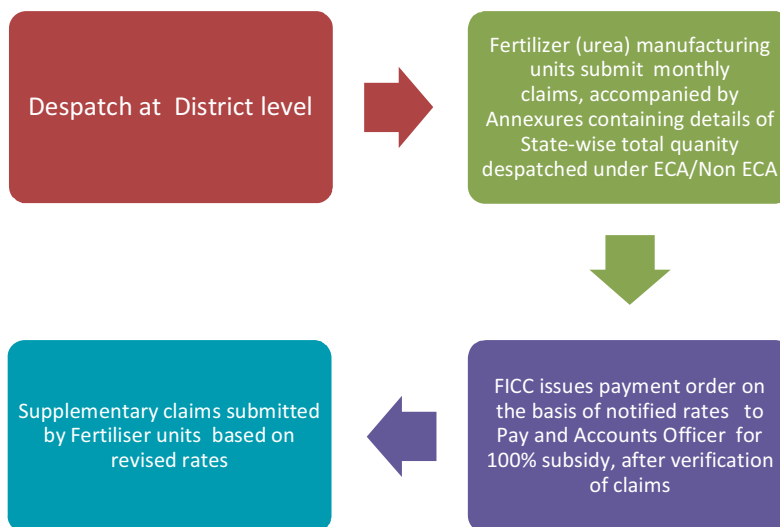


## 6 - Payment of Subsidy Claims

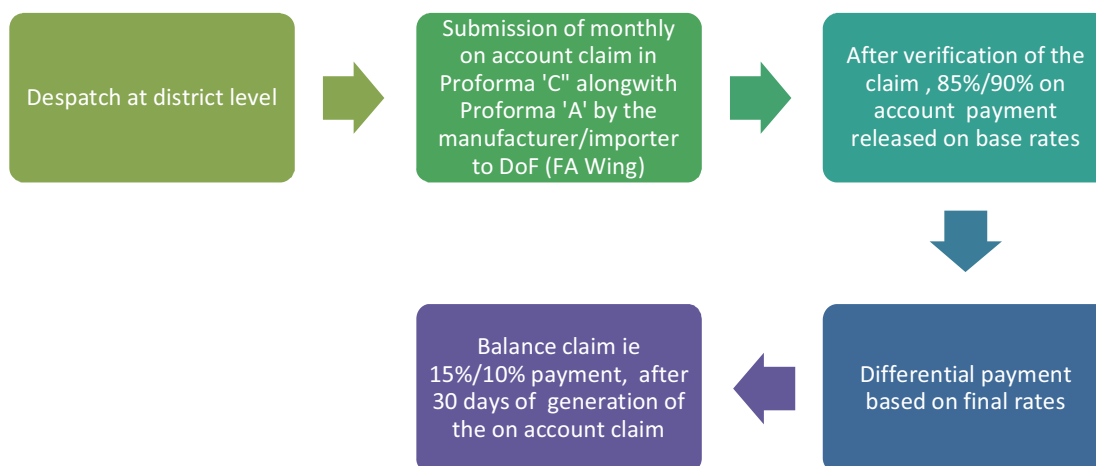
### 6.1 Procedure for payment of subsidy/concession

The procedure for payment of subsidy/concession for urea and decontrolled fertilizers is summarized below:

**Figure 6.1 – Payment of subsidy for urea**



**Figure 6.2 – Payment of concession for decontrolled fertilizers\***



\*Proforma 'A' indicates the sale details with invoices and other supporting documents which are sent to State Directorate of Agriculture. Proforma 'B' certification of the sale of fertilisers claimed by manufacturers by the State Government. Proforma 'C' claims of subsidy.

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We scrutinised 979 claims for subsidy/concession amounting to Rs.54358 crore, covering the period from 2006-07 to 2008-09; details are indicated in **Annexe 6.1**. The main findings from our scrutiny of subsidy/concession claims are summarized below.

### **6.2 Outstanding Proforma 'B' Sale verification certificates amounting to Rs.50698 crore**

The guidelines of August 2002 issued by the DoF stipulated that for release of the balance payment (10/15 per cent) of concession for decontrolled fertilizers, the State Governments were required to furnish sale verification certificates in Proforma 'B' within a period of 90 days from the date of receipt of "on account claims" in Proforma 'A' from the manufacturing/importing units. In case of non-receipt of Proforma 'B' from the concerned State Governments/U.T within 5 months, the matter would be taken up by the DoF with the concerned State; if the outstanding Proforma 'B' was not furnished within 180 days from the date of receipt of 'On Account' claims, the manufacturers/importers were liable to submit Bank Guarantee equivalent to 100 per cent of the unadjusted 'on account' payment of the concession received for the concerned months.

