CHAPTER - II

REVIEWS RELATING TO GOVERNMENT COMPANIES

2A MAHARASHTRA STATE FARMING CORPORATION LIMITED

Highlights

The Maharashtra State Farming Corporation Limited (Company) was incorporated as a Government Company in March 1963 with the prime object of cultivation of land acquired under the Maharashtra Agricultural Land (Ceiling on Holdings) Act, 1961. The accumulated loss of the Company at the end of June 2000 was Rs.33.51 crore which had completely eroded its paid-up capital of Rs.2.75 crore.

(Paragraph 2A.1 and 2A.6)

Out of total cultivable land of 46532 acres of the Company as at the end of June 2000, 3102 acres of land was encroached by *ex*-lessors and others including relatives of political leaders.

(Paragraph 2A.7.1 and 2A.7.2)

The Company incurred loss of Rs.2.68 crore in implementation of the Joint cultivation scheme due to acceptance of lower rates, non-recovery of legitimate dues, non recovery of harvesting charges, less recovery of land use value, *etc*.

(Paragraph 2A.8.1, 2A.8.2 and 2A.8.3)

The per acre yield of sugarcane achieved by the Company was very low compared to the State average.

(Paragraph 2A.9)

Short supply of water by irrigation department forced the Company to grubb 1419 acres of sugarcane and suffer loss of Rs.2.38 crore.

(Paragraph 2A.10.1)

The Company incurred infructuous/unproductive expenditure of Rs.2.40 crore on digging of wells (Rs.0.35 crore) and procurement and installation of drip irrigation system (Rs.2.05 crore).

(Paragraph 2A.10.2 and 2A.10.3)

2A.1 Introduction

Maharashtra State Farming Corporation Limited (Company) was incorporated as a wholly owned Government Company in March 1963 with the prime object of cultivation of land acquired under the Maharashtra Agricultural Land (Ceiling on Holdings) Act, 1961. The total land holdings of the Company as on June 2000 was 69889 acres at 14 Farms situated in seven districts (Aurangabad, Ahmednagar, Kolhapur, Nashik, Pune, Satara and Solapur) of Maharashtra. Each Farm is an independent accounting unit and is managed by an Estate Manager.

2A.1.1 Activities

The main activity of the Company is to cultivate sugarcane as its major crop. Apart from sugarcane, seeds cultivation and horticulture, the Company also undertakes agro-forestry and cultivation of food and fodder crops in Kharif and Rabi season.

2A.2 Organisational set-up

The overall management of the Company is vested in a Board of Directors comprising of minimum two and maximum fifteen Directors. The Revenue Minister is the Chairman of the Company and the Minister of State for Revenue is the Vice-Chairman. As on 30 June 2000 the Board of Directors consisted of seven Directors including Chairman, Vice-Chairman and Managing Director. The Managing Director is appointed by the State Government and conducts the day-to-day management of the Company. The Managing Director is assisted by three Chief Executives (Farm Management, Finance and Administration).

2A.3 Scope of Audit

The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India (Commercial) - Government of Maharashtra for the year ended 31 March 1993, which was discussed in November 1996 by the Committee on Public Undertakings (COPU). The recommendations of the COPU were given in its 6th Report of 1996-97, which was presented to the Legislature in December 1996. Action Taken Notes furnished by the State Government (January 1999) on the recommendations of COPU have not been discussed so far (March 2001). Important recommendations of COPU and action taken there on by the Company have been discussed in ensuing paragraphs.

The present review covers the working and activities of the Company for the period of five years up to June 2000.

2A.4 Budgeting

The Company follows accounting year ending June and prepares annual revenue and capital budget. The details of budgeted revenue income, revenue expenditure and capital expenditure and actual there against for last five years up to June 2000 are as under.

(Rupees in crore)

Year	Revenue income		Revenue expenditure		Capital expenditure	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
1995-96	29.28	18.78 (64.15)	28.37	18.91 (66.65)	6.39	5.78 (90.42)
1996-97	27.45	16.41 (59.76)	28.00	16.55 (59.13)	8.84	0.33 (3.78)
1997-98	26.06	17.95 (68.85)	25.72	17.81 (69.24)	9.21	0.08 (0.83)
1998-99	23.06	22.94 (99.51)	22.12	22.95 (103.76)	0.04	0.01 (19.11)
1999-2000	21.46	22.13 (103.16)	21.61	22.05 (102.02)	0.13	0.02 (15.63)
Total	**127.31**	**98.21**	**125.82**	**98.27**	**24.61**	**6.22**

(Figures in brackets indicate percentage of actual to budget)

Despite large variations in budgeted and actual income and expenditure, variance analysis was not done

It could be seen from the above, that capital expenditure was much lower than the budget (except in 1995-96) due to paucity of funds. In addition, the Company made unrealistic and high provisions in budget in anticipation of loans, which did not materialise and resulted in negligible spending under capital scheme.

The Management did not carryout any variance analysis of actual achievement against the budgeted figures. Only revised budgets were prepared, that too after the actual expenditure incurred was known.

2A.5 Capital structure and borrowings

Against the authorised share capital of Rs.3 crore, divided into 30,000 shares of Rs.1000 each, the paid up capital of the Company at the end of June 2000 was Rs.2.75 crore, which was entirely contributed by the State Government.

The outstanding borrowings of the Company increased from Rs.35.80 crore at the end of 1994-95 to Rs.44.06 crore at the end of 1999-2000. During the years 1995-96 to 1999-2000 the Company received loans of Rs.16.05 crore from the State Government. As per terms of these loans, Rs.6 crore was utilised for payment of salaries and other administrative expenses and balance Rs.10.05 crore was used for repayment of cash credit balance of State Bank of India (SBI) which was pending since 1991. During the last five years the

Company had not made any repayment of loan and interest to the State Government, as its financial position was precarious.

Company did not approach Government for conversion of loan into equity and waiver of interest

COPU had recommended (December 1996) that outstanding borrowings should be converted into equity and interest payable should be waived by the Government, as the interest burden on loans taken from the Government was heavy. However, the Company has not made any such proposal to the Government (March 2001) despite its poor financial condition.

2A.6 Financial position and working results

The accounts of the Company are finalised only up to 1996-97 and thereafter are in arrears. The financial position and working results of the Company for five years ended June 2000 (based on provisional accounts from 1997-98 to 1999-2000) are given in Annexures 10 and 11, respectively. During the above period, the Company continuously incurred losses and its accumulated loss at the end of June 2000 was Rs.33.51 crore which far exceeded (12 times) its paid-up capital of Rs.2.75 crore.

2A.7 Land holdings and encroachment of land

2A.7.1 Land holdings

As a result of implementation of the Maharashtra Agricultural Land (Ceiling on Holdings) Act, 1961 the Government acquired 85637 acres of land and handed it over (March 1963) to the Company for cultivation. However, 14261 acres was returned (1972-1982) to *ex*-lessors and 1487 acres was given away for other purposes over a period of time to different agencies. The present holding of the land with the Company is 69889 acres of which 35466 acres of land belong to *ex*-lessors*. Based on the recommendations of COPU (December 1996) the State Government took a decision in December 1997 to return the land to *ex*-lessors and their heirs for self- cultivation. However, the decision was still to be implemented (November 2001).

The details of land holdings of the Company, area available for cultivation, area actually utilised for cultivation, unused area *etc.* for the last five years up to 1999-2000 (June 2000) are given in Annexure-12.

It could be seen from the details that:

(i) The percentage of land available for cultivation to total land holdings ranged between 67 and 68 *per cent* of which 73 to 86 *per cent* land was

* The farmers whose land was leased to the private sugar factories and was subsequently acquired under The Maharashtra Agricultural Land (ceiling on holdings) Act.

utilised for cultivation there by leaving 14 to 27 *per cent* of cultivable land unused during last five years up to 1999-2000 (June 2000).

(ii) The utilisation of land during 1996-97 showed a sharp increase due to increased area of seed cultivation in kharif season and inclusion of 563 acres under sugarcane cultivation, as the Kolhapur Farm given on total Joint cultivation was received back by the Company in 1996-97.

The Company stated (January 2001) that cultivable land could not be used due to non-availability of funds, inadequate manpower, tractors and implements for pre-tillage operation, irregular water supply by Irrigation Department and also non-availability of its own alternative source of irrigation.

Audit noticed the following points on the utilisation of land:

(i) No increase in cultivable land

With a view to bring 3500 acres of cultivable land covered by Vedi Babhul trees having no commercial value under cultivation, the Company took a decision (December 1996) to clear the land by felling, removing and uprooting the said Vedi Babhul trees. On the basis of tenders invited, orders for removal of Vedi Babhul trees on 3200 acres was given to a contractor in January and August 1997.

