Chapter-III
Procurement of paddy

Every year FCI and SGAs undertake an open-ended procurement of paddy at MSP declared by the GoI for the Central Pool. By this, Government aims to prevent distress sale of paddy/food grains by farmers. The total *mandi* arrivals are estimated based on variables like area under cultivation, previous years' data, etc. Then procurement targets of all the procurement agencies including FCI are fixed each year after considering the factors like availability of storage space, gunnies, dunnage[50] and staff, etc. In order to facilitate purchases and ensure maximum procurement in *mandis,* FCI prepares an Action Plan for each KMS. The Action Plan is to help achieve objectives of Procurement Policy, to render effective price support to the farmers and gear up procurement operations.

Audit observations on procurement of paddy are indicated below:

3.1 Extra expenditure of ₹ 256.73 crore due to shortfall in achievement of procurement targets of paddy by FCI in Punjab and Haryana

During review of records at Regional Office, Punjab, it was observed that target of procurement of paddy for the Region was fixed at 68.40 LMT during the years 2009-10 to 2013-14 against which the actual procurement of paddy was only 25.00 LMT. Similarly, target of procurement of paddy in Haryana region was fixed at 2.28 LMT during the years 2009-10 to 2013-14 against which actual procurement of paddy was only 0.98 LMT. This shortfall in procurement of paddy was eventually made good by procurement through SGAs. The cost of procuring paddy through SGAs is high because of incidence of additional charges such as C&M charges, interest charges and administrative charges in comparison to paddy being procured by FCI.

Short procurement of targeted paddy by FCI resulted in overburden on SGAs to procure additional quantity of 44.70 LMT paddy being the FCI's share during 2009-10 to 2013-14. This also resulted in avoidable extra expenditure of ₹ 256.73[51] crore towards C&M charges, interest charges and administrative charges being reimbursed by FCI to SGAs in Punjab Region, and interest charges in case of Haryana Region of FCI.

The Ministry stated (June 2015) that target of procurement of paddy arrived at after consultation with States is primarily for making adequate arrangements for procurement operations in relation to placing orders for gunnies, opening of Procurement Centres, posting of adequate Quality Control staff and arranging godown space etc. In fact, there had been a complete shift in approach to procurement which is shifting from FCI to States. Thus,

[50] *Loose wood, matting or similar material used to keep a cargo in position*

[51] *FCI Haryana Region-₹ 3.34 crore, FCI Punjab Region-₹ 253.39 crore*

lesser procurement by FCI than the target and increase in procurement by the SGAs need not be construed as incurrence of extra expenditure due to higher cost of CMR.

The Ministry did not justify the shift in approach for procurement by SGAs in view of incidence of higher cost of CMR procured by SGAs.

3.2 Deficiencies in payment of ₹ 17,985.49 crore as Minimum Support Price to farmers

3.2.1 Doubts about the authenticity of MSP payment

The objective of the GoI Procurement Policy is to provide farmers fair value of produce to prevent distress sale. MSP and bonus should be given to the actual beneficiaries i.e. farmers for which procuring agencies should obtain authentic copy of *Jot Bahi/Kisan Bahi/ Khatauni*[52].

Audit observed a large number of deficiencies like non authentication of land holdings of farmers, cases of payments to farmers with doubtful identities and delivery of paddy in excess of the land holdings of farmers etc. in the States. Details are given in ***Annexure-II***.

In the case of observation relating to Punjab, the Food & Supplies Department stated (February 2015) that Identification Documents (ID) of farmers should have been available with the Marketing Board and SGAs cannot ask for ID/land ownership proof as it is responsibility of the Marketing Board which issues forms to all farmers who sell paddy.

The reply confirmed the fact that the SGAs were not having any verifiable land ownership/payment records as was required as per the State Government's directions.

The Ministry replied (June 2015) that for ensuring the payment of MSP to the farmers in every State, the State Governments prescribe documents for identification of farmers and MSP is paid after obtaining such proof of identity. Payments are made by account payee cheque/Real Time Gross Settlement (RTGS) or other electronic mode. It further stated that in Odisha, advance registration of farmers is done and farmer's identity cards are issued mentioning therein the land holdings and in Uttar Pradesh, Khatauni is invariably obtained before payment of MSP. In case of Levy Rice, FCI is accepting milled Levy Rice as per the MSP certificate issued by District Authorities concerned.

The reply is not acceptable as the Audit has noticed large number of deficiencies in case of various States which are included in ***Annexure-II***, for which no specific reply was given by the Ministry. Further, FCI is not having any separate mechanism to check whether millers had paid the full MSP to the farmers or not and FCI is completely dependent on the State Government.

[52] *Land records maintained by State Authority concerned.*

Audit also noticed in case of FCI, Uttar Pradesh region that State Agriculture Produce Market Board had prescribed Form number 6R, which was to be issued on every first purchase of food grains by the buyer. As per practice, the form is made in quadruplicate (1st Copy for Seller, 2nd Copy for *Mandi Samiti*, 3rd Copy for VAT Department and 4th Copy for the buyer) specifying among other things, the name of the seller, name of buyer, quantity purchased, rate of purchase and *Mandi* Fee due etc. Thus, when first purchase is made from the farmers this form is issued to them and it acts as a proof that the purchase was made from the farmers and rate paid to the farmer was not below the MSP. Similarly, when second or subsequent purchase (*Arthia* to *Arthia* or *Arthia* to Miller) is made there is a provision of issue of another Form number 9R which is issued by seller to the buyer. It acts as a proof, among other things, for levy of *Mandi Shulk* and genuineness of purchase from registered seller. Thus, these forms are vital control instruments to ensure that MSP benefit reaches the farmer and not to ineligible persons. However, Audit while reviewing 509 vouchers, noticed several irregularities in the system raising doubts about the genuineness of MSP benefit being given to farmers. For example, in 175 cases, the 6R Form did not contain the farmers' signature; in 19 cases, the handwriting on the 6R Form and the signature of farmers were apparently similar and in 120 cases, neither 6R Form nor 9R Form were found attached.

This raises doubt as to whether the benefit of MSP did actually accrue to farmers. Thus, there was no assurance that the farmers actually did get full MSP for their produce from millers/SGAs/FCI.

While accepting the audit observation, the Ministry stated (June 2015) that the Government of Uttar Pradesh has been sensitized for strict adherence to the prescribed Quality Control and paddy purchase guidelines. Compliance of Ministry's instruction by the Government of Uttar Pradesh was awaited in audit (June 2015).

