सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1990

NO. 14 OF 1991

UNION GOVERNMENT

(OTHER AUTONOMOUS BODIES)

COFFEE BOARD

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PREFATORY REMARKS

This Report of the Comptroller and Auditor General of India containing a review on the working of the Coffee Board has been prepared for submission to the President of India under Article 151 of the Constitution of India.

The points mentioned in the review are those which came to notice in the course of test audit.

OVERVIEW

The Coffee Board was set up under the Coffee Act 1942 (Act) to promote the development of coffee industry by promoting coffee cultivation, research, sale and consumption of coffee. The Board comprises a Chairman and 32 members representing various interest groups. As on 31 March 1989, there were 1.24 lakh coffee growers comprising 0.04 lakh large and 1.20 lakh small growers. The average annual production of coffee during the Seventh Plan period was 1.50 lakh tonnes. Of the total coffee produced in the country, nearly two-thirds is exported and the remaining is consumed in the domestic market. The total export earnings for 1989-90 coffee season amounted to Rs.358 crores.

The Board entrusted, in December 1984, the review of strategies and policies of the Board to A.F. Ferguson & Co., (AFF), who inter alia, recommended (October 1986) that with a view to involving various interest groups in selection of their representatives on the Board, the Central Government could nominate two names for each position based on the lists submitted by various recognised associations of whom one could be selected by each interest group, by election or any suitable method. No decision had been taken by Government so far (September 1991).

Though the Act permits internal sales quota to be allowed to the growers by Government, this had not been done in the past except during 1940-41 to 1943-44 and the entire coffee was being surrendered to the Board by the growers. AFF had recommended introduction of internal sales quota in October 1986. Subsequently, a one-man Committee set up by the Government in October 1986, recommended, in October 1987, that to begin with the growers may be allowed optional quota of 10 per cent subject to certain conditions. No final decision had so far been taken by the Government/Coffee Board (September 1991) on these issues.

The Public Accounts Committee in its 127th Report (1983) recommended formation of co-operatives by small growers in setting up curing works. Only one curing works was set up, in 1987, in the co-operative sector for want of growers' response.

The initiatives taken by the Board to promote export of Indian coffee abroad have been minimal as would be borne out by meagre allocations made on propoganda outside India. The percentage of exports of Indian coffee to world exports varied from 2.2 to 2.7 per cent during calendar years 1985-89. The world market for coffee being volatile, it calls for sustained efforts to even retain the present share of the market, more so in the context of the continuous decline of the world prices of coffee.

Seventh Plan envisaged a target production of 1.80 lakh tonnes by the end of 1989-90 at an annual growth rate of 5.5 per cent. The biennial average production achieved at the end of the plan period 1988-90 was 1.68 lakh tonnes, giving an average growth rate of 2.5 per cent only. The total annual coffee production fluctuated widely from year to year. As against production of 1.95, 1.92 and 2.15 lakh tonnes achieved during 1984-85, 1986-87, 1988-89 seasons, the production figures in the lean seasons of 1985-86, 1987-88 and 1989-90 were substantially lower at 1.22, 1.23 and 1.20 lakh tonnes, respectively. The fluctuations continued from season to season notwithstanding several measures taken by the Ministry to stabilise and improve productivity.

The outturn of cured coffee rendered by 22 curing works reviewed in audit for the three years 1986-89 showed short outturn compared to the standard outturns for different types of coffee totalling 5509.28 tonnes, resulting in a loss of Rs.11.23 crores to the growers. In respect of coffee delivered by the small growers against outright payment on the basis of the prescribed conversion formula, actual cured coffee outturn reported by the curing works during the years 1986-87 and 1987-88 was lower compared to the norms by 6894 tonnes resulting in a loss of Rs.11.93 crores to the Pool Fund. The agreements entered into by the Board with the curing works do not bind the curers to be accountable to the growers as to the time within which coffee is cured, the outturn declared and the coffee graded. There is also no appeal facility available to the growers to represent against adverse outturn.

The Public Accounts Committee in its 4th Report (1985-86) had reiterated that a pragmatic planning to increase the curing capacity should be done not only to bridge the existing gap but also to meet the future increase in production of coffee. The existing curing capacity as on 30 June 1991 was 1.78 lakh tonnes in a lean season and 1.99 lakh tonnes in a bumper season after including a five per cent tolerance on the capacity in a lean season. Against this, the total coffee production for 1988-89, a bumper season, was 2.15 lakh tonnes.

It is essential that the equipment in curing works is modernised for good quality of curing for competitive marketing of coffee. AFF had recommended, in October 1986, that the Board should introduce incentives for introduction of sophisticated equipment in curing works. While customs duty on imported curing machinery was reduced from 90 to 60 per cent in July 1986 no incentives were extended by the Board itself during the Seventh plan period i.e. 1985-90.

It was noticed in a test check for the month of May 1989 that due to lack of proper scrutiny and control over the amounts placed at the disposal of the pooling agents for effecting payments to growers, funds were released in 74 cases without proper indents (amount :Rs.31.65 crores) and in 6 cases (amount: Rs.1.48 crores) amounts were released in excess of amounts indented. This resulted in agents unauthorisedly retaining large sums of money and deriving unintended benefits.

The Board, though fully dependent on the curing works for receipt, processing, custody and delivery of coffee, has not prescribed hundred per cent annual verification of stocks by officers of the Board and has been, instead, relying on the certificates furnished by the curing works. Based on complaints, the Board conducted special verification of stocks of one curing works, in November 1989 and February 1990, and discovered shortages of coffee valued at Rs.73.65 lakhs.

Due to the non-exercise of proper checks by the Board, a curing works was found to have defrauded the Board since 1981-82 by drawing over Rs.83 lakhs but not disbursing the same to growers. Even after the misappropriations were noticed in September 1989, further sums aggregating Rs.1.60 crores were released by the Board to the curing works out of which the curer failed to render accounts for Rs.1.17 crores.

The Public Accounts Committee in its 127th Report recommended, in 1983, that final payment to growers should not be delayed beyond 18 months for pooled coffee in any one season or beyond six months of the closing of the pool accounts. The payments were, however, made spread over 30 to 21 months for 1984-85 to 1988-89 seasons.

As the Board takes two to three years to dispose of each year's coffee, huge stocks of coffee varying from 22,382 to 80,185 tonnes accumulated at the end of each year during the period 1983 to 1989. Carrying of such huge stocks involved enormous holding costs which were eventually charged to Pool Fund resulting in reducing the net return to the growers. Besides, stocks of earlier seasons offered in auction, but not lifted, were later downgraded and categorised as blue catalogue (sub-standard) coffee and disposed of at lower prices. Such downgraded coffee sold during 1986-87 to 1989-90 was 1577, 3790, 3357 and 1785 tonnes, respectively.

The actual releases of coffee for domestic market were stagnant and were less than the target of 60,000 tonnes for each year of the Seventh Plan period except during 1989-90 and did not reflect any efforts to boost sales in the domestic market.

The Board allowed instant coffee manufacturers the benefit of duty drawback and cash compensatory support aggregating Rs.12.10 crores on the ground that conversion costs agreed to be allowed out of the export price would not adequately meet the costs incurred by them, without working out the financial implication of passing on export incentives vis-a-vis their own quoted rates.

An extra-contractual payment of Rs.32 lakhs was made to a firm on the ground of better extraction of instant coffee even though it was a contractual obligation of the firm to improve upon the extraction without any claim for extra remuneration.

The Evaluation Committee set up, in 1984, for evaluating research programmes had observed that the yield obtained in the coffee demonstration farms should be the highest in the district to serve as models to the coffee growers. Out of eleven coffee demonstration farms in traditional areas, the average production levels in respect of three farms for 1987-88, five farms for 1988-89 and four farms for 1989-90 were lower than even the respective district averages. Similarly, in respect of three coffee demonstration farms in non-traditional areas, the average production levels for 1989-90 were considerably lower than even the all India average for 1987-88. The objective of setting up these farms as models was, thus, not fully achieved. The Committee had also recommended setting up of a quality control division to conduct studies on the effects of pesticidal residues on final product of coffee harvested from the field etc. The quality control division had not been set up so far (September 1991).

The project proposed, in January 1991, for integrated pest management of 'berry borer' with an outlay of Rs.175.40 lakhs is awaiting Government approval (September 1991) even as the pest menace spread to adjoining areas in Kodagu district, Karnataka.

The Public Accounts Committee, in its 127th Report (1983), reiterated that special efforts should be made by the Board to achieve the targets in the non-traditional areas by evolving a rational programme for development of coffee both in terms of productivity increase and expansion of coffee cultivation. The expansion achieved during Seventh Plan period was, however, only 51 per cent of the target fixed.

Out of 283 cases taken up for investigation by the Vigilance Wing, 224 cases were closed after investigations and the remaining 58 cases were more than three years old. The physical verification of stocks during February-November 1990 carried out by the Vigilance Wing revealed shortages amounting to Rs.2.22 crores out of which only Rs.13.10 lakhs were recovered (September 1991).

As on 31 December 1990, the Internal Audit Wing of the Board inspected 176 units out of a total of 305 units, leaving a backlog of 129 units.

Ministry of Commerce

Coffee Board, Bangalore

1. Introduction

The Coffee Board, Bangalore (Board) was established as a corporate body under the Coffee Market Expansion Act, 1942 to promote the development of coffee industry, through measures such as assisting agriculture and technological research in coffee, promoting production, sale and consumption of coffee, assisting coffee estates in their developmental activities and promoting welfare measures for the benefit of the workers in coffee industry.

With a view to furthering the development of coffee industry, to bring about re-distribution and expansion of several interests represented on the Board as also to provide for the development of coffee industry, the Coffee Market Expansion Act, 1942, was amended in 1954 and renamed as the Coffee Act, 1942 (Act). In consonance with this, the Coffee Rules 1955 were brought into force by the Central Government (Government) in August 1955, superseding the then existing Coffee Market and Expansion Rules 1940.

2. Scope of Audit

The audit of the accounts of the Board has been entrusted to the Comptroller and Auditor General of India under Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, and the audited accounts together with the reports thereon are required to be laid before Parliament. The accounts of the Board have been audited up to 1989-90. These have been presented to the Rajya Sabha, in March 1991, and sent, in August 1991, to the Lok Sabha Secretariat for laying on the table of the House.

The working of the Board was earlier commented upon in the Report of the Comptroller and Auditor General of India, Union Government (Civil) for 1979-80. The Public Accounts Committee made their recommendations in their 127th Report - Seventh Lok Sabha, 1983 and 4th Report - Eighth Lok Sabha, 1985. Out of 65 recommendations made, replies to 33 were accepted by the Committee and it decided not to pursue 17 recommendations in the light of replies of the Ministry of Commerce (Ministry). The remaining recommendations were to be pursued by the Ministry and the present review covers some of these recommendations.

The present review was conducted during January-May 1991 and generally covers the period from 1985-86 to 1989-90. The records made available by the Board in respect of its departments viz., Marketing, Propaganda, Research, Extension, Development and Vigilance, seven curing works, one India Coffee House, eight India Coffee Depots (ICDs), four Divisional Offices, two Regional Offices and one Liaison Office (including one Coffee Demonstration Farm) were reviewed and test checked. The results of the same are set out in succeeding paragraphs. The Ministry furnished the reply to the review, in September 1991, which has been suitably incorporated.

3. Organisational set-up

The Board functions under the control and direction of the Ministry of Commerce. The objectives of the Board include pooling the surplus coffee belonging to the growers and marketing the same to serve the best interests of the growers and for the allround development of the coffee industry in the country. This was sought to be achieved by providing for representation of diverse interest groups on the Board with powers of nomination vesting with the Government. The members of the Board are nominated for a period not exceeding three years at a time.

The Chairman and 32 members of the Board are appointed by the Government to represent various interest-groups in coffee industry in the manner prescribed under the Act. The Board comprises three Members of Parliament; four members representing the Governments of principal coffee growing States; ten members from coffee growers-three representing large growers and seven representing small growers; three members from coffee trade; two members representing curing houses; four members representing interests of labour; two members representing interests of consumers; one member from instant coffee manufacturers; one person being a scientist or an eminent personality connected with coffee and two members representing coffee growing States other than the traditional coffee growing States. The Chairman is the Chief Executive of the Board.