This procedure was partially modified in June 2007 so that the balance 10 per cent - 15 per cent of the concession claim would be considered for payment on the expiry of 30 days from the generation of the 'on account' claim, irrespective of whether the sales had been certified in Proforma 'B' by the State Government concerned. However, despite this relaxation, the State Governments were still required to submit the sales certificate in Proforma 'B' for the purpose of reconciliation. DoF issued instructions in July, September, and November 2008 that the requirement of 'Proforma B' had not been dispensed with, and would be needed for reconciling the concession payments already made with actual sales, as certified by the State/UT governments.

***In our opinion, the requirement for certification in Proforma 'B' by the State Governments of sales of decontrolled fertilizers for agricultural purposes (notwithstanding the inadequacies in the certification process) is the only major control over end-use of fertilizers. Linking certification with release of balance payment of 10/15 per cent (with the penal clause providing for bank guarantee for 100 per cent of unadjusted concession) provided clear incentives/disincentives for ensuring timely submission of Proforma 'B'. With the removal of such a linkage from June 2007, there is no longer adequate incentive to ensure certification by the competent authorities (viz. the State Governments) of end-use of decontrolled fertilizers for agricultural purposes.***

Year wise details of outstanding Proforma 'B' from 2003-10 as provided by DoF are as below:

*Table 6.1 – Year-wise details of outstanding Proforma ‘B’*

Year	Amount (Rs in crore)
2003-04	22.64
2004-05	63.08
2005-06	3.64
2006-07	21.52
2007-08	8400.44
2008-09	29654.64
2009-10	12532.14
<b>Total</b>	<b>50698.10</b>

It will be seen that the outstanding Proforma ‘B’ for the years 2003-04 to 2006-07 amount to just 111 crore, while the outstanding amounts for the years 2007-08 to 2009-10 amount to 50587 crore.

### 6.3 Non verification of fertilizer sales/stock

*In most of the States, verification of sales for agricultural purposes (which would provide assurance of proper end-use of subsidy) was non-existent or inadequate, as it did not involve physical verification of stocks or sales beyond the 1st point sales, and in many cases not even verification of receipts, invoices etc.*

A summary of State-specific findings on is given below:

*Table 6.2 – State-wise findings on non-verification of fertilizer sales/stocks*

Sl. No.	Name of State	Summary of findings
1.	Bihar	<ul style="list-style-type: none"> <li>• Verification of sales was never done in the four selected districts.</li> <li>• Certification was done and bills were verified on the basis of quantities entered in the stock registers of the buffer. However, no physical verification of stock was conducted.</li> <li>• The stipulated procedure for verification of sales beyond 1st stock point upto farmers level were not followed.</li> <li>• No certification was done of the fertilizers received by whole sale from rake points in other districts.</li> </ul>
2.	Chhattisgarh	<ul style="list-style-type: none"> <li>• The verification was done on the basis of entries in the stock registers and bill books of the dealers, which was then reported by the DDAs to the DA. No physical verification of stock was, however, found to have been carried out. Also, there was neither any process of verification of sales beyond the first point sale i.e. upto the farmer level, nor did any checks exist for examining the genuineness of the party to which the sale was made.</li> </ul>