3.2.2 MSP certificates not obtained for paddy procured in Punjab, Haryana, Telangana, Andhra Pradesh and Uttar Pradesh

a) Under Rule 11(a & b) of Punjab Agricultural Produce Market (General) Rules, 1962, the *Katcha Arthia*[53] shall make payment to the seller through account payee cheque or by electronic transfer after the weighment is over. A quantity of 13.03[54] LMT of paddy was purchased by FCI during KMS 2011-12 to 2013-14 in Punjab and Haryana Region for which payment of ₹ 1,666.07[55] crore was made by FCI to *Arthias* on account of MSP. It was observed in audit that Punjab and Haryana Regions of FCI had purchased 2.32[56] LMT paddy valuing ₹ 296.64[57] crore during KMS 2011-12 to 2013-14 but had not obtained the details of farmers along with name of village, bank account number, phone number, details of purchase and details of payment along with acknowledgement of farmers from the *Katcha Arthia*. This

[53] *Katcha Arthias renders services as immediate intermediary or aggregator in the process of procurement of food grains.*

[54] *FCI Haryana Region-0.23 LMT, FCI Punjab Region-12.80 LMT*

[55] *FCI Haryana Region-₹ 30.51 crore, FCI Punjab Region-₹ 1635.56 crore*

[56] *FCI Haryana Region-0.09 LMT, FCI Punjab Region-2.23 LMT*

[57] *FCI Haryana Region-₹ 12.69 crore, FCI Punjab Region-₹ 283.95 crore*

was in violation of the instructions of the GoI. In absence of this the actual benefit of MSP to farmers could not be verified from records.

b) In Andhra Pradesh and Telangana, the rice millers were required to furnish a certificate to the effect that paddy was purchased at MSP from the farmers, duly countersigned by the *Sarpanch/Panchayat* Secretary and Ward Member. After verifying the details, the Mill Levy Certificates shall be issued by the District Collectors for delivering Levy Rice by the millers/dealers to FCI. This mechanism helps the District Administration to ensure that millers pay MSP to farmers for the paddy purchased at farm-gates. In Telangana and Andhra Pradesh, Audit observed that MSP certificates for 153.79 LMT[58] valuing ₹ 17,681 crore were not obtained by the millers.

Audit also noticed that in FCI Area Office Nalgonda, millers purchased non-FAQ[59] paddy for the KMS 2013-14 and offered less than MSP rate to the farmers. As against the MSP of ₹ 1,345/1,310 per quintal {for FAQ and Under Relaxed Specification (URS) respectively}, the average price paid was ₹ 1,269 per quintal. The District Supply Officer was found to have wrongly issued certificate stating that full MSP was paid by the miller in respect of purchase of non-FAQ paddy, a fact which was not borne out of the actual records. This resulted in excess payment of ₹ 0.21 crore by FCI to private rice millers,

c) Purchase Policy of Uttar Pradesh provides that payment of MSP should be made to farmers immediately after purchase of paddy. It was, however, observed in Mirzapur district that the Uttar Pradesh State Agro and Pradeshik Cooperative Federation (PCF) had not paid MSP to the farmers for purchase of paddy amounting to ₹ 7.85 crore during 2010-11 to 2012-13. It was replied by State Agro that funds were not available. However, PCF in a contradictory reply stated that funds were indeed given to the Societies. Further, in absence of MSP certificates furnished by Societies, payment at MSP rates could not be verified in audit.

The Ministry stated (June 2015) that for ensuring payment of MSP to the farmers in every State, the State Government prescribes documents for identification of farmers and MSP is paid after obtaining such proof of identity. It further stated FCI is not having any separate mechanism to check whether millers have paid the full MSP to the farmers or not and FCI is completely dependent on the State Governments in this regard.

The reply is not convincing as the audit observations detailed in ***Annexure-II*** highlights the violation of these instructions in almost all the States for which no specific reply was given. Thus, there was no assurance that the farmers actually did get full MSP for their produce worth ₹ 17,985.49 crore from millers/SGAs/FCI in these States.

[58] 41.79 LMT in Nalgonda and Nizamabad districts of Telangana Region valuing ₹ 4,820 crore, 112 LMT in East Godavari and West Godavari districts of Andhra Pradesh Region valuing ₹ 12,861 crore.

[59] Fair Average Quality specifications are uniform specifications of food grains which are formulated by the GoI before the commencement of each marketing season.

3.2.3 Irregular mode of MSP payment by SGAs/FCI

As per instructions of the Food Supplies Department (FSD) of the respective State Governments and Action Plan of FCI Headquarter in vogue for the respective year, the FCI/SGA should make payments to the farmers after purchase of paddy *immediately* or *within 48 to 72 hours*, as applicable. It was also to be ensured that the payment of MSP for paddy procured by FCI (bonus declared by GoI, if any) for KMS 2013-14, was made directly to the farmers, through electronic mode/account payee cheques. However, it was observed in Uttar Pradesh, Odisha and Andhra Pradesh that payment of ₹ 27.27 crore was made in cash to farmers by millers (***Annexure-III***). Moreover, delays in payment of MSP to farmers as against the instructions to make payment within 48 to 72 hours were noticed in large number of cases. Details are given in ***Annexure-IV.***

The Ministry stated (June 2015) that response of the State Governments was awaited. It further added that FCI does not have any separate mechanism to check whether millers had paid the full MSP to the farmers or not and it is completely dependent on the State Governments in this regard. It also stated that payments are made by account payee cheque/RTGS or other electronic mode.

The reply is not acceptable as the cases of payment of MSP in cash by millers were noticed as detailed in ***Annexure-III*** which underlines the need to rectify the deficiencies to ensure that the payment are made only to genuine farmers.

Recommendation No. 6	**Ministry's Reply**
In view of large scale MSP related payments being made without ascertaining the bonafide of the farmers, it is recommended that FCI/SGAs may consider direct transfer of MSP payments to the identity linked accounts of the farmers.	The Recommendation is accepted for implementation subject to progress of seeding of Aadhar card numbers with the accounts of the farmers over a period of time.

3.3 Deficiencies in quality of procured paddy

The GoI issues uniform specifications of paddy and rice (Grade 'A' and 'Common') each marketing season so that farmers get due price for their produce and rejection of stocks is avoided.

Uniform Specifications are standards prescribed to take care of quality of food grains marketed in the country and to identify and distinguish the quality differences noticed from lot-to-lot besides explaining purity of the grains for edible requirements. It should always be within the Prevention of Food Adulteration Act, 1954 (PFA) standards {now The Food Safety and Standards Act (FSSA), 2006 w.e.f. 5 August 2011}.

Audit noticed a number of deficiencies in the procurement of paddy which are detailed below:

3.3.1 Non-Compliance of Food Safety Standards in Punjab and Haryana regions of FCI

Uniform specifications of food grains, which are also known as Fair Average Quality (FAQ) specifications, are formulated by the Ministry every year before commencement of marketing season. These specifications are finalized by a High Power Committee constituted by the Ministry and comprises of representatives from producing and consuming States. Renowned institutions like Central Food and Technological Research Institute (CFTRI), Mysore are also consulted before finalizing these specifications. These specifications provide the upper limit (in terms of percentage) of various refractions beyond which the paddy/rice is not to be procured/accepted by procuring agencies.

In addition to the specifications prescribed by the GoI, the procured rice must conform to the Food Safety and Standards Act (FSSA) i.e., Uric acid (not more than 100 mg per kg) and Aflatoxin (not more than 30 microgrms per kg) must be within prescribed limits. {Regulation 2.4.6(5) (v) and (vi) of Food Safety and Standards (Food Products Standards and Food Additives) Regulations, 2011}.

However, it was observed that the GoI procurement specifications of rice do not specify these two specifications/adulterants as mandated by the FSS Act. FCI had not established any mechanism to ensure that rice conformed to food safety standard at procurement stage.

The FSSA, 2006 came into force with effect from 5 August 2011 wherein every Food Business Operator (FBO) was to register afresh under the new Act within one year i.e., by 04 August 2012. During review of records of districts of Punjab Region of FCI, it was observed that the District Offices had not got a valid license covering all the centres (till December 2014) as required under FSSA, 2006.

In case of units hired from Central Warehousing Corporation (CWC)/State Warehousing Corporation (SWC)/private service providers, licenses were to be obtained by concerned parties wherever they were responsible for maintaining the stock. The transport operators engaged for moving food grains are also covered under the Act. In Sangrur District of Punjab, it was observed that out of 17 centres, the Area Office had not obtained licenses in respect of 11 centres and no license was obtained by Ludhiana District in respect of any of its centres till October 2014. Further, requirement of obtaining license under the Act in respect of units hired from CWC/SWC/private service providers and transport operators engaged for moving food grains was also not ensured by FCI.

