

CHAPTER II

2 Review relating to Government company

WEST BENGAL STATE SEED CORPORATION LIMITED

Highlights

West Bengal State Seed Corporation Limited (Company) was incorporated in November 1980 with a view to provide quality seeds at reasonable prices to farmers.

(Paragraph 2.1)

As per the latest finalised accounts, the Company sustained operational loss of Rs 2.26 crore in 1998-2002 but for non-operational income from interest on investment the Company earned profit of Rs 10.02 crore during the same period. This was mainly due to low production of seeds, heavy dependence on purchase from outside sources at higher rates, continuous fall in volume of sales and non implementation of National Seeds Project-III.

(Paragraph 2.7)

The Company had to bear additional interest burden of Rs 17.40 crore as of 31 March 2003 owing to its failure to pay interest on loan despite having sufficient fund in the term deposits.

(Paragraph 2.6)

The Company failed to implement the National Seeds Project-III in its entirety and 58 *per cent* of scheme funds were utilised for investment in short term deposits, resulting in an adverse effect on the operational viability.

(Paragraph 2.8.1)

Actual yield from breeder and foundation seeds fell short of the expected yield by 18,866.78 MT valuing Rs 14.01 crore during 1998-2003 due to management's failure to provide any production programme to growers, lack of inspection over the production performance of growers, delay in plantation etc.

(Paragraphs 2.12.1 & 2.13.1)

Production of certified seeds fell short of targets, though fixed on a lower side, by 71 and 58 *per cent* (Kharif) and 98 and 71 *per cent* (Rabi) during 1998-2003. In order to supplement its own production of certified seeds, the

Company resorted to purchase 33,054.89 MT certified seeds at an extra expenditure of Rs 19.09 crore during 1998-2003.

(Paragraph 2.14.1)

The Company had a marginal share of three *per cent* in the State's production, while its contribution to total sales in the State ranged between 20 and 26 *per cent* during 1998-2003.

(Paragraph 2.20)

During 1998-2003 the Company purchased 48,943 MT seeds from four private non-seed producing firms in disregard to the instruction of the Government and incurred an extra expenditure of Rs 66.78 lakh on procurement of 16,246.06 MT seeds from these firms at rates higher than the rates of original seed producers.

(Paragraphs 2.16.1 & 2.16.4)

As against one of the objectives to provide certified seeds at reasonable rates, the selling price of seeds was higher due to excessive loading of overheads and recovery of sales tax, leading to excess recovery of Rs 7.53 crore from farmers during 1998-2003.

(Paragraphs 2.18 & 2.18.1)

Introduction

2.1 West Bengal State Seed Corporation Limited (Company) was incorporated in November 1980, as a wholly owned Government company with the following main and allied objectives :

- producing, processing, drying, storing and distributing all varieties of foundation and certified seeds of quality at reasonable price to farmers;
- carrying on business as seed merchants including importing and exporting of seeds to support agricultural production programme;
- entering into contracts with individuals, co-operatives and other agencies in the growing, processing, buying and selling of agricultural seeds;
- carrying on business in fertilisers, chemicals, agricultural implements and equipment, pesticides etc;
- promoting research in agriculture in general and seed production, processing, preserving and storage technique;
- purchasing, installing, managing and operating land seed farm, farm machinery and seed storages;
- implementing the State Seeds Project under National Seeds Programme (NSP);

- promoting the seed industry to improve the economy of farmers;
- assisting the Government in promoting increased agricultural production by accelerating the spread of high yielding and developed varieties of seeds;
- owning and operating seed testing laboratories as well as undertaking seed quality control measures by inspections and other means; and
- establishing branches, depots, sales points and showrooms to promote seed business.

The Company has 11 seed processing plants³¹, 12 district offices¹ and two regional offices at Bankura and Jalpaiguri to carry out its activities. Since 1989-90, the Company procured, produced, processed seeds and sold seeds directly to the Government as well as in the open market through dealers. The Company also traded in fertilizers, pesticides and agricultural equipment like power tillers, low capacity tractors, sprinkler sets etc. The Company did not undertake other activities so far (September 2003) for which no reason was on record.

Organisational set up

2.2 The management of the Company is vested in a Board of Directors with the Minister of Agriculture, Government of West Bengal as the Chairman of the Board. As of March 2003, all seven directors were nominated by the State Government, of whom three are agricultural scientists, two were Members of the Legislative Assembly and one each was a civil servant and from financial institution. All directors except Managing Director were on part time basis.

The Managing Director, an agricultural scientist on deputation from the State Government, is the Chief Executive and is assisted by the Production Manager, the Marketing Officer, the Company Secretary, the Finance & Accounts officer to manage its day to day affairs. Besides, there are two regional/ 12 district managers in the field to look after the activities relating to 11 processing plants, production and marketing of seeds. During the period under review, the State Government appointed two Managing Directors for duration ranging between 10 and 50 months. The present incumbent has been holding the post of Managing Director since 1 February 1999.

Scope of Audit

2.3 An appraisal on the working of the Company, appeared in the Report of the Comptroller and Auditor General of India (Commercial) - 1988-89, Government of West Bengal, highlighted the deficiencies : non-maintenance of records regarding multiplication of seeds, aversion on the part of the Company to purchase certified seeds from registered growers, injudicious procurement of seeds, excess payment to suppliers, failure to claim subsidy,

³¹ Medinipore (2), Krishnanagar (2), Burdwan (2), Raiganj (2), Bankura (2) and Birbhum (1)

¹ Medinipore, Burdwan, Birbhum, Krishnanagar, Bankura, Raiganj, Barasat, Purulia, Malda, Chinsurah, Berhampore and Coochbehar.

failure to fulfil demand for seeds, inflated mark-up on selling prices of seeds, payment of transport charges at higher rate etc. These deficiencies still persisted as the Company failed to take corrective measures to overcome them.

