

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(1968-69)**

(FOURTH LOK SABHA)

FORTY-EIGHTH REPORT

**Action taken by Government on the Recommendations
contained in the Thirteenth Report of the Committee
on Public Undertakings (Third Lok Sabha) on
Management & Administration of Public
Undertakings (Planning of
Projects).**



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1969/Vaisakha, 1891 (Saka)

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1968-69)

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Shri M. M. Mathur, *Under Secretary.*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Forty-Eighth Report on the Action Taken by Government on the recommendations contained in the Thirteenth Report of the Committee on Public Undertakings (Third Lok Sabha) on Management & Administration of Public Undertakings (Planning of Projects).

2. The Thirteenth Report of the Committee on Public Undertakings was presented to the Lok Sabha on the 10th December, 1965. The replies to the recommendations contained in the Report were received on the 2nd February, 1968 and 31st March, 1969. Replies of Government in respect of 49 recommendations had not been received till the 22nd April, 1969 when the Committee finally considered the replies.

3. The replies of Government to the recommendations contained in the aforesaid Report were considered and approved by the Committee on the 22nd April, 1969. The Committee authorised the Chairman to finalise the Report and present it to Parliament.

4. The Report has been divided into the following five Chapters:—

I. Report

II. Recommendations that have been accepted by Government.

III. Recommendations which the Committee do not desire to pursue in view of Government's reply.

IV. Recommendations in respect of which replies of Government have not been accepted by the Committee.

V. Recommendations in respect of which replies from Government are still awaited.

5. An analysis of the action taken by Government on the recommendations contained in the Thirteenth Report of the Committee on Public Undertakings (Third Lok Sabha) is given in the Appendix

VIII. It would be observed therefrom that out of the 68 recommendations in the Report, 22 per cent have been accepted by Government and the Committee do not desire to pursue 6 per cent of the recommendations in view of Government's reply. Replies to 72 per cent of the recommendations are awaited.

NEW DELHI:
April 22, 1969.

Vaisakha 2, 1891 (Saka).

G. S. DHILLON,
Chairman,
Committee on Public
Undertakings.

C O R R I G E N D A

Forty-eighth Report on the Action taken by Government on the recommendations contained in the Thirteenth Report of the Committee on Public Undertakings (3rd L.S.) on Management and Administration of Public Undertakings (Planning of Projects).

Page	Recommendation/Para No.	Line	For	Read
4	4	13	whose	who
11	60	6	each	such
16	-	-	In the centre of the page, insert the word "Nil"	
18	25	11	Delete the word for occurring after the words 'consultants for' and <u>insert</u> the word 'preparing'.	
21	30	11	<u>Delete</u> the line begining with the word "(Ministry" and ending with the word "company".	
23	36	9	achives	achieves
24	37	3	V.K.B.V. Rao	V.K.R.V. Rao
25	42	13	saying	saving
33	65	6	on	of
40	Para 4	6	ensure	ensue
46	Para 3(c)	3	agreements	agreements
63	Item III	2	persue	pursue

CHAPTER I

REPORT

The Thirteenth Report of the Committee on Public Undertakings (Third Lok Sabha) on Management and Administration of Public Undertakings (Planning of Projects) was presented to Parliament on the 10th December, 1965. Government were requested on the 14th December, 1965 to furnish replies to the recommendations contained in the aforesaid Report as early as possible, preferably in six months' time.

2. Though a period of more than three years has elapsed, Government have furnished replies to only 19 out of 68 recommendations and that too after repeated written reminders.

3. The Committee are unhappy to note that there has been a delay of over three years by Government in replying to most of the recommendations contained in the Report. Such delays defeat the very purpose of the reports of the Committee. The Committee hope that there would be in future greater awareness at the higher levels in the Government of the need to effectively implement the recommendations of the Committee within a reasonable time.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1)

The Committee recommend that at the time of setting up of a public undertaking, Government should indicate the specific objectives for which it is being set up, the precise targets which it has to achieve and also indicate the time schedule for completion and the cost estimated. Although it might not always be possible to spell out in great details some of these matters at the initial stages of the undertakings, nevertheless some broad indications of these could be given at that stage supplemented by further instructions and directions as the project progresses. It is not the intention of the Committee that Government should take the initiative in this regard. That initiative should rightly be vested in the undertaking. The Committee feel that from time to time Government should indicate what the undertaking should attain in a prescribed period. This would not only serve as an incentive to the undertaking but also give Government a yardstick to measure its performance. The Committee hope that Government would issue suitable Instruments of Instructions to all the public undertakings as and when they are set up. (Paragraph 8)

Reply of Government

The objects for which the undertakings is being set up are broadly indicated in the Memorandum of Association in the case of the undertaking incorporated as a company. The time schedule for completion of the project and the cost estimates as well as the targets of production are given in the detailed project reports as approved by the Government. The progress of the project during the construction period as also the progress of production programmes are watched by the Ministries concerned and also the Bureau of Public Enterprises. For this purpose the performance of quarterly returns have been recently prescribed. Detailed technical and financial reviews on the working of the selected enterprises are also being made.

Government accept the suggestion regarding the issue of instrument of instructions to all public sector undertakings at the time of their being set up. Since the Administrative Reforms Commission

has also made certain recommendations regarding the question of laying down the objects and obligations of public sector undertakings, appropriate instructions will be issued by the Bureau of Public Enterprises taking into account Government's decision on these recommendations also.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr.C.16 (14) / 65, dated the 31st March, 1969].

Recommendation (Serial No. 3)

The Committee would stress the utmost need for closely scrutinising the figures and data supplied which form the basis for embarking on a project. It is worthwhile considering how in the case of Phyto Chemical Project of Indian Drugs and Pharmaceuticals Ltd., wrong data came to be supplied. It should also be borne in mind that in their eagerness to have the project located in their territories, it is possible that the State Governments may not give the same care and attention to basic data as is necessary. The Committee would, therefore, recommend that the Central Government should exercise a close and independent check on any data supplied by the State Government. (Paragraph 17).

Reply of Government

It may be mentioned that the matter has already been engaging Government's attention and instructions have been issued on certain aspects of civil works estimates. Copy of Ministry of Finance Circular No. 687-Adv(c)Cir|21|67 dated 9th August, 1967 is enclosed. (Appendix I). The instructions issued envisage the close scrutiny of the basic data including the data supplied by State Governments while examining the detailed project report.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr.C.16 (14) / 65, dated the 31st March, 1969].

Recommendation (Serial No. 4)

It appears that there is no clear understanding as to the various aspects that a techno-economic feasibility study should cover. The Committee feel that absolute uniformity in this respect is not possible and some variation according to the nature and size of the undertaking to be established is inevitable. Information such as demand:

projections, raw materials, size and technology of the project, location, earning estimate (profitability) is, however, basic and should be included in all techno-economic feasibility studies. As it is on the basis of such a study that a project is approved or embarked upon it would be worthwhile undertaking a detailed study of what should be included in the techno-economic feasibility studies. Since the techno-economic feasibility study is the only basis on which the Cabinet approves a project and subsequent reports do not usually go to it, it is but proper that when a proposal goes before it all its technical and economic aspects are placed before it. The Committee would, therefore, recommend that a check list of all the aspects that a techno-economic feasibility study should include should be drawn up for the guidance of all those who have to deal with the planning of projects. (Paragraphs 18—20).

