

Chapter - II

Operational Framework of Food grains Management

FCI is the main agency entrusted with storage management and movement of food grains from procuring and surplus states to deficit and consuming states for ultimate delivery to the consumers and for creation of buffer stock under national food security system. The above functions are performed by FCI under the operational framework established by the GOI which governs the food grains management strategy of the country. This involves procurement of food grains through price support operations, maintenance of buffer stock, food subsidy regime, and allocation and distribution of food grains to weaker and vulnerable sections of society at reasonable prices through Targeted Public Distribution System. Audit reviewed the existing operational framework, viz., procurement, maintenance of buffer stock, costing of food grains and food subsidy so as to highlight the extent it ensures efficient management of food grains of the Central Pool.

Audit findings are given in the succeeding paragraphs.

2.1 Procurement and allocation of food grains from the Central Pool

FCI along with State Governments and their agencies undertake direct open-ended purchase of wheat and paddy under the food grains procurement policy of the GOI at the prescribed specifications for the Central Pool, and at the MSP fixed by the GOI during each season. In addition, rice for the Central Pool is also procured through statutory levy imposed on rice millers as a percentage of levy rice fixed by State Governments. FCI also takes over from State Governments and their agencies wheat and rice obtained out of paddy in the form of Custom Milled Rice (CMR) procured by them on behalf of the GOI for the Central Pool.

The average production of wheat and rice in the country was 828 LMT and 964 LMT respectively (Table 1.1 and 1.2) during the period 2006-07 to 2011-12. Out of this, the total average mandi arrival during the same period was 231 LMT for wheat and 377 LMT for rice constituting around 28 *per cent* in case of wheat and 39 *per cent* for rice.

The total procurement of food grains for the Central Pool was 343 LMT in 2006-07 which increased substantially to 634 LMT during 2011-12. Procurement of food grains started increasing substantially from 2008-09 and the average procurement (586 LMT) during the period 2008-09 to 2011-12 increased to 32 *per cent* of the average production (1827 LMT) from 22 *per cent* during 2006-07 to 2007-08. For distribution of food grains under TPDS

and OWS, the GOI makes monthly allocation of food grains to the states and UTs on the basis of their average annual offtake of food grains from the Central Pool. The offtake of food grains by states and UTs against the aforesaid allocation ranged between 57 per cent and 86 per cent during the period 2006-07 to 2011-12.

Audit findings on procurement and allocation of food grains are discussed in succeeding paragraphs:

2.1.1 Gap in food grains procurement and allocation for the Central Pool

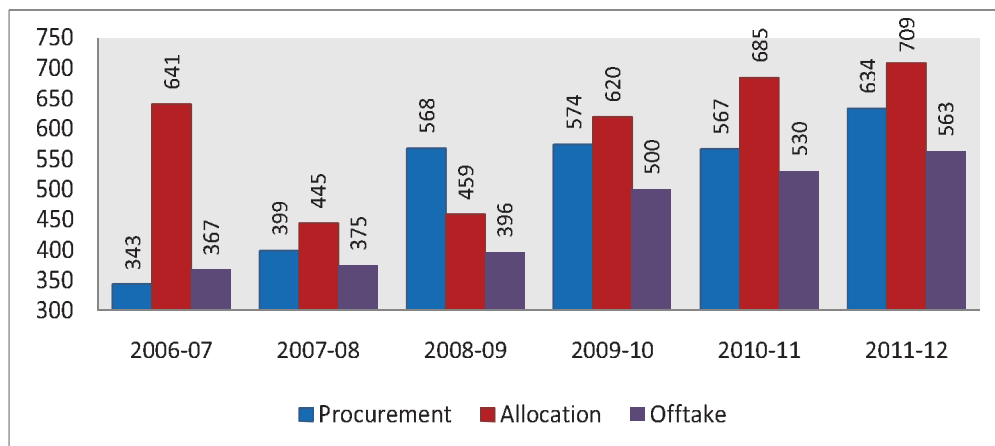
(a) Procurement and Allocation – Present status

Audit examined the present status of procurement and allocation and observed the following:

- The average food grains procurement of 514 LMT (Table 1.1 and 1.2) by various agencies for the Central Pool was lower than the average allocation of 593 LMT (Table 1.3) made by the GOI for TPDS, OWS, etc., during the period 2006-07 to 2011-12.
- The peak procurement level of 567 LMT in 2010-11 and 634 LMT in 2011-12 did not match the allocation level of 685 LMT and 709 LMT against the same period respectively.
- The offtake of food grains from the Central Pool was 500 LMT and 530 LMT as against the procurement level of 574 LMT and 567 LMT during 2009-10 and 2010-11 respectively. In 2011-12, the offtake of food grains was 563 LMT as against the total procurement level of 634 LMT.

