



सत्यमेव जयते

**Report of the
Comptroller and Auditor General of India
on
Economic Sector
for the year ended March 2018**



लोकहितार्थं सत्यनिष्ठा

Dedicated to Truth in Public Interest



**Government of Karnataka
Report No. 3 of the year 2019**

**Report of the
Comptroller and Auditor General of India
on
Economic Sector**

for the year ended March 2018

**Government of Karnataka
Report No. 3 of the year 2019**

TABLE OF CONTENTS

	Paragraph Number	Page Number
Preface		iii
Chapter 1 - Introduction		
About this report	1.1	1
Auditee profile	1.2	1
Authority for audit	1.3	2
Planning and conduct of audit	1.4	3
Significant audit observations	1.5	3
Performance Audit on Implementation of Textile Policy 2013-18	1.5.1	4
Performance Audit on Agricultural Marketing Reforms in Karnataka	1.5.2	4
Thematic Audit on Diversion of forestlands and Functioning of Karnataka State Compensatory Afforestation Fund Management and Planning Authority	1.5.3	6
Compliance Audit	1.5.4	7
Lack of responsiveness of the Government to Audit	1.6	8
Response of Departments to the Draft Paragraphs	1.6.1	8
Follow-up on Audit Reports	1.6.2	8
Paragraphs to be discussed by the Public Accounts Committee	1.6.3	9
Chapter 2 – Performance Audit		
COMMERCE AND INDUSTRIES DEPARTMENT (HANDLOOMS & TEXTILES)		
Implementation of Textile Policy 2013-18	2.1	13
CO-OPERATION DEPARTMENT		
Agricultural Marketing Reforms in Karnataka	2.2	46
Chapter 3 – Compliance Audit		
AGRICULTURE & HORTICULTURE DEPARTMENT (SERICULTURE)		
Parking of funds in violation of rules	3.1	95
FOREST, ECOLOGY & ENVIRONMENT DEPARTMENT		
Diversion of forestlands and Functioning of Karnataka State Compensatory Afforestation Fund Management and Planning Authority	3.2	97

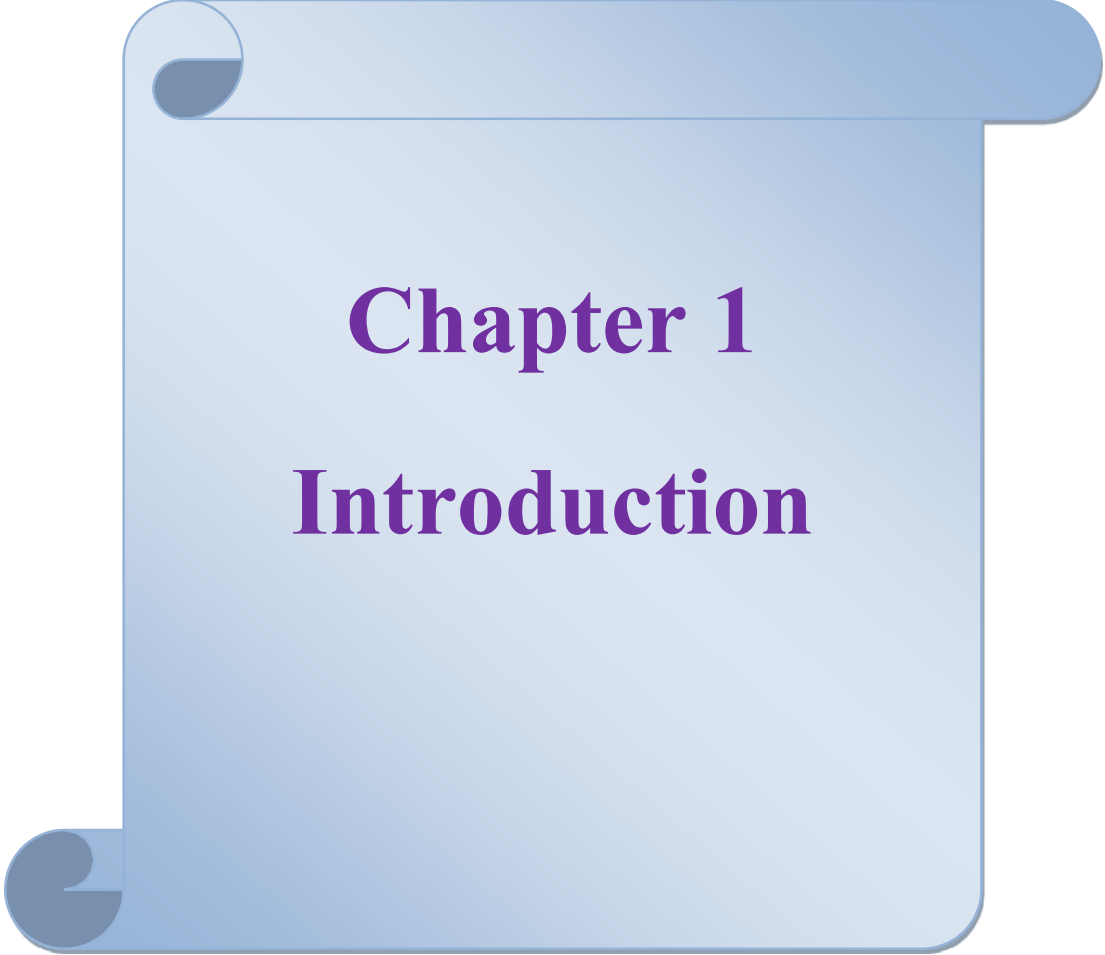
MINOR IRRIGATION & GROUND WATER DEVELOPMENT DEPARTMENT		
Irregularities in execution of works	3.3	120
Unfruitful expenditure due to incomplete projects	3.4	126
PUBLIC WORKS, PORTS AND INLAND WATER TRANSPORT DEPARTMENT		
Payment to Contractors in contravention of agreement	3.5	132
Undue benefit to contractor	3.6	136
Excess payment to the contractor	3.7	138

LIST OF APPENDICES

Appendix No.	Details	Page No.
1.1	Details of Departmental Notes pending as of September 2018	145
1.2	Number of paragraphs/Reviews yet to be discussed by PAC as of September 2018	146
2.1	Incentive packages offered to M/s Himmatsingka Seide	147
2.2	Spinning Mills in Co-operative Sector	148
2.3	Statement showing low market arrivals compared to marketable surplus	149
3.1	Time-line for CAMPA	150
3.2	Statement showing details of cases of diversion of forestland (in 10 test-checked divisions)	151
3.3	Details of forest area used for Non-forest purposes without prior approval of Central Government	154
3.4	Non-renewal of lease for diversion of forests	155
3.5	Progress in resumption of diverted forest areas	156
3.6	Deviation from Annual Plan of Operations	157
3.7	Short recovery of CA and other charges	158
3.8	Cases of non-implementation of stipulations	159

PREFACE

1. This Report for the year ended March 2018 has been prepared for submission to the Governor of Karnataka under Article 151 (2) of the Constitution of India for being laid in the State Legislature.
2. The Report contains findings of Performance Audit on the “Implementation of Textile Policy 2013-18” and on “Agricultural Marketing Reforms in Karnataka” and significant results of the Thematic and Compliance Audit of the Departments of the Government of Karnataka under the Economic Services, including Departments of Commerce and Industries, Co-operation, Forest, Ecology & Environment, Public Works, Ports & Inland Water Transport and Minor Irrigation & Ground Water Development. Observations related to Department of Agriculture and allied activities, Food Security – Public Distribution System/Civil Supplies, Rural Development and Panchayat Raj are excluded and covered in the Report on the General and Social Services.
3. The instances mentioned in this Report are among those, which came to notice in the course of audit for the year 2017-18 as well as those, which came to notice in earlier years, but could not be reported in previous Audit Reports.
4. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.



Chapter 1
Introduction

Chapter 1

Introduction

1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from the Performance Audit of selected programmes and activities and Compliance Audit of Government Departments and Autonomous Bodies under Economic Sector.

Compliance Audit refers to examination of the transactions of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the Compliance Audit and follow-up on previous Audit Reports. Chapter-2 of this Report contains findings arising out of Performance Audits of 'Implementation of Textile Policy 2013-18' and 'Agricultural Marketing Reforms in Karnataka'. Chapter-3 contains observations of a Thematic Audit on 'Diversion of forestlands and Functioning of Karnataka State Compensatory Afforestation Fund Management and Planning Authority' and Compliance Audit in the Government Departments and Autonomous Bodies.

1.2 Auditee Profile

The Accountant General (Economic & Revenue Sector Audit), Karnataka, Bengaluru, conducts audit of 12 Departments and 25 Autonomous Bodies under the Economic Sector in the State. The Departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them.

The summary of fiscal transactions of the Government of Karnataka during the year 2016-17 and 2017-18 is given in **Table 1.1** below:

Table 1.1: Summary of fiscal transactions

(₹ in crore)

Receipts			Disbursements		
	2016-17	2017-18		2016-17	2017-18
Section A: Revenue					
Revenue receipts	1,33,213.79	1,46,999.65	Revenue expenditure	1,31,920.75	1,42,482.33
Tax revenue	82,956.13	87,130.38	General services	31,264.56	34,484.44
Non-tax revenue	5,794.53	6,476.53	Social services	54,549.24	58,652.35
Share of Union taxes/duties	28,759.94	31,751.96	Economic services	40,421.37	42,855.78
Grants-in-aid & contributions from GoI	15,703.19	21,640.78	Grants-in-aid & contributions	5,685.58	6,489.76
Section B: Capital and others					
Miscellaneous Capital receipts	26.96	3.70	Capital outlay	28,150.43	30,666.76
			General services	1,060.39	977.45
			Social services	6,896.84	8,676.76
			Economic services	20,193.20	21,012.55
Recoveries of loans & advances	99.84	136.93	Loans & advances disbursed	1,934.38	5,092.22
Public Debt receipts	31,155.92	25,121.86	Repayment of Public Debt	7,420.24	8,269.16
Contingency Fund	-	-	Contingency Fund	-	-
Public Account Receipts	1,79,318.45	2,00,615.43	Public Accounts disbursements	1,67,153.81	1,94,536.63
Opening Cash Balance	27,118.23	34,353.58	Closing cash balance	34,353.58	26,184.05
TOTAL	3,70,933.19	4,07,231.15	TOTAL	3,70,933.19	4,07,231.15

(Source: Finance Accounts 2017-18)

1.3 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. C&AG conducts audit of expenditure of the Departments of the Government of Karnataka under Section 13¹ of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of four Autonomous Bodies, which are audited under sections 19(2)², 19(3)³ and 20(1)⁴ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 25 other Autonomous Bodies, under Section 14⁵ of C&AG's (DPC) Act, which

¹ Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts.

² Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

³ Audit of accounts of Corporations established by law made by the State Legislature on the request of the Governor.

⁴ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government.

⁵ Audit of all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and with the previous approval of the Governor of the State and audit of all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated fund of the State in a financial year is not less than ₹ one crore.

are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

Under the directions of the C&AG, the Office of the Accountant General (E&RSA), Karnataka, conducts audit of Government Departments/Offices/Autonomous Bodies/Institutions under them which are spread all over the State.

1.4 Planning and conduct of Audit

Audit process starts with the assessment of risks faced by various Departments of the Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of units, Inspection Reports containing audit findings are issued to the heads of the Departments. The Departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 (2) of the Constitution of India for submission before the State Legislature.

During 2017-18, in the Economic Sector Audit Wing, 1,311 party-days were utilised to carry out audit of 152 units.

1.5 Significant audit observations

In the last few years, Audit had reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in selected Departments, which impacted the success of programmes and functioning of the Departments. Similarly, the deficiencies noticed during thematic and compliance audit of the Government Departments/organisations were also highlighted.

The present report contains two Performance Audits; one on 'Implementation of Textile Policy 2013-18' and another on 'Agricultural Marketing Reforms in Karnataka'. The report also contains one Thematic Audit on 'Diversion of forestlands and Functioning of Karnataka State Compensatory Afforestation Fund Management and Planning Authority' and six Compliance Audit paragraphs. The significant audit observations are summarised below:

1.5.1 Performance Audit on “Implementation of Textile Policy 2013-18”

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 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. 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.

(Paragraph 2.1)

1.5.2 Performance Audit on “Agricultural Marketing Reforms in Karnataka”

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 liberalize 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 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 unique selling proposition 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. Besides, warehouse-based sales had not taken off yet.

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*/KIADB. 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. GoI had not reimbursed ₹ 656.06 crore towards MSP 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.

(Paragraph 2.2)

1.5.3 Thematic Audit on “Diversion of forestlands and Functioning of Karnataka State Compensatory Afforestation Fund Management and Planning Authority”

‘Compensatory Afforestation’ is a mechanism to compensate for the loss of forests by planting trees elsewhere in lieu of diversion of forest for non-forest purposes approved under the provisions of Forest (Conservation) Act, 1980. The series of directives from the Supreme Court resulted in imposition of levies on the project proponent and culminated in the formation of a separate fund by the Central Government for carrying out Compensatory Afforestation and related activities in a systematic manner.

Our test-check of records showed deficiencies in the areas of approval or renewal of lease for diversion of forestlands (7,785.07 ha⁶) in contravention of provisions of the FC Act. Several projects were allowed to be executed by the Department, though prior approval of the Central Government was not taken in spite of that being mandatory. These projects were primarily undertaken by agencies belonging to the Government. Cases of short and non-levy of stipulated charges aggregating to ₹ 34.64 crore were also noticed. Due importance was not accorded for mutation and final notification of non-forestland as Reserved or Protected Forests.

As per MoEF guidelines, only lands suitable for afforestation should be accepted by the Department as compensation for the diverted forestland. But 997.28 ha of unsuitable lands were accepted and consequently Compensatory Afforestation in these lands could not be done. Success indicators of the plantations raised were not recorded in the Plantation Journals despite it being a mandatory stipulation and effectiveness of afforestation measures undertaken was not ensured by the Department. The absence of data made results unverifiable in Audit.

Annual Plan of Operations deduced from the Working Plan should be the basis for carrying out works but these were deviated in 10 cases without prior approval from the Competent Authority. Dwarf/medicinal species were required to be planted in the Windmill Project areas as per the APO but tree species were planted in violation of stipulations.

⁶ 320.88 ha+ 475.77 ha + 45.10 ha + 4,443.32 ha + 2,500 ha (Ref para Nos 3.2.2.2 to 3.2.2.4).

The Department did not engage any agency for independent concurrent monitoring and evaluation of Compensatory Afforestation works though CAMPA guidelines stipulate for compulsory evaluation study.

Though the Department complied with the rules and regulations, certain deviations/violations were noticed in the test-checked divisions, as shown in this report. The major areas of concern were those related to use of forest land for non-forest purposes without approval, acceptance of non-suitable lands for afforestation, not recording survival results in plantation journals, resorting to ratification of works executed in deviation and ignoring concurrent evaluation by third party consultants. These need closer attention and suitable corrective actions from the Departments to ensure that the spirit of the FC Act, as endeavoured to be upheld through CAMPA, is not completely lost.

(Paragraph 3.2)

1.5.4 Compliance Audit

Audit had reported on several significant deficiencies in critical areas which impacted the effective functioning of the Government Departments. These are as under:

Government in violation of financial rules released ₹ 19.89 crore to a Society for implementation of a Government of India Scheme of which a major portion of the amount remained unutilised. The Society kept funds in Savings Bank account instead of Flexi-Deposit account, resulting in loss of interest of ₹ 110.76lakh due to lower rate of interest.

(Paragraph 3.1)

The Minor Irrigation & Ground Water Development Department approved action plan for ₹ 90.95 crore towards repair to feeder canal and digging of boundary trenches in respect of 2,259 minor irrigation tanks in the State.

The expenditure of ₹ 25.40 crore spent in 10 test-checked Divisions towards repairs to feeder canals lacked justification, as the veracity of justification mentioned in the estimates were not cross-checked by the Controlling Officers. Excavation of boundary trenches for 2,259 tanks at ₹ 48.09 crore without clearance from the statutory authority was infructuous and was avoidable. The adoption of incorrect rates for excavation of boundary trenches not only boosted the estimates but also facilitated undue benefit to the contractors. Injudicious action of the EE in rejecting the lowest bids offered by Class-I contractors resulted in extra burden of ₹ two crore to the State Exchequer.

(Paragraph 3.3)

(i) Defective estimation, slippages in monitoring and unauthorised execution of works lead to inordinate delay in completion of four Lift Irrigation Schemes besides unproductive outlay of ₹ 17 crore. (ii) Failure to obtain Forestry

Clearance prior to entrustment of works and non-prioritisation of items of work resulted in unfinished projects, rendering an expenditure of ₹ 5.19 crore unfruitful.

(Paragraph 3.4.1 & 3.4.2)

(i) The Project Director paid ₹ 13.62 crore in contravention of Concession Agreement while making payment for first annuity installment in respect of State Highway Improvement Project.(ii) Incorrect adoption of date of completion of work resulted in short levy of ₹ 4.90 crore towards delay damages in a road construction contract.

(Paragraph 3.5.1 & 3.5.2)

Adoption of uneconomical rates in estimate and improper regulation of rates for excavation items coupled with short levy of liquidated damages had resulted in undue benefit of ₹ 11.14 crore to the contractor in a building construction contract.

(Paragraph 3.6)

(i) Overpayment of ₹1.29 crore was observed due to treatment of an item of work as variation item contrary to conditions of contract and also for undertaking excavation beyond the required depth.(ii) Ignoring the provisions of agreement, the Divisional Officer paid ₹ 98.97 lakh towards price adjustment for ineligible period and for items which were already included in the tender.

(Paragraph 3.7.1 & 3.7.2)

1.6 Lack of responsiveness of the Government to Audit

1.6.1 Response of departments to the Draft Paragraphs

Two Performance Audits, one Thematic Audit and six draft paragraphs were forwarded demi-officially to the Additional Chief Secretaries/Principal Secretaries/Secretaries of the Departments concerned between April and August 2018 to send their responses within four weeks. The Government replies for one Performance Audit and three draft paragraphs featured in this Report were received. The Government replies in respect of another Performance Audit, Thematic Audit and three draft paragraphs are awaited. The replies received are suitably incorporated in the Report.

1.6.2 Follow-up on Audit Reports

The Rules of Procedure (Internal Working), 1999, of the Public Accounts Committee provides that all the Departments of the Government should furnish detailed explanations in the form of Departmental Notes to the observations in Audit Reports, within four months of their being laid on the Table of Legislature to the Karnataka Legislature Secretariat with copies thereof to Audit Office.

The Administrative Departments did not comply with these instructions and 10 Departments (as detailed in **Appendix 1.1**) did not submit Departmental Notes for 19 paragraphs for the period from 2003-04 to 2016-17 (as of September 2018).

1.6.3 Paragraphs to be discussed by the Public Accounts Committee

Details of paragraphs pending discussion by the Public Accounts Committee as of September 2018 are given in **Appendix 1.2**. There are 188 paragraphs relating to the Audit Reports of various years from 1992-93 to 2016-17 pending for discussion in Public Accounts Committee. Delay in discussion or non-discussion of paragraphs may result in erosion of accountability of the Executive.

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 BESCO 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 Karnataka the 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 sectors⁸. 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 lakh⁹ Handloom weavers and 1.28 lakh¹⁰ Powerloom weavers.

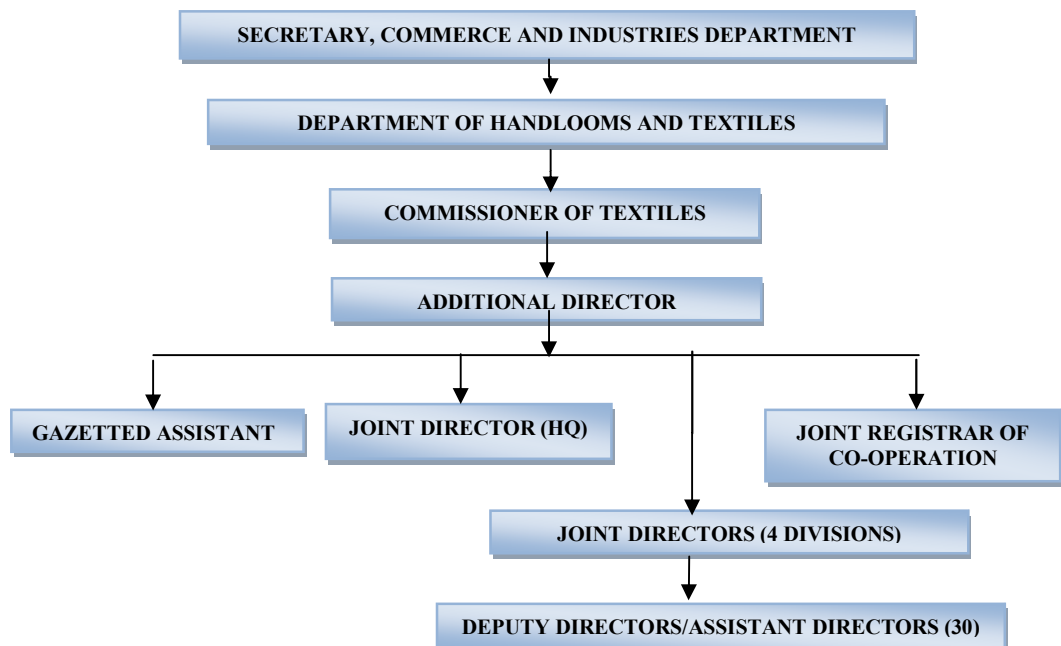
To realise the vision and objectives of the Department to attract investment in the Textile sector and make use of the resources available in the State, the Government of Karnataka has been bringing out a 'Textile Policy' since 2004 (the first Policy was during 2004-2009). In turn, this enhances the 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

The Department 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 planning for implementation was in place and the Policy was implemented effectively?
- ❖ Whether adequate funds were provided and utilised efficiently?
- ❖ Whether internal control and monitoring mechanisms were adequate and functioned effectively?

