

**STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS  
AND PUBLIC DISTRIBUTION (2004-05)**

**FOURTEENTH LOK SABHA**

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

**DEMANDS FOR GRANTS  
(2004-2005)**

**FIRST REPORT**

**Presented to Lok Sabha on – 25.8.2004  
Laid in Rajya Sabha on – 25.8.2004**



**LOK SABHA SECRETARIAT  
NEW DELHI  
August, 2004/Bhadrapada, 1926 (Saka)**

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**COMPOSITION OF THE STANDING COMMITTEE ON FOOD, CONSUMER  
AFFAIRS AND PUBLIC DISTRIBUTION – 2004**

Shri Devendra Prasad Yadav - Chairman

**MEMBERS**  
**LOK SABHA**

2. Shri A.P. Abdullakutty
3. Shri Suresh Angadi
4. Shri Ranen Barman
5. Shri Alakesh Dass
6. Shri Tukaram Gadakh
7. Shri Govinda
8. Shri Abdul Mannan Hossain
9. Shri Baliram Kashyap
10. Shri Avinash Rai Khanna
11. Shri Parsuram Majhi
12. Shri Zora Singh Mann
13. Shri K.P. Naidu
14. Shri Hari Kewal Prasad
15. Smt. Daggubati Purandareswari
16. Shri Ajit Kumar Singh
17. Shri Chandrabhan Singh
18. Shri Ramakant Yadav
19. Shri Harish Nagpal
20. Shri Atma Singh Gill

**RAJYA SABHA**

21. Shri T.S. Bajwa
22. Shri Palden Tsering Gyamtso
23. Shri Narayan Singh Kesri
24. Shri Lalitbhai Mehta
25. Smt. Bimba Raikar
26. Shri Thanga Tamil Selvan
27. Shri Vikram Verma
28. Shri Vijay Singh Yadav

**SECRETARIAT**

1. Shri P.D.T. Achary	-	Additional Secretary
2. Dr. (Smt.) Paramjit Kaur Sandhu	-	Joint Secretary
3. Shri R.S. Kambo	-	Deputy Secretary
4. Shri Jagdish Prasad	-	Assistant Director
5. Ms. Juby Mehra	-	Committee Officer

## **INTRODUCTION**

I, the Chairman of the Standing committee on Food, Consumer Affairs and Public Distribution (2004-05) having been authorised by the Committee to submit the Report on their behalf, present this First Report on Demands for Grants (2004-2005) relating to the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution).

2. The Committee examined/scrutinized the detailed Demands for Grants (2004-2005) of the Ministry which were laid on the Table of the House on 20 July, 2004.

3. The Committee took evidence of the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) on 11<sup>th</sup> August, 2004.

4. The Committee wish to express their thanks to the Officers of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) for placing before them detailed written notes on the subject and for furnishing the information to the Committee, desired in connection with the examination of the subject.

5. The Report was considered and adopted by the Committee at their sitting held on 23<sup>rd</sup> August, 2004.

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

**NEW DELHI;**  
**24 August, 2004**  
**2 Bhadrapada, 1926 (saka)**

**DEVENDRA PRASAD YADAV,**  
***Chairman,***  
***Standing Committee on Food,***  
***Consumer Affairs and Public Distribution.***

## **CHAPTER-I**

### **INTRODUCTORY**

The Ministry of Consumer Affairs, Food and Public Distribution has two Departments, namely, the Department of Food and Public Distribution and the Department of Consumer Affairs.

1.2 The Department of Food and Public Distribution works under the overall guidance of Union Minister of Consumer Affairs, Food and Public Distribution, who is assisted by two Ministers of State.

The main functions of the Department of Food and Public Distribution are:-

- (i) formulation and implementation of national policies relating to procurement, movement, storage and distribution of foodgrains;
- (ii) implementation of the Public Distribution System(PDS) with special focus on the poor;
- (iii) provision of storage facilities for the maintenance of Central Reserves of foodgrains and promotion of scientific storage;
- (iv) formulation of national policies relating to export and import, buffer stocking, quality control and specifications of foodgrains;
- (v) administration of food subsidies relating to rice, wheat and coarse grains;
- (vi) fixation of statutory minimum prices of sugarcane payable by sugar factories, development and regulation of sugar industry (including training in the field of sugar technology), fixation of price of levy sugar and its supply for PDS and regulation of supply of free sale sugar;

- (vii) supporting industries, the control of which by the Union is declared by Parliament by law to be expedient in public interest, as far as these relate to Vanaspati, Oilseeds, Vegetable Oils, Cakes and Fats; and
- (viii) price control of, and inter-state trade and commerce in, and supply and distribution of Vanaspati, Oilseeds, Vegetable Oils, Cakes and Fats.

1.3 The Department is organised into 13 Divisions. It has two Attached Offices, namely:

- (i) Directorate of Sugar
- (ii) Directorate of Vanaspati, Vegetable Oils & Fats (VVO&F)

1.4 There are 28 Subordinate Offices, namely:

- (i) Three Quality Control Cells located at New Delhi, Kolkata and Hyderabad.
- (ii) One Indian Grain Storage Management and Research Institute (IGMRI), Hapur (Uttar Pradesh) with 5 Sub-Stations at Hyderabad, Ludhiana, Jabolpur, Jorhat and Udaipur and
- (iii) 17 Save Grain Campaign offices at Ahmedabad, Bangalore, Bhopal, Bhubaneshwar, Chandigarh, Chennai, Ghaziabad, Guwahati, Hyderabad, Jaipur, Kolkata, Lucknow, Patna, Pune, Raipur, Thiruvananthapuram and Varanasi
- (iv) National Sugar Institute, Kanpur and
- (v) National Institute of Sugarcane and Sugar Technology, Mau

1.5 In addition, there are three Public Sector Undertakings under the administrative control of the Department, namely:

- (i) Food Corporation of India (FCI)
- (ii) Central Warehousing Corporation (CWC) and

(iii) Hindustan Vegetable Oils Corporation Ltd.(HVOC)

1.6 The Minister for Consumer Affairs, Food and Public Distribution laid on the Table of the Lok Sabha, the detailed Demands for Grants (2004-2005) relating to the Department of Food and Public Distribution on 20 July, 2004. The detailed Demands for Grants, for the Department of Food and Public Distribution shows a budgetary provision of Rs. 27100.83 crore. This includes Rs. 48.64 crore for plan activities and another Rs. 27052.00 crore, for non-plan programme and Scheme.

1.7 The Committee have examined the detailed Demands for Grants of the Department of Food, in detail. The Committee approve the Demands of the Department of Food and Public Distribution, subject to their observations/recommendations, which are contained in the subsequent paragraphs.

1.8 The Department of Food and Public Distribution has furnished the following statement showing the Budget Estimate (BE), Revised Estimate (RE) and Actual Expenditure (AE) for 2002-2003 and 2003-2004 and Budget Estimate for 2004-2005.

Sl. No.	Scheme	Major Head	2002-2003			2003-2004			(Rs. In crore) 2004-2005
			BE	RE	Actual Exp.	BE	RE	Actual Exp.	
	<b>Plan</b>								<b>BE</b>
1.	Secretariat-Economic Services	3451	0.15	0.15	0.08	0.15	0.14	0.04	0.15
2.	NISST, Mau	2408 4408	-- --						
3.	Other programme of food Storage and Warehousing								
	i) SGC	2408	--	0.14	0.13	--	--	--	--
	ii) IGMR	2408	--	0.99	0.65	--	--	--	---
	iii) CGAL	2408	--	--	--	--	--	--	--
	iv) Strengthening of VVOF	2408	--	--	--	--	--	--	--
	v) R&D Schemes and Modernization Lab.	2408	0.25	0.25	0.16	0.25	0.25	0.31	0.25
	vi) NSI, Kanpur	2408	0.87	0.65	0.24	0.90	0.38	0.19	0.67
	vii) NSI, Kanpur	4408	1.02	0.50	0.08	1.00	0.85	0.03	0.92
	Total of other programme		2.14	2.53	1.26	2.15	1.48	0.53	1.84
4.	Civil Supplies Assistance for constructions of godowns for PDS	3601 7601	-- --						
5.	Assistance for retail outlets in Tribal Areas /purchase of mobile vans	3601 7601	-- --						
6.	Other scheme of Civil Supplies								
	i) Training research and monitoring.	3456	0.35	0.49	0.38	0.60	0.60	0.30	0.60
	ii) Strengthening of Public Distribution System.	3456	4.40	1.71	0.56	1.50	0.40	0.10	1.25
7.	Consumer Industries Investment in Public Enterprises-Construction of Godowns by FCI.	4408	33.47	31.40	28.00	37.05	34.96	38.46	39.94
8.	Lumpsum provision for Projects/Schemes for North Eastern States including Sikkim (i) Construction of Godowns by FCI (ii) Construction of Godowns under Centrally Sponsored Scheme for strengthening of PDS	2552 4552	-- 3.72	-- 4.03	-- 2.00	-- 2.78	-- 4.42	-- 1.00	-- 4.86
	<b>Total (Plan)</b>		<b>44.23</b>	<b>40.31</b>	<b>32.28</b>	<b>44.23</b>	<b>42.00</b>	<b>40.42</b>	<b>48.64</b>

S. No.	Scheme	Major Head	2002-2003			2003-2004		2004-2005	
			BE	RE	Actual Exp.	BE	RE	Actual Exp.	BE
1.	Secretariat	3451	11.81	11.99	11.53	12.85	13.87	12.69	14.16
2	Food Subsidy (including Sugar)	2408	21200.00	24200.00	24176.45	27800.00	25200.00	25181.30	27800.00
3.	Transfer to Sugar Development Fund	2408	180.00	80.00	80.00	180.00	180.00	180.00	250.00
	(i) Admn. of SDF	2408	5.13	5.12	4.79	5.63	9.65	9.64	6.71
	(ii) Buffer Stock of Sugar	2408	1.00	1.00	--	300.00	300.00	206.02	400.00
	(iii) Reimbursement of internal transport and freight charges to sugar factories on export shipment of sugar.	2408	--	30.00	---	50.00	50.00	31.86	125.00
	(iv) Grant-in-Aid for Development of sugar Industry	2408	2.00	1.00	0.03	1.00	1.00	0.09	2.50
	(v) Loans for Modernisation/Rehabilitation of Sugar Mills.	6860	200.00	160.00	92.19	150.00	125.00	44.36	150.00
	(vi) Loans for Cane Development	6860	20.00	20.00	15.76	20.00	20.00	9.70	25.00
	(vii) Loans for Hindustan Vegetable Oils Corporation (HVOC)	6860	2.50	2.50	1.65	1.50	1.50	1.50	1.50
	(viii) Loans to Sugar Mills for Bagasse based Cogeneration power projects	6860				100.00	100.00	10.60	150.00
	(ix) Loans for Production of Anhydrous Alcohol/Ethanol	6860				50.00	25.00	--	100.00

S. No.	Scheme	Major Head	2002-2003			2003-2004			2004-2005
			BE	RE	Actual Exp.	BE	RE	Actual Exp.	
	Non-Plan								BE
4	Others Programmes Storage Warehousing of Food								
	(i) Dte. Of Sugar	2408	1.78	1.77	1.62	1.91	1.90	1.62	2.02
	(ii) Development council of sugar Industry	2408	0.06	0.06	0.04	0.06	0.06	0.03	0.06
	(iii) Dte. Of VVOF	2408	1.95	1.95	1.45	2.24	2.24	1.45	2.72
	(iv) NSI, Kanpur	2408	8.66	8.29	7.29	9.18	8.36	6.80	9.75
	(v) Procurement and Supply	2408	0.07	0.07	0.03	0.07	0.03	--	0.03
	(vi) International Cooperation	2408	0.37	0.31	0.30	0.37	0.32	0.32	0.38
	(vii) SGC	2408	4.44	5.05	4.81	5.86	6.03	5.84	7.07
	(viii) IGMRI	2408	2.28	2.71	2.33	3.18	3.19	2.59	3.25
	(ix) CGAL	2408	0.02	0.02	--	0.02	0.02	0.01	0.02
	(x) QCC	2408	0.35	0.37	0.31	0.39	0.45	0.46	0.49
	Total other programmes		19.98	20.60	18.18	23.28	22.60	19.12	25.79
5.	Consumer Industries Amritsar Oils Works	2852	0.02	0.02	---	0.02	0.02	--	0.02
6.	Civil Supplies other schemes of Civil Supplies	3456	--	0.90	--	0.90	0.35	--	1.50
7.	Reimbursement of losses to STC in trading operation of Edible Oils	3456	0.01	--	--	0.01	0.01	--	0.01
8.	<b>Total</b>		<b>21642.45</b>	<b>24533.13</b>	<b>24400.58</b>	<b>28695.19</b>	<b>26049.00</b>	<b>25706.88</b>	<b>29052.19</b>
	<b>Deduct Recoveries from SDF</b>		<b>-228.13</b>	<b>-217.12</b>	<b>- 112.77</b>	<b>- 676.63</b>	<b>- 630.65</b>	<b>- 312.27</b>	<b>- 959.21</b>
	<b>Total</b>		<b>21414.32</b>	<b>24316.01</b>	<b>24287.81</b>	<b>28018.56</b>	<b>25418.35</b>	<b>25394.61</b>	<b>28092.98</b>

1.9 From the above statement it may be seen that the Department of Food and Public Distribution could not utilise the entire funds allocated during 2003-2004. Explaining the reasons for mismatch between budgetary allocation and utilisation of funds, the Department, in a note furnished to the Committee stated that “funds under “BE” are based on the projected expenditure, that is compiled during the months of October/November of the preceding year. Funds are provided to incur expenditure from Consolidated Fund of India as well as Public Account. Sugar Development Fund comes under Public Account. As the financial year progresses, there is a mid term review of expenditure. Keeping in view the trends of expenditure, Revised Estimates are determined which may be on lower/higher side of the Budget Estimates. These are finalised in consultation with Secretary (Expenditure), Ministry of Finance.

- (i) Actual Expenditure is the expenditure that has been incurred actually during the year and may be on lower side vis-à-vis allocations due to Administrative constraints and financial prudence hence there is a mismatch between the allocations and actual utilization of funds.
- (ii) The column, “Deduct recoveries” represent the expenditure incurred on schemes, viz., loans to sugar factories for cane development, modernization and expansion, subsidy for maintenance of buffer stocks, grants-in-aid for research and for defraying expenditure for the purpose of the Sugar Development Fund Act, 1982, under Sugar Development Fund which is in Public Account. The SDF is credited each year by an amount equivalent to the proceeds of sugar cess collection minus cost of collection from Consolidated Fund of India and passed on to SDF through an entry “Transfer to SDF” in the Detailed Demands for Grants. The Act provides that an amount equivalent to the proceeds of duty of excise levied and collected under the Sugar Cess Act, 1982, reduced by the cost of collection, shall after due appropriations by Parliament, be credited to the Fund. The expenditure under the schemes funded from SDF is budgeted separately and recovered by transfer from Sugar Development Fund.

1.10 When the Committee asked whether a large sum of funds are released at the fag end of the financial year, the Department in a note furnished the following statement:

Quarter	Plan	Non-Plan	Total	(Rs. in crore) % Exp. w.r.t. BE/RE
<b>1<sup>st</sup> (April to June, 2003)</b>	<b>4.56</b>	<b>6527.16</b>	<b>6531.72</b>	<b>22.72</b>
<b>2<sup>nd</sup> (July to September, 2003)</b>	<b>14.93</b>	<b>9525.26</b>	<b>9540.19</b>	<b>33.19</b>
<b>3<sup>rd</sup> (October to December, 2003)</b>	<b>0.46</b>	<b>6542.74</b>	<b>6543.20</b>	<b>22.76</b>
<b>4<sup>th</sup> (January to March, 2004)</b>	<b>20.47</b>	<b>3111.72</b>	<b>3132.19</b>	<b>10.89</b>
<b>Total</b>	<b>40.42</b>	<b>25706.88</b>	<b>25747.30</b>	<b>89.58</b>

1.11 The Committee are deeply concerned to note the uneven utilisation of budgetary allocation under plan and non-plan during the year 2003-2004. For instance, the actual plan expenditure for the first quarter was 10% which rose to 50% in the last quarter. Similar unhealthy and uneven expenditure trends are visible for non-plan sectors also for the different quarters. The Committee in their earlier report had repeatedly been impressing upon the need to spread expenditure evenly during the year but it seems that the recommendations of the Committee have not been taken seriously at all. The Committee are deeply anguished that even the financial rules of the Government which clearly stipulate spreading of expenditure evenly for the four quarters and bars the rushing of utilisation in the last quarter have been ignored. The Committee, therefore, strongly recommend that the Government should ensure spreading of expenditure evenly in all the four quarters of the year without any exception.

