

## CHAPTER V : MINISTRY OF AGRICULTURE

### National Agricultural Cooperative Marketing Federation of India (NAFED)

#### 5.1 Implementation of Price Support Scheme (PSS) operation for mustard seed during Rabi-2005

##### 5.1.1 Introduction

NAFED is a national level apex cooperative marketing federation established with the objective of organizing, promoting and developing cooperative marketing, processing and storage of agricultural produce, distribution of inputs and domestic and international trading of agricultural commodities.

Price Support Scheme (PSS) envisages the fixation of the Minimum Support Price (MSP) by the Government of India (GOI) whenever prices of commodities fall in the open market in order to provide a remunerative price to the farmers for their produce, and makes purchases under this scheme till the open market prices reach the MSP. GOI designated NAFED as the Central nodal agency for procurement of 14 commodities of oilseeds and pulses. PSS Operation is a multi-stage activity involving the Ministry of Agriculture, NAFED, State Level Cooperative Federations, State Governments and Primary Level Cooperative Marketing Societies as detailed in **Annex-I**. The concerned State Cooperative Marketing Federations and State Cooperative Oilseeds Growers Federations are the procuring supporters for NAFED and these supporters, in turn, procure stock from farmers through Primary Cooperative Marketing Societies.

#### 5.2 Audit Findings

Audit examination of PSS operations pertaining to mustard seed during Rabi season-2005 was made in pursuance of the request (January 2006) of the Department of Agriculture and Cooperation, Ministry of Agriculture. Test check of the records of 26 procurement centers in Rajasthan, Haryana, Gujarat and Madhya Pradesh and offices of NAFED during the period October 2006 and July 2007 as detailed in **Annex-II** revealed the following:

### **5.2.1 Procurement of mustard seed by Primary Cooperative Marketing Societies**

As per NAFED's Action Plan for PSS, necessary documentary proof of land cultivated (Girdawari) was to be obtained by the Primary Cooperative Marketing Societies (PCMS) from the farmers, as issued by the respective State departments showing that the stock being delivered under PSS was cultivated in their fields. This would ensure that the benefit of PSS operations was actually received by genuine farmers, and not by traders and other middlemen. While conducting the audit of 26 procurement centres, the Patwari records of 21 centres were test-checked to verify this aspect. In 21 centres, 4,876 farmers of 60 villages sold 2,10,722 quintals of mustard seed under PSS. Out of this, discrepancies were noticed in respect of 1,15,575 quintals, which constituted 55 *per cent* of the total test-checked quantity. These discrepancies were attributable to excess purchases, irregular purchases due to wrong addresses, non-land holding of farmers and tampering of Girdawaries etc. as explained in the succeeding paragraphs:

### **5.2.2 Purchase of mustard seed without prescribing limits**

It was observed that NAFED did not prescribe the limits for procurement of mustard seed from individual farmers as per the area of cultivation of mustard. In Rajasthan, the district authorities issued directions to procurement agencies to restrict the purchases as per the average production per acre/hectare declared by the State Agriculture Department, but no such directions were issued in the States of Haryana, Madhya Pradesh and Gujarat by the district authorities/State Governments nor were any instructions issued by NAFED. Resultantly, Audit adopted the average yield of the area as the criteria for assessing the actual quantity of mustard seed to be procured.

Test-check of records revealed that an excess purchase of 62,234.16 quintals of mustard seed valued at Rs. 10.58 crore was made from 1,874 farmers of 40 villages in 12 procurement centres as detailed in **Annex-III**. Audit observed that the quantity procured from the farmers was far in excess in Haryana, Madhya Pradesh and Gujarat than in Rajasthan. In Haryana, procurement was made even without collecting the documentary evidence of land holdings from farmers. Such ad-hocism did not enable rational planning for procurement of mustard seed, and could lead to the possibility of involvement of private traders/entities as a huge procurement of 20.84 lakh MT of mustard seed was made during Rabi-2005.