The contractor cut commercially valuable Godi Babhul trees instead of Vedi Babhul trees

The Contractor commenced the work in November 1997. However, it was noticed that instead of removing Vedi Babhul trees the contractor had cut and removed Godi Babhul trees (fully grown up), which had considerable commercial value. There was lack of supervision at Farm level on the part of the Company. The Company cancelled the contract (March 1998) and filed a civil suit (November 1998) claiming damages of Rs.75.79 lakh from the contractor. The matter was sub-judice and the court decision was awaited (March 2001). Further, not a single acre of above land covered by Vedi Babhul trees has been brought under cultivation so far.

The Company accepted (January 2001) the above facts. However, the Company has not taken any further remedial measures to restrict the growth of Vedi Babhul trees on fallow land and the area under such trees at the end of March 2001 has increased to 5861 acres. The Company stated in its further reply (May 2001) that removal work could not be undertaken due to non-availability of funds.

(ii) Allotment of land for storage of spent wash

Rent of Rs.0.07 crore was not recovered from the firm

The Company decided (April 1997) to lease out 36.10 acres of barren land at Ratnapuri Farm to M/s. Ashok Chemicals Limited, Walchandnagar (firm) for storage of spent wash (a by-product of sugar industries) at an annual rent of Rs.4000 per acre. The said land was being used by the firm from 1992. However, the Company entered into an agreement with the firm only from July 1997 and received the agreed rent. When Audit pointed out (March1999) non-recovery of rent of Rs.7.22 lakh from 1992, the Company in its reply (June 1999) assured its recovery. Later, the Company renewed the contract with the firm (July 1999) by giving additional land for use for storage of spent wash. At the time of renewal it was possible for the Company to recover the arrears of Rs.7.22 lakh from the firm but no action was taken. Even the fact of utilisation of land by the firm since 1992 and non-recovery of rental dues from the firm was not brought to the notice of Board of Directors by the Managing Director. Thus, the Company was deprived of its legitimate income of Rs.7.22 lakh. The Company replied (January 2001) that efforts were being made to recover the dues.

2A.7.2 Encroachment of land

The details of land encroached during last five years up to 1999-2000 are as under:

Year	Area encroached (in acres)	Increase in encroachment compared to land encroached in 1995-96 (*per cent*)
1995-96	403.00	-
1996-97	530.08	31.53
1997-98	769.06	90.83
1998-99	2138.23	430.58
1999-2000	3102.00	669.73

Relatives of political leaders encroached on 170 acres of land

The extent of encroachment has been increasing steadily since 1996-97. The encroachment as on March 2000 at Harigaon and Tilaknagar Farms of the Company was 1061 acres and 1850 acres respectively, which represent 94 *per cent* of total encroached area. It was noticed in audit that at Tilaknagar Farm, the plot adjacent to the Estate Manager's office admeasuring 13 acres was encroached upon in June 1998 and the Estate Manager did not take any action to remove the encroachment. It was further noticed that 170 acres of land at Tilaknagar Farm was encroached by relatives of leaders of Nationalist Congress Party (80 acres), Congress (I) Party (52 acres) and Shivsena (38 acres) between July 1997 and November 1998. The response of the local police and revenue authorities to the requests of the Company for removal of encroachment was also poor. Although the Honourable High Court had ordered (October 1996) the *ex*-lessors of Harigaon and Tilaknagar Farm to refrain from encroachment, the *ex*-lessors have not complied with the stay orders of High Court. The proposal given by the Company (February 1999) for recruitment of security staff on contract basis to prevent encroachment was also not approved by the State Government (March 2001).

The Company stated (May 2001) that in order to remove encroachment it had requested Irrigation authorities to stop irrigation water supply to encroached area and had also filed (April 2001) 12 contempt petitions against the 22 *ex*-lessors in the court of law.

2A.8 Joint cultivation

2A.8.1 Joint cultivation on land use value basis

The Joint cultivation scheme introduced (March1993) by the Company envisaged involvement of private agencies who while undertaking cultivation at Company's Farms with their own working capital and with the Company's work force would pay land use value to the Company at negotiated amount besides paying the wage bills of Company's work force utilised by them. The scheme was to reduce the Company wage bill and also generate revenue from the land use value. This scheme was implemented at Kolhapur and Sakharwadi-S Farms, which are discussed below:

2A.8.1.1 Kolhapur Farm

Company suffered a loss of Rs.0.54 crore in Joint cultivation on 'land use value basis' due to defective agreement and low recovery of shortages and land use value.

It was noticed in audit that as Kolhapur Farm was continuously earning profit, the Board of Directors categorically refused (March 1993) to enter into Joint cultivation for this Farm with any agency. However, on the basis of decision (July 1993) taken by the Committee set up by Cabinet of the State Government, the Chairman of the Company decided (August 1993) to undertake Joint cultivation on Kolhapur Farm. Accordingly, the Joint cultivation agreement on land use value basis was entered (August 1993) with Dyanshanti Agro Farm Private Limited, Kolhapur (Firm 'A') for a period of three seasons up to March 1996. On taking back the Farm in March 1996, it was again given by the Company for Joint cultivation in April 1997 to Gajanan Agro Farm, (Firm 'B') a sister concern of Firm 'A' for a period of five years.

The scrutiny of Joint cultivation agreements revealed that the Company had suffered loss of Rs.54.14 lakh due to defects in agreement with the firms and low recovery of shortages and land use value as detailed below:

(i) On receiving the firm A's offer of Joint cultivation for three sugarcane seasons, the Farm was handed over to it in September 1993; by that time standing crop was almost ready for harvesting. However, the termination date agreed to in the contract was March 1996. The growth of the sugarcane in the month of March would definitely be less than that in the month of September as the harvesting season begins from October. The Company failed to consider this fact and had agreed for termination of agreement in March 1996, as a consequence of which it had to incur an avoidable expenditure of Rs.6.51 lakh from April to August 1996 to bring the crop to the level of growth in September before it could be harvested.

(ii) Firm 'A' specifically agreed to give back in March 1996 sugarcane crop equal to 12000 tonnes. However, yield obtained from sugarcane crop taken back in March 1996 was 8937 tonnes and thus there was shortage of 3063 tonnes valued at Rs.28.42 lakh (at the rate of Rs.928 per tone being the rate for 1996-97). The Company stated (May 2001) that shortages were only 643.9 tonnes compared to actual yield obtained by Firm 'A' (9580.50 tonnes) in 1993-94 and the amount recoverable was only Rs.5.97 lakh and will be recovered from Firm 'B', sister concern of Firm 'A'. However, no recovery has been effected so far (September 2001). The reply is not tenable, as Firm 'A' had specifically agreed to give back a sugarcane crop equal to 12000 tonnes.

(iii) The Kolhapur Farm which was taken back in March 1996 was again given for Joint cultivation (May 1997) to Firm ‘B’, a sister concern of Firm ‘A’ for a period of five years. Firm 'B' offered land use value at the rate of Rs.5600 per acre per year for total area of the Farm of 715 acres (cultivable land *plus* fallow land). However, agreement was entered into for 646.38 acres of cultivable land only. This resulted in less recovery of land use value of Rs.19.21 lakh on 68.62 acres for a contract period of five years.

2A.8.1.2 Sakharwadi-S Farm

The Company had given (May 1997) 90 acres of land at Sakharwadi-S Farm to S. B. Enterprises (the firm) on the land use value basis of Rs.9000 per acre. As per terms of contract the firm was to pay 50 *per cent* amount by August 1997 and to give a Bank guarantee for the balance amount. The firm neither paid the amount nor gave a Bank guarantee. Even then the firm was allowed to work and the land was taken back by the Company in June 1998 only. The Company failed to recover Rs.6.10 lakh from the firm after adjusting security deposit of Rs.2 lakh. The Company stated (May 2001) that a court case against the firm has been filed in June 1998.

2A.8.2 Joint cultivation on working capital basis

To overcome working capital problem, the Company entered into Joint cultivation agreements with various sugar factories. According to the agreements, the sugar factories were to advance working capital of Rs.11372 per acre (the average cost of cultivation calculated by the Company) either in the form of fertilisers, seeds and/or cash as and when required during the cropping season. In turn, the Company agreed to sell sugarcane to these factories. The advance given was to be adjusted while making the payment of sugarcane supplied by the Company and the harvesting charges were to be borne by the sugar factories. This Joint cultivation agreement started from 1995-96 on trial basis at two Farms (Laxmiwadi and Sakarwadi-A). The details of Joint cultivation agreements entered into with sugar factories during last four years up to 1999-2000 are as under:

Sl. No.	Particulars	1996-97	1997-98	1998-99	1999-2000
1	Number of sugar factories	5	5	5	5
2	Number of Farms under Joint cultivation	11	11	11	8
3	Area given for Joint cultivation (in acres)	7771	9561	10278	5794
4	Amount of advance received in cash (Rupees in crore) #	2.81	8.06	6.46	5.11

\# *In addition to cash advance, advance in the form of fertilisers and assistance in pretillage operation was also received.*

In Joint cultivation on working capital basis with sugar factories Company suffered loss of Rs.1.98 crore due to acceptance of lower rate, non-recovery of harvesting charges, *etc.*

The scrutiny of the Joint cultivation agreements with sugar factories revealed that the Company had incurred a loss of Rs.1.98 crore due to non-recovery of legitimate dues, non-recovery of harvesting charges, acceptance of lower rates *etc.* as detailed below:

(i) As per the agreement the harvesting charges are to be borne by the concerned sugar factory. However, at Shivpuri Farm of the Company during 1997-98 and 1998-99 three sugar factories (Kopergaon, Sanjivani and Chatrapati) could not adhere to the harvesting schedule and Company had to incur additional labour expenditure of Rs.11.04 lakh, which was recoverable from these sugar factories. However, no concrete action has been taken so far (September 2001) to recover this expenditure.

