Chapter-IV

Implementation of Private Entrepreneur Guarantee Scheme for Construction of Godowns in Punjab

4.1 Introduction

GoI introduced the Private Entrepreneur Guarantee (PEG) scheme for augmenting the food storage capacity through private participation in the XI five year plan (2007-12). The scheme was finalised in consultation with Central Warehousing Corporation (CWC) and the State Warehousing Corporations (SWCs). The storage capacity envisaged to be created by private participation was to be hired by FCI with guarantee ranging for period of seven and ten years, through CWC/SWCs at the rates finalized by High Level Committee (HLC) through a tendering process by nodal agency[32].

A capacity of 49.99 Lakh Metric Tonne (LMT) was to be constructed in Punjab region under the PEG scheme. PUNGRAIN[33] was nominated as nodal agency by the State Government for creation of storage capacity under the scheme through Private Entrepreneur (PEs). The godowns under the scheme were to be constructed within a period of one to two years[34] after finalisation of agreement for construction of respective godowns.

The audit was conducted with a view to assess effectiveness of the scheme and whether the scheme was implemented as per applicable provisions.

Audit covered four selected districts of FCI, i.e. Faridkot, Sangrur, Moga and Kapurthala, which constituted 17.11 LMT (39 *per cent*) of the total 43.49 LMT capacity constructed in Punjab as on 31 March 2016. Audit was conducted from 18 April 2016 to 15 July 2016 at Regional Office FCI, Punjab and selected four District Offices covering the period of five years from 2011-12 to 2015-16. A total of 26 out of 77 godowns (34 *per cent*) in selected districts were covered in audit.

Audit findings

4.2 Achievement of Objectives

4.2.1 Delay of five to seven years in augmentation of storage capacity

As against the approved capacity of 49.99 LMT, a capacity of only 45.29 LMT (192 godowns) was sanctioned and awarded for construction of godowns in Punjab during the period 2009-10 to 2015-16 as detailed in the following Table 4.1:

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[32] *Implementing Agency to get godowns constructed from private entrepreneurs.*
[33] *Punjab State Grains Procurement Corporation Limited.*
[34] *One year in case of godown without railway sidings and two years for godowns with railway sidings.*

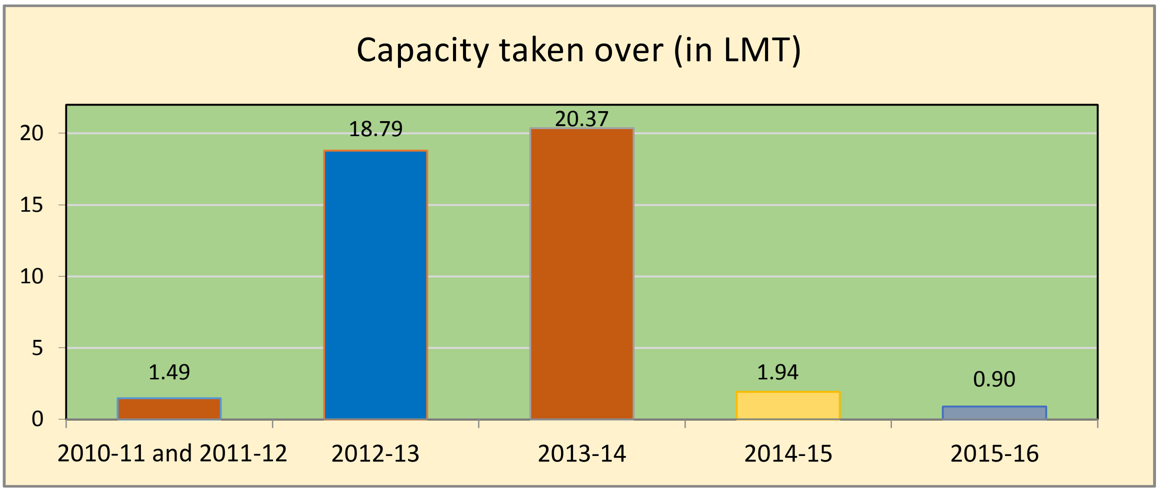
Table 4.1: Awarded capacity for construction of godowns during 2009-10 to 2015-16 under PEG Scheme

Year	Awarded Capacity (in LMT)	No. of godowns
2009-10	0.56	4
2010-11	0.94	6
2011-12	40.26	165
2012-13	0	0
2013-14	1.26	7
2014-15	2.27	10
2015-16	0	0
Total	**45.29**	**192**

As depicted in the Table 4.1, the bulk of contracts for capacity creation were awarded in 2011-12, after a gap of three years from inception of the scheme.

