CPU NO. 975

29

COMMITTEE ON PUBLIC UNDERTAKINGS
(2013-2014)

(FIFTEENTH LOK SABHA)

FOOD CORPORATION OF INDIA

PARTIALLY BASED ON C&AG REPORT NO. 7 OF 2013 (PERFORMANCE AUDIT) ON STORAGE MANAGEMENT AND MOVEMENT OF FOOD GRAINS IN FOOD CORPORATION OF INDIA

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

Presented to Lok Sabha on 10.02.2014

Laid on the Table of Rajya Sabha on 11.02.2014

LOK SABHA SECRETARIAT

NEW DELHI

February 2014 / Magha 1935(S)

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COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2013-2014)

Chairman

Shri Jagdambika Pal

Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Shri Praveen Singh Aron
4. Shri Sanjay Bhoi
5. Smt. Shruti Choudhary
6. Shri Bansa Gopal Chowdhury
7. Shri Raja Ram Pal
8. Shri Adhalrao Shivaji Patil
9. Shri Rajendrasinh Rana
10. Shri Nama Nageswara Rao
11. Shri Magunta Sreenivasulu Reddy
12. Prof. Saugata Roy
13. Smt. Sushila Saroj
14. Shri Uday Singh
15. Shri Bhisma Shankar alias Kushal Tiwari

Rajya Sabha

16. Shri Naresh Agrawal
17. Shri Anil Desai
18. Shri Janardan Dwivedi
19. Shri Naresh Gujral
20. Shri Mukhtar Abbas Naqvi
21. Shri Tapan Kumar Sen
22. Dr. Janardhan Waghmare

Secretariat

1.	Shri A. Louis Martin	Joint Secretary
2.	Shri P.C. Koul	Director
3.	Ms. Patricia Elizabeth Jacobs	Executive Assistant

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2012-2013)

Chairman

Shri Jagdambika Pal

Lok Sabha

2. Shri Hansaraj Gangaram Ahir
3. Vacant *
4. Shri Bansa Gopal Chowdhury
5. Dr. Mahesh Joshi
6. Shri Shailendra Kumar
7. Dr. (Smt) Botcha Jhansi Lakshmi
8. Shri Vilasrao Baburaoji Muttemwar
9. Shri Adhalrao Shivaji Patil
10. Shri Ponnam Prabhakar
11. Shri Rajendrasinh Rana
12. Shri Nama Nageswara Rao
13. Shri Uday Singh
14. Dr. Prabha Kishor Taviad
15. Shri Bhisma Shankar alias Kushal Tiwari

Rajya Sabha

16. Shri Anil Desai
17. Shri Janardan Dwivedi
18. Shri Naresh Gujral
19. Dr. V. Maitreyan
20. Shri Mukhtar Abbas Naqvi
21. Shri T.M. Selvaganapathi
22. Dr. Janardhan Waghmare

***   Vacancy caused due to demise of Shri Ambica Banerjee, M.P. on 25 April, 2013.**

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2011-2012)

Chairman

Shri Jagdambika Pal

Lok Sabha

2. Shri Hansraj G. Ahir
3. Shri Vijay Bahuguna
4. Shri Ramesh Bais
5. Shri Ambica Banerjee
6. Shri Shailendra Kumar
7. Smt. Ingrid Mcleod
8. Shri Vilas Baburao Muttemwar
9. Shri Baijayant Panda ‘Jay’
10. Shri Adhalrao Shivajirao Patil
11. Shri Ponnam Prabhakar
12. Shri Nama Nageswara Rao
13. Shri Uday Singh
14. Dr. Prabha Kishor Taviad
15. Shri Bhisma Shankar alias Kushal Tiwari

Rajya Sabha

16. Vacant *
17. Shri Pyarimohan Mohapatra
18. Shri Mukhtar Abbas Naqvi
19. Dr. Bharatkumar Raut
20. Vacant #
21. Vacant #
22. Shri N.K. Singh

*** Ceased to be a Member of the Committee consequent on his retirement from Rajya Sabha w.e.f. 27.1.2012.**

 # Ceased to be Members of the Committee consequent on their retirement from Rajya Sabha w.e.f. 2.4.2012.

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2010-2011)

Chairman

Shri V. Kishore Chandra S. Deo

Lok Sabha

2 Shri K.C. Singh 'Baba'
3 Shri Ramesh Bais
4 Shri Ambica Banerjee
5 Shri Hemanand Biswal
6 Shri Anant Kumar Hegde
7 Shri Shailendra Kumar
8 Shri Baijayant Panda
9 Shri L. Rajagopal
10 Shri Nama Nageswara Rao
11 Chaudhary Lal Singh
12 Shri Ganesh Singh
13 Shri N. Dharam Singh
14 Shri Rajiv Ranjan Singh alias Lalan Singh
15 Shri Bhisma Shankar alias Kushal Tiwari

Rajya Sabha

16 Shri Birendra Prasad Baishya
17 Shri Naresh Gujral
18 Shri Prakash Javadekar
19 Dr. Bharatkumar Raut
20 Ms. Mabel Rebello
21 Dr. T. Subbarami Reddy
22 Shri Tapan Kumar Sen

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Twenty-ninth Report on the Food Corporation of India, based on comprehensive examination and C&AG Report No. 7 of 2013 (Performance Audit) on Storage Management and Movement of Food Grains in Food Corporation of India.

2. The Committee on Public Undertakings (2010-11) had selected the Food Corporation of India for comprehensive examination. However, the examination of the Subject could not be completed during the term of the Committee. The Committee on Public Undertakings (2011-12 & 2012-13) therefore, reselected the subject and further continued the examination. Since the examination remained inconclusive, the present Committee again selected the subject to complete the unfinished task. In addition, the Committee on Public Undertakings also included C&AG Report No. 7 of 2013 (Performance Audit) on Storage Management and Movement of Food Grains in Food Corporation of India within the scope of its examination of Food Corporation of India.

3. The Committee took Oral Evidence of the representatives of FCI on 18 August, 2010 and 3 January, 2013, respectively. The Committee also took the Oral Evidence of the Ministry of Consumer Affairs, Food and Public Distribution on 29 February, 2012 and 21 January, 2013, respectively. The Committee also took a joint Oral Evidence of the representatives of FCI and the Ministry of Consumer Affairs, Food and Public Distribution on 17 June, 2013. Finally a joint Oral Evidence of the representatives of FCI, Commission for Agricultural Costs and Prices and the Ministries of Consumer Affairs, Food and Public Distribution, Agriculture, Finance and Railways was held on 3 July, 2013.

4. The Committee on Public Undertakings considered and adopted the Report at their Sitting held on 6 February, 2014.

5. The Committee wish to express their thanks to the representatives of the Food Corporation of India and the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution), Ministry of Agriculture (Department of Agriculture and Cooperation), Commission for Agricultural Costs and Prices, Ministry of Finance (Departments of Economic Affairs and Expenditure) and Ministry of Railways (Railway Board) for tendering evidence before them and furnishing the requisite information to them in connection with the examination of the subject.

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

7. The Committee also wish to express their sincere thanks to their predecessor Committees for their valuable contribution in the examination of the Subject.

8. For facility of reference and convenience, the Observations/Recommendations of the Committee have been printed in bold letters in Part-II of the Report.

New Delhi	**SHRI JAGDAMBIKA PAL**
7 February 2014	**Chairman**
18 Magha, 1935(S)	**Committee on Public Undertakings**

ABBREVIATIONS

AAY	Antyodaya Anna Yojana
APL	Above Poverty Level
BE	Budget Estimates
BG	Broad Gauge
BICP	Bureau of Industrial Costs and Pricing
BIS	Bureau of Indian Standards
BOD	Board of Directors
BOO	Build-Own-Operate
BPL	Below Poverty Line
CACP	Commission of Agricultural Costs and Prices
C&AG	Comptroller and Auditor General (of India)
CCEA	Cabinet Committee on Economic Affairs
CAP	Cover and Plinth
CC	Cash Credit
CCC	Central Cash Credit
CCL	Cash Credit Limit
CIP	Central Issue Price
CIPHET	Central Institute of Post-Harvest Engineering and Technology
CMD	Chairman and Managing Director
CMR	Custom Milled Rice
CPSEs	Central Public Sector Enterprises
CVO	Central Vigilance Officer
CWC	Central Warehousing Corporation
DAC	Department of Agriculture and Cooperation
DCC	District Categorisation Committee
DCP	Decentralized Procurement Scheme
DDVP	Dimethyl Dichlorovinyl Phosphate
DISFM	District Information System for Food grains Management
DGFT	Director General Foreign Trade
DGM	Deputy General Manager
DoP	Department of Personnel
DPE	Department of Public Enterprises
DR	Disaster Recovery

ED	Executive Director
EGoM	Empowered Group of Ministers
FAQ	Fair Average Quality
F&PD	Food and Public Distribution
FC Act	Food Corporation Act
FIFO	First In First Out
FPS	Fair Price Shops
FY	Financial Year
GoI	Government of India
GM	General Manager
HLC	High Level Committee
HQ	Head Quarters
HRD	Human Resources Department
IFS	Institute of Food Grain Security
IISFM	Information System for Food grains Management
IRRS	IISFM Rapid Reporting Service
KMS	Kharif Marketing Season
LAN	Local Area Network
LMT	Lakh Metric Tonne
LP	Linear Programming
MG	Meter Gauge
MGW	Minimum Guaranteed Wages
MoU	Memorandum of Understanding
MP	Madhya Pradesh
MSP	Minimum Support Price
MT	Metric Tonne
NCAP	National Center for Agricultural Economics and Policy Research
NE	North East
NFFWP	National Food for Work Programme
NFSB	National Food Security Bill
NFSO	National Food Security Ordinance
OGL	Open General License
OMSS	Open Market Sale Scheme
OWS	Other Welfare Schemes
P	Provisional

PDS	Public Distribution System
PEG	Public Entrepreneur Guarantee
PSEB	Public Sector Enterprises Board
PSU(s)	Public Sector Undertaking(s)
QC	Quality Control
RBS	Rate Branch System
RCC	Regional Categorisation Committee
RD	Revenue Department
RE	Revised Estimates
RMS	Rabi Marketing Season
SEBI	Securities & Exchange Board of India
SGRY	Sampoorna Gramin Rozgar Yojana
SLC	State Level Committee
SPC	Special Purpose Company
STL	Short Term Loan
SWC	State Warehousing Corporation
TPDS	Targeted Public Distribution System
UT	Union Territory
VPN	Virtual Private Network
WAN	Wide Area Network
WCL	Working Capital Loans
WMA	Ways and Means Advance
ZCC	Zonal Categorisation Committee

PART I

BACKGROUND ANALYSIS

CHAPTER I

OBJECTIVES AND FUNCTIONS

A. OBJECTIVES

The Food Corporation of India was established on 14 January, 1965 under an Act of Parliament namely the Food Corporations Act, 1964. The basic purpose of its establishment was trading in food grains and other foodstuffs and for matters connected, therewith, and incidental, thereto, in order to fulfill the following objectives of the Food Policy of Government of India:-

1. Effective price support operations for safeguarding the interests of the farmers,
2. Distribution of food grains throughout the country for public distribution system, and for
3. Maintaining satisfactory level of operational and buffer stocks of food grains to ensure National Food Security.

According to FCI, the above objectives are being achieved by the Corporation through its main operations of procurement, transportation, storage and distribution of food grains and its efforts have contributed immensely in bringing stability on the food front and a sense of food security within the country.

FCI's contribution in implementing the food policy objectives and building the national food security system has had a significant effect in sustaining the high growth rate of production both in wheat, rice and coarse-grains and monitoring price stability over a long period of time.

B. FUNCTIONS

It is observed from the functions of the Food Corporation of India as given in Section 13 of Food Corporations Act, 1964 that it is the primary duty of the Corporation to undertake the purchase, storage, movement, transport, distribution and sale of food grains and other foodstuffs. The Corporation may also, with the previous approval of the Central Government promote by such means as it thinks fit the production of food grains and other food stuffs; set up, or assist in the setting up of, rice mills, flour mills and other undertakings for the processing of food grains and other food stuffs; and discharge such other functions as may be prescribed or as supplemental, incidental or consequential to any of the functions conferred on it under Food Corporations Act, 1964.

The Food Corporation of India was last examined by the Committee on Public Undertakings in 2008-09 (35th Report, Fourteenth Lok Sabha) based on the Audit Para 7.1.1 of Chapter VII of Report No. CA 11 of 2008. The action taken report (12th Report, Fifteenth Lok Sabha) on the same was presented to the Parliament in December 2011.

CHAPTER II

PROCUREMENT

A. PROCUREMENT OF FOOD GRAINS

The Government policy of procurement of food grains has the broad objectives of ensuring Minimum Support Price (MSP) to the farmers and also ensuring availability of food grains to the weaker section at affordable prices. Moreover, it also ensures effective market intervention, thereby, keeping the prices under check and also adding to the overall food security of the country.

FCI, the nodal central agency of Government of India (GoI), undertakes procurement of wheat, paddy and coarse grains under Price Support Scheme and rice under Statutory Levy Scheme. The procurement under Price Support Scheme is taken up mainly to ensure remunerative prices to the farmers for their produce which works as an incentive for achieving better production.

Before the harvest during each Rabi / Kharif Crop season, the Government of India announces the minimum support procurement prices as recommended by the Commission of Agricultural Costs and Prices (CACP) which takes into consideration the cost of various agricultural inputs and the reasonable margin for the farmers for their produce.

To facilitate procurement of food grains after estimating the expected production, FCI and various State agencies in consultation with the State Governments establish a large number of temporary purchase centres at various *mandis* and key points. The number of centres and their locations are decided by the State Governments.

Whatever stocks brought to the purchase centres falling within the Government of India's specifications are purchased at the fixed support price. If the farmers get prices better than the support price from other buyers such as traders / millers, etc., the farmers are free to sell their produce to them. FCI and the State Government/its agencies ensure that the farmers are not compelled to sell their produce below support price under distress.

Modes of procurement

According to FCI, three modes of procurement in practice. These are as follows: -

(i) <u>Procurement directly from farmers</u>: In selected *mandis*, purchases are made by FCI directly from the farmers without utilizing services of *Katcha Arthias* (Commission Agents) for which bearer cheques up to Rs.30,000/- each are issued to the concerned farmers at the purchase centre itself. In case the amount in cash exceeds Rs.30,000/- the payment is made through A/c payees cheque.

(ii) <u>Indirect procurement</u>: Under this system, the purchases are made by the State Government and its agencies on behalf of FCI and then the stocks are moved either directly to FCI godown or railheads for further transportation. Some stocks are moved to agencies' godowns and the same are taken over by FCI from time to time. State agencies are paid the procurement prices and incidentals for their services at the rates fixed by the Government of India. Initially provisional incidentals are fixed at the beginning of the season and final incidentals are fixed after the season based on the proposal of the State Government/its agencies.

(iii) Procurement through *Katcha Arthias*: In this system, purchases are made through *Katcha Arthias* in regulated markets in accordance with the provisions of respective States Agriculture Produce Marketing Act. The farmers generally bring their produce to the *mandis* and dump on '*Tharas*' earmarked for the *Katcha Arthias* who provide all necessary assistance to the farmers such as dumping, cleaning, etc. for which charges are borne by the farmers. Stocks are sold through auction and the buyers bear all the charges pertaining to filling, weighing, stitching, commission, market fees, etc. FCI and the State Producing agencies make the purchases at the support price for stocks conforming to Fair Average Quality (FAQ) specifications.

When asked about the current systems of procurement prevalent in the country and FCI's role in it, the Secretary, Department of Food & Public Distribution, during the course of oral evidence on 21 January, 2013 stated : -

"FCI procures the food grain, distributes in the country and makes it available to the State agencies. The State agencies have their own mechanism to take it to their Fair Price Shop. That is the normal system. In most of the States it was realized that instead of FCI getting involved, let the Stage agencies do it. The State agencies will procure; FCI will support them in case there is a problem. They will store it and then distribute it.

In case a State undertakes this operation, we call that State as a DCP State. In a DCP State, if there is a shortage, FCI will support them by giving them the additional quantity which is the gap. In case they are procuring more, then FCI will take it from them. Like Punjab and Haryana. They procure so much. They are not the DCP States but we take it from them. In case there is an excess, we will take it out of that State to the other State where there is a shortage. Similar is the case with Andhra Pradesh. Andhra Pradesh is procuring sufficient quantity of food grain for themselves. We have requested the Government of Andhra Pradesh to take over this responsibility. The procedures and the system remain the same. And whether in MSP operation, FCI procures it or State agencies procure it, it does not make difference to the farmers. We have requested the State to take over this responsibility, get the paddy processed by the mill, get the rice and store it in their godown and issue it to PDS. In case the State is not remaining as a DCP State, then FCI has to step in. But it is good that they are sharing the burden. They are more conscious and they can manage it at their level."

Decentralized Procurement of Food Grains Scheme

The concept of Decentralized Procurement (DCP) Scheme was mooted with a view to increase the participation of States in procurement as well as PDS.

According to the Ministry, the Scheme of Decentralized Procurement of food grains was introduced by the Government in 1997-98 with a view to effecting savings in the form of reduction in the outgo of food subsidy, enhancing the efficiency of procurement and PDS and encouraging local procurement to the maximum extent thereby extending the benefits of MSP to local farmers. The Government is also taking necessary action to increase the procurement from the newly emerging procuring States of Madhya Pradesh, Chhattisgarh, West Bengal, Bihar, etc. The Central Government has also been encouraging these States, which have potential for procurement, to step up their procurement efforts.

Under the decentralized procurement scheme, the State Governments themselves undertake direct purchase of paddy and wheat and procurement of levy rice on behalf of Government of India. Purchase centers are opened by the State Governments and their agencies as per their requirements. The State Governments procure, store and distribute food grains under TPDS 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 TPDS and other schemes, the Central Government through FCI, meets the deficit out of the Central Pool stocks.

The Central Government undertakes to meet the expenditure incurred by the State Governments on the procurement operations as per the approved costing in the form of subsidy. The Central Government also monitors the quality of food grains procured under the Scheme and reviews the arrangements made to ensure that the procurement operations are carried on smoothly.

The State Governments undertaking Decentralized Procurement currently are as follows:-

Sl. No.	Name of the State	Procurement of food grains	Production in 2011-12 (in MT)
1.	West Bengal	Rice/Wheat	16.29
2	Madhya Pradesh	Rice/Wheat	19.05
3	Chhattisgarh	Rice/Wheat	6.84
4	Uttarakhand	Rice/Wheat	1.85
5	Gujarat	Wheat	9.07
6	A&N Islands	Rice	-
7	Orissa	Rice	6.43
8	Tamil Nadu	Rice	9.64
9	Karnataka	Rice	12.20
10	Kerala	Rice	-
Total			81.34

Government of India has been encouraging State Governments to come forward and take up procurement operations under decentralised procurement mode. The share of DCP States in total procurement has shown a steady increase over the last 5 years.

The principal food grains handled by FCI are wheat and rice. The production, *mandi* arrival and procurement of food grains (wheat and rice) between 2006-07 and 2011-12 are given below:-

Production, *mandi* arrival and procurement of wheat (in lakh metric tonne (LMT))

Crop year	**Production**	***Mandi* arrival**	**Procurement**			**Total**	**Per cent of *mandi* arrival to production**	**Per cent of FCI's share in procurement**
			FCI	**State Government Agencies**				
				Non-DCP States	**DCP States**			
2006-07	758.10	137.01	13.43	78.39	0.49	92.31	18	14.5
2007-08	785.70	154.30	15.41	89.88	5.99	111.28	20	13.8
2008-09	806.80	244.13	52.88	126.29	47.72	226.89	30	23.3
2009-10	808.00	268.58	47.88	148.78	57.16	253.82	33	18.8
2010-11	868.74	259.47	34.19	157.18	33.76	225.13	30	15.1
2011-12	939.03	324.62	39.74	192.87	50.74	283.35	35	14.0
Total	4966.37	1388.11	203.53	793.39	195.86	1192.78	28	17.0

Production, *mandi* arrival and procurement of paddy (in terms of rice) (in LMT)

Crop year	**Production**	***Mandi* arrival**	**Procurement**				**Levy**	**Total**	**Per cent of *mandi* arrival to production**	**Per cent of FCI's share in procurement (excluding levy)**
			FCI	**State Government Agencies**						
				Non-DCP States	**DCP States**	**Total**				
2006-07	933.50	301.05	18.51	91.52	48.71	140	92.32	251.06	32	13.22
2007-08	966.92	311.42	18.45	88.00	58.79	147	122.13	287.37	32	12.55
2008-09	991.82	382.32	18.51	105.37	80.60	186	136.56	341.04	39	9.95
2009-10	890.93	346.24	9.88	114.91	82.91	198	112.64	320.34	39	4.98
2010-11	959.80	363.80	13.09	132.04	80.81	213	116.05	341.99	38	6.14
2011-12	1043.22	560.12	2.84	144.44	105.48	250	97.65	350.41	54	1.14
Total	5786.19	2264.95	81.28	676.28	457.30	1134	677.35	1892.21	39	7.16

The details of production, market arrivals and procurement for wheat and rice, for the year 2012-13 till date are as under:

(in LMT) (As on 24.07.2013

Commodity	Production	Market Arrivals	Procurement of rice (including in terms of paddy) / Wheat	Procurement in DCP states	% of procurement in DCP states
Wheat	948.8	404.52	381.48	87.9	23%
Rice	1042.2**	590.96	337.91	112	36%

****** 3rd Advance Estimates. Rice procurement under KMS 2012-13 is under progress

The break-up of procurement between FCI and the State Government /agencies for this period is indicated in the table below

(in LMT) (As on 24.7.13)

Commodity	Year	FCI	St. Govt./ agencies	Total	FCI's share
Wheat	RMS 2012-13	49.92	331.57	381.48	13.08
	RMS 2013-14	38.9	211.94	250.84	15.51
Paddy	KMS 2012-13	6.40	376.95	387.35	1.65

To a query regarding FCI's role in ensuring that farmers do not resort to distress sale, FCI stated in a written reply that the bulk of procurement in the States is done by the State Government and their agencies and therefore, they are largely responsible for ensuring that farmers get MSP. In the States which are having well established network of *mandis*, like Punjab, Haryana and parts of AP, the farmers bring their produce to the regulated markets and therefore the MSP is assured. Whereas in States which do not have adequate infrastructure, like regulated markets, etc. the possibility of some farmers being deprived of MSP cannot be ruled out. Such States ought to upgrade their infrastructure so that the interest of the farmers can be fully protected.

When asked if the Government has taken any steps to increase procurement centres with a view to encourage *mandi* arrival to augment procurement of food grains for the Central Pool, the Ministry in a written reply stated that the procurement centres are opened/operated in consultation with the State Government administration keeping in view the production, marketable surplus and expected arrivals. The number of purchase centres have increased considerably from 10,000 (RMS 2010-11) to 20,000(RMS 2013-14) in the last 3-4 years. More than 25,000 purchase centres are proposed to be operated during ensuing KMS 2013-14. More number of centres will be opened to increase the procurement in future as per the requirement and feasibility. Development of *mandis* in other potential States on Punjab /Haryana & MP pattern will also help in increase in *mandi* arrivals & procurement.

In a post-evidence reply, FCI stated that in RMS 2012-13, out of the total quantity of 381 LMT wheat procured in the country, FCI's share was 50 LMT (13%). During the KMS 2012-13, out of the 241 LMT paddy procured the share of FCI was 6.1 LMT (2.5 %) (up to 04.01.2013). Details of the paddy and wheat procured agency-wise during the last five years are given in ***Annexure I (a) & (b)***.

All India procurement of food grains in central pool for last three marketing seasons have been as under:

Figures in Million tonnes

Marketing seasons	Rice	Wheat	Total
KMS 12-13 /RMS 13-14	33.79*	25.08	58.87
KMS 11-12 /RMS 12-13	35.06	38.14	73.20
KMS 10-11 /RMS 12-13	34.19	28.33	62.52

*Rice receipt during KMS 12-13 is expected to reach 34.5 million tonne.

When asked about the target set by FCI for procurement throughout the country and ensure sufficient stocks in the Central Pool, the Secretary, (F & PD), stated as follows: -

> "There is no target for procurement and neither do we set any. The definition of procurement is that we have to try and ensure that the farmer receives the Minimum Support Price. If there is a buyer in the market who will give more than that, then he will buy. But if not, then it is the responsibility of the Government, whether State or Central, to buy from the farmers."

To a query as to whether it not be prudent to play a more pro-active role among States which are newcomers in the system of Decentralized Procurement, the Food Secretary stated during the oral evidence held on 29 February, 2012: -

> "The point is very valid that we have to play a pro-active role and we have to hold their hands. We have to go to each and every State. We are very much conscious…that this has to be done."

Adding further, he stated:-

> "We have been requesting the States and also urging the States…We are willing to provide help to them. This will have one additional factor. The States are not having adequate quality control staff. We have been telling them to recruit adequate quality control staff on this account. We can train them and we can help them. We are urging the States to do this."

The Comptroller & Auditor General (C&AG) in its Report No. 7 of 2013 on 'Storage Management and Movement of Food Grains in Food Corporation of India' has observed that out of the total procurement of food grains for the Central Pool during the period 2006-07 and 2011-12, direct procurement of FCI and DCP States was only 9 per cent and 21 per cent respectively and the remaining quantity of 70 per cent was procured by agencies of other State Government, private millers, etc.

Audit further observed that direct procurement of wheat by FCI and DCP States was only 17 per cent (203.53 LMT) and 16 per cent (195.86 LMT) of the total procurement respectively whereas non-DCP states procured 67 per cent (793.39 LMT) during the period 2006-07 and 2011-12. Despite increase in the overall procurement over the last four years (2008-09 to 2011-12), the level of procurement by FCI had actually decreased from 52.88 LMT to 39.74 LMT. In DCP states, the procurement of wheat had reduced from 57.16 LMT in 2009-10 to 33.76 LMT in 2010-11 and was 50.74 LMT in 2011-12.

With regard to procurement of rice, Audit observed that FCI's role in direct procurement of rice was limited to 4 per cent (81.28 LMT) of the total procurement, while the share of DCP States was 24 per cent (457.30 LMT), non-DCP States 36 per cent (676.28 LMT) and private millers was 36 per cent (677.35 LMT) during the period 2006-07 to 2011-12. In the case of DCP States, the rice procurement was stagnant between 80.60 LMT and 82.91 LMT during the period 2008-09 and 2010-11 but increased to

105.48 LMT in 2011-12. Procurement of rice by non-DCP States showed an increasing trend from 91.52 LMT in 2006-07 to 144.44 LMT in 2011-12. On the whole, the contribution of DCP and non-DCP States to the total procurement of rice during the six year period was 24 per cent and 36 per cent respectively. The remaining 36 per cent was procured through levy route from private rice millers.

Audit concluded that FCI's own procurement of food grains and that of DCP States remained stagnant over the years. In order to sufficiently increase the procurement of food grains from the present level, and for ensuring price support to farmers in the form of MSP, there is a need to intensify procurement operations of FCI and DCP States.

In this regard, the Committee enquired of FCI the reasons for reduction in FCI's direct procurement and whether any steps had been taken by it to increase its share of direct procurement in view of the low level procurement. In reply, FCI, in a written reply stated that though the share of FCI in procurement of paddy is negligible, FCI undertakes the maximum receipt of rice from State Government agencies and millers in the form of CMR and levy respectively. Keeping in view the present manpower and infrastructure available with FCI and also the economy, States are being encouraged for switching over to DCP mode of procurement. The emphasis is on the bigger role of States Governments and their agencies in procurement / MSP operations.

The procurement is a mammoth operation and FCI cannot reach every nook & corner of the country due to various limitations. State Governments have to play a proactive role so as to protect the interests of the farmers.

When asked about the challenges being faced by the Ministry/FCI in implementation of the DCP Scheme, the Ministry in a written note responded that the main constraint with the DCP States is lack of sufficient storage space with the states like MP, West Bengal, Uttarakhand, Odisha and Chhattisgarh for immediate storage of the procured food grains. However, FCI takes over stocks in Central Pool as per availability of storage space with it in the State and also moves out the surplus stocks to deficit States as per movement plan both directly from the *mandis* during procurement season and from States' storage points subsequently.

It has been stated that the requirement of food grains under the National Food Security Act, 2013 may be around 62 million tonnes, whereas the average procurement of last three years is about the same. It has been further stated that if the procurement of 35 million tonnes of rice and 28 million tonnes of wheat is maintained, then there will be stock available to meet the requirement, albeit there may not be appropriate commodity mix.

B. INFRASTRUCTURE FACILITIES & COMPUTERIZATION AT GODOWNS AND PROCUREMENT CENTRES

Infrastructure Facilities and Purchase Centres

The Committee observed that there was an urgent need to set up infrastructure for the benefit of farmers, at the time of procurement. In this regard, the Secretary, F & PD stated the following:-

> "The honourable finance minister, along with the food and agriculture ministers, had announced after a conference that all governments would be allocated money from the consortium, if they are in need of it. That was with regard to money. With regard to the purchase centers, there should be space for the creation of the same. The State Governments should set up the purchase centres."

The following two table show the Purchase Centres established during Rabi Marketing Season (RMS) and Kharif Marketing Season (KMS) in the years 2010-11 and 2012-13 by FCI / Stage Agencies:

Purchase centres operated by FCI/State Agencies during RMS in the last three years

(As on 18.12.2012)

Region	2010-11			2011-12 (Provisional)			2012-13 (Provisional)		
	FCI	State Agencies	Total	FCI	State Agencies	Total	FCI	State Agencies	Total
Punjab	387 (including joint)	1315	1702	392	1348	1740	432	1338	1770
Haryana	81 (37 Jt)	286	367	70	297	367	63	308	371
UP	73	4425	4498	60	4513	4573	41	4926	4967
Rajasthan	119	185	304	120	188	308	106	231	337
MP	22	1206	1228	0	1966	1966	0	2309	2309
Delhi	4	0	4	4	0	4	4	0	4
Bihar	111	456	567	90	560	650	0	8997	8997
HP	7	0	7	5	0	5	4	0	4
Gujarat	0	188	188	24	188	212	25	228	253
Jharkhand	8	0	8	10	0	10	0	0	0
Chhattisgarh	0	1333	1333	0	1333	1333	*	*	*
J & K	15	0	15	3	0	3	15	0	15
Maharashtra	0	58	58	0	456	456	0	93	93
Uttarakhand	33	167	200	24	179	203	20	179	199
West Bengal							0	150	150
total	860	9619	10479	802	11028	11830	710	18759	19469

Number of purchase centres operated/proposed during KMS 2010-11 to 2012-13.

(As on 18.12.2012)

Region	KMS 2010-11				KMS 2011-12			KMS 2012-13 (Prov.)		
	FCI	State Agencies	Jointly	Total	FCI	State Agencies	Total	FCI	State Agencies	Total
AP	168	1236	-	1404	171	1612	1783	0	1800	1800
Assam	21	-	-	21	21	-	21	14	17	31

Bihar	74	475	-	549	91	8943	9034	0	9035	9035
Chhattisgarh	-	1589	-	1589	-	1888	1888	0	1936	1936
Delhi	4	-	-	4	4	-	4	4	-	4
Gujarat	8	2	-	10	-	46	46	-	53	53
Haryana	6	76	101	183	39	143	182	37	146	183
HP	5	-	-	5	5	-	5	4	-	4
Jharkhand	10	-	-	10	18	610	628	10	610	620
JK	15	-	-	15	10	-	10	5	-	5
Karnataka	-	39	-	39	-	124	124	-	50	50
Kerala	-	470	-	470	-	475	475	-	512	512
Maharashtra	-	857	-	857	-	641	641	0	740	740
MP	-	473	-	473	-	734	734	-	750	750
Orissa	84	1938	-	2022	3	2539	2570	20	2539	2559
pudicherry	-	-	-	-	-	-	-	-	-	0
Punjab	234	1487	-	1721	245	1505	1750	227	1543	1770
Rajasthan	12	-	-	12	12	-	12	12	-	12
TN	-	1503	-	1503	-	1500	1500	-	1700	1700
UP	46	2189	-	2235	32	2968	3000	50	3200	3250
Uttarakhand	9	49	-	58	5	50	55	5	50	55
West Bengal	-	1921	-	1921	-	2141	2141	38	4235	4273
total	696	14304	101	15101	684	25919	26603	426	28916	29342

FCI stated in a post evidence reply that during RMS 2012-13, the total number of purchase centres operated in the country were 19,469 including 710 by FCI, whereas during RMS 2011-12 the total number of purchase centres operated were 11,830 including 802 centres by FCI. It was further stated that with a view to providing wider coverage to the procurement operations, the number of centres depending upon the procurement potential and the convenience of the farmers are set-up and they are gradually increasing year after year to obviate any possibility of distress sale. As seen in Annexure I and in the tables given above, the bulk of the procurement and purchase centres are undertaken by the State Government and their agencies.

The Committee were also informed that during KMS 2012-13, the number of purchase centres established in the country was about 20,342 and more centres are likely to open. During KMS 2011-12 the total number of purchase centres were 26,603. It is evident that to the said extent, FCI cannot have the coverage of the entire country, as the operations of procurement are mammoth and the responsibility has to be shared and shouldered by State Governments and their agencies to a very large extent. In States like Punjab and Haryana, 5 to 6 State Agencies are undertaking procurement operations including FCI whereas in the other States, 2 to 3 agencies are engaged in the procurement operations.