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 Reports of 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 Directors¹¹ 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 the 2009-10 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 data could 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

SI 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 the new 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 were trained 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 ambitious target 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 projects by 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 on 31 March 2018. Twenty-two projects 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	Invnt	Emp	Proj	Invnt	Emp	Proj	Invnt	Emp	Proj	Invnt	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, Invnt: 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 Textiles stated (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 primary reason for delay in payment of incentives/subsidies.

The Commissioner of 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, zones¹² 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 as ground for relaxation of norms as the eligibility for granting concession/incentives was specific to the project and its location.

On the other hand, in respect of 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 crore¹³. 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, since the Government 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 crore¹⁴ (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		Term Loan: ₹ 1,024 crore			
Plant and Machinery: ₹ 1,154 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. This was 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 quite unthinkable 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 using imported 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 the Company 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 only for sanction of ₹ 114.05 crore of incentives/concessions and the special 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 assistance¹⁵ 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 the Action Plan for the year 2015-16. The lands for establishing these Textile Parks were already acquired by KIADB¹⁶. 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 had done a proper assessment of availability of raw material/manpower and prominence of textile activities before 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 fructified as 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 Commissioner of 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 make the Textile 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 ₹ 5.01 crore 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, and with 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) a further 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 Commissioner of 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. This also 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 Commissioner of 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 entire liability. 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 Commissioner of 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 shed¹⁸” 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 feet and 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 remained incomplete 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 construction had 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 Commissioner of 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 utilising the ₹ 50 crore. No data regarding the number of people engaged in Handloom sector was 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 the Federation for the

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 now working. This reduction in production, as well as workforce, 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.	Year	Cotton				Working handlooms (in number)
		Supply of yarn		Fabric produced		
		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 Commissioner of 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 beneficial in 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 with E-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 now under 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 revive and strengthen 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 Mills²⁰ 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 Commissioner of Textiles had not concluded MOU with any of the spinning mills so far. In response to an audit query (August 2018), the Commissioner of

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 SITRA²¹ 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 Commissioner of 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 to close 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 Textiles replied (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 314²² 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 paid at ₹6,000 per trainee and private SDCs at ₹ 7,500 per trainee. These rates were revised to ₹ 9,500 and ₹ 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 Commissioner of 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 Departmental Undertakings, two viz. Karnataka Handloom Development Corporation and M/s Karnataka State Textile Infrastructure Development Corporation Limited are under Audit jurisdiction while 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 of handloom products, supply of looms, supply of raw material to the weavers and also to implement State Sector Schemes. The Company was serving 10,219 weavers²³ (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)

SI 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 rebate²⁵ to consumers for 180 days. The Company did not ascertain the reasons for the declining sales.

The Commissioner of 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 Textiles replied (October 2018) that action had been taken to get the schemes evaluated by TECSOK²⁶, 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 electricity 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.

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 Vehicle²⁸ 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 Committee Act 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 avenue²⁹ 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 APMCs³⁰ and their Sub-Markets. An Enforcement Cell was also established to prevent unauthorized trade transactions in the APMC areas. To supervise civil works at the field level, there are four Zonal Divisions³¹ 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 and Mysuru.

The agricultural marketing structure comprises:

- ❖ **Agricultural Produce Marketing Committees (APMCs)** –These were 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 Board³² 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 Fund³³”.
- ❖ **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;

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 1 April 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 13³⁴ 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, proforma, 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, Tumakuru and Uttara 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-2013³⁵ was to create a new market structure leveraging Information Technology, promote private participation, create new infrastructure facilities, improve capacity building of various stakeholders apart from suitably amending the provisions of the APMC Act and 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 Council³⁶ 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 plans for smooth implementation of reforms.
- ❖ The two Committees³⁷ 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.

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 infrastructure³⁸ 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 ₹ 27.41 crore 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 for assaying, 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 operations⁴⁰. 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

SI 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 – The trades were localised to the local <i>mandis</i> .	Integrated markets – The integration 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 weighing was prone to malpractices.	Electronic weighing – Ensures correct weighing 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 reforms were ‘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 160⁴¹ *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 <i>mandis</i> installed with UMP	No. of <i>mandis</i> 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-trading⁴² 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 the sub-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 commodity⁴⁴ 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 Table 2.20, 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 importance was 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 would facilitate the unification of markets, allowing the traders to bid from distant 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 providers⁴⁷. 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;

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.

2.2.7.6 Facilities 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 facilities⁴⁸ 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* still in practice even in those *mandis* where assaying and grading facilities⁴⁹ 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 report⁵⁰ 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 terms⁵¹. Notwithstanding the above, comparison of prices realised on the UMP with Minimum Support Price⁵² (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 for a 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 interventions⁵⁴ by the Government might become necessary 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, GoK also moved ahead by amending the State Act, in line with the 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 *inter alia* 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 the GoK 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 fee⁵⁵ 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 three⁵⁶ *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 markets⁵⁷ 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) licensee 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 licensee 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 Market Complex (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 markets with 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 *inter alia* 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 licensee 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 licensee⁵⁸ 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 licensee 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 to 12th 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 case⁵⁹, 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 issued despite 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 (8th September 2015);

- ❖ DPC licence for additional commodities like Soya, Maize, Groundnut and Chilly was issued to M/s Tavaasmi Cotton and Agro industries Pvt Ltd, which had 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 was thus 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 Department showed 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 (**Appendix 2.3**). 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 provide any 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 infrastructure⁶⁰ is that of the *mandis* concerned. Generally, developmental works within *amandi* 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 be taken 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*, weighbridges were 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 during 2017-18 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 Report⁶¹ 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 one in 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.

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 2021-22. 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 being spent 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 Scheme⁶²” (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 RF managed 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 a procurement 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 districts⁶³ 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 from the 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 of the 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.

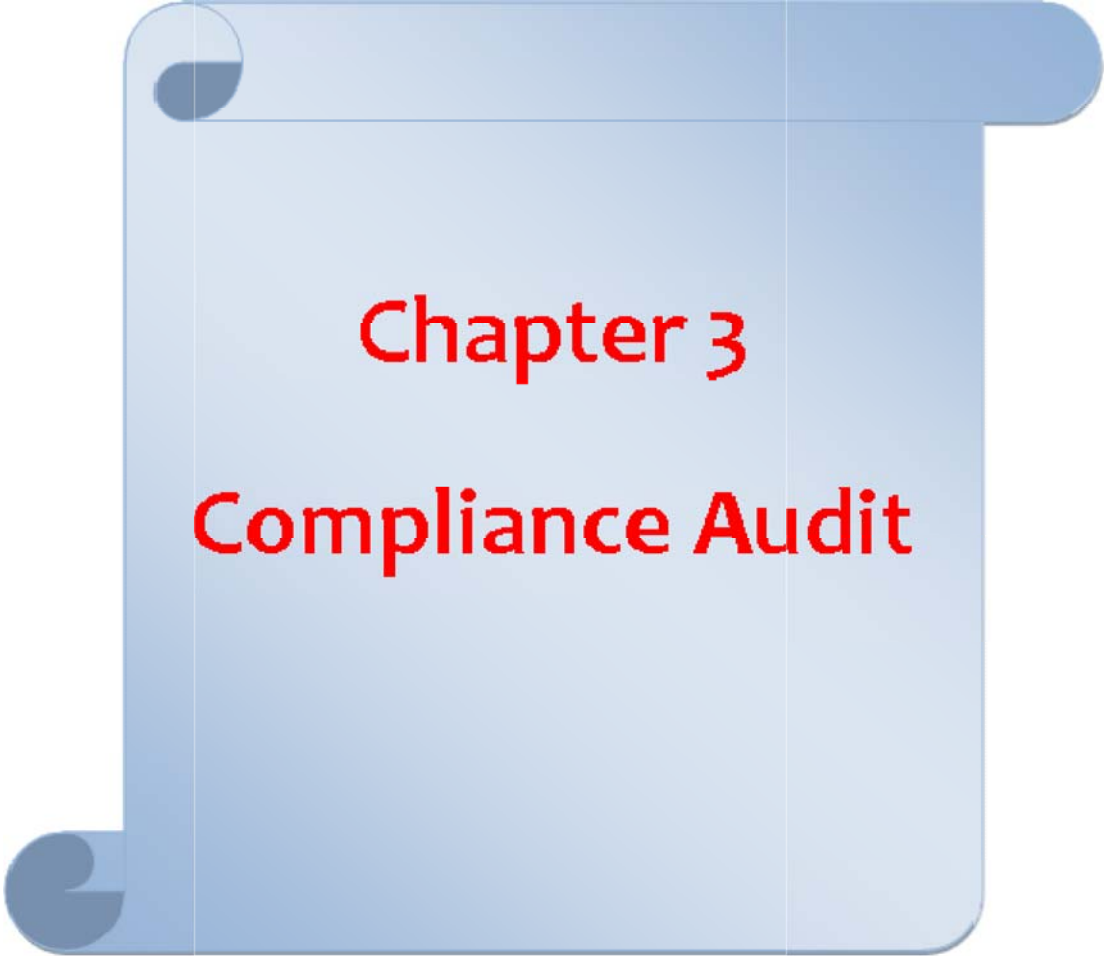
Broad basing of markets to enable the farmer sell his farm produce through alternate markets like Private Markets, Direct Purchase Centres, warehouse-based sales, Commodity Specific Parks, *etc.* had not yielded the desired

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.



Chapter 3
Compliance Audit

CHAPTER 3

COMPLIANCE AUDIT

Compliance Audit of the Economic Sector departments, their field formations as well as that of the autonomous bodies brought out instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These are presented in the succeeding paragraphs:

AGRICULTURE & HORTICULTURE DEPARTMENT (SERICULTURE)

3.1 Parking of funds in violation of rules

The Karnataka State Sericulture Research and Development Institute (KSSRDI) was primarily established to undertake research activities in sericulture and to find solutions for identified thrust areas. The Government released funds to KSSRDI in two installments (March 2015 & March 2016) for implementation of end-to-end computerisation project not related to research activity. During 2017-18, the Commissioner of Sericulture was only planned for audit and the progress of the implementation of the project was reviewed.

Government in violation of financial rules released ₹ 19.89 crore to a Society for implementation of a Government of India Scheme of which a major portion of the amount remained unutilised.

As per Karnataka Financial Code⁶⁴ and Karnataka Budget Manual⁶⁵, no money should be drawn from the Treasury unless the occasion so demands and no money on any account is to be drawn in advance of requirements or transferred to deposit accounts as a reserve in order to prevent it from lapsing so as to utilise the funds in subsequent financial years. The money which is not required for immediate use should be surrendered to the Government account forthwith for re-appropriation. Grants which could be spent during the financial year only should be released as Grant-In-Aid (GIA) and there should be no occasion for a rush for payment of these grants in the month of March.

Government of Karnataka (GoK) released (30 March 2015) ₹ 15.54 crore to the Commissioner of Sericulture, Bengaluru (Commissioner) for further release to the Director, Karnataka State Sericulture Research and Development Institute (KSSRDI) (a Society) as GIA. The Commissioner released the amount on the same day for implementation of Rashtriya Krishi Vikas Yojane (RKVY), a Government of India (GoI) scheme. In October 2015, GoK accorded administrative approval with an outlay of ₹ 26.44 crore for end-

⁶⁴ Article 15 and 161.

⁶⁵ Rule 230, 231 and 234.

to-end computerisation of Sericulture Department for implementation by KSSRDI. Against this, KSSRDI spent ₹ 4.39 crore between 2015-16 and 2017-18. In February 2016, the Government sanctioned ₹ 4.35 crore under RKVY and the amount was released to KSSRDI during March 2016. KSSRDI kept the GIA in Savings Bank (SB) account and unutilised amount of ₹ 17.42 crore⁶⁶, including interest earned, was also held in SB account, as of October 2018.

However, the tender for the computerisation project did not fructify as the lowest tender amount (₹ 63.78 crore) was very high compared to the amount put to tender (₹ 26.44 crore). Hence, the Tender Approving Authority rejected (May 2017) the bids and instructed to prepare a revised DPR. The Commissioner prepared a revised DPR for an amount of ₹ 62.21 crore and the approval of the Government is awaited (March 2018). KSSRDI could not utilise the entire funds and an amount of ₹ 17.42 crore was still parked in SB account (October 2018).

Scrutiny (October 2017) of records in the Office of the Commissioner showed non-observance of rules, misrepresentation of facts and lack of financial propriety, which are discussed below:

- ❖ The purpose of the GIA and the time period within which this should be utilised, required as per rules, were not specified in the order releasing GIA. The Government released the funds at the end of the financial year on two occasions only to avoid lapse of grants;
- ❖ The Commissioner furnished Utilisation Certificate (UC) to GoI stating that the funds were utilised for the purposes despite the amounts remaining unutilised in SB account. Audit scrutiny revealed that KSSRDI, being the implementing agency, had not furnished the UCs to the Commissioner. Thus, the action of Commissioner furnishing UCs to GoI was highly irregular and tantamount to misrepresentation of facts; and
- ❖ KSSRDI did not surrender the grants to the Government despite non-utilisation and the amount was parked in SB account. Incidentally, GoK had issued (January 2017) instructions to keep funds in sweep-in sweep-out accounts (combination of demand deposit and fixed deposit account offering both liquidity and higher rate of interest) only. The Society did not review its decision in conformity with the instructions by the Government and continued with SB account which had resulted in loss of interest income by ₹ 110.76 lakh⁶⁷.

⁶⁶ Inclusive of interest of ₹ 1.61 crore earned in SB account.

⁶⁷ Interest calculated for Flexi Deposit account for ₹ 16.71 crore available in account on February 2017 (8.5% as per SBI) – ₹ 213.07 lakh (A);
Interest earned from SB account from February 2017 - ₹ 102.31 lakh (B);
Loss = (A) minus (B) = ₹ 110.76 lakh.

The matter was reported to the Government in February 2018 and the Government stated (September 2018) that neither the Government nor the Department of Sericulture had directed the KSSRDI to deposit the amount in fixed deposits.

FOREST, ECOLOGY & ENVIRONMENT DEPARTMENT

3.2 Diversion of forestlands and Functioning of Karnataka State Compensatory Afforestation Fund Management and Planning Authority

3.2.1 Introduction

The Forest (Conservation) Act, 1980 was enacted by the Government of India to regulate and control the diversion of forestland for non-forest purposes. The approval to transfer forestland is granted by the Government of India subject to payment of Net Present Value (NPV), raising of Compensatory Afforestation (CA) in an equivalent non-forestland or double the area in degraded forestlands. The cost towards CA is collected from the User Agency⁶⁸. Forestland to an extent of 29,431.94 hectares had been diverted in the State for non-forest purposes up to March 2018. Forest (Conservation) Act, 1980 and Rules/guidelines made thereon intend to conserve forests by taking up Compensatory Afforestation in equivalent non-forestland/double degraded forest area and also address the environmental damage caused by diversion of forests through certain conditions/stipulations.

As per the instructions of the Supreme Court, Ad-hoc CAMPA was formed in May 2006, the guidelines for State CAMPA were issued in July 2009 while the Compensatory Afforestation Fund Act, 2016 came into effect from August 2016. The State CAMPA followed the guidelines issued during July 2009. The timeline of events in this regard has been illustrated in **Appendix 3.1**.

The Principal Chief Conservator of Forests⁶⁹ is the overall administrative head of the Karnataka Forest Department. With reference to diversion of forests for non-forest purposes, the Additional Principal Chief Conservator of Forests (APCCF), Forest Conservation (FC), is the nodal officer in the State.

The State CAMPA has a three-tier structure i.e., a *Governing Body* headed by the Chief Minister for Policy making, a Steering Committee headed by the Chief Secretary for approval of Annual Plan of Operations, monitoring utilisation of funds, *etc.* and an Executive Committee headed by the Principal Chief Conservator of Forests for preparation of APOs, supervision of works,

⁶⁸ Project proponent.

⁶⁹ Principal Chief Conservator of Forests (Head of Forest Force).

etc. The implementation of activities under CAMPA is taken up by the State Forest Divisions.

The Audit Objectives of this Thematic Audit were to assess whether;

- ❖ The diversion of forests for non-forest purposes was approved by the Competent Authority and conditions stipulated thereon were complied with; and
- ❖ Compensatory Afforestation and other activities were taken up by the State CAMPA as per instructions and guidelines issued.

The following are the sources of criteria for this Thematic Audit;

- Forest (Conservation) Act, 1980;
- Forest (Conservation) Rules, 2003;
- Karnataka Forest Act 1963; and Karnataka Forest Account Code, 1976;
- Orders of the Supreme Court on Compensatory Afforestation and CAMPA; and
- Guidelines issued by Ministry of Environment, Forests and Climate Change (MoEF), Ad-hoc CAMPA & Government of Karnataka (GoK) regarding CAMPA and plantation works.

Audit was conducted between January and July 2018 covering the period 2013-14 to 2017-18. A sample covering two⁷⁰ offices of Additional Principal Chief Conservator of Forests, 10⁷¹ out of 39 Territorial Divisions, two⁷² out of six Working Plan Units, two⁷³ out of seven Training Institutes, one⁷⁴ out of five Research Units and one⁷⁵ out of three Zoos, was selected by simple random sampling for test check of records. An Entry Meeting was held on 19 February 2018 and Exit Meeting was held on 2 November 2018.

Audit findings

Audit examined adherence to various rules and regulations by the Department towards the objectives and significant audit findings are brought out in the following paragraphs.

⁷⁰ APCCF (CAMPA) and APCCF (Forest Conservation).

⁷¹ Ballari, Belagavi, Bidar, Chikkamagalur, Chitradurga, Gadag, Kolar, Madikeri, Mangaluru and Yellapura.

⁷² Dharwad and Mysuru.

⁷³ Gungargatti and Ilawala.

⁷⁴ Chief Conservator of Forests (Research), Bengaluru.

⁷⁵ Bannerghatta Biological Park.

3.2.2 Diversion of forestland

During the period covered in Audit (2013-18), 105 cases of diversions were approved aggregating to an area of 817.83 ha in the entire State. Audit noticed shortfall in raising Compensatory Afforestation (CA) and unauthorised usage of forestlands which are discussed in the succeeding paragraphs.

3.2.2.1 Shortfall in raising Compensatory Afforestation

Between 2013 and 2018, there were 30 cases of diversion (29 *per cent*) in the ten test-checked divisions, where 410.17 ha of forestland was approved by MoEF for non-forest purposes and equivalent non-forestland/degraded land was received *in lieu* for the purpose of CA.

Audit scrutiny showed that the final notification for declaring the non-forest land taken for CA as Reserve Forest (RF) was outstanding in all cases and 171.14 ha of non-forest land received as compensatory land was not yet mutated. The details are shown in **Appendix 3.2**. The short recovery of CA charges is discussed in Paragraph 3.2.4.1.

For diversion of forest area for non-forest purposes, CA shall be done over an equivalent area of non-forestland⁷⁶ or twice the extent of forest area in degraded forestland or as stipulated by the MoEF/GoI. The raising of CA is one of the major stipulation to offset the loss of forestland.

In the test-checked divisions, CA was not raised as stipulated by the MoEF and shortfall in raising CA was to the extent of 33.60 *per cent*. The overall shortfall in raising CA for the entire State during 2013-18 was to the extent of 51 *per cent*. The details are given in **Table 3.1**.

Table 3.1: Shortfall in taking up compensatory afforestation

For 30 cases in 10 Test Checked Divisions		All cases of diversion 105 cases during audit period	
Total forest diversion as of March 2018	410.17 ha	Total forest diversion as of March 2018	817.83 ha
Total Compensatory Afforestation Stipulated by MoEF while according approval	470.22 ha	Total Compensatory Afforestation Stipulated by MoEF while according approval.	911.13 ha
Total Compensatory Afforestation raised	312.39 ha	Total Compensatory Afforestation raised	449.57 ha
Shortfall	157.83 ha (33.56%)	Shortfall	461.56 (50.65%)

No reasons for shortfall in achievement in raising CA were on record. The non-taking up of afforestation even after collecting the statutory charges for the purpose of raising plantations defeated the objective of compensatory

⁷⁶ Paragraph 3.2 (i), (iii) of guidelines issued on FC Act.

afforestation. In the exit meeting, the Department assured to look into the matter for taking necessary action.