Reply of Government

Please see the requirements laid down in the "Manual of Feasibility Studies" and the instructions issued which have been referred to in the reply to S. No. 2.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr.C.16(14)/65, dated the 31st March, 1969].

Recommendation (Serial No. 5)

The Committee hope that suitable programme for expansion of the activities of public sector undertakings in the matter of conducting techno-economic feasibility studies will be drawn up and implemented. (Paragraph 23).

Recommendation (Serial No. 6)

The principal difficulty of developing our own agencies for feasibility studies and Detailed Project Reports is the absence of suitably trained Indian engineers. The Committee note that in a few cases Indian engineers have been associated with foreign agencies in conducting feasibility studies. This has not been done in every case. The Committee would recommend that as long as we have to depend upon foreign agencies for preparation of these studies the Government should invariably insist that a group of our own engineers and technicians be associated with the foreign agencies to learn the preparation of the techno-economic feasibility studies. (Paragraph 23).

Recommendation (Serial No. 7)

At present no advance feasibility studies for the setting up of projects in the public sector were undertaken, except for the steel plants and a few other industries with the result that considerable time had to be spent on preliminary investigations before deciding on them. The Committee feel that Government should set up an agency with a continuous programme for conducting feasibility studies in the various industrial spheres so that it may have a large number of such studies in hand and as soon as the resources are available the more promising among them may be chosen for preparation of Detailed Project Reports. (Paragraphs 24—26).

Reply of Government

For developing expertise for the preparation of feasibility studies and detailed project reports, a number of organisations have been set up, e.g. Technological Consultancy Bureau of the NIDC, Engineer (India) Limited, the Planning and Development Division of Fertilizer Corporation, Central Engg. and Design Bureau of Hindustan Steel Limited, etc. To the extent, expertise is available in such organisations, a number of project studies, designing and engineering work is entrusted to them and foreign agencies are contacted only in those fields where specialisation is yet to be built up. The ultimate aim, however, is that reliance on the foreign agencies is reduced to the minimum possible.

Specific instructions covering certain aspects of this matter have already been issued *vide* Planning Commission's letter No. I&M/4/9/2/66, dated 10th October, 1966 (Appendix II). In regard to the recommendation for having a continuous programme of conducting feasibility studies, instructions have been issued *vide* Ministry of Finance letter No. 1942-DPM/67, dated 3rd August, 1967 (Appendix III).

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr.C.16(14) / 65, dated the 31st March, 1969].

Recommendation (Serial No. 8)

There is no uniformity at present about the information included in the note submitted to the Cabinet seeking approval for a public sector project. In certain cases, e.g. Hindustan Photo Films Ltd., Oil

Refineries Ltd., the Cabinet approval has been taken on very meagre data such as capital cost, foreign exchange savings or only the demand for the products. The Committee recommend that Government should lay down the form and the manner in which the Cabinet's approval to projects is sought. For this purpose a list of all the basic information to be included in the note should be drawn. It should be ensured that nothing of importance from the technical or economic point of view is omitted. The Committee would further suggest that every proposal which is put up to the Cabinet for approval should invariably contain indication of the investment output ratio, so that economic viability of the project is also clear. (Paragraphs 28—30).

Recommendation (Serial No. 9)

While appreciating the possibility of exceptional circumstances, the Committee recommend that since it is only the techno-economic feasibility studies and no other reports pertaining to a project go before the Cabinet, this rule should be made unexceptionable. (Paragraph 33).

Reply of Government

As has been already indicated in Government's reply to the recommendation at S. No. 5 of the 35th Report of the Estimates Committee (3rd Lok Sabha) on Heavy Electricals Ltd., Bhopal, by the very nature of things, the information available about the details while seeking the approval of Cabinet in such cases would vary from project to project. This would be largely covered by the instructions contained in the Bureau of Public Enterprises O.M. No. 2 (75) 68-BPE (GM), dated 23rd April, 1968 (Appendix IV).

[Ministry of Industrial Development, Internal Trade and Company Affairs(Deptt. of Industrial Development) O.M. No. Pr.C.16(14) 65, dated the 31st March, 1969].

Recommendation (Serial No. 11)

The Committee noticed that in the case of a number of projects project reports were prepared twice, because either the product-mix of the project was revised (e.g. National Instruments Ltd.) or the target of production was revised (e.g. Coal Mining Machinery Project of HEC) or the assumptions on the basis of which the first project report was prepared were later found to be not correct (e.g. Panna Diamond Mining Project of the N.M.D.C.) or the report was not found satisfactory (e.g. Mining Project of Pyrites & Chsmicals Development Co. Ltd.). The Committee feel concerned at the man-

ner in which the project reports have been commissioned, without first having a definite idea of the product-mix or the quantity to be produced. Such incomplete reports necessitate supplementary project reports. Apart from the amount spent in getting such further reports, the delay they cause in launching of projects is also a matter of concern. Except in the case of Bokaro, the Committee do not feel that a second project report was unavoidable. They feel that with some foresight and proper planning in each case, this could have been avoided and considerable infructuous expenditure and time could have been saved. They hope that necessary steps would be taken to prevent recurrence of such shortcomings. (Paragraphs 39—45).

Reply of Government

The requirements of preliminary project evaluation has already been covered. Both on the question of product-mix and on the question of targets of production, the instructions issued *vide* Bureau of Public Enterprises O.M. No. 2(75)/68-BPE (GM), dated 23rd April, 1968 (Appendix IV) envisage proper scrutiny of these aspects of the detailed project reports.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr.C. 16(14) | 65, dated the 31st March, 1969].

Recommendation (Serial No. 12)

From the study of the Detailed Project Reports of the various projects, the Committee noticed that the aspects covered in the Detailed Project Reports varied from project to project. In the opinion of the Committee, though some variations in the aspects to be included in such reports might be occasionally necessary, no Detailed Project Report should lack basic information such as the cost and profit estimates, manpower requirements, source, cost and consumption of raw materials etc. To obviate the chances of omission of important aspects from the Detailed Project Reports and also in the interest of proper execution of the projects the Committee would recommend that Government should involve a standard check list of items which should invariably be included in all the Detailed Project Reports. It should not be difficult to compile such a check list in view of the experience so far gathered in the matter of setting up of public sector project. The Committee recommend that a team

composed of Government Officers who have been closely connected with the preparation of detailed project reports, senior executives who have been entrusted with the execution of, setting up or operation of projects together with technical experts should be appointed to evolve a standard check list. (Paragraphs 46—49).

Reply of Government

The check list as suggested is indicated in Government's instructions contained in Ministry of Finance letter No. 1942-DPM/67, dated 3rd August, 1967 (Appendix III) and also in Ministry of Finance (BPE) O.M. No. 2 (75)/68-BPE (GM), dated 23rd April, 1968 (Appendix IV)

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr.C.16(14)/65, dated the 31st March, 1969].

