

**STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS  
AND PUBLIC DISTRIBUTION  
(2009-2010)**

**(FIFTEENTH LOK SABHA)**

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

**[FOOD SUBSIDY AND ITS UTILIZATION]**

**EIGHTH REPORT**



**LOK SABHA SECRETARIAT  
NEW DELHI**

***August, 2010/Sravana , 1932 (Saka)***

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Presented to Lok Sabha on 20.08.2010

Laid in Rajya Sabha on 20.08.2010



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NEW DELHI**

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**COMPOSITION OF THE STANDING COMMITTEE ON FOOD, CONSUMER  
AFFAIRS AND PUBLIC DISTRIBUTION – 2009-10.**

Shri Vilas Muttemwar                      -                      Chairman

**MEMBERS**

**Lok Sabha**

2. Smt. Harsimrat Kaur Badal
3. Shri Kamlesh Balmiki
4. Shri Tara Chand Bhagora
5. Shri Shivraj Bhैया
6. Shri Arvind Kumar Chaudhary
7. Shri Sanjay Singh Chauhan
8. Shri Anant Gangaram Geete
9. Shri Abdul Mannan Hossain
10. Shri Lalchand Kataria
11. Shri Mohinder Singh Kaypee\*
12. Shri Marotrao Sainuji Kowase
13. Shri Sohan Potai
14. Shri Purnmasi Ram
15. Shri Dinubhai Solanki
16. Shri Laxman Tudu
17. Shri D. Venugopal
18. Shri Madhusudan Yadav
19. Shri Ramakant Yadav
20. Vacant
21. Vacant

**Rajya Sabha**

22. Smt. T. Ratna Bai
23. Shri P. Kannan
24. Shri Lalhming Liana
25. Shri Shantaram Laxman Naik
26. Shri Kanjibhai Patel
27. Shri Rajniti Prasad
28. Dr. T.N. Seema
29. Shri Veer Singh
30. Shri Kaptan Singh Solanki
31. Vacant

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\* Nominated w.e.f. 04.08.2010

**Secretariat**

1. Shri P.K. Mishra - Joint Secretary
2. Smt. Veena Sharma - Director
3. Shri Jagdish Prasad - Additional Director

## INTRODUCTION

I, the Chairman of the Standing Committee on Food, Consumer Affairs and Public Distribution (2009-2010) having been authorized by the Committee to submit the Report on their behalf, present this Eighth Report on the subject 'Food Subsidy and its Utilization' relating to the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution).

2. The subject was selected by the Committee for examination during the year 2009-10. The Committee took oral evidence of the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) on 28.06.2010.

3. 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 the detailed written notes on the subject and for furnishing the information to the Committee, desired in connection with the examination of the subject.

4. The Report was considered and adopted by the Committee at their sitting held on 17<sup>th</sup> August, 2010

5. 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;  
18 August, 2010  
27 Sravana, 1932 (Saka)

**VILAS MUTTEMWAR**  
Chairman  
Standing Committee on Food,  
Consumer Affairs and Public Distribution.

## **CHAPTER –I**

### **INTRODUCTORY**

The General Assembly of the United Nations adopted and proclaimed on December 10, 1948 the Universal Declaration of Human Rights. Article 25 of this declaration has provided that everyone has the right to a standard of living adequate for the health and wellbeing of himself and his family including food, clothing, housing, medical care and necessary social services. Likewise, Article 11 of the International Covenant on Economic, Social and Cultural Rights enshrines that every State is obliged to ensure for everyone under its jurisdiction access to the minimum essential food which is sufficient, nutritionally adequate and safe to ensure their freedom from hunger. This Covenant has been signed by 159 nations, making it an internationally binding law. The article 2 of covenant thus obliges these nations to initiate legislative measures for progressive realization of the right. As per details gathered from Food and Agriculture Organization (FAO), United Nation's site, so far 22 countries have enshrined the Right to Food in their Constitutions, either for all citizens or for specific targeted groups such as children and women.

1.2 In India, Public Distribution of essential commodities had been in existence during the inter-war period. PDS, with its focus on distribution of foodgrains in urban scarcity areas, had emanated from the critical food shortages of 1960. PDS had substantially contributed to the containment of rise in food grains prices and ensured access of food to urban consumers.

1.3 Food grains are distributed through Public Distribution System at a subsidized price to ensure that poor families have access to foodgrains. The Public Distribution System (PDS) evolved as a system of management of scarcity and for distribution of foodgrains at subsidized prices. Over the years, PDS has become an important part of Government's policy for management of food economy in the country.

1.4 Food subsidy is provided in the budget of Department of Food and Public Distribution to meet the difference between economic cost of foodgrains and their sales realization at Central Issue Prices fixed for TPDS and other welfare schemes. In addition, the Central Government also procures foodgrains for meeting the requirements of buffer stock. Hence part of the food subsidy also goes towards meeting the carrying cost of buffer stock.

1.5 The subsidy is provided to FCI, which is the main instrument of the Government of India for procurement and distribution of wheat and rice under TPDS and other welfare schemes and for maintaining the buffer stock of foodgrains as a measure of food security. Under the scheme of Decentralized procurement, State specific economic cost is determined by the Government of India and the difference between the economic cost so fixed and the Central Issue Prices is passed on to the State as food subsidy. Food Subsidy could be given to the producer i.e. farmers and to the consumer i.e. the user of the food grains.

### **Subsidy on Sugar**

1.6 Sugar subsidy is provided in the budget of the Department under non-Plan to reimburse the difference between the retail issue price of sugar under PDS and the ex-factory cost of sugar, transportation costs and the margins allowed to the wholesalers and the owners of the fair price shops. The ex-factory levy price is determined by the Government for every sugar season based on the formula devised by expert bodies like the Tariff Commission/the Cost Accounts Branch of the Ministry of Finance. In addition, the Government has to pay excise duty, sugar cess, incur costs on transportation and provide margins to wholesalers and retail shopkeepers who distribute sugar under PDS. On the other hand, the retail issue price of sugar is uniform throughout the country. When the delivered cost of sugar is higher than the retail issue price, the Government has to pay the subsidy. This subsidy helps to maintain uniform retail price of levy sugar i.e. Rs. 13.50/- per kg all over the country.



### **Subsidy on Edible Oils**

1.7 In order to provide relief to the poorer sections of the society from the rising prices of edible oils, the Central Government introduced a Scheme for Distribution of upto 10 lakh tones of imported edible oils in 2008-09 at a subsidy of Rs. 15 per kg through State Governments at the rate of 1 kg per ration card per month and an additional subsidy of Rs. 10 per kg from Jan. 2009 to March 2009 on oils imported by PSUs and not lifted by the State Governments. The subsidy distributed was Rs. 424.25 crores till 31.03.2009. The Government has decided to extend the scheme during the current year by importing upto a maximum quantity of Ten lakh tons till October 2010 with a subsidy of Rs. 15 per kg. A provision has been kept for increase in subsidy to Rs. 25 per kg. if price movement warrant.

## **CHAPTER – II**

### **Food Subsidy**

#### **(a) Food Subsidy to FCI and States**

The Committee have been informed that the food subsidy is released in respect of foodgrains distributed under TPDS which is a non plan Scheme. Food subsidy is provided in the budget of the Department of Food and Public Distribution to meet the difference between economic cost of foodgrains and their sales realization at Central Issue Prices fixed for TPDS and other welfare schemes. In addition, the Central Government also procures foodgrains for meeting the requirements of buffer stock. Hence, part of the food subsidy also goes towards meeting the carrying cost of buffer stock.

2.2 Since 2004-05, the Minimum Support Price (MSP) of wheat has increased from Rs. 630 per quintal to Rs. 1100 per quintal. Similarly MSP + bonus of paddy (Common) has increased from Rs. 560 per quintal to Rs. 1000 per quintal. However the Central Issue Price (CIP) of wheat and rice for AAY, BPL and APL families has not been raised in this period. As a result, the gap between economic cost and CIPs has been increasing and food subsidy incurred by the Government has risen substantially.

2.3 The year-wise break-up of subsidy released on foodgrains during the last five years and current financial year to FCI and the States operating the Decentralized Procurement Scheme is as under:-

(Rs. in crore)

<b>Year</b>	<b>Subsidy Released</b>		
	<b>FCI</b>	<b>States</b>	<b>Total</b>
2005-06	19871	3200	23071
2006-07	20786	3042	23828
2007-08	27760	3500	31260
2008-09	36744	6924	43668
2009-10	46867	11375	58242
2010-11 (till 31/072010)	21521.11	4127.39	25648.50

2.4 The deficit for 2009-10 was Rs. 14007.23 crore as against the actual requirement of Rs. 72234.98 crore. For BE 2010-11, requirement of food subsidy is estimated at Rs. 68198 crore. Against this, an amount of Rs. 55211 crore has been allocated in 2010-11 BE towards food subsidy for FCI (Rs. 43211 crore) and DCP States (Rs. 12000 crore). Thus, there is a shortfall of Rs. 12987 crore (excluding backlog) in 2010-11 in food subsidy allocation as compared to estimated requirement.

2.5 When enquired about the justification for huge increase in the Food Subsidy Bill, the representative of Department of Food and Public Distribution stated during evidence:-

'For the present BPL numbers, as the A.S. has just now told, for 6.52 crore BPL families are there based on the 1993-94 poverty estimates and the March, 2000 population estimates at 35 kg. scale of issue, we would be requiring about 276 lakh tones of foodgrains involving an annual subsidy of about Rs. 40,094.04 crore. Similarly, if we take the number of ration cards as they exist on today, the BPL ration cards, for 11.08 crore ration cards exist as on today, at 35 kg. we require 468 lakh metric tones and a subsidy of Rs. 66,169 crore. We also have figures for 25 kg. scenario. But I will just read out the 35 kg. scenario and if you would like to know I would also read out the 25 kg. scenario figures later. As per 2004-2005 poverty estimates of the Planning Commission and the March, 2009 population estimates, we would be requiring 251 lakh tones of foodgrains involving a subsidy of Rs. 36,670 crore.

Coming to the Tendulkar Committee, which says that the poverty estimates are about 37.2 per cent of our population, the 35 kg. figure comes to 311 lakh tones and Rs. 49,391 crore as subsidy. If you take the Saxena Committee, they estimate the poverty at about 50 per cent of the population and at 35 kg. it comes to 459 lakh tones and Rs. 64,989 crore as subsidy.'