3.2.2.2 Usage of forestland for non-forest purposes without prior approval

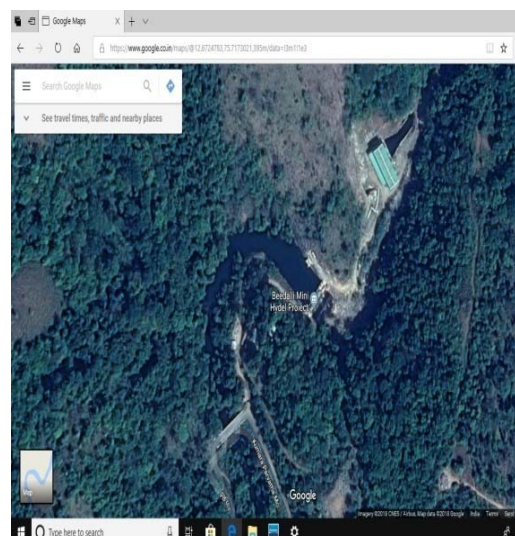
The Central Government accords approval for diversion of forestland for non-forest purposes in two stages. In Stage I, the proposal shall be agreed to in-principle, in which the conditions relating to transfer, mutation and declaration of equivalent non-forestland as RF or Protected Forest (PF) under the Indian Forest Act for CA thereon are usually stipulated. After receipt of the compliance report from the State Government in respect of the stipulated conditions, formal approval (Stage II) under the Act shall be issued. Forestlands cannot be used for non-forest purposes without the prior approval of the Central Government and hence use of such forestlands when the proposal is under the process of consideration is not appropriate. The Department should take action against the violators for unauthorised occupation of forestlands by registering Forest Offence Case and reclaim the land.

Scrutiny of records revealed that in seven out of 10 test-checked divisions, 320.88 ha of forestland in 15 cases was being used by different entities for non-forest purposes without approval from GoI (**Appendix 3.3**). The periods of unauthorised occupancy ranged from 4 to 25 years.

As could be seen from Appendix 3.3, in six cases, involving 120.36 ha (114.67 plus 5.70) of forests, Stage I approval was accorded between 1993 and 2011. As per MoEF guidelines, Stage I would be valid for five years only. As the in-principle approval stands revoked after expiry of five years, the User Agency has to apply afresh thereafter. However, revocation orders were issued only in two cases. Range offices should have booked these as Forest Offence Cases and the Divisions should have ensured that the unauthorised users were evicted. Not booking any offence case and not evicting the unauthorised users has caused environmental loss in these areas. Also, the violations were not brought to the notice of MoEF by the Department. Besides, CA in equivalent non-forestland has not been raised. As a result, neither was action taken to reclaim the land nor penal charges were levied to regularise the diversion. It is the duty of Range Forest Officers to protect every inch of forestland from such unauthorised use. Illustrative cases of structures built without approval of the diversion of forestland are depicted in **Figure 3.1 and 3.2**.



Photograph 3.1. Multi village water supply scheme works at Binkadakatti, Gadag Division



Photograph 3.2: Beedalli Mini Hydel Project in Madikeri Division

Further, the primary objective of the FC Act, of conserving the forests was defeated as the CA in 320.88 *ha* in non-forestland was not taken up despite loss of the forests.

During the Exit Meeting (November 2018), APCCF (FC) stated that action would be taken to obtain approval of the Central Government as these were projects taken up by Government agencies in public interest.

The fact, however, remains that there were 105 cases of authorised diversions in the State (39 divisions) between 2013-18, where 817.83 *ha* of forest land was diverted and 911.13 *ha* was stipulated for CA, out of which, only 449.57 *ha* (49 *per cent*) was raised with a shortfall of 461.56 *ha* (51 *per cent*).

The shortfall of 51 *per cent* in the State is indicative of laxity on the part of the Government in monitoring forest protection by minimising forest loss. Such a huge shortfall in raising CA needs to be viewed seriously and corrective measures needs to be initiated at the earliest to ensure the required compensatory afforestation.

In the test checked 10 divisions, the authorised diversions were in respect of 30 cases during the same period, where 410.17 *ha* was diverted and 470.22 *ha* was stipulated for CA. Against the stipulation of 470.22 *ha*, CA raised was for 312.39 *ha* (66 *per cent*) with a shortfall of 157.83 *ha* (34 *per cent*).

Further, 15 cases of unauthorised diversions were noticed in the test checked divisions. The possibility of more number of unauthorised diversions in the remaining 29 out of 39 divisions cannot be ruled out, which is indicative of the fact that actual CA shortfall of 51 *per cent* in the State is not a true depiction of the CA shortfall. The Government needs to immediately take a stock of all the unapproved/unauthorised diversions in the State and take corrective actions to

either get it vacated or initiate steps to approve such diversions so that forest land can be protected, all required charges are demanded and recovered as well as CA on equivalent diverted forest land raised.

3.2.2.3 *Non-renewal of lease period*

The approval to divert forestland for non-forest purposes is given for a specified period depending on the purpose of diversion and the User Agency can seek for renewal of lease period if it intends to continue the usage of forestland. As per Rule 6 (1) of the Forest Conservation Rules, 2003, the User Agency seeking renewal of lease has to apply afresh in the prescribed proforma along with the requisite information and documents, well in advance of the expiry date. This would have to be forwarded to MoEF with the necessary recommendation of the State Government. Accordingly, approval for renewal would be accorded by the Central Government stipulating certain conditions, like Net Present Value, Compensatory Afforestation/Additional Compensatory Afforestation/Penal Compensatory Afforestation, *etc.* as found necessary.

Scrutiny of records revealed that in four out of ten test-checked Divisions, in 12 cases, the lease holders continued to use 475.77 hectares of forestland without renewal of their lease for periods ranging from 6 to 18 years. The details are shown in **Appendix 3.4**. The renewal applications were received (June 2006 to April 2017) only in four of the above cases involving 173.22 ha, whereas renewal applications were not received / details not furnished in eight cases. While further details were sought for from the User Agencies in three cases, one agency had already approached the Central Empowered Committee for exemption from paying the Net Present Value (NPV).

The User Agencies had erected some structures during the period of lease, thereby modifying the land use in the leased area and continued to use them without renewal. However, the Department did not take any action either to renew the lease before expiry, or to evict the agencies from the forest area. The Divisions should have ensured that on expiry of the lease period, wherever applications for renewal were not received, Forest Offence Cases were booked and measures were taken to evict the unauthorised users. As this had not happened, the forestlands continued to be used by the User Agencies. Further, the statutory charges were not collected from user agencies for taking up Compensatory Afforestation.

During the Exit Meeting (November 2018), the APCCF (FC) stated that renewals were pending in these cases and the matter would be pursued with the User Agencies concerned.

3.2.2.4 Non-forest activities by Departmental agencies without approval

(a) Ecotourism

Any non-forest activity in the forest area requires prior approval of the Central Government under Section 2 (ii) of the FC Act, 1980. Ecotourism is a non-forest activity and hence requires prior approval of the Central Government under the FC Act.

Rule 6 (3) (a) of the Forest (Conservation) Rule, 2004, stipulates that the State Government should forward the applications within 210 days from the date of receipt of the proposal for diversion of forest land.

Audit observed that Jungle Lodges and Resorts Limited (JLR) was operating 11 cottage camps⁷⁷ with the earliest since August 1982 in the forest area spread across eight Divisions without approval from the Central Government. This was being done on the basis of lease agreements executed by the Karnataka Forest Department, for non-forest activity. During 2011-13, JLR finally applied for post-facto approval of the diversions of forestlands (45.1 ha).

Audit scrutiny further revealed that ten proposals were still pending with the Divisions concerned and one proposal was with the APCCF (Forest Conservation). Member Secretary, Central Empowered Committee (CEC) had also observed (March 2012) that tourism activities taken up by JLR required approval of the Central Government under the FC Act. Despite this, the Agency was allowed to operate in the forest area for more than six years without mandatory approval.

The PCCF in his reply (November 2018) stated that Ecotourism activity was permitted under the Government of India guidelines which was scrutinized and accepted by the Supreme Court as an activity ancillary to the conservation and development of forests and wildlife. It is promoted and supported both by the Government of India and the State Governments. It was further stated that under section 2 (iii) of the FC Act, forestland can be assigned for forest purpose (ecotourism has forest purpose) to the Agencies that are owned, managed or controlled by the Government.

The reply indicates reluctance to take appropriate action on the unauthorised usage of forestland by the Karnataka Forest Department which is responsible for enforcement of the FC Act. As public enterprises are not exempted from the purview of the Act and non-forest purpose includes any purpose other than afforestation, non-enforcement of the provisions of the FC Act will only lead to delay in tackling the issues. The *post-facto* approval is subject to payment of NPV, CA and other charges besides transfer of equivalent extent of non-forestland by JLR. Considering the prevailing charges, CA and NPV payable

⁷⁷ Out of which four camps are situated in National Parks/Wildlife sanctuaries.

by JLR for 45.1 ha of forestland works out to ₹ 10.22⁷⁸ crore besides recovery of penal charges of ₹ 8.83 crore (as of March 2018) none of which have been paid yet.

(b) Rubber and Cashew plantations

The Government of Karnataka had leased forestland to two State Government agencies – (i) Karnataka Forest Development Corporation Limited (KFDC – September 1980) and (ii) Karnataka Cashew Development Corporation Limited (KCDC – March 1980) for cultivation of rubber and cashew respectively, before the FC Act came into force (October 1980). The details of leased forestland are shown in **Table 3.2:**

Table 3.2: Details of transfer of forestland

SI No.	Details	KFDC	KCDC
1	Crop cultivated	Rubber	Cashew
2	Extent	4,443.32 ha	2,500 ha
3	Original lease period	GO issued on 27.9.1980. Lands handed over with effect from 1.7.1981	Transferred vide GO issued on 19.3.1980
4	Period of lease	20 years	30 years
5	Lease expiry date	30.6.2001	18.3.2010

(Source: Information furnished by Department)

The cultivation of Rubber and Cashew are non-forest activities as per the FC Act, 1980, and thus, the provisions of the FC Act were to be followed for renewal of lease. However, Audit observed that the Department renewed (2017) the lease period for KFDC up to 2025, with retrospective effect from 2001, without invoking provisions of the FC Act, 1980. The lease period of KCDC expired in 2010 but the forestlands continued to be with KCDC without any renewal having taken place.

Further, as statutory provisions were not followed, compensatory land for taking up of CA in equivalent area was not taken. Besides, NPV/CA charges aggregating to ₹ 913.05 crore (KCDC – ₹ 328.75 crore⁷⁹ plus KFDC – ₹ 584.30 crore⁸⁰) due for CAMPA fund were not realised.

The PCCF in his reply (November 2018) justified the action taken by the Department by stating that (i) the State Government was competent to renew the leases assigned to KFDC and KCDC prior to the FC Act, 1980 for raising and maintenance of plantations, (ii) KFDC and KCDC were public enterprises which maintained rubber and cashew plantations that were raised over

⁷⁸ CA charges of ₹ 272,000 per ha for 45.1 ha = 122,67,200 + NPV for forestland ₹ 10,43,000 for 34.83 ha of other than Wildlife sanctuaries = 363,27,690 + NPV for Wildlife sanctuaries five times of ₹10,43,000 for 10.27 ha = 535,58,050.

⁷⁹ At ₹ 10.43 lakh per ha for NPV and ₹ 2.72 lakh per ha for CA for 2,500 ha diverted for cashew plantations.

⁸⁰ At ₹ 10.43 lakh per ha for NPV and ₹ 2.72 lakh per ha for CA for 4,443.32 ha diverted for rubber plantations.

forestlands prior to the FC Act. Hence, there was no clearing of natural forests afresh for raising these plantations, and (iii) KFDC/KCDC was using forestlands for re-forestation by rubber/ cashew only.

The reply is not acceptable as: (i) cultivation of rubber / cashew is a non-forest activity as per explanation given in Section 2 (a) of the FC Act, 1980 and hence renewal of lease period for KFDC was highly irregular,(ii) KFDC/ KCDC was replanting these forestlands by clear felling of the old plantations and hence, there was no scope for revival of natural forests, (iii) the Central Government is the competent authority to decide on the applicability of the provisions of the FC Act (especially with respect to non-forest purpose activities) which has not been followed by the State Government.

In a separate case, the Directorate of Cashew Research of the Indian Council of Agricultural Research, involved in research and academic activities on cashew, had applied for renewal of diversion of forests (80.94 ha) for non-forest purposes as brought out in Appendix 3.4. This only fortifies the point that renewal of lease for use of forestlands towards cashew cultivation required approval under FC Act.

3.2.2.5 Incorrect approvals accorded under General Approval

MoEF guidelines (January 2005) permitted the State Government(s) to grant approval for diversion of forestland, for not more than one ha in each case, for 11 categories of projects for creation of critical development and security related infrastructure under the FC Act, which is termed as the ‘General Approval’. The delegation is extended periodically and is currently valid up to December 2018, covering 13 categories.

GoK had granted (September 2005 to May 2017) diversion of forestland in 85 cases involving 60.76 ha under the General Approval. MoEF, on scrutiny of the details furnished, conveyed (June 2016) to the APCCF (FC) that certain approvals (in 19 cases) accorded by GoK included proposals for construction/installation of 11/33/400 KV Power transmission lines, approach road to mines, buildings, *etc.*, which were not covered under the category of general approval accorded by MoEF. Hence GoK was instructed to withdraw the approvals accorded, as they amounted to violation of the FC Act.

Audit observed that while orders for withdrawal of approval were issued by the State Government after 17 months, the lands had not been reclaimed (July 2018) and continued to be used by the respective User Agencies.

During the Exit Meeting (November 2018), APCCF (FC) stated that since the User Agencies were already using the forestlands, action was being taken to obtain approval of the Government of India.

3.2.2.6 *Non-resumption of forestlands for afforestation*

The Forest Department is the custodian of forestlands and on completion of the period of diversion, the land which was released for non-forest purposes is to be taken back. Also, since it is possible that the non-forest activity would have changed the nature of the land, it is necessary to take up afforestation and allied works in these areas.

Scrutiny of records in Yellapur and Mangaluru Divisions indicated that in 13 cases (**Appendix 3.5**), 53.41 hectares of lands were taken back by the Department on expiry of lease periods. As seen from *mahazar*⁸¹, these lands had buildings, residential houses, *Coconut, Arecanut, Mango, Coco* and other trees. However, the lands were not cleared and no afforestation was carried out.

PCCF in his reply stated (November 2018) that reclamation/restoration was applicable for only mining/quarrying proposals and hence was applicable for two of the 13 cases listed in the observation. It was further stated that as these sites were rocky areas, these were not suitable for vegetation.

The reply was silent about afforestation and other works carried out in the resumed forest areas other than forestlands diverted for mining/quarrying.

3.2.2.7 *Delay in transfer of title*

As per guidelines issued (February 2004) by the MoEF, Stage II clearance shall be given after the non-forestland has been mutated in favour of the Forest Department. Mutation is the change of title ownership from one person to another in the revenue records when the property is sold or transferred.

As per the information provided by the Karnataka Forest Department, non-forestland to an extent of 15,862.48⁸² ha was received for Compensatory Afforestation in *lieu* of diversion of forestland. Scrutiny in audit revealed that out of 15,862.48 ha handed over, mutation to the extent of 9,176.42 ha (58 per cent) only was done till March 2018.

Since the mutation of non-forestland was to precede the Stage II approval, for all the Stage II approvals accorded till March 2018, mutation in the name of the Forest Department should have been completed by the end of March 2018. The Divisional officers are responsible for ensuring this before diversion of forests. Not ensuring mutation of all non-forestlands is fraught with the risk of diversion of land by the Revenue Department for other purposes which would lead to defeating the purpose of afforestation as well as creating unnecessary complications.

⁸¹ Proof of procedures followed.

⁸² As per details furnished to Ad-hoc CAMPA.

PCCF replied (November 2018) that all the remaining cases of mutation would be completed at the earliest.

The fact, however, remains that the Compensatory Plantations and other mitigation measures to maintain ecological balance in equivalent extent (7785.07 hectare) of non-forest land was not taken as the forestlands were allowed to be used un-authorisedly for non-forest purposes.

3.2.2.8 Non-declaration of non-forestlands as Reserved Forests/Protected Forests

As per guidelines issued (February 2004) by the MOEF, the non-forestland received in *lieu of* diverted forestland is to be notified as Reserved Forest (RF) or Protected Forest (PF) under the relevant sections of the Indian Forest Act and the same should be communicated, along with a copy of the notification, within six months of approval of diversion. The notification of declaring as RF involves a two-stage process, *i.e.* preliminary notification (Section 4 of KFA) and final notification (Section 17 of KFA). Under Section 33 (2) (ii) of the KFA, the PCCF is empowered to declare any area as PF by issue of notification.

Audit found that no final notification was issued declaring the land received in lieu of diverted land as RF or PF. Only preliminary notification was issued under Section 4 of KFA declaring 1,271.99 ha (eight *per cent*) as RF while for the remaining 14,590.49 ha of land, neither preliminary notification was issued nor any action was taken under section 33 (2) (ii) of KFA to declare them as PF.

PCCF in reply stated (November 2018) that 4248.18 ha has been declared under Section 4 of KFA and field officers have been directed to submit the proposal simultaneously for Section 4 and Section 33 for the remaining cases. Even though the extent notified under Section 4 has increased, 73 *per cent* of non-forest land was yet to be brought under preliminary notification.

3.2.3. Planning of works

The Working Plan (WP) is approved by the Central Government for a period of ten years for each Forest Division. The WP generally contains a list of locations requiring afforestation works. Paragraph 30 of the Karnataka Forest Code provides that the works in the Annual Plan of Operations (APOs) should be drawn up from the approved WP.

3.2.3.1 Deviation from the Working Plan

Works not planned in the WP were included in the APOs approved by the Chief Conservator of Forests and executed under CAMPA. The instances of deviation, as seen by Audit, are shown below:

- ❖ The WP of three⁸³ Divisions, had listed specific locations for regeneration i.e. plantation works. However, during 2013-18, the plantation works were taken up in 380 ha of land by these Divisions in locations not included in the WP. Plantation and afforestation works in these unspecified locations were, hence unwarranted; and
- ❖ In addition, in these Divisions, afforestation works were taken up (2013-18) in 474 ha in the years other than those prescribed in the WPs. Since the afforestation had to be followed by salvaging (extraction of trees) and as these areas were not salvaged in the previous years, taking up afforestation was not justifiable.

APOs of these Divisions, which were in deviation from the Working Plans, were approved by the Chief Conservator of Forests. An expenditure of ₹ 5.32 crore was also incurred from CAMPA funds for the above afforestation works which was in deviation from the WP prescriptions. As the WP was approved by MoEF, any deviation should have prior approval of MoEF, which was not obtained in either of these areas.

PCCF replied (November 2018) that approval for deviation in respect of Gadag Division had been sought for. The plantations in Madikeri Division were raised as the Working Plan was under preparation and plantations in Mangaluru Division were raised as per the Working Scheme. The reply is not acceptable as the Working Plan approved by the MoEF covering these periods neither provided for raising plantations in these locations. However, reply was silent on the deviations in the years other than those prescribed in the WP.

3.2.3.2 Deviations from approved Annual Plan of Operations

Paragraph 30 of the Karnataka Forest Code stipulates that “an ‘Annual Plan of Operation’ must be drawn up by the Divisional Forest Officer for the working of the forests in the Division for each financial year before the date fixed for the submission of the budget estimates. No deviation from the Plan of Operation is permissible except for such deviations as may be necessitated by unforeseen events, with the previous approval of the Conservator of Forests”.

In nine test-checked Divisions, an expenditure of ₹ 1.12 crore was incurred (2013-14 to 2017-18) on 10 works not included in the APOs as shown in the **Appendix 3.6**. Thus, the expenditure incurred was irregular.

In his reply, the PCCF stated (November 2018) that sanction from the CCF has been obtained in respect of *eight* cases involving ₹ 93.63 lakh. However, all these approvals were given at the instance of audit and as the works taken up were without prior approval, post facto sanction amounted to ratification only.

⁸³ Madikeri, Mangaluru and Gadag.

With reference to Sl Nos 1 and 2 (Belagavi) of the Appendix 3.6, it was replied that payment of ₹ 7.85 lakh did not relate to that Division and EPT was taken up during 2011-12 which has been paid during 2014-15. However, payment of ₹ 7.85 lakh has been made in March 2017 towards *shamiyana* from CAMPA funds in voucher numbers 19 to 26. Also, the APO of 2011-12 did not provide execution of EPT and hence making payment towards the same as pending payment was incorrect. Therefore, the expenditure of ₹ 18.54 lakh was unauthorised.

3.2.4 Ad-hoc CAMPA – collections

3.2.4.1 Recovery of cost towards Net Present Value (NPV), Compensatory Afforestation (CA) and other charges

The NPV for every patch of forest is computed by an Expert Committee appointed by the Supreme Court and the NPV value varies depending upon the quality of forests. It ranges from ₹ 4.38 lakh per ha for Open Forests⁸⁴ to ₹ 10.43 lakh per ha for Very Dense Forests. The State Government is empowered to fix charges towards Compensatory Afforestation. Under the FC Act, ₹ 1,190.12 crore had been collected from the User Agencies towards NPV, CA and other charges. This included ₹ 218.06 crore collected between 2013-14 and 2017-18.

