

Chapter-VI

Delivery of rice by rice millers to FCI/SGAs

Delivery of CMR/Levy Rice is governed by various instructions stipulated in Custom Milling Agreement/Levy orders of the respective States. Some of the instructions enunciated in these agreements/orders include utilization of milling capacity strictly on the basis of paddy stocks stored by SGAs and paddy purchased by millers on their own, maintaining the ratio for delivery of custom milled and Levy Rice, process the paddy as per specifications laid down by the GoI, compliance to delivery schedule etc.

Procurement of rice under statutory levy system is one of the significant sources of the Central Pool Stock. FCI is the designated procurement agency to receive Levy Rice from the millers. As per the procedure of levy orders of respective States, District Collectors are to ensure that the Levy Rice as per law is collected from the miller before they dispose any stock in open market. The target for levy is set for the millers by the District Administration on the basis of their milling capacity and also in proportion to the target set for delivery of CMR.

6.1 Grant of extensions for delivery of rice in excess of prescribed norms and waiver of pending delivery of CMR/Levy Rice

Prior to KMS 2012-13, extensions for delivery of rice were used to be given by the Ministry on case to case basis for various States. In KMS 2012-13, the GoI laid a clear-cut policy that in case of any constraints on the part of FCI, the last date of delivery of CMR/Levy Rice will be considered for extension by one month at a time and up to three months in all, on the receipt of request in a prescribed format duly countersigned by the General Manager of FCI concerned.

It was observed in the case of Punjab that target date for milling of entire paddy procured during KMS 2009-10 was 31 March 2010. However, based on requests of the Government of Punjab, the period was extended six times (up to 10 July 2010, 31 July 2010, 30 September 2010, 31 January 2011, 15 May 2011 and 15 July 2011). Moreover, substantial relaxation in the specification regarding damaged grains was also given more than once and the same was intimated to the State Government from time to time. While claiming the extension, the reasons furnished by the State Government for non delivery of rice in time were inadequate space and manpower with FCI. However these reasons were countered by FCI, stating that the State Government was not giving its mill wise schedule for delivery of rice and as such, it is not able to create space specifically at such places as and when it was required.

Further, it has been observed that with a view to clean slating of pending cases, the GoI removed (August 2013) the obligations of CMR and Levy Rice purchased by the State

Governments and their Agencies on behalf of Central Government during marketing seasons (2007-08 to 2011-12) pending for delivery in the Central Pool. Till KMS 2011-12, 23.35 LMT of Levy Rice and 15.94 LMT of CMR was pending for delivery with various State Governments pertaining to KMS 2007-08 to 2011-12. On the basis of difference between the rates of KMS 2012-13 and the rates of respective year for which CMR/levy obligation was pending, along with carry over cost on storage and interest on capital employed, a notional gain of ₹ 118 crore to the GoI was stated to have been worked out in the Ministry. Despite various objections of FCI and Integrated Finance Division (IFD) of the Ministry, it was decided to close the chapter of undelivered Levy Rice and CMR of all previous KMS up to 2011-12. Status of imposition of prescribed penalty imposed (if any) on rice millers/SGAs, for not supplying CMR/Levy rice as per quantities prescribed and as per target dates was not known from the records made available to Audit.

The Ministry stated (September 2014) that the Government believed that whatever quantity of CMR or Levy Rice was not delivered in time, virtually did not exist in the stock of millers and if the Ministry allowed it to be considered as pending for delivery for an indefinite period it offered chance to serious malpractices including recycling of PDS-leaked stock. The strict enforcement of a cut-off date for delivery alone could bring discipline and force SGAs to arrange timely milling and prevent malpractices. As SGAs took penal action against defaulting millers including their exclusion from operations in next season, there was no chance of old stocks coming in for delivery in next season. Moreover, proper quality check also helped in identifying old stock and its rejection. The Ministry further stated that the concerned State Governments/SGAs did take necessary action against the defaulting rice mills for non-delivery of CMR/Levy Rice and recover the losses from the defaulting mills as per their policy. These penalties vary from State to State.

The reply is not satisfactory as this decision of the Ministry opens the possibility for the millers to sell the undelivered rice in open market at higher rates, and/or deliver the rice of earlier KMS to FCI at current KMS rate which is obviously higher than earlier rates. This allows the millers to gain undue benefit without passing the benefits to the farmers who have been paid at the lower price (MSP) of the year in which the paddy was procured from them by the millers. The practice, in fact, increased the benefit margin of millers.

