Chapter 2

Performance Audit

2.1 Implementation of Textile Policy 2013-18

2.2 Agricultural Marketing Reforms in Karnataka

CHAPTER 2

PERFORMANCE AUDIT

COMMERCE AND INDUSTRIES DEPARTMENT(HANDLOOM & TEXTILES)

2.1 Implementation of Textile Policy 2013-18

Executive Summary

Textile sector occupies a key position in the economy of the State as it is next to the Agriculture sector in terms of job opportunities. The Department of Handloom and Textile (Department) was established in 1992 with the objectives of attracting investments, strengthening Handloom, Powerloom and Garment sectors and supporting the sector with skilled human resources. The Department, through the Textile Policy, outlines the fiscal incentives and support system offered to the value chain activities in the sector to attract more investments and consequently generate employment.

The "*Nuthana Javali Neethi*" or New Textile Policy covering 2013-18 aimed at attracting investments of ₹ 10,000 crore and employment generation for five lakh during the policy period, which were akin to the objectives of the Textile Policy 2008-13. The initiatives undertaken in the previous Textile Policy were continued with certain modifications, on the premise that those initiatives had yielded good results.

A Performance Audit on the "Implementation of Textile Policy 2013-18" was conducted to assess the outcome of the initiatives. Following are some of the important audit findings:

- **No comprehensive database on various value chain activities was available with the Department which relied on an old set of data, especially in respect of the unorganised sector, *i.e.* Handloom & Powerloom sector. The interventions by the Department, through policy, were being planned without proper understanding of the problems and their scale;**

- **The targets for investment and employment were fixed without a proper assessment of the potential. Actual achievements were way below the targets during the two successive policy periods (2008-13 and 2013-18);**

- **Six Textile Parks with integrated facilities planned with the private sector were either non-starters or far behind the schedule. ₹ 6.35 crore was released to an SPV without ensuring the fulfillment of the conditionalities at the inception stage itself;**

- **Fiscal incentives to the beneficiary units were not released despite availability of funds;**

- **Fiscal incentives to one Super Mega Project were sanctioned in excess of the eligibility on extraneous grounds (₹ 315 crore);**
- **Revival plan of six out of nine loss making Spinning Mills under the Co-operative sector was not finalised, though the Government had restructured their balance sheet by waiving off dues worth ₹ 271.87 crore;**
- **₹ 84.53 crore released for implementation of various schemes had remained in the bank accounts for periods ranging from two to five years without utilisation;**
- **The Department had paid ₹ 51.89 crore to BESCOM towards interest/ penal interest as full settlement of bills was not made;**
- **The Departmental Undertakings did not deliver or extend market support system to the unorganised sector as intended. The Departmental Undertakings were registering losses and their turnover was on a declining trend;**
- **Three Skill Upgradation Centres identified for textile infrastructure had not commenced their operations despite release of grants and no timeline had been fixed for commencement of training programmes;**
- **Monitoring, especially by SLPIC, was lacking even though there were shortfalls in achievement in many areas.**

2.1.1 Introduction

'Textile' refers to all the value chain activities from the fibre to the finished product, including spinning, weaving (Handloom and Powerloom), knitting, processing and garmenting. The Textile sector occupies a key position in the economy of Karnataka for its contribution to industrial production, employment and exports. Karnataka accounts for 20 *per cent* of the national garment production. The last stage of the value chain is the readymade Garment sector, where the maximum value addition takes place. From Karnatakathe value of garment exports had increased from ₹ 7,670 crore (2012-13) to ₹ 14,546.27 crore (2016-17)[7].

In raw materials, Karnataka accounts for 35 *per cent* of raw silk production, 6*per cent* of cotton production and 11 *per cent* of wool production in India. The State is among the top 10 cotton-growing States in the country. It has a strong presence in the Textile sector with approximately 3.86 lakh textile industrial units under both the organised and the unorganised sectors[8]. Bengaluru has become the 'Garment Capital of the country' as it houses many large garment manufacturing Companies.

[7] Source: Economic surveys.

[8] Organised sector is a sector where the employment terms are fixed and regular, and employees get assured work. Unorganised sector is one where the employment terms are not fixed and regular, and the enterprises are not registered with the Government.

As per the Annual Report of 2016-17 issued by the Department of Handloom and Textiles, the weavers' population of the State is 2.62 lakh, comprising 1.34 lakh[9]Handloom weavers and 1.28 lakh[10] Powerloom weavers.

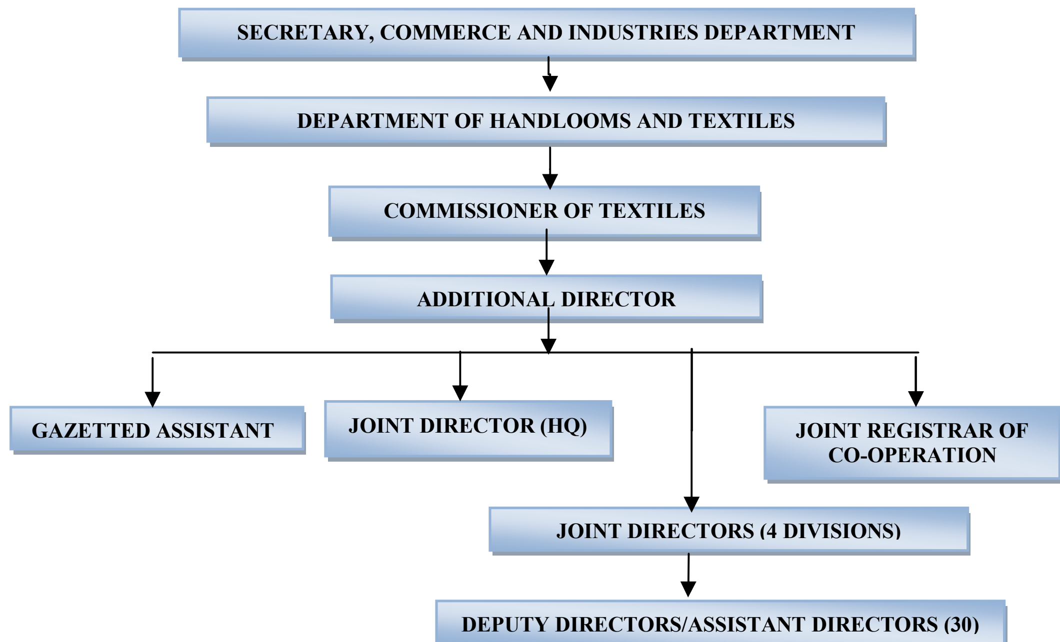
To realise the vision and objectives of the Departmentto attract investment in the Textile sector and make use of the resources available in the State, the Government of Karnataka has been bringing out a 'Textile Policy' since 2004(the first Policy was during 2004-2009). In turn, this enhances the employment opportunities to the rural people of the State. The Policy for 2008-13 was named '*Suvarna Vastra Neethi'*, while that for 2013-18 was named '*Nuthana Javali Neethi'*.

The following are the main objectives of the Textile Policy of 2013-18:

- To achieve higher and sustainable growth in the entire textile value chain(from fibre to the finished products)with emphasis on balanced regional development by attracting investments of ₹ 10,000 crore during the Policy period; and
- To support the industry with skilled human resource and to create at least 5 lakh new employment opportunities.

2.1.2 Organisational setup

TheDepartment of Handlooms and Textiles was separated (1992-93)from the Commerce & Industries Department and organisational set up is as under:



[9] As per Handloom Census of 2009-10 conducted by the Government of India.
[10] As per Powerloom Census of 1995-96 conducted by the Government of India.

The following Departmental Undertakings were also established to realise the objectives of the Department:

(i) Karnataka Handloom Development Corporation for the development of the Handloom sector;

(ii) Karnataka State Textile Infrastructure Development Corporation Limited for the development of the Powerloom sector;

(iii) Karnataka State Co-operative Woolen Handloom Weavers Federation Limited (WOOLFED) for promoting woolen handloom weaving and increasing the sales of woolen handlooms;

(iv) Karnataka State Co-operative Handloom Weavers Federation (Cauvery Handlooms) for production and marketing of handlooms; and

(v) Karnataka State Co-operative Spinning Mills Federation (SPINFED) for providing technical, financial and administrative help to the Co-operative Spinning Mills and also to provide the required information on the working of the mills to the Textile Department.

2.1.3 Audit Objective

The objective of this Performance Audit (PA) is to assess whether the intended objectives of the Textile Policy 2013-18 were achieved.

This was assessed through an examination of the planning processes and implementation of Schemes/Programme during 2013-18 to analyse to what extent the Policy guidelines were followed and the Policy objectives were met.

Accordingly, the sub-objectives of the PA were to assess:

- Whether the available inputs were adequate and relevant for the Policy?
- Whether proper planningfor implementation was in place and the Policy was implemented effectively?
- Whether adequate funds were provided and utilised efficiently?
- Whetherinternal control and monitoring mechanisms were adequate and functionedeffectively?

2.1.4 Audit Criteria

Major sources of the Audit Criteria were:

1. The Textile Policies of 2008-13 and 2013-18, and their Operational Manuals;
2. Annual Action Plans;
3. Annual Reportsof the Department;
4. Guidelines/Orders issued by the Government.

2.1.5 Audit Scope and Methodology

The Performance Audit was conducted from January to July 2018.

The records at Offices of the Commissioner of Handlooms and Textiles and that of four Joint Directors were test-checked. Out of the 30 Deputy Directors at the District level, nine Deputy Directors[11] were also selected for test-check based on random sampling method. The expenditure incurred in these sampled Districts (₹ 127.91 crore) constituted 32.33 *per cent* of the total expenditure(₹ 395.64 crore) incurred during 2013-18. In addition, working of two Departmental undertakings was test-checked to examine their role in implementation of the Textile Policy.

An Entry Conference was held with the Additional Chief Secretary, Commerce and Industries Department on 14th March 2018 and the scope, audit objectives, and criteria of the PA were explained. The audit findings were discussed with Additional Chief Secretary in the Exit Conference held on 28th November 2018. The report takes into account the replies to the audit observations furnished by the Department.

2.1.6 Acknowledgment

Audit acknowledges the co-operation extended by the Commissioner of Textiles and Handlooms and other Officers and officials of the Department in the conduct of this Performance Audit.

Audit findings

2.1.7 Planning

Planning is the basic management function involving formulation of plans or initiatives using available resources and is the key to achieve the intended objectives.

The mission of the Department is "to serve the workforce and industrialists of the textile industries to make them globally competitive and to be a strong link between textile trade and Government for sustainable growth of the Textile sector". The Textile Policy of 2013-18 was the third in the series since its introduction.

[11] Ballari, Bagalkote, Bengaluru (Rural), Chikkaballapura, Davanagere, Kalaburagi, Mysuru, Shivamogga and Vijayapura.

2.1.7.1 Inputs for the Textile Policy

Availability of data enables policy-makers to set achievable targets and frame suitable interventions through structured programme/schemes to achieve the objectives during the designated period.

In the context of the Textiles Department, data of the number of people engaged in different sub-sectors and their occupational income, number of industries, their type and size, performance, raw material scenario, growth rate of the sector, challenges faced by them, *etc.* are the basic details required to be maintained, so that specific initiatives are planned for implementation.

Audit observed that the Department had the data of Handloom weavers pertaining to the2009-10 census whereas the data on Powerloom weavers pertained to the census of 1995-96. These data had now become outdated. The Department did not have basic updated data in respect of any of the value chain activities of the Textile sector.The State Level Project Implementation Committee (SLPIC), in its third meeting (October 2014) had decided to identify an agency for creation of a database. However, the matter did not progress further as no appropriate action was taken by the Commissioner of Textiles, who was not only a member of the SLPIC but also took part in the decision making of the Policy.

Despite having Textile Promotional Officers and Textile Inspectors on rolls, who were responsible for collection and maintenance of such data as per their job profile, the data remained outdated. Moreover, the Department neither laid down any norms nor prescribed any format for any report or any methodology for data updation.

The Department, therefore, continued to plan and implement the schemes/programme based on 1995-96 and 2009-10 data, with modest budgetary support. Relying on outdated data was fraught with the risk of improper planning and the benefits not fully reaching the intended beneficiaries.

The Commissioner of Textiles replied (October 2018) that action was being taken to prepare the database. It was stated that the handloom census had been completed and action would be taken to conduct the Powerloom census. However, since details of the handloom census were not made available to Audit, the authenticity and reliability of the datacould not be ascertained.

2.1.7.2 Fixing of targets

The Textile Policy (TP) of 2013-18 was approved with higher incentives/ concessions compared to the previous Policy of 2008-13 to strengthen value chain activities, attract more investments across the State, promote skill development and improve infrastructure for the sector. As the key targets of

the TP 2013-18 were fresh investments and jobcreation, the targets of the previous Policy were adopted on the premise that they had yielded good results. Audit, while analysing the data furnished by the Department, observed that the achievements in terms of both investments and employment were just above 50 *per cent* during the Policy period of 2008-13. This refutes the contention of the Department that the previous Policy yielded good results and also shows that the targets set were without proper assessment of the potential.

The achievements against the targets as per the Textile Policy 2008-13 and Textile Policy 2013-18 are shown in **Table 2.1:**

Table 2.1: Performance of Textile Policy 2008-13 and 2013-18

Sl No.	Policy Period	Investments (₹ in crore)		Employment generation (No. of jobs)	
		Target	Achievement	Target	Achievement
1	2008-13	10,000	5,700	5,00,000	2,70,000
2	2013-18	10,000	3,710.03	5,00,000	1,22,156

(Source: Textile Policy of 2013-18 and Department figure)

Further, it was also observed that no evaluation was conducted to ascertain the reasons for shortfall in achieving the targets of TP 2008-13. No records relating to the basis for fixing of targets were made available to Audit.The targets under TP 2013-18 were also set without a relevant database (refer Paragraph 2.1.7.1 *ante*) and an evaluation report (refer Paragraph 2.1.11 *supra*), which turned out to be an incorrect assessment of the potential to be achieved.

The Commissioner of Textiles accepted (October 2018) the audit observation that the 2013-18 Textile Policy targets were based on the Textile Policy of 2008-13 and stated that they were fixed with an expectation of more investments in the Textile sector. The Commissioner of Textiles, however, did not furnish any remarks regarding the audit observation on non-collection of data by the Departmental personnel despite it being their responsibility. Further, the reply was also silent about the methodology adopted by the Department for fixing of the targets for thenew Policy of 2018-2023, which is now due for announcement.

Employment generation

As a thumb rule, the Department considers that employment for 50 people can be generated for every ₹ one crore of investment and thus, the Department set a target of five lakh employments for ₹ 10,000 crore investment in both the Policy periods. However, Audit observed from the data on actual achievements that the target fixed for employment generation for ₹ one crore of investment was not achieved across successive Policy periods.

Sector-wise targets for investments and employment generation are as shown in **Table 2.2:**

Table 2.2: Sector-wise targets for investment and employment

Sl.No	Sector/Year	Total	
		Investment (₹ in crore)	Employment (in number)
1	Handloom	10	5,000
2	Powerloom	500	50,000
3	Spinning	2,000	27,100
4	Processing	790	5,900
5	Garments	5,000	4,00,000
6	Technical Textiles	1,700	12,000
	Total	**10,000**	**5,00,000**

(Source: Textile Policy 2013-18)

As seen from the Table 2.2, the targets set for employment generation for₹ one crore of investment varied from sector to sector.In the sectors like Powerloom and Garments which are mostly automated, the target employment of 100 and 80 respectively for ₹ one crore were highly exaggerated and without proper assessment of potential**.**Audit scrutinised several investment proposals cleared by the Government which disclose the proposed investments and consequent employment generation. The scrutiny showed that job creation for₹ one crore of investment in a Mega Project was between 1.5 and 5 jobs only as against 50 jobs assumed by the Department.Drastic reduction in labour requirement on account of automation, which had not been taken into account by the Department, thus led to a hugely exaggerated employment generation target.

Out of 1,22,156 jobs stated to have been generated during the 2013-18 Policy period, the actual number of jobs generated from fresh investments in the Textile sector was only 44,695. The remaining 77,461 weretrained by the institutes which conduct short-term tailoring programmes (with hundred per cent financial assistance from the Department)of which a few were employed in the garment sector and the rest were self-employed, the records of which were not made available to Audit. Thus, actual employment generated with fresh investments was only 8.93 *per cent*of the targeted employment generation of five lakh.

Further, attracting fresh investments of ₹ 10,000 crore was also an ambitioustarget as surplus capacity already existed in the industry, a factor which cannot be ignored. Moreover, fresh investments may also occur for increased automation and modernisation, which would further diminish the employment generated per unit of investment. None of these matters were considered while estimating job creation by the Department.

The sub-par achievements in meeting the targets of the two Policies which spanned over a period of 10 years (2008-18) despite higher incentives/

concessions in the current policy vindicate the audit observation that the targets were set without proper assessment of the ground realities in the sector.

This improper target fixation may also be attributed to the fact that the Department does not have a comprehensive and current database on the sector. Setting targets without ascertaining the short comings would lead to failure in achievement.

The Commissioner of Textiles replied (October 2018) that the Department had expected more investment under the Garments sector which was capable of generating more employment as the employment opportunities under the other Textile value chain activities were less due to automation. The reply vindicates the audit contention that targets for employment generation as well as fresh investment in the Textile sector was exaggerated, not having taken into account the automation and already existing surplus capacity in the sector.

The fact, therefore, remains that the objectives of the Textile Policy of 2013-18 to achieve economic development by *five lakh*employment generation was realised to the extent of 24 *per cent* only as the corresponding investment did not flow in the Textile Sector which was far below the expected results.

2.1.7.3 Withdrawal from projectsby investors

Under the Karnataka Industries Facilitation Act, 2002, a Single Window Clearance System namely *Karnataka Udyoga Mitra* (KUM)was established in 1992 and brought under the Act, *ibid*to function as the nodal agency to promote investment in the industrial sector of the State and to expedite the procedure for granting permissions/licenses and clearances. The Department of Handloom and Textiles was the line Department responsible for monitoring the implementation of projects in respect of investment proposals relating to textile industries, approved under the Single Window Clearance System. During the year 2013-18, 85 projects involving investments worth ₹ 4,950.90 crore were approved under the Single Window Clearance System for setting up of textile units. Out of the 85 projects approved, 55 projects were either fully implemented or were under implementation as on31 March 2018. Twenty-twoprojects were dropped and eight projects were under various stages of clearances. The year-wise details are shown in **Table 2.3**:

Table 2.3: Textile Industries cleared under Single Window Clearance System

(Projects in number, Investment ₹ in crore, Employment in number)

Sl No.	Year	Approved			Implemented			Under Implementation			Dropped		
		Proj	Invt	Emp	Proj	Invt	Emp	Proj	Invt	Emp	Proj	Invt	Emp
1	2012-13	28	804.9	14053	4	455.31	622	13	198.02	8088	11	151.57	5343
2	2013-14	11	261	7690	1	140	663	4	33	1385	6	88	5642
3	2014-15	8	323	12670	2	62	4000	3	112	7000	2	149	1670
4	2015-16	13	1826	14559	2	1342	2800	9	405	9719	2	79	2040
5	2016-17	16	810	7360	0	0	0	15	789	7335	1	21	25
6	2017-18	9	926	18055	0	0	0	2	98	4050	0	0	0
Total		**85**	**4950.9**	**74387**	**9**	**1999.31**	**8085**	**46**	**1635.02**	**37577**	**22**	**488.57**	**14720**

(Proj: Projects, Invt: Investments, Emp: Employment) (Source: Departmental figures)

Audit scrutiny showed that no action was taken by the Department to ascertain the reasons, behind the withdrawal of 22 projects involving investments of ₹ 489 crore to take appropriate corrective actions.

The Commissioner of Textilesstated (July 2018) that investors lacked commitment in setting up the industries. The reply reinforces the fact that Department had not made efforts to ascertain the reasons or difficulties faced by the investors though attracting investments was the major objective of the Policy.

The fact, however, remains that the Department did not monitor the implementation of the approved projects and the objective of providing employment opportunity to 14,720 people was lost.