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Sl. No.	Name of State	Summary of findings
3.	Gujarat	<ul style="list-style-type: none"> <li>The State Agriculture Department certified the quantities sold to the Markfed only on the basis of a certificate of receipt given by District Marketing Officers (DMO).</li> <li>In respect of first point sales in the State, on receipt of copy of proforma 'A' from the units, the Director of Agriculture sent 20% randomly selected sales to the Deputy Director of Agriculture of the District for verification of receipt by the dealers. However, the Agriculture Officer of the block was just signing the statement received from the manufacturer. No sales invoices, delivery challan, physical verification of stock etc. had been verified by the Agriculture Officer of the block, as the State Government had granted relaxation from submission of delivery challans to GSFC, GNFC, IFFCO, and KRIBHCO, which were the major manufacturing companies in State.</li> <li>Further, no verification of subsequent sales (beyond first point sales) up to the farmers' level had been carried out.</li> <li>The State Agriculture Officer was just signing the statement received from the manufacturer. No sales invoices, delivery challan, physical verification of stock etc. were verified. Affidavits/certificate of receipt of goods obtained from 1st point dealers.</li> </ul>
4.	Himachal Pradesh	<ul style="list-style-type: none"> <li>Bills for subsidy claims for supplier and manufacturers of Fertilizers were certified on the basis of receipt of Fertilizers certified by the 1<sup>st</sup> sale points of HIMFED and by the member Cooperative Societies of IFFCO, and not on the basis of physical verification of receipts of Fertilizers/stock entries thereof.</li> <li>In Kangra block, test check of records of four out of six member societies of IFFCO revealed that the quantity of Fertilizers shown as sold/released to them by IFFCO had not reached the premises/stores of the said Societies, as its stock and issue/sales entries could not be verified from their records viz. respective registers/ledgers.</li> </ul>
5.	Jammu & Kashmir	<ul style="list-style-type: none"> <li>Only First point sales were being verified as per the lifting certificates issued by the lifting agencies. Jammu &amp; Kashmir Cooperative and Marketing Federation (JAKFED), Agro Industries Development Corporation Ltd. (AIDCL) and Cooperative Marketing Societies (CMS).</li> </ul>
6.	Jharkhand	<ul style="list-style-type: none"> <li>There was no process for verification of sales beyond the 1st stocking point sale upto the end users viz. the farmers.</li> <li>Verification was done on the basis of details in Proforma 'A' and stock register of dealers.</li> </ul>
7.	Karnataka	<ul style="list-style-type: none"> <li>For the test checked period in the selected districts, physical verification of stock was not conducted.</li> </ul>
8.	Madhya Pradesh	<ul style="list-style-type: none"> <li>It was noticed that there was no system in place to verify the authenticity of sales to genuine farmers. Physical verification of the stock was not conducted in the test checked districts, except for district Indore.</li> </ul>

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Sl. No.	Name of State	Summary of findings
9.	Maharashtra	<ul style="list-style-type: none"> <li>• Verification of stock was not carried out by the ADOs of Amravati, Latur, Osmanabad and Pune districts in respect of certain lots which ultimately led to non submission of report to the DDF. It was found that the DDF proposed to release balance subsidy in Proforma 'B' to the DoF without getting these supplies verified, in contravention of the circular issued by the CoA.</li> <li>• In reply the ADOs stated that due to non furnishing of invoices in time by the manufacturers and workload, 20 per cent physical verification of stock could not be done.</li> </ul>
10.	Manipur	<ul style="list-style-type: none"> <li>• In respect of decontrolled fertilizers, first point sales reported through proforma B was verified only on the basis of affidavits from the dealer. In respect of urea, verification was made by obtaining delivery challans from the dealers. However, the State Government did not adopt any mechanism for verification of sales beyond the first point sales up to the farmers' level also, no physical verification of stock was conducted.</li> </ul>
11.	Meghalaya	<ul style="list-style-type: none"> <li>• Verification of monthly sales of decontrolled fertilizers was done on the basis of certificates of sales submitted by MECOFED and purchase certificate in respect of Private Wholesale Dealers submitted by the District Agriculture Officers concerned.</li> <li>• No process for verification of sales beyond the first point sales upto the farmer levels which would have, (to ensure authenticity of sale to genuine farmer) existed.</li> </ul>
12.	Nagaland	<ul style="list-style-type: none"> <li>• Procedures such as independent verification of sales by obtaining copies of sales invoices, delivery challans, sales tax payment receipts, stock registers, physical verification of stock etc. were not carried out by the Department before forwarding claims for subsidy.</li> </ul>
13.	Orissa	<ul style="list-style-type: none"> <li>• The Junior Quality Control Inspector/Asst. Agricultural Officer verified the receipts and sales during field inspections and record certificate of verification on the body of the stock register of the dealers, but no separate verification reports were maintained and made available to audit.</li> </ul>
14.	Punjab	<ul style="list-style-type: none"> <li>• No periodical checking of the stocks was done by the officers of the Agriculture Department in three out of four selected districts (i.e. Bathinda, Faridkot and Ludhiana), which was attributed to shortage of technical field staff.</li> <li>• Sales verification done on the basis of Affidavits and through sales invoices, delivery challans etc.</li> </ul>
15.	Rajasthan	<ul style="list-style-type: none"> <li>• First Point sales were being verified on the basis of stock registers, bills of company and other records. However, no mechanism for verification of sales beyond first sale point upto farmer level had been evolved.</li> </ul>
16.	Tamil Nadu	<ul style="list-style-type: none"> <li>• No physical verification of stock was done by the block officials. In certain cases the stock was moved out to the retailers by the first stock point without even unloading the stock and invoices were sent subsequently. Hence even if the supply details were received on the same day, physical</li> </ul>

