

# Chapter - I

## Introduction

### 1.1 Functions and objectives of FCI

The Food Corporation of India (FCI) was incorporated under the Food Corporation Act, 1964 with the function of undertaking purchase, storage, movement, transportation, distribution and sale of food grains on behalf of the Government of India (GOI). It is an agency under the administrative supervision and control of the Ministry of Consumer Affairs, Food and Public Distribution, Department of Food and Public Distribution (Ministry) which is responsible for implementation of the national food security system. FCI also aims at fulfilling the following objectives:

- (i) providing price support operations through procurement for safeguarding the interests of the farmers;
- (ii) making food grains available and accessible at reasonable price to weaker and vulnerable sections of society through Targeted Public Distribution System (TPDS)<sup>1</sup> and other government schemes through efficient and cost effective movement, and distribution of food grains throughout the country; and
- (iii) maintaining satisfactory level of operational and buffer stocks of food grains to ensure national food security and to carry out price stabilisation operations.

### 1.2 Organisational set-up

The affairs of FCI are managed by a Board of Directors headed by Chairman & Managing Director alongwith two Directors representing Ministry of Consumer Affairs, Food and Public Distribution, one Director from Ministry of Agriculture & Co-operation, one *ex-officio* Director (Managing Director of Central Warehousing Corporation) and two non-official Directors. All the Directors are appointed by the Central Government. As against the provisions of the Act of having 12 Directors in the Board, the present FCI Board

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<sup>1</sup> *Public Distribution System (PDS) is a food security system in India through which subsidies for food and non food items are distributed to the poor. PDS functions through a network of 4.89 lakh Fair Price Shops established in several states across the country. Till 1992, PDS was covering all consumers without specific target. PDS was re-launched in 1997 as Targeted Public Distribution System (TPDS) with focus on the poor.*

consists of only seven Directors. Its functions are managed through country-wide network of offices with headquarters at New Delhi with five Zonal offices, 24 Regional offices, 168 District offices and one Port office at Adipur (Kutch), Gujarat.

### 1.3 Structure of food grains management

A national food security system of the GOI is operated under an operational framework involving procurement of food grains through price support operations by fixing Minimum Support Price (MSP), maintenance of buffer stocks, food subsidy regime, and allocation and distribution of food grains to weaker and vulnerable sections of society through TPDS. Timely and efficient procurement and building up of adequate buffer stocks in the Central Pool through efficient storage and movement of food grains are central to the food security strategy of the GOI. Storage management and movement of food grains, therefore, are important links in the whole system from procurement to distribution of food grains to the consumers.

Procurement of food grains for the Central Pool is carried out by agencies such as FCI, State Government Agencies (SGAs) and private rice millers. In addition, 10 states/UT<sup>2</sup> which are presently under Decentralised Procurement (DCP) scheme also procure food grains for the Central Pool but directly store and distribute under TPDS and Other Welfare Schemes (OWS) based on the allocation made by the GOI. Any surplus stock over their requirement is taken over by FCI and in case of any shortfall in procurement against allocation made by the GOI, FCI meets the deficit out of the Central Pool.

The procured food grains are taken over into the Central Pool by FCI, the only government agency entrusted with movement activities, from SGAs and private rice millers and are moved from the procuring states to the consuming states for distribution to the consumers and for creation of buffer stock in various states. Food grains of the Central Pool are stored by FCI in both its owned capacity and hired godowns in different parts of the country. The function of distribution of food grains to the consumers is carried out by the State Governments through TPDS and OWS. The food grains are also disposed of by FCI and State Governments based on allocation of the GOI through sale under Open Market Sales Scheme (OMSS).

### 1.4 Procurement of food grains for the Central Pool

Under the existing procurement policy of the GOI, food grains for the Central Pool are procured by various agencies such as FCI, State Government Agencies (SGAs) and private rice millers. Procurement of wheat and paddy for the Central Pool is carried out on open

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<sup>2</sup> West Bengal, Madhya Pradesh, Chhattisgarh, Uttarakhand, Andaman and Nicobar Islands, Odisha, Tamil Nadu, Gujarat, Karnataka and Kerala.

ended basis at MSP fixed by the GOI. In addition, rice is also procured by FCI from private rice millers under statutory levy scheme through price support mechanism.