2.1.7.4 Annual Action Plan not commensurate with Policy targets

The Textile Policy envisaged an outgo of ₹ 1,000 crore over the five-year period (2013-18) towards concessions/ incentives for the investments made and expenses towards skill development. To implement the objectives, the Department draws up an Annual Action Plan (AAP). The provisions as per Textile Policy *vis-a-vis* AAP are shown in **Table 2.4:**

Table 2.4: Targets as per Policy and Annual Action Plan

Sl No.	Year	Targets as envisaged in the Policy			Targets as per Annual Action Plan			Shortfall	
		Incv	Skill Development	People they can be trained	Incv	Skill Development	Targeted training (in number)	Incv (₹ in crore)	Training (in number)
		₹ in crore			₹ in crore				
1	2013-14	75.04	20.00	29630	33.00	15.00	31864	42.04	-
2	2014-15	112.56	30.00	44440	56.00	15.00	25000	56.56	19440
3	2015-16	187.60	50.00	74075	40.86	7.00	9940	146.74	64135
4	2016-17	225.12	60.00	88880	57.00	15.00	22400	168.12	66480
5	2017-18	150.08	40.00	59260	69.00	18.75	19731	81.08	39529
	Total	**750.40**	**200.00**	**296285**	**255.86**	**70.75**	**108935**	**494.54**	**189584**

(Incv: Incentives) (Source: Textile Policy, AAPs and Expenditure Statement)

It may be seen from Table 2.4 that AAP provisions were lower during all the years as compared to the provisions envisaged in the Textile Policy. The actual allocation towards incentives/concessions and skill development was only about one-third of the anticipated requirement.

The Commissioner of Textiles replied (October 2018) that the proposals were forwarded to the Government as per the Policy targets while AAPs were prepared based on budget allocation. The amount allocated was spent for training programme and for release of incentives/subsidies. The reply is not acceptable as the AAPs which were the annual plans for implementation of various schemes under the TP, should have been drawn based on the Policy targets and accordingly budgetary support should have been sought from the Government for releasing incentives/subsidies for achieving training targets,*etc*.

2.1.7.5 Delay in release of incentives

As per the Operational Manual of the TP, for claiming the relevant incentives under the Policy, the eligible Textile and Garment units shall file the application in the prescribed forms along with requisite supporting documents. The claims shall be submitted to the respective Deputy Directors within six months of establishment/expansion/diversification/modernisation of the unit. However, no timeline was fixed for the Department for releasing the incentives.

Timely release of incentives to the entrepreneurs is very important since it would not only improve cash flows but also send out a positive message to the prospective investors.

Audit scrutinised the records relating to release of incentive/concessions to Micro, Small and Medium Enterprises (MSMEs) in respect of 561 cases (out of 681 MSMEs) amounting to ₹ 72.74 crore(out of a total of ₹ 143.18 crore). There were delays in payment of incentives which ranged up to three years. Though no timeline was prescribed for the release of incentives, Audit has analysed the delay after allowing 90 days of time period for processing the claims**.** The details of delays are shown in **Table 2.5:**

Table 2.5: Delay in payment of incentives

Sl No.		Delay in payments			Payment yet to be made	Total
		3 to 6 months	More than 6 months to 12 months	Above 12 months		
1	Number of cases	21	158	312	70	561

(Source: Compiled from Department records)

It can be concluded that the Department took a longtime to finalise the claims which is a matter of concern.

In addition to the above, incentives/subsidies aggregating to₹ 91.39 crore were pending for payment in respect of 246 Mega/Super Mega/Textile Park/MSMEs. Not seeking the required funds in AAP as assured in the Policy was the primaryreason for delay in payment of incentives/subsidies.

The Commissionerof Textiles stated (October 2018) that the delay was on account of administrative reasons and non-release of funds by the Government.

Recommendation 1: The Department may update the database of industries and beneficiaries so that it can be utilised while formulating the Policy. The impediments/deficiencies encountered during implementation of the current Policy should be addressed while fixing targets for the subsequent Policy. The Department may also have a time frame to ensure timely release of incentives.

2.1.7.6 Irregular release of incentives

To transform the State into a global investment destination, the Textile Policy aimed at promoting large projects to derive the benefit of multiplier effect for employment generation as well as for inclusive development. The incentives/subsidies were offered based on the size of the investments, zones[12] where the activities would be carried out and number of jobs created.During 2013-18, the Department had released ₹ 77.18 crore (out of ₹ 98.05 crore sanctioned) towards incentives/subsidies to two large projects as shown in**Table 2.6:**

Table 2.6: Details of Mega Projects established in the State

Sl No.	Name of the Project	Investments (₹ in crore)		Shortfall (%)	Employment (in numbers)		Shortfall (%)	Incentives (₹ in crore)	
		Target	Achieved		Target	Achieved		Sanctioned	Released
1	M/s Shahi Exports Pvt Ltd, Shivamogga	534.00	534.00	0.00 (0%)	10,000	4,300	5,700 (57%)	82.50	64.73
2	M/s Scotts, Garments Doddaballapura	149.00	148.47	0.53 (0 %)	2,010	1200	810 (40%)	15.55	12.45
	Total	**683.00**	**682.47**	**-**	**12,010**	**5,500**	**-**	**98.05**	**77.18**

(Source: Information compiled from Departmental records)

As may be seen from Table 2.6, two Companies,*viz*. Shahi Exports Limited, Shivamogga and Scotts Garments, Doddaballapura have achieved their investment target but failed to achieve the condition relating to employment generation. Consequently, the Department in respect of M/s Shahi Exports Limited reduced(November 2016) the incentives/subsidies to the extent of ₹ 17.18 crore on pro-rata basis as the condition of employment generation was not met. The Company requested (July 2017) the Government for release of the withheld amount which was referred to the Finance Department for relaxation of norms. The Finance Department agreed (October 2017) for relaxing the norms on the ground that the Company had created 75,000 jobs in 51 units established elsewhere in the State. The withheld amount was released during December 2017. The relaxation of the condition for employment generation was irregular and defeated the very objective of the policy. Further, jobs created elsewhere which were not related to the instant Project cannot be taken asaground for relaxation of norms as the eligibility for granting concession/incentives was specific to the project and its location.

On the other hand, in respectof M/s Scott Garments, the sanctioned incentives/concessions were not reduced on a pro-rata basis though the Company did not achieve the employment target fixed.

Relaxation of norms for sanction of incentives/subsidies by the Department sends a wrong signal to the investor community that the employment targets

[12] As per Textile Policy 2013-18: Zone 1 – backward districts; Zone 2 – relatively developed districts; Zone 3 – Bengaluru urban district.

stipulated would not be enforced, which is the prime consideration for grant of incentives/subsidies.

The Commissioner of Textiles replied (October 2018) that conditions of job creation were relaxed for M/s Shahi Exports Pvt Ltd. as it was an integrated textile unit. The reply was not acceptable as the incentives and subsidies were sanctioned based on the quantum of investments and employment generation in that region and the value chain activities in which investments were proposed.

Recommendation 2: Investment bracket and generation of employment being the only two criteria for sanction of incentives, the Department needs to insist on achievement of the targets set.Incentives/subsidies may be released in proportion to the actual achievements in investment as well as employment generated.

2.1.7.7 Sanction of incentive in excess of eligibility

The Textile Policy 2013-18 provided for grant of zone based incentives/concessions under various components at prescribed rates. This also depended on the size of the investments, subject to a ceiling, location and employment generation and was known as the "standard package". All projects with investments of ₹ 100 crore and above were classified as Mega Projects and were eligible for maximum incentives/concessions of ₹ 50 crore on various components.

In September 2015, the Government modified the standard package of incentives and introduced two more investment brackets: (i) Between ₹ 500 crore and ₹ 1,000 crore – Ultra Mega, and(ii) Above ₹ 1,000 crore - Super Mega. In addition, a new category of package *i.e.,* "Special Package" applicable only to deserving Ultra and Super Mega Projects was introduced with due weightage to investments/location of the project/employment generation, which were the same factors that were applicable to standard package of incentives.

For an investment size of ₹ 1,325 crore, the maximum subsidy/incentives admissible under the Standard Package was ₹ 116.25 crore[13]. Under the modified Policy, a Special Package of incentives/concessions of ₹ 430 crore was sanctioned (August 2017) **(Appendix 2.1)** by the Government for investment of ₹ 1,325 crore by M/s Himmatsingka Seide Private Ltd., for their expansion/ diversification project at Hassan. This project was aimed to

[13] 10% for investment up to ₹ 500 crore, 10% for investment above ₹ 500 crore up to ₹ 1,000 crore and additional 5% for investment above ₹ 1,000 crore.

generate employment for 3,000 people by setting up a plant for 100 *per cent* export of bed linens, drapery and upholstery.

Audit examined the justification provided to accord the status of "deserving unit" to sanction the Special Package to the Project.

The sequence of events as shown below revealed that the rate of incentives/concessions was modified to suit the Company's requirement and the grounds considered to sanction the Special Package according "deserving unit" taglacked justification.

- The Company had obtained (July 2015) clearance for the project under the Industrial Policy initially and thereafter obtained (January 2016) clearance under the Textile Policy, sincetheGovernment had revised the rates of incentives/concessions with effect from September 2015;

- After obtaining clearance (January 2016) under the Textile Policy, the Company requested (January 2016) for sanction of the Special Package admissible for Super Mega Projects. The Commerce and Industries (C&I) Department recommended to the Cabinet Sub-committee for grant of a Special Package aggregating to ₹ 769 crore[14] (58 *per cent* of the total concession/incentive) with justification that the other State Governments offered more incentives/concessions for investment of such magnitude. The comparison table presented (March 2016) to the Cabinet Sub-committee by the C&I Department is shown in **Table 2.7:**

Table 2.7: Details submitted to Cabinet Sub-committee

(₹in crore)

Total investment: ₹ 1,325 crore Plant and Machinery: ₹ 1,154 crore				Term Loan: ₹ 1,024 crore Power consumption: 17.20 crore units per year	
Sl. No.	**State**	**Interest subsidy**	**Power subsidy**	**Tax concession**	**Total**
1	Andhra Pradesh	537.00 (7.50% for 7 years)	129.00 (@ ₹ 1.50 per unit for 5 years)	₹ 1,154.00 crore (Refund of VAT/CST up to 100% of the eligible fixed capital investments in P&M for a period of 5 years)	1,820.00
2	Madhya Pradesh	358.00 (7 % for 5 years)	-	₹ 1,154.00 crore (Assistance amount equivalent to CST and VAT for 8 years with an overall ceiling of investment in Plant and Machinery)	1,512.00
3	Gujarat	256.00 (5 % for 5 years)	86.00 (@ ₹ 1.00 per unit for 5 years)	₹ 1,154.00 crore (Refund of VAT up to 100% of fixed assets in Plant and Machinery for a period of 8 years)	1,496.00
4	Maharashtra	716.00 (10 % for 7 years)	-	₹ 115.00 crore (10% capital subsidy)	831.00

(Source: Information furnished by the Department)

[14] Included interest free net VAT loan of ₹ 300 crore.

On the basis of above submission by the C&I Department, the Government decided (August 2017) to pay incentives/concessions of ₹ 430 crore as shown in **Table 2.8:**

Table 2.8: Incentives/concessions sanctioned

(₹ in crore)

Sl No.	Interest subsidy	Power subsidy	Others (including credit linked capital subsidy	Total
1	210.00 (@ 5 % for 7 years)	105.00 (@ ₹ 1.00 per unit for 7 years)	115.00 (@ various rates limited to ₹ 115 crore for 7 years)	430.00

(Source: Information compiled from Departmental records)

The recommendations made by the C&I Department and placed before the Cabinet Sub-committee were incorrect as observed in audit for the reasons stated below:

- **Eligibility to avail interest subsidy to textile related units** – This concession was available only to units approved under the Technology Upgradation Fund Scheme (TUFS), a GoI Scheme. The expansion/ diversification project of M/s Himmatsingka Seide was not approved under TUFS and hence it was not eligible for this concession. Thus, the comparison was incorrect;
- **Applicability of Tax concession** –Value Added Tax/Central Sales Tax/ State Government Sales Tax is now replaced by GST. The export sales are not exempt under GST but are considered as zero rated supply. Hence, no Output Tax Liability would emerge in case of Exports but one can claim Input Tax Credit on input which is used for manufacturing of goods to be exported in future. The project being a 100 *per cent* Export Oriented Unit, VAT/CST/SGST paid would be claimed as Input Tax Credit and there would be no outgo towards tax on sale. Hence, factoring this component for grant of concession was incorrect as there would be no tax incidence for the Company.

As can be seen from the Table 2.7, the concessions/incentives that were stated to be available in the States of Andhra Pradesh, Madhya Pradesh and Gujarat were much more than the total proposed investment of the Company (₹ 1,325 crore), while in Maharashtra it was 62.72 *per cent* of the investment.

The C&I Department stated that the proposed investments may be diverted to other States by the Company in case the "Special Package" was not granted. The apprehension of the C&I Department was incorrect as the Company had established (2007) the unit at Hassan and had taken the investment decision for expansion/diversification at the same locality as early as 2014, because of availability of contiguous land adjacent to the existing unit. Thiswas the decisive factor and for that reason the Company had obtained investment clearance during July 2015 under the Industrial Policy.

The justification put forth by the C&I Department for grant of "Special Package" was that the Company was investing in Karnataka despite a higher package of incentives being offered by the other State Governments. This argument was patently incorrect. If the other State Governments had really granted such lucrative concessions/incentives, *i.e.* two or three times that of what GoK was offering,and if that were the only deciding criteria,it would be quiteunthinkable that the Company would still opt for investments in Karnataka. Needless to mention that even if the Company had moved to the other States where higher incentives/packages are offered, no Government would grant incentives exceeding the total project investment (₹ 1,325 crore) in the instant case. Hence, the contention of the C&I Department was flawed.

Further, the Company had stated that locally produced cotton would be sourced for the EOU project which was not true as the Company was usingimported cotton. Thus, the cotton growing farmers in the State were also not being benefitted from the project.

The Government did not evolve/prescribe norms or criteria while introducing the "Special Package" of incentives/concessions for Ultra/Super Mega Projects. Neither was a maximum limit prescribed for the incentives, thus making the entire process non-transparent and open to misuse. In the instant case, the "Special Package" of incentives/concessions was sanctioned to theCompany on extraneous grounds and undue favour was shown by sanctioning ₹ 315 crore(₹ 430 crore *minus*₹ 115 crore), which lacked proper justification.

The Commissioner of Textiles replied (October 2018) that the proposal was sent to the Government onlyfor sanction of ₹114.05 crore of incentives/concessions and thespecial package of incentives for ₹ 430 crore was sanctioned at the Government level. The Commissioner's reply reinforces the fact that the project was not recommended for a "special package"and thus need not have been conferred the "deserving unit status".

2.1.8 Textile Parks

Textile Parks are industrial hubs to house integrated textile production facilities from fibre to fabric, which facilitate cost reduction, enhance quality and competitiveness and in particular attract investment and generate employment.

Government of India (GoI), in order to provide the textile industry with state-of-the-art infrastructure for setting up industrial units, provides financial assistance[15] under the Scheme for Integrated Textile Parks (SITP) to be located at potential growth centres.

[15] Under SITP, GoI extends support for up to 40 *per cent* of the project cost subject to a ceiling of ₹ 40 crore and the combined equity stake of GoI/State Government/State Industrial Corporation would not exceed 49 *per cent*. The State Government on its part should assist in identification and acquisition of land apart from obtaining various clearances.

2.1.8.1 Lack of response for Textile Parks

In the 2013-18 Textile Policy, several districts were identified as growth centres and potential zones for establishing textile related industries based on the availability of raw material/manpower and prominence of textile activities.

GoI sought (December 2014) proposals from the State Government and intimated (June 2016) that the final proposals were to be submitted by 21 July 2016 after firming up proposals with prospective investors indicating the size of land, location, concessions/incentives and investments offered.

GoK, in the budget for 2015-16, announced the establishment of *three* Textile Parks at Chamarajanagar, Sira (near Tumakuru) and Kuduthini (near Ballari) which were included by the Department in theAction Plan for the year 2015-16. The lands for establishing these Textile Parks were already acquired by KIADB[16]. Hence, GoK requested (February 2015) GoI to treat KIADB as the Special Purpose Vehicle (SPV) and to provide assistance under SITP for the above projects without providing details of prospective investors, investments offered, size of land,*etc*.

However, the firm proposals were not forwarded by GoK though lands were in possession. Details such as prospective investors, investments offered, size of land, etc. for establishing these Textile Parks were sought by Audit to ascertain whether the Department haddone a proper assessment of availability of raw material/manpower and prominence of textile activitiesbefore considering the establishment of Textile Parks in these locations. No details were furnished.

Similarly, GoK had approved (October 2013) establishment of an integrated Textiles Park of international standard at Kadechur village in Yadgir District spread over an area of 1,000 *acres* out of 3,232 *acres* already acquired by KIADB. The objective of setting up of the Textile Park was to provide huge employment opportunities to the rural un-employed youth and thereby improve socio-economic conditions of Yadgir and adjoining districts of the Hyderabad- Karnataka region. However, the Textile Park had not fructifiedas there were no takers.

Thus, 2,583 *acres* of land earmarked or proposed for establishing the Textile Parks remained unutilised as prospective investors were lacking.

For attracting investments from private players in backward regions necessary infrastructure facilities coupled with incentives were to be provided. However, audit observed that in these cases except availability of land other infrastructure were not made available.

[16] Chamarajanagar: 83 *acres*; Ballari (Kuduthini): 1,000 *acres*; Tumakuru (Sira):500 *acres*.

The Commissionerof Textiles replied (October 2018) that the Textile Parks were not established due to lack of response from investors/SPVs to set-up their industries. The reply vindicates the audit observation.

2.1.8.2 Delay in setting of Textile Parks

As per the Textile Policy, for establishing a Textile Park, an entrepreneur has to form a Special Purpose Vehicle (SPV) with a minimum of five entrepreneurs from the user industry, and financial assistance is extended for development of common infrastructure for up to 40 *per cent* of the project cost or ₹ 20 crore, whichever is less.

During 2013-18, out of the three Textiles Parks under implementation, one Textile Park was approved in the previous policy period while two were approved during the current policy period.

However, none of the textile parks had been established due to slippages which are discussed below:

Binary Apparel Park

The Binary Apparel Park was formed (June 2010) with a cluster of ten entrepreneurs to establish a Textile Park at an estimated cost of ₹ 49.60 crore, near Hiriyur in Chitradurga District. It came up on self-acquired land of 37.37 *acres* to house 11 textile related units with an employment generation potential for 2,000 people. The project was approved (June 2011) by the State Level Single Window Clearance Committee (SLSWCC) but the number of entrepreneurs willing to establish their units came down from 11 to five. The revised project cost of ₹ 32.42 crore with five textile units was approved (March 2012) by SLPIC without announcing concessions. Later, the concessions to the extent of ₹ 11.30 crore were approved (January 2015) by SLPIC under TP 2013-18 for completion in one year.

The Government had released ₹ 10.17 crore, being the concession amount to the SPV, in instalments between September 2015 and March 2018 against the approved assistance of ₹ 11.30 crore. However, the Textile Park had not become functional though 18 months had elapsed from the scheduled date of completion (March 2017). The third party inspection of works was last conducted in August 2017 which reported that the SPV had achieved a financial progress of ₹ 28 crore. Though the completion of the Textile Park was behind schedule, the Department had not fixed a revised due date for completion of the work and for allotment of units to the entrepreneurs.

The Commissioner of Textiles replied (October 2018) that one unit has by now been established while another unit is under implementation. However, details of the remaining three companies, which have committed to invest by establishing their units to maketheTextile Park fully operational, were not furnished.

Gulbarga Textile Park

A Textile Park at Kalaburagi at an estimated cost of ₹ 46.39 crore was to be set up (July 2007) by Gulbarga Textile Park Private Limited (GTPPL), an SPV, with promoter's contribution of ₹ 12.83 crore (₹ 7.82 crore as equity and ₹ 5.01crore term loans) and Central & State Government assistance of ₹ 33.56 crore. The SPV was allotted (September 2009) 50 *acres* of land by KIADB in Gulbarga Industrial Area upon payment of ₹ 2.70 crore. An amount of ₹ 6.35 crore was released (March 2010 - March 2017) by GoI and GoK as part of their assistance.