The Ministry, while accepting the audit observation, stated (June 2015) that registration process under the FSSA has been completed in respect of all depots both owned and hired in Punjab. In respect of all depots in Haryana, the license under FSSA had been applied.

Progress of full compliance to the Act was awaited in Audit (June 2015).

3.3.2 Issue of 1.84 LMT of old rice without tests for insecticides/pesticides residue

After procuring the rice, FCI stores it and preserves it by carrying out fumigation and prophylactic treatment of rice. Before issue of rice for sale under TPDS or other schemes, it must conform to food safety standards, which also provide for maximum tolerance limits of various insecticides and pesticides found in rice. However, it was observed that the FCI did not have a regular system to ensure that the rice conformed to food safety standards at issue stage.

FCI Headquarter vide its circular dated 29 March 1994 instructed that the Zonal as well as Regional chemical labs should test the samples of sound food grains which are in storage for more than two years or had undergone more than twenty fumigations treatments, whichever is earlier for pesticidal residues/uric acid contents to ascertain whether the stocks were well within the tolerance limits prescribed under FSSA.

Picture 3.1
Anti-pest treatment

During review of records of Regional Office, FCI, Punjab (2010-11 to 2013-14) and Haryana (2013-14), it was observed that rice stock totalling 1.835 LMT was more than two years old. This was issued during the years 2011-12 to 2013-14. However, no samples were got checked by FCI for the food safety standards relating to toxins, insecticides or pesticides before issue. There was no system in place for ensuring compliance of food safety standards relating to insecticides and pesticides residue as the District and Regional labs did not have any such facility. In absence of a system for ensuring compliance of food safety standards relating to insecticides and pesticides residue and compliance of the instructions of the GoI/FCI on this subject, the possibility of unsafe food grains being issued for public consumption could not be ruled out.

The Ministry replied (June 2015) that FCI follows a drawl of joint sample at the time of issue and stocks conforming to food safety standards are only issued. Besides, an officer is nominated for each depot by FCI who is responsible for compliance.

However, the procedure prescribed above was not complied with as has been brought out above.

Recommendation No. 7	Ministry's Reply
In view of public health concerns arising from supply of Targeted Public Distribution System food grains without adequately complying with the applicable standards for toxins, insecticides and pesticides residue, FCI/SGAs may augment the testing facilities for the same.	The Recommendation is accepted.

3.3.3 Procurement of substandard paddy valuing ₹ 9,788.50 crore by SGAs in Punjab

In SGAs of Punjab, no separate account was found maintained for paddy purchased under FAQ and under relaxed specification respectively.

A quantity of 82.46 LMT paddy valuing ₹ 9,788.50 crore was procured during KMS 2010-11 and 2013-14 by SGAs[60] under FAQ but the same was found below specification during inspection by the Ministry. It was corroborated from the fact that FCI even imposed recovery of ₹ 4.20 crore against the quality cut imposed on CMR of crop year 2009-10 to 2013-14 in the District Office, Ludhiana of Punjab State Warehousing Corporation (PSWC).

Since no separate record showing purchase of paddy URS was available in Area offices, purchase of paddy under relaxed specifications was not clearly identifiable.

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Name of the SGA	*Quantity (in LMT)*	*Value(₹in crore)*
Punjab Agro Food Grains Corporation Limited (PAFCL)	*10.24*	*1,234.35*
Punjab Grains Procurement Corporation Limited (PUNGRAIN)	*35.32*	*4,182.67*
Punjab State Warehousing Corporation Limited (PSWC)	*12.29*	*1,446.26*
Punjab State Civil Supplies Corporation Limited (PUNSUP)	*24.61*	*2,925.22*
Total	***82.46***	***9,788.50***

The SGAs admitted (February/March 2015) that no separate account for paddy purchased under FAQ and URS had been kept. Food and Supplies Department stated (February 2015) in State Exit Conference held in Punjab that separate account should have been maintained for paddy purchased under FAQ and URS.

While accepting the audit observation, the Ministry stated (June 2015) that Government of Punjab was sensitized for strict adherence to the prescribed Quality Control and paddy purchase Guidelines.

Compliance of the same by Government of Punjab was awaited in Audit (June 2015). Thus, evidently full payment was made by SGAs for paddy which was substandard in quality.

3.3.4 Procurement of 191.35 LMT paddy without ensuring quality by the Government of Chhattisgarh

It was observed in Chhattisgarh that out of prescribed five checks[61], only moisture content check was conducted by the State Government during procurement of paddy. Further, it was observed that number of samples for test was not fixed either by the GoI or the SGAs. Thus, in absence of above checks and without fixing sample size of checks, it was not clear as how the State Government ensured the minimum quality standard for 191.35 LMT paddy worth ₹ 21,115.13 crore procured during KMS 2009-10 to 2013-14.

While accepting the audit observation, the Ministry stated (June 2015) that Government of Chhattisgarh was sensitized for strict adherence to the prescribed Quality Control and paddy purchase guidelines.

Compliance of the Ministry's instructions by the Government of Chhattisgarh was awaited in Audit (June 2015).

3.3.5 Procurement of paddy worth ₹ 19.56 crore from 2,831 farmers without quality tests in Odisha

As per guidelines for DCP operations in Odisha, the Paddy Purchase Centres (PPCs) are required to conduct sample testing of paddy upon arrival of paddy to see if it conforms to the FAQ standards (moisture content, damaged/weevilled, colouration etc.). If the paddy conforms to the specifications, it is to be purchased and payment made by the PPC to the farmer within seven days. Records regarding quality test report of paddy need to be maintained at the PPC.

[61] 1. Foreign matter, 2. Damaged discolor, sprouted and weevilled grains, 3. Immature, shrunken and shriveled grains, 4. Admixture of lower class and 5. Moisture content

The District Managers of seven districts (Bargarh, Bhadrak, Bolangir, Deogarh, Sambalpur, Sonepur and Malkangiri) stated that they procured paddy conforming to FAQ specifications and confirmed that no URS paddy was procured during KMS 2009-10 to 2013-14.

However, it was observed in five[62] Primary Agricultural Cooperative Societies (PACS) of four[63] districts that 1.30 LMT of paddy valuing ₹ 19.56 crore was procured from 2,831 farmers for which no records of quality tests being conducted in Bargargh, Bhadrak, Malkangiri and Kalahandi districts of Odisha were found on record. Notwithstanding this fact in all the cases, FAQ price was paid by the Government of Odisha. In absence of quality tests, it is not clear as to how the Government of Odisha satisfied itself about the paddy meeting FAQ requirements, before full payment was made.

While accepting the audit observation, the Ministry stated (June 2015) that State Government of Odisha was sensitized for strict adherence to the prescribed Quality Control and paddy purchase guidelines.

Compliance of the same by the Government of Odisha was awaited in Audit (June 2015).

Recommendation regarding augmentation of manpower resources has been consolidated and placed under Para 7.3.7 of this report.

3.4 Relaxation in procurement of paddy/rice

All procurements are to be made by the State Governments/SGAs or FCI as per FAQ specifications. The State Governments/SGAs, however, request from time to time for relaxation in the FAQ specifications due to circumstances arising out of climatic factors/natural calamities like excessive rainfall, flood and drought etc., which adversely affect the quality of food grains produced in a particular region. To reduce hardship to the farmers, relaxations in specifications are agreed for procurement by the GoI on case-to-case basis. Such relaxation for procurement URS are mainly sought regarding the moisture content, color change, percentage increase in broken/damaged grains etc. and depends upon the extent of the crop affected due to natural climatic changes. Separate cost sheet is issued for such URS grains by normally imposing a value cut depending upon different refractions.

