Performance Audit on Sale and Distribution of Imported Pulses

1 Background

Pulses are important food crops because of their high protein and amino acid content. They have a very significant impact on the nutritional and health status of the average Indian, especially women and children. The main *Kharif* pulses are *moong, tur*[1] *and urad,* while the *Rabi* pulses are gram (*chana dal*) and *masur*.

India is the largest producer and consumer of pulses in the world. The production of pulses in the country has been in the range of 111-181 lakh metric tonnes (MT) during 2002-03 to 2010-11, as against the estimated demand of 159-192 lakh MT. The gap between demand and production of pulses in the country has been in the range of 10 to 50 lakh MT[2] during the aforesaid period. Although private importers had been importing pulses since a long time, the demand for pulses could not be fully met.

In view of the gap between demand and supply, the Government of India (GOI) decided (May 2006) to import pulses at zero duty to keep the domestic prices of pulses under check'[3]. For this purpose, GOI introduced two schemes, one in 2006 and the other in 2008, for import and distribution of pulses in order to facilitate the availability of pulses and to stabilise prices.

[1] It is also known as *arhar*

[2] See Table 4

[3] Decision of the Cabinet Committee on Prices (CCP) dated 18 May 2006

2 Schemes for import and distribution of pulses

2.1 15 *per cent* subsidy scheme

As stated above, the Government introduced (May 2006) a subsidy scheme which originally envisaged that the National Agricultural Cooperative Marketing Federation of India (NAFED) would import pulses on Government account subject to reimbursement of losses, if any, by the Government up to 15 *per cent* of the landed cost. The scheme was extended year after year till 31 March 2011. Later on, MMTC Ltd (MMTC), PEC Ltd. (PEC) and The State Trading Corporation of India Ltd. (STC) were also added as designated agencies for import of pulses. Under the scheme, NAFED was required to import 0.6 lakh MT of pulses (*gram, moong and urad*) during 2006-07. Thereafter, the target was fixed at 15 lakh MT of pulses every year from 2007-08 to 2009-10 and at 7.5 lakh MT for 2010-11. Upto half of the targeted quantity to be imported from 2007-08 was to be of yellow peas. The targets fixed since 2007-08 were to be met by all the four implementing agencies put together.

Objectives of the scheme

In the Committee of Secretaries (COS) meeting on 19 June 2006, chaired by the Cabinet Secretary, it was observed that to facilitate the availability of pulses and to accordingly stabilise prices, there was an urgent need to import pulses. The decision of the COS to import the pulses was ratified by the Cabinet Committee on Prices (CCP) on 22 June 2006.

Distribution mechanism

The pulses imported by NAFED were required to be distributed through the network of Kendriya Bhandars, State Civil Supplies Corporations/departments and other appropriate channels identified by the Department of Food and Public Distribution.

COS decided (July 2006) that the agencies (MMTC, NAFED and PEC) would import pulses for sale and distribution through PDS centres, State agencies and e-auction/trading. It further decided that the Department of Consumer Affairs, in consultation with the importing agencies, industry and trade, would work out a detailed distribution strategy for the imported pulses. Later on, STC was also added (December 2006) to this distribution mechanism.

Reimbursement of Losses

Losses under the scheme, if any, incurred by the designated importing agencies (viz. MMTC, NAFED, PEC and STC), were to be reimbursed by GOI up to 15 *per cent* of the landed cost and service charges at the rate of 1.2 *per cent* of the Cost Insurance Freight (CIF) value. The reimbursement limit of 15 *per cent* was fixed keeping in view the landed cost and the domestic prices of pulses.

The claims of the designated importing agencies for their losses were to be reimbursed by the Department of Consumer Affairs (DCA), subject to the scrutiny of the audited accounts for the relevant period by the Cost Accounts Branch, Department of Expenditure, and Ministry of Finance.

Role of the Ministry of Consumer Affairs, Food and Public Distribution

The Ministry of Consumer Affairs**,** Food and Public Distribution (MoCA, F & PD) was the nodal Ministry for implementation of the scheme. It was responsible for designing the scheme and submitting proposals for approval of the Union Cabinet/ CCP /EGoM/ COS, in order to ensure the fulfilment of the twin objectives of the availability of pulses and stabilisation of their market prices. It also had the mandate of working out a detailed distribution strategy for the imported pulses, monitoring the price situation, maintaining vigil on any attempt to manipulate the markets, coordinating with the State Governments and reimbursing the losses to the designated importing agencies.

Role of the Ministry of Commerce and Industries

The COS had decided in July 2006 that the Ministry of Commerce and Industries (MoCI) would coordinate the import arrangements for pulses by the PSUs to ensure that the contracts were finalised quickly at the most competitive rates, so that distribution could be effected early.

Role of the designated importing agencies

The designated importing agencies were required to import and distribute/sell the pulses as per the decisions of the Government.

Status of implementation

The Empowered Group of Ministers (EGoM) reviewed the status of implementation of the scheme and decided (March 2011) to discontinue the same with effect from 1 April 2011, due to reasons mentioned later in paragraph 6.10.

2.2 Scheme of distribution of imported pulses through the Public Distribution System

On 20 November 2008, GOI introduced another scheme for import of pulses for distribution, primarily to Below Poverty Line (BPL) households through the Public Distribution System (PDS). The number of importing agencies was increased to five with the inclusion of the National Cooperative Consumers Federation of India Ltd (NCCF). The imports were to be undertaken based on the requirement for each type of pulse received from the State Governments.

Pulses were to be imported up to four lakh MT with a subsidy of ₹ 400 crore i.e. ₹ 10 per kg inclusive of administrative costs, margins and interest payable to the importing agencies.

They were required to be imported and distributed initially by 31 March 2009. The scheme was extended periodically till 31 March 2012.

Objectives of the scheme

The scheme aimed at augmenting the availability of pulses within the country, specifically for supply to the poorer sections, through PDS at subsidised rates.

Distribution mechanism

Under the scheme, the State Governments /Union Territories (UTs) were to receive the pulses from the designated importing agencies and distribute them only through PDS. Thereafter, the State Governments/UTs were to distribute one kg of pulses per month to each BPL family. The pulses could also be distributed to above poverty line (APL) families, depending upon availability.

Reimbursement of subsidy

The subsidy was to be reimbursed to the designated importing agencies from the dates of filing the claims, within a 30-day period. The agencies were also entitled to charge the Government additional interest at the prevailing market rate, for delays in settling their claims beyond the stipulated period.
The subsidy element of ₹ 10/ kg was worked out on the lines of a similar scheme launched for distribution of imported edible oil, wherein the subsidy was fixed at 25 *per cent* of the landed cost.

Role of the MoCA, F & PD

The Ministry of Consumer Affairs, Food and Public Distribution (MoCA, F & PD) was the nodal Ministry for implementation of the scheme. It was responsible for designing the scheme and submitting proposals for approval of the Union Cabinet/ CCP /EGoM/ COS, in order to ensure the fulfilment of the twin objectives of the availability of pulses and stabilisation of their market prices. It also had the mandate of monitoring the price situation, maintaining vigil on any attempt to manipulate the markets, coordinating with the State Governments and reimbursing the losses to the designated importing agencies.

Role of the MoCI

The role of the MoCI was that of an administrative department as far as the PSUs were concerned.

Role of the State Governments/UTs

The State Governments/UTs were to indicate their requirements of the quantities of each type of pulse to the designated importing agencies. They were to make arrangements for taking delivery, milling, processing, packing and distributing the pulses through the PDS.

Role of the designated importing agencies

The designated importing agencies were to import the pulses, namely *gram*, *moong, tur, urad*, yellow peas and dun[4] peas on the basis of the requirements given by the States/UTs and deliver them to the State Governments/UTs.

Status of the scheme

The scheme has been extended up to 31 March, 2012, with a target of import of five lakh MT and a subsidy limit of ₹ 500 crore.

2.3 Chronology of important events relating to the two schemes

Important decisions taken by the Government and various committees (COS, CCP and EGoM) relating to import and sale of pulses from 2006 to 2011 are tabulated below:

Period	Event
May 2006	• CCP directed (18 May 2006) that the domestic prices of pulses be kept under check by allowing imports at zero duty, with participation both by NAFED and private traders.
June 2006	• In the COS meeting on 19 June 2006, the Cabinet Secretary observed that to facilitate the availability of pulses and to accordingly stabilise prices, there was an urgent need to import pulses. The following decisions were also taken: ➢ NAFED would import 45,000 MT of pulses and make best efforts to ensure getting the best prices and the earliest arrivals. ➢ The imported pulses would be distributed by the Kendriya Bhandars, the Civil Supplies Corporations and other appropriate channels identified by the Department of Food and Public Distribution. ➢ There would be a ban on export of pulses from the country in 2006-07. • CCP directed (22 June 2006) all the concerned Ministries to closely monitor the implementation of the Committees decisions of 18 May 2006 regarding the import of pulses by private traders and NAFED. In order to ensure adequate arrivals, MMTC and PEC Ltd. were also to be asked to undertake such imports.
July 2006	• COS decided that the agencies (MMTC, NAFED and PEC) may take proactive steps for sale/distribution of the imported commodity through PDS centres, State agencies and e-auction/trading to ensure disposal of the commodity by the end of August.

[4] Dun peas are a type of pulses

	• COS decided that the Department of Consumer Affairs, in consultation with the importing agencies, industry and trade, would work out a detailed distribution strategy for the imported pulses so that the entire quantity of imported pulses reached the retail market latest by the end of August, 2006. • CCP decided that the price situation should be monitored closely and reviewed after September, 2006 on the basis of the trends available. Further, it was decided that: ➢ Particular attention should be given to augmenting supplies and strengthening distribution in such pockets where prices were markedly high. ➢ Effective steps should be taken to expedite the arrival of imported pulses to improve availability at the consumption points. • COS decided that NAFED would keep the subsidy element in the import of pulses up to 15 *per cent* of the landed cost.
December 2006	• COS directed that NAFED, MMTC, PEC and STC may import pulses on Government account, subject to maximum reimbursement of losses by the Government up to 15 *per cent*. However, the reimbursement of losses would be benchmarked upon the lowest percentage of loss incurred by any of the importing organizations.
February, 2007	• CCP directed that the Ministry of Consumer Affairs, Food and Public Distribution should monitor the price situation closely and maintain vigil on any attempts to manipulate the market and coordinate, as required, with the State Governments.
March, 2007	• COS decided that all concerned public sector undertakings should formulate plans to reach the target of 1.5 million metric tonnes (MMT) for imports of pulses. Of this, 0.75 MMT would be gram, *masur, moong*, *tur* and *urad* and 0.75 MMT could be yellow peas etc.
April, 2007	• CCP directed MMTC, NAFED, PEC and STC to formulate market-wise and month-wise import plans to reach the target of 1.5 MMT of imports of pulses. Of this, 0.75 MMT was to be gram, *masur, moong*, *tur* and *urad* and the other 0.75 MMT was to be yellow peas.
May, 2007	• CCP directed that NCCF may be permitted to import pulses up to 1.5 lakh tonnes of (*moong*, tur and *urad*) and it would be eligible for reimbursement of losses, if any, up to a ceiling of 15 *per cent* (on the