Procurement of rice for the Central Pool is undertaken through two routes, namely, Custom Milled Rice (CMR) and levy rice. Rice obtained out of paddy procured for the Central Pool by SGAs under price support system is known as CMR. Rice purchased by FCI from private rice millers against paddy procured by them at MSP under levy orders issued by respective State Governments at state-wise levy prices fixed by the GOI is known as levy rice.

Paddy and wheat procured by the State Governments falling under DCP scheme are also part of the Central Pool. Under this scheme, the DCP states procure, store and directly distribute food grains including levy rice towards TPDS and OWS. Any surplus stock over their requirements are taken over by FCI for the Central Pool and in case of any shortfall in procurement against allocation made by the GOI for distribution to TPDS, FCI meets the deficit out of the Central Pool.

The production, mandi arrival and procurement of food grains (wheat and rice) during 2006-07 to 2011-12 are given below:

**Table 1.1**  
**Production, mandi arrival and procurement of wheat in lakh metric tonne (LMT)**

Crop year	Production	Mandi arrival	Procurement			Percent of mandi arrival to production	
			FCI	State Government Agencies			Total
				Non-DCP states	DCP states		
2006-07	758.10	137.01	13.43	78.39	0.49	92.31	18
2007-08	785.70	154.30	15.41	89.88	5.99	111.28	20
2008-09	806.80	244.13	52.88	126.29	47.72	226.89	30
2009-10	808.00	268.58	47.88	148.78	57.16	253.82	33
2010-11	868.74	259.47	34.19	157.18	33.76	225.13	30
2011-12	939.03	324.62	39.74	192.87	50.74	283.35	35
<b>Total</b>	<b>4966.37</b>	<b>1388.11</b>	<b>203.53</b>	<b>793.39</b>	<b>195.86</b>	<b>1192.78</b>	<b>28</b>

Source: FCI Procurement Division

**Table 1.2**  
**Production, mandi arrival and procurement of paddy (in terms of rice)**

(Figures in LMT)

Crop year	Production	Mandi arrival	Procurement					Percent of mandi arrival to production
			FCI	State Government Agencies		Levy	Total	
				Non-DCP states	DCP states			
2006-07	933.50	301.05	18.51	91.52	48.71	92.32	251.06	32
2007-08	966.92	311.42	18.45	88.00	58.79	122.13	287.37	32
2008-09	991.82	382.32	18.51	105.37	80.60	136.56	341.04	39
2009-10	890.93	346.24	9.88	114.91	82.91	112.64	320.34	39
2010-11	959.80	363.80	13.09	132.04	80.81	116.05	341.99	38
2011-12	1043.22	560.12	2.84	144.44	105.48	97.65	350.41	54
<b>Total</b>	<b>5786.19</b>	<b>2264.95</b>	<b>81.28</b>	<b>676.28</b>	<b>457.30</b>	<b>677.35</b>	<b>1892.21</b>	<b>39</b>

Source: FCI Procurement Division

## 1.5 Allocation and offtake of food grains

The GOI makes allocation of food grains from the Central Pool to the State Governments for distribution to the consumers through TPDS and OWS. Allocation of food grains for TPDS is made by the GOI for Below Poverty Line (BPL), Antyodaya Anna Yojana (AAY) and Above Poverty Line (APL) on the basis of 1993-94 poverty estimates of the Planning Commission projected on the population estimates of Registrar General of India as on 1 March 2000 or the number of families actually identified and ration cards issued by the State Governments. Allocation for APL category is made depending upon the availability of stock of food grains in the Central Pool. The overall allocation of food grains to the states and UTs was normally made on the basis of their average annual offtake of food grains from the Central Pool.

Based on the allocation made by the GOI, State Governments lift (offtake) the food grains from the Central Pool for distribution to the consumers through TPDS and OWS. Distribution of food grains for BPL, AAY and APL is carried out by the State Governments through TPDS with a network of around 4.89 lakh Fair Price Shops (FPS) throughout the country. The State Governments are responsible for identification of beneficiaries and issue of ration cards. The GOI introduced (October 1993) Open Market Sale Scheme (OMSS) for disposal of food grains through sale in open market with a view to containing inflationary tendencies and generating storage space in the states.

