Governments. Distribution of foodgrains is managed through a Targeted Public Distribution System (TPDS) involving a network of around 4.92 lakh Fair Price Shops (FPS) throughout the country and the State Governments are responsible for identification of beneficiaries, issue of ration cards and distribution of foodgrains to the beneficiaries through Fair Price Shops.**

[Sl. No. 1]

**188. The Performance Audit of 'Management of Foodgrains' and the Committee's examination of the issues raised by Audit has revealed very significant deficiencies and lapses in the implementation of the Government's food management policy. There were large inefficiencies in procurement of foodgrains with quantified financial effect of Rs. 1310.30 crore and several instances of reimbursement of excessive statutory levies and non-statutory charges to State Governments, comprising procurement incidentals amounting to Rs. 2005.61 crore. Glaring lapses were noticed in the distribution of foodgrains, which affected the achievement of food security in the country. Rampant irregularities came to the fore in identification of Below Poverty Line and Antyodaya Anna Yojana beneficiaries, including lacunae in the identification process and issue of ration cards, failure to weed out ineligible/bogus beneficiaries and issue of ration cards to ineligible beneficiaries. Large scale diversion of foodgrains from the TPDS was prevalent in several States. Foodgrains was**



distributed at lower than the prescribed scale of issue by 4 kg. to 25 kg. in several States/Union Territories. The actual arrangements for quality control, monitoring and inspection in the operation of the TPDS were also found to be largely inadequate.

[Sl. No. 2 ]

189. The Committee note that the Programme Evaluation Organisation of the Planning Commission had also made the following assessment about the TPDS :

- (i) Implementation of Targeted Public Distribution System was plagued by targeting errors, prevalence of bogus cards and unidentified households;
- (ii) Though the off-take per household had shown some improvement under Targeted Public Distribution System, yet only about 57% of Below Poverty Line households were covered by it;
- (iii) Fair Price Shops were generally not viable because of low annual turnover and they remained in business through leakages and diversions of subsidized grains;
- (iv) Leakage and diversions of subsidized grains were large and only about 42% of subsidized grains issued from the Central Pool reached the target group;
- (v) Over 36% of the budgetary subsidies on food was siphoned off from the supply chain and another 21% reached the Above Poverty Line households; and
- (vi) Cost of income transfer to the poor through Public Distribution System was much higher than that through other modes.

[Sl. No. 3 ]

190. The examination of the policy regarding the procurement of foodgrains revealed that farmers were to get remunerative prices for their produce so as to reduce fluctuations in grain prices, avoid distress sale of foodgrains and to build up a stock of foodgrains, which would ensure supply of subsidized foodgrains to the needy and poor through the Targeted Public Distribution System and other welfare schemes like the Mid-day Meal Scheme and Food for Work Programmes. In the system that has been prevalent, foodgrains procurement was handled primarily through the Food Corporation of India in association with the State Governments and their procurement agencies. However, with the objective of reducing over-dependence of the State Governments on the Food Corporation of India for ensuring availability of locally produced foodgrains, the Government in 1997-98 introduced the Scheme of Decentralized Procurement of foodgrains. Under this Scheme, the States/Union Territories themselves procured foodgrains, retained the quantity required for Public Distribution System and surrendered the rest to Food Corporation of India for the Central Pool. The Committee have been apprised that this Scheme has been implemented in eleven States/Union Territories and has been very successful particularly in increasing procurement of rice in non-traditional States. In the case of wheat, procurement in four decentralized procurement states namely,

Uttar Pradesh, Madhya Pradesh, Uttaranchal and Gujarat had declined owing to increasing private purchases of wheat in these States. The Committee have been apprised that in order to increase wheat procurement by Government agencies in these States, the Ministry had initiated certain measures, which included enhancement of commission to societies/sub-agents to 2.5% of Minimum Support Price, and engagement of National Agricultural Cooperative Marketing Federation of India (NAFED) to procure wheat on behalf of Food Corporation of India in Uttar Pradesh. The Ministry have also sent letters to States to ensure that private traders paid statutory levies and did not get price advantage over Food Corporation of India by not paying levies. The Committee hope that the shortfall noticed in decentralized procurement would be overcome by the corrective measures that have been initiated by the Ministry. The hindrances faced by the States which were implementing Decentralized Procurement Scheme ought to be addressed by the Ministry in order to realize the objectives of the Scheme. Necessary instructions should be issued by the Ministry in this regard to the concerned States. The Committee would also like to emphasise that there should be adequacy in Cash Credit limits sanctioned by Reserve Bank of India to the State Governments, their expenses be reimbursed in toto and the subsidies be released by the Central Government timely.

[Sl. No. 4 ]

191. Under the Scheme of Decentralised Procurement, the States/Union Territories themselves procured foodgrains, retained the quantity required for Public Distribution System and surrendered the rest to Food Corporation of India for the Central Pool. The Scheme intended to eliminate over-dependence on Food Corporation of India for Public Distribution System supplies of foodgrains, to free them from the task of procurement and to reduce the subsidy burden, as the economic cost of the States/Union Territories was expected to be lower than that of Food Corporation of India. However, it has been noticed that the economic cost of Decentralised Procurement was higher in many cases than the corresponding cost of FCI's operations in the same State. There were also instances of avoidable handling charges by way of infructuous movement of foodgrains from procurement centers to FCI godowns and again from the godowns to their storage point, leading to payment of avoidable incidental charges to the State Governments. In the light of the higher costs and lower procurement reported under the Decentralised Procurement Scheme, the Committee desire that the Ministry would do well to re-visit the Scheme with a view to optimising both costs and extent of procurement.

The examination of the Decentralised Procurement Scheme revealed that there was a declining trend in wheat procurement in Rabi Marketing Season 2007-2008. The lower procurement was attributed to low market arrivals and high private participation. Further, since this was less than the requirement for the Targeted Public Distribution System and the Welfare Schemes, recourse had to be taken to import wheat to meet the requirements. The Committee feel that such a scenario would not have arisen if the procurement by FCI was prompt and proactive and procurement under Decentralised Procurement Scheme was effective. The Committee would therefore recommend that the Ministry should critically examine the reasons for the shortfall in procurement of wheat and apprise the Committee of the corrective measures for proactive procurement taken by Government agencies including the policy changes initiated thereupon.