	same terms as in the cases of MMTC, NAFED, PEC and STC).
July 2007	• COS decided that all agencies would also be permitted to get reimbursement of service charges of 1.2 *per cent* of CIF (Cost, insurance and freight) value.
March 2008	• NAFED, MMTC, PEC and STC were allowed to import pulses for a further period of one year upto 31 March 2009.
November, 2008	• CCP approved the scheme of distribution of imported pulses at subsidized rates by State Governments. Import of four lakh tonnes of pulses would be undertaken by MMTC, NAFED, PEC and STC. The total subsidy would be limited to ₹ 10 per kg, inclusive of the administrative cost and service margins.
March 2009	• The Union Cabinet decided as follows: (i) Extension of zero duty on import of pulses for another year up to 31 March, 2010, (ii) Extension of the scheme for reimbursement of losses up to 15 *per cent*, to 31 March 2010. (iii) Extension of the scheme for distribution of imported pulses through PDS for another six months up to 30 September 2009. (iv) Extension of the ban on export of pulses (except *kabuli chana*) for another year up to 31 March, 2010.
April, 2009	• COS decided that NCCF would be included as an agency for importing pulses under the scheme for subsidized distribution of pulses through PDS.
August, 2009	• COS decided that the Department of Consumer Affairs would set up a Task Force, comprising representatives of the Department of Commerce, the Department of Food and Public Distribution and experts as well as representatives of trade and industry to recommend a plan for increasing the availability of pulses in the country over the next three to four years.
September 2009	• EGoM decided to extend the scheme of PDS distribution of pulses for another six months upto March, 2010.
January,	• CCP decided that NCCF would also be authorized to implement the

2010	scheme to distribute imported pulses at a subsidy of ₹ 10 per kg in States where this scheme could not be implemented by the State Governments.
March, 2010	• EGoM further extended the zero duty import regime up to 31 March, 2011. They also decided the following: ➢ The ban on export of pulses would be extended up to 31 March 2011. ➢ The scheme of up to 15 *per cent* subsidy to cover losses if any, on import of pulses by MMTC, NAFED, PEC and STC would continue up to 30 September 2010. This would cover imports up to a maximum of 7.5 lakh tonnes which would be distributed by the DCA amongst the four organizations. ➢ The scheme for import of pulses by MMTC, NAFED, PEC and STC, and distribution of these pulses by the State Governments through PDS was extended up to 31 March 2011.
February, 2011	• COS decided that the DCA in consultation with the Ministry of Information and Broadcasting and other concerned Ministries / departments, consider various suggestions for intensifying the popularization of yellow peas such as more creative advertising, induction of yellow peas into the Mid-Day-Meal Programme and at *anganwadi* centres and involving popular personalities in the campaign. • COS also decided that: ➢ DCA would examine, in consultation with State Governments, the proposal to reduce the existing subsidy on yellow peas under the scheme for distribution of pulses through the PDS, keeping in view factors such as acceptability, substitutability, price levels and the nutritional value of yellow peas.
March, 2011	• EGoM decided to close the scheme of 15 *per cent* subsidy on import of pulses by PSUs/NAFED by 31 March 2011. They was also decided to continue the PDS scheme up to 31 March 2012 with a total quantity of five lakh MT, with a corresponding provision of subsidy limit of ₹ 500 crore.

3 Audit Approach

3.1 Audit objectives

The main objectives of our performance audit were to ascertain whether:

- the schemes[5] for import of pulses and sale thereof were properly designed to achieve the objectives of ensuring availability of pulses and price stabilization;
- the targeted quantities of pulses were imported and made available in the market promptly;
- the goals of the schemes i.e. availability of pulses and price stabilization were effectively achieved; and
- monitoring of the implementation of the schemes, particularly, the sale and distribution of pulses, was adequate and effective.

3.2 Audit criteria, scope and methodology

The main sources of audit criteria were the decisions taken by the EGoM, CCP and COS during 2006-2011.

The scope of audit covered sale and distribution of pulses which were imported by four agencies – three PSUs (MMTC, PEC and STC) and one multi-State co-operative Federation (NAFED).

The audit involved scrutiny of records at the Ministry of Consumer Affairs, Food & Public Distribution (MoCA, F & PD); Ministry of Commerce and Industry (MoCI), corporate offices of MMTC, NAFED, PEC and STC, branch offices of NAFED at Mumbai and Tuticorin , branch offices of MMTC at Mumbai, Kolkata, Chennai, Kanpur and Visakhapatnam; branch offices of PEC at Mumbai, Kolkata and Chennai and branch offices of STC at Mumbai, Kolkata and Chennai.

Entry conferences were held with MMTC, NAFED, PEC and STC in April 2010, during which the broad audit scope and objectives were explained. Field audit was carried out during the period April to August 2010. Follow-up audit was carried out till November 2011.

An exit conference was held with the MoCA, F & PD and the designated importing agencies (MMTC, NAFED, PEC and STC) in January/ February, 2011 during which the main audit findings were presented and discussed. A joint meeting was conducted with MoCA, F & PD, MoCI and the designated importing agencies on 2 December 2011 to discuss the issues arising out of the audit findings.

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[5] Scheme for reimbursement of losses if any, up to 15 *per cent and* Scheme for distribution of imported pulses to BPL families through the Public Distribution System

3.3 Audit acknowledgement

We acknowledge the cooperation and assistance extended by the MoCA, F & PD, MoCI and the designated importing agencies at various stages during the conduct of this performance audit.

4 Pulse Production and Demand

4.1 Overview

The annual domestic production of pulses increased from 84 lakh MT in 1950-51 to 143 lakh MT in 1990-91, but remained in the range of 111 to 149 lakh MT over the last decade, except during 2010-11, when it reached 181 lakh MT. The reasons for the sudden increase in production of pulses during 2010-11, as informed by the Department of Agriculture and Cooperation, Ministry of Agriculture were, inter alia, increase in the area of pulses production and productivity of pulses; enhanced Minimum Support Prices (MSP) and favourable weather conditions.

The area under coverage increased from 191 lakh ha in 1950-51 to 263 lakh ha in 2010-11. Similarly, the per hectare yield increased from 441 kg/ ha in 1950-51 to 689 kg / ha in 2010-11. Chart 1 and Table 1 provide details of the area, yield and production of pulses during these years.

Chart 1 – Production of Pulses

Total Pulses – All India Production in lakh MT

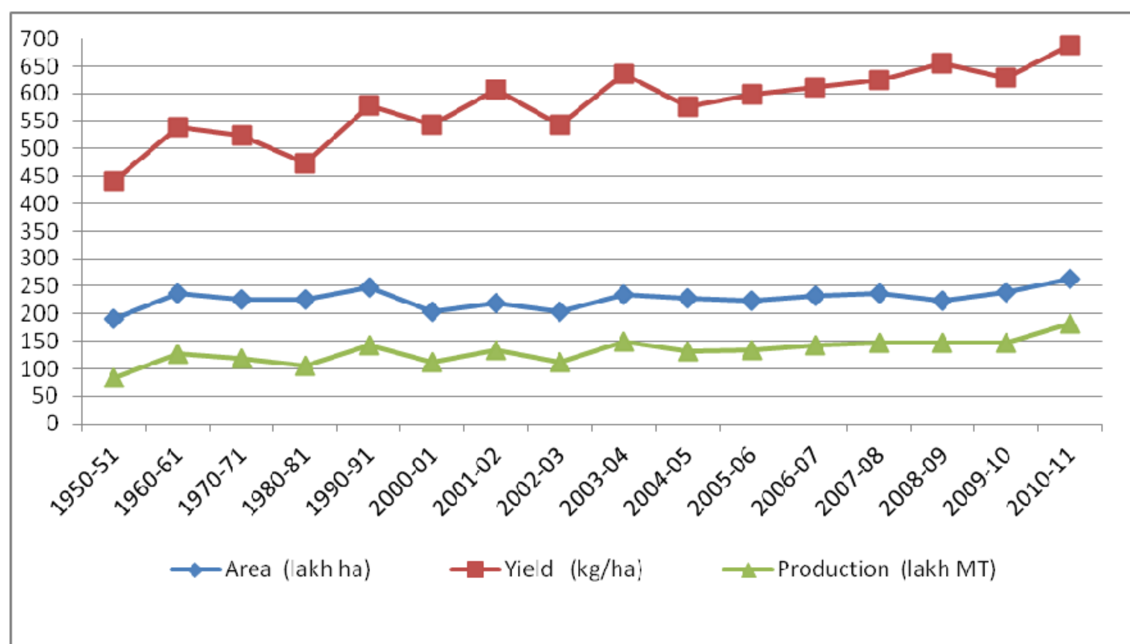

Table 1 – Production of Pulses

Year	Area (lakh ha)	Yield (kg/ha)	Production (lakh MT)
1950-51	191	441	84
1960-61	236	539	127
1970-71	225	524	118
1980-81	225	473	106
1990-91	247	578	143
2000-01	204	544	111
2001-02	220	607	134
2002-03	205	543	111
2003-04	235	635	149
2004-05	228	577	131
2005-06	224	598	134
2006-07	232	612	142
2007-08	236	625	148
2008-09	224	655	147
2009-10	238	630	147
2010-11	263	689	181

Sources: Agriculture Statistics at a Glance, 2009, Department of Agriculture & Co-operation, Ministry of Agriculture and Director General of Commercial Intelligence and Statistics (DGCIS), Kolkata

The main reasons for the low yield and productivity of pulses as per the Report of the Commission on Agricultural Costs and Prices (CACP) for the crops sown during 2008-09 were:

- lack of irrigation, as only about 15 *per cent* of the area under pulse cultivation was irrigated, while the remaining 85 *per cent* of the area was rain-fed;
- non-availability of high-yielding varieties of pulse seeds in the desired quantities, despite implementation of various schemes of GOI such as the Pulses Development Programme, Technology Mission on Pulses, Integrated Development of Pulses etc. as well as research activities by the Institute of Pulses Research, Kanpur and other research institutes; and
- low Seed Replacement Rate (SRR)[6]

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[6] SRR is the *per centage* of area sown out of the total area of crops planted in the season by using certified / quality seeds other than the farm saved seed.