The allocation and offtake under TPDS, OWS, OMSS, etc., for the period 2006-07 to 2011-12 was as under:

**Table 1.3**  
**Scheme-wise allocation and offtake of food grains**

(Figures in LMT)

Year	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
Schemes	Wheat											
	A	O	A	O	A	O	A	O	A	O	A	O
TPDS	145.74	102.59	118.74	105.68	144.42	96.63	213.33	139.37	222.38	173.08	259.97	187.52
OWS	15.68	13.32	19.05	14.12	15.75	11.19	53.99	17.21	46.75	24.98	29.75	19.60
OMSS(D)	3.90	1.02	0.00	0.09	23.78	12.34	46.52	16.41	52.70	11.55	35.05	11.85
EXPORT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.98
DCP		1.82		2.58		28.70		50.88		21.08		22.73
Sub.Total	165.32	118.75	137.79	122.47	183.95	148.86	313.84	223.87	321.83	230.69	324.77	242.68
Percentage of offtake to allocation		72		89		81		71		72		75
Year	2006-07		2007-08		2008-09		2009-10		2010-11		2011-12	
Schemes	Rice											
	A	O	A	O	A	O	A	O	A	O	A	O
TPDS	434.00	160.19	272.75	175.41	236.63	160.51	240.71	158.41	284.18	187.65	323.26	225.58
OWS	41.82	38.52	34.12	29.13	38.07	25.45	55.24	34.49	58.83	33.24	44.24	27.88
OMSS(D)	0.00	0.01	0.00	0.08	0.00	0.09	10.28	5.17	20.02	1.68	16.70	0.18
EXPORT	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DCP		49.81		47.51		60.69		78.34		77.08		66.90
Sub.Total	475.82	248.53	306.87	252.13	274.70	246.74	306.23	276.41	363.03	299.65	384.20	320.54
Percentage of offtake to allocation		52		82		90		90		83		83
Grand Total	641.14	367.28	444.66	374.60	458.65	395.60	620.07	500.28	684.86	530.34	708.97	563.22

Source: FCI Sales Division  
(A – Allocation, O – Offtake)

## 1.6 Minimum Support Price and Central Issue Price

MSP is fixed by the GOI based on rates recommended by the Commission for Agricultural Costs and Prices (CACP) which takes into consideration cost of cultivation and remunerative prices for farmers on their produce with a view to encouraging higher investment and production. While determining MSP, the CACP considers the cost of production, trends in domestic and international market prices, stock position, changes in agricultural terms of trade, inter-crop price parity, prices fixed in previous years, etc. The prices recommended by the CACP are considered by the Cabinet Committee for Economic Affairs (CCEA) for approval.

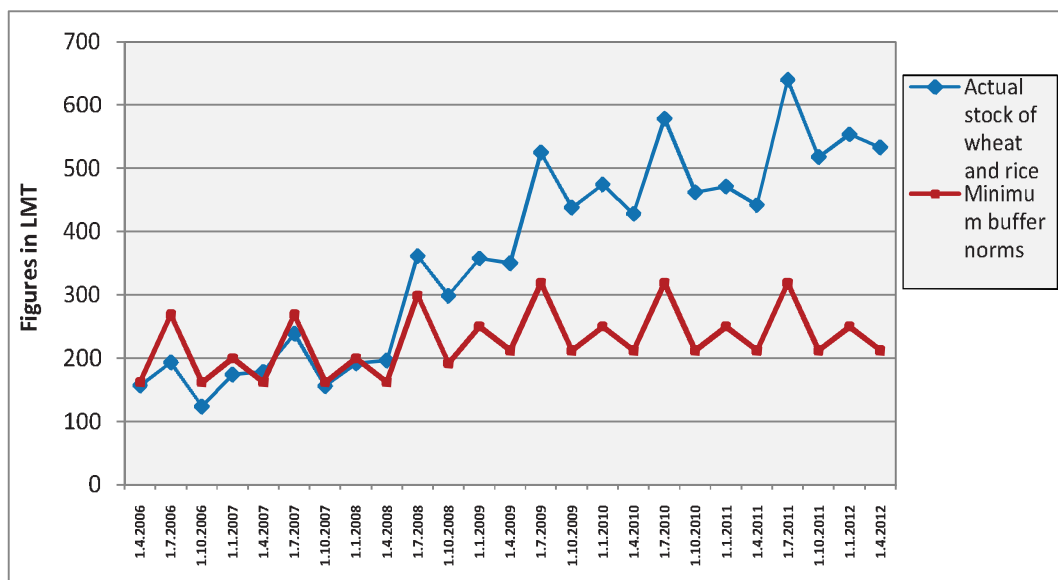
Food grains from the Central Pool are issued to states at Central Issue Price (CIP) for distribution under TPDS to serve families of BPL, APL and AAY at rates fixed by the GOI. The scale of issue under APL, BPL and AAY was revised to 35 kg per family per month since 1 April 2002. The CIP of AAY has been kept constant at ₹ 3 per kg for rice and ₹ 2 per kg for wheat since December 2000. For BPL, the CIP has been ₹ 5.65 per kg and ₹ 4.15 per kg for rice and wheat respectively since July 2000. In respect of APL, the CIP of rice for Common and Grade 'A' varieties was ₹ 7.95 per kg and ₹ 8.30 per kg respectively and for wheat was ₹ 6.10 per kg since July 2002.