The position of procurement, allocation and offtake during the period 2006-07 to 2011-12 is shown in the chart below:

Chart 2.1
Procurement, allocation and offtake of food grains (in LMT)



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

(b) Procurement and Allocation – Future projections

According to the estimates (March 2012) of the Ministry for the period from 2011-12 to 2016-17 (excluding the requirements for buffer and OMSS), the food grains requirement for TPDS and OWS for 2011-12 would be 607 LMT which will continue to increase to the level of 655 LMT by 2016-17 as depicted in the table below:

Table 2.1 – Projected requirement of food grains

(Figures in LMT)

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Projected requirement	607.40	615.50	625.00	634.70	644.60	654.60

Audit observed from the above that while the level of allocation (TPDS and OWS) during the last two years (2010-11 and 2011-12) had already reached 612 LMT to 657 LMT³, the estimated requirement of food grains from 2011-12 to 2016-17 has been assessed by the GOI only at 607 LMT to 655 LMT which may need a review by the GOI.

Further, while the total allocation had reached 620 LMT, 685 LMT and 709 LMT during 2009-10, 2010-11 and 2011-12 (Chart 2.1) respectively, but the procurement level was still in the order of 574 LMT, 567 LMT and 634 LMT correspondingly. It is evident that the current procurement level (634 LMT) would not be able to adequately meet the allocation and the future requirement of food grains estimated by the GOI.

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

During the exit conference (February 2012), while agreeing with the audit observations, the Management stated that in many of the states, no proper system of recording the mandi arrivals of food grains existed. Moreover, states also do not have proper mandis to facilitate the farmers to bring their produce and enhance procurement by FCI. Increase in mandi arrival of food grains is possible only by creation of mandi infrastructure by the states and by ensuring payment of MSP throughout the country. The Management further

³ Based on allocation figures provided by the Ministry

emphasised that above deficiencies in the present system need to be taken into consideration.

The Ministry in its reply stated (January 2013) that though the allocation of food grains during the years 2009-10 and 2010-11 was 620 LMT and 685 LMT but the lifting against the said allocation was only 500 LMT and 530 LMT respectively which is around 80 per cent and 77 per cent respectively. Taking the crop year wise procurement figures for the year 2011-12 (634 LMT) and 2012-13 (522 LMT upto 17.12.2012), the current level of procurement would be adequate to take care of the current level of offtake under TPDS and OWS.

The Ministry while agreeing with the need for increase in mandi arrival from the current level stated that the states were required to create adequate infrastructure in as many places as possible and with the increase in the mandi arrival, the concern of increased procurement would be taken care of.

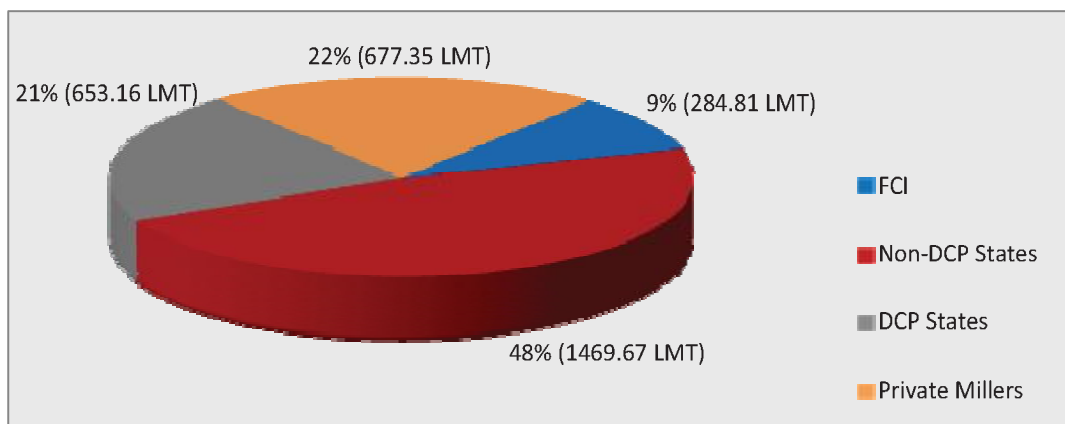
Audit, however, observed that with the increasing trend in offtake and in the projected requirement of food grains, the procurement level needs to increase sufficiently on a sustained basis to maintain availability of food grains for distribution under TPDS and OWS keeping in view the requirement for OMSS and buffer stock in the Central Pool.

2.1.2 Low level procurement by FCI and DCP states

Under the current procurement framework, FCI is primarily responsible for timely procurement of food grains for the Central Pool by providing price support to farmers in the form of MSP. At the same time, the GOI emphasised greater participation of State Governments through Decentralised Procurement Scheme (1997-98) to effect savings in the form of reduction in the outgo of food subsidy, enhancing the efficiency of procurement and PDS, and encouraging local procurement to the maximum extent thereby extending the benefits of MSP to local farmers.