The present review conducted between November 2002 and March 2003 covers the activities of the Company for the period of five years during 1998-2003. The present review is the outcome of test check of records relating to 11² out of 15 units, selected on the basis of volume of production and distribution activities carried out. The audit findings were reported to the Government/ Company in March 2003 with specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of Government/ management was taken into account before finalising the review. The meeting of ARCPSE was held on 11 April 2003 where Government was represented by the Principal Secretary, Agriculture Department and the Company was represented by the Managing Director. The review was finalised after considering the views of the Government and management.

Audit objective

2.4 The review evaluates the performance of the Company with regard to (a) utilisation of financial resources, (b) implementation of National Seeds Project (NSP)-III, (c) multiplication, production and purchase of seeds, (d) sales performance, reasonableness of pricing and management of receivables, and (e) allied ancillary activities.

The principal constraints faced while framing audit observations were arrears in accounts, absence of reliable management information system and inadequate monitoring of activities by the management. In the light of audit objectives, results of audit are set forth in the succeeding paragraphs.

Utilisation of fund

Capital structure

2.5 Against an authorised capital of rupees five crore comprising five lakh equity shares of Rs 100 each, the paid up capital of Rs 2.50 crore as on 31 March 2003 was entirely subscribed by the State Government. The Company had not received any fund towards share capital from the State Government during the last five years ending 31 March 2003. As per the latest available accounts upto 2001-02, the Company earned profits during 1998-2002 and had accumulated profit of Rs 12.69 crore as of 31 March 2002. However, the Company paid no dividend to the Government during the period under review.

² Eight District offices at Burdwan, Barasat, Hooghly, Medinipore, Bankura, Nadia, Murshidabad and Coochbehar, two Regional offices at Bankura and Coochbehar and Corporate office at Kolkata

Borrowings

Failure to repay outstanding interest on loan out of fund available in fixed deposits resulted in an additional interest burden of Rs 17.40 crore.

2.6 The Company obtained short term loan of Rs 21 crore³ from State Government till March 2003 for procurement and distribution of quality seeds. Though the Company generated fund, it neither repaid the loan nor paid interest. The Company approached (January 2001) the Department of Agriculture to adjust the short term loan of Rs 21 crore with trade dues of Rs 11.91 crore recoverable from the Department on account of sale of seeds. However, no response was received from the Department (September 2003). The Company did not also attempt to repay the loan/ interest though it had fixed deposits of Rs 17.95 crore to Rs 33.23 crore with different banks and also Rs 9.34 crore to Rs 25.92 crore lying in the non-interest bearing deposit account during 1998-2002. Had the Company utilised this fund to repay loan/ interest it could have avoided interest burden of Rs 17.40 crore as of 31 March 2003 on short term loan.

Financial position and working results

2.7 The Company had a full fledged Accounts Department. Even then the Company delayed the preparation of accounts for the years 1996-97 to 2000-01 by 12 to 18 months from the scheduled date and consequently it belatedly filed annual accounts with the Registrar of Companies and paid a fine of Rs 0.15 lakh as per the Companies Act, 1956. The accounts for 2001-02 and 2002-03 were still in arrears (September 2003).

The financial position and working results of the Company for four years up to 2001-02 are given at Annexure-11. Some of the key physical and financial indicators are shown in the table below :

Sl. No.	Particulars	1998-99	1999-2000	2000-01	2001-02
		(In MT)			
(i)	Opening stock	2,401.48	1,607.48	1,670.48	1,383.48
(ii)	Purchase and production of seeds				
(a)	Purchase	13,336.00	11,936.00	16,976.00	11,141.00
(b)	Production	2,900.00	2,692.00	1,474.00	1,694.00
(iii)	Sale of seeds				
(a)	Direct to Government	12,615.00	10,144.00	13,623.00	9,852.00
(b)	Through dealers	4,415.00	4,421.00	5,114.00	2,491.00
(iv)	Closing stock	1,607.48	1,670.48	1,383.48	1,875.48
(v)	Sales value	(Rupees in crore)			
	- Seeds	31.29	28.25	35.12	25.31
	- Trading items (power tillers, fertilizer etc.)	5.22	5.81	20.15	18.73
(vi)	Expenditure	35.87	35.01	54.77	45.72

³Out of Rs 27 crore sanctioned (January 1991-March 1993), Rs 21 crore was received by the Company during March 1991 to July 1998 and the balance rupees six crore was lying with the deposit account.

Sl. No.	Particulars	1998-99	1999-2000	2000-01	2001-02
		(In MT)			
(vii)	Stock adjustment (+)/ (-)	(-)0.78	(-)0.12	(-)0.41	(+)0.54
(viii)	Operating profit(+) /loss(-) { (iv) –(v) – (vi) }	(-)0.14	(-)1.07	(+)0.09	(-)1.14
(ix)	Income from interest on fixed deposit	2.40	2.98	3.34	3.56
(x)	Net profit	2.26	1.91	3.43	2.42

The Company earned profit due to non-operational income from interest on investment in term deposits.

It would be seen from the above that the Company earned profits in all the four years, which increased from Rs 2.26 crore in 1998-99 to Rs 3.43 crore in 2000-01 but reduced to Rs 2.42 crore in 2001-02. However, profit of each year was due to non-operational income from interest on investment of funds. After excluding the income from interest, the Company actually sustained operational loss of Rs 0.14 crore in 1998-99, Rs 1.07 crore in 1999-2000 and Rs 1.14 crore in 2001-02, while it earned a marginal profit of Rs 9 lakh in 2000-01 due to spurt in sale of power tillers, fertilisers, tractors etc. on account of flood in the State.

As analysed in audit the poor operating performance was attributable to ineffective implementation of National Seeds Project (NSP)-III (paragraph No.2.8), low production of different varieties of seeds and consequent increase in purchase of certified seeds at higher rate for sale to the Government (paragraphs No 2.9-2.14), lack of marketing efforts and strategy leading to low volume of sales in the open market through dealers and consequent heavy dependence on sale to the Government with lower margin and higher selling prices of seeds (paragraphs No. 2.17 & 2.18).