## 1.7 Food stock in the Central Pool and buffer stock norms

The concept of buffer stock was first introduced during the IV Five Year Plan (1969-74). The buffer stock figures are normally reviewed after every five year. Buffer stock of food grains in the Central Pool is maintained by the GOI for (i) meeting the prescribed minimum buffer stock norms for food security, (ii) monthly release of food grains for supply through TPDS and OWS, (iii) meeting emergency situations arising out of unexpected crop failure, natural disasters, etc., and (iv) price stabilisation or market intervention to augment supply so as to help moderate the open market prices. Food grains stock in the Central Pool consists of stock held by FCI, DCP states and the SGAs for both buffer and operational requirements. While four months requirement of food grains for issue under TPDS and OWS are earmarked as operational stocks, the surplus over that is treated as buffer stock and physically both buffer and operational stocks are merged into one and are not distinguishable.

The existing buffer norms were fixed during the X Plan (2002-07) and revision for the XI Plan (2007-12) is under process. The GOI created food security reserve of 50 LMT which includes 30 LMT of wheat w.e.f. 1 July 2008 and 20 LMT of rice w.e.f. 1 January 2009 over and above the existing quarterly buffer norms. The stock position of food grains in the Central Pool vis-à-vis minimum buffer norms during the period 2006-07 to 2011-12 was as depicted below (*Annex-II*).

**Chart 1.1**  
**Stock position of food grains in the Central Pool vis-a-vis minimum buffer norms**



## 1.8 Food subsidy

The difference between the economic cost (acquisition cost including incidental expenses, administrative overheads, handlings, shortages, etc.) and sales realization at CIP under TPDS and OWS for wheat and rice is reimbursed to FCI and DCP states as food subsidy by the GOI. In addition, food subsidy also includes buffer subsidy for carrying cost of buffer stock maintained by FCI and carry over charges paid to SGAs for stocks held by them beyond the prescribed time frame.

Out of the total subsidy (Food, Fertilisers, Petroleum, etc.) expenditure of the GOI, food subsidy (which includes operation of levy sugar, edible oils, etc.) constituted 33.42 *per cent* to 45.05 *per cent* during the period 2006-07 to 2011-12. The percentage of food subsidy to total expenditure (plan and non-plan) was between 3.30 *per cent* and 4.98 *per cent*. The total subsidy to total expenditure ranged from 7.95 *per cent* to 14.69 *per cent* during the six year period as shown below:

**Table 1.4**  
**Food subsidy, total subsidy and total expenditure**

(₹ in crore)

Particulars	Year					
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*
Total Food subsidy	24,014	31,328	43,751	58,443	63,844	72,822
Other Subsidies	33,815	39,598	85,957	71,279	1,13,903	1,45,080
Total subsidy	57,829	70,926	1,29,708	1,29,722	1,77,747	2,17,902
Total expenditure (plan and non-plan)	7,27,552	8,63,575	11,02,366	11,74,280	13,67,427	14,83,064
Percentage of food subsidy to total subsidy	41.53	44.17	33.73	45.05	35.92	33.42
Percentage of food subsidy to total expenditure	3.30	3.63	3.97	4.98	4.67	4.91
Percentage of total subsidy to total expenditure	7.95	8.21	11.77	11.05	13.00	14.69