In the context of shortfalls in procurement, the Committee apprehend that such shortfalls, if not promptly attended to, would affect the buffer stocks of the country and consequently put the food security of the nation at a risk. Since shortfalls in procurement cannot always be made up through imports, the Ministry, may, if necessary, have a re-look at the present procurement systems and bring about requisite changes in order to increase the efficiency of procurement. In this context, the Committee are of the view that the Government may consider formulating a comprehensive National Food Security Policy, enunciating the strategies to be followed for augmenting foodgrains production in the country, particularly in a scenario when global production of foodgrains is on the decline and the prices are on the rise. It is imperative that the Government takes urgent steps to cushion the country from the impact of global food situation. The impact of global climate changes may also be factored in while planning our policy.

[Sl. No. 5 ]

192. In their examination of the issue relating to procurement of foodgrains, the fixation of Minimum Support Price of foodgrains played an important role. The Committee have been apprised that these Minimum Support Prices were normally announced upfront before commencement of sowing operations of the particular crop and these were usually remunerative and significantly higher than the costs. Therefore, the Minimum Support Price was the floor price which the farmers were assured of getting for their produce. In order to ensure that farmers were aware of the Minimum Support Price, steps were stated to have been taken by Government to educate farmers by giving wide publicity through the print and visual media as well as banners, pamphlets *etc.* The Committee would recommend that the Government must air more programmes like Krishi Darshan on Doordarshan and All India Radio, focusing on technology, trends of prices (daily) in national, regional and local mandis, Fair Price Shops, Ration Cards and prices for BPL and APL households. In this regard, the Committee would also expect the District Administration led by the District Collectors to take initiatives in creating awareness among farmers.

The Committee have however been informed that no impact assessment survey was ever conducted by the Ministry to study the extent of denial of benefits of Minimum Support Price among farmers, leading to distress sale of foodgrains. The Committee are of the opinion that in the absence of such an assessment study, the actual penetration and impact of Minimum Support Price Scheme and its shortcomings, if any, cannot come to the fore and appropriate interventions would thus not be possible. It is therefore necessary that an assessment study be made in regard to the Minimum Support Price Scheme and its effectiveness in overcoming distress sale of foodgrains by farmers. Such a study will also enable the Government to gauge the efficacy of its procurement operations in the light of increasing demand of foodgrains for the TPDS and other welfare schemes and the crying need to provide remunerative prices for the farmers.

On the procurement policy of the Government, the Committee were apprised that the Government procured foodgrains at the Minimum Support Price and there was no concept of separate procurement price. The Ministry were of the view that

distinguishing the Minimum Support Price from the procurement price had its own problems in operation. As a result, the Food Corporation of India was bound to procure the produce at the price offered to farmers and because of this, at times, Food Corporation of India were unable to procure more to meet their requirement. As this is a serious constraint conceded by the Secretary (Food and Public Distribution) himself in his deposition, the Committee would like the Ministry to carry out a thorough study in coordination with the Ministry of Agriculture and the Planning Commission about the factors that were plaguing the Minimum Support Price Scheme as such, which were responsible for some of the problems cited like procurement not meeting the Government's requirement.

[Sl. No. 6 ]

193. The effectiveness of procurement is invariably linked to the quantum and nature of agricultural production including land use and cropping patterns across the country. Changes in cropping patterns like shift towards commercial crops would thus have to be studied for their impact on procurement for the TPDS and its implications for food security in the country. Therefore, close co-ordination and synergy between the Ministries of Food and Agriculture is called for in order to ensure that yields of food crops are adequate and agricultural production is sustained to keep pace with the ever growing demands of the nation. The Committee desire that the Government through investments in vital agricultural infrastructure, credit support and the use of latest farm techniques should focus on accelerated foodgrains production on a sustainable basis which would help the nation to achieve food security in a realistic timeframe. For this purpose, it is imperative that Government must revamp and gear up their Department of Agricultural Research and Extension, particularly the Indian Council of Agricultural Research (ICAR). The Committee's Observations/Recommendations in their 40th Report (14th LS) on the Performance Review of ICAR, its various projects and their impact on productivity should be taken note of in this context. The Committee would like to emphasise that for ensuring food security and for making farming sustainable, new frontiers of research in agriculture should be supported and the gap between academic agricultural research and its effectiveness on the field should be bridged.

[Sl. No. 7 ]

194. While dealing with the issue of procurement cost-incidentals, the Committee were apprised that the procurement cost-incidentals comprised of Statutory and Non-Statutory charges levied by State Governments. The Central Government reimbursed all these expenses incurred by agencies of the State Governments which procured foodgrains for the Central Pool. These charges varied from State to State and the Ministry had not succeeded in having a uniform regime. The Committee have been apprised that the Ministry had suggested to the States of Andhra Pradesh, Haryana and Punjab to set up a Regulatory Authority to examine and recommend local taxes on procurement of foodgrains. Further, the Committee have been informed that Punjab had not found the need for setting up such a body as the funds collected through taxes were stated as being used for developing the agriculture marketing and rural infrastructure. However, the States of Haryana and Andhra Pradesh had not

given their views in this regard. The Committee would like the Ministry to urgently obtain the views of the other States also in the matter. Subsequently, the Ministry may examine the feasibility of having a uniform tax regime for marketing foodgrains in order to curtail arbitrary levies by States, as these incidentals are eventually borne by the Ministry/Food Corporation of India, adding to the costs of procurement and the subsidy burden of the Government.

[Sl. No. 8 ]

195. The personnel of FCI looking after quality control are responsible for ensuring the requisite quality of the procured foodgrains as per the prescribed specifications. However, it has come to the notice of the Committee that there was widespread acceptance of sub-standard rice by the designated FCI officials in Punjab and Haryana regions. There were significant shortfalls in checking and inspection of depots by the designated officials of FCI. Whatever inspections were done appeared to be perfunctory and the overall performance of the quality control officials found to be far from satisfactory, as was ascertained during the visits of the Inspection squads of the regional offices of FCI. It is thus evident that FCI needs to pull up its quality control wing and immediately follow-up each quality related complaint scrupulously. Action should also be initiated against the officials found to be negligent. The Committee should be apprised of the steps taken by FCI in the matter.