Ineffective implementation of National Seeds Project (NSP)-III

2.8 With a view to make the seed corporations financially viable on sustainable basis as well as to restructure them on commercial lines, Government of India (GOI) introduced National Seeds Project (NSP)-III. The Board of Directors approved (June 1994) an Agreed Action Plan (AAP) for implementation of the project in six district offices[⊗] at an estimated cost of Rs 7.15 crore for augmenting processing capacity (Rs 1.71 crore), storage facilities (Rs 2.36 crore), infrastructure facilities (Rs 2.56 crore) and computer and fax installation (Rs 52 lakh).

The project, scheduled to be implemented between 1995–1999, was to be financed out of loan (Rs 5.30 crore) from National Bank for Agriculture and Rural Development (NABARD) and capital grant (Rs 1.85 crore) from GOI. Further, GOI was to release Rs 1.90 crore as capital grant to the Company for funding margin money for cash credit facilities (Rs 90 lakh) and for repayment of short term loan of rupees one crore to the Government of West Bengal. However, GOI was to release Rs 90 lakh on the constitution of the selling pricing committee, introduction of the budgetary control and MIS system.

The Company was averse to implementation of NSP-III and 58 per cent of scheme funds was invested in short deposits.

[⊗] Medinipore, Krishnanagar, Burdwan, Raiganj, Bankura and Birbhum

AAP envisaged that with the implementation of NSP by 1998-99 the Company would be able to : (a) increase the capacity of processing raw seeds by 6.25 MT per hour; (b) augment the storage capacity by 6,720 MT with annual savings on rental of Rs 7.42 lakh; (c) increase production and to maintain production and purchase ratio at 28.75 :1[®]; (d) increase sales through dealers to 87-89 *per cent* of total sales; (e) introduce product cost data, MIS system and market intelligence; and (f) evolve measures for cost reduction.

2.8.1 During 1994-96, the Company borrowed Rs 1.62 crore from NABARD as against Rs 5.30 crore and received Rs 3.75 crore as capital grant from GOI. Reason for non availing the balance amount of loan of Rs 3.68 crore from NABARD was not on record. Against the total amount of Rs 5.37 crore received, the Company spent Rs 2.26 crore towards increasing the capacity of processing plants, storage and infrastructure facilities (Rs 2.16 crore) and purchase of computers (Rs 10 lakh) and invested the balance amount (Rs 3.11 crore) in short term deposits without refunding the same to GOI. This had improved the non-operational income at the cost of operational efficiency.

In this connection the following deficiencies were noticed in audit :

2.8.2 The Company did not implement the scheme in the districts of Raiganj, Birbhum and Bankura for augmenting storage facilities and consequently against anticipated increase in storage capacity by 6,720 MT, the actual increase was only 2,700 MT in Medinipore and Krishnanagar.

It was observed that the Company approached only in March 1999 for acquisition of land in Birbhum. However, land was yet to be possessed due to lack of proper mutation of land, while in Bankura only 75 *per cent* of the boundary wall of the seed processing complex was completed so far at a cost of Rs 12.20 lakh (September 2003). Due to inordinate delay in taking up the work, the Company had to bear Rs 25.25 lakh towards godown rent in these three districts during April 1998 to September 2003. The Government/ management claimed (June 2003) that intensive efforts were taken for implementing the scheme. However, no such effort could be seen in audit.

2.8.3 Against the anticipated increase in plant capacity for processing raw seeds by 6.25 MT per hour in five districts, plant capacity of only 3.50 MT per hour was added in two districts. The Government/ management stated (June/ July 2003) that augmentation of processing capacity would be taken up.

2.8.4 Against capital grant of Rs 52 lakh received for installation of computers and fax machine at the Head office and five district offices*, the Company spent only Rs 10.25 lakh towards laser printer, installation of fax machine and augmenting communication system. Consequently, the objective of computerisation of the Head Office and five district offices was frustrated, in

[®] Production of 28.75 MT seeds against purchase of 1 MT seed

* Medinipore, Krishnanagar, Raiganj, Bankura, Birbhum

absence of which MIS reports relating to production and sales performance of district offices could not be generated. The Government/ management stated (June 2003) that efforts would be made to complete the computerisation at district offices.

2.8.5 The Company did not utilise the capital grant of rupees one crore for repayment of short term loan to the Government of West Bengal so far resulting in avoidable interest burden of Rs 74 lakh for the period 1995-2003. The Government/ management stated (June 2003) that action would be taken to repay the loan of rupees one crore.

2.8.6 The Company forwarded the utilisation certificate of capital grant of Rs 90 lakh to GOI on 3 September 1999 without constituting the selling pricing committee (SPC) and introducing the budgetary control/ MIS system. The Government/ management stated (June 2003) that efforts would be made shortly for forming the SPC and introduction of budgetary control.

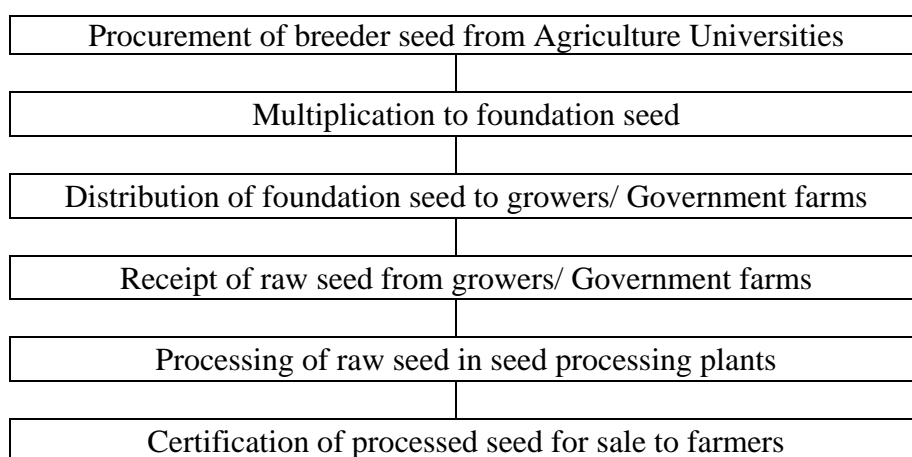
Thus, lack of monitoring and ineffective implementation of NSP-III had an adverse effect on the production and selling activities of the Company, as discussed in paragraphs 2.9-2.14 and 2.17 *infra*.