6.2 Waiver of penal interest of ₹ 159.47 crore led to undue benefit to millers in Punjab

As per Custom Milling Policy (CMP) and Draft Agreements, the millers in Punjab were required to deliver CMR by 31 March of KMS 2009-10, 2010-11, 2012-13 and 2013-14 (except KMS 2011-12 where the rice was to be delivered by 30 June 2012).

To avoid unnecessary delay in milling of paddy by the millers, which leads to interest burden on SGAs, a clause of penal interest was incorporated in the CMP of KMS 2009-10, 2010-11, 2012-13 and 2013-14. According to this clause, in the event of delay in delivery of CMR,

penalty in the shape of interest at specified rates (12 *per cent* for KMS 2009-10 and 2010-11 and 13 *per cent* for 2012-13 and 2013-14) was to be recovered from the defaulting millers.

However, Audit noticed that the penal interest clause applicable for KMS 2010-11 was dispensed with (October 2010) by the GoP without compensating the procuring agencies for their increased liability of interest on cash credit, in case of delayed period of milling of paddy and delivery of rice. Further, in CMP of KMS 2011-12, approved by the State Government (September 2011), the penal interest clause was not even incorporated.

As per provisional rates for CMR for each KMS, the GoI allowed interest for only two months on the amount invested by the procuring agencies for procurement and milling of paddy. On the request of the Government of Punjab, the GoI extended the delivery period of rice from time to time up to July 2011 (16 months), June 2012 (15 months), December 2012 (six months), January 2014 (ten months) and June 2014 (three months) for KMS 2009-10 to 2013-14 respectively. Consequently, the milling operations also continued up to the extended period. However, the procuring agencies did not recover the applicable penal interest from the millers for delayed milling of paddy/delivery of rice for KMS 2009-10, 2012-13 and 2013-14 resulting in loss of penal interest of ₹ 159.47 crore.

Further, in CMP for 2012-13 and 2013-14, though the clause of penal interest was incorporated but charging of penal interest was not linked to delay in delivery against monthly milling/delivery schedule. The clause was applicable only for delivery of rice after the last date i.e. 31 March 2013 for KMS 2012-13. For the KMS 2013-14, interest was chargeable w.e.f. 1 April 2014 in the event of delivery of rice after 30 June 2014. As penal interest was not to be charged for default in adhering to the monthly delivery schedules, the inclusion of delivery schedule in CMPs was pointless.

SGAs and Food & Supplies Department of the State Government stated (February 2015) that delay in delivery of rice is not due to the fault of the rice millers, but was due to failure of FCI in providing space and technical staff. The Ministry stated (June 2015) that due to fixation of interest for a fixed period of two months in the cost sheet for CMR delivery by Punjab, the GoI has not suffered any loss.

The reply does not address the fact that the decision of waiver of penal interest by GoP led to avoidable expenditure of ₹ 159.47 crore and was unjustified. Moreover, the SGAs were left with no remedy to recoup the loss of interest which they were paying on outstanding cash credit due to delays in delivery of rice by the millers. This resulted in undue benefit of ₹ 159.47 crore to the millers.

6.3 Non-delivery of paddy/CMR/Levy rice by millers

The paddy given to Rice Millers is to be delivered back in the form of resultant rice in proportion to the out turn ratio. However, Audit noticed in the selected districts of following

States that 15.89 LMT paddy/CMR amounting to ₹ 3,042.87 crore (including penalty) was not delivered by millers. Details are as follows:

Table 6.1
Non-delivery of paddy/CMR by millers

Name of the State	Year	Quantity of paddy non-delivered (in LMT)	Value of paddy non-delivered (net of recovery) (₹ in crore)
Punjab	2009-10 to 2013-14	8.84	1,485.06
Haryana	2012-13 to 2013-14	0.46	200.07
Telangana	2010-11 to 2013-14	0.63	147.26
Uttar Pradesh	2009-10 to 2013-14	0.95	161.86
Bihar	2011-12 to 2013-14	3.35	647.68
Odisha	2009-10 to 2013-14	1.66	400.94
	Total	15.89	3,042.87

The Ministry stated (June 2015) that it reimburses the subsidy claim of the State Governments based on offtake from the Central pool stock procured by the SGAs. The shortages are borne by the State Governments and not reimbursed by the GoI.