2.6 Several measures such as (i) Implementation of the Nine point Action Plan; (ii) Concurrent evaluation of TPDS; (iii) Piloting of new technologies for tracking movement of vehicles transporting TPDS commodities; (iv) Display of identity on vehicles transporting TPDS foodgrains; (v) Introduction of monthly

certification by Village Panchayat/Vigilance Committees/ Urban local bodies /Self Help Groups for delivery of foodgrains to Fair Price Shops(FPS) and distribution to ration card holders; (vi) Adoption and Implementation of revised model Citizen Charter; (vii) Allotment of FPS to Institutions and Groups; (viii) Computerization of TPDS operations; (ix) Introduction of Bar Coded Coupons with ration cards; (x) Smart Card based TPDS; (xi) Publicity-cum-awareness Campaign; (xii) Training Programmes for TPDS functionaries; (xiii) Distribution of wheat flour / fortified wheat flour under TPDS; and (xiv) Strengthening Consumer Cooperatives and State Civil Supplies Corporations, are being taken by the department to eliminate the leakages and to reduce cost as well as burden on subsidy under TPDS.

**(b) MSP & CIP**

2.7 The economic cost and central issues prices of wheat and rice and Subsidy provided by Government of India is given below:

<b>ECONOMIC COST 2007 08 (Rs. PER QTL.)</b>			AAY	BPL	APL
WHEAT	1311.75	CIP (Rs. Per Qtl.)	200	415	610
		Subsidy	1111.75	896.75	701.75
		Percentage subsidy	84.8	68.4	53.5
RICE	1549.86	CIP (Rs. Per Qtl.)	300	565	830
		Subsidy	1249.86	984.86	719.86
		Percentage subsidy	80.6	63.5	46.4
<b>ECONOMIC COST 2008 09 (Rs. PER QTL.)</b>					
WHEAT	1384.42	CIP (Rs. Per Qtl.)	200	415	610
		Subsidy	1184.42	969.42	774.42
		Percentage subsidy	85.6	70.0	55.9
RICE	1732.48	CIP (Rs. Per Qtl.)	300	565	830
		Subsidy	1432.48	1167.48	902.48
		Percentage subsidy	82.7	67.4	52.1
<b>ECONOMIC COST 2009-10 (Rs. PER QTL.)</b>			AAY	BPL	APL
WHEAT	1457.30	CIP (Rs. Per Qtl.)	200	415	610
		Subsidy	1257.30	1042.30	847.30
		Percentage subsidy	86.3	71.5	58.1
RICE	1873.58	CIP (Rs. Per Qtl.)	300	565	830
		Subsidy	1573.58	1308.58	1043.58
		Percentage subsidy	84.0	69.8	55.7
<b>ECONOMIC COST 2010-11 (Rs. PER QTL.)</b>			AAY	BPL	APL
WHEAT	1543.93	CIP (Rs. Per Qtl.)	200	415	610
		Subsidy	1343.93	1128.93	933.93
		Percentage subsidy	87.0	73.1	60.5
RICE	2043.14	CIP (Rs. Per Qtl.)	300	565	830
		Subsidy	1743.14	1478.14	1213.14
		Percentage subsidy	85.3	72.3	59.4
COARSE GRAINS / CEREALS		CIP (Rs. Per Qtl.)	150	300	450

2.8 The food subsidy given to FCI and States by the Union Government has drastically increased during the last three years. In this context, the Committee asked as to how does the Government ensure that the benefits of the food subsidy is actually reaching at the grass root level of the poorest of the poor persons of BPL and AAY families. The Department in a note furnished to the Committee stated that the State/UT Governments have been directed by Department of Food & Public Distribution to strengthen TPDS by taking up various measures to ensure improved monitoring and vigilance, increased transparency in functioning of TPDS, use of Information and communication technology tools and measures aimed at efficient operation of FPS. The measures suggested, inter alia, include (i) implementation of Nine Point Action Plan from July, 2006, (ii) directions to State Governments in January 2008 and in August 2009 to take action against officials/persons involved in issue of bogus/ineligible cards, (iii) adoption and implementation of revised Model Citizens' Charter since July, 2007 (iv) introduction of monthly certification of delivery of foodgrains at fair price shops and their distribution to ration card holders from March, 2008, (v) conducting publicity cum awareness campaign by providing 80% of the expenditure on such campaign from Government of India, (vi) directing State Governments to display the allocation of foodgrains, district and FPS wise, on State websites, (vii) allotment of Fair Price Shops to Institutions and Groups to ensure timely availability of foodgrains.

**(c) Proposal for encashment of Food Subsidy**

2.9 In reply to another question, the Department stated that it is proposed to disburse equivalent amount of food subsidy in cash instead of subsidized foodgrains to the eligible BPL and AAY families. The amount of food subsidy will be deposited directly by the concerned district authority in bank/post office accounts to be opened by each of the beneficiaries. Food subsidy account in the bank/post offices are to be opened in the name of women heads of households and in case the women head is not surviving, only then it should be opened in the male head of family. With this cash subsidy, the BPL/AAY families would be able to purchase foodgrains and sugar of their choice from open market instead of taking delivery from the fair price shops as at present.

2.10 The proposal was referred to Ministry of Finance in September 2008 for placing the matter before the Committee on Non Plan Expenditure (CNE). On the advice of CNE, the proposal was referred on 28.11.2008 to Ministry of Finance, Department of Expenditure for their consideration. The proposal was examined by Department of Expenditure and that Department vide their note dated 26.12.2008 advised to defer the proposal, inter-alia, saying that in terms of their austerity instructions dated 5.6.2008, no new scheme other than which is part of Budget announcement 2008-09, was to be introduced in that year. The proposal has been resubmitted on 26.6.2009 to the Ministry of Finance. The proposal is under consideration with that Ministry. Latest, they have reminded on 22.3.2010 to expedite the matter. The above proposals of the Department of Economic Affairs were examined in this Department and comments were sent. There is no further development on that proposal.

(d) **Operation Cost of FCI**

2.11 The statement showing operating cost of FCI and subsidy paid for wheat and rice for the last four years is as under:-

Rs. In crores

Elements of operation cost	<b><i>2006-07 Audited</i></b>	<b><i>2007-08 Audited</i></b>	<b><i>2008-09 (Prov)</i></b>	<b><i>2009-10 (RE)</i></b>
Freight	3046	3319	3013	3239
Handling	1280	1322	1586	1943
Storage	1043	1014	1473	1962
Interest	3085	2845	3085	2662
Shortages	188	183	296	428
Admn. overhead	738	766	1043	1422
<b>TOTAL :</b>	<b>9380</b>	<b>9449</b>	<b>10496</b>	<b>11656</b>



**(e) Rationalization of Food Subsidy**

2.12 When asked whether the Department of Economic Affairs has considered 'Rationalization of Food Subsidy', the Committee was informed that the Department of Economic Affairs had circulated a draft Note for the CCEA on National Policy on Subsidies to concerned Departments for their comments on 17<sup>th</sup> July, 2006. and made following proposal regarding food subsidy :-

- I. Set up an expert group to fine tune the normative principles recently recommended by the Tariff Commission to determine the initial basis for reimbursement of costs for food procurement, storage and distribution, and introduce reimbursement of costs of FCI on this basis.
- II. Two separate prices – (i) MSP and (ii) procurement price higher than the MSP may be fixed for paddy and wheat for each season. The procurement price may be tailored to ensure procurement of the amount needed for PDS and buffer stocks. Procurement should be through a balance system of geographical targets. Any amount offered in excess of the procurement targets should be at the CACP –determined MSP. CACP should fix MSPs at levels that correspond to simple average costs of the major producing States excluding the top 4 or 5 higher end outliers for the relevant crops.
- III. Initially, 5 MTs each of wheat and rice may be procured in 2007-08 and 2006-07 by the standard procurement procedure, namely, open tender and selection on the basis of lowest price offered subject to prescribed quality specifications and for delivery at the consumption centres.
- IV. With the NREG in place, subsidy through welfare schemes may be restricted to chronically-hunger households, destitutes and mid-day meal scheme.
- V. To establish a complete audit trail; and prevent systematic diversion, central guidelines to be issued under TPDS to involve civil society organizations in a social audit of the TPDS and capacity development initiatives to be launched for this purpose.

**(f) Evaluation Study on Food Subsidy**

2.13 Asked whether the Government has ever assigned the task to study the impact of food subsidy to any Commission, the Committee were informed that the Expenditure Reforms Commission (ERC), in its report on 'Food Subsidy', has made the following important recommendations with a view to curtailing the burgeoning food subsidy bill which were placed before the Cabinet in its meeting held on 21.7.2000.

- I. The States that distribute quantities larger than what is allocated under BPL be paid cash instead of supply of foodgrains at subsidized rates for the BPL population.
- II. Only quantities sold through the PDS to APL and BPL population, and the quantities sold at the economic cost should be reckoned as sales to arrive at distribution stocks (operational stocks) for determining the economic cost of foodgrains.
- III. The freight charges and transit losses to the extent of one third of the opening stock of buffer, and in addition, the full transport cost and transit losses to the extent there is accretion to the buffer stock, be charged to the buffer carrying cost.
- IV. Carry over charges paid to the States be charged to the buffer carrying cost.
- V. While working out the economic cost of wheat and rice, the benefit of "pooling" should be passed on to the APL/BPL consumers.

2.14 The Cabinet approved the recommendations at (iii), (iv) and (v), and directed that the first two proposals may be examined along with the other recommendations of the ERC.

2.15 The Department has examined the remaining recommendations of the ERC in the light of the recommendations of the High Level Committee on Long Term Grain Policy (HLC) which submitted its Report on 31<sup>st</sup> July, 2002, and after consultation with the concerned Ministries/Departments as well as State Governments, appropriate decision have been taken.