Audit scrutiny revealed instances of short recovery and non-recovery of statutory charges in ten test-checked Divisions, which are given below:

- ❖ **Short recovery:** The cost of CA, raising of strip plantations, raising of plantations in degraded forest areas and dwarf/medicinal plantations were to be recovered at the prescribed rates⁸⁵ in force. In seven out of ten test-checked divisions, in 14 out of 30 cases, charges as per the prescribed rates were not collected, resulting in short recovery of CA charges aggregating to ₹ 7.42 crore. The details are shown in **Appendix 3.7**.
- ❖ **Non-recovery:** Various charges to be levied are indicated in the Stage I approval which have to be collected by the State Government for credit into the CAMPA Account. The following cases of non-recovery of stipulated charges were noticed in Audit:
 - i) Cost towards planting of trees *in lieu of* felled trees was not collected in four cases in three Divisions⁸⁶ – ₹ 27.15 crore; and
 - ii) Cost towards Safety Zone Plantation was not recovered in Ballari Division – ₹ 7.90 lakh.

⁸⁴ Tree cover less than 10 per cent.

⁸⁵ ₹ 1,52,000 per ha from 1.4.2012 to 31.3.2014, ₹ 2,34,000 per ha from 1.4.2014 to 31.3.2016, ₹ 2,55,000 per ha from 1.4.2016 to 30.6.2017 and ₹ 2,72,000 per ha from 1.7.2017 onwards.

⁸⁶ Belagavi, Bidar and Mangaluru.

Except in one of the above cases at (i), even the demands were not raised for collection.

3.2.5 Raising of Compensatory Afforestation

For diversion of forest area for non-forest purposes, Compensatory Afforestation shall be done over an equivalent area of non-forestland⁸⁷ or twice the extent of forest area in a degraded forestland, as stipulated.

As of March 2017⁸⁸, a total of 29,151.06⁸⁹ ha of forests were diverted for non-forest purpose against which CA was to be raised in 15,862.48 ha of non-forestland and 8187.21 ha of degraded forestland.

3.2.5.1 Discrepancy in data

Additional Principal Chief Conservator of Forests, Forest Conservation is the Nodal Officer for diversion of forest land under FC Act, 1980 and hence responsible for maintenance of details in a complete and comprehensive manner.

In response to audit requisition, the details regarding diversion of forests and Compensatory Afforestation to be taken up were furnished by the Nodal Officer. However, audit scrutiny showed discrepancy in details furnished to audit *vis-a-vis* details furnished by PCCF to *Ad-hoc* CAMPA, as shown in **Table 3.3:**

Table 3.3: Discrepancy between the details maintained at Forest Conservation Wing and progress reported to *Ad-hoc* CAMPA

Sl No.	Components	Details furnished to Audit by Nodal Officer (March 2017)	Details furnished to <i>Ad-hoc</i> CAMPA by PCCF (March 2017)
1	Total Diversion of forests	29,129.98 ha	29,151.06 ha
2	No. of cases of diversion	695	737
3	Compensatory Afforestation in non-forest land	15,276.09 ha	15,862.48 ha
4	Compensatory Afforestation in degraded forest land	10,608.44 ha	8,146.05 ha

(Source: Details furnished by APCCF, Forest Conservation and as furnished to *Ad-hoc* CAMPA)

As may be seen from Table 3.3, there are various discrepancies in the details available with the two authorities, which requires reconciliation.

⁸⁷ Paragraph 3.2 (i), (iii) of guidelines issued on FC Act.

⁸⁸ Since CA cannot be raised in the year of diversion as operations are to be taken up in monsoon, forests diverted upto March 2017 has been considered.

⁸⁹ As per details furnished to *Ad-hoc* CAMPA.

In reply, PCCF stated (November 2018) that the details were reconciled and furnished to Ad-hoc CAMPA during February 2018. The raising CA is imperative on account of diversion of forestland, the extent of area for CA should be correctly assessed which could not be ascertained in audit due to discrepancy in data.

3.2.5.2 Failure to assess suitability of non-forestland for afforestation

Deputy Conservator of Forests should certify the suitability of an area identified for raising and managing Compensatory Afforestation, where Compensatory Afforestation is to be raised within one year from Stage I approval. Audit observed that it was not raised in 997.28 ha due to reasons brought out in **Table 3.4:**

Table 3.4: Reasons for not raising Compensatory Afforestation

SI No	Reasons for non-raising of CA	Area (ha)
1	Area not available	149.76
2	Alternative lands to be identified	171.59
3	Land yet to be identified	71.26
4	Land not suitable	138.96
5	Identified land is a reserve forest	15.85
6	Land encroached / under dispute	4.78
7	No specific reasons stated	445.08
Total		997.28

(Source: Details furnished by Department)

As the diversion of forestland is approved only after the certification of the suitability of alternative land, it is clear that in all the above cases the certificates of suitability furnished by the DCFs were incorrect. Though the User Agencies paid the CA and other charges at the time of approval, CA could not be taken up due to failure in identifying suitable land. The Department did not initiate any action against the Deputy Conservators of Forests who furnished the certificates without ensuring the suitability of the land.

PCCF replied (November 2018) that alternative land will be identified to take up compensatory afforestation. However, the reply did not indicate the reasons for not seeking alternative non-forest land earlier.

3.2.5.3 Raising of Dwarf/Medicinal Plantations

Raising of medicinal plants/dwarf plantations are to be taken up in the forestland diverted for wind power and transmission line projects and accordingly, afforestation charges are to be collected from User Agencies.



Figure 3.3: Common plantation raised in area for medicinal plants species at Kappathuguda, Gadag

The intention of raising dwarf/medicinal plantations is not only to control soil erosion in these areas but also not to obstruct the overhead power transmission lines.

Audit scrutiny revealed that Gadag Division had planted common species like *Honge, Tapsi, Udevu, Hali, Bamboo* in the 125 ha diverted for wind power projects instead of dwarf/medicinal plants. This was in spite of the fact that Kappathgudda area of Gadag District was an abode of several medicinal plants/species, viz. *Somida, Anjan, Bevu, Bikku, Jeeni, Antawala, Tarre, Karimatti, Neruvate Beru, Khachu, Dhupa Mara, Pachouli, Karidigada, Kawli, Tumri, Ane Balli, Ankala Balli, Trodarsi* and *Amrutha*. This not only defeated the very purpose of the stipulations for the diversion but also was scientifically incorrect.

PCCF replied (November 2018) that local species were planted since medicinal plants had failed. However, as the stipulations were made by MoEF, directions were to be obtained from them for any deviation.

Similar violation was noticed in Belagavi Division wherein species like *Murki, Red Sander, Kadu Geru, Cherry and Sandal* were planted in 15 ha out of 45 ha diverted for wind power projects during 2015-16.

In reply, the PCCF stated (November 2018) that all the species planted had medicinal properties. Reply is not acceptable since dwarf medicinal plantations were to be raised in these areas.

The total expenditure of ₹ 1.28 crore incurred on these plantations was injudicious as non-plantation of dwarf medicinal species were in violation of prescribed norms.

3.2.5.4 Non-implementation of stipulations

The Central Government, while according Stage II approval, stipulates certain conditions⁹⁰ for undertaking afforestation and allied works to address environmental impacts in a planned and systematic manner.

Audit noticed that in seven Divisions, stipulations envisaged were not fully implemented in 14 out of 30 cases of diversion of forests. The details of stipulations which have not been implemented have been tabulated in **Appendix 3.8**.

Since conditions were stipulated for reducing the damage to environment on account of forest diversion, their non-compliance meant that no mitigation measures were implemented and hence environmental damages due to implementation of these projects continued unabated. Though the Department

⁹⁰ Preparation of Wildlife Conservation Plan, Soil Moisture Conservation Plan, Construction of retaining wall and check dam, etc.

was responsible for ensuring compliance of stipulations and non-compliance was observed (January 2016 to February 2017) by MoEF, the follow up action taken by the Department was not on record.

PCCF in reply (November 2018) stated that action is being taken to comply with MoEF stipulations.

3.2.5.5 *Improper implementation of stipulations*

In some cases, it was observed that the stipulated conditions were only partly implemented, resulting in unfruitful expenditure as brought out below:

- ❖ In Kolar Division, the Catchment Area Treatment Plan (CAT Plan) for forest diverted for the Markandeya Project provided for gap planting in 100 ha, vegetative treatment of canal sides and promotion of agro-forestry in agriculture lands, for which ₹ 37.63 lakh was collected (June 2012) from the User Agency. Plantations were raised (2014-15) in 62.07 ha of forestland and up-to-date expenditure incurred was ₹ 54.92 lakh. However, the monitoring report (January 2016) of the MoEF had observed that as per information provided, the implementation of CAT Plan had not yet been started. The CAT Plan intended to minimise soil erosion in the catchment area and prolong the life of the proposed dam. For achieving these in a time-bound manner, components like gap planting, vegetative treatment into canal sides, *etc.* were proposed. Non-implementation of the approved CAT Plan was improper.

PCCF replied (November 2018) that CAT plan was executed effectively by taking up gap plantation in 62.07 ha. However, all the activities provided for in the CAT plan were not completely implemented as stated above.

- ❖ In Madikeri Division, ₹ 6.52 crore was collected (July 2015) from M/sPower Grid Corporation of India towards diversion of 23.16 ha of forestland for erecting a High Power Transmission line. The Committee which was constituted to assess the impact, recommended taking up conflict mitigation measures⁹¹. Initially, the amount which was deposited with the Nagarahole Tiger Foundation was utilised to an extent of ₹ 2.14 crore till 2017-18 towards conflict mitigation measures, compensation towards wildlife attacks, purchase of vehicles, *etc.* The balance amount of ₹ 4.38 crore was transferred to the Kodagu Man-Animal Conflict Mitigation Foundation during January 2018.

⁹¹ Special structures, RCC pillars, de-silting and deepening of existing tanks, purchase of vehicles, *etc.*

Check of expenditure revealed deviations and diversion of funds to the extent of ₹ 66.92 lakh⁹² which was irregular. Thus, the funds collected for a specific purpose were diverted by CCF, Madikeri and DCFs of Madikeri, Virajpet and Hunsur Divisions for meeting expenditure towards forest/wildlife management, besides keeping two-thirds of the fund unutilised.

PCCF in reply stated that (November 2018) expenditure was incurred for man-animal conflict measures. The reply is not acceptable as the expenditure of ₹ 66.92 lakh incurred was not in conformity with the measures approved by the Committee.

The fact, however, remains that the unsuitable lands for raising plantations were accepted and consequently Compensatory Afforestation in 997.28 hectares was not taken up defeating the CAMPA objectives.

3.2.6 Maintenance of afforested lands

3.2.6.1 Failed plantations

Maintenance of afforestation works undertaken in the previous years from CAMPA funds shall form first charge on the funds released, unless such afforestation works, if any, have been declared as failed efforts. Details of failed efforts, if any, shall be shared with *Ad-hoc* CAMPA.

Audit scrutiny revealed that though CAMPA guidelines prescribe maintenance of plantations raised for ten years, the extent of plantations raised were not maintained after the third or fourth year indicating failure of plantations to that extent. Further, these plantations were not declared as failed plantations to take up corrective measures. It was also noticed that the matter was not communicated to *Ad-hoc*CAMPA, as detailed in **Table 3.5** below:

Table 3.5: Shortfall in maintenance of plantations not reported to *Ad-hoc* CAMPA

SI No.	Components	Extent (ha)
1	Plantations raised during 2010-11 – 2017-18 as per CAMPA APOs	5,391.23
2	Plantations raised during 2010-11 – 2017-18 as reported to <i>Ad-hoc</i> CAMPA	4,977.84
3	Plantation maintained as of March 2018 as per Progress reports	4,355.70

(Source: Details furnished by APCCF, CAMPA)

⁹² Purchase of vehicle (₹ 8.40 lakh), payment of compensation for wildlife attacks (₹ 40 lakh), wireless equipment (₹8.48 lakh), re-payment ordered in a court case (₹1.05 lakh), payment of wages/training (₹7.64) and construction of RCC hume pipe culvert (₹ 1.35 lakh).

Considering the details furnished to Ad-hoc CAMPA, the extent of failed plantations worked out to 563.19 ha (4,977.84 minus 4,355.70). However, the plantations actually failed was 1,035.53 (5,391.23 minus 4,355.70) ha with reference to plantations maintained but these details were not shared with *Ad-hoc* CAMPA.

PCCF replied (November 2018) that actual figures of failure would be obtained from concerned Divisions and shared with *Ad-hoc* CAMPA.

Further, Plantation Journals were supposed to be maintained to record the details of works carried out, as well as results of inspection conducted by higher officers, indicating status of plantations and survival percentage. However, review of Plantation Journals by Audit revealed that critical details, *i.e.* status and survival percentage, were not indicated despite inspections being conducted. Consequently, Audit could not verify whether the survival and the failure rate of plantations were within the permissible limits or not.

In addition to the above lapses, it was observed that:

i. During the year 2016-17, Chitradurga Division had not incurred maintenance cost for 333.04 ha of CA raised between 2010-11 and 2012-13 in non-forestland due to low survival rates.



Photograph 3.4: Compensatory Afforestation raised at Survey No. 9, Guttahalli village, Kolar Division

ii. In Kolar Division it was observed that the CA in non-forestland was raised in 65.20 ha (36.87 ha in Sy No. 27, Kambalapalli during 1999-2000 and 28.33 ha in Sy No. 9, Guttahalli village during 2014-15) of rocky area received in lieu of diverted forest.

While accepting the non-forest land for CA, its suitability should be verified by the DCF concerned. If no suitable lands were available, the CA would be raised in degraded forest land in double the extent. Due to acceptance of unsuitable land, the CA raised in these lands at a cost of ₹ 40.83 lakh was wasteful.

iii. In Bidar Division at Survey No 70 of Hasirugundagi, Humnabad Range, 20.15 ha of CA was raised during 2010-11. The APO and progress reports indicated that this was taken up in a non-forestland. This plantation was not maintained beyond 2016-17 due to poor survival rates. Though alternative works were taken up in the APO of 2017-18,



Photograph 3.5: Compensatory Afforestation raised as Non-forestland on forestland at Sy No 70, Hasirugundagi village, Humnabad Range, Bidar

the progress report furnished to *Ad-hoc*CAMPA shows that the plantation raised during 2010-11 had been maintained even in 2017-18, giving an incorrect data on its progress. Further, the plantation was taken up in forestland instead of non-forestland required as per stipulations.

PCCF replied (November 2018) that officers would be directed to give their comments on the overall status of plantations and its survival percentage.

In addition, an instance of advance work taken up for CA turning wasteful is brought out in **Box 3.1**:

Box 3.1

Wasteful expenditure of ₹ 1.75 crore on Compensatory Afforestation works at Antharagange area of Kolar District

During 2014-15, advance pitting works (400.86 ha), raising monsoon plantation (58.82 ha), fire line maintenance and Soil Moisture Conservation works were stated to have been executed at Antharagange area (Block A and B) by DCF, Kolar, in anticipation of approval to additional APO on the non-forestlands received from Revenue Department, at an expenditure of ₹ 1.75crore.

Based on the complaints of misappropriation of funds, the Vigilance Wing of the Department which inspected the matter found various irregularities in the execution of work, *i.e.* size and number of pits actually executed were less than as shown in the records, fire line was not executed, unscientific plantation works were done, SMC works were not executed in stipulated area, *etc.* The Vigilance Wing also observed that inspection by the higher authorities was not done.

Paragraph 117 of the Karnataka Forest Accounts Code stipulates hundred *per cent* check by the ACF and 10 *per cent* check by the DCF of the works executed both in quality and quantity. Records relating to the work like Field Note Book (FNB), to check adherence to this provision, were not produced to Audit for verification. Further, Audit noticed that ₹ 86.43 lakh (49 *per cent* of ₹ 1.75 crore) was paid to the RFO in violation of the Rules as the same should have been paid to the contractor. The laxity in observing codal provisions contributed to suspected misappropriation of funds.

In the Exit Meeting (November 2018), APCCF (CAMPA) stated that this was a clear case of misappropriation and informed that charge sheets have been issued to the DCF, ACF and RFO concerned. Further, PCCF in reply stated (November 2018) that article of charges is being issued to the Range Forest Officer, the Assistant Conservator of Forests and the Deputy Conservator of Forests concerned.

The fact, however, remains that the Department did not assess the survival status of plantations raised through site inspection. Replanting was not taken up in failed plantation areas (1,035.53 ha) and the objective of compensating the forest loss was not fully achieved.

3.2.7 Utilisation of land in excess or deviation of leased forestland

Approval to diversion of forestland for non-forest purposes is accorded under Section 2 of FC Act, 1980 by the MoEF with conditions. Lease agreements are concluded with the User Agencies to utilise the extent and location of forestlands mentioned in the agreement. All the conditions imposed at the time of clearance of the project must be adhered to by the project proponents and monitored by the authorities concerned. Further, MoEF guidelines (January 2018) stipulate levy of penalty of two times the normal NPV, for the extent used in case of violation.

Scrutiny of records revealed that in three Divisions, proponents of seven Wind Power Projects had violated the lease conditions and had either used excess forestland than approved for diversion or had utilised the forestland other than the diverted land as shown below:

- ❖ Seven⁹³ Wind Power Projects –130.22 ha of forestlands used in excess;
- ❖ Five⁹⁴ Wind Power Projects –167.57 ha of forestland used other than the approved forest area.

These violations were noticed by the Divisions concerned but no penal action had been taken so far. The penalty charges as per MoEF guidelines work out to ₹ 26.09 crore⁹⁵ for 297.79 ha of forestland used in violation. However, action had not been taken by the authorities to impose penalty as of June 2018.

PCCF replied (November 2018) that action has been undertaken to process these cases as per the guidelines issued by MoEF and outcome of the action would be intimated.

3.2.8 Concurrent monitoring and evaluation

MoEF guidelines (July 2009) stipulate earmarking of funds of up to 2 per cent of the annual outlay towards an independent system for concurrent monitoring and evaluation of the works implemented, to ensure effective and proper utilisation of funds.

During 2013-14 to 2017-18, total allocation of ₹ 2.60 crore was earmarked in APOs towards monitoring and evaluation and an expenditure of ₹ 62.50 lakh was incurred.

⁹³ M/s KREDL (1. Jogimatti&Marikanve, 2. Jogimatti&Janakal) M/s Wind World (1. Lakhahalli & Marikanve, 2. Hiriyur, 3&4. Kappathgudda) and M/s Enercon (Belagavi).

⁹⁴ M/s KREDL (1. Jogimatti&Marikanve, 2. Jogimatti&Janakal) M/s Wind World (1. Lakhahalli & Marikanve, 2. Hiriyur, 3. Kappathgudda).

⁹⁵ Normal rate of NPV = ₹ 4.38 lakh per ha; double the rate = ₹ 8.76 lakh per ha × 297.79 ha = ₹ 26.09 crore.

As per the guidelines issued by MoEF, the Steering Committee was to lay down/approve rules and procedures for functioning of State CAMPA, while the Executive Committee was to supervise the works implemented in the State out of State CAMPA funds.

However, non-monitoring of survival rates of plantations raised, execution of works in deviation from the approved WPs and APOs, raising of common species instead of dwarf/medicinal plants, raising of plantations in unsuitable and rocky areas, *etc.*, indicate that these Committees had not effectively functioned.

Thus, the independent system of “concurrent monitoring and evaluation”, a control mechanism for scheme evaluation, was necessary for taking corrective action in implementation of Schemes/Projects. Though, the evaluation of works need to be carried out each year as per norms but was not got evaluated since 2013-14 despite availability of funds.

In reply PCCF stated (November 2018) that separate external evaluation of CAMPA scheme for the years 2013-14 to 2015-16 is being taken up.

3.2.9 Uploading data on e-Green Watch portal

The e-Green Watch is the integrated e-Governance portal which facilitates automation of the various processes involved in monitoring and evaluation of the various projects being undertaken by the State CAMPA and enables administrators to monitor the progress of works, which use CAMPA funds.

As per the extant procedure, the State CAMPA/Divisions are to upload the kml⁹⁶ files relating to the assets created by them under CAMPA for monitoring by the Forest Survey of India. The details of the data uploaded in e-Green Watch as furnished by the Department is as shown in **Table 3.6:**

Table 3.6: Details of data uploaded in e-Green Watch

SI No.	Works registered	Polygons uploaded	Correct polygons	Incorrect polygons
1	13,149	10,475	2,557	2,520

(Source: Details furnished by CAMPA)

The polygons⁹⁷ uploaded should be verifiable and non-verifiable polygons are treated as Incorrect Polygons. As may be seen from the Table 3.6, the data on Correct Polygons and Incorrect Polygons furnished by the Department do not tally with the Polygons Uploaded (10,475) and no reasons for discrepancy was furnished. Further, there was not only a shortfall in uploading of polygons but also 25 *per cent* of the polygons uploaded were incorrect. The incorrect

⁹⁶ Keyhole Markup Language; A “kml” file is a file format used to display geographic data in an Earth browser such as Google Earth.

⁹⁷ A data object used to store spatial geographic information that consists of polygons, *i.e.* closed areas including the boundaries making up the areas.

polygons either show wrong locations or discrepancy in area which impacts concurrent monitoring.

3.2.10 Conclusion

‘Compensatory Afforestation’ is a mechanism to compensate for the loss of forests by planting trees elsewhere in lieu of diversion of forest for non-forest purposes approved under the provisions of Forest (Conservation) Act, 1980. The series of directives from the Supreme Court resulted in imposition of levies on the project proponent and culminated in the formation of a separate fund by the Central Government for carrying out Compensatory Afforestation and related activities in a systematic manner.