(ii) As per the terms of agreement, no interest was payable to sugar factories on the working capital advance given by them to the Company. However, it was noticed in audit that Saswadmali Sugar Factory, Shreepur which had entered (December 1998) into Joint cultivation agreement for five years demanded that Company should bear 50 *per cent* of the interest payable by them to bank on loan obtained for paying working capital advance to the Company. This was accepted by the Company and accordingly Rs.16.37 lakh were paid for the year 1999-2000 with commitment to bear the same liability in coming four years. Acceptance of this condition was against the terms of agreement and resulted in avoidable extra expenditure of Rs.16.37 lakh besides similar liability in future for four years.

(iii) The Sanjivani Sugar Factory was paying sugarcane charges to the Company up to 1998-99 at the same rates payable to the members of the sugar factory. While entering into contract for 1665 acres area for the period of four years up to 2003-04, this sugar factory included a condition to pay Rs.50 per tonne less than the rates payable to the members of sugar factory. The condition was accepted by the Company as no other sugar factory was ready for Joint cultivation and it could not survive without working capital aid by sugar factories. Thus, precarious financial position of the Company forced it to accept reduction in rate, which would result in a loss of Rs.62.75 lakh (on the basis of average yield of 15.08 tonnes per acre) up to 2003-04.

(iv) The Kopargaon sugar factory defaulted in sugarcane payment of Rs.131.39 lakh to the Company and as per the terms of contract was liable to pay interest (at the rate of 18 *per cent* on the total outstanding dues) of Rs.39.71 lakh. However, the Company waived the interest (January 2000). Despite being aware of the critical financial position of Kopargaon sugar factory, the Company entered into a fresh Joint cultivation agreement in March 2000 for a period of five years up to 2003-04. While entering into contract the sugar factory included a condition to pay Rs.50 per tonne less than the rates payable to members of sugar factory which was accepted by the Company. Thus, due to acceptance of reduction in rate Company would suffer a loss of Rs.68.50 lakh based on average yield (15.08 tonnes per acre) up to 2003-04. The Company stated (May 2001) that the condition was accepted after lot of bargaining, as it was not in a position to dictate terms and could also not afford to cancel the agreement. It was further stated that the

Government had been informed about the above decision. Government had not made any remarks on the issue so far (November 2001).

2A.8.3 Joint cultivation for food crops

The Company entered (May 1997) into Joint cultivation of jowar and grams for the 1997 rabi season with M/s. B. R. Company (Contractor). According to the terms of the contract, the contractor was to supply fertilisers and seeds for the production of jowar and gram and agreed to pay Rs.450 per quintal for jowar and Rs.800 per quintal for gram. 5471.02 quintals of jowar and 1295.68 quintals of gram were produced during the 1997-98 season. The amount of above produce *plus* cost of gunny bags and certain expenditure such as packing, stacking and supervision charges incurred on behalf of contractor totaling Rs.35.61 lakh was recoverable from the contractor. However, the Company recovered only Rs.26.09 lakh and allowed the contractor to lift the entire produce without making full payment. Thus, the Company had made excess payment of Rs.9.51 lakh due to poor monitoring at Farm level. The Company did not take any concrete action for recovery of dues for more than three years and only after being pointed out in audit issued legal notice (March 2001). The amount has not been recovered by the Company so far (November 2001).

2A.9 Production performance

Excess payment of Rs.0.10 crore was made to the joint cultivator

The details of cropping pattern and production performance of sugarcane, seeds food and fodder crops during 1995-96 to 1999-2000 are given in Annexures-12 and 13.

The production of sugarcane, which was 146607 tonnes during 1995-96, increased to 215898 tonnes during 1998-99. However, the same was reduced drastically to 149074 tonnes in 1999-2000 with the average yield falling from 21.8 tonnes per acre to 15.08 tonnes.

The details of per acre average yield of sugarcane achieved by the Company *vis-a-vis* State average yield of sugarcane for last three years up to 1999-2000 were:

Year	Average sugarcane yield achieved by the Company	Average sugarcane yield in the State
	(Tonnes per acre)	
1997-98	16.43	25.60
1998-99	21.80	26.54
1999-2000	15.08	25.18

The yield achieved in sugarcane production was very low compared to the State yield

The yield achieved by the Company was very low, yield during 1999-2000 was the lowest being only three fifth of the State average.

The reasons for the low yield were as follows:

(i) According to Vasantdada Sugar Institute, Manjari, the profitable cropping pattern is Adsali (requiring 18 months for cultivation and planted up to August end) 15 *per cent*, plant (yearly crop and planted during August to December) 50 *per cent* and Ratoon (off shoot of earlier years crop) 35 *per cent*. It could be seen from the details of Annexure 13 that Adsali sugarcane crop which was 21 *per cent* in 1995-96 increased to 24 *per cent* during 1999-2000 and at the same time plant sugarcane crop in 1995-96 which was 50 *per cent* reduced to 47 *per cent* in 1999-2000.

(ii) The production from Adsali sugarcane during 1998-99 was 60676 tonnes, which decreased to 44610 tonnes in 1999-2000 though there was increase of 349 acres in plantation during 1999-2000.

(iii) The application of fertiliser was low and was 41 *per cent* of the norm during 1999-2000.

(iv) The Company could not engage labour at the time of agricultural operation (plantation sowing) due to paucity of funds.

(v) In case of seed and other crops, yield achieved per acre indicated a fluctuating trend during last three years up to 1999-2000.

(vi) The Company had not done the cultivation of Agro-forestry and Horticulture in spite of earmarking area for their cropping during last three years up to 1999-2000 mainly on account of paucity of funds.

2A.10 Irrigation

2A.10.1 Canal irrigation water supply by Irrigation department.

The original guaranteed area (the area for which Irrigation department guaranteed water supply for sugarcane cultivation) of the Company was 21855 acres. Considering the water shortages, the Government of Maharashtra during 1990-91 further reduced the guaranteed area to 12937 acres. It was noticed in Audit that the Company did not use the entire guaranteed area for sugarcane cultivation. Sugarcane cultivated using water supplied by the Irrigation department varied from 67 *per cent* in 1996-97 to 84 *per cent* in 1999-2000 of the guaranteed area due to the various reasons analysed below:

(i) The Irrigation department could not supply water as demanded by the Company and guaranteed by agreement. There was shortfall in supply of water ranging from 1353 million cubic feet (mcft) in 1995-96 to 698 mcft in 1999-2000.

(ii) At different Farms there were delays in providing supply of water at periodical intervals as required, and the delay ranged from 21 to 98 days in rabi season and 21 to 53 days in hot weather days.

(iii) Though the area planted under sugarcane remained more or less constant (as furnished in Annexure 13) during last five years except 1996-97, the Company reduced its demand for supply of water from 6240 mcft in 1997-98 to 5999 mcft in 1998-99 and 5835 mcft in 1999-2000. The Company stated (May 2001) that reduction in demand of water was due to substantial reduction in area under rabi crops. The reply is not tenable as the area under sugarcane (the only crop under guaranteed area) in rabi season was more or less constant for the entire period.

Due to shortfall in water supply Company had to grubb sugarcane and suffered loss of Rs.2.38 crore

(iv) During the year 1995-96 and 1996-97 the Company grubbed[#] area totalling 1419 acres of sugarcane and incurred a loss of Rs.2.38 crore (based on average cost) due to shortfall in supply of water by Irrigation department. The Company accepted (March 2001) the fact of grubbing and stated that audit had considered average per acre cost which include overheads on some operations which were not carried out. However, exact loss incurred due to grubbing was not worked out by the Company and intimated to Audit.

(v) The Company receives water from Irrigation department on cusecs basis and 2.47 acres area is to be irrigated by one cusec of water. Scrutiny of water received during 1999-2000 and its usage revealed that the Company received 35252 cusecs of water which was sufficient to irrigate 87073 acres area. However, the Company could irrigate only 66889 acres area and there was shortfall of 20184 acres. Thus, Company could irrigate only 1.90 acres per cusec against the norm of 2.47 acres. The Company replied (March 2001) that this was due to irregular interval between two successive supply of water.