Production performance

Seed multiplication process and activity

2.9 Breeder seed constitutes the basis of all further seed production and is sold to registered seed growers and Government farms for multiplication to get foundation seed. The foundation seed of marked genetic purity and other physical characteristics is used to produce quality seeds which are further processed and then certified by Seed Certification Agency before sale to farmers for raising crops on a large scale.

The seed development process is narrated below :



Selection of growers for multiplication

No suitable plan was evolved to compete with private competitors.

2.10 According to the procedure, the farmers who have their own agriculture land/ farms, proper irrigation facilities and agree for multiplication of seeds are registered as seed growers. The Company does not, however, enter into agreements with growers before distribution of seeds for multiplication programme. Consequently, the growers cannot be compelled to supply the entire quantity of foundation/ certified seeds multiplied by them. As the growers are not returning the entire quantity of seeds to the Company, the possibility of passing these seeds to the private competitors in the market can not be ruled out.

While accepting this fact the Government/ management stated (April/ June 2003) that even after entering into agreement, the growers could not be enforced to supply the entire production to the Company. Further, the agents of private companies were more influential to change the decision of the growers by their facility to make instant payment prior to testing of the quality as well as to provide inputs on credit to the farmers. However, the Government/ management is silent in making suitable plan to compete with private sector's influence.

Fixation of target

Implementation of production programme was not reviewed.

2.11 The Company had not drawn any Corporate Plan. It evolved production programme of all types of seeds for each year for each season (Rabi and Kharif) after considering the varieties of crops, soil and weather condition and expected demands indicated by district managers. The production programme was approved by the Board of Directors. The Company did not, however, fix any production programme for registered growers and farmers. The implementation of the production programme was also not reviewed periodically and placed before the Board of Directors for corrective action. While accepting the fact the Government/ management stated (June 2003) that the review of implementation of the programme would be placed before the Board for necessary corrective action.

Breeder seed

2.12 The Company purchases breeder seeds from 13 agriculture universities^Y and research institutions^Y at prices fixed by the Seed Division, GOI and distributes the same to registered growers and Government farms for multiplication to get foundation seed (FS) from them. The Company collects 10 *per cent* extra on GOI prices from growers to realise a portion of cost of collection from the source and ultimate distribution to the growers.

^Y Rice Research Station - Chinsurah, A.N.O.R.A.U – Hyderabad, N.D.A.U.I – Faizabad, T.N.A.U – Coimbatore, N.R.C.O.G – Junagarh, O.U.A.T – Bhubaneswar, C.S.A.U.S.T – Kanpur, R.R.S – Gulbarga, P.O.R.S – Berhampore, G.B.P.A.U.& T – Panthnagar, Jute & Allied Fibre – Burdwan, P.A.U. – Ludhiana and C.R.R.I - Cuttack

The details of crop-wise purchase and distribution of breeder seeds are given at Annexure-12. The synopsis of purchase and distribution is shown in the following table:-

Crop season	Year	Breeder seeds purchased/ available(KG)	Breeder seeds distributed (KG)	Percentage of distribution to purchase/ available
(1)	(2)	(3)	(4)	(5)
Kharif				
	1998-99	3,483	2,775	80
	1999-2000	4,738	2,965	63
	2000-01	5,326	2,866	54
	2001-02	4,496	2,431	54
	2002-03	2,504	2,434	97
Rabi				
	1998-99	17,993	16,626	92
	1999-2000	22,967	18,077	79
	2000-01	19,021	12,009	63
	2001-02	6,941	6,312	91
	2002-03	4,333	4,239	98

Despite considerable reduction in procurement of breeder seeds the Company failed to distribute available seeds to growers.

It would be observed from the table and the Annexure-12 that the purchase of breeder seeds drastically reduced by 76 *per cent* (Rabi) and 37 *per cent* (Kharif) in 2002-03 over 1998-99. Even then the Company failed to distribute the entire breeder seeds to growers each year. The average percentage of distribution to availability was 63 in case of kharif season (1998-2002) and 78 in case of Rabi season (1998-2001), which depicted an improved picture at 97 *per cent* (Kharif) in 2002-03 and at 95 *per cent* (Rabi) in 2001-03, when compared to a very low volume of purchase/ availability. Further, the average distribution of paddy, wheat and pulse seeds was only 66, 80 and 82 *per cent* of available seeds during 1998-2003. Due to low distribution of breeder seeds the Company failed to take the advantage of the multiplication of seeds.

As analysed in audit, shortfall in procurement and distribution was attributable to failure to draw the foundation seed programme for each grower in tandem with procurement of breeder seeds, lack of market intelligence about the changing demand pattern of seeds and delay in distribution. However, the management did not take any corrective action.

The Government/ management stated (April 2003) that the Company would be vigilant to utilise 100 *per cent* breeder seeds in the production programme.

Yield from breeder seed

2.12.1 The management fixed the expected yield based on the norms of the Evaluation Wing of Directorate of Agriculture, Government of West Bengal. The details regarding the crop-wise expected yield *vis-a-vis* actual yield and the percentage of actual yield to expected yield are given at Annexure-12. The synopsis of expected and actual yield is given in the following table:

Crop season	Year	Breeder seeds distributed(KG)	Expected yield (KG)	Actual yield (KG)	Percentage of actual yield to expected yield
(1)	(2)	(3)	(4)	(5)	(6)
Kharif					
	1998-99	2,775	1,45,290	59,606	41
	1999-2000	2,965	1,58,430	59,459	38
	2000-01	2,866	1,63,630	53,126	32
	2001-02	2,431	1,59,175	62,246	39
	2002-03	2,434	1,48,540	60,202	43
Rabi					
	1998-99	16,626	1,87,600	30,678	16
	1999-2000	18,077	2,82,598	91,713	32
	2000-01	12,009	1,31,620	11,529	9
	2001-02	6,312	1,47,063	19,138	13
	2002-03	4,239	1,03,860	4,164	4

Shortfall in yield as compared to expected yield resulted in loss of 1175.95 MT yield valued at Rs 2.31 crore.