When asked about the measures taken by Department / FCI in aiding farmers at purchase centres, the Ministry replied that the Government / FCI have taken following measures in aiding farmers at purchase centres:-

(i) Wide publicity of the specifications such as acceptable moisture contents, foreign matters, etc. are given so that farmers may bring their produce accordingly and may not face any difficulty after bringing their produce at purchase centres. Handbills / pamphlets are also distributed to farmers for their awareness.

(ii) At purchase centres /*mandis* necessary facility for cleaning and weighment are provided, arrangement of moisture meters and gunnies are made so that prompt acceptance of farmer's produce can be ensured.

(iii) In States like MP, where the farmers and cooperative societies are registered, the information about date and time for bringing the produce at the centre are given through SMS

On being asked about the current status of the IISFM projects and steps taken for its improvement, FCI in a written submission stated that the Department through their decision have directed to treat IISFM project as closed in Twelfth Plan. However, to improve the Integrated Information System for Foodgrains Management (IISFM) project in Food Corporation of India, with the approval of the Department, few projects have been proposed which would be linked with the IISFM Project and help in providing more realistic stock position:

(i) Release Order Module: To synchronise with end to end computerization of TPDS at the state level, currently being implemented under a 12th Five Year Plan scheme of Department of F&PD with various State Governments, the release order module is being developed by NIC as part of IISFM project.

Release order is issued against the allocation under different Government schemes by FCI District Offices for issue of food grains to State Government/agencies. This module will integrate outflow from FCI Depots with TPDS platform.

(ii) Online Procurement Module: Procurement Module is under advanced stage of development by NIC, with the objective to monitor the progress of procurement of wheat/rice online for both RMS & KMS procurement seasons.

C. OFFTAKE

The allocation of foodgrains (wheat/rice) to the State Governments/UTs is released by the Government of India (Ministry of CAF&PD) from Central Pool for distribution under TPDS depending upon availability of foodgrains in the Central Pool, relative demand of the States/UTs, off-take trend and other relative factors.

The additional allocation of foodgrains is also being made to the State/UTs by the Ministry of CAF&PD, GOI at various pre-fixed prices for various purposes. The Government of India, Ministry of Food, fixes Central Issue Prices of wheat and rice on the recommendations of Commission on Agricultural Cost and Prices (CACP), from time to time, which is uniform throughout the country. The Central Issue Prices(CIP) of food grains issued under TPDS are far below the Economic Cost and are highly subsidized for making available foodgrains for the families under Below Poverty Line(BPL).The Central Issue Price of wheat and rice for APL and BPL families came into effect from 1st June, 1997. Rice was re-categorized into Common and Grade-'A' w.e.f., 1st December 1997.

According to the decision of Ministry of Food & CA, Grade ‘A’ rice would be issued for families above poverty line(APL) and both Common and Grade ‘A’ rice for families below poverty line(BPL). However, for families above poverty line (APL) of Jammu & Kashmir, Himachal Pradesh and hilly areas of NE States (including Sikkim) and Uttar Pradesh (now Uttaranchal), besides Grade ‘A’ rice, Common rice would be issued at the specified rate. The present Central Issue Prices of wheat and rice are as follows:

		(Rate: Rs./Quintal.)
Commodity	APL	BPL
Wheat	610	415
Rice Common	795 $	565
Rice Grade ‘A’	830	565

($): applicable to J&K, Himachal Pradesh, Sikkim, Uttaranchal and NE States.

Based on the allocation made by the Government of India, State Governments lift (offtake) the food grains from the Central Pool for distribution to the consumers through TPDS and OWS. Distribution of food grains for BPL, AAY and APL is carried out by the State Governments through TPDS with a network of around 4.89 lakh Fair Price Shops (FPS) throughout the country. The State Governments are responsible for identification of beneficiaries and issue of ration cards. The Government of India introduced (October 1993) Open Market Sale Scheme (OMSS) for disposal of food grains through sale in open market with a view to containing inflationary tendencies and generating storage space in the states.

The following Table gives the procurement, allocation and offtake of food grains during the years 2006-07 to 2011-12: -

Procurement, allocation and offtake of food grains (in LMT)

Year	Procurement	Allocation	Offtake	Difference between allocation and offtake
2006-07	343	641	367	274 (43%)
2007-08	399	445	375	70 (16%)
2008-09	568	459	396	63 (14%)
2009-10	574	620	500	120 (19%)
2010-11	567	685	530	155 (23%)
2011-12	634	709	563	146 (21%)

The allocation and offtake under TPDS, OWS, OMSS, etc., for the period 2006-07 to 2011-12 is given below: -

Scheme wise allocation and offtake of food grains

Figures in LMT

Year	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
	Wheat											
Schemes	A	O	A	O	A	O	A	O	A	O	A	O
TPDS	145.74	102.59	118.74	105.68	144.42	96.63	213.33	139.37	222.38	173.08	259.97	187.52
OWS	15.68	13.32	19.05	14.12	15.75	11.19	53.99	17.21	46.75	24.98	29.75	19.60
OMSS(D)	3.90	1.02	0.00	0.09	23.78	12.34	46.52	16.41	52.70	11.55	35.05	11.85
EXPORT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.98
DCP		1.82		2.58		28.70		50.88		21.08		22.73

SUB-TOTAL	165.32	118.75	139.79	122.47	183.95	148.86	313.84	223.87	321.83	230.69	324.77	242.68
Percentage of offtake to allocation		72		89		81		71		72		75
Year	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
	Rice											
Schemes	A	O	A	O	A	O	A	O	A	O	A	O
TPDS	434.00	160.19	272.75	175.41	236.63	160.51	240.71	158.41	284.18	187.65	323.26	225.58
OWS	41.82	38.52	34.12	29.13	38.07	25.45	55.24	34.49	58.83	33.24	44.24	27.88
OMSS(D)	0.00	0.01	0.00	0.08	0.00	0.09	10.28	5.17	20.02	1.68	16.70	0.18
EXPORT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DCP		49.81		47.51		60.69		78.34		77.08		66.90
SUB-TOTAL	475.82	248.53	306.87	252.13	274.70	246.74	306.23	276.41	363.03	299.65	384.20	320.54
Percentage of offtake to allocation		52		82		90		90		83		83
Grand total	641.14	367.28	444.66	374.60	458.65	395.60	620.07	500.28	684.86	530.34	708.97	563.88

Source: FCI Sales Division
(A – Allocation, O – Offtake)

The Committee observed that the prevalence of high stocks and low storage capacity as a result of low offtake was affecting the operations of FCI. On being asked the reasons for this, the CMD, FCI replied as follows:-

> "The offtake has increased from 36 million MT in 2006-07 to 56 million MT in 2011-12. In fact, in the year 2011-12, we expect an off take of 56 million tonnes. The Government of India has made an allocation which is more than 70 million. Some States are unable to lift. There are several States sir. Several States where they are not even able to lift the allocation made to poorest States on the direction of Supreme Court. Sir, the Government of India has given that allocation. We are constantly pursuing. At least, at my level, I write to them every month to at least lift the allocation made for poorest districts. They are not able to do that. So, the answer is that Government has increased the allocation; the off-take has gone up. As you can see Sir, lifting has gone up from 37 million MT to 56 million MT, twenty million offtake has increased. And yet, I am extremely worried because there is a limit to which you can carry the excessive stock. Sir on 1st of February, we are carrying 40 lakh tons more wheat than last year and 40 lakh tons rice than last year. We cannot manage this high level of stock without any extra staff, especially quality control Sir.
>
> My request is that all of us are waiting for Food Security Bill. That is why we are conservative in several of our actions. But the thing is that if the Bill is delayed for whatever reasons, then something else has to be done so that the off-take can match procurement. Sir, I showed here. The procurement of wheat last year was 28 million tons and off-take was 24 million tons which means four million tons of extra wheat, you are adding to the stock which you already had. Similarly, in the case of rice, procurement is 36 million tons and off-take 32 million tons. So, sir, unless the procurement and off-take match with each other, no system can function. How much storage capacity can you add?"

Audit observed that the current procurement level of food grains would have to be increased to meet the gap against the allocation for TPDS and OWS. Moreover, as the gap between procurement and offtake of food grains was not substantial enough, procurement level of food grains needs to increase sufficiently to maintain availability of food grains for distribution and buffer stock in the Central Pool.

Audit has pointed out that according to the estimates (March 2012) of the Department for the period from 2011-12 to 2016-17 (excluding the requirements for buffer and OMSS), the food grain requirement for TPDS and OWS for 2011-12 would be 607 LMT which will continue to increase to the level of 655 LMT by 2016-17 as depicted in the table below:

Projected requirement of food grains

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Projected requirement	607.40	615.50	325.00	634.70	644.60	654.60

Audit observed from the above that while the level of allocation (TPDS and OWS) during the last two years (2010-11 and 2011-12) had already reached 612 LMT to 657 LMT, the estimated requirement of food grains from 2011-12 to 2016-17 has been assessed by the Government of India only 607 LMT to 655 LMT which may need a review by the Government of India.

Further, while the total allocation had reached 620 LMT, 685 LMT and 709 LMT during 2009-10, 2010-11 and 2011-12 respectively, but the procurement level was still in the order of 574 LMT, 567 LMT and 634 LMT correspondingly. It is evident that the current procurement level (634 LMT) would not be able to adequately meet the allocation and the future requirement of food grains estimated by the Government of India.

Audit, thus, observed that there is a need for increase in the procurement level of food grains. For this purpose, it is pertinent to point out that as the procurement of food grains against *mandi* arrival had reached 85 per cent during the period 2008-09 to 2011-12, there would be limited scope for increase in procurement unless *mandi* arrival is increased from the current level of 45 per cent of the production of food grains in the country.

When asked the reasons for poor lifting of additional allocation the CMD, FCI replied:-

> "The poor lifting is basically against the additional allocations made by the Government of India. These are not regular allocations. The State Governments say that today if they start giving some additional rice to a person, tomorrow that allocation may not continue."

To a pointed query of the Committee about the reasons for mismatch in off-take, a representative of the Department during the course of the oral evidence held on 29 February, 2012 submitted: -

"For this year, up to December, the data which has been compiled and available is as follows: the off-take against normal allocation for the current year is 100 per cent for the BPL. It is 95 per cent for the AAY and it is 76 for the APL category.

Overall off-take of all categories put together is 90 per cent. Last year because of a large stock being available, only two measures could have been done. One is, domestically, allocate more. Actually, more allocation is a logical conclusion because we are still giving at the 2001 population. Why 2011 population has not been given so far? It is because if you give at the 2011 population, food grain would not be sufficient. We can manage 2011 BPL but APL is almost universal at present. So, in case that 15 kilogram is to be given to everyone, then the food grain requirements would have been much more.

So, States have been demanding from time to time *ad hoc* additional allocations like last year. Their BPL calculations, as you know, come out in the media. Often the BPL calculations of the Planning Commission or the Ministry of Rural Development are contested by every State. They say that their BPL figures are different. *Ad hoc* additional allocations have been given on the demand of the States, albeit they have been large last year. For example, during 2011-12 a quantity of 50 lakh tonnes of rice and wheat was allocated for distribution to BPL families. Here the off-take has been 60 per cent. Even then I would consider 60 per cent to be a very good off-take. At least they were able to lift the additional quantity. A quantity of 50 lakh tonnes was allocated in June 2011 for distribution to APL families. In this, the off-take was very poor; it was around 35 per cent. In January 2011 a quantity of 25 lakh tonnes was allocated to all States and UTs for distribution to APL families at special prices of Rs.11.85 per kg. for rice and Rs.8.45 per kg for wheat. It is almost like market intervention to curb the prices. Here the off-take was 47 per cent. 174 poorest districts to which the CMD has referred were covered on the intervention of the Supreme Court as they wanted to identify some poorest backward districts. In that, basically 5 million tonnes had been reserved out of which we allocated 23 lakh tonnes of rice and wheat. The off-take was only 3.47 lakh tonnes which accounts for 15 per cent up to December 2011."

When asked if the States' inability to lift additional allocation was due to the price of the food grains, he stated: -

"Apart from the price, what the CMD had referred to is that this has been discussed with States again and again specially because the CVC appointed by the Supreme Court has also been working on it. States have said that they are able to lift the normal allocations because they provide for it in the Budget in the beginning itself that this much is to be taken up and this much has to be distributed to these many ration card holders. Whether they are less or more is a contestable point. But we distribute it. When you give additional *ad hoc* allocation, unless and until we have asked for any festivity etc., then the problem arises as to how many people we give, how much actually we give and then the provision of budgetary allocation also becomes an issue at that moment."

On being asked why FCI could not include additional allocation in the first supplementary, if it had become a permanent feature, he clarified :-

> "This happened only in the last year because of large stocks. This year, in March we have to make new allocations for the next year. Already many scenarios have been developed and the file is under submission. It has gone to the Secretary/Minister. They have to take a view. We are likely to take a view on what basis it can be done. We cannot implement the National Food Security Bill till it is passed by the Parliament in whatever form later. Since stocks are available and we do not want to give these *ad hoc* allocations because lifting becomes a problem, some solution will be arrived at within the next fifteen days. Before March when the allocations will have to go, we will take a decision as to how to give it so that they can lift it throughout the year. Even if we give additional *ad hoc* allocations, they will be given for the whole year. We will not give it for six months or nine months. This is what we are going to try to do.

Apart from that, last year on the demand of Andhra Pradesh and many other State Governments, exports were also allowed because basically the rice exports have happened to a large extent – about 31 lakh tonnes – and that has eased our problem of further procurement. When we take this decision in the month of March for additional allocation, this will not be a permanent solution. The permanent solution to food security will come from the Bill itself in whatever modified form it comes later. As you have been suggesting, it is not an easy Bill to implement; it is a complicated exercise. But, the nation will find out the ways to do it. The Committee will decide about it and we will help them.

As you are rightly saying a mind-boggling problem is there. But it will be sorted out. We will have to come out with a solution. With the three million ton of capacity being added in March 2012 – he did not mention it very specifically; but 32 lakh ton is being added in March 2012 for operational purpose. By December 2012 or by March 2013, another 50 lakh ton is being added. Once you implement the Right to Food law, maybe we will have lesser food grains and we may have to import it also."

D. MINIMUM SUPPORT PRICE

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

On the procedure adopted by the Department to assess Minimum Support Price (MSP) for specified items of food grains, the Department in their written reply to the Committee submitted that Minimum Support Price fixation for food grains is done by the Ministry of Agriculture (Department of Agriculture and Cooperation (DAC)). The Department, quoting the reply received from DAC in this regard stated that the Government's price policy for agricultural commodities seeks to ensure remunerative prices to the growers for their produce with a view to encourage higher investment and production, and to safeguard the interest of consumers by making available supplies at reasonable prices. The price policy also seeks to evolve a balanced and integrated price structure in the perspective of the overall needs of the economy. Towards this end, the Government announces in each season Minimum Support Prices (MSPs) for major agricultural commodities and organizes purchase operations through public and cooperative agencies. The designated central nodal agencies intervene in the market for undertaking procurement operations with the objective that the market prices do not fall below the MSPs fixed by the Government.

Explaining the process of fixing of MSP, the representative of the Department of Agriculture and Cooperation stated during the oral evidence held on 3 July, 2013 :-

> "The Ministry of Agriculture fixes the MSP for 24 mandated agricultural commodities basically on the recommendation of the CACP. The CACP is mandated to look into various aspects for submitting its recommendation to the Government. The factors which are taken into account are cost of production; demand and supply; trends in market prices, both domestic and international; changes in input prices; parity between the prices paid and prices received by the farmers; inter-crop price parity; effects on industrial cost structure; effect on cost of living; and effect on general price level.
>
> The foremost point which they keep in mind is the need to the producer for adopting improved technology and for developing production pattern broadly in the light of national requirement. The Commission is also expected to suggest non-price measures which would achieve all these objectives. So, basically the CACP is the expert body which has been requested to look into this aspect and they take all factors into account and submit their recommendations. Based on these recommendations, the prices are fixed by the Government of India."

The Commission on Agriculture Costs and Prices (CACP), 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, tends in market prices, demand and supply situation, inter-crop 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 Commission for Agricultural Costs and Prices (CACP) which is an independent body of experts and considers, among other factors, the costs of production of various crops for all the major producing States, as collected by different State Agricultural Universities under the Comprehensive Scheme for the Study of Cost of Cultivation of Ministry of Agriculture. For some inputs when farmer does not pay out of his pocket, certain imputed value is taken into account to arrive at a cost of production which is closer to the actual cost. Based on this and other factors MSP of various crops is worked out by CACP.

The cost of cultivation/production includes all paid out costs such as those incurred on account of hired human labour, bullock labour/machine labour (both hired and owned) and rent paid for leased in land besides cash and kind expenses on use of material inputs such as 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 for farm machinery, building, transportation and insurance charges. As such, the cost of production covers only actual expenses in cash and kind but also imputed value of owned assets including land and family labour.

Clarifying further about the modalities adopted for the purpose during the oral evidence held on 3 July, 2013, the representative of the Commission for Agricultural Costs and Prices stated:-

> "The data for determining the MSP is being collected by the Directorate of Economics and Statistics and these are made available to the Commission. These data are collected with the help of State Agricultural Universities, Agro Economic Research Centres located in various States, and the sample size is as large as 8,100. These estimates take into account factors, which include all actual expenses in cash and kind incurred in production by the farmers. The input items include bullock labour, human labour, machine labour, fertilizer, manures, seeds, insecticides, irrigation charges, marketing transportation, and crop insurance."

From time to time, expert committees were constituted to revise the methodology and system of calculation of the cost of cultivation/production of agricultural produce, to arrive at Minimum Support Prices (MSPs). Most recently, the Government had set up an Expert Committee under the Chairmanship of Prof. Y. K. Alagh in May 2003 to examine the methodological issues in fixation of MSP. On its recommendations, the Government decided in 2009 that while recommending Minimum Support Price (MSP), the following items of cost shall also be considered by CACP:

(i). The premium actually paid by farmers for crop insurance;
(ii). Marketing and transport charges incurred by farmers.
(iii). Imputing value of family labour on actual market rate for casual labour in cost estimates; and
(iv). The likely effect of the price policy on the rest of the economy, particularly on the cost of living, level of wages, cost of structure of agro-based products and the competitiveness of agriculture and agro-based commodities.

Table showing MSP of Paddy and Wheat during the last decade is given below:

Minimum Support Price of Paddy and Wheat for last ten years

MSP+ Bonus (Rs./quintal)

Year	Paddy	Wheat
2001-02	530	580
2002-03	550	610
2003-04	550	630
2004-05	570	630
2005-06	570	640
2006-07	620	700
2007-08	745	850
2008-09	900	1000

2009-10	1000	1080
2010-11	1000	1100
2011-12	1080	1170
2012-13	1250	1285
2013-14	-	1350

The MSP of paddy and wheat has increased by 2.3 times since 2001-02.

The Committee then desired to know whether the CACP had among its members, representatives from the farming community. In this regard, the representative from CACP apprised the Committee that Shri Raghu from Karnataka had been inducted in the CACP on the recommendation from the Ministry of Agriculture.

When queried further about the limited sample size and methodology involved in the fixing of MSP, the representative from CACP admitted during the oral evidence on 3 July, 2013 :-

> "The CACP agrees to the concern of the hon. Members. In fact, in our report, we have already made this reference. We had said that the samples are very thin, on the basis of which the Secretary had called an all-India level meeting two months ago, that was attended by representatives from state agricultural universities. Those who are involved in this comprehensive scheme have come. On the basis of that, the Department of Agriculture and Cooperation has constituted a Committee to look into the entire methodology of fixing the MSP."

In a post-evidence reply, the Department of Agriculture and Cooperation further stated in this context that a committee has been constituted to examine methodology issues in fixing MSP for all the major crops. The Committee comprises 17 members including experts from the agriculture field, senior officers from Ministry of Agriculture, other concerned Departments and State Governments. The Committee also has adequate representation from the farmers' community. Two meetings of the Committee have already been held. The Committee has not submitted its report yet.

In a written reply to a post-evidence question on the current constitution of the CACP and representation of the farming community in the same, the Ministry of Agriculture (Department of Agriculture and Cooperation) submitted that the Commission for Agricultural Costs and Prices (CACP) comprises Chairman Shri Ashok Gulati, Member Secretary Dr. Anandi Subramanian, one Member (Official) Dr. Vishandass and two Members (Non-Official) Shri D.S. Raghu and Shri K. Pradhan. The Non-Official Members are representatives of the farming community. At present, one of the non-official member, Shri D.S. Raghu is an agriculturist, President of Mudigere Planters' Association in 1987-88 and an Executive Member of Karnataka Growers' Federation since 2001. The other non-official member, Mr. K. Pradhan is a farmer from Sambalpur, Odisha who has got state level award in agriculture.

In addition, the Department stated that at present there is no proposal under consideration for increasing the membership of farmers on the Commission.

Audit in its report, observed that while determining the cost of production for each crop, CACP followed a set procedure. No specific norm was, however, followed for arriving and fixing of Minimum Support Price over the cost of production leading to large year on year variation. The difference of all India weighted average cost of production (C2) and the MSP fixed by the Government of India during the period 2006-07 to 2011-12 was as under:-

Average weighted cost of production (C2) price vis-à-vis MSP of wheat

Crop year	C2 Price(Rs/qtl.)	MSP		Difference of MSP fixed over C2 (Rs./qtl/)	Percentage of difference over C2
		CACP recommended MSP	Fixed by the GoI		
	(a)	(b)	(c)	(c-a)	
2006-07	542	650	650+50@	158	29
2007-08	574	700	750+100@	276	48
2008-09	624	1000	1000	376	60
2009-10	649	1080	1080	431	66
2010-11	701	1100	1100	399	57
2011-12	826	1120	1120+50@	344	42

@ Additional incentive bonus

Average weighted cost of production (C2 price) vis-à-vis MSP of paddy (Grade A)

Crop year	C2 Price(Rs/qtl.)	MSP		Difference of MSP fixed over C2 (Rs./qtl/)	Percentage of difference over C2
		CACP recommended MSP	Fixed by the GoI		
	(a)	(b)	(c)	(c-a)	
2006-07	569	600	610+40@	81	14
2007-08	595	675	675+100@	180	30
2008-09	619	1050	880+50@	311	50
2009-10	645	980	980+50@	385	60
2010-11	742	1030	1030	288	39
2011-12	888	1110	1110	222	25

@ Additional incentive bonus

The margin of MSP fixed over the cost of production varied widely between 29 per cent and 66 per cent in case of wheat, and between 14 per cent and 60 per cent in case of paddy during the period 2006-07 to 2011-12.

Audit observed that there is skewness in the fixation of MSP over the cost of production of food grains. The margin of MSP over the cost of production varied widely and no norms had been prescribed for fixing the margin over the cost of production. Audit has concluded that there is a need for greater transparency in the method of arriving at MSP over the cost of production.

In the light of above, the Committee desired to know what steps had been taken by the Ministry of Agriculture (Department of Agriculture and Cooperation/CACP) to bring more transparency in arriving at MSP. The Ministry of Agriculture, Department of Agriculture and Cooperation in a written reply, stated that while recommending the Minimum Support Prices (MSPs) for various agricultural commodities, the Commission for Agricultural Costs & Prices (CACP) holds consultation with State Governments and farmers' representatives. The Report of the Commission is forwarded to all the State Governments and concerned Central Ministries/Departments viz. Ministry of Finance, Department of Food & Public Distribution, Department of Consumer Affairs, Department of Commerce, Ministry of Textile and Planning Commission for their views.

After consultation with the above named organizations, the price policy is finalized through a Note for the Cabinet Committee on the Economic Affairs (CCEA) for decision of the Government.

The Committee, concerned with the welfare of the farmers, enquired of the Ministry if farmers were receiving assured remuneration for the procured food grain. On the issue of payment of MSP to farmers, the Secretary, Department of Food & Public Distribution, during the course of oral evidence, further stated:-

> "From the very beginning I have been making a request that in the process of procurement, there has to be a proper accounting, a proper recording of the name of the farmer, his agricultural holding and his produce…In States like Punjab and Haryana, you would not find even a single case where payment of bonus has not been made. Payment of bonus electronically has been taking place for the last five years and the bonus has reached farmers."

When the Committee enquired whether in states like Andhra Pradesh, MSP was being paid through cheque, he stated:-

> "Sir, I would like to state that Andhra Pradesh is number one in terms of paddy. FCI procures rice through the levy route. The system there is such that FCI, when procuring rice, first asks of the State Government if MSP has been received or not. The District Collector gives a certificate that the MSP has been received. When the certificate comes, FCI collects the rice. We then asked whether payment had been made through cheque or not. I would like to say that in Andhra Pradesh payment is not made through cheque. The Minister had recently met with the Chief Minister and discussed this matter. The Chief Minister has given this order that in two districts of the State, hundred percent payments should be made through cheque. They also gave the commitment that this year they would try and ensure that 35, 40 or 50 per cent payments would be made through cheques. If the payments are not made through cheque, then how would we estimate whether full money has been received. In States like Punjab, it is hundred per cent and the second is through CMR route. There governmental procurement does not take place. In Punjab, all payment is made by State Agencies. The definition of procurement is that we should ensure MSP for the farmer. This is the responsibility of both State and Central Government."

FCI, in its post-evidence reply further clarified that the Government of India has also been emphasizing that the farmers be made payment through e-payment or Account Payee cheques. The State Government agencies while buying paddy are making payments to the farmers through cheques except in Punjab and Haryana. In case of Punjab and Haryana States, the payments are regulated through *artias* as per *mandi* bye laws of these two States. FCI has also been emphasizing that the rice millers should make payment by way of account payee cheque while purchasing paddy from the farmers.

CHAPTER III

STORAGE

A. BUFFER STOCK SYSTEM

Food grains stock in the Central Pool consists of stock held by FCI, DCP States and the State Government Agencies for both buffer and operational requirements. As per the policy, buffer stock is meant basically to serve as food security for emergency situations, uninterrupted supply during inter-seasonal scarcity and price stabilization in the market which should be maintained at all times. The Government of India prescribes only minimum buffer norms for storage of food grains (wheat and rice separately) in the Central Pool at the beginning of each quarter.

When asked about the buffer stock system and existing buffer norms, the Ministry in their written reply have furnished that Government of India has prescribed minimum buffer stock norms for food security in the country to ensure monthly releases of food grains for supply through PDS/Welfare Schemes, to meet emergency situations arising out of unexpected crop failure, natural disasters, etc. and for market intervention to augment supply so as to help moderate the open market prices.

Buffer stock of food grains to be maintained in the Central Pool are fixed taking into consideration the requirement of food grains during a particular quarter. Procurement season, lean periods, off take in the preceding year, base level requirements, stabilisation factor, etc. are taken into consideration while fixing these norms. The estimation is derived by considering the all India level and seasonal/quarter level requirements in a given year. A base level stock of 10 lakh tonnes each for wheat and rice has been taken as part of buffer at any point of time across zones and/or seasons. The Buffer Stocking Policy is reviewed from time to time, normally after every five years.

Existing buffer norms

The minimum buffer norms for stocking of food grains in the Central Pool with effect from April, 2005 are as follows: -

(Figures in Lakh MT)

As on	Buffer stock norms			Strategic reserve		Grand total
	Rice	Wheat	Total	Rice	Wheat	
1st April	122	40	162	20	30	212
1st July	98	171	269	20	30	319
1st October	52	110	162	20	30	212
1st January	118	82	200	20	30	250

The above norms include a Food Security Reserve of 30 lakh tonnes of wheat from 1 July, 2008 and 20 lakh tonnes of rice from 1 January, 2009.”

The current stock position of rice and wheat held by FCI and various State agencies is given as under (As on 01.12.2012): -

(Figures in Lakh MT)

Commodity	FCI	State Agencies	Total
Rice (including paddy in terms of rice)	145.18	160.89	306.27
Wheat	136.84	239.68	376.52
Total	282.02	400.57	682.59

When asked about the need for revising the existing buffer stock norms in view of the future passage and implementation of the National Food Security Bill (NFSB), the Ministry in their written reply stated that the Technical Group on Revision of Buffer Norms under the Chairmanship of Secretary of the Department has been considering the matter of revision of existing buffer norms based on the recommendations made in the report of the National Center for Agricultural Economics and Policy Research (NCAP) received in March 2009. The requirement of food grains under the proposed National Food Security Bill is quite substantial as compared to existing level of allocations. In the context of the expected higher requirements of food grains for allocation under TPDS and Other Welfare Schemes (OWS) based on the proposed National Food Security Bill, there is a need for revising the buffer norms earlier recommended by the NCAP taking into account the estimated higher requirements of food grains in implementing the proposed NFSB. Accordingly, NCAP has been asked to revise its recommendations in the context of NFSB. NCAP, which was entrusted to undertake a study for revision of buffer norms of food grains in view of the proposed National Food Security Act, has also submitted its final report in September, 2011. The Technical Group considered the final report of NCAP in its meeting held on 20 July, 2012 and requested the Planning Commission and FCI to furnish its further comments.

Accordingly, the comments of FCI/Planning Commission and the other aspects of the buffer norms were further discussed with NCAP on 25 February, 2013, with Chairman CACP on 14 May, 2013 and with FCI on 15 May, 2013. Based on the discussions held, a draft Note for CCEA was prepared. Draft CCEA note has been circulated on 15 July, 2013 for the comments of various Ministries/Departments. On receipt of the comments from all concerned, final CCEA Note shall be prepared and placed before CCEA for approval.

When asked as to whether a clear and realistic policy on buffer stock norms had been considered by the Government, the Secretary, Department of Food & Public Distribution submitted during the further Oral Evidence on 21 January, 2013: -

> “I submit that the process of revision of buffer norms is on. All the reports and comments are available. Now, there should not be any delay in finally deciding it. I have already submitted it. “

It had come to the notice of the Committee that in the past, when the country had stocks way beyond the buffer norms and the international prices were ruling very high, exports were banned. And, recently, when the international prices had come down, exports had been allowed. When queried in this regard, the Secretary, Department of Food & Public Distribution stated during the above cited further Oral Evidence: -

> "About the past, I can only say that may be for prudential reasons, exports were not allowed. This year, the Government decided to take advantage; and allowed export of 20 lakh tonnes. Secondly, for your information, due to drought in America, Uzbekistan and other places, the prices internationally were high and the Government has allowed further export of 25 lakh tonnes through the PSUs. Against an approval of 45 lakh tonnes, we have already contracted 24 lakh tonnes. Almost 15 lakh tonnes have been shipped.
>
> In addition to that, since September 2011, the Government has allowed export of wheat and rice under the OGL; and more than 40 lakh tonnes of wheat has gone under the OGL."

Asked further as to what was the prevailing average price for wheat, he stated: -

> "On the export made by the FCI through the PSUs, the average price will be slightly more than 310 dollars per tonne. It must be 312 dollars per tonne."

To a further query of the Committee, as to whether exports were yielding profit or loss, vis-à-vis imports in the international market, he informed the Committee: -

> "The FCI is procuring as a policy of the Government. In case, we have freedom not to procure more than required, we would have stopped it. Once we have, it is one of the ways to liquidate the stock.
>
> The Government when approved 20 lakh tonnes of export, the base price fixed was 228 dollars per tonne, above which I could have exported. My first tender was 296 dollar per tonne. The highest was 328 dollar. Then, it came down. The last was 310 dollar or so. That way, it is varying from 296 dollars and 328 dollars – up and down. That is why I said that the average will be 310 dollars per tonne. But if I include all the costs, it will definitely be at a loss."

During the further Oral Evidence of the representatives of the Department of Food and Public Distribution and Food Corporation of India, the Secretary, Department of Food & Public Distribution, while informing the Committee about the status of the buffer stock norms added:-

> "I would like to submit that buffer stock norms have been revised. I have assured that we will be doing it soon. But in the meantime, the CACP has also given the recommendations. We have discussed it; we have finalised the view. It is waiting the approval of the Minister. Once the Minister approves it, it will be circulated for the Inter-Ministerial Consultation and ultimately to the Cabinet."

PROPOSED BUFFER NORMS :-

(in million tonnes)

As on	Operational stocks			Strategic Reserve		Total
	Rice	Wheat		Rice	Wheat	
1st April	14.86	7.08		3.48	5.23	30.65
1st July	15.28	27.77		3.48	5.23	51.76
1st Oct	12.02	21.17		3.48	5.23	41.90
1st Jan	8.80	14.09		3.48	5.23	31.60

Audit has observed that the minimum buffer stock norms currently ranging between 212 LMT and 319 LMT during the year, as fixed in April 2005 do not clearly specify the elements of food security (e.g., emergency, price stabilisation, food security reserve, TPDS/OWS). It also does not prescribe the appropriate level of buffer stock for each element of food security which should be maintained at all times.

Further, the norms indicate neither the operational stock level nor the maximum and manageable level of stock to be maintained in the Central Pool over and above the minimum buffer stock level. According to the present practice, the Government of India treats the food stock over and above the minimum norms as excess stock and liquidates them from time to time through exports, open market sales or additional allocations to states.