## CHAPTER II

### **MANAGEMENT OF FOOD**

2.1 The Department of Food and Public Distribution is concerned with the formulation and implementation of various national policies on foodgrains relating to procurement, movement, scientific storage, distribution and sale. The aim of such policies is to ensure that interests of farmers as well as consumer are served, which is done by providing remunerative prices to the farmers and making foodgrains available at reasonable prices to consumers, especially to the vulnerable sections of the society.

**(a) Production Scenario**

2.2 In the first two decades after independence, there was scarcity of foodgrains and the country was solely dependent on imports. But now the production scenario of the country has totally changed and the country has become a food-surplus State from a food deficit State. Now the problem is not of making over the scarcity of foodgrains but of proper management of surplus stock of foodgrains.

2.3 Following the drought of 2002, monsoon rains brought relief during 2003-2004. As per the second advance estimates of foodgrains production for 2003-2004 released on February 17, 2004, estimated total production of foodgrains is 212.20 million tonnes which is 21.82% more than foodgrains production during 2002-2003. The production of rice is estimated at 87.94 million tonnes while that of wheat is 76.12 million tonnes. The estimated production of coarsegrains is at 33.72 million tonnes.

**(b) Procurement of foodgrains**

2.4 Procurement of foodgrains is one of the central pillars of the food policy of the Government of India. It serves the twin purpose of providing remunerative prices to the farmers thereby avoiding chances of distress sale of foodgrains and also encouraging them to enhance production; and building up buffer stock of foodgrains.

2.5 Foodgrains are procured at the Minimum Support Prices (MSP), which are fixed by the Ministry of Agriculture on the recommendation of the Commission for Agriculture Cost and Prices (CACP). The MSP for common and Grade 'A' paddy was fixed at Rs. 550/- and Rs. 580/- per quintal respectively for the 2003-2004 Kharif Marketing Season (October-September). The MSP of wheat was fixed at Rs. 620/- per quintal for Rabi Marketing Season 2003-2004. The payment of special drought relief price of Rs. 10/- per quintal for wheat has also been approved by the Government. The MSP of wheat has been fixed at Rs. 630/- per quintal for the Rabi Marketing Season 2004-2005.

2.6 In addition to extending the price support to farmers for wheat and paddy, rice is also collected as levy from millers/dealers at prices announced separately for each State. Procurement of foodgrains is undertaken by Food Corporation of India (FCI) in association with the State Governments and their procuring agencies by setting up procurement centres throughout the country.

2.7 Wheat is procured from the States of Punjab, Haryana, Uttar Pradesh. Paddy is procured from Punjab, Andhra Pradesh, Uttar Pradesh, some non-traditional States have also evinced interest in procuring foodgrains. A beginning has been made in States like Bihar, Orissa, Chattisgarh etc., to procure foodgrains. When asked about the measures that are being taken by the FCI to promote procurement of foodgrains in non-traditional areas, the Ministry informed of the following actions:-

- (i) Opening of optimum number of centres;
- (ii) Positioning of required staff for procurement well before the commencement of the procurement season;
- (iii) Maintenance of proper liaison with State Food Department, State agencies, District Administration;
- (iv) Displaying of information on quality specifications, locations of procurement centres, procurement prices, details of prompt payment to farmers, uniform specifications, etc. at all the Centres in English/Hindi as well as in local languages.
- (v) Temporary procurement centres are opened wherever required for the benefit of farmers, especially in backward areas.

2.8 The Government has adopted an open-ended policy for procurement of foodgrains. According to this, farmers are under no obligation to sell their produce to the Government, i.e., they have the option to sell their produce either to FCI/State agencies or in the open market as is beneficial to them. But once the farmers are willing to sell their produce to FCI, it has no option but to purchase the same. The Secretary, Department of Food and Public Distribution informed the Committee during evidence that wheat is procured from 12 States and Rice/Paddy is procured from 15 States.

2.9 On being suggested by the Committee that temporary/mobile procurement centres be opened in pre-harvesting season, the Secretary while agreeing to the proposal stated that the Government will act upon this suggestion of the Committee.

**(c) Level of Procurement**

2.10 Till 8<sup>th</sup> of April, 2004 of the fiscal 2003-2004, 189.11 lakh tonnes of rice and upto 31.3.04, 158.01 lakh tonnes of wheat were procured for the Central Pool, the State-wise details of which are given below:-

Procurement of Rice As on April, 2004			Procurement of Wheat As on March 31, 2004		
State	Quantity Procured (In lakh tonnes)	% of quantity procured to total procurement	State	Quantity procured (In lakh tonnes)	% of quantity procured to total procurement
<b>Andhra Pradesh</b>	23.76	12.56	<b>Haryana</b>	51.22	32.41
<b>Haryana</b>	13.24	7.00	<b>Madhya Pradesh</b>	1.88	1.19
<b>Madhya Pradesh</b>	1.06	0.56	<b>Punjab</b>	89.38	56.57
<b>Orissa</b>	7.23	3.82	<b>Rajasthan</b>	2.59	1.64
<b>Punjab</b>	86.29	45.03	<b>Uttar Pradesh</b>	12.13	7.68
<b>Rajasthan</b>	0.39	0.21	<b>Others</b>	0.81	0.51
<b>Uttar Pradesh</b>	21.81	11.53			
<b>Others</b>	35.33	18.69			

2.11 It has been noted by the Committee that foodgrains are not procured from all the States. Inspite of producing large quantities of foodgrains, some States are procuring more as compared to others. When asked about the reasons for this regional disparity and the steps that have been taken by the Government to remove this, the Department in its written reply stated as follows:-

- (a) Production of foodgrains in per capita terms is high in the States of Punjab & Haryana, compared to other States resulting in higher marketable surplus of foodgrains. This coupled with adequate market infrastructure has resulted in higher levels of procurement, in these States.
- (b) FCI and the State agencies have been directed to pay special attention to procurement of food grains in non-traditional States, especially in poor and backward districts so that farmers receive fair and remunerative prices. To extend the price support operations to non-traditional States having marketable surplus of foodgrains, the Central Government has introduced Decentralised Procurement System.

**(d) Decentralised Procurement**

2.12 The scheme of Decentralised Procurement of foodgrains by State Governments and/or their agencies was introduced by the Central Government in 1997-98. Under the scheme, States themselves procure foodgrains, retain the quantity required for PDS and surrender the rest to FCI for Central Pool. The subsidy is passed on directly to the State Governments for these operations.

Through this scheme Government intend to:

- (a) Encourage local procurement to the maximum extent and thus extend the benefits of MSP to farmers at the local level.
- (b) Effect savings in the form of reduction in the outgo of food subsidy.
- (c) Enhance the efficiency of procurement and PDS.

2.13 So far a number of States like West Bengal, Madhya Pradesh, Uttar Pradesh, Chattisgarh, Tamil Nadu and Uttaranchal have opted for the Scheme. The Government of Orissa and the A&N Islands have also adopted the scheme for procurement of paddy/rice in the current Kharif Marketing Season 2003-3004. The Central Government has also been encouraging other States, which have potential for procurement, to initiate procurement efforts.

2.14 On being asked by the Committee about problem faced by States undertaking de-centralised procurement operation and steps taken to overcome them, the Ministry in a written reply stated that the States that have adopted decentralized procurement of foodgrains scheme have reported problems relating to availing of Cash Credit Limits, higher rates of interest on food credit, valuation of stock, and non-reimbursement of full expenses, etc. To sort out these issues, a meeting was convened in the Department wherein representatives of the Reserve Bank of India, State Bank of India and the concerned States participated. The rate of interest on food credit has since been reduced to 9.10% with effect from 1<sup>st</sup> April, 2004. A Committee under the Chairmanship of Additional Secretary & Financial Adviser of the Department of Food & Public Distribution have been constituted for examining various proposals of the States for fixation of economic cost. The Tariff Commission has been requested for carrying out Zone-wise studies and recommend remunerative milling charges for paddy. These measures are expected to smoothen the implementation of the decentralized procurement system.

**(e) Buffer Stocking Policy**

2.15 Food stocks are maintained by the Central Government to (i) meet the prescribed Minimum Buffer stock norms for food security, (ii) for monthly releases of foodgrains for supply through the PDS/Welfare Schemes, (iii) to meet emergent situations arising out of unexpected crop failure, natural disasters etc. (iv) for market intervention to augment supply so as to help moderate the open market prices.

2.16 The Government had fixed minimum requirement of stock for the Ninth Five Year Plan (1997-2002) as under:-

	<b>(In lakh tonnes)</b>			
	<b>1<sup>st</sup> January</b>	<b>1<sup>st</sup> April</b>	<b>1<sup>st</sup> July</b>	<b>1<sup>st</sup> October</b>
<b>Wheat</b>	<b>84</b>	<b>40</b>	<b>143</b>	<b>116</b>
<b>Rice</b>	<b>84</b>	<b>118</b>	<b>100</b>	<b>65</b>
<b>Total</b>	<b>168</b>	<b>158</b>	<b>243</b>	<b>181</b>

2.17 Since the review of the existing Buffer Stocking Policy on foodgrains for the Xth Five Year Plan had become due, the Vth Technical Group on Buffer Stocking Policy under the Chairmanship of Secretary (F&PD) was constituted on March 19, 2001. The recommendations of Vth Technical Group on the Buffer Stocking norms for Tenth Five Year Plan will be soon submitted to CCEA for approval. In the meantime, the above buffer norms have been validated till the new norms are finalised.

2.18 The stock position of Wheat and Rice in the Central Pool vis-à-vis minimum buffer norms.

AS ON	WHEAT		RICE		TOTAL	
	Actual stock	Minimum buffer norms	Actual stock	Minimum buffer norms	Actual stock	Minimum buffer norms
1.1.2001	250.41	84.00	206.99	84.00	457.40	168.00
1.4.2001	215.04	40.00	231.91	118.00	446.95	158.00
1.7.2001	389.20	143.00	227.51	100.00	616.71	243.00
1.10.2001	368.26	116.00	241.52	65.00	582.78	181.00
1.1.2002	324.15	84.00	256.17	84.00	580.32	168.00
1.4.2002	260.39	40.00	249.12	118.00	509.51	158.00
1.7.2002	410.74	143.00	219.37	100.00	730.11	243.00
1.10.2002	356.37	116.00	157.70	65.00	514.07	181.00
1.1.2003	288.30	84.00	193.72	84.00	482.02	168.00
1.4.2003	156.45	40.00	171.57	118.00	328.02	158.00
1.7.2003	241.94	143.00	109.74	100.00	351.68	243.00
1.10.2003	184.27	116.00	52.41	65.00	236.68	181.00
1.1.2004	126.87	84.00	117.27	84.00	244.14	168.00
1.4.2004	69.31	40.00	130.69	118.00	200.00	158.00

2.19 The expenditure incurred on the buffer stock by the Food Corporation of India (FCI) during the last three years is as under :

Year	Expenditure incurred (Rs. in crore)
2001-02	5005
2002-03	5135
2003-04	3069

**(f) Food Subsidy**

2.20 Food Management consists of mainly procurement of wheat and rice by providing support prices to the farmers and allocation of foodgrains so procured amongst States for eventual distribution to the targeted population under the Public Distribution System (PDS) and other Welfare Schemes. Since the Issue Prices fixed for foodgrains to the targeted population is less than the

economic cost of foodgrains, the difference between the two represents the food subsidy. The economic cost comprises of the cost of foodgrains, procurement incidentals and distribution incidentals which include elements of state levies and taxes, mandi charges, transportation & handling charges, cost of gunny bags etc. In addition to procuring foodgrains for meeting the requirements of the PDS, the Central Government is also under obligation to procure foodgrains for meeting the requirements of the buffer stock to ensure food security of the country. Hence, a portion of the food subsidy also goes towards meeting the carrying cost of the buffer stock.

2.21 Food Corporation of India (FCI) is the main agency which undertakes procurement, storage and distribution operation on behalf of the Government of India. The difference between the economic cost and issue price is reimbursed to FCI as consumer subsidy. The carrying charges of buffer stocks are also reimbursed to it by the Government, in the form of buffer subsidy.

2.22 In the few States where the scheme of decentralised procurement is being implemented, the economic cost of procurement, storage and distribution of foodgrains by the State Governments is determined by the Government of India in consultation with the State Governments, and the difference between the economic cost so fixed and Central Issue Price fixed on an all India basis is reimbursed to the States as food subsidy.

2.23 The year-wise break-up of subsidy on foodgrains released to FCI and other State Governments under decentralised procurement since 2000-2001 is as under:

Year	Subsidy Released to FCI (Rs. Crore)	Subsidy Released to State Governments Under Decentralised Procurement (Rs. Crore)	Total (Rs. Crore)
2000-2001	11462.00	548.00	12010.00
2001-2002	16724.00	770.00	17494.00
2002-2003	22673.72	1502.73	24176.45
2003-2004	23874.04	1285.96	25,160.00
2004-2005 (up to 10.6.2004)	6025.53	165.58	6189.11

2.24 From the above statement it may be seen that food subsidy is increasing every year. When asked the reasons for the continuous increase in Food Subsidy, the Ministry in its written reply stated as under:

- (i) Increase in acquisition costs due to increase in Minimum Support Price (MSP) and other procurement incidentals;
- (ii) Higher carrying cost due to accumulation of stocks in the central pool;
- (iii) Freezing of issue prices under Public Distribution System (PDS), in spite of higher economic cost of foodgrains;
- (iv) Increased offtake of foodgrains from the central pool.

2.25 On being asked about the reasons for downward trend in regard to subsidy released to the States during the year 2003-2004 as compared to the year 2002-2003, the Ministry of Consumer Affairs, Food and Public Distribution in written reply stated that subsidy to the State Governments that adopted the decentralized procurement scheme is released on the basis of the claims submitted by them for the foodgrains distributed under Targeted Public

Distribution System (TPDS) and welfare schemes, out of the stocks procured. During 2003-04, subsidy amounts released to the Governments of Uttar Pradesh, Madhya Pradesh, Chhattisgarh and West Bengal was less as compared to 2002-2003. The reasons are as under:

- (i) Offtake of foodgrains under decentralized procurement scheme in the States of Madhya Pradesh and Uttar Pradesh was less in 2003-04 as compared to 2002-03.
- (ii) Certain subsidy claims of the Chhattisgarh and West Bengal State Governments could not be processed, as specific information like scheme wise offtake, month wise stock figures, copies of the subsidy bills raised with other departments for welfare schemes, was not made available. These claims were subsequently processed and the due amount was released to the State, after necessary clarification was received from the State Governments."