2A.10.2 Excavation of wells

There was unauthorised expenditure of Rs.1.71 crore on digging of wells by poclain machine

The Managing Director of the Company instructed (May 1995) Estate Managers to explore the possibility and submit proposal for digging of wells. Accordingly, all Estate Managers (except Belwandi and Kolhapur Farms) informed the Head Office about the requirement of wells to be dug. Subsequently, the Estate Manager, Haregaon Farm called for quotations (August 1995) for excavation of 13 wells by poclain machine and placed order on M/s Jagtap Construction Engineering Company, Ahmednagar. The Estate Managers of 11 other Farms also decided to excavate wells by poclain machine method on the basis of rates finalised by Haregaon Farm and the work was executed from the same party at the same rate. It was noticed that the estimated value of individual work orders awarded by the Estate Managers ranged between Rs.5.25 lakh to Rs.28.07 lakh and total actual payment made to this party by all Farms was Rs.1.71 crore on 80 wells. It was noticed in audit that as per Articles of Association of the Company any individual capital expenditure above Rs.10 lakh is required to be approved by the State Government. However, Company neither obtained the prior approval of the State Government nor its Board of Directors was appraised of the same by the Managing Director.

[#] grubbed area - The area in which crop gets dried out due to extreme shortage of water and there is no yield from the crop.

The Company incurred unfruitful expenditure of Rs.0.35 crore on digging of wells

It was observed that in 18 wells (expenditure Rs.34.69 lakh), which were excavated during 1995-96 and 1996-97, water was located but could not be utilised for reasons like non availability of electric connection due to delay in applying to Electricity Board, inadequate capacity of transformers, non-laying of water pipeline from the wells to the Farms and seasonal nature of availability of water. Thus, due to non-availability of facilities to lift the water for irrigation the entire expenditure of Rs.34.69 lakh on those 18 wells also proved to be unfruitful.

The Company stated (March 2001) that it had not spent more than Rs.2 to 3 lakh per well for excavation and therefore it had not approached the Government for permission. The reply is not tenable as in majority of the cases the estimated value of individual work orders for this capital expenditure exceeded Rs.10 lakh and as per its Articles of Association, Company was required to obtain the prior approval of Government.

2A.10.3 Procurement and installation of Drip irrigation system

In order to bring additional land under sugar cane cultivation it was decided (July 1995) by the Board of Directors to introduce drip irrigation system on its 13 Farms at an estimated cost of Rs.2.63 crore. Accordingly, tenders were invited (July 1995) and the work was entrusted (November 1995) to a firm (M/s. Imperial Irrigation and Biotech Private Limited, Pune) for a total area of 656.34 acres at the rate of Rs.17234 per acre. As per the terms of agreement, it was possible to increase the area for drip irrigation on the same terms and conditions, if required. The Estate Managers of 12 Farms gave further orders during December 1995 to August 1996 for an additional area of 615.42 acres, thus, bringing an area of 1271.76 acres under drip irrigation.

The scrutiny of execution of above scheme revealed:

There was unauthorised and infructuous expenditure of Rs.2.05 crore on procurement and installation of drip irrigation system

(i) The Company incurred an expenditure of Rs.2.05 crore without the prior approval of State Government required for capital expenditure in excess of Rs.10 lakh, thus, rendering the expenditure unauthorised. The Company stated (March 2001) that it did not seek the required permission, as it was revenue expenditure. However, the reply is not tenable as the Company has capitalised the above expenditure in its books of accounts and was providing depreciation on the same.

(ii) The Company accepted (March 2001) the absence of scientific planning prior to installation of the drip irrigation system. Further, the system was introduced on an area with standing crops instead of being installed before planting of the crop and the requisite single row planting method was also not adopted in the following years.

(iii) Out of the total bills of Rs.2.31 crore claimed by the firm, payment of Rs.2.05 crore was made by the Company till March 1997. In March 1998 a committee was formed by the Company to see whether all the terms of the contract were fulfilled and to verify the quantum of installation of the drip sets. The Committee noted that excess payment of Rs.26.52 lakh was made to the firm. Since no security deposit or Bank guarantee was taken by the

Company from the firm, the possibility of recovery of this excess payment was bleak.

(iv) Out of the 67 sets installed on various Farms, 27 sets were not used at all resulting in locking up of funds amounting to Rs.85.47 lakh. The remaining 40 sets were utilised during 1995-96 and 1996-97 season and also did not perform satisfactorily. At the time of harvesting it was noticed that the lateral pipes of the all sets were damaged. As the replacement cost was heavy, the drip irrigation scheme was not operated further. As the scheme was supplementary to canal irrigation the increase in production specifically due to drip irrigation scheme could not be quantified. The Company, however, filed (November 1998) a civil suit against the firm for recovery of Rs.1.08 crore which is still to be settled by the Court (September 2001).

The Company accepted (March 2001) that at present no drip set is in working condition due to damage to lateral pipes and drippers. Thus, the scheme is not operational on any area now and the total expenditure of Rs.2.05 crore incurred on Drip irrigation system has largely proved infructuous.

2A.11 Hire and purchase of tractors

2A.11.1 Purchase of tractor

The Board of Directors approved (January 1995) purchase of 45 tractors. The Company received (April 1995) quotations from tractor manufacturing companies and the price quoted by the authorised dealer of Escort tractors at Rs.2.19 lakh per tractor was the lowest. The Company did not place orders at the rates quoted and called for fresh quotations (September 1995) without recording any reason, from the same tractor manufacturing companies. In fresh quotations, again the authorised dealer of Escort tractors quoted the lowest rates. However, the price quoted was increased by Rs.5137 per tractor compared to price quoted in April 1995. The Company did not purchase the tractors immediately and placed orders in February 1996 *i.e.* after a further gap of 5 months. During this period the above dealer of Escort tractors increased the price further by Rs.8877 per tractor. Thus, there was an increase of Rs.14014 per tractor from the date of first tender to date of purchase order for the first batch of 40 tractors. While placing purchase order for the remaining five tractors (July1996), the price of tractor was further increased by Rs.5237 per tractor. Even though sufficient funds were available with the Company as it generated Rs.1.94 crore in the month of June 1995 by selling old tractors and scrap material and the Board had approved the utilisation of the sale proceeds for purchase of new tractors, the purchase of tractors was delayed. This delay in finalising the purchase of tractors resulted in an extra expenditure of Rs.6.57 lakh. The management stated (March 2001) that extra expenditure had to be incurred due to delay of eleven months in getting Government sanction for purchases.

The Company incurred extra expenditure of Rs.0.07 crore due to delay in purchase of tractors and paid Rs.0.20 crore idle wages

It was further noticed that the Company had sold 60 old tractors in June 1995 but 40 new tractors were received after a gap of nine months *i.e.* in

March/April 1996 as the order was placed only in February 1996. During this period the Company paid idle wages of Rs.20.25 lakh to drivers and cleaners. Had the Company processed the tender on schedule, it could have avoided payment of Rs.20.25 lakh as idle wages.

2A.11.2 Hiring of tractors

Hiring of tractors at different rates resulted in extra expenditure of Rs.0.28 crore

As the fleet of 45 tractors owned by the Company was insufficient to carry out pre-tillage operations at its Farm, the Company hired tractors from outside agency during the period 1996-97 to 1999-2000. It was noticed in audit that for hiring tractors the Company did not call for quotations or tenders and instead fixed maximum rates on *adhoc* basis for Ahmednagar zone and Nira zone covering 6/7 Farms of the Company in each zone. The Company fixed (March 1995) maximum rates of Rs.250 per APU[⊗] in Ahmednagar zone and Rs.300 per APU in Nira zone, which were increased (June 1998) to Rs.300 per APU and Rs.400 APU respectively. These *adhoc* maximum rates lacked rational basis and enabled Estate Managers to exercise their discretion in awarding contract at varying rates subject to these maximum limits. As a result Estate Managers fixed different rates for different Farms. The comparison of the rates of eight Farms, which were locationally adjacent to each other revealed variation in rates ranging from Rs.193 per APU to Rs.260 per APU and the Company had to incur extra expenditure of Rs.28 lakh considering the minimum rates of adjacent Farms in the same location. The Company while accepting the fact replied (May 2001) that tender procedure has been followed from 2000-01 onward. The scrutiny of rates received in the tender in 2000-01 revealed that the rates per APU ranged between Rs.89 and Rs.120 for different Farms. This clearly indicates that the *adhoc* rates fixed earlier were on higher side and resulted in huge losses in getting pre-tillage operation done by outside agencies.

2A.12 Credit control

The sale of sugarcane to sugar factories at present is done on cash basis and sale proceeds received are as per the installments declared by sugar factories for the price of sugarcane.

The scrutiny of outstanding dues revealed that out of the total outstanding dues of Rs.16.77 crore as on 30 June 2000, dues amounting to Rs.15.27 crore (91 *per cent*) were more than five years old. The major amount was recoverable from private sugar factories and consists of heavy amount of interest recoverable for delayed payment.