As on 31 March 2018, the project conceived in July 2007 had not progressed beyond land levelling and construction of compound wall, despite release of ₹6.35 crore. Audit scrutiny revealed that Departmental lapses had resulted in non-completion of the project as discussed below:

- The promoters were required to contribute ₹ 7.82 crore towards equity. But the SPV was formed with authorised equity share of ₹ 5 lakh only, andwith issued, subscribed and paid up capital of ₹ 3.55 lakh;
- The Deputy Director of Handloom and Textiles, Kalaburagi was on the Board as a Government representative and was responsible for the implementation of the project. The Department issued show-cause notice (June 2016) to him for not ensuring capital contribution from the members, not following the Transparency Act in the execution of works and absence of third party inspection and thus the Department was well aware of the fact that the SPV had not fulfilled its obligations;
- As per the Articles of Association, 47 members of the SPV were required to submit net worth certificates and land requirement details to the Department. However, GTPPL stated (March 2018) that it was making efforts to collect equity contribution from the members and had issued reminder notices to them. However, no firm commitment was given by the GTPPL for completion of work.

Though none of these conditions were complied with, the Department released (March 2017**)** afurther instalment of ₹ 1.60 crore.

The SPV had violated the conditions from the inception stage itself and thus the release of ₹ 6.35 crore was highly irregular. The prospect of completion of the project in the near future was also highly doubtful. The Department should have ensured the contribution of the prescribed amount by the promoters prior to the release of funds, which would have helped in creation of adequate will/intent by the SPV for completion of the project. The lack of commitment both on the part of the Department and the SPV not only deprived the State of a state-of-the-art garmenting facility but also denied an opportunity for employment to 10,935 people, as planned.

The Commissionerof Textiles replied (October 2018) that efforts would be made to collect the equity from the SPV and to complete the Project. The Commissioner of Textiles, however did not furnish details of the action taken against the SPV and the Deputy Director concerned for the violations.

The fact, however, remains that the objective of removing regional imbalance through establishment of *six* integrated textile parks in the industrially backward districts did not materialise despite acquisition of land.

2.1.8.3 State Sector Schemes

The Textile Policy envisaged implementation of various beneficiary oriented schemes under the State sector *viz.* power subsidy, living *cum* work sheds, supply of Powerloom, rebate for handloom products, group insurance, etc. to support Handloom and Powerloom sectors in the unorganised sector. These State Sector Schemes are being implemented departmentally as well as by the Departmental Undertakings.

The details of budget provision, releases and expenditure during 2013-18 under the State Sector Schemes are shown in **Table 2.9**:

Table 2.9: Budget sought, provided and released

(₹ in crore)

Sl No.	Year	Budget provision	Funds released	Expenditure
1	2013-14	184.52	160.31	156.78
2	2014-15	162.24	147.88	93.06
3	2015-16	172.40	153.27	153.11
4	2016-17	194.19	174.18	174.18
5	2017-18	202.41	202.41	202.41
	Total	**915.76**	**838.05**	**779.54**

(Source: MPIC, Budget Estimates and Department information)

The Government had not released the amounts as provided except during 2017-18. Reasons for short release of funds were not on record. In 2013-14 and 2014-15, the Department was not able to utilise the amount provided in the budget as funds were released at the fag end of the financial years which resulted in savings during those years.

(i) Unspent amount

The Department released funds to the Deputy Directors (DDs) and Departmental Undertakings for implementation of schemes. Out of ₹ 779.54 crore shown as expenditure by Government during 2013-18, ₹ 84.53 crore had remained unutilised for the period ranging between two and five years due to various reasons. The details are shown in **Table 2.10:**

Table 2.10: Funds remaining unutilised

(₹ in crore)

Sl No.	Office/ Undertakings	Total unutilised amount	Amount under SCP/TSP programme	Name of the Schemes	Reasons assigned by the Department for non-utilisation
1	Deputy Directors	51.92	5.34	Supply of Powerloom, LCW, Wool sector package, special development package	Non-availability of beneficiaries, non-sanctioning of loans by the banks, blocking up of funds in a non-operative Co-operative bank, etc.
2	KHDC	14.18	9.50	Training, supply of looms and accessories, Supply of solar lights, LCW,*etc*.	Non-availability of beneficiaries.
3	KSTIDCL	17.43	12.56	Supply of Solar Power equipment, Formation of Powerloom Parks,*etc*.	Non-availability of beneficiaries
4	Cauvery Handlooms	1.00	0	Promotion of export of handlooms	No response for tender for implementation of the Scheme
	Total	**84.53**	**27.40**		

(Source: Information furnished by the Department)

The unspent amount of ₹ 84.53 crore constituted 50 *per cent* of the annual average expenditure. Thisalso included a sum of ₹ 27.40 crore pertaining to the beneficiaries belonging to the Scheduled Castes and the Scheduled Tribes under the Special Component Plan (SCP) and the Tribal Sub Plan (TSP) programme. The maximum unspent amount was held by the DDs which had earned an interest of ₹ 6.02 crore. No action was taken by the Department to review the position and to credit the unspent amount to the Government account. This indicates not only a failure of the Department in implementing the proposed schemes but also poor planning while proposing the schemes and identifying the beneficiaries.

The Commissionerof Textiles did not offer any remarks to the audit observation.

(ii) Avoidable expenditure towards interest payment

The Department provides power subsidy to the Powerloom weavers and pre-loom units to reduce their cost of production. As per the guidelines, all the weavers engaged in pre-loom and Powerloom activities with power load of up to 20 HP were eligible for subsidised rate of ₹ 1.25 per unit of power consumption. The Electricity Supply Companies (ESCOMs) should charge for the power consumed at the above rates and the difference between the tariff

chargeable and the subsidised rate shall be claimed by the ESCOMs from the Department on a quarterly basis. The scheme was introduced during 2004-05.

It was imperative on part of the Department to provide adequate budget to settle the bills raised by the ESCOMs which would otherwise entail payment of interest. The Department did not settle the bills raised by the ESCOMs in full as there was no provision in the budget to discharge the entireliability. The details of opening balance, demand raised, budget provided and paid,*etc.* during 2013-14 to 2017-18 are shown in**Table 2.11:**

Table 2.11: Demand and releases made to ESCOMs

(₹ in crore)

Sl No.	Year	Allocation made for the Programme	Opening Balance	Demand raised by ESCOMs	Total	Paid	Closing Balance	Consumers (in numbers)
1	2013-14	46.92	44.89	39.13	84.02	37.69	46.33	25481
2	2014-15	49.28	46.33	48.12	94.45	46.84	47.61	26550
3	2015-16	38.75	47.61	59.45	107.06	28.97	78.09	27578
4	2016-17	38.75	78.09	57.02	135.11	41.69	93.42	28719
5	2017-18	43.42	93.42	34.46[17]	127.88	52.07	75.81	29731
Total		**217.12**	**-**	**238.18**	**-**	**207.26**	-	-

(Source: Annual Action Plan and Departmental information)

As may be seen from the Table 2.11, the budget provided from financial year 2015-16 and onwards was inadequate even to discharge the balance outstanding at the beginning of that financial year. Against the total outstanding amount of₹ 75.81 crore (March 2018), the lion's share of the outstanding amount belongs to BESCOM,*i.e.*₹ 62.36 crore, and balance amount of ₹ 13.45 crore was shared by the other ESCOMs.

Audit scrutiny showed that the Department was not seeking adequate funds while forecasting its requirements and forwarding the budget proposals. It did not even seek the funds equivalent to the provision made in the budget. During 2011-18, the Department paid₹ 169.73 crore to BESCOM against the demand of ₹ 303.93 crore (including principal and interest). BESCOM, out of₹ 169.73 crore, adjusted ₹117.84 crore towards principal and ₹ 51.89 crore towards interest. As a result of inadequate budget provision, the Department had to pay an interest of ₹ 51.89 crore, which was avoidable. The total outstanding amount due to BESCOM to the end of March 2018 was ₹ 134.20 crore and non-clearance of dues would result in payment of further interest. The total dues to other ESCOMs were not available.

The Commissionerof Textiles while accepting (October 2018) the audit observation stated that the pending bills would be cleared after obtaining additional grants from the Government.

[17] Demand had not been received from all ESCOMs.

(iii) Construction of living-*cum*-work shed

The Government introduced (2009-10) a scheme "Construction of living cum work shed[18]" for houseless weavers at an estimated cost of ₹ 1 lakh per unit with a combination of subsidy and loan by the Department with the beneficiary contribution being five *per cent*. The scheme was implemented through the Co-operative Societies. Later, the Government decided (December 2015) to implement the scheme in cooperation with the Rajiv Gandhi Rural Housing Corporation (RGRHC) and the guidelines were also revised. The unit cost was revised to ₹ 2.50 lakh per unit, out of which ₹ 1.20 lakh would be borne by RGRHC, ₹ one lakh by the Textile Department and ₹ 0.30 lakh by the beneficiary. The size of the proposed shed should be between 400 Sq feet and 700 Sq feetand should have one living room, one looming room, kitchen and washroom. The work was to be completed within six months from the date of issue of the work order and the Textile Department would release its share of cost in four stages on completion of foundation, wall/lintel, roofing and final installment on completion.

Audit scrutiny revealed shortfall in achieving the targets. Besides, some units which had commenced construction during 2012-13 had also remainedincomplete despite release of amount by the Textile Department.

The status of the scheme as on 31 March 2018 is as in **Table 2.12** below:

Table 2.12: Status of living-*cum*-work shed scheme

Sl No.	Year	Target	Completed	Pending	Budget ₹ in crore	Releases ₹ in crore
1	2012-13	430	388	42	5.00	4.12
2	2013-14	1,570	1,298	272	15.00	15.00
3	2014-15	768	675	93	15.00	7.38
4	2015-16	1,036	1,012	1,024	15.51	15.51
5	2016-17	1,000			10.00	10.00
6	2017-18	1,000	00	1,000	10.00	10.00
	Total	**5,804**	**3,373**	**2,431**	**70.51**	**62.01**

(Source: MPIC and departmental information)

As may be seen from the Table 2.12, the Textile Department had released its share of subsidy in full to the Co-operative Societies or RGRHC without ensuring that the stage wise completion targets were met. The objective of providing houses had not seen much progress even after a change of the executing agency. Further, as may be seen from the Table 2.12, of the 2,036 houses proposed to be executed during 2015-16 and 2016-17, RGRHC completed 1,012 houses, while 859 houses were under different stages of construction and construction of 165 houses was not yet started (August 2018). However, the Textile Department had released its share of funds to RGRHC without ensuring that the targets for different stages of constructionhad been achieved, which was irregular. The amount so released was inclusive of ₹ 1.65 crore relating to the houses which were yet to start.

[18] A place of residence and workplace under one roof.

Thus, even though the Department had released its share of the construction cost, the physical progress achieved in construction was just above 50 *per cent* and non-completion of the sheds deprived the weavers of a better working atmosphere which would have increased their working time and consequently their earning capacity.

The Commissionerof Textiles replied (October 2018) that action would be taken to release the grants as per the stages of construction.

2.1.8.4 Revival of Handloom Sector

Handloom is the oldest sector in the textile industry in the country. The skills and expertise in design and hand weaving are bequeathed to newer generations as it runs as a family profession. Powerloom and man-made fibre have, however, changed the entire scenario, resulting in handloom becoming uneconomical and causing a downfall of Handloom weavers.

The Textile Policy envisaged strengthening of the Handloom sector by making available credit and marketability of the produce. For this purpose, the Policy earmarked five *per cent* of the total planned outlay (*i.e.* ₹ 50 crore) towards credit linked capital subsidy, interest subsidy, skill upgradation, *etc.* in addition to the outlay in the State sector schemes.

Audit scrutiny showed that the Department had not drawn any specific programme for utilisingthe₹ 50 crore. No data regarding the number of people engaged in Handloom sectorwas available with the Department. The production details and number of Handloom weavers as per the Economic Survey is shown in **Table 2.13** below:

Table 2.13: Status of Handloom Sector

Sl No.	Handloom Sector					
	Year	Production in lakh meters		Work force in number		
		Target	Achievement	Target	Achievement	
1	2012-13	450	460.90	95,000	82,000	
2	2013-14	500	476.30	95,000	1,12,000	
3	2014-15	550	435.80	95,000	85,000	
4	2015-16	550	386.80	95,000	1,06,000	
5	2016-17	500	325.00	95,000	90,000	
6	2017-18	NA	NA	NA	NA	

(Source: Economic Survey)

As may be seen from the Table 2.13, the production in the Handloom sector registered a sharp decline over the years. Further, statistics of Handloom weavers depicted in the Table 2.13 may not be correct. As per the details furnished (May 2018) by the Karnataka State Co-operative Handloom Weavers Federation, by the end of 2013-14, there were 400 Handloom Societies under the umbrella of the Federation with a work force of 1.80 lakh weavers. However, as seen from the Annual Accounts of theFederation forthe

year 2016-17, only 90 societies were functioning while 310 societies had either become defunct or inactive in handloom activities. A drastic reduction in the number of Handloom weavers cannot be ruled out, considering that only 90 societies were nowworking. This reduction in production, as well as work-force, is an indicator that the Departmental interventions were not effective.

Supply of yarn to Handloom Weavers

The Department, through Karnataka Handloom Development Corporation (KHDC)[19], assists Handloom Weavers by providing cotton and polyester yarn for producing the fabric for buyback by KHDC. The year-wise details of yarn supplied and fabric produced are shown in **Table 2.14:**

Table 2.14: Details of yarn supplied and fabric produced

Sl No.	Cotton						
	Year	Supply of yarn		Fabric produced		Working handlooms (in number)
		Quantity (in lakh kgs)	Value (₹ in crore)	Quantity (in lakh meters)	Value (₹ in crore)	
1	2013-14	12.17	31.32	82.51	46.64	9398
2	2014-15	11.09	31.52	74.83	48.11	9527
3	2015-16	9.59	31.02	66.74	50.00	9560
4	2016-17	7.64	19.08	54.06	33.79	9586
5	2017-18	7.98	21.04	57.75	37.58	9569

(Source: Information furnished by the Department)

As may be seen from the Table 2.14, the supply of yarn by KHDC to Handloom Weavers had declined over the years despite no reduction in the number of working handlooms. The continuous loss suffered by KHDC over the years (the accumulated loss which stood at ₹ 83.55 crore in 2012-13 had increased to ₹ 128.56 crore by the end of 2016-17) had resulted in non-supply of yarn to the Handloom Weavers which ultimately affected their economic condition. The Department too, did not intervene to infuse funds to KHDC so that Handloom Weavers were assured of yarn and buyback.

The Commissionerof Textiles attributed various reasons for this crisis, like old age/ill health of the weavers, weavers not being regular in weaving activity, younger generation not showing interest in the handloom activity, financial crisis in KHDC, *etc.*

The reply did not indicate any action proposed to be taken up by the Department to revive the Handloom Sector and to address the hardships faced by the weaving community, though revival also was one of the focus areas of the Textile Policy.Thus, continuous neglect by the Department, may lead to the weavers ultimately losing interest to continue in their profession.

[19] Established by GoK in 1975 for development of Handloom sector and marketing of the handloom products.

Branding handloom products as niche products

The Textile Policy recognised branding and marketing as equally important for selling the products especially handloom ones, largely manufactured in the unorganised sector, which lacks the capability in the areas of branding and marketing their products.

Handloom weaving being an ancient profession with links to the cultural heritage of the region/people has the potential to be marketed as a niche activity giving rise to niche products. The effective use of social media for popularising the handloom products as niche products and tying up with E-commerce platforms for sale of handloom merchandise may prove beneficialin arresting the dwindling sales and revival of the Handloom sector.

However, in-spite of having a budget commitment of ₹ 50 crore, sustained efforts were lacking in the area of market development, branding, design development and product diversification for the Handloom sector.

Recommendation 3: In light of the sharp decline in the Handloom sector in spite of welfare measures, the Department may assess the actual reasons for such reduction. The adequacy or otherwise of the existing schemes may also be reviewed as the existing schemes have failed to improve the Handloom sector. Further, marketing of the handloom products as niche products under Geographical Indication (GI) tag besides tying up withE-commerce platforms for the sale of handloom merchandise may be explored.

2.1.9 No firm stand for revival of Spinning Mills in Co-operative sector

The spinning mills in the Co-operative sector of the State were quite strong at one point of time but are nowunder distress due to outdated machinery, lack of skilled labour, increasing power costs, etc. The Textile Policy also sought to revive the Co-operative spinning mills.

To reviveandstrengthen the Spinning Mills in the Co-operative sector, the Government, issued orders (2 February 2016 and 24 September 2016) for conversion of Government outstanding loans into equity (₹ 94.36 crore), waiver of interest accrued on Government loan and penalty (₹ 172.82 crore) and Apex Bank loan settlement (₹ 4.65 crore) in respect of nine Spinning Mills[20] aggregating to ₹ 271.87 crore. The details are shown in **Appendix 2.2.**

Government Orders (February 2016 and September 2016) stipulated that each spinning mill should enter into an MOU with the Textile Department which should prepare an Action Plan for its revival. Audit observed that the Commissionerof Textiles had not concluded MOU with any of the spinning mills so far. In response to an audit query (August 2018), the Commissionerof

[20] Comprised four working spinning mills and five non-working spinning mills.

Textiles replied that model MOU had been prepared and forwarded (April 2018) to the Government for approval.

The Department entrusted SITRA[21]the task of conducting techno-economic viability study for six spinning mills which recommended (March 2018) that these spinning mills would be revived by infusion of funds worth₹ 208.38 crore. Reasons for not including the remaining three of the nine mills in the study was not forthcoming from the records. The Commissionerof Textiles in his Note to SLPIC meeting (July 2018), however**,** recommended that management of the respective spinning mills has to take a decision to either run the mill on lease basis or toclose down. The Commissioner's recommendation was not in line with the objective of the Government which had restructured the balance sheet of these spinning mills for the purpose of their revival. Moreover, the report submitted by SITRA was also not considered.

The Commissioner of Textilesreplied (October 2018) that the recommendation of SITRA for revival of spinning mills under the Co-operative sector was under consideration.

The fact, however, remains that the schemes and programmes failed to improve the economic conditions of the people engaged in the Handloom and Powerloom sector.

Recommendation 4: Grant of incentives, Concessions and loan waivers alone would not revive these sick mills. Instead a detailed study may be conducted for assessing the actual reasons behind their non-performance. The pros and cons of rejuvenation of such units and how best it will support the Textile value chain activities in the State may also be examined.

2.1.10 Capacity Building

2.1.10.1 Role of Skill Development Centres

(a) Shortfall in imparting training to unemployed youths

Availability of quality skilled manpower to the industry is a very important factor which would also create favorable climate for attracting investments. The Textile Policy envisaged providing training to five lakh unemployed youths during the policy period and earmarked ₹ 200 crore for the same through 314[22] Skill Development Centres (SDC) spread over the State. These SDCs were providing training in Sewing Machine Operation to enable the trainees of being employed in the garment and apparel industry or being self-employed.

[21] South India Textile Research Association, Coimbatore.

[22] Out of which 144 SDCs were established with the assistance of the Department & 170 SDCs under Private sector.

As per the guidelines, the SDCs established with departmental assistance were paidat₹6,000 per trainee and private SDCs at ₹ 7,500 per trainee. These rates were revised to ₹ 9,500and ₹ 11,000 respectively during 2017-18. At pre-revised rate of ₹ 6,000 per trainee, the total amount required for imparting training for five lakh youths would be ₹ 300 crore while the Department provided ₹ 200 crore in the Textile Policy. The number of youths to be imparted training was reduced while framing the annual plan of action and actual achievement was just above 20 *per cent* of the Policy target. The details of target, achievement and expenditure during 2013-18 are shown in **Table 2.15:**

Table 2.15: Target, achievement and expenditure

Sl No.	Year	Targets as per AAP (in number)	Achievements (in number)	Expenditure (₹ in crore)
1	2013-14	31,864	21,779	9.99
2	2014-15	25,000	23,897	17.31
3	2015-16	9,940	12,714	8.30
4	2016-17	22,400	32,315	24.73
5	2017-18	19,731	14,051	14.34
	Total	**1,08,935**	**1,04,756**	**74.67**

(Source: Information furnished by the Department)

No reasons were on record for insufficient allocation of funds which implies that there were no takers for the training being imparted as well as no capacity to absorb them by the Garment sector due to automation.

The Commissionerof Textiles replied (October 2018) that there were many takers for the training and the targets were fixed as per the budget allocation.The reply is not acceptable as the grants for AAPs should be sought with reference to the Policy targets instead of preparing the AAPs based on the budget allocation.Further, the Department did not furnish any correspondence to Audit to show that the Government was impressed upon to release grants for imparting training to the number of youth as set in the Policy.