It would be observed from the table and the Annexure-12 that in none of the years the Company achieved the expected yield. The shortfall ranged from 57 to 68 *per cent* (Kharif) and was even higher at 68 to 96 *per cent* (Rabi) as compared to expected yield. In some cases shortfall was as high as 97 to 99 *per cent* (pulses) and 90 to 96 *per cent* (wheat). Consequently, the actual yield (451.86 MT) was only five *per cent* of the total yield (9,633 MT) in the State. This resulted in shortfall of yield by 72 *per cent* (1,175.95 MT) against the expected yield (1,627.81 MT) valuing Rs 2.31 crore during 1998-2003. The Government/ management stated (April 2003) that low yield was attributable to lack of intensive inspection and monitoring by the field staff over the production performance of growers, occurrence of flood and delayed plantation by the growers. The management further added (June 2003) that action plan would be made for involvement of field level workers to improve the yield.

Foundation seed

2.13 The requirement of foundation seeds (FS) is assessed on the basis of estimated coverage of total cultivable area as per production programme of certified seeds for each season. The foundation seeds are sold to growers at prescribed rates for production of raw seeds which are again purchased by the Company from growers at prices fixed by the Price Fixation Committee.

The Company contributed negligible six *per cent* of total foundation seeds distributed in the State.

The details of crop-wise foundation seed available, distribution and yield from foundation seed are given in Annexure-13. It was observed from the Annexure that the Company failed to distribute the available foundation seeds in respect of each crop season during 1998-2003 and the percentage of distribution to the available seed sharply reduced from 93 in 1998-99 to 69 in 2002-03 (Kharif) and from 98 in 1998-99 to 71 in 2002-03 (Rabi). Consequently, the Company contributed only six *per cent* of total foundation seeds distributed in the State during the same period. As a result, there was an accumulation of 71.29 MT foundation seeds of Rs 11.70 lakh which could not be revalidated due to loss of its germination potential.

The Government/ management stated (June 2003) that natural calamity in 1999-2000 and 2000-01 and switch over of choice from one variety to other by farmers were the reasons for low distribution. The contention is not

acceptable as the distribution showed an increasing trend in the State as a whole during 1999-2001 and farmers used mostly traditional varieties.

Yield from foundation seed

Shortfall in yield as compared to expected yield resulted in loss of 17,690.83 MT yield valued at Rs 11.70 crore.

2.13.1 The Company fixed the expected yield based on the norm of the Evaluation Wing of Director of Agriculture, Government of West Bengal. As would be seen from the Annexure-13 that the percentage of actual yield to expected yield was abnormally low and the shortfall ranged between 66 and 56 (Kharif) and 73 and 26 (Rabi) *per cent*, resulting in loss of yield of 17,690.83 MT valuing Rs 11.70 crore during 1998-2003. Consequently, this led to under-utilisation of targeted area to be sown for production of certified seeds. The management did not analyse the reason for shortfall in yield. As analysed by Audit, low yield was attributable to absence of any production programme of foundation seeds for growers/ Government farms, non-observance of the standards of plantation by the seed growers, poor performance of Government farms and lack of monitoring over plantation by the management.

The Government/ management stated (June 2003) that efforts were being made to boost the production by shifting the production programme from small registered growers to professional growers and institutional farms.

Certified seed

2.14 The table below indicates the targeted area for production of certified seeds *vis-à-vis* actual area sown for the last five years up to 2002-03.

Crop season	Year	Target fixed	Area sown	Shortfall	Percentage of shortfall
Rabi		(In hectares)			
	1998-99	1,506.55	839.57	666.98	44
	1999-2000	3,482.88	1,395.16	2,087.72	60
	2000-01	2,062.00	382.19	1,679.81	81
	2001-02	3,080.00	630.41	2,449.59	80
	2002-03	2,990.14	352.73	2,637.41	88
Kharif		(In hectares)			
	1998-99	2,001.81	1,553.60	448.21	22
	1999-2000	2,008.72	1,542.05	466.67	23
	2000-01	1,777.70	1,193.75	583.95	33
	2001-02	2,546.00	1,271.40	1,274.60	50
	2002-03	2,578.26	748.56	1,829.70	71

It would be seen from the above table that while the Company kept on increasing the targeted area to be sown every year except in 2000-01 and 2002-03, it failed to sow the targeted area in any of the crop seasons during the last five years thereby indicating that the targets were fixed unrealistically on higher side without evaluating the performance of last year. Consequently, the shortfall was as high as 44 to 88 *per cent* (Rabi) and 22 to 71 *per cent* (Kharif)

as compared to average shortfall of eight (Rabi) and 25 *per cent* (Kharif) in case of Haryana Seeds Development Corporation Limited.

The Government/ management stated (April 2003) that the shortfall was primarily attributable to apathy of growers to cultivate new varieties. The reply indicates that the management had fixed unrealistic targets without ascertaining growers' demand as well as its failure to demonstrate and popularise new varieties of seeds in terms of its objectives.

Production and distribution of certified seed

The details of targets and actual production and distribution of certified seeds during the last five years up to 2002-03 are given in the Annexure-14.

It would be seen from the Annexure that-

Due to low production the Company has to procure 33,054.89 MT certified seeds from outside source at an additional expenditure of Rs 19.09 crore.

2.14.1 NSP-III envisaged progressive increase in sale of paddy seed from 10,000 to 14,257 MT, wheat seed from 900 to 1,069 MT, pulse seed from 900 to 1,129 MT and oil seed from 1,810 to 2,377 MT during 1995-1999. Analysis of the Annexure-14 revealed that the Company fixed targets lower than those envisaged in NSP-III and was not able to achieve even the lower targets. The production of certified seeds for all types of seeds in each year for both the seasons was abnormally below the target and the percentage of the achievement to target reduced from 42 in 1998-99 to 29 in 2002-03 (Kharif) and 29 to two (Rabi) during the same period. The production was meagre in case of wheat and pulse seeds.