4.2 State-wise variations in pulses productivity

An analysis of State-wise productivity of pulses reveals the following position:-

Table 2 – State-wise Productivity of Pulses

State	2007-08			2008-09			Area Under Irrigation (%) 2007-08
	Area (lakh/ha)	Production (lakh MT)	Yield (kg/ha)	Area (lakh/ha)	Production (lakh MT)	Yield (kg/ha)	
Andhra Pradesh	2.11	1.70	803	1.77	1.45	818	2
Bihar	06.1	05.0	818	05.9	04.7	801	3
Chhattisgarh	09.2	05.4	586	08.6	05.0	580	7
Gujarat	08.8	07.4	843	07.8	06.1	777	12
Haryana	0.17	0.10	602	0.18	0.18	980	47
Jharkhand	0.41	0.30	736	0.39	0.28	724	3
Karnataka	23.8	12.7	531	20.9	09.7	466	6
Madhya Pradesh	40.3	24.5	609	45.6	36.8	808	37
Maharashtra	40.6	30.2	746	30.8	16.6	537	10
Orissa	08.6	03.8	446	08.0	03.9	481	14
Rajasthan	38.7	15.5	401	36.7	18.3	497	16
Tamil Nadu	06.1	01.9	303	05.4	01.6	307	4
Uttar Pradesh	21.6	15.8	731	22.2	20.0	899	26
West Bengal	01.9	01.5	793	01.8	01.3	704	14

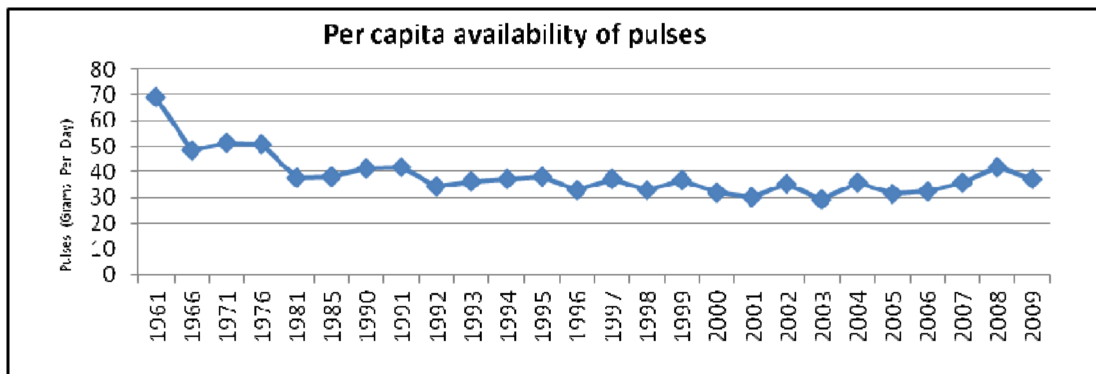
Sources: Agriculture Statistics at a Glance, 2010, Department of Agriculture & Co-operation, Ministry of Agriculture and DGCIS, Kolkata

As may be seen, there were enormous inter-State variations in pulse yields during 2007-08, ranging from 303 kg / ha in Tamil Nadu and 401 kg / ha in Rajasthan to 818 kg / ha in Bihar and 843 kg / ha in Gujarat. Though there were substantial yields of 818 kg /ha in Andhra Pradesh and 801 kg/ ha in Bihar during 2008-09 which had very small proportion of area under irrigation, it was no coincidence that the highest pulses yields were by and large in the States with higher proportions of irrigated area.

4.3 Per capita availability of pulses

The year-wise per capita availability of pulses during the period from 1961 to 2009 was as follows:

Chart 2/ Table 3 – Per Capita Availability of Pulses



Year	Per capita availability of pulses (grams per day)
1961	69.0
1966	48.2
1971	51.2
1976	50.5
1981	37.5
1985	38.1
1990	41.1
1991	41.6
1992	34.3
1993	36.2
1994	37.2
1995	37.8
1996	32.7
1997	37.1
1998	32.8
1999	36.5
2000	31.8
2001	30.0
2002	35.4
2003	29.1
2004	35.8
2005	31.5
2006	32.5
2007	35.5
2008	41.8
2009	37.0

Source: Report of the Commission on Agricultural Costs and Prices (CACP) for the crops sown during 2008-09& 2009-10, Ministry of Agriculture.

As can be seen above, the daily per capita availability of pulses came down from 69 grams in 1961 to 37.0 grams in 2009.

4.4 Demand for pulses

The demand for pulses increased from 159 lakh MT in 2002-03 to 192 lakh MT in 2006-07, then suddenly dropped to 168 lakh MT in 2007-08 and increased to 191 lakh MT in 2010-11. The explanation for the sudden drop in demand given (December 2011) by the MoCA, F & PD was that the figures relating to the demand for pulses referred to the demands projected by the Planning Commission for the 10th and 11th Five Year Plans and that 2007-08 was the first year of the 11th Plan.

Audit observed that this period was marked by a gap between demand and production ranging from 10 to 50 lakh MT. Details are depicted below in Chart 3 and Table 4.

Chart 3 – Demand, Production and Shortfall in Pulses

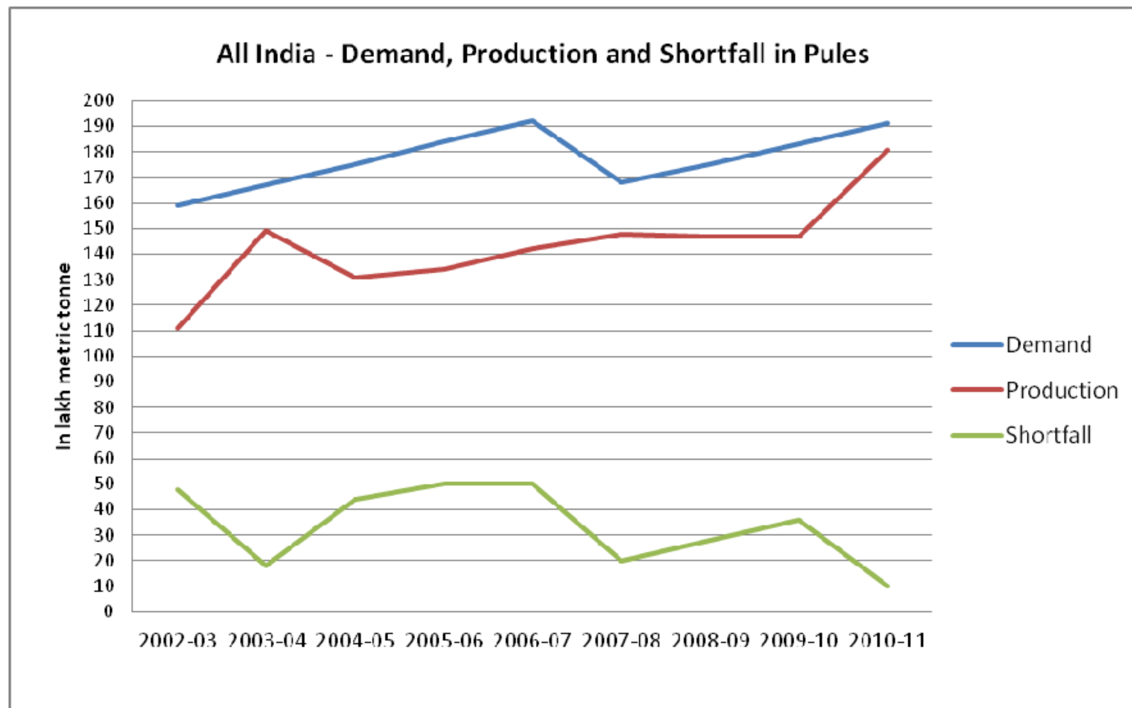


Table 4 – Demand, Production and Shortfall in Pulses

(in lakh MT)

Year	Demand	Production	Shortfall
2002-03	159	111	48
2003-04	167	149	18
2004-05	175	131	44
2005-06	184	134	50
2006-07	192	142	50
2007-08	168	148	20
2008-09	175	147	28
2009-10	183	147	36
2010-11	191	181	10

Source: **-Report of Working Group, Planning Commission, September 2001;** ***Agriculture Statistics at a Glance 2009 (Production- 2003-04-2009-10)***

4.5 Minimum Support Prices for pulses

The MSPs for the main pulses during the period 2003-11 were as follows.

Table 5 – MSPs for Major Pulses

(in ₹/MT)

Season	Arhar	Urad	Moong	Masur
2003-04 (Kharif)	13,600	13,700	13,700	15,000
2004-05 (Kharif)	13,900	14,100	14,100	15,250
2005-06 (Kharif)	14,000	15,200	15,200	15,350
2006-07 (Kharif)	14,100	15,200	15,200	15,450
2007-08 (Kharif)	15,900	17,400	17,400	17,000
2008-09 (Kharif)	20,000	25,200	25,200	18,700
2009-10 (Kharif)	23,000	25,200	27,600	18,700
2010-11 (Kharif)*	30,000	29,000	31,700	22,500

Source: Agriculture Statistics at a Glance, 2009, Department of Agriculture & Co-operation, Ministry of Agriculture.
****Daily Retail Prices of Essential Commodities, MoCA, F & PD, DCA (2010-11)***

While the rising MSPs for pulses in recent years (Table 5) reflect the policy intention of the Government to promote the cultivation of pulses, these increases failed to create adequate incentives to bring about commensurate increases in either the area under cultivation or the yield per unit area (Refer Table 1).

For example, a comparative analysis by Audit of gross earnings (based on MSPs) by farmers in Rajasthan, a large pulse-growing State, by growing either wheat or *urad* in 2007-08 and 2008-09 reveals the following position:-

Table 6 – Gross earnings in Rajasthan from Wheat/Urad

	2007-08		2008-09	
	Wheat	Urad	Wheat	Urad
Yield (kg/ha)	2,749	466	3,175	318
MSP (₹/MT)	10,000	17,400	10,800	25,200
Gross earnings (in '000 ₹/ha)	27,490	8108	34,290	8014

Source: Agriculture Statistics at a Glance 2009
Price Monitoring Cell (PMC), DCA

Notwithstanding the substantial increase in the MSP for pulses, the difference in the gross earnings between growing *urad* and wheat was still so large that it was far more lucrative for the farmers to grow wheat. Thus the price signals given by the increased MSPs for pulses proved to be inadequate to achieve their targeted objectives of increasing yield and the area under cultivation.

4.6 Long term-trends in import of pulses - PSUs and private traders

The pulses imported during the 20-year period from 1991 to 2011 were dun peas, *moong*, *tur, urad* and yellow peas. *Moong, tur and urad* were imported primarily from Myanmar, yellow peas from Canada, dun peas from Australia and *masur* from Australia and Canada. The import of pulses increased considerably from about four lakh MT in 2000-01 to about 23 lakh MT in 2010-11.