The fact, however, remains that the job to 3.95 lakh unemployed youths were deprived as target of imparting skill development training was curtailed citing lack of budgetary support.

(b) Skill Upgradation Centres

The Policy also aims to provide skill upgradation and envisaged extending financial assistance to three institutes of repute involved in the academics/ skill development in the textile value chain. The financial assistance would be limited to a maximum of ₹ one crore per institute with contribution from the institute as per the MOU for infrastructure development. The MOU envisaged conducting trainings other than those imparted by the SDCs, *i.e.* Sewing Machine Operations (SMO).

The Department concluded MOUs with three Engineering Institutes and released (August/September 2016) a sum of ₹ 1.50 crore (₹ 50 lakh each) as the first instalment to these institutes. As per MOUs, these institutes should impart training to 1,500 candidates in a five-year period. The cost of providing training to 900 candidates would be borne by the Department while training cost for 600 candidates would be borne by the institutes.

Audit scrutiny revealed that the training programme had not commenced in these three institutes despite a lapse of two years and the MOUs did not stipulate a deadline for completion. Utilisation Certificates had not been submitted by any of the institutes and subsequent assistance had not been released by the Department. The Department had not even finalised the training module even after two years of signing the MOU. However, the Review Committee suggested (November 2017) training in SMO which was already being imparted by the SDCs. This indicated not only poor planning but also the possibility of ₹ 1.50 crore released to the institutions becoming wasteful, if the training module was not revised**.** Moreover, the target of imparting training to 1500 candidates was also not achieved.

The Commissioner of Textiles stated (October 2018) that all the three institutes were informed to complete the Projects and informed that action would also be initiated to design new training modules. The Commissioner of Textiles did not furnish the target dates fixed for commencement and completion of the courses.

2.1.10.2 Role of Departmental Undertakings

There were five Departmental Undertakings which were established to promote growth of the Textile sector. These Undertakings were implementing State Sector Schemes envisaged in the Textile Policy.Out of the five DepartmentalUndertakings,two *viz.* Karnataka Handloom Development Corporation and M/s Karnataka State Textile Infrastructure Development Corporation Limited are under Audit jurisdictionwhile other three are Co-operative Federations. The performance of these two Undertakings was reviewed in the audit and observations are discussed in the succeeding paragraphs.

(a) Karnataka State Textile Infrastructure Development Corporation Limited

The erstwhile Karnataka Power Loom Development Company established in February 1994 was renamed (2010) as M/s Karnataka State Textile Infrastructure Development Corporation Limited (KSTIDCL) with the objectives of “attracting new investments, assisting existing textile enterprises for technology upgradation and development of human resources required for the Textile industries”.

The Corporation also implements some of the programme under the State sector which were entrusted by the Government.

Audit scrutiny revealed that the Corporation had not taken any initiatives to undertake promotional activities to attract investments or identify business opportunities despite the same being the prime objectives. The main operational income of KSTIDCL was from sale of school uniform cloth under *Vidya Vikas* Scheme of the Education Department. The KSTIDCL procures the material from registered weavers/weavers associations to fulfil the order. In recent years, quantity and value of supply order placed by the Education Department had declined due to inability to supply material on time and poor product quality. The Education Department levied a penalty of ₹ 35 lakh due to poor quality of cloth which was passed on to weavers **(Table 2.16).** Apart from the sale of uniform cloth and implementation of some minor State sector schemes, the KSTIDCL was not involved in any other significant activities in connection with implementation of Textile Policy.

Table 2.16: Levy of penalty

(₹ in crore)

Sl No.	Year	Quantity ordered (Mts in lakh)	Value	Quantity supplied (Mts in lakh)	Value	Amount Received	Amount withheld/ Penalty
1	2014-15	39.43	24.62	39.43	24.62	24.61	0.01
2	2015-16	20.69	12.93	20.69	12.93	12.89	0.04
3	2016-17	19.25	13.32	19.25	13.32	13.02	0.30
4	2017-18	14.62	5.75	5.05	2.12	2.12	0.00
	Total	**93.99**	**56.62**	**84.42**	**52.99**	**52.64**	**0.35**

(Source: Information furnished by Department)

Thus, the objective of establishing the Corporation was largely defeated considering the actual activities being performed.

The Commissioner of Textiles while agreeing to the observation replied (October 2018) that the decline in the sale of uniform cloth was on account of reduction in the supply order by the Education Department. However, the Commissioner of Textiles did not furnish any steps being undertaken to revive the Corporation.

(b) Karnataka Handloom Development Corporation

Karnataka Handloom Development Corporation (KHDC) was established in 1975 to facilitate marketing ofhandloom products,supply of looms, supply of raw material to the weavers and also to implement State Sector Schemes. The Company was serving 10,219 weavers[23] (March 2018).

The Company sales comprised wholesale and retail sales. The sale of products to different Government Departments are treated as wholesale sales, which contribute two-thirds of the total sales. The turnover of the Company both under wholesale and retail sales had more or less become stagnant while expenses had increased due to increase in the operational costs. The

[23] 9,569 Cotton Weavers and 650 Silk Weavers.

accumulated loss which stood at ₹ 83.55 crore in 2012-13 had increased to ₹ 128.56 crore by the end of 2016-17 **(Table 2.17).**

Table 2.17: Details of sales, gross loss, net loss & accumulated loss

(₹ in crore)

Sl No.	Year	2013-14	2014-15	2015-16	2016-17
1	Sales	158.96	151.94	168.32	135.27
2	Gross loss[24]	6.91	15.16	9.45	13.24
3	Net loss	6.91	15.16	9.45	13.24
4	Accumulated loss	90.47	105.86	115.32	128.56

(Source:Certified Accounts figures)

The total sales during 2016-17 had declined compared to previous years and the same was attributed to a decrease in the orders from the Government Departments. Similarly, showroom sales also decreased despite offering a 20 *per cent* rebate[25] to consumers for 180 days. The Company did not ascertain the reasons for the declining sales.

The Commissionerof Textiles did not offer remarks to the audit observation.

Recommendation 5: The Department may oversee the schemes for which releases were directly made to the Undertakings, so that the schemes were implemented successfully. The schemes may also be evaluated periodically in the light of reduction in the handloom sales.

2.1.11 Monitoring

Monthly Programme Implementation Calendar (MPIC) indicating financial and physical targets set and achieved was the system to monitor the progress of implementation of the various schemes. Audit however observed that the MPIC returns showed full utilisation of funds released by the Government which was not the case. Outcome of the programmes were not evaluated and working of the Departmental Undertakings were also not evaluated so as to enable them to play an effective role in achieving their prime objectives.

The State Level Project Implementation Committee (SLPIC) was a monitoring system set up under the Chairmanship of the Secretary, C&I Department with the Commissioner of Textiles being a Member Secretary. This Committee was responsible for the development of detailed operational procedures and effective implementation of the Policy. Having an updated database of the Textile sector was absolutely essential for the successful implementation of the various interventions of the Policy and the SLPIC in its meeting (October 2014) decided to create a database. However, the subject was not discussed in the subsequent meetings of the Committee and no action was taken by the Commissioner of Textiles to create a database of the Textile sector though he

[24] After prior period adjustments.
[25] 20 *per cent* rebate is given for 180 days during major festivals.

was the Member Secretary of the Committee. Further, the SLPIC did not take any concrete measures to address the constraints faced by the Handloom and Spinning sectors, in spite of sufficient funds being earmarked in the Policy for their revival.

The Commissioner of Textilesreplied (October 2018) that action had been taken to get the schemes evaluated by TECSOK[26], a GoK undertaking.

2.1.12 Conclusion

The Department did not maintain a comprehensive and updated database on various value chain activities for framing appropriate interventions for growth of the Textile sector. The utopian investment and employment generation targets set in the Textile Policy 2013-18 were achieved only to an extent of 37 *per cent* and 24 *per cent* respectively. No evaluation was conducted to ascertain the reasons for poor performance in attracting investments and employment generation. The objectives of revival of Handloom sector and Spinning Mills in the Co-operative sector were also not achieved. The integrated Textile Parks were proposed for establishment at four locations without ensuring prospective investors and were mooted simply because land was available with KIADB. No information was available with the Department as to whether the approved projects were being implemented or were being withdrawn by the proponents.

Incentives/subsidies were also not released on time and the delay was beyond 12 months in 312 cases.

No norms were laid down for grant of incentives/subsidies to projects under 'Special Package'. Moreover, incentives/subsidies worth ₹ 315 crore were sanctioned to a project on unjustifiable grounds.

The financial management was not robust as amounts were lying with the implementing agencies and penal interest was paid as electricty bills were not discharged in time. Imparting of training to youth for employment in the Garment sector was curtailed to 1.09 lakh persons from the Textile Policy target of five lakhs ostensibly due to budgetary constraints. Monitoring was lacking though there were shortfalls in achievement in many areas.

Thus, the objectives of the Textile Policy of 2013-18 were not achieved by the Department though the Textile sector was touted as the biggest employment generator with low capital investment. The implementation of the textile policy does not indicate, at least not in any direct way, that the policy was a catalyst to the textile activities – investment, employment etc. The policy was not able to address the weaknesses, threats and problems faced by this sector. The GoK needs to make the policy more attractive and progressive to

[26] Technical Consultancy Services Organisation of Karnataka.

supplement the synergistic effect on growth of textile and garment industry in the State for private initiatives too.

Unless the aforesaid issues are suitably addressed, there is a high probability of subsequent Textile Policies too being plagued by these structural weaknesses in planning, implementation and achievement of targets.

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DEPARTMENT OF CO-OPERATION

2.2 Agricultural Marketing Reforms in Karnataka

Executive summary

Agricultural marketing is referred to as services involved in moving agricultural produces from the farm to the consumer through trading at *mandis*[27]. The Government of Karnataka (GoK) implemented Agricultural Marketing Reforms-2013 which involved large number of operational changes at *mandis* leveraging technology for unification of markets, improving infrastructure facilities to suit online trading, *etc.*, to enhance farmer income and to bring transparency in all market operations. GoK formed a Special Purpose Vehicle[28] with a private entity to roll out e-trading platform at all *mandis* in the State.

A Performance Audit was conducted to assess the planning and implementation of reform initiatives which had sought to alter the ecosystem at *mandis*, the progress made on these initiatives and the benefits derived. Some of the important findings are enumerated below:

- **Implementation schedule was not drawn for prioritising various policy initiatives. The Committees set up to guide and implement were non-functional.**
- **The Unified Marketing Platform (UMP) to facilitate e-trading was rolled out in 160 main *mandis* in a phased manner, while the same was not provided to 352 sub-*mandis*, thus depriving the benefit.**
- **All notified commodities were not being traded on the UMP and trade was restricted to one or two prime commodities on the UMP. The introduction of e-trading platform had little impact on the total arrivals to *mandis.***
- **Local trading, as done previously, was taking place on the UMP as associated critical facilities *viz.*, assaying and grading was not available in all the *mandis*. Further, the distant trading was not taking place in any of the *mandis* as the quality standards of the commodities to be displayed on the UMP screen was not finalised.**
- **The online payment of sale proceeds to the farmer's bank account which commenced in eight *mandis* was discontinued due to protests from the traders/commission agents. Thus succumbing to pressure was a serious setback to the e-trading regime as without a direct payment mechanism, distant trading cannot take place.**
- **Better price realisation to farmers consequent on introduction of UMP not always guaranteed as prices realised during 2017-18 for eight commodities were below the Minimum Support Price (MSP).**
- **Rolling out of UMP by the Government of India for pan India operations had isolated the State UMP (ReMS) losing out the financial**

[27] Called APMCs in Karnataka.
[28] Rashtriya e-Marketing Services Limited (ReMS).

assistance extended by GoI for improvement of infrastructure at *mandis*.

- **Transaction charges of ₹ 63.95 crore being paid (2014-18) to the SPV were unauthorised. The scope of transaction charges is limited to trades through the electronic platform and all other trades viz., sales outside the *mandis*, direct sales, manual auction, etc., are not covered as per Rules and Service Level Agreement (February 2014) entered into with the SPV.**
- **Alternate markets envisaged in reforms had not yet materialised and commodity specific parks were also not taken up yet.**
- **Unutilised amount of ₹1,598.90 crore was not returned by the procurement agencies which was given for market intervention operations for purchase of perishable commodities. Reimbursement of ₹ 656.06 crore was outstanding from GoI as GoK had not submitted claims in proper form.**

2.2.1 Introduction

The Karnataka Agricultural Produce Marketing (Regulation and Development) Act, 1966 (KAPM Act), came into effect from August 1966 to improve regulation in marketing of agricultural produce, develop an efficient marketing system and put in place an effective infrastructure for marketing of agricultural produce. The Government of Karnataka (GoK) constituted (May 1968) the Agricultural Marketing Department (Department) to primarily protect the interests of the farmers. However, the marketing of agricultural produce has not kept pace with the change in times and faces new challenges in terms of finding an efficient market for the marketable surplus.

The regulation of markets, however, achieved limited success in providing an efficient agricultural marketing system as these steps turned out to be more of setting up regulatory and revenue generating institutions than facilitating efficient market practices. The Government of India took the initiative for reforming the agricultural marketing sector by formulating a Model Agricultural Produce Marketing CommitteeAct in 2003 for adoption throughout the country and followed up by circulating the Model APMC Rules in 2007 to facilitate amendments to the existing rules. The Model Act, contemplated overcoming the monopoly enjoyed by *mandis* by opening the doors for private participation. Accordingly, KAPM Act, 1966 was amended in 2007 to allow Direct Purchase Centres, establishment of private markets, farmer producers organisation, contract farming, establishment of spot exchanges, *etc*. However, for want of a comprehensive policy backing these amendments, many of these farmer friendly initiatives did not shape up in a

meaningful manner. GoK recognising the limitations/constraints in the present marketing systems, to provide barrier free market system and enhance transparency in all marketing operations by leveraging on Information Technology constituted (March 2013) Agricultural Marketing Reforms Committee (Reforms Committee). This Committee was to recommend reforms and a road map for implementation of the reforms. Based on the recommendations of the Committee, Karnataka Agricultural Marketing Policy-2013 (Policy) was brought out.

The policy *inter alia* sought to create a market structure that is transparent and equitable, distinguishes quality and variety, disseminates relevant market information to all market participants for a level playing field, provides easy access to all participants and ensures fair returns to all stakeholders, with the seller having the choice to decide the time, place and avenue[29] of sale. The policy also proposed setting up a comprehensive electronic auction system for transparent price determination besides establishing a State-wide networked virtual market by linking various regulated markets and warehouses, provided with assaying and grading facilities and other necessary infrastructure facilities. The policy also envisaged linking the primary market in the State to the national market for the benefit of all stakeholders in the marketing chain.

2.2.2. Organisational Setup

The Department functions as an independent Department headed by Secretary to the Government, Co-operation Department since 1972 at the Government level.The Department is headed by the Director of Agricultural Marketing, who is assisted by the Additional Director (Administration), the Additional Director (Enforcement) and the Joint Director (Planning). In addition, the Chief Auditor looks after the auditing of accounts of the Agricultural Produce Marketing Committees (APMCs) and an Engineering Cell headed by the Superintending Engineer at the Head Office looks after the technical issues. At the field level, there are 29 Deputy/Assistant Directors linking the Department and the taluk level APMCs[30] and their Sub-Markets. An Enforcement Cell wasalso established to prevent unauthorized trade transactions in the APMC areas. To supervise civil works at the field level, there are four Zonal Divisions[31] headed by the Executive Engineers and 19 Sub-Divisions headed by the Assistant Executive Engineers.

[29] The choice of opting for a particular channel of sale – through the *mandis*, private markets, e-trading, *etc*.
[30] There were 162 APMCs and 352 Sub-Markets as of March 2018 in the State.
[31] Belagavi, Bengaluru, Kalaburagi andMysuru.

The agricultural marketing structure comprises:

- **Agricultural Produce Marketing Committees (APMCs)** –Thesewere established under the KAPM Act, 1966 for trading of notified agricultural commodities in their market yards with associated infrastructure facilities. There are 162 APMCs and 352 sub-markets in the State which are implementing the provisions of the KAPM Act, 1966 and Rules 1968. The Government also provides financial support to the APMCs to implement schemes/programmes.

- **Karnataka State Agricultural Marketing Board (Board) -**The Board[32] was established in 1972 under the KAPM Act, 1966 which undertakes promotional and advisory activities for the improvement of agricultural marketing system in the State.

  Apart from supporting the implementation of the Minimum Support Price Scheme by the GoI, for a few perishable commodities like onion, potato and tomato, the GoK announces Floor Price Scheme, implemented through "Revolving Fund" and "Market Reforms Fund[33]".

- **Rashtriya e-Marketing Services Private Ltd (ReMS):**The Special Purpose Vehicle (SPV) was set up (January 2014) by GoK with a private entity (NCDEX e-Markets Limited) to provide an electronic platform called the "Unified Marketing Platform" (UMP) for trading of agricultural produces. The ReMS was authorised to generate e-permits and collect transaction fee from the *mandis*.

- Apart from the above Bodies/Committees, GoK constituted Agricultural Marketing Reforms Committee (March 2013) headed by the Additional Secretary, Department of Co-operation to develop a comprehensive road map for implementation of reforms along with identification of necessary interventions in Agricultural Marketing Reforms.

2.2.3 Audit Objectives

The objectives of this Performance Audit were to assess whether marketing reforms as envisaged in the Policy (2013) have been implemented and the intended benefits achieved. For this purpose, it was proposed to examine whether:

- the Action Plans and Annual Plans were suitably prepared for implementation of reforms**;**

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[32] The Board is constituted with the Minister in-charge of Agricultural Marketing as the Ex-Officio Chairman of the Board, the Secretary to the Government, Department of Co-operation and the Principal Secretary to Government, Agriculture & Horticulture Department as the Ex-Officio members of the Board. There are 30 members representing each district in the State who are the Chairmen of APMCs elected from among the members of APMCs of the concerned districts. The Director of Agricultural Marketing is the Ex-Officio Managing Director of the Board.

[33] Created with effect from 1April 2017.

- the Department's Market-intervention schemes in operation protected the farmers from distress sales**;**
- infrastructural facilities were provided for as per Policy; and
- the manpower in the Department was adequate and equipped to discharge regulatory functions and to carry out initiatives proposed in the Policy.

2.2.4 Scope and methodology of Audit

Audit scrutinised records relating to 13[34]out of 29 Assistant Directors/Deputy Directors Offices covering 49 out of 162*mandis* and 110 out of 352 sub *mandis* (based on the random sampling)and Director of Agricultural Marketing for the period 2013-14 to 2017-18 by way of collection of data through document analysis, response to audit queries, questionnaires, proformae, photographs and Joint Physical Verifications.

The Performance Audit for the period 2013-18 was conducted during the period from February 2018 to July 2018. An Entry Conference was held during March 2018 with the Secretary to the Government of Karnataka, Co-operation Department, wherein the audit objectives and audit criteria were discussed**.**An Exit Conference was held during October 2018 with the Additional Secretary to the Government of Karnataka, Co-operation Department and the Director of Agricultural Marketing to discuss audit findings. The responses of the Department are suitably incorporated in the Report**.**

2.2.5 Audit Criteria

The sources of the audit criteria adopted for assessing the achievement of audit objectives were:

(a) The Karnataka Agricultural Produce Marketing (Regulation & Development) Act, 1966 and Rules 1968;

(b) Karnataka Agricultural Marketing Policy, 2013;

(c) Karnataka Budget Manual and Karnataka Financial Code;

(d) Programme/Scheme Guidelines issued by the Government;

(e) Instructions/Circulars/Orders issued by the Government.

[34] Belagavi,Bengaluru, Davanagere,Gadag,Haveri, Kalaburagi, Koppal, Madikeri, Mysuru, Raichur, Shivamogga, TumakuruandUttara Kannada.

Audit Findings

2.2.6 Background

The Agricultural marketing reforms undertaken in 2013 by GoKweretransformational in nature as they sought to overhaul the entire trading system at the Regulated Markets or *Mandis* which were earlier plagued by high transaction costs to the farmer due to manual trade, non-transparent settlement of sale proceeds, restricted accessto markets**,** price manipulation by the traders, lack of infrastructure facilities,*etc*. This overhaul was to be achieved through leveraging Information Technology and roping in private players for value addition and creation of new infrastructure.