## Performance Audit of Fertilizer Subsidy

Sl. No.	Name of State	Summary of findings
		verification cannot be done, as verification beyond the first stock point is not carried out by the block officials.
17.	Tripura	<ul style="list-style-type: none"> <li>On the basis of the stock entry certificate, Proforma 'B' was certified and sent to the Govt. of India. However, no evidence of actual verification of stores by the Inspectors was noticed.</li> </ul>
18.	Uttar Pradesh	<ul style="list-style-type: none"> <li>In four test checked districts, namely Aligarh, Bulandshahar, Lakhimpur Kheri and Varanasi, physical verification was not conducted during 2008-09, while in the remaining three districts i.e. Barabanki, Gorakhpur and Moradabad, physical verification of stock was done only at the time of raid and collection of samples of fertilizer.</li> </ul>
19.	Uttarakhand	<ul style="list-style-type: none"> <li>There was no process for verification of sale beyond first sale point.</li> </ul>
20.	West Bengal	<ul style="list-style-type: none"> <li>There was no system of physical verification of stocks at any level.</li> </ul>

The above state wise findings revealed that although the subsidy was released on the basis of the receipt of fertilizers at district level and the freight subsidy was paid upto block level, there was no state level mechanism for physical verification of the confirmation of receipt at district, block and consumer levels.

### **Recommendation - 3**

***Notwithstanding possible inconvenience to fertilizer manufacturers, the earlier system of retaining 10-15 per cent of the subsidy till receipt of certification in Proforma 'B' of agricultural sales of decontrolled fertilisers by the State Governments should be considered for re-introduction. Further, DoF should stipulate detailed procedures for verification of sales for agricultural purposes by the State Governments (including verification of receipt at block and consumer levels), physical verification of stocks or sales beyond 1<sup>st</sup> point sales etc. Also, DoF may consider a similar regulatory mechanism in respect of urea, despite its being a "controlled" fertilizer.***

## 6.4 Deficiencies in the licenses and other arrangements for sale of fertilizers

State-specific deficiencies in licensing and other arrangement for sale of fertilizers are summarised below:

*Table 6.3 – State-specific deficiencies in licensing and other arrangements*

Sl.No	State	Deficiencies
1.	Assam	<ul style="list-style-type: none"> <li>Six retail dealers were carrying out the fertilizer business without valid license from the state agriculture department, while another four could not produce a copy of their license to audit.</li> </ul>
2.	Chhattisgarh	<ul style="list-style-type: none"> <li>In the four selected districts, all the 588 Co-operative Societies (Durg-182, Raipur-206, and Surguja-64 and Bilaspur-136) were doing the business of retail sale of fertilizers without any certificate of registration from the appropriate authority, which was against the provisions of FCO.</li> </ul>
3.	Jammu & Kashmir	<ul style="list-style-type: none"> <li>The Jammu and Kashmir Co-operative Supply and Marketing Federation, the main lifting agency in the State did not have a valid license. The license for carrying on such business was only issued to the federation in November 2009, after the omission was pointed out (October 2009) by audit.</li> <li>Most of the Co-operative Marketing Societies and some private dealers dealing with sale of fertilizers did not have valid licenses as required under the FCO 1985. In certain cases it was noticed that the Societies / Dealers having retail license were doing sale of fertilizers as wholesale dealers.</li> <li>Stock registers as required under clause 35 (1) (a) in form – N of the Fertilizer (Control) Order 1985 had not been maintained by the dealers.</li> <li>Purchase bills in support of purchase of fertilizers were not available with the dealers (except those functioning as lifting agencies). Only challans showing the quantity of material received were available with the dealers in some cases.</li> </ul>
4.	Orissa	<ul style="list-style-type: none"> <li>Four co-operative societies (Jharsuguda-3 and Agalpur-1) and one dealer in Agalpur block in Bolangir were engaged in sale of fertilizers without any FCO registration certificate and on the basis of co-operative license for pesticide sale.</li> </ul>
5.	Kerala	<ul style="list-style-type: none"> <li>There were reports of illegal cross border transportation of fertilizer to other states in the print/visual media. However, no report, as of October 2009, was available in the Directorate on action taken at the districts.</li> </ul>
6.	Manipur	<ul style="list-style-type: none"> <li>The Sub-Divisional Police Officer, Chandel under FIR No.20 (10) 2008 seized (October 2008) 93.50 MT of fertilizers (Urea: 61.50 MT; Potash: 32 MT) worth Rs.4.40 lakh at Molnom village of Chandel district, while being smuggled to Myanmar.</li> </ul>

