

1. INTRODUCTION

1.1 BACKGROUND

The average annual GDP growth for the Eleventh Five Year Plan (2007-12), which aimed at delivering a faster and more inclusive growth, is likely to be 8.2% as against the target of 9%. With the improvement in agricultural growth from around 2% in Tenth Plan to around 3% in Eleventh Plan, there has also been good progress in poverty reduction, health, education, etc. The Twelfth Five Year Plan (2012-17) is expected to continue emphasis on faster, inclusive and sustainable growth with an estimated growth target in the range of 9 to 9.5%.

There is an utmost need to reform markets and supply chain infrastructure so that the wastages are minimized. Use of ICT needs to be enhanced in all spheres. In its present form, Targeted Public Distribution System (TPDS) is faced with challenges like inclusion/exclusion errors, leakages/diversion and commodity coverage. There is also a need to look at the reform measures with regard to the TPDS in line with the objectives of the proposed enactment on Food Security.

1.2 Constitution of Steering Committee/ Working Group

In order to facilitate preparation of the Twelfth Five Year Plan, a Steering Committee on Public Distribution System and Consumer Protection has been constituted under the Chairmanship of Dr. Saumitra Chaudhuri, Member, Planning Commission. With the same objective, a Working Group on Reforms in the Public Distribution System and Better Targeting of Food Subsidies during the 12th Plan Period has also been set up under the Chairmanship of Secretary, Department of Food and Public Distribution by the Planning Commission vide its Order dated 20th April, 2011. The Working Group was constituted with the following terms of reference:

- To review the performance of the Targeted Public Distribution System and suggest measures for reforms in the TPDS.
- To assess and make suggestions for improving the storage capacity of foodgrains for the 12th Plan period with special emphasis on the North Eastern Region.
- To suggest measures for rationalizing and better targeting of food subsidies.

- To assess the coverage of commodities supplied under TPDS keeping in view the nutritional concerns and the need for providing essential items to public at affordable prices.

1.3 Constitution of the Sub-Groups

The Working Group set up three sub-groups to address the specific issues as follows:

- Sub-Group on Review of performance of Targeted Public Distribution System.
- Sub-Group on Improving Storage capacity of foodgrains.
- Sub-Group on rationalizing and better targeting food subsidies.

The three Sub-Groups have held several meetings with their respective members/concerned Ministries/Departments and finalized their recommendations taking into consideration the inputs received and this Report has been finalized after taking into consideration the reports and recommendations given by each Sub-Group. Contents of the draft National Food Security Bill have also been kept in view while finalizing the recommendations.

2. FOOD SECURITY

2.1 The most important agenda, in the 12th Five Year Plan would be the implementation of the proposed legislation on food security which provides for food and nutritional security, in human life cycle approach, by ensuring access to adequate quantity of quality food at affordable prices, for people to live a life with dignity. The poor and vulnerable would constitute the Priority category and others would belong to the General category, leaving out an excluded category of people. The principle of common but differentiated entitlements is proposed in the food security law. Legal entitlements to foodgrains are proposed at highly subsidised prices to both Priority and General category, with a differential quantity and prices. Providing legal entitlement to food to people throughout length and breadth of a vast country like India is a challenging task and perhaps the first initiative of such a magnitude.

2.2 In order to provide nutritional support to women and children, provision has been made in the proposed legislation for providing meals to pregnant and lactating women and for children below 14 years of age,

through Anganwadis or schools as the case may be. Special provisions have also been proposed to provide legal entitlements to other vulnerable and special groups such as destitute, emergency & disaster affected persons, and persons living in starvation. Homeless persons shall be entitled to meals at affordable prices. Provision has also been made for providing meals to persons living in starvation, free of charge for six months.

2.3 Clear delineation of responsibilities of Central and State Governments in the implementation of the Act have been spelt out. Role for PRIs, urban and rural local bodies in the implementation of the schemes under this Act have also been provided.

2.4 As against the existing system of per family entitlements under TPDS, it is proposed to go in for a system of per unit entitlement of foodgrains at highly subsidized rates. The proposed legislation also aims at Women's empowerment by providing that eldest woman of 18 years of age and above to be the head of the household for the purpose of issue of ration cards.

2.5 In the event of short supply of foodgrains by the Central Government to the States/UTs for meeting the obligations under the proposed legislation, the States will be provided funds at such prices as may be prescribed by the Central Government. In case of failure to supply foodgrains/meals, the beneficiaries would be entitled to receive such food security allowance, as may be prescribed by the Central Government.

2.6 The proposed legislation aims at setting up a strong Grievance Redressal Mechanism both at the Centre and the States. It envisages a three-tier mechanism - District Grievance Redressal Officer at District level, State Food Security Commission at State level and National Food Security Commission at country level to redress grievances relating to delivery of entitlements and related issues. An internal grievance redressal mechanism has also been included.

2.7 To ensure transparency and accountability, provisions have been made for disclosure of records relating to PDS, social audits and setting up of Vigilance Committees. Besides, it is also proposed to impose penalty on public servants or the concerned authority for dereliction of duty.

2.8 Various reforms in TPDS have been included in the proposed legislation on food security, i.e. doorstep delivery of foodgrains, use of ICT & end-to-end computerisation, leveraging 'aadhaar' for unique identification, transparency of records, diversification of commodities distributed under PDS, etc. The proposed legislation also provides for introduction of schemes for cash transfer, food coupons, among others, in areas and manner to be prescribed by Central Govt.

2.9 Enabling Provisions have also been made in the proposed legislation for revitalising agriculture, broadbasing procurement & encouraging decentralised procurement etc, for advancing food security.

2.10 The implementation of the Food Security Act would require strengthening of existing infrastructure and taking up new initiatives and schemes. This would involve additional expenditure on increased requirement of foodgrains, higher procurement, creation of storage facilities for FCI as well as the States/UTs, movement of foodgrains, training programmes at the Centre as well as States/UTs, publicity, etc.

2.11 In order to cover the rural as well as urban population in each State/UT, it is necessary to have sufficient stocks of foodgrains in the Central Pool for distribution at subsidized prices. Presently, allocations are being made to cater to 6.52 crore BPL families and about 11.52 crore APL families under TPDS. Since the present scale of operation under TPDS would be enhanced, it is necessary to increase the existing agricultural production as well as procurement to sustain implementation of the proposed legislation over the years. This could be achieved with the co-operation and support of all stakeholders, including Ministry of Agriculture, State Governments, farmers, etc. There is a need to encourage Decentralised procurement of foodgrains. Over the years, expansion of basket of commodities, production of pulses, edible oil seeds, etc. also has to be increased.

2.12 The country has, at present, a limited storage capacity with FCI, CWC and SWCs to store foodgrains being procured for the Central Pool. This capacity is found to be insufficient to meet even the existing procurement levels, especially in the event of a bumper crop. The Department is already seized of the problem and is trying to create new infrastructure in a PPP mode as well as hire godowns.

2.13 The Proposed legislation requires giving top priority to movement of foodgrains by the Railways. In order to have an efficient system it is necessary to resolve the existing problems of non-availability of rakes in close co-operation with Ministry of Railways.

2.14 Various evaluation studies of the PDS have pointed out existence of inclusion/exclusion errors in identification of beneficiaries, leakages at various stages in transit of foodgrains, non availability of foodgrains in the fair price shops, non- viability of the FPSs, etc. Most of these problems can be addressed through end to end computerization of PDS operations. This would also involve proper identification and regular updation of database of the beneficiaries and issue of ration cards using the biometrics and linkage to AADHAAR.

2.15 Training is an important and ongoing component to ensure that Officers and staff, particularly at the field level, deployed with the responsibility to run the PDS operations efficiently, are imparted training to equip them to shoulder higher responsibilities. Detailed Planning exercise is to be undertaken for designing and organization of training courses covering aspects such as procurement, storage, distribution, grievance redressal, etc.

2.16 Empowering the people with legal entitlements would be of little consequence unless awareness is increased. Once the proposed legislation comes into effect, it would be necessary to carry out extensive awareness/publicity campaigns throughout the country, preferably in local languages which can be easily understood by the people. Innovative ways of publicity apart from the use of newspapers, electronic media, NGOs, etc would be required for effective campaigns.

2.17 Besides the higher amount of subsidy required for implementation of proposed legislation on account of increased requirement of foodgrains for TPDS, buffer, etc, and the highly subsidised rate at which foodgrains would be distributed, the Department of Food & Public Distribution would require proper infrastructure both in terms of man power and other requirements to discharge its duties efficiently as the nodal Department to implement the proposed legislation after enactment.

2.18 Based on provisions of the NFSB, the requirement of foodgrains under TPDS and other welfare schemes and the associated food subsidy during

2011-12 are estimated at about 61 million tons and Rs.98,842 crore, respectively. However, due to increase in population, minimum support price and the economic cost, with CIPs for priority households remaining unchanged, the foodgrains requirements and food subsidy are projected to increase to about 66 million tons and 1,81,229 crore respectively by the end of 12th Plan, as indicated in the table below:

PROJECTION OF FOODGRAINS REQUIREMENT AND SUBSIDY IMPLICATION

Year	Foodgrains Requirement (in million tons)			Subsidy Implication (Rs. In crore)		
	TPDS	OWS	Total	TPDS	OWS	Total
2010-11 (existing)	47.08	5.60	52.68	58196.0	6849.0	65045.0
	As per NFSB					
2011-12	52.74	8.00	60.74	84944.51	13897.83	98842.34
2012-13	53.55	8.00	61.55	96605.11	15599.83	112204.94
2013-14	54.37	8.13	62.50	109016.15	17657.52	126673.67
2014-15	55.21	8.26	63.47	122899.60	19961.66	142861.26
2015-16	56.06	8.40	64.46	138429.25	22541.37	160970.62
2016-17	56.93	8.54	65.46	155799.43	25429.26	181228.70

Note:

1. Subsidy estimates are based on estimated allocations
2. For economic cost, RE figure of 2011-12 and BE figure of 2012-13 have been used.
3. For period beyond 2012-13, 10% increase p.a. in economic cost and MSP has been assumed for derived MSP of rice, 10% increase in MSP of paddy has been assumed in 2012-13 over 2011-12 and 10% p.a. increase thereafter.
4. CIPs of priority households have been kept unchanged and CIPs of general households have been assumed to change with changes in MSP.
5. For estimating foodgrains requirement under NFSB, population has been assumed to grow at rates observed during 2001-11 i.e. 1.16% p.a. in rural areas and 2.80% p.a. in urban areas. OWS requirements are assumed to grow at rate of growth of overall population during 2001-11 i.e. 1.64% p.a.
6. Subsidy estimates do not include requirements of buffer subsidy which is estimated at around Rs.6500 crore during 2010-11 and 2011-12. Since buffer requirements are assumed to be constant at 5 million tons under NFSB, there will not be significant year to year change in buffer subsidy.

3. PUBLIC DISTRIBUTION SYSTEM

In The Eleventh Five Year Plan document (Vol. II), the changes that are needed to happen in the PDS in order to both improve food security as well as reduce fiscal subsidies were discussed. Amongst other observations, it had stated that the PDS is a major State intervention in the country aimed at ensuring food security to all the people, especially the poor; that the PDS operates through a large distribution network of fair price shops (FPS), and is supplemental in nature. It also pointed out that as identified by various studies, the major challenges of TPDS include exclusion and inclusion errors, non-viability of FPSs, diversion/ leakages, etc.

3.1 Evolution

Public distribution of essential commodities has been in existence in India since the inter-war period. Its focus was on distribution of food grains in urban scarcity areas, which emanated from the food shortages of 1960s. The outreach of PDS was extended to tribal blocks and areas of high incidence of poverty in the 1970s and 1980s. Until 1992, PDS was a general entitlement scheme for all consumers without any specific targeting. Revamped Public Distribution System (RPDS) was launched in June 1992 in 1775 blocks throughout the country. The Targeted Public Distribution System (TPDS) was introduced with effect from June 1997. Under the TPDS, presently Wheat, Rice and Sugar from the Department of Food and Public Distribution and Kerosene from are being allocated to the States/UTs for distribution to the eligible ration cardholders.

3.2 Revamped Public Distribution System (RPDS)

The Revamped Public Distribution System (RPDS) was launched in June 1992 with a view to strengthen and streamline the PDS as well as to improve its reach in the far-flung, hilly, remote and inaccessible areas where a substantial section of the poor lived. It covered 1775 blocks. The blocks, where area specific programmes such as the Drought Prone Area Programme (DPAP), Integrated Tribal Development Projects (ITDP), Desert Development Programme (DDP) and Designated Hill Areas (DHA) Programme were in operation, were identified in consultation with State Governments, with special emphasis on improvement of PDS infrastructure.

Food grains for distribution in RPDS areas were issued to the States at 50 paise below the Central Issue Price. The scale of issue was up to 20 kg per card. State Governments were responsible for delivery of commodities at the doorstep of FPSs, for issuing additional ration cards to left out families, for meeting infrastructure requirements like additional fair price shops, storage capacity, etc. and for issuing additional commodities such as tea, salt, pulses, soap, etc. for distribution through PDS outlets.

3.3 Targeted Public Distribution System (TPDS)

The PDS as it stood until 1997 was felt not to adequately serve the population Below the Poverty Line (BPL). It was seen to have an urban bias, limited coverage in the States with high concentration of the rural poor and there were lack of transparent and accountable arrangements for delivery. In June 1997, Government of India launched the Targeted Public Distribution System (TPDS) with special focus on the poor. Under the TPDS, States were required to formulate and implement foolproof arrangements for identification of the poor for delivery of food grains and their distribution in a transparent and accountable manner.

The scheme, when introduced, was intended to benefit about 6 crore Below Poverty Line (BPL) families for whom a quantity of about 72 lakh tonnes of food grains was earmarked annually. Presently, its coverage extends to 6.52 crore BPL families, including about 2.44 crore Antyodaya Anna Yojana (AAY) families and ----- number of APL families. 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 last ten years at the time of introduction of TPDS.

To work out the population below the poverty line under the TPDS, a consensus was reached at the Food Minister's conference held in August 1996, for adopting the methodology used by the Expert Group set up by Planning Commission under the chairmanship of Late Prof. Lakdawala. The BPL households were determined based on the State wise poverty estimates of the Planning Commission for 1993-94 and population projections of the Registrar General of India for 1995. The total number of BPL households so determined for the country as a whole was 596.23 lakh. The number of BPL families was increased with effect from 1.12.2000 by shifting the base to Registrar General of India's population projections as on 1.3.2000. With this increase, the total number of BPL families stands at

652.03 lakh, as against 596.23 lakh families originally estimated when TPDS was introduced in June 1997.