[Sl. No. 9 ]

196. It has been revealed that during the period 2000-04, FCI incurred a total loss of Rs. 556.88 crore on account of transit shortages of foodgrains, which aggravated the subsidy burden of the Government. The factors cited for transit losses in foodgrains were mainly pilferage and theft en-route, driage, multiple handling, weak texture of gunnies, spillage through wagon holes *etc.* The Committee are surprised to learn that FCI had not set any norms for transit and storage losses. Further, FCI had also incurred storage losses of Rs. 842.31 crore during the period 1999-2004. No norms have been fixed even for these losses despite the Ministry's instructions and the stipulation in FCI's Quality Control Manual. Huge number of cases involving transit and storage losses amounting to several crores of rupees remained pending for investigation and disposal. The Committee are distressed to note that FCI has not been paying proper attention to controlling transit and storage losses in the movement of foodgrains. Negligence on the part of officials responsible for this may be investigated. In case it is true that tolerable levels of such losses have not been laid down, the Committee would urge the Ministry to get clear-cut norms/guidelines formulated in this respect. The latest techniques/modes of transportation also require to be adopted for the movement of foodgrains so that the losses occurring due to avoidable/preventible factors could be minimized.

The Committee would also like the Ministry to enquire into reported instances of losses arising out of smuggling of foodgrains out of the country to neighbouring countries like Nepal and Bangladesh and apprise the Committee about the findings.

[Sl. No. 10 ]

197. The Public Distribution System was originally conceived as an instrument for protecting consumers from food shortages and producers from price fluctuation, with the specific proclaimed task of providing food security to vulnerable households. It is built around a network of around 4.92 lakh 'Fair Price Shops' commonly referred to as 'ration shops', making it one of the biggest such systems in the world. The Public Distribution System is not only enormous in terms of its expenditure and reach, but also in terms of the range of agencies involved in its operation. This system, despite its many successes, has, over the years, manifested a broad array of problems. It suffers from chronic mis-management, cost inefficiencies, poor quality of foodgrains supplied and large inaccuracies in the enumeration of beneficiaries, resulting in exclusion of substantial number of the poor from the system entirely. To make matters worse, the illegal diversion of Public Distribution System commodities to the open market through a highly institutionalized network of agents and other middlemen, severely undermines the capacity of the system to serve the needs of the poor. The Committee are thus constrained to observe that the Public Distribution System in the country warrants immediate attention, requiring a thorough overhaul. The Committee would like the Ministry to review, if necessary, with the expert guidance and support of the Food and Agriculture Organisation of United Nations, the operation of the Public Distribution System across the country, identifying its strengths and weakness, based on the experiences and experiments of different States right from identification of beneficiaries to ensuring that the beneficiaries get their due. In particular, the enormous costs due to inefficiency of Food Corporation of India (FCI) may be gone into in-detail and corrective action taken immediately and the Committee be apprised of the same.

[Sl. No. 11 ]

198. With regard to the identification of targeted beneficiaries under Below Poverty Line (BPL) category, the Committee were informed that this was done by the respective States/Union Territories. The estimation in this regard was however done by the Planning Commission on a uniform methodology which was designed to yield comparable estimates of poverty across the States. The actual identification of Below Poverty Line families was done by the States and Union Territories based on the parameters laid down by the Ministry of Rural Development for poverty alleviation programmes. It is strange that when Ministry of Consumer Affairs, Food and Public Distribution held the responsibility of providing essential commodities to the identified beneficiaries under the TPDS, and Planning Commission had developed a methodology for this purpose, the actual identification of Below Poverty Line families had been done by State Government based on the criteria of Ministry of Rural Development. Such an incoherence in the methodology of identification resulted in an inaccurate database on which rested the onus of successful implementation of the Targeted Public Distribution System. With several State Governments adopting their own norms for identification of BPL beneficiaries, it resulted in these States having estimates of BPL beneficiaries much higher than that of Union Government. The Committee have found to their displeasure that this phenomenon led to scaling down of ration entitlement lower than that prescribed by the Ministry. In some cases, where the States' estimate were lower than that of the Union Government, it led to the quota released remaining undrawn by these States. As such arbitrary variations in the

methodology/norms across States for the identification of the targeted beneficiaries had an adverse bearing on the efficacy of the TPDS itself and defeated the very rationale of such a focused/targeted Scheme, the Ministry in consultation with the Planning Commission and Ministry of Rural Development should consider evolving a uniform methodology and set of norms for the States/Union Territories to follow. Individual States may be asked to consult the Ministry before they opt for any deviation or variation according to their needs.

[Sl. No. 12 ]

199. The Committee were apprised that an Expert Group under the Chairmanship of Dr. Lakdawala was constituted in September, 1989 to consider methodology and computation of proportion and number of poor in India. The definition of poverty line that was accepted by this Expert Group was based on the definition given by the Task Force which was set up by the Planning Commission in 1979. The Committee were informed that the Planning Commission was using these criteria given by the Expert Group for assessment of the number of poor people in the country. According to the Task Force, poverty line was defined as the per capita expenditure level at which the average per capita per day calorie intake was 2435 in rural areas and 2095 calories in urban areas. This corresponded to average consumer expenditure of Rs. 49 per capita per month for rural areas and Rs. 56.64 per capita per month expenditure for urban areas on the basis of 1973-74 prices. As more and more States seem to be devising their own norms for identification of BPL beneficiaries, this method of estimation and the criteria have become out of date. The Committee would therefore suggest that the Ministry should have a fresh look at the definition of poverty line for the TPDS in consultation with the Planning Commission so as to arrive at a more realistic, inclusive and acceptable set of criteria/norms for the identification of beneficiaries by the States.