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Sl.No	State	Deficiencies
7.	West Bengal	<ul style="list-style-type: none"><li>• 548.331 MT of fertilizers worth Rs 177.89 lakh were seized by the Border Security Force (BSF) during January to September 2008.</li><li>• There was no restriction in issuing licenses to dealers in border area (740 licenses had been issued to various dealers in the border areas for procurement and sale of fertilizers and food grains). In certain cases, four to five members of a family had been issued dealer permits (in the names of wife, sons, daughters, etc) without any justification. Thus, issue of large number of permits and inflow of disproportionate quantity of goods to the border areas, facilitated smuggling of goods (including fertilizer) across the border. The Department had no monitoring mechanism over the performance of dealers in border areas, in order to prevent smuggling of fertilizers across the border.</li></ul>

### 6.5 Discrepancies in supply of DAP during 2008-09 by IPL

Scrutiny of records relating to payment of concession for DAP in respect of imports by IPL revealed that during 2008-09 as per claims the quantity received in various States (Andhra Pradesh, Bihar, Chhattisgarh, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal) was 30.42 lakh MT. However, as per data in the FMS, the quantity received was only 28.78 lakh MT, leaving an unexplained shortfall of 1.64 lakh MT, which involved payment of concession of Rs.762 crore to IPL. In view of the sky-high prices at which DAP was imported during 2008-09, the discrepancy between the quantity claimed and actual receipt is a serious issue, which needs to be examined closely.

### 6.6 Subsidy on Imports

#### 6.6.1 Irregularities in Import of DAP by IPL during 2007-08

Due to reduced indigenous production of DAP as well as lower level of imports of DAP by the private fertilizer companies, it was decided by the Committee of Secretaries to import 17.5 lakh MT of DAP for 2007-08. Import of urea on Government account is done through the Canalising Agencies/State Trading Enterprises (i.e. Indian Potash Limited (IPL), Minerals and Metals Trading Corporation Limited (MMTC) and State Trading Corporation.

The DoF authorized IPL in June 2007 to import the entire requirement of DAP as per the following instructions:

- IPL would be eligible to claim concession on the sales of this DAP as per the prevailing concession rate for that period. The difference between concession payable and the amount already paid per MT on the quantity sold would be paid to/recovered from STEs, as the case may be.
- IPL would expedite the sales of DAP from the quantity imported on priority basis to minimize the outstanding amount of tentative concession.



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- IPL would maintain separate accounts of sales and closing stock and submit the details to Director (Movement) and Director (Accounts) in the DoF on a monthly basis.

IPL imported 17.58 Lakh MT of DAP during the period from June 2007 to February 2008 in 43 shipments for which advance payment of Rs.1652 crore, being 100 per cent of the cost of cargo, was released to them. Audit scrutiny revealed the following:-

- IPL failed to submit monthly sales accounts of imported DAP as of March 2010. In the absence of the monthly sales account, audit could not ascertain whether IPL sold the fertilizer out of the stock imported on specific Government instructions or out of its own imports. Further, despite not rendering monthly account of receipt/sales, IPL continued to get payment on account of concession during 2007-08 amounting to Rs.4233.43 crore on its monthly claims, and the amount of advance Rs.1652 crore remained unadjusted.
- Since IPL failed to submit the monthly sales account, advance payment of Rs.1652 crore was recovered in one lump sum in October 2008. However, DoF did not impose interest/penal interest on the advance payment of Rs.1652 crore, which worked out to Rs.187.87 crore.
- The methodology for fixing monthly rates of concession for imported DAP provided for an allowance for credit for 105 days on Cost and Freight (C&F) price. However, since advance payment was made by DoF to IPL for import of DAP on Government instructions, inclusion of credit allowance for fixing the rate of concession was unjustified, and resulted in excess subsidy payment of Rs.42.82 crore.
- DoF did not issue any directions/movement plan for each individual shipment of DAP imported on Government account. In the absence of any such movement plan, audit could not ascertain whether the imported DAP was actually despatched/sold to the Districts/States facing shortages of DAP, and whether timely availability of DAP was ensured.
- The necessary documents required to be submitted along with the claim for the payment of cargo viz:, copy of original contract, copy of Bill of Lading, shipping documents, waiver certificate from the Chartering Wing of the Ministry of Shipping, copy of the original Letter of Credit, documents relating to the samples drawn by the Central Fertilizer Quality Control Training & Institute and analysis report thereof, 2 copies of commercial invoice, and draft survey certificate issued at the load port were not available in 29 cases out of 43 shipments. This would point out the inadequacy of proper documentation.
- Out of the 43 shipments, the quantity shown in one shipment (VELA-Bill of Lading No. MI IC 2007029), in the Bill of Lading was 62039.021 MT, whereas the sellers' commercial invoice showed a lesser quantity as 52039.021 MT. Though the payment was made only for 52039.021 MT, reason for the discrepancy of 10000 MT could not be ascertained.