Our test-check of records showed deficiencies in the areas of approval or renewal of lease for diversion of forestlands (7785.07 ha⁹⁸) in contravention of provisions of the FC Act. Several projects were allowed to be executed by the Department, though prior approval of the Central Government was not taken in spite of that being mandatory. These projects were primarily undertaken by agencies belonging to the Government. Cases of short and non-levy of stipulated charges aggregating to ₹ 34.64 crore were also noticed. Due importance was not accorded for mutation and final notification of non-forestland as Reserved or Protected Forests.

As per MoEF guidelines, only lands suitable for afforestation should be accepted by the Department as compensation for the diverted forestland. But 997.28 ha of unsuitable lands were accepted and consequently Compensatory Afforestation in these lands could not be done. Success indicators of the plantations raised were not recorded in the Plantation Journals despite it being a mandatory stipulation and effectiveness of afforestation measures undertaken was not ensured by the Department. The absence of data made results unverifiable in Audit.

Annual Plan of Operations deduced from the Working Plan should be the basis for carrying out works but these were deviated in 10 cases without prior approval from the Competent Authority. Dwarf/medicinal species were required to be planted in the Windmill Project areas as per the APO but tree species were planted in violation of stipulations.

The Department did not engage any agency for independent concurrent monitoring and evaluation of Compensatory Afforestation works though CAMPA guidelines stipulate for compulsory evaluation study.

Though the Department complied with the rules and regulations, certain deviations/violations were noticed in the test-checked divisions, as shown in this report. The major areas of concern were those related to use of forest land

⁹⁸ 320.88 ha+ 475.77 ha + 45.10 ha + 4,443.32 ha + 2,500 ha (Ref para Nos 3.2.2.2 to 3.2.2.4).

for non-forest purposes without approval, acceptance of non-suitable lands for afforestation, not recording survival results in plantation journals, resorting to ratification of works executed in deviation and ignoring concurrent evaluation by third party consultants. These need closer attention and suitable corrective actions from the Department to ensure that the spirit of the FC Act, as endeavoured to be upheld through CAMPA, is not completely lost.

The overall shortfall in the entire State during 2013-18 was 51 *per cent*, whereas in the test checked 10 divisions, the shortfall was 34 *per cent*. Such a huge shortfall in the State (51 *per cent*) needs to be viewed seriously by the Government and corrective measures need to be initiated at the earliest to ensure compensatory afforestation.

The matter was referred to the Government in August 2018; their reply is awaited (February 2019).

MINOR IRRIGATION AND GROUND WATER DEVELOPMENT DEPARTMENT

3.3 Irregularities in execution of works

Introduction

Water bodies are built to harvest rain water to meet various needs such as drinking water, irrigation, flood control and improving the ground water table. Surface water bodies like tanks which primarily meet irrigation needs with command area up to 2,000 ha, are classified as Minor Irrigation (MI) tanks. As on 31 March 2018, the MI Department had 3,690 minor irrigation tanks with command area between 40 and 2,000 ha. The State Government makes an annual allocation for the maintenance of these tanks. As the allocation is meager, the MI Department takes up improvement or rejuvenation works of these tanks under the capital head of account to strengthen bunds, improve feeder canals and conveyance system, repair of gates, *etc.*

In the Budget speech of 2015-16, the Chief Minister announced a grant of ₹ 100 crore for repair works of feeder canal/canals (*raja kaluve*) and for removal of lake encroachments through Karnataka Lake Conservation and Development Authority (KLCDA)⁹⁹. In November 2015, the Secretary, MI Department approved (November 2015) an action plan for ₹ 90.95 crore towards repairs of the feeder canals and digging of boundary trenches in respect of 2,259 MI tanks in 28 districts which were to be taken up by KLCDA with a budget allocation of ₹ 30 crore under “Capital Head – 4702” during 2015-16. Out of a provision of ₹ 56.08 crore made in the Action Plan

⁹⁹ KLCDA was constituted in March 2015 with jurisdiction of lakes within the municipal corporations and Bangalore Development Authority, or any other water bodies or lakes notified by Government from time to time.

for two years as aforesaid, in respect of 1,804 tanks in the above test-checked Division offices, ₹ 24.18 crore related to excavation of boundary trenches.

The Audit Objective was to examine usefulness of the measures envisaged in action plan for preventing or clearing encroachments.

Test check of records in the offices of Chief Engineer (CE), MI (North), Vijayapura, Superintending Engineer (SE), MI Circle, Kalaburagi and Executive Engineers (EE) of 11¹⁰⁰ MI Division offices out of 21 Division Offices covering the period from 2015-16 to 2017-18 was conducted between October 2017 and March 2018 to verify the implementation of the Action Plan.

The audit observations are discussed in the succeeding paragraphs.

Audit observations

Sanction from Statutory Authority not obtained

As per the Budget announcement and the Government Order of November 2015, ₹ 100 crore was meant for water bodies falling under the jurisdiction of the KLCDA, *i.e.* tanks/lakes under Municipal Corporations, Bangalore Development Authority and any other lakes and water bodies notified by the Government. The Government while issuing the Order, approved the Action Plan and also stated that works were to be taken up with the approval of KLCDA.

The Government Order was defective as the tanks approved for repairs did not come under the jurisdiction of KLCDA but were MI tanks situated in areas falling under the jurisdiction of another authority, *i.e.* Karnataka Tank Development Authority (KTDA)¹⁰¹. Moreover, recommendations of the statutory authority which were to be obtained before according administrative approval were also not obtained by the Government. Approval of KTDA was also not obtained by MI Department though KTD Act mandates obtaining of prior approval. The statutory authority would have examined the *pros and cons* of digging of boundary trenches before clearing the proposal. Thus, approval to works by the Government by-passing statutory authority was grossly irregular and facilitated execution of works by implementing divisions. The works undertaken by overlooking the probable predicaments, as might have been raised by the authority, are fraught with the risk of physical and financial underachievement.

¹⁰⁰ Belagavi, Bengaluru, Bidar Chikkaballapur, Chitradurga, Dharwad, Kalaburagi, Kolar, Koppal, Mysuru and Vijayapura.

¹⁰¹ Karnataka Tank Development Authority was established (2014) by Government for improvement of all tanks, lakes, ponds including ground water in the rural areas in the Karnataka State.

Absence of guidelines for selection of tanks

MI tanks are scattered all over the State and are situated in remote places. Scrutiny in audit revealed that 2,259 out of 3,690 tanks were included in the Action Plan with the cost being bifurcated towards boundary trenches and feeder canals for each tank. The Government Order neither mentioned how the proposals were originated nor any mechanism of how the project costs for each tank were worked out. The criteria that were adopted for selection of these 2,259 tanks for providing boundary trenches and repairs to feeder canals were not available in the divisional offices. Audit noticed that the estimates were sanctioned by the EEs in such a way that the project costs tally with the cost shown as per the Action Plan.

Deficiencies in sanctioned estimates

The provisions under Paragraph 190 of the KPWD Code, stipulate that the sub-divisional officers should carry out all field investigations before preparing estimates for submission to the Divisional Officer. A certificate to that effect *i.e.* that the site inspection was done, should be enclosed in the estimate. However, no inspection reports were kept on record in any test checked Divisions and only a passing reference to the approval of the Action Plan was made in the report accompanying the estimates. The Divisional officers, who sanctioned the estimates, also failed to check whether the items of work included in the estimate were actually required as per field conditions by undertaking field visits.

Repairs to feeder canals

Obstructions in feeder canals affect free flow of water into tanks which in turn affects the storage of water. The sanctioned estimates should provide justification for the works proposed with all relevant details like designed storage and rainfall, actual storage, actual rainfall, condition of the feeder channel etc. and it should be ensured that deficit rainfall was not the reason for less inflow into tank. The estimate should also include a certificate that site inspection was conducted.

Audit scrutiny revealed that relevant details were absent in the reports accompanying the estimates except a general statement that removal of obstructions in the feeder canal would ensure smooth flow of water into the tank. The sanctioned estimates provided uniform quantity of silt removal¹⁰² which defies logic as the quantity cannot be the same in all the tanks. This indicates that estimates were prepared without inspecting the sites. Also, the estimates were sanctioned without any inspection by the controlling officers, *i.e.* the SE or the CE. Thus, Audit is of the opinion that expenditure of ₹ 25.40 crore spent in 11 test checked Divisions towards repairs to feeder canals lacks justification. Further, the possibility of similar deficiencies cannot

¹⁰² 60 per cent of the capacity in 98 works and 126 works in Kolar and Vijayapura divisions respectively while 50 per cent in 60 works in Chikkaballapur.

be ruled out in other divisions as ₹ 41.86crore was spent on 2,259 MI tanks towards repairs to feeder canals.

Boundary trenches

It is imperative to have title to the assets (MI tanks) in the name of the Department in the revenue records which *interalia* contain extent of land with survey numbers and village details. On the ground, it is necessary to fix boundary stones to each MI tank to guard against encroachment. The Government had not issued any guidance for field officers for undertaking the work of boundary trenches.

The Department undertook digging of boundary trenches around the tank area in respect of 2,259 tanks. Audit observed that the only justification for taking up boundary trench works was the oral instructions of the Minister of Minor Irrigation. No reasons were forthcoming as to how the trenches would help in either preventing further encroachments or removing the encroachments that had already taken place. In two¹⁰³ out of eleven divisions, fixing of boundary stones was also taken up along with boundary trenches.

The non-submission of proposal before the statutory authority deprived the Department of valuable technical advice on the feasibility/utility of the proposed measure.

The boundary trench was not an effective preventive measure as encroachers can use the tank bed by filling back the trenches. Therefore, expenditure towards boundary trenches was not a judicious decision.

Audit conducted Joint Inspection of 21 tanks with Departmental engineers which revealed that the trenches executed were either filled up with excavated earth which had been dumped on the side of the trenches or covered with jungle growth. The encroachment of tank bed for cultivation or other purposes were of intentional nature as evident from the fact that cases of encroachment were noticed despite providing boundary trenches.

Photos showing conditions of the boundary trenches



Photograph 3.6: AmmanaKere in Chikkaballapur

¹⁰³ Ballari and Kalaburagi



Photograph 3.7: MI tank in Bangalore Urban and in Chamarajanagar



Photograph 3.8: MI tank in Chikkaballapur in Chamarajanagar

The action of the Department in undertaking excavation of boundary trenches for 2,259 tanks at an expenditure of ₹ 48.09 crore without clearance from the statutory authority was unfruitful and was avoidable as this was not a sound measure for the aforesaid reasons.

Inflated rates in estimates

Schedule of Rates (SR) contain rates for different items of work which should be utilised for preparation of estimates, and rates for the items in SR are categorised under distinct chapters. The rates for a similar excavation item in different Chapters vary according to the nature of operations. For excavation item of work, the rate of ₹ 41 per cum¹⁰⁴ was available under the Chapter on ‘Canal & allied works’ whereas a rate of ₹ 77 per cum¹⁰⁵ and ₹ 134 per

¹⁰⁴ SI No. 2.02 under “Canal and allied works” of Schedule of Rates 2014-15, MI Circle, Kalaburagi.

¹⁰⁵ SI No. 1.01 under “Dam and allied works” of Schedule of Rates 2014-15 MI Circle, Kalaburagi

cum¹⁰⁶ were available under Chapters on ‘Dam/Barrage and allied works’ and ‘Canal cross drainage works’ respectively. As boundary trench was similar to a canal, the rate of ₹ 41 per cum should have been adopted.

- ❖ Audit scrutiny of estimates revealed that the Departmental officers adopted different rates varying from ₹ 41 per cum to ₹ 134 per cum for excavation for boundary trenches. In seven¹⁰⁷ test-checked divisions, rate of ₹ 41 per cum was adopted while three test-checked divisions¹⁰⁸ adopted the rate of ₹ 77 per cum and Koppal Division adopted¹⁰⁹ the rate of ₹ 134 per cum. The adoption of incorrect rates not only boosted the estimates but also gave undue benefit to the contractors. In 20 packages¹¹⁰, the undue benefit to the contractors works out to ₹ 4.57 crore.

Extra cost due to rejection of tenders

The provisions of the Karnataka Transparency in Public Procurements Act and Rules provide for acceptance of the lowest tender which meets the prescribed qualification criteria including bid capacity and past performance. The contractors who have successfully completed at least one work costing not less than ₹ 5 crore and have turnover of ₹ 15 crore and above in the preceding five years are issued Class-I license by the CE. For tenders of less than ₹ 50 lakh in value, where single cover system is followed, except for verification of the class of the contractor and Earnest Money Deposit (EMD), no pre-qualification procedure is required. However, the Tender Inviting Authority may seek *bonafide* clarification from the tenderers relating to the tender submitted by them during the evaluation of tenders.

The EE of Koppal Division invited (March 2017) short term tenders from Class-I and II contractors for ‘Excavation of boundary trench and Improvement of feeder channel’ under 15 different packages at an estimated cost of ₹ 6.22 crore. As the amount put to tender in each case was below ₹ 50 lakh, ‘Single cover system’ was adopted. Out of the above, 12 packages costing ₹ 5.05 crore were entrusted to Sri Veerayya Hiremath at ₹ 5.15 crore and 3 packages costing ₹ 1.17 crore were entrusted to Sri Narasimha Nayak at ₹ 1.19 crore. The total cost on the 15 packages was ₹ 6.34 crore (₹ 5.15 crore plus ₹ 1.19 crore).

Scrutiny revealed that Class-I contractors had participated in the tender and had quoted minus tender premium between 29.95 *per cent* and 30.93 *per cent*.

¹⁰⁶ Sl No. 3.01 under “Canal cross-drainage works” of Schedule of Rates 2014-15 MI Circle, Kalaburagi.

¹⁰⁷ Bengaluru, Chikkaballapur, Chitradurga, Dharwad, Kolar, Mysuru, and Vijayapura.

¹⁰⁸ Belagavi, Bidar and Kalaburagi.

¹⁰⁹ In respect of Package 11 to 15 under MI Sub-division, Raichur.

¹¹⁰ 20 packages comprising 614 works.

The lowest tender for 15 packages amounted ₹ 4.34 crore. However, their tenders were rejected on the grounds that they did not have the required financial turnover and had not furnished copy of IT/Sales Tax returns, *etc.* Since the lowest quoted contractors were registered Class-I contractors and had furnished guarantee towards unbalanced items of work, the rejection of tenders by EE was unjustified. Further, though the tender of Sri Narasimha Nayak for Package 3 was rejected on similar grounds, he was awarded the contracts for three other packages¹¹¹ for ₹ 1.19 crore. Injudicious action of the EE in rejecting the lowest bids offered by Class-I contractors thus resulted in extra burden of ₹ 2 crore (₹ 6.34 crore *minus* ₹ 4.34 crore) to the State Exchequer.

The Government stated (November 2018) that the paragraph relating to boundary trenches and repairs to feeder canal is being reviewed and reply will be furnished in due course.

3.4 Unfruitful expenditure due to incomplete projects

The Executive Engineer, Minor Irrigation Division, Shivamogga was implementing (2016-17) eighteen Lift Irrigation Schemes (LIS) with a tender cost of ₹ 31.48 crore to provide irrigation to 2,445 hectares and these projects were awarded to contractors between 2007 and 2010. Audit test checked (2016-17) records relating to seven LIS and the observations are discussed in Paragraph(s) 3.4.1 and 3.4.2.

3.4.1 Lingerings of projects due to design flaws

Defective estimation, slippages in monitoring and unauthorised execution of works lead to inordinate delay in completion of four Lift Irrigation Schemes besides unproductive outlay of ₹ 17 crore.

Proper designing of different components of a project at the estimate stage not only plays a critical role in controlling time and cost overrun but also safeguards against failure. After noticing failures of large numbers of Lift Irrigation Schemes (LIS) – either by becoming sick or under-performing – Government issued detailed guidelines (2003) for construction of LISs. The guidelines emphasised on the need for careful planning as defective design was found to be the primary cause of failure. Use of improper class and size of pipes for rising main, improper selection of pumping machinery, inadequate provision for water controlling arrangements, *etc.* resulting in leakages in joints, bursting of pipes, *etc.* were common. Paragraph 5.12.13 of the Guidelines *ibid* recommended provision of 30 cm of thick layer of

¹¹¹ Packages 2, 6 and 14.

*murrum*¹¹² bedding when rising main pipes were to be laid on expansive¹¹³ soil for firm support.

Executive Engineer, Minor Irrigation Division, Shivamogga (EE) awarded (between January 2007 and March 2010) contracts for construction of four LISs to an agency¹¹⁴ at a tendered amount of ₹ 13.02 crore for completion between January 2008 and September 2011. They were to provide irrigation benefit to 1,266 hectares (ha) of land. The works were not completed within the stipulated period and the contracts were rescinded (October 2016) at the risk and cost of the contractor. The works remained either non-operational or incomplete even though an expenditure of ₹17 crore had already been incurred.

Scrutiny (December 2016/ February 2018) of records of the EE revealed lack of care and design deficiencies while preparing the Detailed Estimates. This resulted in the LISs remaining incomplete, rendering expenditure incurred on them unfruitful, besides causing additional burden to the exchequer towards remedial measures. The lapses in each LIS are discussed in the succeeding paragraphs:

(₹ in crore)

LIS location	Estimated cost	Irrigation potential (ha)	Date of award of tender	Due date for completion	Tendered cost & Expenditure	Status of work
1. G. Thumminakatte	1.71	81	March 2010	September 2011	1.93 1.40	Rising main – 450 m delivery chamber, erection of pumps, etc. were not completed.
<p>Audit observation:</p> <p>a) Length of rising main was increased (May 2011) from 2,100 m to 2,565 m due to change in the alignment by the agency citing objection from farmers. The Department failed to ensure that the work was carried out as per the approved design, nor ensured sufficiency of controlling arrangements consequent to change in alignment.</p> <p>b) Technical Appraisal Committee (TAC) pointed out deficiencies in design/estimate regarding class and size of pipes, inadequate controlling arrangements, lower capacity of transformer, etc. after inspection (May 2015).</p> <p>c) Two estimates, one towards rectification¹¹⁵ for ₹1.32 crore and another for ₹0.99 crore towards express feeder line and 200 KVA transformer were prepared (January 2018, July 2015). The tender for express feeder line has now been invited (January 2018) while the estimate of ₹1.32 crore forwarded (November 2018) was pending with Government.</p>						

¹¹² A form of laterite (clayey material) soil.

¹¹³ Having a capacity or tendency to expand on absorbing moisture.

¹¹⁴ M/s R.N.A. Engineers (P) Limited, Bengaluru.

¹¹⁵ Including removal of pipes and relaying after subjecting to necessary tests, replacement and erection of valves, etc.

LIS location	Estimated cost	Irrigation potential (ha)	Date of award of tender	Due date for completion	Tendered cost & Expenditure	Status of work
2. Holalur	6.25	422	February 2008	March 2010	7.06 8.79	Work was completed but during trial run leakages were noticed.

Audit observation:

- LIS comprised of two stages to irrigate 422 ha of land and Stage I works were completed during December 2014. During the trial run (February 2015), heavy leakages were noticed in the joints of the rising main in the initial reach at seven locations. This was because joints were disturbed due to presence of black cotton (BC) soil as no gravel base was provided, which was necessary but was not provided for in the estimate. Concrete blocks were provided to arrest leakages and the problem recurred at 25 different locations during subsequent trial run also (May 2015).
- Chief Engineer, Minor Irrigation (South), Bengaluru (CE) inspected (13 March 2016) the work following discussion in the Assembly (4 March 2016) on abnormal delay in completion of the project and instructed to conduct longitudinal survey of the rising main of the first stage as leakages occurred.
- The contract was closed (October 2016) at the risk and cost of agency and balance works including rectification of defective works of first stage was awarded (March 2017) to another agency for ₹ 5.44 crore for completion in nine months (December 2017). The agency, after execution of rectification works at a cost of ₹ 3.04 crore (3rd RA Bill/November 2017), backed out (January 2018) citing poor quality of pipes used for rising main and underperformance of pumping machinery as the measures proved futile in the trial runs. However, no action was taken to assess the quality of the laid pipes.
- CE submitted (January 2018) to Government that despite efforts being made to arrest leakages by concreting the joints, the leakages continued to occur. Further, CE reported (January 2018) that the initial 3.80 km length of rising main runs in BC soil area and stretch in 500 m to 1,500 m runs across a road where heavy vehicles were plying, resulting in leakages in pipes. Hence, he recommended for replacement of PSC pipes by MS Pipes in both Stages estimated to cost ₹ 7.50 crore. The recommendation was also concurred (October 2018) by TAC.

LIS location	Estimated cost	Irrigation potential (ha)	Date of award of tender	Due date for completion	Tendered cost & Expenditure	Status of work
3. Kakanahasudi	2.30	339	March 2009	September 2010	2.61 2.16	Portion of Rising main not completed.

Audit observation:

- The agency laid the rising main leaving gaps midway and also changed the alignment in the initial stretch. The Department failed to ensure that the work was carried out as per approved design.
- After termination of the contract, survey was conducted (October 2016) and it was noticed that the required length of rising main was 5,700 m against designed length of 4,000 m. Any change in design parameters of rising main also involves change in sufficiency of controlling arrangements. Allowing execution of work without reviewing design was highly irregular. Test-running of pumps, motors and safety valves already installed was not done to ensure functionality of the same.
- Estimate for the balance work for ₹ 2.58 crore was submitted (September 2017) to Government which was not yet approved (November 2018).