As per the 1993-94 poverty estimates, 36% of people were living below the poverty line at the All India level. The Planning Commission subsequently revised the poverty estimates on the base of the NSS data for 2004-05, and this yielded a reduction in the percentage of population living below the poverty line to 27.5%. Although pursuant to the poverty estimates of 2004-05, the number of poor households in the country eligible for assistance as BPL would have come down, as a conscious measure, Government did not reduce the estimated number of BPL households. State-wise details of number of BPL households are given at **Annexure – I**.

3.4 Scale of issue of foodgrains and food subsidy under TPDS

Since 1997, the scale of issue of foodgrains to the BPL families has been gradually increased. The scale of issue was increased from 10 kg to 20 kg per family per month with effect from 1.4.2000. The allocation to Above Poverty Line (APL) families was kept at the same level as at the time of introduction of TPDS (i.e. 10 kg. per family per month). The allocation of food grains to the Below Poverty Line (BPL) families was further increased from 20 kg to 25 kg per family per month with effect from July 2001. Initially, at the time of launching of the scheme, the Antyodaya families were provided 25 kg of food grains per family per month. The scale of issue to APL, BPL and AAY categories has been revised to 35 kg per family per month with effect from 1.4.2002 with a view to enhancing food security at the household level and to liquidate surplus stocks of food grains in the Central Pool at that time. Presently, the allocation of food grains to BPL and AAY families is being made @ 35 kg per family per month. The APL allocation has been rationalized on the basis of availability of foodgrains in the Central Pool and past offtake. At present the allocation to APL families ranges between 10 to 35 kg per family in different States.

Allocations are made to Below Poverty Line (BPL) families at subsidised rates of Rs.4.15 per kg. and Rs.5.65 per kg. for wheat and rice respectively since 25.7.2000 onwards. Allocations to Antyodaya Anna Yojana (AAY) families are made at highly subsidised and affordable prices of Rs.3 per kg of rice and Rs.2 per kg of wheat ever since the inception of the scheme in December, 2000. Even though the Economic Cost has been

increasing every year, the CIPs have not been revised for BPL and AAY since 25.7.2000. The current CIPs for APL have also been Rs.8.30 for rice and Rs.6.10 for wheat since 1.7.2002. Consequently, the element of subsidy has been increasing progressively every year. The present level of subsidy (defined as economic cost minus central issue price) for BPL, AAY or APL is as follows:

		(as per B.E. 2011-12)		
		APL	BPL	AAY
Rice				
1.	Economic Cost (Rs./kg)	20.69	20.69	20.69
2.	Minimum Support Price (Rs/Kg)	15.44	15.44	15.44
3.	Central Issue Price (Rs/per kg.)	8.30	5.65	3.00
4.	Subsidy Per. Kg.	12.39	15.04	17.69
Wheat		APL	BPL	AAY
1.	Economic Cost (Rs./kg)	15.81	15.81	15.81
2.	Minimum Support Price (Rs/Kg)	11.20	11.20	11.20
3.	Central Issue Price (per kg.)	6.10	4.15	2.00
4.	Subsidy Per Kg.	9.71	11.66	13.81

The retail prices are fixed by the States/UTs after taking into account margins for wholesalers/retailers, transportations charges, levies, local taxes etc. Under the TPDS, the States were requested to issue foodgrains at a difference of not more than 50 paise per kg over and above the Central Issue Price for BPL families. Subsequently, 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 per Kg. for wheat and Rs. 3 per Kg. for rice.

3.5 Antyodaya Anna Yojana (AAY)

Antyodaya Anna Yojana is a step in the direction of reducing hunger among the poorest segments of the BPL population. The Antyodaya Anna Yojana (AAY) was launched in December, 2000 for one crore poorest of the poor families, to be identified from amongst the BPL families covered under TPDS.

The AAY scheme provides for allocation of foodgrains at highly subsidized rates of Rs.2 per kg for wheat and Rs. 3 per kg for rice. The States/UTs are required to bear the distribution cost, including the margin to dealers and retailers as well as the transportation cost. Thus, the entire food subsidy is being passed on to the consumers under the scheme.

The scale of issue that was initially at 25 kg per family per month was increased to 35 kg per family per month with effect from 1 April 2002. The coverage under AAY Scheme was expanded in 2003-2004 by adding another 50 lakh BPL households headed by widows or terminally ill persons or disabled persons or persons aged 60 years or more with no assured means of subsistence or societal support. With this increase, 1.5 crore (i.e. 23% of BPL) families were covered under the AAY.

As announced in the Union Budget 2004-05, the AAY was further expanded by another 50-lakh BPL families, taking the number of AAY families increased to two crore, by including, inter alia, all households at the risk of hunger. An order to this effect was issued on 3 August 2004 stipulating the following criteria for identification of AAY households:

- Landless agriculture labourers, marginal farmers, rural artisans/craftsmen, such as potters, tanners, weavers, blacksmiths, carpenters, slum dwellers, and persons earning their livelihood on daily basis in the informal sector like porters, coolies, rickshaw pullers, hand cart pullers, fruit and flower sellers, snake charmers, rag pickers, cobblers, destitute and other similar categories in both rural and urban areas.
- Households headed by widows or terminally ill persons or disabled persons or persons aged 60 years or more with no assured means of subsistence or societal support.
- Widows or terminally ill persons or disabled persons or persons aged 60 years or more or single women or single men with no family or societal support or assured means of subsistence.
- All primitive tribal households

As announced in the Union Budget 2005-06, the AAY scheme was further expanded to cover another 50 lakh BPL households, thus increasing its coverage to 2.5 crore households. The above guidelines have further been amended vide letter dated 3rd June, 2009 to include all eligible BPL families of HIV positive persons in the AAY list on priority against the criterion mentioned in the guidelines as circulated vide letter dated

12.5.2005, of the Department of Food and Public Distribution, within the respective ceilings on the number of AAY families communicated to State/UT governments.

The identification of the Antyodaya families and issuing of distinctive Ration Cards to these families is the responsibility of the concerned State Governments. Detailed guidelines were issued to the States/UTs for identification of the Antyodaya families and additional Antyodaya families under the expanded AAY. Allocation of food grains under the scheme is being made to the States/UTs on the basis of issue of distinctive AAY Ration Cards. The details of State-wise AAY households identified and ration cards issued are at **Annexure - II**.

3.6 Allocation and Off-Take of Food Grains under TPDS

As a consequence of various steps taken by the Department of Food and Public Distribution including increasing subsidy, there has been considerable increase in the allocation and offtake of foodgrains for BPL and AAY categories. The offtake for BPL during the year 1997-98 was 44 lakh tons as against the allocation of 59.18 lakh tons. During 2010-11, the offtake for the BPL category became 174.49 lakh tons as against the allocation of 174.49 lakh tons. For the AAY category, the offtake of foodgrains was 16.78 lakh tons during the year 2001-02 against the allocation of 19.60 lakh tons. In the year 2010-11, the offtake was 96.55 lakh tons against the allocation of 102.29 lakh tons. The offtake of foodgrains for BPL, including AAY category has been more than 90 % in the last three years.

In respect of the allocations made to the Above Poverty Line category, the offtake of foodgrains during 2010-11 was 188.16 lakh tons as against the allocation of 198.69 lakh tons. The APL offtake has been more than 80% of the allocation during last three years.

The year-wise details of allocation and offtake of foodgrains under TPDS are given at **Annexure - III**.

3.7 Evaluation of Public Distribution System

To assess the performance of Targeted Public Distribution System (TPDS), evaluation studies have been conducted by (i) Programme

Evaluation Organization (PEO) of the Planning Commission, (ii) ORG MARG and (iii) NCAER and (iv) IIPA. Different evaluation studies have given their account of the PDS depending upon the methodology, States covered, the time period when the study was undertaken, etc. as follows:

- **PEO Report (March 2005)**

At the instance of the Planning Commission and Ministry of Consumer Affairs, Food and Public Distribution, Programme Evaluation Organisation (PEO) took up the evaluation of TPDS. The study covered 18 States, 60 districts, 88 blocks, 16 towns, 176 village panchayats, 240 Fair Price Shops and 3600 households. A random sampling procedure was adopted for selection of units at various stages. The survey was conducted by 15 field units of PEO through structured questionnaires.

Suggestions & Recommendations:

- The proportion of people with food insecurity need not be identified within Planning Commission's poverty ratio as a large section of population like daily wage earners are kept out of the target group, while many poor/marginal farmers who produce a part of their cereal consumption needs and do not need full quota of foodgrains, have been issued BPL cards;
- TPDS should be redesigned on the basis of fresh survey that would help identify food insecure households on the basis of easily observable and verifiable characteristics.
- Fresh survey should be done by reputed organizations like NSSO, NCAER, ICSSR institutes etc and process of involvement of PRI should be inbuilt.
- The baseline data generated should be computerized and regularly updated.
- On making delivery mechanism effective:
 - Full monthly quota should reach the retail outlets within the first 7 days of the month.
 - Doorstep delivery in the presence of PRIs is required.
 - FPS information on delivery should be computerized.
 - Consumers may be allowed to draw ration in weekly installments.
 - Local preferences in terms of cereals should be given due weightage wherever feasible.

- Entitlement to foodgrains for BPL in any State should not be lower than that stipulated by GOI.
- Minimise leakages:
 - Transparency should be ensured in all operations.
 - Licensing of FPSs should be rationalized. A viable FPS needs to handle about 122 tons of grains annually along with other PDS commodities.
 - There should be regular inspections of accounts and transactions of FPSs by the PRIs and also discussed in the Gram Sabha.
 - FPS level margin may be uniformly fixed at 2% of Economic Cost.
 - Allow BPL card holders to lift additional grains at APL prices.
 - House FPSs in community/public buildings.

- **Study by ORG MARG (September 2005)**

A total of 25004 respondents were interviewed across 35 States/UTs out of which 1/3rd were from Urban and 2/3rd were from Rural areas. Random sampling procedure was adopted to have a balanced representation.

Suggestions and Recommendations:

- The principal role of PDS is to act as a safety net i.e. to provide subsidized grains even during low production or natural calamities.
- PDS coupled with employment generation programme should create a scenario wherein price control and poverty alleviation can converge.
- There has to be increased allocation under TPDS and AAY, primarily targeting India's poor in the deficient States.
- Allocation to APL does not seem to be justified in the long run.
- Encourage community based storage facilities to tackle distribution and availability problems.
- To make the FPS viable, either the margins should be increased or the FPS license may be given to those who are into retail or wholesale trade of provisions.
- Reimbursement of transportation cost should be increased and provided at the time of lifting of foodgrains or built into the margins. The door step delivery scheme should be encouraged at Government cost.
- The old system of quota based on number of members in the family may be reverted to.

- The upper cap on quantity of foodgrains per family may remain at 35 kg per month.

(C) Study by National Council of Applied Economic Research (NCAER) (November 2007 and January 2009)

The study was carried out in two phases covering six States in each phase. From each selected State, 5 Districts in the North, South, East, West and Central regions were selected. From each district, one block was selected. A total of 30 districts and 30 blocks were short-listed for the survey. A total of 200 households were surveyed from each district/block, taking the total number of households covered to 6000 out of which 4800 were selected from rural and 1200 were from urban areas.

Suggestions and Recommendations:

- Identification errors, issue of excess cards, diversion of PDS, etc, need to be corrected.
- It is inappropriate to proxy income from consumption expenditure. When income and consumption expenditure are compared with the official cut off, huge differences appear in the extent of inclusion and exclusion errors. In view of this, there is a serious need to devise an appropriate criterion for identification of BPL households.
- Attempt can be made to make the PDS self targeted e.g. linking it with employment guarantee programmes where wage rate is kept at such a level that only poor people participate.
- Devising an alternate criterion as cut off income/expenditure or some other method for identification of poor is not an easy task. The system of food stamps is also wrought with huge inclusion and exclusion errors. Another major problem is that food stamps programme might have to face misuse of food stamps where poor people use stamps to buy commodities other than food or resell stamps to better off people in lieu of money.
- To improve the PDS, it is necessary to awaken the poorest ones to their rights. This will be possible through:
 - Educating people about the criteria followed in fixing entitlement.
 - Display the criteria and entitlement on the FPS and on the Ration Card.
 - Make monitoring compulsory and punish the culprit including the panchayats.
 - Make FPS more viable by giving them higher margins.

- Computerisation of records for cross checking.
- Multi-tier checking of the quality of the grain supplied.
- Strengthening the role of NGOs.

(D) Study by Indian Institute of Public Administration (IIPA) (October 2010 and February 2011):

The Concurrent Evaluation study of Targeted Public Distribution System was carried out by IIPA in two phases covering 6 States in first phase and 8 States in second phase.

Suggestions and Recommendations:

- Political will is necessary in improving the system.
- There is need for a fresh exercise for a transparent identification process.
- Prevent the issuance of multiple cards and avoid overlapping cards by multiple agencies.
- It should be FCI's responsibility to transport foodgrains to a few designated main States/districts godowns especially in the north-east.
- Financial assistance to cooperatives/SHGs of women or vulnerable sections may be provided to improve the delivery system.
- There is need to enhance the financial viability of FPSs in the present system.
- Door delivery of foodgrains to FPS may improve the system.
- The mandatory requirement of number of ration cards to be attached to a FPS may be lowered depending upon geographical coverage.
- Beneficiary/stakeholder ownership may make the system vibrant.
- Training programmes for members of vigilance committees and FPS owners.
- Display samples with stamp of FCI to ensure that foodgrain is not diverted and the quality delivered by FCI actually reaches cardholders.
- Make the process of delivery transparent and prevent malpractices at the FPS level.
- Track the movement of foodgrains by use of GPS.
- Minimize monthly variation in allocation.
- District Website may be used for effective Management Information System. Improve mechanisms for communication of availability or non-availability of foodgrains at FPS.
- Improve transparency and accountability and implement Citizen's Charter.

4. IDENTIFICATION OF BENEFICIARIES

The allocations of food grains under TPDS is made by Government of India to families based on 1993-94 poverty estimates of Planning Commission and March 2000 population estimates of Registrar General of India, or the number of families actually identified and ration-cards issued to them by States/UTs, whichever is less. On this basis, Government of India has been making allocation for the accepted number of 6.52 crore BPL families, including about 2.44 crore AAY families at the rate of 35 kg per family per month. Allocation of foodgrains is also being made to about 11.52 crore APL families under TPDS. However, some State/UT Governments have issued BPL ration cards in excess of the accepted number resulting in lower per family availability of food grains. A Statement indicating the State-wise accepted number of BPL families and the ration cards reported issued by the States/UTs is at **Annexure –I**.

Pursuant to the poverty estimates of 2004-05, the number of poor in the country eligible for assistance as BPL would have come down. However, the Government has consciously adhered to the 1993-94 poverty estimates so as to continue the benefit of BPL to a large number of people.