### 5.2.3 Tampering of Girdawaries resulting in irregular purchase

It was observed that the Girdawaries were tampered within one village of Rajasthan, resulting in procurement of 903.17 quintals of mustard seed amounting to Rs. 0.15 crore on the basis of the tampered Girdawaries as detailed in **Annex-IV**.

NAFED stated (October 2007) that as per the report, the conversion of hectare into bighas was to be worked out as one acre/hectare being equal to 6.25 bighas and they had taken up the matter with the State Government/procuring agencies for devising a farmer-friendly mechanism. The reply of NAFED is not tenable as the observation was related to tampering of Girdawaries, which were the basis for procurement from farmers.

### 5.2.4 Irregular purchase of mustard seed

Test-check of the records revealed the following cases of irregular procurement of mustard seed:

- In Haryana and Madhya Pradesh, mustard seed was not cultivated by 699 farmers of 16 villages in 8 procurement centres during Rabi-2005 in their lands. The fact remained that 21130 quintals of mustard seed amounting to Rs. 3.59 crore was purchased from them by the Societies as detailed in **Annex-V**.
- In 16 villages of 6 procurement centres of Haryana, it was also noticed that 31,307 quintals of mustard seed amounting to Rs. 5.32 crore were purchased from 1,002 persons who were neither residents of these villages nor had any land in these villages as detailed in **Annex-VI**.

The Ministry stated (April 2008) that the purchases in such cases were made on the basis of certificates of the Agricultural Marketing Board/local revenue authorities and while undertaking such huge procurement operations, the Central Nodal Agency had to rely on the State level agencies and the PCMS actually operating at the mandi level.

The reply is not acceptable as the facts were not verified by the Patwaris/Tahsildars who were the competent authorities to verify the revenue records. The Ministry, has, however, issued necessary directions to State Governments.

### **5.2.5 Sale of mustard seed in local mandis by farmers due to foreclosure of procurement operation under PSS**

The objective of the PSS scheme was to provide a remunerative price to the farmers for their produce and the purchases under this scheme were to continue in an open-ended fashion till the open market prices reached the MSP.

Audit scrutiny of the information received from local mandis revealed that the procurement was stopped mid-way i.e. at the end of May, and resultantly, the farmers were forced to sell their produce of about 7.64 lakh quintals to the Middlemen/Arhatiyas at very low prices i.e. between Rs. 800-1750 per quintal during June to August 2005 as detailed in **Annex-VII**. This reflected not only contravention of the scheme guidelines but also defeated the very purpose of the scheme.

The Ministry stated (April 2008) that due to paucity of storage capacity, financial arrangements and other logistic arrangements, the procurement of mustard seed was suspended for a couple of days and resumed subsequently, which resulted in procurement of additional quantity of 3 lakh MT of mustard seed.

The reply of the Ministry contradicts the reply given by NAFED which indicated that the procurement was stopped due to paucity of funds.

### **5.3 Procurement Quality and Storage**

It is imperative that in order to have an effective control on quality, the quality of the stocks procured stored are analysed and the reports of such analysis are to be maintained.

#### **5.3.1 Sampling of stock of mustard seed during procurement stage**

As per the Action Plan, random samples of the stock procured/stored were to be drawn, moisture content was to be got tested from the Market Committee and Central Warehousing Corporation (CWC) and their analysis reports were to be obtained by NAFED. Besides, samples were to be analyzed for other grade specifications.

Test-check of the records of various societies as detailed in **Annex-VIII** revealed that no records of the samples drawn were available. As a result, adherence to Fair Average Quality (FAQ) grade in procurement of mustard seed could not be ensured in audit.

The Ministry stated (April 2008) that NAFED had drawn the samples but no records of the samples were maintained due to heavy procurement and NAFED had been directed to take corrective measures in maintenance of records.