In this connection, it may be worth mentioning that the Public Accounts Committee in its 127th Report (1983) had stated that "it would be useful to remember that such Boards are set up to serve the growers. The Committee, therefore, desire that the representation of small growers who constitute more than 90 per cent of the total number of growers, should also be suitably augmented". Further, A.F. Ferguson & Co., (AFF) was retained by the Coffee Board, in December 1984, to review the strategies and policies of the Board to identify areas which might require change and suggest methods to achieve these changes. AFF, in its Report submitted to the Coffee Board, in October 1986, suggested that "there does not seem to be an urgent need to change the overall constitution of the Board". It was also recommended by AFF that with a view to involving the various interest groups (e.g. growers, exporters, pool sales agents, etc.) in selecting their representatives on the Board, the Central Government could nominate (based on lists submitted by various recognised associations) two names for each position. The various interest groups could select one of these two candidates either through election or any suitable method.

While the representation of small coffee growers has been increased from 5 to 7, retaining the total representation of coffee growers at 10 as per amendment to Coffee Rules, 1955 in June 1984, decision about other aspects had not been taken by the Board/Government (September 1991). The Government would, no doubt, exercise its powers of nomination of members to the Coffee Board, under sec 4(2)(c) of the Coffee Act, keeping in view the need to enhance the Board's functional efficiency and to safeguard the interests of the coffee growers.

The Board appoints every year standing committees to exercise such powers and discharge such functions of the Board as may be delegated by the Board. The Committees are: (a) Executive Committee, (b) Marketing Committee, (c) Propaganda Committee, (d) Research Committee, (e) Coffee quality Committee and (f) Development Committee. The organisational chart of the Board is given in Annexure 'A'.

The Act requires the Board to meet twice a year. During 1985-90, the Board met two to four times each year.

4. Funding arrangements

The Board maintains two separate funds, a General Fund and a Pool Fund. The General Fund is maintained on financial year basis, and the Pool Fund is maintained on calendar year basis.

4.1 Pool Fund

The Pool Fund is credited with sale proceeds of coffee sold from the surplus pool and is applied for making payments to growers in respect of coffee delivered by them, cost of storing, curing and marketing of coffee. The Board is permitted under Rules 38 A of the Coffee Rules to borrow on the security of this fund.

The table below summarises details of total sales realisation and expenditure from 1984-85 season to 1988-89 season:

Particulars	Year ended 31.12.1985 (1984--85 Season)	Year ended 31.12.1986 (1985--86 Season)	Year ended 31.12.1987 (1986-87 Season)	Year ended 31.12.1988 (1987-88 Season)	Year ended 31.12.1989 (1988-89 Season)
A. Income			(Rupees in crores)		
(a) Sale of Coffee including instant coffee	318.16	425.94	339.36	385.52	497.71
(b) Increase (+)/decrease(-) in stock	(+)84.39	(-)45.84	(+)75.37	(-)29.63	(+)29.72
(c) Other income	1.10	1.72	2.81	0.75	2.48
Total	403.65	381.82	417.54	356.64	529.91

B. Expenditure					
(a) Remuneration to pool agents	5.24	5.00	5.61	5.45	8.59
(b) Administration of marketing	2.91	3.67	3.79	4.41	4.89
(c) Marketing	3.75	3.25	3.70	3.66	4.77
(d) Marketing of instant coffee	5.49	2.89	0.12	8.50	24.33
(e) Bank interest, insurance, etc.	4.10	0.31	0.68	2.61	5.61
(f) Cess, duties and taxes	36.80	39.90	24.64	24.87	31.26
Total	58.29	55.02	38.54	49.50	79.45
C. Percentage of expenditure to sales	18.3	12.9	11.3	12.8	16.0
D. Disbursable amount to growers (A-B)	345.36	326.80	379.00	307.14	450.46
E. Amount disbursed to growers during the period	249.82	260.06	265.50	223.14	327.88
F. Undisbursed amount transferred to balance sheet(D-E)	95.54	66.74	113.50	84.00	122.58

Season :July-June

4.2 General Fund

The Fund includes mainly receipts from Government under Section 13(1) of the Act, loans received from Government, grants-in-aid, recovery of loans and miscellaneous receipts and is applied to meet the expenses of the Board on administration of the Board, promotional and extension activities, agricultural and technological research, disbursement of loans, repayment of loans to the Government, interest charges, subsidy to planters, etc.

The table below summarises details of receipts and payments in respect of the General Fund from 1985-86 to 1989-90 :

(Rupees in lakhs)

		1985-86	1986-87	1987-88	1988-89	1989-90
(A)	Receipts					
	Opening Balance	508.85	*287.94	306.21	261.50	231.93
	Monies received from Government					
	Under Section 13(1) of the Act	0.05	91.46	10.00	220.00	250.00
	Grants-in-aid	439.40	273.10	481.00	268.50	240.50
	Subsidy	183.00	172.00	155.00	39.15	80.00
	Loans received from Government	280.00	209.71	180.00	402.00	510.00
	Recovery of loans	379.92	425.55	327.63	399.03	290.77
	Interest received	147.76	157.95	164.61	187.84	151.72
	Miscellaneous receipts	972.81	946.62	867.90	813.54	835.81
	Miscellaneous deposits with the Board	23.85	10.57	17.18	9.69	13.74
	Miscellaneous suspense	29.46	66.54	29.80	24.72	47.64
	Repayment of advance	-	-	0.46	-	5.98
	Total	2,965.10	2,641.44	2,539.79	2,625.97	2,658.09
(B)	Payments					
	Administration	63.28	83.70	90.01	102.30	112.22
	Promotion	23.60	26.70	30.56	34.22	40.12
	Propaganda					
	- In India	1,166.13	889.70	833.09	777.46	773.88
	- Outside India	5.37	6.58	4.10	15.03	7.04
	Extension	209.00	227.83	206.72	225.87	227.41
	Welfare grants	14.87	14.80	44.33	15.00	-
	Miscellaneous suspense	-	0.60	-	-	-
	Disbursement of loans	493.80	504.44	454.03	555.59	533.47
	Subsidy to planters	173.74	156.07	93.22	73.15	60.73
	Repayment of loans to the Government	262.17	108.15	127.32	199.25	220.47
	Interest charges	218.24	232.62	248.88	273.57	290.78
	Plan Projects:					
	- Plan	33.11	70.70	130.37	102.44	104.67
	- Non-Plan	11.98	13.23	15.66	16.53	14.36
	Advances recoverable	1.44	0.11	-	3.63	-
	Closing balance	*288.37	306.21	261.50	231.93	272.94
	Total	2,965.10	2,641.44	2,539.79	2,625.97	2,658.09

* Rs.0.43 lakh reduced to effect correction of errors relating to 1981-82 accounts.

5. Pooling

Coffee cultivation is mainly confined to the traditional areas in Karnataka, Kerala and Tamil Nadu and to a limited extent in the non-traditional areas of Andhra Pradesh, North Eastern States and Orissa. Total area under cultivation at the end of March 1990 was 2.48 lakh hectares (2.29 lakh hectares in traditional and 0.19 lakh hectares in non-traditional areas) including 1.23 lakh hectares under Arabica coffee and 1.25 lakh hectares under Robusta coffee which are the two main economic species. The average total annual production of coffee during 1985-90 was around 1.50 lakh tonnes of both varieties, in more or less equal proportion.

While 30 to 35 per cent of total coffee produced is consumed in the domestic market, the rest is exported. There were 1.24 lakh growers of coffee (March 1989), of whom 98 per cent were small growers, having 10 hectares or less under coffee cultivation.

Under Section 17 of the Act, no grower is permitted to sell coffee in the domestic market in excess of the internal sales quota (ISQ) allotted to his estate by the Board. But no ISQ had ever been allotted to growers except during 1940-41 to 1943-44 and consequently, entire coffee grown is surrendered to the Board by the growers. Further, under Section 20 of the Act, no coffee can be exported except by the Board or under its authorisation. All coffee produced by the coffee estates has, thus, to be delivered to the Board towards the surplus pool (except the quantity permitted for grower's own consumption and for purposes of seed). The Board classifies the coffee so received according to its kind and quality and assesses its value. According to Section 25 of the Act, the owner, upon delivering the coffee to the Board, will have no right in respect of such coffee except his right to receive the payments under the Act. The Board is responsible for storage, curing and marketing of all the coffee received in the pool.

In this connection, it may be worth mentioning that AFF recommended, in 1986, that "compulsory pooling should be discontinued and ISQ gradually introduced". This would shift the Coffee Board's role from "physical to fiscal control". With a view to gradually sell the advantages of ISQ, AFF also recommended that "growers can be permitted the option of either disposing of ISQ directly or pooling it with the Coffee Board".

Subsequently, in October 1986, the Government appointed a One-Man Committee to review the functions, activities and cost effectiveness of the Rubber Board, the Coffee Board and the Tea Board. The Committee submitted its report to the Government, in October 1987, and recommended, inter alia, that "to begin with the growers may be allowed optional quota of 10 per cent subject to the conditions that the growers will declare their exercise of option in advance, get the quota cured on their own, and offer all the grades obtained after curing for sale in the auction by the Coffee Board". Indian Institute of Management (IIM), Calcutta, in a study conducted on the marketing arrangements of Coffee in India, recommended in February 1991 that "a system of optional pooling of coffee, thereby granting the right to market their own produce to those producers who feel confident of doing so, would develop institutions that would go a long way in achieving the strategic changes required for the industry". No decision had so far been taken by Government/Coffee Board (September 1991) on these issues.

Linked with this question is the formation of the co-operatives by the small growers. The Public Accounts Committee in its 127th Report had recommended that "the Board should redouble its efforts in this direction so that the small coffee growers could be helped in a substantial manner by the co-operatives". It was also recommended by AFF that "Coffee Board could consider assisting the small growers to form co-operatives. These co-operatives would be in a better position to withstand financial pressure and obtain optimal prices". A similar recommendation was made by IIM, Calcutta in February 1991. It was stated that "a more rational and long-term solution to protect the interests of the small growers in particular and the industry in general is to develop the appropriate co-operative institutions".

The Ministry stated, in September 1991, that some growers had filed writ petitions in Supreme Court challenging the compulsory pooling system, and that the matter was subjudice and the Government was awaiting the outcome of the Supreme Court cases before proceeding further. It may, however, be mentioned that the writ petitions were filed in the Supreme Court only in November 1990 and January 1991.

6. Production of Coffee

6.1 The total world production of coffee for 1989-90 season was estimated by United States Department of Agriculture at 93.80 million bags (56.28 lakh tonnes). India produced around 1.50 lakh tonnes of coffee during 1989-90 forming 2.4 per cent of the world production. The increase in world production of coffee during the last decade was around 2 per cent per annum, whereas the increase in consumption averaged 1.2 per cent per annum. This has resulted in surplus stocks worldwide leading to fierce competition in world trade for coffee bringing down the prices steeply.

Coffee is mainly cultivated in the traditional coffee growing States of Karnataka, Kerala and Tamil Nadu and to a lesser extent in the non-traditional States viz., Andhra

Pradesh, Orissa, Maharashtra, West Bengal and North Eastern States.

The small growers (having a holding below 10 hectares) comprise 98 per cent of all the growers. Small growers own coffee growing area of 61 per cent and contribute 52 per cent of the total production. The small growers grow Robusta variety to a large extent, accounting for 60 per cent of the total Robusta production.

Production of coffee in India is largely influenced by the world market as nearly two-thirds of coffee produced is being exported with domestic consumption hovering around 58,000 tonnes. The demand pattern for both world and domestic markets is in favour of mild coffee viz., Arabica. This would imply formulation of promotion policies geared towards encouraging Arabica in preference to Robusta.

The Ministry stated, in September 1991, that to encourage cultivation of Arabica in preference to Robusta, higher points were awarded to Arabica in price differential scale and that advantages of growing Arabica from the point of view of international coffee market were disseminated through the Extension Department. The reply of the Ministry is not tenable as the points awarded to Arabica in the price differential scale are based on the market performance of Arabica in relation to other varieties of coffee. The Ministry has, however, not taken adequate action for replacement of Robusta by Arabica variety in the areas where this is feasible.

6.2 The National Commission on Agriculture (1974) proposed a production target of two lakh tonnes to be achieved by 2000 AD. Based on this, the National Council of Applied Economic Research (NCAER) prepared a perspective plan in 1976 and the Sixth and Seventh Five Year Plans were prepared based on the guidelines laid down in the perspective plan. The perspective plan was revised by NCAER for the period 1985-2000 aiming at a production level of 2.15 lakh tonnes by 2000 A.D. (Domestic consumption : 0.85 lakh tones, exports : 1.30 lakh tonnes) to be achieved by expansion of coffee area and improving productivity.