2.26 As regards the yearwise details of the food subsidy released for beneficiaries living below the poverty line (BPL) and above the poverty line (APL), Antyodaya Anna Yojana (AAY), Domestic open sale, exports and other welfare schemes during the last three years, the Department of Food and Public Distribution has furnished the following statement:

(Rs. in crore)

Year	BPL	APL	AAY	Total TPDS	Open Sale	Export	Other Welfare Schemes
2001-02	5086.41	457.90	1130.66	6674.97	616.10	1368.37	2952.66
2002-03	6336.21	923.90	2640.95	9901.06	1206.23	5742.69	1304.53
2003-04	8005.42	1135.86	2854.86	11996.14	484.47	3621.26	1550.96

2.27 The percentage of subsidy released for BPL, APL, AAY, Open Sale, exports and other welfare schemes to the total subsidy released during the last three years i.e. 2001-02, 2002-03 and 2003-04 is as under:-

Year	BPL	APL	AAY	Total TPDS	Open Sale	Export	Other Welfare Schemes
2001-02	29.08	2.62	6.46	38.16	3.52	7.82	16.88
2002-03	26.21	3.82	10.92	40.95	4.99	23.75	5.40
2003-04	31.82	4.51	11.35	47.68	1.93	14.39	6.16

2.28 It has been seen that food subsidy for BPL beneficiaries during 2001-2002 was Rs. 5086.41 crore which rose to Rs. 8005.42 crore during 2003-2004. The percentage of subsidy to BPL has also risen from 29.08% to 31.82% i.e. 2.80% during this period. Only 6.5 crore beneficiaries were identified for Below Poverty Line entitlement. Now another 2 crore have been identified, to avail subsidised foodgrains. Clarifying the position, Secretary, Department of Food and Public Distribution stated during evidence:

“I want to say is that this figure does not bar the State Governments to identify more BPL families. For example, in the country the various State Governments put together have identified 8.5 crore families. They have not identified from the point of view of Government of India. We have fixed it at 6.5 crore families. The States have issued yellow cards. We give 35 kg. per family per month. The State Governments in turn, if they have more number of BPL families, reduce it to 30 kg. per family or 28 kg. per family. We have fixed the quantity for ourselves. The States are within their right to do it according to their calculation. Your point that the number of poor families in the country cannot be 6.5 crore is right. It is because I know that the States have identified more families but for the purpose of allocation, this is how we do it. We charge them for the BPL 45% of the cost to us that means 55% is the subsidy for BPL. In the case of AAY card holders, this subsidy goes up, in fact, to 70% to 75% because our price is only 25% of our economic cost. The Hon’ble Chairman had

mentioned about this point about this distinction between BPL and AAY. I want to say that this distinction is based upon this fact that certain families are really running the risk of hunger. They are the poorest amongst the BPL families. In order to help them more, the Government had given this. When I say that there are 2 crore AAY families, it is within the 6.5 crore and the idea is that out of the poor people also those who are the poorest, should be given more subsidy by the Government. this is the logic. I only wish to say that on this point we also feel sometime that 6.5 crore should be changed. It should be raised. We have taken it up with the Planning Commission and they are re-examining the whole thing. Once they agree on certain other figure, then we will be able to increase it.”

2.29 Economic Cost of wheat and rice (pooled cost of grains, procurement incidental charges and distribution cost) of the Food Corporation of India during the last three years along with sale realization and subsidy given by the Government of India is as under:-

ECONOMIC COST (Rs./Qtl.)						
Items	WHEAT			RICE		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
Pooled cost of grain	591.61	601.33	621.74	911.53	944.27	970.68
Procurement Incidental charges	134.68	153.22	156.30	66.61	70.91	74.90
Distribution Cost	126.65	160.16	174.47	119.62	168.49	207.46
Economic Cost	852.94	914.71	952.51	1097.96	1183.67	1253.04
Sales Realization	512.91	551.28	594.82	627.69	722.52	771.77
Subsidy	340.03	363.43	357.69	470.27	461.15	481.27

2.30 Carry over charges paid to State Agencies are taken as a part of buffer carrying cost from the year 2001-2002 as per recommendation of Expenditure Reform Commission. Per quintal rate and total amount of carry over charges paid to the States during last three years are as under :

Year		2001-02	2002-03	2003-04
Carry over charges	Rate (Rs./Qtl.)	46.06	234.73	913.59
	Amount (Rs. in crore)	916	2310	2104

2.31 When the Committee asked about the steps taken to ensure that the subsidy reaches the targeted group, the Ministry in its written reply stated that the State/Central Governments are required to monitor and ensure that the foodgrains reached to the targeted people. However, to ensure that the food subsidy reaches the targeted population, the following measures have been taken :-

- (i) The Public Distribution System (Control) Order, 2001 has been issued on 31<sup>st</sup> August, 2001 under Section 3 of the Essential Commodities Act, 1955 with a view to curb willful adulteration, substitution, diversion, theft of stocks from the Central godowns to fair price shops.
- (ii) A Task Force has been constituted to look in to the irregularities in the implementation of the Targeted Public Distribution System (TPDS) and Antyodaya Anna Yojana (AAY) in the identified areas.
- (iii) Detailed Guidelines have been issued to State Governments for greater involvement of the Panchayati Raj Institutions (PRI) in the functioning of TPDS/AAY as a measure of social audit. Under the guidelines, Vigilance Committees, involving PRIs and beneficiaries, are to be established at various levels to supervise the functioning of TPDS.

- (iv) A model Citizen's Charter has been issued to all the States/UTs for adoption.
- (v) Continuous dialogue is maintained with all the State Governments/UTs in the implementation of TPDS and AAY."

**(g) Public Distribution System (PDS)**

2.32 The Public Distribution System (PDS) evolved as a major instrument of the Government's economic policy for ensuring availability of foodgrains to the public at affordable prices as well as for ensuring the food security for the poor. It is an important constituent of the strategy for poverty eradication and is intended to serve as a safety net for the poor whose number is more than 358 million and are nutritionally at risk. PDS with a network of more than 4.75 lakh Fair Price Shops (FPSs) is, perhaps, the largest distribution network of its type in the world.

2.33 PDS is operated under the joint responsibility of the Central and the State Governments. The Central Government, through FCI, has assumed the responsibility for procurement, storage, transportation and bulk allocation of foodgrains to the State Governments for distribution to the public through a network of FPSs. The operational responsibility including allocation within State, identification of families below the poverty line, issue of ration cards and supervision of the functioning of FPSs, rest with the State Governments. Under the PDS presently the commodities namely wheat, rice, sugar and kerosene, are being allocated to the States/UTs for distribution. Some States/UTs also

distribute additional items of mass consumption through the PDS outlets such as cloth, exercise books, pulses, salt and tea etc.

2.34 PDS is supplemental in nature and is not intended to make available the entire requirement of any of the commodities distributed under it to a household or a section of society.

**(h) Targeted Public Distribution System (TPDS)**

2.35 PDS had been criticised for its failure to serve the population below the poverty line, its urban bias, negligible coverage in the States with the highest concentration of the rural poor and lack of transparent and accountable arrangements for delivery. So, the Government streamlined PDS by introducing TPDS in June, 1997. It involves a 2-tiered subsidised pricing structure, one for people Below Poverty Line (BPL) and another for those Above Poverty Line (APL). Initially the scale of issue for BPL was fixed at 10 Kg/family. Now the scale of issue for both the categories has been fixed at 35 kg/family per month with effect from 1.4.2002. The identification of the poor is done by States as per State-wise poverty estimates of Planning Commission. The allocation to the States/UTs is made on the basis of average consumption in the past, i.e., average annual off-take of foodgrains under PDS during the past 10 years.

2.36 The present Central Issue Price (CIP) of foodgrains being supplied under TPDS is as under:-

(figures in Rs. per kg.)

Commodity	APL	BPL	AAY
Rice	8.30	5.65	3.00
Wheat	6.10	4.15	2.00

2.37 When the Committee asked whether all the States have identified the families living below poverty line, the Ministry in its written reply stated that under the Targeted Public Distribution System (TPDS), the responsibility for identification of the BPL families and issuing them ration cards rests with the State Government/UT Administration concerned. The following statement indicates the number of households as per the Poverty Estimation of the Planning Commission (1993-94) based on Projected Population as on 1.3.2000 and the number of the BPL families identified and ration cards issued by the State Governments/UT administrations.

(Fig. in lakhs)

STATES / UTs	Estimated No. of BPL Households in 2000	BPL families (including AAY families) identified and ration cards issued by State/UT
ANDHRA PRADESH	40.63	138.10
ARUNACHAL PRADESH	0.99	1.28
ASSAM	18.36	18.92
BIHAR	65.23	71.64
CHHATISGARH	18.75	19.17
DELHI	4.09	4.34
GOA	0.48	0.26
GUJARAT	21.20	44.14
HARYANA	7.89	8.08
HIMACHAL PRADESH	5.14	2.92
JAMMU & KASHMIR	7.36	7.36
JHARKHAND	23.94	23.95
KARNATAKA	31.29	75.27
KERALA	15.54	20.08
MADHYA PRADESH	41.25	52.05
MAHARASHTRA	65.34	73.30
MANIPUR	1.66	1.28
MEGHALAYA	1.83	1.83
MIZORAM	0.68	0.68
NAGALAND	1.24	1.24
ORISSA	32.98	48.40
PUNJAB	4.68	7.14
RAJASTHAN	24.31	24.32
SIKKIM	0.43	0.43
TAMIL NAIDU*	48.63	7.14
TRIPURA	2.95	2.95
UTTAR PRADESH	106.79	106.79
UTTRANCHAL	4.98	4.98

<b>WEST BENGAL**</b>	<b>51.79</b>	<b>47.30</b>
<b>A&amp;N ISLANDS</b>	<b>0.28</b>	<b>0.15</b>
<b>CHANDIGARH</b>	<b>0.23</b>	<b>0.07</b>
<b>D&amp;N HAVELI</b>	<b>0.18</b>	<b>0.16</b>
<b>DAMAN &amp; DIU</b>	<b>0.04</b>	<b>0.05</b>
<b>LAKSHDWEEP</b>	<b>0.03</b>	<b>0.01</b>
<b>PONDICHERRY</b>	<b>0.84</b>	<b>0.96</b>
<b>TOTAL</b>	<b>652.03</b>	<b>817.14</b>

\*Separate figures of APL/BPL cards in Tamil Nadu are not available, as there is no categorization of APL/BPL in the States.

\*\*The State Government has issued individual ration cards. 5 individual ration cards have been taken as one family card.

2.38         The States/UTs of Goa, Himachal Pradesh, Manipur, West Bengal, Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli and Lakshadweep have yet to complete identification of the BPL families.”

2.39         There have often been complaints that the foodgrains supplied through Public Distribution System are of inferior quality. When the Committee wanted to know about the steps that have been taken by the Government to ensure that only sound stock, fit for human consumption is issued for distribution under Targeted Public Distribution System(TDPS), the Ministry replied that the following steps have been taken by the Government to ensure that only good quality foodgrains, fit for human consumption are supplied to the State Governments/UT Administrations for distribution under Targeted Public Distribution System(TPDS):-

- (i)         Ample opportunities are provided to the officials of the State Governments/UT Administrations to inspect the stocks prior to lifting from the Food Corporation of India (FCI) godowns.
- (ii)         Instructions have been issued to all the State Governments/UT Administrations that an officer not below the rank of Inspector

should be deputed to check the quality of foodgrains before lifting from the FCI godowns.

- (iii) The samples of foodgrains are to be jointly drawn and sealed by the officers of the State Governments/UT Administrations and the FCI from the stocks for display at the counters of Fair Price Shops (FPSs) for the benefit of consumers.
- (iv) The officers of the State Governments' and the Ministry pay surprise checks of the FPSs, to over see the quality of foodgrains being distributed through TPDS.
- (v) The officers of the Department designated as 'Area Officers' for monitoring the TPDS work in the respective States also undertake visits to the storage depots and the FPSs, during their visit to the States to check the quality of foodgrains being issued.

2.40 The following table shows the allotment and offtake of foodgrains rice and wheat under PDS/TPDS during the financial years 2000-01 to 2003-04.

YEAR	RICE		WHEAT		TOTAL	
	ALLOTMENT	OFF-TAKE	ALLOTMENT	OFF-TAKE	ALLOTMENT	OFF-TAKE
2000-01	162.59	79.74	115.68	40.69	278.27	120.43
2001-02	172.35	81.59	131.37	56.78	303.72	138.37
2002-03	360.23	103.53	386.61	97.77	746.84	201.30
2003-04(#)	344.58	120.84	371.05	107.08	715.64	227.92

#Offtake figures are provisional

2.41 As regards the reasons for gap in the allotment and offtake of foodgrains, the Department informed the Committee that it is mainly due to very less offtake under APL, which was 8.4% in 2002-2003 and 9.4% in 2003-2004. It may be mentioned that the offtake under BPL was 59.3% in 2002-2003 and has risen to 65.4% in 2003-2004. The offtake under AAY was 85.7% in 2002-2003 and 83.9% in 2003-2004.

2.42 The lifting of foodgrains by the States/UTs under TPDS depends on several factors, the most important being the parity between Central Issue Prices (CIPs) and the open market prices; availability of foodgrains in the open market; purchasing power of PDS consumers especially those belonging to the BPL category; and the food habits of the people in different region of the country. The Department of Food and Public Distribution regularly monitors the trend of offtake by different States/UTs under TPDS and takes up the matter with the States/UTs where the offtake is less and make all efforts to remove the bottlenecks in the smooth/efficient functioning of the TPDS.

2.43 It has been observed from the statement in Para 2.40 that the allocated foodgrains are not being lifted by the States/UTs, as a result of which the poor are deprived of the subsidised foodgrains, meant for them. To ensure that States/UTs lift the allocated foodgrains the Government has started asking for utilisation certificate from all States/UTs from 2001, in accordance with the PDS(Control) Order, 2001.

2.44 When the Committee inquired whether the Government receives Utilization Certificate from all the States/UTs confirming that the foodgrains have been lifted and distributed to the intended beneficiaries under the TPDS, the Ministry in its written reply stated that the Government has been receiving Utilization Certificate at different intervals from all the States/UTs except from the States of Andhra Pradesh, Jharkhand, Manipur, Uttaranchal and UT of Daman & Diu. To the defaulting States of Andhra Pradesh, Jharkhand, Manipur, Uttaranchal and UT of Daman and Diu letters from Union Food Minister to the

Food Minister of respective States/UT have been written on 31<sup>st</sup> March, 2004.

The attention of the aforementioned States/UT has been drawn to the provision under PDS (Control) Order, 2001, "future allocation of foodgrains to the State shall be linked to the receipt of Utilization Certificate from them" and any further action taken by this Department in pursuance of this policy will be the responsibility of the State/UT. However, allocation under TPDS has not been stopped in any case in order to avoid hardship to the TPDS beneficiaries. The defaulting States/UT are being reminded once again.

2.45 The Committee have been informed that a Task Force Team visited Orissa, Bihar and Tamil Nadu in 2003-2004 to check the implementation of TPDS. The Task Force had noticed the following shortcomings.

1. The number of State agencies involved in handling and distribution of foodgrains before they reach the Fair Price Shops was found to be numerous.
2. Regular review of BPL families and AAY families/ration cards was not being done so as to include the eligible families and to delete the ineligible households.
3. Food-grains are not made available to beneficiaries during the first week of the month for which allotment was made.
4. Irregular supply, inadequate or non-availability of PDS commodities, at the fair price shops.
5. Low purchasing power of BPL families.
6. Absence of proper and regular inspection of the FPS by the State Government.
7. Inadequate publicity and lack of information relating scale of issue, prices, availability of commodities to the consumers.
8. Lack of proper training / guidelines to the FPS owners about their duties and obligations.
9. Non-issue of balance left over quantity of the preceding month in the subsequent month to the PDS consumers.

2.46 When asked about the follow-up action taken on the report submitted by Task Force the Committee was apprised of the following:-

"In order to maintain smooth supplies and to ensure availability and distribution of essential commodities, the Public Distribution System (Control) Order, 2001 was notified by the Government on 31.08.2001. The Order extends to the whole of India. In accordance with Para 6(4)(iii) of the Annexure to the said Order 2001, all the State Government/UT Administration are required to furnish monthly information on the functioning of Fair Price Shops at State Level in a prescribed proforma, w.e.f. the month of September, 2001. The Department of Food and Public Distribution has been receiving information only from 25 States/UTs. Bihar, Jammu and Kashmir, Jharkhand, Manipur, Nagaland, Sikkim, Tamil Nadu, Uttaranchal and Uttar Pradesh have not yet started furnishing the requisite information. These States/UTs are being reminded from time to time to furnish the required information."

(i) **Antyodaya Anna Yojana (AAY)**

2.47 To make TPDS more focused, AAY was launched in December, 2000. It contemplates identification of one crore poorest of the poor families from amongst the BPL families covered under TPDS within the States and providing them foodgrains at a highly subsidised rate of Rs. 2/- per kg. for wheat and Rs. 3/- per kg. for rice. The States/UTs are required to bear the distribution cost, including margin to dealers and retailers as well as the transportation cost. Thus, the entire food subsidy is being passed on to the consumers under the scheme. The AAY Scheme has been expanded in 2003-2004 by adding another 50 lakh BPL families with special focus on the following priority groups; namely, widows/terminally ill persons/disabled persons/persons aged 60 years or more/primitive tribal groups. With this increase, 1.5 crore (i.e. 23% of BPL) families have been covered under the AAY.

2.48 As announced in the Interim Budget 2004-05, the AAY will be further expanded by including another 50 lakh BPL families thus increasing its coverage to 2 crore BPL families (from 1.5 crore). Whilst doing so, it will be ensured that the tribal population in States, Districts or belts receive added allocations.