Recommendation (Serial No. 13)

The Committee appreciate that if a fairly detailed report is available in anticipation of aid, the time to be spent on the preparation of a Detailed Project Report could be shortened. In the opinion of the Committee the moral of the Bokaro Steel Project Report is that a Detailed Project Report should not be prepared until the source of foreign assistance is located. The Committee, therefore, recommend that in cases where the implementation of a project is dependent on foreign assistance, being assured, Government should have only a techno-economic feasibility study prepared in detail giving enough basic information to the aid giving country to determine its feasibility. (Paragraph 53).

Reply of Government

Noted. Necessary instructions have been issued to all the Ministries/Departments of the Government of India *vide* Ministry of Industrial Development and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr.C. 16 (14)/65-I, dated 5th January, 1968 (Appendix V).

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr.C. 16 (14)/65, dated the 31st March, 1969]

• **Recommendation (Serial No. 14)**

The time taken for the preparation of Detailed Project Reports has varied from 1 year to 1 year 7 months. While appreciating the need for adequate investigation at the preliminary stage and also the divergence of practices in this regard in the East European and the Western countries in the nature and contents of the Detailed Project Report prepared by them the Committee feel that the longer time taken in the preparation of the Detailed Project Reports in the past has not been solely for these reasons. It is not clear to the Committee how in the absence of a study of the time taken for the preparation of the Detailed Project Report in foreign countries—a fact which was admitted by the representatives of the Ministries during evidence—the Government was able to determine the reasonableness of the time required for preparation of a Detailed Project Report. Further, it is understood that though a certain time limit was stipulated in the agreements with foreign consultants for the preparation of the Detailed Project Reports quite often the actual time taken exceeded the time agreed upon. The delay in drawing up the Detailed Project Report by Foreign consultants was also due to our delay in supplying the required data. In view of the above, the Committee recommend that Government should take necessary measures to avoid any loss of time in the preparation of Detailed Project Report in future. In this connection a study of the normal time taken in the preparation of Detailed Project Report in foreign countries should prove helpful to the Government. (Paragraphs 58-59).

Reply of Government

In certain cases a suggestion of the kind referred to is not always avoidable. However, necessary instructions have been issued in this regard to the various Ministries/Departments *vide* Ministry of Finance letter No. 3213 S (IPF)67, dated 5-8-1967 (Appendix VI).

[Ministry of Industrial Development, Internal Trade and Company Affairs (Department of Industrial Development) O.M. No. Pr. C. 16(14)/65, dated the 31st March, 1959]

Recommendation (Serial No. 15)

Regarding the supply of essential data to the consultants the Committee would suggest that as soon as Government decision is taken to set up a project, the collection of data normally required by the consultant should also be proceeded with. For this purpose Government should also prepare a list of information generally sought by the Consultants, for the preparation of the Detailed Project Report. (Paragraph 60).

Reply of Government

Instructions contained in the Ministry of Finance letter No. 1942-DPM/67, dated 3-8-67 (Appendix III) meet the requirements made in this recommendation.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr. C. 16 (14)/65, dated the 31st March, 1969]

Recommendation (Serial No. 17)

The Committee are glad to know that the future policy of the Government is to set up organizations such as the Planning and Development Division of the Fertilizer Corporation of India Ltd., in all the projects. But they cannot help remarking that the progress in setting up such organisations has been rather slow. For instance, the Committee cannot understand why in the field of heavy engineering and electrical engineering industries, no planning and Development units have so far been set up. The Committee are of the opinion that in view of the large sums paid to the consultants for drawing Detailed Project Reports and preparation of working Drawings, the need for setting up agencies, for drawing of detailed Project Reports, in all the undertakings need hardly be emphasised. Such organisations will not only help in the development of know-how within the country which would avoid dependence on other countries but would also help in the pooling of experience and building up of necessary knowedge which would be available for the future projects. The Committee trust that necessary steps would be taken by Government to develop Planning and Design Organisations in all the industries. (Paragraphs 66-67).

Reply of Government

Agencies are being developed in the public sector projects for this purpose besides the Technological Consultancy Bureau established in the NIDC which undertakes studies of this kind. In the Private Sector also there are a number of approved consultancy firms which are competent to take up this work. Some of the larger public sector undertakings have sufficient know-how and are actually in a position to undertake designing. Planning and Development work is being looked after by the appropriate Planning and Development Organisations like the Central Engineering and Design Bureau of Hindustan Steel. Government have also set up organisations like the Central Machine Tool Research Institute at Bangalore, the Central Mechanical Engineering Research Institute at Durgapur. Organi-

sations have also been set up in the Public Sector like (1) Engineers India Ltd., (2) National Industrial Development Corporation Ltd. with its Technological Consultancy Bureau etc. which are specifically charged with the responsibility of attending to the development of design and planning programmes in the specific industries concerned.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr. C. 16 (14)/65, dated the 31st March, 1969].

Recommendation (Serial No. 60)

A number of public undertakings particularly those in the Southern Region suffered from power cut upto 50 per cent, during certain months. The Committee hope that the decisions to set up Southern Regional Grid would be implemented as scheduled so that the problems of these undertakings along with other industries in the private sector are solved. When each a grid comes into being it would be necessary to ensure that no State is deprived of electricity by others and that the rate at which electricity is supplied by one State to the other is not discriminating (Paragraph 192-195).

Reply of Government

The Southern Regional Grid has since been planned and is under construction. The grid will comprise of the following inter-State link lines:—

- (i) 220 KV Single-circuit line between Cuddapah and Singarapet.
- (ii) 220 KV Single-circuit line between Madurai and Sabrigiri.
- (iii) 222 KV Single-circuit line between Singarapet to Bangalore.

The line at (iii) above was charged on the 24th November, 1965 and enabled transfer of substantial amount of power into 160 MW from Sharavathi Power System of the Mysore State to the Madras system during the year 1966-67 when there was a serious shortage of power in Madras State due to failure of monsoon rains. The remaining two interstate links between Madras and Kerala and Andhra Pradesh and Madras are expected to be completed during 1968-69. With the completion of the above three lines, the first phase of the Southern Regional Grid would be completed. In order that the trunk

transmission lines are constructed expeditiously, the Central Govt. has decided to provide 100 per cent loan assistance for the construction of trunk transmission lines to the States. The following inter-State transmission lines in the Southern Region are covered under this scheme of Central assistance:—

(a) *Andhra Pradesh:*

(i) Singarapet-Kaipadi-Chitoor-Cudapah 220 KV S/C
308 Km.

(ii) Munirabad-Hampi 110 KV S/C 22 Km.

(b) *Kerala:*

(i) Madurai-Pamba 220 KV S/C 157 Km.

(c) *Madras:*

(i) Madurai-Pamba 220 KV S/C 157 Km.

(ii) Singarapet Katapadi-Chitoor-Cudapah 220 KV S/C
308 Km.

(d) *Mysore:*

(i) Munirabad-Hampi 110 KV S/C 22 Km.

With the completion of the above inter/State lines, it would be possible to ensure the exchange of large blocks of power between one State and another in the Southern Region.