According to Audit, this lack of clarity or transparency in the existing buffer norms had resulted in improper assessment of food grains to be maintained as buffer stock in the Central Pool during the period 2000-01 to 2007-08 as highlighted below:-

During the period 2000-01 to 2003-04 when the stock of food grains accumulated above the minimum norms (wheat stock was at the level of 268.50 LMT as on 1 October 2000 against the minimum norm of 116 LMT, and rice was 157.70 LMT as on 1 October 2002 against the minimum norm of 65 LMT), the Government of India liquidated the same through exports of wheat (197.10 LMT) and rice (135.30 LMT) from November 2000 till February 2004 going only by the prescribed minimum norms without considering the operational stock requirements over and above the minimum norms.

Due to the export, the stock of rice as on 1 October, 2003 went down to 52.41 LMT as against the minimum norm of 65 LMT and wheat stock was at 106.60 LMT in December 2004 against the norm of 116 LMT. The stock of wheat further declined to 73.05 LMT in February 2005 and 57.50 LMT in March 2005 against minimum buffer norm of 84 LMT resulting in depletion of food stock position. As a consequence, the Government of India had to augment the buffer stock through imports of wheat from early 2006 to April 2008 to the tune of 72.23 LMT till the stock went up to 58.03 LMT against the minimum buffer stock norm of 40 LMT.

According to Audit, the non-segregation of operational stock requirements from the minimum buffer stock norms is the reason for ambiguity in the buffer policy. It also recommended that Government of India should consider fixing maximum level of buffer norms with a view to bring in greater certainty in management of food stock of the Central Pool.

In this regard, Ministry stated that fixing of maximum level of buffer norms was not possible at the moment. When the Committee asked the reason for the same, the Ministry in a written reply stated that the buffer norms have been fixed taking into consideration the food grain requirement under NFSO and the requirement for strategic reserve. It has been presumed that fixing the buffer norms on the above basis will sufficiently insulate the county from any food grain shortage. Keeping in view the above, the maximum buffer norm is not felt necessary. Any quantity over and above the minimum buffer norms can be considered for export or release under Open Market Sale Scheme (OMSS).

Lack of single-point accountability for maintenance of minimum buffer of food grains

Audit has also observed that under the existing buffer stock policy, the total stock of food grains held by FCI, State Governments and their agencies constitutes the Central Pool. This includes food grains held by private millers and SGAs in the procuring states not yet taken over by FCI including that of DCP states retained for distribution under TPDS and OWS. Though the stock position of rice and wheat which is held by various such agencies is indicated by buffer norms, but in practice, the indicated stock in the Central Pool may not be actually available for distribution at a given point of time due to involvement of multiple agencies in the keeping of food grains for the Central Pool.

The existing buffer stock policy simply indicates quarterly stock position of food grains available in the Central Pool as against minimum norms prescribed by the Government of India. Audit has pointed out that the policy neither specifies the minimum stock level to be held by each agency nor indicates the agency which is primarily responsible for maintaining minimum buffer stock level for the country as a whole. Though one of the primary objectives of FCI is to maintain satisfactory level of operational and buffer stocks of food grains to ensure national food security, the food stock available under its custody during different quarters from 1 April 2006 to 1 April 2012 was always below the minimum norms prescribed by the Government of India except on 1 October 2009, 1 April 2010, 1 October 2010, 1 April 2011, 1 October 2011 and 1 April 2012.

Further, there are multiple agencies involved in storing food grains of the Central Pool under the existing buffer stock framework. The responsibility for maintaining the mandatory minimum buffer norms for food security should be entrusted to a nodal agency for ensuring better accountability and transparency in the management of food grains stock of the country. Other activities such as market intervention, emergency situation, import and export of food grains, etc., had already been entrusted to a single nodal agency, i.e., FCI.

In this regard, when the Committee enquired if the Ministry has initiated action to amend the FC Act, 1964 to specifically provide for single point accountability for maintaining buffer stock, as recommended by Audit, the Ministry submitted that FCI is the Government's agency which maintains buffer stocks under Central Pool of the food grains in association with the State Government agencies. There is no move to amend FCI Act to specify it under the Act.

B. STORAGE SYSTEM

The Food Corporation of India is the main Government agency mandated with the task of storage of food grains procured under Central Pool. It is the primary duty of the Food Corporation of India to undertake purchase, store, move, transport, distribute, sell food grains and sugar under the Food Corporation of India Act, 1964. These primary functions necessitate the setting up of storage facilities in different parts of the country particularly in the procuring and consuming State.

The Committee have been informed that the storage plan of Food Corporation of India is primarily to meet the storage requirement for holding operational and buffer stocks and also to meet the requirements of PDS and Schemes undertaken by the Government of India which require distribution of food grains. These functions are an important link in the whole system of production, procurement and distribution of food grains. Adequate scientific storage is pre-requisite to fulfill the policy objectives assigned to the Food Corporation of India.

FCI has two-fold strategy to meet its storage capacity objectives. Firstly by construction of its own godowns at the most strategic locations well connected with rail/road network and operationally viable for which the budgetary Plan funds are provided by the Government of India in their Five Year Plan. Secondly, if the circumstances so warrant, FCI also hires covered and CAP (Cover And Plinth) capacities from various agencies for temporary storage of wheat/paddy in the procuring/consuming State to meet the storage crunch due to increased procurement. Field officers have also been delegated full powers to hire additional godowns/CAP (plinths) from the Government Agencies like State Government/CWC/SWCs and private parties as and when required to meet the increased storage capacity requirement.

FCI constructs storage capacity at certain nodal points, selection of which is made keeping in view Corporation's need and operational considerations. The CWC has been providing storage facilities at centres of all India importance. SWCs and State Governments at the centres of State and District level importance. The Co-operatives are providing storage facilities at Rural/Taluk levels with the assistance from Civil Supplies.

Storage capacity requirement of FCI depends upon the procurement level, buffer stocking and PDS requirement of the consuming States. Temporary storage requirement in procuring States is met by hiring of storage capacity till such time the stocks are issued or moved out of that State.

The storage capacity with FCI and State Government/Agencies (as on 31.5.2013) is given below:-

(Figures in LMT)

Storage Capacity with FCI					**Storage Capacity with State Agencies (excluding capacities given to FCI)**			**Grand Total**
Covered		CAP		Total	Covered	CAP	Total	
Owned	Hired	Owned	Hired					
129.96	227.85	26.37	12.84	397.02	205.25	149.03	354.28	751.30

GMs (Region) / EDs (Zone) have been delegated with powers for hiring of storage capacity from CWC, SWC, State Agencies and Private Parties for storage of food grain as per their requirement in view of the increased procurement and urgent storage needs.

The net hiring/dehiring of storage capacity by FCI since 2002 and the covered storage capacity with FCI is given below:-

(Figures in LMT)

Year	Covered Hired	CAP Hired	Grand Total
Net Hiring (02-03)	-13.9	-27.07	-40.97
Net Hiring (03-04)	-29.2	-15.14	-44.34
Net Hiring (04-05)	-3.89	-9.51	-13.4
Net Hiring (05-06)	-5.56	0.96	-4.6
Net Hiring (06-07)	-5.63	1.23	-4.4
Net Hiring (07-08)	-6.29	-6.05	-12.34
Net Hiring (08-09)	14.11	-0.12	13.99
Net Hiring (09-10)	27.66	4.54	32.2
Net Hiring (10-11)	25.69	0.75	26.44
Net Hiring (11-12)	17.54	2.07	19.61
Net Hiring(12-13)	37.82	3.56	41.38
Net Hiring (13-14) upto June 2013	15.28	-0.84	14.44
*Negative figures indicate Dehiring of capacity			

Net hiring/Dehiring of Storage Capacity by FCI since 2002

Stock Position in the Central Pool over the last decade (as on 1st June):-

(Figures in Lakh MT)

Year	Rice (incl. paddy in terms of rice)	Wheat	Total
01.06.2002	234.01	413.17	647.18
01.06.2003	132.70	265.36	398.06
01.06.2004	122.51	193.90	316.41
01.06.2005	115.95	161.31	277.26
01.06.2006	119.51	93.20	212.71
01.06.2007	126.14	133.08	259.22
01.06.2008	121.29	241.23	362.52
01.06.2009	204.03	331.22	535.25
01.06.2010	252.66	351.62	604.28
01.06.2011	276.41	378.32	654.73
01.12.2011	270.63	276.56	547.19
01.06.2012	321.48	501.69	823.17
01.12.2012	306.07	376.52	682.59
31.05.2013	333.06	443.89	776.95

C. CREATION OF ADDITIONAL STORAGE

On being asked about the increasing need for enhancement of storage capacity by FCI, in the light of increasing production and procurement, the Corporation in its preliminary reply, pointed to a comparison of average stocks in the Central Pool for five years, between 2005 and 2010 with average capacity available with FCI during the same period **(see table below and Annexure II (a)-(b)).** It may be seen that the average stock level remained at a level near to 200 Lakh MT from 2005 to 2007 but after that it increased abruptly and reached a peak level of 608.79 lakh MT on 1 June, 2010 thereby increasing almost three times from the average level of about 200 lakh MT for the years 2005 to 2007. The average capacity available with FCI remained at a level of about 245 lakh MT from 2005 to 2008 but after that it increased and reached a peak level of 306.44 lakh MT on 1 July, 2010. This increase in capacity of almost 60 Lakh MT was mainly on account of hiring only as very less capacity was constructed during the period. The total period from 2005 to June 2010 can be divided into two different periods, period of sufficient capacity from 2005 to 2007 and period of deficit capacity from 2008 to 2010.

Comparison of Capacity available with FCI and the level of Central Pool stocks between 2005-2010

(Figures in Lakh MT)

Year	Average Capacity with FCI	Average Stocks in Central Pool
2005	253.50	214.39
2006	249.85	184.09
2007	245.60	200.49
2008	245.17	293.20
2009	272.47	455.17
2010 (up to 30.6.10)	297.40	518.15

Period of sufficient capacity (2005 to 2007): From the table above, it is clear that the capacity with FCI for the period 2005 to 2007 was sufficient to meet the requirement of FCI when the average capacity available with FCI was in the range of 253.50 Lakh MT to 245.60 Lakh MT and the average stock level in the Central Pool was in the range of 214.39 Lakh MT to 184.09 Lakh MT. In fact, even the covered capacity available (both owned and hired) with FCI during the period was sufficient enough to accommodate the stocks of the Central Pool. Because of the downward trend of stock level during this period, a net 17.68 lakh MT of covered capacity was de-hired from 2005 to 2007 on a nationwide basis.

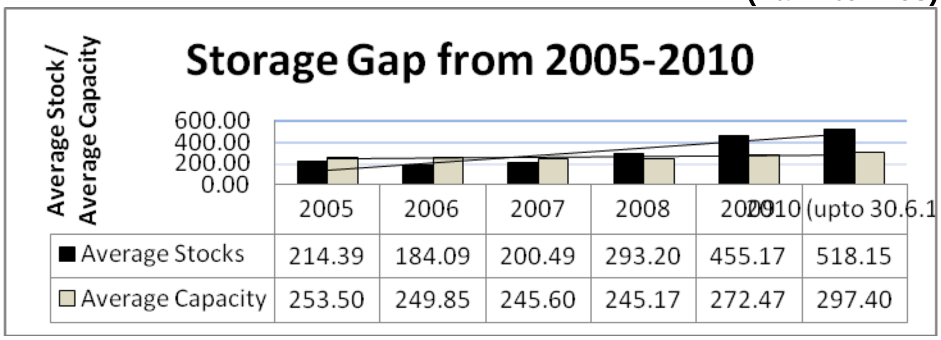
Period of deficit capacity (2008 to June 2010)

After 2007, because of the quantum increase in average stock level by 92.71 lakh MT from 2007 to 2008 and then by 161.97 lakh MT from 2008 to 2009, huge storage gap was observed and the capacity available with FCI was not sufficient to accommodate the Central Pool stocks. As the capacity could not be created immediately, the capacity enhancement during the period has been mainly on account of hiring. However, Government/FCI came up with schemes called PEG-2008 and PEG-2009 for creation of capacity through private sector participation.

Therefore from the above stated position it can be safely concluded that the capacity available with FCI was sufficient to meet the requirements of FCI during the first three years but after that because of the quantum increase in stock level, the available capacity was not enough to meet the requirements of FCI.

The storage gap from 2005-10 is given in the following diagram:

(Lakh tonnes)



* Average of Stocks for a year has been calculated on the basis of average of month end stocks
** Average of Capacity for a year has been calculated on the basis of average of quarter ending capacity

Details of covered capacity created by FCI 2005-06 to 2012-13 is given below:

Sl.No.	Year of construction	Capacity realised/constructed by FCI (Capacity in MT)
1	2005-06	22,510
2	2006-07	20,430
3	2007-08	17,090
4.	2008-09	2,500
5.	2009-10	9,170
6.	2010-11	5,000
7.	2011-12	11,255
8.	2012-13 (till October 2012)	4,590
	TOTAL	**92,545**

Submitting on the steps taken to bridge the growing gap between the actual stock levels and the available storage facilities, CMD, FCI during the course of Oral Evidence held on 18 August, 2010 stated:-

> "For that there are two options before the Government of India. One option is that the Government of India gives money to FCI and State Government and they construct their own godowns. But this option was not found feasible because the godowns remain with you. In future we may need it or not. Secondly, a lot of money is needed to run the godowns. We need manpower to run the godowns. Even if we do not need the godown, the manpower will still be there. So, the Government decided that instead of the Government of India constructing its own godowns, they will attract private investment. That was the policy in 2008. The Government of India introduced a scheme in which it was decided that the Government will give guarantee of five years to investors who will construct godown. But the response to this scheme for five years guarantee was very poor

because investors thought that five years is a very short period and that they will not be able to recover their investment. The Government then increased the period to seven years. Then seven years guarantee scheme tenders were invited but still the response was not very good. Recently, as the honourable Members are aware, the Government decided to increase the guarantee period to 10 years. We have sanctioned about 149 lakh tonne of storage capacity in various States. The major chunk of investment is in Punjab and Haryana. We have also sanctioned capacity to other States like Madhya Pradesh, Rajasthan, Gujarat, Maharashtra, UP and Tamil Nadu. In Tamil Nadu some tenders have already been approved and 1.25 lakh tonne of capacity with private participation has been sanctioned.

So, what may happen in the next two years is that we may hopefully succeed to build 150 lakh tonnes of storage capacity in the country through private participation. In North-East the expectation of private participation is not very high. Therefore the Government of India is likely to sanction a special proposal for the North-Eastern States where the Government will give money to FCI and State Government to create storage capacity of its own. Once this storage capacity comes up we will be committed to give guarantee for 10 years."

Elaborating further he added:-

"Under the scheme, it is not only the godown which is being taken on rent, but we are also giving opportunity to the private investor to maintain the stocks on our behalf. In Andhra Pradesh, this has been very successfully done for the last seven to eight years where private investors have come forward. The stocks are kept in their godowns. They also do preservation and maintenance on behalf of the Government. So this is considered to be a more economical option."

When asked about FCI's vision to create additional storage capacity, the FCI in their written reply submitted that policy for additional storage capacity for storing Central Pool stocks is decided by the Government of India. A policy circular was issued on 28 July, 2008 in which norms for estimating shortage in storage capacity at a place were spelt out. Government of India issued another circular on 8 April, 2010 in which norms for calculation of storage capacity requirement in DCP States were communicated. The High Level Committee of FCI has sanctioned additional storage capacity of 149.40 lakh tonnes. Government of India has also transferred 20 lakh tonnes storage capacity out of Punjab and 35 lakh tonnes capacity has been sanctioned to Rajasthan, Uttar Pradesh, Andhra Pradesh, Karnataka, Gujarat, Maharashtra and Madhya Pradesh. However, out of this 35 lakh tonnes capacity, only 20 lakh tonnes capacity is to be constructed on first-come first-serve basis.

As far as construction of godowns under Storage Construction Programme in Plan Scheme by FCI is concerned, the XIth Five Year Plan was prepared for a targeted capacity of 1.39 lakh MT with a financial outlay of Rs.133 crores. However, due to non availability of land at most of the places, only a capacity of 45015 MT (24180 MT for NE and 20835 MT in areas other than NE) was created and an expenditure of Rs. 86.56 crores (Rs.58.41 crores and Rs. 28.15 others) was incurred.

The details of the capacity created by FCI vis-à-vis expenditure incurred and also funds received from Ministry for construction of Storage godowns under Plan Scheme by FCI during the period 2006-07 to 2011-12 is as under:-

Sl.No.	Year	Capacity created in MT	Exp. Incurred (Rs. Crores)	Funds received from Ministry \ (Rs. crores)
1.	2006-07	20430	7.43	7.50
2	2007-08	17090	4.33	4.00
3	2008-09	2500	16.06	16.45
4	2009-10	9170	24.49	24.43
5	2010-11	5000	20.24	35.00
6	2011-12	11255	21.44	61.94

On the issue of increasing storage capacity, the Ministry submitted that to ensure that storage is available well before time the Executive Directors (Zones) and General Managers (Region) of FCI have been given full powers for hiring of private godowns for short term usage to store the procured food grains as per their requirement if the capacity available with FCI is not sufficient to store the food grains. However, as a long term measure due to the increased procurement of food grains and to reduce the storage in Cover and Plinth (CAP) the Government formulated a Scheme for construction of storage godowns through private entrepreneurs, Central Warehousing Corporation (CWC) and the State Warehousing Corporation (SWCs). Assessment of additional storage needs under the scheme is based on the overall procurement/consumption and the storage space already available. For the consuming areas, storage capacity is to be created to meet four month's requirement of PDS and other Welfare Schemes in a State. For the procurement areas, the highest stock levels in the last three years are considered to decide the storage capacity required. Later this scheme was extended to Decentralized Procuring (DCP) States in 2009.

The ceiling of rate fixed for hiring of godowns has been revised from Rs. 3.80 per quintal per month to Rs. 4. 78 per quintal per month. In appropriate cases, the High Level Committee has been empowered to decide higher rates by recording reasons in writing. The Guarantee Scheme was also suitably modified based on the feedback obtained from the industry.

A State-wise mapping of existing capacities and analysis of additional requirements was undertaken based on objective criteria by State level committees and a High Level Committee of FCI. Based on this analysis and criteria laid down in the scheme, State wise capacity requirement and locations were identified. Under the scheme, the Food Corporation of India would now give a guarantee of ten years for assured hiring.

Audit has observed that with a view to addressing the storage gap, the storage capacity was planned to be augmented by 163.38 LMT during the period 2006-07 to 2011-12. But only 5.92 LMT, which is around 4 *per cent* of total augmentation proposed, is for FCI's owned storage. When asked as to why such limited quantity was allocated for construction of FCI's owned storage, the Ministry submitted that the storage capacity to be created under Plan scheme and their locations are approved by the Government of India. Due to the budget constraints and difficulties in acquisition of land, very less owned capacity could be constructed/ added by FCI. Thus, in view of urgent requirement of storage capacity for food grains in the country, Government of India/FCI has formulated a scheme in the year 2008 & 2009 called Private Entrepreneurs Guarantee (PEG) scheme for construction of storage capacity through Private Entrepreneurs, CWC and SWCs. The hired capacity has its own benefits such as lower labour/ handling cost and administrative/ overhead cost (being variable) as compared to owned capacity. Moreover, as the Storage capacity requirement of FCI depends upon the procurement level, buffer stocking and PDS requirement of the Consuming States, hired capacity is flexible to operate and could be de-hired when it is not required. As such, its percentage utilization also remains higher.

Accordingly, based on recommendations of State Level Committees (SLCs), a capacity of 203.76 lakh MT has been approved for construction of godowns including silos at various locations in 19 States by High Level Committee (HLC). Out of this, tenders have been sanctioned for a capacity of 107.55 lakh MT to private investors and a capacity of 7.76 lakh MT and 30.07 lakh MT have been allotted to CWC and SWCs respectively for construction of godowns on their own land (total capacity sanctioned/ allotted 145.38 LMT). A capacity of 73.01 lakh MT has already been completed.

Under the Plan Scheme, in order to create more storage facilities there is a proposal to augment 6,10,860 MT capacity by FCI during XIIth Five Year Plan (2012-17). This includes 5,34,640 MT alone in North East areas including Sikkim and 76,220 MT capacity in the areas other than North East. Out of this, a capacity of 4570 MT has already been completed.

Storage capacity constructed under PEG Scheme during last three years is as under:

Year	**Storage capacity constructed in lakh MT**
2011-12	28.17
2012-13	41.75
2013-14 (upto 30.06.13)	3.09
Total	**73.01**

In a post-evidence reply, FCI informed that as per direction and advice of the Ministry, FCI engaged MANAGE (National Institute of Agricultural Extension Management, Hyderabad) to assess the storage gaps in the XI^{th} Plan so that FCI may give plan for construction of further capacity during XI^{th} Plan period. MANAGE assessed the substantial storage gap of about 90 Lakh MT in various States.

Thereafter, due to the increased procurement of food grains and to reduce the storage in Cover and Plinth (CAP), Government of India formulated a Scheme called Private Entrepreneurs Guarantee Scheme (PEG) for construction of storage godowns through Private entrepreneurs, Central Warehousing Corporation (CWC) and State Warehousing Corporations (SWCs).

Accordingly, on 28 July, 2008, the Government of India circulated the scheme to FCI and State Governments (Non-DCP States) vide which assessment of the storage need was to be made by FCI based on the overall procurement/consumption needs of the area and existing storage capacity. In Consuming States, assessment was based on 4 months requirements of stocks for TPDS and OWS and in Procuring States, assessment was based on highest stock level in the last three years.

On demand of DCP States, Government of India has circulated PEG-2009 scheme on 8 April, 2010. In the Scheme, SLC is headed by the Secretary (Food) of the State and the assessment of required storage capacity would be done on the basis of the highest of the sum of average stock of wheat and rice will be considered as the storage capacity required if it is less than 14 months requirement under TPDS and other welfare schemes. If sum of average stock is less than requirement of 4 months TPDS and other welfare schemes, then the requirement of 4 months would be considered.

Under PEG Scheme, as on 31 January, 2013, total capacity of 181.08 Lakh MT has been approved to be created in 19 states through Private entrepreneurs, CWC and SWCs. Tenders have been finalized for creation of 132.73 Lakh MT of storage capacity by Private Investors, CWC and SWCs. Out of this, a capacity of 43.24 lakh MT has been completed and about 58.83 Lakh MT is under construction.

With regard to the PEG scheme, an official from the Department of Food and Public Distribution made the submitted the following during the further Oral Evidence held on 17 June, 2013: -

> "As far as PEG is concerned, we have got a State level Committee. In DCP States it is headed by the Secretary (Food), while in the non DCP States it is headed by the ED (Zone). We have got the representatives from the State Warehousing Corporations as well as from the State Governments and the FCI. So, whenever the capacity is decided to be tendered, it is being put up in the newspaper as well as on the website of that nodal agency. Normally the nodal agencies are the State Warehousing Corporations. They invite the tenders. Tenders are opened. It is two bids process– one is technical bid. When the technical bid is opened, then a Committee visits the land to see if the land is suitable for construction of the godown or not. There are certain parameters which are defined. One of the parameters is that there should be connectivity from the main road and there should not be any high tension wire passing over the land."

On the issue of storage and the problems being faced in augmentation of the country's food storage capacities, Secretary, Department of Food & Public Distribution elaborated during the further Oral Evidence held on 17 June, 2013: -

> "Coming to the storage issues, this is true that the storage continues to be a critical factor. I would like to submit that the Government has approved roughly 200 lakh tons capacity to be created in the States but it will be done by the States and we are regularly monitoring it with them. In the last two financial years, 70 lakh tons capacity has been created. And for the current year, tentative target of 60 lakh tons has been set for the capacity creation. There are some States which we are

regularly pursuing with them. Just to give you an idea like Haryana, the biggest problem has been the change of land use. In Uttar Pradesh also, it was a problem. With the change of regime, we could take it at the highest level and the cases were cleared. But in Haryana, the Minister has written to the Chief Minister. I understand that the land use change permission is given by the Chief Minister. In Bihar, there are problems of other kind.

Chief Minister of Bihar met the Minister of Food almost seven, eight months back. We raised this issue. We had brought to his notice this issue and he said that he would get it expedited. The practical factor is that we have to depend on the States. We are making efforts. About Himachal Pradesh, the Minister has brought it to the notice of the State Government. In Jammu and Kashmir we are having some problems. The Joint Secretary was deputed and now the problem is being sorted out. About 200 lakh tonnes of capacity was approved and only 70 lakh tonnes could be created by March. This year we are targeting minimum of 60 lakh tonnes. That would take care of this to some extent but not fully."

Elaborating further about the PEG scheme, he submitted: -

"Firstly, in every State, FCI assesses and decides the capacities required in each State in consultation with the State Governments. In such cases, if it is a producing State, then it is ascertained as to what is the trend in production there, according to which the storage capacity is decided. For this, the State Food Secretary is consulted. What is produced in a producing State has to be stored while in consuming States the quantity consumed has to be stored. For both, on the basis of past trends, FCI has made some norms and taking data from the past three years of production and consumption, the storage capacity is assessed and fixed. When this is decided, then consultations are held with the State Government as to where this capacity can be rotated. After this, tenders are floated for that location and interested private parties come forward to state the rates at which they are interested to build storage capacities."

To a pointed query of the Committee on the steps taken to assess and expand storage capacity, he clarified:-

"After ascertaining the storage needs of the country, the Government of India has sanctioned 203 lakh tonnes of which some have been sanctioned this year as well. Of this quantity, 20 lakh tonnes has been reserved for silos. I have already informed that 70 lakh tonnes of the 180 lakh tonnes sanctioned has been completed by March 2013 and this time we are trying to complete at least 60 lakh tonnes storage capacity. Now you may ask, if we have set such a target, then why was it not completed earlier. There are some issues in this. As I tried to mention in the last evidence, like the honourable Member has taken the example of Uttar Pradesh where there are several issues or Haryana which I have mentioned, there are several issues regarding land usage which have cause problems. When the new Government was formed in Uttar Pradesh, I approached the highest level for consultation and the old issues were cleared and it was then that we had some progress.

In Himachal Pradesh also, we are facing similar issues. Recently, I have tried to hold meetings with State representatives. Jharkhand has its own problems with regard to tribal land. In Bihar there are some other problems. I agree that there should be progress but sometimes certain problems arise which can only be resolved at the State level. "

In the course of further oral evidence, the Secretary F & PD elaborated certain other problems faced in ascertaining and building additional storage capacities in the States:-

"The procurement of wheat has a peculiar feature. It comes roughly in two months, and then we have to move it to the consuming States, and store it. Paddy comes in two seasons, and then it goes to the mills, and takes some time for milling it. Therefore, the storage requirement is not that critical. Wheat becomes more critical. For these two months or three months FCI must have thought, and I would ask FCI to revisit it, that storage capacity cannot be just enhanced which is not used in future."

With regard to the problems faced in the implementation of the PEG scheme, FCI stated that there are several roadblocks to the completion of the scheme. Specific land laws in J&K, H.P., M.P. & Jharkhand are prohibiting private entrepreneurs in acquiring big chunk of land at a time. State Land Laws of J&K and H.P. are also prohibiting acquisition of land by the person belonging to other States. Delay in providing change of land use permission by local authorities in U.P., Bihar, Haryana, etc. is causing a problem for the scheme in these States. High cost of land in some States like West Bengal, Jharkhand is creating an impediment for the scheme here. State Government is not providing land to CWC / SWCs for construction of godowns under PEG Scheme at various locations having shortfall of storage capacity. There is also poor response from investors despite repeated tenders in States such as Bihar, West Bengal, Jharkhand, H.P. Another problem being faced is that of getting the project financed from banks. There are also delays in construction works due to issues such as ban on sand mining, ban on brick kilns and drought in some of the States. Railway is not providing RTC to private investors for construction of railway siding godowns.

On being asked about the steps taken by the Ministry/FCI to implement Audit's recommendation to expedite the ongoing augmentation plan to overcome the bottlenecks/constraints faced in various States in consultation/collaboration with respective State Governments, the Ministry in a written reply submitted that vigorous monthly review of progress of PEG Scheme at various levels like PMO, Secretary (Food), High Level Committee, Monthly Performance Review meetings, etc. are being convened to sort out the issues between agencies and remove the bottlenecks by improving the scheme. To attract participation and investment from prospective private investors several steps have been taken. Investors' meets are being conducted at State Level with cooperation from FICCI, Chamber of Commerce and other Entrepreneurial Associations. In case of problem in obtaining CLU, NEC, etc. matter is taken up with State Government for early compliance. Grievances of investors are being redressed properly at nodal agency/FCI level. The process of payment to investors has also been streamlined and made smooth. In addition, efforts are being made to safeguard the interest of investors as well as Corporation.

D. INFRASTRUCTURE AND STORAGE DEVELOPMENT IN NORTH-EAST INDIA FCI IN NORTH-EASTERN STATES

In the preliminary information furnished to the Committee, during their Study Visit to North Eastern States, FCI submitted that Food Corporation of India is the nodal agency for executing the food policies of the Central Government in the North Eastern States of India, as in any part of the country. The FCI North East Zone with its headquarters at Guwahati co-ordinates its functions through 4 Regional Offices, 18 District Offices and 71 depots for seven States namely Assam, Mizoram, Tripura, Meghalaya, Manipur, Nagaland and Arunachal Pradesh.

The region-wise existing effective storage capacity in NE-Zone as on 31 March, 2011 is as under:-

Figure in MT

Sl. No	Region	State	Owned	State Govt.	CWC	SWC	Pvt. parties	Total
1	2	3	4	5	6	7	8	9
1	Assam	Assam	201384	0	23100	11500	37465	273449
2	Arunachal Pradesh	AP	17500	5023	0	0	0	22523
3	NEF	Meghalaya	13750	0	7000	5200	0	25950
		Mizoram	22150	750	0	0	0	22900
		Tripura	29180	4700	14000	0	0	47880
4	N&M	Nagaland	19720	0	13000	0	0	32720
		Manipur	20590	1050	0	0	0	21640
Total			324274	11523	57100	16700	37465	447062

It was further submitted that the capacity available with FCI was sufficient to meet the requirements of FCI during first three years i.e. for the period 2006 to 2008. However, FCI is facing a situation of storage crunch due to sudden rise in stock level on account of increased level of procurement. As the capacity in the NE Region is not sufficient to store four months requirement, the capacity in NE Region is being created under Plan Scheme (XI^{th} Five Year Plan).

When asked about the State-wise details of the projects for creation of storage capacity in North Eastern Region undertaken by FCI under 'construction of godowns by FCI/State Governments of North Eastern Region' during the last three years, the FCI in their replies submitted before the Study Visit of the Committee to the region, submitted that the construction of godowns at 8 centres in North Eastern Region including 1 in Sikkim is in progress.

But FCI is facing difficulty in construction of godowns in certain regions. The land at Changasari was handed over in February, 2009 but the HT line passing through the land, has not been shifted till date by the State Government. Land at Churachandpur has not been handed over even after great correspondence for the last four years. The land at

Senapati was handed over in December, 2009 by the State Government i.e. after 3 years from the date of commencement of the XIth Five Year Plan. Land in Kohima was to be handed over to FCI by the State Government in June 2007 but was physically handed over in February 2009. The agency at Kohima was finalised in Nov. 2009 but they could start the in November 2010. The land at Jorthang, Sikkim is yet to handed over by the State Government in spite of the fact that FCI conducted the inspection for the identified land in January, 2009.

The State Government could not finalise the construction agency in time at Changasari, Jiribam and Kohima. The construction agency ASWC for the project at Changsari was finalised in December 2009. A sum of Rs.275 lakhs has also been released in favour of the construction agency but the agency could not start the work till date in spite of depositing the amount with them. The construction agency for the work at Jiribam was finalised by the State Government during Sept. 2008 but the work was started in October 2010.

During the Study Visit of the Committee to the North East States, FCI in its interaction with the Committee, made the following submissions on the status of the projects undertaken in the Region for the creation of additional storage space under the XI^{th} Five Year Plan: -

The capacity realised/constructed during the XIth Five Year Plan up to FY 2010-11 is given below:-

Sl.No.	Year of construction	Name of Centre/State	Capacity in MT
	2007-08		
1.		Badarpurghat/Assam	5,000
2.		Chaulkhowa/Assam	2,500
3.		Bualpui/Mizoram	4,590
	2008-09	Nandannagar/Tripura	2,500
1.			
	2009-10		-
	2010-11	Hailakandi/Assam	5,000
		TOTAL	19,590

Further, the work at seven centres as given below is in progress.

Sl.No.	Name of Centre/State/Capacity	Present Status
1	Changsari/ Assam /50,000	Work entrusted to ASWC, however, the same could not be started due to land problem.
2.	Kohima/ Nagaland/ 5000	Work entrusted to PWD Housing Kohima, Nagaland, the same has been started in Dec.2010 and is in progress. Target date of completion is Dec.2011.
3.	Churachandpur/ Manipur/ 2500	Land yet to be handed over by State Government. DC Churachandpur has intimated the cost of land and the same is under process at RO/ZO (North East.)
4.	Senapati/ Manipur/ 5000	Work entrusted to TP Cell Hill-II and the same in progress. The overall progress is about 45%.

		Target date of completion (i) godown May 2011 (ii) Ancillary works Nov. 2011.
5.	Jiribam/ Manipur/ 2500 (within existing complex)	Work entrusted to MPHC, Manipur. Physical progress is about 20%.. Targeted to be completed by Oct. 2011.
6.	Tura/ Meghalaya/ 2500 (within existing complex)	Agency identified, requested for submission of estimates.
7.	Jorthang/ Sikkim/ 5000	The land is yet to be handed over by the State Govt.