As per procedure, if relaxations in some refraction of uniform specification are allowed in respect of paddy, then a corresponding value cut is imposed on paddy, which is a reduction in the price payable for this paddy. As far as CMR is concerned, there is no value cut as in such cases it is obtained from paddy on which value cut has already been applied. In case of Levy Rice, value cut is imposed on rice as paddy has been procured by rice millers at MSP.

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[62] *Jharbanda, Thumbapada, Medinipur, Malkangiri and Korukonda.*
[63] *Bargarh, Bhadrak, Kalahandi, Malkangiri.*

Normally, relaxation in any State is to be allowed after examination and joint analysis of paddy/rice samples with due approval of the Hon'ble Minister of Consumer Affairs, Food & Public Distribution, the GoI.

Audit noticed following deficiencies regarding grant of relaxation in paddy/rice:

3.4.1 Excess payment of ₹ 208.27 crore to millers in Punjab due to acceptance of rice under relaxed specifications (URS) without corresponding value cut for KMS 2009-10

The GoI relaxed (October 2009) the permissible limit of damaged/slightly damaged grains from three *per cent* to four *per cent* considering request of the Government of Punjab (GoP) during KMS 2009-10. This relaxation was again enhanced (March 2010) to 4.75 *per cent* for damaged/slightly damaged grains for three [64] revenue divisions of Punjab. Thereafter, Government of India further relaxed (7 January 2011) the permissible limit of damaged/slightly damaged, including pin point damaged grains, for custom milled raw rice Grade A/common rice, up to four *per cent* (against the limit of three *per cent)* with full value cut during KMS 2010-11 for the entire State of Punjab. Later, the GoI (18 January 2011) changed these relaxations whereby percentage of damaged/slightly damaged grains, including pin point damaged grains, was relaxed up to four *per cent.* This was subject to the condition that damaged/slightly damaged grains, should not exceed three *per cent* without any value cut. As these relaxations were applicable for CMR, out of paddy procured by SGAs, the relaxation in uniform specifications of rice was not allowed by the GoI for Levy Rice and CMR.

The GoP had first requested for relaxation in specifications of rice (KMS 2009-10) as early as 25 August 2009 when the paddy crop was in growing stage. No scientific analysis of samples was carried out before granting relaxation, inspite of the fact that CMD, FCI had recommended (October, 2009) to the Ministry for scientific analysis of samples before allowing relaxation. During KMS 2009-10, permissible limit of damaged/slightly damaged grains was enhanced from three *per cent* to four *per cent* and thereafter up to 4.75 *per cent*, but no corresponding value cut was imposed for relaxation in specifications. The relaxation in specifications without any value cut resulted in benefit of ₹ 196.87 crore to the millers in Punjab who got FAQ rates for supplying non-FAQ rice. This also resulted in avoidable subsidy burden of the equal amount on the GoI.

Relaxation was also allowed for left over CMR of KMS 2008-09 despite recommendation (October 2009) of CMD, FCI that poor quality of remaining rice was owing to the omissions and commissions on the part of rice millers and SGAs of Punjab, who did not adhere to the Government's specifications at the time of procurement. CMD, FCI had specifically recommended not to allow any relaxation in the specifications.

[64] *Patiala, Ferozepur and Faridkot*

The Ministry while replying to the above observations stated that Government of Punjab had requested for relaxation in KMS 2009-10 due to incidence of higher damaged, discoloured and pin point grains in paddy variety PAU 201 of KMS 2008-09. It was further stated that relaxation was issued on 3 October 2009 and not in the month of August 2009, keeping in view the anticipated severe shortfall in production of rice that year and in order to maximize the procurement of rice in drought year. The Ministry further stated that FCI was subsequently asked to analyse the field samples, as officers from the Ministry were also sent to Punjab for collection of samples.

The reply is not acceptable as relaxation order was issued on 03 October 2009 but the process of considering request was initiated on 02 September 2009 itself by sending proposal to CMD, FCI by the Ministry for comments. However despite the CMD's recommendation (18 September 2009**)** to consider extending time instead of giving relaxation, relaxation was granted on 03 October 2009. As the 2008-09 KMS had already ended in March 2009 and the stock situation was already known six months before relaxation was granted in October 2009, it is evident that relaxation was granted without taking into account the actual situation. Also, subsequent analysis of samples, once the relaxation is already granted, does not serve any purpose. Moreover, no evidence for conducting such analysis was found on record.

Audit further observed that in case of FCI, in terms of milling agreement, the millers were required to deliver the rice to FCI as per the uniform specifications fixed by the GoI. During examination of records of Regional Office (RO) FCI, Punjab it was noticed that 6,35,806 MT of URS rice was delivered by millers during KMS 2009-10 and 2010-11. However, no corresponding value cut was recovered from millers. As the permissible limit of damaged/slightly damaged grains was enhanced from three *per cent* to four *per cent*, a corresponding value cut was to be imposed on the cost of CMR which was not done. Thus, due to allowing relaxation in specification without value cut, the FCI also made excess payment of ₹ 11.40 crore to the millers.

The Ministry stated (June 2015) that relaxation in uniform specification allowed by the GoI was equally applicable for FCI procured CMR and Levy Rice as per the GoI's instructions dated 07 January 2011 and relaxation was given without any value cut considering the prevailing circumstances. As a result there was no excess payment to the millers.

The reply is not tenable as records of the Ministry did not indicate any justification for making full payments without any value cut to the millers for rice which was lower than the required specifications.

3.4.2 Payment of ₹ 124.23 crore as upgradation charges in Punjab without determining quantities of specified variety of rice and actual expenditure incurred thereon

The GoI fixes the rates to be reimbursed by FCI for the rice delivered by the SGAs in Central Pool. The GoI, relaxed the uniform specifications[65] of raw rice during KMS 2009-10 on the basis of requests received from the GoP from time to time to expedite the milling of paddy and in order to maximize procurement of rice in drought year (as brought out in para 3.4.1 above). Subsequently, when the required quantity of rice to be milled out of paddy procured by SGAs of Punjab during KMS 2009-10 could not be delivered in Central Pool in spite of the relaxations, the GoP sought further relaxations (beyond 4.75 *per cent*) in respect of damaged grains. This was not acceded to by the GoI owing to the fact that the percentage of damaged grains should not exceed five *per cent* for food grains to be classified as fit for human consumption as per norms. Thus, the relaxations in specifications of raw rice in respect of discolored, damaged and broken grains during KMS 2009-10 had put the quality of rice almost at the verge of being declared unfit for human consumption.

As the SGAs of Punjab could deliver only about 69 *per cent* of the rice pertaining to KMS 2009-10 by June 2010, the GoP requested (June 2010) the GoI for allowing export of 15 LMT of rice milled out of paddy stocks procured for Central Pool during KMS 2009-10, to reduce losses.

Based on the recommendations of the Committee of Secretaries (CoS) after examination of proposals through Inter Ministerial Committee (IMC), the Empowered Group of Ministers (EGoM) decided (28 September 2010) that the leftover stocks of PAU 201 variety of paddy be milled, de-reserved and allowed to be disposed. This was to be done in open market as rice, and was not to be disposed of as paddy (with MSP as reserve price). The loss incurred in the process was to be shared equally by the GoI and GoP, after deducting Statutory and other charges. The carrying cost from 01 April 2010 to 30 September 2010 was to be borne solely by the GoP. At the same time, the total loss to be borne by the GoI was capped at ₹ 277.29 crore.