### **5.3.2 Non-maintenance of records for moisture content in the procured stock**

The branch offices of NAFED were required to maintain the position of stock lying in various warehouses under their area of operation for stock deposited/despached for inter-office transfer (IOT), processing and sale. At the close of each financial year, they were to collect the statements of stock from each warehouse to ascertain the gain/loss of stock.

Scrutiny of records, however, revealed a shortage of 20,497 quintals of mustard seed in 91 warehouses and gain of 61,254 quintals in 224 warehouses, as on 31 March 2007 in five branch offices of NAFED as detailed in **Annex-IX**.

As per clause 7.13 of the Business Procedures of NAFED, each Branch Office was to keep records of moisture content at the time of depositing the commodities in the warehouses and also at the time of delivery for working out the storage loss/gain, as the increase or decrease in moisture content was linked with gain/loss of weight of stocks lying at warehouses.

Test-check of records of the aforesaid branch offices disclosed that no such consolidated records of moisture were maintained either at the time of depositing the commodities in the warehouse or at the time of disposal. As a result, the authenticity of shortage/surplus shown in the 315 warehouses could not be vouchsafed in audit, and the possibility of any mismanagement in the sale/disposal of mustard seed could not be ruled out.

The Ministry accepted the audit recommendation and stated (April 2008) that NAFED had been directed to maintain the records of moisture content at the branch level as per the provisions of the Business Procedures so that the possibility of mismanagement in sale and disposal of mustard seed may be curbed. Besides, the Ministry directed NAFED to take action against the defaulting branches.

#### **5.4 Sale of mustard seed, oil and cake**

##### **5.4.1 Irregular sale of mustard seed**

The Business Procedures of NAFED stipulated that each successful buyer of mustard seed should deposit 10 *per cent* of the value of the tendered quantity of mustard seed as security deposit within 48 hours from the time of confirmation of the bid and the balance payment was to be made within 10 working days. Further, in case the party failed to deposit the balance payment within 10 working days, extension of time at their request for one week with penalty interest at 12 *per cent* and another week at 15 *per cent* was permissible. In case the party did not make payment within the extended period, the security deposited so remitted would be forfeited.

It was, however, noticed that the branch offices of NAFED did not adhere to these instructions and failed to obtain security deposit of Rs. 3.69 crore in 13 cases as detailed in **Annex-X**. The question of forfeiting the security deposit thus did not arise.

The Ministry stated (April 2008) that the action of NAFED had not resulted in any loss and NAFED had been directed to adhere to the guidelines strictly to avoid such situations again in future. The plea of the Ministry is not tenable as non-deposit of security denied NAFED the opportunity to fulfill the same in cases of default.

#### **5.5 Excess claim of interest from Government of India**

NAFED submits periodical Profit and Loss accounts to GOI for intimation of losses and claiming reimbursement of losses from GOI on account of PSS operations. It was, however, observed that excess interest was claimed from GOI on account of non-accountal and short-accountal of sale proceeds, misclassification of other operations expenses in mustard account, delayed credit from banks and branch offices of NAFED, misclassification of interest due to non-reconciliation of interest charged by the banks, charging of interest for non-transaction periods, etc.

The Ministry accepted the audit observation and stated that NAFED had made necessary rectifications in their books of accounts by crediting Rs. 8.87 crore to the account of GOI as pointed out by Audit. It was further stated that NAFED had been directed to be careful in booking commodity-wise expenses and calculation of the interest on investment made from other sources under PSS operations.

#### **5.6 Conclusions**

- NAFED did not fix the maximum yield per acre/hectare for individual

farmers for procurement under PSS operations, to ensure that the benefits of PSS operations reached the genuine farmers.

- The accountability of State Governments for possible lapses *vis-à-vis* issue of Girdawaries could not be ensured.
- NAFED did not institute any mechanism for sample examination of procurement records *vis-à-vis* landholders' records by the State Governments, to ensure that the benefits of PSS operations reached the genuine farmers.
- No concerted efforts were made for the publicity of foreclosure of procurement amongst farmers.
- NAFED did not maintain records for sampling of stock at the procurement and storage stages in its PSS operations.
- NAFED did not conduct test-check of records of warehouses to determine the genuineness of loss/gain of stock on account of moisture content, to have a control over its storage operations.
- NAFED did not adhere to the guidelines laid down in its Business Procedures for disposal of the procured commodities under PSS.