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### 6.6.2 Excess payment on import of urea by IPL during 2008-09 and 2009-10

During 2008-09 and 2009-10 (upto December 2009), Department of Fertilizer (DoF) authorized IPL to import 18.08 lakh MT and 13.17 lakh MT urea respectively to meet the gap between assessed demand and estimated availability. IPL entered into a contract in December 2008, with an Indian Firm Compagnie Indo-Francaise De Commerce Pvt. Ltd. (CIFC), New Delhi.

As per the special conditions governing the opening of the irrevocable Letter of Credit, the "Buyers liability is restricted only to the value of Letter of Credit in Indian Rupees". IPL had claimed (January 2009) 98 per cent of the value of the cargo on the basis of the exchange rates prevailing on the date of opening of Letter of Credit, and the balance 2 per cent claim was submitted by IPL, quoting the exchange rate prevailing on the date of final payment.

As per records IPL had paid the cost of cargo to CIFC, New Delhi (an Indian Company), in Indian Rupees. Audit, however, observed that a payment of Rs.190.50 crore (being 100 per cent of the cost of cargo plus allied charges) was paid to IPL by DoF for supply of 140261.288 MT of imported urea. This included payment of Rs.3.00 crore on account of variation in the exchange rate. This payment of Rs.3 crore was not admissible, as the IPL had made all the payments to CIFC in Indian rupee and in India and the payment was to be restricted to the amount of LC which was Rs. 187.50 crore.

DoF, in its, response stated that the payment was made after obtaining the approval of the competent authority. However, the reply was not forthcoming on the issue of allowing exchange rate variation on payment made in Indian Rupees.

### 6.6.3 Fixing of rates of concession of imported DAP and MOP

Audit scrutiny revealed that while fixing the base rates of MOP and monthly final rates of concession of imported DAP and MOP for the period from April to September 2007, customs duty was erroneously calculated on Cost and Freight (C&F) price on credit basis instead of cash basis. This resulted in higher concession rates (per MT) of Rs.12 to Rs.15 in respect of DAP (final rate) Rs.9 to Rs.11 of MOP (final rate) and Rs.4 of MOP (base rate). This erroneous calculation of customs duty resulted in payment of excess concession of Rs.4.18 crore (DAP Rs.2.05 crore and MOP Rs.2.13 crore).

### 6.6.4 No supply plan for urea imported by IPL

Scrutiny of data relating to import of urea provided to audit revealed that IPL imported 18 lakh MT of urea on Government account at costs ranging between US\$ 247/MT (Rs.11704/MT) and US \$ 850/MT (Rs.41693/MT) between July 2008 to January 2009 for which payment of Rs.4,487 crore was made to IPL by DoF. However, the FMS data indicated that there was no supply plan for the quantity imported by IPL.

### 6.6.5 Non Production of records relating to import of urea by DoF and by IPL

- Records relating to the import of urea of 193.71 Lakh MT on Government account for the period 2005-06 to 2008-09 were called for from the Department of Fertilizer but were not provided to audit. Similarly, records relating to import of 40.70 Lakh MT of urea by IPL during 2007-08 and 2008-09 on Government account was not provided to audit.
- Details relating to import of 17.58 Lakh MT of DAP on Government instructions during 2007-08 were not provided to audit by IPL.