The NCAER had recommended, in 1976, expansion of cultivation area under coffee in the traditional areas and to develop coffee plantation in the non-traditional areas of Andhra Pradesh, Orissa, etc., and also in North Eastern Region. Accordingly, the Board in collaboration with the NCAER prepared a perspective plan during 1976, for area expansion and productivity increase. The progress in achieving these targets upto Sixth Plan was reviewed by the Public Accounts Committee, in its 127th Report. The Committee commented about the slow progress and poor performance in achieving the targets particularly in respect of non-traditional areas and reiterated that special efforts should be made by the Board to achieve the targets in the non-traditional areas by evolving a rational programme for development of coffee both in terms of productivity increase and expansion of coffee cultivation.

6.2.1 The table below gives the targets for expansion of area for Sixth and Seventh Five Year Plans and the achievements thereagainst:

Expansion in	Sixth Plan		Seventh Plan	
	Plan target	Achievment	Plan target	Achievment
			(in hectares)	
Traditional areas	15,500	15,405(99%)	15,000	9,693(65%)
Non-traditional areas	22,900	10,043(44%)	15,000	7,634(51%)
Total	38,400	25,448(66%)	30,000	17,327(58%)

It may be seen that there was a marked shortfall in the non-traditional areas with reference to the Plan targets. The Board constituted a Committee, in 1987, for formulation of long term production and marketing strategy for coffee. In view of stagnant domestic consumption and changed situation in international market, the Committee recommended, in 1988, that no further expansion of area may be undertaken. This recommendation was accepted by the Board in 1990.

The Ministry attributed, in September 1991, the poor performance in non-traditional areas to inadequate managerial practices of coffee plantations, inadequate financial resources emanating from State Governments, unavailing of the sanctioned assistance from the financial institutions by implementing agencies etc.

6.2.2 The Seventh Plan projection for coffee envisaged a production of 1.46 lakh tonnes for 1985-86 season to be increased to 1.80 lakh tonnes by the end of the Plan viz., 1989-90 at an annual growth rate of 5.5 per cent. Due to biennial trend of production, the productivity fluctuates from year to year and average of two consecutive years has been taken to assess the increase or decrease in the production level. The production levels actually achieved against the targets are indicated in table below:

Year	Production targets	Actual Production	Biennial average production
		(In tonnes)	
1980-81	128,700	116,646	134,373
1981-82	135,800	152,100	
1982-83	143,250	129,952	117,490
1983-84	151,150	105,029	
1984-85	159,450	195,110	158,780
1985-86	146,000	122,450	
1986-87	154,000	192,260	157,630
1987-88	162,000	123,000	
1988-89	171,000	215,000	167,500
1989-90	180,000	120,000	

The increase in average production of coffee during 1988-90 over the period 1980-82 was about 33,000 tonnes indicating an average annual growth rate of 2.5 per cent.

The Ministry stated, in September 1991, that the actuals against the targets would be available only in alternative bumper and lean levels and further that the aqchievements against the targets will have to be considered on average basis rather than against terminal basis. The Ministry further worked out achievement levels of 98 per cent and 95 per cent for Sixth and Seventh Plan periods, respectively, by comparing average production target for the whole plan period against the actual average production achieved. In this connection, the following points deserve mention :

(i) The comparisons in the review are based on biennial production figures (a lean season and a bumper season) which we think is a more acceptable indicator for increase in the production of coffee.

(ii) The Ministry has indicated that the average production for the Sixth and Seventh Plan periods was 1,40,160 and 1,54,000 tonnes respectively. This shows an increase of 10 per cent from Sixth Plan to Seventh Plan period i.e. 2 per cent per year against the targeted annual growth rate of 5.5 per cent.

(iii) The targets of 1,46,000 and 1,54,000 tonnes for 1985-86 and 1986-87 (first two years of Seventh Plan period), respectively, were even lower than the target of 1,59,450 tonnes for 1984-85 - the terminal year of Sixth Plan period.

6.2.3 Though, the Seventh Plan target of 1.80 lakh tonnes for 1989-90 was surpassed in 1988-89 itself, the production in the following year 1989-90 was 1.20 lakh tonnes only which was the lowest production achieved since 1983-84. The estimated crop for 1990-91 season was placed at 1.70 lakh tonnes. Thus, total coffee production continues to fluctuate widely from one year to another. In this connection, the PAC had commented in its 4th Report: "The Committee do agree with the Ministry's view that coffee being a perennial crop, the size of production is largely conditioned by seasonal vagaries and is subject to cyclic variation. The Ministry should take adequate steps to stabilise and improve the production by employing modern techniques". The Ministry in reply to this recommendation indicated that it was already implementing various schemes in this regard viz., training-projects to train personnel in coffee culture, distribution of healthy high yielding seeds to growers and strengthening the Research Wing of the Board.

The Ministry reiterated, in September 1991, that it had been making efforts to stabilise production through propagating high yielding uniform material like Cauvery, propagating tissue-culture methods for all its future materials, proposed popularisation of practices like drip irrigation, etc. Notwithstanding these measures, total coffee production continued to fluctuate widely from season to season.

6.3 The productivity in coffee increased from 699 Kgs. per hectare during 1980-82 to 731 Kgs. per hectare in 1986-88 as detailed below:

Year	Arabica		Robusta		Total	
	Annual average	Biennial average	Annual average	Biennial average	Annual average	Biennial average
			(Kgs. per hectare)			
1980-81	625	684	623	715	624	699
1981-82	743		806		774	
1982-83	734	704	557	546	646	576
1983-84	675		535		505	
1984-85	759	713	1107	790	933	751
1985-86	666		472		569	
1986-87	827	715	963	747	895	731
1987-88	603		531		567	
1988-89	901	-	1078	-	990	-

Note:Yield is with reference to fruit bearing area. Figures for 1989-90 not available.

7. Curing

Section 27 of the Act requires coffee to be cured in licenced curing establishments. In actual practice, the curing works function as the vital link between the growers and the Board, undertaking services in various capacities under proper agreement with the Board which include:

(a) collecting coffee as collecting agent;

(b) receiving and holding coffee as pooling agent;

(c) drying where necessary, curing and grading of coffee in its curing works;

(d) storing coffee and releasing for despatches under instructions of the Board;

(e) complying with the statutory requirements for payment of Central Excise Duty; and

(f) rendering proper accounts for stock and payments effected to the growers.

Coffee is delivered by the small growers either to the departmentally operated collecting depots or to the collecting agency depots of the pool agents. Large growers deliver coffee direct to the curing works. Uncured coffee received from large growers is test weighed, at least to the extent of five per cent of the quantity, to determine the moisture content. In the case of small growers, test weight per forlit (40 litres) of coffee is ascertained by weighing a few forlits drawn at random from different bags.

7.1 The growers deliver coffee to the curing works in the parchment or cherry form for curing. The cured coffee is weighed and recorded against each grower indicating the graded and outturned quantities. The Board laid down in its circulars issued from time to time norms for outturn of cured coffee that should be obtained for each variety of coffee. The norms take into account processing losses of 18.37, 47.48 and 49.03 per cent for Arabica Parchment (Plantation), Arabica Cherry and Robusta Cherry, respectively. Accordingly, the standard outturns for different varieties of coffee are as follows:

	Uncured	Cured
Arabica Parchment (Plantation)	1225 Kgs.	1000 Kgs.
Arabica Cherry	1904 Kgs.	1000 Kgs.
Robusta cherry	1962 Kgs.	1000 Kgs.

However, agreement with the pool agents entered into by the Board do not lay down the outturn standards for coffee. As the Board effects payments with reference to cured coffee accounted against a grower, the shortage in outturn would directly affect payments made to him. There is no appeal facility for a grower who is aggrieved by the poor outturn against his coffee.

The periodical reports of 'Receipts and Disposal' of coffee rendered by 22 curing works to the Board were reviewed in audit for the coffee seasons 1986-87, 1987-88 and 1988-89. In respect of Arabica Parchment, 12 to 15 curing works rendered short outturn ranging from 1 to 5 per cent and 1 to 6 curing works rendered more than 5 per cent short outturn. In respect of Arabica Cherry, 2 to 9 curing works rendered short outturn ranging from 1 to 5 per cent and 1 to 2 curing works rendered more than 5 per cent short outturn. In respect of Robusta Cherry, 1 to 4 curing works rendered short outturn ranging between 1 to 5 per cent and 2 to 5 curing works more than 5 per cent.

During 1986-87 to 1988-89, there was a short outturn of 5509.28 tonnes in the 22 curing works test checked, resulting in a loss of Rs. 11.23 crores to the growers as detailed below:

	Arabica Parchment			Arabica Cherry			Robusta Cherry		
	Short outturn	Rate per 50 Kgs.**	Total value	Short outturn	Rate per 50 Kgs.**	Total value	Short outturn	Rate per 50 Kgs.**	Total value
1986-87	1735.74	903.32	313.59	139.51	768.38	21.44	203.69	731.46	29.80
1987-88	764.00	1072.93	164.00	169.10	1014.00	34.29	210.39	891.46	37.51
1988-89	1070.38	1255.42	268.76	342.73	1053.35	72.21	873.74	1039.07	181.58
Total	3570.12		746.35*	651.34		127.94*	1287.82		248.89*

Quantity : in tonnes

Value : in lakhs of Rupees

*Total of the three = Rs.1123 lakhs.

** The rates for 50 kgs. adopted are the same as adopted by the Board for valuation of closing stocks for respective years.

In the absence of any clause being included in the agreement entered into by the Board with the curers as to the assured outturn of coffee in accordance with the standards adopted by the Board as mentioned above, it is not possible for the Board to hold the curers responsible for the expected outturn. The matter needs to be reviewed with a view to including a suitable provision in the agreement with the curers so that such losses to the growers could be made good by the curers.

The Ministry stated, in September 1991, that the outturns differ not only from year to year depending upon the rainfall, the regional eco-climatic conditions, the intensity of crop bearing and the level of agronomy, but they also vary from grower to grower, from estate to estate and from region to region for the same reasons viz., the quantum and the spread of rainfall in a year, the soil conditions of the region and the individual estates, the intensity of cultivation and the level of agronomy practised in each estate including the level of pestiliser, spraying and labour inputs etc., and, therefore, it may not be absolutely correct to judge the outturns with reference to the conversion formula. The Ministry, however, is considering "making provision in the Pool Agency Agreement, in consultation with the pool agents for recovery of loss on outturns which show glaringly large variation from the conversion formula that is after careful investigation of all the relevant factors".

7.2 The Board had been allowing, till 1987-88 season, small growers the option to receive payments for coffee delivered by them into the pool either on the basis of outturn obtained after curing or on outright basis on the uncured coffee. In case of outright pooling, payments for uncured coffee were made at the rates and on the basis of formulae prescribed by the Board for theoretical calculation of cured coffee realisable out of uncured coffee received. The details of uncured coffee delivered, outturn in tonnes etc., during the crop seasons 1986-87 and 1987-88 are given below :

Season	Number of Pool agents	Raw-coffee delivered	Outturn obtained	Outturn reali-sable	Shortaqge in outturn	Loss on account of short outturn
		(in tonnes)				(Rupees in lakhs)
1986-87	17	21,352	10,082	11,855	1,773	261.60
1987-88	24	32,058	12,068	17,189	5,121	931.71
Total		53,410	22,150	29,044	6,894	1,193.31

It is observed that the outturn of coffee actually obtained was 22,150 tonnes as against 29,044 tonnes realisable on the basis of the prescribed formulae. The adoption of the system of payments on outright basis on the basis of the formulae prescribed entailed a loss of Rs.11.93 crores on the short outturn of 6,894 tonnes during 1986-87 and 1987-88 at the average price adopted for different varieties of coffee.

The Ministry stated, in October 1990, that the conversion formulae prescribed by the Board were not based on any scientific data, but on the statistical averages of outturn in the past years, and accordingly, the Board had already scrapped the system of pooling of coffee by small growers on outright basis from 1988-89 season.

In this connection, it may be mentioned that the conversion formulae had been in existence for decades and the payments to the small growers were regulated accordingly. Further, without any scientific conversion norms, it would not be possible to know what should be the outturn of cured coffee from a particular quantity of coffee - a lacuna that could go against the interests of growers.

The Ministry stated, in September 1991, that apart from the reasons for variations in outturn, indicated against para 7.1, the small growers practised low level of agronomy which would not give a good outturn. Besides, the coffee of small growers pooled on outright basis was cured after the coffee of other growers pooled on outturn basis had been completely cured and this led to shrinkages in outturn due to natural causes.

In this connection, it may be mentioned that no excessive losses in outturn are visualised with reference to the time or period in taking up coffee for curing.