Audit, however, observed that out of the total procurement of food grains for the Central Pool during the period 2006-07 to 2011-12, direct procurement of FCI and DCP states was only nine per cent and 21 per cent respectively and the remaining quantity of 70 per cent was procured by State Government agencies, private millers, etc. The level of direct procurement of food grains by FCI and DCP states in comparison with other agencies involved in procurement during the period 2006-07 to 2011-12 is shown in chart 2.2.

Chart 2.2
Procurement of food grains amongst FCI, Non-DCP states, DCP states and Private Millers

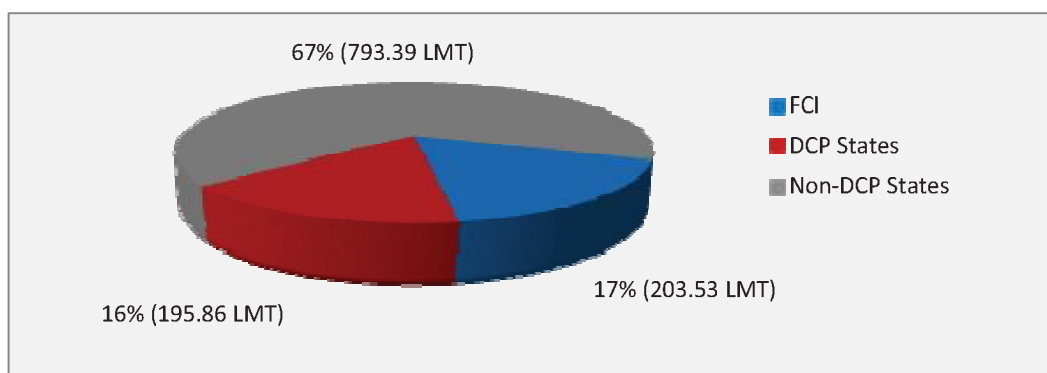


Audit further analysed the direct procurement of wheat and rice by FCI and the DCP states *vis-à-vis* non-DCP states and private rice millers under levy route and the observations are highlighted below:

(a) Procurement of wheat

Audit observed that direct procurement of wheat by FCI and DCP states was only 17 *per cent* and 16 *per cent* of the total procurement respectively whereas non-DCP states procured 67 *per cent* during the period 2006-07 to 2011-12. Despite increase in the overall procurement since last four years (2008-09 to 2011-12), the level of procurement by FCI had actually decreased from 52.88 LMT to 39.74 LMT. In DCP states, the procurement of wheat reduced from 57.16 LMT in 2009-10 to 33.76 LMT in 2010-11 and was 50.74 LMT in 2011-12. The position of procurement of wheat by FCI, DCP states and Non-DCP states during the period 2006-07 to 2011-12 is depicted in the chart below:

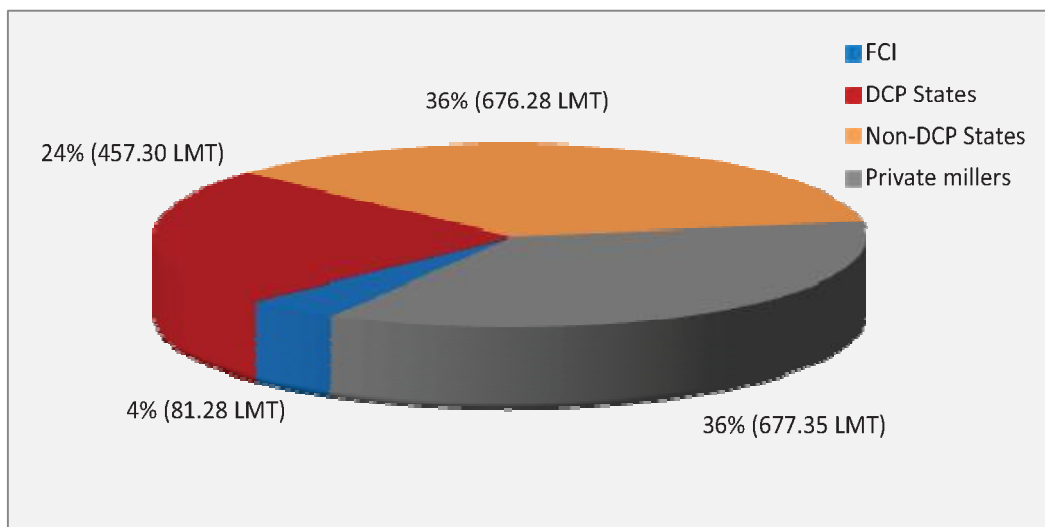
Chart 2.3
Procurement of wheat amongst FCI, DCP states and Non-DCP states