**(g) Storage Capacity Available with FCI**

2.16 The total storage capacity available with FCI, stocks held therein and capacity utilization during the last three years is as under:-

(Fig. IN MILLION TONNES)

YEAR As on 31/3		COVERED		CAP(OPEN)		GRAND TOTAL	
	OWNED	HIRED	TOTAL	OWNED	HIRED	TOTAL	
<b>2006-07</b>							
Capacity	12.94	9.34	22.28	2.29	0.63	2.92	25.20
Stocks	6.47	6.36	12.83	0.15	0.62	0.77	15.60
Utlz.	50%	68%	58%	06%	99%	26%	54%
<b>2007-08</b>							
Capacity	12.95	8.71	21.66	2.20	0.03	2.23	23.89
Stocks	6.02	5.67	11.69	0.03	0.03	0.06	11.75
Utlz.	47%	65%	54%	1%	100%	2%	49%
<b>2008-09</b>							
Capacity	12.97	10.12	23.09	2.17	0.02	2.19	25.28
Stocks	9.92	9.04	18.96	0.29	0.01	0.30	19.26
Utlz.	77%	89%	82%	13%	53%	14%	76%
<b>2009-10 (As on 31.03.2010)</b>							
Capacity	12.96	12.90	25.86	2.50	0.47	2.97	28.83
Stocks	10.06	11.56	21.62	0.73	0.20	0.93	22.55
Utlz.	78%	90%	84%	29%	42%	31%	78%
<b>2010-11 (As on 15.07.2010)</b>							
Capacity	12.96	14.52	27.48	2.61	0.62	3.23	30.71
Stocks	-	-	-	-	-	-	27.55
Utlz.	-	-	-	-	-	-	90%

2.17 Asked whether the storage capacity is sufficient to store the buffer and operational stock of foodgrains, the Committee was informed that as on 28.02.10, the FCI is holding 214.00 LMT stocks against 284.56 LMT capacity (owned/hired) both covered as well as CAP. At micro level, there is acute shortage of covered space in procuring regions i.e. Punjab, Haryana, Andhra Pradesh, Chhattisgarh and Orissa etc. In several consuming States also, adequate storage capacity is not available. The proposals for creation of storage capacity in the various States are considered by the State Level Committee (SLC), and are finally approved by the High Level Committee (HLC) of FCI. The HLC has given its approval for construction of storage godowns for a capacity of 127.65 lakh tones. The State-wise details of storage capacity approved by HLC are as under:-

(Figures in tonnes)		
State	Storage Capacity Approved by HLC	
Andhra Pradesh	...	36,000
Bihar	...	3,00,000
Chhatisgarh	...	5,000
Gujarat	...	45,000
Haryana	...	38,80,000
Himachal Pradesh	...	1,42,550
J & K	...	3,61,690
Jharkhand	...	1,75,000
Karnataka	...	2,05,000
Kerala	...	15,000
Maharashtra	...	99,500
Punjab	...	71,25,000
Tamil Nadu	...	3,45,000
Uttarakhand	...	25,000
West Bengal	...	<u>5,000</u>
<b>GRAND TOTAL</b>	...	<b>1,27.65 LMT</b>

2.18 The Committee pointed out that the Punjab State contributes maximum wheat and rice to the Central Pool but due to non-availability of storage capacity, a large quantity of foodgrains is lying rotting but the Government/FCI is not picking it up. In this context, the Committee enquired the future planning for creation of storage capacity in the State. The Additional Secretary, Department of Food and Public Distribution stated during evidence as under:-

'We have a scheme of creating more storage capacities through our State Warehousing Corporation and Central Warehousing Corporation and another one in which we are involving the private sector is known as seven-year guarantee scheme. That guarantee scheme has also come into place and through this, like many other States, Punjab is also being considered for augmenting the storage capacities. There is also a debate in the Ministry whether the storage capacity should be in the procurement States or in the consumption States because sometimes, when the wheat is produced in a particular State, they are stored in the silos or whatever storage facility is there and then it is sent to the consumer State. There is some issue that whether there are two handling stages and whether that will add to the cost. But the policy of the Ministry is to increase the storage capacities both in Punjab and Haryana and also in the consumption States.'

**(h) Need for Water Security in Punjab**

2.19 In this context, the CMD, FCI further supplemented that the FCI has issued tenders for construction of godowns worth 71 lakh MT in Punjab and 41 lakh MT in Haryana. Besides, there is proposal for transfer of 25 lakh tones capacity in the States of Rajasthan and Gujarat where land is available and these States have deficit rainfall.

2.20 The Committee drew the attention of witness towards the serious problem of water scarcity in Punjab and asked about the special arrangements made by the Government for water security so that the State could produce more wheat and rice. The Additional Secretary, Department of Food and Public Distribution replied as under:-

‘Of course, water security is an important issue which we would like to flag. We will take it up with the Ministry concerned because we are not actually dealing with water security. Of course, it is an issue which is important and we would like to flag it. ‘

**(i) Storage and Transit losses of FCI**

**Storage Losses**

2.21 Storage loss is revealed as and when the stock of foodgrains in a stack is completely issued or cleared and represents the difference between the stock balance as per books and physical stock balance. Percentage of loss is calculated commodity wise on the shortage observed in the stacks completely issued to the total weight held in the stacks during the month in a depot. Storage losses of foodgrains occur mainly due to the following reasons:

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

**Transit Losses**

2.22 The difference between the dispatch weight and receipt weight represents the transit loss during movement of stocks from one centre to another centre either by road or rail. The following are the reasons which contribute to transit losses:

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

(ii) The details of storage and transit losses (wheat + rice) for the last four years, i.e., 2006-07 to 2009-10, are given as under:

Storage Losses

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

<b>Year</b>	<b>Qty of Loss</b>	<b>Value of Loss</b>	<b>Qty issued</b>	<b>% age of Loss</b>
2006-07*	1.34	155.80	654.89	0.20
2007-08*	1.39	182.43	655.92	0.21
2008-09 (Provisional)	0.58	101.25	456.84	0.13
2009-10 (Provisional)	1.32	228.39	490.57	0.27

(\*Audited)

Transit Losses

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

<b>Year</b>	<b>Qty of Loss</b>	<b>Value of Loss</b>	<b>Qty. Moved</b>	<b>%age of Loss</b>
2006-07*	1.39	133.87	322.58	0.43
2007-08*	1.21	123.95	315.83	0.38
2008-09 (Provisional)	0.96	132.65	239.26	0.40
2009-10 (Provisional)	1.23	182.46	266.24	0.46

(\*Audited)



2.23 When enquired about the steps taken to minimize these losses, the Committee was informed that the following steps have been taken to minimize storage and transit losses:

### **Security and Safety of Storage Complexes**

- Physical measures like installation of barbed wire fencing of the boundary walls, provision of street lights for illumination of godowns and proper locking of the sheds are taken to secure the godowns.
- Security staff of FCI as well as other Agencies like Home Guards, Special Police Officers are deployed for safety of the stocks.
- Deployment of Central Industrial Security Force and State Armed Police has been done at some depots / godowns, which are vulnerable.
- FIRs have been lodged with the Police.

### **Inspections**

- Security Inspections as well as surprise checks of the Depots are also conducted from time to time at various levels to detect and plug the security lapses.
- Special Squad checking at selected rail-heads, transshipment and destination/ despatch centers.
- Identification of vulnerable points.
- Inspection of Depots by Senior Officers of the HQs, Executive Directors (Zone) / General Managers (Region)/ Area Managers

### **Quality Control Measures**

- Periodical prophylactic and curative treatment of stocks, as prescribed.
- Maintaining priority list for issue of stocks observing the FIFO principle.
- Undertaking pre-monsoon fumigation.
- Improvement in dunnage material.

- Ensuring proper quality checking of foodgrains at the time of procurement

### **Preventive Measures and Monitoring of Losses**

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

### **Safeguards for Movement & Storage**

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

**(j) Internal Audit and Physical verification of stock of FCI**

2.24 The Internal Audit and Physical Verification of stock is conducted by Internal Audit and Physical Verification Division of Food Corporation of India. The physical verification involves verification of all the stocks both by count as well as by weighment. The peripheral counting is to be done on 100% basis. The weighment is done as per Random Sampling Method(RSM) as prescribed by the Indian Statistical Institute(ISI). The Random Sampling Method applicable to rice/wheat requires selection of 16 bags from each of 20/25 stacks of rice/wheat in the manner prescribed therein for estimation of the entire stock in a depot with a precision of +0.5%. The system of Physical Verification under this method is combined with selective stack weighment. The stack which shows the abnormal loss/gain is taken up for 100% weighment. The shortages or gain found during physical verification are clearly brought in the physical verification report.

2.25 The shortage/gain on physical verification are adjusted in the books only when 100% weighment of bags is carried out and not on the basis of Random Sampling Method which is intended for only estimating the balance. The shortages are shown separately in the master ledger as “shortages noticed during Physical Verification” and the book balances is not reduced to ground balances until these are investigated and written off under a sanction from the Competent Authority.

2.26 As per the guidelines, depots having capacity of 10,000 MT are to be physically verified once in a year and depots having capacity of less than 10,000 MT are to be physically verified once in 2 years.

2.27 Physical Verification of stock is a continuous process. During the financial year 2009-10, physical verification was conducted in 361 depots out of 528 depots in which Physical Verification was planned. The physical verification could not be conducted as per the guidelines in East and North East Zones due to shortage of manpower.