7.3 There were 37 curing works at the beginning of the Seventh Plan (1985). During 1985-90, eight new curing works were established on the basis of fresh licences. Licences of three curing works were cancelled/suspended, in 1990, as it was found by the Vigilance Wing/Internal Audit Wing of the Board that they indulged in malpractices leading to shortages and misappropriation of Pool Funds to the extent of Rs.164.44 lakhs. Out of the 42 curing houses in operation, only five curing houses were licenced prior to 1985 in the co-operative sector. No curing works were set up during Seventh Five year Plan, either in the co-operative sector or in the Public sector (except one curing works set up in March 1987 in Karnataka in the co-operative sector), though the recommendations of the Public Accounts Committee were reiterated, in 1985, in the 4th Report to set up further curing works in the Public sector, particularly in non-traditional areas, as also to form growers curing co-operatives as expeditiously as possible. It was stated by the Ministry, in September 1991, that the growers' response to

Board's initiatives to promote growers curing co-operatives was not encouraging.

7.4 The Public Accounts Committee in its 4th Report(1985-86) had reiterated that "a pragmatic planning to increase the curing capacity should be done not only to bridge the existing gap but also to meet the future increases in production of coffee".

The total available curing capacity at the end of December 1988 was 1.55 lakh tonnes. During 1989-90, new licences for 19000 tonnes were further issued. The curing capacity was planned to be raised to 1.87 lakh tonnes by the end of 1991, but after taking into account the closure of three curing works, the capacity would be 1.78 lakh tonnes. In this connection, it may be mentioned that the total production of coffee was 2.15 lakh tonnes for 1988-89 season and 1.20 lakh tonnes for 1989-90 season.

The Ministry stated, in September 1991, that the total curing capacity provided for at the end of June 1991 was 1.78 lakh tonnes in a non-bumper season. the Ministry further stated that the capacity would be 1.99 lakh tonnes in a bumper season based on the Technical Committee's recommendation that a five per cent tolerance be added in a bumper season to the existing storage capacity.

It may, however, be mentioned in this context that the total coffee production was 2.15 lakh tonnes for 1988-89 - a bumper season, against the capacity of 1.99 lakh tonnes mentioned by the Ministry for a bumper season.

7.5 The quota system under the International Coffee Agreement was abolished in July 1989, leading to keener competition in the export market. This has placed added emphasis on the good quality of curing for competitive marketing of coffee for which it is essential that the equipment in curing works is modernised.

In this connection, it may be stated that twenty curing works have installed electronic separators to increase the pace of curing. Further, complete modernisation of curing equipment has been effected in six curing works and two curing works in the co-operative sector are in the process of modernisation. It may be relevant to point out that AFF had recommended, in October 1986, that the Coffee Board should introduce incentives for introduction of sophisticated equipment in curing works. No incentives were, however, extended by the Board during the Seventh Plan period i.e. 1985-90.

The Ministry replied, in September 1991, that the rate of customs duty on imported curing machinery was reduced (July 1986) from 90 to 60 per cent and that this played no small role in the modernisation drive.

The Ministry, however, has not indicated any incentives which the Board itself provided for the modernisation drive. In the absence of any specific studies, it is also not known as to how far the reduction in customs duty has contributed to the modernisation drive.

7.6 There should not be any loss on account of bulking of different lots of coffee, since bulking is a process of mixing of two or more lots of coffee of the same type and grade in order to make a homogeneous mixture.

The bulking losses, however, worked out to Rs. 38.38 lakhs for 202 tonnes of coffee during the years 1985-86 to 1988-89 as detailed below:

Year	Bulking loss (tonnes)
1985-86	28
1986-87	50
1987-88	68
1988-89	56
Total	202

It was stated by the Ministry, in September 1991, that these losses are not really bulking losses, but storage losses on account of shrinkages that had occured in the storage of the outturns due to natural causes. The losses have, however, not been justified by the Ministry with reference to the norms of storage losses, if any. It is not clear how these losses have been depicted as bulking losses in 'Receipt and Disposal statements' furnished by the curing works to the Board.

7.7 For effecting payments to the growers, the Board establishes letters of credit (LCs) in favour of the pool agents/collecting agents who are required to draw the amounts to the extent required for effecting payments within 3/10 days respectively and render accounts fortnightly. The procedure prescribes that indents for funds should be made by the pool agents/divisional offices before the LCs are opened. The accounts rendered by the pool agents are to be checked with bank statements, vouchers, etc., before these are admitted. It was observed by Audit during test check for the month of May 1989 that in 74 cases funds had been released without proper indents from pool agents/divisional offices involving an amount of Rs.31.65 crores. Similarly, in 6 cases, advances were released in excess of amounts indented by Rs. 1.48 crores. It was seen that in the absence of any specified authority, the Section Officer concerned was authorising the opening of LCs. It was only, in February 1990, that instructions were issued by the Board specifying the authority competent to open the LCs depending on monetary values. This resulted in agents unauthorisedly retaining large sums of money and deriving unintended benefits.

The Ministry stated, in September 1991, that LCs were opened by the Board on its own initiative to avoid delay in payment to the growers even without receiving indents for the same.

Looking to the importance of the matter, there is an urgent need to properly regulate the issue of LCs after obtaining the sanction from the competent authority.

7.7.1 Agreements with the pool agents are renewed by the Board on yearly basis. The following observations are made on the extent of control and enforcement of the clauses in the agreement by the Coffee Board:

(a) The agreement provides that where the coffee received by a curing works is in excess of its licenced capacity, the excess quantity to the extent determined by the Board should be transferred to other curing works as directed by the Board. However, this was not being enforced in actual practice and large quantities in excess of the curing capacity were allowed to be retained by the curing works as shown below:

Year	Number of curing works	Excess quantity (in tonnes)
1986-87	14	78,891
1987-88	4	9,471
1988-89	19	138,576

The Ministry replied, in September 1991, that this was only an enabling provision for being used when it was felt that the curing works had received larger quantities of coffee in comparison to the notified capacity and further that there may be resistance by the workers working in such curing works against any transfers of such coffee from such curing works. The Ministry further stated that the more efficient and popular curers receive more coffee than the others and that the growers also do not appreciate such shifting of coffee as they have surrendered their coffee becuase of the confidence they have in such curing works.

In this connection, it may be stated that non-implementation of the provision in the agreement regarding transfer of coffee in excess of the licensed capacity would defeat the very objective of fixing the licenced capacity of curing works and may have adverse implications for the quality of cured coffee in view of the delay involved in curing.

(b) The agreement does not bind the curer to be accountable to the grower as to the time by which the coffee is cured, the outturn declared and coffee graded. There is no appeal facility available to the grower to represent against the curer regarding adverse outturn.

The Ministry stated, in September 1991, that even though there is no appeal facility as such available to the grower to represent against the curer regarding adverse outturns, the grower can still lodge a complaint with the Board regarding the quality of curing carried out by the curer, which is investigated thoroughly by the Board and appropriate penal action taken against the curer when defective curing is observed. The Ministry also stated that "it is also proposed to examine whether a clause could be included in the Pool Agency Agreement on the subject of poor outturn during the coming season of 1991/92 after consulting the curers".

(c) The Board is mainly dependent on the curing works for receipt, processing, custody and delivery of coffee. Proper functioning of the works and accountal of coffee stocks is sought to be ensured through various reports/returns, field staff posted to oversee the operations and by periodical inspections. It is a normal requirement in all manufacturing and trading concerns to conduct hundred per cent annual physical verification of stocks before the end of the accounting year. Instead, the Board had been closing annual accounts of the Pool Fund on the basis of balances being certified by the curing works and authenticated by the Board's officers only as admitted by the Ministry in September 1991. It was only, in February 1990, that the Board decided to undertake hundred per cent physical verification of all stocks held by curers by its Vigilance Wing. Results of the same are mentioned in succeeding paragraphs.

7.8 Curer 'A' was licenced as pool agent and collecting agent, in 1985, to collect, receive, cure and hold coffee stocks on behalf of the Board. The preventive squad of the board noticed, in February 1986, that the Pool Agency Depots of the curer 'A' were making payments on the basis of standard test weight for all the coffee received without deduction towards underdriage. The Board took a lenient view, in February 1986, on the assurance of the curer that they would follow the correct procedure.

The Vigilance Wing of the Board detected during their inspection of the works, in November 1988, shortages of uncured coffee to the extent of 23,346 Kgs valued at Rs. 3.08 lakhs. Again, a hundred per cent verification of stock was conducted by Vigilance Wing, in November 1989, and it was found that 21240 kgs. of Arabica parchment coffee was not traceable against the stock cards maintained in the godown. The Board ordered, in January 1990, a recovery of Rs. 4.10 lakhs and a penalty of Rs. 0.50 lakh from the curer. Recovery of Rs.7.68 lakhs was made from the curer in instalments during September 1989 to April 1990.

A further verification of the entire stocks at the curing works was carried out by the Vigilance Wing, in February 1990, which revealed shortages of uncured Arabica parchment of 65283.50 Kgs of 1988-89 season and 215,950 Kgs. pertaining to 1989-90 season. The loss of coffee was provisionally estimated at Rs. 73.65 lakhs and the curer was served with legal notice, in April 1990, demanding payment within three weeks. The licence of the curer was cancelled in May 1990.

Besides the shortages of stock, the firm was also found to have misappropriated, in December 1988, Rs.10.48 lakhs out of funds placed at its disposal by the board for effecting payments to growers. The Board ordered recovery of this amount in March/June 1989, but no recoveries have been made (September 1991). The Board stated, in March 1991, that the curer is under the control of official liquidator and the actual quantity and value of shortages and the amounts recoverable were yet to be finalised (September 1991).

7.9 Curer 'B' has been licenced as pool agent and collecting agent to collect, receive, cure and hold stock of coffee on behalf of the Board since 1974. To enable the pool agent to effect payments to the growers, the Board has been opening LCs in favour of the curer. According to the agreement with the collecting agent, the agent shall draw monies against the LCs only to the extent of actual requirements and no amounts so drawn shall be retained by him for more than 10 days and he shall be liable to pay interest at bank rate on the surplus amount retained by him. He would also be liable for penal action.

It was noticed, in August 1988, that the curer had retained large amounts drawn out of LCs during 1985-86 which were in excess of the actual requirements. The Internal Audit Wing of the Board had also pointed out, in June 1989, that the curer had been drawing the entire amount of the LC in each year since 1985-86, though these were not utilised for immediate disbursement to the growers. The undisbursed amounts were never refunded to the Board (except small sums). Besides, the curer while rendering periodical accounts to the Board, showed huge balance with the banks, whereas the balance as per bank statements was far less. The fraudulent practices were rendered possible due to the failure of the field officers and Accounts department of the Board to check the statement of accounts submitted by the curing works against each LC and establishment of LCs without proper verification. The Internal Audit Wing conducted a detailed verification during September 1989 covering the period from January 1981 to June 1989 and found that sums aggregating Rs.83 lakhs were misappropriated by the curer. Although the fact of misappropriation of huge amounts was known to the Board, it continued to establish further LCs (Rs.50 lakhs in December 1989, Rs.60 lakhs in January 1990 and Rs.50 lakhs in February 1990) for disbursement to growers. The curer rendered accounts for Rs.2.68 lakhs and refunded Rs.40 lakhs in January 1990. The account for the balance amount of Rs.117.32 lakhs is yet to be rendered by the curer (September 1991). Thus, the agents unauthorisedly retained large sums of money and derived unintended benefit.

The matter was reportedly under investigation by Central Bureau of

Investigation (July 1990) and the Board was considering filing civil suit for recovering the amounts (September 1991). The licence of the curing works was cancelled in August 1990.

The Ministry stated, in September 1991, that they were directing the Chief Controller of Accounts to study the drawbacks pointed out in paras 7.7, 7.8 and 7.9 and suggest appropriate measures for tonning up the system.