The GoP did not agree with the decision of the GoI and submitted the revised proposal as under-

i) The balance quantity of paddy as on 1 October 2010 be got milled and resultant rice delivered to FCI within relaxed specifications applicable for KMS 2009-10.

ii) As the resultant rice was likely to have higher percentage of damaged grains than allowed (4.75 *per cent*) for KMS 2009-10, upgradation[66] of rice would be undertaken.

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[65] *Discolored/red grains, damaged/slightly damaged grains from three to four per cent; broken grains from 25 to 28 per cent; damaged/slightly damaged grains from already relaxed limit of 4 to 4.75 per cent.*

[66] *Blending of good quality of rice with low quality rice to bring it at acceptable specification*

iii) Cost of upgradation ₹ 200 per quintal (in two[67] revenue districts) and ₹ 100 per quintal (in eight[68] revenue districts) be allowed by the GoI.

iv) The GoP would ensure delivery of balance rice for KMS 2009-10 before delivery of rice for KMS 2010-11; the delivery of rice for KMS 2009-10 would be completed by 31 January 2011.

The proposals were approved (5 October 2010) by the GoI with the conditions that the GoI's assistance for upgradation would be limited to district wise quantities as intimated by the GoP vide letter dated 3 September 2010 minus any subsequent quantities delivered thereafter. This was to be an exceptional case not to be cited as precedence in future. Accordingly, revised orders regarding leftover stocks of PAU 201 variety of paddy were issued by the Ministry (6 October 2010) and the *ibid* decision was given ex-post-facto approval by EGoM (28 December 2010). Subsequently, the due date for completion of delivery of rice of KMS 2009-10 was further extended first up to 15 May 2011 and then again up to 15 July 2011.

The SGAs of Punjab procured 131.36 LMT of paddy during KMS 2009-10 and 72.41 LMT of rice was delivered by SGAs to FCI in Central Pool up to 30 September 2010. Subsequently, 10.05 LMT of CMR was delivered by SGAs following the sanction of upgradation charges in the revenue districts where such charges were allowed. An amount of ₹ 139.26 crore was payable on this quantity of rice delivered by SGAs in Central Pool as per the orders of the GoI of which an amount of ₹ 124.23 crore had already been paid by the GoI/FCI.

As the relaxations in specifications of raw rice allowed by the Ministry during KMS 2009-10 was without imposition of any quality cut, the subsequent sanction of upgradation cost to compensate the expenditure incurred by SGAs on making the leftover CMR conform to the already relaxed specifications was not justified.

Moreover, the sanction of upgradation cost was done without checking the actual procurement of PAU 201 variety of paddy or the evidence of actual activities/processes carried out for upgradation. Similarly no verification was done about the actual expenditure involved therein and also without ensuring that rice of KMS 2010-11 was not passed off as upgraded rice of KMS 2009-10. All this led to avoidable subsidy outgo of ₹ 124.23 crore on acceptance of 10.05 LMT of upgraded rice.

The Ministry stated (June 2015) that the sanction for upgradation had the approval of the EGoM and was granted in view of special circumstances after careful consideration.

Evidently, the payment was made by FCI/SGAs of GoP without going into detailed procedure as to the actual procurement of PAU 201 variety or the actual activities/processes carried out for upgradation, more so when relaxation in specifications was done without any

[67] *Bathinda and Mansa*

[68] *Barnala, Faridkot, Fatehgrarh Sahib, Ferozepur, Moga, Muktsar, Patiala and Sangrur*

value cut. Thus, the FCI/SGAs of GoP could not ensure proper compliance of the relaxation given by EGoM.

3.4.3 Relaxation in specification without imposition of value cut in Punjab in KMS 2010-11 leading to avoidable subsidy burden of ₹ 142.64 crore

During KMS 2010-11, Government of Punjab (GoP) requested (October 2010) the GoI for allowing relaxations in the uniform specifications of paddy and rice citing damage due to untimely rains at pre-maturing stage of PUSA-44 variety of paddy which took more time to mature and which had been sown in seven lakh hectares with likely production estimates of around 50 LMT. After collection of 101 samples of paddy from *mandis* of 10 districts[69] and analysis of quality parameters in Central Grain Analysis Laboratory (CGAL), New Delhi, the GoI relaxed (November 2010) the uniform specifications of paddy in respect of damaged, discoloured, sprouted and weevilled grains from the limits of four *per cent* prescribed in uniform specifications to ten *per cent*.

At the same time, 20 of the samples *ibid* (two from each district) were test milled to assess the quality of rice and it was decided that the matter regarding relaxations in specifications of resultant rice would be decided after test milling of more samples. Accordingly, 79 more samples of paddy were collected, milled and resultant rice samples were analyzed. Analysis results of 99 samples of rice showed that 71 samples were found to be within uniform specifications and 28 samples were found to be eligible for relaxations sought by the GoP in the intervening period. However, the uniform specifications of raw rice in respect of damaged/slightly damaged grains including pin point damaged grains were relaxed by the GoI (07 January 2011) from the limits of three *per cent* prescribed in uniform specifications to four *per cent* with value cut. The recorded reason for imposition of value cut was that it would ensure maximum rice deliveries within uniform specifications as it was an industry practice to mix different varieties of rice to bring it within specifications. However, on being informed by the GoP (14 January 2011) that the *ibid* decision was not acceptable and the millers had halted the milling process in the State, the value cut was withdrawn by the GoI (18 January 2011). The decision of the GoI to withdraw the value cut and pay for the URS rice received at the rates fixed for FAQ food grains during KMS 2010-11 was not justified due to the following reasons –

i) The primary issue necessitating relaxations in uniform specifications of paddy and rice during KMS 2010-11 was sowing of PUSA-44 variety of paddy which constituted about 1/3rd of the total paddy production. However, the relaxations allowed by the GoI for paddy as well as rice were not restricted to any particular variety or a specified quantity as the GoI expressed impracticability of such restrictive relaxations owing to non maintenance of variety wise records of procurement and practice of mixing different varieties of rice to bring it within specifications amongst the rice millers of Punjab. In

[69] *Ropar, Fatehgarh Saheb, Mukatsar, Ludhiana, Moga, Patiala, Sangrur, Barnala, Mansa and Bhatinda.*

such a scenario, the relaxations in uniform specifications of rice should logically have been accompanied with a corresponding value cut which was not done.

ii) The relaxations were granted based on analysis of 99 samples of rice of which 71 samples were found to be within uniform specifications and only 28 samples were found to be eligible for relaxations finally granted by the GoI. However, eventually the relaxations in uniform specifications were granted without imposition of any value cut and without restricting the relaxations to a particular variety or a specified quantity. Moreover as 96.5 *per cent* (74.72 LMT out of a total of 77.43 LMT) of rice finally delivered by SGAs in Central Pool during KMS 2010-11 was URS, it clearly indicated that the decision to do away with the value cut was not justified.

iii) Incidentally relaxations in uniform specifications of paddy in Chhattisgarh and Tamil Nadu and rice in Odisha had also been allowed by the GoI during KMS 2010-11 itself but the same had been accompanied with full value cut.