The following is the expenditure incurred and funds released during the last 6 years for creation of storage capacity in North Eastern Region:

(Figures in Rs. Crores)

Sl.No.	Year	Funds released	Expenditure incurred
1.	2007-08	2.47	2.24
2.	2008-09	15.45	14.70
3.	2009-10	6.75	6.75
4.	2010-11	17.24	25.00
5.	2011-12	17.48	59.94
6.	2012-13	19.28	27.71
7.	2013-14 (as on 25.7.13)	2.36	80.76#

\# An unspent amount of Rs. 42.76 crores as on 1.4.13 is available with FCI and an allocation of Rs.38 crores for FY 13-14 has been made by Ministry.

On being asked what steps were being taken by the Department to coordinate with the State Governments of North Eastern States to ensure sufficient storage capacity and increased movement of food grains as per requirement in the States, it was stated that the Department of Food & Public Distribution has finalized a special scheme for construction of godowns in the North Eastern Region by FCI. Earlier, the Planning Commission had approved an outlay of Rs.149 crore which included Rs.125 crore as equity to FCI for construction of godowns in the North Eastern States as well as some other deficit States and Rs.24 crore to be released to the State Governments of NE States as Grants in Aid. The present scheme is revision of the existing scheme envisaging construction of godowns to create a total additional storage space of 5.4 lakh tonne in the NE States by the FCI with an allocation of Rs.568.17 crore, which has since been approved by the Planning Commission / Ministry of Finance. However at the end of XIth Five Year Plan i.e. March 2012, the capacity approved under Special Scheme has been included in the XIIth Five Year Plan (2012-17). In the proposed XIIth Five Year Plan, for augmentation of storage capacity for food grains in the NE Region, 49 new projects have been identified which is included in the total approved capacity of 5.40 lakh tonne requirement for 4 months storage. In Assam, godown at Hailakandi (5,000 MT) and in Manipur godown at Senapati (5000 MT) and Jiribam (2500 MT) has been made storage worthy. Further, the godowns at 13 locations namely Changsari/Assam, Churachandpur and Thoubal in Manipur, Kohima & Dimapur in Nagaland, Tura in Meghalaya and at 7 locations in Arunachal Pradesh are at the various stages of construction. In Arunachal Pradesh, the State Government has handed over land, free of cost for 9 sites out of 10 sites proposed for construction.

The Department reviews the progress of construction of godowns in the NE States at regular intervals. The Secretary, Department of Food & Public Distribution, Government of India had a meeting on 21 November, 2012 at Guwahati with all Food Secretaries of NE Region including Sikkim to review the land status and the progress of ongoing works etc. which was also attended by senior officers of Railways, Chairman and Managing Director, FCI and other State Government officials. On the instructions of the Department the State Governments of the NE States have constituted a Committee headed by the Chief Secretary of the State to monitor compliance with the timelines for implementation of projects for storage of food grains and to resolve issues that may arise from time to time. The Department liaises with the Ministry of Railways and Ministry of Home Affairs on a regular basis, to ensure uninterrupted supply of food grains to the NE States. The availability of land and progress with regard to the proposed centres is given in ***Annexure III.***

Audit has pointed out that among FCI's plans for expansion of food grain storage capacities, the construction of storage capacity in North East has shown poor progress. When queried in this regard, the Ministry submitted in a written reply that the creation of total storage capacity of 534640 MT in North East States including Sikkim has been proposed under XIIth Five Year Plan. Out of this, a capacity of 2910 MT capacity (Senapati 1660 and Jiribam 1250 MT) has been completed during 2012-13. Further, due to land constraint, there is shortfall of 510 MT in Kohima (410 MT) & Rangpo (100 MT) as such, the targeted capacity is 531220 MT during remaining period of XII^{h} Five Year Plan. Due to failure of State Government in most of the centres, the construction work could not be taken at most of locations.

Current status of North East projects

Project status	**No. of locations**	**Storage capacity (in MT)**
Ongoing projects	17 locations	91310 MT
Land in possession, work yet to commence	5 locations	84240 MT
Status of land acquisition	27 locations	355670 MT
Total	49 locations	531220 MT

When asked about the steps taken to expedite these projects, the Ministry submitted that the progress is regularly being monitored at Headquarters by CMD in Monthly Performance Review meetings / special review meetings. These issues are reviewed by ED(Engg.) in Engineering Performance Review Meetings held regularly. The matter is constantly reviewed and monitored by FCI / Ministry of Food at the highest levels with the respective State Government. The Secretary (Food) and Joint Secretary (Stg.), Ministry of Consumer Affairs, Food & Public Distribution have also taken the review meeting at Guwahati. The ED(NE) and ED(Engg.) also arranged meetings at Guwahati and other State Capitals with the State Governments.

E. MODERNIZATION OF STORAGE

The Committee observe that world over there was a movement towards modern means of storage like silos while India was still utilizing antiquarian means of storages like godowns and cover and plinth structures. On being asked what measures were being taken by the Corporation to create such modern storage capacities and how it was involving the private sector in such projects, the FCI in its post-evidence replies stated that so far as silo storage project is concerned, M/s Adani Agri Logistic Ltd. has created a capacity of 5.5 lakh MT in the form of silos at seven different locations in procuring/consuming States. The project is under operation since the year 2007 and the facilities of bulk handling, storage and transportation are being utilized by FCI.

FCI hired modern silos having total capacity of 5.5 lakh tonnes from M/s Adani Agri Logistic Ltd. for a period of 20 years (100% guarantee for first 10 years and 75% guarantee for next 10 years).

When asked what was FCI's expected policy for the implementation of the MS Swaminathan Committee recommendation that 50 state of the art technology modern silos should be built in various parts of the country so that if there is any calamity, not a single Indian suffers for want of food, FCI in its written submissions stated that the decision on creation of storage capacity through silos is to be taken by the Government of India. A study is being undertaken by Planning Commission to assess the storage capacity which may be created through silos. Location of silos is also to be studied by the consultants

During the course of the Oral Evidence of FCI on 18 August, 2010, to a query of the Committee about the global practice of storage of wheat, the CMD, FCI admitted:-

> "In most developed countries, wheat is stored in silos. They do not use the kind of storage which we use. In silos, wheat can be stored, according to our information, up to four years. Even in India, in the silos which we have built through the private participation, wheat of 2007-08 is still available and it is in good condition. It has been issued recently in Kolkata and Mumbai…"

When enquired as to why such old wheat was being preserved in silos, in violation of FCI's practice of First-in-first-out (FIFO), the CMD, FCI replied:-

> "In case of silos, what happens is that our agreement with the Adani is that we would pay on the basis of actual use, which means, the more turnover we have, the more we have to pay.
>
> So, we wanted to, first of all, save on cost. Secondly, we wanted to check whether it can be stored according to specifications of silos and we find that yes, in the silos of Adani, the wheat of 2007-08, which has been issued recently in Kolkata is within our specification."

During the further Oral Evidence on 3 January, 2013, CMD, FCI, when asked about the steps taken by FCI to increase mechanization and prevent waste and pilferage of food grains vis-à-vis storage in conventional godowns submitted:-

> "We are moving towards silos. But silos are very costly. It is not cheaper ones. Our conventional godowns are constructed on scientific basis. Generally, if everything

is taken care of nothing should be damaged in those conventional godowns. Even the CAP is constructed in a scientific way. It is on a raised platform and the floor is pucca and it is covered by polythene. So, normally nothing should happen. But now we are moving towards silos and we are trying to mechanise the operations also because there is shortage of labour. We are moving towards mechanisation. Wherever we can put the conveyor belts, we are moving towards that direction.

When it was pointed out that the present submission was in contradiction to FCI's previous views and seemed to negate the value of silos, CMD, FCI replied:-

"Progress takes place throughout the world. Then you have to move with the world. The world has moved ahead of us. We have to move with the world. The conventional storage was all over the world. No country was constructing silos about twenty years back. So, some countries have really moved ahead on silos construction. We have started just now. When we were constructing conventional godowns, all precautions were taken. So, normally in those godowns or in those CAPs damage should not take place."

With regard to the suitability of the existing conventional godowns for the storage of food, a representative of FCI further stated: -

"Earlier, the design of the godown was that they would normally create a godown at ground level. Normally, the FCI had it about ten years back. Most of the godowns were earlier with the Food Department and when the FCI was created, the inventory was passed on to the FCI for maintaining. Those godowns were mainly at the ground level. Subsequent to the inception of the FCI, there was a drawing which was accepted wherein the rat damage would be totally negligible; it would be made zero. So, the platform level was raised almost to about one metre. All the FCI conventional godowns which are being created now have a plinth height of about one metre so that there is no rat damage. The structure of the base, which is constructed as a conventional godown covered, is such that the flooring is designed in such a manner that the rat does not reach up to the floor level where the stocks are to be kept. Similarly, in the design, there is a provision of the least cost basis which the CPWD introduced. The infrastructure of roofing is based upon the tresses with a minimum amount of brick and mortar work. This design has worked all along for the last 40 years and the FCI has never faced this problem of major damage in food grain when we have kept in a conventional godown.

Coming to the CAP units which are created, it is also scientific itself. CAP unit has to be developed with a plinth of one-and-a-half feet with top cement floor and the age of that CAP is one year. It is not that the same CAP is to be used for years together. But it happened in the States of Punjab and Haryana. Since we could not off-load the excess stock of wheat, it has remained for more than one year on CAP at certain locations. That is the feedback that the Chairman has given you because we had surplus stocks which could not be accommodated on these scientific cap units. We have to keep the stocks at the ground level, on the floor.

That was moved simultaneously moved and we could not maintain FIFO. That was also given in the feedback."

When asked about the status of silos available at present and the future construction programme of silos, FCI submitted the following information about the general status of existing silos as well as its plans for future construction:

General status of concrete/old silos of FCI

Sl.No.	Name of State/Centre	Type of installation	Year of construction	Storage Capacity in MT
1.	**Haryana** Faridabad	RCC	1971	20,000
2	**Punjab** Gobindgarh	RCC	1982	20,000
3.	Jagraon	RCC	1981	20,000
4.	Moga	RCC	1979	20,000
	U.P			
5.	Lucknow	RCC	1980	20,000
6.	Hapur(U.P)	Sheet Metal	1968	10,000
		Total		1,10,000

In addition to above, steel silo of 5.5 lakh MT capacity have been created under Build-Own-Operate (BOO) basis. M/s Adani Agri Logistics Ltd. has been formed as Special Purpose Company (SPC) for the project. The details of the capacity created at various centres under BOO are as follows:

(Capacity in MT)

Circuit-I		Circuit-II	
Location	Storage Capacity	Location	Storage capacity
Base Depot Moga (Punjab)	2,00,000	Base Depot Kaithal (Haryana)	2,00,000
Field Depot		Field Depot	
Chennai (TN)	25,000	Navi Mumbai (Mah.)	50,000
Coimbatore(TN)	25,000	Hooghly (WB)	25,000
Bangalore (KNK)	25,000		

EGoM on 7 February, 2012 approved the creation of 20 lakh MT capacity in the form of silos. Board of Director of FCI has finalized the State-wise distribution of 20 lakh MT capacities of silos and its locations in 10 States.

FCI has written letters to all States to provide land at the identified locations for construction of silos. Secretary, Department of Food & Public Distribution has also written to Chief Secretaries of concerned States for making available the land for silos. State

Government of Haryana, MP and Gujarat have responded that they don't have land at the identified locations. No specific response has been received from other States.

Board of Directors of FCI has decided to appoint an Integrated Transaction Advisor-cum-Technical Consultant (Project Consultant) for silos. M/s CRISIL Risk and Infrastructure Solutions Ltd. has been appointed Project Consultant and issued appointment letter on 31 October, 2012 for consultancy services. IMG in its first meeting confirmed FCI Board's decision to construct the silos with railway siding facilities. M/s CRISIL Risk and Infrastructure Solution Ltd., the project consultant has assumed the work of consultancy. Project Consultant has already submitted draft manual on standards, design and specifications of silos. All documents are likely to be finalized by the end of January, 2013. Floating of invitation for bids to construct the silos is likely to be done during the months of February/March, 2013.

The Board of Directors of FCI finalized the State-wise distribution of capacities of 20 lakh MT of silos as under: -

Sl. No.	State	Silo capacity in MTs
1.	Bihar	2,00,000
2.	Haryana	3,00,000
3.	M.P.	3,50,000
4.	Punjab	4,00,000
5.	West Bengal	2,00,000
6.	Assam	50,000
7.	Kerala	50,000
8.	Maharashtra	1,00,000
9.	Uttar Pradesh	3,00,000
10.	Gujarat	50,000
Total		**20,00,000**

With a view to under better the suitability of the existing storage capacities, the Committee wanted to know about the viability of FCI's godowns and warehouses for preservation of food grains. In response, FCI submitted that the godowns were being constructed as per prevailing BIS Standard/FCI guidelines and are suitable for preservation of food grains. In 2010, a committee was constituted under the Chairmanship Dr. R.T. Patil, Director, CIPHET, Ludhiana for re-examining and re-drawing the specifications for Modern godowns and silos. After deliberation a draft revision has been submitted during 2011 for revision in BIS Code, which is under consideration of Government of India. The construction of the CAP complexes is a scientific construction and suitable for short term storages.

Dwelling further on this aspect, CMD, FCI, in his initial before the Committee on 18 August, 2010 stated:-

"We have sanctioned so far, approximately, 149 lakh tonnes of storage capacity. Now, how much of it should be in the form of silos? That is the question. There are two things that we can broadly say. As of now, the cost of storage in a silo is likely to be higher than the cost of storage in a covered godown. How many times higher depends on a number of factors. The labour cost of FCI. Tomorrow if all the contract labour were to become departmentalized, then the labour cost of FCI would be much higher. Then, the difference in cost between silo and traditional godown would narrow down."

When it was pointed out to the witness that such storage would reduce wastage drastically, he clarified:-

"The country has to decide between various options. So, silo is a good option but it is much more expensive. So, you have to decide whether you want to keep all grains in silos and have zero wastage or have some grains in covered storage and tolerate a reasonable and low quantity of loss. So, it is a cost decision. In case of silos, the storage loss is negligible and in case of covered godowns, the storage loss is a bit more."

In this context, the Secretary, Department of Food and Public Distribution, during the course of the further Oral Evidence on 17 June, 2013 stated:-

"I would submit that definitely silos are a better development. The FCI in the 1960s and 1970s had set up silos. Some of them are functioning and some of them are not. I do not know why this mode of storage was not encouraged or considered since then. Only a few years back, two silos were set up one in Punjab and the other one in Haryana as also in some consuming areas. We have earmarked about 20 lakh tonne capacity for the silos. We are trying to do better work. In the PEG Scheme, it is well-known that it is traditional and we have been doing it. Silo being the new scheme, discussions are going on what should be the Model Concession Agreement, what should be the RFP and RFQ. In the intern-Ministerial discussion and consideration, that is taking time. MCA for Non-VGF scheme has been finalized. I do not want to go into the details of it but we have earmarked a capacity of 20 lakh tones. When we compare both, silo is a better and safer way of doing it. Cost advantage and comparison with traditional one cannot be done right now unless we set up a substantial capacity. One or two silos were experimental things. They cannot be a good indicator for coverage. Once we have more, we can definitely compare. My personal feeling is that over a period of time, we should move away from the traditional, wall storage and all the traditional godowns to the silos. That is my personal view."

The CMD, FCI, had further elaborated:-

"My own view, which we have communicated to the Government, is that out of this 149 lakh tonnes, the Government has not agreed with this so far, 20-25 lakh tonnes should be created through silos. That is what we have already suggested. Where these silos should be located is a question before the Government. Deputy-Chairman, Planning Commission has taken keen interest in this matter. The Food Minister of Punjab has met him a number of times. Planning Commission is going to give a study to a reputed institution which will work out various costings and the saving on account of losses, etc.

We hope that Planning Commission will finish this study in the next six months or so and then the location of silos will be decided. In the meantime, the Government of Punjab has gone ahead and tendered for four silos. In the meeting which our hon. Minister took last it has already been decided that the silos already sanctioned by the Government of Punjab, we will examine that. We will work out the cost, etc. and the Government of India will decide how much of that extra cost etc. has to be paid. To sum it up, FCI is not against silos. We are very much in favour of silos. In fact, we have created 4 lakh tonnes of storage capacity through silos under PPP."

During the further Oral Evidence on 29 February, 2012, the CMD, FCI, on being asked about the latest status of the Corporation's aims to implement MS Swaminathan Committee's recommendation on silos, informed the Committee:-

"The Government of India has decided that 20 lakh tonnes of storage capacity will be created through silos. That decision has been taken. We are in the process of deciding the State-wise distribution. So, Bihar may get about 2 lakh tonnes; West Bengal may get 1.5. lakh tonnes. Likewise, we are doing that. After that, the State Governments will be given an option to provide land for the silos and avail viability gap funding. They will be given about three months time; and if the State Governments are unable to provide land, then the FCI will float tender; and on the basis of L-1, we will decide the party, who will implement the godown.

I expect that this tender should be out in about four to five months time because the State Governments will have to be given three months. So, once the tenders are awarded, the silos can be constructed within a year.

Coming to silos, in the silos which were set up about eight to nine years back, we do have silos with about 6 lakh tonnes of storage capacity. We have 2 lakh tonnes each at Moga, Punjab and Khaithal in Haryana. Then, there are smaller silos in Kolkata, Mumbai, Chennai, Coimbatore and Bangalore. The wheat which was procured in 2008, we are still carrying some of that quantity for testing purposes. It is in fine condition. So we would imagine that wheat would be stored in silos for not more than four years. But there are no silos for rice at present. So only wheat will be stored in silos. Therefore silos will be sanctioned at locations where either wheat is procured or wheat is consumed. They will not go to rice areas…therefore, we are proposing that silos should go to States where wheat consumption is there."

On being queried further on the cost difference between storage in silos and in traditional godowns, the following comparative analysis was submitted by FCI as part of its post-evidence reply which is given in ***Annexure IV.***

During the course of further oral evidence, the CMD, FCI made the following submissions with regard to loss of food grains in storage and transit: -

"Sir, as far as the losses and the damage of stocks are concerned, over the years quantity of damage of stock has slightly come down. In the year 2008-09, 20,114 metric tons was damaged. While it has come down to 3145 MT during 2012-13. Cost will be based on that year's acquisition cost. Today it is Rs. 16 per kg approximately for wheat and Rs. 22/kg for rice. In those days it may be a little less so multiply with that would be the cost. Sir, 20,114 metric tons was damaged during 2008-09 and in the year 2009-10, it was 6,702 metric tons, in 2010-11, it was 6,346 metric tons, in 2011-12, it was 3,338 metric tons and in 2012-13, it was 3,145. The way we calculate losses is that losses are seen in proportion to the issuance of stocks."

When asked about the continued existence of sizeable quantity of old stock from as far back as the year 2009, the CMD, FCI clarified with the following submission: -

"Sir, I would only like to submit to the hon. Members of this Committee that I have made it very clear and I assure you that in about two to three months' time, we will dispose of all the stocks before 2010-11. We have decided not to keep the stocks prior to 2010-11. By the end of October, we will move the stock and ensure that it is disposed of."

Elaborating on the reasons for the existence of such old stock, the Secretary F & PD elaborated:-

"FCI normally follows FIFO...but sometimes for example last year, when there was bumper procurement of wheat and procurement increased from 283 lakh tonnes to 381 lakh tonnes, nobody had imagined such a scenario...a lot of extra stock came in and so it was stored wherever space was available, in *mandis*, or covered in the open. Then it was endeavoured to prevent spoilage of this new stock...and it was moved on priority basis. Now that was new stock and should not have been moved according to FIFO principle. But we violated FIFO so that grains would not be spoiled. Sometimes we have to change the situation like this but normally FIFO is followed. Now we have 76 per cent rice, around 172 lakh tonnes from the year 2012-13. From the year 2011-12, we have 52 lakh tonnes rice, 2 lakh tonnes from the year 2010-11 and 0.05 lakh tonnes from before 2010. We ask States to dispose of such stock. But as of now this stock constitutes only 0.02 per cent of our total stocks. In the same manner, if we look at wheat, by September, only current year and previous year stock will remain. With regard to silos, as mentioned before, wheat can be stored in them for nearly 3-4 years"

F. QUALITY CONTROL

When asked what were the mechanism put in place by FCI to ensure quality control of the food grains being procured and its preservation during storage, FCI, in a written reply to the Committee submitted that the primary objective of quality control division in FCI is to procure, preserve and supply quality food grains as per specifications and guidelines of Government of India. The stocks procured as per specifications of Government of India & preserved in the godowns, are analysed in the depot Labs which are equipped with physical analysis facility & technically qualified officials & officers. There are labs at district office, regional office and zonal office level also.

Besides above in order to have checks & super checks, over the procurement operation, various levels of, supervisory inspections are carried out, as tabulated below:-

Sr. No	At the level of officer	% of Test Check
1.	Manager (QC) Concerned	25% rice consignments accepted by each TA on day to day basis
2.	AGM (QC) Concerned	10% rice consignments accepted by each TA on fortnightly basis at each depot.
3.	Area Manager, concerned	2% rice consignments accepted by each TA on fortnightly basis at each depot.
4.	DGM (QC) of region	10 depots during each month spread over at least 3 FCI districts.
5.	GM (Region)	At least 4 depot every month spread over at least two FCI districts.
6.	GM (QC), DGM (QC), Zonal Office.	A minimum of two depot in different procuring regions each month. Next month different regions are covered

During their further evidence, the Ministry submitted the steps taken by FCI to preserve the quality of procured food grains during storage. FCI stated that godowns are constructed on scientific lines making it rodent proof by having proper height and damp proof by providing pucca floor. Before the stocks are stored, the godown is properly cleaned and cobwebs, etc., if any, are removed. Floor and walls are treated with chemicals such as air charging with Malathion and DDVP (insecticide) to make them pest free. Markings are provided for stacks and the dunnage material is used on which food grains bags are arranged as per the stack plan. Prophylactic (spraying of insecticides) and curative measures (fumigation) are carried out regularly for the control of insects/pests. Effective rodent control measures are also undertaken.

With regard to physical verification/checking to ensure proper preservation of food grains in storage, FCI submitted that it carries out fortnightly inspection of stocks on 100% basis by Technical Assistants for declaring categorization & classification. In addition, monthly inspection by Manager (QC) – 33% of stocks ($1/3^{rd}$ of stocks) in a month is undertaken. Monthly Inspection Reports (MIR) of Manager (QC) are scrutinized at Zonal level. Suggestions made therein are to be implemented and monitored through action taken reports. The Quarterly inspection by AGM (QC) involves inspection of $1/3^{rd}$ of depots in a month so as to cover all the depots in the District in three months; checking of 5% of stocks in a depot having capacity of more than 25000 MTs; inspection of 10% of stocks in respect of depot having less than 25000 MTs and Squad Inspection Reports of AGM(QC) are scrutinized in Headquarters.

In case of shortage of covered storage space, food grains may have to be stored in open in CAP. Every care is taken for maintenance of quality of grains, while kept in CAP. Rats, birds and moisture are the main enemies of grain in CAP storage. In view of the risk involved, this type of storage is attempted as a last resort. Several precautions are taken for proper storage of food grains in CAP Storage. The site selected for CAP is above the adjoining ground and away from nallahs and drainage to prevent any flooding of CAP storage during rainy season. CAP storage site is cleared of all plants/shrubs growth and disinfested with DDVP. Anti-termite measures are taken in CAP/Open storage. Adequate dunnage is provided for all stacks in CAP/open storage, Wooden Crates are preferred. However, cement blocks, wooden rafters, casurina poles and granite blocks, according to local availability, have also been used successfully. The dunnage material is cleaned and disinfected either by fumigation or by treating with contact insecticides such as DDVP. The top of the stacks is built to form a dome, in the shape of an inverted ‘U’ to facilitate easy flow of rain water and prevent accumulation of water on the top. To protect the stocks from rain, sun, dew, birds, rodents, etc. each stack is covered with a polythene cover especially made for this purpose. The polythene cover mounted on the stack is properly lashed by nylon ropes vertically to prevent damage to the covers due to high velocity winds, rains, dusts, storms, etc. Regular prophylactic and curative measures are carried out for the control of stored grain insect pests in CAP storage. Rodent control measures are also taken by fumigating the rat burrows with aluminium phosphide or by poisoning the rodents with Zinc Phosphide. Moisture is the major factor responsible for adversely affecting the quality of food grains and is controlled by regular aeration of stocks during clear weather days. Technical Assistant concerned checks the stocks on fortnightly basis followed by Super checks by Senior Officers. Wheat stock stored in CAP by the State Governments/Agencies is subjected to joint inspection on a regular basis by officers of FCI and the concerned State Governments/Agencies. 100% inspection of State Agencies stocks kept in CAP in Punjab and Haryana have been conducted. Stocks are generally issued/moved on the principle of First in First Out (FIFO).

In addition to above in order to have effective check on the quality of stocks stored, the regular and surprise checks are undertaken by HQ/Zonal/Regional/District level Vigilance Squad.

During the last four years, position of checks is as under:

Year	Regular checks	Surprise checks	Total
2009	11163	3705	14868
2010	13390	3135	16525
2011	13359	7979	21338
2012-13 (up to August, 2012)	10247	4361	14608

On the basis of inspections, stocks in storage are classified & categorized on the basis of level of infestation & percentage of weevilled grain as under:-

Classification of food grains:

Class	Particulars	Sample Size
Clear	Lot completely free from living Infestations.	Per 1.0 Kg of representative sample drawn by

Few	Lot having up to two living insects.	parkhi from all sides of a stack.
Heavy	Lot having more than two living insects.	

Classification is based on the number of living insects in a sample of one kg drawn from the particular stack.

Curative treatment is undertaken when classification is found as few or heavy.

Categorization of Wheat and Rice:

Basis of categorization of rice

Category 'A;	Damaged grain	Discoloured grain
Raw rice	up to 3%	up to 3%
Parboiled Rice	up to 3%	up to 3%
Category 'B'		
Raw Rice	above 3% up to 4%	above 3% up to 5%
Parboiled rice	above 3% up to 4%	above 3% up to 5%
Category 'C'		
Raw Rice	above 4% up to 5%	above 5% up to 7%
Parboiled rice	above 4% up to 5%	above 5% up to 7%

Category 'D'

Raw Rice: Lot showing appreciable quantity of loose bran (more than 0.5%) or giving unpleasant smell in respect of Raw and Parboiled Rice.

'D' category rice should be issued after cleaning where necessary.

Basis of categorization of Wheat

The basis of categorization is by volume cum count method from out of the sample. 20CC of representative sample may be measured out with the help of a measuring cylinder. This quantity shall then be analysed on a sample plate for categorization of the stock. The weevilled grains as well as touched/germ eaten grains shall be picked out and measured separately. If the percent of weevilled grains alone by volume goes beyond 3.50% then the percentage of weevilled grain should be determined by count.

Category	Percentage of weevilled grains
A	up to 1%
B	above 1% and up to 4%
C	above 4% and up to 7%
D	above 7% and up to 10%

Steps taken during Storage:

For monitoring proper health of the stock in storage, following physical & chemical treatments are imparted to the stocks at regular periodic interval.

Preservation of stocks by Physical treatments:

During storage in the godowns and CAP the stocks need to be kept clean by physical method and treated regularly with the approved chemicals to protect the stocks from getting infested with pest.

Steps involved in physical treatment include:

Cleaning: Cleanliness is a first essential step in the maintenance of the health of the grain in store.

Brushing: It ensures clear aeration to the grains and dis-favours insect growth. It allows the fumigants to penetrate the core of the bags for effective treatment.

Aeration/ventilation: It helps in removal of heat produced inside the godowns and also reduces the temperature. Further aeration on clear sunny days will reduce the moisture level thereby reducing the possibility of infestation growth. Moisture content in excess of 12% in the grain will create conditions favourable for insect development and that below 10% will be discouraging the insect growth.

PRESERVATION OF STOCKS BY CHEMICAL TREATMENT

The chemical treatment involves the following:-

(A) PROPHYLACTIC TREATMENTS:

S. No	Pesticide	Dilution	Dosage	Frequency
1	Malathion 50% EC	1:100	3Lit solution per 100 Sq.mt.	15 days (Except from Nov. to Feb. once in 3 weeks)
2	Deltamethrin 2.5% WP	40gms/Lit	3 Lit solution per 100 Sq.mt.	Once in 90 days
3	DDVP 76% EC	1:150	Empty space treatment 3 Lt. Solution per 100 Sq.Mt.	As & when reqd.

(B) CURATIVE TREATMENTS

Aluminium Phosphide : In cover fumigation @9 gms/MT
In shed fumigation @63 gms/28 Cu.Mt
In CAP Storage @9 gms/MT+20% additional
Exposure period minimum 5 days.

The Committee were further informed that in compliance with Ministry's instruction No.40-10/2010-QCC/1062 dated 24 June, 2010, the following remedial steps are being taken to ensure the supply of good quality food grains under PDS/TPDS and other welfare schemes:-

Ample opportunities are provided to the officials of the State Governments/UT administrations to inspect the stocks prior to lifting from FCI godowns. States/UTs may ensure that officers not below the rank of Inspector are deputed for inspection of the food grains before their lifting from FCI godowns. Joint samples in triplicate are drawn by the officers of the State Governments and FCI for displaying them at FPSs for the benefit of the ration card holders / consumers. A duplicate of the same sample is to be kept with concerned FCI depot/godown for any future reference. In case the State agencies are taking delivery from FCI and thereafter delivering the same to the FPS dealers, they should also follow the same procedure as is being followed by FCI for issuing the jointly sealed samples drawn for display at the FPS. Type samples are advised to be displayed by FPS dealers in their shops, so that the ration card holders/consumers may check the quality of food grains supplied to them. FPS dealers should also maintain a complaint register to enable the consumers to lodge their complaints, in case the quality of the food grains issued is not proper. It is the responsibility of the concerned State and UT Governments to ensure that during transportation and storage at different stages in the distribution chain, the food grains retain the required quality specifications. For this purpose, all required measures are to be taken for scientific storage of food grains so that there is no deterioration in their quality at any stage till they are delivered to the ration card holders/consumers.

The Committee, during the further evidence of FCI on 3 January, 2013, enquired about the status of physical verification of stocks. In this regard, FCI in a subsequent written reply submitted that the Internal Audit Division conducts physical verification of stocks of one depot in a Region in a month. This verification is a random and surprise one and is in addition to the quarterly and annual physical verification conducted by the Corporation following the package developed by the Indian Statistical Institute.

During the year, 2010-11, 2011-12 and 2012-13 (up to November, 2012) the Internal Audit Division had conducted physical verification of 330,307 and 159 depots respectively.

Broadly on physical verification on peripheral basis, the same number of bags as in the stock books is found. However, a variation in weight on 100% weighment of selected stacks noticed is accounted as PV losses. For abnormal percentage of loss noticed, suitable administrative action is taken by the delegated authority.

On being questioned on the amount of food grains lost in storage over three years during the Oral Evidence on 18 August, 2010, the Corporation in a written submission submitted the following details of damaged food grains (non-issuable) with FCI from 2007-2010 and its value on Acquisition Cost and its percentage in terms of quantity and value against stock handled.

	2007-08	2008-09	2009-10	2010-11*
Qty handled in LMT				
Wheat	213.38	382.28	422.91	271.07
Rice	537.14	530.95	452.01	54.82
Total	**750.52**	**913.23**	**874.92**	**325.89**
Value of stock handled (in Rs. Crore)#				
Wheat	22841.90	44502.74	52493.28	
Rice	66169.74	79382.87	75267.80	
Total	**89011.64**	**123885.61**	**127761.08**	
Quantity accrued as non-issuable (in Lakh MT)	0.34	0.20	0.07	0.03 (includes 2442 MTs Maize)
Approx. value of non-issuable quantity (in Rs. Crore)^	22.33	13.03	3.63	
Percentage of non-issuable stock				
In terms of quantity	0.045%	0.022%	0.008%	0.009%
In terms of value	0.025%	0.010%	0.003%	

* Fig. up to 30.06.2010
# Value of quantity handled has been calculated at the Acquisition Cost of wheat and rice for the relevant year. Paddy converted into rice for the calculation.
^Value of non-issuable stock has been calculated on the basis of Feed-I category of Wheat and Rice @75% of Central Issue Price for APL families (CIP for APL for Wheat is Rs. 610/- per qtl and Rice Gr. A is Rs. 830/- per qtl.

The stocks damaged during storage is only 0.045%, 0.022%,0 0.008% and 0.009% of total stocks stored in 2007-08, 2008-09, 2009-10 and 2010-11 respectively. In value terms, it is 0.025%, 0.010% and 0.003% of the value of total stocks stored. On analysis of reasons of damaged to the stocks, if failure/negligence on the part of officials/ officers of FCI in sliding down of the stock into damaged food grain, is established, necessary action is taken.