8. Payments to growers

8.1 Assessment of quality of coffee delivered to the Board is one of the important functions of the Board. Payments to the growers are determined with reference to the kind and quality of coffee received. Assessment of quality of coffee is determined with reference to visual inspection (size, shape, colour, defectives), cup-tasting (for aroma, strength, acidity, etc.) and moisture content. The Board determines Fair Average Quality (FAQ) for each season's coffee at the beginning of the season on the basis of representative samples. A Price Differential Scale (PDS) is prepared taking FAQ grade Plantation 'A' coffee as standard reference grade and awarded 100 points per 50 Kgs. Other grades are assigned points with reference to FAQ standard. Thus, the relative performance of each grade of coffee plays a decisive role in determining the number of points assigned to that grade. The table below gives the particulars of points assigned (per

50 Kgs.) to different grades of FAQ standard coffee since 1984-85:

Year	Plantation					Arabica				Robusta			
	A	PB	B	C	Bulk	PB	AB	C	Bulk	PB	AB	C	Bulk
1984-85	100	103	95	90	88	93	92	84	85	91	90	85	88
1985-86	100	103	95	92	87	89	88	83	81	86	86	81	83
1986-87	100	104	95	92	84	90	90	84	80	82	83	79	81
1987-88	100	105	95	92	84	90	90	84	80	82	83	79	81
1988-89	100	105	95	92	84	90	90	84	80	82	83	79	81
1989-90	100	101	93	85	80	81	84	73	79	72	74	63	69
Percentage decrease during 5 years	-	2	2	6	9	13	9	13	7	21	18	26	22

8.2 The PDS is required to be updated every year to reflect the differences in market prices fetched by various grades in previous years referred to as "market performance". The PDS is decided by the Sub-Committee of the Marketing Committee. It was observed in audit that no uniform standard was followed while computing market performance. At one time the performance with reference to previous season only was taken, whereas for the PDS for 1987-88 market performance for previous four years was taken. For PDS of 1989-90, market performance for two preceding years was considered. PDS fixed for 1987-88 was decided to be continued for 1988-89 also. Thus, finalisation of PDS was being done on an ad-hoc basis and the Board had not prescribed any standing procedure for preparing PDS (September 1991). It may also be worth mentioning in this connection that AFF had brought out in their report that FAQ was not adequately representative of the entire crop of the year and that FAQ determination needed to be done more scientifically with vigorous testing methods. As the PDS represents a normative approach for grading coffee, it would be necessary that proper procedures, principles, and parameters are laid down so that uniform and consistent practices are followed year after year in preparing PDS.

The Ministry stated, in September 1991, that PDS Sub-Committee, after careful examination of various factors like unusual market fluctuations, production of coffee during the season, difficulties of the problems of the growers especially small growers, etc., decides whether the PDS should be based on the market performance of four years or the preceding two years average. It was also stated that the Sub-committee examines in detail all relevant factors to fix the PDS in the interest of the growers. The fact, however, remains that consistent practices have not been follwed year after year in fixing PDS nor has the Board prescribed any procedure or laid down any parameters for determination of FAQ in a consistent manner.

8.3 Payments to growers on points basis are declared periodically starting with an initial payment at the time of receipt of coffee and extending from 6 instalments (1988-89 season) to 12 (1985-86 season). For large growers payments are made on the basis of points awarded depending upon the quality and kind of coffee delivered. Till 1987-88 season, small growers had the option of receiving payments on similar assessment or on an outright sale basis. The latter option was, however, withdrawn from 1988-89 onwards, except in respect of growers in the old Travancore area.

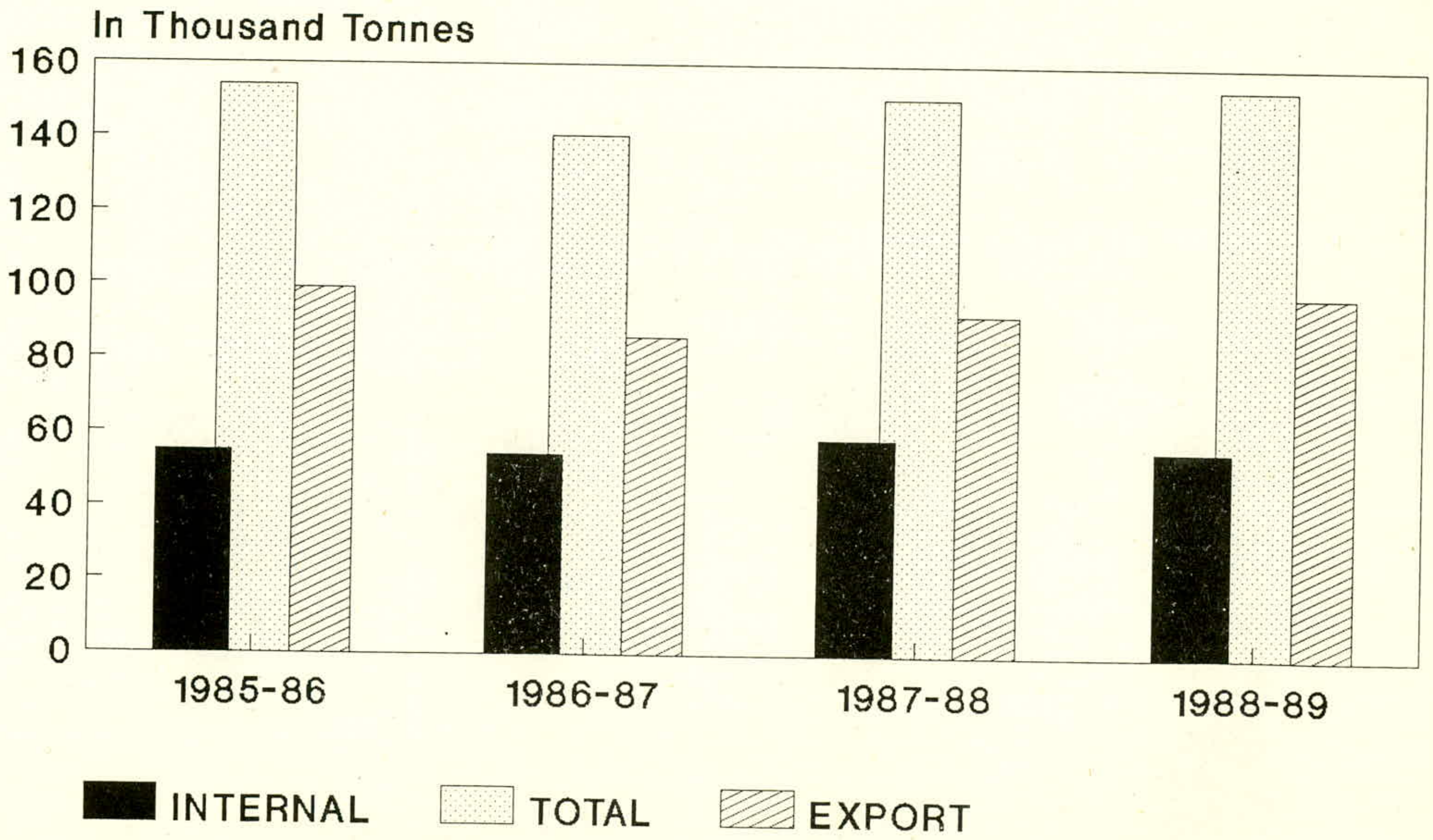
The details on initial and remaining payments showing the time-spread for payments to the growers are given below:

Season		Month in which final payment was declared	Number of months for payments
1984-85	(01-01-1985 to 31.12.1985)	June 1987	30
1985-86	(01-01-1986 to 31-12-1986)	November 1987	23
1986-87	(01-01-1987 to 31-12-1987)	September 1988	21
1987-88	(01-01-1988 to 31-12-1988)	June 1990	30
1988-89	(01-01-1989 to 31-12-1989)	April 1991	28

Note The final payments made do not include the amounts withheld towards the liability of purchase tax due to the Government of Karnataka. These were released in 1990 as per the decision of the Board taken during August 1990.

Thus, payments were made over a period stretching from 30 months in 1984-85 and 1987-88 to 21 months in 1986-87. The PAC (Seventh

Para 9.1 Total Release Of Coffee In The Internal And Export Market During 1985-86 TO 1988-89



Lok Sabha), in its 127th Report, had recommended, in 1983, that normally final payments should not be delayed beyond 18 months for pooled coffee of any one season or beyond six months of the closing of the pool accounts. This was yet to be achieved on a regular basis by the Board.

After scrapping of the system of pooling of coffee by small growers on outright basis from 1988-89 season, it would be all the more desirable to expedite payments to the small growers to save them from any undue financial hardship.

9. Marketing

The Board releases coffee in the market in a phased manner on the basis of its own projections of demand. Bulk of coffee is released to export market through export auctions and to internal market through pool auctions.

9.1 The following table gives the details of total surplus coffee delivered to the pool in respect of each season's crop and total quantities released for internal and export markets for the ~~five~~ four seasons upto 1988-89:

(in tonnes)

Season	Total deliveries into the pool	Releases up to March 1990		
		Internal	Exports market	Total
1985-86	121916	49777	72136	121913
1986-87	191647	84845	105807	190652
1987-88	122275	35878	84361	120239
1988-89	214057	63996	133435	197431

The running stock relating to the 1986-87 season's crop was yet to be disposed of at the end of March 1990. Similar position prevailed in respect of succeeding years' productions.

It was observed in audit that stocks of coffee pertaining to earlier coffee seasons were offered for auction but not lifted. These were later downgraded and categorised as blue catalogue (substandard coffee) and disposed of at lower prices. The quantity of such down graded coffee sold during 1986-87 to 1989-90 was 1577, 3790, 3357 and 1785 tonnes respectively. The loss on this account could not be ascertained in audit as the Board was not maintaining separate accounts for this.

9.2 Due to biennial nature of yield of coffee crop, availability of coffee for marketing is influenced by variations in coffee production each year. Nevertheless, it may be seen from the table above that actual total sales in the internal and external markets were less than the total coffee delivered to the pool for the respective years, resulting in carry over of stocks to next season. It takes usually 2 to 3 years to dispose of each year's coffee which results in carrying over of huge stocks at the end of each year, as shown in the following table:

(in tonnes)

As on 31 December	Plantation	Arabica	Robusta	Total
1983	9770	3490	9122	22382
1984	20158	4912	5027	30097
1985	6599	8949	42609	58157
1986	8512	11319	14860	34691
1987	10146	16149	36228	62523
1988(P)	8269	12116	15567	35952
1989(P)	9825	20051	50309	80185

Note : (P) : Provisional

Carrying of such huge stocks by the Board involves enormous holding cost which is not recovered from the trade but is eventually charged to Pool Fund which has the effect of reducing net returns to the growers.

The Ministry stated, in September 1991, that at the end of each calendar year the Board had necessarily to keep a quantity of stock required for sales in the month of January to March of the succeeding years. Further, the balance exportable surplus had to be sold to non-member countries, mainly USSR, when the export quota under ICO was in force.

The Ministry, however, had not indicated the efforts made to liquidate exportable surplus stock, within a reasonable time frame, after the abolition of ICO quota.

9.3 The projections of domestic demand during the Seventh Five Year Plan period, the annual target allotments at the commencement of each year and the actual releases for the pool sales are given below:

(in tonnes)

Year	Seventh Plan projected domestic demand	Annual target allotments	Actual releases*
1985-86	58,600	60,000	54,874
1986-87	60,000	60,000	54,421
1987-88	62,000	60,000	58,636
1988-89	63,500	60,000	55,926
1989-90	64,500	60,000	63,328

* These include releases through local dealers, co-operative societies and Propaganda department in addition to releases through domestic auctions.

It would be evident from the above that target allotments were fixed for each year routinely without reckoning the stocks on hand, market demand, and the need to cater to the normal growth in demand on account of increase in population, consumer habit and purchasing power etc. Besides, even the actual releases were more or less stagnant and did not reflect any efforts to boost internal sales.

The Ministry stated, in September 1991, that it had been the policy of the Board to fully meet the domestic requirements. But the fact remained that the actual releases through domestic auctions and sales to local dealers, co-operatrive societies and propaganda department were less than targeted 60,000 tonnes for the entire period of Seventh Five Year Plan except during 1989-90.

9.4 India is a member of International Coffee Organisation (ICO) which was set up by coffee exporting and importing countries to monitor the trade in coffee. An agreement was signed by all the members, in 1983, to provide for reasonable control over supply and demand and to supply coffee at fair prices to consumers and remunerative prices to producers and to prevent excessive fluctuations in the world supplies of coffee and its prices. Under the agreement, the exports of coffee to member countries were regulated by fixing annual quotas for each exporting country. The agreement was to expire in September 1990. Efforts made to negotiate a new agreement did not succeed and this resulted in suspension of quotas from July 1989.

During the last few years, the coffee exports to countries other than members of the ICO were being made in competition at rates lower than the ICO prices. A restriction was made, in 1986, prohibiting such sales at prices lower than the prices prevailing as per ICO index prices due to heavy under-cutting of prices and the volatile market. Consequently, with the abolition of the quotas, the exporting countries are free to operate in the world market without ICO restrictions.