The power position in the States of Southern Region is now satisfactory. As regards the power tariffs for inter-State supplies of power, a Committee was appointed to suggest the principles and guide lines which may be followed by the States. The Committee has since submitted its report detailing its recommendations of various types of inter-State power supplies like long term, temporary power supply, seasonal power supply exchange of power leading to integrated operation of systems, distress power supply etc. The recommendations of the Committee along with the views of the Governments have been communicated to the State Governments and State Electricity Boards and are being followed up further.

[Ministry of Irrigation and Power O.M. No. EL-II-34 (22)/67, dated the 2nd February, 1968.]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLY

Recommendation (Serial No. 2)

The Committee consider that since the techno-economic feasibility study and the preliminary project report contain almost similar information, it should not ordinarily be necessary to have both the techno-economic feasibility study as well as the preliminary project report before deciding upon a project because preparation of both led to delay in the execution of the project and increase in cost. There might of course be cases where collaborators who offer foreign credit want for their own satisfaction, a second report (although a techno-economic feasibility study has been made) to determine the technical and economic soundness of a project. The Committee consider that such occasions would be few and far between and if the techno-economic feasibility study was carried out in a reasonably detailed manner there would be no need for a preliminary project report. (Paragraph 11).

Reply of Government

The matter has been receiving constant attention of Government and copies of instructions issued in this regard are attached herewith—Ministry of Finance (BPE) O.M. No. 2 (75)/68-BPE (GM) dated 23-4-68 (Appendix IV). Government, therefore, do not consider it desirable to prescribe as a general policy that either a techno-economic feasibility report or preliminary project report should be obtained and not both.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr. C. 16 (14)/65, dated the 31st March, 1969].

Recommendation (Serial No. 10)

Detailed Project Reports had not been prepared in the case of certain projects. It was explained during evidence that in the above cases, there were certain other reports which were considered equivalent to Detailed Project Reports. The reports of the Estimate Committee and the Committee on Plan Projects, however, show that

the absence of such reports had led to delays, schedule stoppages, cost overruns etc. The Committee are, therefore, of the view that no project should be approved unless a Detailed Project Report has been prepared. (Paragraphs 35-38).

Reply of Government

The Manual of Feasibility Studies and other instructions issued to which a reference has been made in the reply to S. No. 2 cover these requirements.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr. C. 16 (14)/65, dated the 31st March, 1969].

Recommendation (Serial No. 16)

From the information furnished, the Committee notice that quantum of fees paid to the Consultants for the preparation of the Detailed Project Report has varied from project to project even in the same group of Industry. While understanding the business interests of the consultants, the Committee feel that the difference of fees in the case of projects of a similar nature should not be great. Fees paid to the earlier consultants should be kept in view as a yard stick while negotiating with the consultants for future projects of similar nature. The Committee hope that these aspects will be borne in mind while entering into agreements with the consultants in future (Paragraphs 61--63).

Reply of Government

The nature of consultancy problem differs from project to project even though the projects may be in the same industry. Moreover, the Consultants are drawn from various countries, who have their different procedures for collaboration arrangements, and accordingly having regard to the merits of each case, the fees payable would very much depend on what is acceptable to the consultants who are entrusted with a particular job. It is, therefore difficult to lay down any norms for fees for the consultants for preparation of a Detailed Project Report even in the case of projects in the same group of Industry. Nevertheless fees paid on the past for similar projects are normally taken into consideration when setting terms for new projects.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr. C. 16 (14)/65, dated the 31st March, 1969].

Recommendation (Serial No. 18)

While appreciating that the time spent on studying the Detailed Project Report should not be unduly shortened because that might lead to much greater wastes later, the Committee consider that the time taken in the case of some of the undertakings was too long and cannot be justified. The Committee would recommend that a time table should be prescribed for the completion of the scrutiny by an *ad hoc* Committee appointed to examine a Detailed Project Report. Further, with a view to save time, the Detailed Project Reports should be simultaneously circulated to the various concerned agencies so that they might be in a position to give their views as soon as a reference is made to them. (Paragraph 70).

Reply of Government

Instructions issued recently and referred to in the reply to the recommendation at serial Nos. 2 & 3 require simultaneous furnishing of sufficient copies of the feasibility studies and project reports to the various agencies concerned, viz., administrative Ministry, Associated Finance, Bureau of Public Enterprises and Plan Finance Division of Ministry of Finance, for simultaneous examination of the project proposals. This is expected to reduce the time taken for the scrutiny of project proposals. It will be appreciated that in view of the different types of cases involved, there could be no standard time-table laid down for, the Completion of the scrutiny of the Detailed Project Reports. In view of the procedure for the simultaneous examination of the Detailed Project Reports by all agencies concerned, which is usually followed by a joint discussion among the officers concerned, it would not be necessary to set up any *ad hoc* Committee for the examination of the Detailed Project Reports.

[Ministry of Industrial Development, Internal Trade and Company Affairs (Deptt. of Industrial Development) O.M. No. Pr. C. 16 (14)/65, dated the 31st March, 1969].

CHAPTER IV

**RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF
GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COM-
MITTEE**

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED.

Recommendation (Serial No. 19)

Ancillary and auxiliary industries have been set up around very few undertakings and that too recently. During evidence, it was explained to the Committee that Government's view was that consistent with their desire to promote small-scale industries wherever any large industry was established, growth of ancillaries should also be stimulated. From the information furnished to them the Committee, however, do not feel that enough attention has been given to setting up of such industries so far although some of the public sector projects have now been established or have been working for more than a decade. This is also confirmed by the Memorandum on the Fourth Plan. In view of the tardy growth of such industries and what has been stated by the Praga Tools Limited, the Committee feel that a study of the procedure for setting up such industries should be made with a view to rationalize and simplify it. (Paragraphs 71—76).

Recommendation (Serial No. 20)

The Committee observe that while at least some steps have been taken or are proposed to be taken towards setting up ancillary industries practically no efforts have been made towards setting up auxiliary industries. The Committee consider that there is considerable scope for development of auxiliary industries based on the main and by-products of the public sector projects. In the absence of auxiliary industries the by-products are being wasted or not put to proper use or sold at a low price thus resulting in loss to the undertakings. As we industrialise further this loss would become even greater in view of this, suitable programme for development of these industries is essential and it should be drawn up. (Paragraphs 77-78).

Recommendation (Serial No. 21)

Considering the urgency and advantages of setting up of ancillary and auxiliary industries on the one hand and near absence of such industries on the other hand, it appears to the Committee that the assessment made by the Central Small Industries Organization of the

need and scope of the ancillary and auxiliary industries for all public sector projects has not been useful, or taken any concrete shape as yet. The Committee would, therefore recommend that a Team on the lines of Ships Ancillary Industries Committee appointed for the Hindustan Shipyard Limited, should be appointed to assess the requirements of ancillary and auxiliary industries in the public sector projects and to suggest measures for expeditiously setting up such industries. This team should suggest which ancillary and auxiliary industries should be set by the Plants themselves and which should be farmed out to the private sector, with or without assistance from the project. The items which could be farmed out should be properly publicized. (Paragraph 80).