**2.28 The Committee note that the amount of Food Subsidy which was Rs. 31,260 crore in 2007-08 has increased to Rs. 68,198 crore in 2010-11 due to the increasing gap between Minimum Support Price (MSP) and Central Issue Price (CIP) of wheat and rice supplied to AAY, BPL and APL families under PDS. Various measures taken by the Government to contain the Food Subsidy Bill have not shown any positive result. The Committee are surprised to note that the Government has no updated data of the population living below the poverty line. Though poverty estimates have been made by various other committees, viz. Arjun Sengupta Committee, Saxena Committee and Tendulkar Committee, the requirement of foodgrains and subsidy is decided on the basis of survey conducted by Planning Commission which is the lowest poverty estimate in the country based on poverty estimates of 1993-94. The Committee are of the opinion that the distribution of foodgrains at subsidized rates involving huge public expenditure would be a futile exercise until and unless the benefits of the TPDS reach the poorest of the poor in the country. The Committee, therefore, recommend that the Government should also take into account the findings of other committees and the existing level of income and expenditure structure for finalizing the poverty estimates of AAY and BPL population in a time bound manner for deciding the allocation of foodgrains under TPDS so that the benefits of food subsidy actually reach the maximum number of AAY and BPL population.**

**2.29 The Committee note that the proposal of the Department of Food and Public Distribution to distribute equivalent amount of food subsidy in cash, instead of subsidized foodgrains, to the eligible BPL and AAY families is still pending consideration. The Committee hope that the Department of Food and Public Distribution will pursue the matter with the Ministry of Finance for an early decision on the proposal.**

**2.30 The Committee are concerned to note that there is acute shortage of covered space in the procuring regions i.e. Punjab, Haryana, Andhra Pradesh, Chhattisgarh and Orissa etc. In several consuming States also, the adequate storage is not available. A large quantity of foodgrains lying in open are getting rotten but the FCI has no arrangements to keep it in the covered godowns. In a country where incidents of hunger and malnutrition are still reported, such careless losses are a matter of serious concern. Further, intervention by Hon'ble Supreme Court in the matter, underlines the gravity of the situation. The Committee, therefore, deplore the lackadaisical manner of handling this issue by Government/FCI. Though every year, the Planning Commission very liberally allocates huge funds to FCI for construction of godowns, a large quantity of foodgrains is destroyed for want of adequate covered capacity of godowns in the procuring States. The Committee note that the High Level Committee (HLC) of FCI has given its approval for construction of storage godowns for a capacity of 127.65 lakh tones in various parts of the country, a major part being in the States of Punjab and Haryana. However, the proposal of HLC does not seem to be practical due to the very high cost of land in these States. The Committee, therefore, feel that different approach needs to be followed in respect of the States of Punjab and Haryana which are the major wheat and rice producing States and where the problem of storage occurs year after year. The Committee, therefore, strongly recommend that the Department should create storage capacity in these States and**

also in other States where non-cultivable land is available in a decentralized and time bound manner by using only the modern scientific technology.

**2.31 The Committee note that Punjab contributes maximum amount of wheat and rice for the Central Pool but as the water level of the land has gone down considerably, the State is facing an acute shortage of water for cultivation. The Committee feel that deficiency in rainfall creates drought like situation in many parts of the country which has an adverse impact on the production of foodgrains. The Committee are of the opinion that adequate help needs to be given for upgradation and repair of canal system which is 150 years old, so as to stop large scale wastage of water. The Committee, while considering the shortage of water as a serious problem, recommend that the Department of Food and Public Distribution should take up the matter with other concerned agencies, such as the Ministry of Water Resources, to provide adequate water security and solve the problem of water scarcity so that production of wheat and rice is not affected.**



**2.32 The Committee are unhappy to note that despite several steps taken by FCI to minimize the storage and transit losses, there is no reduction in such losses. The Committee are of the opinion that due to poor maintenance of godowns, a large quantity of valuable foodgrain is lost every year. The Committee, therefore, strongly recommend that FCI should adopt scientific and modern technology for storage and ensure timely transportation of foodgrains. Any damage of foodgrains that occurs due to human error should be thoroughly investigated and responsibility fixed for such losses and the guilty officials be punished.**

**2.33 The Committee are not satisfied with the system of Internal Audit and Physical Verification of stock of foodgrains conducted by FCI, wherein the depots having capacity of 10,000 MT are physically verified in a year and depots having less than 10,000 MT capacity are physically verified once in two years. The Committee are not convinced with the plea of the FCI that the physical verification could not be conducted due to shortage of manpower. The Committee are of the opinion that the physical verification of the stock is very essential which should be conducted frequently so that any damage to foodgrains from insects, rats, moisture etc. could be timely detected. It must be ensured that the foodgrains are kept in scientific manner and the rule of First Come and First Out (FIFO) is carefully followed. The Committee, therefore, strongly recommend that FCI should deploy more persons, if required, so as to check the stock of foodgrains kept in all their depots at least once in six months.**

## **CHAPTER – III**

### **STRENGTHENING OF TARGETED PUBLIC DISTRIBUTION SYSTEM (TPDS)**

3.1 The PDS till 1992 was a general entitlement scheme for all consumers without special targets. The Revamped Public Distribution System (RPDS) was launched in 1992 in 1775 blocks in tribal, hill and drought prone areas. PDS as it stood earlier, had been widely criticized for its failure to serve the population Below the Poverty Line (BPL), its urban bias, limited coverage in the States with high concentration of the rural poor and lack of transparent and accountable arrangements for delivery.

3.2 In June 1997, the Government of India launched the **Targeted Public Distribution System (TPDS) with focus on the poor**. Under the TPDS, States are required to formulate and implement foolproof arrangements for identification of the poor for delivery of food grains and for its distribution in a transparent and accountable manner at the FPS level.

3.3 The scheme, when introduced, was intended to benefit about 6 crore poor families for whom a quantity of about 72 lakh tonnes of food grains was earmarked annually. The identification of the poor under the scheme is done by the States as per State-wise poverty estimates of the Planning Commission for 1993-94 based on the methodology of the “Expert Group on estimation of proportion and number of poor” chaired by Late Prof Lakdawala. The allocation of food grains to the States/UTs was made on the basis of average consumption in the past i.e. average annual off-take of food grains under the PDS during the past ten years at the time of introduction of TPDS.

3.4 The quantum of food grains in excess of the requirement of BPL families was provided to the State as ‘transitory allocation’ for which a quantum of 103

lakh tonnes of food grains was earmarked annually. Over and above the TPDS allocation, additional allocation to States was also given. The transitory allocation was intended for continuation of benefit of subsidized food grains to the population Above the Poverty Line (APL) as any sudden withdrawal of benefits existing under PDS from them was not considered desirable. The transitory allocation was issued at prices, which were subsidized but were higher than the prices for the BPL quota of food grains.

3.5 Keeping in view the consensus on increasing the allocation of food grains to BPL families, and to better target the food subsidy, Government of India increased the allocation to BPL families from 10 kg. to 20 kg of food grains per family per month at 50% of the economic cost and allocation to APL families at economic cost w.e.f. 1.4.2000. The allocation of APL families was retained at the same level as at the time of introduction of TPDS but the Central Issue Prices (CIP) for APL were fixed at 100% of economic cost from that date so that the entire consumer subsidy could be directed to the benefit of the BPL population.

3.6 The end retail price is fixed by the States/UTs after taking into account margins for wholesalers/retailers, transportation charges, levies, local taxes etc. Under the TPDS the States were requested to issue food-grains at a difference of not more than 50 paise per kg over and above the CIP for BPL families. Flexibility to States/UTs. has been given in the matter of fixing the retail issue prices by removing the restriction of 50 paise per kg over and above the CIP for distribution of food grains under TPDS except with respect to Antyodaya Anna Yojana where the end retail price is to be retained at Rs. 2/ a Kg. for wheat and Rs. 3/ a Kg. for rice.

3.7 When asked as to how the Government ensures that the quality of foodgrains supplies to AAY families at the lowest price is not below the prescribed standards, the Committee was informed that there is a well defined procedure to be followed at the time of issue of TPDS stocks to

States/UTs to ensure that quality of foodgrains supplied to consumers including AAY families is not below the prescribed standards, which is as under:

- (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/U.T. 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 to the FPSs, to oversee the quality of foodgrains being distributed through PDS.

**A. Measures to strengthen monitoring and vigilance**

3.8 The Department has initiated the following measures to streamline and strengthen Targeted Public Distribution System (TPDS) with a view to ensure that foodgrains allocated under TPDS reach the targeted beneficiaries:-

**(i) Implementation of the Nine Point Action Plan**

The nine point Action Plan, is under implementation by State & UT Governments since July 2006.

S.No	Action Plan	Result
1	States should undertake a campaign to review BPL/AAY list to eliminate ghost ration cards.	As per the reports received from the State & UT Governments by February 31 <sup>st</sup> May, 2010, implementation of the action plan has resulted in elimination of a total of 174.10 lakh bogus/ineligible ration cards in 23 States.
2	Strict action should be taken against the guilty to ensure leakage free distribution of food grains.	33 states have reported that action is being taken to ensure leakage free distribution of food grains.
3	For sake of transparency involvement of elected PRI members in distribution of food grains be ensured.	There is Involvement of PRIs in vigilance committees to monitor FPS in 27 States/UTs.
4	BPL/AAY lists should be displayed on all FPSs.	BPL lists at FPS is displayed in 30 States/UTs.
5	District-wise and FPS-wise allocation of food grains should be put up on websites and other prominent places, for public scrutiny.	Action in this regard has been initiated in 20 States.
6	Wherever possible, doorstep delivery of food grains should be ensured by States, instead of letting private transporters/wholesalers to	Door-step delivery of food grains to FPS is being done in 17 States/UTs.

	transport goods.	
7	Timely availability of food grains at FPS level and fixed dates of distribution to ration card holders should be ensured.	Action is being taken by 32 States in this regard.
8	Training of members of FPS level Vigilance Committees should be ensured. Proposals for funding training can be sent to the Government of India	24 States/UT Govts have taken up training programmes for FPS level vigilance committees.
9	Computerisation of TPDS operations is undertaken.	10 States have reported that computerization operation of TPDS.

**(ii) Action against those with Bogus Ration Cards**

Secretary (F&PD) in a letter dated 5/10/09 addressed to all Chief Secretaries and Joint Secretary (F&PD) in a letter dated 26/08/09 to all Food Secretaries have conveyed a decision of the Government to carryout an intensive campaign from October to December, 2009 to review the existing list of BPL and AAY families and ration cards so as to eliminate bogus ration cards.

**(iii)** Detailed guidelines were issued by the Department for **greater involvement of Panchayati Raj Institutions (PRIs)** in the functioning of TPDS to bring in more transparent and accountable system of distribution as a measure of social audit. In the guidelines issued in 2005, the states were asked to involve PRIs in the **vigilance committees**.

**B. Increased transparency in the functioning of TPDS**

**(i) Adoption and implementation of revised Model Citizens' Charter.**

To make TPDS operations transparent and amenable to public scrutiny by use of provisions of Right to Information Act, 2005, a revised Model Citizens' Charter was issued by the Department in July, 2007 for adoption and implementation by all State/UT Governments. Its speedy implementation was agreed to by all State/UT Food Secretaries in the meeting on 8.2.2008. By now, 26 State/UT Governments have reported adoption and implementation of the revised Model Citizens' Charter.