Chart 2.1: Process flow in e-Markets

Source: ReMS (SPV)

The implementation of various initiatives was fraught with stiff resistance from various stakeholders as radical changes were proposed affecting their business interests. Audit analysed the challenges faced by the Department and measures taken for implementation of the policy.

2.2.7 Planning

2.2.7.1 Road map for implementation of reforms

The overall objective of the Karnataka Agricultural Marketing Policy-2013[35] was to create a new market structure leveraging Information Technology, promote private participation, create new infrastructure facilities, improve capacity building of various stakeholdersapart from suitably amendingthe provisions of the APMC Actand to remove trade barriers.

The Reforms Committee had recommended (May 2013) that assaying and grading facilities which were identified as prerequisites for e-trading should be provided within next 12 months in the key markets and within the next two years in the other markets. However, no such timelines were prescribed in respect of the other initiatives like establishing warehouse-based sales, private markets, direct purchase centres, farmer producer organisations, etc., resulting in partial achievement of intended objectives of the policy.

To implement the Policy in an effective and phased manner, the Share Holder Agreement Negotiation Committee under the Chairmanship of the Additional Chief Secretary to Government, Department of Co-operation was formed (September 2013). As several of the initiatives were new to the Department, an Advisory Council[36] was also constituted (May 2014) to strengthen the decision-making process within the Department and to guide the Director in the implementation of Reforms.

Audit scrutiny of records revealed the following:

- There was no roadmap having short, medium and long-term plansfor smooth implementation of reforms.
- The two Committees[37] formed were non-functional as no meetings were convened to discharge the mandated functions.
- The slew of initiatives envisaged, especially relating to e-trading, are interlinked and without implementing the associated initiatives, the intended results cannot be derived by the farmer.

The Government replied (November 2018) that 162 *mandis* were brought under the UMP by 2017-18 against the target of 97 *mandis* despite the complexity of the market operations/practices prevailing in the State.

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[35] Accepted by Government in September 2013.

[36] Consisted of Secretary, Co-operation Department as the Chairman; Director, Department of Agricultural Marketing; and Managing Director of the SPV as Members.

[37] The Share Holders Agreement Committee and the Advisory Council.

However, the Government did not furnish any details to Audit with respect to the targets for bringing *mandis* under the UMP despite issue of requisition as early as during February 2018. The Department had only furnished the annual target and achievement details in the reply. It is not clear as to why the Department did not share the planning details with Audit earlier in case the same was available. Audit is of the opinion that data in respect of annual target furnished now was an afterthought. However, the reply did not indicate targets for other initiatives like assaying and grading, initiating e-tender, warehouse-based sales, *etc*., where shortfalls were observed in audit.

2.2.7.2 Non-operation of Market Reforms Fund

The Government issued orders (March 2017) for creation of a "Market Reform Fund" for providing necessary market infrastructure[38] to facilitate e-trading operations and also for the formation of a "Market Reforms Fund Committee"[39] to formulate guidelines for administering the Fund, review of implementation of the schemes taken up with the Fund, accounts and audit, *etc*. The committee though formed did not start its operations till date. The 'Fund' was to receive contributions from the *mandis* at the rate of 10 *paise* per ₹ 100 transaction value and was to commence its operation from 1st April 2017, operated by the Board.

Audit scrutiny revealed that the 'Fund' was not yet made operational as the Board had delayed opening a Bank Account (account was opened during May 2018) and consequently *mandis* could not transfer the amount of ₹ 27.41crore from their respective accounts though the market fees had already been collected by them (March 2018).

The Government replied (November 2018) that the Bank Account was opened on 22nd May 2018 and ₹ 6.25 crore was credited by the end of October 2018. However, the market fee collected by the *mandis* up to March 2018 was not transferred in full. The Government too, did not show any urgency for ensuring timely remission of fees to the Fund and did not give importance for framing of guidelines. As a result of inaction, providing critical infrastructure in mandis for undertaking e-trading on the UMP would be further delayed.

[38] Action Plan was to be prepared which would provide forassaying, grading, testing, quality control, warehouse, cold storage including IT infrastructure, *etc.*

[39] Headed by the Additional Chief Secretary/Principal Secretary/Secretary to Government, Co-operation Department with Director of Agricultural Marketing as one of the members.

2.2.7.3 Unified Marketing Platform

The core of the reforms leveraged Information Technology to create transparent integrated auction mechanisms encompassing all market operations[40]. This would also enable dissemination of information to all market participants and provide the envisaged level playing field to all stakeholders.

To spearhead reforms associated with Information Technology, the Government selected (December 2013) NCDEX e-Markets Limited (NeML) as the private partner which had already developed a central comprehensive electronic auction system in 2011 for the futures exchange dealing with agricultural and non-agricultural commodities.The selection was made based on the recommendations of the Reforms Committee which had opined that NeML was the only exchange operating in the State with 80 *per cent* of the turnover on the Exchange being derived from agricultural commodities and that it was also functioning satisfactorily. A shareholder agreement was concluded (December 2013) with NeML for incorporating a SPV and Rashtriya e-Market Services Private Ltd (ReMS), a SPV, was incorporated (January 2014) with equal shareholding by Government and NeML. The electronic trading (e-trading) platform established (from February 2014 onwards), operated and managed by ReMS for e-trading and auctioning of farmers' produce to bring in efficiency and transparency in the *mandis* in Karnataka State is known as the "Unified Marketing Platform" (UMP). The SPV was authorised to collect ₹ 0.20 out of every ₹ 100 of transaction value collected by the *mandis* up to 31st March 2017 which was later reduced to ₹ 0.10 for every ₹ 100 of transaction value. The benefits of e-trading over the manual trading are shown in **Table 2.18:**

Table 2.18: Benefits of e-trading over the manual trading

Sl No.	Earlier system	New system
1	Manual trading – The manual system was a cumbersome process which comprised writing the price on a white slip, putting it in a box and waiting for long hours for the highest price to be declared. The system was prone to manipulations, errors, opaque bidding and was time-consuming.	Electronic trading– The electronic tender system increases transparency, ensures competitive price and yields better price realisation to the farmer efficiently in a lesser time.
2	Fragmented markets – Thetrades were localised to the local *mandis.*	Integrated markets – Theintegration of markets would enable a State-wide virtual market.

[40] Capturing details of farmers, tracking of producer lot with unique IDs, displaying the lot in auction screen along with quantity and quality particulars, reconciliation of arrivals and exit of commodities, integrating post auction process like weighment, payment, market fee collection, other administrative functions and most importantly to facilitate integration of markets.

3	Information Asymmetry –Market information was not freely available to the farmers as compared to the traders.	Increased information dissemination – Enables the farmer to take an informed decision to sell his commodity.
4	Indifference to quality and requires physical inspection of the commodity.	Quality based sales – Enables non-sight trading of commodity by assaying and grading. Better quality produce would get better price to the farmer.
5	Manual weighment was prone to malpractices.	Electronic weighment – Ensures correct weighment of the produce and payment.
6	No financial linkages – belated/non/short payments.	Online payments to the farmers account – Ensures prompt settlement of farmers' dues.
7	Manual billing was prone to errors.	Computerised bills – Ensures error-free payments to the farmer.
8	Manual permit.	e-permit – Convenient and could be generated anytime and anywhere by the licenced trader.
9	Licensing barrier– The trader was allowed to trade only in the registered market.	Registered trader of any market can participate in any other market in the State. Increases participation and competition in the market.

(Source: Statement furnished by the Department)

Thus, the envisaged reformswere 'farmer centric' and the farmer was the primary beneficiary of the reforms. Ultimately, the seller, *i.e.* farmer, should have the choice to decide the time, place and avenue of sale which would result in realising the due share of income from the final price paid by the consumer for farm produce.

There were 162 *mandis* and 352 sub-markets in Karnataka and the UMP had been rolled out in 160[41]*mandis* in phases.The details are as shown in **Table 2.19**(from 2013-14 to 2017-18).

Table 2.19: Progress of installation of Unified Marketing Platform in Agricultural Produce Marketing Committees and trading taking place through the Unified Marketing Platform

Sl No.	Year	No. of *mandis*installed with UMP	No. of *mandis*carrying out trade through e-tender
1	2013-14	03	--
2	2014-15	52	44
3	2015-16	105	69
4	2016-17	157	64
5	2017-18	160	70

(Source: Statement furnished by the Department)

[41] The details of providing UMP to Yeshwanthpura *mandi* and Fruit and Vegetable*mandi* at Bengaluru were not furnished.

As may be seen from Table 2.19, e-trading[42] was not taking place in all the *mandis* though the UMP had already been established in the *mandis*. It was seen that:

- ❖ By 2017-18, though 160*mandis* had adopted the UMP, e-trading during 2017-18 was taking place only in 70 *mandis*. Further, in 34 *mandis*, e-trading was limited to only one or two commodities;
- ❖ Other than the 70 *mandis*referred to above, 11 *mandis*[43] had stopped e-trading after commencement;
- ❖ None of the 352 sub-markets coming under the jurisdiction of the main markets have installed the UMP as the Department did not plan for the same. Thus, sub-markets were therefore deprived of the benefit of transparent and efficient system of e-trading.

Thus, though 160*mandis*had the facility of the UMP, they were being used only partially or were not being utilised at all by the main *mandis*.

The Government in reply (November 2018) stated that implementation strategy considered the prevailing practices in the *mandis* and the UMP was rolled out in the *mandis* where competitive process was in vogue. In other *mandis*, where direct selling was prevailing, it was allowed to continue though UMP was available. In these *mandis,* the UMP provided the price and volume details.

The Government with regard to some *mandis* stopping e-trading after commencement stated that the farmers opt for other markets when their

[42] Under e-trading system, when a farmer brings his produce to the *mandi* (Market Yard), his name, address, commodity name, number of bags, approximate weight, name of the commission agent to whom the farmer wants to take his produce to, are recorded. After this, a gate pass is issued in which a system-generated lot number is given. This lot number is used as reference number for transactions of the commodity.Post gate entry, after assaying the produce, the farmer takes his commodity to the commission agent of his choice. Simultaneously, the inventory of the commission agent is updated to reflect the arrival. At the commission agent's shop, the trader inspects the quality of the commodity and places his bid using the kiosks, i.e., computer systems placed in the market yard or through his own computer at his shop. Any trader can modify his bid only upwards before the closing time of e-tender and cannot withdraw a bid. When the bidding time window closes, the lot-wise winning bids are declared electronically. This information is disseminated to all participants via SMS, loudspeaker announcements, print-outs and is displayed on the notice boards and screens at the *mandi* office. Once the farmer knows the winning bid price of his lot, he can choose to sell his commodity at that price or reject it. If he accepts the bid, the commodity is weighed and a primary sale bill is generated. The buyer is then required to transfer the payment to the agent and pay the market fee to the *mandi*. The buyer is also obligated to pay a fee to the commission agent for facilitating the trade. The commission agent pays the farmer. Finally, the inventory of the buyer is updated and that of the commission agent is debited. An e-permit/gate pass is generated to let the commodity out of the *mandi*. The above system ensures competitive price for the farmers' produce and transparency in the sale transaction and the process reduces the marketing cost and increases the efficiency in the operation of sale procedures besides helping in quick generation of market reports and timely dissemination of market information.

[43] Basavakalyan, Doddaballapura, Jamakhandi, Kanakapura, Kundapura, Periyapatna, Ramanagara, Sedam, Shorapura, Udupi and Yelaburga.

produce does not get reasonable price in a particular market due to lack of competition. With regard to non-installation of UMP in the sub-markets, the Government stated that UMP has been provided in 28 sub-markets and thesub-markets would be progressively covered based on economic feasibility.

The reply is not acceptable as the e-auction platform was ushered for the reason that existing market practices lacked transparency and farmers were bearing the brunt due to low price realisation. The partial utilisation of e-auction platform did not achieve the very purpose of marketing reforms.

The fact, however, remains that the benefits were deprived as only limited crops were notified for e-trading in the main *mandis* and 352 sub-markets were kept out of networked markets.

2.2.7.4 Trends in commodity arrivals in mandis

The total notified commodity[44] arrivals in 160 *mandis*, quantity traded through e-tender on the UMP and the number of trades during 2014-15 to 2017-18 are shown in **Table 2.20:**

Table 2.20: Total notified commodity- arrivals, quantity traded and number of trades

Sl No.	Year	Total arrivals(lakh MTs)[45]	Qty traded through e-trading - (lakh MTs)	Percentage of e-trading*vis-a-vis* total	No of markets	Lots traded (in lakh)
1	2013-14	98.18	-	-	NA	-
2	2014-15	104.76	12.06	11.51%	44	15.91
3	2015-16	116.46	18.36	15.77%	69	29.34
4	2016-17	103.66	43.74	42.20%	64	47.98
5	2017-18	*	18.98	*	70	21.12
			(-56.60 % drop)			(-55.98% drop)

* - Details awaited. (Source: Statement furnished by the Department on 20th June 2018 and 2nd July 2018)

As may be seen from the Table2.20, the arrivals to *mandis* were showing an increasing trend except during 2016-17. The quantity traded through e-tender on the UMP had declined sharply during 2017-18 when compared to 2016-17 by 56 *per cent*. No reasons were furnished for the steep decline in e-tender trades during 2017-18.

On this being pointed out, the Government while giving reply (November 2018) stated that erroneous data was inadvertently furnished previously and furnished revised data which has been shown in **Table 2.21**.

[44] Notified commodities are categorised under Animal Husbandry, Fibres, Flowers, Food crops, Forest Produce, Fruits, Oil Seeds, Plantation crops and Spices, Pulses, Vegetables and other products. Altogether there are 92 notified commodities.

[45] Total arrivals in 160 *mandis* excluding commodities like coconut, tender coconut and beetle leaves measured in terms other than quintals.

The UMP is designed to provide various kinds of MIS reports and data as per MIS reports was furnished when it was sought for in Audit. Audit observations are made only on the basis of the data supplied by the Department and if these observations are confronted with a different set of data by the Department while giving replies to the observations, it raises doubts on the integrity of the data being furnished. Further, data would not change had it been generated from the UMP and thus data inconsistencies would not have arisen. Audit could thus not vouch for accuracy of the data being furnished by the Department. The revised data furnished by the Department is shown in **Table 2.21:**

Table 2.21: Total notified commodity – arrivals, quantity traded and number of trades

Sl No.	Year	Total arrivals (in lakh MTs)[46]	Qty traded through e-trading - (in lakh MTs)	Percentage of e-trading *vis-a-vis* total arrivals	No of markets	Lots traded (in lakh)	Value of e-tender trades (₹ incrore)
-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-
1	2013-14	98.18	-	-	NA	-	-
2	2014-15	104.76	7.46	7.12	44	15.73	4,852.96
3	2015-16	116.46	9.95	8.54	69	21.31	7,064.02
4	2016-17	103.66	11.51	11.10	64	22.60	7,836.13
5	2017-18	*	12.36	-	70	20.91	7,796.60

* - Details awaited. (Source: Revised data furnished by the Department)

The total arrivals (Column 3) to *mandis* comprises trades happening through e-tender, manual trading as well as trades outside the market for which e-permits are issued for transportation by paying market fee. Audit examined the revised data and following are the audit observations.

- The trends in total arrivals to *mandis* since inception of the UMP showed a mixed trend with slight increase or decrease on a year-on-year basis, with the increase registered during 2015-16 not being sustained in the subsequent year. The value of trading under e-tender (column 8) had decreased during 2017-18 as compared to 2016-17 though the quantity traded in the UMP had increased;
- Though 160 *mandis* were equipped with the UMP, e-trading was not taking place in 92 *mandis*. Between 2015-16 and 2017-18, the number of *mandis* carrying out e-trading increased by only one. The action taken by the Department or any initiative taken thereof to commence e-trading in 92 *mandis* was not available on records. As the SPV was collecting market fee on the total arrivals, equal importancewas not given to

[46] Total arrivals in 160*mandis* excluding commodities like coconut, tender coconut and beetle leaves measured in terms other than quintals.

commence e-trading which deprived stakeholders the benefit of an efficient and transparent price discovery system.

- ❖ Even though there was an increasing trend both in the arrivals to the *mandis* (column-3) (except 2016-17) as well as in e-trading (column-5) during the period from 2014-15 to 2016-17, the quantity traded through e-trading (column-4) was meagre compared to the total arrivals in the*mandis*;

The introduction of UMP had not made significant inroads to overhaul the trading system in the *mandis* so far.

Integration of markets

Earlier, the competition was restricted to individual *mandis*. The introduction of the UMP wouldfacilitate the unification of markets, allowing the traders to bid fromdistant markets, increasing competition and thus resulting in better price discovery for the farmer. For distant trading to happen, testing and key quality parameters should be displayed on the UMP so as to remove the need for physical inspection of the sample before bidding online, something which is possible only by assaying and grading of commodities.

Chart 2.2: Cleaning, Grading and Assaying

Source: ReMS (SPV)

2.2.7.5 E-trading without requisite infrastructure

Since the quality of farm produce varies considerably from lot to lot and different grades of the same farm produce are brought to the *mandis*, assaying and grading of farm produce are mandatory pre-requisites for the UMP to succeed. These two parameters are key factors for undertaking distant trading so that the sellers (farmers) are able to describe the quality and the grade of farm produce they were offering and the buyers (traders) also would understand what was being offered to them to quote their rates.

This not only calls for establishing assaying parameters and standards for grading by the Department but also necessitates that the *mandis* should possess the required assaying equipment to provide the necessary services so

that these critical parameters can be displayed on the UMP. Unless the UMP discloses these critical parameters, distant trade cannot take place as traders would not quote their bids without subjecting the produce to visual inspection which invariably involves physical presence of traders or their agents at the *mandis*. As per the Service Level Agreement, it was the responsibility of the SPV to provide necessary assaying facilities in the *mandis*.

Audit scrutiny revealed the following:

- ❖ The UMP was rolled out in *mandis* without having these two critical facilities fully established. Assaying was to be provided phase-wise in 90 *mandis* (1st phase – 10 *mandis* from April 2016; 2nd phase – 30 *mandis* from February 2017 and 3rd Phase – 50 *mandis* by March 2018). The Reforms Committee had recommended (May 2013) that these facilities should be provided within the next 12 months in the key markets and within the next two years in the other markets. The SPV had also planned to establish all these facilities in several *mandis* during 2014-15 but did not establish the planned facilities during the year.

  However, at the end of March 2017*, i.e.*, after a lapse of over four years, the SPV had provided assaying facilities only in 40 *mandis* out of which only 35 *mandis* were carrying out assaying by engaging service providers[47]. The SPV withdrew (with effect from 01.04.2017) from the responsibility of providing assaying facilities in the additional 50 *mandis*before March 2018 on the ground that the Government had reduced the transaction fee payable by the *mandis* to the SPV from 1 April 2017. The responsibility was shifted to the Board which had to fund these activities from the Market Reform Fund. As discussed in Paragraph 2.2.7.2, the Reform Fund was not credited with the amounts due and consequently the intended facilities were not provided in the 50 additional *mandis*.

  The Government replied (November 2018) that assaying in the 40 *mandis* was carried out for up to 25 *per cent* of the arrivals and a tender to provide assaying facilities to the additional 50 *mandis* was being floated. It was also replied that distant traders were also participating in e-tendering and studies had revealed how cross market bidding had taken place.

The reply was not tenable for the following reasons:

i) Only the parameters like moisture content, foreign matter, etc., were being displayed on the UMP screen;

ii) Grade of the commodity which was an important parameter was not being displayed on the UMP and standards were not yet framed. Hence, traders continued to rely on existing practice of visual examination of the commodity before placing their bids;

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[47] M/s Star Agri & M/s NCML.

iii) None of the *mandis* had operational grading facilities.

Thus, distant trading in its true sense is highly unlikely to happen as long as the UMP shows inadequate information and as long as the traders do not get a credible assaying mechanism. As claimed by the Department that distant trading is currently being carried on, it can only happen after inspection of the commodities by the trader or his agent before making the bid, which is nothing but a continuation of the old practice.

2.2.7.6Facilities for cleaning, sorting and packing of commodities

Farmers were to be impressed upon by the Department about the benefits of cleaning and sorting of their produce, as this fetches them a good price for their produce. In online trade, determination of quality of the produce is important for distant bidders to quote their rates. To encourage participation of farmers in online trading, the Department should provide the necessary infrastructure for cleaning, sorting and grading of the commodities.