In the Eleventh Five Year Plan document, it was stated that the Programme Evaluation Organization's (PEO's) Study (2005) had established large-scale exclusion and inclusion errors in most States. The Study had also questioned the BPL methodology used for identification of households at State level. The Plan document held that there were two problems, one being the criterion used for allocation of foodgrains by the Central Government to States. It observed that the Central Government allocates foodgrains to States based on a narrow official poverty line; that there was a need to look at this allocation criterion to States, and that food-insecure households may be much higher than the official poverty ratios. For example, under-nutrition among children and households was much higher than this figure. It was recommended that the use of BPL estimates to determine Central allocations should be revisited because there is a significant mass of households just above the poverty line. The second problem noted was the use of BPL method for identifying households by the States leading to different identification from State to State. For example, some of the south Indian States did not follow the official poverty ratio for limiting the ration cards.

It may be mentioned that an Expert Group under the Chairmanship of Prof. Suresh D. Tendulkar was set up by the Planning Commission in December 2005 to review the methodology for Estimation of Poverty, which submitted its report in December 2009. The estimates of poverty emerging from the Tendulkar figures indicated the percentage of population living below the poverty line as 37.2% on all India level (Rural 41.8% and Urban 25.7%). These estimates were accepted by the Planning Commission.

4.1 Identification of BPL in Rural areas

The Ministry of Rural Development appointed an Expert Group in August 2008 for suggesting suitable framework and methodologies for identification of the rural poor. The Expert Group submitted its Report in August 2009 which has been considered by an Inter-Ministerial Core Group. The Core Group has also held wide consultations on the subject including the State Governments.

Based on consultations with the States/UTs and other experts, in the light of the findings of the BPL pilot survey, the methodology to conduct the door to door census of rural households for identification of BPL households is as below:-

(a) The Census is to be conducted by State Governments/UTs with the technical and financial support of the M/o Rural Development. The Census is based on a self-declaration model of the respondents. The information is to be verified and approved by the Gram Sabha. The Ministry has also provided detailed guidelines for conducting survey and finalization of BPL list.

(b) The classification of households is to be done in three steps. First step would be to apply an exclusion criteria. The exclusion criteria would comprise of Households owning Motorized vehicles, having Kisan Credit Card with the credit limit of Rs.50,000 and above; having any member as Government Employee or earning more than Rs. 10,000 p.m.; paying income tax or professional tax; having land, tubewell, etc.

(c) The categories of households that would be compulsorily included, subject to exclusion criteria above, are those relating to Households without shelter; Destitutes/living on alms; Manual scavengers; Primitive Tribal Groups; and Legally released bonded labourers.

(d) The remaining households (subject to exclusion criteria in (b) above and compulsory inclusion in (c) above) will then be assigned deprivation

scores depending on the number of deprivation indicators i.e. Households with only one room, with kucha walls and kucha roof; Households with no adult member between age 16 to 59; Households with any disabled member and no able bodied adult member; SC/ST households; etc.

The BPL Census would be conducted along with Caste Census being conducted by the office of RGI.

4.2 Identification of BPL in Urban areas

For urban areas, the Planning Commission set up an Expert Group headed by Prof. S R Hashim on 13.5.2010 to recommend the detailed methodology for identification of families living below poverty line in the urban areas. As per information received from the Department of Housing & Urban Poverty Alleviation, this Committee has submitted its interim recommendations, which have been accepted by that Ministry and approved by the Cabinet. The Expert Group has recommended the adoption of a set of objective and verifiable indicators for the identification of the urban poor. It has also been recommended that poverty be identified in urban areas through the identification of specific 'vulnerabilities' covering three broad categories namely, residential, occupational and social. The Expert Group has recommended a set of questions to be canvassed for capturing indicators of these vulnerabilities in the Interim Report submitted to the Planning Commission. The Ministry of Housing and Urban Poverty Alleviation will provide technical support to the State/UT Governments for conducting the BPL survey. The BPL survey in urban areas will be conducted along with the proposed caste enumeration and rural BPL survey with the assistance of the RGI. It is anticipated that the entire process will be completed by the end of January 2012.

4.3 Socio Economic and Cast Census (SECC),2011

Ministry of Rural Development is carrying out the SECC, 2011 through a door to door enumeration across the country. This is the first time such a comprehensive exercise is being carried out both for rural and urban India. This exercise is being carried out in association with the Registrar General of India and is expected to be completed by January, 2012. It was launched on 29.6.2011 in Tripura. The whole data is being computerized and updated through a company set under public private partnership and will be available for identifying beneficiaries under different schemes.

Multiple dimensions of deprivations on the indicators that are being collected through the SECC, 2011 will be taken into account for arriving at specific entitlements that rural households will receive under various central government programmes and schemes. The present state-wise poverty estimates using the Planning Commission methodology will not be used to impose any ceilings on the number of households to be included under TPDS.

4.4 Recommendations

- The total number of BPL cards issued by the States/UTs is about 11 crore as against the accepted number of 6.52 crore BPL families. This has resulted in lower per family availability of foodgrains in some States/UTs. It is necessary to adopt the revised number of BPL families under TPDS at the earliest.
- Keeping in view the commitment of the Government to have legislation on food security, it will be appropriate to divide the population who deserve foodgrains at subsidized prices in two categories – Priority Households and General Households. There may, thus, be no justification to continue the differentiation between the poor and the poorest of the poor.
- The eligibility and entitlements of BPL households for the purpose of TPDS and also for identifying the priority and general households in the country for implementing the proposed legislation of food security, may be determined after the SECC 2011 survey results are available and have been analysed by Ministry of Rural Development in consultation with States, experts and civil society organisations. It may be ensured that no poor or deprived household is excluded from coverage under the entitled category.
- To target the right beneficiaries and eliminate errors of inclusion and exclusion, regular updating and verification of BPL families/priority households need to be done by the States and a revised State level database on BPL families/priority households needs to be created. The updated lists of eligible households/beneficiaries should be placed in the public domain.
- The grain entitlement may be converted from a per household to a per individual monthly entitlement. The shift to a per capita entitlement will be a progressive step since by only specifying the headcount number, the State Governments will have more flexibility in extending benefits in accordance with actual ground realities. With the UID coming in, which

assigns a unique ID to every individual, a per capita entitlement will enable food security benefits to be inextricably linked to the UID.

5. DISTRIBUTION OF COARSEGRAINS AND ADDRESSING THE NUTRITION CONCERNS

5.1 Coarse grains under TPDS

The issue of coverage of commodities supplied through TPDS was discussed in the Eleventh Five Year Plan document wherein it was mentioned that if nutrition security is one of the considerations of TPDS, the government may explore the possibility of including more commodities under TPDS. For example, cereals such as jowar, bajra, and also pulses could be introduced in TPDS because of nutritional considerations. It was further stated that presently the country has a shortage of these commodities. Moreover, the introduction of these commodities may encourage production of these crops especially in dry land areas.

Department of Food and Public Distribution allocates Wheat, Rice and Coarse grains under TPDS to various States/ UTs. Coarse grains are allocated in lieu of Rice and / or Wheat, if required for BPL and AAY families. However, in the case of APL category, the allocation can be made over and above the existing allocations without substitution, in case of those States/UTs where the existing APL allocation is less than 35 kg. per family per month.

Every year while considering allocations of foodgrains under TPDS, all the States/UTs are requested to send their requirement of coarse grains for the year under AAY, BPL and APL categories. States like Gujarat, Haryana, Karnataka and Rajasthan are among the few States where coarse grain have been sought for distribution under TPDS. The Hon'ble Finance Minister in the Budget Speech delivered on 28.2.2011 stated that while we ensure food for all, we must also promote balanced nutrition. Bajra, Jawar, Ragi and other millets are highly nutritious and are known to possess several medicinal properties. The availability and consumption of these nutri-cereals is, however, low and has been steadily declining over recent years. The response has not been very encouraging.

The National Advisory Council, in its recommendations dated 23.10.2010 on the proposed National Food Security Act, has also stated that ways and means should be explored to utilize the services and

infrastructure under TPDS by the other concerned Departments to address nutritional concerns for child and maternal nutrition (including nutrition programmes for pre-school children, pregnant and nursing mothers, maternity benefits as well as for community kitchens and programmes for feeding destitute and vulnerable groups. There is a need to develop specific programmes for the new components by the concerned Departments. The price of millets recommended by NAC under the proposed law on food security is Re. 1/- per kg. for the priority households and a price not exceeding 50% of the current Minimum Support Price for millets for the general households. The draft National Food Security Bill under preparation will take into account the need for providing coarse grains under TPDS.

5.2 Procurement of coarsegrains

As per existing policy of Government, procurement of coarsegrains is 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 TDPS for the year and the balance is disposed of by the FCI through open tender. The difference between the economic cost and disposal price is paid as subsidy to the State Governments concerned. Coarsegrains are being procured mainly by State Governments of Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra and Rajasthan.

Even though there has been substantial increase in MSP of coarsegrains during last few years, there has not been any increase in Coasegrain Procurement as would be seen from the following tables:

MSP of Coarsegrains:

Sl. No	Commodity	Variety	Rs. Per Quintal					Percentage increase in MSP in 2011-12 over 2007-08
			2007-08	2008-09	2009-10	2010-11	2011-12	
1	JOWAR	Hybrid	600	840	840	880	980	63%
		Maldandi	620	860	860	900	1000	61%
2.	BAJRA		600	840	840	880	980	63%
3.	MAIZE		620	840	840	880	980	58%
4.	RAGI		600	915	915	965	1050	75%

Details of State wise coarse grains procurement during last three years is as follows:-

STATE/U.T	(in tonnes)		
	2008-09	2009-10	2010-11
Andhra Pradesh	1,78,000	7,000	0
Chhattisgarh	9,000	1,000	3,000
Gujarat	0	0	0
Haryana	3,10,000	77,000	73,000
Karnataka	7,12,000	3,16,000	40,000
Madhya Pradesh	60,000	Negligible	9,000
Maharashtra	1,07,000	6,000	3,000
Punjab	0	0	0
Rajasthan	0	0	Negligible
TOTAL:	13,76,000	4,07,000	1,28,000

5.3 Addressing the nutritional concerns

In the ongoing Writ Petition (Civil) No. 196 of 2001-PUCL Vs Union of India & Others, the Hon'ble Supreme Court has taken a serious note of the prevailing malnutrition. In its order dated 14.5.2011, the Hon'ble Supreme Court has directed that as a one-time measure, it is absolutely imperative to reserve another 5 million tonnes of food grains for distribution to the 150 poorest districts or the extremely poor and vulnerable sections of our society. 5 million tonnes of food grains additionally allocated would be distributed to the 150 poorest districts or pockets where people are living in penury. The Hon'ble Supreme Court has made this order to ensure that no starvation deaths take place and people can be saved from malnutrition as far as possible.

It may be mentioned here that apart from TPDS, foodgrains are also provided by the Department of Food and Public Distribution for various other welfare schemes being implemented by the concerned Ministries/Departments such as Wheat Based Nutrition Programme under the Integrated Child Development Services (ICDS), and for the Nutrition Programme for Adolescent Girls (NPAG) now renamed as the Rajiv Gandhi Scheme for Empowerment of Adolescent Girls (RGSEAG) of the Ministry of WCD and the Mid Day Meals Scheme of the Ministry of Human Resource Development, among others. These schemes also contribute in addressing the problem of malnutrition.

In this context, Department of Food & Public Distribution has written to the concerned Ministries to inform of any additional requirement of foodgrains under the programmes. Additional allocations have been made to Ministry of WCD based on the requirement of foodgrains indicated by them. Similar requests for additional foodgrains for the schemes implemented by other concerned Ministries would also be considered on receipt from them.

The Ministry of Women and Child Development, jointly with Ministry of Health and Family Welfare, prepared a Strategy Note to 'Address India's Nutrition Challenges'. After consultations with stakeholders, it was presented in the meeting of the Prime Minister's National Council for India's Nutrition Challenges held in November 2010. Major decisions made include steps to be taken by M/o WCD to strengthen and restructure ICDS with special focus on pregnant and lactating mothers and children under three; a multi-sectoral programme in consultation with Planning Commission and M/o H&FW would be prepared to address the maternal and child malnutrition in selected 200 high-burden districts; a nationwide information, education and communication campaign would be launched against malnutrition; and Ministries that deal with health, drinking water supply and sanitation; school education, agriculture, food and public distribution will bring strong nutrition focus to their programme. Following the directions given, M/o WCD has held several meetings with Ministries, Development Partners and Institutions for preparing the conceptual frameworks of the action proposed to be taken to implement these decisions.

It is too vast and complex a subject which requires effective intervention by the Ministry of Women & Child Development and Ministry of Health & Family Welfare also. It is pertinent to state that mere allocation of foodgrains alone may not address the issue of malnutrition in the country.

5.3 Recommendations

- Measures may be taken to increase production of coarse grains.
- FCI should procure adequate quantity of coarse grains to meet the requirement of various States/UTs under TPDS.
- The States/UTs may be encouraged to opt for allocation of more coarse grains keeping in view the local production thereof

and the need to address nutritional concerns of the beneficiaries of the TPDS.

- Provisions may be made to have legal entitlements under the schemes like ICDS, Mid Day Meal etc. and the use of coarse grains while providing cooked food under such schemes should be encouraged.

6. NEED FOR PROVIDING ESSENTIAL ITEMS TO PUBLIC AND ADDING MORE ITEMS UNDER TPDS

6.1 Sale of non-PDS items in FPS

Most of the Fair Price Shops are not considered to be financially viable keeping in view the limited number of items under PDS and the small margins offered by the State Governments for the same. Studies to evaluate TPDS have recommended that this issue needs to be addressed urgently. The functioning of FPSs has been comprehensively examined by the Department of Food and Public Distribution in consultation with the States/UTs. All related aspects like selection of FPSs, their margins, financial viability etc. need to be addressed so as to improve their functioning.

To make operations of FPS economically viable, the State/UT Governments have been advised to allow FPS licensees to enlarge the basket of commodities by allowing sale of non-PDS items for daily use as per local requirements. 15 States/UT governments have confirmed that FPS in these States are selling non-PDS items such as edible oil, pulses, milk powder, soaps etc. A Statement of the non-PDS commodities being sold through fair price shops in these States is at **Annexure – IV**.

The Ministry of Finance (Department of Economic Affairs) is of the view that expanding of basket of goods and services through inclusion of non-PDS items like toothpaste, mobile recharge etc. through PDS by negotiating intermediary margins would involve further complex procedures of contracting, tracking the inventories etc, which can complicate the administrative procedures and lead to further leakages and have huge subsidy implication. That Ministry is of the view that the priority population can be given cash transfers on the basis of identification of beneficiaries. However, based on past experience, expanding the basket of items is considered as one of the effective measures to address the viability of FPSs.