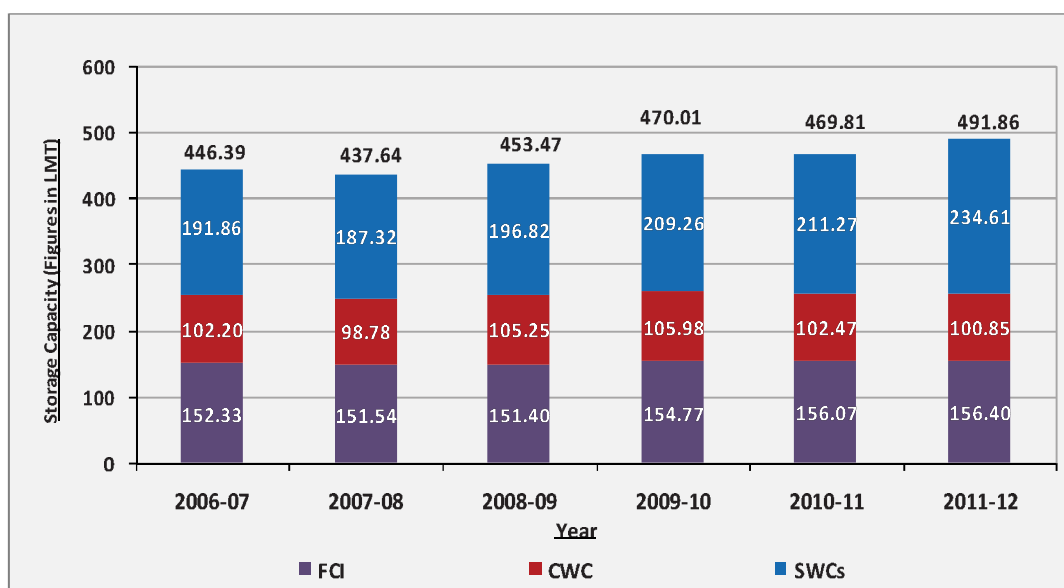
Source: Union Accounts

\*Provisional figures

## 1.9 Storage of food grains

Storage capacities available with Government agencies both at the central and the state level are primarily used for keeping the Central Pool stock of food grains for the TPDS and OWS. The total storage capacity with FCI, Central Warehousing Corporation (CWC) and State Warehousing Corporations (SWCs) during the period 2006-07 to 2011-12 is given below:

**Chart 1.2**  
**Storage capacity with FCI, CWC and SWCs**





## 1.10 Movement of food grains

FCI is the only agency entrusted with the movement of the Central Pool food grains from procuring and surplus states to deficit and consuming states for TPDS and OWS and for creation of buffer stock in various states under national food security system. Movement of food grains from the Central Pool stock held by different agencies in the procuring states is carried out by FCI through rail, road and river transportation system across the country. The overall movement (inter-state) during the period 2006-07 to 2011-12 was as under:

**Table 1.5**  
**Movement of food grains by rail, road and river**

(Figures in LMT)

Particulars		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Overall Movement</b>	<b>Rail</b>	203.25	203.98	204.60	249.18	279.65	303.23
	<b>Road</b>	18.45	17.81	20.57	26.65	25.64	24.54
	<b>Riverine</b>	0	0	0	0	0	0
	<b>Total</b>	<b>221.70</b>	<b>221.79</b>	<b>225.17</b>	<b>275.83</b>	<b>305.29</b>	<b>327.77</b>
<b>Movement Ex-north</b>	<b>Inter</b>	175.02	178.09	167.37	188.54	221.23	201.01
	<b>Intra</b>	1.58	1.94	2.14	0.81	3.32	7.49
	<b>Total</b>	<b>176.60</b>	<b>180.03</b>	<b>169.51</b>	<b>189.35</b>	<b>224.55</b>	<b>208.50</b>