Capacity of 43.49 LMT (185 godowns) had been taken over till 31 March 2016. The remaining capacity 1.80 LMT (seven godowns) was in various stages viz. under construction, completed and yet to be taken over (31 March 2016). The storage capacity constructed and taken over during 2010-11 to 2015-16 is depicted in the Chart 4.1:

Chart 4.1: Storage capacity constructed and taken over



It may be seen that the pace of implementation of scheme was negligible in XI plan and it improved during 2012-13 and 2013-14, resulting in godowns being taken over after a delay of two to seven years since the introduction of the scheme. The delay in construction of godowns under the scheme was primarily attributable to delays in award of contract for construction of godowns to PEs. Audit observed that the reasons for delay in award of contracts were frequent changes regarding storage capacity required, changes in guarantee period first from five to seven years and then to ten years due to poor PE response and delay in identification of district-wise storage needs. These factors led to delays in implementation ranging from five to seven years.

4.2.2 Continued storage of central pool wheat stock at Covered and Plinth (CAP)[35]/Kacha Plinth due to delays in storage capacity creation

The PEG Scheme 2008 was launched to enhance covered storage capacities as the CAP/Kacha storage is prone to damage and deterioration of stock and is not an optimum storage method. However, as on 31 March 2016 in Punjab, 53.56 LMT of wheat stock was lying in CAP/Kacha Plinth/Mandi with SGAs/FCI and 4.72 LMT of wheat valuing ₹ 700.30 crore got deteriorated which was declared as non-issuable to TPDS (March 2016) as it was stored in open areas.

Delays in implementation of the PEG scheme resulted in huge stock of wheat being kept in CAP/Kacha plinth by State Agencies/FCI. Such stock increased from 103.36 LMT in 2011-12 to 132.68 LMT in 2012-13; it was only from 2013-14 onwards that it started decreasing after taking over of the godowns under the scheme. The total covered storage capacity increased from 73.84 LMT (2011-12) to 102.29 LMT (2015-16). The FCI hired storage capacity was at a peak at 52.48 LMT in 2012-13 which decreased in 2015-16 to 39.26 LMT due to dehiring of existing godowns by FCI.

Audit noticed in the two selected districts at Sangrur and Faridkot that capacity of only 12.94 LMT was taken over under PEG Scheme even though the central pool wheat stock with FCI/State Agencies lying in open/kacha plinth was much higher at 14.40 LMT valuing ₹ 2,413.04 crore[36] at the end of RMS (Rabi Marketing Season) 2015 (30 June 2015). Moreover, despite huge quantities of wheat lying unprotected in CAP/kacha plinth a capacity of six LMT was dehired by FCI during the period September 2012 to March 2016 in these districts. Thus, in both these districts, a significant quantity was lying in CAP/kacha plinths, exposed to the vagaries of weather.

Audit found that while on one hand FCI was taking over the storage capacity under PEG scheme but at the same time it de-hired its existing hired capacity of PSWC[37] even though large quantity of central pool wheat stock was being stacked in CAP/Kacha plinth rendering it vulnerable to deterioration due to conditions such as rains, rodent, birds etc.

4.3 Implementation of Scheme

4.3.1 Award of contracts to ineligible private entrepreneurs

Clause 17 of PEG Scheme 2008 provided clear specifications for construction of godowns and these specifications were to be part of tender document. The clause K of Schedule I of Model Tender Form (MTF) for godowns hired under 10 year guarantee scheme prescribed the requirement of land for construction of conventional type storage godown as:

a) First 5,000 MT Capacity = 2.0 acres;
b) Further 1.7 acres additional land will be required for every increase of 5,000 MT capacity.