6.2 Market Intervention Scheme

Under TPDS, Government of India allocates foodgrains, sugar and kerosene oil to States/UTs for distribution to targeted BPL households. Distribution of these commodities is also being done to APL families but in lesser quantities. Besides, the range of commodities being distributed under TPDS is also limited. Items of common use like pulses, edible oils, onions, etc, which witness seasonal variations in availability and spurt in prices are not covered under TPDS.

Government of India is considering a scheme which aims at strengthening the capacity of State Agencies by augmentation of their financial resources with one-time financial support from Government of India and thereby enabling them to intervene effectively in the market by increasing the availability of essential commodities at reasonable prices in time of scarcity and/or spurt in prices, thereby exercising a check on speculative tendencies.

Under the scheme, the States/UTs may utilize the central assistance as margin money or equity so that it enables the State Civil Supplies Corporations/Consumer Marketing Federations or such agencies to borrow from financial institutions to meet their requirements of funds for augmentation of working capital for procurement, storage, transportation, upgradation of infrastructure such as retail outlets, additional storage, etc.

6.3 Recommendations

- Sale of Non-PDS items must be promoted by States/UTs through fair price shops at affordable prices by negotiating the intermediary margins. Items which may be included are:
 - Essential items like Pulses, Salt, cooking oil, Tea leaves, milk powder, etc
 - Fast moving consumer goods like Toothpaste, Tooth Brush, soaps, detergents, Biscuits, stationery items, etc
 - Services like Mobile Connections/ Recharge, DTH recharge, Postal Stationery, etc.
- One month credit facility to be arranged by the State Food & Civil Supplies Departments.
- Increased commission to FPS dealers.
- Continuous supply of PDS as well as non-PDS items. The supply of foodgrains required under TPDS for a month should be made

available by the State Food & Civil Supplies Department by 15th of previous month.

- As a measure to fight spurt in prices of common items and to protect the consumers, the Market Intervention Scheme for providing facilities of non-formal PDS should be finalised at the earliest.

7. MEASURES TAKEN FOR STREAMLINING AND STRENGTHENING OF TPDS & REFORMS IN TPDS

7.1 Nine point action plan

Based on consultation with all the State & UT Governments during five Regional Conferences and one National Level Conference of State & UT Food Ministers and Secretaries, a nine point action plan was evolved in July 2006, which is under implementation by the State/UT Governments. The latest position of action taken on different issues as on 30.4.2011 is as follows:

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 up to April, 2011, implementation of the action plan has resulted in elimination of a total of 208.58 lakh bogus/ineligible ration cards in 26 States.
2	Strict action should be taken against the guilty to ensure leakage free distribution of food grains.	33 States/UTs 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 should be ensured.	Involvement of PRIs in vigilance committees to monitor FPS has been reported in 28 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	Action in this regard has been

	allocation of food grains should be put up on websites and other prominent places, for public scrutiny	initiated in 20 States.
6	Wherever possible, doorstep delivery of food grains should be ensured by States, instead of letting private transporters/wholesalers to transport goods.	Door-step delivery of food grains to FPS is being done in 18 States/UTs
7	Timely availability of food grains at FPS level and fixed dates of distribution to ration cardholders should be ensured.	Action is being taken by 32 States/UTs 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.	27 States / UT governments have taken up training programmes for FPS level vigilance committees.
9	Computerization of TPDS operations is undertaken.	10 States have reported computerization operation of TPDS.

7.2 Elimination of Bogus Ration Cards

Department of Food and Public Distribution vide letters dated 26-8-2009 and 5-10-2009 has requested all the State Governments/UTs to carry out a time bound intensive campaign from October to December, 2009 to review the existing list of BPL and AAY families and issue ration cards so as to eliminate bogus ration cards. As per reports received, 26 State/UT Governments have eliminated a total of 208.58 lakh bogus/ineligible ration cards up to April 2011. The Supreme Court, vide its order dated 31-8-2010 also directed that by a newspaper advertisement, a warning be issued asking all the bogus card holders to surrender bogus cards forthwith, in any event, within two weeks of the date of advertisement, otherwise criminal prosecution may be initiated against the bogus card holders. Department of Food and Public Distribution has asked all States/UTs to issue newspaper advertisements in terms of the orders of the Hon'ble Supreme Court and to

take action as directed by the Hon'ble Supreme Court and report compliance.

7.3 Involvement of Panchayati Raj Institutions (PRIs)

Detailed guidelines have been issued from time to time 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.

7.4 Measures to increase transparency in functioning of TPDS

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. As at end April 2011, 30 State/UT Governments have reported adoption and implementation of the revised Model Citizens' Charter.

Introduction of Monthly Certification of Delivery of Food Grains at Fair 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 (SHGs) for timely delivery of food grains to fair price shops, and distribution thereof to ration card holders during the allocation month. So far, 21 State/UT Governments have reported implementation of this monthly certification.

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, Rs. 26.68 lakh to 4 States/UT Governments during 2009-10 and Rs.63.04 lakh to 8 State/UT Governments during 2010-11. 20% of the expenditure on such campaigns is being shared by State Governments/UTs.

District and FPS wise Display of allocation of food grains on websites for public scrutiny - This is being done in 20 States/UT Governments wherein these states are displaying the particulars of allocation on the state web sites.

7.5 Other Measures to improve the efficiency of FPS operations

Distribution of wheat flour/fortified wheat flour under TPDS - To facilitate distribution of wheat flour/fortified wheat flour instead of whole wheat in convergence with other Government programmes/schemes for nutritional improvement of targeted beneficiaries, the Department has issued revised policy guidelines on this subject in January, 2008. 16 States/UTs are presently distributing wheat flour/fortified wheat flour under TPDS.

Allotment of Fair Price Shops to Institutions and Groups - As per reports received from State Governments by end of December, 2010, out of 5.06 lakh fair price shops in the country, about 1.28 lakh fair price shops have been allotted to Cooperatives, Women's Self Help Groups, Village Panchayats, Urban Local Bodies and other Self Help Groups in different States.

7.6 Interaction with States/UTs

Targeted Public Distribution System (TPDS) is operated under the joint responsibility of Central Government and State/Union Territory (UT) Governments. The Central Government is responsible for procurement, allocation and transportation of foodgrains upto the designated depots of the Food Corporation of India. The operational responsibilities for lifting and distributing the allocated foodgrains within the States/UTs, identification of eligible Below Poverty Line (BPL) families, issuance of ration cards to them and supervision over distribution of allocated foodgrains to eligible card holders through the fair price shops are that of the State/UT Governments.

Department of Food and Public Distribution is continuously engaged with States/UTs for review of TPDS and necessary improvements in the policy are made from time to time. Advisories and instructions are also issued to the States/UTs on regular basis to guide them on various aspects of TPDS implementation. A Conference of Food Secretaries and other officials to discuss the best practices and reforms in TPDS was held in July

2010 at New Delhi. Four Regional Conferences with Food Ministers and officials were also held by Hon'ble MoS (IC) CAF&PD in February 2011.

7.7 Creation of FPS-cum –godowns

Keeping in view the need for scientific storage capacity at the FPS level, a Plan Scheme is being considered in the Department of Food and Public Distribution for Creation of FPS-cum-godowns in State/UTs during 12th Five Year Plan. The salient features of the proposed scheme are:

- (a) Financial Assistance from Central Government will be provided to the extent of 50% of the cost of construction or a maximum of Rs.1 lakh per FPS-cum-Godowns. The remaining 50% should be contributed by the State/UT from its own resources.
- (b) The FPS-cum-Godowns should be constructed so as to create sufficient capacity for storage of about 3 months' requirements of foodgrains to be distributed under TPDS for BPL/AAY/APL categories of beneficiaries attached to each FPS.
- (c) These FPS-cum-Godowns shall be opened in backward regions, tribal areas, hilly and inaccessible areas only.
- (d) Co-operatives, PRIs, Self Help Group, and Similar commodity base organizations may be given preference in the selection of dealers operating the FPS-cum-Godowns.
- (e) Guidelines for scientific storage of foodgrains in FPS-cum-Godowns as prescribed by the Government should be followed.
- (f) The detailed procedure for construction, use and running of these FPS-cum-godowns including charging of rent, allocation of rent receipts for repair/maintenance, etc may be worked out by each State/UT as per their requirements.
- (g) The estimated outlet for the proposed scheme is Rs.506.21 crore for the 12th Five Year Plan.

7.8 Recommendations

- Timely distribution of TPDS Commodities is one of the priorities for a proper distribution system. Measures should be taken by all the States/UTs to ensure that the quota of foodgrains for a particular month is available with each Fair Price Shop by end of the previous month for timely distribution to the beneficiaries. The public/ Vigilance Committees should be informed about delivery of commodities at FPS by SMS. The delivery of commodities to FPS should be certified by Vigilance Committees every month.
- The scheme for construction of FPS-cum-godowns to create a capacity to store about 3 months of foodgrains in the States/UTs during 12th plan may be finalized and implemented. It may be ensured that the scheme should have provisions for adequate safe guards against theft or misuse of the foodgrains stored in FPS-cum-Godowns.
- States should ensure doorstep delivery of foodgrains to Fair Price Shops so as to ensure timely availability of foodgrains and minimize chances of leakages/ diversions.
- States may adopt innovative ways of distribution involving community participation such as bulk distribution of foodgrains to the beneficiaries in the presence of Gram Sabhas wherever there is such demand.
- All the States/UT Governments should implement the Citizen's Charter and ensure transparency and public inspection of stocks & records.
- There should be accountability for issue of bogus/ineligible ration cards, non-issue of cards to eligible persons, diversion/leakages of items meant for PDS, improper distribution to cardholders, etc. The assessment of officers implementing the TPDS should be based on PDS performance in their area of jurisdiction.
- Community participation in monitoring of PDS should be encouraged by taking measures such as social audit by local bodies/ community groups/ NGOs, SMS based information made available to Ration Card holders, etc. The BPL lists should be prominently displayed at FPS, offices of rural & urban local bodies and put on websites.

- All important information concerning TPDS in the State/UT may be made public through websites, Call-Centers, Press/Electronic Media on a regular basis. The States/UTs should also undertake awareness campaigns on various themes concerning TPDS from time to time.
- There should be a responsive Grievance Redressal Mechanism, display of information about rights and duties in every FPS, helpline in the form of Call-centre with toll-free numbers and web based complaint registration and monitoring system. As provided in the draft National Food Security Legislation, Grievance Redressal Mechanism is to be set up at the National, State and district levels with necessary infra structure and staff. A scheme may be prepared to strengthen the Grievance Redressal Mechanism.
- The selection of FPS Dealers should be done in a transparent manner and preference should be given to institutions such as Women's Self Help Groups, Cooperative Societies, Gram Panchayats, etc. The selection should avoid conflict of interests e.g. no license need be given to persons or entities directly involved in monitoring of FPSs.
- Steps should also be taken to address the viability of fair price shops and improve their functioning. Some of the measures which may be considered are sale of non-PDS items including consumer goods and services; rationalization of the commissions given by the States/UTs to the FPS dealers; negotiating intermediary margins for sales of non-PDS items; prompt reimbursement of transportation and other PDS-related expenditure incurred by FPS dealers; extending liberal credit facilities to FPS dealers; PPP model for joint marketing benefits to increase FPS viability; modernization of FPS by introduction of electronic weighing machines etc. Each State/UT should also take immediate action for creation of model FPSs.
- The States/UTs should publish Taluk & FPS level TPDS manuals and should also organize periodic training programmes for all wholesalers, FPS Licensees, officials and staff concerned with implementation of TPDS.
- In the wake of proposed legislation on food security, it is essential to provide more impetus to provide training to

concerned Officers and staff to enable them to efficiently handle the PDS operations. The Department may provide for designing and organization of training courses covering aspects such as procurement, storage, distribution, grievance redressal, etc.

- As soon as the legislation on Food Security is enacted, it would be necessary to carry out extensive awareness/publicity campaigns throughout the country, preferably in local languages which can be easily understood by the beneficiaries, most of whom are below poverty line.
- It is essential to review the functioning of TPDS in various States/UTs from time to time to evaluate the implementation of the Scheme. Evaluation Studies of PDS in different States/UTs may be conducted periodically through specialized organisations of repute and take requisite action on the study reports in consultation with concerned States/UTs.

8. COMPUTERISATION OF PDS

8.1 Department of Food and Public Distribution had taken the following initiatives towards computerisation of its activities:

- Scheme on computerization of TPDS on pilot basis approved in August 2009 to be implemented in 3 districts each of 4 pilot States i.e. Andhra Pradesh, Assam, Chhattisgarh and Delhi.
- Pilot scheme on Smart Card based delivery of TPDS commodities was approved for Chandigarh UT and State of Haryana in December 2008.
- Integrated Information System for Foodgrains Management (IISFM) aims at putting an online management system in place to give information about foodgrains management in FCI.

8.2 In addition, States/ UTs have also taken up several measures on their own towards digitization of ration cards (Andhra Pradesh, Chhattisgarh, Tamil Nadu, Madhya Pradesh, Karnataka, etc.), computerised allocation to fair price shops (Chhattisgarh, Delhi, Madhya Pradesh, Tamil Nadu etc.), issue of smart cards in place of ration cards (Andhra Pradesh, Orissa, etc.), grievance redressal (Andhra Pradesh, Chhattisgarh, Tamil Nadu, Kerala, etc.) Other technology based initiatives are also being taken in the field of TPDS like use of GPS technology (Chhattisgarh, Tamil Nadu) for tracking of

vehicles carrying TPDS commodities, SMS based monitoring of movement of vehicles and reporting of dispatch/ arrival of TPDS commodities (Chhattisgarh, UP, TN) and use of web-based citizens' portal (Chattisgarh).

8.3 Hon'ble Supreme Court, in its order dtd. 27.07.2010, directed the Department to take up total computerisation of the PDS on top priority basis; that Union of India must prepare a software and the same software should be used by all the States; and that Union of India may consider computerisation in consultation with the specialised agencies like Unique Identification Authority of India.

8.4 Accordingly, a Task Force headed by DG-NIC was set up on 09.08.2010 by the Department to work out the modalities for integration of the existing projects and to suggest as to how UIDAI can be eventually leveraged. The Task Force submitted its report on 01.11.2010 to the Department.

8.5 Subsequently, the terms of reference of another Task Force headed by Chairman, UIDAI were extended to include an IT Strategy for PDS and an implementable solution for direct transfer of subsidies on food and kerosene. The Task Force would:

- Identify and suggest required changes in the existing systems, processes and procedures, IT frameworks and supply chain management;
- Recommend institutional mechanisms to implement the IT strategy for PDS; and
- Examine and suggest an implementable solution for direct transfer of subsidies on Food and Kerosene to intended beneficiaries with the use of Aadhaar numbers (Unique Identification numbers), Aadhaar enabled transactions and Aadhaar authentication infrastructure.

This Task Force has submitted its report to the Hon'ble Finance Minister on 2.11.2011.