Recommendation (Serial No. 22)

The Committee noticed that in the case of a large number of undertakings like the Bhilai Steel Plant, Coal Washeries Project of the Hindustan Steel Limited, Heavy Engineering Corporation and the projects of the Indian Drugs and Pharmaceuticals Ltd. etc., no indications regarding their ancillary and auxiliary industries were given in their Detailed Project Reports. The Committee consider that suitable principles regarding inclusion of ancillary and auxiliary industries in the Detailed Project Reports should be evolved by all the projects. They feel that if the parties who are entrusted with the task of preparation of the Detailed Project Reports are instructed to that effect, it should be possible for them to give enough data and indications in the Detailed Project Reports about the setting up of such ancillary industries. They hope that in the check list of items, to be included in the Detailed Project Reports, recommended in para 49 ancillary industries would also be added. (Paragraphs 81—83).

Recommendation (Serial No. 23)

So far as auxiliary industries are concerned, the Committee visualise that though it might not be possible in the Detailed Project Reports to indicate the auxiliary industries which could be established on the basis of the main product of the undertaking, it might be possible to give some broad indication thereof in the techno-economic feasibility studies. By making a study of the auxiliary industries established abroad, it should be possible to make an accurate assessment of the possibilities. Furthermore, whenever we go in for foreign collaboration we could ask the collaborators to make provision or give us the know-how about establishment of suitable auxiliary industries. (Paragraph 84).

Recommendation (Serial No. 24)

The Committee observe that a large number of projects have been set up on turnkey basis, which according to the representatives of the Ministries cost more but there was saving in time of say 6 months to 1 year. The Committee consider that the saving in time in the completion of projects must be weighed against the disadvantage of Indian engineers not being able to learn the setting up of such projects and the extra expenditure that has to be incurred on the project as a whole. The Committee therefore recommend that setting up of plants on turnkey basis should be confined to cases where time is of essence or where we lack the necessary technical skill and know-how. (Paragraphs 87—92).

Recommendation (Serial No. 25)

The Committee notice that in the case of the Heavy Power Equipment Plant and the Boiler Plant of the HEL the consultants, M/s. Techno-export (Czechoslovakia) prepared, besides the outlines for all auxiliary shops (e.g. carpenters shop, oxygen house) and wood storage coke yard, garages and fire station, locomotive shed, kitchen and dining room, cycle stand car parking garages, parking places and bus stand. Similarly, in the case of the National Coal Development Corporation Ltd., Collaborators prepared Detailed Project Reports, designs, working drawings. In the case of Heavy Engineering Corporation contracts were entered into with USSR and Czech Consultants for organisation manuals at a total cost of Rs. 27.24 lakhs. Further in the case of the Nangal Unit of the Fertilizer Corporation of India Ltd., the consultants were asked to prepare a design of storage silo. Likewise, in the case of Gujarat Refinery, the drawings for the workshop buildings were obtained from abroad.

During evidence it was explained that it was now Government's policy not to encourage foreign collaboration if it can be avoided except in the cases of turnkey jobs. According to the Secretary, Ministry of Industry and Supply "Even where a turnkey job is given, there is nothing to prevent us from telling them that in regard to these items they need not do anything more than give out a site plan indicating locations so that they may not interfere with the flow of goods in and out of the main factory" Government is understood to have requested all Ministries to issue instructions to this effect to all the public undertakings.

The Committee hope that the instructions issued to the Ministries in this regard would be strictly followed. They would suggest that the Committee of Secretaries appointed to negotiate and scrutinise

foreign collaboration proposals should pay special attention to this aspect. To assist the Committee of Secretaries in the above job a review of consultancy arrangements should be conducted to prepare a list containing items on which foreign consultancy should not be allowed. This list should be revised from time to time in the light of further progress in technical know-how and availability of plant and machinery in the country. (Paragraphs 93—96).

Recommendation (Serial No. 26)

While the services to be rendered by the Consultants are bound to differ from undertaking to undertaking according to the nature and extent of collaboration sought, the Committee noticed that in certain basic matters viz., rights of project authorities and obligations of the consultants there also existed diversities. Apart from these diversities, certain shortcomings in the contracts have also come to the notice of the Committee. The Committee would, therefore, recommend that a review of all the past consultancy agreements entered into with foreign collaborators should be made with a view to draw up suitable model terms for future guidance of all the public undertakings. Such a review may also include agreements with foreign consultants entered into by large private undertakings. (Paragraphs 98—100).

Recommendation (Serial No. 27)

The Committee observe that fees paid to the consultants have varied widely between various undertakings. The Committee consider that although it might be difficult to lay down detailed principles to determine the reasonableness of the fees to be paid to the Consultants, some guidelines for those who negotiate with collaborators must be drawn to determine the fees. (Paragraphs 101—103).

Recommendation (Serial No. 28)

The Committee would in this connection further add that the skill of our representatives who negotiate with foreign collaborators and most of our consultancy arrangements have been settled in this manner rather than by inviting tenders lies in obtaining collaboration on favourable terms. If a very high percentage of the foreign credit is to be repaid as fees to the collaborators or the consultants, the advantage of foreign collaboration to the extent is diminished. The Committee would suggest that greater emphasis should be laid in future during negotiations towards reducing the consultancy fees to the minimum (Paragraph 104).

Recommendation (Serial No. 29)

It is noticed that in the cases of a number of undertakings, the consultants/collaborators were not required to submit any report regarding progress of work. The Committee consider that reports from consultants at regular intervals are very necessary to enable management to attend to any difficulties that the consultants might have and to remedy them. Furthermore if the consultants have to submit reports in writing they would be more careful to comply with the provisions of agreement than otherwise. By reducing such matters to writing, the chances of there being difference of opinion later on in case the time schedules etc. are not kept will also be minimised. The Committee would, therefore, suggest that in the terms of agreements, there should invariably be a provision that the consultants will submit reports on the progress of work to the undertakings at prescribed intervals. A copy of such reports should also be forwarded to the Government so that the latter can watch the progress of the Project and give directions, if necessary. (Paragraphs 105—107).

Recommendation (Serial No. 30)

The Committee noted that apart from the construction of Projects, the duties of the Consultants also included the preparation of Detailed Project Report, supply of working drawings, preparation of tender documents, supply of plant and machinery etc. In the absence of a provision in the agreement relating the payment of fees to the progress of work, it would be difficult to ensure that the performance of the consultants is satisfactory. In case the contract with the consultants does not stipulate payments to be made to them according to the progress of erection/establishment of the project but only links them with the passage of time, as is the case with [Ministry of Industrial Development, Internal Trade and Company the Alloy Steel Project, payments have to be made to the Consultants at the stipulated time whether the Projects make any progress or not. The presence of such a provision in the contract in respect of other projects such as Instrumentation Ltd., Khetri Copper Project of N.M.D.C. would itself prove the utility of such a condition. The Committee, therefore, suggest that payments should be linked to the performance of the Consultants. The representatives of the Ministries agreed to the suggestion. (Paragraph 10).