[Sl. No. 13 ]

200. Apart from the flaws in identification of beneficiaries, the Committee in their course of examination have found several irregularities in the manner in which the ration cards were issued. It is common knowledge that the possession of a ration card is a prerequisite for establishing one's identity and domicile. Hence, obtaining it would be one of the major preoccupation of many poor families, leading to increase in the demand for ration cards and thereby rendering the process vulnerable to corruption. A limited survey conducted in Delhi itself by Audit revealed that 22.80% of the surveyed BPL population/households could not be traced, but cross-verification with the Fair Price Shop (FPS) records indicated that ration was being claimed against those names. In Delhi alone, the implementation of the TPDS was found deficient on one count or the other in respect of majority of beneficiaries surveyed, that is, 53.38%. The efforts made by the Ministry to eliminate bogus ration cards as well as bogus units in the ration cards have thus evidently not yielded tangible results. Although, the Ministry have stated to have eliminated at the macro level 61 lakh bogus cards in 13 States since July 2006, considering the magnitude of the problem, the Committee would like to be apprised about the latest position on this count as well as on the updating of lists of beneficiaries in all the States/Union Territories.

[Sl. No. 14 ]

201. It was further observed that the off-take of foodgrains under the different categories was also not satisfactory. The total off-take by the Above Poverty Line (APL) category was a mere 10.88% of the total allotment during the period 2000-05. The off-take under the BPL category at 66.33% was not encouraging either. For instance, in some States, the shortfall in off-take of BPL rice ranged from 30 to 67 per cent. The Committee desire that the Ministry must look into the reasons for such low off-take of foodgrains from the central pool and take up the matter with the deficient States. The Ministry should seize this opportunity to identify the deficiencies existing in the system for deciding State-wise allocations. The problems confronting the States with poor off-take may be addressed accordingly.

[Sl. No. 15 ]

202. The Public Distribution System is built around the network of 'Fair Price Shops' and these distribution centres are under the purview of the State Governments. State-level Departments of Food and Civil Supplies regulate networks of ration shops within their jurisdiction and are responsible for allocating licenses to the private traders who operate the shops. The Committee have found that there were numerous irregularities in the way Fair Price Shops operated. These included non-display of stock position, beneficiaries attached and scale of ration allowed, acknowledgement from beneficiaries by way of signature/thumb impressions not been obtained, improper accounting of foodgrains issued and irregular maintenance of requisite registers. With regard to these deficiencies, the Committee have been assured that the field machinery of the State and Union Territory Governments are in place to ensure compliance by the Fair Price Shop owners. The Ministry have suggested that these deficiencies could be eliminated or minimised if the Vigilance Committees at the Fair Price Shops level functioned actively and if there was involvement of Panchayati Raj Institutions in the Vigilance Committees. Further, the Ministry have sought to assure that the enabling environment for taking requisite action had been provided in the form of Public Distribution System (Control) 2001, guidelines and other operational prescriptions. The Ministry's explanation notwithstanding, Audit sample survey in diverse States like Manipur and Delhi has revealed major lapses with regard to the enforcement of rules and procedures and compliance by the Fair Price Shops(FPS). Several instances of the beneficiary households receiving foodgrains at double the stipulated prices were noticed. Neither were the foodgrains issued according to the prescribed scale. A number of households complained of erratic supply by the FPS. Furthermore, significantly large number of beneficiaries complained of poor quality of the foodgrains issued. It was also common practice that the FPS owners did not care to observe the prescribed timings for opening of shops, which resulted in avoidable rush and long queues. The measures stated to have been initiated by the Ministry could thus be construed as merely routine or ritualistic without the intended outcomes. The Committee would therefore recommend that the vigilance mechanism of transporting grains and Fair Price Shops should be made stringent with deterrent provisions operating against the offenders as well as the guilty officials. Modalities of social audit as adopted in Guidelines of Ministry of Rural Development for National Rural Employment Guarantee Act should also be harnessed to support public vigilance.

[Sl. No. 16 ]



203. Another critical feature that came to the notice of the Committee was the fact that the Fair Price Shops, which were economically unviable, continued to operate without reasonable returns. Their net income in many places were less than even the income limit prescribed for BPL beneficiaries. The Committee feel that the distribution network, which totally relied on these Fair Price Shops would be put to jeopardy, if they are not made economically viable and sustainable. The Committee, therefore, desire that the Ministry in coordination with State Governments should critically review the question of viability of the Fair Price Shops so that their owners get reasonable returns. Simultaneously, steps should also be initiated against the delinquent ones who should be penalized. The Committee would also expect the Ministry to focus special attention on areas with concentration of tribal population living below the poverty line.

[Sl. No. 17 ]

204. The Committee were apprised that delay in loading and unloading of Railway wagons attracted demurrage from Railways. In respect of operations carried out on contract basis, demurrage/wharfage for delays was recoverable from contractors and in operations carried out through departmental labour, Food Corporation of India was responsible. During the examination of this issue, the Committee found that accrual of demurrage was due to non-synchronisation of working hours of Food Corporation of India with that of Railways, non-presence of labour on Sundays/Holidays, increase in loadability of wagons, decrease in free time allowed by Railways for loading/unloading of rakes from 10 hours to 9 hours and poor productivity of the departmental labour. A perusal of these reasons which had caused payment of huge demurrage charges depicts that most of them were not beyond human control and thus could be overcome by enhancing efficiency. The Committee, therefore, urge the Ministry to make efforts to ensure that the operations pertaining to loading and unloading are taken care of in such a manner that unreasonable demurrage charges could be avoided. The Ministry must also take up the matter of waiver of demurrage charges with Railways as per waiver norms governing bulk consumers. The Committee were assured that the Ministry were trying to optimize the movement of foodgrains using the linear programming Software. The Committee would like to be apprised about its implementation and how cost effective it has proved to be.

[Sl. No. 18 ]

205. While examining the movement of foodgrains, the Committee found that as in March, 2005, Food Corporation of India's pending claims against the Railways had amounted to Rs. 796.45 crore. Out of this, refund of freight amounting to Rs. 37.41 crore had been pending for periods ranging from 12 to 27 years. Reasons attributed for such long pendency were the non-availability of relevant records with the Railways including the original Physical Delivery Certificate against which payments were made. The Committee have been apprised that the matter had been taken up by Food Corporation of India with Railways and it had been agreed upon to build up the cases again and settle accordingly. However, in the meeting held by Northern Railway with Claims division, this proposal was vetoed, stating that Railway Board instructions were applicable only to cases of compensation claims and not for

the refund of freight claims. The Committee suspect that these are cases of collusive corruption between Food Corporation of India and Railways officials. The Committee would recommend that Inter-Ministerial meetings should be held at the highest level and measures to tackle such problem be sorted out instead of prolonging the cases by taking recourse to legal option. The Committee deplore the laxity of Food Corporation of India in monitoring the claims which had led to their pendency for a number of years. The Committee, while taking a serious view of this matter, recommend that the Food Corporation of India should enquire into the conduct of the concerned officials and apprise the Committee of the action taken thereof. The Food Corporation of India must also strengthen its monitoring mechanism and devise effective means for vigilance to tackle such issues in its nascent stage itself.