Table 7 – Import of Pulses

Year	Total Production (in lakh MT)	Pulses imported (in lakh MT)	Percentage of Imports to Total Production
1990-91	143	12.73	9
1996- 97	142	6.55	5
2000-01	111	3.51	3
2001-02	134	22.32	17
2002-03	111	19.95	18
2003-04	149	17.26	12
2004-05	131	13.12	10
2005-06	134	16.97	13
2006-07	142	22.71	16
2007-08	148	28.30	19
2008-09	147	24.81	17
2009-10	147	33.96	23
2010-11	181	23.15*	13

Source-Agriculture Statistics at a Glance 2009, Price Monitoring Cell, MoCA F & PD; * DGCIS data (2010-11 up to January 2011)

A break-up of imports by the designated importing agencies and private agencies revealed the following:

(in lakh MT)

Year	Total imports	Imports by designated importing agencies	Imports by private agencies
2006-07	22.71	0.89	21.82
2007-08	28.30	12.09	16.21
2008-09	24.81	9.62	15.19
2009-10	33.96	3.58	30.38
2010-11	23.15*	3.86	19.29

Source-DGCIS data (2010-11 up to January, 2011), M/o CA, F & PD

Although substantial quantities of pulses were being imported by the designated importing agencies from 2007-09, there was a drop in the quantities imported during 2009-11. This was primarily attributable to the losses suffered by them in imports during earlier years. However, the continued import of larger quantities by the private agencies showed that for them, this was a profitable business.

The MoCA, F & PD stated (January 2011) that the scheme of import of pulses through PSUs was envisaged to increase the domestic availability of pulses. As majority of the pulses was imported by private traders, the scheme was implemented to supplement and not to supplant them. The objective had been realized with increase in the import of pulses from 22.60 lakh MT in 2006-07 to 36.63 lakh MT in 2009-10.

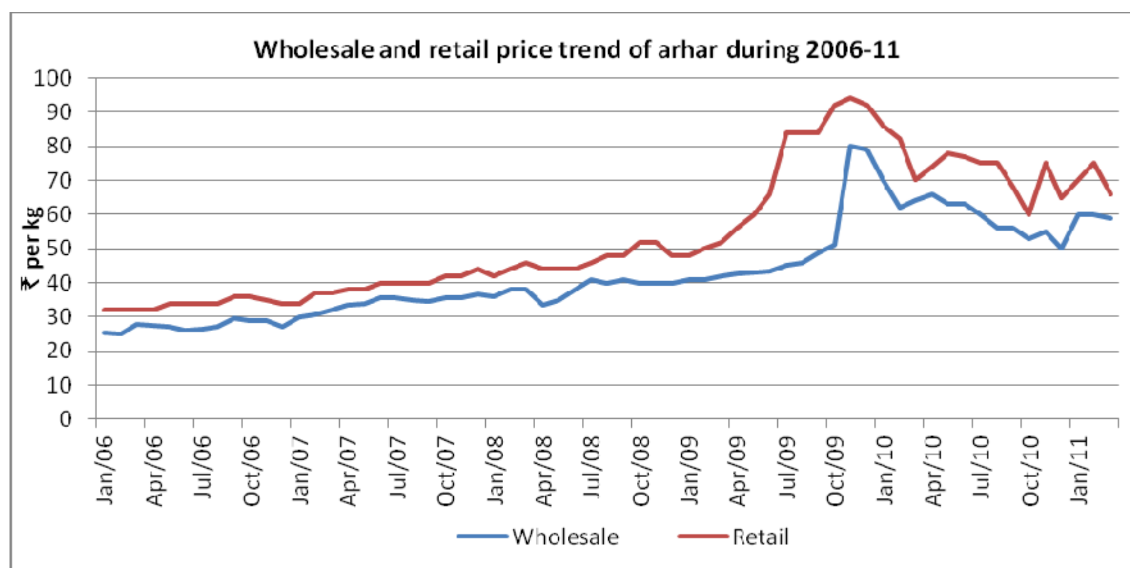
The reply of the Ministry is not acceptable because the designated importing agencies did not import their entire allocated quantities of pulses for 2007-08 to 2010-11 and the private traders continued to remain the major importers of pulses during 2006-11.

It may also be noted that the figures for import of pulses quoted by the Ministry in the above reply did not tally with the figures mentioned in Table 8 above, as sourced from DGCIS.

5 Widening of gap between wholesale and retail prices

An analysis by Audit of wholesale and retail prices of various pulses in Delhi[7] during 2006 to 2011 revealed that the retail prices of *arhar* rose from ₹ 32 in January 2006 to ₹ 66 in March 2011 (106 *per cent*), while the corresponding wholesale prices increased from ₹ 25.50 in January 2006 to ₹ 59 in March 2011 (131 *per cent*).

Chart 4



The spread between the retail and wholesale prices of arhar continued to widen, reaching the highest level of 87 *per cent* in July 2009 as per details given in ***Annexure-I(a).***

The retail prices of *moong* rose from ₹ 38 in January 2006 to ₹ 78 in March 2011 (105 *per cent*), while the corresponding wholesale prices increased from ₹ 37.25 to ₹ 59 in March 2011 (58 *per cent*).

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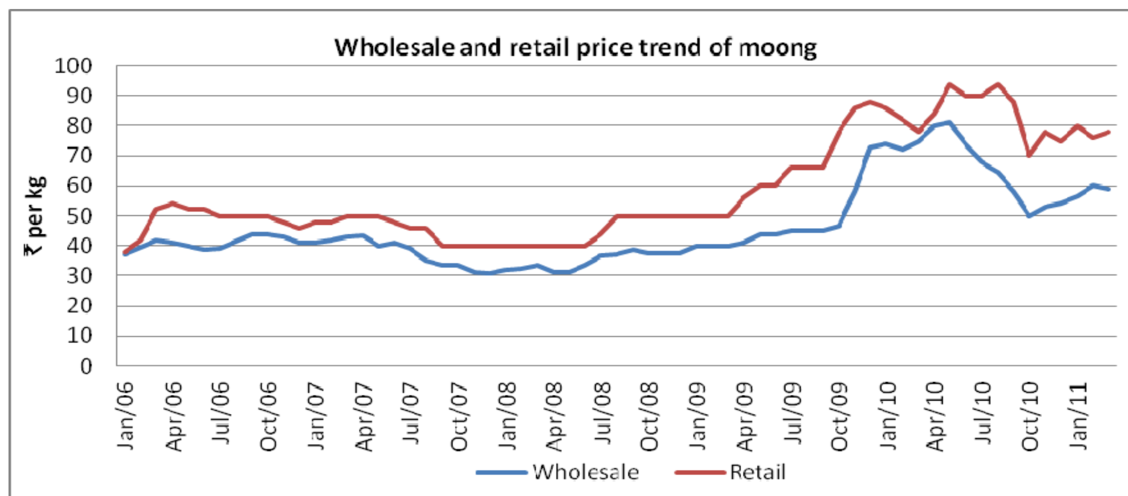
[7] Source: Directorate of Economics and Statistics, Ministry of Agriculture

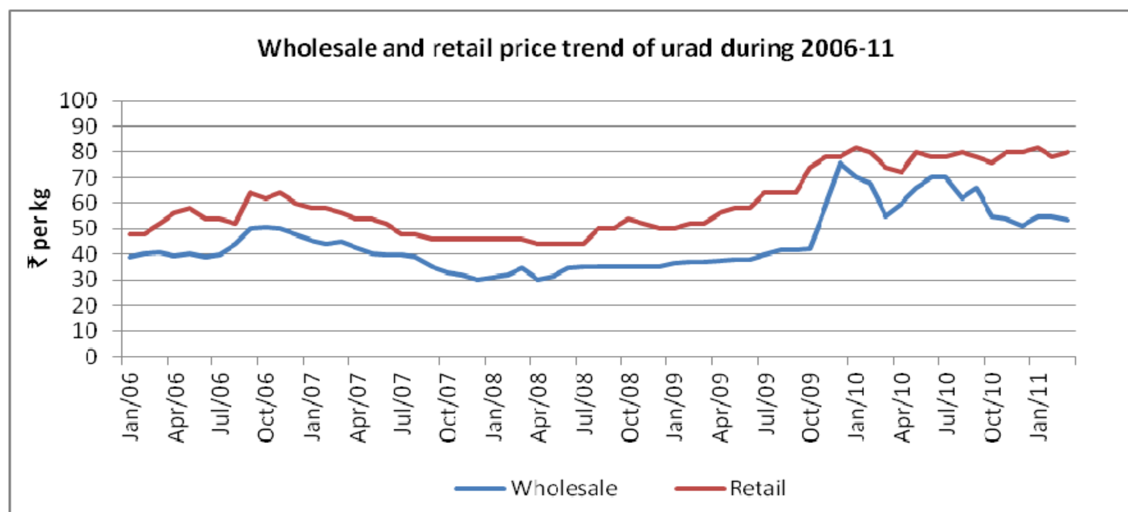
Chart 5



Not only was the increase in retail prices of *moong* higher but the spread between the retail and wholesale price continued to widen, reaching the highest level of 68 *per cent* in October 2009 as per details given in A***nnexure-I(b).***

The retail prices of *urad* rose from ₹ 48 in January 2006 to ₹ 80 in March 2011 (67 *per cent*), while the corresponding wholesale prices increased from ₹ 39 to ₹ 53.50 in March 2011 (37 *per cent*).

Chart 6



Not only was the increase in retail prices higher but the spread between the retail and wholesale price continued to widen, reaching the highest level of 76 *per cent* in October 2009 as per details given in **Ann*exure-I (c).***

The retail prices of *masur* rose from ₹ 30 in January 2006 to ₹ 55 in March 2011 (83 *per cent*), while the corresponding wholesale prices increased from ₹ 24 to ₹ 43 in March 2011 (79 *per cent*).

Chart 7

Not only was the increase in retail prices of *masur* higher but the spread between the retail and wholesale prices continued to widen, reaching the highest level of 48 *per cent* in October 2009 as per details given in ***Annexure-I(d).***

The analysis of wholesale and retail prices trends clearly brings out the fact that there was a substantial and widening gap between wholesale and retail prices of *arhar*, masur, *moong* and *urad dal* for the period from 2006-11. In other words, the retail prices of pulses increased at a much faster rate than the corresponding wholesale prices. Even though the designated agencies imported pulses on Government account, the retail prices kept on increasing.

This growing divergence between wholesale and retail prices pointed towards increasing control of the market by private traders which led to an overall increase in the market prices of all major pulses during this period.