LIS location	Estimated cost	Irrigation potential (ha)	Date of award of tender	Due date for completion	Tendered cost & Expenditure	Status of work
4. Kachinakatte	1.58	424	January 2007	January 2008	1.42 1.61	Work was completed but during trial run leakages were noticed.
Audit observation:						
a) Leakages were noticed in the rising main during trial (October 2013) and the EE attributed the leakages to non-provision of essential items in the estimate, viz. non-providing concrete bed block in joints for rising main pipeline, non-providing of <i>Murram</i> layer in black cotton soil reaches, inadequate controlling arrangements.						
b) Rectification of defective works estimated to cost ₹ 1.18 crore was submitted (June 2017) to the Government which directed the CE to submit revised estimate. The portion of work relating to rectification of defects in the rising main costing ₹ 77.84 lakh was awarded (December 2017) to another agency for ₹ 74.81 lakh for completion by September 2018. However, the work had not been commenced by the agency as of November 2018.						
Total	11.84	1266			13.02	13.96

- ❖ In all above cases, the Government had sought (August 2017/January 2018) from the CE, the details regarding extra cost recoverable from the original agency. The CE reported (January/February 2018) that the same could be worked out only after successful implementation of these Schemes. In case of design fault, the extra cost has to be borne by the Government and the contractor cannot be held responsible. Hence, chances of recovery of extra cost from the agency was remote.
- ❖ Based on the instructions (September 2016) of the Government, the CE submitted (November 2016) copies of the chargesheets issued against the officers/officials responsible for the lapses. However, further developments in the progress made in fixing responsibility were not forthcoming.

Thus, failure to prepare proper design as per guidelines, taking into account the site conditions, led to non-completion of LISs rendering ₹ 17.00¹¹⁶ crore unproductive. Besides, it resulted in additional work towards replacement of pipes, repairs to pumping machinery, providing additional controlling arrangements, etc. the cost of which had not been assessed in all cases. The accountability had not been fixed even after noticing (between February 2015 and March 2016) the lapses two years ago.

¹¹⁶ ₹13.96 crore plus ₹3.04 crore spent on rectification works.

3.4.2 Unfruitful expenditure due to non-completion of works

Failure to obtain Forest Clearance prior to entrustment of works and non-prioritisation of items of work resulted in unfinished projects, rendering an expenditure of ₹5.19 crore unfruitful.

Paragraph 209 of Karnataka Public Works Departmental Code prohibits commencement of work without acquiring the required land. For projects requiring use of forest land, the User Agencies are required to submit proposals to the Nodal Officer of the State/Union Territory and the Deputy Conservator of Forests concerned in the prescribed format as envisaged under Clause 6 of the Forest (Conservation) Amendment Rules, 2004. Forest clearance is given in two stages. In-principle approval is given in Stage I, listing out the conditions for transfer and Stage II or final clearance is given after complying with the stipulated conditions. The Regional Empowered Committee is empowered to grant approval for diversion of forest land up to 40 hectares (ha) (except mining and encroachments).

For projects involving diversion of forest land above one ha, Compensatory Afforestation had to be carried out in non-forest land of area equal to the area diverted or twice the area diverted, if it is a degraded forest. The User Agencies shall also pay the Net Present Value (NPV) and Compensatory Afforestation charges.

Executive Engineer, Minor Irrigation Division, Shivamogga (EE) took up (February 2008, August 2011, November 2011) construction of three Lift Irrigation Schemes (LIS) at an estimated cost of ₹ 6.64 crore to irrigate 693 ha of land. The works were entrusted to contractors at the tender cost of ₹ 7.80 crore for completion within two years of entrustment, including the monsoon period. By the end of February 2018, ₹ 5.19 crore had been paid to the contractors and none of the LIS was made operational though they were planned to be completed within two years of their commencement.

Audit scrutiny of the records at the Office of the EE revealed that the works were taken up even without obtaining Stage I clearance for diversion of forest land. Moreover, there was an incorrect assessment of the extent of forest land required and non-prioritisation of items of works (machineries were procured before completion of civil works), as discussed below:

- ❖ The quantum of forest land required for the works was not assessed correctly by the Minor Irrigation Department. On verification, the Department of Forests, Ecology and Environment found that the extent of forest land required was incorrectly assessed and returned the proposals for necessary correction. Details are as given in the **Table 3.7** below:

Table 3.7: Assessment of forest land

Sl No.	Name of the Lift Irrigation Scheme	Date of entrustment	Forest area required as per original proposal (ha)	Forest area as assessed by Forest Department (ha)	Tender cost	Expenditure incurred
					₹ in crore	
1	LIS at Honnekudige	14.02.2008	2.179	1.9940	4.44	2.21
2	LIS at Kasaravalli	10.06.2014	0.780	1.2900	1.71	1.54
3	LIS at Heggodu	10.06.2014	0.318	0.6975	1.65	1.44

- ❖ In respect of LIS at Honnekudige, the proposal was closed (March 2017) by the MoEF¹¹⁷ as necessary details of the area required along with index map sought for (October 2015) were not furnished. Fresh proposals for diversion of forest land has not been furnished by the EE as of March 2018;
- ❖ In respect of LIS at Kasaravalli, the forest area required was incorrectly assessed as 0.78 ha against the requirement of 1.29 ha after verification. As the requirement of forest land was in excess of one ha, equivalent non-forest land had to be identified by the User Agency for taking up Compensatory Afforestation besides payment of NPV. The contractor had executed work in the forest area without approval and a Forest Offence Case was registered (April 2014) against him. Improper assessment of forest area required for the scheme not only resulted in delays but also underestimated the cost;
- ❖ In respect of LIS at Heggodu, details sought (October 2016) by the MoEF had not been furnished by the EE as of March 2018.
- ❖ As the works were entrusted to contractors in anticipation of obtaining clearance, it was imperative on the part of the EE to take expeditious action to obtain Forest Clearance by submitting all the relevant details. Even after a lapse of a considerable period (ranging between four and seven years) since the commencement of works, requisite details were not furnished to obtain in-principle clearance (Stage I) for any of the projects. Further, timely submission was not monitored by the Superintending Engineer/Chief Engineer which indicates deficient monitoring.
- ❖ The programme of works should prescribe completion of civil works before supply of machineries as they are required only at the end. However, the Department failed to specify such conditions and the contractors supplied (before September 2015) the machineries like motors, pumpsets, transformers, *etc.* for which part payments amounting to ₹ 1.53

¹¹⁷ Ministry of Environment and Forests, Government of India.

crore were made. The machineries so procured were not tested for quality as trial run could not be conducted. As three years had already elapsed, the warranty clauses also would have expired by now and for any wear and tear to the machineries so procured, the suppliers would not be liable for replacement or rectification of defects, if any. Hence, the entire cost thereof would have to be borne by the Department thereby inviting more financial burden.

Failure to comply with statutory provisions resulted in non-completion of projects rendering an expenditure of ₹ 5.19 crore unfruitful besides cost escalation which had not been quantified (February 2018).

The matter was referred to Government in February 2018 and reminded in September and October 2018; their reply is still awaited (February 2019).

PUBLIC WORKS, PORTS AND INLAND WATER TRANSPORT DEPARTMENT

3.5 Payment to Contractors in contravention of agreement

Karnataka State Highways Improvement Project (KSHIP) took up *seven* packages of State Highways improvement works under Engineering, Procurement and Construction model¹¹⁸ (five works) and Hybrid Annuity Model (two packages). One each package from both the contract model were test checked in audit during 2017-18 and the observations are discussed in Paragraph 3.5.1 & 3.5.2.

3.5.1 Excess Payment

The Project Director paid ₹ 13.62 crore in contravention of Concession Agreement while making payment for first annuity instalment in respect of State Highway Improvement Project.

The Chief Project Officer, Project Implementation Unit (PIU), Karnataka State Highways Improvement Project (KSHIP) signed (March 2014) a Concession Agreement (CA) with M/s Mysore Bellary Highway Private Limited, (Concessionaire) for improvement of State Highway 3 and 33 from Malavalli to Pavagada for a total length of 193.34 km including construction of cross-drainage works. The CA was for a period of 10 years comprising 30 months (910 days) for construction and 90 months towards maintenance of road by the Concessionaire at a total project cost of ₹1,306 crore. As per the agreement, the Concessionaire was to be paid ₹ 239.20 crore towards cost of construction, payable in five instalments on achieving specified milestones. Maintenance

¹¹⁸ A form of contract wherein the contractor is responsible for all the activities from the design, procurement, construction, commission and handover the project to the employer.

cost was to be paid in 15 bi-annual instalments on the dates specified in Schedule 'M' and at the rate of ₹ 71.15 crore per instalment, subject to the terms and conditions of the CA. The scheduled date of completion of construction was 9 June 2017, 911 days from 12 December 2014 (Appointed Date, *i.e.* commencement date).

As per Clause 15.1 of the CA, the Commercial Operation Date (COD) would be the date on which the Completion Certificate (CC) or Provisional Certificate of Completion (PCC) was issued by the Independent Engineer¹¹⁹ (IE) for the completed part, subject to any deduction for any negative change in the scope of work. As per Clause 27.2 of the CA, annuity payment would commence from the date six months after the scheduled date of completion (9 June 2017), if COD was achieved on or before that date. If COD was beyond that date, the annuity payment would commence from the date provided in the Schedule 'M' which falls after the COD.

As of May 2018, the Concessionaire had completed the construction work in all respects except for a length of 1.128 km and had received ₹ 221.75 crore towards construction cost and ₹ 71.15 crore as first annuity instalment.

Scrutiny (May 2018) of the records of the Project Director (PD), PIU, KSHIP revealed excess payment while releasing the first instalment of annuity, which is discussed below.

The Concessionaire requested (October 2017) for issue of PCC effective from 9 June 2017 for completion of works in 170 km. The IE conveyed (November 2017) to the PD, KSHIP that the Concessionaire was not entitled for issue of PCC on the ground that safety works costing ₹ 15.05 crore remained unexecuted and hence project completed to the extent could not be declared for commercial operation. However, based on instructions by the PD, the IE issued (December 2017) PCC (*i.e.* commencement of commercial operation) with effect from 9 June 2017 for a length of 170 km.

The IE, taking cognizance of shortfall in completion of work in 23.34 km¹²⁰, recommended (February 2018) to the PD that the Concessionaire was entitled for first annuity payment with proportionate reduction¹²¹ as per Clause 28.4.2 and 28.4.3 of CA. The reduction in annuity instalment for 12.07¹²² per cent shortfall works out to ₹ 13.62¹²³ crore. Thus, against the first annuity

¹¹⁹ Appointed by the Employer, *i.e.* PD, KSHIP for monitoring, evaluation of construction, certification of various stages of project construction and certification of payments.

¹²⁰ 193.34 kms (total project length) – 170 kms (completed length) = 23.34 kms.

¹²¹ As per Article 28.4.2 and 28.4.3 of CA, the annuity payment shall be reduced by one per cent for every one per cent fall in actual lane availability up to five per cent compared to assured lane availability. Beyond five per cent, the annuity payment should be reduced by two per cent for every one per cent shortfall.

¹²² $23.34/193.34 = 12.07$ per cent.

¹²³ $71.15 \times \{(1/100 \times 5) + (2/100 \times 7.07)\} = 71.15 \times (0.05 + 0.1414) = 71.15 \times 0.1914$.

instalment of ₹ 71.15 crore, the Concessionaire was entitled to receive ₹ 57.53 crore only. However, PD, KSHIP advised (March 2018) the IE to reconsider the recommendation, who in turn recommended (March 2018) for release of the full amount which was paid to the Concessionaire in the same month. The payment of ₹ 13.62 crore was thus in violation of the CA and this action of the PD, KSHIP was highly irregular as it not only resulted in excess payment to the Concessionaire, but also taking over of the road without completion of safety works, potentially compromising the safety of the traffic/users.

The Government in their reply stated (September 2018) that the reduction of annuity would work out to ₹ 2.13 crore, on a proportionate basis, considering that the amount of work completed as on the date of payment of annuity (26th March 2018) was 97 *per cent*. This reduction is much less than the amount of ₹ 13.62 crore objected by Audit.

The reply is not acceptable as Clauses 28.4.2 and 28.4.3 stipulate reduction in annuity payment for fall in actual lane availability as on the scheduled date, i.e. the Commercial Operation Date (COD), which is defined as per Clause 15.1 of the Concession Agreement. As the Contractual Agreement does not mention the date of payment of annuity as the criteria for a *pro rata* reduction of annuity, not enforcing the contractual provisions was irregular which had resulted in an excess payment of ₹ 13.62 crore to the contractor.

3.5.2. Unintended benefit to contractor

Incorrect adoption of the date of completion of work in a road construction contract resulted in short levy of ₹ 4.90 crore towards delay damages.

As per the General conditions of contract (Clause 8.2), the contractor shall complete the whole of the works within the date stipulated for completion, and failure to do so shall attract payment of delay damages as per Clause 8.7. The delay damages shall be the sum stated in the contract which shall be paid for every day of delay between the relevant date for completion and the date stated in the 'Taking Over Certificate'. The total amount payable shall not exceed the maximum amount of 10 *per cent* of the contract amount.

The work of "Upgradation of road from Chowdapura (0+000) to Kalaburagi - (28+630) (SH 22)" was entrusted (March 2011) to a Contractor at a tendered cost of ₹ 61.55 crore with a stipulation to complete the work by January 2013. The completion date was extended primarily due to the inability of the Department to provide encumbrance free land. Based on the recommendation of the Construction Supervision Consultant (CSC)¹²⁴, the Project Director (PD), Karnataka State Highway Improvement Project – II (KSHIP) approved (May 2016) extension of time (up to 18th April 2014) for completion of the

¹²⁴ M/s EGIS International in joint venture with AARVEE Associates.

work, besides levying delay damages for 7 days¹²⁵ at ₹ 3.83 lakh per day amounting to ₹ 0.27 crore. The CSC, after more than two years, issued (June 2016) “Taking Over Certificate” (TOC) certifying that the work was substantially completed on 25th April 2014. As the road was declared (March 2014) as a National Highway (NH – 150E), it was handed over (June 2016) to the National Highway authorities.

Scrutiny of records (June 2017) in the office of the PD, KSHIP, Bengaluru revealed that the work was not completed on the 25th April 2014 as certified in the TOC. The pavement works were under construction at that point in time and were completed only during August 2014 as seen from the progress report. Hence, delay damages should have been levied for 135 days (from 19 April 2014 to 31 August 2014) at ₹ 3.83 lakh *per* day which works out to ₹ 5.17 crore, whereas only ₹ 0.27 crore was proposed (May 2016) to be recovered from the Contractor. The amount was yet to be recovered (September 2018) from the final bill¹²⁶ submitted during November 2016 as it was still not paid. This short levy of delay damages resulted in unintended benefit of ₹ 4.90 crore to the contractor.

On this being pointed out, the PD replied (July 2018) that:

- ❖ Work was substantially completed on 18 April 2014 and the balance works remaining to be completed as on that date were of minor nature, which did not interfere with the smooth plying of vehicles on the already upgraded road; and
- ❖ Notices were issued (March 2015/August 2015/November 2015) to the contractor with a view to speed up the completion of the balance works and there were no patent delays attributable to the contractor.

The reply is not acceptable for the following reasons:

- ❖ The pending works were not minor works as claimed by the PD. Even the bituminous layers¹²⁷ were not completed in full as on 25th April 2014, *i.e.* on the taking over date;
- ❖ As per provisions of the Agreement (Clause 10.1), the “Taking Over Certificate” shall be issued to the Contractor by the CSC within 28 days after receiving the Contractor’s application. The Contractor requested (18 January 2014) for taking over a part of the section completed which was rejected by the CSC (14 February 2014) as the section of the road to be taken over was not specified. However, the CSC issued the “Taking Over Certificate” effective from 25 April 2014 while no further application was received from the Contractor and moreover, this certificate was issued after completion of the Defect Liability Period (25 April 2015). Audit scrutiny also revealed that the Contractor had carried out rectification of defects during June 2016, *i.e.* after the Defect Liability Period;

¹²⁵ From 19 to 25 April 2014.

¹²⁶ ₹ 56.94 crore (excluding ₹ 8.71 crore towards price adjustment).

¹²⁷ Providing Dense Bituminous Macadam layer and Bituminous Concrete layer.

- ❖ Moreover, the payment schedule is linked to completion and not partial completion – howsoever unsubstantial; and
- ❖ The reasons for delay attributable to the Department were duly considered while granting the extension of time from 18 January 2013 to 18 April 2014 and thus, further delay was entirely attributable to the contractor.

In view of the above lapses, the “Taking Over Certificate” issued with retrospective date was irregular and delay damages for 135 days were leviable.

The matter was referred to the Government in February 2018 and reminded in September and October 2018; their reply is awaited (February 2019).

3.6 Undue benefit to contractor

Adoption of uneconomical rates in estimate and improper regulation of rates for excavation items coupled with short levy of liquidated damages had resulted in undue benefit of ₹ 11.14 crore to the contractor in a building construction contract.

The cost of excavation by mechanical means is cheaper when compared to excavation by manual means and Schedule of Rates (SR) of Public Works, Ports and Inland Water Transport Department (PWD) includes distinct rates for both types of excavation for various types of soil strata including soft rock/hard rock.

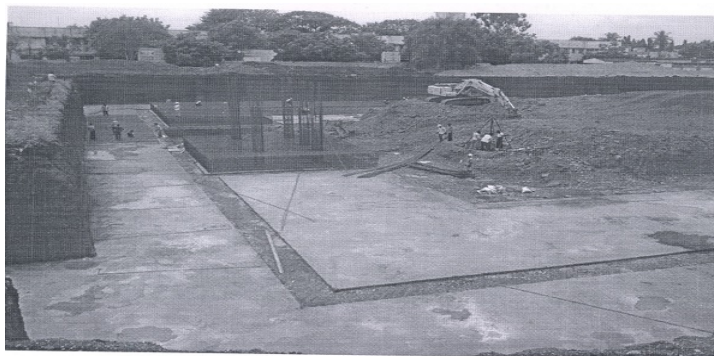
The contract for ‘Upgradation of Teaching Hospital to Institute of Medical Sciences at Bidar’ was awarded (April 2014) to M/s NCC Limited, Bengaluru (contractor) for a negotiated amount of ₹ 95.95 crore (19 *per cent* above the amount put to tender, *i.e.* ₹ 75.97 crore) with stipulation to complete the work by April 2016. The work was completed in March 2017 at a total cost of ₹ 110.09 crore (including variation items¹²⁸) and the contractor was paid ₹ 93.15 crore.

Scrutiny (September 2017) of records at the Office of the Executive Engineer, PWD Division, Bidar revealed undue benefit to the contractor, as detailed below:

- ❖ The Department while preparing the estimate adopted rates for excavation by manual means despite a huge quantum (38,842.58 cum) of excavation. Though photographic evidences revealed that the items were executed by mechanical means, the Department did not regulate the payments by invoking Clause 35.3¹²⁹ of the Conditions of Contract.

¹²⁸ ₹ 14.14 crore towards execution of quantities beyond 125 *per cent* of tendered quantities and extra items.

¹²⁹ Clause 35.3 of the conditions of contract provides for substitution/alteration of any tendered item during execution and payment for the substituted item has to be made at the relevant rate available in SR, plus or minus the tender percentage already accepted.



Photograph 3.9: Excavation by mechanical means

Failure to provide mechanical means of excavation in the estimate *ab initio* and to regulate payment as per the terms of the agreement resulted in over payment of ₹ 1.69 crore to the contractor as detailed in **Table 3.8:**

Table 3.8: Details of overpayment

(Amount in ₹)

SI No.	Excavation	Rate for mechanical means (SR 2013-14)	Rate payable (with 19 % tender percentage)	Rate paid (Tender Rate)	Difference (5 – 4)	Quantity executed (cum)	Over-payment (6 × 7) (₹ in lakh)
-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-
1	Hard soil	30.23	35.97	260	224.03	6,077.49	13.62
2(a)	Soft rock (without blasting)	40.25	47.90	600	552.10	25,829.08	142.60
2(b)	Exceeding 125% of the tendered quantity	40.25	47.90	772.31	724.41	1,717.04	12.44
Total							168.66

(Source: Details furnished by the Division)

The contractor failed to complete the work within the stipulated period (April 2016) and requested extension of time up to March 2017. Clause 41 of the agreement provides for levy of Liquidated Damages (LD) for delay in completion of work at a minimum rate of 0.1 *per cent* of contract price per day subject to a maximum of 10 *per cent* of the contract price.

- ❖ The Executive Engineer recommended for levying Liquidated Damages (LD) of ₹ 3,000 per day for 217 days of delay attributable to the contractor as against LD of ₹ 9,59,500¹³⁰ per day stipulated in the agreement. However, the Chief Engineer, Communication & Buildings (North East), Kalaburagi enhanced the rate of LD to ₹ 4,000 per day for 366 days and ₹ 13.44 lakh was recovered. The LD recovered was not in conformity with the terms of the contract. For delay of 217 days, the LD works out to ₹ 20.82 crore but limited to ₹ 9.59 crore¹³¹ in view of the conditions of the contract. Thus the short recovery of LD works out to ₹ 9.45 crore.