2.49 Asked whether any survey has been conducted by the Central/State Governments/UTs/NSSO for identification of persons living below poverty line especially AAY Scheme, the Committee was informed that no separate survey has been carried out for identification of families under AAY. Under the TPDS the identification of BPL families is carried out by the States/UTs. In the Guidelines issued by this Department in 1997, the State Governments/UT administrations have been requested for identification of families under TPDS so that the thrust should be to include only the really poor and vulnerable sections of the society such as landless agricultural labours/marginal farmers/rural artisans/craftsman/porters etc. in rural areas and slum dwellers and persons earning their livelihood on a daily basis in the informal sector like porters, rickshaw pullers and handcart pullers, fruit and flower sellers on the pavement etc. in Urban areas. For the identification of the families below the poverty line in rural areas the State Governments/UTs have been advised to take the quinquennial surveys made by the Ministry of Rural Development for implementation of IRDP etc. as a basis while in urban areas the non-economic parameters mentioned in the Guidelines issued by the Ministry of Urban Development for the operation of Nehru Rojgar Yojana may be taken as a basis.

2.50 The Ministry has further informed that An evaluation Study on Targeted Public Distribution System (TPDS) and Antyodaya Anna Yojana (AY) has been awarded to M/s. ORG Centre for Social Research, New Delhi with the following terms of reference :

- (i) Correct identification of beneficiaries under TPDS and AAY.
- (ii) Issue of distinctive cards to the identified beneficiaries under APL, BPL and Antyodaya category as per the guidelines issued by the Ministry.
- (iii) Beneficiaries perception of the scheme – TPDS and Antyodaya.
- (iv) Actual scale of issue and issue prices charged to the beneficiaries at the fair price shops.
- (v) Quality of foodgrains distributed under TPDS and Antyodaya with the following issues.
  - (a) The extent to which logistics, financial and transportation arrangements for lifting of stocks from FCI depots, wholesalers and upto the fair price shops have been put in place by the State Government.
  - (b) Viability and actual functioning of the fair price shops.
  - (c) Timeliness of arrival, lifting and delivery of foodgrains to the fair price shop as per the directives in the PDS (Control) Order, 2001.
  - (d) Arrangements for monitoring and supervision regarding the functioning of the Fair Price Shops (FPSs) and other distribution agencies including checking of diversion by the State Governments.
- (vi) Diversion of foodgrains meant for BPL and Antyodaya families.
- (vii) Degree of implementation of the schemes by the States UTs and the difficulties if any, faced by them.

2.51 The draft study report received from the Research Centre was forwarded to the State Governments/UTs for comments. The comments have so far been received from the States/UTs of Chhatisgarh, Haryana, Himachal Pradesh, J&K, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Mizoram, Punjab, Tamil Nadu and Andaman and Nicobar islands. The comments were forwarded to M/s ORG Centre for their comments. Besides the

draft study report had a number of deficiencies. M/s ORG centre for Social Research have been advised to modify the report. The draft modified report has just been received on 2.8.2004.

**(j) Area Officers' Scheme**

2.52 From February 2000, the Ministry has appointed Area Officers for different States/UTs to coordinate with the State Governments/UTs for regular and effective monitoring of PDS. The Area Officers are required to visit their allocated States/UTs at least once in a quarter and conduct on the spot review of the PDS. The observations made by the Area Officers in their reports are sent to the concerned State Government/UT for taking necessary corrective action.

2.53 When the Committee asked whether Area Officers' have been appointed for all the States/UTs, Ministry replied:

"Yes. The Area Officers have been appointed for all the States/UTs."

2.54 A statement showing the number of visits made by Area Officers during the last 3 years (State-wise), is as under:-

Sl. No.	Name of State / UT	Number of visits by Area Officers during the year		
		2002	2003	2004 ( upto July 31,2004 )
1	2	3	4	5
1	Andhra Pradesh	-	-	1
2	Andaman & Nicobar Islands	-	1	-
3	Goa	1	-	-
4	Jammu & Kashmir	1	-	-
5	Lakshadweep	-	-	1
6	Maharashtra	-	1	-
7	Manipur	-	-	1
8	Nagaland	-	-	1
9	Orissa	1	1	-
10	Jharkhand	1	-	-
11	Kerala	1	-	-
12	Tripura	1	-	-
13	Uttaranchal	-	1	-
14	Uttar Pradesh	1	-	-
15	West Bengal	1	-	-

2.55 The details of irregularities detected by the Area Officer teams which visited the States are as follows:-

1. **Jharkhand :**

The level of offtake under the APL, BPL and AAY categories was found to be quite low.

2. **Jammu & Kashmir :**

The offtake of both rice and wheat under AAY was very poor.

3. **Kerala**

The level of offtake under the APL, BPL and AAY categories was found to be quite low.

4 **Lakshadweep**

(i) The Fair Price Shop visited by Area Officer in Kavaratti had no signboard. There was no record of issue of foodgrains. There was some stock of foodgrains in the depot. The old stock of rice was said to be hard and discoloured.

(ii) The FCI depot at Angamaly with a capacity of 40,000 MTs was constructed to serve as a buffer complex. The capacity of another depot of the FCI at Cochin has a capacity of 18,700 MTs. There was a stock of 4,114 MTs. Thus, as against the total capacity of 58,700 MTs, the stock was only 9084 MTs. A prestigious storage capacity with pucca godowns that too on the railway sidings was lying underutilized.

(iii) There were godowns on both sides of the railway sidings. As per the convenience of the labourers, the stock was being offloaded from the wagons to the nearby godown. As a result, no godown was full to its capacity. The quality of parboiled rice lying in the godown was not found to be good. A lot of damaged grain was found to be in almost in all the bags.

(iv) Some wagons were found to be smeared with dust of urea, coal, cement etc. and there were holes in the doors and the body of the wagons. Sometimes, the wagons also leaked during rainy season.

5. **Maharashtra**

(i) The identity of the Grievance Redressal Authority by the Fair Price Shops was not being prominently displayed at some places.

(ii) The policy of the State Government to open FPS in every revenue village was not being followed in practice. The licenses of many FPSs had been cancelled due to various reasons, but the replacements for them were not made.

(iii) The receipts issued by the FPS owner did not mention quantities issued, nor were entries regarding the quantity issued made on ration cards of the beneficiaries. Vigilance Committees were yet to be constituted in the Municipal Corporation area of Pune District (Urban).

6. **Manipur**

(i) Identification/issue of ration cards to the additional 12,700 AAY families was not complete.

(ii) The construction of FCI godown at Jiribam needed to be completed.

7. **Orissa:**

(i) The State Government was going slow on the issue of abolition of private storage agents in the State.

(ii) The BPL offtake had been found to be very low.

(iii) There was no agency in the State to coordinate the distribution of foodgrains under the various welfare schemes.

8. **Uttaranchal**

(i) Offtake of foodgrains under APL is meager.

(ii) APL prices of foodgrains under PDS are higher by at least one and a half to two rupees above the open market price;

9. **Uttar Pradesh:**

(i) The offtake of PDS foodgrains under the APL, BPL and AAY category was very low.

(ii) Out of 74,354 FPSs licenced in the State as on December 2001, only 69,256 were reported to be working.

10. **West Bengal**

(i) The offtake of PDS rice and wheat under the APL, BPL and AAY categories was very low.

(ii) There was no coordination mechanism in the State Government to achieve the strategic integration of the various welfare schemes based on foodgrains assistance.

2.56 No significant irregularities in the operation of the Public Distribution System were noticed by the Area Officers who visited the Andhra Pradesh, Nagaland, Tripura, Goa and Andaman & Nicobar Islands.

**(k) Allocation of foodgrains for other Welfare Schemes**

2.57 In addition to providing foodgrains for Public Distribution System, foodgrains are also allocated at subsidized rates for the following Welfare Schemes of the Government:-

- (i) Mid-day Meal Scheme (MDM)
- (ii) Wheat Based Nutrition Programme (WBNP)
- (iii) Scheme for Supply of Foodgrains to SC/ST/OBC Hostels/Welfare Institutions
- (iv) Annapurna Scheme
- (v) Sampoorna Gramin Rozgar Yojana (SGRY)
- (vi) Special Component of Sampoorna Gramin Rozgar Yojna
- (vii) Nutritional Programme for Adolescent Girls
- (viii) Emergency Feeding Programme
- (ix) Grain Bank Scheme:

2.58 The allocation and offtake of foodgrains under the abovementioned Schemes during the period 2002-2003 to 2004-05 (upto April, 2004) is given below:-

Scheme	Allocation			Off-take		
	Rice	Wheat	Total	Rice	Wheat	Total
<b>MDM</b>	<b>54.55</b>	<b>27.61</b>	<b>82.16</b>	<b>27.70</b>	<b>15.30</b>	<b>42.75</b>
<b>SC/ST/OBC Hostels/W. Is</b>	<b>15.99</b>	<b>10.95</b>	<b>26.94</b>	<b>4.46</b>	<b>0.37</b>	<b>4.83</b>
<b>SGRY</b>	<b>73.78</b>	<b>39.34</b>	<b>113.12</b>	<b>53.48</b>	<b>40.42</b>	<b>93.90</b>
<b>WBNP</b>	<b>4.97</b>	<b>13.27</b>	<b>18.24</b>	<b>1.31</b>	<b>4.61</b>	<b>5.92</b>
<b>Annapurna</b>			<b>3.59</b>			<b>2.24</b>
<b>Special Component SGRY</b>	<b>82.46</b>	<b>52.31</b>	<b>134.77</b>	<b>66.02</b>	<b>35.68</b>	<b>101.70</b>
<b>Total</b>	<b>231.75</b>	<b>140.48</b>	<b>378.72</b>	<b>152.97</b>	<b>96.38</b>	<b>250.24</b>

From the above statement it may be observed that the Ministry had allocated 378.72 lakh tonnes of foodgrains for Welfare Schemes during the

year 2002-03 to 2004-05 (upto April 2004). Out of which the offtake was 250.24 lakh tonnes.

2.59 When the Committee asked the reasons for mismatch between allocation and offtake of foodgrains, the Ministry replied that the main reasons for mismatch are as under:

- (i) Department of Food & Public Distribution is only allocating the foodgrains to the State Governments as per the requirements of scheme. It is the responsibility of the State Governments to lift the same within the prescribed time limit. But sometimes State Governments are not able to lift the foodgrains on account of operational problems while implementing the schemes.
- (ii) Figures in respect of allocation for the year 2004-05 in respect of Mid Day Meal, Wheat Based Nutrition Programme, Annapurna Anna Yojana as shown in the table are for the whole year whereas offtake figures are indicated only for the month of April, 2004.
- (iii) Figures in respect of allocation for the year 2004-05 in respect of Welfare Institutions/Hostels are given for the months of April, May and June, 2004 whereas offtake figures are indicated only for the month of April, 2004.
- (iv) Figures in respect of allocation of foodgrains in respect of SGRY & Special Component of SGRY for 2004-05 are for April and May, 2004 whereas offtake figures are indicated only for the month of April, 2004.
- (v) Some State Governments utilize foodgrains procured under decentralized procurement policy instead of lifting the allocated quantity from Central Pool/FCI.
- (vi) Sometimes State Governments/UT Administrations do not lift allocated quantity of foodgrains due to non-availability of funds or due to delay in release of funds by the concerned Ministry/Department.

**(I) Policy of Export of Wheat and Rice from Central Pool**

2.60 The Ministry of Consumer Affairs, Food and Public Distribution is primarily concerned with the food security of the country. Government constantly reviews the stock position of foodgrains with it in the Central Pool vis-à-vis the prescribed buffer norms, production of foodgrains in the country, trend for procurement for Central Pool, requirement for PDS and other Welfare Schemes, open market prices, etc. A decision to import or export is taken by the Government depending on the overall situation.

2.61 Government initiated the exports of foodgrains in a big way during 2001-2002. With the large scale export undertaken by the country, India became the 2nd largest exporter of rice and 8<sup>th</sup> largest exporter of wheat globally during 2003-2004. As a result, the International Grain Council (IGC) included India in the list of foodgrains exporting countries.

2.62 Export of wheat and rice from the Central Pool started from November, 2000 and February, 2001 respectively. Some details in this respect are indicated below:-

<b>Lifting for Export of wheat/Rice (Figures in lakh tonne)</b>		
<b>Year</b>	<b>Lifting (Wheat)</b>	<b>Lifting (Rice)</b>
2000-2001	20.43	0.42
2001-2002	39.65	23.50
2002-2003	67.93	80.71
2003-2004	70.69	30.71

2.63 After reviewing the foodgrains stock position fresh allocation for exports from the Central Pool for commercial purposes has been stopped w.e.f. August 11, 2003.

2.63A The Committee have given to understand that Central Pool stocks of wheat and Rice were sold by FCI to exporters in large quantities instead of selling them to domestic buyers under the Open Market Sale Scheme. The sales for exports of both wheat and rice were allowed only to favour the selected exporters at highly subsidized rate. Further export sales were prohibited in August, 2003. The permission was subsequently withdrawn.

The quantities sold under open sales (domestic) and for exports is as under :

(Fig. in '000MT)		
	Wheat	Rice
<b>2002-2003 (April to March)</b>		
Open Sales (Domestic)	5352.11	387.23
Exports Sales	5450.10	6935.33
<b>2003-2004</b>		
Open Sales (Domestic)	925.55	404.56
Exports Sales	7219.80	3088.43
<b>2004-2005 (April &amp; May 2004)</b>		
Open Sales (Domestic)	13.54	3.71
Exports Sales	400.68	44.60

Source: June 2004 Monthly Bulletin of Ministry of Consumer Affairs, Food and Public Distribution

The Committee have also been given to understand that domestic demand and domestic market was totally ignored by the FCI and Central Pool stocks were misused. The other irregularities were also committed such as operationalising exports sales, release of stocks in favour of few and release of Bank Guarantees despite non-performance.

**(m) Damaged foodgrains**

2.64 Foodgrains which do not conform to the parameters laid down under the Prevention of Food Adulteration Act (PFA) and further cannot be reconditioned for normal issue are considered 'damaged grain'. Damages to the stock can occur in the godowns, in CAP storage or in transit. Such stocks need to be salvaged so as to segregate sound grains, for issues under normal channels. Stock not fit for normal issues is to be dealt with as 'Damaged grain'. The damaged foodgrains are disposed of expeditiously through one or more of the following mechanisms:-

- (i) sale at formula rates to bonafide users;
- (ii) through tenders; and
- (iii) allotment for drought affected States, on free of cost basis, as cattle feed.

A quantity of 1,94,030 MT have been disposed off from January 1, 2003 to March, 2004.

2.65 The total quantity of damaged foodgrains available with the FCI as on 01.07.04 is 25,213 MTs valued at Rs. 567.30 lakhs. The commoditywise break up is indicated below:-

Commodity	Qty. in L.MTS	Value( Rs. in Lakhs)
Wheat	0.046	73.50
Rice	0.205	493.80
<b>Total</b>	<b>0.251</b>	<b>567.30</b>

2.66 When the Committee asked about the Government planning for the disposal of damaged foodgrains, the Ministry replied that disposal of damaged foodgrains is an ongoing process. The stocks of foodgrains are offered to those

State owned Departments/Agencies who are the bonafide users, in the first instance. If the stocks so offered are not accepted within a period of 30 days, the same are disposed off through open tenders called for from the traders/parties registered with the FCI in this behalf.

2.67 On being asked by the Committee about the steps that have been taken or proposed to be taken by the Government to prevent damage of foodgrains, the Ministry informed that FCI has been taking the following steps, in this regard : -

- (i) Ensuring rigid quality control at the time of procurement.
- (ii) Construction of its own godowns on scientific lines for storage of foodgrains.
- (iii) Foodgrains are stored on scientific lines and pest control measures are undertaken regularly to keep the stocks in insect free condition.
- (iv) Qualified and technically trained staff is deployed for periodical inspection and proper upkeep of foodgrains
- (v) To protect the foodgrains stored in CAP stocks are stored on wooden crates on scientifically built raised plinths and covered with specifically fabricated low density black polythene covers which are water proof in order to protect the foodgrains from rains. Nylon ropes/nets are provided for proper lashing of polythene covers to prevent damages by ballooning of covers during high velocity winds etc.
- (vi) Implementation of the procedure of “First in, First out “ (FIFO) to the extent possible so as to avoid longer retention of stocks.”