In India, coffee can be exported only by the Board or under its authorisation, as laid down in Section 20 of the Act. A large proportion of exportable coffee is directly sold by the Board to USSR. The details showing the quantity actually exported, its value etc., are given below:

Fiscal year	Member countries	Non-member countries			Grand total
		Others	USSR	Total	
(i) Quantity (Tonnes)					
1986-87	43878	5938	36850	42788	86666
1987-88	50512	9199	32750	41949	92461
1988-89	44862	5029	48356	53385	98247
1989-90	47924	22839	62598	85437	133361
(ii) Value (Rupees in crores)					
1986-87	170.60	27.29	164.94	192.23	362.83
1987-88	135.16	28.63	95.86	124.49	259.65
1988-89	152.12	17.07	168.43	185.50	337.62
1989-90	118.76	55.00	184.10	239.10	357.86
(iii) Unit value (Rupees per tonne)					(Average Unit value)
1986-87	38880	45951	44748	44926	41865
1987-88	26770	31126	29269	29677	28108
1988-89	33908	33945	34832	34748	34365
1989-90	23902	24081	29411	27986	26834

(i) The quantity exported to ICO member countries increased from 0.44 to 0.48 lakh tonnes in the four years, but the related value came down steeply in 1989-90 as annual ICO composite indicator prices declined from 123 and 107 US cents per pound for Arabica and

Robusta, respectively, in 1987 to 107 and 92 US cents in 1989. The ICO quota system was abolished in July 1989.

(ii) The Board entered into direct trade with USSR and was able to sell sizeable quantities ranging from 32,750 tonnes in 1987-88 to 62,598 tonnes in 1989-90. The heavy dependence of the Board on USSR for marketing nearly half of the exportable surplus was, thus, evident.

(iii) The total annual export value of coffee during 1986-90 ranged from Rs.260 crores to Rs.363 crores, variances in value being influenced by quantity and average price fetched. The percentage of exports of Indian coffee to world exports varied from 2.2 to 2.7 per cent during calendar years 1985-89. The world market for coffee being volatile, it calls for sustained efforts to even retain the present share of the market, more so in the context of the continous decline of the world prices of coffee.

In this context, it may be pertinent to point out that the initiatives taken by the Board to promote export of Indian coffee abroad have been minimal as would be borne out by meagre allocations made on propoganda outside India. During 1985-90, the expenditure varied from Rs.4.10 lakhs to Rs.7.00 lakhs only except for Rs.15.03 lakhs during 1988-89, which was incurred mainly on advertisements in a few journals and participation in fairs abroad.

9.4.1 The involvement of the Board in promoting Indian coffee abroad has been to represent the Indian interest in ICO and participation in the International Trade Fairs. Actual trade in the world market has been carried on by private export houses. The initiative to locate the buyers especially among ICO member countries, continues to be taken by the private exporters. the Board conducts fortnightly auctions for export of coffee in which the registered exporters participate. Out of 50 registered exporters only about 25 have been participating in export auctions. It was observed in audit that four export firms were lifting nearly 70 per cent of the lots put up for auction by the Board. During 1988 these four export firms had lifted 36,349 tonnes out of 48,083 tonnes sold. Similarly, during 1990, they had lifted 28,693 tonnes out of 43,018 tonnes sold in auctions. The method followed by the Coffee Board in selecting the green coffee to be offered in export auctions is done by a screening panel at the curing works. The panel earmarks the lots seggregated for export and draws samples from such lots, which are approved by a regional screening committee. No distinction is made as between superior quality coffee within the same grade. All lots of coffee of particular grade are clubbed and same MRP fixed. It was further observed in audit that superior quality coffee within the same grade had fetched higher prices even though the Board itself had not marked quality differential which wokuld justify a premium price. It would, thus, be evident that the Board has not devised strategy for marketing premium quality of coffee.

The long-term production and marketing strategy for coffee formulated by the Board, in 1988, had envisaged that it was of paramount importance that export of Arabica coffee should be increased compared to Robusta coffee and it was necessary to promote coffee in high value markets so that higher unit value for export could be achieved. Besides, concerted efforts be made to promote specialised coffee like monsoon-coffee and action focussed towards export of value added coffee to increase the foreign exchange earnings to give better remuneration to the growers. The strategy to achieve the above mentioned objectives has not been spelt out by the Board so far (September 1991).

9.5 The Board had been exporting instant coffee to USSR since 1976 by directly negotiating with USSR and entrusting the work of conversion of green coffee into instant coffee to Indian manufacturing firms. The quantity of instant coffee exported was 1,015 tonnes in 1985, 600 tonnes in 1986, 2,200 tonnes in 1988, 5,604 tonnes in 1989 and 5,000 tonnes in 1990 (there was no export in 1987). Till 1986, the FOB prices quoted by the Board each year were based on the rates fetched in the export auctions and were reduced during negotiations by such amounts of discount as was necessary to clinch the order. In effect, the Board was retaining the balance of contracted export rates after meeting the cost of conversion, packing and clearing and forwarding (C&F) charges, which included the cost of green coffee, the cash compensatory support, the duty drawback etc. As no agreement regarding price could be reached with USSR, there was no export to USSR during 1987. As regards exports to USSR during 1988, the Ministry suggested, in October 1987, that green coffee of non-exportable quality may be allotted at domestic auction prices to make the rates competitive so as to get back a significant share of the soluble coffee market in USSR. Even before the Board quoted, in December 1987, the rate of Rs.240 per carton (24 tins of 100 grams each) on the above basis, one of the manufacturers of instant coffee in India, Firm 'A' entered into negotiations directly with USSR, in September 1987, and offered, in January 1988, to sell them instant coffee at Rs.191 per carton and approached the Board, in January 1988, with the request to supply green beans at one per cent above the MRP. The Board, however, decided to conduct negotiations direct, but on being unable to secure a better price, agreed to the price of Rs.191 per carton and entered into agreements with Firms 'A' and 'B', in March 1988, for carrying out the process of conversion of green coffee into instant coffee and packing at Rs.71 per carton after retaining Rs.105 per carton of 2.4 Kgs net towards the cost of green coffee

(The Board separately entered into agreement with C&F agents for clearing and forwarding instant coffee at Rs.15 per carton). Similar agreements were entered into with Firms 'A', 'B' and 'C' for export of Instant Coffee during 1989 and 1990.

Before entering into agreements with the firms for manufacture of instant coffee, the Board had obtained in January 1988 and December 1988, offers from the manufacturers of instant coffee for conversion of green coffee into instant coffee and packing charges. But these offers were not considered for reasons not stated. Instead, the difference between the price of green coffee and export price was allowed to manufacturers after excluding C&F charges which were paid separately to C&F agents. The export price, cost of green coffee retained by the Board and conversion/packing/C&F charges allowed to the manufacturers/C&F agents in respect of contracts for 1988, 1989 and 1990 are indicated in the table given below:

	1988	1989	1990
		(Rupees per carton)	
Price agreed with USSR	191	178	196
Cost of green coffee	105	72	94
Conversion charges, packing cost etc.	71	91	84
C&F charges	15	15	18

It may be worth mentioning here that while the price realised for green coffee supplied for 1988 export was at MRP plus five per cent, for 1989 and 1990 contracts the rates for supply of green coffee were much lower compared to MRP.

On the ground that conversion cost would not adequately meet the costs incurred by the manufacturers, the Board agreed, in March 1988, to pass on the export incentives of duty drawback and cash compensatory support to the manufacturing firms. Before agreeing to this, the Board did not work out the actual quantum of gains accruing to the manufacturers. As a result, the Board sustained a loss of Rs.12.10 crores for the instant coffee manufactured during 1988-90 as detailed below:

Year	Quantity exported in cartons	Conversion and packing charges payable as per offer	Conversion and packing charges as per agreement	CCS and duty drawbacks allowed	Amount actually paid (4)+(5)	Excess (6)-(3)	Total amount (Rs. in lakhs)
1	2	3	4	5	6	7	8
		(Rupees per carton)					
1988	920326	86.24	71	34.95	105.95	19.71	181.40
1989	2337501	99.77	91	33.00	124.00	24.23	566.38
1990	2083335	100.28*	84	38.45	122.45	22.17	461.88
						Total	1209.66

Note * As no quotations were obtained for 1990 contract, this is based on conversion charges as per quotations for 1989 contract and actual packing charges.

The Ministry stated, in September 1991, that "the manufacturers of Instant coffee being *defacto* exporters of instant coffee to USSR through the package deal, the Board, decided that the benefits of CCS and the drawbacks should accrue to them. The total instant coffee contract was a package deal. Without the benefit of CCS and duty drawback accruing to the manufacturers, the export deal would not have materialised. Thus, the quantum of CCS and drawbacks that accrued to the manufacturers cannot be deemed as a loss to the Board". The reply of the Ministry is not acceptable in view of the following :

(i) There was no indication in the initial offers of the instant coffee manufacturers to the effect that export incentives - CCS and duty drawbacks - should be passed on to them.

(ii) The Board did not work out the financial implication of passing on export incentives to the instant coffee manufacturers vis-a-vis their own quoted offers. This resulted in payment of Rs.105.95 per carton against the quoted rate of Rs.86.24 in 1988, Rs.124 against Rs.99.77 in 1989 and Rs.122.45 against Rs.100.28 in 1990.

9.6 During 1989, Firm 'A' was entrusted with extraction of 3,110 tonnes of instant coffee. As per the agreement, the firm guaranteed an extracxtion of 1:2.5 (i.e. 2.5 kgs of green coffee would be required to manufacture 1 kg of instant coffee) with endeavours to give better extraction and in such an event to pass on the benefit to the Board by way of savings in green coffee. The firm saved 588 tonnes out of actual requirement of 7,775 tonnes of green coffee during conversion and claimed a sum of Rs.32 lakhs as ex-gratia payment for better extraction rates. The Marketing Committee agreed to the proposal (August 1990) and payment was made in December 1990. The payment was irregular and extra contractual as the firm was contractually bound to improve upon the extraction without any claim for extra remuneration.

The Ministry justified the payment, in September 1991, on the ground that the firm had to incur extra costs as they had to increase the retention time in the manufacturing process which resulted in loss of production capacity.

It may, however, be mentioned that under the agreement the manufacturer had to endeavour to give better extraction and additional savings were to accrue to the Board and, therefore, the payment was unwarranted.

9.7 The table below gives the average prices realised in domestic sales (including Central excise duty) and export sales (excluding duties) in the auction sales of the Board since 1984 (calendar year):

Year	Plantation A		Arabica cherry AB		Robusta	
	Domestic	Export	Domestic	Export	Domestic	Export
			(Rs.per bag of 50 Kgs)			
1984	781.00	1357.50	741.50	1260.00	831.75	1293.00
1985	851.25	1662.50	749.50	1422.50	729.25	1303.50
1986	921.25	2325.50	773.50	2100.00	770.75	1657.50
1987	1017.75	1455.00	877.75	1193.50	875.00	1260.50
1988	1087.75	2042.00	919.75	1667.50	837.75	1537.50
1989	1239.00	1849.00	1100.00	1543.00	926.50	1289.00

It may be observed from the table that the prices fetched in export auctions during 1984-89 fluctuated widely from year to year, reaching peak level in 1986. There was continuous and significant increase in prices at domestic auctions from year to year in respect of Plantation and Arabica showing an increase by 58.6 per cent and 48.3 per cent in 1989 over the prices of 1984. The trend was less marked in the case of domestic sales of Robusta, predominantly grown by small growers, which accounted for an increase of 11.4 per cent only.

10. Research, extension and development

10.1 The Research wing of the Board is headed by the Director of Research. The Central Coffee Research Institute (CCRI) is at Balehonnur, Coffee Research Sub-Station (CRSS) is at Chettalli (Karnataka) and four regional stations are located at Raghavendra nagar (Andhra Pradesh), Thandigudi (Tamil Nadu), Chundale (Kerala) and Diphu (Assam). These are engaged in fundamental and applied research and tackling problems specific to the coffee growing regions. Many of the research activities carried out are in the nature of continuing and ongoing projects/schemes. The expenditure on Research wing during 1985-90 is given below:

	1985-86	1986-87	1987-88	1988-89	1989-90
	(Rupees in lakhs)				
Expenditure	209.00	227.83	206.72	225.87	227.41

10.1.1 Project for biological control of pests

'Mealy bug', 'green scale' and 'brown bug' are serious pests of coffee prevalent in almost all coffee growing areas of South India. As application of insecticides is costly and would lead to environmental pollution, research is aimed at control of these pests through biological means. The research project initiated in the Sixth Plan period envisaged introduction of a suitable natural enemy into an area in which these pests have not already spread and to establish a self regulatory system in which they would be able to keep the pest under control.

During 1985-90, over five lakh parasitoids were mass multiplied and released in 'mealy bug' infested estates by incurring an expenditure of Rs. 10.54 lakhs. Field evaluations and surveys conducted revealed that the parasitoids caused 7 to 55 per cent of mortality among 'mealy bugs', and although several new natural enemies of these pests were recorded, none exerted effective control. The project was, therefore, proposed to be continued. In this context, the Evaluation Committee set up, in 1984, to review the research and extension programmes of the Board pointed out that the release of predator as well as parasites had not been made in sufficient numbers to facilitate the evaluation of the impact of these parasites and predators on the control of pest and only partial to complete control of 'mealy bugs' by the predator was achieved in some estates. The progress made was not found satisfactory by the Committee and it recommended, in September 1986, development of integrated pest management schedule for adoption by the planting community.