Recommendation (Serial No. 31)

A number of projects or their units which had been completed/commissioned had been delayed. Besides a number of projects under construction (such as Alloy Steel Project) were also likely to be delayed. The Committee realize that a certain measure of delay

in the commissioning of the projects might be inevitable due to dependence on foreign help or the nature and size of the projects or the shortages of materials. The Committee also appreciate the steps taken to meet the fundamental needs of the projects such as cement, fabricated Steel etc. But they are not convinced that the Ministries have pursued the progress of the projects under them as closely as they should have done. In fact the Secretary, Department of Heavy Engineering admitted that the scrutiny of the reports sent by the project authorities was not as sufficient and detailed as he would have liked them to be. The Committee consider that in the formative stages of the project, the responsibility of the Ministries should not cease after sanctioning the project and or entering into agreement with collaborators, but they should also see that they progress according to the schedule and whatever difficulties are likely to arise in their implementation are foreseen and attended to. In their report on the Fertilizer Corporation of India Ltd., the Committee have already emphasized the need for setting up Technical Planning Cells in each Ministry at an early date as recommended by the Planning Commission. It should be the responsibility of these Cells to analyse the reports received from the projects systematically and suggest remedial action in time. (Paragraphs 111—115).

Recommendation (Serial No. 32)

The Committee were informed that instructions had been issued to all the undertakings to draw up a time schedule, if not already done, covering all their construction programmes relating to the different Departments/Wings of their project. They trust that Government would ensure that the Instructions are implemented and if there are any difficulties the same are attended to promptly. The time schedules drawn up by the consultants/project authorities should be fairly detailed to enable the management to keep a close watch over the progress of the project. (Paragraph 117).

Recommendation (Serial No. 33)

The Committee would further recommend that project authorities should be asked to prepare subsidiary time schedules, within the broad time schedules worked out in the Detailed Project Reports as has been done in the cases of the Alloy Steel Plant (separate programme for each shop); Neyveli Lignite Corporation Ltd.—Mining, Thermal Power, Fertilizer and Briquetting & Carbonising schemes (detailed erection schedule for civil works etc.), and Instrumentation Ltd. (detailed subsidiary time-schedules for the training programme and the construction programme). Such schedules would be helpful in achieving the over-all time schedules. (Paragraph 118).

Recommendation (Serial No. 34)

The Committee would also recommend to the project authorities: the adoption of one of the latest methods of time scheduling prevalent in the Western countries such as PERT. (Programme Evaluation and Review Technique). (Paragraph 119).

Recommendation (Serial No. 35)

The Committee noticed that in the cases of some projects viz., H.M.B. & C.M.M. Projects of the Heavy Engineering Corporation Ltd., National Instruments Ltd. etc., time schedules for the completion of the Projects were not included in the Detailed Project Reports, whereas in others like the Alloy Steel Project, Neyveli Lignite Corporation Ltd., Heavy Electricals Ltd., these were included in the Detailed Project Report. The Committee consider the preparation of time schedule as most essential for the timely completion of projects. As far as possible such a schedule should be in the Detailed Project Report itself but if for any reason it is not possible to do so, it should at least be worked out and laid down immediately after the receipt of the Detailed Project Report. (Paragraphs 120—122).

Recommendation (Serial No. 36)

There is no easy solution to the problem of scarcity of foreign exchange. But so far as the plant and machinery and spares required by the undertakings at their initial stage are concerned, the Committee feel that since most of our projects are based on foreign credit, the problem could be largely met by proper advance planning. The Committee have already in para 53 ante recommended that as far as possible the source of foreign assistance should be ascertained before preparing the Detailed Project Report.

In order that this salutary principle achieves its purpose it is imperative that the estimates of foreign exchange requirements are made most accurately and no item requiring foreign exchange is left out. Once the estimates are prepared and foreign exchange is made available, public undertakings should exercise the utmost discipline in the use of imported material and machinery. The Committee feel that with better estimation of the requirements of foreign exchange before the project is sanctioned and strict discipline in the use of imported material etc. some of the difficulties mentioned in para 123 could have been avoided. (Paragraph 124).

Recommendation (Serial No. 37)

It has not been possible for the Committee to examine the procedure regarding sanctioning of foreign exchange but from the instances cited (in paragraph 125), it is obvious that the existing pro-

cedure has hindered the timely completion of projects. The Committee understand that the procedure for release of foreign exchange has been enquired into by the V.K.B.V. Rao. Committee on the Utilisation of Foreign Aid and the Study Team on the working of the D.G.T.D. They trust that in the light of the recommendations made by these bodies, the procedure dealing with the sanction of foreign exchange for public undertakings will be simplified. (Paragraph 127).

Recommendation (Serial No. 38)

Apart from the foreign exchange difficulties some undertakings are also stated to have experienced difficulties in the matter of customs clearance and of import licenses. In a note furnished to the Committee after the evidence, the Government have stated that the procedures in this regard are constantly reviewed. The experience of some of the undertakings would suggest that the procedures leave much to be desired and cause delays. The Committee trust that in the light of the recommendation of the Mathur Team it will be possible for the Government to simplify the procedure regarding import licences and customs clearance in the case of the public undertakings. (Paragraphs 128-129).

Recommendation (Serial No. 39)

The orientation of the Plan itself is stated to be to secure indigenous sources of supply of raw materials, spares and components. Further the D.G.T.D. was also stated to be continuously keeping in view the question of import substitution. The Committee, however, noticed that in a few cases the undertakings or the Ministries had not taken any concrete step in this direction. Considering the large foreign exchange expenditure incurred on imports of raw materials etc., the Committee cannot but too strongly recommend the need for continuous survey of raw materials, spares and components within the country and the need for a systematic effort to promote indigenous industry for producing these items. It should be constant endeavour of the Government and the public undertakings to achieve, as far as possible, self-sufficiency in the matter of procurement of raw materials, spares and components. The Committee have in para 80 suggested the appointment of a Team of experts to assess the requirements of ancillary and auxiliary industries in public sector projects. When such ancillary industries are set up, it might be possible for the indigenous industries to produce more components, spares etc. (Paragraphs 130-133).

Recommendation (Serial No. 40)

Along with such measures Government should also ensure that where indigenous supplies are available, undertakings are not allowed to import. Some undertakings have created agencies for promoting indigenous industries e.g. the Spares Co-ordination Committee set up by the Oil and Natural Gas Commission and the Indigenous Procurement Committee set up by the Department of Iron and Steel for H.S.L. the Committee welcome such efforts and would urge that similar steps might be taken by the other major undertakings in consultation with D.G.T.D. (Paragraph 134).

Recommendation (Serial No. 41)

The Committee would also suggest that it would be desirable if the Annual Reports of the undertakings indicate the percentage of imported raw materials and components used by them in the manufacture of equipment so that the extent of indigenous raw materials and components used by them is known from year to year. (Paragraph 135).

Recommendation (Serial No. 42)

Our dependence on imports is more in the case of plant and machinery than in the case of raw materials, spares etc. The progress in setting up of indigenous industry for manufacturing various types of the plant and machinery has been slow. The Committee learn that Government have recently taken steps to set up industrial units in the public sector which would reduce our dependence on imports for the above items of imports. A Committee had also been set up to take stock of the requirements of capital goods in cement, mining, sugar, industries and steel plants.