## 6.7 Subsidized fertilizers consumed by mixing units

### 6.7.1 Consumption of subsidized fertilizer by Mixing Units

An increasing trend in fertilizer consumption noticed in several states was the consumption of subsidized fertilizers (Urea, DAP, MOP etc) by mixing units for producing fertilizer mixtures. This has several implications:

- The subsidy chain is, in a sense “broken”, since fertilizers subsidized by GoI and sold at fixed MRPs are utilized for preparing mixtures, whose prices are generally higher and are subject to varying levels of license and regulation/self –regulation, if any, differing from State to State.
- The standard fertilizer consumed by these mixing units, is at the expense of the ordinary farmer in terms of reduced availability of standard fertilizers and higher prices for such standard fertilizers. This is especially true of DAP/MAP whose market prices have skyrocketed and where shortages have been reported in different States.
- Control over their quality, (including periodic testing of samples) is often minimal, and unsuspecting farmers are exposed to the risk of fertilizer mixtures of substandard quality which may not have the desired effect on crop yield.
- Summary of State-specific findings in respect of subsidized fertilizers consumed by mixing units are given below, while details are indicated in the State-specific chapters.

### 6.7.2 Kerala

In Kerala, there are 74 mixing units. The per hectare consumption of the two test checked districts i.e. Kottayam and Palakkad have shown higher consumption of Urea, DAP and MOP than other districts mainly due to the consumption of these items by the mixing units. In Palakkad, out of a total sale of 4964.65 MT of urea, 181.15 MT of DAP and 1874.35MT MOP, 2200 MT(44 per cent) of Urea, 181.15MT (100 per cent) of DAP and 650 MT (35 per cent) of MOP respectively was purchased by the mixing units during April 2008 to December 2008.

MRPs fixed by the Association of Mixing Units in the State are much higher than that fixed by GOI as detailed below:

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Table 6.4 – MRPs for complex fertilizers in Kerala

MRP fixed by GOI for complex fertilizers		MRP fixed by Mixing Units for complex fertilizers		
Product	Price (Rs)	Product	Price (Rs) with effect from Aug 2008	Price (Rs) with effect from Oct 2008
20:20:0:13	6295	18:18:(18):18	9800	9800
15:15:15:0	5121	20:0:10	6060	5785
17:17:17:0	5804	12:12:6	8300	6910
19:19:19:0	6487	10:10:4	7480	6300
		12:12:12	8700	7588
		10:10:10	7860	6690
		15:10:6	8040	6925

Source: Directorate of Agriculture

Further, it was detected during quality checks, that 92 per cent out of the non-standard inorganic fertilizers were mixtures. Hence, the mixing units were consuming the subsidised fertilizers and selling low quality mixtures at higher prices to the farmers.

### 6.7.3 Madhya Pradesh

In Bhopal, the test checked district, mixture plant owners were purchasing huge quantity of standard fertilizers (Urea, DAP, MOP, SSP) from companies and dealers for preparing N.P.K mixtures. The farmers' survey also revealed that there was demand for standard fertilizers i.e. Urea, DAP, MOP etc. and not of mixtures made at local level. Thus, usage for standard fertilizers as raw material for preparing mixtures may lead to shortage of fertilizers and also black marketing.

The details of fertilizers purchased by one mixture plant during the last three years were as under:

Table 6.5 – Purchase of fertilizers by one mixture plant in Madhya

Name of the Mixture Plant	Year	Quantity purchased (MT)
AP India Biotech Pvt. Ltd., Deewanganj, Raisen	2007-08	5138.84
	2008-09	5658.76
	Up to 31.10.09	948.65

It was found that a private dealer of Bhopal sold the subsidized fertilizer to a distillery which was not a farmer but a manufacturer of beer and beverages. When the matter was taken up with the Director of Agriculture, Bhopal, it was stated that the bills of Urea were not verified.

## 6.8 Tamil Nadu

There are 156 physical and 7 granulation fertilizer mixing units in Tamil Nadu.

The production of various standard and granulated mixtures during the years 2007-08 and 2008-09 were as under:

*Table 6.6 – Production of mixtures in Tamil Nadu*

(In MTs)

Type of unit	Year	Categories of fertilizers used by the units								Total
		Urea	SSP	TSP	MOP	DAP	MAP	Rock phosphate	NPK complex	
Physical	2007-08	55852	20742	83	47962	33359	503	804	3738	163043
	2008-09	62854	16830	1568	45007	18646	-	1840	7159	153904
Granulation	2007-08	43410	293	-	35439	36475	5311	720	8319	129967
	2008-09	50551	46	2992	28133	13890	-	3314	656	99582
<b>Total</b>		212667	37911	4643	156541	102370	5814	6678	19872	546496

The Joint Directors of Agriculture, while certifying the concessional sale of fertilizers to first stock point sales did not mention (except Salem) the quantum of subsidised fertilizers consumed by the mixing units in their respective districts.