The Ministry stated, in September 1991, that it has already evolved integrated pest management recommendations against coffee pests with a view to obtaining efficient control. The Ministry, however, did not indicate specifically the particulars of programmes implemented.

10.1.2 There has been an emphasis on the cultivation of plants of medium size by the Board in order to exploit their compact size under high density cropping systems. The CCRI was able to identify a number of dwarf genotypes that would increase productivity and resistance to 'leaf rust'. A new breed, known as 'Cauvery' (catimor), was developed by the Board and released for commercial cultivation, in 1985, after studying the results in various experimental plantations in different climatic conditions. The average yield for this basically Arabica type was estimated at 2,500 Kgs. or more per hectare under good cultivation practices to yield from third year onwards of its planting. This variety was reported to be resistant to common races of 'leaf rust' fungus, but was found susceptible to other pests like 'root mealy bugs' and 'white stem borer'.

Although this variety is being planted, the economics of cultivating this variety and its cost effectiveness are yet to be assessed by the Board in actual field conditions. The Ministry stated, in September 1991, that even without a formal cost benefit analysis it could be expected that the overall economics of Cauvery would be better than the other selections released so far and that the formal analysis requiring actual production data from different agro-claimatic zones over a period of time would be taken up subsequently.

10.1.3 Tissue culture units at CCRI, Balehonnur and Regional Research Station, Chundale were started during 1986-87 for the purpose of stabilising production through large scale production of plants from mother plants which have the qualities that contribute to productivity. Although the cultures of stem, node, leaf, embryo, anther and endosperm were tried during the period under review, the technique to be adopted had not been standardised (September 1991). Upto March 1990 an amount of Rs.15.90 lakhs had been spent on the project.

The Ministry stated, in September 1991, that the stem and embryo culture under tissue culture technique had been standardised and the first batch of plants had also produced the crop. It was also stated that the commercial exploitation could be recommended only after complete evaluation as coffee is a perennial plant.

10.1.4 A Project was initiated at CCRI, Balehonnur and CRSS, Chettalli to study (a) the economics and adaptability of drip irrigation in coffee; (b) standardisation of the quantum and frequency of irrigation to overcome the drought period; and (c) establishment of young clearings for blossom and backing irrigation. An amount of Rs. 13.90 lakhs has been spent on the project from 1986-87 to 1989-90. Although various experiments were conducted on the project, the results of experiments were yet to be analysed for developing suitable package of practices for adoption by the planting community.

The Ministry stated, in September 1991, that the field experimentation will take at least 3-5 years to obtain final results and that the project was being continued during Eighth Five Year Plan period as an ongoing project.

10.1.5 The Evaluation Committee (1986) suggested creation of an independent quality control division with a bio-chemist as the head of the division assisted by two specialists in organic chemistry/bio-chemistry/coffee technology supported by requisite laboratory and scientific assistants. The aim was to determine the effect of (a) pesticidal residues on final product of coffee harvested from the field; (b) to determine the lethal and non-lethal residues in the final product; and (c) to work out a rational norm in the use of pesticides in the control of coffee pest and to bring down the lethal levels, if any, to safe lethal level so that the final product is free from health hazards. Besides, it was also suggested that the unit should also take up work on Robusta coffee - the species most used in the manufacture of instant coffee - for developing better instant coffee formulations. The quality control division has, however, not been set up so far (September 1991).

The Ministry stated, in September 1991, that some experiments had already been taken up at CCRI and that creation of a bio-chemistry division at CCRI to undertake the experiments were proposed in the Eighth Five Year Plan period.

10.1.6 The Evaluation Committee (1986) in its report had pointed out that many posts in the Research Wing remained vacant and felt the need for filling up these posts in the interest of continuity in research. However, 12 posts of research personnel (scientists, research assistants, etc.) and 4 posts of statisticians, totalling to 17 per cent vacancy level, continued to remain vacant in various disciplines for over three years by the end of March 1990. The Committee had also recommended posting of subject matter specialists, number yet to be determined by the Board (September 1991) in various disciplines, to research stations for conducting experiments independently for developing specific technologies useful for the region. It was stated by the Board, in July 1991, that it found it difficult to retain scientists in the remote areas as the compensation package and facilities were not adequate and comparable to compensation provided by other similar research organisations. It was further stated that a Committee had been appointed by the Ministry, in January 1991, to examine this matter.

The Ministry indicated, in September 1991, that a proposal had been included in the Eighth Plan to post subject matter specialists in each of the research stations.

10.1.7 The coffee 'berry borer' is the most serious amongst the coffee pests all over the world. The pest enters the coffee berry and breeds there causing damage to the young as well as developed berries leading to severe infestation and heavy crop loss. The incidence of pest was initially noticed, in February

1990, in Gudalur Zone (Tamil Nadu). It was reported by the preliminary survey team, constituted by the Board in May 1991, that the infestation had affected 11,200 acres of coffee plantation both in Gudalur as well as Sultan Battery (Kerala) zones which included 7,000 small holdings.

The Board had initiated action during February 1991 to isolate infested coffee. Financial assistance in the form of loan to the extent of Rs. 15.90 lakhs was given to two curing works in Pollachi (Tamil Nadu) and Begur (Karnataka) towards purchase of gunny bags for storage purposes and for erection of temporary structures for storage and fumigating infested coffee.

Comprehensive measures for containing the spread of infestation through measures such as distribution of pesticides to the growers had not been taken so far (September 1991). In January 1991, a project proposal with an outlay of Rs. 175.40 lakhs for integrated pest management of coffee 'berry borer' control was forwarded to the Government. The proposal was yet to be approved by the Government (September 1991).

The Ministry stated, in September 1991, that "the proposal from the Coffee Board for providing 50 per cent subsidy towards cost of chemicals is being examined in consultation with Planning Commission. However, in order to avoid delay, the possibility of implementing this during the current year out of savings from other schemes is being actively considered".

In this context, it may be worth mentioning that pest menace has spread to the adjoining areas in Kutta (Kodagu district, Karnataka). The extent of damage caused by way of crop loss was yet to be assessed by the Board (September 1991).

10.2 The Extension Wing is one of the important activity areas of the Board providing technical services to the coffee growing community. It also maintains demonstration farms, including one diversification farm, with a view to disseminating knowledge in the latest farm technology as also to demonstrating the latest methods of coffee cultivation.

10.2.1 The average yield per hectare obtained during 1987-90 from the demonstration farms maintained by the Board is given below:

	District	Number of farms	1987-88 District average	1987-88 Average Yield	1988-89 District average	1988-89 Average yield	1989-90 District average	1989-90 Average yield
			(In kgs. per hectare)					
	Karnataka							
1.	Hasan	1	699	1127	1233	1294	710	635
2.	Chickmagalur	2	640	657	1075	812	644	365
3.	Kodagu	2	1086	696	1602	1476	812	922
	Tamil Nadu							
4.	Madurai	2	507	849	340	500	387	485
5.	Salem	1	423	1068	524	760	502	1290
6.	Nilgiris	1	916	100	1012	500	650	335
	Kerala							
7.	Wynad	2	283	875	651	1265	282	874

While commenting on the performance of coffee demonstration farms, the Evaluation Committee (1986) observed that the yield obtained in these farms should be the highest in the district in order to attract the growers to visit the farms and arouse curiosity in their minds to know the cultivation methods practised in these farms. These farms were to serve as models to the coffee growers to emulate.

It was observed that the average production levels for 1987-88 in respect of farms at Kodagu and Nilgiris, for 1988-89 in respect of farms at Chickmagalur, Kodagu and Nilgiris and for 1989-90 in respect of farms at Hassan, Chickmagalur and Nilgiris were lower than even the respective district averages. The objective of setting up these farms was, thus, not fully achieved.

The Ministry stated, in September 1991, that in Gonikoppal, Kodagu the old plantation (1959) attained the age of replantation and substantial area was also affected by 'red root rot' disease. The high production obtained, on the other hand, in Salem and Wynad was stated to be due to highly favourable soil and climatic factors and in Yercaud (Salem) high productivity was achieved by the elite Arabica selections and optimum level of cultivation adopted.

10.3 The coffee expansion in non-traditional areas was envisaged mainly as a socio-economic programme for the benefit of tribal population, inhabiting the hilly and remote areas, by weaning them away from age old practice of shifting cultivation. Accordingly, the coffee expansion programme is being implemented in non-traditional areas of Andhra pradesh, Orissa, Assam etc., by the respective State Governments.

Board's role in this regard is limited to providing research, extension and marketing support to the non-traditional areas on a need based approach. The Regional Research Stations (RRS) were set up in Raghavendra Nagar (Andhra Pradesh) and Diphu (Assam), in 1976 and 1985, respectively, with the main objective of standardising package of practices and identifying suitable plant material required for respective areas. Seven coffee demonstration farms, which also function as extension centres, were set up in non-traditional areas during 1978 to 1988 by the Board for demonstrating conventional methods of coffee cultivation and to carry out extension activities.

During the five years up to 1989-90, against the budget provision of Rs. 177.80 lakhs, the actual utilisation of funds was Rs. 116.28 lakhs resulting in under-utilisation of funds to the extent of Rs. 61.52 lakhs. The shortfall was mainly due to slow progress in creation of infrastructural facilities in research stations, suspension of activities in coffee demonstration farm at Noney (Manipur) and to a certain extent in RRS, Raghavendra Nagar (Andhra Pradesh).

10.3.1 As against the total available area of 144.46 hectares in seven coffee demonstration farms in non-traditional areas, only 65.06 hectares (45 per cent) have been planted with coffee so far (September 1991). Out of seven demonstration farms, two farms at Tulakona (Tripura) and Bualpui (Mizoram) were yet to achieve the bearing stage. The activities of coffee demonstration farm at Noney, which were suspended in 1986 due to extremist activities, have not been revived so far (September 1991). The farm at Koraput, originally established in 1978, was shifted to an alternate site, in 1987 in view of Orissa High Court judgement in a land dispute case and the new site was yet to be developed (September 1991)

The average yield of coffee harvested during 1988-90 in respect of the remaining three farms viz., Haflong (Assam), Kiruphema (Nagaland) and Deomali (Arunachal Pradesh) was 250, 227 and 178 kgs. per hectare respectively, which was considerably lower than even the all India average of 567 kgs per hectares for 1987-88 (all India average for 1988-89 and 1989-90 was not available).

The Ministry stated, in September 1991, that the yields from coffee in the initial bearing years are recorded always at lower levels before attaining the prime bearing stage at the age of 10-13 years and that in view of this the average yields achieved in these coffee demonstration farms are reasonable.

10.4 The coffee development schemes launched, in 1956, by the Board aim at attaining higher productivity in coffee, improving the economic condition of the coffee growers in general and of the small growers in particular. For this purpose, financial assistance is extended in the form of loans to registered growers under various schemes for which the funds are provided by the Government. The extent of assistance given under various loan schemes during 1985-90 is detailed below:

Loan Schemes	Objective	Under implementation from	Category of growers	Number of beneficiaries assisted	Amount of loan granted (Rs.in lakhs)
Intensive cultivation	Long term loan for increasing productivity	1957-58	Small	1360	176.81
Replantation	To replace old, uneconomical plants with high yielding disease-resistant and improved plant	1968-69	Small/Large	167	19.80
Extensive cultivation	Extension of area under coffee cultivation	1975-76	Small	50	4.31
Special purpose	Sinking of borewells, development of tanks, construction of drying yards, etc.	1972-73	Small	609	90.77
Hire purchase	Purchase of essential estate machinery and equipment	1960-61	Small/Large	2247	823.81
Crop hypothecation	Providing working capital for maintenance of coffee estates	1962-63	Small/Large	10935	1425.83
			Total		2541.33

10.4.1 out of the total loan amount of Rs.2,541.33 lakhs disbursed during 1985-90, Rs. 2,249.64 lakhs were spent on two schemes - Hire purchase loan scheme and Crop hypothecation loan scheme - which accounted for 88 per cent of the total loan disbursed. Assistance in respect of other four schemes accounted for Rs. 291.69 lakhs only covering 2186 small growers. As against the physical target of 3190 hectares to be developed during 1985-90, the achievement was 2295 hectares (72 per cent).

The Ministry stated, in September 1991, that the shortfall was due to non-availability of anticipated internal resources on time for extending financial assistance to growers.