Due to continuous fall in production of certified seeds the Company contributed only two to four *per cent* of the State's production. As a result, the Company went on increasing the purchase of certified seeds from the market at Rs 11,000 to Rs 33,000 per MT which were higher than its own cost of production ranging from Rs 5,350 to Rs 25,000 per MT. The Company incurred an extra expenditure of Rs 19.09 crore on purchase of 33,054.89 MT certified seeds during 1998-2003, besides low utilisation of seed processing plants at 12 (1998-99) to 7 *per cent* (2002-03) of their capacity. In addition, the ratio between production and purchase became adverse at 0.08 : 1 to 0.21 : 1 during 1998-2003 against ratio of 28.75 : 1 envisaged under NSP-III.

Loss of Rs 1.02 crore was sustained as 721.17 MT certified seeds lost its germination potential.

2.14.2 Even this low produce could not be distributed. During 1998-2003, the Company distributed 8,675.81 MT certified seeds out of production of 9,618.30 MT. The distribution was poor in case of pulse and paddy seeds. As a result, 721.17 MT certified seeds were left undistributed and lost germination potential of which only 23.57 MT seeds were disposed of (April 2003) as non-recommended seeds at Rs 0.93 lakh and thereby the Company sustained a loss of Rs 1.02 crore.

The Government/ management stated (April/ June 2003) that the production was restricted to the selling capacity of the Company and with the strengthening of marketing infrastructure as envisaged under NSP-III, the Company would enhance the production and reduce purchase so as to achieve

the desired production – purchase ratio. However, the management did not draw any action plan to strengthen the marketing set up so far (September 2003).

Performance of Government farms

2.15 Government farms are run and controlled by the Department of Agriculture. During 1998-2003 the Company distributed 94.23 and 179.36 MT foundation seeds to Government farms and registered growers in eight districts[♦] whereas certified seeds received thereagainst were 882.06 and 5,557.03 MT respectively.

Audit observed that against the aggregate ratio of multiplication of foundation seeds to certified seeds of 1:21 to 1:25 during 1998-2003, the Government farms achieved a lower ratio of 1:5 to 1:11, thereby adversely affecting the production performance of the Company. Consequently, the Company sustained loss of production of 2,037.47 MT valuing Rs 1.35 crore. The Company had not investigated the reasons for such shortfall. However, as analysed in audit, shortfall was attributable to non fixing of target, lack of supervision over the performance of these farms and inefficiency of these farms in comparison to registered growers, but the Government/ Company did not take any action in this regard.

Purchase of seeds

Seeds were procured from few non-seed producing firms in violation of the Government order.

2.16 During 1998-2003 the Company purchased 64,960 MT seeds of different varieties valuing Rs 106.42 crore. However, the Company did not formulate any purchase manual. The Company did not also generate data base in regard to the details of seed producing firms in the State and in the country and rates offered by those firms. In March 2000, the Agriculture Department issued guidelines to the Company to be followed during purchase of seeds for selling to the Government. The guidelines, *inter-alia*, provided that : (a) the genuine seed producers including State Seed Corporations, National Seed Corporation (NSC), UPSTDC^δ, co-operatives having seed production experience should be allowed in the tender, and (b) in case the tender had not been found fair from the comparative rates of statement, corrective steps should be initiated in consultation with the Tender Committee. Scrutiny of purchase of 48,943 MT paddy, wheat and lentil seeds valuing Rs 63.23 crore from four to five traders during 1998-2003 revealed the following deficiencies :

2.16.1 Though the Company purchased huge quantity of seeds, it did not request any of the 25 seed producing firms in the State or NSC/ UPSTDC/ other state seed corporations to participate in the tender so as to ensure economy in procurement. On the contrary, the entire quantity was

[♦] Barasat, Hooghly, Burdwan, Bankura, Medinipore, Nadia, Murshidabad & Malda

^δ U.P. Seeds and Tarai Development Corporation Limited

purchased from four/ five traders^Ω which were not the original seed producers, of which two firms actually dealt in only essential consumer goods.

2.16.2 All these four seed traders submitted the same and identical rates for different crops against the tenders. However, the Company did not take any action to ensure transparency in the tendering process.

2.16.3 In 2000-01 three Uttar Pradesh/ New Delhi based wheat seed growers approached the Company for enlistment, but they were rejected on the ground that these firms failed to submit all the requisite details. However, the aforesaid four seed dealers supplied wheat to the Company, whose source of supply were those rejected Uttar Pradesh/ New Delhi based seed producing firms.

2.16.4 The Company had no system of comparing the rates offered by these four seed traders with those offered by original seed producers. An analysis of these rates revealed that the Company incurred an extra expenditure of Rs 66.78 lakh, as detailed below:

Year	Name of seed	Quantity (MT)	Rate of four firms/MT (Rs.)	Rate of original producer/MT (Rs.)	Extra expenditure (Rs in lakh)
1999-2000	Wheat	6,266.66	12,500	12,285	13.47
	Paddy	532.82	11,700	11,000	3.72
2000-01	Wheat	6,692.44	12,750	12,504	16.46
	Paddy	835.70	11,500	10,300	20.17
	Lentil	1,448.96	11,000		
		469.48	28,500	25,740	12.96
	Total	16,246.06			66.78

In view of deficiencies in the purchase procedure, the Agriculture Department indicated (September 2000) to the Company that if the procedure enumerated in the guidelines (March 2000) were not strictly followed, the blame would entirely be on the Company. However, the deficiencies still persisted and the Department did not further probe into the lapses and take corrective action.

Sales performance

2.17 Even after existence for more than 22 years, the marketing department continued to be short staffed as discussed in paragraph 2.24 *infra*. Further, the Company had no system for collecting market information to evolve an effective marketing strategy.

The Company neither converted six district offices into six district sales offices nor set up special cell for tapping the markets of north eastern states, Nepal, Bangladesh and Bhutan as envisaged under the Approved Action Plan (AAP) of NSP-III. Further, in order to increase direct sales through

^Ω Chinsurah Whole Sale Consumers Co-operative Society Limited, Hooghly
Tehatta Thana Co-operative Agricultural Marketing Society Limited, Nadia
Orissa Consumers Co-operative Federation Limited, Kolkata
Bidhannagar (Saltlake) Whole Sale Consumers Co-operative Society Limited, Bidhannagar
Burdwan Seed Production Co-operative Society Limited

Extra expenditure of Rs 66.78 lakh was incurred on procurement of seeds at higher rates.