2A.12.1 Delayed withdrawal of amount

It was noticed in audit that the Company filed court cases against Belapur Sugar and Allied Industries, Belapur and Malegaon Sugar Factory, Malegaon in 1987 and 1994 respectively, for recovery of old dues of sugarcane supplied

⊗ APU = Acre Ploughing Unit, used for pretillage operations.

to them. The Belapur Sugar and Allied Industries deposited (till November 1997) an amount of Rs.65 lakh and Malegaon sugar factory deposited Rs.98 lakh (till April 1999) as per the Honourable High Court Judgments. The same was permitted to be withdrawn by the Company subject to furnishing of Bank guarantee and Government guarantee, respectively.

Delay in withdrawal of amount deposited in court by defaulting sugar factories resulted in loss of interest of Rs.0.53 crore

In case of Belapur Sugar and Allied Industries, the Company could not obtain the Bank guarantee in view of its poor credit status. The Company obtained (December 2000) Government guarantee and then applied (January 2001) to the High Court for acceptance of the same. The case is yet to be finalised (September 2001). Thus, the Company had to suffer loss of interest of Rs.37.38 lakh at the rate of 15 *per cent* per annum (rate of interest claimed by Company in the Court) up to September 2001 (46 months).

In case of Malegaon sugar factory, Company took 13 months to withdraw (May 2000) the amount of Rs.98 lakh from the month (April 1999) deposited in the Court. Contention of the Company that the delay was due to time taken to finalise the format in which the guarantee was to be submitted reflects lack of urgency on the part of the Company even in times of cash crunch. Thus, the Company had to suffer loss of interest of Rs.15.92 lakh at the rate of 15 *per cent* per annum.

2A.13 Management Information System

It was observed in audit that the Management Information System (MIS) in the Company was inadequate, as Company did not prepare monthly or quarterly financial statements to have periodic appraisals of the financial position for taking remedial action. Similarly periodic progress reports of the activities were not submitted to the Board of Directors. The information regarding commodity wise progress of Farms, collection of dues from debtors, *etc.* was not submitted to the top-level management; this adversely affected the Company’s ability to take timely remedial action.

The Company in its reply (January 2001) by accepting the suggestion of audit has decided to start with elementary MIS regarding monthly expenditure and position of Farm production. The lack of MIS is reflected in the deficiencies in the budgeting process and other financial decisions of the Company as already illustrated in the review.

The above matters were reported to the Government (May 2001); their reply had not been received (November 2001).

Conclusion

Low working capital coupled with tardiness in recovery of its legitimate dues and mismanagement of schemes led to poor operational efficiency and increased losses. This in turn exacerbated the working capital problem thus putting the Company in a vicious circle.

The Company incurred recurring losses account of :

(i) Low sugarcane production due to insufficient water supply, inadequate fertiliser application, deviations from ideal cropping pattern and non-utilisation of entire cultivable land.

(ii) Improper planning and irregularities in major schemes such as excavation of wells, drip-irrigation and purchase and hiring of tractors.

(iii) Giving unintended benefits to outside agencies under Joint cultivation scheme due to deficient contracts and poor supervision.

In order to improve its performance the Company needs to take following remedial measures:

(i) Financial discipline with proper checks should be exercised in all schemes involving major expenditure.

(ii) Devise suitable management information system with feed back mechanism to take informed decision and to observe prudence in budgetary process.

(iii) On implementation of Government decision (December 1997) to handover the land to *ex*-lessors for self-cultivation the working of the Company with remaining land would be unviable and State Government should therefore, consider it for closure.

2B FOREST DEVELOPMENT CORPORATION OF MAHARASHTRA LIMITED

Highlights

The Company was incorporated in February 1974 with the main objective of raisings plantations of economically important species like teak, bamboo *etc.*, afforestation and maintenance of plantation.

(Paragraph 2B.1)

As of March 2001, the company had 4.07 lakh hectares of forest land taken on lease from the Government, of which, plantations were raised on 3.83 lakh hectares. Of these, plantation raised on 0.74 lakh hectares was considered as having failed. Failure of plantation on 0.48 lakh hectare was due to human factor while failure on 0.26 lakh hectare was due to habitat factor.

(Paragraph 2B.7.1)

There was a shortfall of revenue of Rs.62.32 crore on account of failure of plantation and low yield in ongoing Teak plantation scheme.

(Paragraph 2B.7.1.1)

78 *per cent* of plantations under Wasteland Development Programme failed resulting in unproductive expenditure of Rs.42.31 crore and against anticipated revenue of Rs.49.48 crore the amount realised was only Rs.0.09 crore.

(Paragraph 2B.7.1.2)

The Company incurred expenditure of Rs.27.51 crore on three plantation schemes, which proved unproductive.

(Paragraph 2B.7.1.3, 2B.7.1.4.1, 2B.7.1.4.2 and 2B.7.1.5)

2B.1 Introduction

The Forest Development Corporation of Maharashtra Limited, Nagpur (Company) was incorporated in February 1974 with the main objective of raising plantations of economically important species like teak, bamboo *etc.* on Government land. Assets worth Rs.1.67 crore along with the activities of erstwhile Forest Development Board were transferred to the Company in October 1974. The Company was acting as the agent of Government of Maharashtra (Government) in clear felling of its natural forests up to 1986. When clear felling was discontinued pursuant to the Government's directives in September 1986, the Company switched over its main activities to afforestation, raising plantations without clear felling under different schemes and maintenance of plantation. Out of 4.97 lakh hectares of forest land proposed to be leased, the Government had actually transferred

4.07 lakh hectares of forest land to the Company on lease for raising plantation till the end of March 2001.

2B.2 Objectives

The main objectives of the Company are:

(i) Development of Government land for forest resources by raising plantations and growing and cultivation of all kinds of crops.

(ii) Buying, selling and export of forest produce, agricultural crops and cash crops.

(iii) Conservation and protection of forest, other crops and wild life.

(iv) Processing and grading of forest produce.

(v) Conducting business of lumbering and saw milling and

(vi) Manufacture of wood based products.

2B.3 Organisational set-up

The management of the Company is vested in the Board of Directors comprising not less than two and not more than 17 Directors including the Chairman. At the end of March 2001 there were ten Directors all of whom were nominated by the State Government. The Managing Director, who looks after the day-to-day affairs of the Company, is assisted by 8 Regional Managers, 21 Divisional Managers, Chief Audit Officer, Controller of Accounts and Financial Advisor and Company Secretary.

2B.4 Scope of Audit

The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India (Commercial) - Government of Maharashtra - for the year ended 31 March 1992. The Committee on Public Undertakings (COPU) recorded its recommendations in the 21st report presented to the State Legislature in April 1994. Action taken report on the recommendations was discussed by COPU in August 1998. COPU further recommended to improve efficiency by proper deployment of manpower and to implement management plans as approved by the Central Government for its project divisions. The Action taken report on these recommendations are yet to be discussed by COPU (August 2001). The present review covers the working of the Company for five years from 1996-97 to 2000-01. Results of test check of transactions of 6 Regional offices, 10 out of 18 Divisional offices and Head office of the Company are discussed in succeeding paragraphs.

2B.5 Finance and resources

2B.5.1 Share capital

The authorised share capital of the Company was Rs.35.00 crore divided into 35 lakh equity shares of Rs.100 each. The paid-up capital as on 31 March 2001 was Rs.27.66 crore fully subscribed by the State Government.

2B.5.2 Borrowings

As on 31 March 2000, the Company had an outstanding loan of Rs.157.47 crore payable to the Government of Maharashtra comprising of Rs.19.20 crore received for ongoing plantations programme, Rs.136.37 crore for Maharashtra Forestry Project assisted by the World Bank and Rs.1.90 crore towards Wasteland Development Scheme implemented under bank finance. The Company also held an amount of Rs.41.00 lakh as term deposit from Mumbai Metropolitan Region Development Authority (MMRDA), Mumbai towards deposit work.

Extra interest charges of Rs.3.32 crore on borrowings in excess of requirement

During the period 1996-2001 the Company received loans of Rs.46.92 crore towards establishment cost and Rs.77.55 crore for implementation of Maharashtra Forestry Project (MFP) at 13 *per cent* interest from Government. A review of Bank transactions of the Company for the five years ending 2000-01 revealed that it had invested huge amount in short term deposit (STD) besides sufficient balances in savings bank account. The balances held under STD at the end of each year ranged from Rs.6.09 crore (1996-97) to Rs.19.95 crore (2000-01) besides balances in savings bank account ranging from Rs.10.49 crore (1997-98) to Rs.11.21 crore (1999-2000) after meeting regular expenditure. The Company kept surplus funds in STD at interest rates ranging from 5 *per cent* to 12.5 *per cent* during the period from 1997-98 to 2000-01. At the same time, the Company was liable to pay interest at the rate of 13 *per cent* on the loans obtained from Government. The Company did not take into account huge balances lying in STD before availing loan for Establishment Cost at higher rate. Had the Company taken into consideration the STD available with it, the amount of borrowings from Government at higher rate of interest could have been reduced and it could have saved interest of Rs.3.32 crore for the period 1997-98 to 2000-01 being the difference between the amount payable to Government at the rate of 13 *per cent* and actual interest received on STD.