### 6.8.1 Gujarat

Three dealers sold 36250 MT fertilizer (Urea, DAP, MOP and complex) during 2007-10 (upto September 2009) to their sister concerns for manufacturing different NPK fertilizers not subsidised under FCO and for which no MRP had been fixed by the Government.

During the Dealer survey and Farmer survey, purchasing of fertilizer mixtures was not revealed/indicated.

### 6.8.2 Irregular payment of concession of Rs.7.21 crore to SSP units

As per the scheme guidelines of August 2002, the manufacturers/importers are required to sell the decontrolled fertilizers at the applicable MRP. The claim of the manufacturers/importer in Proforma 'C' shall be accompanied with a certificate that the sales have been effected only to registered manufacturers of NPK fertilizers under the Fertilizer Control Order (FCO), and that the sales so reflected were the actual sales on consignment basis.

## Performance Audit of Fertilizer Subsidy

Audit scrutiny revealed that the DoF released subsidy of Rs. 7.21 crore during 2008-10 to seven SSP manufacturers for transferring the stock to their own mixing units. Since this was an internal transfer of stock (not a first point sale, which involved neither transfer in the ownership of the goods nor sale of fertilizers at the applicable MRP), the payment of subsidy of Rs.7.21 crore was irregular.

### **Recommendation – 4**

*Sale of subsidised fertilizers of all types (Urea, DAP, MAP, MOP etc.) to mixture units should not be permitted; such mixture units should purchase non-subsidised fertilizers for their use. Where DoF feels that certain mixtures are essential/ desirable for agricultural consumption, their prices should be notified based on the subsidised inputs (as per nutrient value); they should also be subject to full-scale quality testing.*

## 6.9 Avoidable interest payment of Rs.1.41 crore to OMIFCO

As per the Urea Off-Take Agreement (UOTA), of May 2002 entered into between the Gol and Oman India Fertilizer Company (OMIFCO) for the supply of Urea, OMIFCO shall deliver to the Gol, within four days of the Bill of Lading, the documents relating to details of purchase of Urea to the Gol, payment by Gol to OMIFCO shall become due 20 days after the date of the Bill of Lading for Urea shipments. Further, interest is leviable at the stipulated “Late Payment Rate” for delays in payment by the Gol.

Audit scrutiny revealed that there were delays in settlement of invoices of OMIFCO by DoF, ranging between 1 to 139 days during the period 2005-09. This resulted in avoidable interest payment amounting to Rs 1.41 crore.

DoF, in its response stated that they were now getting the shipping documents well in time i.e within 4 days from the date of Bill of Lading.

## 6.10 Discrepancies in despatch data

Fertilizer units/importers are eligible for subsidy payments when fertilizers are despatched to the first stocking points in the district, and details of despatch are uploaded onto the web-based FMS. Audit scrutiny, however, revealed serious deficiencies in the current procedures, as there is no mechanism for reconciliation of unit-wise and district-wise despatch data with corresponding data on receipts at the first stocking point in the districts. Audit attempted a limited reconciliation exercise on a sample basis for 2008-09 (April 2008 to December 2008) which revealed that 48624 MT of fertilizers valuing Rs.83 crore stated to have been despatched by the manufacturing units were not recorded as received at the 1st stocking points in various States as summarised below; details of the discrepancies are indicated in **Annexe 6.2**.

*Table 6.7 – Summary of discrepancies in despatch data*

Sl.No.	State	Manufacturer/Product	Quantity not received (MT)	Amount (Rs. in Crore)
1	West Bengal	Tata Chemicals Ltd (TCL) (MOP), RCF (MOP), IFFCO (NPK), PPL (DAP,MOP,NPK), IPL (DAP,MOP)	24174.90	64.93
2	Bihar	KRIBHCO, Hazira (Urea), Indogulf, Jagdishpur (Urea), RCF (Urea, MOP) , KSFL (Urea), NFCL (Urea), TCL Babrala (Urea), IPL (DAP, Urea), PPL (MOP)	21193.45	14.60
3	Madhya Pradesh	IPL (MOP,DAP)	177.30	0.71
4	Haryana	IPL (DAP)	91.40	0.28
5	Gujarat	KRIBHCO (Urea), HINDALCO(DAP), IFFCO (Urea), GNVFC (NPK)	2837.00	2.13
6.	Jharkhand	PPL (MOP, NPK)	150.00	0.49
Total			48624.05	83.14