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[35] *Covered and Plinth refers to the outdoor stacks of bagged grain, which is covered with some waterproof material.*
[36] *Calculated on the basis of acquisition cost of wheat (₹ 16,757.20 per MT) in the Punjab for the year 2014-15.*
[37] *Punjab State Warehousing Corporation.*

Audit noticed in four selected districts that out of capacity of 17.11 LMT constructed under PEG Scheme, 1.35 LMT (7 godowns) hired under seven and ten years guarantee scheme were constructed by PEs on plots which were short of area ranging between 0.17 acre to 0.83 acre than the specified area. Construction of godowns on undersized plot of land is a major deviation which not only affects the operational activities and quality of storage of food grains but is also in violation of the minimum laid down requirement of land, which was a prerequisite for qualifying in technical evaluation of bids. Moreover, these cases were not even put up to the HLC by FCI for appropriate penal action for deviating from the conditions of MTF. As these bidders did not fulfil the prerequisite conditions laid down in MTF, the award of contracts for construction of these godowns to ineligible bidders was irregular. As the FCI paid an amount of ₹ 21.04 crore as rent to these PEs during the period 2012-13 to 2015-16 undue benefit was passed on to the PEs who were *ab initio* ineligible for the award of contract.

4.3.2 Construction of godown in contravention of conditions laid down in PEG Scheme and MTF

Clause 11.1 of PEG Scheme 2008 and clause 23 of MTF provided that all godowns of 25,000 MTs or above capacity will preferably be Railway siding godowns. Audit noticed that 18 godowns of more than 25,000 MT each (with an aggregate capacity of 10.68 LMT) were taken over even though they were not constructed at railway sidings. Takeover of godowns without railway siding resulted in two additional labour operations viz. unloading and stacking in godown and further destacking and loading into trucks for onwards movement towards railhead. Hiring of godowns (above 25,000 MT) at sites without railway siding would cause recurring financial burden on FCI due to additional loading and unloading operation till conclusion of the contract. The financial implication of extra handling cost was ₹ 9.77 crore during 2012-13 to 2015-16.

4.3.3 Extra expenditure due to incorrect measurement of distance of godowns from railheads

In terms of PEG Scheme, PEs were to specify the distance of the godown from the railhead which constituted an important factor for evaluating the financial bid and award of contract by HLC. As per records, the godowns were taken over by FCI after inspection by a committee of officers of FCI. However, it was noticed in Audit that in 74 *per cent* cases the actual distance of the godowns from the railhead was different from what was specified by PEs in the bid documents. Out of 154 godowns taken over under PEG scheme, excess distance ranged from + 0.1 km to +7.1 km in respect of 114 godowns. The committee which performed the physical inspection before taking over the godowns did not diligently measure the actual distance. Due to wrong measurement of distance by PUNGRAIN and FCI at the initial stage, FCI had to pay more for the transportation for the excess distance and incurred excess expenditure of ₹ 8.36 crore[38] as given in the following Table 4.2:

[38] ***Calculated at the rate of seven paisa per quintal per km, as per normalizing factor stipulated in the MTF.***

Table 4.2: Statement showing payment of transportation for the excess distance

(₹ in crore)

Name of scheme	Total godowns	Godown having distance variation	Range of distance variance (km)[39]	Excess payment due to distance variation
1	2	3	4	5
10 years guarantee	97	69	0.1 to 7.1	5.26
7 years guarantee	57	45	0.5 to 3.9	3.10
Total	**154**	**114**	**0.1 to 7.1**	**8.36**

Later (October 2015/January 2016) the variation in distance from godown to railhead was reassessed by the Regional office committee and financial impact due to change in the distance was worked out in respect of those godowns where distance was beyond eight km and deduction in rent was imposed for that part of distance. Though recovery of ₹ three crore in respect of 46 godowns (which were beyond eight km) was imposed for the period 2012-13 to 2015-16, but no recovery was imposed in respect of those cases where other discrepancies were noted and the overall distance was within eight km. The remaining amount of ₹ 5.36 crore was still recoverable from the PEs.