¹³⁰ 0.1 *per cent* of the contract price (₹95.95 crore) = ₹ 9,59,500.

¹³¹ 10 *per cent* of the contract price.

Thus, improper regulation of rates for excavation items and short levy of LD had resulted in extending undue benefit of ₹ 11.14 crore¹³² to the contractor.

On this being pointed out, the Executive Engineer replied (September 2017) that feasible items for excavation of foundation of the building were adopted, executed and paid as per the estimate sanctioned by the Chief Engineer. Further it was stated that the rate for mechanical excavation provided in the SR was only for a depth of excavation up to 3 metres with shoring and bracing but the actual excavation was for a depth up to 6 metres without shoring and bracing. Regarding short levy of LD, the Executive Engineer replied that LD of ₹ 24 lakh has been deducted from the bills of the contractor. Reply is not acceptable as the rate adopted for manual means in the estimate was for a depth of 1.5 metres only which was paid for excavation up to 6 meters even though contractor had actually executed the excavation by using machineries. Further, the LD levied was not in accordance with the Conditions of the Contract and discretion was not envisaged in the agreement.

The matter was referred to the Government in April 2018 and reminded in September and October 2018; their reply is still awaited (February 2019).

3.7 Excess payments to the contractor

The Government of Karnataka approved (2012-13 to 2014-15) Construction of *seven* buildings in Mysuru district. These works were awarded (2012-13 to 2014-15) to different contractors by the Executive Engineer, Buildings Division, Mysuru and the records relating to *three* works costing more than ₹ *two* crore were test checked (May 2017 and 2018) in audit and observations are discussed in the paragraphs 3.7.1 and 3.7.2.

3.7.1 Overpayment to Contractor

Overpayment of ₹1.29 crore due to treatment of an item of work as variation item contrary to conditions of contract and also for undertaking excavation beyond the required depth.

Executive Engineer (EE), Public Works, Ports and Inland Water Transport Department Division (PWD), Mysuru awarded (March 2015) a contract for construction of Government Maharani's Ladies Hostel building at Paduvarahally in Mysuru district to M/s Ramkrishy Infrastructure Private Limited (Contractor) for ₹ 29.33 crore (4.82 *per cent* above the Schedule of Rates of 2014-15) for completion in 15 months. The Contractor was paid ₹ 27.99 crore (inclusive of additional items) and work was completed in March 2017 and final bill yet to be paid (November 2018).

¹³² Over payment: ₹ 1.69 crore + Short recovery of LD: ₹ 9.45 crore = ₹ 11.14 crore.

Scrutiny (May 2017/May 2018) of records of the EE, PWD (Special) Division, Mysuru¹³³ revealed overpayments to the contractor besides additional cost to the exchequer, as discussed below:

- ❖ The estimate for the work provided for excavation for foundation in ordinary soil/hard soil to an extent of 11,952 cum. As marshy soil was encountered during excavation, an additional quantity of 23,578 cum was excavated and the same was treated as extra item, as this was not there in the agreement. The Department adopted the specification 'Item No. 2.23.4 as per the Schedule of Rates 2014-15 - Excavation in marshy soil by mechanical means with backfilling' and paid an additional ₹ 73.92 lakh for this 23,578 cum at ₹ 313.52 per cum. In addition, the Contractor was also paid ₹ 2.03¹³⁴ crore for disposal of 28,686 cum of excavated earth and for refilling the foundation with 27,035 cum of gravel brought from an outside source on the plea that the excavated soil was not suitable for backfilling. However, the rate of ₹ 313.52 per cum paid for excavation in marshy soil was inclusive of backfilling;
- ❖ As seen from the data rate¹³⁵, 0.5 cum of gravel has to be mixed with one cum of excavated marshy soil to make it reusable. Hence, Contractor had to bring 11,789 cum of gravel for mixing with 23,578 cum of marshy soil so as to improve its characteristics for backfilling as per the item of work. The EE confirmed (May 2018) that mixing of gravel with excavated soil was not done by the Contractor and hence the excavated soil was allowed for disposal. The action of the EE in allowing disposal of excavated soil was not acceptable as the Contractor was paid the full rate which included gravel mixed excavated earth. Further, hard soil (highest grade amongst the three types of general classification of soils) obtained during excavation which was available for backfilling was also allowed to be disposed off, without any justification;
- ❖ Considering that full rate was paid for the excavation in marshy soil item, the possibility of usage of excavated material mixed with gravel for backfilling cannot be ruled out. Thus, the payment of ₹ 2.03 crore made towards disposal of hard/marshy soil and supply of gravel from other sources for backfilling was highly questionable. Since payment for supply of gravel was also made under the composite item, ₹ 1.03 crore paid separately was not admissible and hence recoverable;
- ❖ Chief Engineer, Communication & Buildings, Bengaluru (CE) during inspection (2nd May 2015) instructed to restrict the depth of excavation, which had reached up to RL¹³⁶ 95.50 meters, to RL 95 meters, *i.e.* further

¹³³ Jurisdiction of the work was transferred to this Division formed in July 2015.

¹³⁴ Disposal of earth - 28,686 cum × ₹350= ₹1.00 crore. Supply of gravel - 27,035 cum × ₹382.19= ₹1.03 crore.

¹³⁵ A data rate is prepared for any item not found in the sanctioned Schedule of Rates on the basis of actual cost of materials, labour, lead, lifts and weightage (Paragraph 14.11 of Karnataka Public Works Departmental Code).

¹³⁶ Reduced Level.

by 0.50 meters depth, and provide *murrum* thereafter. However, scrutiny of Measurement Books revealed that the depth of excavation was not restricted as instructed by the CE and the actual depth of excavation varied between RL 93.12 and RL 93.51 meters, involving excavation of an additional 8,330 cum. The contractor was paid ₹ 26.12 lakh towards the same, which was not admissible as it was to be borne by the Contractor.

On this being pointed out, EE stated (June 2018) that disposal of excavated soil was allowed as per the Inspection Notes (March 2015) of CE.

The reply is indicative of the fact that the CE's decision to dispose off the excavated soil was not in conformity with the specification of the item. In addition, the Contractor was paid the full rate for excavation in marshy soil which was inclusive of cost towards supply of gravel and certified as executed as per the specification.

The matter was referred to the Government in May 2018 and reminded in September and October 2018; their reply is still awaited (February 2019).

3.7.2. Inadmissible payment to contractor

Ignoring the provisions of agreement, the Divisional Officer paid ₹ 98.97 lakh towards price adjustment for ineligible period and for items which were already included in the tender.

As per Government Order (November 2008), for works costing more than ₹ 50 lakh and period of completion exceeding 12 months, the Price Adjustment (PA) Clause should be included in the tender documents to adjust for increase or decrease in rates and prices of labour, materials, fuels and lubricants, *etc.* during the period of contract. PA shall not be admissible if the period of contract is extended because of the lapses by the contractor.

Executive Engineer (EE), PWD Special Division, Mysuru entrusted (April 2012) the work of construction of the District Court Complex at Malalavady to a contractor at a tendered cost of ₹ 21.19 crore. The stipulated time for completion of the work was October 2013. The work was completed in July 2015 and an amount of ₹ 20.42 crore was paid (March 2017) to the contractor which included ₹ 1.25 crore towards PA.

Scrutiny of records (May 2017, May 2018) at the Office of the EE revealed that the time for completion of the work was extended (upto November 2014) on the request (September 2014) of the contractor with an undertaking given by him that no compensation will be claimed for the extended period. The Superintending Engineer (SE), PWD Circle, Mysuru approved (December 2014) the time extension with a stipulation that no extra financial implication would be admissible for the extended period. Thus, PA was admissible only for the work executed up to October 2013. Despite specific instruction by SE and ignoring the provisions of the agreement, EE, however, paid PA claimed

by the contractor of ₹ 1.25 crore which included ₹ 80.60 lakh for the work executed during the extended period of contract.

In the above work, the tender item of “earthwork in surface excavation for levelling and lowering the ground” included 20 *per cent* extra rate for excavation under water conditions and/or foul condition and also for bailing/pumping out and removing slush. The tender also provided an item for “filling sides of foundation up to plinth in layers”. Preparation of site and clearing the debris at the site were the responsibility of the contractor for which no additional payments should be made. Audit scrutiny, however, revealed that “removing the silt at the site”, “dewatering” and “filling sides of foundation” were treated as extra items and an amount of ₹ 18.37 lakh¹³⁷ was paid(March 2017).

Thus, ₹ 98.97 lakh was paid to the contractor towards inadmissible PA and for items already included in the tender.

On this being pointed out, the EE replied (May 2018) that this would be recovered from the contractor.


The matter was referred to the Government in May 2018 and reminded in September and October 2018; their reply is still awaited (February 2019).



Bengaluru
The

(Anup Francis Dungdung)
Accountant General
(Economic and Revenue Sector Audit)
Karnataka

Countersigned



New Delhi
The

(Rajiv Mehrishi)
Comptroller and Auditor General of India

¹³⁷ For removal of silt - ₹ 3.94 lakh and for dewatering ₹ 14.43 lakh.



Appendices

Appendix 1.1
(Reference: Paragraph 1.6.2, Page 9)
Details of Departmental Notes pending as of September 2018

Sl. No.	Department	03-04	04-05	08-09	09-10	12-13 [@]	13-14 [@]	14-15 [@]	15-16 [@]	15-16 ⁺	16-17 [@]	Total
1	Commerce & Industries	--	--	--	--	--	--	1	-	--	2	3
2	Food, Civil Supplies and Consumer Affairs	--	--	--	--	--	--	--	-	--	1	1
3	Forest, Ecology & Environment	--	--	--	--	--	--	--	-	--	2	2
4	Horticulture (Sericulture)	--	--	--	--	--	--	--	-	--	--	--
5	Information Technology, Bio-technology and Science & Technology	--	--	--	--	--	--	--	-	--	--	--
6	Water Resources (Minor Irrigation)	1	--	--	--	--	--	--	-	--	4	5
7	PW, P & IWT	--	--	--	--	--	--	--	3	--	4	7
8	Infrastructure Development	--	--	--	--	--	--	--	--	--	--	--
9	Tourism	--	--	--	--	--	--	--	--	--	1	1
10	Water Resources	--	--	--	--	--	--	--	--	--	--	--
Total		01	00	00	00	00	00	01	03	00	14	19

(@ Report on Economic Sector)

(+ Stand Alone Report on Administration of National Parks and Wildlife Sanctuaries in Karnataka)

Appendix 1.2
(Reference: Paragraph 1.6.3, Page 9)
Number of Paragraphs/reviews yet to be discussed by PAC as of September 2018

Sl. No.	Dept [#]	1992-2001	01-02	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12 [@]	12-13 [@]	13-14 [@]	14-15 [@]	15-16 [@]	16-17	Total
1	Forest, Ecology & Environment	6	3	1	--	--	--	1	2	--	2	1	1	--	1	2 ⁺	2	22
2	Food, Civil Supplies & CA	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1	1	02
3	WRD	55	6	--	--	--	--	--	--	--	--	--	--	2	--	--	--	63
4	WRD (MI)	20	--	1	2	1	--	--	3	2	1	--	1	3	3	5	4	46
5	P.W.P & IWT	9	--	1	--	--	--	--	--	--	--	--	7	--	--	6	4	27
6	RDPR(PHE)	1	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	01
7	Co-operation	1	--	--	--	1	--	--	--	--	--	--	--	--	--	--	--	02
8	Commerce & Industries	3	--	--	--	--	1	--	1	--	1	--	--	3	2	3	2	16
9	Horticulture	2	--	--	--	--	--	--	--	--	--	--	1	--	--	--	--	03
10	IT&BT	--	--	2	--	--	--	--	--	--	--	--	1	--	--	--	--	03
11	Tourism	--	--	--	--	--	--	--	--	--	1	--	--	--	1	--	1	02
12	Infrastructure Development	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
	Total	97	9	5	2	2	1	1	6	2	5	1	11	8	7	17	14	188

([@] Report on Economic Sector)

(⁺ Includes Stand Alone Report on Administration of National Parks and Wildlife Sanctuaries in Karnataka)

Appendix 2.1
Incentive packages offered to M/s Himmatsingka Seide
(Ref: Paragraph 2.1.7.7, Page 25)

1. Interest Subsidy of *5per cent* per annum on the term loan taken for the project for a period of 7 years, subject to a maximum of ₹ 210 crore
2. An amount of ₹ one per unit as power subsidy for a period of seven years, subject to a maximum of ₹ 105 crore.
3. Standard basket of following incentives & concessions subject to a ceiling of ₹ 115 crore which should be claimed within seven years from the date of commercial production.
 - a. Credit linked capital subsidy (CLCS) – *10 per cent* of project cost or ₹ 75 crore whichever is less.
 - b. Reimbursement of State level taxes, duties & Statutory levies – Exemption up to *10 per cent* on total amount of taxes levied by the State.
 - c. Reimbursement of ESI/EPF – Upto *50per cent* reimbursement on employer's contribution.
 - d. Reimbursement of Entry tax – *100per cent* exemption of entry tax on plant machinery as per the requirement of the unit
 - e. Reimbursement of Stamp Duty – *100per cent* exemption of stamp duty on all legal documents for land, loan, working capital and any other project documents
 - f. Effluent Treatment Plant – Maximum subsidy @ *50per cent* or ₹ two crore, whichever is less.
4. The total package of incentives & concessions should not exceed ₹ 430 crore.

Appendix 2.2
Spinning Mills in Co-operative sector
(Ref: Paragraph 2.1.9, Page 38)

(₹ in crore)

Sl. No.	Spinning Mills Names	Location	Capacity (No. of Spindles)	Apex bank loan settlement amount	Conversion of principal into equity	Waiver off		Total
						Interest	Penalty	
Working								
1	The Gadag Co-operative Spinning Mill	Hulakoti	21376	0	3.63	8.16	2.38	14.17
2	The Banahatti Co-operative Spinning Mill	Banahatti	17320	0	11.70	6.28	0.87	18.85
3	The Farmers' Co-operative Spinning Mill	Hulakoti	21888	0	8.68	14.28	10.44	33.40
4	Sri Someshwara Co-operative Spinning Mill	Lakshmeshwara	25000	0	6.54	17.69	8.30	32.53
Total				0	30.55	46.41	21.99	98.95
Non-working								
5	Raithara Co-operative Spinning Mill	Hanumanahatti	24960	1.45	22.22	20.96	3.07	47.70
6	Malaprabha Co-operative Spinning Mill	Savadatti	25000	1.77	11.64	11.03	1.61	26.05
7	Venkateshwar Co-operative Spinning Mill	Annigeri	25000	1.43	17.21	17.48	2.56	38.68
8	The Belgaum Co-operative Spinning Mill	Panthabalekundri	25000	0	5.92	14.83	6.74	27.49
9	Tungabhadra Farmers' Co-operative Spinning Mill	Ranebennur	24960	0	6.82	18.56	7.58	32.96
Total				4.65	63.81	82.86	21.56	172.88

Appendix 2.3
Statement showing low market arrivals compared to marketable surplus
(Reference: Paragraph 2.2.8.2, Page 75)

(in 1,000 Metric tons)

Sl No.	Produce	Production during 2013-17	Marketable surplus in percentage	Marketable Surplus (MS)	Arrivals
1	Arecanut-Raw	9,626.77	100	9,626.77	255.17
2	Turmeric	789.46	95	749.99	48.71
3	Sunflower	950.9	99	941.39	240.32
4	Arecanut processed	1,897.24	100	1,897.24	539.13
5	Cotton	6,366.50	100	6,366.50	2,011.42
6	Soyabean	836.41	87	727.68	279.63
7	Gram	2,535.67	58.86	1,492.50	681.55
8	Jowar	4,133.24	13.9	574.52	267.72
9	Groundnut	1,880.63	86	1,617.34	812.35
10	Maize	15,194.70	89.79	13,643.32	9,589.51

Appendix 3.1
(Ref: Paragraph 3.2.1, Page 97)
Timeline for CAMPA

Sl No.	Month	Event
1	April 2004	Central Government constituted Compensatory Afforestation Management and Planning Authority (CAMPA) under provisions of the Environment Protection Act, 1986.
2	May 2006	The Supreme Court set up an <i>Ad-hoc</i> body (known as ' <i>Ad-hoc</i> CAMPA') as CAMPA was not operational. All amount received towards Compensatory Afforestation and lying with various State authorities were to be transferred to the bank accounts to be operated by the body.
3	December 2008	The Central Government introduced Compensatory Afforestation Fund Bill, 2008, which was passed (December 2008) in the Lok Sabha but lapsed as the Rajya Sabha could not pass the bill.
4	July 2009	MoEF in consultation with State Governments (SGs)/Union Territories (UTs) formulated guidelines for State CAMPA which sought to transfer 95 <i>per cent</i> of the amount held by <i>Ad-hoc</i> CAMPA to bank accounts of the respective SGs/UTs. State CAMPAs were set up.
5	July 2009	The Apex Court directed to notify the guidelines and structure of the State CAMPA. Fearing that large release of funds at one time might result in improper use, the Apex Court directed <i>Ad-hoc</i> CAMPA to release ₹ 1,000 crore per year for next five years in proportion of 10 <i>per cent</i> of the principal amount pertaining to respective SGs/UTs.
6	August 2016	Compensatory Afforestation Fund Act, 2016 came into force but rules were yet to be framed.

Appendix 3.2
(Ref: Paragraph 3.2.2.1, Page 99)
Statement showing details of cases of diversion of forestland (in 10 test-checked divisions)

Sl No	Name of Division	User Agency and Purpose of diversion	Forest diverted (ha)	Stage I approval	Stage II approval	Mutation – Ext (ha)	Final Notification (ha)	CA, ACA & PCA charges (₹)	NPV charges (₹) ¹³⁸	CA stipulated by MoEF	CA taken up (ha)	Shortfall in taking up CA (ha)
1	2	3	4	5	6	7	8	9	10	11	12	13
1	Yellapura	Construction of P.U. College Building in favour of the Principal, Government P.U College, Yellapur.	1.0	20.04.2011	31.05.2013	Not required ¹³⁹	0	1,05,000	10,43,000	0	0	0
2	Mangalore	Construction of sub-station at Madavu in favour of the EE (Elect.), Major Works Division, KPTCL, Kavoor, Mangalore.	1.62	15.02.2012	11.11.2013	0.0	0	3,67,500	16,89,660	1.62	0	1.62
3	Mangalore	33 KV DC Transmission Line in Uppinangadi & Belangadi Range, Dakshina Kannada District on Small Hydro Project at Dharmasthala Forest, Dandella in favour of M/s. Sagar Power Limited, Hyderabad.	2.39	17.02.2011	28.05.2014	Not required	0	10,02,120	24,88,598	9.54	9.54	0
4	Belgaum	Improvement of the existing road from Dharwad - Alnavar-Ramanagar (SH-34) by construction of Road Over Bridge (ROB) in favour of the Executive Engineer, KRDC Project Office, Hubli-reg.	0.79	11.10.2013	18.06.2014	Not required	0	13,04,531	16,45,854	0	0	0
5	Belgaum	Construction of Water Treatment Plant and allied works in favour of the Commissioner, City Corporation, Belgaum.	4.0	31.05.2013	01.08.2014	4.0	0	5,09,200	14,67,300	4.0	4.0	0
6	Belgaum	Construction of Basapur Lift Irrigation Scheme-II in favour of the Executive Engineer, Karnataka Neeravari Nigam Limited (KNNL) UTP Division, Ranebennur.	4.04	19.09.2011	18.11.2014	4.04	0	4,24,200	32,44,120	4.04	4.04	0
7	Bellary	Widening of Hospet-Bellary to Karnataka / Andhra Pradesh Border Section of NH-63 in favour of the GM(Tech) & PD, NHAI, Dharwad.	12.19	14.02.2013	08.12.2014	Not required	0	38,00,000	76,30,940	25	25	0
8	Bidar	Widening of NH-9 (Solapur-Sangareddy) from 2 lane to 4 lane in favour of the General Manager (Tech) & Project Director, National Highways Authority of India, Dharwad.	5.593	14-06-2013	02-02-2015	Not required	0	17,00,272	44,91,179	11.19	11.19	0

¹³⁸ No short or non-recovery of NPV.

¹³⁹ Mutation not required – CA is not required for cases involving diversion of forestland up to one ha and in respect of cases where CA was stipulated in degraded forestland.