In this regard, FCI, in its post-evidence replies to questions raised during its Further Oral Evidence held on 3 January, 2013 submitted the position of Storage loss agency-wise for the stocks stored with FCI, CWC, SWC for the last three years (up to November, 2012) in the following table:

(Quantity in lakh MT)

Year	FCI			CWC			SWC		
	Qty. Issued	Qty. Loss	% of loss	Qty. Issued	Qty. Loss	% of loss	Qty. Issued	Qty. Loss	% of loss
2010-11	318.09	0.55	0.18	85.87	0.27	0.31	126.54	0.75	0.59
2011-12	351.38	0.48	0.14	80.67	0.23	0.29	164.58	0.91	0.55
2012-13 (up to Nov'12)	226.06	0.38	0.17	97.74	0.56	0.57	57.01	0.19	0.34

FCI further stated that the % age of loss for the stocks stored in FCI godowns is on the lower side ranging from 0.14% to 0.18% during the last 3 years and these losses are well within the MOU target of 0.22%. In case of stocks stored in CWC/SWC godowns the losses are on higher side. The storage losses occur due to various factors like reduction in moisture content, storage period, birds trouble, etc. The norms are fixed by Government of India for storage losses in wheat and rice. The justified storage losses on account of moisture content and storage period, etc. are written off and any other losses beyond norms and found unjustifiable are recovered after investigation from the storage bills of SWC and CWC. In case of FCI, disciplinary action is initiated under Major/Minor charge sheets against the Officers/Officials found responsible for unjustified storage losses. 2 Major and 14 Minor cases have been disposed and 16 Major and 86 Minor cases are under process against the officers/officials as on 31 December, 2012 on account of Storage losses.

About the accrued quantity of damaged/non-issuable food grains in FCI and its %age against offtake for the last 4 years (up to November, 2012) the following information was submitted to the Committee:-

Year	Accrued quantity of damaged food grains (in Lakh MTs)	Offtake quantity (excluding DCP States) (in Lakh MTs)	% Damaged food grain against offtake quantity
2009-10	0.070	371.06	0.019
2010-11	0.060	432.1	0.014
2011-12	0.033	473.59	0.007
2012-13 (upto 1.12.12)	0.014	330.91	0.004

FCI has pointed out that the accrual of damaged food grains during the last four years is very meagre in comparison to the total offtake of food grains and there is a decreasing trend. It has decreased to 0.004% in 2012-13 from 0.019% in 2009-10. During last four years, accrual of total damaged food grains was only 18000 MTs against 1608 LMTs of total offtake quantity.

On reporting of damaged/non-Issuable food grains, there is a set procedure in FCI. Various committees at different levels such as DCC/RCC/ZCC/Headquarters investigate the matter of detection of damaged food grains and also submit their recommendations. According to the recommendations of the committee, wherever possibilities of upgradation of such stocks occur in view of economically viability and feasibility, the stocks are upgraded and liquidated through normal channel. In case, it is not found feasible, the stocks are disposed off through tender as per procedure in vogue. Simultaneously, if such damaged food grains occur due to negligence of officers/officials, accountability is fixed and disciplinary actions are taken invariably. In this context, action under major/minor penalty was initiated against the following number of officials during the last four years:-

Year	**No. of officials proceeded against for rotting /damage of food grains**
2009-10	28
2010-11	20
2011-12	59
2012-13 (up to Sept'12)	10

When questioned about the issue of food grains rotting in FCI's godowns during Oral Evidence before the Committee on 18 August 2010, CMD, FCI replied:-

> "I can say with some degree of confidence that the quality of preservation of stocks by FCI is reasonably good. In the State, wherever we have godowns, there is a prescribed procedure for preservation and maintenance, fumigation, etc. recently, the Government of India and the FCI have sent teams to various States to verify

fumigation, etc. The stocks which are in custody of FCI, we have generally found that they are very well maintained. I am not saying that there is not problem anywhere, due to age of stock or due to improper maintenance at some places. It is possible that some stocks may not have been adequately preserved. Generally speaking, when we are carrying an inventory of about 600 lakh tonne, it is possible that there may have been negligence but we are conscious of the need of maintaining good quality stocks."

The Committee, in view of the reported high incidence of wastage of food grains in covered godowns of FCI, desired to know if it was true that nearly 50% of its stock was in rotten condition. In response, FCI in a written reply stated that it was not true that 50% stocks in covered godowns in FCI is in rotten condition. As on 1 August, 2010, FCI has only the following quantity of issuable stock:

Wheat	108.94	lakh tonnes
Rice	161.02	lakh tonnes (including paddy in terms of rice)

As per the laid down procedure, the stock are checked / super checked by the officials/officers of FCI to check the quality of the stock. Various checks / super checks are conducted in the godowns to ensure proper preservation of food grains in storage.

The Ministry, with regard to the steps being taken by FCI and the Government to prevent loss or wastage of food grains during storage and transit stated that the Department issues instructions from time to time to all UT/ State Governments and Food Corporation of India on the measures required for proper and safe storage of food grains in both covered godowns, Cover and Plinth (CAP) storage and in transit. All precautions are taken for the proper storage and upkeep of food grains.

When asked about any holistic study undertaken to improve FCI's storage capacities across the country, FCI submitted that several studies had been undertaken for improvement of storage capacity scenario in the Country, some of which are elaborated in detail.

(1) **M/s Matt MacDonald** was appointed as consultant by the Planning Commission to carry out feasibility study for creation of silos based storage capacity in the country. The consultant submitted its draft report in May 2011 and the final report was submitted in Nov, 2011 which was examined by a committee of FCI officers. The comments of FCI were sent to Government of India after the meeting held in Planning Commission on 21.12.2011.

The matter was placed by the Department of Food and Public Distribution before the EGoM in the meeting held on 07 February, 2012 and EGoM approved the setting up of 20 lakh MT silos throughout the country. It was also decided that silos will be constructed within the overall storage gap identified by FCI under PEG/Plan scheme. The Board of Directors of FCI in its 344th meeting held on 20 March, 2012 has finalized. The State wise distribution of capacities of 20 lakh MT of silos as under:

Sl. No.	State	Silo capacity in MTs
1.	Bihar	2,00,000
2.	Haryana	3,00,000
3.	M.P. (DCP)	3,50,000
4.	Maharashtra	1,00,000
5.	Punjab	4,00,000
6.	U.P.	3,00,000
7.	West Bengal (DCP)	2,00,000
8.	Assam	50,000
9.	Kerala	50,000
10.	Gujarat	50,000
	Total	**20,00,000**

Upgradation of Godowns:

In order to improve the storage capacities/conditions of FCI godowns across the country, as per the direction of Ministry, a methodology on Scientific basis has also been evolved. Accordingly, for upgrading all the FCI godowns and to assess the existing condition of the godown, an action plan to upgrade the same at minimum acceptable level has been prepared. All the FCI godowns have been categorized into following five Grades based on the existing conditions:

Grade I – From 81 to 100 points
Grade 2 – From 71 to 80 points
Grade 3 – From 61 to 70 points
Grade 4 – From 51 to 60 points
Grade 5 – Below 50 points (points are out of 100).
The summary of the grading exercise is as under:

Sl.No.	Grade	No. of godowns	Remarks
1.	I. with Grading from 81 to 100 points	61	The grading is out of 100 points for all godowns.
2.	II. with Grading from 71 to 80 points	182	
3.	III. with grading 61 to 70 points	221	
4.	IV. with Grading from 51 to 60 points	55	
5.	V. with Grading below 50 points	22	

Based on the above classification, the tentative action plans for the financial year 2012-13, 2013-14 and 2014-15 have been prepared and circulated to all Zones/Regions for implementation. In the first phase, all the godowns of Grade IV & V will be upgraded to minimum acceptable “Grade” of 60. Total budget of Rs. 150 crores was approved by the Board of Directors for FY 2012-13 for upgradation of godowns.

CHAPTER IV

MOVEMENT OF FOOD GRAINS

A. TRANSPORT MECHANISM

According to FCI, in its efforts to ensure food security within the country it is also tasked with the responsibility to transport food grains to several parts of the country from producing regions to the end consumer.

FCI has systematic procedures in place for transportation of food grains within the country. Firstly, information regarding inflow & outflow of food-grains for all the States in the country is collected. Based on these, the expected stock at the end of the ongoing month is arrived at. Taking into consideration the PDS requirements of each State, quantity of food-grains is decided for movement from the surplus States to the deficit States for the next month. Based on the quantity to be moved, numbers of rakes are planned for each region. The receiving regions submit Demand Instructions (DIs) for receiving the rakes on weekly priority basis. Finally Movement Plan is prepared based on priority of loading and submitted to the Railways. Regular monitoring is done on the movement operation all over the country.

The following information was furnished by the Corporation about the methodology adopted by FCI for transportation and overall movement of food grains within the country including items imported or exported, the transport subsidy paid by FCI or payable for such transportation during the last five years and how it ensured that expenses on this account are kept to the barest minimum:-

Methodology

FCI moves food grains (wheat, raw rice, boiled rice, etc.) from the surplus States to the deficit States to meet the requirements of TPDS and other schemes as well as to build up the buffer stocks. Wheat stocks are generally moved from surplus States of Punjab and Haryana, while the rice stocks are moved from Punjab, Haryana, AP, Chattisgarh, Orissa, etc. Movement of food grain stocks is undertaken by rail, road and river. More than 90% of the stocks are moved by rail only.

Monthly Movement Plan is prepared keeping in view the stock position, likely procurement, off-take under various schemes, building buffer stocks, vacant storage capacity and the likely demands, etc. The Plan is prepared taking into account all the parameters and after discussing with the representatives of field offices in the Movement Plan meeting held at FCI, HQs every month.

Based on the above discussions date wise, dispatching stations wise, receiving stations wise plan is prepared and given to the Railways before the start of the month. The following Tables contain information regarding procurement and movement of food grains during the period 2006-07 to 2011-12:-

Movement of food grains by rail and road

(Figures in LMT)

Particulars		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Overall movement	**Rail**	203.25	203.98	204.60	249.18	279.65	303.23
	Road	18.45	17.81	20.57	26.65	25,64	24.54
	Total	221.70	221.79	225.17	275.83	305.29	327.77
Movement ex-North	**Inter**	175.02	178.09	167.37	188.54	221.23	201.01
	Intra	1.58	1.94	2.14	0.81	3.32	7.49
	Total	176.60	180.03	169.51	189.35	224.55	208.50

Year-wise procurement and movement of food grains

Figures in LMT

Year	Procurement	Movement			Percentage of		
		Planned	Actual	Difference	Planned movement to procurement	Actual movement to procurement	Shortfall in actual movement to procurement
2006-07	343.37	243.47	221.70	-21.77	71	65	35
2007-08	398.65	239.56	221.79	-17.77	60	56	44
2008-09	567.93	239.36	225.17	-14.19	42	40	60
2009-10	574.16	312.30	275.83	-36.47	54	48	52
2010-11	567.12	362.97	305.29	-57.68	64	54	46
2011-12	633.76	391.86	327.77	-64.09	62	52	48

Based on the above date the Audit observed that the evacuation of food grain stock from the procuring states was short by 35 per cent to 60 per cent of the food grain procured during the period 2006-07 to 2011-12. The actual movement against the planned quantity was also in the range of 84 per cent to 94 per cent during the same period. Thus, substantial shortfall in movement of procured stock despite increase in procurement level had resulted in huge accumulation of food grain stock in the procuring States during the period under review.

When asked why such problems had arisen in the movement of food grains by FCI and why a systematic movement plan for the entire course of a year was not in place, the CMD, FCI, during the course of oral evidence held on 18 August, 2010 clarified in this context with the following illustration: -

> "In Punjab, the new rice season will begin from 1st October. So, we have to create a space for rice. 90 lakh tonnes of rice has to come. The State agencies of Punjab like AGRO and MARKFED for example stored some wheat in covered godowns this year. What is the option we have? If we move only old wheat of previous years, then this wheat remains in godowns and this chokes space for rice and we cannot accept more rice because rice cannot be stored in the open. The only option we have in order to accept rice is to move this wheat in violation of FIFO."

During the further Oral Evidence, the Secretary, Ministry of Food & Public Distribution (Department of Food and Public Distribution) further clarified:-

> "…we plan our movement on the basis of procurement. It will be seen how many rakes we have requested from the Railways and how many we have received.

There is a gap in that total. That is a regular exercise. In every month, we have received rakes less than amounts requested so we have requested for rakes over and above that number. For every State, we keep a surplus. If I have to move 2.2 lakh tonnes in the north-east, then I try to make 4 lakh tonnes available there."

With regard to problems faced in movement of food grains through the Railways, the CMD, FCI submitted during the further Oral Evidence on 3 January, 2013: -

"Ninety per cent of our movement is by our railways. April to November is the railway's lean season. They would rather pressurise to give us more movement. From December to March private work begins and we do not get the number of rakes that we need. We have been raising this issue. We have made a request before the Parliamentary Standing Committee. They called the Chairman, Railway Board and others. They promised that whatever is required by Food Department, that will be given but after that promise they have reduced our required allotment of rakes from before. One of the problems is that we do not get rakes as required by us for the movement. For the last five to seven years we have analysed this. They do not give 18-20 per cent rakes. The result is reduced movement of food grains. As a result, surplus stock is left in States. That has its own implications…we need little more help from the railways."

The Report of the C&AG has pointed out substantial shortfall in movement of food grains against planned/procurement, which resulted in huge accumulation of food grains stock causing severe strain on the available storage capacities in the major procuring States. When asked if any measures have been initiated by the Ministry to evacuate food grains to the extent of planned quantity from procuring states to deficit States with a view to avoiding accumulation of food grains stock in major procuring States, the Ministry stated that the quantity of food grains moved need not be at par with the quantity of food grains procured during a particular year due to several reasons.

Procurement is done by FCI with the objective to provide Minimum Support Price (MSP as decided by the GoI) to the farmers so that they are not compelled to sell their produce below the MSP. Therefore, whatever stocks are brought to the purchase centres, falling within the Government of India's specifications are purchased at the fixed MSP and if the farmers get prices better than the support price from other buyers such as traders / millers etc., the farmers are free to sell their produce to them. Thus there is no upper limit on procurement. Also, total quantity procured varies from year to year depending upon MSP and other market factors.

On the other hand, movement of food grain is done with an objective to maintain adequate quantity of food grain throughout the country to meet the requirement under TPDS & Other Welfare Schemes and to maintain buffer stocks. Thus, movement of food grains from surplus to deficit centers is planned on the basis of offerings given by the dispatching Regions and the demands given by the recipient Regions according to the monthly allocation / offtake of the Region and vacant storage space available at their ends which in turn is deduced after assessing the expected procurement (if any) during that month and other related factors. Also, while planning the movement, it is taken into consideration that the capacity utilization of various regions are optimally utilized. Based upon this information provided by the Regions, monthly movement plan is prepared and railways are intimated the framed time schedules with weekly priorities.

Some of the regions, where though procurement of food grain is undertaken but it is not sufficient to meet their entire PDS requirements, place their monthly DIs/offerings after considering the expected procurement in their Region during a particular month.

Thus, it is evident that factors affecting the procurement are incompatible with those of movement. Sometimes, it has happened that even if the procurement is less due to unfavourable procurement seasons or other market factors, the movement has been met / undertaken to the deficit Regions by way of imports.

When asked about the current status of movement of food grains, FCI replied that the current status of movement of food grain has not improved. There are still shortfalls in the supply of rakes by Railways against FCI plans. In spite of repeated requests from FCI to increase the supply of empties Railways are unable to provide required number of empties, which is evident from the following table:

(No. of rakes)

Year	Plan	Dispatch	Shortfall	% age of dispatch
2010-11	13003	10607	2396	82
2011-12	13215	10969	2246	83
2012-13	12466	10549	1917	85

Railways are still short supplying rakes against FCI's plan, which is ultimately affecting not only the evacuation from surplus regions like Punjab, Haryana, Madhya Pradesh, Chhattisgarh, Andhra Pradesh, etc., rather also affecting the PDS issues in the consuming States and the export.

Audit has observed deviations from linear programming based movement plan. To economise food grains movement, FCI had taken an initiative to plan movement of food grains through a computer based model of Linear Programming (LP) exclusively for ex-North movement since February 2006. This LP captures the shortest route between dispatching centres and the receipt centres in line with the Railway Rates Branch System (RBS) involving least cost. The position of rakes requisitioned by FCI and actually moved by the Railways as per the LP based plan during the period 2006-07 to 2012-13 is given below:

Total number of rakes loaded by FCI and rakes moved by the Railways as per LP

Year	**Total number of rakes loaded by FCI**	**Total number of rakes moved as per LP by Railways**	**Compliance (in percentage)**
2006-07	4693	2951	63
2007-08	4474	1847	41
2008-09	5301	2908	55
2009-10	6697	4177	62
2010-11	8021	3363	42
2011-12	7216	2541	35

2012-13	7304	2979	41
Total	43706	20766	47

In this regard, the Committee enquired if the Ministry/FCI had taken any measures along with the Railways to ensure compliance with Linear Programming. The Ministry, in their written reply have stated that on several occasions, the matter of poor compliance of L.P. generated linkages by Northern Railway in loading of rakes has been discussed amongst Railways, Ministry and FCI at highest level and out of these discussions many facts have emerged. FCI prepares its monthly Movement Plan ex. North with the help of L.P. generated linkages which are normally the shortest route. But Railways while moving their rakes, follow the rationalised routes depending upon traffic on various routes. The Railways being itself a Government of India Undertaking tries to move the rake by shortest possible route. A number of times when unloading of a rake is completed and has to move to a particular centre Railway has to send the same to some other destinations in view of the constraints like derailment, flood at the destination and other calamities which ultimately affects the L.P. compliance. Unlike loading of rakes, ex. A.P., ex. Chhattisgarh, ex. Orissa, ex. M.P., etc. the loading of rakes ex. North is voluminous. Hence compliance of linkages between dispatching and recipient centres as prepared by FCI becomes difficult for Railways at times. If Railways are compelled to stick to the linkages as made by FCI in the movement of rakes, then there is every possibility that the supplies of rakes may suffer in view of the various constraints of Railways which will ultimately affect the PDS supply. In view of this, it is advisable that rakes are moved on rationalised routes/linkages rather than strictly as per the L.P. generated linkages.

The Committee were informed that the matter of LP compliance was also discussed in the meeting held on 19 February 2013 of the coordination committee comprising JS(P&FCI), ED (TTF) Railway Board and & ED (T), FCI, wherein ED(TTF) informed that at present the Railways are implementing a module which will look at rakes in pipeline for various terminals and place restriction on movement after considering the movement and loading data. He also stated that at present the module is in the initial stage of development. However, once this module is developed it can be considered for integration with FCI's linear programme, which can be implemented more successfully.

When pointed out by the Committee, about the obvious need for improvement of method of movement of food grains apart from creation of suitable infrastructure for the same, the Secretary, F& PD, while dwelling further on the problems being faced submitted during the course of further Oral Evidence on 17 June, 2013: -

> "Railway is our main transporter. We are in regular touch with them; recently, with the concurrence of the Chairman, Railway Board, we have made a committee with representatives of the Railway Board, Ministry and the FCI, to meet every week and see that the issues are sorted out. They have been helping. This year, I understand, the movement, since the 1st of April, has been roughly 50 per cent more.
>
> Roughly six months back. There are some issues. I am submitting that from the 1st of April – I will ask the ED to give the figures – roughly 50 per cent increase in the movement has taken place. Railways have their constraints – availability of wagon. I want to move goods from Punjab, but wagons are not available there; I

want to move from Madhya Pradesh's Chindwara; maybe, there, the station is far off and the location of handling capacity may be far. Secondly, railways have not improved, for some reasons, the infrastructure at railway stations. Sheds may be open. Last year, hon. Members might have read in the paper; at Ahmedabad, a rake of 5000 tonnes reaches; we have to unload it within eight hours. We have unloaded it. The transporter was trying to move them to the godowns. But in-between all of a sudden, there was a rain and they got wet. There was criticism. The Railways' good sheds, in general, the infrastructure is very weak. Platform may be kutcha. We have taken it up with them; we have shown them photographs. In north east, in most of the places, if it rains, there will be water on the platform; and they get damaged. At times, the railways is such a big network, and India is a big country, when we try to move, we might be moving to Tamil Nadu region, rice from Chhattisgarh, wheat from Punjab and other places and also something from UP also, though we plan, but with the limitation of the railways, it may happen that three rakes reach at the same time. Availability of labour becomes an issue at that time; you cannot unload it; you will be paying demurrages; railways will blame me that I am not releasing the rakes. In certain areas, there are labour laws; in Kerala, they will not work for more than the stipulated time; in north east, they will not work on Saturdays and Sundays. If a rake reaches there on Friday, it will be stuck till Monday. I am not just raising the issues like that. They are realities. I request the Committee to appreciate that even within those limitations, we have been able to move roughly 600 lakh tonnes. Secondly, on the wastages, the hon. Member has raised a serious issue. With the storage of 600-700 lakh tonnes, our norms of wastage are 0.2 per cent."

B. MOVEMENT OF FOOD GRAINS IN THE NORTH EAST

During the Study Visit of the Committee to the North-Eastern States of India during April 2011, the Committee sought further information on the movement of food grains in the North East by FCI. The Corporation in its replies stated that movement of food grains to NE Zone is mainly by rail from North and other places through Broad Gauge (BG) railway line and further movement by meter gauge railway line. Food grains are also moved by road to some of the States which are either not connected or insufficiently connected by rail. Amongst NE States, only Assam and Nagaland have BG terminals and all other States have MG terminals. Manipur and Meghalaya are not connected through any rail network.

Movement to NE is planned on the basis of the requirement given by the various FCI Regions to the NE Zone based on off-take/storage capacity, etc. The Zone after analyzing the same submits a plan to FCI Headquarters for the Zone as a whole. The final movement plan, based on the recommendation of the Zone is prepared at Headquarters level and the same is submitted to the railways for implementation.

The average monthly requirement of food grain and sugar for North East Zone for distribution under TPDS, additional allocation and 'Other Welfare Schemes is about 3.00 lakh MT and 0.27 lakh MT respectively. NE Zone plans movement of 3.0-4.0 lakh MT of food grains monthly depending upon the anticipated inflow and outflow of stocks. In the financial year i.e. 2010-11, FCI North East Zone had planned for 39.04 Lakh MT of food grains and was able to induct 30.06 Lakh MT of food grains. During the same period, movement of 2.6 lakh MT of sugar was planned, and 2.9 Lakh MT received, due to backlog revalidation.

Meghalaya is completely out of Railways network in NE Zone while two bordering point of Assam namely Bhalukpong and Harmoty are used for induction in Arunachal Pradesh (A.P). FCI, NE Zone also depends on intra-regional road movement; MG line alone cannot fulfill the requirement of States like Tripura, Mizoram and Manipur. Along with MG rail planning, stocks are also dispatched from Changsari after offloading the stocks from wagons to trucks for sending to Meghalaya, Mizoram and Tripura. For Manipur, stocks are dispatched from Dimapur via NH-39 along with MG rail induction at Jiribam.

Considering that movement of food grains by rail and road posed a number of challenges, the Committee during its Study Visit to the North East, enquired of the Corporation whether it had considered the possibility of moving food grains through rivers. In this regard, FCI submitted that it was decided to undertake the pilot project for riverine movement of 01 barge each of 300 MT from (i) Varanasi to Tripura via Ashuganj (Bangladesh); and (ii) Pandu to North Lakhimpur / Dhemaji /Passighat. The proposal in principle has been approved by the competent authority on experimental basis and directions have been issued to N.E. Zone to undertake the pilot project.

C. CHALLENGES IN THE MOVEMENT OF FOOD GRAINS

When asked about the difficulties faced in the movement of food grains, the FCI in their written reply have stated that it is issuing date-wise as well as destination-wise movement plan to the Railways every month but the Railways are sending rakes as per their priorities and not adhering to the date-wise/ destination-wise plan resulting detention as well as bunching of rakes. Railways are not providing the rakes as per requirement of FCI particularly in Andhra Pradesh and for the North East Region. Many times Railways does not accept two point combinations like in Kerala and Tamil Nadu where the rakes are split into two parts and sent to two destinations. Railways are placing the rakes round the clock at many centres whereas FCI has normal working hours. Similarly Railways are placing the rakes on Sundays, holidays and at many places Departmental labourers are not working on these days resulting into demurrage charges and non-releasing of rakes. Placement of 58 BCNHL wagons in a rake instead of 40 to 42 BCNA wagons per rake thus increasing the rake capacity by one and a half time but restricting unloading/ loading time to the same 9 hours only, which is applicable in case of 40-42 BCNA wagon rakes. Railways are imposing restrictions at various destinations without any prior intimation to FCI, particularly in the North East region. In addition there are the problems of non-availability of infrastructural facilities like proper lighting, metallic road, drinking water, proper platforms, etc. at many rail heads.

When asked whether any specific problems were faced by FCI in the movement of food grains in the North-East (NE) zone, FCI in its written reply submitted the details of various problems being faced by FCI in this region. FCI pointed out that MG Infrastructure of NE Railway is poor due to which many a times movement is restricted in North Bank Areas i.e. points served by the Rangia transhipment points. There is also insufficient storage capacity to store at least 2 months of stocks. In addition, FCI faces constraints in road movement to Arunachal Pradesh, Manipur, Meghalaya, Tripura etc. Conditions of roads in North East especially Manipur and Arunachal Pradesh are poor which also hampers the road movement to these states during Monsoon period.

During the Study Visit of the Committee to the North East region, FCI also pointed out to the Committee the various difficulties being faced by it in its plans for movement of food grains in the North-East, the main problem being that of getting rakes for NE Zone ex. North as per its requirement due to which stock level in NE States has come down and regular complaints are being received from the State Governments particularly from Manipur and Tripura.

Railway provides maximum of 3-4 rakes per day for NE Zone and North Bengal which means maximum movement to the Zone can be between 2.5 to 3 LMTs, against FCI's monthly plan of 4.5 LMTs.

FCI has requested that Railways should provide at least 80 MG wagons at Lumding and 50 MG wagons at Rangia transshipment points as decided in the meeting taken by Minister of Home Affairs on 21 December, 2010. Against the FCI's daily requirement of 80 and 50 MG wagons at Lumding and Rangia, FCI has stated that railways is placing only 50 & 30 MG wagons on an average respectively at these transshipment points. Less induction of MG Wagons may affect induction in Tripura, Manipur, Mizoram and parts of Assam. However in the preceding three months the placement of MG wagons by railways at Lumding and Rangiya has improved which has been 60 & 50 MG wagons on an average respectively.

Railways are placing the rakes round the clock at many centres whereas FCI has normal working hours. Similarly railways are placing the rakes on Sundays, holidays and at many places departmental labourers do not work on these days (e.g. in Nagaland no operation is undertaken on Sunday) resulting in unwanted detention and demurrage.

Non-availability of infrastructural facilities like proper lighting, metallic road, drinking water, proper platform etc. at many rail heads like Kokrajhar, Barpeta Road, Bongaingaon, Tinsukia, North Lakhimpur, Jorhat, Tangla Bhalukpoing etc. are also a cause of concern and hamper operation.

Non-availability of sufficient number of trucks is also a big constraint which restricts the movement of food grains. As the number of trucks in the NE Zone as a whole is very limited the availability of trucks for road movement is very poor which creates a serious problem for road movement.

Movement in the entire North East region is affected due to law and order problem, economic blockage, bandhs, floods, etc. Moreover the poor road infrastructure and fragile railway links through bridges make the problem more critical. Operation of Lumding section of MG line is also prone to landslide during monsoon.

Smaller capacity storage depot connected to some BG terminal like Kokrajhar, Bongaigaon, Barpeta Road and Farkating also retard speedy unloading of one full rake of stocks for which two point half rake placement had been suggested but acceptance is still awaited from railways.

On being asked about the steps being taken by FCI to overcome problems faced in the transport of food grains within the country, especially by rail, the representative of FCI during the course of the oral evidence submitted: -

> "Normally, the Railways have been giving us about 70-80 per cent of rakes demanded by us. For example, if we asked for 1000 rakes, they would give us 700-800 rakes at an all-India level. Last year, we had moved near about 35 million tonnes across the country. This year there is an increased movement of about 10-12 per cent compared to last year because the off-take is going up due to increased allocation…This year, the Railways because of the pressure for movement of fertilizers and cement have given about 60 per cent of the rakes required in Andhra. For North East, they give us insufficient rakes. Unfortunate part is that they give us rakes only for the quantity which is required for the off-take.

The Committee then enquired whether there was a solution to this problem which FCI or the Ministry had in mind. In this regard, the representative of FCI explained:-

> "When we go to the Railways, what they say is that food grains are given the second priority. Their first priority is Defence. But still, when the agricultural season comes, fertilizers have to be moved at any cost. With the seven per cent or eight per cent growth in the country, the movement of other commodities, especially cement, steel and coal, has gone up like anything. They have not increased the number of wagons. Now they are saying that the Government of India has sanctioned about 6000 new wagons. They are saying by 2012 may be they would increase their capacity and then the problems may be solved."

The CMD, FCI further added in this context: -

> "If we move only that much which is the off-take, then the capacity will always be empty. Take Bengaluru for instance. The godowns in Bengaluru are empty. We planned a rake from Andhra Pradesh, but we did not get it. Now if we take the rake and move from Punjab, then Andhra Pradesh will say that you are bringing from Punjab. This will result in a mismatch. The bottom line is that there is a mismatch between the capability of Railways and the requirement of FCI. Now how do we do away with this mismatch. In this regard please summon the Railway Board and ask them. We have signed a RFD document with the Ministry, which is a MoU. There is point in that MoU wherein a study of the supply chain management has to be undertaken with regard to the Railways. We engaged India's best consultant Price Waterhouse Cooper to carry this out."

According to a written reply provided by the Ministry of Railways, the Railways accord priority 'B' to the movement of food grains for Public Distribution system or other welfare scheme sponsored by FCI. Movement of military traffic is given higher priority (priority 'A') than these movements of food grain. All programmed traffic like coal, salt, POL, fertilizers is assigned priority 'C', which is a lower priority. Remaining traffic, which are not part of priority 'A to 'C', are accorded priority 'D' (as per Preferential Traffic Order issued by Railway Board).

When asked about the constitution of a Committee comprising of officials from the Ministry of Consumer Affairs, Food and Public Distribution, Food Corporation of India and the Ministry of Railways and the terms of reference and mandate of the same, the Ministry submitted in a written reply that as per decision taken during the meeting of Group of officers under the chairmanship of Secretary (Coord.), Govt. of India, held on 10 January, 2013, Department of Food & Public Distribution have constituted a Co-ordination Committee consisting of three officers viz. JS (P&FCI), ED (T), FCI and EDTT (F), Railway Board to review the provision of railway rakes for food grain movement on weekly basis or more frequently, if so required.

Twelve meetings of the Coordination Committee have been held so far on 21.01.2013, 05.02.2013, 19.02.2013, 28.02.2013, 14.03.2013, 01.04.2013, 03.05.2013, 14.05.2013, 30.05.2013, 13.06.2013, 01.07.2013 and 16.07.2013 respectively. The mechanism of Co-ordination Committee has been very successful in solving various day-to-day operational problems and achieving the compliance of monthly movement plan. The committee has also been an instrumental factor in solving the recent crisis situation in Bihar, Jharkhand and Uttarakhand and speedy induction of foodgrain in these States.

In view of success of mechanism of Co-ordination Committee at inter Ministerial level, the Ministry of Consumer Affairs, Food & Public Distribution has constituted Joint Co-ordination Committee at Regional/Zonal level having representative from FCI and Railways vide their letter No.5-1/2013-M.II dated 5th July, 2013. It is expected that this will further go a long way in achieving better coordination and solving operational problems between FCI and Railways.

After establishment of mechanism of Co-ordination Committee, many achievements have been made. It has resulted in better coordination between FCI and Railways. All India movement of food grains during January 2013 to June, 2013 has increased to 202.34 LMT in comparison to 163.54 LMT during the corresponding period last year i.e. 2012.

It has also resulted in regular and timely loading of wheat stocks for export. As a result, FCI was able to ensure availability of sufficient wheat stocks at various ports throughout the country. A quantity of 44 LMT wheat was exported without payment of any demurrage on shipments even in a single case which is a big achievement.

Railway siding at Dumka has been made operational which has now resulted in smooth in-flow of stocks in Jharkhand State. Further, the Railway siding at Madhupur is also likely to be made operational within next one month. These actions will ensure availability of sufficient food grains for PDS in the State of Jharkhand.

The local Railway was not ready to allow FCI to operate at Dharbhanga (Bela) siding in Bihar which was nearer to the FCI depots whereas FCI was being forced to operate from Laheriasarai siding which was at a longer distance and trucks had to be moved from congested traffic. With the help of Co-ordination Committee, the Dharbhanga (Bela) siding has been opened for FCI operations w.e.f. 18 June, 2013.

Food grain crisis in some centres in Bihar and U.P. were sorted out by expeditious replenishment of stocks in view of sudden fall in procurement in these States. With the help of Co-ordination Committee, FCI has been able to ensure availability of sufficient stocks especially in North East and J&K.

The Committee then enquired if the Railways were facing any impediments which were making total compliance with the requirements of FCI and its allied agencies impossible. In this regard, the Ministry of Railways (Railway Board) submitted that the overall efficiency in movement and distribution of Food grains by rail depends to a very large extent on the efficiency in handling of food grains both at the loading and the unloading ends. Bottleneck in these areas have direct impact on the overall movement, which many a times have cascading effect over the movement of the entire chain. These bottlenecks include:

(i) Poor labour productivity particularly in FCI sidings.
(ii) Inadequate godown space particularly in the recipient centres, including FCI's own sidings.
(iii) Mismatch between the off-take of food grains from godowns and arrival of food grain in those centres by railway rakes.
(iv) Rail related infrastructural constraints in FCI sidings.