(b) Procurement of rice

Audit observed that FCI’s role in direct procurement of rice was limited to four *per cent* of the total procurement during the period 2006-07 to 2011-12. In the case of DCP states, the rice procurement was stagnant between at 80.60 LMT and 82.91 LMT during the period 2008-09 to 2010-11 but increased to 105.48 LMT in 2011-12. Procurement of rice by non-DCP states showed an increasing trend from 91.52 LMT in 2006-07 to 144.44 LMT in 2011-12. On the whole, the contribution of DCP and non-DCP states to the total procurement of rice during the six year period was 24 *per cent* and 36 *per cent* respectively. The remaining 36 *per cent* was procured through levy route from private rice millers. The position of procurement of rice through FCI, Non-DCP states, DCP states and Private Millers during the period 2006-07 to 2011-12 is depicted in the chart below:

Chart 2.4
Procurement of rice amongst FCI, Non-DCP states, DCP states and Private Millers



On the whole, it is evident from the above analysis that the role of FCI in direct procurement of wheat and rice was limited to nine *per cent* of the total procurement during the period 2006-07 to 2011-12 (Chart 2.2). In case of DCP states, there was no significant increase in the procurement level over the six year period. As such, DCP states contributed only 21 *per cent* of the total procurement of food grains for the Central Pool. Further, the contribution of DCP states to the total allocation of food grains made by the GOI under different schemes was between 17 *per cent* and 28 *per cent* during the period 2008-09 to 2011-12. This would require identification of reasons for specific gaps/constraints between potential and actual procurement for the Central Pool in 10 DCP states.

The Management stated (December 2011) that the major responsibility for procurement was undertaken by the State Governments and the number of procurement centres operated by FCI was much less than the procurement centres opened by State

Governments mainly due to inadequate staff to operate procurement centres. The Management further stated (July 2012) that the GOI was laying emphasis on larger role by the states and there was constant effort from the Ministry for increasing the number of states in the DCP mode of procurement and the need to augment procurement under DCP states was constantly being addressed by the GOI/FCI.

The Ministry in its reply stated (January 2013) that in case of wheat, the procurement by FCI had now increased alongwith the increase in procurement by Non-DCP and DCP states, as compared to procurement in Rabi Marketing Season 2010-11. The Ministry further stated that the emphasis had been on larger role by the states with augmentation of procurement under DCP model. The activity of the Corporation was being focussed more towards storage, preservation, movement and issue of food grains.

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

2.2 Deficiencies in maintaining buffer stock of food grains in the Central Pool

Food grains stock in the Central Pool consists of stock held by FCI, DCP states and the SGAs for both buffer and operational requirements. As per the policy, buffer stock is meant basically to serve as food security for emergency situations, uninterrupted supply during inter-seasonal scarcity and price stabilization in the market which should be maintained at all times. The GOI prescribes only minimum buffer norms for storage of food grains (wheat and rice separately) in the Central Pool at the beginning of each quarter. The present minimum norms of wheat and rice together of 250 LMT on 1 January, 212 LMT on 1 April and 1 October and 319 LMT on 1 July were fixed in April 2005.

Audit observed that the stock of rice in the Central Pool remained surplus over the minimum buffer norms in all quarters during the period 2006-07 to 2011-12 ranging between 1.77 LMT and 191.50 LMT except a shortfall of 3.25 LMT in 1 January 2008 to 31 March 2008. In respect of wheat, during quarters from April 2006 to January 2008, the stock fell below the norms between 4.88 LMT and 88.93 LMT. Since 1 April 2008, wheat stock increased above the norms ranging between 18.03 LMT and 174.26 LMT till the quarter of 1 April 2012.

Audit observed the following deficiencies in the buffer stock of food grains in the Central Pool:

2.2.1 Delay in revision of buffer norms

The Ministry fixes the buffer norms for each Five Year Plan to meet the prescribed minimum buffer stock for food security. For revision of buffer norms for XI Five Year Plan (April 2007 to March 2012), a study was entrusted (April 2006) to the 6th Technical Group under the Chairmanship of Secretary (Food and Public Distribution). This Group further assigned (April 2007) the study to the National Centre for Agricultural Economics and Policy Research (NCAP) which submitted (March 2009) its final report. The Technical Group, however, did not submit (November 2011) its recommendations for revision of buffer norms for XI Five Year Plan though due from 1 April 2007.

The Ministry stated (January 2013) that NCAP was asked to revise its recommendations in the context of National Food Security Bill which submitted its final report in September 2011. The Technical Group considered the report in July 2012 and requested the Planning Commission and FCI for further comments which had since been received and were being examined.

2.2.2 Minimum buffer norms not delineated

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

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

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

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

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

It is evident from the above that non-segregation of operational stock requirements from the minimum buffer norms is the reason for ambiguity in the buffer policy. Thus, operational stock for TPDS/ OWS and minimum buffer norms for all elements of food security should be prescribed separately to bring in transparency in creating and maintaining the buffer stock of food grains in the Central Pool.

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

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

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

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

import and export of food grains, etc., had already been entrusted to a single nodal agency, i.e. FCI.