8.6 The Apex Committee on National e-Governance Plan (NeGP) in its meeting held on 29.07.2011 decided to include Computerisation of PDS as a Mission Mode Project (MMP). Department of Food and Public Distribution has created the appropriate governance structure at the Central level for the implementation of Computerisation of PDS as an MMP consisting of an Empowered Committee and a Central Project e-Mission Team. States/UTs

have also been requested to constitute similar institutional mechanism comprising of a State Apex Committee and a State Project e-Mission Team.

8.7 A High Powered Committee (HPC) headed by Justice D.P. Wadhwa (retd.) had been set up under the directions of the Hon'ble Supreme Court to monitor and expedite the Computerization of TPDS. It has submitted its preliminary report to the Court. Subsequently, the Hon'ble Supreme Court has given detailed directions for end-to-end Computerisation of PDS covering all States/UTs in a time bound manner in its order dated 14.9.2011, which, inter alia, are as follows:

- PDS Computerization would comprise of creating an updated beneficiary database, stocks management and sale of commodities at FPS.
- As Component I, computerization of complete supply-chain management and availability of this information in public domain through a transparency Portal should be undertaken. Component II will comprise of authentication of delivery and payments at the FPS, including use of Aadhaar in due course.
- Guidelines may be issued to all States/UTs for end to end computerization of TPDS. All States/UTs would prepare a time bound action plan for completing the process of computerization.
- States/UTs should ensure computerisation of PDS through some key measures as below:
 - Supply-Chain Management (Component I) may be undertaken as per Chhattisgarh model. In case some State is at an advanced stage of following some other model, it may do so.
 - Component 2 may be implemented on the lines of the Gujarat model of computerization. As far as possible, State governments should link the process of computerization of Component-2 with Aadhaar Registration.
 - Information portal for complete PDS information including information on movement and availability of foodgrains.
 - Allocation to reach FPS before 1st day of the month & information be given on the portal
 - Four digit toll free number in all States for grievance registration & redressal
 - Digitized database of ration cards in the public domain including on the websites
 - Dedicated nodal officer to be appointed by States/UTs for PDS Computerisation

- Inclusion of PDS related KYR+ field in the data collection exercise being undertaken by various Registrars across the country as part of the UID (Aadhaar) enrolment to be encouraged
- Information about availability of foodgrains to be disseminated through SMS to enable social audit.
- A separate and dedicated institutional mechanism should be created to implement Computerisation of PDS. The institutional mechanism shall be responsible for meeting the timelines.

8.8 Recommendations

- End-to-end computerisation of TPDS to be taken up in a time-bound manner by all States/UTs across the country.
- The model of Computerisation given under the directions of the Hon'ble Supreme Court should be implemented by all stakeholders such as Central Government, States/UTs, FCI, NIC, UIDAI, etc. in a mission mode.
- Common application software which has been made available to all States/UTs would be customised by NIC as per State/UT requirements.
- Department of Food and Public Distribution will ensure that the institutional mechanism created to handle the challenges of Computerisation of TPDS in the entire country is provided required infrastructural and financial support.
- A Plan Scheme on Computerisation of PDS should be implemented during the 12th Five Year Plan through which suitable infrastructural and financial support would be provided to the States/UTs by Government of India.

9. STORAGE OF FOODGRAINS

9.1 BACKGROUND

FCI and the State Agencies undertake procurement of wheat, rice and coarse-grains under MSP operations. Govt of India has substantially increased the MSP in the last 5 years as a result of which the procurement of foodgrains has gone up. A statement showing the production, procurement and MSP of wheat and rice is enclosed at **Annexure V**.

9.2 Procurement of foodgrains

9.2.1 Wheat procurement in RMS 2011-12 reached an all time high of 281.44 lakh tonnes as on 31st July 2011. Procurement of rice was the highest in KMS 2008-09 when it reached the level of 341.04 lakh tonnes. Even in the drought crop year 2009-10, the procurement of rice was 320.34 lakh tonnes. In KMS 2010-11, the procurement of rice has already reached 334 lakh tonnes as on 30.09.2011. The procurement this year would have been even higher but for the floods in several parts of the country which affected the standing crop of paddy.

9.2.2 In the last two years, procurement of foodgrains has increased substantially in several States, which did not procure foodgrains in large quantities in the earlier years. A statement showing procurement of wheat in various States in the last 6 years is at **Annexure-VI**. A statement showing procurement of rice in various States in the last 5 years is at **Annexure-VII**.

9.2.3 It may be observed from **Annexure-VI**, that procurement of wheat in non-traditional States (Bihar, Rajasthan) was 15.69 lakh MT in RMS 2011-12 as against 3.92 lakh MT in RMS 2007-08. Similarly, from **Annexure-VII** it may be seen that procurement of rice in non-traditional States (Bihar, Madhya Pradesh, Maharashtra & Rajasthan) was 13.74 lakh MT in KMS 2009-10 as against 6.56 lakh MT in KMS 2006-07.

9.3 Build-up of stocks

In the last three years due to heavy procurement of foodgrains, there has been build-up of stocks as a result of which the stocks in Central Pool on 1.6.2011 reached an all-time high of 654.73 lakh tonnes. The stocks in the Central Pool were 517.85 lakh tonnes on 1.10.2011 comprising of 314.26 lakh tonnes of wheat and 203.59 lakh tonnes of rice against the buffer norm of 140 lakh tonnes of wheat and 72 lakh tonnes of rice as on 1.10.2011.

9.4 Increase in off-take

The off-take of foodgrains in 2010-11 reached a level of 530.23 lakh tonnes, yet the build-up of stock has continued and, as on 1.6.2011, the stock reached an all time high of 654.73 lakh tonnes. The break up of stock position as on 1.6.2011 is as under:-

Qty in lakh tonnes

Stock with FCI			Stock with State Agencies			Total Central Pool stock		
Rice	Wheat	Total	Rice	Wheat	Total	Rice	Wheat	Total
185.03	117.69	302.72	91.38	260.63	352.01	276.41	378.32	654.73

9.5 AVAILABILITY OF STORAGE CAPACITY

9.5.1 The Central Pool stocks are stored by FCI in its own and hired godowns. Similarly, Central Pool stocks are also stored in DCP States in the godowns of State agencies. In some of the non-DCP States like Punjab and Haryana, substantial stocks of Central Pool are held by the State agencies. The total storage capacity available for storing Central Pool stocks is as under:-

(Figures are in Lakh tonnes)

FCI			State Agencies			Grand Total		
Covered	CAP	Total	Covered	CAP	Total	Covered	CAP	Total
294.77	33.38	328.15	151.19	144.31	295.50	445.96	177.69	623.65

9.5.2 State-wise details of the storage capacity for Central Pool stocks is at **Annexure-VIII**.

9.5.3 Perusal of Annexure-VIII would show that out of the total owned covered storage capacity of FCI of 129.91 lakh tonnes, 29.92 lakh tonnes storage capacity is in Punjab and Haryana alone. Thus 23% of owned covered storage capacity of FCI is in these two States.

9.5.4 In the last few years, a number of non-traditional States have started procuring foodgrains on a large scale under MSP operations. Thus, the procurement of rice in Orissa and Chhattisgarh has increased substantially. Similarly, West Bengal, Tamil Nadu, Kerala and Bihar have started procurement of rice.

9.5.5 However, in the non-traditional States, the storage capacity available with FCI and the State agencies is much less than the requirement. This has resulted in constraints in taking over rice by FCI and its movement to other States. As a result, States like Chhattisgarh and Andhra Pradesh have been experiencing severe shortage of storage space in KMS 2010-11.

9.6. Storage of wheat in CAP

9.6.1 Covered and Plinth (CAP) is also a scientific storage deployed for temporary storage of wheat in wheat-procuring States till CAP stocks are moved out of the State or moved to covered storage. However, due to high level of procurement of wheat in the last few years, a substantial quantity of wheat was stored in CAP. The following table shows the wheat stored in CAP in two major wheat procuring States:-

As on	Punjab			Haryana			Gr.Total
	FCI	State Agencies	Total	FCI	State Agencies	Total	
1.6.2008	1.71	64.72	66.43	3.06	23.83	26.89	93.32
1.6.2009	7.57	91.97	99.54	2.84	53.01	55.85	155.39
1.6.2010	7.64	96.04	103.68	3.23	58.72	61.95	165.63
1.6.2011	10.16	99.01	109.17	3.29	57.08	60.37	169.54

9.6.2 It may be seen that the stock of wheat in CAP in Punjab has increased from 66.43 lakh tonnes on 1.6.2008 to 109.17 lakh tonnes on 1.6.2011. Similarly, the stock of wheat in CAP in Haryana has increased from 26.89 lakh tonnes on 1.6.2008 to 57.08 lakh tonnes on 1.6.2011.

9.6.3 However, the quality control infrastructure including manpower with both State Agencies and FCI has not kept pace with increase in stock levels, particularly for CAP stocks.

9.7. Creation of storage capacity through plan funds

9.7.1 Government of India has been operating a Plan Scheme for Construction of Godowns by FCI and State Governments of North-Eastern States, Sikkim and Jammu & Kashmir. During XIth plan, against a projected requirement of Rs. 291 crores, Rs. 149 crores has been allocated to this scheme. A statement showing amount released and capacity created under the scheme in the last 10 years is at **Annexure-IX**.

9.7.2 In view of the acute shortage of storage space in NE States, The Department of Food & Public Distribution formulated a scheme for creation of 5.40 lakh MT capacity for FCI through Special Plan Scheme at a total cost

of Rs. 568.17 crores. The scheme has now been approved by the Planning Commission and Ministry of Finance. The stipulated capacities under the Plan for NE States are to be completed in the 12th Plan.

9.7.3 In the year 2000-2001, FCI offered 7 years guarantee scheme to private investors for construction of godowns. Accordingly, 69 lakh MT capacity was created under the 7 years guarantee scheme in several States including Punjab, Haryana, Andhra Pradesh and U.P.

9.7.4 Due to lower procurement in the years 2006-07 and 2007-08, the Central Pool stocks came down to 156.84 lakh tonnes as on 1.4.2006. As a result, some capacity created under the scheme remained unutilized.

9.7.5 Construction of godowns under private entrepreneurs guarantee (PEG) scheme of FCI

Due to the increased procurement of foodgrains and to reduce the storage in Cover and Plinth (CAP) the Government formulated a Scheme for construction of storage godowns through private entrepreneurs, Central Warehousing Corporation (CWC) and State Warehousing Corporations (SWCs). Assessment of additional storage needs under the scheme is based on the overall procurement/consumption and the storage space already available. For the consuming areas, storage capacity is to be created to meet four month's requirement of PDS and other Welfare Schemes in a State. For the procurement areas, the highest stock levels in the last three years are considered to decide the storage capacity required. Later this scheme was extended to Decentralised Procuring (DCP) states in 2009.

A state wise mapping of existing capacities and analysis of additional requirements was undertaken based on objective criteria by State level committees and a High Level Committee of FCI. Based on this analysis and criteria laid down in the scheme, State wise capacity requirement and locations were identified. Under the scheme, the Food Corporation of India would now give a guarantee of ten years for assured hiring. As on 15.10.2011 a capacity of about 151.00 lakh tonne is to be created in 19 states under the scheme through private entrepreneurs and Central and State Warehousing Corporations. Some more capacities are likely to be sanctioned for the newly emerging procuring states. Tenders have been finalized for creation of storage capacity of about 69 lakh tonne by the private entrepreneurs, while more capacities are likely to be finalized in the

next few months. CWC and SWCs are constructing 5.4 and 14.4 lakh tonne respectively under the Scheme, out of which a capacity of about 3.5 lakh tonne has already been completed by CWC/SWCs

For expeditious construction of godowns, it was decided that wherever CWC/SWCs have their own land and if this is within the identified locations and storage gap approved by the High Level Committee of FCI, CWC/SWCs will construct godowns on priority for which FCI would give a guarantee of 9 years for the storage charges.

9.8. Hiring & De-hiring of storage capacity

9.8.1 A statement showing hiring and de-hiring of storage capacity by FCI is as follows:-

Hiring Dehiring of Capacity since 2001-02 (Figures in Lakh MT)				
POSITION AS ON		Covered	CAP	GRAND TOTAL
		HIRED	HIRED	
31.3.2001	CAPACITY	120.97	44.61	165.58
31.3.2002	CAPACITY	151.6	55.85	207.45
31.3.2003	CAPACITY	137.7	28.78	166.48
31.3.2004	CAPACITY	108.5	13.64	122.14
31.3.2005	CAPACITY	104.61	4.13	108.74
31.3.2006	CAPACITY	99.05	5.09	104.14
31.3.2007	CAPACITY	93.42	6.32	99.74
31.3.2008	CAPACITY	87.13	0.27	87.4
31.3.2009	CAPACITY	101.24	0.15	101.39
31.3.2010	CAPACITY	128.9	4.69	133.59
31.03.2011	CAPACITY	154.59	5.44	160.03
31.05.2011	CAPACITY	164.86	7.02	171.88
Net Hiring (01-02)		30.63	11.24	41.87
Net Hiring (02-03)		-13.9	-27.07	-40.97
Net Hiring (03-04)		-29.2	-15.14	-44.34
Net Hiring (04-05)		-3.89	-9.51	-13.4
Net Hiring (05-06)		-5.56	0.96	-4.6
Net Hiring (06-07)		-5.63	1.23	-4.4
Net Hiring (07-08)		-6.29	-6.05	-12.34
Net Hiring (08-09)		14.11	-0.12	13.99
Net Hiring (09-10)		27.66	4.54	32.2

Net Hiring (10-11)	25.69	0.75	26.44
Net Hiring 11-12(upto 31.05.2011)	10.27	1.58	11.85
*Negative figures indicate Dehiring of capacity			

9.8.2 It may be seen that from 1.4.2008 till 31.5.2011, FCI has hired 84.48 lakh MT storage capacity.

9.9. Recommendations of the Parliamentary Standing Committee of Department of Food

9.9.1 The Standing Committee in its Twelfth Report on Demands for Grants (2006-07) had stressed maximum utilization of owned capacity so that dependency on hired capacity could be minimized. The Committee observed that the percentage utilization of hired capacity was on the rise compared to owned capacity. The Committee had strongly recommended that FCI should go in for de-hiring of godowns in view of the stocks of wheat and rice falling short of the prescribed buffer norms. The Committee also desired that FCI should give on rent its own godowns for storage of various commodities to generate revenue.

9.9.2 In Performance Audit "Functioning of FCI as per FCI Act and Impact on Food Subsidy", C&AG observed that the godowns staff constitutes 60% of the total staff strength of FCI. It further observed that due to low utilization of storage capacity, the wages paid to the employees who were not performing any productive functions can be termed as unproductive. The C&AG had observed that non-occupancy of godowns has resulted in losses to the Corporation to the tune of Rs.810 crore on the salaries and wages in the last three years. The C&AG had also observed that the non-utilization of hired capacity has resulted in payment of Rs. 503 crore as rent which can be termed as unproductive. Thus under-utilization of owned godowns and resorting to hiring has resulted in avoidable expenditure of Rs.1313 crore for the three year period ending March, 2007.