The Company stated (July 2001) that the balances remained in STDs were not in the nature of surplus funds but they were the balances of funds to be utilised for schemes, outstanding liabilities and provisions and also internal funds. The Company's reply is not acceptable in view of the fact that it had not utilised the balances of STD in discharging outstanding liabilities and instead continued to borrow from Government at higher rate of interest.

2B.6 Financial position and working results

The financial position and working results of the Company for the four years ended March 2000 are given in Annexure-14.

A review of Annexure revealed the following: -

(a) The consistent increase in reserves and surplus from Rs.132.05 crore in 1996-97 to Rs.202.47 crore in 1999-2000 was mainly on account of grants received by the Company from Government for implementation of various schemes besides profit earned by the Company every year.

(b) The steep increase in borrowings from Rs.31.28 crore in 1996-97 to Rs.130.15 crore during 1997-98 was mainly on account of change in the treatment of amounts received from the Government from current liability to loans head in 1997-98.

(c) During the year 1999-2000 while the sales compared to 1998-99 increased by Rs.7.78 crore the profit declined by Rs.58.00 lakh. The Company attributed the decline in profit to the apportionment of major part of common establishment cost and overheads to revenue expenditure, as it did not have major capital schemes during the year.

(d) There was an increase of Rs.39.00 lakh in interest income in 1999-2000 over the earlier year due to increased funds being kept in short term deposits.

2B.7 Activities

The main activities of the Company have been raising of plantations, felling of trees by thinning operations and sale of timber and poles[**]. Besides, the Company also has nursery and seed development units.

2B.7.1 Plantation

Out of 4.07 lakh hectares of forest land leased by Government, the Company has so far (March 2001) raised plantations of different species *viz.* teak, bamboo, shivan, sissoo, khair *etc.* on a total area of 3.83 lakh hectares including 11994 hectares transferred from Forest Development Board. Of this, teak has been planted on an area of 1.51 lakh hectares and other species on 2.32 lakh hectares. Balance area of 0.24 lakh hectares was still to be covered in future plantation programme. It was observed that out of the total area planted, the management considered the plantations raised on 74127 hectares as having failed as the percentage of survival was below fifty *per cent* and/or growth of plantations was not proper. Human factor accounted for failure of 48224 hectares *i.e.* 65 *per cent*, while the remaining 25903 hectares failed due

** Pole means the trunk of smaller size (less than 45 cms in girth), which cannot be sold as Timber.

to habitat factors. The human failure, which is largely avoidable, was on four counts *viz.* wrong choice of species (24790 hectares), late planting and use of poor nursery stock (10339 hectares), plantation in poor soil depth (12518 hectares) and retention of over wood (577 hectares).

The plantation schemes implemented by the Company are discussed below.

2B.7.1.1 Ongoing teak plantation

The teak plantations raised by the erstwhile Forest Development Board during 1970-74 on an area of 11994 hectares at a cost of Rs.1.67 crore were taken over by the Company as part of assets transferred to it at the time of formation. The Company during the period 1975 to 1985 raised teak plantations on an area of 99362 hectares at a cost of Rs.23.72 crore by utilising Government Finance (Rs.9.54 crore) in the form of share capital, loan out of crop-I revenue and also the loan (Rs.14.18 crore) sanctioned by National Bank for Agriculture and Rural Development (NABARD).

The Company submitted (May 1987) a project report to NABARD under phase-I extension for raising of fresh plantations on 12999 hectares and for maintenance of teak plantations in 111356 hectares already raised during 1970 to 1985. The project was implemented by 1987 on a total area of 12999 hectares projected for fresh plantations.

As per Project Report the thinning[*] operation were planned at 10, 18 and 25 years which was revised (September 1991) to 10, 18 and 23 years based on silvicultural operational requirements. The yield obtained through thinning operations is sold through open auction, which is the main source of revenue of the Company. This was further modified (1999-2000) to 10, 15, 20 and 25 years resulting in more frequent thinning and is the main reason for sharp increase in the revenue income in the year 1999-2000. It was also observed in audit that Mean Annual Increment, which is an indicator of the amount of wood put on by a tree in a year ranged from 0.9 cubic metre per year to 2.04 cubic metres while according to the standard yield table it should be between 5.3 cubic metres to 6.3 cubic metres. This has financial implications for the final yield and also on the revenue expected from the plantations, as teak is a very precious commodity.

The project report estimated the outflow on account of capital as well as revenue expenditure and inflow by way of sales revenue at Rs.71.94 crore and Rs.187.43 crore (as per prices prevailing on the date of submission of project report) respectively during the period 1986-87 to1999-2000. A review of the scheme revealed that up to 31 March 2000 the Company had incurred a total expenditure of Rs.137.22 crore and earned an income of Rs.182.45 crore. While the expenditure exceeded over the amount estimated in the project report by Rs.65.28 crore, the income actually realized was less by Rs.4.98 crore. The increase in expenditure was on account of increase in

[*] Thinning means felling of an immature stand for the purpose of improving the growth and form of the trees that remains, without permanently breaking the canopy.

wages and other operational expenditure incurred for frequent thinning operations. However, there was no corresponding increase in revenue inspite of more thinning operations and increase in prices of wood since the average per hectare yield declined from 106 to 104 Nos. in case of poles and 0.59 cum to 0.55 cum in case of timber during the years 1998-99 to 1999-2000. It was also seen in audit that in the year 1999-2000 while the expenditure per hectare increased by 21.2 *per cent* from Rs.10620 to Rs.12877, the average revenue realised by way of sales per hectare actually decreased by 4.59 *per cent* from Rs.24459 to Rs.23336 as compared to 1998-99.

Per hectare productivity decreased in 1999-2000 as compared to 1998-99.

Due to failure of plantation and improper growth of teak, the Company could not thin the entire area due for thinning. A test check of records of 9 divisions revealed that thinning operation in an area of 18236 hectares out of 42357 hectares could not be done though thinning was due during 1995-96 to 1999-2000. This resulted in shortfall of revenue of Rs.29.17 crore. Further, it was also revealed that wherever thinning was carried out, there was a shortfall in physical yield compared to the norms. The shortfall in production was 4538983 poles and 78348 stacks in an area of 51984 hectares thinned resulting in short realisation of revenue by Rs.33.15 crore compared to the estimated yield during the period 1995-96 to 1999-2000. Thus, there was a total shortfall in revenue of Rs.62.32 crore.

Due to poor growth of Teak plantations there was shortfall in production and less realisation of revenue of Rs.62.32 crore

The Company attributed (July 2001) the low yield to illicit cutting and Naxalites problem in the plantation areas. Audit scrutiny revealed that shortfall in revenue from plantation was also due to lower Mean Annual Increment, shortfall in achievement of thinning targets and consequent lower yield.

2B.7.1.2 Wasteland Development Programme

As per decision (June 1987) of Government, the Company implemented the Wasteland Development Programme (WLDP) during 1988 to 1991 with the main objective of restoring environmental stability. The Company implemented the programme under three heads: -

a. Bankable with Institutional Finance – NABARD (1988-91),

b. Non-bankable (with Direct Government Finance) (1988),

c. Employment Guarantee Scheme with Government Finance through District Collectors (1988 to 1998).

The particulars of area and the amount of expenditure incurred up to March 2001 under the three heads are given below.

Sl. No.	Scheme	Area (in hectare)	Expenditure (Rupees in crore)	Expenditure per hectare (Rupees)
1.	Bankable (NABARD)	30000	53.93	17977
2.	Non-bankable (Govt. Finance)	19653 @	17.64	8976
3.	Employment Guarantee Scheme	17123 @	12.46	7277

The high cost per hectare in case of Bankable Projects was on account of interest component on loan amounts borrowed from NABARD.