The Department proposed (2015-16) to provide infrastructural facilities[48] for cleaning, sorting and grading and packaging in 59 *mandis* at an estimated cost of₹ 69.56 crore and ₹ 58.05 crore was released to the *mandis*between March 2015 and March 2017.

Photograph 2.2.1: Cleaning and Grading unit – Machinery under installation in Sedam, Kalaburagi District.
(Source – Photograph taken by audit on 19 March 2018)

Photograph 2.2.2: Cleaning and Grading unit in Gajendragad, Gadag District which was completed during November 2016.
(Source – Photograph taken by audit on 28 July 2018)

Scrutiny of records revealed that in nine*mandis*, the works taken up in this regard were completed (February 2017) but not put to use as tenders for operation and maintenance were not finalised (July 2018) by the Department. In 50 *mandis*, the works were under progress.

From the above, it is clear that local trade that was happening/taking place as per the erstwhile system in 162 *mandis*is still in practiceeven in those *mandis* where assaying and grading facilities[49] are available. Thus, position remains *status quo* till date (September 2018) with respect to the local trade and the

[48] Comprising building and necessary machineries.
[49] Eight *mandis* had both assaying and grading units.

envisaged benefits of obtaining higher price for quality produce have not been extended to the farmers.

The Government replied (November 2018) that installation of machines in all *mandis* were completed and tenders for operation and maintenance would be concluded by February 2019. The Government attributed the non-utilization of nine units completed by February 2017 to staff shortage.

The fact, however, remains that the standards for different grades of commodities was not finalised and consequently, the distant trading being the primary objective of marketing reforms did not materialise.

Recommendation 1: Department needs to accord top priority for providing critical infrastructure facilities, *viz.* credible cleaning, assaying and grading facilities to enable distant trading. Further, suitable awareness program may be taken up to help traders and farmers understand the benefits of e-trading and standardisation.

2.2.7.7 Better price discovery – Better prices to farmers

The UMP provides multiple benefits, *viz.*, increase in competition, transparency in bidding process and better price dissemination to all stakeholders, resulting in better price discovery which was lacking previously (mentioned in Paragraph 2.2.7.3). A better and competitive price discovery would ordinarily mean increased income to the farmer. However, the introduction of the UMP had not altered the market dynamics and rates quoted continue to be governed by demand and supply as no price regulation was enforced.

The *Niti Aayog* in its report[50] while commending the GoK initiatives had reported that online trading and the UMP resulted in increase in prices realised by farmers. The average increase for 10 commodities was 38 *per cent* in nominal terms and 13 *per cent* in real terms[51]. Notwithstanding the above, comparison of prices realised on the UMP with Minimum Support Price[52] (MSP) might be a good indicator of whether real and sustainable benefits in terms of prices were accrued. This was because the price realisation below the MSP fora commodity in any year would mean that Government intervention to protect farmers' interest would be inevitable. Such an exercise was undertaken in audit for eight commodities covering the period between 2015-16 and 2017-18 and their details are shown in **Table 2.22:**

[50] A Report on "Doubling farmers' income" by Ramesh Chand, March 2017.
[51] Real prices are computed after deflating with Wholesale Price Index (WPI) of the commodity.
[52] MSP is the price fixed by the Government for specific commodities to safeguard farmers with minimum profit for the harvest.

Table 2.22: Comparison of prices realised over MSP

Sl No.	Commodity	Year	Minimum Support Price	State modal price[53]	Variance between MSP & Modal price	Percentage of modal prices over the MSP
1	Bengal gram	2015-16	3,425	4,542	1,117	32.61%
		2016-17	4,200	6,573	2,373	56.50%
		2017-18	4,400	4,807	407	9.25%
2	*Tur*	2015-16	4,425	7,654	3,229	72.97%
		2016-17	5,050	5,848	798	15.80%
		2017-18	5,450	3,764	-1,686	-30.94%
3	Green gram	2015-16	4,650	7,277	2,627	56.49%
		2016-17	5,225	5,185	-40	-0.77%
		2017-18	5,575	4,831	-744	-13.35%
4	Black gram	2015-16	4,425	7,997	3,572	80.72%
		2016-17	5,000	7,109	2,109	42.18%
		2017-18	5,400	4,388	-1,012	-18.74%
5	Bajra	2015-16	1,275	1,423	148	11.61%
		2016-17	1,330	1,568	238	17.89%
		2017-18	1,425	1,317	-108	-7.58%
6	Jowar	2015-16	1,570	1,781	211	13.44%
		2016-17	1,625	1,996	371	22.83%
		2017-18	2,100	1,843	-257	-12.24%
7	Maize	2015-16	1,325	1,365	40	3.02%
		2016-17	1,365	1,480	115	8.42%
		2017-18	1,425	1,315	-110	-7.72%
8	Groundnut	2015-16	4,030	4,362	332	8.24%
		2016-17	4,220	4,434	214	5.07%
		2017-18	4,450	3,877	-573	-12.88%

(Source: Statement furnished by the Department)

It may be seen from the Table 2.22 that prices above the MSP were realised for all commodities during 2015-16 and 2016-17 (except for Green Gram in 2016-17) by the farmers, while similar positive results were not derived during 2017-18. The prices realised during 2017-18 were below MSP for all commodities (except Bengal gram) and percentage of changes ranged between (-) 7.58*per cent*and (-) 30.94 *per cent*. The sudden downward trend calls for detailed examination. It further reinforces the fact that market prices are determined by demand and supply even in case of enlarged markets. A higher price realisation need not always be guaranteed and interventions[54] by the Government might becomenecessary when price realisation falls below the MSP.

[53] State Modal Price reflects average of prices realised for the commodity on the UMP.
[54] Procuring commodities at MSP to avoid distress sale, *etc*.

The Government replied (November 2018) that prices are discovered when supply and demand interact in a fair and transparent manner. Comparison of MSP with the prices in *mandis* is not appropriate and cannot be benchmarked as commodities of inferior quality traded on the UMP would obviously fetch lower prices. The reply did not contradict audit contention that prices are determined by market forces. Further, Government reply attributing to inferior quality of commodities for lower realisation was vague and hence not acceptable.

The fact, however, remains that the prices realised were below the Minimum Support Price (MSP) despite advent of reforms.

2.2.7.8 Launching of e-NAM by Government of India

The Government of India formulated the Model Agricultural Produce Marketing Committee Act, 2003 which sought to remove some of the limitations of the old APMC Act, by opening up the sector for private participants and envisaged use of technological infrastructure for marketing and online trading of agricultural produce. GoI accepted the recommendation of the task force for strengthening the agricultural market environment in the country and decided (2016-17) to create a unified market through an online trading platform known as e-NAM, both, at the State and the National levels.

GoI launched e-NAM in April 2016 and before rolling it out, had studied the Karnataka Model (ReMS). By the end of October 2018, 585 markets across 16 States and two Union Territories had deployed the e-NAM platform in their markets.

In the meantime, GoKalso moved ahead by amending the State Act, in line withthe GoI Model Act, and also established (2014) a unified e-trading platform integrating the markets. GoK had not adopted e-NAM introduced by GoI as a separate platform. Consequently, the farmers of the State lost out on the potential benefits of a broader demand and supply competition on account of a wider market at the national level. The GoK Policy *interalia* also envisaged linking the primary markets in the State to the National market.

Audit scrutiny revealed that GoI had proposed for establishing interoperability between e-NAM and theGoK UMP (ReMS). This was discussed (September 2017) at the Government level by the Chief Secretary and implementation of interoperability was decided to be in two stages, as follows:

- Stage I – Price and quantity sharing details between ReMS and e-NAM, which was implemented (October 2017) by sharing the API (Application Program Interface); and
- Stage II – Customisation of bridge software required to allow farmers/traders for selling/buying lots on e-NAM and ReMS and *vice-versa.*

The Chief Secretary directed(February 2018)the Secretary, Co-operation Department to seek funds from GoI to meet the cost associated with the customisation of bridge software,*etc*. The progress made in this regard was however not forthcoming to Audit.

By accepting for inter-operability, it is very clear that GoK was also in favour of a unified national market which is in conformity with GoK Reforms Policy 2013. It is not clear why GoK was pursuing the option of inter-operability between the two UMPs and not exploring the option of adopting e-NAM platform. The inter-operability is fraught with compatibility issues.

Further, GoI provides the e-NAM software free of cost and apart from this, for joining the e-NAM platform, a one-time grant up to ₹ 30 lakh per market for purchase of hardware, assaying equipment and related infrastructure is also given.

In addition, e-NAM would depute one person free of cost at each market for a period of one year to provide day-to-day hand-holding support to the stakeholders for its successful implementation.

In contrast, ReMS was paying an annual fee[55] to NeML,for hosting, maintenance of the UMP and associated services, which was being met from the transaction fees paid by the *mandis*. By joining e-NAM, transaction fee need not be paid by the *mandis* to ReMS and the savings thus accrued could be utilised for development purpose. During 2016-17 and 2017-18,ReMS received transaction fees of ₹ 52.57 crore and ₹ 27.41 crore respectively from all *mandis*.

The Government replied (November 2018) that two APMCs were identified for implementation of e-NAM on pilot basis and funds from GoI were also sought.

The fact, however, remains that the benefits of national market for better price discovery was not derived by the farmers of the State as GoK had not joined GoI's e-trading platform *viz*. e-NAM and defeated the objective of one nation – one market initiative besides loss of central assistance for upgradation of *mandis.*

2.2.7.9 Online payment to farmer's account

A key component of the reform was to eliminate human intervention for better transparency in the settlement of sale proceeds. The UMP was also designed for online payment to the farmer's bank account from the trader's bank account.

[55] ₹ 1 crore for 2015-16;₹ 3.30 crore for next two years and ₹ 3.52 crore for 2018-19.

The online payment system was introduced(2013-14)in one *mandi* at Chamarajanagar,but was immediately discontinued. Subsequently, online payments were introduced in three[56]*mandis* during 2015-16 and four *mandis* during 2017-18. However, the system of online payments was discontinued in six *mandis* during August 2017 due to agitation from traders and commission agents.

Thus, an important reform initiative to ensure prompt settlement of the dues of farmers in a transparent manner did not succeed due to lack of efforts by the *mandis* to overcome the opposition from the traders and commission agents. Hence, it can be concluded that the claim of distant trading taking place on a virtual market was a myth as the critical facility of online payment in place was discontinued.

The Government replied (November 2018) that there were certain issues to be resolved before implementing the process of online payments and that audit recommendation was noted. The reply did not indicate the nature of issues to be resolved, how they were going to be resolved and when the Government would address these issues.

The fact, however, remains that the core objective of the reforms to provide transparent market and timely payments to farmers' bank account was not implemented even after *five* years of initiation of reforms.

Recommendation 2: Government may take necessary steps to make online payments to the farmers' bank account mandatory, to ensure transparency in transactions as well as for distant trading to materialise.

2.2.7.10 Alternative markets

Agricultural Marketing Reforms initiated by the Government of India/States, expected that alternative markets[57] in the private sector would be established. These markets were expected to have a level playing field with the existing regulated markets and provide a competitive environment which would benefit the farmer. The KAPM Act, was amended (August 2007) by GoK facilitating to undertake these activities by the private players and the Rules were amended during March 2008.

Establishment of Private Markets

The Part VI-A of KAPM Rules, 1968 provided for grant of licence under three Categories: (i) Private Market Yard (PMY) licencee develops, manages and

[56] Gadag, Hubballi and Tiptur *mandis* commenced online payments during 2015-16; Laxmeshwar, Mundargi, Nargund and Ron *mandis* commenced online payments during 2017-18.

[57] Alternate Markets include Private Markets, Terminal Market Complex, Direct Purchase Centres, Farmer Producer Organisations, Warehouse-based Sales,*etc*.

controls the yard; (ii) PMY licencee himself takes up buying or selling of notified agricultural produce on wholesale basis; (iii) Private Market set up with assistance from the Central or State Government,*i.e.* Terminal MarketComplex (TMC). The Rules, were further amended (February 2014) by removing Category (ii) licence and revised the scope of Category (iii) licence. The Category (i) licence is akin to functioning of *mandii.e.,* facilitating trading of agricultural commodities.

A PMY licensee should develop, manage and control the Yard by providing infrastructural facilities, such as auction halls, sheds, shops, godowns, storages, pre-cooling, cold storages, laboratory facilities, *etc*. For grant of PMY licence, the applicant should have land not less than three acres, earmarked for establishment of such PMY, shall bear a clear title or lease hold rights by agreement for a period of not less than ten years and should conform to the norms of Town and Country Planning Act. Provisions of the Act stipulated that the Private Market should not solicit or receive any fees or recover any charges other than those entitled to receive or recover in accordance with the provisions of the Act and the Rules. The Act was amended (January 2014) to provide full exemption of market fee for flowers, fruits and vegetables. For other commodities market fee at a reduced rate of thirty-three *per cent* of the stipulated market fee was levied. The Private Markets were however allowed to collect user charges as prescribed by the Department.

Scrutiny revealed that the State was not able to attract private investment for establishing Private Markets in large numbers. While no TMCs were established/ proposed (as of July 2018), only four PMYs were established prior to Policy 2013 (between July 2008 and June 2013) and two PMYs were set up subsequently (between October 2013 and July 2014). The two licences issued prior to Policy 2013 expired in March 2018 ceased to operate their activities as PMY due to revision of Rules which had removed the issue of Category (ii) licence. Further, the Department had not conducted or commissioned any study to ascertain the reasons behind the poor response from private players to come forward to establish PMY and to address their concerns. The levy of user fees being the only revenue stream might be one of the reasons for the poor response for establishing PMY for Category (i) licence.

The Government replied (November 2018) that though the provisions for setting up Private Markets were made very simple and investor friendly, participation was not encouraging. However, the reply was silent on the initiatives proposed to be taken up to make the sector attractive in terms of Return on Investment.

Regulatory Authority for Private Markets

The KAPM Act, 1966 vests regulatory powers with the Director of Agricultural Marketing and the responsibility of providing necessary infrastructure and operating marketswith the individual *mandis*. Thus the Department had dual responsibility when only *mandis* were the trading places. As this sector was thrown open to the private sector, the Reforms Committee opined to attract private initiatives and to provide a level playing field, it was necessary to segregate developmental and regulatory roles. The 12th Planning Commission (2012-17) recommended (December 2011) appointment of an independent regulator to frame service parameters and to resolve disputes between the*mandis* and the Private Markets. In their final report,the Committee of State Ministers in-charge of Agricultural Marketing also recommended that regulatory functions and developmental functions be segregated for improving the marketing structure in the country. The Regulatory Authority would be the licensing authority for establishing private markets, issuing the regulations pertaining to operating the *mandis* and private markets and would be vested with powers for disciplinary proceedings and other incidental matters. Audit scrutiny revealed that Section 72-D of the KAPM Act, 1966 provided for cancellation or suspension of licence by the Director of Agricultural Marketing or any authorised officer who had issued licence under the provisions of the Act. However, the Act was not amended despite commendations of the Reforms Committee for appointment of Regulator and enactment legislation, though licences were issued to private players.

The Government replied (November 2018) that there is no need for a separate Regulatory Authority as the Director of Agricultural Marketing is the licensing authority and the regulation activities are carried out with the help of officers/staff of the Department. The reply is not acceptable as segregation of responsibilities was recommended for fostering healthy competition between the *mandis* and the private markets.

Irregular grant of licences to PMY

The conditions for issue of licence, operation and regulation of private markets are enumerated in Part VI-A of KAPM Rules, 1968. The rules *interalia* specify (i) submission of operational and working guidelines with the application for licence by the applicant for approval by the Department (Rule 87-H) (ii) submission of security in the form of bank guarantee of ₹ 5 lakh before commencement of the operation or 2 *per cent* of previous year's transactions, whichever is higher (Rule 87-B-9) (iii) passing of order by the Director after inspection of facilities provided by the PMY for levy of maximum rate of fees and other charges (Rule 87-G) (iv) the licencee should maintain book, registers and records in the manner prescribed by the Director of Agricultural Marketing (Form 48).

Audit verified the records relating to issue of licences to two PMYs out of the six licences issued which revealed that the Department had issued licences without following the due process envisaged in the Rules. The licensing conditions were also violated by the PMYs. The Department was unable to enforce the conditions of licence and ultimately the interest of the farmers was compromised, as discussed below:

In the first case, the licence was issued (June 2013) to a licencee[58] for 10 years without obtaining the initial security of ₹ 5 lakh, submission of operational and working guidelines along with the application for licence by the applicant for approval by the Department. Further, no orders were issued by the Director fixing the maximum rates of fees and other charges leviable but PMY was allowed to commence operations. Hence, the issue of licence by the Department without following the laid down stipulations was irregular.

As per the report of the Additional Director (Enforcement), the PMY was collecting 10 *per cent* towards commission from the farmers' payments which was not permissible as per the Act/ Rules. Besides, there were complaints regarding non-payment of dues to the farmers. Consequently, the licence was suspended (June 2014) which was restored (December 2015) after the licencee furnished Bank Guarantee for ₹ 5 lakh instead of transaction value of one year. The total transactions of the Private Market were not known to the Department as no accounts were furnished by the PMY. However, considering the transaction value available for 24 days (19th June to12th July 2013), the bank guarantee for ₹18 lakh was to be obtained as against ₹5 lakh which was accepted by the Department. The restoration was also irregular as other conditions, *i.e.*, approval for operational guidelines and order to levy fees and other charges, were not fulfilled. The Assistant Director, Kolar reported (October 2017) that no trading activity was taking place in the PMY for the past one year which means that the PMY had operated for nearly 10 months without fulfilling conditions and exploitation of farmers cannot be ruled out.

On this being pointed out, the Director replied (May 2018) that the licence was restored considering the benefit to farmers of the region. The PMY was not currently operational due to internal litigation of the management of the PMY, which was also reiterated by the Government. The reply is not acceptable as farmers were not benefitted and instead were exploited as PMY collected fees from farmers in violation of rules and there were complaints against non-payments of dues to the farmers. As discussed above, the issue of licence in the first instance and restoration after suspension of licence was highly irregular.

[58] M/s MG-6, Wholesale Market India Pvt Ltd, Kolar.

Photograph 2.2.3: Photos taken during joint inspection by Audit and Department staff on 26.6.18 show the entrance to Private Market through *mandi* wall and main entry from the road.

In another case[59], though it was reported that the site of PMY was adjacent to the Srinivasapura *mandi*, licence was issued (May 2010) by the Department for ten years without obtaining operational and working guidelines and permission from the Town and Country Planning Authority. Further, the maximum rate of fees and other charges were also not fixed by the Department. Thus, issue of licence and allowing the PMY to operate was irregular. The Departmental inspection reports also brought out irregularities like receipts not being issued in the name of the PMY, accounts of the transactions not being submitted, *etc*. After one year of operation, the Department had to collect security amount in the form of a bank guarantee at the rate of two *per cent* of the total business which was not collected as the PMY had not rendered their accounts. As the rates leviable were not fixed by the Department, the possibility of exploitation cannot be ruled out. Further, the departmental inspection revealed (March 2015) that the PMY which was located adjacent to the *mandi's* yard had a common wall separating the two and an opening was made in the wall to garner the business. Though violations were noticed, the Department did not take any action to suspend the licence. The issue of licence to an applicant who had proposed to establish the PMY adjacent to the existing *mandi* lacked justification and this needs to be reviewed by the Department.

The Government replied (November 2018) that once the licence expires, it would not be renewed. The reply is not acceptable as when the PMY had violated the licensing conditions, the Government should have suspended the licence itself rather than taking a stand that it would not be renewed.

Direct Purchase Centres

The concept of Direct Purchase Centre (DPCs) was envisaged to overcome the monopoly of *mandis* wherein farmers would have a choice to sell their farm produce to multiple buyers. The DPCs provide an additional marketing channel to sell the agricultural produce and were aimed at aiding better price realization for the farmers.

[59] M/s Kissan Agro Centre, Srinivasapura Taluk of Kolar District.