6 Audit findings on the operation of the 15 *per cent* subsidy scheme

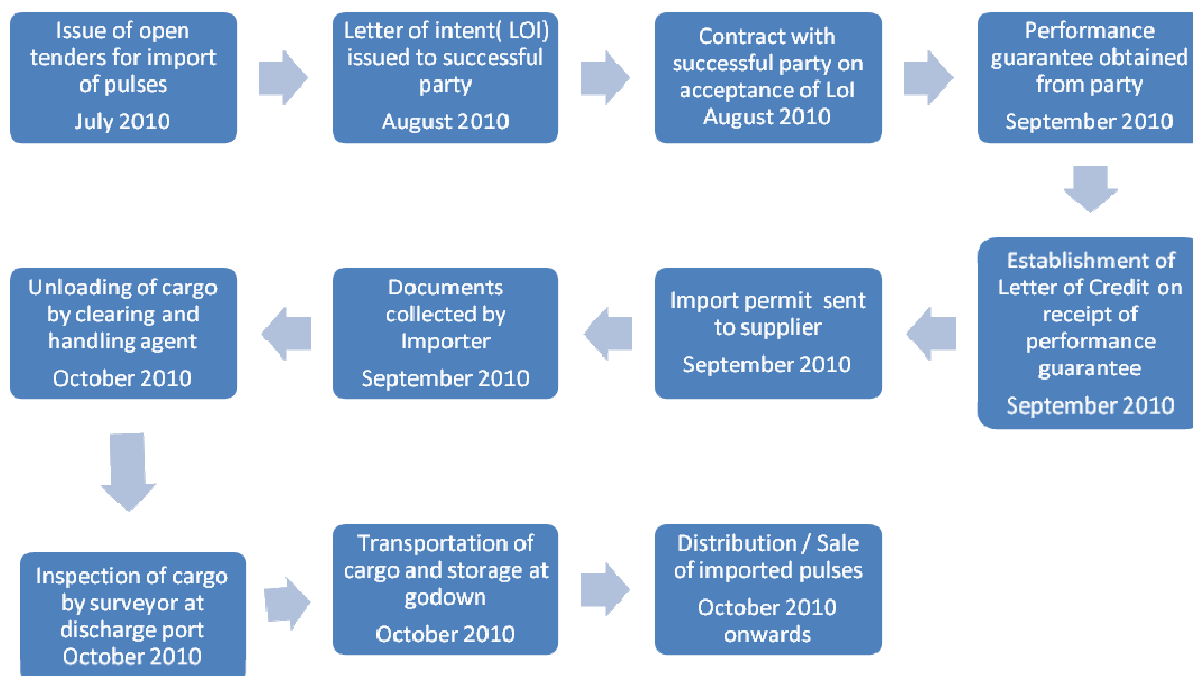
6.1 Procedure for import and sale of pulses

The procedure followed by the designated importing agencies is summarised below:

- The agencies imported pulses on the basis of competitive tendering, by establishing letters of credit (LoC) in favour of suppliers.
- Upon arrival of the shipments, the agencies arranged off-loading, clearance from Customs and port trusts, transportation as well as storage of cargo at designated godowns.
- Thereafter, the agencies floated open tenders for disposal of pulses on competitive basis. Parties selected after due process of tendering were required to lift the pulses within the period prescribed in the letters of award.
- The LoCs established in favour of the suppliers were discharged by the agencies, either out of sale proceeds of imported pulses or from funds borrowed from banks.

The detailed procedure is depicted in Figure 1. The timelines have been shown based on an actual case of import and sale of 25000 MT of yellow peas by PEC Ltd in July 2010.

Figure 1- Detailed procedure for Import and sale of pulses (example of PEC)



6.2 Shortfall in import and disposal of pulses

In order to achieve the objectives of the availability of pulses and stabilization of their prices in the domestic market, GOI decided that NAFED would import 0.6 lakh MT of pulses (Gram, *moong* and *urad*) during 2006-07. Thereafter, the targets were fixed at 15 lakh MT of pulses each year from 2007-08 to 2009-10 and at 7.5 lakh MT for 2010-11. These targets were to be met by four implementing agencies (MMTC, NAFED, PEC and STC) put together. Up to half of the targeted quantity of the pulses to be imported from 2007-08 was to be of yellow peas.

However, Audit noticed that there was a considerable shortfall in the actual import and domestic disposal of pulses vis-a-vis the targeted quantities by the importing agencies, as shown in Table 9.

Table 9- Import and Disposal of Pulses

(Quantity in lakh MT)

Pulses	2006-07[8]	2007-08	2008-09	2009-10	2010-11	Total
Targeted import and	0.60	15.00	15.00	15.00	7.50	53.10

[8] 60000 MT was allocated to NAFED

Pulses	2006-07[8]	2007-08	2008-09	2009-10	2010-11	Total
domestic sale						
Pulses Imported	0.89	12.09	9.62	3.58	3.86	30.04
Shortfall /Excess in import	(+) 0.29	(-)2.91	(-)5.38	(-)11.42	(-)3.64	(-)23.06
Shortfall in import (*per cent*)	-	19.40	35.87	76.13	48.53	--
Quantity available for sale*	0.89	12.39	13.53	10.44	6.84	--
Domestic sale of pulses	0.59	8.48	6.67	7.46	3.75	26.95
Shortfall in disposal	0.30	3.91	6.86	2.98	3.09	
Shortfall in disposal** (*per cent*)	33.70	31.56	50.70	27.97	45.17	

Source: Annual accounts and supporting documents of these importing agencies

**** Includes the imports made in that year and the previous year's 'shortfall in disposal'***

***** Percentage is on the basis of the 'Quantity available for sale' and 'Domestic sale of pulses'***

As can be seen from the table, the shortfall in imports was as high as 76.13 *per cent* in 2009-10, whereas the shortfall in disposal of the available quantity was as high as 50.70 *per cent* during 2008-09.

The shortfall in the import of pulses and their disposal adversely affected the achievement of the objectives of the scheme, i.e. to increase availability of pulses and to stabilize their prices in the domestic market.

Some of the agencies connected to the scheme replied as follows:

a. MoCA, F & PD, stated (January 2011) that the scheme did not specify the modalities of purchase and sale of pulses in the domestic market. The implementing agencies bought and disposed off all the pulses as per their internal mechanisms, based on their commercial compulsions and risks.

The above response is not acceptable because the specific targets for import of pulses were fixed by CCP/EGoM to fulfil the shortfall of pulses in the country, with a view to augment supplies and soften the prices in the domestic market. Further, regarding the modalities of the scheme, it was in fact the Ministry which was responsible for establishing a distribution network which could have determined the sale and disposal by the agencies in line with the objectives of the scheme.

b. STC stated (August 2010) that though GOI was subsidizing the imports, it was cautioning the designated agencies to take all necessary steps to ensure minimization of losses. As such, the shortfalls in imports, particularly during 2009-10 and 2010-11, were 'wilfully done' to ensure that the losses were kept to a minimum level.

c. MMTC stated (January 2011) that the import of pulses was restricted as their international prices were very high as compared to those of the domestic market. As there were variations of more than 15 *per cent* between international prices and domestic prices in respect of almost all the pulses, the Company did not import pulses as per the targets fixed by GOI.

It is evident from the reply of STC and MMTC that there was an inherent contradiction in the scheme i.e. fixing targets of the quantities for import on the one hand and asking the agencies to take all steps to minimize losses on the other. The result was that the targeted quantities of pulses could not be imported by the designated importing agencies to fill up the gap between demand and supply in the domestic market.

Thus there was a lack of proper planning and coordination in the implementation of the scheme by all the agencies involved.

6.3 Delay in clearance of imported pulses

Ports allow a free period (normally 14 days) for clearance of commodities without detention and demurrage charges. Audit found abnormal delays in clearance of imported pulses by MMTC, NAFED, PEC and STC. These were mainly due to delayed filing of bills of lading because of delayed receipt of shipping documents; delayed receipt of Port Health Office (PHO) /Plant Quarantine (PQ) certificates and delayed arrangement of storage facilities in the port together with clearance and handling arrangements. The delays at Kolkata port ranged from nine days to over four months. The agencies also paid detention and demurrage charges of ₹ 42.71 crore during 2006-07 to 2010-11. Details are indicated in ***Annexure-V.***

Some of the agencies connected to the scheme replied as follows:

a. Ministry of CA, F&PD, replied (January 2011) that no major delays were reported by PSUs and delays, if any, reported by a PSU were taken up on priority with the concerned port authorities as well as the Department of Shipping.

The reply is not acceptable as MoCA, F & PD was the nodal Ministry for implementation of the scheme and on them, lay the responsibility for coordinating and monitoring quick clearance of imported stock of pulses from the port for immediate disposal in the market to stabilize prices.

b. MoCI stated (December 2011) that once the quota of pulses to be imported was allocated to a PSU, it was the responsibility of the concerned PSU to make necessary arrangements for the import.

c. STC replied (August 2010) that the main reason for detention charges was inordinate time taken by PHO and PQ authorities for issuing certificates, delayed filing of Bills of Entry and non-availability of godown space due to bunching of shipments.

d. MMTC attributed (January 2011) the detention charges to delays in receipt of original documents, delays in receipt of PHO/PQ certificates, strikes by transport authorities, non-availability of godown space etc.

PEC stated (November 2010) that the company incurred huge detention charges due to congestion at ports, delays in shifting of containers from the docks to their respective yards, delays in receipt of PHO/PQ certificates and delays in clearance of containers.

All agencies in the business of export/import are aware of delays at the ports. It is thus squarely the responsibility of the importing agencies to ensure early documentation. They have designated staff with the required expertise for this. Delays despite such knowledge/ staff are clearly a failure on the part of these agencies. Hence, there is a need to fix accountability for such serious lapses.

The delays in clearance not only had led to avoidable expenditure of ₹ 42.71 crore during 2006-11 but availability of the imported pulses in the domestic market was also delayed, with a consequential adverse impact on prices.

6.4 Absence of appropriate channels for distribution of imported pulses

As stated earlier, GOI envisaged (June 2006) that the imported pulses would be distributed by NAFED through the network of Kendriya Bhandars, State Civil Supplies Corporations/ departments and other appropriate channels identified by the Department of Food and Public Distribution.

As stated earlier, the COS had decided (July and December 2006) that NAFED, PEC, STC and MMTC would import pulses for sale and distribution through PDS centres, State agencies and e-auction/trading. It had also decided that MoCA, F &PD, in consultation with the importing agencies, industry and trade would work out a detailed distribution strategy for the imported pulses. However, it was observed that MoCA, F &PD had failed to work out any such strategy.

Audit observed that NAFED did contact States/ State-level agencies for off-take of imported pulses through public agencies/ distribution channels, but did not receive any positive response.

During the joint meeting (December 2011) between Audit and the concerned Ministries and designated importing agencies, MMTC stated that they had contacted a few States for distribution of the imported pulses but did not receive adequate response from them. However, the representatives of PEC and STC stated that they had not formally contacted any State for distribution of the imported pulses.

NAFED stated (December 2011) that since there were no specific guidelines issued by the DCA on sale of imported pulses, it had disposed off the entire stock of imported pulses as per the sale procedure of NAFED by floating open tenders as well as through the National Spot Exchange.

Ultimately, all the agencies sold the imported pulses in the open market through the tendering process. No pulses were distributed by the designated importing agencies through the network of Kendriya Bhandars, State Civil Supplies Corporations or other State agencies.