9	Mangalore	Formation of road from Aletty-Kolchar-Kanakur-Bandadka, Sullia Taluk, Mangalore Division in favour of the Assistant Executive Engineer, Public Work Port and Inland Water Transport Department, Sub Division, Sullia, Dakshina Kannada.	1.35	19-12-2012	27-04-2015	0.0	0	4,10,400	14,08,050	1.35	0	1.35
10	Mangalore Chikmagalur	Laying of LPG pipeline from Mangalore to Devangundi Bengaluru via Hassan in favour of the Deputy General Manager, Pipelines, M/s. Hindustan Petroleum Corporation Limited (HPCL), Bangalore.	18.21	15-05-2014	13-02-2015	Not required	0	58,27,558	1,93,54,184	38.39	38.39	0
11	Mangalore	Establishing 1.5MVA,33/11 KV substation in Subramanya in favour of the Executive Engineer (Ele), O & M Division, MESCOM, Puttur Division, D.K.District, Karnataka.	0.92	--	26-08-2015	Not required	0	0	9,57,474	0	0	0
12	Mangalore	Construction of public Toilet & Solid Waste Management scheme at Gundiya Town, Shirady Grama Panchayath, Puttur Taluk, Dakshina Kannada in favour of the Executive Officer, Taluk Panchayath, Puttur-reg.	0.02	--	09-11-2015	Not required	0	0	20,860	0	0	0
13	Belgaum	Laying Optical Fiber Cable between Belgaum to Kagal under Belgaum Kolhapur G.Q.STR-Route in favour of the Divisional Engineer, Telecom Optical Fiber Project, BSNL, Hubli.	0.46	--	09-11-2015	Not required	0	0	2,87,960	0	0	0
14	Mangalore	Construction of bridge Across Kumaradhara River at Km 1.80 of Subramanya-Udupi Road (SH 37) in favour of the Executive Engineer, KRDCCL, Project Office, Mysore-regarding.	0.16	02-06-2015	30-12-2015	Not required	0	50,160	1,67,923	0	0	0
15	Mangalore	Establishment of 24 MW Mini Hydel Scheme in favour of M/s. SLV Power Private Limited, Mangalore.	1.54	30-09-2015	14-01-2016	0.0	0	2,33,822	16,04,447	1.54	1.54	0
16	Bellary	Renewal of Mining Lease No.1602 in favour of M/s Narayan Mines Private Limited, Hospet in Narayanapura Village, S.M.Block, Sandur Taluk, Bellary District	105.15	01-12-2009	18-01-2016	31.27	0	163,41,520	863,30,530	31.27	31.27	0
17	Bellary	Widening of NH-13 from Hospet - Chitradurga Section (KM 299. 000 to 418.60) in favour of the General Manager (Tech) & Project Director, National Highways Authority of India, Dharwad.	53.59	16-05-2014	24-06-2016	Not required	0	250,81,056	335,48,592	108	108	0
18	Bellary	Laying Optical Fiber Cable from Deogiri to Choranur in favour of the Divisional Engineer Telecom, OFC, Davanagere.	0.47	27-04-2013	27-04-2013	Not required	0	0	3,79,016	0	0	0
19	Ballari	Diversion of additional forest land in S.M. Block, Sandur Taluk, Bellary District (ML No.2505) in favour of M/s Hanumantha Rao, Lingadahally Village, Sandur Taluk, Bellary District.	23.07	01-02-2016	29-09-2016	0.0	0	58,82,850	185,25,210	23.07	0	23.07

20	Ballari	Railway feeder line in favour of M/s. JSW, Steel Limited, Bellary.	2.02	03-07-2013	28-01-2014	2.02	0	3,07,496	16,24,469	2.02	2.02	0
21	Chitradurga	Construction of Percolation Tank in favour of Executive Engineer, Minor Irrigation Division, Chitradurga	0.74	02-04-2016	02-04-2016	Not required	0	0	4,63,240	0	0	0
22	Bellary	Widening of (SH-132) from Bellary City to AP Border via Moka in favour of the Executive Engineer, Karnataka Road Development Corporation Limited (KRDC), Gulbarga.	3.02	05-05-2015	06-04-2016	3.02	0	7,05,978	24,22,651	3.02	3.02	0
23	Belgaum	Multi Village Water Supply Scheme for Basapura and 11 other villages in Hukkeri Taluk, Belgaum District in favour of the Assistant Executive Engineer, P.R.E. Division, Chikkodi.	0.93	07-01-2011	15-04-2015	Not required	0	0	4,06,026	0	0	0
24	Mangalore	Cremation yard in favour of the President, Misbahul Huda Madarasa Committee (R), Kaniyoor, Kanyana.	0.57	31-01-2014	09-04-2015	Not required	0	340,339.77	4,57,710	0	0	0
25	Ballari	Construction of 110 KV Power Transmission line from 110/33/11 KV MUSS, Donimalai to Pellet Plant in favour of M/s NMDC Limited, Donimalai	4.01	22-09-2015	01-02-2017	Not required	0	4,026,040	42,44,772	8.02	8.02	0
26	Ballari	Approach road to an extent of 5.40 hectare for MI No.2239 and 2309 of M/s. Zeenath Transport Company in R.M. Block, Sandur Taluk, Ballari District	5.40	26-11-2007	15-06-2017	5.4	0	3,688,200	33,80,400	5.4	0	5.4
27	Ballari	Establishment of 6.4 MW Wind Power Project in favour of M/s Ramgad Minerals & Mining Limited, Hospet.	9.82	02-06-2016	08-08-2017	9.82	0	2,504,100	21,50,580	9.82	0	9.82
28	Madikeri	Laying of 66/11 KV line from proposed Virajpet S/S to proposed Substation at Madikeri in favour of Executive Engineer (Elee), Kodagu Major Works Division, KPTCL, Kushalnagar.	2.35	12-10-2015	11-08-2017	Not required	0	1,275,000	24,54,700	5.0	0	5
29	Ballari	Construction of Chitradurga Branch Canal under Upper Bhadra Project in favour of the Executive Engineer, KNNL, Upper Bhadra Project, Division-4, Hosadurga.	111.57	04-02-2016	20-12-2017	111.57	0	55,347,040	698,42,820	111.57	0	111.57
30	Mangalore	4-laning of Addahole (near Gundya) Existing Km 263.000) to Bantwal cross (Existing Km 328.000) section & 0.49 ha of forest land in Hassan Division from Hassan (Existing Km 189.700) to Maranahally (Existing Km 237.000) Section of NH-75 in favour of the Project Director, National Highway Authority of India (NHAI), Bengaluru.	33.18	23-05-2016	08-08-2017	Not required	0	16,926,900	346,06,740	66.36	66.36	0
		TOTAL	410.17			171.14	0	1481,61,282.8	3083,39,005	470.22	312.39	157.83

Appendix 3.3
(Ref: Paragraph No 3.2.2.2, Page100)
Details of forest area used for Non-forest purposes without
prior approval of Central Government

Sl No.	Division	Purpose	Extent (ha)	Expiry of Stage I	Remarks
Stage I Approved					
1	Mangaluru	PMGSY- Road	4.0647	January 2016	Stage I approved in January 2011. Fresh applications to be sought.
2	Chitradurga	Feeder channel for MI Tank - MI Dept	24.05	December 2005	Stage I approval – 14.12.2000. Compliance furnished by GoK in April 2017.
3	Chitradurga	400 KV transmission line– EE, Electrical Division – KPTCL	31.76	August 2007	Stage I – 30.11.1992 & 28.8.2002. Online proposal submitted in June 2017 and under process.
4	Yellapur Karwar, Dharwad	Ankola-Hubli Road – currently National Highway	54.791	October 1998	GoK order dated 6.2.1992 and Stage I given in October 1993. Fresh applications to be sought.
Stage I revoked					
5	Bidar	Broad Gauge Railway line	5.571	July 2017	Stage I approval (July 2012) revoked on 27.9.2017. Fresh applications to be sought.
6	Mangaluru	11 KV line – MESCOM	0.131	July 2012	Stage I approval (July 2007) revoked in December 2014. Status of land sought for from Division. Fresh applications to be sought.
Other cases					
7	Ballari	Atal Bihari Vajapayee Zoo, Kamalanagar, Hospet	140.97	Not applicable	Proposal for diversion received in 2017 and is being considered.
8	Chitradurga	Illegal establishment of 9.6 MW Wind Power Project (M/s Enercon)	19.00	Not applicable	Allotted by Revenue authorities. Online application received in February 2017 for <i>post-facto</i> approval.
9	Chitradurga	Illegal laying of 33 KV electrical line (M/s Suzlon)	22.48	Not applicable	The proposal is under process.
10	Bidar	Formation of Bidar outer ring road	0.99	Not applicable	The proposal is under process.
11	Bidar	Construction of open well	0.26	Not applicable	The proposal is under process.
12	Bidar	Laying drinking water pipeline	0.02	Not applicable	The proposal is under process.
13	Bidar	Development of SH 4	11.70	Not applicable	The proposal is under process.
14	Gadag	DBOT multi village drinking water supply scheme- Binkadakatti and 21 other villages	4.098	Not applicable	The proposal is under process.
15	Madikeri	Beedalli Mini Hydel Project M/s Kodagu Hydel Project	0.994	Not applicable	The proposal is under process.
TOTAL			320.8797		

Appendix 3.4
(Ref: Paragraph 3.2.2.3, Page 102)
Non-renewal of lease for diversion of forests

Sl No.	Division	UA and purpose	Extent in ha	Lease Expiry since	Remarks
Renewal applications received					
1	Belagavi	Indian Army Ramdurga, firing range	50.00	27.06.2012	Submitted renewal application.
2	Mangaluru	St. Thomas Church, construction of hospital & Craft School	0.81	20.11.2008	Application of renewal submitted – under correspondence.
3	Mangaluru	Central Plantation Crop Research Institute	121.41	31.12.2000	Stage I clearance given by GoI on 19.6.2006. However, though the UA was asked to pay ₹ 19.27 crore towards NPV and CA, the same has not been paid stating that the matter of payment of NPV was under correspondence. Stage II not yet approved.
4	Madikeri	66/11 KV Sub-station O&M Division, KEB	1.00	21.11.2000	Application of renewal submitted – under correspondence.
Renewal applications not submitted					
5	Belagavi	Indian Army Marihal, firing range	145.00	02.10.2012	Yet to submit renewal application.
6	Mangaluru	St. Anthony School Shirady	2.02	21.11.2008	Yet to submit renewal application.
7	Mangaluru	Directorate of Cashew Research (NRCC)	80.94	23.05.2003	Incomplete proposal for renewal submitted by the UA returned and instructed to submit online proposal.
8	Madikeri	33 KV line Sub-station in Sy No.128	0.40	November 2006	Application for renewal yet to be submitted by the UA.
Details not on record					
9	Chitradurga	M/s Karnataka Minerals & Manufacturing Coy Ltd, Mining	9.00	03.05.2005	Details not on record.
10	Chitradurga	M/s Canara Minerals Pvt Ltd, ML 2556, Mining	27.82	02.09.2009	Details not on record.
11	Chitradurga	M/s Canara Minerals Pvt Ltd, ML 1636, Mining	24.50	10.07.2009	Details not on record.
12	Chitradurga	Minerals Enterprises Ltd	12.87	30.09.2009	Details not on record.
TOTAL			475.77	-	-

Appendix 3.5
(Ref: Paragraph 3.2.2.6, Page 106)
Progress in resumption of diverted forest areas

SI No.	Division	User Agency	Purpose	Extent in hectares	Date of expiry	Date of resumption	Remarks
1	Yellapur	M/s Oriental Structural Engineers Ltd	Quarry	0.40	02.01.1997	19.02.2013	--
2	Yellapur	Town Panchayat Mundgod	Pump House and Bore	0.1011	05.03.1994	26.08.2015	--
3	Yellapur	Smt Padma, W/o Ganapathi	Warehouse for Kerosene	0.03	15.12.2004	3.09.2014	--
4	Yellapur	M/s Karnataka Power corporation	Quarry	0.40	02.01.1997	19.02.2013	--
5	Mangaluru	Vittla Mandal Panchayat.	Road	0.71	26.4.2003	--	--
6	Mangaluru	KPTCL	11 KV HT line	0.378	10.10.2003	--	--
7	Mangaluru	St Anthony School, at Kadambila RF,	School	2.02	21.11.2008	21.06.2009	Two RCC buildings, parking shed, Cooking shed, Coconut tree – 45 Nos.
8	Mangaluru	Sri Venkataramana Gowda	Agriculture	3.23	5.8.2011	31.12.2013	Yielding Arecanut trees –2100, Non yielding arecanut trees – 750, Coconut trees – 120 and Coco trees – 550.
9	Mangaluru	MB Janardhanaiah	Agriculture	1.21	8.2.1995	10.03.2004	Arecanut trees – 550, Coconut trees – 20 and Jack fruit trees – 6.
10	Mangaluru	Kochi Keshava Bhat	Agriculture	3.64	31.8.2001	30.12.2008	Two residential houses, two cattle sheds, one tank, two pump houses, 2200 arecanut trees, 180 coconut trees, 15 Jackfruit trees, tamarind trees etc.
11	Mangaluru	Kuimbu Nayar	Agriculture	8.50	NA	08.09.2010	5700 Arecanut trees, and 120 coconut trees and watchman shed.
12	Mangaluru	Padmanabha Acharya	Agriculture	2.43	18.12.2002	22.12.2008	One tiled house, one Cattle she, one well, 3000 arecanut trees, 10 coconut trees, solar fencing for the boundary.
13	Mangaluru	Balakrishna Nambiar (Battangaya, Achetti RF)	Agriculture	30.36	31.3.1999 (48 acres) and 31.12.2001 (12 acres)	18.05.2011	Arecanut, coconut, Mango, one tile roof building.
TOTAL				53.41	-	-	-

Appendix 3.6
(Ref: Paragraph 3.2.3.2, Page 108)
Deviation from Annual Plan of Operations

Sl No.	Division	Year	Item of work	Amount Paid (₹)	Details	Reply of PCCF (Nov 18) and remarks of audit
1	Belagavi	2016-17	Purchase of shamiyana	7,85,000	Incorrect reference to Sanction order was indicated in voucher.	Not paid during 2016-17. However, this payment has been made in Vouchers 18 to 26 of March 2017.
2	Belagavi	2014-15	Pending payment towards EPT executed during 2011-12	10,69,200	The APO for 2011-12 did not include this item.	Work executed in 2011-12 which could not be paid due to fund constraints. However, the APO of 2011-12 did not provide execution of EPT.
3	Yellapur	2016-17	Excavation of CPT	13,05,000	As against APO provision of 13.5 kms and ₹ 14.25 lakh, progress achieved was 27.5 kms and ₹ 27.30 lakh.	Post facto approval obtained in October 2018.
4	Mangaluru	2013-14	Excavation of CPT	1,42,000	As against APO provision of 2 kms at ₹ 2.84 lakh, 3 kms at ₹ 4.26 lakh was executed.	Post facto sanction obtained in October 2018.
5	Mangaluru	2016-17	Supply of projector to Tree Park	1,18,959	APO did not provide for this activity.	Post facto sanction obtained in October 2018.
6	Mangaluru	2016-17	Construction of permanent cairns	1,38,000	APO target was for CPTs.	Post facto sanction obtained in October 2018.
7	Working Plan Unit, Mysuru	2015-16	Survey and demarcation works	10,41,191	Works taken up in 9 places not approved in the APO.	Post facto sanction obtained in September 2018.
8		2016-17		61,14,970	Works taken up in 12 locations not approved in the APO.	Post facto sanction obtained in September 2018.
9	Bidar	2015-16	Excavation of CPT in 2 KM	3,45,700	Not specified in the APO.	Post facto sanction obtained in September 2018.
10	Bidar	2015-16	Excavation of percolation tank	1,57,300	Not specified in the APO.	Post facto sanction obtained in September 2018.
TOTAL				1,12,17,320		

Appendix 3.7
(Ref: Paragraph 3.2.4.1, Page 109)
Short recovery of CA and other charges

Sl No.	Division	Purpose/ User Agency	Extent in ha	Component	Money value ₹ in lakh	Remarks
1	Mangaluru	400 KV DC Line – KPTCL	36.1556	Dwarf plantations	16.99	Revised rate not collected.
				Medicinal plantations	36.88	₹ 50,000 adopted against ₹ 1.52 lakh applicable for CA.
2	Mangaluru	Pipeline from Mangaluru to Devanagundi – Bengaluru/ HPCL	19.1696	CA on forest land	27.84	Revised rates not recovered.
3	Mangaluru	4 Projects	6.495	CA and dwarf plantation charges	12.04	Revised rates not recovered.
4	Ballari	M/s Narayana Mines – Mining	105.1500	CA charges	86.22	Revised rates not recovered.
				Afforestation degraded forest land	4.16	Revised rates not recovered.
5	Belagavi	Widening NH 4A- NHAI	53.7440	CA charges	18.27	Revised rates not recovered.
6	Belagavi	Ramdurga and Marihal Firing Ranges – Indian Army	195.0000	Strip plantation of 186.216 ha	506.51	Revised rates not recovered.
7	Chitradurga	Irrigation project-canal/ KNNL	111.5700	CA Charges	18.97	Revised rates not recovered.
8	Yellapura	Construction of Govt PU College	1.0000	CA charges	0.47	Revised rates not recovered.
9	Gadag	2 MW Wind Power, KPCL	12.0000	Medicinal Plantation	8.65	Revised rates not recovered.
10	Gadag	2.50 MW Wind Farm, KPCL	4.8000	Medicinal Plantation	3.46	Revised rates not recovered.
11	Madikeri	66/11 KV line KPTCL	2.3535	CA charges	1.05	Revised rates not recovered.
7 Divisions		14 cases		Total	741.51	

Appendix 3.8
(Ref: Paragraph 3.2.5.4, Page 112)
Cases of non-implementation of stipulations

Sl No	Division	Details of project	Extent diverted	Stipulation not complied	PCCF Reply (Nov 18) and remarks of audit
1	Chitradurga	Diversion of forest in Nirthadi RF to Sri Praveen Chandra ML 1404/1903/2294	42.60	Conservation plan for wildlife to be prepared in consultation with DCF, Chitradurga. An inbuilt monitoring and evaluation mechanism.	Conservation plan submitted by UA to DCF. However, copy of the same and progress of implementation of the same was not furnished
2	Chikkamagalur	Diversion of forest land for laying LPG pipeline from Mangaluru to Bengaluru via Hassan on existing PMHP pipeline	5.23	Necessary soil and moisture works not taken up.	Stipulation to be complied.
3	Belagavi	Diversion of forest land for construction of Water Treatment Plant in favour of the Commissioner, City Corporation, Belagavi	4.00	1. Non-construction of retaining wall, check dams and other Soil and Moisture Conservation measures – cost of ₹ 9.75 lakh already collected from User Agency. 2. Not raising plantation to check soil erosion. Since the diverted land was on a hillock and the area surrounding the project site had steep slopes, there is scope for soil erosion. However, though cost of raising plantation in this area has been collected, plantation has not been raised.	1. Action plan would be implemented on approval of the same from higher officers. 2. As the site was under dispute, Plantation would be raised in alternate land to be given by revenue authorities.
4	Belagavi	Diversion of forests for field firing ranges at Ramdurga and Marihal	195.00	1. Safety zone plantation of 30 M width all along the periphery of the diverted forest had not been raised even though the lease period has lapsed in 2012 itself. Cost of the plantation has been partially paid by the User Agency. 2. Retaining wall stipulated was not constructed.	1. Safety zone plantation taken up partially. Balance would be done on realization of balance amount from the user agency. 2. Retaining wall constructed. Reply since not supported by documents is not acceptable.
5	Bidar	Construction of Water Tank	23.00 (approved for 2.93)	3 ha of land in the Command Area for raising Wet Nursery was not made available.	User agency has been requested to provide 3 ha of suitable land for raising wet nursery.
6	Bidar	Widening of NH 9	5.59	Road side plantation not done in consultation with Forest Department.	Demand raised for raising road side plantation.
7	Gadag	7 Wind Power Projects	379.80	Medicinal Plantation was not raised.	175 ha of medicinal plantations raised and balance

					would be raised on release of funds.
8	Gadag	2.50 MW Wind Farm KPCL	4.80	SMC and adequate fire protection measures, retaining wall, proper drainage along the approach road and painting of vane tips of wind turbine with orange colour.	Though it was replied that this has been complied with, reply was not supported by documents. Hence not acceptable.
9	Kolar	Construction of new tank at Jalagondanahalli	36.87	CA land not declared as PF/RF, plantation in canal side and vacant land of irrigation project not taken up.	Action taken to notify the land as PF/RF and user agency asked for funds for canal side plantations.
10	Kolar	Widening from 237 to 318 km in NH 4	2.39	Unsuitable CA land. Soil erosion controlling structures Covering shoulder drains with stone pitching, reinforcing both sides of the upgraded road was not done.	It was replied that CA has been raised. However, the monitoring report of MoEF indicated that CA was raised in adjacent forest land as stipulated non-forest land was not suitable. No specific reply.
11	Kolar	Construction of Obaleshwara Tank	9.75	Plantation in the entire foreshore area was not done. Nursery was not raised.	Replied that CA has been raised. But no specific reply on foreshore area plantation and nursery.
12	Kolar	Construction of road to MDF	0.60	Road side avenue plantation (in place of 42 trees, 3 found in site) was not carried out.	Plantation raised in 2011. However, MoEF had observed (Jan 16) that since only 3 trees were surviving, supplementary planting was necessary.
13	Madikeri	66 KV double circuit Transmission Line	2.52	Planting of dwarf trees below the transmission line was not done.	Dwarf species may not survive as it is an elephant infested dry deciduous area. However, the stipulation has not been implemented. The matter should have been taken up with MoEF for necessary action.
14	Madikeri	10 MW Manjadka Hydro Project, Boruka Power	3.14	Raising of CA was not completed.	Proposal sent to raise CA.



Comptroller and Auditor General of India
www.cag.gov.in

www.agkar.cag.gov.in