While welcoming these measures, the Committee hope that necessary lesson would be drawn from the experience of the Third Plan. As plant and machinery constitute the major share of the capital outlay of the project and also of the foreign exchange expenditure, saying on this account would ultimately lead to economy in setting up of projects which in turn will lead to reduction in our cost of production and also save valuable foreign exchange. The Committee realise that to develop indigenous sources of plant and machinery, a great deal of technical know-how is necessary. It would be preferable to buy this know-how than to continue to buy the plants. The Committee hope that this would be borne in mind while finalising the public sector projects to be included in the Fourth Plan. (Paragraphs 136—138).

Recommendation (Serial No. 43)

The Committee realize that the scope for standardization may be limited in some undertakings. Even so, effort should be made whenever possible to standardise plant, machinery, spares, components etc., if indigenous industries are to be fostered. The Committee consider that it should be one of the responsibilities of the Planning and Development Units set up in various projects to evolve such standards and to give them wide publicity. (Paragraph 140).

***Recommendation (Serial No. 44)**

The Committee noticed that in their anxiety to have adequate spares, components and imported raw materials, the projects, often, at the very initial stages acquired heavy inventories, thus blocking up large amount of valuable foreign exchange. Often these heavy inventories were also unbalanced in the sense that there was too much of some items and too little of others. Such unbalanced inventories caused loss of production through inadequacy of particular item of raw material and spares and components, although there was no overall inadequacy. It has been explained by Government that there were difficulties in restricting the inventories to the required quantity because norms for the inventories have not been laid down. In support of this it was argued that the very fact that some undertakings do have large stocks illustrate the difficulties in establishing norms. The Committee are not convinced by these arguments. In the opinion of the Committee it should be possible though not with absolute accuracy to determine the requirements of raw materials, spare, construction material and equipment etc., at the initial stages of the project, just as it is now possible to determine the requirements of raw materials etc., of operating units in terms of months of consumption. The Committee would therefore suggest that norms in regard to inventories should be worked out and after working out such norms, stricter control on the acquisition of such materials should be exercised in future. (Paragraphs 141—143).

****Recommendation (Serial No. 45)**

The Committee notice from the Report of the Company Auditors of HSL for the year 1963-64 that in the case of the Durgapur Steel Plant construction material and equipment of the value of Rs. 71

*Reply of Government to Recommendation at Serial No. 44 was received after adoption of this Report by the Committee (See Appendix VII).

**Reply of Government to Recommendation at Serial No. 45 was received after adoption of this Report by the Committee (See Appendix VII).

lakhs was lying in stock. Similar stocks may be found in other undertakings. The Committee would suggest that the possibility of utilizing it for expansion of the units or of lending it to other public undertakings should be examined. The Committee would further suggest that the position of inventories in projects under construction should be included in the 'Annual Report on the working of the Industrial and Commercial Undertakings' published by the Ministry of Finance, which at present confines itself only to inventories of running concerns. (Paragraph 144).

Recommendation (Serial No. 46)

The actual expenditure incurred exceeded original estimates by more than 50 per cent in several projects. In some cases (e.g. the steel plants) the rise has been as high as 80 per cent. From a few explanations offered for rise in estimates it is clear that apart from the increase in cost of construction and addition to factory buildings and plants, omission of certain basic items from the project estimates is responsible for subsequent revisions. These are: consultancy fees, customs duty, training of personnel, townships, financing charges, working capital, enabling works etc.

The Committee understand that a check list of project estimates has been prepared by Government for guidance of project authorities and financial advisers in 1959 and has been in vogue since then. It is surprising that in spite of such a check list, the project estimates continued to be incomplete and unrealistic. (Paragraphs 148-149).

Recommendation (Serial No. 47)

The Committee note that the Estimates Committee in their reports of H.E.C., H.E.L. and H.S.L. have repeatedly recommended that project estimates should be prepared as realistically as possible and should include total commitments before they are made available to Government for sanction. This Committee also in their report on Fertilizer Corporation of India Ltd. and Rourkela Steel Plant deprecated revisions of estimates because they vitiate the basic assumptions on which the project was sanctioned in the first instance. They recommend that project estimates should be prepared realistically and efforts made to adhere to them. The Committee would like to further recommend that with a view to avoiding incomplete estimates being prepared government should immediately conduct a post review of the reasons for under-estimates in the past. Based on the findings of such a review suitable instructions should be issued to authorities concerned with the preparation of project esti-

mates, for their guidance. If the review reveals that the existing check list of project estimates omits certain items, the same should be added. (Paragraph 150).

Recommendation (Serial No. 48)

The Committee consider it a matter of serious concern that in most of the projects the foreign exchange component should have ranged between 30 to 50 per cent of the total capital outlay. In a number of cases it exceeded fifty per cent of the estimated cost of the project. The Committee have already referred to the scope for reduction in consultants fees. As regards the raw materials and components, it has been admitted in a note submitted by the Ministry of Finance that due to difficulties in establishing norms of raw materials and spares and components, their requirements were not always correctly estimated and tended to be over stated. The same thing could be said to some extent about certain plant and machinery. The Committee would therefore recommend that to meet the foreign exchange shortage which the country has been faced with for some time past, the estimates of foreign exchange expenditure should be prepared more realistically and while scrutinising them a thorough examination should be made of the import of raw materials, plant and machinery etc. to be imported with a view to determining their necessity and non-availability in India. The fact that in most cases the foreign exchange is assured by the collaborators should not in the opinion of the Committee make the Government relax proper scrutiny of the foreign exchange expenditure in public sector projects because the larger is the amount of foreign credit the greater is the liability towards servicing of such foreign loans and their repayment, which has ultimately to come from our free foreign exchange resources. (Paragraph 155).

***Recommendation (Serial No. 49)**

The Committee also consider that the projects set up with high proportion of foreign exchange should be under an obligation to earn foreign exchange for the country when they go into production. Therefore, while deciding on the feasibility of the project the period within which the foreign exchange expenditure on the capital cost and the recurring cost (spares, raw materials etc.) of the project will be redeemed by the reduction in imports and earnings from exports should invariably be considered. The representative of the Ministry of Finance has agreed with the suggestion. (Paragraph 157).

*Reply of Government to Recommendation at Serial No. 49 was received after adoption of this Report by the Committee (See Appendix VII).

Recommendation (Serial No. 50)

The Committee consider that in public undertakings like Heavy Electricals Ltd., where production and expansion take place simultaneously, profitability and economy of working should be tested from time to time otherwise the capital invested during the course of expansion is mixed up with the capital invested for the original capacity and there is no means to determine the return on the investment originally made. Mistakes made in the initial stages could also be concealed through mid-term expansion. The Committee recommend that in such cases there should be a separate computation of production cost and profit with respect to the completed units of the industry so that it would be possible for the management and the Government to watch the performance of the project. (Paragraph 159-160).