Though the Ministry stated that shortages were borne by the State Governments and not reimbursed by the GoI, however, 15.89 LMT paddy worth ₹ 3,042.87 crore was not delivered which was a huge loss for which remedial action needs to be taken on priority.

Regarding non delivery of CMR in Odisha, Punjab and Uttar Pradesh, it stated that undelivered quantity was deleted from the Central Pool and the final figures are being reconciled. In case of Telangana, recovery position was called for from the State Government. In case of other States, the reply is awaited.

Further, Audit noticed that in the selected States the quantum of Levy Rice, not delivered, from 2009-10 to 2013-14 was 23.34 LMT valuing ₹ 4,527.91 crore as detailed below:

Table 6.2
Non-delivery of Levy Rice

Name of the State	Year	Quantity of Levy Rice not delivered (in LMT)	Value of Levy Rice not delivered (₹ in crore)
FCI Andhra Pradesh	2009-10 to 2013-14	15.27	3,060.55
FCI Haryana	2009-10 to 2013-14	1.04	197.35
Uttar Pradesh	2009-10 to 2013-14	4.23	782.94
FCI Odisha	2009-10 to 2013-14	2.80	487.07
	Total	23.34	4,527.91

Salient observations with regard to CMR/Levy Rice are given below:-

a) In Haryana, Audit noticed that in the case of Haryana Agro Industries Corporation Ltd. (HAIC), physical verification reports were not available. Moreover, in case of Haryana State Warehousing Corporation (HSWC) and Food and Supplies Department (FSD), physical verification reports were deficient as only a summary of stocks was prepared without actually conducting physical counting of the gunnies and stacks. Moreover, neither the record of paddy received, paddy milled/un-milled was maintained by the millers nor any related information was sent by them to the SGAs, though it was required under agreement.

It was observed that allotment of paddy in excess of millers' capacity, non-obtaining of proper guarantee from the millers, non-conducting of physical verification of paddy lying with the millers coupled with poor monitoring resulted in the non-delivery of 0.24 LMT paddy valuing ₹ 122.10 crore by 11 millers in Haryana during the period KMS 2009-10 to 2013-14. Further, as much as 0.22 LMT of CMR valuing ₹ 77.97 crore was not delivered (November 2014) by the 19 millers in Haryana.

The Food and Civil Supplies Department accepted (January 2015) the audit observation and stated that necessary action was taken against the millers and necessary details in this regard would be provided to Audit. It further stated that in order to avoid the recurrence of such events in future, efforts were being made to strengthen the monitoring and control mechanism.

While accepting the audit observation, the Ministry stated (June 2015) that Government is seeking latest status on obtaining bank guarantee from the millers in place of post dated cheques; implementation of the same was awaited in Audit (June 2015).

b) In Punjab region of FCI, Audit noticed that procurement of Levy Rice from millers was a cheaper option than CMR obtained from SGAs during 2009-10 to 2010-11 due to significant price difference ranging from ₹ 1,268.20 to ₹ 1,433.50 per MT. As there was short delivery of Levy Rice by millers it resulted in extra cost to the GoI amounting to ₹ 31.26 crore during these two years on account of purchase of CMR to fill the gap. Similarly in case of Haryana region, due to significant price difference ranging from ₹ 838.10 to ₹ 1,160.90 per MT, short delivery of Levy Rice by millers resulted in extra cost to the GoI amounting to ₹ 9.78 crore.

c) Against the target of 152.75 LMT of paddy under levy, millers supplied rice to the tune of 129.29 LMT with a short delivery of 23.46 LMT during KMS 2009-10 to 2013-14. Audit observed that the percentage of milled rice, out of Government paddy delivered to the Central Pool through CMR route, ranged only from 34 per cent to 40 per cent against the prescribed out-turn ratio of 67 per cent. No reasons for this exceptionally low out-turn ratio were ascertainable from the records. Out of 20.79 LMT paddy procured for CMR during KMS 2012-13 and 2013-14, only 7.78 LMT of paddy (5.23 LMT rice) was delivered to FCI/SGAs and 13.01 LMT was still lying with millers.

Further, only seven rice mills supplied CMR within stipulated 15 days and 75 mills supplied rice with delay ranging between 46 and 90 days; in RMS 2012-13, delay up to 205 days was noticed. In the selected district of Andhra Pradesh, Audit noticed incidents of non-delivery/delay in delivery of CMR where the cost of paddy/interest/penalty to the tune of ₹ 0.47 crore was not recovered from the millers. Such practices carry the risk of diversion of Government paddy to outside market or alternatively, utilization of the same for making levy deliveries and/or trading of Government paddy by the millers for their private business.