No attempt was made to strengthen marketing set-up and to undertake market survey.

dealers, the sub-committee constituted (January 1998) by the Board, recommended (May 1999) strengthening of marketing infrastructure by engaging sales promoters in different states, undertaking intensive survey of the market for identifying popular products and upgrading both production and product quality through R&D activities. However, the recommendations were not implemented by the management so far (September 2003) except creation of four sales depots at Malda, Bankura and Jalpaiguri (two) during October 2001 and December 2002.

The Government/ management stated (June 2003) that financial stringency of the State prevented the implementation of these recommendations. However, as directed by the Board (May 1999), the revised proposal was yet to be prepared (September 2003).

In this connection the following points were noticed in audit :

Sale through dealers was negligible as compared to direct sale to Government.

2.17.1 The AAP under NSP-III envisaged that 87 to 89 *per cent* of total sales should be effected through dealers and incentives should be introduced to augment sales. However, it was seen that sale to Government increased from 74 in 1998-99 to 80 *per cent* in 2001-02, while sale through dealers drastically reduced from 26 to 20 *per cent* of total sales during the same period.

Audit observed that the Company effected direct sales through dealers out of its own production against which the Company earned a profit margin of 16 to 66 *per cent* on cost price. On the other hand, as the Company purchased seeds at a price higher than its own production cost, it fetched a margin of 7 to 14 *per cent* of the procurement price while selling to the Government. Even then, the Company did not take effective steps *viz.* introduction of incentive scheme for dealers, framing of credit policy and proper market strategy to increase direct sales, thereby indicating management's apathy to improve its own production programme and operational viability of the Company.

The Government/ management stated (April/ June 2003) that sales to Government was higher as the Company was duty bound to carry out the orders of the Government and with the present marketing infrastructure, the direct sales had shown a steady increase in 2000-01 over 1998-99. The contention is not acceptable as the ratio of direct sale though slightly increased during 1999-2000, but again reduced in 2000-02 as compared to 1999-2000 and the ratio was still much less than the ratio envisaged in AAP under NSP-III.

2.17.2 At Purulia the Company supplied (November 2002) 260 MT wheat and arhar seeds (Rs 20.06 lakh) after delays of 10 to 15 days from the stipulated dates of supply, resulting in late sowing of seeds. Further 409 MT oil seeds of old varieties valued at Rs 15.95 lakh were supplied (1998-2002) to two districts^Φ for conducting field demonstration, instead of introducing new

^Φ Purulia and Medinipore

^Δ Nadia, Coochbehar, Malda, North Dinajpur

varieties in violation of the Government guidelines, thereby frustrating the object of introducing new varieties.

2.17.3 AAP emphasised (June 1994) increase in the number of dealers from 278 to 564 in 13 districts and to decrease from 200 to 106 in the remaining four districts[▲]. Till March 2002, the Company had engaged 795 dealers, of which 68 additional dealers were engaged in those four districts where 94 dealers were surplus. Scrutiny revealed that the sales effected by these dealers reduced from Rs 3.45 crore to Rs 52 lakh (Nadia), from Rs 2.40 crore to Rs 86 lakh (Malda) and from Rs 35 lakh to Rs 22 lakh (North Dinajpur), thereby indicating absence of any monitoring over the dealers' performance before continuing with their services. The management stated (July 2002) that remedial action would be taken.

Fixation of selling price at higher rate

Excessive loading of overhead led to excess recovery of Rs 6.68 crore from farmers.

2.18 One of the main objectives of the Company is to provide and make available the certified seeds to farmers at reasonable price. It was observed in audit that the Company did not set up the selling pricing committee as per the AAP under NSP-III. The selling price is fixed by the Managing Director in consultation with the district managers and marketing officers. While fixing the selling price the Company added estimated overheads, profit margin (10 *per cent*) and dealers commission (10 *per cent*) with the procurement price. However, the management had no mechanism to compare the selling prices with those of other seed producing agencies in the market.

Scrutiny revealed that the Company had never compared the estimated overheads with actual so as to fix the selling prices on realistic basis. Against the actual overhead ranging between 29.78 and 43 *per cent* of total cost of production during 1998-2002, the Company recovered overhead at 52.76 to 162.39 *per cent* of total cost of production on sales through dealers, leading to excess recovery of Rs 6.68 crore from the farmers, besides frustrating the objective of providing seeds to farmers at reasonable price.

The Government/ management stated (June 2003) that the prices were competitive and realistic. However, facts stated above belied the contention of the management.

2.18.1 In case of supplying seeds to the Government during 1998-2003, the Company fixed the selling price after adding 22.50 *per cent* with the cost price to recover profit margin (10 *per cent*), service charges (2.5 *per cent*) and interest on working capital (10 *per cent*).

During 1998-2003, the Company purchased 5,853.30 MT pulse and oil seeds at a total price of Rs 17.26 crore inclusive of sales tax. While fixing the selling price, the Company added 22.5 *per cent* with the basic cost price towards overhead, margin and interest and again added four *per cent* towards sales tax, though basic cost price had already included sales tax element and thereby recovered Rs 84.59 lakh in excess from the Government.

Sundry debtors

2.19 The table below indicates the sundry debtors and sales at the close of each year during the last four years upto 2001-02.

Year	Book debts	Sales	Book debts in terms of months' sales
	(R s i n c r o r e)		
1998-99	53.58	36.51	18
1999-2000	60.49	34.06	21
2000-01	52.54	55.27	11
2001-02	59.64	44.04	16

Monitoring mechanism to collect old dues was ineffective.

It was observed that AAP under NSP – III envisaged that all outstanding dues from the State Government as on 31 March 1993 should be reconciled and collected by December 1995 and March 1996 respectively. There was nothing on record to indicate that old dues upto March 1993 were reconciled and collected. In the absence of age-wise analysis of debts, the same could not be ascertained in audit. As of March 2002, outstanding dues from the State Government stood at Rs 23.65 crore.