While agreeing with the audit observations, the Ministry stated (January 2013) that FCI had taken on the accountability for maintenance of the mandatory minimum buffer stock of food grains in the Central Pool either through stocks holding in its own godowns or in the State Agencies godowns, including those in DCP mode.

Audit, however, is of the opinion that it would be appropriate if the Ministry follows up its reply to audit by specifying this aspect of single point accountability of buffer stock in the mandate of FCI.

2.3 Anomalies in acquisition cost of food grains

The acquisition cost of food grains for the Central Pool consists of MSP, and statutory and non-statutory charges imposed on procurement of food grains by various State Governments. The period of review witnessed a persistent increase in MSP every year. Increase in MSP has a direct bearing on statutory charges levied on purchase of food grains by different State Governments as these charges are fixed as a percentage of the MSP. This had contributed to the rise in acquisition cost of food grains which, in turn, had a wide impact on the quantum of food subsidy payout by the GOI.

Audit findings on the fixation procedure of MSP and incidence of statutory and non-statutory charges are given below:

2.3.1 Fixation of Minimum Support Price over the cost of production without specified norms

MSP is fixed by the GOI based on the rates recommended by the Commission for Agricultural Costs and Prices (CACP) which takes into consideration the cost of production and remunerative prices for the farmers. Audit observed that while determining the cost of production for each crop, CACP followed a set procedure. No specific norm was, however, followed for arriving and fixing of Minimum Support Price over the cost of production leading to large year on year variation. The difference of all India weighted average cost of production (C2) and the MSP fixed by the GOI during the period 2006-07 to 2011-12 was as under:

Table 2.2
Average weighted cost of production (C2 price) vis-à-vis MSP of wheat

Crop Year	C2 Price (₹/qtl.)	MSP (₹/qtl.)		Difference of MSP fixed over C2 (₹/qtl.)	Percentage of difference over C2
		CACP recommended MSP	Fixed by the GOI		
	(a)	(b)	(c)	(c-a)	
2006-07	542	650	650+50 @	158	29
2007-08	574	700	750+100@	276	48
2008-09	624	1,000	1,000	376	60
2009-10	649	1,080	1,080	431	66
2010-11	701	1,100	1,100	399	57
2011-12	826	1,120	1,120+50@	344	42

@ Additional incentive bonus

Table 2.3
Average weighted cost of production (C2 price) vis-a-vis MSP of paddy (Grade A)

Crop Year	C2 Price (₹/qtl.)	MSP (₹/qtl.)		Difference of MSP fixed over C2 (₹/qtl.)	Percentage of difference over C2
		CACP recommended MSP	Fixed by the GOI		
	(a)	(b)	(c)	(c-a)	
2006-07	569	600	610+40 @	81	14
2007-08	595	675	675+100 @	180	30
2008-09	619	1,050	880+50 @	311	50
2009-10	645	980	980+50@	385	60
2010-11	742	1,030	1,030	288	39
2011-12	888	1,110	1,110	222	25

@ Additional incentive bonus

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

The CACP, Department of Agriculture and Co-operation stated (August 2012) that while recommending MSP, it considered factors such as (i) cost of production, (ii) demand and supply, (iii) trends in market prices, (iv) parity between price paid and price received by farmers, (v) inter-crop price parity, and (vi) likely effect on industrial cost structure, cost of living and general price level. MSP being uniform throughout the country, the Commission had to arrive at an all-India weighted average cost as an input to price policy formulation. Since price policy was a resultant of informed judgment of various factors,

there could not be any mechanical formula of how much weight was to be given to each factor in the exercise of price policy formulation.

The Ministry endorsed (January 2013) the views of the CACP.

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

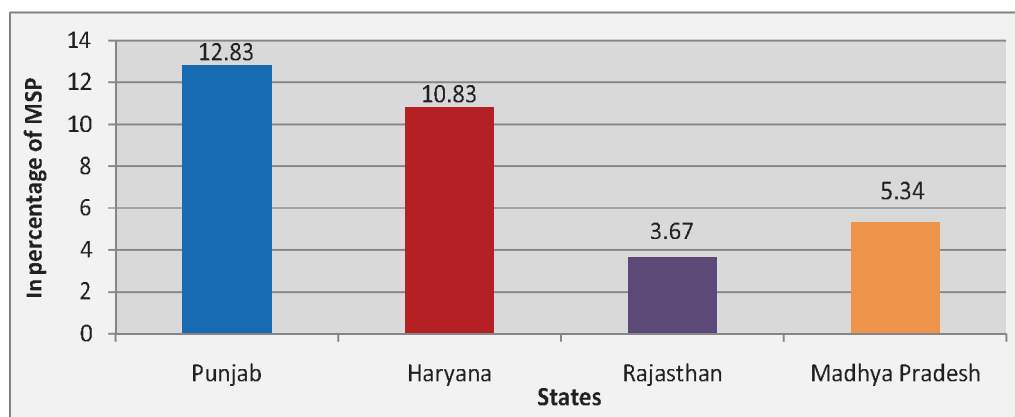
2.3.2 Lack of uniformity in statutory and non-statutory charges