In addition, the Railway Board submitted that to overcome these impediments, constraints and shortcomings and for smooth and higher volume of food grain movement, FCI may have to add to its infrastructural capacity, apart from improving its handling performance of railway wagons both at loading and unloading ends.

Keeping in view the increased movement requirement of food grain across the country, especially on account of implementation of National Food Security Bill, FCI may have to take following measures to address these bottlenecks:

a. Improving labour productivity.
b. Introducing mechanization for improved handling (loading and unloading) capability & efficiency.
c. Creating additional godown space.
d. Planning storage for the peak storage requirement.
e. Re-modeling some of the existing FCI sidings for further improving efficiency in handling the rakes.
f. Better control over FCI's handling & transport contractors for improving the level of evacuation of Food grains from railway goodsheds.
g. Better co-ordination between FCI and the state governments for timely off take of Food grains from FCI godowns.

When asked if any study been undertaken by FCI/ Department of Food and Public Distribution to modernize the movement of food grains, FCI in a written reply stated that FCI is exploring various alternate modes in order to modernise the movement of food grains. A Pilot Project of riverine movement from Dibrugarh (Assam) to Dhemaji (Assam) and Passighat (Arunachal Pradesh) has already been undertaken and on successful completion of the Pilot Project, FCI has now floated tender for regular movement of foodgrain by riverine mode on the said routes. FCI is also exploring the possibility of engaging a Carrying & Forwarding Agent who can undertake dedicated movement of foodgrain on behalf of FCI.

The Quantity and Value of food grains lost in transit during the year 2010-11 to 2012-13 is as under:

(Qty. in lakh MT/ Value Rupees in Crores)

YEAR	Qty Moved	Qty of Loss	% of loss	Value of Loss
2010-11	376.01	1.77	0.47	281.94
2011-12	406.02	1.96	0.48	333.01
2012-13*	355.85	1.84	0.52	339.38

* Provisional

Viewing the loss of food grains in transit with concern, the Committee enquired if any steps had been taken by Railways to improve its goods sheds and other storage areas where food grains are unloaded or temporarily stored. The Ministry of Railways in its written reply submitted that Railways have been making continuous effort to improve the good sheds conditions at both loading and unloading points. During XIth Five year plan Railways made an expenditure of Rs 4555 Crores for Traffic Facility works. In the FY 2013-14, the budget allocation for traffic facility works is Rs 945 crores.

Apart from making constant effort to improve the infrastructure in goodsheds, wherever required, the goods handling in all the goodsheds are under constant supervision of Railway officials.

Asked about the measures taken by Railways to ensure efficient and secure transportation of food grains, the Ministry of Railways stated that the Railways have been constantly upgrading its infrastructure to carry higher level of traffic. This include introduction of high capacity wagons for improving the throughput, apart from making investments for improving the line capacity of various sections. Railways have inducted about 235 high capacity rakes in last 5 years. Similarly, the traffic facility including goodsheds improvement work as brought above are some of the on-going measures undertaken by IR. In addition, IR has been going ahead with development of Dedicated Freight Corridor, which will further add to its transportation capability.

In view of huge accumulation of unregularised transit and storage losses, the Committee desired to know as to what steps had been proposed by FCI to take to make the movement of food grains more effective. FCI, in its reply, submitted that In order to accelerate regularization process of storage & transit losses pending for settlement, an MoU target has been fixed by GOI. In order to achieve this, regularization is being undertaken at Headquarters / Zonal / Regional / Area Offices level and is monitored at the level of CMD on monthly basis.

When the Committee enquired if Department of Food and Public Distribution/ FCI had contemplated any steps to turn self-reliant in movement of food grains by rail / road, the Ministry stated that FCI exclusively deals with procurement (at MSP), storage and distribution of food grains meant for PDS. FCI does not have any expertise in transportation. Hence for movement of food grain, FCI has to rely on Railways. More than 90% of the food grain is moved by railways which has a huge infrastructure base. Hence, it is extremely difficult to even contemplate steps to turn FCI as self-reliant in movement of food grain by rail / road.

CHAPTER V

FINANCIAL MATTERS

A. FINANCIAL POSITION

In the preliminary information made available to the Committee, FCI has submitted that the Food Corporation of India is presently not engaged in any commercial activity other than carrying out the functions of procurement, storage, movement and distribution of food grains as per the policy of the Government of India.

The Food Corporation of India implements the twin objectives of Government of India in providing price support to the farmers and issue of food-grains at affordable price. The purchase price i.e. MSP as well as the sale price i.e. Central Issue Price (CIP) is fixed by the Government of India and FCI does not have any control of the same. While the CIP were last revised in 2002, the MSP has been revised every year and particularly increased significantly in the recent years. As a result, presently even the highest CIP applicable i.e. for APL families is far less than the MSP. As the Corporation buys high and sells low there is inherent deficit component in every trading cycle which is billed to the Government of India in the form of food subsidy.

As per the directions of the Government of India, the Corporation is required to purchase any quantity of stocks offered by the farmers/sellers as long as the same is within the standard specifications, even though the requirement, based on normal commercial prudence, may not be there. Similarly the Corporation is also required to provide stocks under the PDS and other welfare schemes to the extent of demand irrespective of whether similar purchase could be made in the domestic market or not and if required by resorting to the import. Consequently, the standard inventory control mechanism utilized by all commercial organization is of no use to the Food Corporation of India.

As the Corporation is billing the deficit suffered in its operations to the Government of India, the financial statements reflect Nil profit or loss every year.

However in terms of operations the performance of the Corporation for the last five years is as under:-

Lakh MT

Year	Total Purchase	Total Sales	Average Stock levels
2005-2006	354.31	362.17	124.90
2006-2007	351.52	319.50	116.30
2007-2008	313.97	325.43	119.68
2008-2009(P)	348.56	308.16	166.84
2009-2010(RE)	439.01	366.79	229.36

There has been significant increase in the quantity of purchase without a matching increase in sales quantity. Consequently, the average stock levels have gone up by more than 90% over last two years. This has created extreme pressures on the operations of the Corporation.

The details of Food Subsidy for the last five years are as under:-

					Rs. Crore
	2005-06	**2006-07**	**2007-08**	**2008-09(P)**	**2009-10(RE)**
Acquisition Cost of Goods Sold (MSP/taxes – Fixed by Central &State Govts.)					
Wheat	12513	10514	12551	13864	21324
Rice	21896	22131	25684	27323	32105
Coarse grains	15	35	54		
Sub-Total	34424	32680	38289	41187	53429
Sales Price of Goods Sold (CIP – Fixed by Central Government)					
Wheat	8517	5275	5379	6150	9339
Rice	14212	12912	12530	10639	11754
Coarse grains	8	20	21		
Sub-Total	22737	18207	17930	16789	21093
Subsidy on Acquisition Cost (Diff between MSP/taxes and CIP)					
Wheat	3996	5239	7172	7714	11985
Rice	7684	9219	13154	16684	20351
Coarse grains	7	15	33		
Sub-Total	11687	14473	20359	24398	32336
Operating Costs of FCI					
Freight	3039	3046	3319	3013	3239
Handling	1384	1280	1322	1586	1943
Storage	1126	1043	1014	1473	1962
Interest for FCI operations	571	310	639	928	1254
Shortages	209	188	183	296	428
Admin Overheads	641	738	766	1043	1422
Sub-Total	6970	6605	7243	8339	10248
Interest on clear outstanding Food Subsidy	383	220	817	1119	1074
Interest on outstandings from RD/HRD	2058	2555	1389	1038	334
Total Operating Costs	**9411**	**9380**	**9449**	**10496**	**11656**
Carry-Over charges paid	246	175	243	573	1797
Total Gross Subsidy	**21344**	**24028**	**30051**	**35467**	**45789**

The total investment in the Corporation as on 31 March, 2013 consists of equity capital by the Government of India amounting to Rs.2672.95 crore. With regard to loans and advances availed by FCI, as on 31 March, 2013 the Corporation's Cash Credit (CC) Utilization (CCC + Actual ZCC) was at Rs.49427.80 crore with Bonds amounting to Rs.8914.50 crore and Short Term Loan (STL) worth Rs.13080.00 crore. The amount of interest paid by FCI during the Year 2012-13 was Rs.6565.48 crore.

Sources of funds for FCI

Rs. Crore

	Existing	**Additional during 2011-13**	**Total**
Sources of fund			
Equity	2649.62	23.28	2672.90
Increase in cash credit limit	44495.00	10000.00	54495.00
Ways and means advance	-	10000.00	10000.00
Issue of bonds	3914.00	5000.00	8914.00
Total	51058	25023.28	76081.90

According to FCI's latest Annual Report (2011-12), the total sales during the year were Rs. 26686.92 crore as against Rs. 25566.58 crore for the year 2010-11. The purchases made by the Corporation increased to Rs. 87888.64 crore in 2011-12 as compared to Rs. 73324.71 crore in 2010-11. The Corporation handled 98.79 million tonnes of foodgrains and sugar during the year 2011-12 as against 88.19 million tones during the previous year. The balance sheet reveals that FCI has been incurring a loss for the last two-three years.

When asked about the status of loss and profit of FCI during the last five years, the Secretary replied: -

> "There is no question of profit or loss. It is the difference in income. When the balance sheet is prepared, then the standard terms profit and loss are used. But actually, that will not apply to the FCI. I can say that it is the difference of income and expenditure that is given by the Government as a grant or as a subsidy."

B. FOOD SUBSIDY

As stated previously in this Report, in the execution of its responsibilities, the Food Corporation of India undertakes the procurement of food grains within the country, in which it is aided by the Government of India through the provision of food subsidy. On being asked about the operation of food subsidy, the CMD, FCI, in the course of Oral Evidence on 18 August, 2010 stated: -

> "The Government of India fixes the Minimum Support Price (MSP) at which procurement is done by farmers. This is the price which is paid to farmers by the FCI or the State agencies. Most of the procurement in most of the States is done by the State agencies. The share of FCI in procurement is very low. We have given the figures. It ranges from 10 to 20 per cent.
>
> Most of the responsibility of procurement is undertaken by the State Governments at the MSP fixed by the Government of India. In addition to the huge MSP, we have to pay taxes which are levied in various States. There is huge variation in taxes.

In addition to the taxes, there are certain incidentals – cost of storage, handling, borrowing, administrative expenditure of FCI, cost of movement; we move substantial quantity through rail, and a small quantity we move through road, etc. All is added up, and then, it becomes what we call economic cost which means, that is the average cost which is being incurred by the Government in keeping stocks. This includes all these costs like MSP, taxes, freight, storage, interest, etc. The difference between the economic cost and the issue price at which food grains are issued is known as food subsidy.

The Central Issue Prices are fixed by the Government of India. So, the Central Issue Prices are highly subsidized. For AAY categories, for wheat, it is Rs. 2; for rice, it is Rs. 3; For BPL, wheat is Rs. 4.15; and for rice, it is Rs. 5.65. Even for APL, the Central Issue Price for wheat is Rs. 6.10 and for rice, it is Rs. 8.30. This results in food subsidy.

In case of De-centralized Procurement States, there also, they are purchasing at MSP. For example, Madhya Pradesh Government is procuring wheat at Rs. 11 but they are also distributing to AAY at Rs. 2, which means, there is a subsidy of Rs. 9 and so on. This difference in economic cost and Central Issue price is reimbursed to State Governments of DCP States as Food Subsidy. It is also reimbursed to us, FCI, as Food Subsidy.

Now there are substantial arrears of Food Subsidy. The economic cost of grains is higher and the amount we are realizing from the Government is lower. How do we meet this amount? It is by borrowing from banks. On borrowings we have to pay interest. We are paying that interest. That interest will also be reimbursed to us in the future years as food subsidy. In effect what happens is that due to inadequate provision of food subsidy, there is additional liability on account of interest which will be paid to us in future years.

The requirement of food subsidy may go up. It is based on two factors. One is MSP fixed by the Government which is going up and the other is the Central Issue Price at which we issue food grains to poor families or the APL, that is static. The gap is rising. If the MSP continues to rise in the future and if the requirement of food grains also continues to rise, then the total quantum of food subsidy will also go up."

On being asked about the continued shortfall being faced by FCI in allocated food subsidy and the future increase in the required food subsidy, the representative of the Ministry stated during the further Oral Evidence held on 29 February, 2012:

"It (food subsidy) is increased because one, procurement has gone up and MSP has kept on increasing this year. The subsidy requirement is around Rs. 68,000 crore and we have got Rs. 59,500 crore. There is a gap of Rs. 8,000 crore. What happens is that this gap is met by short-term borrowings by FCI on which the Government has to pay interest. If this entire amount is given to us then there is no need for short-term borrowings."

When asked as to how FCI managed its spending shortage when the entire amount is not given, the representative of the Ministry submitted: -

> "The Government allows borrowings from market at interest rate which is fixed by the consortium of banks."

When asked as to how the Government had gone about to enable FCI to bear the additional interest on borrowings, the representative of the Ministry submitted during the further Oral Evidence: -

> "The Government has raised the financial limit, the amount of money which can be borrowed from banks, from 34 to 43-44 thousand crore rupees. The FCI borrows from banks on the basis of the 44 thousand crore rupees guaranteed by the Government and this is a part of the interest subsidy. It would be ideal that whatever is our subsidy requirement, that should be paid in the beginning itself. But instead of keeping funds idle, what the Government does is that it gives a subsidy and for the remaining shortfall it gives a 44 thousand crore credit limit. That is the food credit and government pays the interest on that amount."

The Committee, keeping in view the future implementation of the NFSB and the likely enhancement of liabilities on FCI in this regard, asked whether the Ministry, in its Budget Estimate submission to the Central Government, had included the expected food subsidy element that may be arising out of the implementation of the Bill. In response, the Secretary, Ministry of Food & Public Distribution (Department of Food and Public Distribution) informed the Committee during the further Oral Evidence: -

> "All the calculations which we have submitted today are based on the population of the year 2000. It is not even on the population of the year 2001 and the size of one household, which is determined by the Planning Commission is 5.5 and on that basis our subsidy is made: in 2011-12 it is Rs. 77,000 crore, so the subsidy in 2012-13 will be Rs. 88,000 crore in case there is a 15 per cent increase in MSP. We have requested that the population of year 2000, even if the National Food Security Bill is not there, the figures of the population of year 2011 have to be added – that is one need – and the household size, that has not been decided even now. For that, we are in touch with the Planning Commission, and they have definitely said that the 5.5 figure, that will come down – it could be 5.3, 5.2. or 5.1 and so I have calculated on the basis of 5.3.
>
> If I substitute the year 2000 population with the year 2011 population and take the household as 5.3, then my requirement for the year 2012-13 would be rupees one lakh nine thousand crores I have communicated the figure to them. Apart from this if the Food Security Bill, which has been presented in the Lok Sabha, if it were to be fully implemented by 1st April…it would amount to rupees one lakh twelve thousand crore. So if it is compared with the population of year 2011, then only rupees twenty-five thousand crore would be the additional amount if the bill is implemented. It is on this basis that we have made calculations for 5 years and given it to them. Now this figure will be seen by the Financial Department and they will put a final figure."

Food Subsidy released to FCI between 2006-07 and 2010-11 is as follows:

Figures in Rs. Crores

Year	2006-07	2007-08	2008-09	2009-10	2010-11 (Unaudited)
Subsidy incurred during the year	24027.84	30051.50	34787.47	42873.11	56394.42
Food subsidy released to FCI	19375.13	22540.93	29089.10	38856.19	45321.55
Percentage of subsidy released in the year	80.64%	75.01%	83.62%	90.63%	80.37
Percentage of subsidy required to be released	95%	95%	95%	95%	95%
Shortfall	14.36%	19.99%	11.38%	4.37%	14.63%

Food subsidy incurred by FCI during the last two years is as follows:

(Rs. Crore)

Year	Subsidy
2011-12	68,697.06
2012-13 (RE)* *2012-13 amount is based on Revised Estimate for 2012-13.Accounts of 2012-13 are under process of finalization*	81,798.00

The Food subsidy outstanding as on 31 May, 2013 is Rs.37956.37 Crores.

On being asked what steps were being taken to pay the arrears of food subsidy to FCI, and reducing the liability on the Corporation on account of its borrowings from banks to overcome shortfall in its finances owing to non-payment of food subsidy, the Ministry *of Consumer Affairs, Food and Public Distribution*, in their written reply to the Committee stated that under Budget allocation 2011-12 (RE) the Ministry was allocated Rs.59525.90 crore for FCI. Against this amount the FCI has requirement of subsidy of Rs.84896.87 crore (provisional) as per 2011-12 including arrears of past years amounting to Rs.15668.87 crore. The shortfall amount of Rs.25370.97 crore (including arrears of past years) has been sought from Ministry *of Finance* during the year 2012-13. The main reason for non-release of the arrears of past years is continuous short allocation of funds under food subsidy by Ministry of Finance in comparison to actual requirement. To cut down the interest liability of FCI, this *Department of Food and Public Distribution* releases advance quarterly subsidy in the beginning of the 1st month of each quarter. To meet the cash crunch faced by the FCI, *the* Department with the approval of *Ministry of* Finance has released Rs.12000 crore in September 2011 (earmarked to be released in the 3rd quarter i.e. October 11- December 2011). This has enabled FCI to repay the short term loan taken from the banks and thus the temporary cash flow problem was resolved. Also the Government have extended Rs.10,000 crore to FCI as Ways and Means advance in April 2011 to meet its working capital requirement. The cash credit limit of FCI was further enhanced from Rs.34,495 crore to 44,495 crore. Further, with the approval of Ministry of

Finance, the Cash Credit Limit has been raised from existing limit of 44,495 crore to 54,495 crore. The Ministry of Finance have also approved issue of taxable bonds of Rs. 5,000 crore to be raised during the financial year 2012-13. M/O Finance are being constantly pursued by this Department from time to time to allocate funds as per actual requirement of food subsidy by FCI.

The CMD, FCI, during the further Oral Evidence of the Corporation before the Committee, submitted in regard to the growing subsidy requirements of the Corporation:-

> "When our stock levels increase, then our expenses increase. When we take over from the States, then we give money. Punjab, Haryana are behind us 24 hours a day about the blockage of the money of their State agencies and ask us to take over their stocks. For this we need money, so we need that much more money. When we need that much money, what has been happening in the last two to three years is this. Government of India is trying its level best to give us funds. It is not that they are not giving us…now 42 thousand crores is the backlog of the subsidy…because procurement is open ended, there is no option of failing. Government of India gives us permission to take loans. We have a 55 thousand crores CC limit which we can take from the banks. The fall out of this is the interest which increases as the loan increases. Government of India has to bear this additional interest. We have calculated the figures for the last year. Ten thousand crores have gone in interest. If we get subsidy then we can save on that ten thousand crores immediately. But the Government of India has its own problems. We are trying to request the hon. Committee that whatever subsidy we need, we do not get that much. However, the Government to of India does not give us any trouble in procurement as we have permission to get cash credit limit, short term loans, then there is no question that farmers or agencies do not get any money. Since procurement has no target, we request that whatever subsidy we require for it that should be given."

When asked about the extent of impact on the food subsidy position of the interest burden on the CC limit, FCI replied that the rate of interest on CC A/c is average base rate of top 5 banks of the 62 member bank consortium + 90 bps. The consortium has declined to reduce the spread of 90 bps or link the interest rate to the G-Sec rate of similar maturity. A meeting has been held with the Standing Committee on 11 January, 2013 under the chairmanship of the Secretary (Department of Food and Public Distribution) to reduce the interest rate. Another round of meeting is expected in the 3rd week of January 2013. To reduce the interest cost burden and augment the working capital source of the FCI, the Corporation shall be issuing bonds of Rs.5000 crore during the F.Y 2012-13. It is further added that the Corporation has to receive an arrear subsidy of Rs.41721 crore from the Ministry of CAF&PD, the year wise breakup of which is as follows:

Year	**Amount (Rs. In Crore)**
2010-11	6462
2011-12	2254
2012-13 (provisional)	33005
	41721

The detail of interest paid during the last five years is as under:

(Figures in Rupees Crores)

Year	Central Cash Credit (CCC) + Zonal Cash Credit (ZCC)	Bonds	Short Term Loan (STL)	Ways and Means Advances (WMA)/ Working Capital Loans (WCL)	Others	Total Interest Paid
2007-08	2,955.07	648.96	0.06		16.67	3,620.76
2008-09	2,485.21	629.14	34.10		7.62	3,156.07
2009-10	1,421.90	623.96	397.06		5.53	2,448.45
2010-11	2,222.79	342.06	190.20	443.10	6.18	3,204.33
2011-12	3,684.62	303.24	94.40	1,138.40	6.50	5,227.16
Total						17,656.77

When asked about the mechanism that had been put in place to ensure that FCI received timely subsidy payments, the Secretary, Department of Food & Public Distribution informed the Committee during the further Oral Evidence on 21 January, 2013: -

> "I would like to submit that subsidy is released to FCI through the Budget. Within the overall availability of resources, we project the demand to the Finance Ministry and Finance Ministry, looking to overall position of resources, agrees to some figure. Whatever is provided in the Budget we release it to FCI. We keep on projecting the demand to Finance Ministry in supplementaries as well. But within the overall resources, it is a call of the hon. Finance Minister as to how much money can be released. At times, there are some arrears that we are not able to give them full subsidy but that does not come in the way of working of FCI. Whenever there is crisis we try to find out by raising soft loans, working capital or something. I do admit that there is a time gap in release of full subsidy. But, Sir, I can only assure you that it does not come in the way of working of FCI."

When the Committee pointed out to the Ministry the imperative need to take active steps to reduce the interest and cost burden of FCI, the Secretary, Department of Food & Public Distribution submitted during the further Oral Evidence on 21 June, 2013:

> "Whatever is the need for cash, when the budget is prepared in February-March, it is made keeping in mind the next year. How much MSP will increase, how much expenditure will increase, the full estimate is made. Some gap remains but the Indian Government has committed to overcome it. As far as operations are concerned, whenever procurement or off-take is going on, in that If there are other difficulties, then Indian Government provides for funds through other means apart from budget. If the interest increases, that too is borne by the Government. What should happen is that there should be full provision for subsidy, which prevents future interest burden. If because of various reasons this is not happening, then I

can only state that the Department projects the needs and from time to time it coordinates with the Finance Ministry but we never allow for any interruptions in its operations."

The Committee then enquired from the Ministry of Finance, about the measures taken to address shortfall in subsidy to FCI. In a written reply the Ministry of Finance informed them that in the BE 2012-13 an amount of Rs.61978 crore was made available for FCI which was enhanced by Rs. 10,000.00 crore in RE stage. It may, therefore, be seen that Government of India is committed to provide fund required by FCI for subsidies. However, while doing so Government has to *keep* in view as to what is the fiscal deficit, how it can be balanced and borrowing cost of the Organization is how much. In addition to allocation of sufficient fund in budget, enhancing cash credit limit of FCI to Rs.54495 crore and providing Ways and Means advance of Rs. 10000 crore are some of the steps taken by Government of India to enable FCI to meet its financial needs. Here it is also mentioned that except for an amount Rs.110 crore (approximately) food subsidy claim submitted by FCI on the basis of audited accounts up to 2011-12 have already been settled by Government of India.

When asked about the current status of the release of food subsidy to FCI, the Ministry of Finance in another written reply submitted that for the Financial Year 2013-14, an amount of Rs. 65000 crore has been allotted at BE stage for FCI against which an amount of Rs. 16250.00 crore has been released as on 31.05.2013. In addition to normal food subsidy of Rs.65000 crore an amount of Rs. 8500 crore has also been made available in BE 2013-14 for FCI to meet the additional requirement of fund on implementation of NFSA.

The details of food subsidy fund allocated by Ministry of Finance and released by the Department of Finance to FCI during last five year is as under:-

(Rs. in crore)

Year	Fund allocated	Food Subsidy released
2008-09	36744.10	36744.10
2009-10	46867.14	46867.14
2010-11	50729.56	50729.56
2011-12	59525.90	59525.90
2012-13	71980.00	71980.00

Given the mismatches between the figures quoted by the Administrative Ministry/FCI and those quoted by the Ministry of Finance, and the consequent uncertainty surrounding the food subsidy figures, the Committee sought information from the Corporation about the quantum of state taxes paid by the Corporation during 2012-13; the quantum of interest paid by the Corporation during 2012-13 on the loans availed from banks, etc.; and the break-up of expenditure constituting the food subsidy for 2012-13. In response, the Corporation in a written submission dated 17 January, 2014 stated that the procurement and public distribution of food grains are done by Food Corporation of India as well as some States independently called Decentralized Procuring (DCP) States. In case of DCP States, they procure food grains, store and distribute as per the Government of India allocation and any surplus of food grains procured by them handed over to FCI on payment by FCI. They also claim subsidy directly from the Government of India. The volume of operations by DCP States is approximately 20% and the balance 80% operation is done by FCI. The following information relates to only FCI operation part:-

1. The total state taxes and levies paid by FCI alone on purchase of food grains during 2012-13 are Rs. 7481 crores. These taxes and levies are a part of economic cost and the Government of India provides subsidy to FCI on the difference between Economic cost and Central Issue Price (CIP) of respective schemes. The CIP is decided by the Government of India for different schemes like APL, BPL, AAY etc.
2. The quantum of interest paid by FCI on its borrowing from banks is Rs.6272.74 crores in the year 2012-13. The interest is also a part of economic cost and the difference between economic cost and CIP is reimbursed by Government of India to FCI as food subsidy.

The details of head of expenditure that constitute economic cost, average sale price and food subsidy, relating to 2012-13 are enclosed as **Annexures V, VI and VII**.

CHAPTER VI

GENERAL

A. BOARD OF DIRECTORS

The Board of Directors undertakes general superintendence, provides direction and manages the affairs of the Corporation and exercises all such powers as permissible under the Food Corporations Act 1964.

The Board of Directors of the Corporation consists of the Chairman, three Directors to represent the Ministries of the Central Government; Managing Director of Central Warehousing Corporation (CWC) [ex-officio], Managing Director and six other Directors.

All the Directors of the Corporation other than Managing Director of CWC are appointed by the Central Government. The Secretary of the Corporation is also appointed by the Central Government.

From the information submitted by FCI, it is observed that the Board of Directors of the Food Corporation of India held four meetings in 2008-09, eight in 2009-10, eleven each in 2010-11 and 2011-12 and thirteen in 2012.

When asked about the reasons for the inordinate delay in filling up of five vacancies of directors on the Board of FCI, the Secretary of the Department of Food and Public Distribution (Department of Food and Public Distribution), stated during the Oral Evidence on 29 February, 2012: -

> "There is a proposal to appoint five new Directors out of which four will be independent Directors. There is a requirement that in Government PSUs, one-third will be independent or non-official Directors. A proposal has been prepared by us and it will be shortly sent to the Public Enterprises Selection Board which does the selection process."

On being pointed out that a full board of Directors would add to the power of the Corporation and act as a suitable check on its functioning, the Secretary, Department of Food & Public Distribution, admitted during the further Oral Evidence on 21 January, 2013:-

> "Definitely, addition of more Members as Directors would enrich the Board; there will be good and thoughtful discussion. When it reaches full strength, their enriching experience will improve its quality of deliberations and decision making and monitoring will take place in a suitable way."

When asked about the continued delay in filling up the remaining vacant posts on the Board of Directors, the Secretary, Department of Food & Public Distribution stated during the further Oral Evidence on 21 January, 2013:-

> "It is true that Board should be properly constituted with full Members. We have to send proposals to PSEB. It has been under consideration and discussion. Due to some procedural delays, it could not be sent to PSEB so far. In the Department, decision is taken at highest level. But I can assure you that within 15 days, we would try to submit the proposal to PSEB."

During the further evidence held on 17 June, 2013, the Food Secretary apprised the Committee as follows: -

> "Six non-official Directors are to be appointed on the Board of the FCI. I had assured you that we will be taking it up and monitor it. Out of the six posts, the Public Enterprises Selection Board has found only three candidates as suitable and two have been approved by the ACC and they will be appointed. The third recommendation would be coming. And for three, we will submit fresh names with the approval of the Minister."

B. MONITORING BY MINISTRY

Regarding the monitoring role played by the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution), FCI in a note, submitted to the Committee stated that the Ministry monitors the functioning of FCI on a regular basis. There are two nominees of the Ministry on the Board of Directors of FCI including the Additional Secretary and Financial Adviser also for the purpose. It also signs an Annual Memorandum of Understanding (MOU) with FCI to monitor its functioning on a number of financial and operational parameters. The Ministry provides maximum autonomy in operational and administrative matters to the Corporation as per Government Policy. It coordinates all inter-Ministerial matters related to FCI. It endeavours to resolve issues related to other Ministries, Organisations (including Railways, Planning Commission, Warehousing Corporations, Reserve Bank of India, State Governments and Banks, etc.

On the role of the Ministry in the working of FCI, FCI stated that the Ministry guides the FCI in policy matters. The Government of India fixes the prices at which food grains are to be purchased (MSP) and issued at Central Issue Price and the quantum of allotment to the State Governments. The Ministry also coordinates the activity of FCI with State Governments in matters of procurement, storage and distribution of food grains for the Public Distribution System, including those for the De-centralized Procurement (DCP) States.

To a query as to how many inter-Ministerial meetings were held by the Department of Food and Public Distribution during the last three years, the Department stated in a written reply that the Department strives to hold Inter Ministerial Meetings whenever required to sort out the outstanding issues. The Department is regularly pursuing with the Ministry of Finance to provide additional budget against the arrears of food subsidy. The Ministry also pursued vigorously with Ministry of Finance and Ministry of Rural Development to settle balance outstanding dues of FCI in respect of food grains supplied to Ministry of Rural Development under Sampoorna Gramin Rozgar Yojana (SGRY) and National Food for Work Programme (NFFWP). As a result of persistent efforts made by this Department, Ministry of Rural Development released payments to FCI and at present the outstanding dues of the FCI against Ministry of Rural Development is Rs 2890.82 crore as on 15 November, 2012. A meeting in this regard was also held on 13 July 2012 in which Ministry of Rural Development was apprised that even as per Ministry of Rural Development's own record, an amount of Rs. 2660.56 crore is due to FCI from Ministry of Rural Development. Accordingly, the matter is now being pursued actively with the Ministry of Rural Development for the settlement of outstanding dues. A meeting was again held with the officials of Ministry of Rural Development on 26 December, 2012 for expediting settlement of the outstanding dues followed by a reminder dated 17 January, 2013. Similarly, the Department is following up with Ministry of Human Resource Development to liquidate the balance outstanding bills against Ministry of Human Resource Development, which now stand at Rs. 8.73 crore. A meeting in this regard was held on 26 December, 2012. The representatives of Agriculture Ministry are invited to both Kharif and Rabi procurement planning conferences by the Department to discuss the production scenario and plan for procurement accordingly and their Joint Secretary level officer is also in the Board of Directors of FCI.

The Ministry also reportedly holds regular meetings with the authorities in the Ministry of Railways for providing sufficient rakes for movement of food grains especially to the North East. The Ministry has emphasized with the Railways to provide rakes every month to ensure movement of monthly requirement and building up of buffer stocks. A coordination committee has now been set up consisting of Joint Secretary(Policy & FCI), Executive Director (Traffic), Railway Ministry and Executive Director (Traffic), FCI for settling various concerns, which meet on weekly basis and sorts out various problems relating to movement of food grains.

When asked how the Department of Food and Public Distribution ensures that FCI's operations are efficient and economical, the Department stated in a written reply that it holds regular meetings with the senior officials of FCI to monitor its operations so that they are carried out efficiently and economically. This Department in consultation with the FCI finalises the R&D projects, Corporate Social Responsibility (CSR) initiatives and other innovative and developmental projects, which can be taken up by FCI to improve its efficiency and working.

C. VIGILANCE

The Committee, in view of the reported theft and pilferage of food grains during storage and transit, enquired about the measures taken by the Corporation to prevent such instances. The Corporation in the preliminary information submitted to the Committee, stated that a number of steps have been taken to reduce storage & transit losses as detailed below:-

Security and Safety of Storage Complexes

- Physical measures like installation of barbed wire fencing of the boundary walls, provision of street lights for illumination of godowns and proper locking of the sheds are taken to secure the godowns.

- Security staff of FCI as well as other Agencies like Home Guards, Special Police Officers are deployed for safety of the stocks.
- Deployment of Central Industrial Security Force and State Armed Police has been done at some depots / godowns, which are vulnerable.
- FIRs have been lodged with the Police.

Inspections

- 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.
- Special Squad checking at selected rail-heads, transshipment and destination/ despatch centers.
- Identification of vulnerable points.
- Inspection of Depots by Senior Officers of the HQs, Executive Directors (Zone) / General Managers (Region)/ Area Managers

Quality Control Measures

- Periodical prophylactic and curative treatment of stocks, as prescribed.
- Maintaining priority list for issue of stocks observing the FIFO principle.
- Undertaking pre-monsoon fumigation.
- Improvement in dunnage material.
- Ensuring proper quality checking of food grains at the time of procurement

Preventive Measures and Monitoring of Losses

- Streamlining of procedure and documentation for transparency and accountability in operations at each level.
- Adoption of 50kg packing to avoid use of hooks
- Double line machine stitching of bags.
- Supervision of loading/unloading operations by the ICCS (Independent Consignment Certification Squad)
- MOU is signed between FCI and Ministry of CAF&PD for the last 5 years. One of the parameters of MOU is to bring down/control storage & transit losses.
- Monitoring of S&T Losses during Monthly Performance Review Meetings at Regional/Zonal/Headquarters levels
- Transit Insurance of stocks

Safeguards for Movement & Storage

- Inspection and monitoring of calibration of weigh-bridges.
- Ensuring that all FCI owned godowns are constructed and maintained on scientific lines for storage of food grains.
- Movement of food grains from one place to another by safe means i.e. normally covered wagons etc.
- Loading of standardized bags as far as possible and leaving 18 inches space near the flap doors.
- Proper weighment and accounting at the time of receipt and issue.