9.9.3 It may, therefore, be seen that due to observation of Standing Committee of Parliament and CAG, a large amount of storage space was de-hired between 2002-03 to 2007-08. The de-hired storage space was not always available for re-hiring once procurement started rising again from 2008-09 onwards.

9.10 Creation of storage capacity through private participation

9.10.1 To bridge the storage gap, the Department formulated a scheme for construction of godowns through private entrepreneurs in July, 2008. The salient features of the scheme are at **Annexure-X**.

9.10.1.1 Under this scheme, the FCI can take the godowns on hire from Private parties through CWC/SWCs/State Agencies (which will be the implementing agency) for a period of 10 years depending upon its requirements of storage capacity and past records of capacity utilization in the area. Further in States where CWC/SWCs/State Agencies are not present or are not willing to be the implementing agency, FCI will be the implementing agency and will issue the tenders directly.

9.10.1.2 The purpose of the new scheme is to make available storage capacity to FCI on long-term basis. Under the new scheme, assessment of the storage needs is being made by FCI at the district level, based on the overall procurement/consumption and the storage space already available. However, since production and procurement may vary in future years and the allocation/offtake as a result of the enactment of the National Food Security Bill is not yet determined, it is possible that some of the available storage capacity may remain unutilized in future.

9.10.1.3 Considering the observations of Standing Committee/C&AG, provision for hiring out the vacant space during guaranteed period has been incorporated in the Scheme. Accordingly, with the consent of FCI, the vacant space during the guaranteed period may be hired out to other parties with the rent received being adjusted against the guaranteed amount for the period so hired out and surpluses, if any, being shared in the ratio of 50 : 50 between the FCI and the CWC/SWCs. FCI on its own can also ask CWC/SWCs to hire out surplus space for a specific period and these organizations will be obliged to sincerely make efforts in this direction.

9.10.2 The HLC of FCI has already sanctioned 151.28 lakh tonnes of storage capacity in various States as per following details:-

(figures in MT)

Sl.No	STATE	Capacity approved under PEG	Capacity allotted to CWC under 6/9 YGS	Capacity allotted to SWCs under 6/9 YGS

1	Andhra Pradesh	4,51,000	30,000	55,000
2	Bihar	3,00,000	0	30,000
3	Chhatisgarh	2,22,000	30,000	1,92,000
4	Gujarat	80,000	5,000	0
5	Haryana	38,80,000	5,000	83,500
6	Himachal Pradesh	1,42,550	2,500	0
7	Jammu & Kashmir	3,61,690	0	0
8	Jharkhand	1,75,000	0	0
9	Karnataka	4,16,500	52,000	1,83,500
10	Madhya Pradesh	3,60,000	26,400	85,000
11	Kerala	15,000	5,000	0
12	Maharashtra	6,55,500	47,400	3,34,500
13	Orissa (DCP)	3,00,000	1,87,500	1,12,500
14	Punjab*	51,25,000	78,150	2,89,550
15	Rajasthan	2,50,000	0	30,000
16	Tamil Nadu	3,45,000	35,000	45,000
17	Uttarakhand	25,000	0	0
18	Uttar Pradesh	18,60,000	0	47,000
19	West Bengal (DCP)	1,56,600	29,600	0
	Total**	1,51,20,840	5,33,550	14,87,550

* HLC had sanctioned 71.25 Lakhs to Punjab. Gol vide letter dated 27.07.2010 has transferred 20 Lakh Tonnes to other states.

** Out of 35 Lakh Tonnes capacity only 20 lakh Tonnes will be taken up on first come first serve basis and balance 15 lakh tonnes will not be taken up.

9.10.3 In several States, the process of tendering has been completed and SLCs/HLC have sanctioned 67.10 lakh tonnes of storage capacity as on 15.9.2011. State-wise details of the capacity sanctioned in each State is given below:-

Sl.No	STATE	Capacity sanctioned for construction under PEG Scheme
1	Andhra Pradesh	3,00,000
2	Bihar	90,000
3	Chhatisgarh	0
4	Gujarat	40,000
5	Haryana	16,97,735
6	Himachal Pradesh	15,440
7	Jammu & Kashmir	1,34,000

8	Jharkhand	0
9	Karnataka	1,00,000
10	Madhya Pradesh	2,43,600
11	Kerala	0
12	Maharashtra	2,67,000
13	Orissa (DCP)	0
14	Punjab*	21,91,000
15	Rajasthan	2,20,000
16	Tamil Nadu	35,000
17	Uttrakhand	0
18	Uttar Pradesh	13,76,500
19	West Bengal (DCP)	0
	Total	67,10,275

9.10.5 In several other States, the process of tendering is going on. A brief of the present stage of tendering in various States is at Annexure-XI.

9.11 Completion of the capacity in 2011-12

9.11.1 It is estimated that a capacity of about 33 lakh tonnes is likely to be completed by March 2012 which will include capacities constructed by CWC/SWCs on their own lands.

9.12 ISSUES FOR 12TH PLAN

9.12.1 It is possible that in some of these States, we may not be able to get private investors to participate in the process of tender or the rates quoted by them may not be accepted by HLC. The capacities left out would have to be constructed by FCI or CWC/SWCs on their own.

9.12.2 In order to introduce new technologies for construction of godowns and to create modern storage, it has been decided that all new godowns being constructed on its own by FCI should have energy efficient roofing and improved construction methods, etc. Further, for efficient handling of foodgrains, mechanized handling and loading and unloading operations will be introduced in both FCI and CWC godowns.

9.12.3 To encourage construction of modern storage godowns for foodgrains, the Government has introduced a VGF scheme similar to that for other infrastructure projects. With the introduction of Negotiable

Warehouse Receipt System, there will be further boost to setting up of quality storage godowns in the rural areas. States are also being encouraged to create adequate storage infrastructure for their own intermediate storage requirements by sourcing funds from RIDF scheme of NABARD.

9.13 NORTH EASTERN STATES

9.13.1 The Government has approved construction of 5.4 lakh tonnes new storage capacity for FCI in the North Eastern States with an expenditure of Rs. 568 crores.

9.13.2 FCI has already engaged Central Public Work Department and other PSUs of Govt. of India for undertaking construction of godowns in NE States.

9.13.3 Presently, the total storage capacity available in NE States is 4.52 lakh MT while the monthly allocation in 2010-11 was 2.26 lakh tonnes. However, Railways are only able to provide 110-120 rakes for transportation of foodgrains from North to NE. Even if additional storage capacity is created in NE, it will remain unutilized if the Railways do not increase their capacity of transportation of foodgrains from North to NE.

9.13.4 A major constraint in NE Zone is the Lumding MG section. This Railway line feeds Southern Assam, Tripura, Mizoram and parts of Manipur. The Railways are able to trans-ship 50 MG wagons per day while the requirement of these States can be met only if 70-80 MG wagons are transshipped per day.

9.13.5 There are increased allocations being made to States including North Eastern States in view of comfortable position in the Central Pool stocks. Further, after implementation of National Food Security Bill, allocations are likely to go up. It is, therefore, possible that total allocation for NE may increase substantially over the allocations made now. FCI would find it almost impossible to meet this additional requirement if the Railways do not increase their transportation capability, especially on the MG routes. A proposal to convert MG line from Lumding to Badarpurghat and from Rangia to Mokkselak via Rangapara has been under consideration of Railways for several years. Earlier, it was indicated that this conversion would start from 2005. However, it has been

deferred several times and it is understood that the Railways will start conversion of the Rangia section to BG by Oct, 2011, while the initiation conversion of Lumding line to BG is still uncertain.

9.14 Silos

9.14.1 FCI is having its own silos of 4.62 lakh tonnes which were set up in the years 1960-1982. Out of this capacity, 1.10 lakh tonnes is being presently utilized. However, the silos at Mayapuri(Delhi), Khurja(U.P.), Kanpur(U.P.), Borivili(Mah.), Manmad(Mah.) and Gaya(Bihar) are not being used due to lack of technical manpower and lack of maintenance. Under the national policy of bulk storage and handling, a capacity of 5.50 lakh tonnes has been created through silos out of which 2 lakh tonnes is at Moga in Punjab and 2 lakh tonnes at Kaithal in Haryana. The silos, set up by private partner M/s Adani Agri Logistics limited are located at Chennai(T.N.), Coimbatore(T.N.), Bangalore(Karnataka), Navi Mumbai(Mah.) and Hooghly(W.B.) and the transportation of foodgrains from Moga and Kaithal takes place in bulk in customized wagons which have been procured by the investor i.e. M/s.Adani Agri Logistics Ltd.

9.15 STUDY BY PLANNING COMMISSION

9.15.1 Planning Commission engaged M/s Mott MacDonald for studying the requirement of silos in the country. GOI has already decided that 20 lakh tonnes of storage capacity would be created in the form of modern silos. M/s.Mott MacDonald have made the following major recommendations:-

1. Silos are the most applicable and modernized technique for any new construction of storage in India and should replace Warehouses at the end of useful life.
2. The Silo at deficit areas with hired temporary storage at surplus area Option, is not only found to be most feasible amongst all options but also more feasible when compared to existing model of FCI with contractual labour (it costs 1.3% less).
3. Apart from consumption centres, capacities may also be created at strategic locations for holding strategic reserves as well as at ports for exports.
4. Mot Macdonald has computed storage gap 11-14 million tonnes in the country.

5. With 11-14 million tonnes storage deficit in the country, initially an investment of 2 million tonnes may be made in the form of Silos in deficit areas followed by the remaining 12 million tonnes in the XII Plan period. (It does not take into account 15 million tonnes being constructed under PEG).
6. Capacities should be built in major wheat consuming states and the capacities should be enough to hold each State' annual wheat requirement.
7. The movement of wheat must be made within 6 months of procurement from surplus states to deficit states. Strategic and base level stocks should also be moved to strategic locations wherein large modern storage should be built guaranteeing longer shelf life. This would require movement capacity to be double and may only be achieved with private sector participation. If the procurement is still more than the annual off take and annual strategic reserves put together then the remaining quantity should be exported and not stored in surplus areas. The deficit area silos may be built in such a way that in future they may be integrated to bulk model.
8. The Consultants' report is yet to be finalized by the Working Group set up in the Planning Commission on the silos. However, the Department of Food & Public Distribution has sent a proposal to EGoM for consideration for creation of 20 lakh tonnes of new storage capacity through silos.

9.16 IMPACT OF THE PROPOSED NATIONAL FOOD SECURITY BILL

9.16.1 On the basis of proposed coverage and entitlements in the NFSB, it is estimated there will be need for increase in present level of procurement to meet the enhanced requirement as per provisions of NFSB.

9.17 The projections made by FCI show that even at a procurement level of 260 lakh tonnes of wheat and 340 lakh tonnes of rice, the stock level in Central Pool as on 1.4.2015 may be only 0.95 lakh tonnes of wheat and 79.47 lakh tonnes of rice, if offtake rises to 712 lakh tonnes as a result of implementation of Food Security Law. Projections of stock upto March 2015 are enclosed at **Annexure-XI(a) to XI(d)**. Since this quantum of foodgrains will be inadequate to meet the requirement of foodgrains under the National Food Security Law, the procurement of foodgrains will have to be increased substantially. This increase can come from non-traditional

States like Bihar, Orissa, West Bengal, Assam etc. in case of rice and U.P., Bihar, W.B., Uttarakhand, Rajasthan in case of wheat.

9.18 Under the present guidelines issued by the Government for calculation of storage gap (circular dated 28.7.2008), the peak level of stock in the last three years is taken into consideration. Since the procurement in States like Bihar and West Bengal has never been very high, the storage requirement in these States is rather modest. In view of the substantial scope of increasing procurement in these States, the Government is considering to increase storage under PEG scheme in Eastern part of the country keeping in view the potential of procurement in these areas.

9.19 **INTERMEDIATE STORAGE**

9.19.1 As mentioned in para 9.5.2 above, the total storage capacity with the State agencies is 295.50 lakh tonnes. However, this capacity is primarily used for storing Central Pool stocks. Once the stocks are issued from FCI godowns to State Govts, they have to be stored in intermediate godowns. However, most of the States have very limited storage capacity which can be used for storage of foodgrains after lifting the stocks from FCI godowns. It is recommended that the State Govts may create capacity equivalent to at least 2 months allocation so that they can lift foodgrains from FCI godowns and store the same for issue to Fair Price Shops. In States like West Bengal and Kerala, the State agencies do not have any capacity of their own and various wholesale dealers lift the foodgrains from FCI godowns and issue it to FPSs. These States also need to take direct responsibility of storing stocks at intermediate level.

9.20 **IMPACT OF LABOUR LAWS**

9.20.1 Presently, out of 1951 godowns with FCI, 397 godowns are under departmental labour/DPS labour/No work no pay system. In 2010-11, 89 godowns have been notified by Ministry of labour and use of contract labour was prohibited. A number of godowns not owned by FCI have also been notified. In the past, Ministry of Labour has taken a view that contract labour cannot be used even at railheads. As a result of this decision, the handling cost of FCI has been increasing and if all the godowns of FCI are notified and about 1 lakh contract labour is to be inducted in FCI as departmental labour, the estimated financial implication would be to the

tune of 4000 crores at present prices. FCI has made the following proposals to Govt in this regard:-

- FCI may be exempted from the provisions of Section 10 of Contract Labour (Regulation & Abolition) Act.
- The notification dated 23.04.2010 issued by Ministry of Labour may be immediately modified and 13 hired depots may be excluded from the notification. Department of Food & Public Distribution has already made a reference to Ministry of Labour in this regard. A Committee of Secretaries will be looking into these issues.

9.21 CONCLUSION & RECOMMENDATIONS FOR THE 12TH PLAN

1. The projected figure of wheat procurement over the next 4 years shows that even at a level of wheat requirement of 260 lakh tonnes and rice procurement of 340 lakh tonnes, the Central Pool stock will be lower compared to present position. Thus, the storage capacity of 170 lakh tonnes (150 lakh tonnes through PEG and 20 lakh tonnes through silos) under creation should be sufficient to meet the requirement of central pool stocks in 12th five year plan.
2. Creation of modern storage facilities in form of silos and upgradation of existing foodgrain godowns of FCI/CWC and other agencies must be taken up.
3. Mechanization of foodgrains handling infrastructure for efficient handling of foodgrains and reducing wastages. New godowns being constructed by FCI should have provision for mechanized handling, loading and unloading.
4. Improvement of quality control infrastructure with foodgrain handling agencies including modernization of quality control labs, upgradation of equipment and capacity building of quality control staff. The central quality control offices need to be increased for better coverage and reach. States should be assisted to improve their quality control infrastructure.
5. States should create storage infrastructure for their own intermediate storage requirement by leveraging VGF scheme and RIDF funding available from NABARD.