#### **Recommendations**

- *NAFED should fix the maximum yield per acre/hectare for individual farmers for procurement under PSS operations, to ensure that the benefits of PSS operations reach the genuine farmers.*
- *The accountability of State Governments for possible lapses *vis-à-vis* issue of Girdawaries should be ensured by making the State Governments a partner in the implementation of PSS Operations.*
- *NAFED should devise a mechanism for sample examination of procurement records *vis-à-vis* landholders' records by the State Governments, to ensure that the benefits of PSS operations reach the genuine farmers. Further, NAFED should conduct its own test-checks apart from the checks exercised by State Governments.*
- *Sufficient publicity of foreclosure of procurement should be made for maintaining transparency.*
- *NAFED should maintain the records for sampling of stock at the procurement and storage stages in future PSS operations.*
- *Concerted efforts should be made to conduct test-check of the records of warehouses to determine the genuineness of loss/gain of its stock on account of moisture content to have an adequate control over its storage operations.*

**Annex-I**

**(Referred to in paragraph 5.1.1)**

**Operational arrangements**

<b>Implementing agency</b>	<b>Major stages of PSS operations</b>
Ministry of Agriculture and Co-operation	Declaration of Minimum Support Price
National Agricultural Cooperative and Marketing Federation	Nodal agency for preparing action plan , arrangement of packing material, storage, movement plan of procured stock, insurance, disposal of procured stock and overall monitoring of the PSS operations
State Government	Providing input data on the expected production and support for the operations
State Level Cooperative Federation	Coordinating the procurement and storage operations in the State on behalf of NAFED and arrangement of transportation of procured stock
District Administration	Issuing directions for fixing upper limits for purchase of mustard seed as per FAQ and issue of documentary proof of land cultivation to the farmers
Primary Cooperative Marketing Society normally called Karaya Vikaray Sahakari Samiti (KVSS)	Procurement of mustard seed as per FAQ and follow-up of the instructions issued by the above agencies by setting up procurement centres

## Annex-II

(Referred to in paragraph 5.2)

## Details of procurement centres/branch offices of NAFED test-checked

Name of the State	Total procurement centres in the State	Procurement centres test checked in audit	Place of the procurement centre of KVSS in State/Branch Office of NAFED
Rajasthan	262	12	Newai, Toda Raisingh, Kekri, Ramganj Mandi(Kota), Attru, Swaimadhopur Mathania, Nagaur, Chittorgarh, Bhamashah Mandi(Kota), Sriganganagar, Hanumangarh
			Branch Offices of Jaipur and Sriganganagar
Haryana	48	6	Rewari, Bawal, Narnaul, Bhiwani, Pataudi, Tauru
			Branch Office, Chandigarh
Gujarat	32	6	Dhanera <sup>1</sup> and Morbi
			Branch Office, Ahmedabad
Madhya Pradesh	97	2	Sheopurkalan and Neemuch
			Branch Office, Indore
Delhi			NAFED HQ at Delhi
<b>Total</b>	<b>439</b>	<b>26</b>	

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<sup>1</sup> Five Societies at Dhanera

Annex-III

(Referred to in paragraph 5.2.2)