Statutory charges include mandi charges (Market fee, Dami/Arhatia Commission, Rural Development Cess, Auction fee), purchase/trade tax and gunny costs. Statutory charges (except gunny cost) are levied by the State Governments as a fixed percentage of the MSP. Non-statutory charges include mandi labour, transportation costs, driage losses, custody and maintenance charges, interest and milling charges for paddy, etc. Audit observed a wide variation in the incidence of both the charges imposed by various State Governments as indicated below:

(i) Statutory charges

- Statutory charges in respect of wheat showed wide variation amongst different states. During the period 2006-07 to 2011-12, the average statutory charges of wheat in respect of Punjab (12.83 per cent) were approximately three times of statutory charges of Rajasthan (3.67 per cent) and more than two times of statutory charges of Madhya Pradesh (5.34 per cent). In Haryana, the average statutory charges of wheat (10.83 per cent) were approximately 2.5 times that of Rajasthan and two times that of Madhya Pradesh.

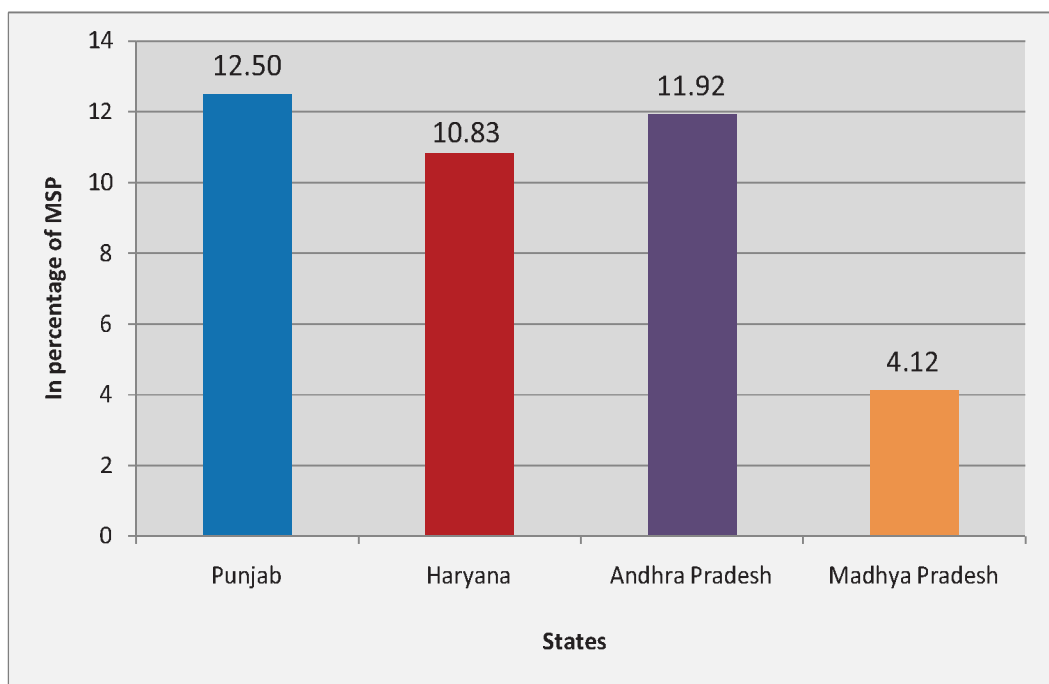
Chart 2.5
Average statutory charges for wheat



Source: Performance budget of FCI

- Similarly, in respect of paddy, higher incidence of such charges was noticed in Punjab, Haryana and Andhra Pradesh. The average statutory charges of paddy during the period 2006-07 to 2011-12 in respect of Punjab (12.50 *per cent*) were approximately three times of statutory charges levied in Madhya Pradesh (4.12 *per cent*). Statutory charges of Haryana (10.83 *per cent*) were approximately 2.5 times that of Madhya Pradesh. In respect of Andhra Pradesh, the statutory charges ranged between 11 *per cent* and 12.50 *per cent* with an average of 11.92 *per cent* during the six year period.

Chart 2.6
Average statutory charges for paddy



Source: Performance budget of FCI

The issue was highlighted in C&AG's Report No. 3 of 2011-12 of Union Government (Commercial) under Para No. 6.1.1, wherein Audit pointed out that there was higher incidence of statutory charges levied by the states of Andhra Pradesh, Haryana and Punjab, the main procuring states in comparison to the other states.