The Ministry of CA, F & PD was supposed to identify appropriate channels for distribution of imported pulses and work out a detailed distribution strategy as mandated under the scheme. However, as it failed to do so, the importing agencies (MMTC, NAFED, PEC and STC) made arrangements for disposal of the pulses by sale to large private parties through tenders. No accountability seems to have been fixed for such a major lapse, which just about defeated the entire objective of importing the same.

6.5 Tender conditions favouring large private buyers

Audit scrutinized the detailed records of the sales and the tender process of four importing agencies at selected branch offices in Chennai, Kanpur, Kolkata, Mumbai, Tuticorin and Visakhapatnam, relating to sale of 8.38 lakh MT during 2006-11, which accounted for 31 *per cent* of the total sales of pulses imported by these agencies. The scrutiny revealed that the tender conditions of the agencies for sale of pulses stipulated minimum bid quantities which ranged between 200 to 1000 MT and corresponding Earnest Money Deposits (EMDs) which ranged between five to 30 *per cent*. The successful bidders were required to lift the awarded quantities by remitting the entire payment within 15-90 days from the dates of award.

The agencies justified fixing of high minimum bid quantities by stating that they wished to ensure that only serious bidders participated in the tenders.

As a result of these bid conditions, 6.08 lakh MT, representing a massive 73 *per cent* of the quantity of sales test-checked in audit was sold to just four private parties (LMJ International as well as LMJ Overseas; R Piyarelall Import and Exports Pvt Ltd / RP Foods Pvt Ltd[9]; Prime Impex and SRS Pvt. Ltd). As per the information obtained from the Directorate General of Foreign Trade, three of the above-mentioned four buyer groups (except LMJ) were also amongst the top 10 importers of pulses in the country during this period.

A buyer-wise profile of the test-checked sales is given below in Table 10.

Table 10 – Buyer-wise Profile of Test-Checked Sales

(Quantity in lakh MT)

Purchaser	MMTC	NAFED	PEC	STC	Total
LMJ		0.27	0.07	0.51	0.85
Prime Impex	0.05		0.01	0.46	0.52

[9] The R Piyarelall Group website indicates that they enjoy an approximate Indian market share of 30 *per cent* in pulses import and a corresponding share of almost 60 *per cent* in Eastern India.

R Piyarelall	0.84			2.39	3.23
SRS		1.47	0.01		1.48
Sub-total	***0.89***	***1.74***	***0.09***	***3.36***	***6.08***
Other large buyers (>= 5,000 MT)	0.76	0.05	0.23	0.21	1.25
Others (>=1000 - 5,000 MT)	0.05	0.28	0.16	**0.06**	0.55
Others buyers(<=1000 MT)	-	-	-	-	0.50
Grand Total					**8.38**

Details are available in ***Annexure-II***.

The tender conditions ensured that mostly large private players could submit bids thus restricting the channels of distribution of imported pulses and keeping smaller parties out of the loop.

Comments of the Ministry and the designated agencies:

a. MoCI stated (February 2011) that:

- the PSUs worked within their financial and operational autonomy and were expected to make purchases or sales in accordance with commercial considerations.
- the smaller traders did not participate in PSU sale tenders because they bought only in smaller lots on credit basis and relied on brokers.
- PSUs did not have the advantage of a complete supply chain in the domestic market and disposal of pulses through tendering often led to cartelization and the resultant lower realization.

b. STC stated (August 2010) that the minimum bid quantities were fixed so as to encourage lower level and medium level bidders to participate.

c. MMTC stated (January 2011) that by keeping these conditions, only serious bidders participated in the tenders. It was also added that during 2008-09 that as the market conditions were extremely sluggish, there were very few buyers of pulses and that too for small quantities.

d. PEC replied (December 2011) that a minimum bid quantity of 200 MT was fixed for other pulses. However, for yellow peas, the minimum bid quantity was 2000 MT due to the large stocks of yellow peas lying with PEC. They also replied that the bid quantities differed for each location due to different buyer profiles, market conditions and financial liquidity. Further, fixing of minimum bid quantities on the higher side was also to deter prospective bidders who also had stocks lying with them from bidding a higher price in order to keep the market 'artificially higher' and thereby, blocking the company from selling more quantities in order to stabilize prices in the domestic market.

Audit is unable to accept the arguments advanced by the different departments/agencies involved in the process. The replies of the MoCI and the STC/PEC/MMTC managements are

not acceptable as the conditions stipulated in regard to minimum bid quantities ranging from 200 MT to 1000 MT and high EMDs ranging between five *per cent* and 30 *per cent* ensured that mainly large private players could submit bids for these tenders, which restricted the channel of distribution of imported pulses and kept smaller parties out of the loop.

In view of the tender conditions restricting the number of bidders, the designated importing agencies were not able to dispose off the pulses in a timely manner, as the prices offered by the bidders were substantially lower than the import prices paid by them.

Audit also observed during a test check of prices at NAFED (Mumbai centre) that the prices at which pulses were sold were lower than the prevailing wholesale prices. A comparative analysis made by Audit is placed at ***Annexure III***.

A tendering process, whereby imported pulses were sold to private parties which bid the highest prices, would not fulfil the objective of price stabilisation and would result in price hikes.

This process also pointed towards the cartelisation in purchases of imported pulses leading to lower sales realisation by the agencies.

As a consequence, delayed and opportunistic release of pulses by the big private parties in retail markets could not be ruled out.

6.6 Delay in lifting by bidders

As per the conditions of tenders floated by the importing agencies, the successful bidders were required to lift the awarded quantities within 30 to 90 days after remitting the tendered prices. Audit, however, observed that even after contracting the sales, there were inordinate delays in lifting of the sold stocks by the successful bidders. Consequently, the imported pulses, the bulk of which constituted yellow peas, were not made available in the market promptly, for stabilization of prices.

The time taken in lifting ranged from 35 to 670 days as detailed in ***Annexure – IV***. MoCA F& PD should have directed the designated importing agencies to ensure that the stocks were lifted within the prescribed time limits so as to enable the pulses to reach the domestic market promptly.

The MoCI stated (February 2011) that in certain cases, bidders took longer time to effect payments and liquidate stocks. In all these cases of delayed lifting, the EMDs had been forfeited and the carrying cost and delayed payment interest had been recovered.

STC and MMTC accepted (January 2011) the fact that certain bidders took longer time to make payment and lift the stocks.

The above replies are not acceptable because there were shortages of pulses in the market. In the absence of a stronger punitive clause in the tenders, the awarded quantities were lifted after considerable delays.

Delayed lifting beyond the prescribed time limits pointed towards hoarding which would have led to the rise in the prices of pulses in the domestic market.

6.7 Importing of pulses by buyers on both Government and private accounts

STC, MMTC and PEC Limited undertake import, export and domestic trade of all commodities by extending financial assistance to their business associates for a fixed trading margin.

Audit scrutiny revealed that two large private traders (R Piyarelall and Prime Impex Limited) had dual business relationships with STC, MMTC and PEC as follows:

- As "associates" of STC, MMTC and PEC, R Piyarelall and Prime Impex Limited imported pulses through these agencies on private account. In such import transactions – STC, MMTC and PEC, essentially lent their names and funded the purchase through LoCs, by charging 'trading margins' to these private firms. The quantities, specifications, prices, delivery schedules etc. were all decided by the associates. STC, MMTC and PEC carried out "high seas sales"[10] with R Piyarelall/ Prime Impex Ltd. Following this, the associates cleared and took possession of the imported shipments.
- As "buyers" of pulses imported by STC, MMTC & PEC on Government account, R Piyarelall/ Prime Impex Ltd. bought large quantities of pulses from the PSUs.

The role of STC, MMTC and PEC vis-a-vis R Piyarelall and Prime Impex Limited, thus, pointed towards possible conflict of interest. On the one hand, the companies were facilitating import of pulses on private account to large private buyers, who had substantial control over the pulses market and on the other hand, they were also selling pulses (imported on Government account) to these very buyers at a huge loss as compared to the imported prices.

6.8 Losses suffered by importing agencies

The importing agencies were not able to dispose off the pulses in a timely manner, as the prices offered by the bidders were substantially lower than the import prices paid as well as the prevailing wholesale prices. These pulses were sold at substantial losses by the agencies.

The total losses suffered by the importing agencies on domestic disposal of pulses during 2006-11 amounted to ₹ 1201.32 crore, as summarised below:

[10] High Sea Sales (HSS) is a sale carried out by the carrier document consignee to another buyer while the goods are yet on high seas or after their dispatch from the port /airport of origin and before.

Table 11–Losses suffered by importing agencies

[Profit/ (-) Loss, ₹in crore]

Year	STC	MMTC	PEC	NAFED	TOTAL
2006-07	0.17	0.00	0.02	-5.50	-5.31
2007-08	17.21	10.73	-17.15	-28.09	-17.30
2008-09	-208.81	24.32	-316.28	-52.70	-553.47
2009-10	-16.17	-205.21	-57.14	-177.20	-455.72
2010-11	-25.23	-38.34	-82.17	-23.78	-169.52
Total	**-232.83**	**-208.50**	**-472.72**	**-287.27**	**-1201.32**

Source: Annual accounts and supporting documents of the importing agencies

The main reasons stated by the agencies for the losses were increases in the international prices of pulses, depreciation of the Indian rupee, exchange rate fluctuations, lower sales realisation than the landed cost of pulses, sharp fall in crude oil and ocean freight charges and the global meltdown.

Audit observed that of the above losses of ₹ 1201.32 crore, ₹ 897.37 crore (75 *per cent*) was incurred only on account of yellow peas, as shown below:

Table 12 - Losses suffered by importing agencies on account of yellow peas vis-a-vis other pulses during 2006-11

[Profit/ (-) Loss, ₹ in crore]

Agencies	Yellow Peas	Other Pulses	Total
STC	-129.39	-103.44	-232.83
MMTC	-129.10	-79.40	-208.50
PEC	-389.00	-83.72	-472.72
NAFED	--249.88	-37.39	-287.27
Total	**-897.37**	**-303.95**	**-1201.32**

MoCI acknowledged (December 2011) the losses incurred by the PSUs and stated that the matter had been referred to them by the PSUs. As the PSUs were directed to import pulses to bridge the gap between demand and supply of pulses in the domestic market and to exercise a moderating influence on prices, there was no escape from importing pulses in view of the domestic compulsions.

The losses attributed to the import and sale of yellow peas are discussed in the next paragraph.

6.8.1 Losses in import and sale of yellow peas

The MoCA, F & PD proposed(March 2007) that half of the total imports under the scheme could be of yellow peas etc as yellow peas were a reasonably good substitute for other types of pulses and its prices are comparatively much lower. In its proposal to the CCP, the

Ministry mentioned that traditionally, 60 *per cent*[11] of the imports had been of yellow peas. The proposal of MoCA, F & PD was approved by the CCP in April 2007.