6. Strengthening of storage infrastructure in North Eastern States. Railways to upgrade their infrastructure including earlier conversion of meter gauge lines to broad gauge to avoid delays caused by trans-shipment.

10. BETTER TARGETING OF FOOD SUBSIDIES

10.1 TIGHTENING OF FOOD SUBSIDY EXPENDITURE

10.1.1 Food subsidy comprises the consumer subsidy and the cost of maintenance of buffer/strategic buffer. While the consumer subsidy is the difference between the economic costs (acquisition plus distribution costs) and the issue price of foodgrains under various TPDS/other welfare schemes/OMSS sales under market intervention schemes, interest and storage charges are the main components of stock carrying cost of the buffer/strategic stock.

Year	Subsidy Released (Rs. Crores)*	Increased w.r.t 2007-08 (%)
2007-08	31259	
2008-09	43668	40%
2009-10	58242	86%
2010-11	62929	101%

(*Source:- Food Bulletin, Pg-111, March,2011)

10.1.2 Food subsidy released through the Budget of Department of Food & Public Distribution has increased from about Rs. 31,000 crores to Rs. 63,000 crores during 2007-08 to 2010-11 i.e. more than double during the last 4 years. The actual food subsidy is much higher as the release of the subsidy has been restricted upto the availability of the funds under the Budget. It is estimated that the subsidy during 2011-12 would be over Rs. 80,000 crores under the existing schemes. Once the schemes under the proposed National Food Security Act are implemented, broad estimates are that the annual subsidy may escalate to more than Rs. 1,00,000 crores.

10.1.3 Major portion of the subsidy is released to FCI towards 'Consumer Subsidy' and 'buffer subsidy'. During 2010-11, about Rs. 49,000 crores was the component of Consumer Subsidy and Rs. 1,766 crores was towards the maintenance of Buffer stock/strategic stock out of total subsidy released to FCI. About Rs. 12,200 crores was subsidy released to the various

States engaged in procurement as well as distribution of foodgrains under the Scheme of Decentralized procurement (DCP scheme). Thus, 80% of the total subsidy released during 2010-11 was to FCI and balance 20% was released to DCP states. Therefore, it is essential to explore the various policy measures in respect of working of FCI and the operational issues relating to cost components of acquisition & distribution cost of foodgrains as there are limited options for increase in the issue price of food grains to PDS beneficiaries in view of the National Food Security legislation.

10.2 Policy measures relating to FCI

10.2.1 FCI is involved in the procurement and distribution of foodgrains and maintaining stock for buffer/strategic reserves. These activities require substantial amount of working capital. The quantum of working capital depends upon the cost of acquisition, distribution, time cycle involved in investing the money and realizing the same and volume of stock. Inadequate working capital to an organization may not only hamper its operations but also leads to excessive interest cost whenever other costly means of financing like Cash Credit Limit (CCL) is availed.

Working capital sanctioned to FCI is Rs. 1,484 crores since 1998-99 and has not increased thereafter inspite of the following unavoidable events:-

10.2.2 The MSP of wheat, paddy and coarsegrains has more than doubled over time as indicated in below:-

	1999-2000	2011-12	%age increase
MSP	Rs./qtl.	Rs./qtl.	
Wheat	550	1170	113
Paddy-Common	490	1000	104
Paddy-Grade A	520	1030	98
Coasegrain	415	900	117
(Source :Foodgrains Bulletin - March, 2011)			

10.2.3 Cost in procurement (other than MSP) and distribution cost has also increased significantly due to increase in statutory levies and general inflation. As per available data, the increase in incidentals during 2002-03 to 2011-12 (BE) is about 68% in wheat while it is more than 2.5 time in case of Rice.

Incidental cost	Wheat			Rice		
	2002-03	BE 2011-12	%age increase	2002-03	BE 2011-12	%age increase
	Rs./qtl.	Rs./qtl.		Rs./qtl.	Rs./qtl.	-
Procurement	137.63	251.96	83	61.67	369.9	500
Distribution	145.51	222.56	53	157.72	215.73	37
Total	283.14	474.52	68	219.39	585.63	167

10.2.4 Increase in buffer stock and creation of Strategic Reserve

At that time, the minimum buffer stock levels were 40 LMT for Wheat and 40 LMT for Rice. During 2001-02, the average purchase cost (acquisition cost) of Wheat and Rice were Rs.726.29/qtl and Rs.978.34/qtl respectively. So, the minimum working capital requirement, for the value of minimum stock levels was Rs.6,818 cr. Subsequently, a strategic reserve of 30 LMT of Wheat and 20 LMT of Rice has also been created since 2008. Thus the present minimum stock levels i.e. levels which are to be maintained throughout the year are 70 LMT for Wheat and 60 LMT for Rice. For 2011-12(BE) the acquisition cost are estimated at Rs.1358.02/qtl and Rs.1853.22/qtl respectively. Thus, the present minimum working capital requirement is Rs.20,625 cr.

10.2.5 To meet the short fall in the working capital, FCI is availing funds through cash credit limit (CCL) and paying huge interest.

10.2.6 As is evident, the working capital requirement for buffer stocks has increased dramatically. More over increase in the MSP and other incidental cost also increased the requirement of working capital. It is therefore, essential to infuse additional amount of about Rs. 15,000 crores as working capital. This would reduce the dependency on commercial Cash Credit borrowing to that extent with resultant reduction in interest cost of about Rs. 1,500 crores per annum assuming interest rate of 10% (though the present interest rate is higher).

10.2.7 FCI should raise long term loans

Long term loan through issue of Bonds or public deposit are cheaper source of funding the capital requirement of any organization. An ideal debt equity ratio helps in reducing the finance cost. It is therefore, recommended that such source of financing the capital requirement of FCI

may also be explored and they may be permitted to issue long term bonds or raise public issue at less than the prevailing interest rates. Equity proportion of the capital is also required to be increased keeping in view the volume and size of operations, which are likely to increase significantly after the enactment and implementation of National Food Security legislation.

10.2.8 Availability of sufficient funds for subsidy

Interest cost of FCI is estimated to be Rs. 4,855 crore during BE 2010-11. In addition, about Rs. 2,000 crores are estimated to be paid as carryover charges to the State Governments for keeping the central pool stock with them. One of the reasons for high interest cost is the untimely release of subsidy and the present method of releasing it.

As per the estimates of FCI, gap between the subsidy incurred by FCI and the subsidy released is estimated to be over Rs. 20,500 crores during 2011-12 (BE). This is mainly due to insufficient provisions in the Budget of the Department. It is also observed that while schemes, like additional allocation of food grain under various schemes, are approved, the funds for resultant subsidy are not provided simultaneously. It is desirable that whenever new schemes/additional allocation etc. are framed/ released, resultant subsidy element is also simultaneously provided in the budget.

10.2.9 ADJUSTMENT IN SUBSIDY RELEASE MECHANISM

Release of *Ways and Means advance* during the first quarter equal to 75% of Budgeted Food Subsidy would result in substantial saving in the interest cost. Even though food subsidy is payable at the end of the product life cycle after issue of stocks under PDS and other schemes, the actual fund requirement is at the first stage when the foodgrains are procured (bulk of the procurement of wheat/paddy is during 2- 3 months). For this purpose, the Food Corporation of India is borrowing money from Banks at commercial rates of interest. It has been the experience of past twenty years that the budgetary allocation of food subsidy at BE stage is always fully utilized and practically every year additional supplementary demands are made. Under such circumstances, adhering to the standard principles of equal release every quarter results in avoidable payment of interest to the commercial banks. In case an amount equal to 75% of budgetary provision is released to the Corporation as *Ways and Means advance* during the first quarter, and adjusted in next three quarters against

normal subsidy sanctions, the overall interest burden would reduce significantly.

10.2.10 FCI to generate income

At present, the FCI is not involved in activities other than designated by this Ministry, thus, having no other source for generation of any income to meet out their expenses, except the subsidy and other grants/amounts received from this Ministry. FCI totally depends upon the Ministry in financial matters. FCI may be allowed to generate their own funds by performing some Commercial activities.

10.2.11 Exemption of FCI from the purview of Contract Labour (R&A) Act

FCI presently employs both departmental as well as contract labour. Due to incentive norms and other factors, departmental labour is approximately six times costlier than contract labour. On a regular basis, more and more FCI godowns, both owned as well as hired and even railheads are being notified by the labour authorities under the CL(R&A) Act. As a result, the contract labours employed at such facilities are getting converted to departmental labour with resultant increase in cost. At present trend, very soon all labour employed by FCI would get converted to departmental labour.

Declaring FCI as an exempted establishment for the purpose of this Act would help prevent future increase in subsidy.

10.2.12 Use of mechanized and bulk handling of foodgrains

Though certain level of mechanization has been implemented at the farm level (e.g. use of combines for harvesting) and conceived under bulk-bulk-bulk system in silo storage, much needed mechanical handling of foodgrains in traditional storage godowns has not been given priority. In view of the ever increasing labour cost in manual handling coupled with scarcity of labour, sincere efforts are required for installation of material handling equipments, like conveyor belts, fork lift trucks etc. in a phased manner. To start with, rail-fed godowns may be mechanized.

10.2 OTHER POLICY MEASURES

(i) Encouraging DCP operations

The States are to be encouraged to undertake Procurement as well as distribution of foodgrains required for PDS under DCP schemes. This, in the long run would enable the States to be self sufficient in the procurements required to meet their distribution requirement and avoid, to the extent possible, of cross movement of foodgrains from one State to another. This would also help FCI to concentrate its activities in movement, storage and distribution. In fact, share of wheat procurement by FCI reduced from 52.88 lakh tones in 2008-09 to 34.03 lakh tones (BE 2011-12 – Performance budget). In terms of percentage to total procurement, it is estimated to be about 16% in BE 2011-12. It is suggested that the States may be encouraged to undertake entire MSP based procurement.

(ii) Declaration of Minimum Support Price (MSP) in tax inclusive form

Agriculture is a State subject. Various States have imposed taxes on agricultural produce. Taxes are as high as 12% (excluding Arthya Charges) in Punjab, 10% in AP, 8% in Haryana and 7% in UP. As taxes are payable on MSP, the actual procurement prices in these States increase correspondingly. Simultaneously, private traders also tend to shift to other States for meeting their requirements. It is therefore proposed to declare procurement price which is inclusive of MSP & taxes.. This would benefit in multiple ways. First, the additional expenditure on taxes would be eliminated. Second, this would also reduce the dependency on a few States and reduce overall logistics cost in terms of freight, labour etc. Third, farmers of non-traditional States, which also have lower tax rates, would get the benefit of higher effective price support and the procurement in these States would increase. Fourth, the effective market price in non-traditional States would increase, creating a deterrent to private traders from shifting out of States with high tax rates. Fifth, in the long run, the inter-State variations in tax rates would be eliminated.

(iii) Nominal annual increase in MSP and bridging the difference with Bonus

In case there is difficulty in achieving tax-inclusive MSP, an alternative option would be to declare only marginal increase in MSP of say Rs.10 per qtl per year and then subsequently declare adequate bonus to bridge the

gap. As bonus always comes with a condition that States would have to exclude the same from all taxes, this would reduce the overall incidence of taxes.

(iv) Single MSP for paddy

Separate MSP for Common grade and Grade A variety are being fixed by the Government. The difference in MSP at present is Rs. 30 per quintal which in terms of rice works out to about Rs. 45 per quintal. Due to statutory taxes, the difference further widens. However, the issue price of rice, whether it is Common grade or Grade A, is same. A single MSP for both the grades may be announced. Like other premium grade quality of paddy/rice (basmati etc.), the farmers may sell the higher grade variety in the open market. This would reduce the subsidy as well as pressure on the MSP based procurement. However, in case the market prices are lower, the farmers may sell even Grade A variety under MSP operation.

(v) MSP payment through Cheque

MSP price to the farmers in some of the states are not being paid through cheques. The arthias collect the payments from State Agencies/FCI through cheques but avoiding cheque payments to the farmers. In order to reduce the dependency on arthias as well as the possibility of recycling, it is desirable that all the payments to farmers are made through cheques only.

Central Vigilance Commission also considered the issue relating to the mode of payment to the farmers for procurement of foodgrains by the FCI during its Annual Sectoral Review Meeting and advised vide OM No. 011/FUD/005/142453 dated 30.08.2011 that if payments are made to the farmers through banking system/cheques by the FCI, in all States including Punjab and Haryana, scope of corruption would be minimized. On the advice of CVC, Department of Food & Public Distribution has issued instructions to FCI on 16th September, 2011 that whenever the procurement is being made from farmers directly or through Arthiyas, the payment to the farmers and Arthiyas should be made through Cheques/Electronic Credit System.

(vi) Encouraging farm-level storage and allowing farmers to hold stock through payment of carryover charges

In most major foodgrain producing countries like Canada, USA, Australia, Russia etc. a significant percentage of stocks are held at farm level storage. However, in India, such practice is not prevalent. As a result, the total produce is brought to the market immediately after harvest. Since the harvest season of Wheat is very small, this results in a chocking of the system as far as wheat is concerned. Farm level storage needs to be encouraged. Financial assistance may be given by the Planning Commission for development of such storage facilities. Otherwise, also with WDRA and warehousing receipt system being implemented; such system may reduce the pressure on storage requirement need of FCI/State Agencies. In addition, at the time of procurement of such stocks, after the closure of the normal procurement season, additional incentives in terms of carryover charges (worked out as a percentage share of the storage and interest saved to the Govt.) may be allowed to the farmers in addition to MSP. This would be almost akin to the prevailing system under which the State Government/agencies are given carry over charges on taking over the stock after particular period.

This type of system may be implemented on pilot basis for paddy only in order to reduce the chance of recycling in case of wheat.

(vii) Release of quarterly quota under PDS

Some of the States have taken an initiative to issue the PDS quota to beneficiaries equivalent to about 3 months requirement. This has resulted in saving in the transport & distribution cost besides releasing some pressure on the storage requirements. With the proposed issue price of Rs. 2 and 3, it is possible that the beneficiaries could afford to purchase 3 months quota at a time and save them the frequent visit to FPS. The model may be extended in other States also.

(viii) Modernization of Rice mills

In order to increase the out turn ratio and utilize the by-products as value added products, a scheme, akin to the system of subsidized loan being provided to Sugar Mills under SDF, may be framed to encourage modernization of rice mills and obtained the economies of scale. This may

be done by the States by extending loans to mills at concessional rate of interest or by allowing some moratorium for repayment. Some type of funds may be created for this purpose by collecting cess from the millers or by contribution from the States out of tax collected by them.