Due to wrong selection of specie the major area of plantation had failed resulting in unproductive expenditure of Rs.42.31 crore. Against anticipated income of Rs.49.48 crore the Company realised only Rs.0.09 crore so far

For obtaining Institutional Finance, the Company submitted (July 1988) a project report to NABARD for sanction of loan for raising plantations in an area of 30000 hectares over a period of three years. The Company proposed to plant 3055 plants of prosopis (vedi babhul) and 278 plants of fruit species per hectare in Zone-II (b)*area and 625 plants of prosopis, 1250 plants of teak, 500 plants of mixed species and 125 plants of fruit species per hectare in Zone-III** area. Bamboo was also proposed to be planted in the third year as inter planting in Zone-III. The Company envisaged yield from prosopis in 7, 13, 19, 25 and 30 years in Zone-II (b) area while different rates of yield were envisaged from Prosopis, Teak, and Bamboo from 7 year to 30 year in Zone-III area. The Company expected total revenue of Rs.422.98 crore during the project period from 1994-95 to 2020-21. During the critical assessment undertaken by the Company on the performance of NABARD-Bankable project, the Regional/Divisional Managers reported (during May 1997 and September 1998) that out of the total plantations raised in an area of 14000 hectares in Zone-II (b) area, 12564 hectares (90 *per cent*) of plantations had failed and were not likely to give any yield due to adoption of wrong species and also due to local site conditions. Similarly, for the same reasons, out of the total area of 16000 hectares in Zone-III area, 10979 hectares of plantations (69 *per cent)* failed. Thus, the total failure in NABARD bankable project was 78 *per cent*. Though the project report envisaged revenue of Rs.49.48 crore up to 2000-01, the Company had received only Rs.9.42 lakh so far under the scheme.

Thus, failure to assess suitability of the species resulted in an investment of Rs.42.31 crore becoming unproductive and the broader objective of restoring ecological balance in the area was not achieved. The

@ Represent the plantation raised in Company's leased land and are retained by the Company.

* Soil with depth between 10 cm. to 30 cms.

** Soil with depth more than 30 cms.

Company stated (July 2001) that a Committee had been constituted to examine the various aspects of the project.

It was further observed that the Company did not conduct similar critical assessment in case of non-bankable and Employment guarantee schemes. The plantations raised during 1988 to 1994 under these two schemes (area 22699 hectares) at an investment of Rs.20.33 crore implemented in eight divisions also failed due to selection of species not suitable for local site conditions. Thus, the Company, which should have realised a revenue of Rs.3.57 crore from Non-Bankable Scheme and Rs.4.12 crore from Employment Guarantee Scheme during 1994-95 to 1999-2000, did not get any revenue. This resulted in unfruitful expenditure of Rs.20.33 crore.

2B.7.1.3 Maharashtra Forestry Project

The Company implemented the scheme under three broad heads *viz.*, Production forestry, Nursery Development and Seed Development from 1992 onwards as decided by the Government with the financial assistance of World Bank released through Government. The finance from Government was in the ratio of 70:30 towards loan and grant.

The Company had undertaken plantations of different species under the Production Forestry during 1992 to 2000 in a total area of 117906 hectares with an investment of Rs.159.21 crore. The main species planted were teak, bamboo, sissoo, shivan and khair.

In the project report 80 *per cent* survival was assumed in case of teak, bamboo and khair while 70 *per cent* survival was assumed for shivan and sissoo. The overall percentage of survival of all species during the calendar years 1992-2000 (October 2000) is given in Annexure-15.

A review of overall percentage of survival of all species during the calendar years 1992-2000 (October 2000) revealed the following:

Failure of plantations in excess of norms resulted in unproductive expenditure of Rs.15.33 crore

(a) The percentage of survival in an area of 85723 hectares *i.e.* 72.70 *per cent* of the total plantation area of 117906 hectares up to October 2000 was below the expected average survival of 75 *per cent*. The area of plantation failure works out to 11355 hectares after adjusting for plant survival in excess of norms. This has resulted in unproductive expenditure of Rs.15.33 crore being the investment cost of failed plantation. The Company attributed (July 2001) low survival of plantations to unfavourable climatic conditions, illicit grazing, wild life damages, termites and protection lapses.

(b) The management assessed (March 2001) that even among the plants that have survived, the growth of teak plants raised in an area of 21565 hectares was not proper both in girth and height. This was stated to be due to under planting of teak without clear felling of over wood. Teak needs light for proper growth and shade is detrimental to its proper development. This is clearly a case of poor management and has led to impairment of growth of teak plantations, which shall ultimately affect its future yield.

(c) The project report envisaged that the accrual of revenue for first three years would be from sale of grass, leaves and twigs in the plantation area through weeding, from fourth year from sale of Agava and Sabai grass, from sixth year from sale of bamboo and from tenth year onwards from teak. The total revenue estimated over a period of 40 years was Rs.1712.19 crore and the Company was to get a revenue of Rs.10.07 crore up to March 2000. However, the Company did not maintain details of revenue received from the scheme and the income on this account was stated to be credited to miscellaneous receipts. Even assuming that the entire miscellaneous receipts of Rs.3.69 crore realised during the period from 1992 to 2000 was on account of revenue receipts from the scheme, the shortfall in realisation was to the extent of Rs.6.38 crore.

Thus, the poor survival of plantations coupled with improper growth resulted in shortfall in revenue realised and is likely to result in non-achievement of revenue projected in the future.

2B.7.1.4 Forest Development Tax Scheme

Forest Development Tax Scheme was started in 1981-82 with a view to have afforestation on degraded and barren forest land, creation of employment to nearby villagers and to fulfill the growing need of firewood. Out of the Forest Development Tax Collection, the Government released Rs.26.40 crore up to 1998. The details of plantations, failure, cost of production, loss *etc.* in respect of three divisions (Yavatmal, West Nashik and Pranhita) are given in Annexure 16. The performance of the scheme in these three divisions where plantations were raised in an area of 11324 hectares is discussed below.

2B.7.1.4.1 Yavatmal Division

The Company incurred unproductive expenditure of Rs.1.69 crore due to failure of plants

The division raised plantations of Teak (3854 hectares), Prosopis (1285 hectares) and miscellaneous plantations like Subabul (1515 hectares) under the scheme during 1981 to 1993 in an area of 6654 hectares at a cost of Rs.8.50 crore. It was observed that the entire plantation of Prosopis costing Rs.1.69 crore had failed, as the specie was not suitable for the soil. While the Company had undertaken thinning operations for miscellaneous species from time to time, such operations for the Teak plantations raised in an area of 1407 hectares due for thinning during 1993-94 to 1999-2000 were not taken up so far (March 2001). This was due to inclusion of this plantation area in the afforestation working circle of the management plan (which did not provide for thinning operations) instead of the production working circle (which provides for thinning operations). The management plan is finalised by a committee comprising the officers from the Company and Government department. Lack of coordination between the committee and the Company led to a situation whereby the Company was unable to realise Rs.59.58 lakh on sale of wood during the period 1993-94 to 1999-2000.

2B.7.1.4.2 West Nashik and Pranhita Division

The two divisions had undertaken plantations in 4670 hectares at a cost of Rs.4.65 crore during 1984-95. Out of the total area, plantation in 2247 hectares with an investment cost of Rs.2.28 crore failed due to human factors and natural calamity. Of the remaining successful area of 2423 hectares, plantations in an area of 1931 hectares (1698 for 1st thinning and 233 for 2nd thinning) were due for thinning against which thinning was done only in 425 hectares resulting in shortfall in thinning of 1506 hectares. The amount short realised by the Company on account of shortage in area thinned worked out to Rs.67.42 lakh.

2B.7.1.5 World Food Programme Revolving Fund

The Company created (1982) a "Revolving Fund" with 25 *per cent* of the wages deposited by the workers in lieu of food material supplied to them. The Company recovered a total amount of Rs.13.46 crore during the period from 1982 to 1997 and the Company earned an interest of Rs.4.04 crore on the above amount. The amount was to be utilised for labour welfare activities *viz.* setting up of primary health centres, consumer stores, flour mills and raising of plantations.

Due to poor survival of plantations, the Company incurred unproductive expenditure of Rs.8.21 crore

Out of the total amount of Rs.17.50 crore, the Company undertook plantation of fuel wood (prosopis) and bamboo species during 1989 to 1996 in an area of 30007 hectares with an investment of Rs.9.86 crore sourced from the revolving fund. The yield was expected after six years from the year of plantations on the pattern of WLDP scheme. A review of scheme revealed that the plantations raised during the period from 1989 to 1993 on 24973 hectares at a cost of Rs.8.21 crore which were due for thinning from 1996 onwards were not thinned. This was due to failure of plantations and improper growth as the species were not suitable for the soil condition. This rendered the expenditure of Rs.8.21 crore unproductive and beneficiaries also lost the chance of getting fuel wood at cheap rates.

2B.7.2 Nurseries

2B.7.2.1 Polypot and teak nurseries

The Company maintains nurseries where teak stumps and Polypot seedlings are raised for utilisation in plantation activities. The particulars of production capacity, actual production and shortfall of Teak Stumps, Polypot and Polytube nurseries during 5 years period from 1996-97 to 2000-01 are given below :

Type of Seedling	Production Capacity	Actual Production	Shortfall	Percentage of shortfall
	(Number in lakh)			
Teak Stumps	354.61	221.36	133.25	37.6
Polypot	138.58	111.76	26.82	19.4
Polytube	16.81	18.01	(1.2)	-

The Company attributed shortfall in production to the fact that the capacity of the nurseries is not fixed and that production is undertaken depending upon the need for seedlings. The variation was also on account of utilisation of seedlings from the newly established Root Trainer nurseries.