It is pertinent to mention here that the value cut imposed on paddy is borne by farmers while the value cut on rice is to be borne by SGAs/millers. In case of Chhattisgarh and Tamil Nadu the relaxations in uniform specifications had only been granted for procurement of paddy and the uniform specifications for the resultant rice had not been relaxed and the rice delivered in Central Pool was conforming to the uniform specifications. The cut which had been imposed on the relaxations granted for procurement of paddy was borne by the farmers in Chhattisgarh and Tamil Nadu, whereas in the case of Punjab no value cut was imposed even when 96.5 *per cent* of rice finally delivered by SGAs/millers in Central Pool during KMS 2010-11 was URS. It implies that there was no consistency in the manner of allowing relaxations in uniform specifications for different States and the same were being dealt in an ad-hoc manner.

Thus, had the decision to accompany the relaxations in uniform specifications of rice with value cut during KMS 2010-11 not been withdrawn by the GoI merely due to non acceptability of the decision by the GoP/millers of Punjab an amount of ₹ 19.09 per quintal would have been imposable as value cut on URS rice received in Punjab during KMS 2010-11. A quantity of 77.43 LMT of rice had been delivered in Central Pool by SGAs of Punjab during KMS 2010-11 of which 74.72 LMT URS rice was delivered against the estimated production of 50 LMT. This was accepted by FCI without imposing any value cut leading to an avoidable subsidy burden amounting to ₹ 142.64 crore on the GoI.

The Ministry stated (June 2015) that paddy is procured in the Central Pool irrespective of variety, if it meets the uniform specifications.

The reply is not specific and does not address the concerns enunciated in the audit observation.

3.4.4 Relaxation in uniform Specification of normal paddy/rice in Haryana without following the mandatory procedure in KMS 2013-14

During review of records pertaining to relaxation granted in uniform specification of rice for Haryana for KMS 2013-14, it was observed that on request of Government of Haryana (initially requested in October 2013), the Ministry deputed a joint Team for analysis of extent of damage of rice due to unseasonal rain and for relaxations required in rice for KMS 2013-14. On the basis of sample collected and analyzed in laboratory, the Team had recommended that there was no problem of damaged/slightly damaged grains in Ambala, Panchkula and Kaithal (Gulha Cheeka belt) districts as all the samples collected from these districts were found well within the prescribed limit. Relaxation, if allowed, may be considered only for balance CMR in Karnal, Kurukshetra, Yamuna Nagar and Palwal districts. Accordingly as a special case, GoI decided (02 January 2014) to allow relaxation in the percentage of damaged/slightly damaged grains up to four *per cent,* as against the existing limit of three *per cent,* with full value cut in balance quantity of CMR of KMS in Karnal, Kurukshetra, Yamuna Nagar and Palwal district in Haryana.

However, later on the basis of request from the Government of Haryana (GoH) dated 9 January 2014, the GoI extended (10 January 2014) the benefit of relaxation to three more districts which were not recommended by the Team, namely Ambala, Panchkula and Guhla Cheeka belt of Kaithal district for the balance quantity of CMR with the same terms and conditions and with immediate effect. The relaxation granted to Ambala, Panchkula and Kaithal (Gulha Cheeka belt) districts for which the Team did not recommend any relaxation was not justified in absence of damaged/slightly damaged grains in samples collected from these districts.

The Ministry stated (October 2014) that it was given as a special case by the then Hon'ble Minister (Ministry of Consumer Affairs, Food and Public Distribution) in November 2009.

Later, on request of the GoH (9 January 2014) and based on the Team report, GoI extended (5 February 2014) relaxation for the balance quantity of CMR raw rice in Dhand centre of Kaithal district and Narwana centre of Jind district. However GoI, thereafter, extended (25 July 2014) the relaxation benefits for the balance quantity of 4,336 tons custom milled raw rice in Kaithal, Pundari and Siwan centres for which neither Team was formed nor recommendation of FCI was sought.

On inquiring about reasons for granting above relaxation for 4,336 tons CMR raw rice, *the Ministry replied (October 2014) that it was done as the State Government had been repeatedly requesting for relaxation in these centers.*

The reply is not acceptable as repeatedly calling for the relaxation in specification does not make one eligible for it in the absence of justification for the same.

Importantly, it was noticed in Audit that no relaxation was sought in case of paddy as the paddy procured was apparently conforming to uniform specifications prescribed by the

Ministry. Thus, even though the rice should also have been within specifications, relaxation was granted in its respect. On being pointed out, the Ministry replied that due to heavy rains in second week of October 2013, the paddy crop which was lying in open fields led to some of the standing crop getting damaged and thereby quality was affected. The Ministry's reply highlighted the fact that the compensation for standing crops getting damaged which should have been given to farmers by relaxing paddy specifications was actually passed on to the rice millers by relaxing milled rice specifications.

The Ministry further replied (October 2014) that it was assumed that SGAs *must have procured paddy as per uniform specifications and accordingly paid MSP for it.*

However, mere assumption does not suffice as the Ministry should have confirmed this assumption by writing to the State Government, along with confirmation from them that paddy procured from farmers was within specifications and full MSP was paid to farmers on this account. The above indicates that benefits meant for farmers were actually passed on to ineligible rice millers.

Recommendation No. 8	**Ministry's Reply**
The GoI may devise a mechanism whereby the benefits of relaxation in Fair Average Quality, because of adverse weather conditions affecting the crops, may accrue only to the intended beneficiaries, that is the farmers and not to the millers.	The Recommendation is accepted.

3.5 Inadequate deployment of staff in *Mandis* to conduct quality checks

Audit noticed insufficient deployment of staff across the States for procurement of paddy. This situation was exacerbated in Haryana by deployment of unqualified staff at the *mandis.* The shortcomings are detailed below:

a) In 16 districts of Punjab four procurement agencies, only 1,336 officials were deputed for 2,390 *mandis* during the KMS 2009-10 to 2013-14 which was less than even one person per *mandi*. This raises concerns about the process of ensuring quality and quantity of procurement of paddy.

While accepting the fact of inadequate staff the SGAs and Food Supplies Department (FSD) stated (February 2015) that it is not possible to post one inspector in each mandi by each SGA as the Ministry pays administrative charges to the SGAs on one crop only.

The Ministry also admitted (June 2015) that due to paucity of staff in few cases, one staff is, at times, allotted more than one mandi and depending upon arrivals, such mandis are operated on alternate days by single staff. The reply corroborates the fact that insufficient *staff is leading to less than adequate operation of the mandis thereby increasing the risk of procurement of sub optimal quality of paddy.*

b) As far as procurement by FCI is concerned, it was noticed in four districts each (Ludhiana, Sangrur, Moga and Patiala) of Punjab and (Fatehabad, Karnal, Kaithal and Kurukshetra) Haryana regions of FCI, 6.44[70] LMT of paddy valuing ₹ 720.85[71] crore was purchased by FCI during KMS 2009-10 to 2013-14. Out of this, samples of 0.13 LMT were sent to district laboratory in case of only the Punjab region. No sample was sent to laboratory in case of Haryana region. Thus, sample pertaining to only 2.02 *per cent* of paddy was checked in district laboratories. Moreover, the analysis results of paddy sample were not even transmitted to Regional Office and Zonal office concerned for feedback. Thus, the instructions issued by the FCI Headquarters for purchase of paddy from *mandis* were not followed in the District Offices in absence of which the adherence to quality parameters could not be vouchsafed in Audit.

The Ministry stated (June 2015) that samples submitted to district lab are based on lot-wise acceptance and not on percentage of quantity procured. Besides, stocks were checked by Manager (Quality Control) and subsequently by the Area Manager and Assistant General Manager (Quality Control). All paddy procured was milled and no loss had occurred to FCI.