2.68 On being asked whether FCI resorts to large scale sliding down of stocks of foodgrains without due authorization, as the result of which good quality of foodgrains are being issued from FCI godowns at low prices under the guise of damaged foodgrains and whether instances of malpractices have been brought to the notice of Government/FCI. The Ministry replied:

“The FCI follows a stringent procedure before the foodgrains stored in its godowns are declared as damaged. The foodgrains in the FCI godowns are checked regularly by qualified technical officers at various levels viz. Depot, District, Regional, Zonal and Headquarters. In addition to regular checkings, special squads are deputed for special and surprise checks with a view to monitoring the quality of foodgrains. The health of the foodgrains is maintained by way of regular prophylactic and curative treatment. However, despite various measures being taken a small quantity of foodgrains does get damaged due to natural and uncontrollable circumstances such as cyclones, heavy and untimely rains, floods, damage during transit, prolonged storage etc. The damaged foodgrains on being identified are subjected to a prescribed drill of drawal of samples, analysis and categorisation by a Committee of three officers known as District Categorisation Committee. This Categorisation is further scrutinised and approved by a higher Committee of three officers formed at the level of Regional Office known as Regional Categorisation Committee.

The monthly average stock categorised as damaged during the year 2003-2004 was 6356 tonnes. This constitutes only a negligible 0.03 percent of the total stock of 200 lakh tonnes held by the FCI as on 1.4.2004.

No reports about large-scale and rampant downsliding of stocks of foodgrains without due authorisation in the FCI have been received by Government.

Recently references have been received from some of the M.Ps in July, 2004 alleging disposal of issuable stocks of rice as damaged stocks in the West Bengal Region. Since these were specific complaints, the FCI has been asked to investigate the matter and furnish a report to this Department.”

2.69 The Committee find that as Government's Food Policy resolve to protect the farmers from distress sale of foodgrains by ensuring remunerative price and at the same time ensure food security for the masses, decentralised procurement operation of wheat and paddy is undertaken in non-traditional States. Hitherto the procurement operations were confined to few States for want of adequate infrastructure and marketable surplus and thereby leading to regional disparities. In the opinion of the Committee, the decentralised procurement will not only encourage local procurement and thereby benefit farmers, but also effect substantial savings in form of reduction in the outgo of food subsidy and also enhance efficiency of Public Distribution System. Secondly, as decentralised procurement has not taken off as expected, the local private traders have taken undue advantages. In this context, the Committee recommend that Government should encourage the decentralised procurement operation, by launching awareness campaign, in Print and Audio-visual Media, Village Fairs, Panchayats, Agriculture Extension Services/Krishi Vigyan Kendras, so that the benefit of decentralised procurement is reaped by the farmers. At the same time, infrastructure facilities should be improved and adequate number of mobile and temporary procurement centres set-up in non-traditional States. In this context, the Committee recommend that need-based credit be made available to these States. Further, adequate technical staff be posted and measuring and other equipments required for the procurement, be put in place before the operation of the system. The Committee also recommend that to promote decentralised procurement, an incentive scheme, for the benefit of non-traditional States be thought of.

2.70 The Committee are deeply concerned to note the rise in procurement incidental charges and distribution cost, over the years. For instance, the procurement incidental charges which were Rs. 134.68/qn. rose to Rs. 156.30/qn., during the period from 2001-2004, for wheat and Rs. 66.61/qn. to Rs. 74.90/qn. during the same period, for rice. Similar uptrends have been noticed for distribution cost also. As a result, the economic cost of wheat and rice and also subsidy has risen to a large extent. The Committee recommend that ways and means should be found out to reduce procurement incidental charges and distribution cost. The reduction in distribution cost can be effected by planning economy in the movement of distribution of foodgrains from procurement centres to consumption/distribution centres and also by promoting decentralized procurement.

2.71 The Committee find that the Public Distribution System (PDS) is a major instrument of Government's economic policy for ensuring availability of foodgrains to the poor at an affordable price as well as for ensuring food security for the poor. Public Distribution System is an important constituent of the strategy for poverty eradication and is intended to serve as a safety net for around 33 crore poors who are nutritionally at risk. The Committee are concerned to note that the benefit of the Targeted Public Distribution System is extended to 6.5 crore beneficiaries of Below Poverty Line families including 2 crore for Antyodaya Anna Yojana only, leaving a large section of vulnerable section of the society, from the purview of poverty alleviation programme. Surprisingly, the States have identified 8.17 crore as BPL families. As a result, the States are under compulsion to reduce the scale of issue to the BPL beneficiaries. The Committee, therefore, recommend that the coverage of the Targeted Public Distribution System should be extended beyond 6.5 crore families living below poverty line.

2.72 The Committee note that under the Targeted Public Distribution System, the responsibility for identification of the BPL families and issuing them ration cards rests with the State Governments/UT Administration concerned. But the States/UTs of Goa, Himachal Pradesh, Manipur, West Bengal, Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli and Lakshadweep have yet to complete identification of the BPL families. The Committee feel that inordinate delay in identification of BPL families in the above-mentioned States would deprive the vulnerable section of the society, of the benefit of Public Distribution System. Considering the fact that this will dilute the whole programme of providing foodgrains to the poor families, the Committee recommend that identification of BPL families should be completed within 6 months in the defaulting States.

2.73 The Committee note that there exists a big gap in the allotment and offtake of foodgrains, under Targeted Public Distribution System (TPDS). Out of the total allotment of 746.84 lakh tonnes in the year 2002-2003; only 201.3 lakh tonnes was uplifted, again in the year 2003-2004 out of 715.64 lakh tonnes of foodgrains that had been allocated, offtake was only 227.92 lakh tonnes. According to the Ministry this gap is mainly due to very less offtake under Above Poverty Line (APL) category, which was only 8.4% in 2002-2003 and 9.4% in 2003-2004 as compared to 59.3% by BPL people in 2002-2003 and 65.4% in 2003-2004. This situation is grave as in the absence of offtake of foodgrains by APL population which is due to the issue price of foodgrains being almost equal to that in the market, it is marked for open sale, thus defeating the very purpose of food subsidy. The Committee, therefore, suggest that the APL population should be stratified in two categories, either on the basis of income or expenditure, and the so called “creamy-layer” should be banned from the benefit of this scheme. This will help not only in reducing the food subsidy but will also help in checking diversion of foodgrains.

2.74 The Committee find that the Public Distribution System has failed to meet the expectations of the masses. There are complaints of identification of beneficiaries, ration cards, scale and issue price, quality etc. To plug the loopholes, in the implementation of the scheme, a series of measures have been taken, such as issue of the Public Distribution System (Control) Order, 2001 associating Panchayati Raj Institutions (PRIs), constitution of Vigilance Committees and appointing Area Officers, to monitor the scheme, but the tangible results achieved are far from satisfactory. For instance, State/UTs Administration have not invoked criminal liability under the PDS (Control) Order, 2001, issued under Essential Commodities Act, 1955. Similarly, Area Officers' Scheme has failed to take off as the Area Officers seldom visit their allocated States even at least once in a quarter as required. In some of the States not even a single visit was conducted during the last three years. The contention of the Government that visits could not be materialized by the Officers due to exigencies of work, intervening Parliament Session, election and transfer of Officers, is hardly convincing. The Committee are of the view that enforcement machineries, have to be stepped up, criminal liability clause under PDS (Control) Order, 2001, invoked and Area Officers visits made compulsory, for the effective implementation of Public Distribution System. The Committee urge that in the interest of the poorest of the poor, the State Governments and Central Government ought to leave no stone unturned, in the effective implementation of this scheme. The Committee would like to be apprised of the action taken by the State/Central Government in the matter.

2.75 The Committee would like to draw the attention of the Government on the shortcomings in the working of PDS, reported by the Task Force Teams on their visits to some States. Ensuring proper functioning of the Public Distribution System is the responsibility of the Government. Hence the Committee suggest that the Government should consider the reports of the Task Force Teams seriously and frame necessary guidelines, to ensure effective functioning of Public Distribution System. The Government should also impress upon the State Governments/UTs to strengthen the enforcement agencies/Vigilance Committees in order to check various irregularities which often take place at different centres/depots.

2.76 The Committee note that the offtake of foodgrains, allocated under various schemes of the Government (Mid-Day-Meal, Sampoorna Gramin Rozgar Yojana, Wheat Based Nutrition Programme, Annapurna etc.) is far from satisfactory. In the case of some schemes such as Wheat Based Nutrition Programme and scheme for the Welfare of SC/ST/OBCs, the offtake is not even 50%. According to the Government, it is the responsibility of the State Governments/UTs to uplift the allocated foodgrains. The Committee are, however, not satisfied with this reply since it is the Central Government which is responsible for making arrangements to store the allocated foodgrains and is accountable for storage losses. In addition it has to pay rent on hired godowns also. The Committee, therefore, recommend that the Government should take the average annual offtake in the past, say, last 3 or 5 years to form the basis of allocation for the next year, so that the foodgrains are allocated on the basis of requirement. Moreover there should be some mechanism with the Central Government so that the State Governments can be made accountable and they are not able to escape from their responsibility of making operational arrangements for distribution of foodgrains on a regular basis. In the absence of such an arrangement the various welfare schemes introduced by the Government remain just a futile exercise on the paper only, signifying no gains to those sections who are supposed to be benefitted.

2.77 The Committee note that the precious food subsidy is expended on domestic sale and export of foodgrains and contributed as much as Rs. 4105.73 crore for these, as against total food subsidy of Rs. 25160 crore, in the year 2003-2004. It has been brought to the notice of the Committee that stock of wheat and rice from Central Pool were sold by FCI to selected exporters at a highly subsidised rate with a view to benefit them during the months from April, 2003 to May, 2004. It has also been stated that Export of wheat and rice was prohibited in August, 2003, but the order of prohibition was subsequently withdrawn. The Committee have taken note of open sale (domestics) and export of wheat and rice during the period from 2002-2003, 2003-2004 to 2004-2005. The Committee find that the open sale of wheat which was 53.52 lakh tonnes during the year 2002-2003 dropped to 9.26 lakh tonnes to 0.13 lakh tonnes during the years 2003-2004 and 2004-2005 respectively. Similarly, the open sale of rice which was 38.72 lakh tonnes during the year 2002-2003 declined to 4.04 lakh tonnes and 0.03 lakh tonnes during the years 2003-2004 and 2004-2005 respectively. Drastic rise in the export of wheat was also witnessed during this period. The Committee are given to understand that certain irregularities in the name of Open Market Sale and export of foodgrains have taken place. It has been alleged that not only the demand of domestic market was ignored but export subsidy too was misused. Similarly other irregularities have also taken place such as operationalising export sales, release of stocks of foodgrains in favour of few and release of bank guarantee despite non-performance. Taking a serious view of such abnormalities, the Committee recommend that an inquiry by CBI or any other higher investigating agency be instituted into the above transactions and the Committee apprised of the outcome.

2.78 The Committee have taken note of stringent procedure followed by FCI, before foodgrains stored in their godowns are declared as damaged. It has been brought to the notice of the Committee, that disposal of issuable stock of rice/wheat as damaged stocks, have been reported in various procurement centres, especially in West Bengal. The Committee take serious note of it and recommend that the matter be enquired into and the Committee apprised of the outcome thereof.

## CHAPTER III

### **FOOD CORPORATION OF INDIA (FCI)**

3.1 The Food Corporation of India was set up in 1965 under an Act of Parliament called the Food Corporations Act, 1964 (Act No. 37 of 1964) in order to fulfill following objectives of the Food Policy of the Government of India:-

- (a) To protect interest of the farmers/producers by providing them remunerative prices;
- (b) To provide foodgrains especially to the vulnerable sections of the society at reasonable prices; and
- (c) To provide food security by maintaining buffer stocks of foodgrains to meet the exigencies arising out of natural calamities like droughts, floods, cyclones etc.

3.2 The above objectives of the National Food Policy are being achieved by the Corporation through its main operations of procurement, transportation, storage and distribution of foodgrains and its efforts have contributed immensely in bringing the stability on food front and a sense of food security within the country.

3.3 The authorized and paid up capital of the Corporation as on 31.3.2004 stood as Rs. 2500 crore and Rs. 2392.46 crore respectively.

#### **(a) Dues and liabilities of FCI**

##### **(i) Details of dues receivable**

3.4 Food subsidy is released to FCI for the foodgrains distributed under Targeted Public Distribution System, other Welfare Schemes, exports, open market sale, etc. at the rate of 95% of their admissible claim with the balance being released after submission of audit certificate. However, FCI has

outstanding dues against other Ministries, relating to issue of foodgrains on credit, as detailed under:-

**Figures in Rs. crore  
As on 29-7-2004**

S.No.	Particulars	Outstanding Amount
1.	<b>Ministry of External Affairs Supply of foodgrains to Afghanistan</b>	22.12
2.	<b>Ministry of Human Resource Development (Mid-Day-Meal Scheme)</b>	745.85
3.	<b>Ministry of Rural Development (Food for Work , SGRY-I, II &amp; Special Components)</b>	11548.49
4.	<b>State Government/Agencies (Rs.225.98 crore against State Government of Jammu &amp; Kashmir)</b>	276.59
<b>Total</b>		<b>12,593.05</b>

**(ii) Details of liabilities**

3.5 The liabilities of FCI, as per the provisional accounts of 2002-03 are as under:

**(in Rs, Lakhs )**

Sl No	Particulars	2002-03 (Provisional)
1	<b>Subscribed Capital by Govt. of India</b>	2,35,299.88
2	<b>Secured Loans ( Loans and advances from scheduled banks against hypothecation of stocks)</b>	28,73,526.89
3	<b>Unsecured Loan (Loans from HDFC)</b>	893.61
4	<b>Sundry Creditors for goods and services</b>	2,99,724.50
5	<b>Sundry Creditors for other finance</b>	1,46,270.67
6	<b>Sugar price Equalization fund</b>	47,230.33
7	<b>Deposits repayable</b>	1,59,714.29
8	<b>Interest payable</b>	1,917.11
<b>T O T A L</b>		<b>37,64,577.28</b>

3.6 The stocks and value of foodgrains held by the FCI as on 30.06.04. is as follows:

	Wheat	Rice
<b>Stock as on 30.06.04. (Lakh MTs)</b>	71.76	89.17
<b>Average Acquisition cost Rs./Qtl. [2004-05 (BE)]</b>	784.54	1069.60
<b>Value of Inventory (Rs. Crore)</b>	<b>5629.86</b>	<b>9537.62</b>

3.7 Food credit is provided by banks to FCI, State Governments and State Cooperative Agencies for purposes of food procurement. It accounts for about 5-6 percent of the total bank credit. Food credit for FCI's procurement operations is provided by a consortium of 50 commercial banks led by the State Bank of India, and equals the amount required to finance procurement, stocking and distribution operations during any cropping season. Credit is secured against the FCI inventory and partially guaranteed (25%) by the Central Government.

3.8 The interest charged by the Banks on the Cash Credit is reimbursed as part of food subsidy.

3.9 On being asked by the Committee whether the credit limit has been done away with, the Ministry in its written reply stated as under:

"The credit limit has not been done away with. The RBI allocates Credit Limit to FCI on a monthly basis. Borrowing by the Corporation fluctuates with the peak level during the procurement period which gradually comes down as the offtake picks up. The current utilisation of the Cash Credit is about Rs. 26,500 crore, as on 4<sup>th</sup> August, 2004."

**(b) Establishment Cost**

3.10 The net expenditure incurred by FCI (including the Establishment Cost) is reimbursement by the Government of India in the form of Food Subsidy. From April 1, 2004, FCI has been permitted to borrow directly from the market through bonds backed by a Government guarantee. This will enable the FCI to fund its requirements at a cheaper rate, which is closer to the rate that the Government pays for its borrowed funds. This is likely to contribute to a reduction in the revenue expenditure of the Central Government.

3.11 The Establishment Cost of the FCI for the last three years is as under :

<u>Year</u>	<u>Establishment Cost (in Rs crore)</u>
<b>2001-02</b>	<b>1177.39</b>
<b>2002-03 (Prov.)</b>	<b>1254.51</b>
<b>2003-04 (RE)</b>	<b>1287.35</b>

3.12 Since the Establishment Cost is reimbursed to FCI in the form of food subsidy, the increasing Establishment Cost over the years has led to increase in food subsidy bill. When the Committee inquired activities which can be outsourced and if these have been identified, the Committee was informed that the major activities of FCI include procurement, storage, transportation and sale of foodgrains. FCI's share in procurement is only 19.45 % for wheat (RMS 2004-05) and 12.53 % for paddy (KMS 2003-04) with the balance being procured by the State Governments/other agencies. Similarly, only 55.18 % of the central pool stocks are stored in the FCI's own godowns with the balance being stored in Central Warehousing Corporation/State Warehousing Corporations/private godowns, on hiring basis. Bulk of foodgrains are moved through rail while transportation contracts are awarded for road movement. A significant portion of the foodgrains handling and security operations are carried out on contract basis. FCI has also decided to outsource activities like testing the quality of foodgrains during procurement, transportation and storage."