**(ii) Introduction of monthly certification of delivery of food grains at price shops and their distribution to ration card holders.**

To ensure greater transparency in functioning of fair price shops, directions were issued to State & UT Governments in March 2008 to introduce monthly certification by village panchayats/urban local bodies/vigilance committees/women's Self Help Groups for delivery of food grains to fair price shops in time and their distribution to ration card holders during the allocation month. So far, 19 State/UT Governments have reported implementation of this monthly certification.

**(iii) Publicity-cum-awareness Campaign:**

To facilitate greater public scrutiny of functioning of TPDS, publicity-cum-awareness campaign on TPDS has been taken up under a plan scheme on strengthening of TPDS. Rs. 52.4 lakh were sanctioned to 9 State Governments during 2007-08, Rs. 73.66 lakhs have been sanctioned to 10 State Governments during 2008-09 and Rs. 6.68 lakh to 3 States/UT Governments during 2009-10. 20% of the expenditure on such campaigns is being shared by State Govts.



**(iv) Display of allocation of foodgrains- district and FPS wise on websites for public scrutiny**

This is being done in 20 states/UT government wherein these states are displaying the particulars of allocation in the state web sites.

## **C      Use of ICT tools**

### **(i)      Pilot Scheme on introduction of Smart Card based delivery of essential Commodities under TPDS in Haryana & Chandigarh.**

To improve quality of delivery of services under TPDS and to assess replicability of new technologies, a pilot scheme on smart card based delivery of TPDS commodities has been approved for Chandigarh and Haryana in December, 2008 with an outlay of Rs.142 crores. Under this scheme, the existing ration cards are to be replaced by smart cards. These smart cards will contain bio-metric features of adult members of the ration card holder families. Delivery of TPDS commodities to smart card holder families will be issued from fair price shops only after verification of genuineness of the smart card holder through smart card transaction terminal. The smart cards as well as smart card transaction terminals will store details of transactions of TPDS commodities issued.

### **(ii)      Piloting of new technologies for tracking movement of vehicles transporting TPDS Commodities.**

Introduction of Global Positioning System (GPS) has been taken up for implementation on pilot basis in Chattisgarh, Tamil Nadu and Delhi for tracking movement of vehicles transporting TPDS commodities. This pilot scheme has been taken up to assess effectiveness of this technology in eliminating leakages/diversion of food grains during transportation. Under the Plan Scheme on strengthening of TPDS, Rs. 44.76 lakh have been sanctioned to these three State Governments during 2007-08.

3.9      When specifically enquired whether any survey has been conducted by the Government of India regarding the households who do not have ration cards, the Department informed the Committee that no such survey has been conducted by the Government of India regarding the households who do not have ration cards. However, for issuing ration cards to eligible AAY, BPL and APL families under TPDS, necessary provisions have been made under the PDS (Control) Order 2001. As per para 2 of the Annexure of this Order, the

State Governments have to ensure that no eligible applicant is denied a ration card and they have to conduct periodical checking of ration cards to weed out ineligible and bogus ration cards and bogus units in the ration cards. Elimination of bogus ration cards as well as bogus units in them shall be a continuous exercise by the State Governments to check diversion of essential commodities.

3.10 The State Governments have been directed from time to time to carry out this exercise on a continuous basis. Under the 9-point Action Plan, the first action point is to continuously review lists of BPL and AAY families to eliminate bogus/ineligible ration cards. Special instructions have also been issued to the State Governments for taking penal action against the staff responsible for issuance of bogus/ineligible ration cards and those found in possession of such rations. As a result, as per reports received upto 31.05.2010 from 23 State Governments, 174.10 lakh bogus/ineligible ration cards have been deleted since July, 2006.

**3.11 The Committee note that the Government of India launched the Targetted Public Distribution System (TPDS) in June, 1997 with a view to making foolproof arrangements for identification of poor population for delivery of foodgrains through FPS at subsidized rates. The poorest of the poor person are distributed the foodgrains at the lowest price i.e. Rs. 2 per kg of wheat and Rs. 3 per kg of rice under the Antyodaya Anna Yojana (AAY) Scheme. The Government has adopted Nine Point action plan in July 2006 to make TPDS more effective. The Committee regret to note that despite various measures taken by the Government to streamline and strengthen the TPDS, there is no satisfactory improvement in its functioning. There is error in inclusion and exclusion of targeted families in the list of BPL and AAY families. Besides, the diversion and leakage of foodgrains has become a more serious problem in the States. The Citizen's Charter issued by GOI in July 2007 to increase the transparency in the functioning of TPDS has not yet been adopted by all the States/UTs. In the opinion of the Committee, this could be attributed to weak monitoring over the scheme on the part of the Department and lack of coordination with the State Governments. Consequently, a large number of poor families are being deprived of the benefits of the subsidized foodgrains. The Committee, therefore, recommend that the Department should make concerted efforts to implement the Nine Point Action Plan and closely monitor the scheme so that the AAY and BPL families get their due share of foodgrains. The Department should also impress upon all the States/UTs to follow the**

**guidelines laid down in the revised Citizen's Charter to ensure food security to weaker sections of the society under TPDS.**

**3.12 The Committee are perturbed to note that the Government has not conducted any survey to identify the poor families who do not have the ration cards. The Committee feel that the ration card is the only tool through which the poor people can get the subsidized foodgrains from Fair Price Shops. In the opinion of the Committee, it is the responsibility of the Government not only to eliminate the bogus ration cards but also to ensure that no eligible applicant is denied a ration card. The Committee observe that since July, 2006 Government has detected 174.10 lakh bogus/ineligible ration cards from 23 States but they do not have the data of poor persons who have not been issued the ration cards so far. The Committee strongly recommend that the Government should launch a special drive to identify and issue ration cards to poor families under AAY or BPL who have not yet been issued the cards so as to ensure that the benefit of the Public Distribution System reaches the intended people at the grass root level. The Committee feel that the use of modern technology such as smart cards can go a long way in the verification of the genuineness of the card holders and ensuring the effectiveness of PDS.**

## **CHAPTER – IV**

### **HILL TRANSPORT SUBSIDY**

4.1 The Committee have been informed that the Hill Transport Subsidy (HTS) Scheme is in operation since 1.8.1975 and is presently applicable to the following States/UTs:-

1. Arunachal Pradesh
2. Himachal Pradesh
3. Jammu & Kashmir
4. Manipur
5. Meghalaya
6. Mizoram
7. Nagaland
8. Sikkim
9. Tripura
10. Andaman & Nicobar Islands
11. Lakshadweep

The Scheme is meant for the States/UTs which are predominantly hilly with little or no railway and poor road communications.

4.2 Important distributing centres are declared as Principal Distribution Centres (PDCs) in consultation with the State Governments/UT Administrations. FCI is required to open godowns at these designated PDCs, wherever possible, or reimburse the State Governments/U.T.s the cost of transportation of foodgrains, on actual basis, for lifting of foodgrains from Base Depots of the FCI to these designated PDCs. Road Transportation Charges (RTC) are paid to the State Governments by the FCI for lifting foodgrains from FCI depots/ rail-heads other than the designated Base Depots.

4.3 The Scheme covers only the quantities of foodgrains supplied by the FCI to the States/UTs for distribution to the consumers through the network of Public Distribution System.

4.4 The Committee have been furnished the following statement showing the details of HTS released to States/UTs, total amount to be released, reasons for non release of HTS thereof

**STATE : SIKKIM**

YEAR	Amount pending (IN Rs.)	Reasons for pendency
2006-07	8420287	1) Out of this, Rs.21,21,275.00 is pending for want of supporting documents
		2) Out of this, Rs.5329252.00 is a claim of departmental trucks for which Hqts has directed to get additional documents like Log book, which is not being maintained by State Govt and they have shown their inability to submit and matter is pending for clearance from Hqts.
		3) Out of this an amount of Rs.969760.00 is a claim of Flour Mills for which no guideline is available.
2007-08	1365316	This amount is a claim of Flour Mills for which no guideline is available.
2008-09	566402	
2009-10	0	
Total	1,03,52,005	

**STATE: JAMMU & KASHMIR**

YEAR	Amount pending	Reasons for pendency
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2006-07	NIL	NA
2007-08	NIL	NA
2008-09		Balance pending claim pertains to District Jammu which is under process for want of clarification from State Government. However, provision for 67862230.00 stands in the books of 2008-09.
2009-10		Bill for Rs.35985480.00 for the period from 4/09 to 9/09 were received, but same were returned for want of clarification in the light of headquarters revised instructions.

\* Amount released from DO, Srinagar

**Note-** Claim received from DO, Jammu amounting to Rs.7,30,08,711 for the year 2008-09 payment under process

**STATE: HIMACHAL PRADESH**

YEAR	Amount pending (In Rs.)	Reasons for pendency
2006-07	45,52,277	Due to late/incomplete submission of HTS bills by State Govt.
2007-08	61,40,872	-do-
2008-09	19,26,240	-do-
2009-10	1,40,33,166	-do-
Total	2,66,52,555	

**STATE : MEGHALAYA** There is no claim of Meghalaya Government during the last four years i.e. 2006-07 to 2009-10 as State Government has not incurred/spent any amount on this account.