The reply is not specific as the audit observation is about non-compliance of prescribed instructions by FCI headquarters which carries the undesired consequence of procuring paddy without fulfilment of the prescribed specifications.

c) The Haryana Agro Industries Corporation (HAIC) deployed unqualified staff and FSD, provided moisture meters[72] only in 30 out of 85 *mandis*, but still claimed and got the entire reimbursement amount on this account (2009-10 to 2013-14). Moreover, the samples were found to be drawn from only few heaps as against the requirement of selection of sample from each heap and in case of Haryana State warehousing Corporation (HSWC); no record of day-wise representative samples taken was available.

The Management accepted (January 2015) the audit observation and stated that sufficient number of moisture meters were provided to the inspectors during the KMS 2014-15.The reply was endorsed by the Ministry (June 2015).

d) In Uttar Pradesh, the prescribed norm for manpower deployment for purchase of paddy was three officials in each purchase centre for ensuring the quality of paddy. However, prescribed number of staff was not deployed in 617 purchase centres (80 *per cent*) out of 768 purchase centres. There was an overall shortage of 60 *per cent* (925 officials were deployed against norms of 2,304).

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[70] *FCI Haryana region – 0.74 LMT, FCI Punjab region – 5.70 LMT*

[71] *FCI Haryana Region-₹ 79.18 crore, FCI Punjab Region-₹ 641.67 crore*

[72] *One moisture meter is required in each mandi*

e) In Odisha, as per operational guidelines, each purchase team shall consist of one Purchase Officer, one Junior Accountant, one Sales Assistant (SA) cum Godown Assistant (GA) and one supporting staff in case of purchase centers run by Odisha State Civil Supplies Corporation (OSCSC). Purchase team may work on rotation basis and cover up to three to four purchase centres in a week. Audit noticed that very few personnel were deployed in PPC in Bhadrak (2009-10 to 2011-12) and Deogarh (2012-13 to 2013-14). In fact, not even one staff on an average per Primary Agricultural Cooperative Society was deployed in Bhadrak during the above period.

Similarly, Operational Guidelines prescribed specific strength of Rice Receiving Centre (RRC)-in-charge, Sales Assistant-cum-Data Entry Operator, Quality Analyst, Dusting Operator, Sweeper and Security Guard in each RRC. The manpower in RRCs in Bargarh and Bhadrak was found to be deficient. Moreover, despite having 80 *per cent* to 87 *per cent* vacancies, the quality of rice surprisingly was stated to be at accepted levels as per acceptance notes signed by the Sales Assistant-cum-Godown Assistant/others. Audit also observed that acceptance notes did not bear the signature of the Quality Analyst in a large number of cases in Bargarh district. Though the District Manager of Bargarh stated that each and every lot of rice had been checked before its receipt in RRCs, such checks fell short by 90 *per cent* in Bhadrak district.

3.6 Pre-Milling storage and damage to paddy

As per custom milling policy of each State, paddy procured by the SGAs need to be safely stored in the premises of the allotted Rice Mills in joint custody with millers. It needs to be ensured that paddy purchased by the SGA is stored and kept under safe custody so that pilferage or damage to stocks is minimised.

However due to inadequate storage facilities or storage in open area, following cases of damage to paddy were noticed in audit:

3.6.1 Storage in open area resulted in damage to paddy worth ₹ 179.76 crore in Chhattisgarh

As per instructions issued (September 2009) by the Department of Food, Civil Supplies and Consumer Protection, procured paddy should be stored by way of Covered and Plinth (CAP), covered with polythene along with provision of drainage at site.

It was observed that in four out of seven districts viz. Raipur, Durg, Mahasamund and Rajnandgaon, 1.96 LMT of paddy amounting to ₹ 85.93 crore procured during KMS 2012-13 was stored in open space without plinth, which was to be milled up to September 2013. Further, as per information furnished by the MARKFED, Chhattisgarh, 1.50 LMT paddy valuing ₹ 179.76 crore, procured during KMS 2011-12 and 2012-13, was damaged in the State due to non milling of paddy in time (September 2014), as detailed below:

Table 3.1
Details of damaged paddy in Chhattisgarh

(₹ in crore)

KMS year	Quantity of damaged paddy (in MT)	Rate of damaged paddy (₹ per MT)	Value of damaged paddy (₹)
2011-12	46,674	10,800	50.41
2012-13	1,03,483	12,500	129.35
Total	**1,50,157 or say 1.50 LMT**		**179.76**

Source: Records of MARKFED, Chhattisgarh

While accepting the audit observation, MARKFED, Chhattisgarh stated (December 2014) that excessive procurement of paddy, storage in open area up to two KMS periods and non-milling of paddy within stipulated time resulted in damage and discoloration of paddy.

Audit also noticed that in FCI Chhattisgarh region, out of total paddy of 6.67 LMT, a quantity of 6.26 LMT of paddy was issued to millers and 0.26 LMT of paddy was stated to be storage loss for KMS 2010-11. However, in respect of balance 0.15 LMT paddy valuing ₹ 16.67 crore[73], no details were found about its whereabouts in the records of FCI.

While accepting the audit observation MARKFED, Chhattisgarh stated (December 2014) that the time schedule for milling was not adhered to due to excessive procurement of paddy.

Picture 3.2
Damaged Paddy at Storage Centres – Rajnandgaon, Chhattisgarh

[73] *Calculated on the basis of cost of ₹ 1,103.41 per quintal as per provisional incidental of paddy being taken over by FCI for KMS 2010-11, no detail was available.*

3.6.2 Loss due to storage in open area resulted in damage to paddy worth ₹ 21.28 crore in Bihar

In Bihar, as per provision contained in BSFC guideline (28 October 2013), it was specified that the total storage capacity should be at least 50 *per cent* of total paddy procured and 25 *per cent* of CMR. It was observed in audit that against the required storage capacity of 27.55 LMT, BSFC had 12.03 LMT storage capacity in which a quantity of 55.10 LMT of food grains was stored during 2011-12 to 2013-14. Thus, due to procurement in excess of storage capacity, 0.17 LMT of paddy worth ₹ 21.28 crore was reported as damaged by the concerned District Managers of the BSFC in three[74] selected districts.

It was further observed in BSFC, Patna that paddy relating to KMS 2012-13 was auctioned (1,47,373 quintal valuing ₹ 18.42 crore at the rate of ₹ 1,250/quintal) for ₹ 9.72 crore resulting into loss of ₹ 8.70 crore. Incidentally, two tenderers (M/s Arena Agro Industries and M/s Kalyani Enterprises) had reported that the paddy worth ₹ 0.24 crore which they had bid for was not available at godowns[75]. This implies that either the bid was invited by BSFC without availability of the paddy in these godowns or the paddy which was available in the godowns was removed without proper authorization/procedure.

The BSFC accepted the facts and stated that paddy was kept in the open space due to inadequate storage space.

While accepting the audit observation, the Ministry stated (June 2015) that the Government of Bihar has repeatedly been requested to develop intermediate storage as well as milling capacity. However, no claim lies with the Ministry for any damaged paddy.

Compliance of Ministry's request by Government of Bihar with a view to prevent damage to precious food grains is awaited in Audit (June 2015).