Excess purchase beyond limits fixed as per average yield

Place of procurement centre	No. of farmers	Average yield per Hectare as per Agriculture Department of State	Quantity of purchase from farmers	Quantity of purchase as per norms	Total quantity of excess purchase	Value of excess purchase (Rupees in lakh)
<b>(Quantity in quintals)</b>						
<b>Rajasthan<sup>2</sup></b>						
Sriganganagar	10	16.00	709.15	549.08	160.07	2.72
Hanumangarh	15	16.00	556.71	467.28	89.43	1.52
<b>Sub Total</b>					<b>249.50</b>	<b>4.24</b>
<b>Haryana</b>						
Rewari	98	15.00	4390.94	865.95	3524.99	59.92
Bawal	75	15.00	2857.65	1284.00	1573.65	26.75
Narnaul	245	12.50	9960.40	3028.75	6931.65	117.84
Bhiwani	196	12.50	11061.05	3894.01	7167.04	121.84
Pataudi	107	15.00	5601.33	1085.47	4515.86	76.77
Tauru	77	12.50	3309.00	735.00	2574.00	43.76
<b>Sub Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26287.19</b>	<b>446.88</b>
<b>Gujarat</b>						
Dhanera*	583	15.00	39057.88	17494.01	21563.87	366.59
Morbi	117	13.63	8131.40	2418.50	5712.90	97.12
<b>Sub Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27276.77</b>	<b>463.71</b>
<b>Madhya Pradesh</b>						
Neemuch	206	9.52	4074.64	1649.19	2425.45	41.23
Sheopur	145	14.00	10340.05	4344.80	5995.25	101.92
<b>Sub Total</b>	<b>0</b>		<b>69600.41</b>	<b>0</b>	<b>8420.70</b>	<b>143.15</b>
<b>Grand Total</b>	<b>1874</b>		<b>100050.20</b>	<b>37816.04</b>	<b>62234.16</b>	<b>1057.98</b>

<sup>2</sup> In Rajasthan, the district administration fixed the ceiling of productivity for procurement under PSS

\* Five societies at Dhanera

**Annex-IV**  
**Tampered Girdawaries in KVSS Kota**  
**(Referred to in paragraph 5.2.3)**

Sl. No.	Date of weighment as per purchase register	Names of farmers of village Rangpur	Area as per Patwari's Girdawari Register (In bighas by considering 6.25 bighas equal to one hectare)	Area after tampering of Girdawari issued to farmer (In bighas)	Difference in area of land (In bighas)	Quantity actually purchased (In quintals)	Quantity as per norms (In quintals)	Excess purchased (In quintals)
1	01.03.2005	Mohan Lal	5.69	18.19	12.50	74.80	22.76	52.04
2	05.03.2005	Hemraj	6.25	25.00	18.75	105.70	25.00	80.70
3.	07.03.2005	Chhatra	12.06	49.56	37.50	171.70	48.25	123.45
4.	08.03.2005	Vardhi Lal	8.88	40.13	31.25	141.76	35.52	106.24
5.	08.03.2005	Mangilal	4.19	41.69	31.25	185.30	16.76	168.54
6.	12.03.2005	Chhotulal	5.56	43.06	37.50	172.35	22.25	150.10
7.	12.03.2005	Parkash Chand	6.25	25.00	18.75	80.75	25.00	55.75
8.	12.03.2005	Chhatra	6.94	44.44	37.50	138.38	27.76	110.62
9.	17.03.2005	Gopal	6.25	39.06	32.81	80.73	25.00	55.73
<b>Total</b>								<b>903.17</b>

**Annex-V**

(Referred to in paragraph 5.2.4)

**Resident of the village but no mustard cultivated in their land as per patwari records**

<b>Name of the State</b>	<b>Place of procurement centre</b>	<b>No. of persons</b>	<b>Quantity of purchase from such persons (in quintals)</b>	<b>Value of mustard purchased from such persons (Rupees in lakh)</b>
Haryana	Rewari	25	1058.07	17.99
	Bawal	54	1707.50	29.02
	Pataudi	44	1547.11	26.30
	Tauru	28	962.65	16.37
Madhya Pradesh	Neemuch	309	5193.30	88.29
	Sheopur	239	10661.15	181.24
<b>Total</b>		<b>699</b>	<b>21129.78</b>	<b>359.21</b>

Annex-VI

(Referred to in paragraph 5.2.4)