[Sl. No. 19 ]

206. While examining the diversion component in the Targeted Public Distribution System, the Committee were apprised that in the year 2003-2004, out of 14.07 million tonnes of foodgrains issued to 16 States at Below Poverty Line issue prices from the Central Pool, only around 5.93 million tonnes was delivered to poor families. Further, out of the remaining 8.14 million tonnes, 5.12 million tonnes leaked out from the supply chain owing to corruption in the delivery system. It was in fact seen that effectively only 57% of the Below Poverty Line households were covered by Targeted Public Distribution System. Abnormally high leakage/diversion of more than 75% of the total off-take of BPL quota was noticed in Bihar and Punjab. At the all India level, the overall diversion of rice and wheat was 39 per cent and 53 per cent respectively. These glaring statistics do not augur well for the successful operation of the Scheme. The Committee believe that diversion of foodgrains from the system is a menace which should be checked on top priority. The Enforcement Wing and Anti-Hoarding Cell should be strengthened, people engaged in Public Distribution System made accountable and Inspection Parties acting as Flying Squads should be constituted to inspect the movement and distribution of foodgrains. Instances of malpractices should be dealt with firmly and severely. As subsequent to lifting the foodgrains from godowns of Food Corporation of India, the responsibility of distribution of foodgrains to the consumers through Public Distribution System rested with the State Government, it has been stated that it was not possible for the Ministry to estimate the quantity of diversion of foodgrains in the open market. In this regard, the Committee recommend that to minimize human intervention, Information Technology could be put to use for providing an end-to-end automated system, which will bring about transparency in the system. While it may not be feasible to cover Fair Price Shops in this system due to lack of connectivity, weekly arrivals of foodgrains through the public distribution chain at the Block level should be made available immediately on websites open to public scrutiny.

[Sl. No. 20 ]

207. One of the envisaged objectives of the Public Distribution System is to ensure food security to public at affordable prices and eradication of poverty. It is in fact intended to serve as a safety net for the poor whose number is more than 330 million. In this respect, the Committee would like to dwell a little further on the

current price scenario that is prevalent in the country. The prices of essential commodities have shot up over a short span of time and with the inflation rate also being high, the Committee fear that in an uncontrolled situation, very soon, the numbers in the Below Poverty Line category would swell, if they have not already reached alarming proportions. In addition, the other inevitable consequence would be the vast price difference between the essential commodities that are made available through the Public Distribution System and the ones that are available in the open market. This huge gap would inevitably increase the chances of pilferage and diversion, thereby compounding the problem further. Hence, it is very important that the Government takes prompt and effective measures to control the price rise including deterrent action against hoarders, if necessary, by amending the Essential Commodities Act. Imposing a ban on Forward/Futures Trading in essential commodities may also be considered for this purpose.

[Sl. No. 21 ]

208. As a part of the process of over-seeing the process of procurement and distribution, the Food Corporation of India (FCI) had entrusted the responsibility for conducting regular and surprise inspection of sensitive spots, and for reviewing the procedures that afforded scope for corruption to its Vigilance Division. This Division was also to initiate measures for prevention, detection and punishment of those responsible for corruption or misconduct. However, the Committee find to their dismay that the Vigilance Division of FCI was almost non-functional, as several cases of misappropriation, corruption, shortages and losses due to negligence or breach of contract reported to the Vigilance Division remained pending for action. Further, no separate Vigilance Squads was constituted by the Vigilance Division for conducting surprise field inspections. Shockingly, on no occasion did the Vigilance Division of FCI make suggestions for streamlining the procedures/contracts on the basis of the inputs/feedback received by them.

Further, to strengthen vigilance, the Public Distribution System (Control) Order, 2001 had envisaged constitution of Vigilance Committees at State/Union Territory, District and Block levels for the enforcement of guidelines and monitoring of the functioning of Fair Price Shops. However, it was found that the Vigilance Committees were not constituted in many States or when constituted hardly met, thus rendering them ineffective. There was also no additional mechanism for verifying the distribution of foodgrains to the beneficiaries. The system of inspection by district level officers and the Vigilance Committees over the functioning of FPS was thus found to be deficient. The Committee would therefore recommend that the Vigilance machinery of the TPDS be made functional for better enforcement. In this respect, the Committee have noted the initiatives of the Ministry to involve Members of the Panchayati Raj Institutions in the Vigilance Committees. Modalities of social audit could also be added to such measures. The Committee hope such healthy initiatives to decentralize the process of enforcement will be followed up with all the States for greater participation.

[Sl. No. 22 ]

209. The multiple agencies involved in procuring, storing, distributing and selling commodities as well as those formulating policies on the operation of the Public Distribution System include a range of Central and State authorities, which created overlapping lines of accountability, resulting in distortions in the delivery of the system. The blurred lines of accountability particularly affected the potential for follow-up action in cases of investigation and enforcement action against observed cases of irregularity. The Committee find that there are not only too many links in the chain of command but also many criss-crossing reporting relationships among the multi-agency personnel involved in the Public Distribution System operations, making the assignment of responsibility very arduous. The Committee, therefore, urge that the delivery mechanism be streamlined and better co-ordination ensured among the different agencies involved so that accountability can be precisely established.

While taking a serious view of the various shortcomings and irregularities that have come to their notice, the Committee urge the Ministry to squarely address all the key issues concerning procurement, movement and distribution of foodgrains and particularly the rampant corruption afflicting the Public Distribution System and its network of Fair Price Shops.