**STATE: MIZORAM**

YEAR	Amount pending (In Rs.)	Reasons for pendency
2006-07	3,81,40,600	The claims/bills have not been admitted due to non-furnishing of papers by State Government despite repeated reminder/persuasion evidencing linkage of flow of payment from treasury to the Bank and from Bank to the transporters of the State Government in order to establish the identity of the recipient as per HQ report.
2007-08	3,23,50,600	
2008-09	Nil	
2009-10	Nil	
Total	7,05,01,200	

**STATE: TRIPURA**

YEAR	Amount pending (In Rs.)	Reasons for pendency
2006-07	19,17,933	Bills are under securitizations by Joint Committee of FCI and State Authority since the payment to the transporters by State Govt. has not yet been established.
2007-08	Nil	Bills not submitted.
2008-09	Nil	Bills not submitted.
2009-10	Nil	Bills not submitted.
Total	19,17,933	

**STATE: ARUNACHAL PRADESH**

YEAR	Amount pending (In Rs.)	Reasons for pendency
2006-07	Rs.25.00 crores approx.	<p>MOCAF&amp;PD vide letter No.179/5/2009/PY-III(VOL.IV) dtd. 09.09.2009, 18.09.2009 and 20.11.2009 and FCI, Headquarter New Delhi vide letter No. 4/1/AR.Pr./Meeting/2007/S.V/Voll.II(H) dt. 02.12.2009 has approved the reasonable transportation rates recommended by the High Power Committee. Accordingly an amount of Rs. 39.38 crores w.e.f. 2004-05 to 2006-07 worked out as per HPC recommended rates was approved to adjust against the excess/inadmissible amount paid by FCI to GOAP.</p> <p>Moreover, Ministry vide above referred letters also allowed head load to PDC Damin and Vijohnagar but head load rate was not recommended by the ministry. So, the matter has been referred to FCI Hqr for conveying necessary approval/instruction in this regard for early settlement of the same. .</p>
2007-08	--	<p><b><u>Prov. Advance of Rs 24.07 crores to GOAP:</u></b></p> <p>An amount of Rs 24.07 crores was paid to GOAP as prov. Advance as per instruction of GOI. Accordingly, GOAP had submitted 540 Nos. of attested duplicate bills and utilization certificate in lieu of original bills. A prima-facie scrutiny at Regional Office revealed that 11.59 crores are inadmissible due to mismatch between actual lifting and sub allocation, excess distance claims, absence of relevant period rate notification etc. The Authorities of</p>

		<p>GOAP were requested vide this office letter dtd 15.01.09, 26.08.09, 21.11.09 and 22.12.09 to submit the documents as required for admissibility of the bills. Moreover, GOI vide letter dtd. 15.05.2007 constituted a committee consisting of ED(F), FCI, Headquarter and a nominees from Chief Controller of Accounts, MOCAF&amp;PD to verify the reasonableness of rates claimed by GOAP. The decision in this regard is awaited.</p> <p>The matter of accepting duplicate bills and utilization certificate has been referred to FCI Hqrs vide this office letter dtd 14.08.08, 16.09.08, 27.12.08, 16.09.09, 22.12.09. Instruction in this regard not yet received from FCI, Hqrs. On receipt of the same the adjustment of the 24.07 crores will be made by RO, Assam, after due scrutiny of the bills at the District Office level.</p>
2008-09	Nil	---
2009-10	Nil	---

**STATE: LAKSHADWEEP**

YEAR	Amount pending (In Rs.)	Reasons for pendency
2006-07	---	Paid in 2007-08
2007-08	---	Paid in 2008-09
2008-09	---	Paid in 2009-10
2009-10	---	Bills not submitted by Lakshadweep

		Administration.
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4.5 When asked about the corrective action being taken to prevent the misuse of HTS, the Committee were informed that the scheme is being implemented satisfactorily in the concerned State / UTs as per the norms / guidelines of Central Government. In the case of Arunachal Pradesh certain irregularities in the operation of the Head Load Carriage System were observed. The matter is presently under examination in consultation with the State Government for identification of the problem areas and introduction of necessary safeguards / corrective action. In view of the difficult geographical terrain, remote and inaccessible areas in the hilly states and consequent high cost of transportation, the continuation of the Hill Transport Subsidy Scheme is justified to ensure that the end retail price of the foodgrains supplied under the TPDS remains within reasonable limits. The issue of bringing about improvements in its functioning is constantly engaging the attention of Government.

**4.6 The Committee are disappointed to note that claim of huge amount is still pending with Food Corporation of India (FCI) for being paid to States/UTs on account of cost of transportation of foodgrains under Hill Transport Subsidy (HTS) Scheme since 2006 for one or the other reasons. The Committee observe that the total outstanding amount to be reimbursed is Rs. 43,14,32,404, out of which Rs. 1,03,52,005 is to be reimbursed to Sikkim, Rs. 7,30,08,711 to Jammu & Kashmir, Rs. 2,66,52,555 to Himachal Pradesh, Rs. 7,05,01,200 to Mizoram, Rs. 19,17, 933 to Tripura and Rs. 25 crore to Arunachal Pradesh on account of cost of Transport for lifting the foodgrains from the base depots of FCI. The Committee are not happy with the situation and recommend that the Department/FCI should make sincere efforts for liquidation of the outstanding dues of these States/UTs so that they may be able to lift the foodgrains periodically and the poor people of the hilly and inaccessible States may also get the benefits of subsidized foodgrains under Hill Transport Subsidy (HTS) Scheme.**

## **CHAPTER - V**

### **DECENTRALIZED PROCUREMENT SCHEME**

5.1 The Committee have been informed that the concept of decentralized procurement scheme was mooted with a view to increase the participation of States in procurement as well as in PDS. The salient features of DCP scheme are as follows:

- a) The DCP States take the responsibility of procurement of food grains under MSP, ensuring its scientific storage and distribution of these food grains through the TPDS. However in actual practice, the FCI also supplements the DCP operations in such States by extending its own resources when ever the need arises.
- b) The surplus food grains procured by the DCP States in excess of its TPD/OWS requirements will be handed over to FCI for central pool.
- c) Deficit, if any, is made good by FCI by moving the shortfall quantity from surplus States.

5.2 The States which are undertaking decentralized procurement are given as follows:

DCP for Wheat		DCP for Rice	
State	Since	State	Since
U.P.	1999-2000	U.P.	1999-2000
M.P.	1999-2000	Uttrakhand	2002-03
Uttrakhand	2003-04	Chhattisgarh	2001-02
Chattisgarh	2001-02	Orissa	2003-04
Gujarat	2004-05	Tamilnadu	2002-03
Maharashtra	2008-09	W.B.	1997-98
		Kerala	2004-05
		A&N Island	2003-04
		Karnataka	2004-05
		M.P.	2007-08

5.3 When asked whether rice and wheat are allocated to these States/UTs by Government of India/FCI who have surplus foodgrains, the Department in a post evidence reply stated that under the DCP scheme, the State Governments are not only required to procure the quantity of wheat and rice but they also undertake to meet the requirement of TPDS out of the stocks procured. They retain the quantity of wheat and rice, out of the quantity procured, for distribution to the extent of allocation made by Department of Food & Public Distribution for TPDS and OWS and the balance comes in the Central Pool stock. In case of a shortfall to meet their requirement of TPDS and OWS, the Central Government through the central pool makes good for the shortage.

5.4 In reply to a question, the Department has stated that the following are the merits and demerits of Decentralized scheme vis a vis normal procurement scheme:

#### **I. MERITS OF DCP SCHEME**

- a) The state is made self sufficient in production, procurement and distribution of food grains and thereby reducing the over dependence on central govt. agencies towards procurement and distribution of food grains.
- b) Can boost local cultivation and enhance coverage of MSP to the farmers.
- c) Since the consuming states themselves are the custodian of the stock procured, there will be fewer complaints on quality and quantity front.
- d) Higher local production and procurement will save a huge cost toward freight in bringing the stocks from outside the regions
- e) Generation of additional revenue to the State Govt. by way of levy and taxes



- f) Generation of direct and indirect employment.
- g) Encourages the State to contribute more towards the central pool, thereby enhancing the food security.

## **II. DEMERITS OF DCP SCHEME**

- a) The success of DCP scheme greatly depends upon the infrastructure and resources available with the respective state govt. in carrying out such voluminous operations. Centralized procurement is feasible in such states, where the state does not have requisite infrastructure and resources.
- b) The success of DCP scheme again depends upon speedy release of funds to the respective DCP states. Many a times it is observed that finalization of Audited Accounts are getting delayed causing delay in making final payment mainly due to the lapses and delays from the respective DCP state govt. in submitting the audited accounts complete in all respects.
- c) Poor planning and production/procurement forecast by the DCP states may also result in handing over of their procured stocks to FCI first and then taking it back for distribution purposes, once they face shortfall. This can add to infructuous expenditure, towards additional handling/transportation etc.

5.5 The Department has informed the Committee that a meeting had been held recently with the concerned Food Secretaries of DCP States where in the existing system of submission of audited accounts by DCP States was reviewed. The DCP States have been requested to send their audited accounts to this Department in a fixed time frame for their expeditious payments.

5.6 The Committee pointed out that one of the demerits of the DCP Scheme is delay in release of funds to the respective DCP States. When enquired about the steps taken by the Government of India for release of subsidy funds to the States/UTS under DCP Scheme, the Committee was informed that in order to ensure that DCP States do not face problem of funds, the Department releases funds directly to the States procuring under

DCP system in three stages – (i) 90% of the claim of the State as Advance for every quarter, (ii) 95% of the provisional subsidy at the end of the quarter, while adjusting 90% advance already given, (iii) the balance 5% or 10% while finalizing the claim at the end of the year. The subsidy released as advance/provisional is released by the Government of India based on State's estimates and without insisting on submission of the audited finalized accounts for the preceding years so as to ensure that procurement is not affected. There has been no delay in the release of advance & provisional subsidy subject to availability of funds. The State Governments are to submit their final audited claims within six months of the closure of procurement season for settlement of the remaining 5 or 10% of the claim. However, there have been enormous delays on the part of State Governments in submitting these claims and in most of the cases, claims for number of years are submitted in one bunch much later. This is the primary cause for the delay in settling the final claims. For speeding up the finalization of State Government claims, the concerned State Governments have been asked to submit their claims in time and in prescribed formats with all necessary documentation.

5.7 The Committee asked about the manner in which the Government of India/FCI help the State Governments and UT Administrations for making better planning and right estimate of production/procurement under DCP scheme. The Department stated that the production estimates are taken from the Department of Agriculture & Cooperation (DAC). As far as planning for procurement is concerned, a meeting is held by the Department with the Food Secretaries of the States, including DCP States, in which arrangements regarding procurement are reviewed for both Rabi and Kharif before the beginning of procurement season.

**5.8 The Committee note that the Decentralized Procurement Scheme like other schemes of the Department, also suffer for want of infrastructural facilities, timely release of funds, submission of utilization certificates and proper planning for distribution of foodgrains. Besides, only six States have undertaken the scheme for procurement of wheat and ten States/UTs for rice within their States. In the opinion of the Committee, DCP scheme is one of the most important schemes being implemented with a view to lessening the burden of FCI and reducing the dependence on Central Government. The Committee would, therefore, urge the Government to remove the above-mentioned shortcomings in the scheme so that the States can contribute towards the Central pool thereby enhancing the food security. The Committee would also like the Department to encourage the other States who have surplus production of foodgrains to participate in the movement of make India hunger-free, by adopting the Decentralized Procurement Scheme.**

## **CHAPTER - VI**

### **ALLOCATION OF SUBSIDIZED FOODGRAINS FOR OTHER WELFARE SCHEMES**

6.1 The Committee have been informed that the allocation of food grains under the Mid Day Meal Scheme, Wheat Based Nutrition Programme, Nutrition Programme for Adolescent Girls are made based on request received from the Ministry of Human Resource Development ( Department of SE&L) and the Ministry of Women & Child Development respectively. Allocations of food grains to Annapurna Scheme are made on the basis of number of beneficiaries communicated by the Ministry of Rural Development.