In the above report, a reference was also made to the issue commented in the C&AG's Report No. 16 of 2006, Union Government (Civil) Performance Audit and discussed by the Public Accounts Committee. In its action taken report, the Ministry stated that a study on principles to be adopted for fixation of procurement incidental charges was conducted by the Chief Adviser (Cost), Ministry of Finance which recommended (February 2010) that the GOI may continue to pursue the issue of reduction in statutory charges with the

respective State Governments. Comments of State Governments on the recommendations based on the study were still awaited.

The Management agreed (July 2012) with the audit observations that levying high statutory charges on procurement of food grains was causing additional burden on the exchequer.

The Ministry, while accepting the audit observations, stated (January 2013) that the issue of reduction in statutory charges based on the study conducted by Chief Advisor (Cost), Ministry of Finance was being pursued with the respective State Governments. It further stated that GOI had no control/authority on these charges.

(ii) Non-statutory charges

- Mandi labour charges ranged from ₹ 9.47 per quintal to ₹ 14.09 per quintal in respect of wheat in major procuring states (Punjab, Haryana, UP and MP) during the period 2006-07 to 2011-12. These charges, however, ranged from ₹ 4.69 per quintal to ₹ 9.41 per quintal in respect of Rajasthan during the same period. In respect of rice, the mandi labour charges in 2011-12 ranged from ₹ 11.05 per quintal to ₹ 13.32 per quintal in major rice procuring states (Punjab, Haryana and Andhra Pradesh) as compared to ₹ 6.39 per quintal in Madhya Pradesh.
- Transportation and handling charges ranged from ₹ 11.83 per quintal to ₹ 27.98 per quintal in respect of wheat in major procuring states (Punjab, Haryana, UP and MP) during the period 2006-07 to 2011-12. These charges, however, ranged from ₹ 11.56 per quintal to ₹ 17.97 per quintal in respect of Rajasthan during the same period.

The Management stated (December 2011) that some amount of variation in the various elements of cost incidentals was inevitable due to different practices, viz., geographic spread, different labour and transportation rates, etc., but recommended to the GOI that significant variations across the states needed review before finalizing the costing sheet for wheat, rice and coarse grains.

The Ministry stated (January 2013) that non-statutory charges were considered as reimbursement of actual expenditure incurred by various State Governments. The actual expenditure depended upon various local factors such as labour, transportation, storage facilities, quantum of procurement, milling charges, etc. Thus, non-statutory charges incurred by one state might not logically be the same as that incurred by the other.

Audit, however, observed that there were wide inter-state variations both in statutory and non-statutory charges being charged by State Governments. In the prominent procuring states such as Punjab, Haryana and Andhra Pradesh, the statutory charges for rice (paddy) ranged between 12.50 per cent and 14.50 per cent of the MSP as compared to 4.70 per

cent prevailing in Madhya Pradesh during 2011-12. Similarly, in case of non-statutory charges, mandi labour charges for wheat in Punjab, Haryana and Uttar Pradesh ranged between ₹ 10.91 per quintal to ₹ 14.09 per quintal as compared to ₹ 9.41 per quintal in Rajasthan during 2011-12. Meaningful reduction in acquisition cost of food grains could take place only if increasing economic cost (MSP, post-procurement expenses and distribution costs) due to high statutory and non-statutory charges could be rationalised.

2.3.3 Impact of MSP and procurement incidentals on acquisition cost of food grains

Audit observed that persistent increase in MSP, payment of bonus and statutory levies imposed by State Governments have contributed to substantial rise in acquisition cost of food grains as indicated below:

- The MSP (including bonus) for wheat had risen from ₹ 700 per quintal in 2006-07 to ₹ 1,170 per quintal (67 *per cent* increase) in 2011-12 whereas MSP for rice (paddy) rose from ₹ 650 per quintal in 2006-07 to ₹ 1,110 per quintal (71 *per cent* increase) in 2011-12. Additional amount of ₹ 13,715 crore was also incurred due to payment of bonus over and above the MSP during the period 2006-07 to 2011-12.
- Statutory charges for wheat remained in the range of 12.03 *per cent* to 13.52 *per cent* of the total acquisition cost. In case of rice, these charges ranged between 11.13 *per cent* and 13.50 *per cent*. The quantum of statutory charges incurred by FCI increased from ₹ 122.81 per quintal for wheat and ₹ 136.17 per quintal for rice in 2006-07 to ₹ 180.52 per quintal for wheat (increased by 47 *per cent*) and ₹ 251.38 per quintal for rice (increased by 85 *per cent*) in 2011-12.
- Non-statutory charges remained in the range of 3.09 *per cent* and 6.31 *per cent* for wheat and 5.01 *per cent* and 5.71 *per cent* for rice of the total acquisition cost from 2006-07 to 2011-12. Non-statutory charges increased by 60 *per cent* from ₹ 61.65 per quintal in 2006-07 to ₹ 98.62 per quintal in 2011-12 in case of rice.