Persons neither resident of those villages nor have any land in those villages

Place of procurement centre in Haryana	No. of persons	Quantity of purchase from such persons (in quintals)	Value of mustard purchased from such persons (Rupees in lakh)
Rewari	13	449.75	7.65
Bawl	219	6675.65	113.49
Narnaul	215	6141.40	104.40
Bhiwani	319	11845.60	201.38
Pataudi	14	487.21	8.28
Tauru	222	5707.80	97.03
<b>Total</b>	<b>1002</b>	<b>31307.41</b>	<b>532.23</b>

Annex-VII

(Referred to in paragraph 5.2.5)

Mustard seed traded in the local mandis

Sl. No.	Name of Krishi Upaj Mandi/Market Committee	June 2005 (Quantity in Quintal)	July 2005 (Quantity in Quintal)	August 2005 (Quantity in Quintal)	Rates per quintal (In Rs.)
1	Nagaur	8863	4941	3502	1473-1678
2	Chittorgarh	39642	333	135	1525-1600
3	Kota	74223	29504	27666	1475-1650
4	Sriganganagar	6412	7671	6262	1456-1700
5	Hanumangarh	1470	147	76	1473-1540
6	Newai	38600	19016	-	1485-1650
7	Madhopur	42595	18617	4764	1310-1650
8	Rewari	51398	10227	6555	1130-1702
9	Pataudi	82119	289	1879	1350-1700
10	Tauru	-	-	-	1350-1650
11	Bhiwani	22023	1379	372	1450-1570
12	Narnaul	17230	10298	2185	1450-1700
13	Neemuch	1099	493	469	1450-1750
14	Sheopurkalan	91956	28971	21549	800-1700
15	Morbi	-	11	7	1260-1700
16	Dhanera	44219	22202	12729	1426-1637
	<b>Total</b>	<b>521849</b>	<b>154099</b>	<b>88150</b>	
<b>Grand total</b>				<b>764098</b>	

**Annex-VIII**

**(Referred to in paragraph 5.3.1)**

**Status of sampling done at the procurement stage**

<b>Name of State</b>	<b>Total no. of procurement centres test-checked</b>	<b>Sampling status</b>
Rajasthan	2	Not done
Haryana	6	-Do-
Gujarat	7	-Do-
Madhya Pradesh	2	-Do-

**Annex-IX**

(Referred to in paragraph 5.3.2)

**Branch-wise position of surplus/shortage in warehouses**

<b>Name of Branch Office of NAFED</b>	<b>No. of warehouses showing surplus of stock</b>	<b>Total surplus (In quintals)</b>	<b>No. of warehouses showing shortage of stock</b>	<b>Total shortage (In quintals)</b>
Ahmedabad	26	11104.59	12	2472.58
Sriganganagar	25	18983.36	2	146.40
Indore	76	6234.67	27	1433.27
Jaipur	44	17501.30	31	12832.52
Chandigarh	53	7430.28	19	3612.15
<b>Total</b>	<b>224</b>	<b>61254.20</b>	<b>91</b>	<b>20496.92</b>

## Annex-X

(Referred to in paragraph 5.4.1)

## Non-forfeiture of security deposit

Place of Branch Office	Total No. of firms	Total tendered quantity (In quintals)	Total quantity lifted (In quintals)	Total time allowed for lifting of the quantity with extended period of 2 weeks (In days)	Actual time taken to lift the tendered quantity (In days)	Total delay in lifting of quantity (In days)	Amount of non-forfeiture of security deposit (In Rs.)
Ahmedabad	11	25402.00	23995.37	24	31-170	7-146	23919270
Indore	1(Ist bargain)	71000.00	24425.00	24	63(partly lifted)	39(Partly lifted)	5048524
	2 <sup>nd</sup> bargain with same firm	46495.00	14262.50	24	Till Audit (15.6.07)	NA	7978452
<b>Total</b>		<b>142897.00</b>	<b>62682.87</b>				<b>36946246</b>