3.13 The Ministry also added that the following cost-reducing measures have been taken by the FCI to keep its Establishment Cost to the minimum: -

- (a) Non-filling up of vacancies due to retirement of officials etc. at the resultant entry level, except in unavoidable cases;
- (b) Close monitoring of the expenditure on over-time allowance (OTA), travelling allowance (TA) and other administrative expenses;
- (c) A Voluntary Retirement Scheme has been introduced in the FCI for its staff and surplus labour.

**(c) Storage**

3.14 The storage plan of the Ministry aims at providing the capacity required for buffer and operational stock of foodgrains to maintain the public distribution system. The broad approach is to provide scientific storage capacity and reduce dependence on the capacity under cover and plinth. As on 29.02.2004, FCI was having 271.27 lakh MT of storage capacity (Covered 233.25 lakh MT and CAP 38.02 lakh MT). Statement showing the number of hired and owned godowns (both Covered and CAP) with FCI is as under:-

F C I *			
Owned		Hired	
Covered	CAP	Covered	CAP
546	215	733	66

\* As on 31.3.2004

3.15 According to the Ministry the storage capacity available with FCI is sufficient to meet the present requirements, with the current utilization being only 60%.

3.16 The Statement showing total storage capacity available with F.C.I., stocks held therein and capacity utilization during the last three years is as under:-

(Capacity in Lakh MTs)

Year (As on 31/03)	Covered			CAP			Grand Total
	Owned	Hired	Total	Owned	Hired	Total	
<b>2000-01</b>							
Capacity	125.95	120.97	246.92	22.93	44.61	67.54	314.46
Stocks	117.00	119.88	236.88	16.63	30.52	46.15	284.03
Utilization	93%	99%	96%	73%	69%	70%	90%
<b>2001-02</b>							
Capacity	127.4	151.6	279.0	23.5	55.9	79.4	358.4
Stocks	107.4	144.3	251.7	10.6	30.7	41.3	293.0
Utilization	84%	95%	90%	45%	55%	52%	82%
<b>2002-03</b>							
Capacity	128.2	137.7	265.9	2.27	28.8	51.5	317.4
Stocks	66.1	110.2	176.3	03.3	06.8	10.1	186.4
Utilization	52%	80%	66%	15%	23%	20%	59%
<b>2003-04</b>							
Capacity	128.2	108.5	236.7	22.1	13.6	35.7	272.4
Stocks	47.5	71.1	118.6	00.7	05.7	06.4	125.0
Utilization	37%	65%	50%	03%	42%	18%	46%

3.17 Details of storage capacity constructed by FCI during the years 1998-2004 is as under:

Agency	Year					
	1998-99		1999-00		2000-01	
	FCI	0.41	0.84	0.39	1.62	0.92
						1.32

3.18 The Planning Commission had allocated Rs. 224.32 crore for the Tenth Five Year Plan (2002-2007) for construction of godowns by FCI. Out of which Rs. 54.53 crore has been released in the first two years of plan period (2002-2003 and 2003-2004). The allocation for the year 2004-2005 is Rs. 4.80 crore. Out of which Rs. 4 crore is earmarked exclusively for the North Eastern Region. The Department has requested the Planning Commission to enhance the allocation to Rs. 19.70 crore to meet the committed liabilities on the ongoing

works at various centres. It has been further informed to the Committee that Rs. 4.42 crore were earmarked for construction of godowns in North Eastern Region during 2003-2004 out of which Rs. 1 crore was utilised for construction of godowns, Rs. 2.50 crore was diverted to the Head relating to the Implementation of Integrated Information System for Foodgrains Management (IISFM) in the FCI and remaining Rs. 92 lakh was surrendered as savings.

3.19 During the year 2004-2005, FCI has proposed to construct 0.98 lakh MTs of storage capacity, with a financial outlay of Rs.19.70 crore, for completion of the ongoing works.

3.20 At present FCI is incurring a cost of Rs. 3.43 crore per day on storage of foodgrains. The amount spent during the last three years, Zone-wise, is as follows:-

Name of the Zone	Year		
	2000-01	2001-02	2002-03
North Zone	480.00	605.72	656.22
South Zone	193.37	244.03	264.38
West Zone	125.45	158.31	171.51
East Zone	106.52	134.42	145.63
North Eastern Zone	33.75	42.59	46.14
<b>Total</b>	<b>939.09</b>	<b>1185.07</b>	<b>1283.88</b>

Accounts for the year 2003-04 are under finalization.

3.21 The details relating to rent paid on hired godowns (both covered and CAP) are as follows:-

FCI	Figures in Rs. crore		
	2001-02	2002-03 (P)	2003-04 (RE)
<b>Covered</b>			
CWC	108	108	64
SWC	228	303	271
Pvt. Parties	26	26	17
State Govt.	15	17	11
<b>Total Covered</b>	<b>377</b>	<b>454</b>	<b>363</b>
<b>CAP</b>	<b>7</b>	<b>22</b>	<b>11</b>

**(d) Storage and transit losses**

3.22 When the Committee inquired that whether it is a fact that heavy losses have been incurred by FCI during the last 3 years due to shortage of storage capacity of foodgrains especially during the rainy season, Ministry in its written reply stated as under:

“During peak procurement period, foodgrains sometimes have to be kept in scientifically built Cover & Plinth (CAP) storage, wherever covered space is not readily available. The details of the stock that got damaged in CAP during the last 3 years is as under:-“

**(Fig. in lakh MTs)**

YEAR	MAX STOCKS IN CAP	STOCKS GOT DAMAGED IN CAP (APPROX)
2001-02	77.90	0.11
2002-03	67.55	0.13
2003-04	25.18	0.13

3.23 According to the Ministry the steps taken to minimize the losses due to CAP storage, are as under :-

- (i) Sufficient covered space is being created to reduce the quantum of storage in CAP.
- (ii) Existing CAP storages are inspected frequently, on periodical basis, by local supervisory officers beside surprise checks undertaken by squads from Regional/Zonal/Hqrs. as well as Ministry.
- (iii) Stocks stored in open are given priority for liquidation.

3.24 When the Committee asked whether there are some norms for storage and transit losses, the Ministry replied that no norms are prescribed for transit and storage losses. Each and every case of storage and transit loss is investigated, considering various factors responsible for losses, including dereliction of duties by officials, if any.”

3.25 Some amount of foodgrains is lost every year in the form of storage and transit losses, the following table depicts the quantity and percentage of such losses during the last 3 years.

Year	Storage loss		Transit loss	
	Qty. of loss (Lakh MTs)	%age of loss on Qty. issued	Qty. of loss (Lakh MTs)	%age of loss on Qty. issued
2001-02	1.44	0.25	1.42	0.61
2002-03	2.19	0.49 (Prov.)	1.59	0.70 (Prov.)
2003-04	1.81	0.39 (Prov.)	1.56	0.59 (Prov.)

3.26 According to the Ministry some of the steps taken to minimize losses are as under :-

1. Adoption of 50 kg. packing in a phased manner to avoid use of hooks.
2. Administrative measures such as tightening of security at depots, intensifying surprise checks, ensuring regular stock verification etc.
3. Encouraging double line machine stitching of bags.
4. Periodical prophylactic and curative treatment of stocks as prescribed.
5. To streamline procedure and documentation for transparency and accountability in operations at each level.
6. Special squad checking at selected railhead transshipment and destination / dispatch centers.
7. Identification of vulnerable points.

8. Speed up of write off cases and fixation of responsibility after undertaking investigation and recover the losses wherever called for after following the prescribed procedures as per Staff Regulations.
9. Inspection of depots by Sr. Officers of Headquarters, Zonal Managers / Sr. Regional Manager / District Managers.
10. Inspection & calibration of weighbridges
11. Improvement in size and quality of gunnies.
12. Two tier system of audit i.e. Internal & CAG.
13. Maintaining priority list for issue of stocks observing the FIFO principles.
14. Proper weighment and accounting at the time of receipt and issue.
15. Undertaking pre-monsoon fumigation.
16. Improvement in dunnage material.

**(e) Labour Systems in FCI**

3.27 Historically, there have been four types of labour systems prevalent in Food Corporation of India (FCI). These are (i) Direct Payment System; (ii) Contract System; (iii) Society System; and (iv) Regular Department Employee. When the Committee inquired about the reasons for having different types of labour system in Food Corporation of India, the MD(FCI) clarified as under:

“We have four or five types of systems with us. One is departmental labour who is like my full time employee. He will get his salary like any servant whether he works or not, whether any train comes or not. Out of a total strength of 1,82,000, regular departmental employees are 23,000 in number. There is a piece-rate system in which 35,000 people are engaged. There is also a ‘No work, no pay’ system where 3,000 people are on our rolls but they are paid only when they have work. There are about 1,20,000 employees under private contract. Over a period of time, these systems have evolved. There are 8,000-odd cases pending in courts because everybody wants to become departmental employees. We had seen that the expenditure increase on departmental labour is

about six times more than the contract labour but that is not the question because after all we have to pay for whatever work has been done. We are using the services of a very senior officer on our Board of Directors. We have formed a Committee to go into these four types of labour and see what we could do to rationalize them. We are also consulting the Labour Department which monitors why we are not paying them enough or why we are paying them more. Historically, these four categories have come into being and we are gradually trying to remove the anomalies and hope that the Committee would help us out in this.”

**(f) Proxy Labour**

3.28 It has been brought to the notice of the Committee that there exists a system of Proxy Labour in FCI. The Committee have been informed that stray instances of proxy labour in the FCI have, from time to time, been reported. The proxy labour system, as alleged, may reflect replacement of the regular labour. This contingency is being checked by following the instructions referred to, for regulating attendance of the regular labour. The field officers have been advised, time and again, to keep supervision and control to avoid occurrence of such incidents of proxy labour.

3.29 The existing system in vogue has several checks to prevent proxy labour. The steps taken for marking attendance for Department/Direct Payment System workers are as follows:-

- (i) The worker enters the depot showing Identity Card at the gate (Wherever feasible).
- (ii) Then, the workers go to the Labour Section with their Identity Cards and staff of the Labour Section mark their attendance in the Attendance Card and Register on the basis of the Identity Cards.
- (iii) Then, workers are provided work slips and directed to report at their respective place of work.

- (iv) On reaching the work place, the Shed Incharge on verification of Identity Card puts his signatures on the Attendance Cards and marks 'Present/Absent' in the Booking-cum-Output Slips.
- (v) On conclusion of the day, the Shed Incharge after writing Work Slips showing output of the whole day, signs the Booking Slips and after final verification of the Attendance Card, booking-cum-output slips are returned to the workers, which are at the same time signed by the Shed Incharge and, thereafter, by the Assistant Manager (Depot)."

3.30 The Committee drew the attention of Secretary, Department of Food and Public Distribution to the press news which appeared in the "Asian Age" wherein it was reported that a labour in FCI was earning Rs. 40,000–50,000, per month, as against their normal salary of Rs. 5000/- and when asked if it was possible for a labour to handle 600-700 bags per day of foodgrains in a day, the Managing Director of FCI stated during evidence that in practice it is not possible.

"We have received such types of complaints from some States and the matter is being enquired into by the FCI. The matter had been taken up with the Enforcement Agencies of the State Labour Department as well as CID. A report in this regard will be furnished to the Committee in due course."

3.31 When the Committee enquired about the details of instances of proxy labour, reported so far, the Ministry of Food in a Post evidence reply stated as under:-

"A case of proxy labour was detected at FSD Sirsa in Haryana Region in July, 2004 and FSD Srirampur (Manmad) in Maharashtra Region in May, 2004. The deployment of proxy labour was also reported in FSD Debgram under Silliguri district in West Bengal Region in October, 2003.

The proxy/substitute labour carries out the work for the person on roll in the records, and as such there is no extra burden on the public exchequer. This illegal practice of engaging proxy labour is being curbed by strict supervision and control.

FCI depots are manned with the huge man-power of manual labour. The stray incidents sometime occur due to heavy workload and carrying out of operations during odd hours i.e. before and after the shift hours. In such circumstances, the occurrence of security and supervision lapse sometime takes place. As and when such cases get detected, the guilty persons get proceeded against as per the Conduct Rules. Whenever connivance of supervisory staff in the engagement of proxy labour is noticed, disciplinary action as per the Conduct Rules is initiated.”

3.32 The Committee are concerned to note that there is continuous rise in the outstanding dues of Food Corporation of India (FCI) against other Central Ministries for the various Welfare Schemes undertaken by them. It has risen from Rs. 1000 crore in 2001 to more than Rs. 4000 crore in the year 2004. It is astonishing to find that these pending dues are mainly relating to non-payment of bills in respect of foodgrains issued under various welfare schemes such as Sampoorna Gramin Rozgar Yojana, Mid-Day Meal Scheme, implemented by the concerned Central Ministries. The Committee strongly recommend that the pending dues should be cleared expeditiously and some time-limit should be fixed within which the Central Ministries be asked to make payments, in future, failing which some penal interest be levied.

3.33 The Committee are deeply concerned to note that a large part of the food subsidy goes towards meeting the Establishment Cost of FCI, which is increasing year after year. For instance, out of the total food subsidy of Rs. 24176 crore released in the year 2002-2003, Rs. 1254.57 crore was to service Establishment Cost alone. Also in the year 2003-2004, out of Rs. 25769 crore subsidy released, Rs. 1287.35 crore were contributed for Establishment Cost alone. Taking into consideration, the ever ballooning food subsidy bill over the years, the Committee recommend that the FCI should take drastic measures to bring down the Establishment Cost. This will help in reducing the burden of food subsidy. At the same time, FCI should find ways and means to mobilize resources through diversification and finance their administrative expenses on their own, without seeking any budgetary support from the Government, for the purpose.

**3.34** The Committee note that out of the total storage capacity of 272.37 lakh tonnes available with FCI, as on 31<sup>st</sup> March 2004, the capacity available in the North East region is only 7.6 lakh tonnes. North Eastern States are the most disadvantaged States, in term of lack of infrastructure, communication and rail/road networks. Maintaining adequate foodgrains stocks is thus a great challenge. The induction of stocks in the North Eastern States is a perpetual problem which gets acute during the monsoon season. Besides natural calamities and vagaries of nature and law and order problems, the Railways capacity to carry required number of rakes on daily basis for North Eastern States also aggravates the problem. It is, therefore, pre-requisite that sufficient storage capacity is created in this region, so that the people living there are able to reap the benefits of Public Distribution System. The Committee, therefore, recommend that FCI should step up the construction of godowns in North-Eastern region on a priority basis.

**3.35 The Committee are surprised to note that the utilisation of hired storage capacity is more as compared to the owned by FCI. For the year 2003-2004, while there was 65% utilisation of hired capacity, only 37% of the owned capacity could be utilised. Further, a large amount was spent on the payment of rent for hired capacity, which was Rs. 354 crore in the year 2003-2004. The Committee, therefore, recommend that firstly, the FCI should go in for de-hiring of hired godowns. In de-hiring process, priority should be to de-hire the private godown, followed by godowns of other Public Agencies. Secondly, it should reexamine its planning process so that there is sufficient availability of owned godowns and the dependence on the hired ones can be minimized.**

3.36 The Committee are concerned to note that a large quantity of foodgrains is lost every year in the form of storage and transit losses. In the year 2002-2003, this amount was 3.78 lakh MTs and for 2003-2004, 3.37 lakh MTs. Inspite of losing such a considerable quantity every year, the Committee find it really surprising that no norms have been prescribed for such losses. The Committee, therefore, recommend that some stringent norms be fixed towards storage and transit losses.

3.37 The Committee note that different labour systems exist in different zones of Food Corporation of India. These are Regular Department Labour, Contract System, Society System and Direct Piecemeal System. The Committee find that a Committee has been constituted to study and rationalize the different labour systems in vogue. The Committee desire that the findings of this Committee be completed within a period of six months. The Committee would like to be apprised of the outcome of the report in this regard.