As mentioned earlier, of the total losses of ₹ 1201.32 crore incurred by the implementing agencies, ₹ 897.37 crore (75 *per cent*) was on account of yellow peas alone. The main reason for the huge losses on disposal of yellow peas was that the agencies imported 6.26 lakh MT of yellow peas at rates ranging from ₹ 15182 to ₹ 28,388 per MT. The agencies could sell only 0.87 lakh MT during the year 2008-09, leaving a large balance stock of 5.39 lakh MT which had to be sold at far lower rates ranging from ₹ 10637 to ₹ 17680 per MT during 2009-10.

Data on import and sale of yellow peas during 2007-08 to 2010-11 is given below:

Table13 - Year-wise import and sale of yellow peas during 2007-2011

(Quantity in lakh MT)

Year	Opening Stock (qty.)	Import qty.	Qty. available for sale	Qty. sold	Balance Stock	Import Cost Range (₹/PMT)		Sales Range (₹/PMT)	
						From	To	From	To
1	2	3	4 (2+3)	5	6(4-5)	7	8	9	10
2007-08	0	8.74	8.74	6.10	2.64	13719	20857	14150	19255
2008-09	2.64	6.26	8.90	3.51	5.39	15182	28388	8850	22740
2009-10	5.39	1.14	6.53	5.64	0.89	12120	12754	10637	17680
2010-11	0.89	1.81	2.70	2.08	0.62	14908	14997	13229	18551
Total		17.95		17.33					

Review by the Government of its decision to import yellow peas:

The MoCA, F & PD decided in a meeting held on 04 November 2008, that the designated importing agencies need not go for further contracts of yellow peas.

However, while extending the scheme for 2009-10, the Union Cabinet decided (March 2009) to extend the dispensation for the designated importing agencies to import 1.5 million tonnes of pulses, comprising 0.75 million tonnes of yellow peas and dun peas and 0.75 million tonnes of other pulses.

[11] MoCA, F & PD clarified (December 2011) that the assertion "60 *per cent* of the imports are of yellow peas" was based on DGCIS data.

Later on, COS recognised during its meeting in August 2009, that although the prices of yellow peas were lower and adequate stocks were available, people preferred other pulses over yellow peas. In spite of that, the COS did not recommend any reduction for purchase in the targeted quantity of yellow peas.

The comments of the two Ministries were as follows:

a. The MoCA, F &PD stated (January 2011) that the huge losses in import and sale of yellow peas were due to the extremely volatile prices of the commodity in the international market. They further clarified (December 2011) that during 2007-08, the PSUs made profits on account of import of yellow peas. They, therefore, continued to import the peas in 2008-09. The prices of yellow peas in the domestic market crashed in the latter half of 2008-09 following the global meltdown. Hence, the PSUs held back the stocks that were imported at higher prices. In 2009-10, efforts were made to enable the PSUs to dispose off the yellow peas by promoting a publicity campaign for popularizing the consumption of yellow peas. In addition, the PSUs were also instructed to stop importing yellow peas.

Audit observed that, during 2008-11, although, the CCP/COS reviewed the status of price and availability of pulses from time to time under the subsidy scheme, it continued with the decision to import yellow peas (50 *per cent* of the total imports) without re-assessing the actual requirement in the country.

b. MoCI, however, had a divergent view, stating (February 2011) that the PSUs working within their financial and operational autonomy, were expected to make imports or sales in accordance with commercial considerations including price, quality, availability, marketability etc. in a non-discriminatory manner.

Audit observed that MoCA, F & PD had not conducted any survey for assessing the demand for and consumption of for yellow peas or any other kinds of pulses in the country. The Ministry stated (December 2011) that it was not aware of any published statistics regarding absolute levels of consumption and patterns of consumption by varieties of pulses (including yellow peas) in India. However, Audit found that the National Sample Survey Organisation (NSSO) had relevant data about the State-wise consumption pattern of pulses.

The import of yellow peas was continued by the agencies during subsequent years in spite of huge unsold stock balances with them during 2007-08 and 2008-09.

This clearly indicated that the imports were made without assessing the actual requirement on the basis of demand and availability of stocks during the period.

The agencies stated during the exit conference (February 2011) that the import of yellow peas was carried out on the directions of the MoCA, F & PD and that there were less buyers in the market as a result of which, the disposal of the peas got delayed for one to two years.

The outcome of the import of huge quantities of yellow peas was a total loss of ₹ 897.37 crore suffered by the importing agencies which amounted to 75 *per cent* of the total loss suffered in the process of importing pulses.

No independent agency was engaged by the Government in evaluating the efficacy of the decision to import pulses under the scheme.

6.9 Inadequate / delayed financial assistance by Government of India

As stated in Para 6.8 above, the importing agencies suffered huge losses amounting to ₹ 1201.32 crore on import and sale of pulses during 2006-11.

GOI did not extend separate financial assistance to the agencies, either in terms of adequate working capital funds or for meeting consequential expenses such as handling, transportation and storage, interest etc.

Initially, the agencies met their import obligations by establishing Letters of Credit (LoC) in favour of overseas suppliers and the consequential expenses were met out of their own funds/bank loans. However, due to delayed lifting of the awarded quantities of pulses by the parties on deferred payment beyond the time frame of 30 to 90 days, the realization of sale proceeds was abnormally delayed. Further, due to increases in the international prices of the pulses, the fall in the value of the rupee and recovery of sales value at lower rates than the landed cost of pulses, the agencies could not settle LoC/bank loans out of the sale proceeds as expected.

The Government reimbursed losses to the extent of ₹ 329.23 crore upto March 2011 as against the total loss of ₹ 1201.32 crore suffered by the agencies as detailed in Table 14:

Table 14 – Reimbursement of losses

[(+)Profit/(-)Loss, ₹ in crore]

Year	STC	MMTC	PEC	NAFED	TOTAL Loss	Subsidy released	(Month/ year)
2006-07	0.17	0.00	0.02	-5.50	-5.31	-	
2007-08	17.21	10.73	-17.15	-28.09	-17.30	--	
2008-09	-208.81	24.32	-316.28	-52.70	-553.47	143.90	March 2009
2009-10	-16.17	-205.21	-57.14	-177.20	-455.72	134.19 29.76	September 09 February 10
2010-11	-25.23	-38.34	-82.17	-23.78	-169.52	21.38	March 2011
TOTAL	-232.83	-208.50	-472.72	-287.27	-1201.32	329.23	

Audit observed that while the scheme had started in April 2006, the reimbursements were delayed and the first reimbursement was made only in March 2009.

The comments of the two Ministries were as follows:

a. The MoCA, F & PD, while admitting that the importing agencies incurred huge losses during 2008-09, primarily on account of import of yellow peas, by these agencies stated

(January 2011) that the ceiling of 15 *per cent* for reimbursement of losses was fixed in view of the landed cost and domestic prices of pulses. They also stated that the losses had occurred largely on account of volatile international prices of yellow peas during 2008-09 and an reimbursements of losses (80 *per cent* of the 15 *per cent*) had been made for the claims received up to 2009-10. There was no delay on reimbursement of the claims of PSUs and a proposal to fully reimburse the losses of 2008-11 was under consideration of the Government.

MoCA, F & PD further informed (December 2011) that as on 1 December 2011, the total disbursements to the designated importing agencies under the 15 *per cent* scheme was ₹ 361.39 crore.

The Government also explained that ad hoc reimbursements to the extent of 80 *per cent* of the eligible amount had been made for the years 2006-07 to 2008-09. Before releasing the remaining 20 *per cent,* the claims had been referred to the Cost Accounts Branch of the Ministry of Finance for their scrutiny. It further stated that the basis of the amount of subsidy actually paid was upto 15 *per cent* of the landed cost of the quantity of pulses disposed off.

b. MoCI stated (February 2011) that the subsidy scheme for import of pulses by PSUs was announced by the Government with the stipulation that losses up to 15 *per cent* would be reimbursed. The PSUs operated in volatile international and domestic markets but continued to import pulses in view of the escalating domestic prices. In the process, they suffered losses beyond the stipulated 15 *per cent* under the subsidy scheme of the Government. MoCI further stated that these facts were clearly known to the MoCA, F & PD and it was felt that even if the losses went beyond 15 *per cent*, there was no escape from importing pulses in view of the domestic compulsions. The PSUs had been requesting that the losses made on actual basis be reimbursed to them as this was having a serious impact on their financial viability. As this situation was required to be corrected without further delay, the matter was being pursued regularly by the MoCI with the MoCA, F & PD.

In essence, the scheme and its implementation lacked clear directions from the two Ministries concerned. On the one hand, the PSUs were expected to import pulses on commercial principles and risks while on the other hand, they were led into a situation where there was no escape from importing even if their losses were beyond the stipulated 15 *per cent* of the landed cost of the pulses .

6.10 Final review and closure of the 15 *per cent* subsidy scheme

As stated earlier, the 15 *per cent* subsidy scheme was introduced in 2006. This scheme was extended in April 2007 up to 31 March 2008 It was further extended up to 31 March 2009 by the CCP in its meeting held on 31 March 2008 and still further up to 31 March 2010 during the Cabinet meeting held on 18 March 2009. The EGoM, in its meeting held on 18 March 2010 , extended this scheme up to 30 September 2010, reducing the total targeted

imports to a maximum of 7.5 lakh MT. Subsequently, the scheme was further extended up to 31 March 2011 by the EGoM in its meeting held on 23 September 2010. However, the reduced target of 7.5 lakh MT was not revised.

Finally, the EGoM, while reviewing the status of implementation of the scheme, decided (March 2011) upon its discontinuance with effect from 1 April 2011 on the grounds that

(a) the private sector was importing higher quantities of pulses without any support from the Government and the imports by PSUs were declining in comparison to those of private traders,

(b) the scheme had completed four years and was in its fifth year of operation. The PSUs had had sufficient exposure to the pulses market and should be able to operate without Government backing,

(c) No claims for losses were made by the importing agencies in 2006 or 2007-08. Huge losses were incurred by the agencies in 2008-09 and 2009-10 because of the volatility experienced in the international market during 2008-09 and

(d) the entry of PSUs with Government backing would distort the market, thereby pushing up the prices.

In the above context, the EGoM concluded that there did not appear to be much justification for the continued Government reimbursement of losses incurred by the PSUs in the import of pulses. Accordingly, it decided that the 15 *per cent* subsidy scheme need not be extended beyond 31 March 2011.

Audit observed that while the EGoM recognised the limitations of the scheme and decided to close it, they did not discuss the non-achievement of the envisaged objectives of availability of pulses and stabilization of their prices in the domestic market. The EGoM also did not review the roles of the departments and agencies implementing this scheme in order to fix responsibility, if any, in this regard. The Government needs to fix accountability and assure itself that such inadequately designed proposals do not come before the Cabinet again.