While accepting the audit observation, the Ministry stated (June 2015) that separate data for Andhra Pradesh is not available up to 2013-14. However, as per combined data available, an undelivered quantity of 0.13 LMT has been deleted from the Central Pool and final figures are being reconciled.

d) The Purchase Policy 2009-10 to 2013-14 of Uttar Pradesh provided that the State Government and SGAs were responsible for getting delivery of the CMR after milling of paddy, within 20 days from the date of receipt of paddy to the nearest depot of FCI. Further, Para 32.3 of Policy 2011-12 and Para 29.8 of Purchase Policy 2012-13 of Uttar Pradesh provide that the next lot of paddy would be delivered to the miller only after delivery of resultant rice from the previous lot of paddy to FCI. However, the envisaged targets of CMR were not achieved in the State of Uttar Pradesh and the shortfall ranged between 7 per cent and 64 per cent for 2009-10 to 2013-14. A quantity of 2.39 LMT CMR (October 2014) was outstanding for delivery from the rice millers in Uttar Pradesh.

In reply, Food and Civil Supplies Department, Uttar Pradesh stated (July 2014) that Recovery Certificates (RC) had been issued against the millers and departmental action against erring employees had been referred to the Commissioner, Food & Civil Supplies.

However, neither the details about RC amount recovered nor departmental action initiated were available (June 2015).

Moreover, as per Purchase policy in Uttar Pradesh, in case CMR is not delivered within stipulated period, millers would be responsible to pay holding charges at the rate of ₹ one per quintal per day to the Government. However, Audit noticed that on the total quantity of 95,283.86 MT of rice, pending for delivery for the period 2009-10 to 2013-14 in the selected districts⁹⁴, the corresponding holding charges of ₹ 65.16 crore were lying unrecovered from millers till June 2014.

The Ministry replied (June 2015) that the estimate for procurement is drawn up after discussion with States Food Secretaries before onset of the Kharif Season. However the actual procurement is dependent on factors like production, market arrival and procurement by private traders.

⁹⁴ Allahabad, Amethi, Basti, Deoria, Ghazipur, Gorakhpur, Kushinagar, Maharaj Ganj, Mirzapur, Pilibhit, Shahjahanpur

The reply is not convincing as targets should be realistically fixed based on procurement trends of earlier years and taking into account other known variables. Major deviations should be recorded and got approved from the competent authority.

e) In case of one district (Kurukshetra) of Food and Supplies Department (FSD), Haryana, four rice millers did not deliver the due CMR to FCI as per approved schedule during KMS 2009-10, 2011-12 and 2012-13. As such, ₹ 2.65 crore holding charges were due from these millers. However, FSD could recover only ₹ 0.32 crore and balance ₹ 2.33 crore were still recoverable from the millers. In one case the rice mill was closed and the owner of the rice mill had expired in another case. Thus, the chances of recovery were remote in these cases. For the other two millers from whom ₹ 2.14 crore was recoverable the cases were in arbitration. It was observed that SGAs did not take security in the form of mortgage of the property of the millers, due to which it could not recover the dues. Thus, there was non-recovery of ₹ 2.33 crore out of which recovery of ₹ 2.14 crore was doubtful.

The Food and Civil Supplies Department stated (January 2015) that comments of the concerned Director General of Food and Supplies (DGFS) of State Government would be obtained and FIR would be lodged against the defaulting officials.

Similarly, in Haryana State Warehousing Corporation (HSWC) Fatehabad, for the year 2013-14, it was noticed that ₹ 0.67 crore was shown recoverable from various millers. However, details regarding the nature of recovery, period since when the amount was recoverable and the millers from whom this amount was recoverable were not available on the record.

The Food and Civil Supplies Department stated (January 2015) that ₹ 24 lakh was recovered and ₹ three lakh shall be recovered very soon and balance amount of ₹ 40.43 lakh was pending due to litigation.

f) A review of delivery of CMR by the State Governments/SGAs during KMS 2009-10 to 2013-14 in Punjab and Haryana regions revealed that State Government/SGAs had delivered 102.64⁹⁵ LMT (38 per cent) of rice to FCI after a delay of one to 18 months.

In the case of Levy Rice, the Department of Food and Civil Supplies, Haryana accepted (January 2015) the audit observation and stated that action would be taken against the defaulting millers.