Rule 87-C of KAPM Rules, 1968 laid down the conditions for grant of licence for direct purchase of farm produces from the farmers. The DPC may sell the produce either in the market established by the market committee or PMY or sell in retail or process such agricultural produce or may export by value addition through grading, packing,*etc*. For issue of licence for a DPC, the licensees were required to purchase notified agricultural produce directly from the farmer and the rates paid to the farmer should not be less than the modal price of the commodity traded on the previous day in the nearby *mandi*. Further, the farmer was to be paid by cash or cheque on the same day.The DPCs were fully exempted from payment of market fee in case of a new processing unit and 70 *per cent* in the existing cases.

As per Rule 87-I, the Director of Agricultural Marketing has power to enquire and inspect the affairs of DPCs and may also authorise any of his subordinate officers for such enquiry or inspection. The person authorized to conduct an inquiry or inspection should submit a report. The Director may pass orders for suspension or cancellation of licence after giving reasonable opportunity of being heard from the licensee.

Out of 40 licences issued by the Department, scrutiny in 10 test-checked cases revealed that licences were issueddespite non-fulfilment of the conditions by the DPCs as below:

(i) None of the DPCs had furnished the details of the source of purchase, modal price of the commodity and the rates paid to the farmer, *etc*. to the Department;

(ii) It was necessary that the DPC should have the specified infrastructure like weighbridges, storage facility, display boards, *etc.* It was observed that the Department had not issued any template/checklist for conduct of inspection and as such the inspection notes did not disclose relevant details about the availability of such infrastructure.

The DPC licences were issued in contrary to the Rules in the following three out of ten cases reviewed in Audit:

- DPC licence for trading in fruits and vegetables was issued to M/s 63 Ideas Infolabs Pvt Ltd, which was trading in non-agricultural products, *viz*., providing internet, mobile based local search, loyalty services to merchants, retailers, companies, *etc*. and was thus not eligible for grant of licence;
- DPC licence for all notified commodities was issued to M/s Mudhale Industries which had an establishment for processing of *dal*. Further, the entire process *i.e*. receipt of application at the Director's office, conducting inspection of the site and issue of licence, was done in a single day(8thSeptember 2015);

- DPC licence for additional commodities like Soya, Maize, Groundnut and Chilly was issued to M/s Tavaasmi Cotton and Agro industries Pvt Ltd, whichhad infrastructure for processing cotton.

In all the ten cases, the licensees did not submit transaction details to the Department and the Department also did not ensure whether proper books of accounts were being maintained and periodical returns were being submitted by these licensees. The Department did not ensure whether the DPCs provided any benefits to the farmers and thus failed to monitor their activities.

The Government replied (November 2018) that due to shortage of staff, inspections were not conducted. However, the District Level Officers were instructed to visit the DPCs regularly to ensure proper weighment, payment of price, display of prices, purchase was not below the modal price, submission of monthly report, *etc*., as per the terms and conditions of the licence.

Recommendation 3: Establishment of a separate Regulatory Authority for the entire system of licensing, regulating, monitoring and streamlining the operations of Private Markets and Direct Purchase Centres may be considered as suggested by the Reforms Committee.

2.2.7.11 Farmer Producers Organisations (FPOs)

The farming community, largely comprising small and marginal farmers, did not have adequate infrastructure to market their produce and wasthus at the losing end in terms of bargaining power. The Reforms Committee recommended (May 2013) identifying, encouraging and facilitating Co-operative/ Marketing Societies and other organisations to take up the role of aggregators for providing value-added services, like pooling of agricultural produce, grading, cleaning, weighing, packing, labelling and transportation to warehouses/markets, *etc*. It was observed that the Department has not taken any initiative in this regard.

The Government replied (November 2018) that Horticulture/Agriculture Department was taking initiative for registering FPOs and extending support to the said FPOs in the State. However, supporting document, *i.e.*, the Government Order was not enclosed to support the reply.

2.2.7.12 Warehouse-based sales

Source: ReMS (SPV)

As per the concept of warehouse-based sales, the reach of a *mandi* market in a given area would be significantly enhanced if the produce can be stored in accredited warehouses close to the farm. The Reforms Committee had suggested that warehouse and storage facilities provided under various schemes should be utilised extensively in the rural areas where there was a paucity of warehousing facilities. The warehouses and storages so built should be such that they get accredited so as to support warehouse-based sale and pledge finance facility. Further, National Farmers' Commission recommended (2004) availability of Markets within 5 km radius (approximately 80 sq km).

The State of Karnataka has a geographical area of 191976 sqkm. There are only about 162 main markets and 352 sub-Markets in the entire State which would translate to one regulated market for every 374 sq km area. Thus, the above initiatives were yet to take off and none of the *mandis* had reported accreditation to any warehouse.

The Director replied (August 2018) that there was not much response to the idea of warehouse-based sales and the Government replied (November 2018) that action would be taken to give wide publicity for establishing warehouse-based sales facility in the State. This indicates laxity on the part of the Department to attract investments for this initiative.

The fact, however, remains that the trading through alternative and private markets as additional market channels to end the monopoly of the *mandis* had made little progress due to regulatory issues, laxity in monitoring and absence of price dissemination in private markets.

Recommendation 4: Warehouse-based sales needs to be established to enable the farmers to store the produce and to pledge them, thereby avoiding distress sale by farmers due to financial constraints.

2.2.8 Regulations and Enforcement

2.2.8.1 Irregular collection of market fee and transaction charges in mandis

As per the Act, no place except the market yard, market sub-yard, PMY or farmer-consumer market yard, as the case may be, shall be used for purchase or sale of notified agricultural produce, except for some specific exemptions like purchase by approved Societies, contract farming or a DPC. The Reforms Committee recommended (May 2013) that the agents who procure the farm produce at the farm gate were to be regulated and such market functionaries should be registered with the appropriate authority. The Department should issue guidelines addressing price dissemination, payment and weighment issues, and put up a regulatory mechanism to address farm gate procurement.

Scrutiny revealed that though five years have gone by since the recommendations, farm gate transactions remained (August 2018) unregulated. Further, huge arrivals based on trade taking place outside the market yards were reported, though there were no arrivals in the market yards in the 16 test-checked *mandis*. For instance, e-trading was carried out in only one out of seven *mandis* in Mysuru district and the UMP was utilised by the other six *mandis* for only recording sale transactions for obtaining a mandatory permit for transportation. The *mandis* however collected market fee for all such transactions by treating them as e-trading.

The action of the Department was irregular as the transaction charges are leviable only on the value of the commodities actually sold through the UMP and use of the UMP for obtaining permits without any actual sale transaction taking place in the *mandi* cannot be construed as transaction taking place through the UMP. The total of such transaction charges paid by all the *mandis* other than for e-trading works out to ₹ 63.95 crore and has resulted in undue benefit to ReMS (SPV). The details are shown in**Table 2.23**:

Table 2.23: Transaction Charges collected for transactions other than e-tender

(₹ in crore)

Sl No.	Year	Value of e-tender commodities	Transaction charges leviable	Transaction charges actually collected by SPV	TC collected for transactions other than e-tender
1	2014-15	4,852.96	9.71	5.51	-4.20
2	2015-16	7,064.02	14.13	25.76	11.63
3	2016-17	7,836.13	15.67	52.57	36.90
4	2017-18	7,796.60	7.80	27.41	19.61
	Total	**27,549.71**	**47.30**	**111.25**	**63.95**

(Source: Information furnished by the Department)

The Government replied (November 2018) that the UMP was designed to capture price information and dissemination of such information. The generation of e-permits is an incidental feature. Hence, SPV was entitled for transaction charges and that Government Orders issued from time to time do not exempt transaction charges on such transactions.

The reply is not acceptable because as per Rule 2 (vii a), the transaction charges are defined as the "charges collected from the buyer on the value of commodities sold through the electronic platform". Thus, the scope of transaction charges is limited to trades through the electronic platform and all other trades *viz*., sales outside the *mandis*, direct sales, manual auction, *etc*., are not covered as per the extant Rule. Further, e-permits are generated only for the purpose of transportation. The Clause 1.9 of the Service Level Agreement (February 2014) entered into with the SPV was also in conformity with the Rule 2 (vii)(a) and hence transaction charges being paid to the SPV were unauthorised.

2.2.8.2 Short realisation of market fee

The Department had fixed annual targets for *mandis* for realisation of market fees and details of the same, along with the corresponding achievements, are given in **Table 2.24:**

Table 2.24: Budget estimates and actual receipts of market fees

(₹ in crore)

Sl No.	Year	2013-14	2014-15	2015-16	2016-17	2017-18	Total
1	Budget Estimates	416.40	468.93	461.16	450.42	588.31	2,385.22
2	Actual receipts	386.99	388.52	402.78	463.67	479.69	2,121.65

(Source: Statement furnished by the Department)

The targets of market fees for each *mandi* were to be prepared with reference to the production of crops and their marketable surplus.But scrutiny revealed that the targets were fixed on the basis of fees realised during the previous years. A comparison of the percentage of marketable surplus, with the market arrivals of produce of main crops to the market yards during 2013-17, as reported in the Administrative Report of the Departmentshowed that the market arrivals for 10 major commodities were less than 40 *per cent* (ranging from 37 to 40 *per cent*) of the marketable surplus **(Appendix2.3).**The shortfall of nearly 60 *per cent* of market arrivals as compared to State production calls for introspection as the chances of leakage of revenue on account of unauthorised sales could not be ruled out. The Department did not initiate corrective action to ensure optimum realisation of market fee.

In addition, several check-posts were established in the State to detect evasion of market fee. The 46 check-posts established in 16 of the test-checked *mandis* were found non-operational as no manpower was deployed and consequently

no cases were booked under these *mandis*. Since the market fee collected is utilised for operation of Revolving Fund and other developmental activities in the *mandis*, short realisation would adversely impact the sustainability of the Revolving Fund, besides requiring additional budgetary support.

The Government replied (November 2018) that market fee collection is a trivial activity of the Department and that production and marketable surplus are not taken into consideration as commodities grown in a particular taluk are not sold in the *mandi* of the same taluk and also farmers will transport their produces to the border Districts and adjoining States also. The reply is not acceptable as Audit compared the State production to the total arrivals of all *mandis* in the State. The non-functional of check posts was attributed to shortage of man power and due to National Highway norms. However, the Department did not provideany alternate mechanism to plug the revenue leakage.

The fact, however, remains that the ease of doing business at *mandis* leveraging technology had achieved limited success as more than 60 *per cent* of the commodities were traded outside the market as earlier.

2.2.9 Infrastructural deficiencies

The responsibility of providing the required infrastructure[60] is that of the *mandis* concerned. Generally, developmental works within a*mandi*are taken up from the internal accruals (market fee collected from the traders) of the *mandi.* However, substantial amounts were also released by the Government as grants to *mandis* through the Department for construction of Godowns, Auction Platforms, Internal Roads, etc. as given in **Table 2.25:**

Table 2.25: Scheme-wise budget releases for infrastructure

(₹ in crore)

Sl No.	Name of the Scheme	Grants released (2013-14 to 2017-18)
1	Rashtriya Krishi Vikas Yojana (RKVY)	292.47
2	RIDF (NABARD) funds	311.68
3	Infrastructure for Backward Areas	39.85
4	Implementation of Policy 2013	1.88
5	Special grants	14.28
	Total	**660.16**

(Source: Grant and Outlay statement furnished to Audit and Government orders)

Scrutiny of the Grant Register revealed that the details of disbursements for the period 2013-14 to 2016-17 amounting to ₹ 90.76 crore were not recorded

[60] Like Godowns, auction platform, weighbridges, personal convenience for farmers, buildings for market participants, *etc.*, including environment friendly initiatives like solid waste management, tapping solar energy, rain water harvesting, *etc*.

in the Register and receipt of Utilisation Certificates against the respective grants was not watched. An amount of ₹ 20 crore released (March 2015 to January 2016) under RKVY for computerisation of *mandis* for online trading was parked with the Agriculture Department and ₹ 3 crore released under the 13th Finance Commission grants was parked with the Board without utilisation.

The Government replied (November 2018) that the grant register is now being maintained and the UCs are being collected. Though a statement of grants released was furnished to Audit, no details regarding UCs were given. Regarding ₹ 23 crore lying idle without utilisation, it was stated that the tenders have been floated now for procurement of computer hardware/peripherals for the *mandis*.

2.2.9.1 Lack of priority in execution of works

Canons of financial propriety as per the Karnataka Budget Manual stipulate that expenditure should not be *prima facie* more than what the occasion demands. Audit scrutiny revealed that the Department did not assess, before release of grants, the actual requirement of infrastructure in each *mandi* and indents, duly supported by comprehensive field study and investigation reports, justifying the intended infrastructure were not received. No norms were adopted for prioritisation of works and distribution of funds for market development to all *mandis* in the State, as discussed below:

- Out of ₹ 584.16 crore released under RKVY/NABARD assistance during 2013-18, ₹ 128.53 crore (22 *per cent*) was released to Davanagere *mandi* for construction of Cement Concrete (CC) link roads. The release of such huge funds to Davanagere *mandi* was not justifiable as the *mandi* was located within the city limits and close to the City Bus Stand and improvement of roads should betaken up by the Municipality. Further, no grants were released to 13 *mandis* for the past five years where core infrastructure was required to be made available. For instance, in Karwar *mandi*, the Administrative Building was in a dilapidated condition and the market yard did not have any infrastructure.

  The Government replied (November 2018) that works approved by the Hon'ble Minister were taken up in *mandis* where trade was high and facilities were required. Regarding 13 *mandis* pointed out in audit it was stated that trades in these *mandis* were very low and stage-wise action was being taken to provide core infrastructure to these *mandis*.

  The reply is not acceptable as lack of facilities would not attract farmers/traders of the nearby areas and such *mandis* should have been prioritised in both the Action Plan and the Annual Plan. Also no reasons were furnished for taking up CC roads in the city limits of Davanagere,

where the responsibility for construction and maintenance of roads rests with the Municipal Corporation.

- In the test-checked offices of 12 Assistant Executive Engineers, the *mandis* had 2810 Godowns out of which 355 Godowns were lying vacant and idle. The Department however constructed 222 additional Godowns at a cost of ₹ 156.70 crore during 2013-18, out of which 178 Godowns constructed at a cost of ₹ 131.15 crore were lying idle due to high rentals. The unfruitful expenditure could have been avoided had the Department made proper assessment before taking up the construction of additional godowns.

  The Government replied (November 2018) that action would be taken to let out these godowns to any Government Organisation like State Warehousing Corporation or Food Corporation of India at subsidised rates. However, the details as to whether these organisations have evinced interest for utilising these godowns were not made available to audit.

- Construction of 173 covered auction platforms at a cost of ₹ 171.52 crore was taken up during 2013-18 (129 platforms at a cost of ₹ 130.35 crore during 2017-18 itself). This is an unfruitful expenditure as most of the *mandis* were in a transition stage to carry out trading through the e-platform already installed and the necessity for an auction platform did not actually arise. Further, many of the *mandis*did not have any arrivals in their market yards and hence auction platforms were not used. For instance, grants were released to three *mandis* in Madikeri District (Madikeri, Kushalnagar and Somavarpet) for construction of an additional auction platform at each of these locations, though these *mandis* did not have any market yard arrivals and the existing 12 auction platforms were lying idle.

Photograph 2.2.4: Idle Auction Platform in Madikeri *mandi* taken by audit (April 2018)

The Government replied (November 2018) that covered auction platforms were taken up as per demand and the future requirement of the *mandis*. The reply is not tenable as the existing infrastructure was not considered before providing additional auction platforms.

- Out of 49 *mandis* test checked, weighbridges were available in only 37 *mandis*, out of which in only 22 *mandis,* weighbridgeswere functional;

  The Government replied (November 2018) that directions would be issued to all *mandis* to make use of weighbridges set up for the benefit of the farmers and traders.

- Farmers dealing with perishable commodities like fruits and vegetables require adequate support for storing and avoiding distress sales and huge post-harvest losses. The Department did not have any operational cold storages (the two old existing cold storages were under repair/proposed to be closed). Two cold storages approved (2015-16) in Bengaluru for ₹ 7.02 crore(work order was issued during January/February 2018 allowing four/five months for completion, following due tender process) were yet to be completed. In Athani *mandi* one cold storage facility estimated to cost ₹ 11.10 lakh sanctioned during 2013-14 and completed during2017-18 was not put to use as electrification was pending. Further, only 40 *mandis* out of the 162 had an established market yard for fruits and vegetables. No surveys were undertaken to assess further requirement of cold storage and allied facilities in the State.In the absence of cold storage facilities in the *mandis*, distress sale by the farmers and consequent losses are still prevalent.

  The Government replied (November 2018) that action was initiated to take up cold storages by inviting private parties and new proposals would be taken up as per demand survey.

- A Floriculture Market was established (March 2011) in Bandipalya Market Yard of Mysuru *mandi* at a total cost of ₹ 5.25 crore, with all infrastructure in a separately fenced and gated area. Scrutiny revealed that the traders however continued to trade in the old market as the new flower market was situated about eight kilometers from the city and proper bus facilities were not available.

Photograph 2.2.5: Flower market complex lying idle at Bandipalya, Mysuru *mandi* on 29.06.2018.

Joint verification by Audit with the departmental staff revealed that the new flower market complex was lying idle, subjected to damages and all the shops, though allotted, were closed. Evidently, the *mandi* authorities did not conduct proper demand survey in consultation with the stakeholders before taking up the project, which consequently resulted in an idle investment of ₹ 5.25 crore.

The Government replied (November 2018) that all efforts were being taken to shift the trade to the new market. The reply is not tenable as the situation would not have arisen had the requirement been properly assessed.

Recommendation 5: The Government needs to create new facilities only after conducting techno-feasibility study to avoid idle capacity. Adequate infrastructure for storage and sale of perishable commodities may be provided in the *mandis*. Necessary steps may be taken to review the utilization of assets already created.

❖ ***Establishment of Solid Waste Management Plants***

The rapid increase in the generation of huge quantity of waste is one important reason forenvironmentalcrisis. The Report[61] on Handling of Agricultural waste by APMCs in India recommended that initiatives should be taken for recycling and reusing the food wastes generated through biomass utilization. It was proposed (2015-16) to establish Solid Waste Management (SWM) Plants in the *mandis* under a new scheme of the Department. Scrutiny revealed that the Department did not have any database regarding the waste generated in each of these *mandis* and the requirement of waste management. The plants were taken up (October 2015) in 7 *mandis* at a total estimated cost of ₹ 11.26 crore, out of which ₹ 8.74 crore was spent as of March 2018. Though the works were completed in three units, none of them, except the onein Mysuru, have commenced any activity due to failure of *mandis* to entrust the works for operation.

Photograph 2.2.6: Vegetable Market Yard on 25.5.2018 – Davanagere *mandi.*

Photograph 2.2.7: Idle SWM Unit at Mallapur in Shivamogga district.

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[61] Published by National Institute of Agricultural Marketing (NIAM) Jaipur, Rajasthan in 2011-12.

Joint verification (June 2018) of the *mandi* yard at Srinivasapura revealed that huge quantities of damaged tomatoes and mangoes were discarded as garbage on the roadside and allowed to rot. Thus, the Department failed to ensure proper management of solid waste by the *mandis*.

Photograph 2.2.8: Photos taken by audit team during joint inspection on 26.6.18. Spoilt mangoes thrown on roadside due to absence of Solid Waste Management in Srinivasapura.

The Government replied (November 2018) that seven SWM units were constructed and more units would be established based on availability of funds. It was also stated that operation and maintenance of completed units would be outsourced at the earliest.

2.2.9.2 Failure to establish exclusive Technological Parks

To provide value addition to the commodities, establishment of four Technology Parks through Public Private Partnership (PPP) mode was mooted by the GoK in the Budgets of 2010-11 and 2012-13. These parks were to have state of the art technology for providing grading, cleaning, processing, storage, branding, marketing and such other facilities. Scrutiny revealed that none of these projects were successfully completed even after three to five years from the time they were proposed, due to various omissions as discussed below:

a) Rice Technology Park

Photograph 2.2.9: Idle Rice Technology Park at Karatagi, Koppal District

The establishment of Rice Technology Park at Karatagi, Gangavathi Taluk, Koppal District was administratively approved (October 2010) by the

Government at a cost of ₹ 37.19 crore as Gangavathi Taluk is a front runner in paddy production in the State. The Park was expected to help in expanding the market for primary agricultural products and add value by vertically integrating production and processing systems and minimize post-harvest loss. The land was acquired (2011-15) at a total cost of ₹ 15.41 crore and construction of the administrative building, internal roads, fencing, installation of weighbridge, godown, etc. were completed (2015-16) at a total cost of ₹ 11.60 crore. The Technical Consultant submitted (March 2016) the Request for Proposal (RFP) document for planning, designing, engineering, finance, construction, development, operation and maintenance of the Park through PPP mode. However, no further progress in this regard was achieved even after two years due to lack of interest in the project by private players. Proposal (June 2018) of calling for expression of interest from global tenderers was under examination. Thus, despite the project being administratively approved in October 2010 for ₹ 37.19 crore and ₹ 27.01 crore beingspent towards land acquisition and development of infrastructure, the objectives for establishing the park are yet to be realised even after eight years.