Further, against the recommended (NSP-III) debtors level at three months' sales, actual debtors level was high at 18 months' sales in 1998-1999 which reduced to 16 months' sales in 2001-02, resulting in loss of interest of Rs 4.25 crore per *annum* (at the rate of 9.25 *per cent* per annum). This indicated that monitoring mechanism to collect old dues was still lagging behind the desired level. The Government/ management stated (June 2003) that follow-up action was being made to realise the outstanding amount.

Contribution of the Company towards production and distribution of seeds in the State

2.20 The table below indicates the contribution of the Company towards production and distribution of seeds in the State during 1998-2003.

Year	Production of certified seeds in the State (MT)	Distribution of certified seeds in the State (MT)	Company's contribution to		Percentage of contribution to total	
			Production (MT)	Distribution (MT)	Production	Distribution
1998-99	73,435	72,745	2,810	17,031	4	23
1999-2000	75,605	73,415	2,541	14,565	3	20
2000-01	76,593	75,533	1,409	18,737	2	25
2001-02	79,718	76,628	1,613	19,762	2	26
2002-03	81,632	77,716	1,246	19,386	2	25
Total	3,86,983	3,76,037	9,619	89,481	3	24

Company's share in the production and distribution of seeds in the State was negligible as compared to other state seed corporations.

It would be seen that the Company contributed a negligible share (3 *per cent*) in the State's production. The contribution of the Company as compared to overall sales in the State ranged between 20 (1999-2000) and 26 *per cent* (2001-02) while Rajasthan State Seeds Corporation Limited, Punjab State Seeds Corporation Limited and Haryana Seeds Development Corporation Limited enjoyed 38 to 50 *per cent*, 46 to 82 *per cent* and 35 to 63 *per cent* share in the market respectively. Such low contribution, as observed in audit was due to failure to increase production of certified seeds, heavy dependence on outside purchase coupled with higher selling rates of seeds and lack of market strategy. The Government/ management stated (June 2003) that action was being taken to capture larger share of the seed market by opening own sales' counters and revamping the marketing infrastructure.

Production and preservation of seed for natural calamities under Seed Bank scheme

2.21 With a view to meeting the urgent requirement of seed of identified crops during natural calamities, the Government of India contribute 50 *per cent* procurement cost of seeds in the form of revolving fund and the balance 50 *per cent* procurement cost is borne by the Company under Seed Bank Scheme. As per the scheme 10 *per cent* of stock would be treated as unsold stock and the same would be sold at commercial grain price. The differential rate would be claimed by the Company from the Government.

During 1999-2002 the Company received Rs 13.40 lakh as revolving fund towards 50 *per cent* procurement cost of 247.5 MT seed (paddy, mustard and groundnut) from GOI and stored 495 MT seeds (value : Rs 56.80 lakh) in five districts[†]. Scrutiny of records revealed that only a meagre quantity of mustard seeds (6.2 MT) was distributed and the balance 488.8 MT^o seeds which had lost its germination were disposed of at Rs 26.65 lakh as food grains through auction. As a result, the Company sustained a loss of Rs 26.41 lakh due to under recovery of procurement price (after adjustment of differential rate for 10 *per cent* unsold stock).

The Government/ management stated (June 2003) that action would be taken to recover this loss from GOI. However, recovery beyond 10 *per cent* is not admissible under the scheme.

Costing

2.22 The Company neither prepared a costing manual of its own nor exercised the system of periodical costing to arrive at the operating cost of different varieties of seeds. Neither maintenance of costing record is introduced at district offices nor any quarterly product cost data is compiled at Head Office as envisaged in NSP – III in order to strengthen the cost control mechanism. As a result no comparative analysis could be undertaken between

[†] Birbhum, Bankura, Murshidabad in private godowns and Medinipore and Burdwan in own godowns

^o Paddy-350 MT, Mustard-28.80 MT, Groundnut-110 MT

the sale price of seeds and prevailing market price at any time. Further, the Company failed to analyse the different elements of operating expenses of seeds with the object to fix a reasonable price for the farmers.

The Government/ management stated (June 2003) that effective steps would be taken to strengthen the cost control mechanism.

Manpower analysis

2.23 The table indicates the sanctioned strength *vis-à-vis* men-in-position as of 31 March 2003.

Sl. No.	Category	Sanctioned strength	Men-in-position	Vacancy	Percentage of vacancy
		(I n n u m b e r)			
1	Production	85	55	30	35
2	Processing and Engineering	11	5	6	55
3	Marketing	9	2	7	78
4	Accounts	21	20	1	5
5	Administration	4	3	1	25
6	Clerical	58	57	1	2
7	Group -D	82	82*	0	-
	Total	270	224	46	17

* Including 25 daily rated workers

In January 1998 the management first identified the need to re-structure the staff-pattern with a view to strengthening the market survey for boosting direct sales as well as activating research and development activities for upgrading and channelling popular products in the production system and devising strategic policy to penetrate into the market. However, the management did not take any action to restructure the staffing pattern so as to improve the overall performance of the Company (September 2003).

Internal audit

2.24 The Company had its own internal audit (IA) wing manned and headed by an Internal Audit Officer (IAO). The Company did not specify the areas/ aspects to be examined by IA wing nor mentioned any stipulated time for submission of reports. No action taken note on reports was prepared and placed before the Board. This indicated the management's apathy to make the internal audit effective commensurate with the size of the business.

Conclusion

The Company did not make any noticeable headway towards the achievement of the objective of making available quality seeds to farmers at reasonable price mainly due to management's apathy to increase its production programme, lack of marketing efforts to increase sales through dealers coupled with higher selling prices and sluggish attitude towards the implementation of National Seeds Project-III. Due to its failure to increase production the Company resorted to purchase from

outside sources. The Company did not follow transparent procedure even in purchases. Over the years the Company did not undertake research and development activities to upgrade traditional seeds as well as to popularise new variety of seeds. In the process the Company played a marginal role in the seed industry.

There is an urgent need to take effective steps to increase the production as well as to revamp the marketing wing to enhance open market sales. Fixing of selling price needs to be rationalised to make the price competitive.