6.2 In the case of Welfare Institutions, allocations are made based on average offtake of previous three years as per recommendations of the Standing Committee of Parliament in 2005-06. In the case of SC/ST/OBC Hostels scheme, allocations are made on the basis of requests received from the States and as per entitlements of the number of inmates of such hostels communicated by the concerned States. Allocations of food grains under Emergency Feeding Programme (EFP) are made on the basis of recommendations of the Planning Commission.

6.3 The amount of subsidy given for various welfare schemes is as under:-

( In Rupees crores)		
<b>Year</b>	<b>Mid-Day Meal Scheme</b>	<b>Other Welfare Schemes</b>
2006-07	1284	622
2007-08	1343	906
2008-09	2135	1039
2009-10	3087	1765

## **DUES AND LIABILITIES**

6.4 The outstanding dues to be recovered from various Ministries on account of foodgrains released for various welfare schemes on payment basis and recovery made during the year 2007-08, 2008-09 and 2009-10 is as under:-

<b><u>Ministry of Rural Development</u></b>		(In crore rupees)
<b>Year</b>	<b>Amount Received</b>	<b>Balance Outstanding (As on 31<sup>st</sup> March)</b>
2007-08	2076.53	10390.82 (Prov.)
2008-09	7500.00	2890.82 (Prov.)
2009-10	-	2890.82 (Prov.)

<b><u>Ministry of Human Resource Development</u></b>		(In crore rupees)
<b>Year</b>	<b>Amount Received</b>	<b>Balance Outstanding (As on 31<sup>st</sup> March)</b>
2007-08	750.04	367.63
2008-09	1430.68	148.47
2009-10	1025.26	265.42 (as on 20.02.2010)

6.5 When asked about the experience of the Government/FCI regarding the payment made by various Ministries implementing these Welfare Schemes, the Committee was informed that Food grains under the Other Welfare Schemes are allocated by this Department at Below Poverty Line (BPL) prices to the beneficiary State/UT Governments except under the Village Grain Bank Scheme where the allocation is made free of cost to the States. Cost of foodgrains for the foodgrains lifted under these schemes is made on pre-payment basis to the concerned State/UT Governments who have to deposit the cost of food grains to the FCI before lifting of food grains. Hence, there is no issue of delayed payment of cost of food grains under these schemes, except in the case of MDM scheme.

6.6 For foodgrains allocated under Mid Day Meal Scheme, the Department of School Education & Literacy, M/HRD, until last year, was making post-payment in a centralised manner direct from the Ministry of HRD to the FCI. The M/HRD have kept with FCI, a revolving fund of Rs.300 crores for this purpose. However, the Ministry of Human Resource Development, with the approval of the CCEA, decentralised the payment system from the current year to the district level. Under the new procedure, a consolidated bill for the food grains lifted during a particular month would be raised by the local office of the FCI at the district level by the 10<sup>th</sup> of the succeeding month and the prescribed district authority of the State Government will make payment within the next 20 days. The effectiveness of this procedure in making timely payment to FCI would be known only at the end of the current year.

**6.7 The Committee regret to note that huge amount to the tune of Rs. 3166.24 crore is outstanding on account of food grains supplied to the Ministry of Rural Development and Ministry of Human Resource Development at low cost for their welfare schemes. Out of this, Rs. 2890.82 crore is due against the Ministry of Rural Development and Rs. 265.42 crore towards the Ministry of Human Resource Development (HRD). The Committee fail to understand the reasons behind outstanding dues when the States/UTs are required to deposit the full amount of foodgrains in advance before lifting the foodgrains from the depots of Food Corporation of India (FCI). The Committee feel that the Government is not sincere in the matter of liquidation of the dues. In the opinion of the Committee, the very purpose of the subsidy is defeated if the funds are not utilized properly for the intended purpose. The Committee, therefore, recommend that the Department of Food and Public Distribution should take up the matter with the Ministry of Rural Development and Ministry of Human Resource Development at the highest level for early payment of outstanding dues so that the money could be utilized for the benefit of poor people.**

**6.8 The Committee further observe that the Government has modified the procedure for allocation of foodgrains for other welfare schemes under which consolidated bill for the foodgrains lifted during a particular month would be raised by the local office of FCI at the District level by the 10<sup>th</sup> of the succeeding month and the prescribed District Authority of the State Government would make payment within the next 20 days. The Committee feel that the new procedure may not be effective until and unless it is implemented in letter and spirit. The Committee while considering it a wise step taken by the Government, desire that the scheme should be closely monitored to ensure that funds are not held up on account of late payment for supply of foodgrains under any welfare scheme.**



## **CHAPTER - VII**

### **LEVYING OF TAX/VAT OF FOODGRAINS**

7.1 The Committee have been informed that various taxes like VAT, market fee, nirashrit shulk, infrastructure development taxes, Rural Development taxes, etc. are levied by respective State Govts. and these taxes are categorised under the head of Statutory charges. State Govts. are able to raise substantial revenues by imposing statutory taxes on foodgrains procured for Central Pool. These taxes are subsequently paid up by Govt. of India as food subsidy. The variation is on account of the fact that State Governments can levy these taxes within the State.

7.2 The following statement showing State-wise taxes, arhathia charges, commission to societies etc. on procurement of wheat & rice was furnished to the Committee:-

#### **Taxes and Levies in different States on Rice in KMS 2009-10**

(In per cent of MSP)

<b>State/UT</b>	<b>Purchase/ Sales Tax/Trade Tax/ VAT</b>	<b>Market Fee</b>	<b>Arhthia Commis sion/D ami</b>	<b>Commission to Societies / Sub agents #</b>	<b>Other Charges</b>	<b>Total Taxes</b>
Andhra Pradesh	4.0	1.0		2.5	5.0(R D Cess)	12.5
Bihar	1.0			2.5		3.5
Chhattisgarh	4.0	2.0		2.5	0.2(Nirashrit Shulk)	8.7
Gujarat		1.0		2.5		3.5
Haryana	4.0	2.0	2.5	0.0	2.0(R D Cess)	10.5
Jharkhand		1.0		2.5		3.5
Karnataka		1.5		2.5		4.0
Kerala		7		2.5		9.5
Madhya Pradesh		2.0		2.5	0.2(Nirashrit Shulk)	4.7
Maharashtra		1.1		2.5		3.6

Orissa	4.0	2.0		2.5		8.5
Punjab	4.0	2.0	2.5		4.0 (R D Cess 2.0% + ID Fee 3%)*	13.5
Rajasthan		1.6	2.0	0.5		4.1
Uttar Pradesh	4.0	2.5		2.5		9.0
Uttrakhand	4.0	2.5		2.5		9.0
West Bengal		0.5		2.5		3.0

### Taxes and Levies levied by State Governments on wheat in RMS 2010-11

(in percent)

State/UT	Purchase/Sales Tax/Trade Tax/VAT (% of MSP)	Market Fee (% of MSP)	Commission to Societies / Sub agents #	Arthia Commission /Dami (% of MSP)	Other charges (% of MSP)	Total (% of MSP)
Bihar	1.0	-	2.0	-	-	3
Gujarat	-	1.0	2.0	-	-	3
Haryana	4.0	2.0	-	2.5	2 (RD Cess)	10.5
Madhya Pradesh	4.0	2.0	2.0	-	0.2(Nirashrit shulk)	8.2
Punjab	4.0	2.0	-	2.5	4(RD Cess 2% + ID fee 3%)	13.5
Rajasthan	-	1.6	2.0	-	-	3.6
Uttar Pradesh	4.0	2.5	2.0	-	-	8.5

7.3 It has been observed that there is huge difference of percentage of total tax and levies levied to the State Governments i.e. 13.5% in the case of Punjab, 12.5 in case of Andhra Pradesh and 3% in case of West Bengal. In this context, the Committee enquired the reasons for such huge difference in taxes and levies and steps taken by the Government to make uniformity in the taxes and levies levied by the State Government, the Committee were informed that the levying of taxes is the prerogative of the concerned State

Governments. They levy the taxes as per the revenue requirement of the State and impose taxes and levies to generate revenue to meet their State specific requirements. In some of the States like Punjab and Haryana, the taxes on procurement of foodgrains are their main source of revenue and they are levying higher level of taxes.

7.4 The Department has emphasized the need to rationalize the taxes on procurement of food grains and exempt State VAT on procurement of food grains from time to time. It would be an ideal situation if there is a rationalization in taxes and levies of the States/UTs. In order to attain this objective, the Department has been writing to State Governments to have a re-look at their taxes on food grains. However, the States Governments have not agreed for reduction in taxes on food grains being levied by them.

7.5 When asked whether Tax/VAT is also levied on the coarse grain which is produced by small farmers in rain-fed areas, the Committee were informed that as per existing policy of Government, procurement of coarse grains is being undertaken by State Governments and their agencies under MSP operations. The State Governments retain the quantity procured to the extent of their requirement for the TPDS and the balance is disposed of by the FCI through tender. The difference between the acquisition cost and disposal price is paid as subsidy to the State Governments. The acquisition cost varies from State to State due to variation in taxes, variation in procurement incidentals etc. Similarly disposal price also vary from State to State and grain to grain. VAT is levied on procurement of coarsegrains in a similar manner as it is done for wheat and rice.

7.6 When pointed out that some of the States have exempted foodgrains from the purview of VAT and asked whether Government of India persuaded other State Governments/UTs to exempt foodgrains from the purview of VAT to minimize the Food Subsidy Bill payable by the Government of India, the Department informed the Committee that as per information available, there is no VAT on procurement of wheat in the states of Gujarat and Rajasthan.

Similarly, there is no VAT on procurement of Rice in the states of Gujarat, Jharkhand, Karnataka, Kerala, Maharashtra, Rajasthan and West Bengal. The imposition of VAT on food grains is the prerogative of the States.