(ix) Arthia Commission

- (a) The issue of Arthia Commission has been examined earlier in detail during the study of FCI conducted by the McKinsey & Co. The legal division of FCI is of the view that while the use of the services of Arthia is *not mandatory*, once their services have been utilized, the payment is guided by the statutory provisions of the APMC Acts. As the percentages payable are also indicated in such Acts, it is not possible to make any modifications to the same at the level of Central Govt. However, in case the storage point is got *declared as a Mandi Yard* and procurement activities can be carried out directly from the Farmers (by paying some incentives), then the necessity of Arthias and payment of Arthia commission can be avoided. Procurement through primary agricultural societies/cooperative societies perhaps does not involve the usage of the services of Arthias and to that extent Arthia commission is not involved.
- (b) Presently, the concept of Arthia is applicable only in few States (Presently in Punjab, Haryana and Rajasthan). The same, wherever applicable, is equally applicable for procurement by FCI as well by the Agencies. These charges are payable to the Arthias for the various services being rendered by them as the immediate intermediary and aggregator. The applicable commission on wheat and paddy for Punjab and Haryana in the last few years is indicated in the following table:-

Crop Year	MSP	Rs./Qtl	
		Punjab @ 2.5%	Haryana @ 2.5%
RMS 2000-01	580	14.50	14.50
KMS 2000-01	540/510	13.50/12.75	13.50/12.75
RMS 2001-02	610	15.25	15.25
KMS 2001-02	560/530	14.00/13.25	14.00/13.25
RMS 2002-03	620	15.50	15.50
KMS 2002-03	560/530	14.00/13.25	14.00/13.25
RMS 2003-04	620	15.50	15.50

KMS 2003-04	580/550	14.50/13.75	14.50/13.75
RMS 2004-05	630	15.75	15.75
KMS 2004-05	590/560	14.75/14.00	14.75/14.00
RMS 2005-06	640	16.00	16.00
KMS 2005-06	600/570	15.00/14.25	15.00/14.25
RMS 2006-07	650	16.25	16.25
KMS 2006-07	610/580	15.25/14.50	15.25/14.50
RMS 2007-08	750	18.75	18.75
KMS 2007-08	675/645	16.875/16.125	16.875/16.125
RMS 2008-09	1000	25.00	25.00

The above table indicates that that the MSP of Wheat has increased by 64% between RMS 2001-02 and RMS 2008-09 while the MSP of Paddy has increased by 34% between KMS 2000-01 to KMS 2007-08 with corresponding ad-valorem increase in Arthia commission. Presently, the Arthia Commission is linked to MSP and any increase in MSP results in corresponding increase in the Commission even though the actual expenses incurred by them as well as the facilities offered by them to farmers may not have substantially increased.

(c) As MSP has increased sharply over the last few years, there appears to be a strong case for the Central Government to take up the matter with the concerned State Governments for reduction in the rates of Arthia Commission. The State Governments may also be requested to link Arthia Commission to quantity procured through them rather than the value of foodgrains.

(d) Further, there appears to be a possible overlapping of the functions supposed to be performed by the Arthia and the operations stated to be performed by the Mandi labour to the extent of cleaning, sorting, standardization activities, etc. There is, therefore a need to obtain the details of operations/activities ought to be performed and the type of services they are required to render in the process of procurement of foodgrains so that analysis could be made for the overlapping functions being performed by the Mandi labour and the same could be factored in deciding the incidentals.

10.4 Recommendations

- (i) Feasibility of having the storage point also declared as a Mandi Yard from the State Govt. may be explored and procurement from farmers may be directly undertaken at such storage point.
- (ii) Arthia Commission may be delinked from MSP and the same may be linked to quantity procured by them. Thereafter, suitable indexing based on CPI may be allowed.
- (iii) The State Governments may be asked to submit a list of obligatory functions/activities which are to be performed by the Arthias so that the same may be considered while fixing the rates for the Mandi Labour to ensure that overlapping activities are factored for working out the Mandi Labour cost.

10.3 Operational measures

Gunny cost

- (i) At present, as per instructions of Ministry of Textiles, only jute bags are to be utilized for procurement of foodgrains. Permission for use of HDPE bags (which are much cheaper), is given only in case of scarcity of bags as a special case. Since HDPE bags are much cheaper, their use should be increased which will save gunny cost as well food subsidy expenditure.
- (ii) Further, at present, Paddy is also procured in new gunny bags and half of the gunnies once used for Paddy procurement are used for filling of Rice. Government allows 40% depreciation for left over bags with the State agencies. Use of new gunny bags for old bags for Paddy procurement does not have much effect on the quality and upkeep of Paddy in storage. Also, there is no mechanism to check whether Paddy was really procured in new bags or not. Further, due to use of Paddy procured bags in Rice filling, the Rice is actually filled in once used bags, which is likely to affect the quality of Rice and losses during procurement. Therefore, the use of old bags may be encouraged for Paddy procurement and States may be allowed the actual cost of old bags which is likely to reduce the gunny cost. This will also reduce the requirement of new gunnies every season.

(iii) For Rice filling, only new gunny bags may be used. In case, Rice is filled in brand new bags, the users for this Rice i.e. Fair Price Shop owners should be charged some cost of these bags as they will get higher price for these bags at the time of disposal.

(iv) **Use of second hand/old gunny for procurement of paddy**

A standard bag used for 50Kg of wheat/rice can hold only 35 to 40 Kg paddy due to husk. At the conversion ratio of paddy to rice of 67%, about 4 bags of paddy (150 kg) are required to produce 2 bags of rice (100 kg). The State Agencies are, therefore, using 4 new gunny bags for paddy procurement out of which two bags are used for packing a quintal of rice and balance two bags are left with them. In lieu of use of such left over two bags, 40% of the cost of new gunny bags are provided as depreciation and is absorbed in the subsidy. In case the State Agencies and FCI are allowed to procure paddy in old bags, there would be substantial saving in the subsidy as explained in the following illustration:-

1	Cost of new gunny (approx.)	Rs. 40 per bag
2	Depreciation cost (40%)	Rs. 16 per bag
3	Depreciation for old bag*	Rs. 2 per bag
4	Saving in depreciation cost	Rs. 14 per bag or Rs. 28 per quintal
5	Saving per 200 lakh ton of CMR	Rs. 560 crores

Based on the cost being reimbursed to Haryana State Agencies.

(v) On estimated procurement of about 200 lakh ton to CMR, the recurring saving would be more than Rs. 500 crores per annum, which is expected to be more in future due to increase in the cost of new gunnies.

(vi) In fact, the Government of India is allowing use of 'once used gunnies'/ old gunnies for procurement of paddy (with condition that rice would be delivered only in new bags) to the various State Governments from time to time on merit basis. Recently, Punjab Government has been allowed to use paddy released bags of earlier years during KMS 2011-12. Haryana Government has also been allowed to use old bags for paddy procurement

with depreciated cost of Rs. 2 per bag for KMS 2011-12. In fact, Haryana and some other States are using old gunnies for paddy procurement since last couple of years without showing any evidence of any adverse impact on the quality of resultant rice. Further, there is no mechanism in place to check/regulate that only new gunnies are used for the procurement of paddy as it is the resultant rice which ultimately enter in the TPDS system. Therefore, Haryana model for use of old gunnies for paddy procurement may be extended to all the States to achieve substantial savings.

- (vii) It is, therefore, recommended that old/serviceable/second hand gunnies may be allowed to all the States for procurement of paddy with a condition that resultant rice would be delivered in new gunnies. The consultant M/s. McKinsey & Co. had also earlier given recommendations to FCI on similar lines.

10.5 Interest Cost

No higher interest rate may be charged from the State agencies as compared to FCI, as both the agencies are involved in this welfare activity and procured foodgrains is distributed mainly to population below poverty line on highly subsidized rates.

10.6 APL Card holders

At present, APL Card holders are also allotted foodgrains at subsidized rates. There should be some distinction between APL Card holders and others as benefit of subsidized foodgrains should be available to the needy persons.

APL Centre Issue Price (CIP) has also not been increased from the year 2002 whereas MSP has been increasing every year. Therefore, APL CIPs may be linked with MSP. As and when MSP is increased, the APL CIPs should also be increased.

Relaxation in quality

States have been requesting for relaxation in quality of foodgrains to be procured on one or another ground, leads to procurement of sub-

standard quality foodgrains, which gets damaged easily. Therefore, only FAQ quality may be allowed to be procured.

10.8 Food subsidy in respect of Other Welfare Schemes

In addition to distribution of foodgrains under TPDS, the Department makes allocation for foodgrains under " Other Welfare Schemes" being run by various Ministries of the Central Government and the State Governments. Major schemes, the issue price and the organizations involved are as under:

S. No.	Welfare Schemes	On Behalf of	Issue Price
1	Midday Meal Scheme	Ministry of Human Resource Development	BPL Issue Price
2	Wheat Based Nutritional Programme (WBNP)	Ministry of Women and Child Development	BPL Issue Price
3	Rajiv Gandhi Scheme for Empowerment of Adolescent Girls (RGSEAG) or SABLA Uearlaier known as Nutrition Programme for Adolescent Girls)	Ministry of Women and Child Development	BPL Issue Price
4	Annapurna Scheme	Ministry of Rural Dev.	BPL Issue Price
5	Welfare Institutions	States/Uts	BPL Issue Price
6	SC/ST/OBC Hostels Schemes	States/Uts	BPL Issue Price
7	Emergency Feeding Programme of Orissa Govt	Orissa Government	BPL Issue Price
8	Village Grain Bank Scheme	States/Uts	Free of cost

It is evident that except for the Village Grain Bank Scheme, foodgrain is being issued by the Department at BPL issue prices.

Substantial arrears are pending on some of the Departments towards getting reimbursement for even the BPL issue cost either the budget fund are not available with those Departments or the budget provisions have not been suitable aligned to the quantities sought to be issued by this Department. Delay in reimbursement of even BPL price results in incurring avoidable expenditure on interest cost.

10.9 Financial Impact

10.9.1 The subsidy on above schemes is being met by the D/o Food and Public Department although the schemes are not being run by the Department. This unnecessary inflates the subsidy bill of this Department. Based on the offtake during 2010-11 and the economic cost (as per performance budget of FCI for BE 2011-12) subsidy is estimated to be over Rs.5250 crore as per the details given in the following table.

ALLOCATION, OFFTAKE AND ESTIMATED SUBSIDY UNDER WELFARE SCHEMES 2010-2011								
Welfare Schemes	OFFTAKE (UPTO MARCH,11) (LAKH TONS)			SUBSIDY RATE (Rs./Tons)		SUBSIDY AMOUNT (Rs.Crore)		
	WHEAT	RICE	TOTAL	WHEAT	RICE	WHEAT	RICE	TOTAL
1	2	3	4	5	6	7	8	9
MDM	4.81	18.44	23.25	11655.80	15039.50	560.64	2773.28	3333.93
WBNP	7.54	2.74	10.28	11655.80	15040.00	878.85	412.10	1290.94
ANNAPURNA WELFARE INST./ HOSTELS	0.29	0.66	0.95	11655.80	15040.00	33.80	99.26	133.07
NPAG	0.58	2.45	3.03	11655.80	15040.00	67.60	368.48	436.08
EFP	0.03	0.07	0.10	11655.80	15040.00	3.50	10.53	14.02
VGB	0.00	0.17	0.17	11655.80	15040.00	0.00	25.57	25.57
Total	0.02	0.07	0.09	15805.80	20689.50	3.16	14.48	17.64
	13.27	24.60	37.87			1547.55	3703.70	5251.26

Note :

1. Allocation and offtake FOR 2010-11 as per BP Division
2. Subsidy rate as per Performance Budget of FCI for BE 2011-12.

10.9.2 Some of the schemes are plan schemes and, therefore, the expenditure/subsidy on such schemes are to be booked under the plan head to correctly reflect the size of the plan schemes. However, as per the decision taken by CCEA, the foodgrains are issued by the Department at subsidized price. The subsidy relating to these schemes are being accounted under the food subsidy under non-plan expenditure. Therefore, there seems to be a contradiction in booking of the expenditure as subsidy against plan schemes are being met through non-plan budget.

10.9.3 To reflect appropriately the correct budget cost in respect of the schemes of other Departments mentioned above, it may be desirable to bear the subsidy on such schemes by the respective Ministries/Departments.

Since the respective Departments are monitoring the schemes, booking of subsidy under their heads will help them to effectively monitor the scheme keeping in view the respective targets and the need to modify the scheme appropriately from time to time to adjust such schemes aligned with the overall objectives of those Departments.

10.9.4 Recommendation

It is recommended that the Department may issue the foodgrains at economic price and the subsidy may be borne by the respective Ministries/Departments.

10.10.1 Cash Subsidy Transfer

10.10.1 Since procurement prices and the market prices are high and the issue prices under PDS are lower, there is a natural tendency for diversion of foodgrains in open market. The Department and State Governments make efforts to check these diversions but the existence of different rates for the foodgrains are bound to breed corruption in the system. ORG MARG, National Council of Applied Economic Research (NCAER) and Programme Evaluation Organization (PEO) have estimated the extent of this diversion under PDS, on average ranging from 20% to 53% (wheat) and 20% to 30% (Rice). There appears to be a case, therefore, for cash transfer of subsidy directly to the beneficiaries.

10.10.2 While positive experience of other countries that have implemented cash transfer schemes, **especially Brazil and Mexico**, are often quoted, it may be stated that cash transfers are used in these countries towards including a small section of the population who are left out, in India where a much larger population is poor and malnourished, there is an urgent need to first provide universal basic services and strengthen these.

10.10.3 In cash transfers, especially in the case of conditional cash transfers for health and education, there is an implicit assumption that the problem is in lack of demand for 'appropriate' services. Cash is, therefore, expected to act as an incentive for households to access services such as antenatal care or improve school attendance and so on. In India, where there is still a problem with supply of services in the form availability of

functional and good quality schools or health centres the immediate need is to improve such services and provide food security.

10.10.4 Problems of identification: One of the most significant problems with the PDS currently is that of identification errors. If this problem of incorrect identification of the poor remains, the incentive for people to self-select themselves out of the system will be even smaller.

For success of proposed system of Cash Subsidy, proper identification of beneficiaries is to be made and fake and bogus Ration cards have to be weeded out.

10.10.5 Access to Banking infrastructure: The success of a cash transfer scheme depends to a large extent on easy accessibility to banks. Unfortunately, this is not the case in the many parts of the country where people have to travel long distances to access a branch and the facilities in post offices are inadequate to handle such large amount of transactions.

This problem could be addressed, once the UID number is put in place and banking infrastructure expands.

10.10.6 On the requests of some States like UP, Haryana, Bihar and Govt. of NCT of Delhi, a scheme is being prepared to test the feasibility and desirability of cash transfer of food subsidy on a pilot basis. Once the results of the pilot become available, a decision could be taken regarding the feasibility and usefulness of cash transfer scheme.

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