Thus, it is evident from the above that increase in MSP with resultant increase in statutory charges and the non-statutory charges pushed up the acquisition cost from ₹ 908.42 per quintal for wheat and ₹ 1,101.60 per quintal for rice in 2006-07 to ₹ 1,354.86 per quintal for wheat and ₹ 1,862.20 per quintal for rice in 2011-12 accounting for 49 *per cent* increase in case of wheat and 69 *per cent* increase in case of rice.

Audit observed that as increase in MSP from year to year, announcement of bonus and procurement incidentals imposed by State Governments had a wide impact on the quantum of food subsidy paid out of the Consolidated Fund of India, the GOI needs to consider rationalising the cost structure for meaningful reduction in acquisition cost of food grains.

2.4 Food subsidy claims of FCI

The GOI provides food subsidy to FCI for procurement, distribution of food grains and for maintaining buffer stock as a measure of food security. In addition, the GOI also passes on food subsidy to the states under DCP scheme which undertake direct purchases and distribution of food grains under TPDS on behalf of the GOI. The total food subsidy released by GOI during the period 2006-07 to 2011-12 was as under:

Table 2.4
Subsidy released by the GOI on food grains

Year	₹ in crore			Annual Growth (in percentage)
	FCI	States	Total	
2006-07	20,786	3,042	23,828	-
2007-08	27,760	3,500	31,260	31.19
2008-09	36,744	6,924	43,668	39.69
2009-10	46,867	11,375	58,242	33.37
2010-11	50,730	12,200	62,930	8.05
2011-12	59,526	12,845	72,371	15.00

Source: Department of Food and Public Distribution

2.4.1 Pending subsidy claims of FCI

Food subsidy has two components (i) consumer subsidy, being the difference between the economic cost and the central issue price, and (ii) buffer subsidy, which includes carrying cost of buffer and carry over charges paid to SGAs by FCI for food grains kept by them beyond a prescribed date. The table below indicates details of consumer subsidy and buffer subsidy during the period 2006-07 to 2011-12:

Table 2.5
Details of consumer and buffer subsidy

(₹ in crore)

Items	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
(1)Acquisition cost of Sales	32,681	38,279	40,215	52,904	65,623	76,415
(2)Distribution cost	8,945	9,000	8,051	7,019	9,481	11,788
Economic Cost (1+2)	41,626	47,279	48,266	59,923	75,104	88,203
(3) Less: Sales realization	18,207	17,930	17,024	22,902	25,045	26,145
(A)Consumer subsidy	23,419	29,359	31,242	37,021	50,059	62,058
4) Carrying cost of buffer	434	449	3,019	4,186	4,356	5,004
5) Carry over charges paid to SGAs	175	243	527	1,666	1,981	1,635
(B) Buffer subsidy (4+5)	609	692	3,546	5,852	6,337	6,639
(C) Unregularised losses for the year	0	0	58	98	209	266
(D) Earlier years' losses regularised	88	17	21	66	103	178
Total food subsidy (A+B-C+D)	24,116	30,068	34,751	42,841	56,290	68,609
Outstanding subsidy claims as on 31.03.2012	-	-	-	147	11,148	12,132

Audit observed from above that food subsidy claims of FCI to the tune of ₹ 23,427 crore were pending from the GOI at the end of 2011-12. Out of these, ₹ 147 crore pertained to the year 2009-10, ₹ 11,148 crore to the year 2010-11 and the remaining amount of ₹ 12,132 crore pertained to 2011-12.

In addition, there were unregularised storage and transit shortages of ₹ 379.58 crore pertaining to the period 1980-81 to 2011-12 for which claims have not been made by FCI to the GOI.

Audit recommendations and responses of the Ministry

Sl. No.	Recommendations of Audit	Ministry's replies
1	The GOI/FCI should take necessary steps to augment procurement of food grains and also increase direct procurement by FCI and DCP states in view of increasing requirement for Targeted Public Distribution System and Other Welfare Schemes.	Partly accepted. In order to provide efficient and expansive price support coverage to farmers, the policy of the Ministry is to encourage states to undertake procurement in decentralised mode. FCI will continue to provide necessary guidelines and support to states in augmenting procurement.
2	The GOI may consider fixing minimum buffer norm together with component wise quantities of food grains for example, for food security reserve, emergency situations and price stabilization, etc. The GOI should also consider fixing maximum level of buffer norms with a view to bring in greater certainty in management of food stock of the Central Pool.	Partially accepted. Government will shortly revise the minimum buffer norms but fixing maximum level of buffer norms is not practical at present. Decision to off load the excess stock will have to be taken on year to year basis looking into situation at that time.
3	The GOI may entrust responsibility of ensuring maintenance of food grains stock, handled by various agencies, at the level prescribed under buffer norms for single point accountability.	Accepted. FCI is already vested with the responsibility.
4	The GOI should expedite rationalisation of the cost structure of food grains in the context of levy of statutory and non-statutory charges imposed by different states in view of heavy subsidy payout.	Accepted.