It was further submitted that while carrying out operational activities by the FCI on large scale, occurrence of some storage and transit losses of food grains is inevitable. The following are the reasons for such losses: -

Storage Losses

(i) Loss of moisture
(ii) Prolonged storage
(iii) Bleeding/ spillage of grain from gunny bags
(iv) Bird /Rodents trouble in storage Complexes
(v) Sliding down /deterioration of stocks
(vi) Fungus/ infestation of stocks

Storage loss varies from place to place depending upon the agro- climatic conditions and various other factors.

Transit Losses

(i) Pilferage and theft enroute
(ii) Driage of moisture during long transit
(iii) Multiple handling
(iv) Use of hooks by labour
(v) Weak texture of gunnies & bursting of bags
(vi) Spillage through wagon holes /cleavages and flap doors
(vii) Spillage and theft at transshipment points
(viii) Different modes of weighment.
(ix) Qualified 'said to contain' RRs issued by Railways

Storage & Transit Losses of food grains (wheat + rice) occurred due to various reasons during the last five years.

About the quantum of losses, the following figures were submitted to the Committee by FCI:-

Storage Losses

(Qty. in lakh MT/ Value Rupees in Crores)

Year	Qty of Loss	Value of Loss	Qty issued	% age of Loss
2005-06*	1.17	133.87	736.69	0.16
2006-07*	1.34	155.80	654.89	0.20
2007-08*	1.39	182.43	655.92	0.21
2008-09 (Provisional)	0.58	101.26	456.84	0.13
2009-10 (Provisional)	1.32	228.39	490.57	0.27

(*Audited)

Transit Losses

(Qty. in lakh MT/ Value in Rupees in Crores)

Year	Qty of Loss	Value of Loss	Qty. Moved	%age of Loss
2005-06*	1.51	143.00	353.75	0.43
2006-07*	1.39	133.87	322.58	0.43
2007-08*	1.21	123.95	315.83	0.38
2008-09 (Provisional)	0.96	132.65	239.26	0.40
2009-10 (Provisional)	1.36	202.89	283.59	0.48

(*Audited)"

On being asked about the efforts made by the Corporation to enhance integrity, ethical values, transparency and accountability within its organisation, particularly with special focus on the stakeholders, FCI stated that the Vigilance Division deals with matters which have a vigilance angle. Vigilance angle is defined in paragraphs 1.6.1 to 1.6.4 of the Vigilance Manual Vol. 1. Essentially, the vigilance angle relates to matters involving offences under the Prevention of Corruption Act. Vigilance Division, therefore, deals with only a part of the issues raised in the said question. The response to the broader aspects of the matter such as enhancing ethical values, transparency and accountability may be obtained from the concerned Division and integrated with the material provided below.

Vigilance Division undertakes both punitive as well as preventive vigilance activities.

As far as punitive vigilance is concerned, Vigilance Division undertakes the institution of disciplinary inquiries in all matters that have a vigilance angle and which are referred to the Division. The progress of vigilance inquiries is also regularly monitored and reviewed so as to ensure their completion in the shortest possible time. Appeals and reviews arising out of orders passed by disciplinary authorities in vigilance cases are also monitored and their progress is reviewed.

As far as preventive vigilance is concerned, complaints received about lack of integrity amongst the officers of the Corporation, whether from the Ministry, or from the CVC, or from the members of the public, or from any other sources, are scrutinized and are taken up for investigation whenever verifiable facts are available. In cases where it is found necessary to initiate disciplinary inquiries on the basis of such investigations, the same is also done.

Bad quality rice is a major source of vigilance related complaints. Vigilance Division also conducts periodical inspections of on a random basis of rice that is accepted and draws samples for test checking.

Vigilance Division has also taken up a number of measures of a preventive nature which are aimed at modifying and improving the existing systems so as to reduce the scope for any illegal activity. Some of the measures that have been taken/are proposed to be taken are as under :-

-Regular and surprise checks.
-Watch over officials in Doubtful Integrity and Agreed Lists.
-Posting of officials in sensitive seats are made only after ascertaining vigilance status.
-Rotation of officials in sensitive seats.
-Enforcement of prohibition against negotiations, except in very special cases.
-Publishing all the tenders in website with provision for down loading tender form.
-Publishing tender results in web-site of FCI.
-Screening of damaged food grain cases for fixing responsibility.
-Introduction of e-payment.
-Introduction of stringent penalty of recovery from contractor to deter manipulation/losses.
-Changes made in Quality Super check system to improve effectiveness.

The Vigilance Division in Headquarters is headed by the Executive Director (Vigilance) / CVO, who is assisted by General Manager (Vigilance)/ Deputy General Manager (Vigilance) and Asstt. General Manager (Vigilance) along with Managers(Vigilance) and supporting staff.

Similar vigilance set-up exists in the Zones/Regions. In Zones, Vigilance Division is headed by General Manager (Vigilance & Security) who is assisted by Deputy General Manager (Vigilance) / Asstt. General Manager (Vigilance), Managers(Vigilance) and supporting staff. General Manager (Vigilance) directly functions under the Executive Director (Zone). Similarly in the Regions depending upon the staff strength and work load, Vigilance Unit is headed by Deputy General Manager (Vigilance) or Asstt. General Manager (Vigilance) and assisted by Managers & supporting staff.

Functions of Vigilance Division

The functions of Vigilance Division are preventive, punitive as well as Surveillance. CVO gets matter/complaints investigated, conducts systematic study and submits it to CMD for suitable disciplinary action / advisory. During the course of surprise checks / regular checks whenever irregularities come to the notice, Vigilance Division takes necessary steps to punish delinquent staff at appropriate levels of DoP viz. Category-IV by the District Offices, for Category-III Regional Offices, for Category-II Zonal Offices, for Category-I Headquarters.

As a measure of preventive vigilance, surprise checks/regular checks are conduced from time to time and based on the observations, Operative Divisions are advised on systemic improvements and to amend instructions / circulars so as to plug loopholes in procedure thereby minimizing/ eliminating chance to the officers/officials working in the field to take undue advantage of such lacunae.

Since Food Corporation of India is in direct public dealings, complaints against various categories of officials / officers are received and these complaints are got investigated by Headquarters Squads, Zonal Squads or Regional Squads as per guidelines of CVC and prompt actions are taken in cases of complaints where irregularities / lapses alleged in the complaints are established. In cases where help of CBI is required, it is taken.

The number of vigilance cases initiated, disposed off and pending in during the last 10 years is given as below: -

Period	**Opening balance at the beginning of the Year /month**		**Number of cases initiated**		**Number of cases finalised**		**Closing balance at the close of the year/month**		**Total**
	Major	**Minor**	**Major**	**Minor**	**Major**	**Minor**	**Major**	**Minor**	
2001	521	408	753	1755	588	1186	686	977	1663
2002	686	977	689	2267	609	2244	766	1000	1766
2003	766	1000	564	1978	552	1914	778	1064	1842
2004	778	1064	396	1839	682	2176	492	727	1219
2005	492	727	511	2366	451	1500	552	1593	2145
2006	552	1593	535	2405	591	2490	496	1508	2004
2007	496	1508	419	2175	578	2638	337	1045	1382
2008	337	1045	270	1920	361	2414	246	551	797
2009	278	557	164	1668	243	1514	199	711	910
2010	199	711	224	1935	248	2208	175	438	613
2011	140	372	185	1191	156	1253	169	310	479
2012	169	310	184	1075	175	1021	178	364	542
2013 (as on 30.06.13)	217	398	112	536	70	511	220	389	609

The information regarding cases initiated/finalized and referred to Investigating Agencies i.e. CVC/CBI is given in the Table given under:

Year	Opening balance at the beginning of the year		Number of cases initiated		Number of cases Finalized		Closing balance at the close of the year		Total	Cases referred to CVC/CBI	
	Major	Minor	Major	Minor	Major	Minor	Major	Minor		CVC	CBI
2009	278	557	164	1668	243	1514	199	711	910	0	2
2010	199	711	224	1935	248	2208	175	438	613	3	1
2011	140*	372*	185	1191	156	1253	169	310	479	2	1
2012	169	310	184	1075	175	1021	178	364	542	1	11

*Reconciled data

Internal audit and physical verification

According to Audit, internal audit is an importanant consitutent of the overall system of internal control and is defined as a systematic and independent examination of data, statement, records, operations and performances of an organization. It is managerial and evaluating systems, procedures and operations within the organization. Internal audit seeks to detect irregularities, mistakes and frauds through its concurrent or post-audit checking of accounting and other records and of actual operations at site. At the same time, internal audit constantly reviews the entity's internal controls, policies, plans and procedures with a view to providing assistance to the management to achieve economical, efficient and effective operations of the organization.

The functions of internal audit in FCI, *inter alia*, broadly include examination and evaluation of compliance of the Corporation to prescribed rules and regulations, systems and procedures. Internal audit also conducts independent physical verification of the stock of food grains held in depots and reports variations in the accounting records. Weak internal audit would expose FCI to the risk of non-compliance with rules, systems and procedures, inefficiencies and lack of control on operations. Weakness in conduct of physical verification of stock would render FCI to the risk of fraud and misappropriation of food grain stock.

The coordination of internal audit functions on an all-India basis is under the overall supervision of Executive Director (ED) who reports directly to the Chairman and Managing Director, FCI. The ED is assisted by a General Manager with supporting staff. The internal audit work is coordinated at zonal level by a General Manager in the zones. The audit of regions is under the immediate charges of Deputy General Managers, who are assisted by a group of IAPV parties, each consisting normally of two Managers (Accounts).

Number of physical verifications planned and actual coverage

Zones	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
	P	A	P	A	P	A	P	A	P	A	P	A
North zone	294	266	269	250	269	251	243	211	177	190	224	145
East Zone	47	16	101	15	56	0	87	7	87	10	46	25
North-East Zone	20	12	18	3	28	7	29	6	31	11	56	37
South Zone	93	84	90	87	95	76	89	67	105	69	69	50
West Zone	83	81	83	78	79	73	79	70	83	68	60	50
Grand Total	537	459	561	433	527	407	527	361	483	348	455	307
Percentage of actual coverage	-	85	-	77	-	77	-	69	-	72	-	67

When the Committee pointed out that Audit had found severe inadequacies in internal audit and physical verification in certain regions, the Secretary, Department of Food & Public Distribution submitted during further Oral Evidence on 17 June, 2013:-

> "Sir, if I have just to narrate the problem, I can do that. There is a shortage of 20 to 25 per cent staff. We are trying to recruit. We have engaged the Service Commission and they have given recommendations for some of the posts and 30 per cent of them have not joined. I can narrate all of them but even with that, procurement operations are on. We are procuring and we are storing. The movement is on and no State can say that they did not get their entitlement of PDS in a month. The staff is working hard and overtime to ensure some basic things. I am not denying that there is shortage of staff. There is shortage of storing space and there are other limitations. They are there but we are aware of them and we are trying to overcome. Only this much I can assure the Committee."

FCI was further asked if any steps had been taken to rectify this situation. In this regard, FCI stated as below:-

> "Sir, with the reduction in manpower, because in the last 10 to 15 years we did not have any recruitment and so the staff position has dwindled and so also in the internal audit and so first of all I should admit that the observation of the C&AG mentions of the fact. Now, I would like to mention the steps taken to overcome the deficiencies pointed by the audit.
>
> I will give comparison of reported figure of 2011-12 and the achievement made in the year 2012-13, that will clearly speak for what steps we have taken and what achievement we have made. So far as the audit is concerned, 63 per cent coverage was there in 2011-12 in FCI, whereas we could it bring it up in 2012-13 to 70 per cent. Similarly, in respect of physical verification, it was 67 per cent in 2011-12 which went up to 90 per cent 2012-13. The measures we have taken is that where we did not have people now with the recruitment process people have been placed there. We have selected five regions one each in a zone and outsourced the Internal Audit and physical verification to the firm of Chartered Accountants.
>
> Sir, secondly, regarding internal audit, they have given to various outsourced agencies the internal audit and various places. That is what my colleague was trying to point out. So, now the internal audit in 2011-12 is much better than the period for which the audit was done."

In a written reply, FCI further stated that to overcome the problem of low coverage of both Internal Audit and Physical Verification in both East and North East Zone, the activity of Internal Audit and Physical Verification has been outsourced both in West Bengal and Assam Region to firm of Chartered Accountants. A decision to utilize the Manager (Vig) posted at FCI District Offices for surprise Physical Verification and transaction audit, in order to widen the coverage of Audit and Physical Verification activity has been taken.

Instructions have been issued to conduct Zero Stock PV on quarterly basis atleast in one depot in a Region and liquidated all the old stocks before placing new stocks. This is in addition to the already existing Annual Physical Verification (APV), Quarterly Physical Verification (QPV) and PV on ISI method.

Asked if the Ministry / FCI is proposing to strengthen the existing manner of follow up of internal audit reports at the Regional/ Zonal level to ensure greater functional independence, FCI stated that for strengthening the existing manner of follow up of Internal Audit reports at Regional / Zonal level, independent AGMs (Audit) have been posted in majority of Regions. Independent GMs (Audit) have also been posted in West Zone and East Zone. Steps for posting AGMs (Audit) in other Regions and GM (Audit) in other Zones, is also in process.

D. MANPOWER

According to FCI, the handling operations are carried out by engagement of labour under various systems adopted by the Corporation in bipartite settlement with the labour union. The existing labour systems are Departmental Labour, Direct Payment System (DPS), No Work No Pay (NWNP) / Three Members Committee (TMC), etc.

1. **Departmental Labour System**

Under this system, regular time scale of pay are applicable to the workers apart from statutory benefits of ex-gratia in lieu of Bonus, PLI, CPF, Gratuity and Welfare benefits of various types of leaves, uniform, Leave Travel Concession, House Building Allowance, Festival Advance, etc. The Departmental Workers are given Minimum Guaranteed wage for 21 days in a month in addition to 4 or 5 paid weekly offs even if FCI is not able to provide any work or sufficient work to labourers for all the working days of the month provided the worker has attended the work spot on all the working days of the month. Standing Orders applicable to labour, were prepared and have been circulated by FCI, after its approval by the Chief Labour Commissioner (Central), New Delhi.

2. **Direct Payment System**

The workers are paid on piece rates basis along with a Minimum Guaranteed Wages (MGW) on days when the earning on piece rate is less than MGW. The Piece rate and MGW are reviewed every 2 years on the basis of AICP index. Besides they are being paid minimum wages under statutory liability of notification issued by Ministry of Labour, New Delhi vide letter no. 1/4(5)/2010 LS – II dated 25 May 2010. As on date the MGW for Sadar, Mandal, Handling Labour and ancilliary Labour is @ Rs 211/-, Rs 198/-, Rs 193/- and Rs 163/- respectively. The DPS workers have been given the benefits of CPF in addition to the benefits of Ex-Gratia / PLI / Gratuity / Workmen's Compensation, Paid Weekly Off, National Holidays, Sick Leave, and Medical First Aid.

3. **Direct Payment Through 'Three Members Committee Of Workers On Productivity Linked Piece Rate On 'No Work No Pay Basis**

This system is popularly known as TMC System or 'No Work No Pay' (NWNP) System. The system is presently prevailing in 14 depots throughout the country. Under this system, the payment for the actual quantum of work done is made on the basis of ASOR percentage to the Committee comprising of Three Workers-Members nominated from the workers themselves of the particular depot. The payment to them is made without any minimum guaranteed wage. In addition, the benefits of EPF, Ex-Gratia in lieu of Bonus are given by FCI to these workers. However they are being paid minimum wages under statutory liability of notification issued by Ministry of Labour, New Delhi vide letter no. 1/4(5)/2010 LS – II dated 25 May 2010 on the days of work.

The number of workers employed in each system as on 31.03.2013 is as follows:-.

S. NO.	Type of Labour	Number of Workers
I	Departmental	18,376

II	DPS Workers	28,803
III	No Work No Pay	6,272
Total		**53,451**

When asked besides departmental and DPS labourers, if FCI was contemplating another kind of labour system to improve its handling, FCI stated that it already has Departmental, Direct Payment System and No Work No Pay (NWNP) System of Labour. Since the NWNP System has been found more cost effective, a proposal for operating the notified depots under NWNP has been sent to the Government for their approval.

The Committee on observing that the Central Advisory Contract Labour Board had given a recommendation, noticed by the Labour Ministry that in 95 depots, the direct payment system should be introduced and desired to know about its status. In this regard, FCI stated that the Ministry of Labour, New Delhi notified 60 depots prohibiting employment of Contract Labour System in these depots. These notified depots are spread over seven Regions viz. Punjab, Uttar Pradesh, Himachal Pradesh, Karnataka, Andhra Pradesh, Tamil Nadu and Uttarakhand. There is no recommendation of Ministry of Labour that after abolition of contract labour, they may be appointed as DPS labour.

The Department of Food and Public Distribution had set up a Committee under the Chairmanship of the then AS&FA, Ministry of Consumer Affairs, Food and Public Distribution and as per the recommendation of this Committee, surplus DPS / Departmental Labour are to be deployed as per requirement in the depots where contract system has been prohibited. This Committee also recommended that after utilization of the surplus DPS labour, the additional requirement of labour may be met from the ex-contractor’s workers for deploying in the notified depots. In view of the position, as already stated above, the proposal for operating these depots by engaging ex-contractor’s workers of these depots under NWNP system has been sent to the Government of India for their approval.

Meanwhile, the field offices have already been advised to deploy / adjust surplus DPS labour in the notified depots in their Region and also to assess the actual number of workers to be engaged in these notified depots as per the existing norms.

In addition, FCI in its further evidence has submitted on the issue of manpower, that many times, its Departmental/DPS labour force are unwilling to work on overtime beyond office hours, Holidays and Sundays resulting in to disruption of supply of stocks, particularly in the States of West Bengal, Bihar and Kerala. Departmental and the DPS Workers are expensive compared to Contract Workers. Therefore, FCI needs to be exempted from Notification under Contract Labour [R&A] Act, 1970 for departmentalization. None of the State Governments have departmentalized the Contract Labour although they are doing identical and similar nature of work as that of FCI.

Manpower of FCI (as on 31.03.2011)

Year	Cat-I	Cat-II	Cat-III	Cat-IV	Total
31.3.2001	757	7379	33199	19580	60915

31.3.2011	679	5156	16877	7944	30656

There was ban on recruitment by GOI from 1984 to 2001. As such the staff strength decreased from 60915 as on 31.03.2001 to 30656 persons as on 31.03.2011 and 28536 persons as on 30.6.2012.

Category-wise details of manpower in FCI as on 31.03.2013 is tabulated below:

Category	**Sanctioned Strength**	**Men in position**	**Deficit / surplus**	**% of deficit/ surplus**
Category I	1012	804	-208	-20.55
Category II	6292	4640	-1652	-26.26
Category III	26831	15319	-11512	-42.91
Category IV	2380	5953	3573	150.13
Total	36515	26716	-9799	-26.84

Note:

1. Quarterly Manpower position is maintained at Headquarters level. Position for Quarter ending 30.06.2013 is yet to be received from Zones which after consolidation will be sent as additional information.
2. Sanctioned strength for Engineering Cadre is under review.
3. Men in position (MIP) include employees working against Hindi and Watch & Ward posts for which 'Sanction Strength' is under consideration.

FCI is facing deficit in Category I, II and III as shown in the table above which shows that there is approximately 43% deficit in Category III staff who are the key officials to run operations of the Corporation. However, steps have been initiated in last one year to fill up the vacant posts in Category-III and by December, 2013 the deficit is going to be brought down.

Regarding shortage of staff, the CMD, FCI stated during the further Oral Evidence on 3 January, 13 as follows:-

> “In 2001, when there were sixty thousand employees, then stock was 44 million tonnes. Now in 2012 we see, staff is twenty-eight thousand and stock is eighty million tonnes… There is mismatch between the staff and the FCI stock. There is a lot of pressure on the FCI employees. We have a 40 per cent shortage of quality control staff. ”

Queried further if any improvement had been made in the sphere of recruitment and improving FCI’s manpower situation, the CMD submitted further during the Oral Evidence on 17 June, 2013: -

> “Sir, Staff Selection Commission AG-III recruitment that we have done, out of 3,755 people which we have advertised, 1700 people have joined by the end of June and the second result is coming in the second week of July and these are the vacancies of 8600 including the people who had not joined and we are hoping that 7000 people should be joining by around September. Thereafter, the next examination is planned in November and we are hoping that by December end or

January another 2000 would have joined. So, the vacancies of about 11000, we are hoping that around 10000 people would have joined.

Secondly, for category I and II posts, there was no agency in place. UPSC refused to do the recruitment because they said we do not do it for the public sector units and so we had tendered and CMC has taken over. They have deposited money and they are starting recruitment. Advertisement is coming next week. These are around 492 vacancies. They should also be in place by December. Hopefully, by next year beginning, by January or February, you will see that vacancy position which was at around 25 per cent last year would have been reduced to hardly 6-7 per cent."

When asked for details of contract labour, if any, engaged by the Corporation over and above the regular staff during each of the last four years and the expenditure incurred on the same, FCI submitted in a written reply that : -

The details of workers over and above the regular staff during 2009-10 to 2012-13 in FCI, HQ, New Delhi are as under:-

Financial year	Detail of worker					
	No. of Data Entry Operator	No. of Messenger-Office Boy	No. of Driver	No. of Security Guard	No. of Safai Karamchari	Total Expenditure during the year (Rs)
2009-10	10	40	3	48	30	8951778
2010--11	24	40	5	48	30	13854052
2011-12	15	40	7	43	32	17563205
2012-13	21	55	9	43	32	22636121

With regard to major problems hindering the efficient and effective functioning of FCI, FCI stated that as far as distribution of food grains is concerned, there are some problems which affect the smooth supply of food grains. They are as follows:-

a) **Paucity of intermediate storage space with State Governments:** Due to paucity of intermediate storage space with State Governments, they are unable to lift the entire allocated quantity expeditiously. The problem is prominent in States like Himachal Pradesh, J&K and Kerala.
b) **Paucity of funds with State Governments:** Due to the paucity of funds, some of the States/UT Governments deposit the cost after collecting the same from Fair Price Shops and place demand for lifting of food grains at the fag end of the previous month of allocation month. States like West Bengal and Bihar have this problem.
c) **Uneven lifting by State/UT Governments:** Notwithstanding the fact that the State/UT Governments are entitled to lift the food grains in a span of 50 days, generally the food grains are lifted in the last three to four weeks. This problem is prominent in States like Kerala, Andhra Pradesh and Bihar.
d) **Delay in making sub-allocations by the State Government:** The revenue district-wise sub-allocations for different schemes against the monthly allocation are

required for providing food grains to the State/UT Governments. The State Governments sometimes do not convey the sub-allocation timely, to their State nominees and the FCI, which adversely impacts the lifting. States like Bihar, Jharkhand, Tamil Nadu, West Bengal, Maharashtra and Orissa have reported this issue.

e) **Poor condition of wagons and non-supply of rakes by the Railways:** In FCI, the stock position is closely monitored through IRRS at various levels. However, there are few occasions when the sufficient stock is not available. Situation of non-availability arise in depots with smaller capacity and high turnover and also due to non timely supply of rakes by Railways. This problem is more acute in States like Bihar, Jharkhand, Himachal Pradesh, J&K and NE States. The supply of rakes does not match with the FCI's requirements as the Railways too have limitations in this regard. Further wagons provided are of poor condition.

In addition to the shortage of manpower vis-à-vis current sanctioned strength, there will be additional staff requirement in FCI on account of following factors:

i. Additional Storage Capacity to the tune of 181 Lakh MT being constructed under PEG Scheme/own construction
ii. Conversion of U.P. Region from decentralized to non-decentralized procurement pattern.
iii. Impending responsibility of implementation of proposed Food Security Bill.
iv. Increased Procurement in Eastern part of the country.

FCI is conducting an exercise for working the additional staff requirement on account of above.

Some of the main problems being faced by FCI in procurement of food grains are lack of basic infrastructure like regulated *mandis* and other support systems in some of the states like Bihar, Assam, Uttar Pradesh, West Bengal etc. There is also the problem of plenty due to open ended procurement and lack of defined policies of excess stocks.

PART - II

OBSERVATIONS / RECOMMENDATIONS OF THE COMMITTEE

The Food Corporation of India (FCI) was established in the year 1965 with the primary task of undertaking the purchase, storage, movement, transport, distribution and sale of food grains and other food stuff. The Committee's examination of the FCI reveals that FCI has slackened its procurement activity considerably, with the introduction of Decentralized Procurement (DCP) Scheme in the year 1997-98. The Committee find that FCI's share in procurement has been gradually coming down, both in terms of percentage and in absolute terms in respect of wheat from 23.3% (52.88 LMT) in 2008-09 to 14% in 2011-12 (39.74 LMT) and in respect of paddy (in terms of rice) from 13.22% (18.55 LMT) in the year 2006-07 to 01.14% (2.84 LMT) in the year 2011-12. The Committee feel that the role of FCI in procurement of food grains should not be relegated to the background because of DCP. With the enactment of the Food Security Act, there is a need to augment procurement of food grains and the Committee urge FCI to play its due role effectively and expand its procurement activity, maintaining its percentage of share in procurement as obtained prior to introduction of DCP Scheme.

2. One of the objectives of establishing FCI is to ensure effective price support operations for safeguarding the interests of farmers. It is a matter of serious concern that this objective has not been fully achieved even after nearly five decades of FCI's operations. According to FCI, the possibility of some farmers being deprived of Minimum Support Price (MSP) cannot be ruled out in states which do not have adequate infrastructure like regulated markets, etc. FCI has claimed that since the bulk of procurement is done by State Governments and their agencies, they are largely responsible for ensuring that farmers get MSP. The Committee do not accept FCI's attempt to shift its responsibility to States in preventing distress sale and in ensuring MSP to farmers. It is for FCI to identify the localities in States which lack requisite infrastructure facilities and take up with the Union and State Governments to ensure that the problems are addressed and no farmer, in need, is deprived of MSP. The Committee expect FCI to take necessary action in this regard.

Procurement under DCP Scheme

3. With a view to increasing the participation of States in procurement and PDS, the Union Government introduced Decentralized Procurement Scheme in 1997-98, aiming to effect savings in the form of reduction in food subsidy outgo, enhancing the efficiency of procurement and PDS and encouraging local procurement. The Committee note that the DCP States account for just one fourth of wheat procurement (195.86 LMT) in comparison to non-DCP States (793.39 LMT) during the period of six years from 2006-07 to 2011-12. In case of Paddy (in terms of rice), the DCP States have procured 457.30 LMT as against 676.28 LMT procured by the non-DCP States during the same period. The Committee regret to note that only ten State Governments have come under DCP Scheme during the last one and half decades. These States are West Bengal, Madhya Pradesh, Chhattisgarh,

Uttarakhand, Gujarat, Odisha, Tamil Nadu, Karnataka, Kerala and Andaman and Nicobar Islands (UT). The Committee desire that the Department of Food & Public Distribution should play a proactive role and ensure that other State Governments also switch over to DCP mode to protect the interests of farmers. The Committee have been informed in this connection that the States are not having adequate quality control staff which is a bottleneck in procurement. The Committee hope that the Department of Food & Public Distribution will look into this issue and render such help as may be needed by the State Governments to overcome the problem.

Infrastructure Facilities, etc.

4. Efficient and well spread out procurement operations are a pre-requisite for ensuring MSP to the farmers for their produce. The Committee note that during Rabi Marketing Season (RMS) 2010-11, 2011-112 and 2012-13 (as on 18.12.2012), FCI and State Agencies operated 10479, 11830 (Prov.) and 19469 (Prov.) purchase centres respectively. In Kharif Marketing Season (KMS) 2010-11, 2011-12 and 2012-13, the number of purchase centres operated/proposed was 15101, 26603 and 29342 respectively. Though the number of purchase centres had registered an increase during the last three years, the Committee feel that for a Country with the cultivation spread over 125.03 million hectares, the number of purchase centres as mentioned above is obviously inadequate to ensure a comprehensive reach and spread. The Committee have been assured that more number of centres will be opened to increase the procurement in future. In order to totally prevent distress sale by farmers, the Committee strongly recommend that the Corporation should embark on the task of substantially raising the number of purchase centres with all requisite facilities in coordination with the State Governments and their agencies so that the farmers in all food grain producing States have one or the other purchase centre available in their vicinity.

5. The Committee find that the number of purchase centres operated by FCI is too insignificant and even this number is going down from year to year. For RMS, the number has gone down from 860 in 2010-11 to 802 in 2001-12 to a mere 710 in 2012-13, with corresponding figures of 696, 684 and 426 for KMS. FCI has attributed this decline to shortage of manpower and inadequacy of infrastructure. The Committee are not convinced of these reasons. It is for the FCI management to sort out its internal problems and ensure that FCI discharges its functions effectively and efficiently. The Committee urge FCI to increase the number of its purchase centres significantly and ensure that no distress sale is resorted to by farmers in any part of the Country.

Computerization

6. The Committee note that an Integrated Information System for Foodgrain (IISFM) consisting of the District Information System for Foodgrains Management (DISFM) known as District Module has been in use since 2005 and IISFM Rapid Reporting Service known as Depot Module has been in use since 2010. The Committee see no reason why only around 90 per cent of depots are updating their

stock position on daily basis. The reasons for failure of the rest of the depots in this regard should be looked into immediately and it should be ensured that daily updated stock position in respect of all depots is available to the management to enable informed decision making. Two more projects viz. the Release Order Module to synchronise with end-to-end computerization of TPDS at the State level and the Online Procurement Module to monitor the progress of procurement of wheat/rice online have reportedly been proposed by FCI with the approval of the Department of Food and Public Distribution. The Committee exhort the Government to ensure that requisite funding for these two projects are made available and the projects are completed at the earliest.

7. The allocation of food grains to the States/UTs is released from the central pool for distribution under Targeted Public Distribution System (TPDS) depending upon availability of food grains in the central pool, relative demand of the State/UTs, off-take trend and other related factors. The Committee find that the allocation of food grains to State/UTs has increased from 44 million tonnes in 2007-08 to 70 million tonnes in 2011-12. The Committee have been informed in this connection that allocation is being made still on the basis of the population data of the year 2001 in spite of the fact that population figures of 2011 are available now. The Committee hardly need to emphasize that the allocation of food grains should be rationalized in the light of latest figures of population which has considerably gone up since 2001. The Committee hope that necessary action in this regard will be taken under intimation to the Committee.

8. The Committee are surprised to find that in spite of the fact that the central issue prices of food grains issued under TPDS are far below the economic cost and are highly subsidized, the off-take of allocated food grains by the State/UTs has been considerably lower which ranged between 62% and 85.5% during the five years from 2007-08 to 2011-12. The Committee are concerned to note that some poor states are not even able to lift the additional allocation of food grains made to them on the direction of the Supreme Court. Consequently, the Central Pool has been carrying huge stock of food grains year after year. The Committee desire that the reasons for slow off-take by State/UTs should be studied and remedial measures taken immediately to ensure that the people below poverty line are not deprived of subsidized food grains.

9. In two major food grain producing States viz. Punjab and Haryana the bulk of procurement is through the 'arthias' (private commission agents) in regulated markets. A major chunk of rice is procured by FCI from millers as levy rice for which the Government pays them the MSP. The Government has no means to ensure that the procurement by arthias and the millers is not at rates below MSP as payment is not done through cheques in all cases. The Committee during the course of their examination were time and again apprised by the Department/Corporation that they have been emphasizing that farmers be paid through the mode of e-payment or account payee cheques. Unfortunately, however, the ground situation is not at all encouraging, thereby, putting a big question mark on the efforts of the Government to ensure minimum support prices to the farmers. The Committee, therefore, desire that strict instructions with

suitable punitive clauses be issued to ensure that all payments for procurement from farmers be made only through the mode of e-payment or account payee cheque from the next procurement season itself.

Buffer Stock Norms

10. The Committee are concerned to note that the minimum buffer norms for stocking of food grains in the Central Pool have remained unchanged since April, 2005, despite the fact that the Buffer Stocking Policy is required to be reviewed from time to time, normally after every five years. Although the food security scenario has witnessed major changes during the last nine years, the matter of revising the Minimum Buffer Norms has been hanging fire in spite of the recommendations of the National Centre for Agricultural Economics and Policy Research (NCAP) in this regard in March, 2009. Now that the National Food Security Act has come into being and the latest Census figures are available, the Committee, desire that the Department of Food and Public Distribution should revise the Minimum Buffer Norms without any further delay.