The Company suffered a loss of Rs.0.25 crore on account of wastage of Teak stumps and also due to over growth

A review of utilization of seedlings/teak stumps revealed that in nurseries (Dahanu and Thane Divisions) there was production in excess of requirement, which ultimately resulted in wastage of teak stumps and in overgrowth. The management stated (November 2000) that due to less demand than anticipated from Forest Department, Social Forestry and other Government Departments and private parties balance stock of teak stumps have remained unutilised. A total number of 8.17 lakh uprooted teak stumps during 1996 to 1998 valued Rs.7.00 lakh could not be utilised/sold resulting in wastage. Besides, 24.52 lakh non-uprooted stumps valued Rs.17.79 lakh, which were raised during 1996-98, have overgrown and could not be utilised for plantation. Thus, the total loss on accounts of wastage and overgrowth of teak stumps worked out to Rs.24.79 lakh. The proposal to convert the nursery area, which remained un-uprooted into plantation area submitted by the Regional Manager in October 1999, was still under consideration (August 2001).

2B.7.2.2 Root trainer seedling

Based on the recommendations of the Technical Consultants appointed under the terms of World Bank loan, the Company established (1996-97 to 1999-2000) four seedling nurseries at Chandrapur, Nashik, Gondia and Thane with an annual production capacity of 15 lakh seedling each and two nurseries with an annual capacity of 10 lakh seedlings each at Nagpur and Yavatmal with Root Trainer Technology for producing superior and improved quality of planting stock with an investment of Rs.5.22 crore. Though the Company produced 43.72 lakh and 72.92 lakh of seedling during the years 1997-98 and 1998-99, respectively, the production during the year 1999-2000 went down to 31.53 lakh as no new plantation schemes were under implementation.

The particulars of number of seedlings produced, cost of production per seedling for the period from 1997-98 to 1999-2000 for six nurseries are given in the Annexure 17. The cost of production per seedling ranged between Rs.2.11 (Nashik) and Rs.5.35 (Gondia) during 1997-98, while it was between Rs.1.82 (Gondia) and Rs.3.45 (Yeotmal) in 1998-99 and between Rs.3.32 (Yeotmal) and Rs.13.30 (Thane) during 1999-2000. The reasons for wide variation in the cost of production of different divisions as worked out in Audit, were utilisation of varied production capacities by different nurseries in different years and watering expenditure. In the absence of norms for cost of production fixed by the Company, the extra expenditure in production of seedlings during 1997-98 to 1999-2000 based on the minimum cost of production obtained in each year worked out to Rs.1.74 crore.

2B.7.2.3 Clonal nurseries

2B.7.2.3.1 Performance

The Company established (1997-98 to 1998-2000) four Clonal nurseries at Chandrapur, Nashik, Gondia and Thane with a capacity of two lakh each at an investment of Rs.83.67 lakh. The details of capacity, number of clones produced, cost of production for each alone for three years are given in Annexure 18. The total production of clones in nurseries was 0.33 lakh in 1997-98, 2.18 lakh 1998-99 and 2.75 lakh in 1999-2000. The Company could not utilise the total production capacity of 8 lakh clones due to limited experience available with the Company for management of Clonal nurseries and also due to non-availability of plantation targets with the Company and the Government. The cost of production per clone ranged between Rs.8.06 (Thane) and Rs.41.35 (Gondia) during 1998-99 while it was Rs.8.16 (Nashik) and Rs.20.25 (Gondia) in the year 1999-2000. In the absence of norms for cost of production fixed by the Company, the extra expenditure in production of clones during 1998-99 to 1999-2000 based on the minimum cost of production obtained in each year worked out to Rs.16.38 lakh.

2B.8 Sale of forest produce

Due to adoption of lower upset price the Company lost the opportunity of realising a revenue of Rs.0.24 crore

The Company disposes the forest produce obtained from its own forests through open auction. The Company fixes the upset price based on the average price realised in the corresponding block of six months in the previous year (April to September and October to March) to decide the auction rate. During the period 1998-99 to 1999-2000, in 68 cases of auction in two divisions (Central Chanda and Ballarshah), the Company fixed lower upset prices than the rates obtained in previous auctions of corresponding period and consequently realised lesser amount compared to previous years. This resulted in realisation of lesser revenue to the extent of Rs.23.45 lakh. The Company stated (July 2001) that the lower upset prices were fixed after actual inspection keeping in view the quality of material. However, on verification of records it was found that no recordings as required were made to justify the fixing of lower upset prices.

2B.9 Plantation inventory unit

Under Maharashtra Forestry Project, the Company created a Plantation Inventory Unit in 1992-93 with the objectives of carrying out survey and inventory of plantations of the Company so as to estimate the existing growing stock and productivity and to create a database of plantations for better and accurate management decisions. The Company incurred an amount of Rs.1.17 crore up to March 2000 towards establishment cost of this Unit. The Unit so far (April 2001) prepared growth and yield reports for the teak plantations raised during 1970 to 1987 in respect of 11 divisions out of 13 divisions where such plantations were raised. Such reports in respect of balance two divisions for the period 1970 to 1987 were pending. The

Company was still to take up the stock of plantations raised after 1987. Thus, even after eight years of formation of the Unit the work of inventory of plantations was still in arrears. In the absence of updated details relating to the plantations raised in subsequent years, the Company was not in a position to know the existing position of plantations so as to estimate the growing stock and productivity.

2B.10 Protection system for plantation

A protection system for protecting the plantation raised has been in existence and being operated by dividing the total area into ranges, rounds and beats and are protected by range forest officer, foresters, beat guards. It was observed that during the five years period from 1995 to 1999 a total number of 345955 trees valued at Rs.9.53 crore were illicitly cut out of which material valued at Rs.8.97 crore was recovered resulting in a loss of Rs.56.00 lakh due to illicit cutting. Such illicit cutting at Nashik region alone accounted for 40 *per cent* of the total loss.

Terms and conditions of lease agreement with the Company provided that the forest area leased to the Company shall not be sublet or leased to any other agency by Government for agriculture or any other purpose without the permission of Company. It was observed that the Company in June 1996 detected that the plantation in an area of 50355 hectares under Nagpur division was cut by the Forest department for purpose of handing over the land to the Irrigation department for constructing Warpani Irrigation project without informing the Company. The Company took up the matter with Government and the issue was still to be regularised. This indicates that the security system was not effective in safeguarding the Company’s assets.

The Company contended (March 2001) that forest being an open treasure and inspite of combined efforts of the forest protection staff, mobile squad and field staff illicit cutting continued in the plantations. As the Company was losing heavily, extra efforts to prevent illicit cutting of plantations raised at huge cost are necessary.

2B.11 Claims pending with Government/other agencies

For non-forestry purpose such as construction of dams, roads *etc.* the Government/Forest department withdraws the forest land on which the plantations were raised by the Company. The Company prefers the claims towards compensation for the plantation areas taken over by the Government based on the cost incurred by the Company for raising the plantations. As at the end of March 2001, five claims were pending settlement involving an amount of Rs.13.70 crore relating to the period 1994 to 2000. It was observed that in all these cases, the Company delayed (12 to 18 months) in preferring the claim after handing over land to the Government/Forest Department. The Government has not settled the claims so far (March 2001), which has affected the ways and means position of the Company. Had the Company realised the amounts immediately or got the claims adjusted against the loans outstanding the interest burden on loans could have been reduced. The Company, on being pointed out by Audit, agreed (July 2001) to take up the matter with the Government for adjustment of the dues against the loan amount.

2B.12 Surplus manpower

On the direction of Government (December 1998), the Company undertook a review of the manpower requirement and assessed (November 1999) that 405 posts in all cadres were surplus. The Company proposed (November 1999) to abolish 239 vacant posts, adjust 123 employees against new posts of different cadre and surrender 43 employees to Forest Department. The entire proposal is still (July 2001) pending with the Government. Consequently, the Company had spent an amount of Rs.26.28 lakh (approximately) during the period from December 1999 to March 2001 towards the payment of salaries and allowances of 43 employees identified as surplus.

The above matters were reported to the Government (May 2001); their reply had not been received (November 2001).

Conclusion

Large area of plantations has been declared as failed on account of human factors, which is indication of poor control over manpower. The main revenue generating activity of the Company is through teak plantation. These precious plantations suffer from poor survival rate, low mean annual increment, shortage in achievement of thinning targets, low yield and consequentially shortfall in revenue realised. This shows poor operational efficiency at all major stages of management of teak plantations. Also there were wide spread failures in Wasteland Development Programme and other schemes due to wrong selection of species unsuitable to the areas. The Company has been able to sharply increase its revenue by frequent thinning operations in recent years but at the same time, the per hectare productivity has gone down. The Company should ensure suitability of species, by trials in limited area before undertaking plantations on large scale, to avoid failure of plantation.