4.3.4 Deficient clause for payment of Service Tax

As per Modal Tender Form (MTF) for inviting tender under PEG (Private Entrepreneurs Guarantee) scheme, the rate for storage charges/rent was inclusive of the element of service tax. However, the MTF did not specify either the procedure for ensuring payment of service tax by PEs to the authorities concerned or requirement of production of documentary evidence to FCI. Audit further noticed that the agreement executed between FCI and PUNGRAIN, did not include the clause that rent was inclusive of service tax.

During scrutiny of records in three district offices of Faridkot, Moga and Sangrur it was noticed that capacity of 2,63,900 MT under the seven year guarantee scheme was taken over by FCI through PUNGRAIN. Godown rent ranging from ₹ 124.17 lakh per month to ₹ 127.71 lakh per month (inclusive of service tax) was paid to PUNGRAIN during the period August 2012 to March 2016. However, the godown rent was released to PUNGRAIN without obtaining any supporting documents for payment of service tax of ₹ six crore by the PEs to the concerned taxation authority.

Regional Office, FCI, Punjab stated (October 2016) that the rent was paid to private investors by FCI through PUNGRAIN inclusive of service tax and it was for PUNGRAIN to ensure that such deposit was made by the private entrepreneur to the concerned tax authorities. The Management also referred the issue of service tax to PUNGRAIN (July 2016) to ensure that service tax obligation was met by the entrepreneur. Reply/action taken by PUNGRAIN was awaited (December 2016).

Not insisting on proof of payment for service tax before release of full payment was an obvious control weakness.

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[39] *Calculations based on actual difference in cases of each godown.*

4.3.5 Avoidable payment of supervision charges to PUNGRAIN in contravention of scheme

According to terms of PEG scheme, godowns hired by PUNGRAIN for FCI from PEs were of two kind viz. lease only and lease with services. There were three components of charges payables under the scheme as under:

Component A – Rental for godowns;
Component B – Preservation, Maintenance and Security (PMS); and
Component C –Supervision Charges.

For Lease with Services godowns the charges for component 'A' and 'B' were to be paid via PUNGRAIN to the PEs whereas the supervision charges were retained by PUNGRAIN. For the Lease only godowns, only component 'A' was payable through PUNGRAIN to PEs while component 'B' and 'C' were retained by PUNGRAIN. While the PMS charges were fixed in October 2010 at the rate of ₹ 1.60 per quintal per month, the supervision charges were to be calculated at the rate of 15 *per cent* of the amount of rent being paid to the PEs.

Audit observed that FCI paid supervision charges to PUNGRAIN at 15 *per cent* of the composite rate (Rent *plus* PMS). This was apparently based on the decision of the BOD in January 2010. However, this decision of BOD was contradictory to the extant provision contained in the scheme approved by GoI whereby 15 *per cent* was to be calculated only on the rent amount. No reasons for such deviation were found on records.

Audit observed in selected four DOs at Faridkot, Kapurthala, Moga and Sangrur that for 6.12 LMT capacity on Lease and Services basis under PEG Scheme, FCI released payment to PUNGRAIN on account of supervision charges based on incorrect calculations resulting in extra expenditure to the tune of ₹ 3.30 crore.

4.3.6 Non-exclusion of service tax from godown rent for payment of supervision charges

The MTF for inviting tender under PEG scheme for construction of godown for FCI under seven years guarantee scheme stipulated that rate for storage charges/rent will be inclusive of the element of service tax in financial bid. Further, clause 1 of agreement of guarantee between FCI and PUNGRAIN stipulated that FCI will make such payment of storage charges to PUNGRAIN on the basis of payment made by them to PEs for renting of godowns and expenses on food grains, preservation, security (pre-determined by FCI) along with 15 *per cent* supervision charges on godown rent. Clause 5.4 of agreement of guarantee between FCI and PUNGRAIN also stipulated that all the terms and conditions laid down in the scheme for construction of godown for FCI-Storage requirement through PEs shall be part of this guarantee.

Audit observed that the rate quoted by the PEs were inclusive of service tax. Accordingly, the supervision charges at the rate of 15 *per cent* were payable to PUNGRAIN which were to be worked out by reducing the element of service tax from the godown rent.