3.38 The Committee are concerned to note the system of proxy labour prevalent in FCI, inspite of foolproof arrangements reported to be in place to check this menace. Such malpractices, not only drain the public exchequer, but also sullies, the image and reputation of a Central Public Undertaking. The Committee have been informed that at times a regular labour is marked present in the register of FCI while he in fact indulges in other activities outside. The Committee are of the view that proxy labour is prevalent due to default in attendance system. For instance, a labour is marked present by “P” or absent by putting a “dot” in the Attendance Register. Further, the labours and farmers are deprived of cheque payment facilities. The contention of the FCI that proxy labour is inevitable during heavy procurement season, is hardly convincing, as the proxy labour reports have emanated not only from the procurement centres, but also from foodgrains godowns from non-traditional procurement States. The Committee are surprised to note the statement of MD, FCI during evidence that there is scope to reduce the number of complaints but the system of proxy labour cannot be eliminated totally. The Committee are not in agreement with the contention of the Government that there is no extra burden on the national exchequer as a result of substitution of regular worker with that of proxy labour. The Committee are of the view that it depends upon the number of substitutes who work as proxy, enabling the regular worker to draw fictitious, fraudulent excessive wages, OTA and other incentives disproportionately, the loss to the exchequer. The

Committee are at a loss to understand the manner in which the entitlement of a proxy labour is determined specially when genuine worker has not worked.

In regard to incidence of proxy labour which was reported in the State of West Bengal, it was brought to the notice of the Committee that the concerned officials of FCI West Bengal, who tried to exercise strict supervision and control was alleged to have been over ruled by Executive Director(P) Headquarter and abruptly transferred at short notice for exposing this racket. The Committee take serious note of malpractices of proxy labour and recommend that measures like: i) requiring each and every worker to put one's signature or thumb impression as a token of attendance; ii) introduction of mechanical gate entry devises, punching card system with thumb impression; iii) payments of wages to all workers through cheque as per the provision of Income Tax Act; and iv) Signing of Daily work output slip by each labour at the end of the day and countersigned by Mandal/Sardar/Shed Incharge, would go a long way in curbing this malpractice.

The Committee, taking into consideration the dimension of loss incurred to the FCI, due to proxy labour, recommend that all cases of proxy labour especially in Haryana, Maharashtra and West Bengal be investigated by CBI or CVC or any other higher investigating agency and the Committee apprised of the outcome.

## CHAPTER IV

### **CENTRAL WAREHOUSING CORPORATION (CWC)**

4.1. The Central Warehousing Corporation (CWC) was set up in March, 1957 after enactment of Agricultural Produce (Development and Warehousing) Act, 1956, subsequently repealed and re-enacted by the Parliament as the Warehousing Corporations Act, 1962. The main objective of the CWC is to provide scientific storage facilities for agricultural inputs & produce and other notified commodities.

#### **(a) Capital Structure**

4.2 The authorised share capital of CWC is Rs. 100 crore of which the subscribed and paid up share capital stood at Rs. 74.525 crore and Rs. 68.021 crore respectively. The Government of India has subscribed to shares worth Rs. 37.425 crore which have been fully paid up. The Corporation has no outstanding loans.

4.3 The Income and Expenditure of the CWC for the last three years is as under: -

<b>(Rs. in Crores.)</b>		
<b>Year</b>	<b>Income</b>	<b>Expenditure</b>
<b>2000-01</b>	<b>339.86</b>	<b>266.53</b>
<b>2001-02</b>	<b>379.93</b>	<b>289.21</b>
<b>2002-03</b>	<b>471.08</b>	<b>423.46</b>

4.4 The Outstanding Dues and Liabilities of the Corporation as on 31.3.2003 are as under:-

(Rs. in Crores)	
<b>Outstanding Dues</b>	<b>97.37</b>
<b>Liabilities including Term Loan</b>	<b>200.00</b>

4.5 The turnover and net profit of CWC from 1996 to 2003 is given in the following table:

Year	Turnover	Net Profit (Pre-tax)
1996-1997	234.68	84.85
1997-1998	253.34	67.73
1998-1999	255.64	41.50
1999-2000	276.34	48.30
2000-2001	339.86	73.33
2001-2002	379.94	90.72
2002-2003	471.08	47.62

4.6 During evidence the Committee enquired about the reasons for decline in the profit of CWC, the Department of Food and Public Distribution in their Post-evidence reply stated that the decline in the profit for the 2002-2003 was mainly contributed by the following factors:

1. VRS Scheme was introduced in the year 2002-2003 and additional expenditure of Rs. 26 crore was accounted for on this account as under:

	<u>Rs. in crore</u>
1/5 <sup>th</sup> Ex-Gratia to VRS Employees	13.00
Interest on Loan taken for VRS including loss of interest	8.00
Increase of Gratuity Valuation	2.50
Payment of Leave Encashment	2.50
<b>Total:</b>	<b>26.00</b>

2. The capacity utilisation which was 83% in the year 2001-2002 decreased to 74% in the year 2002-2003. In absolute terms the capacity utilisation decreased from 71.64 lakh MTs to 67.75 lakh MTs, this decline is mainly due to drought in the country which resulted in decline in foodgrains business, resulting in drop of income of Rs. 15 crore approx.

4.7 The Establishment cost of CWC for the last three years is as under:-

Sl. No.	Year	Estt. Cost (Rs. in crores)	% age to total cost
1	2000-01	164.48	61.71
2	2001-02	174.53	60.34
3	2002-03	176.41	56.78

4.8 On being asked by the Committee whether the activities which can be outsourced been identified so that the Establishment cost can be reduced, Ministry in its written reply stated that the Corporation has already identified the following activities which can be outsourced:-

- i. Security.
- ii. Housekeeping.
- iii. Hiring of vehicles instead of purchase and its maintenance by engaging staff car drivers.
- iv. Technical operations like DESS, fumigation of stocks under the supervision of technical officers.

With a view to further curtail the establishment cost, it has been decided to reintroduce VRS to right size the manpower.”

4.9 As the entire expenditure is met by CWC from its Internal and Extra Budgetary Resources (IEBR), no provision in the Budget of the Department has

been made for the Corporation's own storage construction programme or for its equity contribution to the State Warehousing Corporations. CWC had a provision of Rs. 122.21 crore for 2002-2003 (RE) for its own programmes and for matching equity contribution to be given to State Warehousing Corporations. For 2003-2004 the outlay is Rs. 94.00 crore (RE) and for 2004-2005 the outlay is Rs. 15.00 crore. The approved Plan outlay for 2004-2005 is 16.75 crore.

**(b) Growth in storage capacity**

4.10 The Corporation had 464 warehouses with a total storage capacity of 94.16 lakh tonne as on 31.3.2004 of which 65.46 lakh tonne was owned, 12.84 lakh tonne was hired and 15.86 lakh tonne was in open storage which includes CAP storage and constructed capacity in open premises. During the year 2004-2005 the average capacity available with CWC is estimated to be around 95.83 lakh tonne (BE). The warehousing capacity with the CWC has grown significantly over the last five years, as under:-

As on	Owned	Hired	Total
31.03.2000	54.47	20.32	74.79
31.03.2001(Revised)	56.12*	27.79**	83.91
31.03.2002	58.89*	30.28**	89.17
31.03.2003	63.53*	27.61**	91.14
31.03.2004	65.46*	28.70**	94.16

\*The revised figures does not include open constructed.

\*\* Includes Hired, Management and open storage space.

4.11 On being asked the latest position regarding construction of cold storage/temperature controlled warehouses by CWC, the Ministry replied that the Corporation is operating 3 Cold Storages with a meager 2866 MT capacity. The concept of Controlled Atmospheric Cold Storage {CACCS} being new to the country; the Corporation has gone ahead for ambitious plan to get the entire

mapping done through a Canadian Consultancy firm. Pending the implementation of the same, based on the requirement assessed; CWC is expecting to go in for putting up a Controlled Atmospheric Cold Storage at Kundli through a joint venture.

4.12 The amount spent on creation of storage capacity during the last three years is as under:-

(Rs. in Crores)	
<b>2000-01</b>	<b>104.44</b>
<b>2001-02</b>	<b>138.26</b>
<b>2002-03</b>	<b>83.61</b>

4.13 On being asked about the details of godowns which are under construction/planning stage in North-East and other hilly and inaccessible areas, the Department in its written reply stated that there is no construction going on at present by CWC in the North-East area. However, the Corporation has been asked to undertake the construction of the 65000 MT capacity at certain locations in North-East under the plan scheme, for utilization by the FCI. The work can be taken up only after suitable land is in a position to be ear-marked by the respective State Governments.

**(c) Capacity Utilisation**

4.14 The warehousing capacity, its utilization and percentage utilization for the last three years are as under:-

Year	Owned/Covered		%	Hired/Covered		%	Total		%
	Capacity	Utilization		Capacity	Utilization		Capacity	Utilization	
<b>2001-02</b>	<b>57.16</b>	<b>48.32</b>	<b>85</b>	<b>29.39</b>	<b>23.32</b>	<b>79</b>	<b>86.55</b>	<b>71.64</b>	<b>83</b>
<b>2002-03</b>	<b>62.50</b>	<b>48.35</b>	<b>74</b>	<b>29.00</b>	<b>21.40</b>	<b>74</b>	<b>91.50</b>	<b>67.75</b>	<b>74</b>
<b>2003-04</b>	<b>64.58</b>	<b>38.37</b>	<b>59</b>	<b>28.06</b>	<b>16.87</b>	<b>60</b>	<b>92.64</b>	<b>55.24</b>	<b>60</b>

4.15 On being asked by the Committee about the norms fixed for capacity utilisation and to what extent it is being met, the Ministry in its written reply stated that the Corporation with 60% occupancy level has still been making profits. The project reports contemplate the previous year occupancy figures as its norms.

4.16 When the Committee asked why is it so that while the storage capacity has increased the utilization of the same has decreased over the last 3 years, the Ministry in its written reply stated that the utilization during the above 3 years has decreased on two main accounts given as under:-

- (i) The FCI major depositor of CWC, had chosen to get many warehouses constructed through private participation/State Warehousing Corporations in the State of Punjab and Andhra Pradesh. Such godowns having mushroomed at many locations in these two states are being utilized, for the depleting stocks available with FCI, at the expense of CWC warehouses going empty.
- (ii) The drought situation prevalent during the past three years resulted in lesser holding of foodgrains with the depositors and hence decreased capacity utilization.

4.17 In order to encourage the farming community and motivate them to avail public warehousing facilities, the CWC offers a rebate of 30% in its storage charges for the farmers' stocks. A Warehouse Receipt, which is a negotiable instrument is issued to the farmers, who can obtain subsidised institutional credit on pledge of the Warehouse Receipt.

## **Diversification of Business**

4.18 When the Committee asked whether any plan of action has been contemplated to diversify the business of CWC, the Ministry replied that the Corporation has contemplated to diversify its business and go into: -

- (i) Setting up of Container Freight Stations at Jammu, Bhadohi, Loni and Karwar.
- (ii) Setting up of rail-siding warehouses at Lucknow, Roja, Surannasi, San Nagar {Hyderabad}, Sakurbasti {Delhi} and Ranchi on the lines of pilot project brought by it at Bangalore.
- (iii) The controlled atmospheric cold storage – the first step is to set up joint venture at Kundli at Delhi-Haryana Border.
- (iv) Plan conventional warehousing and CFS at up-coming Ports at Mundra {Gujarat} and Karwar {Karnataka}.
- (v) Go in for development of Land Customs Stations, truck terminal at Dawki in Meghalaya. Mahdipur and Phulbari (West Bengal) Indo-Bangladesh Border, on the similar lines under ASIDE Scheme of the Ministry of Commerce as undertaken at Petrapole on the Indo-Bangladesh Border.
- (vi) To set up a cold storage at Kandhar in Afghanistan through a grant given by Ministry of External Affairs.
- (vii) To start an offshore warehouse in Uruguay-Latin America supported by financial assistance committed under Market Access Initiative Scheme of the Ministry of Commerce.
- (viii) To develop rail linked container transportation system between Loni {Ghaziabad} and Dronagiri Node {Navi Mumbai} on the similar lines as that of Container Corporation of India, a Company of Indian Railways, who are having a monopoly so far in this business.
- (ix) Last but not the least, bringing up bulk silos infrastructure for foodgrains storage and handling thereof, at selected location in the country under the provisions of National Policy of storage, handling and transportation of foodgrains.”

4.19 On being asked about the steps that have been taken by the Government to end the monopoly of Container Corporation of India and open the market for other players, the Ministry replied:

“The Container Corporation of India, a Company set up in 1980 under the administrative control of Ministry of Railways, is an organisation which started with the business of transportation of import/export containers through rail by utilising railways network, has since got a monopoly in railway freighting of container. However, as CWC was a major player in the Container Freight Station/Inland Clearance Depot operations at Inland Stations, it also chose to go in for forward integration by planning transportation of containers by rail.

The Department took up the matter with the Ministry of Railways seeking favourable consideration in respect of the entry of the CWC into the field of container freighting by operating container trains between Loni(Ghaziabad) and Dronagiri Node (Navi Mumbai). The Ministry of Railways have informed that the matter has been examined by a Committee of Railway Officials who has not found the proposal of CWC feasible. However, scope of re-consideration in the matter is being examined in consultation with the CWC.

The Ministry of Commerce, who has also been advocating opening of this business for other players, is seeking Government mandate for breaking this monopolistic scenario.”

4.20 The Committee note that in order to encourage the farming community and to motivate them to avail public warehousing facilities, a rebate of 30% is extended to farmers by Central Warehousing Corporation (CWC). The farmers pay 30% less tariff than the base rate of foodgrains tariff as made applicable by CWC for the General Public. As a result, the farmers, for storage of foodgrains bags of 100 kg., are charged @ Rs. 3.75 per bag per month including insurance of the stocks, which after allowing 30% rebate calculates to @ Rs. 2.62 per bag 100kg./month at a standard rated warehouse of the CWC. Further, the Committee find that one of the objectives of CWC is to assist farmers in getting loans from banks against the pledge of Warehouse Receipts. It has been brought to the notice of the Committee that banks have failed to honour the Warehouse Receipt, on the grounds that the receipt has not been recognised as a Negotiable Instrument. The Committee do not approve of this and recommend that Government should amend the relevant statute, so that the warehouse receipt can be pledged and the farmers are able to obtain subsidised institutional credit on pledge of the Warehouse Receipt.

4.21 The Committee are concerned to note the declining trend of capacity utilisation of CWC godowns, over the years. For instance, against the norm of 60% occupancy level, the utilisation of owned/covered godowns, dropped from a level of 48%, in the year 2001-2002 to 38.37% in the year 2003-2004. However, the utilisation capacity of hired/covered godowns, during the same period, did not show sharp, decline as witnessed in owned/covered godowns. The hired utilisation, declined to 16%, from a level of 23%, during this period. The Committee are of the view that norm for occupancy level of 60% is too liberal. The Committee, therefore, recommend that norms be revised upwards, to a level of 80-85%. At the same time, the hired godowns should be de-hired so as to improve occupancy utilisation of owned godowns. While de-hiring, priority should be given first to de-hire the godowns of private parties and then of other agencies. The Committee also find that there is continuous decline in the profits of Central Warehousing Corporation over the years. Drought, during the last three years, has been cited as one of the main reasons for dwindling profits. This has also resulted in decline in the capacity utilisation of CWC godowns. The Committee recommend that besides diversification, CWC should find ways and means for improving their profitability.

4.22 The Committee appreciate the ambitious plan of action initiated by CWC, to diversify their business. Container Freight Station, Railsiding Warehouses, Cold Storage, development of Land Custom Stations etc. are some of the diversified activities planned by CWC. The Committee find that the Container Corporation of India, a PSU under the ambit of Ministry of Railways enjoys monopoly, in the transportation of import/export containers through railways. The Committee find that CWC took up the matter of their entry into the field of Container Freight, with Ministry of Railways, as the CWC had expertise in Container Freight Station/Inland Clearance Depots Operations at Inland Station. However, the proposal did not find favour with the Ministry of Railways. Surprisingly, Ministry of Railways guidelines permits setting up of Rail link Inland Container Depot to parties other than the Container Corporation of India. Further, the Ministry of Commerce is advocating opening of Container Freights business for other players also. The Committee find merit in the contention of Ministry of Commerce, in breaking monopolistic scenario of Freight Container Business. The Committee are of the view that CWC be allowed to diversify and operate in Freight Container business and the Ministry of Railways should permit CWC to operate Inland Container Depot as per their own policy. The Committee also recommend that Ministry of Consumer Affairs, Food and Public Distribution should take up the matter of permitting CWC in this business with Planning Commission/Ministry of Finance/CCEA, at the earliest.