10.4.2 The assistance under these schemes was disbursed to traditional coffee growing areas only except to the extent of Rs.1.14 lakhs disbursed to 103 small growers in non-traditional areas under Crop hypothecation loan scheme during 1985-90. This constituted only 0.08 per cent of the total loan of Rs. 1425.83 lakhs disbursed under this scheme.

The Ministry stated, in September 1991, that the tribal coffee growers own highly scattered and very small holdings ranging from half an acre to five acres and they get some financial assistance from Tribal Developmental Agencies besides other inputs at subsidised rates. Further, the labour component is by family members only. Therefore, they are not evincing much interest to avail loans.

10.4.3 The Board had not been compiling the consolidated statements of demand, collection and balances at the end of each year in respect of each loan scheme to serve as a control document. Even the position of overdue amounts of loans and interest is not compiled annually. In the absence of the same, it was not possible for Audit to examine whether principal and interest amounts were being demanded and collected regularly.

The Ministry, while accepting that demand, collection and balance statements at the end of each year had not been compiled, stated, in September 1991 that the accounts had been decentralised from April 1990 at the unit levels and that consolidated lists would be compiled henceforth.

10.5 With a view to providing incentive for small growers to improve productivity and to bring new areas under coffee, the Government has been extending subsidies under different schemes. Under Replantation subsidy scheme, which is in operation since 1973-74, the Board disbursed an amount of Rs.18 lakhs during 1985-90. The area of replantation achieved under the scheme was 565 hectares only as against the target of 910 hectares.

10.5.1 Under the Expansion subsidy scheme introduced in 1979-80, all growers bringing new areas under coffee were eligible for a subsidy of Rs.2,500 per hectare This was increased to Rs.3,750 per hectare for small growers from

1987 planting season. As compared to the target of 31,600 hectares during the Seventh Plan, the actual new area brought under coffee was 24,322 hectares only and the amount of subsidy disbursed totalled Rs.468.73 lakhs. Reasons for shortfall were not forthcoming from the Board.

10.5.2 Interest subsidy scheme was introduced in 1977-78 under which small growers owning less than 10 hectares, who avail loans from financial institutions for development of their estates, were eligible for interest subsidy of one per cent per annum on all term loans and up to two and a half per cent per annum on all crop loans. The subsidy disbursed under the scheme during 1985-90 amounted to Rs.70.18 lakhs.

10.5.3 The Board had not got any evaluation studies done of the above mentioned schemes with a view to establishing whether the expected benefits had accrued under these schemes (September 1991).

The Ministry stated, in September 1991, that the shortfall in physical achievement under Replantation scheme was due to restricting eligibility of subsidy to the small growers only from 1987 onwards and also because the small growers, who took up replantation out of their own resources, were not eligible for the subsidy. As regards Expansion subsidy, it was stated by the Ministry that the shortfall in physical achievement was attributable to some of the planters not availing of the subsidy due to lack of documents and many of the expansion subsidy applications being rejected due to bad maintenance of the newly planted areas. The Ministry, while conceeding that no independent evaluation had been done to study the impact of the developmental schemes, also stated that there was substantial improvement in productivity and that the progress was very significant under these schemes.

11. Propaganda department

The propaganda department was set up to promote consumption of coffee by publicising and offering coffee for sale through its outlets at reasonable prices. It is operating 70 propaganda units (19 in traditional areas, 51 in non-traditional areas), comprising 47 India coffee depots (ICDs), 18 Coffee houses (cafeteria) and 5 mobile vans. Coffee in raw and powder form is sold by ICDs at prices fixed with reference to Minimum Release Price plus operating overheads and is intended to serve the purposes of propaganda as also of keeping market prices under check.

At the instance of the Ministry, the Board conducted a study, in December 1989, of the functioning of each of ICDs and cafeteria units and reported that 30 Sales Officers and 130 Group 'D' staff were surplus to the requirements.

The Ministry admitted, in September 1991, that a total number of 5 Sales Officers, 12 Assistant Sales Officers and 130 Group 'D' posts were surplus and stated that the posts of 5 Sales Officers and 12 Assistant Sales Officers would not be filled up after they fell vacant. It was further stated that 130 Group 'D' posts identified as surplus had been kept vacant and that 59 daily wagers were being shown against the posts till they were posted to other departments as and when vacancies arose or were confirmed in the Propaganda department itself. It may, however, be mentioned in this connection that the Board had intimated the Ministry, in March 1990, that 30 posts of Sales Officers could be dispensed with. The discrepancy in the number of posts of Sales/Assistant Sales Officers admitted now to be surplus has, however, not been clarified.

It was observed in audit that the Board had not set specific goals and objectives for the Propaganda department to be achieved in a given time frame and the action plan to achieve the same. The following shortcomings were noticed in this regard:

(i) The department had not identified target areas or population to be covered in a given period to popularise coffee;

(ii) It had no specific plans and target to increase consumption of coffee in non-traditional areas, especially in large towns;

(iii) The Board had not formulated specific plans for propagating consumption of soluble (instant) coffee in the non-traditional coffee consuming areas. The Board had also not planned strategies as to the role to be assigned to instant coffee sector to boost coffee sales in the domestic market.

Stressing the need to popularise consumption of coffee in the non-traditional areas, the Public Accounts Committee in its 127th Report, had recommended as follows:

"The Committee consider that the real test of success of the Board's efforts lies in the increase in coffee consumption in non-traditional areas. The Committee are of the view that the task of coffee promotion in non-traditional areas calls for change in the outlook as well as perspective plan of the Coffee Board."

The Ministry stated, in September 1991, that "paucity of funds had always been standing in the way of formulation and implementation of major coffee promotion schemes. Yet, within the available budget resources an action plan has been formulated for 1991-92 also". The Ministry, however, has not indicated the promotional efforts made before 1991-92. As regards promotion of coffee in non-traditional areas, as recommended by the Public Accounts Committee in its 127th Report in 1983, the Ministry stated that the Board has formulated short term and long term schemes which were submitted to Government, in May 1990, for clearance. The Ministry has, however, not indicated whether these schemes have been cleared and whether any coffee promotion efforts were made by the Board after receipt of recommendations of Public Accounts Committee in 1983 till formulation and submission of long/short term schemes to Government in May 1990.

12. Vigilance

The Vigilance Wing of the Board is headed by a Vigilance Officer. His main functions include taking preventive measures to discourage mal-practices, identifying sensitive units including curing works susceptible to corrupt practices, investigating complaints received from public and employees of the Board etc.

Out of 283 cases taken up for investigation by the Vigilance Wing during 1985-90, 224 cases were closed after investigations. Of the balance 59 cases pending settlement, 58 cases were more than three years old.

The curing works act as agents of the Board and are responsible for receipt, issue and custody of coffee which is the property of the Board. Huge stocks running into thousands of bags are in physical possession of these pooling agents who are responsible for proper maintenance and rendering of stock accounts.

The Board did not conduct periodical or surprise verification of stocks in the past. Due to large scale manipulation of stocks noticed, in November 1989, by the Board in respect of one curing works, the Vigilance Wing conducted physical verification of stock during February-November 1990 which revealed shortages of stocks valued at Rs.2.22 crores. Against this, the Board was able to recover only Rs.13.10 lakhs (September 1991). Of the 16 cases of shortages of stock, two cases have been handed over to the Central Bureau of Investigation/ Police and in respect of another two cases, the Board has approached High Court for redressal. In remaining 12 cases, departmental action has been instituted by the Board (September 1991).

13. Internal audit

The Internal Audit Wing is headed by a Junior Officer who reports to the Director (Finance), though the Coffee Board Manual prescribes that the Wing should function under the direct control of the Chairman. There are four supervisors and ten assistants who conduct audit on the basis of an annual programme.

As on 31 December 1990, out of a total of 305 units, 129 units were yet to be covered by the Internal Audit Wing out of which 85 units were to be audited annually, 30 biennially and 14 triennially. The shortfall in coverage was stated to be due to non-filling of 18 posts of accounting staff during 1987-90.

As already mentioned in para 7, a detailed check of the accounts of a curing works was taken up by Internal Audit Wing from September 1989. On the basis of the findings, it was reported that the curing works had indulged in large scale malpractices and fraud and misappropriated funds of Rs.83 lakhs over a period of eight years i.e., 1981-89. There was considerable delay in taking up the detailed check even though the fraudulent practices indulged in by the curing works, like retention of heavy balances out of the amounts drawn on LCs, were known to the Board as early as in 1986 and were reported upon in the Inspection report of the Accountant General for the year 1985-86.

The Ministry stated, in September 1991, that they were directing the Chief Controller of Accounts of the Ministry to study and suggest appropriate measures for toning up the system.

14. Important features of the review -

(i) As coffee trading, both in the domestic and international markets, has to operate against the background of surplus coffee production in the foreseeable future, it is necessary for the Coffee Board to seriously consider revamping and strengthening its marketing strategies in the country as well as abroad, to ensure an appropriate market share for Indian coffee.

(ii) The Coffee Board has to give constant attention not only to developing adequate coffee curing capacity to match the increasing coffee production in the country but also to modernise the existing curing works to achieve better out-turns as well as to improve the quality of cured coffee, since the quality of coffee produced has a bearing on its marketability and price yield, especially in the international market.

(iii) The Coffee Board has necessarily to tighten its control and supervision over the coffee curing works to prevent leakages and mal-practices which adversely affect the revenues to the Pool Fund and the eventual price paid to the grower. There is considerable scope for improvement in this regard and the Board needs to improve its internal control mechanism through proper administrative guidelines and better utilisation of the staff of the Internal Audit and Vigilance Wings of the Board.

(iv) The Coffee Board should periodically review its research, development and extension activities to improve and upgrade them to better subserve the interest of the coffee growers.

(v) The Government should exercise the powers vested in it under Section 4(2)(C) of the Coffee Act, of nomination of members to the Coffee Board, keeping in view the need to enhance the Board's functional efficiency and to safeguard the interest of the coffee growers.

H Jalihal

Bangalore (H. JALIHAL)
The Accountant General (Audit)-II, Karnataka

25 NOV 1991

Countersigned

New Delhi (C.G. SOMIAH)
The Comptroller and Auditor General of India

26 NOV 1991

ANNEXURE 'A'

Organisational set-up of Coffee Board

Chairman

- (1) Secretariat
  - Secretary
    - Joint Secretary (Legal)
      - Deputy Secretary
        - Asst. Secretary (Welfare)
          - Vigilance
    - Joint Secretary (Personnel)
      - Asst. Secretary (Admn)
        - ES section Pay Cell
          - Staff training Institute
            - Official language wing
- (2) Research department
  - Director
    - Joint Director
      - Deputy Directors(6)
        - (1) Balehonnur
        - (2) Chethalli
        - (3) RV Nagar
        - (4) Thandigudi
        - (5) Chundale
        - (6) Diphu
- (3) Propaganda department
  - Director
    - Deputy Director
      - Asst. Director(10)
        - 1 to 4 posts Headquarters
        - (5) Bombay
        - (6) Hyderabad
        - (7) Tirupati
        - (8) Calcutta
        - 9 & 10 Delhi
- (4) Project wing
  - Joint Director
    - Deputy Directors(3)
      - (1) Vizag
      - (2) Guwahatti
      - (3) Haflong
        - Sr. Liaison Officers (9)
          - (1) Bangalore
          - (2) Minimuttur
          - (3) Koraput
          - (4) Guwahatti
          - (5) Kirupama
          - (6) Arunachal Pradesh
          - (7) Kolasib
          - (8) Haflong
          - (9) Agarthala
        - Sr. Liasion Officers (6)
          - (1) Imphal
          - (2) Araku
          - (3) Chintapalli (East)
          - (4) Chintapalli (West)
          - (5) Diphu
          - (6) Mokokchung
- (5) Development department
  - Development Officer
    - Deputy Development officer
      - Asstt. Development officer
    - Senior Liaison Officer (Development)
- (6) Extension wing
  - Joint Director (Extension)
    - Deputy Directors (5) (Extension and Development)
      - (1) Chickmagalur (E)
      - (2) Hassan (E)
      - (3) Madikeri (E)
      - (4) Coimbatore (E)
      - (5) Kalpetta (E)
- (7) Finance and Accounts
  - Director of Finance (1)
    - Subordinate Officers (5)
      - (1) Chief Accounts Officer
      - (2) Dy.Director of Finance
      - (3) Accounts Officer (M)
      - (4) DCCMO(A/Cs)
      - (5) Sr.System Analyst
      - (6) Internal Audit
- (8) Marketing
  - Chief Coffee Marketing Officer
    - Director of Sales
      - Subordinate Officers (15)
        - Director of quality control
        - Sr. DCCMO (3)
        - CMSR & SD
        - OIC, New Delhi
        - DCCMO (9)

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