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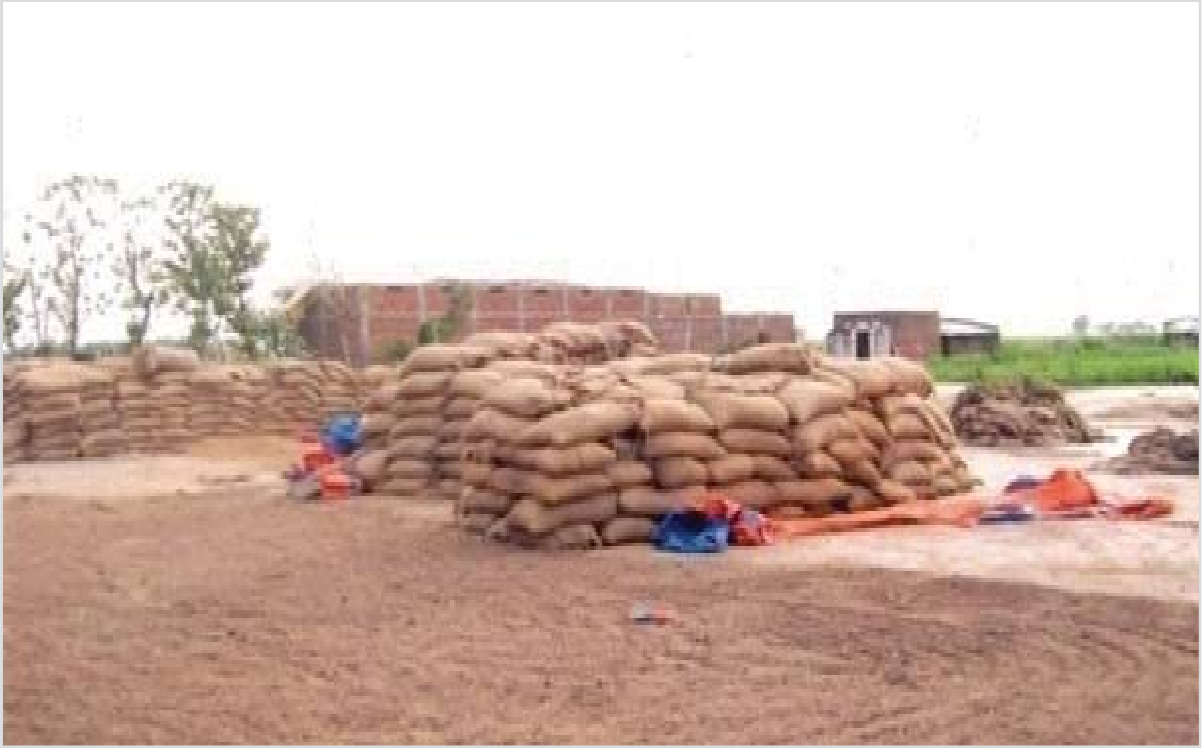
[74] *Rohtas, Patna and Aurangabad*

[75] *Pandarak, Ghoswari, Athmalgola, Belchhi, Barh, Chandor, Patut, Mokamch, Fatuha and Nathpur.*

Picture 3.3
Damaged Paddy at Storage Centre – Sasaram, Bihar



3.6.3 Non-availability of adequate and proper storage facilities leading to damage of paddy worth ₹ 7.93 crore in Odisha

Audit observed that SGAs of Odisha (OSCSC) had no pre milling storage facilities for paddy. The paddy procured at purchase centres were transported to millers' premises for joint custody to be milled within three days under execution of agreement.

Audit observed that the District Managers of SGA had not made prior visits to the millers' premises to ensure adequacy of infrastructure for proper storage of the paddy. Eventually, the paddy stored in the millers' premises exceeded the storage capacity in Baragarh (2009-10 to 2013-14) and Bolangir (2009-10 and 2013-14) districts. Though in other districts it was stated to be within the storage capacity a joint inspection of the selected millers in the presence of Audit in Bargarh, Bolangir and Malkangiri districts revealed that no separate fencing was made in mills to identify the stock of the respective agency and that of the miller, some of the paddy stock was kept in open without cover. Thus, the prescribed method of First-In-First-Out (FIFO) of storage was not possible in these districts. This practice carries the risk of outward movement of new stock before the old stock resulting in deterioration of food grains because of prolonged storage. Audit observed that 6,054.99 MT of paddy worth ₹ 7.93 crore, was damaged in millers (21) premises in Sambalpur district due to heavy rain (August 2014). The SGA instructed (September 2014) the District Manager for immediate milling of damaged paddy to determine salvage value. However, action taken reports for claim of insurance and recovery from the millers as per terms of agreements were not available with the District Authorities.

The Ministry replied (June 2015) that the GoI reimburses the subsidy claim of the DCP State based on offtake from the Central Pool stock out of procurement undertaken by State. The stock conforming to PFA/FSSA only is issued under TPDS. Thus, for any damaged paddy no claim lies with the GoI.

Though the Ministry has stated that for any damaged paddy, no claim lies with the GoI, the fact remains that this deficiency has led to damage to paddy worth ₹ 7.93 crore which clearly being a loss needs to be addressed on priority.

Recommendation No. 9	Ministry's Reply
In view of widespread damage to paddy because of lack of pre-milling storage, the GoI/FCI/State Governments may augment the pre-milling storage capacity to minimize the risk of damage to precious food grains.	The Recommendation is accepted.

3.7 Unsecured paddy worth ₹ 5,221.09 crore and non-insurance of paddy stock in Chhattisgarh, Odisha, Uttar Pradesh and Andhra Pradesh

As per milling agreements of the respective States, millers are required to furnish security deposit in the form of bank guarantee/post dated cheques/advance rice etc. to the State Governments and paddy is to be given to millers only after obtaining the required security for the paddy.

However, it was noticed in audit that security was either not obtained or was partially obtained from the millers, leaving paddy worth ₹ 5,221.09 crore unsecured in the millers premises. Details are given in ***Annexure-V.***

While accepting the audit observation, the Ministry stated (June 2015) that it is seeking latest status of obtaining bank guarantee in place of post dated cheques.

As per the conditions of the milling agreement of respective States, millers have to safeguard their factory premises against all risks by an insurance coverage at their own cost for insuring the risk and cost of paddy lying in their premises.

However, in FCI Chhattisgarh region, no proof of insurance of paddy was produced to Audit. Similar discrepancy was noticed in Odisha during KMS 2009-10. Though in subsequent KMS, insurance was undertaken by OSCSC centrally, insurance particulars were not furnished to Audit in this regard, stating that the same were not available. In Uttar Pradesh

120 millers in nine revenue districts[76] had taken no insurance coverage for 5.69 LMT paddy valuing ₹ 631.31 crore during the period from 2009-10 to 2013-14. Thus, paddy remained uninsured in the premises of rice millers during the period from 2009-10 to 2013-14.

This practice creates a risk of non recoverable loss in the event of damage/theft/loss of paddy from the premises of the miller.

The Ministry stated (June 2015) that in Chhattisgarh, the practice of releasing paddy to the miller after receipt of equivalent rice in advance was followed and as such insurance of stock was not required and in case of any damage, loss etc. to paddy of SGAs in storage is not borne by the GoI.

The reply of the Ministry only partially addresses the issue regarding the FCI but is silent regarding observations pertaining to the States. Moreover, the practice of leaving paddy in control of private rice millers without any collateral security is fraught with the risk of non delivery of rice, the magnitude of which is brought out in para 6.3, later in this report.

Recommendation No. 10	**Ministry's Reply**
The State Governments/SGAs should ensure that paddy is given to millers only after obtaining the required security for the paddy.	The Recommendation is accepted.

[76] *Includes Kushinagar, Deoria, Maharajganj, Gorakhpur, Pilibhit, Allahabad, Ghazipur, Amethi and Mirzapur*