The Government replied (November 2018) that consultants have submitted RFP document for various activities from planning till operations and maintenance of the Park through PPP mode. The project was not an attractive proposition for private players as the land cost was low and financially not viable. The project would be implemented from NABARD assistance and APMC Fund in case no private player showed interest. The reply is contradictory as the Department was contemplating on inviting tenders for the project, even after assessing it to be financially unviable for the private players. Further, such a step would only lead to wasteful expenditure.

Apart from the Rice Technology Park, the parks for other commodities like Tur, Coconut and Maize did not fructify as discussed below:

- ***Tur* Technology Park:** Administrative approval was accorded (September 2013) to take up the project at an estimated cost of ₹ 100 crore under PPP mode. As per the feasibility report, the land requirement was assessed as 250 acres and ₹ 4.89 crore was deposited (January 2014 to November 2016) with Karnataka Industrial Areas Development Board (KIADB) for acquiring land for the project. However, the land could not be acquired by KIADB and it was decided (August 2017) by the Director to drop the project. Despite this decision, the Director sought (November 2017) instructions from the Government whether to drop the project or purchase land through e-tender process. However, further developments in this regard was not available and ₹ 4.89 crore remained locked up with KIADB.

❖ **Coconut Technology Park:** Administrative approval was accorded (Sept 2013) for establishment of the Technology Park at an estimated cost of ₹ 32 crore and ₹ 1.50 crore was released to the *mandi* at Tiptur during 2013-15. The Project could not take off due to non-availability of required land and hence a proposal was submitted (September 2017) to the Government for dropping the project and surrendering the funds already released, with interest. Further developments were not available on record.

The Government replied (November 2018) that the above two projects were not yet dropped and approval (March 2018) for direct purchase of land by the Department was pending.

❖ **Maize Technology Park:**The estimated cost of ₹ 34.10 crore for the project was approved (September 2013) to be implemented under PPP mode with participation from Ranebennur *mandi*. The Department released (2013-16) ₹ 2.38 crore and an amount of ₹ 2.83 crore (including *mandis'* funds) was utilized for tendering, consultancy and construction of a concrete road. However, the proposal to establish the Park was dropped (April 2017) by the *mandi* due to changes in the market scenario and also due to hindrances like non-availability of water, existence of quarry, prior existence of major players in the field, etc.

The Government replied (November 2018) that it was decision of the *mandi* not to proceed with the project and the amount would be surrendered. However, the *mandi* was not instructed to surrender the grant released.

Unfruitful outlay on Coconut Processing Unit

Photograph 2.2.10: Incomplete processing unit at Konehalli, in Tiptur *mandi*, Tumakuru District on 28.05.2018

Prior to the approval of Coconut Technology Park, with a view to provide value addition facilities for coconut, an integrated Coconut Processing Unit in the sub-market area of Tiptur *mandi* was approved (May 2011) for ₹ 6.10 crore. The civil works were completed (August 2016) at a cost of ₹ 2.27 crore. The work of installing the machinery was entrusted (December 2015) on

tender basis to an agency at a cost of ₹ 2.49 crore and was due for completion within three months. However, it was not completed due to delay and non-installation of machinery in time despite issue of several notices to the agency. Action was not taken to terminate the contract and an expenditure of ₹ 3.35 crore spent on the project remained unfruitful**.**

The Government replied (November 2018) that civil works were completed and immediate action would be taken to install the plant and machinery.

The fact, however, remains that the farmers were deprived by way of better price realisation through value addition as four commodity specific technology parks planned did not materialise.

2.2.10 Revolving Fund for Market Intervention Schemes

The Government of Karnataka introduced (November 1999) the "Floor Price Scheme[62]" (FPS) to protect farmers from distress sale of perishable commodities, *viz.* Onion and Potato, and a "Revolving Fund" (RF) was created for the purpose. The RF is credited by the market fee payable by the *mandis*, apart from the grants received from GoK for implementing the MSP schemes of GoI. The MSP operations are for non-perishable commodities.

The RF is maintained and operated by the Karnataka State Agricultural Marketing Board (Board), Bengaluru. The funds are released through Government Orders based on the recommendations of the Cabinet Sub-Committee. The Director of Agricultural Marketing receives funds from the Government and releases the same to the Board, to be further released to the identified procuring agencies. The procuring agencies included Karnataka State Co-operative Marketing Federation (KSCMF), Karnataka State Warehousing Corporation (KSWC), Managing Director, HOPCOMS, *Tur* Development Board, *etc*.

Funds received from various sources during the period from 2013-14 to 2017-18,except for 2015-16 where the fund was reduced to ₹ 64.23 crore, show an increasing trend in terms of percentage of Government contribution as shown below in **Table 2.26:**

Table 2.26: Receipts and releases from Revolving Fund

(₹ in crore)

Sl No.	Source	2013-14	2014-15	2015-16	2016-17	2017-18	Total
1	Government of Karnataka	100.00	150.00	64.23	190.95	255.05	760.23
2	Market Committees	108.39	112.83	112.36	125.51	125.29	584.38
3	Total	208.39	262.83	176.59	316.46	380.34	1,344.61
4	Total releases from the Revolving Fund	694.69	245.25	370.73	332.24	261.08	1,903.99

[62] A Scheme formulated by the State Government, by order, to protect the interest of farmers against the distress sale of notified agricultural produce by assuring a Minimum Support Price.

(Source: As per information furnished to Audit)

Scrutiny of records revealed the following:

- The KAPM Act, 1966 stipulates that the accounts related to the Revolving Fund shall be prepared annually and audited by the State Accounts Department (SAD). The Board should issue compliances to such audited accounts and submit the same to the State Government for approval. The SAD had audited accounts only for the period up to 2014-15. The major lapses and omissions pointed out related to non-submission of accounts and non-recovery of dues from the procuring agencies and lack of compliance on the earlier reports by the Board.Compliances were not being furnished by the Board and hence, not submitted to the Government for approval. Thus, the Government was in the dark about the affairs of the Board;

- **Unutilised amount of ₹ 1,467.51 crore not repaid by the Procurement Agencies:**The Board releases amounts to various procuring agencies for market intervention operations, *i.e.* FPS&MSP. As per the Government Order dated 3rd February 2004, the procuring agencies should refund the unutilised amount released by the Board for market intervention operations. However, as per Audit Reports, the procuring agencies had retained huge sums of unutilized amount in violation of the Government Order. The dues were outstanding from 2002-03 and onwards.The unutilised amount of ₹ 1,467.51 crore was retained by 44 procuring agencies as per the Audit Report of the RF by the SAD for the period ending 31st March 2015. This increased to ₹ 1,598.90 crore by the end of March 2018, as per the information furnished by the Board. There was no improvement in the situation despite being repeatedly pointed out in Audit Reports, which indicates lack of oversight by the Board;

- **Belated submission of claims of ₹656.06 crore to GoI:**As per the extant procedure, the Government of Karnataka releases funds through the Department of Agricultural Marketing to the Karnataka State Agricultural Marketing Board based on the recommendation of the State Level Committee and Cabinet Sub-committee. The funds are credited to the RFmanaged by the Board. The RF also receives contributions from the *mandis*. The funds are further released to the identified procuring agencies based on the recommendation of the Cabinet Sub-committee for MSP notified commodities. The procuring agency after utilising the amounts for procurement should submit the duly audited accounts and refund the amount for recoupment of RF.

  Audit scrutiny showed reimbursement by GoI was in arrears since 2006-07 and receivables from GoI stood at ₹ 875.75 crore as per the Chief Minister's letter dated 22 February 2017 to the Union Minister for Consumer Affairs, Food and Public Distribution. However, GoI had

reimbursed only₹ 219.69 crore and stated that the claims were belatedly submitted by GoK. GoI informed (January 2018) that the claims may be submitted with reconciliation certificate from FCI for further consideration. The progress made in this regard was not furnished to Audit and ₹ 656.06 crore was yet to be obtained by GoK.

The laxity on the part of the Department to prefer timely claims from GoI with prescribed documents thus resulted in non-reimbursement of ₹ 656.06 crore.

The Government replied (November 2018) that audit was conducted up to 2016-17 and that audit reports are yet to be received from SAD. It was also stated that compliance reports were submitted to SAD and the Government. However, the details of accounts and compliance report were not furnished to audit.

Regarding belated submission of claims of ₹ 656.06 crore to GoI, the reply was silent on the issue that the reconciliation certificates were not submitted on time along with the proposals. Moreover, no remarks were offered regarding ₹ 1598.90 crore pending from the procuring agencies.

2.2.11 Loss in procurement of Onions

During the period from 2006-07 onwards there were three instances (2006-07, 2011-12 and 2016-17) of market intervention in which a total quantity of 24.54 lakh quintals of onion was procured at a total cost of ₹ 138.98 crore out of which₹ 135.66 crore was assessed as loss. The loss was on account of lesser demand, spoiling/ rotting of onions due to improper storage, *etc*. As almost the entire quantity of onion procured by procuring agencies was reported as loss, it is surprising to note that the Procurement Agencies could not even dispose of the quantity by selling at lower rates. The matter calls for investigation.

The Government replied (November 2018) that onion is a perishable commodity and cannot be stored for a long time. In order to avoid huge losses in future, the Government is planning to procure onion under Price Deficiency Payment Scheme but modalities of the scheme were not spelt out.

2.2.12 Wrong identification of districts for implementation of MSP scheme

The Department should synchronise the harvest period and the procurement period to benefit the farmers optimally. Bengal gram is one of the major crops grown in Karnataka. The approval for MSP procurement was accorded (January 2018) by GoI with aprocurement period of 90 days to procure 2.02 lakh MTs of Bengal Gram. The Order was issued on 25th January 2018 to procure Bengal Gram at ₹ 4400 per MT in 12 districts[63] up to 22nd April 2018. Scrutiny revealed that farmers in Vijayapura, which is the second largest

[63] Bagalkote, Belagavi, Ballari, Bidar, Chitradurga, Davanagere, Dharwad, Gadag, Kalaburagi, Koppal, Raichur and Vijayapura.

contributor (17*per cent*)to the State in production of Bengal Gram, did not get optimum benefits of the scheme as the harvest season of Bengal gram commences fromthe last week of December and closes by the last week of January, whereas the orders for procurement were issued in the last week of January.

Scrutiny further revealed that Davanagere District with only 0.25 *per cent* of total production of Bengal Gram was included under the Scheme whereas Yadgir and Chickmagalur Districts with substantially higher production of Bengal Gram were not included in the initial order for operation of MSP but were included only later on 23rd February 2018. Belated inclusion of Yadgir District did not help the farmers as procurement commenced almost at the end of February 2018 by which time the harvest period (covering the period between second week of January upto second week of February) was over. The belated implementation of the scheme thus deprived the farmers of a fair price in the form of MSP.

The Government replied (November 2018) that the decision was taken based on the recommendation of the district task force and approved by the Cabinet Sub-Committee.The reply is not acceptable as the list of districts initially recommended by GoK to GoI included Yadgir and the same was replaced by Davanageredistrict after GoI approval.

2.2.13 Human Resources

Inadequate staff strength

For effective functioning of the Department, performing the extension services, implementing the schemes and for monitoring various activities, a proper management of available personnel is necessary.

The position of staff ofthe Department of Agricultural Marketing including field offices as on 31 March 2018 was as shown in **Table 2.27:**

Table 2.27: Staff position

Sl No.	Offices	Sanctioned strength	Vacant post	Vacancy percentage
1	Deputy/Assistant Director	199	109	55
2	*Mandi* Staff	2,650	1716	65
3	Internal Audit	45	28	62
4	Enforcement Wing	11	04	36
5	Grading Labs staff	45	36	80
6	Technical Section	271	136	50
7	Head office	180	87	48

(Source: Information furnished by the Department)

As can be seen from Table 2.27, there were more vacancies in critical positions like Deputy /Assistant Director, *Mandi* Staff, Grading Lab Staff and Technical Section. The reforms sought to revamp the trading environment in *mandis* by leveraging technology, intended to create alternate market options

by opening up the agricultural marketing sector to private players and aimed to provide modern facilities for assaying, grading, cleaning, cold storage, *etc*. Since more efforts are needed for wider acceptance of the new trading regime by various stakeholders, a review of the existing organisation structure of the Department is required. Though Policy Reforms were initiated from the year 2013, the Department had not devoted its attention to this crucial area of restructuring the staffing requirements to suit the present needs.

The Government replied (November 2018) that proposals were submitted to fill up 839 vacant posts and process of restructuring the staff requirement would be initiated to suit the present requirement.

The reply did not indicate filling up of critical posts like Grading Lab staff and *mandi* staff, wherein the shortfall was 65 *per cent* and 80 *per cent* respectively.

2.2.14 Monitoring

There were no departmental meetings held by the Director or by the Secretary at the Government level to oversee the implementation of the reforms. The Department also failed to avail any expert services in the field. There were no progress reports and monitoring systems in the Department. No reports/data relating to market transactions/intelligence reports in any format were being obtained from the SPV who was operating the UMP. The performance of each of the *mandis* was not being watched progressively as no MIS reports were prescribed for, and submitted by, the field offices. As a result, the *mandis* lacked direction and were sluggish in implementation of the reforms. As of November 2018, 92 out of 162 *mandis* did not even commence e-trading, even after four years since the UMP was adopted by the Department. New market infrastructural requirement like assaying, sorting, grading, *etc.*, which were identified as pre-requisites were yet to be put in place.

Though the SPV conducts frequent meetings regarding progress of the UMP, the Department neither monitored the progress nor took suitable measures, though the Director was also a part of such meetings. The overall status of implementation of reforms is still in a nascent stage as the progress achieved is limited to only a few *mandis* and that too for only a few major commodities.

The Government replied (November 2018) that the Director had conducted regular review meetings and that the District level officers were instructed to regularly review the implementation and operation of the UMP platform. However, no specific reply was furnished regarding the overall monitoring of the progress achieved in implementation of reforms through periodical progress reports or MIS.

2.2.14.1 Internal Audit

The annual audit of all *mandis* in the State, the Agricultural Marketing Board and its unit offices, Government grading centres and laboratories are carried out by the Internal Audit Wing of the Agricultural Marketing Department headed by a Chief Auditor. The staff position in the Office of the Chief Auditor and its sub-ordinate offices was poor, with vacancies in the posts to the extent of 62 *per cent* as on 31 March 2018. As seen in audit, a few *mandis* were not audited for 4 years to 9 years. Though some issues of serious nature relating to misappropriation were indicated in some of these reports (December 2013/2015), they were neither investigated further, nor further audits taken up. In four *mandis* (Holenarasipura, Nandgad, Belthangady, Afzalpur), the Audit Officer responsible for the audit of the *mandis* was himself the in-charge Secretary of the *mandis,* defeating the very purpose of having a suitable check and balance system through a separate Audit Wing.

The Government replied (November 2018) that audit of all *mandis* could not be conducted due to shortage of staff and a proposal was under consideration for engaging professional auditors. Regarding misappropriation, it was stated that there were six special audit reports and action had been taken against the persons involved.

The reply was not accepted as the details of action taken and final order thereof were not furnished to audit.

2.2.14.2 Awareness creation and capacity building of market participants

All stakeholders in the market, *viz.,* farmers, traders, commission agents, warehouse service providers, assayers, market officials, *etc.,* should be exposed to the characteristics and complexities of the marketing system to make it more efficient.

Adequate training to all stakeholders would help them blend the acquired knowledge with modern concepts and deal better with the emerging realities in the market. The Policy 2013 also stipulated creating awareness on adherence to quality standards for better price realisation. In this regard, the Directorate of Agricultural Marketing was made responsible for oversight of the activities relating to the programmes on Capacity Building and standardisation of course structure and training material for each market participant. However, the targets and achievements, as well as details of course material standardised and trainings conducted, *etc*., were not made available to Audit. Further, except for the workshops conducted by the SPV for the farmers in 21,970 villages, the statistics of awareness programmes and capacity building for other stakeholders were not forthcoming. Scrutiny revealed that training was provided to only 53 Traders/Commission Agents as against 32,940 traders, 18,000 registered commission agents and 372 Committee Members during 2013-17 in two training institutes at Hubballi and Mysuru. Thus, the training imparted to the main stakeholders of the market functions was inadequate.

The Government replied (November 2018) that all the stake holders were being trained. However, the specific details of such trainings held were not furnished.

2.2.15 Conclusion

The term Agricultural marketing is referred to services involved in moving Agricultural produces from the farm to the consumer through trading at *mandis* and is primarily oriented to protect the interests of the farmers. The regulation of markets achieved only a limited success in providing an efficient marketing system, forcing the Government of India to undertake reforms and bring out a Model Act in 2003 for adoption by the State Governments. The reforms sought to liberalise licence conditions, open up the marketing sector for the private players, leverage on Information Technology for transparency in market operations, enhance farmers' income through better price discovery due to wider markets, direct payment to farmers account, *etc*. The Government of Karnataka (GoK) amended the various provisions of the Karnataka Agricultural Produce Marketing Act, in line with the Model Act, 2003. To take the reforms forward, GoK constituted a Reforms Committee which recommended forming a Special Purpose Vehicle (SPV) to provide a Unified Marketing Platform (UMP) in 162 *mandis* to facilitate e-trading and establishment of alternate markets.

Many of the Policy initiatives were either not implemented or were still under progress. Planning was deficient as no schedule was drawn to prioritise and implement the various reform initiatives. The UMP was rolled out in 160 main *mandis* but 352 sub-markets were left out.

Quality based trading, the UMP of the e-trading platform, which was to be provided in all *mandis* within two years was available in only 35 *mandis* while grading of the commodities was not available in any of the *mandis*. Another critical initiative, *i.e.* direct payment to the farmers account, commenced in six *mandis* on a pilot basis but was withdrawn due to farmers'/traders' opposition. The arrivals of commodity in the *mandis* had recorded only an incremental increase through e-trading in the five-year period and ranged between 7 and 12 *per cent*, despite the UMP being rolled out in 160 *mandis*. Price realisation by farmers continued to be governed by the market forces and trading data of eight major crops during 2017-18 indicated that price realisation was below the Minimum Support Price. The SPV was collecting transaction charges on the value of commodities sold through channels other than through e-platform. This was in violation of the rules/provisions of the Service Level Agreement and had resulted in enriching the SPV with an unintended benefit of ₹ 63.95 crore.

Broad basing of markets to enable the farmer sell his farm produce through alternate markets like Private Markets, Direct Purchase Centres, warehouse-based sales, Commodity Specific Parks, *etc*, had not yielded the desired

results. There were irregularities in the issue of licences to Private Market players and instances were noticed wherein the Private Markets players violated the licence conditions and resorted to unauthorised collection of fees from the farmers. The Regulatory Authority was not constituted though recommended by the Reforms Committee as segregation of functions was found essential due to opening the sector for private players.

The financial management was deficient as funds were released in excess of requirement and infrastructure projects were taken up without following due diligence. None of the Commodity Specific Parks fructified and amount released for the same remained with the *mandis*/Karnataka Industrial Areas Development Board. These deviations had resulted in idle expenditure on godowns (₹ 131.15 crore), auction platforms(₹ 171.52 crore), *etc*.

The Revolving Fund had not been recouped and unspent balance to the tune of ₹ 1,598.90 crore remained with the Procurement Agencies, which were supposed to undertake market distress operations. Audit of Revolving Fund accounts was in arrears and compliance to Audit Reports was not submitted to the Government by the Board. Huge losses were also reported by the Procurement Agencies, which should have got reflected in the accounts of the Revolving Fund. Government of India had not reimbursed ₹ 656.06 crore towards Minimum Support Price as the necessary documents were not furnished by the State Government.

The reforms undertaken were still at a nascent stage and thus to realise the intended benefits, sustained efforts and proper implementation by all concerned is essential.

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