**7.7 The Committee are unhappy to note that there is no uniformity in various taxes like VAT, market fee, Nirashrit Shulk, Infrastructure Development Tax, Rural Development Tax, etc levied by respective State Governments on foodgrains procured for Central Pool. Some State Governments like Punjab and Andhra Pradesh are levying as high as 13.5% and 12.5% of taxes, respectively while only 3% is being levied by the West Bengal Government. The Committee have been informed that levying of taxes is the prerogative of the concerned State Governments who generate revenue by way of taxes to meet their State specific requirements. The Committee feel that imposing of heavy tax on foodgrains will adversely affect the procurement movement by FCI for Central Pool which is subsequently paid up by the Government of India as food subsidy. Besides, all the States have not adopted a uniform pattern of VAT on foodgrains. The Committee, therefore, recommend that the Department of Food and Public Distribution should take up the matter with the State Governments/UT Administration and impress upon them to re-look at their taxes and levies on procurement of foodgrains to minimize the heavy burden of Food Subsidy Bill. The Committee also desire that the TAX/VAT should not be levied on the procurement of coarse grain as it is produced by the small farmers in rain-fed areas to meet the local requirement of the States.**

**7.8 The Committee further note that the two States namely Gujarat and Rajasthan have exempted wheat from levying of VAT. Similarly, there is no VAT on procurement of rice in seven States, namely, Gujarat, Jharkhand, Karnataka, Kerala, Maharashtra, Rajasthan and West Bengal. The Committee are aware that the concept of Value Added Tax (VAT) was introduced with a view to having harmonized tax structure in respect of all the commodities, under which all the taxes like Sales Tax, Local Mandi Taxes and other market taxes have been merged with VAT. The Committee are of the view that levying of VAT on the foodgrains will ultimately lead to increase in the prices of foodgrains. The Committee, therefore, recommend that the Department of Food and Public Distribution should impress upon the remaining States to exempt the foodgrains from VAT and cooperate with the Central Government to reduce the Food Subsidy Bill.**

**CHAPTER VIII**  
**NATIONAL FOOD SECURITY ACT**

8.1 The Committee have been informed that in the President's Address in the joint session of Parliament on 4<sup>th</sup> June, 2009, it was inter-alia stated that the proposed National Food Security Act will provide a statutory basis for a framework which assures food security for all; every below poverty line family in rural and urban areas would be entitled to 25 kg of wheat or rice per month @ Rs.3 per kg; and that it would also be used to bring about systemic reforms in Public Distribution System. Furthermore, it was stated that targeted identification cards would subsume and replace omnibus BPL lists. Accordingly, Department of Food and Public Distribution has circulated a Concept Note on NFSA on 05.06.2009 and invited responses from the stakeholders. Consultation meetings have also been held with State Food Secretaries, Central Ministries, Planning Commission and other Experts. An EGoM has been constituted on 14.07.2009, which has held several meetings to discuss the issues relating to the National Food Security law.

8.2 When asked as to why the Empowered Group of Ministers could not finalize the modalities of the Food Security Bill, the Committee was informed that while the broad contours of the proposed National Food Security Bill have been drawn, some important issues raised in various quarters such as determination of number of BPL beneficiaries, scale of issue of foodgrains under the proposed Act, coverage under the Act to the APL category, independent grievance redressal mechanism etc are discussed by the EGoM in detail. EGoM has asked the Planning Commission to, inter-alia; arrive at a formulation for estimation of poverty for determining the BPL numbers and to make specific recommendations regarding the proposed legislation on Food Security after carefully considering all the issues involved in consultation with all Ministries concerned.

8.3 Asked as to how the Government would be able to fulfill its commitment to make India hunger free, when the draft of the proposed National Food Security Bill has not yet been placed on the website of the Department, the Committee were informed that the Government is committed to the enactment of the National Food Security Act. Once the directions of EGoM regarding the provisions of the proposed law are received, the draft Bill would be prepared by the Department of Food and Public Distribution, in consultation with the Ministry of Law, and after due approvals, the same would be immediately put on the website of the Department for public scrutiny and comments.

8.4 During evidence, the representative explained the reasons for delay in introducing the Food Security Bill as under:-

‘The Empowered Group of Ministers has discussed this Act in several meetings held in the past. We have brought about the various scenarios as just now explained by the Additional Secretary. We have projected the requirement of foodgrains, the requirement of subsidy for various poverty estimates, that is the existing number of BPL families, the poverty estimate as per the Tendulkar Committee, as per the Arjun Sengupta Committee and as per the Saxena Committee and so on. All these scenarios of subsidy as well as the quantity of foodgrains required have been projected. Similarly, the scale- whether it should be 35 kg or 25 kg, whether we should have a separate category of AAY or include the AAY in BPL category, what is the scale of issue for the APL category, the availability of foodgrains, the production and procurement of foodgrains in this country – all these various factual figures as well as the various alternative scenarios have been presented to the Empowered Group of Ministers who, in their recent meetings, wanted the Planning Commission to first come out with the poverty estimates.’



**8.5 The Committee note that the Government is working on a National Food Security Bill in pursuance to the reference on the subject contained in the President's Address to the Joint Session of Parliament on 4<sup>th</sup> June, 2009. The Committee note that some important issues such as determination of number of BPL beneficiaries, scale of issue of foodgrains under the proposed Act, coverage under the Act to the APL category, etc. have been discussed by Empowered Group of Ministers (EGOM) in detail. Empowered Group of Ministers has asked the Planning Commission to arrive at a formulation for estimation of poverty for determining the BPL numbers. The Committee feel that it is obligatory on the part of the Government to provide a minimum food security to all. For this, the poverty estimates need to be revised based on the present day wage and expenditure level to determine the number of BPL and AAY families. The Committee, therefore, desire that the matter may be pursued expeditiously with the Planning Commission for early formulation of poverty estimates so that the exact number of BPL and AAY families are identified. Taking into consideration the paramount importance of providing foodgrains to the poor, the Committee desire that sincere efforts may be made for introduction of the aforesaid Bill in the Parliament at the earliest.**

**NEW DELHI  
18 AUGUST, 2010  
27 Sravana, 1932 (Saka)**

**VILAS MUTTEMWAR  
Chairman,  
Standing Committee on Food,  
Consumer Affairs and Public Distribution**

## **APPENDICE - I**

### **MINUTES OF THE TWENTIETH SITTING OF THE STANDING COMMITTEE ON FOOD, CONSUMER AFFAIRS AND PUBLIC DISTRIBUTION HELD ON MONDAY, 28<sup>TH</sup> JUNE, 2010.**

The Committee sat from 1430 hrs to 1610 hrs in Committee Room 'B', Parliament House Annexe, New Delhi.

#### **Present**

Shri Vilas Muttemwar - Chairman

#### **Members**

##### **Lok Sabha**

2. Smt. Harsimrat Kaur Badal
3. Shri Kamlesh Balmiki
4. Shri Tarachand Bhagora
5. Shri Shivraj Bhैया
6. Shri Arvind Kumar Chaudhary
7. Shri Sanjay Singh Chauhan
8. Shri Anant Gangaram Geete
9. Shri Lal Chand Kataria
10. Shri Marotrao Sainuji Kowase
11. Shri Puranmasi Ram

##### **Rajya Sabha**

12. Smt. T. Ratna Bai
13. Shri Lalhming Liana
14. Shri Shantaram Laxman Naik
15. Shri Kanjibhai Patel
16. Shri Rajniti Prasad
17. Shri Ram Narayan Sahu
18. Shri Kaptan Singh Solanki

#### **Secretariat**

1. Shri P.K.Misra - Joint Secretary
2. Smt. Veena Sharma - Director
3. Shri Jagdish Prasad - Additional Director

## **Witnesses**

### **Department of Food and Public Distribution**

<b>Sl No.</b>	<b>Name</b>	<b>Designation</b>
1.	Shri Desh Deepak Verma -	Addl. Secretary & FA
2.	Shri Siraj Hussain -	CMD, FCI
3.	Shri N. Sanyal -	Joint Secretary
4.	Shri Rakesh Garg -	Joint Secretary (Policy & FCI)
5.	Shri C.Viswanath -	Joint Secretary (BP&PD)
6.	Shri Naveen Prakash -	Joint Secretary
7.	Dr. Bhagwan Sahai -	Joint Secretary
8.	Shri T. Jacob -	Joint Secretary

2. At the outset, Hon'ble Chairman welcomed the representatives of the Ministry of Consumer Affairs, Food and Public Distribution (Department of Food and Public Distribution) to the sitting of the Committee convened to take evidence on the subject 'Food Subsidy and its utilization'. In his opening remarks, Hon'ble Chairman asked the Additional Secretary to explain the very pertinent issues related to the subject viz. concept of food subsidy, its benefit to the poor, MSP for wheat and rice, difficulties being faced in the implementation of Public Distribution System (PDS), errors in inclusion and exclusion of BPL families, Status of Food Security Act, Hill Transport Subsidy, Functioning of Food Corporation of India (FCI) for procurement, transportation and storage of foodgrains.

3. The following issues were discussed at length:-

- (i) Procurement of foodgrains for distribution to APL, BPL and AAY families under PDS;
- (ii) Reasons for increase in the amount of food subsidy every year;
- (iii) Delay in introduction of Food Security Bill in Parliament;
- (iv) Identification of BPL and AAY families in urban and rural areas;
- (v) Differences in poverty estimates by various committees namely, Arjunsen Gupta Committee, Saxena Committee, Tendulkar Committee as well as Planning Commission;
- (vi) Need for water security in Punjab for production of more foodgrains;
- (vii) Need to create additional storage facilities in the State of Punjab;
- (viii) Need for construction of godowns in the barren land of Rajasthan;
- (ix) Need to create multi storage capacity to avoid damages to foodgrains kept in open space;
- (x) Need to take preventive measures for proper maintenance of godowns and action against the FCI staff for poor maintenance of godowns.

4. The witnesses replied to the queries raised by the Members. The Chairman then thanked the witnesses for appearing before the Committee and sharing their views with the Committee in a free and frank manner. They were asked to send the written replies to points on which the information was not readily available with them.

A verbatim record of the proceedings has been kept.

**The Committee then adjourned.**

/...../