The Ministry replied (June 2015) that in addition to the normal milling period allowed by the GoI, extension in milling are given based on request of the State Governments and taking into consideration the availability of milling capacity in the area/ State.

The reply is not tenable as the GoI has a clear cut policy that in case of any constraints on the part of FCI, the last date of delivery of CMR and Levy Rice will be considered for extension by one month at a time and up to three months in all on receipt of request in a prescribed format duly countersigned by the General Manager of FCI concerned. However, in the above

⁹⁵ Haryana Region-15.04 LMT, Punjab Region-87.60 LMT

case the extension was up to 18 months, a period much longer than the maximum permissible period of three months.

g) In Chhattisgarh, as per instruction issued (November 2013) by the State Department of Food, Civil Supplies and Consumer Protection (for KMS 2012-13), for those millers who lifted the paddy from the Societies and were unable to deposit rice in FCI or Chhattisgarh State Civil Supplies Corporation (CGSCSC), the cost of paddy was to be recovered from them. The rates of paddy for adjustment/recovery from the millers was to be as follows:

- i. Common Paddy- ₹ 1,285.53 per quintal
- ii. Grade 'A' Paddy- ₹ 1,316.19 per quintal

The cost sheet for KMS 2012-13 the CMR rate for Common and Grade 'A' paddy was found as ₹ 1,336.48 per quintal and ₹ 1,367.89 per quintal respectively. Further, in the rate of CMR, the Society Commission, administrative charges, MLC etc. are included. After inclusion of above charges, cost of CMR becomes higher than the rate fixed by the State Government for the recovery/adjustment of cost of the paddy for rice not deposited by the miller. Thus, the recovery from the miller should have been made after inclusion of the above charges instead of the rate fixed by the Department.

However, Audit noticed in District Marketing Office (DMO), Raipur (September 2014) that due to non-delivery of rice by the millers against 59,301.62 MT of paddy lifted (Common-20,840.77 MT and Grade A-38,460.85 MT), the Department had recovered only ₹ 77.41 crore from the millers as per the rate fixed by the Department and not at the rate after inclusion of other charges. Thus, non-recovery of amount of paddy at the appropriate rate resulted in loss of ₹ 3.05 crore to the Government of Chhattisgarh.

The Ministry replied (June 2015) that the shortages are borne by the State Government and not reimbursed by the GoI.

The reply of the Ministry is not tenable because though the shortages are borne by the State Government and not reimbursed by the GoI, the above observation points towards non-compliance of the GoI orders by the millers and needs to be addressed on priority.

h) Audit noticed that there was sub-optimal performance of the rice mills in the selected revenue districts of Odisha as a whole during KMS 2009-10 to 2013-14 (except in Bhadrak and Kalahandi during KMS 2011-12). During KMS 2013-14, millers of selected revenue district did not deliver any Levy Rice except two revenue districts⁹⁶ where only 165 MT and 107 MT respectively were delivered.

As per procurement policy, the District Collector of the district concerned was required to ensure that the levy dues were collected from the millers in the district before they sell any stock in the open market. However, there was no persuasion by district authorities as well as FCI for the compliance of levy order and fulfillment of targets set for individual miller during

⁹⁶ Malkangiri and Sambalpur

the respective KMS. Also, no action was taken against the defaulter millers by the State Authority. Thus there was no preventive or corrective action to guard against non delivery of CMR/Levy Rice by the millers in Odisha.

Thus, Audit noticed that there were multiple instances of non-delivery of rice by private rice millers even after having taken custody of the paddy meant for conversion into CMR/Levy Rice. The total value of such non-delivery of rice in the States of Andhra Pradesh, Bihar, Haryana, Odisha, Punjab, Telangana and Uttar Pradesh was ₹ 7,570.78 crore (15.89 LMT paddy/CMR valuing ₹ 3,042.87 crore and 23.34 LMT of Levy rice valuing ₹ 4,527.91 crore). In absence of a collateral security from the millers, the State Governments/SGAs/FCI had no recourse to recover the losses on this account. This also increases the risk of misappropriation of CMR and diversion to open market of Levy rice by the private rice millers.

Recommendation No. 14	Ministry's Reply
The State Governments/SGAs/FCI may consider a mechanism by way of obtaining bank guarantee from rice millers as collateral security to safeguard against non delivery of CMR/Levy Rice. Also, they may consider recourse to legal proceedings to recover the value of non- delivered CMR/Levy Rice.	The Recommendation is accepted.