The Committee note that the Ministry have initiated a few measures for bringing about improvements in the administration of the Targeted Public Distribution System (TPDS), such as, a revised format of citizen charter on TPDS setting out the model procedure and time schedule for the provision of services to the intended beneficiaries, and a Nine Point Action Plan for TPDS. However, the Committee note this Nine Point Action Plan does not comprehensively cover the need for alternative systems, as clearly indicated by both C&AG's Report and Planning Commission's evaluation. Innovative measures like Food Coupons have been introduced in some States like Andhra Pradesh, Jammu & Kashmir and Bihar as a tracking/verification mechanism for the quantities of ration commodities lifted from the Fair Price Shops. The Committee hope that the policy initiatives taken by the Ministry would be more comprehensive and not remain just on paper but constantly followed up and reviewed with States and translated into tangible outcomes at the ground level. Successful experiments carried out by some States may be tried out in other States as well. The Committee would also expect the Ministry to be pro-active and help the States in the computerization process of Targeted Public Distribution System operations, which will enable them to monitor and strengthen the delivery system.

[Sl. No. 23 ]

NEW DELHI;  
22 April, 2008  

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2 Vaisakha 1930 (Saka)

PROF. VIJAY KUMAR MALHOTRA,  
Chairman,  
Public Accounts Committee.

ANNEXURE-I

MINUTES OF THE EIGHTH SITTING OF PUBLIC ACCOUNTS COMMITTEE  
(2007-2008) HELD ON 31st JULY, 2007

The Committee sat from 1100 hrs. to 1300 hrs. on 31st July, 2007 in Committee Room 'A' Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

*Lok Sabha*

2. Shri P.S. Gadhavi
3. Shri Raghunath Jha
4. Shri Bhartruhari Mahtab
5. Shri K.S. Rao
6. Shri Mohan Singh
7. Shri Kharabela Swain

*Rajya Sabha*

8. Shri V. Narayanasamy
9. Shri P.J. Kurien
10. Shri Janardhana Poojary
11. Shri Suresh Bhardwaj
12. Shri Prasanta Chatterjee
13. Dr. K. Malaisamy

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri Brahm Dutt — *Director*
3. Shri M.K. Madhusudhan — *Deputy Secretary-II*
4. Shri N.K. Jha — *Under Secretary*

*Representatives of the Office of the Comptroller and Auditor General of India*

1. Shri B.K. Chattopadhyay — ADAI (RC)
2. Shri A.N. Chatterji — DG (PA)
3. Shri K.R. Sriram — PD (ESM)
4. Shri P.S. Das — Dir (PA)

*Representatives of the Ministry of Consumer Affairs, Food and Public Distribution  
(Deptt. of Food & Public Distribution)*

1. Shri T. Nand Kumar — Secretary (F&PD)
2. Shri Vivek Mehrotra — Additional Secretary & FA

3. Shri Siraj Hussain — JS (Pol. & FCI)
4. Dr. Bhagwan Sahai — JS (BP, PD&IC)
5. Dr. C.I. Joy — JS (Impex, EOP & CVO)
6. Shri S.K. Srivastva — JS(Stg. & Admin)

*Representative of Food Corporation of India (FCI)*

1. Shri Alok Sinha — CMD, FCI

*Representatives of other ministries/organisations*

1. Shri S.C. Gautam — Chief Economic Advisor,  
M/o Rural Development
2. Shri Mukul Chaturvedi — Director, M/o Housing & Urban Poverty  
Alleviation
3. Shri N.D. George — Director, Planning Commission

2. At the outset, the Chairman, PAC welcomed the Members and Audit Officers to the sitting of the Committee. The Chairman informed the Members that the sitting has been convened to take oral evidence of the representatives of the Ministry of Consumer Affairs, Food & Public Distribution (Department of Food & Public Distribution) on C&AG's report No. 16 of 2006 relating to "Performance Audit on Management of Foodgrains". Thereafter, the officers of the C&AG of India briefed the Committee on important points arising out of the aforesaid Audit Report.

3. Then the representatives of the Ministry of Consumer Affairs, Food & Public Distribution (Department of Food & Public Distribution), Food Corporation of India (FCI), and other Ministries/Organisations were called in. The Chairman read out the provisions of Direction 58 of the Directions by the Speaker regarding confidentiality of proceedings. Thereafter, the Committee commenced oral evidence on the subject.

4. The Secretary, Ministry of Consumer Affairs Food & Public Distribution (Department of Food & Public Distribution) after introducing his colleagues to the Committee explained the factual position on points arising out of the Audit Report and the queries raised by the Members. To certain queries, for which the witnesses could not give satisfactory replies, the Hon'ble Chairman directed the representatives of the Ministry to furnish the requisite information in writing at the earliest particularly on the issues relating to:

- (i) Reasons for lack of awareness of Minimum Support Price amongst the farmers;
- (ii) Existence of large number of bogus ration cards;
- (iii) Diversion of foodgrains under Targeted Public Distribution System (TPDS) in several States and even to Nepal;
- (iv) Deficiencies in quality control system while procuring and distributing foodgrains;

- (v) Problems associated with the enumeration and identification of BPL/APL beneficiaries and the variations found in the lists of beneficiaries prepared by the Planning Commission and the States, in particular, why figures for malnutrition were so high if NSS estimation of BPL was consider reliable;
- (vi) Efforts to reduce transit and storage losses;
- (vii) Misuse of transport subsidy by the States;
- (viii) Poor functioning of Vigilance Committees in various States/UTs.
- (ix) Experience with schemes of Ministry of Rural Development to assist NGOs to maintain local grain banks;
- (x) Irregularities reported in Audit Report and action taken by State Governments in each case; and
- (xi) Opinion of Ministry on Programme Evaluation Organisation (PEO) Report, 2005.

5. The evidence on the subject remained inconclusive and the Committee decided to hold another sitting on the subject on a subsequent date after the receipt of written information from the Ministry on the points raised by Members during the sitting.