However, it was noticed in audit that three district offices[40] of FCI paid supervision charges to PUNGRAIN at the rate of 15 *per cent* of godown rent without reducing the service tax element. An inadmissible payment of ₹ 90.06 lakh on account of supervision charges had been made to PUNGRAIN in respect of 21 godowns in Faridkot, Moga and Sangrur District Offices during August 2012 to March 2016.

4.4 Operational Issues

4.4.1 Avoidable expenditure on storage charges and carry over charges

FCI as well as State Government Agencies (SGAs) procure wheat from mandis for Central Pool. As per the standing instructions issued by the GoI, the SGAs are required to deliver wheat to central pool immediately after its procurement unless FCI is unable to accept it for reasons which are to be conveyed in writing. Carry over charges (storage charges and interest) beyond 30 June each year shall be payable to SGAs only on that quantity which FCI refuses to accept before 30 June each year.

Audit observed in four selected DOs that 714740 MT of wheat was short delivered by SGAs up to the cut off date of 30 June during the respective wheat procurement seasons 2013-14 to 2015-16.

Audit observed that due to shortfall in direct delivery of wheat, capacity of owned/hired godowns remained unutilised from July to October (up to next procurement season). However rent was paid for such godowns and FCI incurred storage charges of ₹ 14.29 crore (at the rate ₹ 67.60 per MT per month on hired space) for four months in respect of hired capacity which remained unutilized due to short delivery of wheat by SGAs to FCI.

Audit also observed that though the quantity of 7.15 LMT was short delivered by SGAs, FCI still paid avoidable storage and interest charges to the tune of ₹ 54.33 crore in respect of this stock beyond 30 June which was kept with the SGAs.

4.4.2 Non recovery of abnormal storage loss at economic cost

As per para 9.2 of PEG Scheme, the responsibility of maintenance of godowns would lie with the CWC/SWC to whom supervision charges will be payable. Clause 4 of the Agreement between PUNGRAIN and FCI in respect of godowns hired under PEG scheme provided that if the storage loss is beyond the permissible limit as per FCI norms, PUNGRAIN shall be responsible for the same and recoveries for such unjustified losses shall be affected from it by FCI. In addition, it was also stipulated that PUNGRAIN shall be fully responsible for any loss caused to the stock of FCI while in its custody on account of pilferage, theft or misappropriation for which recoveries will be made from it at economic costs[41] of the relevant year in which such misappropriation/theft took place.

Test check of 153 cases of abnormal storage loss[42] of FCI Punjab Region, revealed storage loss of 1,824.84 MT rice valuing ₹ 45.79 crore in PEG godowns during 2013-14 to 2015-16, out of which abnormal/unjustified storage losses of 538.66 MTs (29.52 *per*

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40 ***Faridkot, Moga and Sangrur.***

41 ***Cost of grain plus Procurement Incidentals = Acquisition Cost; and Acquisition cost plus Distribution Cost =Economic Cost.***

42 ***Loss in weight beyond the prescribed norms of storage loss fixed by Government of India.***

cent) of rice worth ₹ 16.96 crore were observed. However, recovery of only ₹ 13.55 crore at standard rate[43] on account of abnormal storage loss in rice from defaulting agencies was made resulting in short recovery of abnormal storage loss amounting to ₹ 3.41 crore.

Audit noticed that FCI made recovery on the basis of standard cost as against the required economic cost. As the standard rate only included procurement cost *plus* incidental expenses while economic cost also included other important elements such as administrative overheads, storage charges, handling charges etc., the amount of abnormal shortage was short recovered to the extent of ₹ 3.41 crore due to incorrect application of standard rate of recovery instead of economic rate.

4.4.3 Improper planning in taking over of godown

Clause 31 of the PEG scheme provided that FCI will have freedom to choose a date of taking over the godown within six months of the completion of the godown and the guarantee period will start from the date of taking over the godown. Audit noticed that District Office, FCI, Ferozepur took over the capacity of 2.91 LMT on guarantee basis under PEG Scheme at the end/after close of RMS 2012-13. As the PEG godowns were not being utilized on account of takeover of godown at the end of the season, FCI shifted 1,79,715 MT of stock from SGAs godown to PEG godowns to utilize the PEG godowns and DO, FCI Ferozepur incurred an expenditure of ₹ 1.65 crore towards transportation of food grains. This was completely unnecessary as the grains were stored in SGAs godown for which FCI was already paying rental.