Source: Monthly Performance Review Report of FCI

## 1.11 Rationale of audit

Procurement of food grains increased from 343.37 LMT in 2006-07 to 567.12 LMT in 2010-11 and reached 633.76 LMT in 2011-12. The stock of food grains in the Central Pool increased from 259.27 LMT as on 1 June 2007 to 655.95 LMT as on 1 June 2011, which further increased to 824.11 LMT as on 1 June 2012. Such a sharp increase in stock of food grains, in turn, necessitated augmentation of the existing storage space and caused greater movement of food grains. The storage capacity owned and hired by FCI, however, increased marginally from 252.07 LMT in 2006-07 to 316.10 LMT in 2010-11 which further increased to 336.04 LMT in 2011-12. Considering the widening gap between the stock of food grains and the available storage capacity and the constraints being faced by FCI in movement of food grains, Audit decided to examine the storage management and movement of food grains in FCI.

### 1.12 Audit objectives

The performance audit was conducted to assess whether:

- the system of procurement, price support operation, buffer stock maintenance and storage management were adequate to ensure efficient management of food grains for food security in the country;
- storage capacity was utilised to the optimum level;
- the GOI/FCI had created or augmented storage capacity commensurate with the envisaged and long-term requirement for storage of food grains;
- movement of food grains in FCI was carried out in the most efficient manner; and
- internal audit arrangements in FCI were adequate.

### 1.13 Scope of audit

The Performance Audit covers the activities of FCI and the Ministry from 2006-07 to 2011-12. Detailed data relating to procurement, storage and movement of food grains, and internal control for the period 2006-07 to 2010-11 were examined and analysed in Audit. This was updated with the statistics for the year 2011-12.

Based on a preliminary study and collection of background information, a random sample of units to be examined in audit was drawn. Besides review of relevant records at the Ministry, FCI Annual Accounts as well as other Management Information System at headquarters of FCI, the sample consisted of regional offices, district offices and depots of FCI were analysed. In addition, storage of food grains in godowns of SGAs and the CWC were also selected for detailed examination as indicated in *Annex-III*.

### 1.14 Audit criteria

The performance was assessed against the criteria drawn from the following:

- Policies and norms prescribed by the Ministry and FCI headquarters for procurement pricing, buffer stock and subsidy claims.
- Operational manuals for storage, movement, quality control and internal audit.
- Orders and instructions issued by the Ministry and FCI for storage management and capacity utilization, storage and transit losses and movement of food grains.
- The policies of the Ministry and FCI on construction and augmentation of storage capacity.
- Performance budget, financial and operational targets set for FCI.

### 1.15 Audit methodology

After a preliminary study and collection of background information, an entry conference with FCI management was held on 2 June 2011 wherein the scope, objectives and

methodology of audit were discussed and the criteria were agreed upon. Field audit was conducted during June 2011 to November 2011 involving examination of records at selected regional and district offices and the depots of FCI along with the selected depots of CWC and SWCs and the SGAs of Punjab and Haryana. Thereafter, records at the FCI headquarters and the Ministry were examined and verified during December 2011 and from August 2012 to October 2012. The draft Report was issued to the Ministry on 5 December 2012. The replies of the Ministry were received on 15 January 2013. An exit conference with the Ministry was held on 22 January 2013 wherein the recommendation-wise replies were sought from the Ministry. The replies/views of the Ministry on the Audit recommendations were received on 24 January 2013.

Replies/views of the Management and the Ministry have been appropriately incorporated in the Report.

### 1.16 Past audit coverage

The issues relating to the performance of FCI were earlier reviewed in various C&AG's Audit Reports and are given in *Annex-IV*. In 14 out of 19 cases, remedial actions are yet to be taken or actions are yet to be completed. In the remaining cases, no further action is required at present.

### 1.17 Audit findings

Audit findings are discussed in subsequent chapters as detailed below:

- Chapter II includes the analysis of operational framework of food grains management.
- Chapter III deals with storage management, utilization and augmentation of storage capacity.
- Chapter IV discusses issues relating to planning and movement of food grains for distribution to consumers.
- Chapter V highlights inadequacies in the internal audit and physical verification.

### 1.18 Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Ministry of Consumer Affairs, Food and Public Distribution and the Management of FCI at various stages of the performance audit. Audit expresses its appreciation for the promptitude displayed by the Ministry in offering its specific replies to the observations and recommendations made by Audit in the Report.