6. A copy of the verbatim proceedings of the sitting has been kept on record.

*The Committee then adjourned.*

ANNEXURE-II

MINUTES OF THE ELEVENTH SITTING OF PUBLIC ACCOUNTS COMMITTEE  
(2007-2008) HELD ON 1st NOVEMBER, 2007

The Committee sat from 1600 hrs. to 1750 hrs. in Committee Room 'D' Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Kirip Chaliha
3. Shri Khagen Das
4. Shri R.L. Jalappa
5. Shri Raghunath Jha
6. Shri Bhartruhari Mahtab
7. Shri Brajesh Pathak
8. Prof. M. Ramadass
9. Shri K.S. Rao
10. Shri Rajiv Ranjan 'Lalan' Singh
11. Shri Kharabela Swain
12. Shri Tarit Baran Topdar

*Rajya Sabha*

13. Shri V. Narayanasamy
14. Prof. P.J. Kurien
15. Dr. K. Malaisamy

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri Brahm Dutt — *Director*
3. Shri M.K. Madhusudhan — *Deputy Secretary—II*
4. Shri N.K. Jha — *Under Secretary*

*Representatives of the Office of the Comptroller and Auditor General of India*

1. Shri B.K. Chattopadhyay — *ADAI (RC)*
2. Shri A.N. Chhatterji — *DG (PA)*
3. Shri K.R. Sriram — *PD (ESM)*

*Representatives of the Ministry of Consumer Affairs, Food and Public Distribution  
(Deptt. of Food & Public Distribution)*

1. Shri T. Nand Kumar — *Secretary (F&PD)*
2. Shri N.K. Raghupathy — *Additional Secretary & FA*



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|------------------------|---|---------------------|
| 3. Shri Siraj Hussain  | — | JS (Pol. & FCI)     |
| 4. Dr. Bhagwan Sahai   | — | JS (BP, PD&IC)      |
| 5. Dr. C.I. Joy        | — | JS (Impex, EOP&CVO) |
| 6. Shri S.K. Srivastva | — | JS (Stg. & Admin.)  |

*Representative of the Food Corporation of India (FCI)*

Shri Alok Sinha	—	CMD
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*Representative of the Planning Commission*

Shri Paul Joseph	—	Principal Adviser (DP)
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*Representative of the Ministry of Rural Development (Department of Rural Development)*

Shri. S.C. Gautam	—	Chief Economic Advisor
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*Representative of the Ministry of Housing and Poverty Alleviation*

Shri Mukul Chaturvedi	—	Director (UPA)
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*Representatives of State Governments*

- |                              |   |  |
|------------------------------|---|--|
| 1. Mohd. Alauddin            | — | Secretary (Food & Civil Supplies),<br>Government of Assam  |
| 2. Shri Sudesh Kumar Verma   | — | Joint Secretary, Department of Food<br>and Civil Supplies, Government of Bihar                       |
| 3. Dr. Alok Shukla           | — | Secretary, D/o Food, Civil Supplies &<br>Consumer Affairs, Government of<br>Chhattisgarh             |
| 4. Shri P.N. Sreenivasachari | — | Commissioner, D/o Food, Civil Supplies<br>& Consumer Affairs, Government of<br>Karnataka             |
| 5. Shri Jagan Mathews        | — | Principal Secretary, Department of<br>Food, Civil Supplies, Government of<br>Uttar Pradesh           |
| 6. Ms. Mira Pande            | — | Principal Secretary & Commissioner<br>Food & Civil Supplies Department,<br>Government of West Bengal |

2. At the outset, the Chairman, PAC welcomed the Members to the sitting of the Committee. The Chairman recalled that the evidence on the subject relating to "Performance Audit on Management of Foodgrains" which was held on 31st July, 2007 remained inconclusive as most of the points raised by the Members during that sitting had remained unanswered. He informed the Members that the sitting has been convened to resume discussion on the aforesaid subject. Thereafter, the Officers of the C&AG of India briefed the Committee on important points arising out of the aforesaid Audit Report.

3. Then the representatives of the Ministry of Consumer Affairs, Food & Public Distribution (Department of Food & Public Distribution), Food Corporation of India (FCI), Planning Commission and other Ministries/Departments and representatives of some of the State Governments were called in. The Chairman read out the provisions of Direction 58 of the Directions by the Speaker regarding confidentiality of the proceedings of the Committee.

4. The Secretary, Ministry of Consumer Affairs, Food & Public Distribution (Department of Food & Public Distribution) after introducing his colleagues to the Committee explained in brief about factual position on the various points arising out of the Audit Report and the queries raised by the Members. The representatives of the State Governments of Assam, Bihar, Chhattisgarh, Karnataka, Uttar Pradesh and West Bengal also explained the factual position with regard to the Audit findings concerning the respective State Governments. To certain queries, for which the witnesses could not give satisfactory replies, the Chairman directed them to furnish the requisite information in writing at the earliest particularly on the issues relating to:

- (i) Leakage and Diversion of foodgrains meant for distribution under Targeted Public Distribution System (TPDS) in several States;
- (ii) Need for a foolproof system with regard to enumeration and identification of BPL/APL beneficiaries;
- (iii) Huge differences in the number of BPL families estimated by the Planning Commission and those identified by States resulting in scaling down of ration to the needy families;
- (iv) Action taken by State Governments in respect of irregularities highlighted in the Audit Report;
- (v) Need for unified policy on procurement of foodgrains by States/UTs; and
- (vi) Allotment of foodgrains quota *vis-a-vis* lifting of foodgrains by States during last five years.

5. As the evidence on the subject remained inconclusive, the Committee decided to resume the discussion on the subject on Friday, the 2nd November, 2007.