11. While on the aspect of the Buffer Stock Norms the Committee would also like to comment on the lack of clarity or transparency pointed out by the audit in the maintenance of Buffer Stock Norms. During the period 2000-01 to 2007-08, the Government is stated to have resorted to exports to liquidate food grains stocks beyond the prescribed minimum norms without considering the operational stock requirements at certain points of time even breaching the Minimum Buffer Norms. For instance, on 1 October, 2003, the stock of rice went down to 52.41 LMT as against minimum norm of 65 LMT and in December, 2004 against the norm of 116 LMT, the stock in hand was 106.60 LMT. In February, 2005 and again in March, 2005 against the Minimum Buffer Stock of 84 LMT, the wheat stock stood at 73.03 LMT and 57.50 LMT, respectively. Consequently, the Government had to augment the Buffer Stock through imports of wheat from early 2006 to April, 2008 to the tune 72.23 LMT. Further, the food stock during 18 out of 24 quarters from 1 April, 2006 to 1 April, 2012 was below the Minimum Buffer Norms prescribed by the Government. The Committee, while expressing their concern over this serious lapse, strongly recommend that there should be no recurrence of such lapses in future.

Storage Capacity

12. Food grains stock in the Central Pool consists of stock held by FCI, DCP States and the State Government Agencies for both buffer and operational requirements. The Committee in this connection note that the stock position in the Central Pool was 823 LMT as on 1 June, 2012 and 777 LMT as on 31.05.2013 as against the total storage capacity of 751 LMT (397 LMT with FCI and 354 LMT with State agencies) as on 31.05.2013. The shortage in storage capacity was as much as 26 LMT as on 31.05.2013. The Committee note from the information furnished by FCI, that there have been huge storage gaps since the year 2008 because of quantum increase in average stock level. What one would have expected of FCI in the light of persisting acute shortage of storage capacity is to ensure expeditious

creation of additional storage capacity as and when funds are made available. The Committee note that FCI's performance in this regard has been downright dismal. During the Eleventh Plan, it was planned to create a capacity of 1.39 LMT with a financial outlay of Rs. 133 crore. However, it could create a capacity of just 45,015 MT at a cost of Rs. 86.56 crore and the shortfall is purportedly due to non-availability of land in most of the places. The Committee are not satisfied with this lame excuse. If there are serious and sincere efforts, acquiring suitable land for public purpose should not be a problem. The Committee expect FCI to take immediate necessary action in this regard and ensure that the planned storage capacity is created without undue delay.

13. The Committee note with some satisfaction that the Government has taken some initiatives for creation of storage space in the private sector under the Public Private Entrepreneur Guarantee (PEG) Scheme. The decision of the Government to go far capacity creation in private sector has, therefore, not come a day soon. The need of the hour is to fastrack creation of additional storage capacity by all means. The Committee, therefore, desire that the 149 LMT of additional storage capacity sanctioned under PEG Scheme should be vigorously pursued by the Government/Corporation and got operationalised within the stipulated period of two years.

14. There is an acute shortage of storage capacity in the North-Eastern States and the efforts of the Government for creation of additional capacity have not made much headway. A capacity of 5.4 lakh MT of additional storage space was planned to be created in the North-Eastern States with an allocation of Rs. 568 crore. However, at the end of Eleventh Plan i.e. March, 2012, the capacity approved under this special Scheme has been included in the Twelfth Five Year Plan necessitating the revision of the Scheme. During the first year of the Twelfth Plan, out of this 5.4 lakh MT, only meager 2,901 MT has been completed. The Committee wonder as to how the balance capacity will be created in these States in the remaining four years of the Twelfth Plan when the Government have themselves admitted to the failure of State Governments in most of the centres in getting the construction work taken up. The Committee are of the opinion that the peculiar situation obtaining in the North-Eastern States is a challenge for the Government and it requires out of the box solutions to handle it. The Committee, therefore, recommend the Government to come up with workable solutions for the purpose in consultation with the State Governments and other agencies involved so that the work on the massive pendency is completed with due promptitude.

<u>Modernisation of Storage</u>

15. Most of the countries are moving towards modern means of storage like silos. In fact, due to their tremendous advantages, silos were constructed in India in the 1960s and 1970s and several of them are reportedly still operating satisfactorily. It has been stated that wheat could be stored in silos upto four years in good condition, and the wheat of 2007-08 is being issued for consumption even now. The Committee have been informed that some private parties have created a capacity of 5.5 LMT in silos in some States and they are operational since 2007.

These modern silos have been hired by FCI for a period of 20 years. The Committee note that the Government have now decided upon creation of 20 LMT capacity of storage in silos. This, in the view of the Committee, is not enough. Given the immense benefits of storing of food grains in silos and the substantial requirements of food grains for implementation of the Food Security Act, the Committee are of the firm belief that in spite of the high cost involved, the silos offer a safe, hygienic and permanent solution to the problem of storage of food grains in the Country with a one-time investment. They, therefore, recommend the Government to take a well considered call on this matter without any further delay. The Committee further recommend that the Government should take immediate steps to implement M.S. Swaminathan Committee's recommendation of construction of 50 state-of-the-art technology modern silos in various parts of the Country to ensure food security of the Country.

Quality Control and Preservation of Food Grains

16. The Committee note that the Quality Control Division in FCI is mandated with the task of procuring, preserving and supplying quality food grains as per specifications and guidelines of Government of India. There is an elaborate network of laboratories at depot level which are equipped with physical facilities and technically qualified staff. Moreover, there are laboratories at district, regional and zonal levels also. A system of supervisory inspection is also carried out by the Corporation with a view to have checks and super-checks on the procurement operations. The godowns are also constructed based on scientific method to make them rodent proof as well as damp proof. Regular treatment with prophylactic and curative measures is carried out for the control of insects/pests. Resultantly, the Corporation has been able to restrict loss of the stocks stored in its godowns to 0.14 % to 0.18 % during the last three years which are lower than the MoU target of 0.22 %. While appreciating these achievements of the Corporation, the Committee would suggest that the Corporation should prevail upon other agencies storing and maintaining food grains for the Central Pool on behalf of FCI viz. CWC and SWCs (whose losses during the corresponding period ranged between 0.29-0.57 % and 0.19-0.91 %, respectively) to bring down their storage losses by adopting FCI's best practices.

Movement of Food Grains

17. The Report of C&AG has pointed out substantial shortfalls in movement of food grains against planned/procurement quantities. The Committee note that during the period 2006-07 to 2011-12, the evacuation of good grains from procuring States was deficient in the range of 35% to 60%. The actual movement against the planned quantity was also in the range of 84% to 94 % during this period. The substantial shortfall in movement of food grains obviously results in huge accumulation of food grains stock in the procuring States and the incidental problems. The Committee further note that for 90 % of the movement of food grains the Corporation has to rely on Railways, however, due to several bottlenecks including short-supply of rakes, non-compliance with linear programme of movement, other traffic commitments, non-availability of suitable

infrastructure at railway stations, constraints of timely loading and unloading at points of embarkation/disembarkation, etc. all have a negative impact on the optimal movement of food grains. The Committee are, however, satisfied to note that an Inter-departmental Coordination Committee consisting of all the agencies involved has come into being with a view to streamline the movement of food grains by rail. The Committee also note with appreciation that due to various initiatives taken by the Inter-departmental Coordination Committee, there has been perceptible improvement in the movement of food grains by rail. As a result of efforts by this Inter-departmental Coordination Committee, Railways are presently developing a module which can be considered for integration with FCI's linear programme for better movement of food grains. Keeping the pressing need of improvement in the movement of food grains by Railways, the Committee desire that the work on module being developed by Railways should be accorded top priority so that its implementation commences without any further loss of time.

18. The Committee observe that due to location specific problems and typical law and order situation obtaining in several regions of the North-Eastern States, the movement of food grains to the States is beset with far more problems than the movement of food grains to the other deficit States. While there has been some improvement due to the initiative of Inter-departmental Coordination Committee, a lot more is required to be done. The FCI is undertaking a pilot project for riverine movement of a barge each of 300 MT from Varanasi to Tripura via Ashuganj in Bangladesh and from Pandu to North Lakhimpur/Dhamaji/Passighat. The Committee strongly recommend that not only should these projects be completed with due promptitude but considering the fact that since riverine mode of transport is far more economical and hassle-free as compared to movement by road and rail, FCI should also initiate immediate action with a view to move food grains through the water ways in the riverine and coastal States.

19. The Committee note that FCI has to incur huge interest burden every year on loans taken from banks due to delay in release of food subsidy to FCI by the Government. The annual interest payment during the Eleventh Plan (2007-08 to 2011-12) ranged from Rs. 2448 crore to Rs. 5227 crore. In 2012-13, it was a staggering Rs. 6273 crore. Apart from this interest burden, the Corporation also has to shell out significant amounts of money as State taxes and levies. The Committee note with concern that during the fiscal 2012-13, the Corporation paid Rs. 7481 crore as State taxes and levies. The huge interest burden along with substantial and varying amounts of taxes levied by the State Governments on the procurements made by the Corporation and other agencies for the Central Pool, form a significant part of the economic cost of the Corporation and unjustifiably inflate the food subsidy component borne by the public exchequer. The Committee are of the considered opinion that the figures of food subsidy should reflect true quantum and not an inflated figure inclusive of interests on borrowings, taxes and levies imposed by State Governments, etc. The Committee desire that the Government should examine the desirability of reimbursing to FCI interest on borrowings, taxes, etc. under a separate head, different from the head of food subsidy so that a realistic figure of food subsidy is available for information of Parliament and the public.

20. Incidentally, the Committee recommend expeditious action by the Ministry of Finance as requested by FCI to immediately prevail upon the consortium of banks to not only lend to FCI on a very reasonable rate but also to reduce the spread of 90 BPS or link the interest rate to G-Sec rate of similar maturity so that the interest burden borne by FCI and eventually by the Government is brought down.

21. The Committee further recommend the Department of Consumer Affairs to immediately take up with the State Governments at the highest level and impress upon them to do away with the taxation of FCI operations since by the very mandate of the Corporation, its commercial activities are more in the nature of a social responsibility than trading. Till such time, the Government should as recommended by the Committee in the case of the interest component, reflect the expenditure on State taxes and levies in a head different from food subsidy for reasons already enumerated.

<u>Board of Directors</u>

22. The Committee observe that there has been inordinate delay in filling up the vacancies in the Board of Directors of FCI. During the course of the Oral Evidence on 29 February, 2012 the Committee were informed about there being 5 vacancies (including 4 independent Directors) in the Board of FCI and the Committee was assured of expeditious action to fill-up these vacancies. The number of vacancies went up to six later. In a subsequent Oral Evidence held almost eleven months later on 21 January, 2013, the Secretary of the Department submitted that due to some procedural delays, they could not send the proposal in this regard to the Public Enterprises Selection Board (PSEB). However on 17 June, 2013, the Committee were informed that as against six vacancies in the Board of FCI, the PSEB had found only three candidates suitable. For the remaining three vacancies, fresh names were submitted. The Committee take exception to the inordinate delay on the part of the Department of Food and Public Distribution in sending proposals to PSEB which has caused prolonged vacancies in the Board of FCI. In their opinion, the non-official Directors unarguably provide valuable inputs in the Boards of PSUs through their vast experience. They also provide the much needed element of independent oversight and monitoring to the Boards. The Committee urge the Department of Food and Public Distribution to ensure that there is no delay in future in sending nominations to PSEB. There should be advance action to fill up anticipated vacancies so that FCI Board is not hamstrung by vacancies.

<u>Vigilance</u>

23. It is observed from the information furnished to the Committee that the number of vigilance cases for major penalty initiated against the officials of FCI has been declining over the years from 753 in the year 2001 to 184 in the year of 2012. As many as 12 cases were reported to CVC/CBI during 2012. It is not clear whether the decline in the number of major penalty cases is indicative of improvement in the conduct of FCI officials or due to slackness in the vigilance mechanism. The Committee, desire that the Vigilance Division should ensure

constant surveillance and vigilance at all levels within the Corporation so that any kind of undesirable and illegal activities are detected in time and dealt with effectively and swiftly. They also desire the Department of Food and Public Distribution to simultaneously take initiatives in tandem with the Corporation and stress upon CVC and CBI to expedite the cases pending with them and ensure their timely disposal.

Internal Audit

24. Audit has pointed out several shortcomings and inadequacies in the system of internal audit of FCI. There were significant shortfalls in the number of physical verifications planned and actual coverage during all the six years between 2006-07 and 2011-12. The Committee do not agree with FCI's attempt to attribute this shortfall to manpower shortage. The number of physical verifications planned by FCI has gradually come down from 561 in 2007-08 to 455 in 2011-12 probably taking into account the truncated manpower availability. What is inexplicable is that even this greatly reduced figure of planned verification has not been achieved. The shortfall in actual physical verification has gone up from 15% in 2006-07 to 33% in 2011-12. This is certainly a reflection on the functioning of the internal audit unit. The Committee have been informed that actual physical verification against those planned was 90% during 2012-13. The Committee hope that internal audit in FCI will not be found wanting in their performance in future.

Manpower

25. The Committee find that there is surplus staff of over 150% under category-IV whereas there is shortage ranging from 22% to 43% in other categories of FCI manpower. Overall, there was shortage of as many as 9,799 persons as against the sanctioned strength of 36,515 as on 31.03.2013. The Committee note that the process of filling up these vacancies is in advanced stage. It is, however, not clear as to when and on what basis the sanctioned strength was fixed and how a surplus manpower of as much as 150% arose in one category of staff. The Committee would like to be informed how and how soon the surplus strength will be brought down to the sanctioned strength. Now that a number of activities hither to undertaken by FCI are increasingly being taken over by the State Governments following introduction of Decentralised Procurement System, the Committee feel that there is a need to reassess the manpower strength on scientific basis. The Committee would await expeditious action by FCI in this regard.

26. Handling-operations in the Corporation are carried out by engagement of labour under various systems adopted by the Corporation at a bipartite settlement with the labour unions. The number of workers was 18,376 under the Departmental System, 28,803 under the direct payment system (DPS) of labour and 6,272 under No Work No Pay (NWNP) system of labour as on 31 March, 2013. The Committee have been informed that FCI is awaiting the approval of the Government on two proposals. One, seeking approval for operating notified depots under NWNP which is reportedly a more effective system. The other, seeking exemption from the Government of India Notification under Contract Labour (R&A) Act 1970 for

departmentalization as in the case of the State Governments whose contract workers are doing identical and similar nature of work as that of FCI. The rationale for the latter proposal is stated to be in view of the reported unwillingness of the departmental/DPS labour force to work on overtime beyond office hours, holidays and Sundays resulting in disruption in supply of stocks in some States and the higher cost of such labour as compared to contract workers. The Committee desire that the proposals should be examined and a decision thereon taken expeditiously under intimation to the Committee.

New Delhi	**JAGDAMBIKA PAL**
7 February 2014	**Chairman**
18 Magha 1935 (S)	**Committee on Public Undertakings**

APPENDIX-I

MINUTES OF THE 7th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2010-11) HELD ON 18th AUGUST, 2010

The Committee sat from 1500 hrs to 1630 hrs.

PRESENT

Chairman

Shri V. Kishore Chandra S. Deo

Members, Lok Sabha

2 Shri K.C.Singh 'Baba'
3 Shri Ambica Banerjee
4 Shri Shailendra Kumar
5 Shri Baijayant Panda
6 Shri L. Rajagopal
7 Shri Nama Nageshwara Rao
8 Chaudhary Lal Singh
9 Shri Ganesh Singh
10 Shri Bhishma Shankar Singh alias Kushal Tiwari

Members, Rajya Sabha

11 Shri Birendra Prasad Baishya
12 Shri Naresh Gujral
13 Shri Prakash Javadekar
14 Shri Bharatkumar Raut
15 Ms. Mabel Rebello
16 Shri Tapan Kumar Sen

Secretariat

1.	Shri J.P. Sharma	Joint Secretary
2.	Shri Rajeev Sharma	Director
3.	Shri Ravindra Garimella	Additional Director
4.	Shri Ajay Kumar Garg	Additional Director

Members of the Public Investments Committee of the National Assembly of Kenya

1.	Hon. Yusuf Chanzu,	MP, Vice-Chairman
2.	Hon. Sammy Mwaita	MP
3.	Hon. John Mbadi	MP
4.	Hon. Silas Muriuki	MP
5.	Mr. John Munge	Treasury, Ministry of Finance

6.	Mr. Julius Ng’ang’a	Kenya National Audit Office
7.	Ms. Phyllis Mirungu	National Assembly of Kenya
8.	Mr. Sylvane Chongwony	Consular/Education/Political

2. At the outset the Hon’ble Chairman, Committee on Public Undertakings welcomed the delegation of the Parliamentary Committee on Public Investments of the National Assembly of Kenya and apprised them about the functioning of the Committee on Public Undertakings. The visiting delegation sought the views of the members of the COPU on certain issues relating to the manner in which selection of subjects and public sector enterprises was being made for the purposes of examination by the Committee. The Hon’ble Chairman and Members shared their experiences and gave elaborate replies to the points raised by the visiting delegation. Chairman, COPU also presented mementos to the Vice Chairman and other members of the Kenyan Delegation.

3. Verbatim proceedings of the meeting have been kept on record separately.

4. The Committee then adjourned.

APPENDIX-II

MINUTES OF THE 8th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2011-12)

The Committee sat on Thursday, the 3rd November 2011 from 1130 hrs to 1200 hrs in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2 Shri Vijay Bahuguna
3 Shri Ambica Banerjee
4 Shri Shailendra Kumar
5 Shri Vilas Baburao Muttemwar
6 Shri Adhalrao Shivajirao Patil
7 Shri Nama Nageswara Rao
8 Shri Uday Singh
9 Dr. Prabha Kishor Taviad
10 Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

11 Shri Janardan Dwivedi
12 Shri Pyarimohan Mohapatra
13 Shri Mukhtar Abbas Naqvi
14 Dr. Bharatkumar Raut
15 Shri Tapan Kumar Sen

Secretariat

1	Shri Ashok Sarin	Joint Secretary
2	Shri Rajeev Sharma	Director
3	Shri Ajay Kumar Garg	Additional Director

Representatives of Department of Food and Public Distribution

1	Dr. B.C. Gupta	Secretary (F&PD)
2	Shri T.S. Randhawa	AS&FA
3	Shri Naveen Prakash	JS(P&FCI)

2. The Committee met to take oral evidence of the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) in connection with the comprehensive examination of Food Corporation of India (FCI).

3. At the outset, the Committee observed that CMD, Food Corporation of India was not present in the meeting and pointed out the same to the Secretary of the Ministry and expressed their strong displeasure on his absence.

4. The Committee also took strong objection to the absence of one of the witnesses though his name figured in the list of representatives as furnished by the Ministry, for which no plausible explanation could be furnished by the Secretary of the Ministry.

5. The Committee while observing that Food Corporation of India is a very important subject and the presence of key witnesses was must in furnishing clarifications on important issues, asked the Ministry to be more careful in future in ensuring the presence of all concerned witnesses. The Committee, therefore, decided not to proceed with the evidence and postponed it.

The witnesses then withdrew.

Verbatim record of evidence has been kept.

The committee then adjourned.

APPENDIX-III

MINUTES OF THE 11th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2011-12)

The Committee sat on Wednesday, the 29th February 2012 from 1100 hrs to 1345 hrs in Committee Room 'E', Parliament House Annexe, New Delhi.

PRESENT

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2 Shri Ambica Banerjee
3 Shri Shailendra Kumar
4 Smt. Ingrid McLeod
5 Shri Baijayant Panda 'Jay'
6 Shri Adhalrao Shivajirao Patil
7 Shri Ponnam Prabhakar
8 Shri Nama Nageswara Rao
9 Shri Uday Singh
10 Dr. Prabha Kishor Taviad

Members, Rajya Sabha

11 Shri Janardan Dwivedi
12 Ms. Mabel Rebello
13 Shri Tapan Kumar Sen
14 Shri N. K. Singh

Secretariat

1	Shri Rajeev Sharma	Director
2	Shri Ajay Kumar Garg	Additional Director

Representatives of Department of Food and Public Distribution

1	Dr. B.C. Gupta	Secretary (F&PD)
2	Shri T.S. Randhawa	AS&FA
3	Shri Naveen Prakash	JS(P&FCI)
4	Dr. D. K. Bhalla	JS (Impex)

Food Corporation of India

1	Shri Siraj Hussain	CMD, FCI
2	Amar Singh	Exec. Director (Storage)

Ministry of Agriculture & Cooperation

1	Shri S. K. Mukherjee	Advisor

2. The Committee met to take the oral evidence of the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) in connection with the comprehensive examination of Food Corporation of India.

3. At the outset, the Chairman welcomed the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) as well as the officials of Food Corporation of India and the Ministry of Agriculture and Cooperation, and drew their attention to Direction 58 of the Directions by the Speaker regarding evidence before the Parliamentary Committees liable to be treated as public. Thereafter, the CMD, FCI made a Power Point presentation on the functioning of FCI covering various aspects relating to the Corporation.

4. During the power point presentation, the Chairman and Members raised queries on various aspects pertaining to the subject and the explanations/clarifications on the same were given by the representatives of Ministry. Information on some of the points raised by the Members was not readily available with the representatives of Ministry/FCI. They were, therefore, asked to furnish the same to the Committee Secretariat at the earliest possible.

5. The Chairman then thanked the representatives of Ministry for providing all the information on the subject matter as desired by the Committee.

6. The witnesses then withdrew.

(Verbatim record of evidence has been kept)

7. XXXX XXXX XXXX.

The Committee then adjourned.

XXXX Matter not related to this Report.

APPENDIX-IV

MINUTES OF THE 16th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2012-13)

The Committee sat on Thursday, the 3rd of January, 2013 from 1500 hrs to 1720 hrs in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2 Shri Ambica Banerjee
3 Dr. Mahesh Joshi
4 Dr. (Smt.) Botcha Jhansi Lakshmi
5 Shri Uday Singh

Members, Rajya Sabha

6 Shri Anil Desai
7 Shri Janardan Dwivedi
8 Shri Naresh Gujral
9 Dr. V. Maitreyan
10 Shri Mukhtar Abbas Naqvi
11 Shri T.M. Selvaganapathi

Secretariat

1.	Shri Rajeev Sharma	Director
2.	Shri Ajay Kumar Garg	Additional Director

Representatives of Food Corporation of India (FCI)

1	Shri Amar Singh	CMD, FCI
2	Shri D. Bhalla	ED (Pers.)
3	Dr. Dinesh Nagpal	ED (Transport)
4	Shri Sushil Nagpal	ED (I&E)
5	Shri B. S. Mohapatra	ED (Fin.)
6	Shri Subhash Zadoo	ED (QC)

2. The Committee held further discussion with the representatives of the Food Corporation of India (FCI) in connection with its comprehensive examination.

3. At the outset, the Chairman welcomed the representatives of the FCI and drew their attention to Direction 58 of the Directions by the Speaker regarding evidence before the Parliamentary Committees.

4. The representatives of FCI then made a brief power point presentation on the subject before the Committee. Thereafter, the Chairman and Members raised queries on various aspects pertaining to the functioning of FCI like filling up of vacancies in the Board of Directors, issues of procurement and offtake, decentralized procurement scheme, payment of MSP to farmers, creation of additional storage capacity, modernization of storage, quality control, movement of food grains, etc. In respect of points for which information was not readily available with the representatives of FCI, they were asked to furnish the same to the Committee Secretariat at the earliest.

5. A copy of the verbatim proceedings has been kept on record separately.

6. The Committee then adjourned.

APPENDIX-V

MINUTES OF THE 18th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2012-13)

The Committee sat on Monday, the 21st of January, 2013 from 1500 hrs to 1630 hrs in Committee Room No. 53, Parliament House, New Delhi.

PRESENT

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2 Shri Hansraj Gangaram Ahir
3 Dr. Mahesh Joshi
4 Dr. (Smt.) Botcha Jhansi Lakshmi
5 Shri Vilasrao Baburaoji Muttemwar
6 Shri Ponnam Prabhakar

Members, Rajya Sabha

7 Shri Anil Desai
8 Shri Janardan Dwivedi
9 Shri Naresh Gujral

Secretariat

1.	Shri A. Louis Martin	Joint Secretary
2.	Shri Rajeev Sharma	Director

Representatives of Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution)

1	Shri Sudhir Kumar	Secretary (F&PD)
2	Shri U K S Chauhan	Joint Secretary (P&FCI)
3	Shri Deepak Kumar	Joint Secretary (BP&PD)
4	Shri T Jacob	Joint Secretary (Sugar)

Representatives of Ministry of Agriculture (Department of Agriculture and Cooperation)

5	Shri S K Mukherjee	Advisor
6	Shri T K Dutta	Advisor, Directorate of Economics & Statistics
7	Shri Ashok Bishan Dass	Member (Official), CACP

Representative of the Food Corporation of India

8	Dr. Amar Singh	CMD, FCI

2. The Committee held further discussion with the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) in connection with the examination of Food Corporation of India.

3. At the outset, the Chairman welcomed the representatives of the Ministry and drew their attention to Direction 58 of the Directions by the Speaker regarding evidence before the Parliamentary Committees.

4. The representatives of the Ministry began their deposition by making a brief statement on the working of FCI and the role of the Ministry in the same. Thereafter, the Chairman and Members raised queries on various aspects pertaining to the functioning of FCI like filling up of vacancies in the Board of Directors, issues of procurement and offtake, decentralized procurement scheme, payment of MSP to farmers, creation of additional storage capacity, quality control, movement of food grains, etc. In respect of points for which information was not readily available with the representatives of the Ministry, they were asked to furnish the same to the Committee Secretariat at the earliest.

5. A copy of the verbatim proceedings has been kept on record separately.

The Committee then adjourned.

APPENDIX-VI

COMMITTEE ON PUBLIC UNDERTAKINGS
(2013-14)

MINUTES OF THE SECOND SITTING OF THE COMMITTEE

The Committee sat on Monday, the 17th June, 2013 from 1130 hrs to 1340 hrs in Committee Room 'C', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Shri Jagdambika Pal - Chairman

MEMBERS

Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Shri Praveen Singh Aron
4. Shri Raja Ram Pal
5. Shri Rajendrasinh Rana
6. Shri Magunta Sreenivasulu Reddy

Rajya Sabha

7. Shri Anil Desai
8. Shri Naresh Gujral
9. Shri Tapan Kumar Sen
10. Dr. Janardhan Waghmare

SECRETARIAT

1. Shri A. Louis Martin - Joint Secretary
2. Shri P.C. Koul - Director

REPRESENTATIVES OF OFFICE OF C&AG

1. Shri Arun Kumar Singh - Deputy CAG (RC & LB)
2. Shri John K. Sallate - Principal Director of Commercial Audit & Ex-officio Member, Audit Board-IV
3. Shri Jayant Sinha - Principal Director (RC)

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

Sl.No.	Name	Designation
1.	Shri Sudhir Kumar	Secretary (F&PD)
2.	Shri Prashant Trivedi	JS (Storage)
3.	Shri Deepak Kumar	JS (BP&PD)
4.	Shri Amit Mehta	Director (FCI)

FOOD CORPORATION OF INDIA

1.	Dr. Dinesh Kumar	Executive Director (T)
2.	Shri Subhash Zadoo	Executive Director (P&R)
3.	Dr. D. Bhalla	Executive Director (Pers.)

2. At the outset, the Chairman welcomed the Members of the Committee and representatives of the Office of C&AG and briefly explained the agenda of the Sitting, viz. evidence of representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) and Food Corporation of India in connection with examination of Food Corporation of India. This was followed by an audio-visual presentation by the representatives of the office of the Comptroller and Auditor General on C&AG Report No. 7 of 2013 (Performance Audit) on Storage Management and Movement of Food Grains in Food Corporation of India. The Chairman, thereafter, directed that the witness be called.

(At around 1155 hours the witness were ushered in)

3. At the outset, hard copies of an audio-visual presentation were circulated by the Principal Witness with the permission of the Chairman. Thereafter, the representative of the Ministry began his deposition by referring to certain issues taken up in the C&AG Report and the previous evidences before the predecessor Committees. The Chairman and Members raised queries on various aspects pertaining to the functioning of FCI like storage of food grains, creation of additional storage capacities, modernization of storage facilities in the country, movement of food grains, status of FCI manpower, FCI and Ministry's preparedness for the implementation of the proposed legislation on food security. Issues raised in the C&AG report, viz. rationalization of MSP, issue of internal audit and physical verification, etc. were also discussed. In respect of points for which information was not readily available with the representatives of the Ministry and FCI, they were asked to furnish the same to the Committee Secretariat at the earliest.

The Committee then adjourned.

APPENDIX-VII

COMMITTEE ON PUBLIC UNDERTAKINGS
(2013-14)

MINUTES OF THE THIRD SITTING OF THE COMMITTEE

The Committee sat on Wednesday, the 3rd July, 2013 from 1130 hrs to 1315 hrs in Committee Room No. 074, Parliament Library Building, New Delhi.

PRESENT

Shri Jagdambika Pal - Chairman

MEMBERS

Lok Sabha

2. Shri Sanjay Bhoi
3. Shri Bansa Gopal Chowdhury
4. Shri Raja Ram Pal
5. Shri Rajendrasinh Rana
6. Shri Uday Singh

Rajya Sabha

7. Shri Naresh Agrawal
8. Shri Anil Desai
9. Shri Janardan Dwivedi
10. Shri Tapan Kumar Sen
11. Dr. Janardhan Waghmare

SECRETARIAT

1.	Shri A. Louis Martin	Joint Secretary
2.	Shri P.C. Koul	Director
3.	Shri M. K. Madhusudhan	Additional Director

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

1.	Shri Sudhir Kumar	Secretary
2.	Shri Shri U. K. S. Chauhan	Joint Secretary

MINISTRY OF AGRICULTURE
(DEPARTMENT OF AGRICULTURE AND COOPERATION)

Shri Narendra Bhooshan	JS (Mechanization & Technology/Integrated Nutrient Management & Marketing)

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

Dr. Rajat Bhargava	JS (Budget), Dept. of Economic Affairs

MINISTRY OF RAILWAYS
(RAILWAY BOARD)

Shri M. K. Akhouri	Executive Director (Transport), Railway Board

COMMISSION FOR AGRICULTURAL COSTS AND PRICES

Shri S. R. Joshi	Adviser, Commission for Agricultural Costs and Prices

FOOD CORPORATION OF INDIA

Shri C. Viswanath	Chairman and Managing Director

2. At the outset, the Chairman welcomed the representatives of the Ministries of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution), Agriculture (Department of Agriculture and Cooperation), Finance (Department of Economic Affairs) and Railways (Railway Board), Commission for Agricultural Costs and Prices and Food Corporation of India to the sitting. He also drew their attention to Direction 58 of the Direction by the Speaker regarding confidentiality of evidence before the Parliamentary Committees.

3. The Committee, thereafter, resumed the oral evidence in connection with the examination of Food Corporation of India. The representatives of the Ministry of Consumer Affairs, Food and Public Distribution and Food Corporation of India explained in brief the system of procurement, storage and movement of food grains in the country, the constraints/challenges faced by the Corporation and the steps taken to overcome them. Thereafter, the Chairman and Members raised queries on various aspects pertaining to functioning of FCI like fixing of MSP by CACP, procurement of food grains vis-à-vis targets fixed, creation of additional storage capacities by FCI, FCI's financial position, payment of food subsidy arrears to FCI, management of food grain stocks, transportation of food grains by Railways and FCI's preparedness for the implementation of the proposed legislation on food security, etc. In respect of points for which information was not readily available with the representatives of the Ministries concerned, they were asked to furnish the same to the Committee Secretariat at the earliest.

The witnesses then withdrew.

A verbatim record of the proceedings has been kept separately.

The Committee then adjourned.

APPENDIX-VIII

COMMITTEE ON PUBLIC UNDERTAKINGS
(2013-14)

MINUTES OF THE TWENTIETH SITTING OF THE COMMITTEE

The Committee sat on Thursday, the 6th February 2014 from 1500 hrs to 1530 hrs in Room No. 147 (Chairman's Chamber), Parliament House (Third Floor), New Delhi.

PRESENT

Shri Jagdambika Pal - Chairman

MEMBERS

Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Shri Praveen Singh Aron
4. Smt. Shruti Choudhary
5. Shri Raja Ram Pal
6. Shri Nama Nageswara Rao
7. Prof. Saugata Roy
8. Shri Uday Singh
9. Shri Bhisma Shankar Alias Kushal Tiwari

Rajya Sabha

10. Shri Anil Desai
11. Shri Janardan Dwivedi
12. Shri Naresh Gujral
13. Dr. Janardhan Waghmare

SECRETARIAT

1.	Shri P.C. Koul	Director
2.	Shri M.K. Madhusudhan	Additional Director
3.	Shri G. C. Prasad	Deputy Secretary

OFFICE OF C&AG

1.	Shri P. Sesh Kumar	DG (Commercial)
2.	Shri Jayant Sinha	Principal Director (RC)
3.	Ms. Atreyee Das	Principal Director (C)

2. At the outset, the Chairman welcomed the Members and the Officers of C&AG to the Sitting of the Committee.

3. The Committee then took up for consideration the draft Reports on the following subjects and adopted the same without any modifications:

(i). Food Corporation of India partially based on C&AG Report No. 7 of 2013 (Performance Audit) on storage management and movement of food grains in Food Corporation of India;
(ii). XXXX XXXX XXXX,
(iii). XXXX XXXX XXXX.

4. The Committee then authorized the Chairman to finalize the Reports on the basis of factual verification and present the same to Parliament.

The Committee then adjourned.

XXXX Matter not related to this Report.