Similarly, SSB Warehousing Complex godown of 36,307 MT capacity was taken over by DO, FCI, Kapurthala on guarantee basis on 25 June 2015 i.e. almost at the end of RMS 2015-16. Utilization of godown from July 2015 to December 2015 remained very low between 13 *per cent* and 46 *per cent*. During this period FCI paid ₹ 85.62 lakh towards rent, PMS and supervision charges. Audit observed that as per Clause 31 of PEG Scheme, takeover of godown could have been postponed till the end of December 2015. Thus taking over of godown at the end of RMS 2015-16 resulted in suboptimal utilization of godown and avoidable expenditure of ₹ 85.62 lakh towards rent, PMS and supervision charges.

RO, FCI, Punjab stated (October 2016) that as per Clause 31 of the MTF, PUNGRAIN, after satisfying itself that the godown had been completed as per specification and terms and conditions of the contract, will take over the godown within one month of completion of the godown in all respects and the guarantee period will start from the date of taking over of the godown. Since, the work of construction of this godown was awarded on 2 June 2014 and the godown was completed on 25 May 2015, therefore the godown was taken over within one month from the date of its completion as per the provisions of MTF.

Reply of the Management is not acceptable, as Clause 31 of PEG Scheme clearly stipulates that FCI will have freedom to choose the date of taking over of godown within *six* months of completion of godown, a provision which was not availed which led to

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[43] ***Average Acquisition Cost.***

excess expenditure of ₹ 85.62 lakh towards rent, PMS and supervision charges from July 2015 to December 2015.

4.4.4 Non recovery for short supply of wooden crates in godowns

Preservation arrangement in godowns include stacking of stock on wooden crates, as wooden crates keep the stock five inches high from the floor and provide constant circulation of air under the bags. Further, in case of any leakage in the godown, it protects the lower layer of the stacks from damage which otherwise could become unfit for human consumption. As per specification laid down in MTF, 2,880 wooden crates were required in a godown having capacity of 10,000 MT.

Audit noticed that a godown constructed by M/s MK Stores, Malerkotla having capacity of 42,650 MTs in Sangrur District was taken over on 29 January 2013. As per specification laid down in MTF, 12,284 wooden crates were to be provided by the PUNGRAIN against which only 2,300 wooden crates were provided thereby resulting in short supply of 9,984 wooden crates. Similarly, capacity of 2.41 LMT in 12 godowns was taken over in DO Faridkot under PEG Scheme and the godowns were taken over with shortfall of wooden crates required under the provisions of MTF. Based on the rate of recovery of ₹ 0.37 per quintal per month approved by BOD in case of non-provision of wooden crates, the amount on account of short supply of wooden crates for the period February 2013 to May 2016 worked out to ₹ 55.48 lakh which needed to be recovered from PUNGRAIN.

The observations were issued to the Ministry in September 2016; reply was awaited (February 2017).

4.5 Conclusion

The implementation of the PEG scheme was negligible in the initial years and even after seven years, full capacity had not been taken over. The operation of the scheme also suffered from various lacunae such as payment of service tax to private parties without ensuring its remittance to Government, variation in distance from godown to railheads, award of contracts to ineligible bidders and improper utilisation of owned/hired storage space.

4.6 Recommendations

We recommend that,

(i) The remaining storage capacity may be expeditiously taken over while complying with the provisions, specially related to plot size of godown and distance from railhead.

(ii) FCI should implement appropriate controls to ensure that all statutory taxes/dues are paid by the PEs before payment is released for those services.

(iii) The storage requirement needs to be reviewed from time to time to have a realistic assessment based on stock position lying in CAP/Open and Kacha plinths.

(iv) FCI should recover the excess payment made under this scheme from PUNGRAIN/ PEs.