6. A copy of the verbatim proceedings of the sitting has been kept on record.

*The Committee then adjourned.*

ANNEXURE-III

MINUTES OF THE TWELFTH SITTING OF PUBLIC ACCOUNTS COMMITTEE  
(2007-2008) HELD ON 2nd NOVEMBER, 2007

The Committee sat from 1100 hrs. to 1250 hrs. in Committee Room 'C' Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Khagen Das
3. Shri Raghunath Jha
4. Shri Bhartruhari Mahtab
5. Shri Brajesh Pathak
6. Shri K.S. Rao
7. Shri Tarit Baran Topdar

*Rajya Sabha*

8. Shri Prasanta Chatterjee
9. Dr. K. Malaisamy

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri Brahm Dutt — *Director*
3. Shri M.K. Madhusudhan — *Deputy Secretary—II*
4. Shri R.K. Suryanarayanan — *Under Secretary*
5. Shri N.K. Jha — *Under Secretary*

*Representatives of the Office of the Comptroller and Auditor General of India*

1. Shri B.K. Chattopadhyay — ADAI (RC)
2. Shri A.N. Chatterji — DG (PA)
3. Shri K.R. Sriram — PD (ESM),
4. Shri Jayanti Prasad — PD (INDT)
5. Shri R.B. Sinha — PD (AF&N)

*Representatives of the Ministry of Consumer Affairs, Food and Public Distribution  
(Deptt. of Food & Public Distribution)*

1. Shri T. Nand Kumar — Secretary (F&PD)
2. Shri N.K. Raghupathy — Additional Secretary & FA
3. Shri Siraj Hussain — JS (Pol. & FCI)
4. Dr. Bhagwan Sahai — JS (BP, PD&IC)
5. Dr. C.I. Joy — JS (Impex, EOP&CVO)
6. Shri S.K. Srivastva — JS (Stg. & Admin.)

*Representative of the Food Corporation of India (FCI)*

Shri Alok Sinha — CMD

*Representative of the Planning Commission*

Shri Paul Joseph — Principal Adviser (DP)

*Representative of the Ministry of Rural Development (Department of Rural Development)*

Shri S.C. Gautam — Chief Economic Advisor

*Representative of Ministry of Housing and Poverty Alleviation*

1. Shri Mukul Chaturvedi — Director (UPA)

2. At the outset, the Chairman, PAC welcomed the Members to the sitting of the Committee. Thereafter, the Committee took up for consideration, the following Draft Reports:

- (a) Draft Report on Para 11.3 of C&AG Report No. 7 of 2006 [Indirect Taxes- Customs, Central Excise & Service Tax] relating to "**Under-valuation due to adoption of lower mutually agreed price.**"
- (b) Draft Action Taken Report on 28th Report of PAC (14th Lok Sabha) on "**Control Systems in India Security Press, Nashik**"
- (c) Draft Action Taken Report on 34th Report of PAC (14th Lok Sabha) on "**Delayed purchase and insignificant utilization of equipment procured under Fast Track Procedure.**"

After brief discussion, the Committee adopted the draft Reports without any modifications/amendments and authorized the Chairman to finalise and present the same to the Parliament in the light of factual verification done by the Audit.

3. The Chairman, informed the Members that some suggestions have been made regarding selection/appointment of the C&AG of India. It was suggested that an institutionalized mechanism be set up for the screening/selection of the C&AG of India. He desired that the issue may be examined in all its ramifications and the Government apprised accordingly.

4. The Chairman also observed that although majority of the recommendations of PAC are accepted by the Government, nevertheless, the follow-up process of the implementation of PAC recommendations needs to be strengthened. For this purpose, it was desired that Audit may also reflect the extent of implementation of PAC recommendations in the 'Epitome of PAC Reports' that is being compiled by them.

5. Thereafter, the representatives of the Ministry of Consumer Affairs, Food & Public Distribution (Department of Food & Public Distribution), Food Corporation of India (FCI), and other Ministries/Organisations were called in and the Committee resumed the evidence on the subject. The Secretary, Ministry of Consumer Affairs, Food & Public Distribution (Department of Food & Public Distribution) explained to the various points arising out of the Audit Report and the queries raised by the

Members. To certain queries, for which the witnesses could not give satisfactory replies, the Chairman directed the representatives of the Ministry to furnish the requisite information in writing at the earliest particularly on the issues relating to:

- (i) Need for a fresh and comprehensive survey to identify BPL/APL families in all States in a time bound manner;
  - (ii) Deficiencies in quality control system of procurement and distribution of foodgrains;
  - (iii) Irregularities in the procurement, storage, transportation and distribution of foodgrains; and
  - (iv) Suggestions for proper estimation of number of BPL households in each State/UT in a realistic manner.
6. A copy of the verbatim proceedings of the sitting has been kept on record.

*The Committee then adjourned.*

ANNEXURE-IV

MINUTES OF THE TWENTY-FIRST SITTING OF THE PUBLIC ACCOUNTS  
COMMITTEE (2007-08) HELD ON 21st APRIL, 2008.

The Committee sat from 1600 hrs. to 1645 hrs. on 21st April, 2008 in Room No. "51" (Chairman's Chamber), Parliament House, New Delhi.

PRESENT

Dr. K.S. Rao — *In the Chair*

MEMBERS

*Lok Sabha*

2. Shri Kirip Chaliha
3. Shri Khagen Das
4. Shri P.S. Gadhavi
5. Shri Bhartruhari Mahtab
6. Shri Brajesh Pathak
7. Prof. M. Ramadass
8. Shri Mohan Singh
9. Shri Rajiv Ranjan 'Lalan' Singh

SECRETARIAT

1. Shri S.K. Sharma — *Additional Secretary*
2. Shri Gopal Singh — *Director*
3. Shri M.K. Madhusudhan — *Deputy Secretary-II*
4. Shri Ramkumar Suryanarayanan — *Under Secretary*

*Officers of the office of the Comptroller and Auditor General of India*

1. Shri Nand Kishore — Pr. Director (PA)
2. Shri K.R. Sriram — Pr. Director

2. In the absence of Prof. Vijay Kumar Malhotra, Chairman, PAC, Dr. K.S. Rao, M.P. presided over the sitting of the Committee. At the outset, he welcomed the Members to the sitting. Thereafter, the Committee took up for consideration the following draft Reports:—

- (i) Draft Report on C&AG's Report No. 13 of 2006, Union Government (Civil-Performance Audit) relating to "**Pradhan Mantri Gram Sadak Yojana**";
- (ii) Draft Report on C&AG's Report No. 16 of 2006, Union Government (Civil-Performance Audit) relating to "**Management of Foodgrains**" and;
- (iii) Draft Action Taken Report on 33rd Report of PAC (14th Lok Sabha) relating to "**Injudicious Waiver of Demurrage Charges**".

3. The acting Chairman invited suggestions of the Members on the Draft Reports. After some deliberations, the Committee adopted the draft Reports with some verbal changes and authorised the Chairman to finalise these Reports in the light of factual verification done by the Audit and present the same to both the Houses.

*The Committee then adjourned.*