7 Audit findings on Scheme for Distribution of Pulses to BPL Households through PDS

7.1 Modalities for import and distribution

In November, 2008, GOI launched a scheme for import of four lakh MT of pulses through four designated agencies (MMTC, NAFED, PEC and STC) at a subsidy not exceeding ₹ 10/ kg (inclusive of administrative costs, margins and interest), the total subsidy being ₹ 400 crore. Imports were to be undertaken by the four agencies based on the requirement for each type of pulse received from the State Governments. The State Governments /UTs would receive the pulses and distribute them only through PDS. The maximum quantity so distributed by State Government would be one kg of pulses per family per month. As stated earlier, the distribution would be primarily restricted to BPL families or it could cover some APL families as well, depending upon availability and logistics. During April 2009, MoCA F & PD also designated NCCF as an importing agency for import of pulses under PDS scheme. The scheme was extended up to March 2012 with a further import target of five lakh MT of pulses with a subsidy limit of ₹ 500 crore.

MoCA, F & PD reimbursed an amount of ₹ 419.71 crore against claims of ₹ 430.39 crore preferred by the agencies up to March 2011.

Audit observed that the second scheme for import of pulses by the same designated agencies was launched by the Government, parallel to the first ongoing scheme, without carrying out any evaluation of the first scheme by an independent agency. The first scheme continued for two more years after the launch of the second scheme before it was finally closed on 31 March 2011. In fact, the second scheme was launched even as huge unsold stocks of yellow peas were lying with the PSUs under the 15 *per cent* subsidy scheme.

7.2 Shortfall in distribution

Under the second scheme, the State Governments/UTs were required to indicate their requirements of the varieties and quantities of pulses to the importing agencies. Based on this data, GOI set a target for import of four lakh MT of pulses. During 2008-09, against this target, only 0.12 lakh MT was imported by three agencies (MMTC, PEC and STC) and only 0.09 lakh MT was distributed. Due to the heavy shortfall in import and distribution under this scheme, the scheme was extended to 2009-10.

However, even during 2009-10, four agencies (MMTC, NCCF, PEC and STC) imported only 2.33 lakh MT and distributed 2.18 lakh MT under this scheme.

Further, during 2008-09 and 2009-10, out of the total quantity of 4.39 lakh MT contracted under the scheme, yellow peas accounted for only 0.64 lakh MT i.e. 15 *per cent* of the total imports. NAFED did not undertake any imports under this scheme during 2008-10, as no requirements had been intimated to it by the State Governments/UTs.

The scheme was further extended up to March, 2011 with a target of six lakh MT and a subsidy limit of ₹ 600 crore . As against this target, during 2010-11, the five agencies including NAFED imported 3.27 lakh MT and distributed 3.22 lakh MT of pulses.

The shortfalls in import were due to lack of adequate demands from State Governments and UTs.

7.3 Meagre subsidy

As per the Report of the Expert Group of the Planning Commission (November 2009), headed by Professor Suresh Tendulkar, to review the methodology for estimation of poverty, the average All India rural poverty line was estimated at ₹ 446.68[12] per household per month.

Audit analysed that under PDS, a BPL household could purchase its monthly allocation of 35 kg of wheat for ₹ 145.25 (at the rate of ₹ 4.15/ kg), which would amount to 32 *per cent* of the threshold poverty line income whereas, just one kg of pulses, with a subsidy of ₹ 10/kg under the scheme, would cost ₹ 40-50/kg. This would amount to 10 *per cent* of the threshold poverty line income. For BPL households, whose incomes were lower than the threshold poverty line, the share of expenditure on pulses in their total monthly expenditure would be correspondingly higher. Therefore, pulses would tend to remain costly for BPL households and consequently, the pulses under the scheme which had a meagre subsidy element of ₹ 10/kg (unless supplemented by large additional subsidies by the State Governments) could remain open to the possibility of diversion to non-BPL households as well as to the open market.

The MoCI did not rule out (February 2011) the diversion of subsidised pulses.

[12] The All India urban household income below poverty line has been estimated at ₹ 578.80 per month. However, since the majority of the targeted beneficiaries are in the rural areas, the rural poverty line has been adopted for this analysis.

8 Monitoring by the Ministries concerned

The decisions of the CCP / COS in their meetings during 2006-11, regarding the monitoring mechanism of the subsidy schemes, were as follows:

- MoCA, F & PD should monitor closely the decisions with regard to import of pulses by private traders and NAFED for ensuring adequate arrivals and take measures to undertake public distribution of pulses (CCP June, 2006).
- The price situation should be monitored closely by MoCA, F & PD, and as required, the recent decisions taken in this regard, including the control on exports, should be reviewed after September, 2006 on the basis of the trends available. Particular attention should be given to augmenting supplies and strengthening distribution in such pockets where prices are markedly high. (CCP July, 2006).
- MoCA, F & PD should monitor the price situation closely and maintain vigil on any attempts to manipulate the market and coordinate, as required, with the State Governments (CCP February, 2007).

It was ascertained by Audit that the Government had reviewed the prices and availability situation of pulses in the country periodically through CCP /COS meetings. MoCA, F & PD received weekly reports about the implementation of the schemes and also reported the status of imports of pulses to the CCP/COS. However, Audit could not find any evidence as to whether the Ministry had reported the fact to the CCP/COS that the pulses imported under the 15 *per cent* subsidy scheme by the designated agencies were being distributed through the network of Kendriya Bhandars, State Civil Supplies Corporations/Departments and other appropriate channels identified by the Department of Food and Public Distribution.

The responses of the concerned Ministries regarding monitoring were as follows:

a. MoCA, F & PD stated (August, 2011) that with regard to the monitoring mechanism, it received weekly reports from the designated importing agencies, indicating the quantities of pulses which were contracted for import, which had arrived at the ports, and which had been disposed-off/ supplied to the States.

They further stated (December 2011) that the delays in the sale of imported pulses by the designated importing agencies were discussed in meetings with the latter.

b. MoCI (June 2011) stated that monitoring of import of pulses was done on regular basis by seeking information from the PSUs on a weekly basis.

The MoCA, F & PD did not closely monitor the import and distribution of pulses so that they reached the intended beneficiaries. The recommendations of CCP/COS regarding monitoring were not adequately addressed, which resulted in non-achievement of the desired objectives of enhancing the availability and stabilising the prices of pulses.

9 Conclusion

Pulses are important food crops and have a significant impact on the nutritional and health status of the average Indian and therefore, their continued availability at affordable prices is desirable.

The retail prices of pulses increased at a much faster rate than the corresponding wholesale prices during the period 2006-11. This growing divergence between wholesale and retail prices pointed towards increasing control of the market by private traders. The divergence continued, despite the imports of pulses by designated agencies on Government account under two schemes viz. the 15 *per cent* subsidy scheme and the scheme for distribution of pulses through the Public Distribution System.

Audit found that the Ministry of CA, F & PD did not assess the requirement of pulses in the country in order to calculate the correct amounts needed to be imported. Targets for imports were, therefore, set without adequate data on domestic consumption of pulses. There were significant shortfalls by the importing agencies in the actual imports vis-a-vis the targets. Delays in clearance of imported pulses at the ports led to an avoidable expenditure of ₹ 42.71 crore upto March, 2011. These delays also had the effect of further delaying the arrival of imported pulses into the market, leading to failure in arresting their rising prices.

The Ministry of CA, F & PD failed to identify appropriate alternative channels for distribution of imported pulses and work out a detailed distribution strategy as mandated under the scheme. In the absence of a proper distribution plan, the importing agencies disposed off the pulses through the normal process of tendering. The tender conditions, with their high minimum bid quantities and earnest money deposits ensured that basically large private players, who were also major players in the pulses market, would submit the bids, thus restricting the channels of distribution of imported pulses and keeping most of the smaller parties out of the loop. The prices offered by the bidders were substantially lower than the import prices paid by the agencies as well as the prevailing wholesale prices, pointing towards possible cartelisation.

Pulses imported by the designated agencies were thus sold by them at substantial losses, after considerable delays. The pulses sold were not lifted by the private buyers on time, as a result of which, their availability in the market was restricted for long periods.

Import of yellow peas was resorted to by the Government in 2007 on the grounds that they were a reasonably good substitute for other types of pulses and their prices were comparatively lower. However, the imported peas found few takers in the domestic market and thus were sold by the agencies after considerable delays and heavy losses. The Government directed the agencies to continue importing the pulses in spite of the fact that the agencies had huge unsold stock balances. This showed flawed judgement and lack of co-ordination on the part of the Government.

The outcome of these deficiencies was a huge loss of ₹ 897.37 crore suffered in the import of yellow peas by the importing agencies which amounted to 75 *per cent* of the total loss of ₹ 1201.32 crore, suffered in the process of implementation of the 15 *per cent* subsidy scheme.

On the one hand, the Ministry of CA, F & PD expected the agencies to import pulses on the commercial principles while on the other hand, they were led by the Ministry into a situation where there was no escape from importing the pulses even if they incurred substantial losses. Thus the implementation of the 15 *per cent* subsidy scheme worked more in favour of large private traders than in favour of the common man.

The scheme for import and distribution of four lakh MT of pulses to BPL households through the PDS, introduced in November 2008 and extended up to 31 March 2012 with a subsidy limit of ₹ 400 crore was not fully successful. There were large shortfalls in imports and distribution of pulses as compared to the ad-hoc targets set by the Government, year after year. In many cases, the State/ UT Governments failed to intimate their requirements to the agencies for distribution to BPL households. Further, the meagre subsidy of ₹10 per kg for pulses would keep the prices at a higher level, beyond the reach of most BPL families and could also lead to diversion of the pulses to non-BPL households and the open market, thus depriving the intended beneficiaries.

Inadequate monitoring by the Ministry of Consumer Affairs, Food & Public Distribution led to failure in ensuring the proper distribution of imported pulses in the domestic market.

The Government should not set import targets on an ad-hoc basis. It should stipulate targets relative to the demands received from the State Governments and Union Territories. It should ensure that these demands are sent by the latter within a stipulated time frame.

The Government can consider increasing the rate of subsidy from the present rate of ₹10 per kg, so that the prices of the distributed pulses are within the reach of the BPL

households and preclude the possibility of diversion of the pulses to non-BPL households and the open market.

Imports represent only a limited solution for bridging the gap between demand and supply of commodities. In view of the size of the Indian market and also the lack of acceptance by Indian consumers of foreign pulses (particularly yellow peas), the Government should consider taking effective measures for increasing the production of pulses by increasing the yield through irrigation, provision of superior agricultural inputs and effective agricultural extension activities, as well as incentivizing increased coverage of areas under pulses through higher Minimum Support Prices and other associated measures.

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Place: New Delhi
Dated: December 2011

Countersigned

(Vinod Rai)
Comptroller and Auditor General of India

Place: New Delhi
Dated: December 2011