## CHAPTER V

### **SUGAR MANAGEMENT**

5.1 Sugar industry is one of the largest agro-based industries in the Indian economy. India is the largest producer of sugar in the world next only to Brazil. Out of the Indian States, Maharashtra contributes over a third of the country's sugar output followed by Uttar Pradesh with 25 per cent share. With consistently high production, the industry had large stocks of sugar for the 3 sugar seasons (October-September) ending in September 2003. Production of sugar during 2002-2003 season was 201 lakh tonnes as against 183 lakh tonnes in 2001-2002. The production in the current sugar season i.e. 2003-2004 is estimated at 140 lakh tonnes. The reduction in sugar production is on account of drought in some of the major sugar producing States and infestation by white woolly aphids in some areas. The closing stock at the end of 2003-2004 season is estimated to be around 74.14 lakh tonnes.

5.2 In order to avert a fall in prices resulting from excess supply, the Central Government controls the sale of sugar by sugar mills in the open market. The Sugar Directorate assigns the quantity of free sale sugar that may be sold by each sugar mill in each month of the year. A release mechanism is followed for free sale and levy sugar uniformly. Under the policy of partial price control, a specified percentage (currently 10 percent) of total production of each sugar factory is procured as levy sugar at notified prices for distribution through the

PDS. The Government decided to retain both the levy provision as well as the release mechanism till October 2005. A host of other steps were also taken during 2003-2004 to mitigate the difficulties of sugarcane growers.

**(a) Production of Sugar**

5.3 The position regarding production, internal consumption, import and export of sugar during the 2001-2002 and 2002-2003 sugars seasons (October-September) and estimates for current season 2003-2004 are as follows:-

<b>(Qty. in lakh tonnes)</b>				
<b>Sl. No.</b>	<b>Particulars</b>	<b>2001-2002 (Sugar Year)</b>	<b>2002-2003 (Sugar Year)</b>	<b>2003-2004 (Sugar Year)(P)</b>
1	<b>Carry over stocks from previous season</b>	106.03	113.17	116.14
2	<b>Production of sugar</b>	184.96	201.32	138.00 (E)
3	<b>Total availability</b>	291.59	314.49	254.14
4	<b>Internal consumption</b>	167.48(P)	183.35	180.00
5	<b>Exports</b>	10.94	15.00	3.00
6	<b>Closing stocks at the end the season</b>	113.17	116.14	74.14

5.4 The Committee have been informed that there were 563 sugar mills in the country out of which 56 sugar mills have been closed due to one or the other reasons. The details of the sugar mills installed and closed as on 31.5.2004 (State-wise) is given below:-

States	Public		Private		Cooperative		Total	
	Installed	Closed	Installed	Closed	Installed	Closed	Installed	Closed
Uttar Pradesh	22	11	55	4	27	1	104	16
Uttaranchal	2	0	4	0	4	0	10	0
Maharashtra	0	0	19	1	159	5	178	6
Gujarat	0	0	0	0	19	3	19	3
Karnataka	3	0	20	2	22	0	45	2
Tamil Nadu	3	0	19	0	16	0	38	0
Andhra Pradesh	0	1	26	0	11	4	37	5
Bihar	0	15	11	2	0	0	11	17
Haryana	0	0	3	0	12	0	15	0
Punjab	0	0	7	0	15	1	22	1
Madhya Pradesh	1	1	3	1	5	0	9	2
Kerala	0	0	0	1	1	0	1	1
Goa	0	0	0	0	1	0	1	0
Orissa	0	0	3	0	4	1	7	1
Rajasthan	1	0	1	0	1	0	3	0
Assam	0	0	1	0	1	1	2	1
Pondicherry	0	0	1	0	1	0	2	0
West Bengal	1	0	1	0	0	0	2	0
Nagaland		1		0		0		1
<b>Total</b>	<b>33</b>	<b>29</b>	<b>174</b>	<b>11</b>	<b>300</b>	<b>16</b>	<b>507</b>	<b>56</b>

5.5 As regards the steps taken by the Government for the revival of potentially sick sugar industry, the Committee were informed that a committee has been constituted by the Government to examine the cases of sick cooperative sugar mills and to recommend revival packages for potentially viable

units after identifying the reasons for sickness, areas which require improvement and to finalize the package for assistance which will *prima-facie* be sustainable and acceptable to all agencies/institutions etc. Proposals were received from the State Government agencies long back. Since lot of changes were noticed in the sugar industry, a re-assessment of these rehabilitation proposals required an updation on inputs in the changed scenario. The State Governments, were, accordingly requested to send their fully tied up proposals along with the concurrence of the concerned agencies/financial institutions in which relief/concessions have been sought. So far, no such up-dated proposal has been received. However, requests have been received from three sugar factories with negative networth for considering their proposal for rehabilitation.

5.6 Another suggestion of the sub-committee involved amendment to the SDF Rules, 1983 which has been complied with. The amended SDF Rules, 1983 now empowers the Government to provide loans to sick sugar mills from SDF for their revival on the recommendation of the committee constituted for the purpose.

**Funds surrendered during 2003-2004 under Sugar related Schemes**

5.7 The Department of Food and Public Distribution has furnished the following details of the funds pertaining to Sugar Schemes which could not be utilised during the year 2003-2004 and were surrendered alongwith BE for 2004-2005:-

Sl. No.	Schemes	2003-2004	2003-2004	Actual Expenditure	Amount Surrendered	(Rs. in crore)
		BE	RE			2004-2005
1.	NSI-Kanpur	1.90 9.18	1.23 8.36	0.22 6.80	1.68 2.38	0.67 0.92
2.	Buffer Stock of sugar	300.00	300.00	206.02	93.98	400.00
3.	Reimbursement of internal transport and freight charges to sugar factories on export shipment of sugar	50.00	50.00	31.86	18.14	125.00
4.	Grants-in-aid for Development of Sugar Mills	1.00	1.00	0.09	0.91	2.50
5.	Loans for Modernisation/Rehabilitation of Sugar Mills	150.00	125.00	44.36	105.64	150.00
6.	Loan for Cane Development	20.00	20.00	9.70	10.30	25.00
7.	Loans to Sugar Mills for Bagasse based cogeneration power projects	100.00	100.00	10.60	89.40	150.00
8.	Loans for production of Anhydrous alcohol ethanol	50.00	25.00	-	50.00	100.00
	<b>Total</b>	<b>682.08</b>	<b>630.59</b>	<b>309.65</b>	<b>372.43</b>	<b>954.09</b>

5.8 The main reason for non-utilization of funds are stated to be the (i) want of complete documents from sugar mills under buffer stock of sugar subsidy (ii) non-approval of reimbursement of ocean freight charges to the sugar factories on export shipment of sugar (iii) no further request for loan installment for modernization/ rehabilitation of sugar mills (iv) non-execution of tripartite agreement for bagasse based co-generation power projects.

5.9 Asked in what manner does the Department propose to utilise Rs 954 crore allocated during the current financial year, the Department in their written reply stated that steps are being taken for expeditious disbursement in respect of buffer subsidy and reimbursement of internal transportation and freight charges. In respect of loans for cane development, an amount of Rs. 4.96 crore has been disbursed till date. In respect of loans for modernization, an amount of Rs. 36.33 crore has been disbursed as on date. Rs.3.02 crore has been disbursed in respect of loans for ethanol/anhydrous alcohol projects so far. Efforts are being made for disbursing the loans that have already been approved. In addition, all applications received for various kinds of loans are being processed expeditiously for approval so that the Budget Provisions can be fully utilized.

**(b) Cane Price Arrears**

5.10 A Statement showing the State-wise position of Cane Price arrears for cane purchased during 2003-2004 sugar season and earlier three sugar seasons is given below:-

(Figures in crore Rs.)

STATE/ZONE	SUGAR SEASON 2003- 04 (AS ON 15.6.2004)	SUGAR SEASON 2002- 03 (AS ON 15.6.2003)	SUGAR SEASON 2001- 02 (AS ON 15.6.2002)	SUGAR SEASON 2000- 01 (AS ON 15.6.2001)
PUNJAB	47.54	207.76	104.26	31.87
HARYANA	5.02	120.38	187.98	89.02
RAJASTHAN	2.51	0	0	0
U. P.	339.20	1669.73	1147.84	433.67
UTTARANCHAL	26.51	17.74	85.90	-
M. P.	4.45	3.43	2.65	7.50
GUJARAT	40.19	49.76	20.58	53.20
MAHARASHTRA	647.67	125.65	76.55	37.07
BIHAR	40.00	74.98	78.61	48.69
ASSAM	0	0	0.05	0.10
A. P.	42.33	205.86	93.59	102.09
KARNATAKA	29.31	277.92	82.26	97.94
TAMIL NADU	36.12	298.29	216.07	255.23
KERALA	0	1.77	0.39	2.76
ORISSA	5.30	1.38	3.70	7.24
WEST BENGAL	0	2.49	0.08	0.03
PONDICHERRY	1.63	6.10	10.25	3.35
GOA	0	0	0	0
<b>TOTAL</b>	<b>1268.86</b>	<b>3063.24</b>	<b>2110.76</b>	<b>1169.78</b>

5.11 Asked whether result oriented steps have been taken to liquidate the arrears, the Department in their written reply furnished to the Committee stated that the responsibility of ensuring timely payment of cane price dues to the sugarcane growers lies with the respective State Governments. The Central Government on its part, besides writing to the State Governments for speedy clearance of the cane price dues, have taken the following steps:-

- (i) The levy obligation of sugar factories has been reduced to 10 % w.e.f. 1st March, 2002 to enable the factories to sell more sugar under non-levy quota in the open market.
- (ii) A buffer stock of 20 lakh tonnes of sugar was created initially for a period of one year from 18.12.2002. The Government has extended the maintenance of buffer stock for a further period of one year beyond 17.12.2003. This facilitates liquidity position of the sugar mills which enables them to make payment of cane arrears. As on 31.7.2004, 362 claims have been received, out of which in 343 cases, advance buffer subsidy to the tune of Rs. 216.77 crores has been paid and in addition to this, 33 cases pertaining to the period 18.12.2002 to 17.12.2003 have been finalized involving the amount of Rs. 9.14 crores.

5.12 Also, the Central Government (Ministry of Agriculture) have allocated Rs. 678.06 crore for one-time assistance to the Government of Uttar Pradesh, Uttarakhand, Bihar, Punjab and Haryana to help clearance of sugarcane price arrears in respect of 2002-2003 sugar season by private sugar factories in those States. Ministry of Agriculture has informed that only the States of Uttarakhand and Bihar availed of this assistance and were provided Rs. 45.45 crore and Rs. 19 crore respectively. The budget provision was for the year 2002-2003. Hence the scheme has lapsed.

5.13 The Central Government would also provide a one-time assistance to the State Governments by permitting them to raise additional market borrowings to be used only for liquidating the cane price arrears of the mills in the cooperative and public sectors where the practice of announcing the State-Advised Prices of sugarcane exists and all sugar mills in the States where no practice exists. The State Governments have been advised to submit their proposals for raising additional open market borrowings for the said purpose.

**(d) Sugar Development Fund**

5.14 Under the Sugar Cess Act, 1982, a cess of Rs. 14.00 per quintal is being collected on all sugar produced by any sugar factory in India. The Sugar Development Fund Act, 1982, provides that an amount equivalent to the proceeds of the duty of excise levied and collected under the Sugar Cess Act, 1982 reduced by the cost of collection as determined by the Central Government, together with any money received by the Central Government for the purpose of this Act, shall after due appropriation made by Parliament by law, be credited to the Sugar Development Fund.

5.15 The Committee have been informed that an amount Rs. 180 crore was allocated during 2003-2004 for Sugar Development Fund which was fully utilised. The BE for 2004-2005 is Rs. 250 crore. On being asked about the reasons for such a drastic increase in allocation, Ministry informed that the increase in amount proposed is with a view to augment the balances in the Sugar Development Fund.

(e) **Statutory Minimum Price (SMP) and State Advised Price (SAP) of Sugar cane.**

5.16 The Central Government has fixed the Statutory Minimum Price (SMP) of Sugarcane for the 2003-2004 sugar season at Rs. 73 per quintal linked to a basic recovery of 8.5% subject to a premium of 85 paise for every 0.1% point increase in the recovery above that level. The SMP of sugarcane payable by sugar factories for each sugar season since 1999-2000 has been shown in the following table:-

Sugar Seasons	SMP (Rs. per quintal)
1999-2000	56.10
2000-2001	59.50
2001-2002	62.05
2002-2003	69.50
2003-2004	73.00

5.17 Some of the State Governments, however, have been advising the sugar factories to pay cane price generally at a higher level than the SMP. Although these cane prices advised by the State Governments (SAP) are not statutorily binding, the sugar factories nevertheless pay cane prices as advised by these State Governments.

5.18 The Committee note that a Standing Committee on Sugar Development Fund (SDF) chaired by the Secretary of the Department looks into the performance of Schemes implemented with SDF assistance. The Committee note that huge sums to the tune of Rs. 105.64 crore, Rs.93.94 crore and Rs. 89.40 crore for modernization and rehabilitation of sick sugar mills, maintenance of buffer stock of sugar subsidy and bagasse based co-generation power projects, respectively have been surrendered in (2003-2004) under Sugar Development Fund. The Committee find that the surrendering of resources under SDF is a recurring phenomenon in the Department of Food and Public Distribution. The Committee do not approve of this. The Committee recommend that the Government should take proactive steps to step up utilization under SDF. In this context, the Committee recommend that the Standing Committee on SDF should meet once in every quarter of the year to review the situation arising out of under utilization of funds allocated under each Head of SDF. A quarterly target for utilization of funds should also be fixed. The Committee also desire that the Government should make sincere efforts for judicious utilization of funds within the financial year so that the amount surrendered is reduced to minimum.

5.19 The Committee note that an amount of Rs. 300 crore was allocated in BE & RE (2003-2004) for subsidy for maintenance of buffer stock of sugar and an amount of Rs. 206 crore utilized due to lower number of claims received in the Department. This year (2004-2005), an amount of Rs.400 crore has been earmarked under this head. The Committee note that final settlement of buffer subsidy claims for the period 18.12.2002 to 17.12.2003 are yet to be completed. The Committee feel that one of the reasons for non-receipt of complete claims by the sugar factories is cumbersome procedure and paper work in respect of these claims. The Committee feel that though the Government should ensure that no false claims are accepted and money disbursed, still the paper work should be kept to a bare minimum so as to facilitate a large number of sugar mills to avail of the buffer subsidy claims.

5.20 The Committee find that arrears to the tune of Rs. 1169.78 crore for the sugar season 2000-2001, is still outstanding. The arrears of the sugar season 2001-2002, 2002-2003 and 2003-2004, have also not been liquidated. The Committee desire that Government should take appropriate action under Sugarcane (Control) Order, 1966 under which Central/State Government Officers are authorized to recover the arrears of cane prices remaining unpaid after 14 days supplies of cane by the growers, together with interest @ 15 % p.a. as arrears of land revenue.

The Committee further note that the Central Government had approved One Time Assistance for an amount of Rs. 678.00 crore to the States of Uttar Pradesh, Uttarakhand, Haryana, Punjab and Bihar to clear the cane price arrears to private sugar factories. The Committee find that only the States of Uttarakhand and Bihar availed of this assistance and were provided with Rs. 45.54 crores and Rs. 19 crores respectively. The Committee have been informed that the said scheme was for the year 2002-2003 and has since lapsed. The Committee feel that adequate opportunity was not given to the State Governments for availing of this assistance. Taking into consideration, the large scale sickness witnessed in the sugar industry, the Committee feel that the scheme of One Time Assistance should be revived afresh.

5.21 The Committee fail to understand the rationale of declaring State Advised Price (SAP) by some of the States when it is not statutorily binding on the sugar factories to pay according to it. The Committee feel that this puts an additional burden on the sugar factories which are already in precarious financial position and do not have adequate funds for payment of cane price arrears. The Committee therefore, recommend that the Central Government should continue to declare SMP after due consultation with State Governments without any stipulation and State Governments should be discouraged to declare a separate SAP.

NEW DELHI;  
24 August, 2004  
2 Bhadrapada, 1926 (saka)

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