***Recommendation (Serial No. 51)**

The Committee observe that barring a few instances where the debt is slightly more than the equity capital, in all other cases, the equity was more than the debt. While appreciating that in capital intensive plants, it might be necessary to have higher proportion of equity, the Committee do not feel that the present ratio of 50 :50 between equity and loan is conducive to bringing about cost consciousness in the management of the public undertakings. Unlike a private enterprise there is no compulsion in the public undertakings to declare dividends on the equity capital. A larger proportion of equity (and lower proportion of debt) can also enable the management of public undertakings to artificially show lower cost of production and hence lower prices. But if the loan capital is more, the management is bound to be vigilant because it has to pay interest on the loan. The Committee would therefore recommend that the present equity debt ratio which was fixed in 1960 should be reviewed with a view to raising the proportion of debt. In the opinion of the Committee a ratio of 1 : 2 could be safely adopted, as it was also the ratio obtaining in industry generally. The representatives of the Ministries agreed with this view. (Paragraphs 162—165).

Recommendation (Serial No. 52)

The Committee note with satisfaction that Government appreciate that there should not be any time lag in the appointment of Project Officers and Financial Advisers/Chief Accounts Officers nor-

*Reply of Government to Recommendation at Serial No. 51 was received after adoption of this Report by the Committee (See Appendix VII).

mally. They trust that Project Officers and Financial Advisers will in future be appointed as early as possible after the Government have decided to set up a project and in any case before the receipt of the Detailed Project Report as delays in this respect are bound to prove detrimental to the expeditious execution of the projects. (Paragraph 170).

Recommendation (Serial No. 53)

In their report on the Rourkela Steel Plant, the Committee have taken exception to the frequent changes in the post of General Manager during the crucial formative years of the Plant. The Committee view with concern similar changes that have taken place in so many other projects. With a view to ensure continuity of management the Committee would recommend that once a person is posted as General Manager or Project Officer, he should not ordinarily be changed until the project has reached a certain stage where the change would not affect the smooth progress of the Project. The Committee do not intend that the individual so posted should suffer in any way if promotion is due to him in his parent department. At the same time the interests of the project cannot also be sacrificed. Government should, therefore, examine the feasibility of extending the benefit of promotions to such persons in the project itself, so that they may be enabled to continue to serve the projects. (Paragraph 174).

Recommendation (Serial No. 54)

The Committee observe that in a number of projects expansions were decided upon by Government even before the plants achieved the original rated capacity, resulting in delays and extra expenditure. The Committee realise that advance planning must be done to meet future shortages but the proper occasions for such planning is before the project is sanctioned and not afterwards. The Committee are not able to appreciate as to how the demands could suddenly increase within one or two years of the approval of the original Project Report by nearly 100 per cent e.g., in the case of Heavy Engineering Corporation (H.M.B.P.) from 45,000 tons to 80,000 tons. This only proves that the earlier estimates of demand were gross under-estimates. Ours is a developing economy where demands are always expected to rise and hence it is safer to provide a cushion for future increases in demands rather than be conservative. The Committee therefore recommend that as far as possible a realistic and firm production programme of a project should be decided upon in advance, after making a thorough study and keeping in view the

future demands and no change, diversification of expansion should normally be thought of till the project has been commissioned, unless it is technically possible to change the capacity etc. without disturbing the original production schedule. (Paragraphs 175—179).

Recommendation (Serial No. 55)

The Committee would also reiterate the recommendation of the Estimates Committee made in their 51st Report on Heavy Engineering Corporation Ltd., that Government should examine all cases of revisions of capacities of projects during construction with a view to assessing the delays in commissioning and the consequent loss to the national economy apart from any infructuous expenditure involved in such revisions. The Committee believe that such a review would reveal valuable lessons for planning of future projects. (Paragraph 180).

Recommendation (Serial No. 56)

The Committee noticed that in some Detailed Project Reports indication about the future expansion was given while in others it was missing. It was explained to the Committee that where no specific mention was made in the Detailed Project Reports, technical details did indicate the possible expansion. In some other cases like National Instruments Ltd. (Ophthalmic Glass Project) and Instrumentation Ltd. since the targeted capacity would meet the requirements of the country upto the end of the Fourth Plan it was not considered necessary to include these in the Detailed Project Report. The Committee consider that irrespective of the requirements of the Fourth Plan, it would be advantageous to have some indication in each Detailed Project Report of the lines of future expansion so that if eventually (whether in the Fourth Plan or later) it was decided to expand its provision in the Detailed Project Report might be economical and would help facilitate matters. (Paragraphs 181—183).

Recommendation (Serial No. 57)

The Committee were informed that under the rules of procedure every case of expansion of an existing project was not put up before the Cabinet. Only important cases went up to the Cabinet. The Committee consider it desirable that uniform procedure should be evolved in this regard. They feel that after setting up a project where subsequently there are departures from the original line of production or expansion is embarked upon involving considerable fresh investment such cases should be put up to the Cabinet for approval. (Paragraphs 185-186).

Recommendation (Serial No. 58)

The Committee consider that proper selection of location of a project is of utmost importance. A careful scrutiny is essential of technical matters such as climatic and geological considerations, raw material availability and economic factors like availability and cost of utilities and transport. The Committee, therefore, recommend that Plant Location Committees composed of experts in technical and economic matters should invariably be formed which should consider in detail the suitability of various locations of all the future industrial projects. (Paragraph 188).

Recommendation (Serial No. 59)

So far as the advice of Consultants for location of a project is concerned, the Committee have no objection to Indian Consultants being utilised for this matter. But the Committee are definitely concerned about foreign consultants being engaged for deciding location of project etc. The Committee consider that circumstances in which the advice of the foreign consultants should be sought for location of the plants should be exceptional. We have enough experience by now in setting up public undertakings. The functions of the Planning and Development Units that have been set up in some of the projects also include studies in location. Occasion for seeking the advice of the foreign consultants should therefore be confined only to such projects for which we have no experience at all. The Committee hope that this would be borne in mind in the case of undertakings to be set up in future. (Paragraphs 189—191).

Recommendation (Serial No. 61)

The Committee hardly need emphasize the importance of timely movement of plant and machinery to the project sites. Failure to meet transport needs has resulted in delays in several projects. The Committee feel that while deciding the location and working out the time schedules of the project, the transport requirements should also be properly assessed and as soon as the location of a project is decided upon, advance action towards meeting its transport needs should be undertaken. Further during the construction stage there should be a close liaison between the project authorities on the one hand and the Railways, Port authorities and State Departments in charge of Roads etc., on the other. (Paragraph 198).

Recommendation (Serial No. 62)

The Committee are surprised that instructions to compile completion reports as recommended in the Third Plan should have been

issued more than 3 years after the commencement of the Plan. The Committee consider the suggestion for the preparation of completion Report made in the Third Five Year Plan as very important for the proper execution of future public sector projects. They recommend that Government should ensure the preparation of complete reports in case of all the projects which have been recently completed. In the case of projects under construction the Committee would suggest that as far as possible attempt should be made to prepare such reports to the extent possible as the construction of the project progresses. (Paragraph 202).

Recommendation (Serial No. 63)

The Committee further suggest that in order that the future public sector projects benefit from the experience of planning and construction of various projects suitable instructions should be issued for their guidance. So far as the apprehension about making it public is concerned the Committee feel that the same could be prevented by keeping the completion Reports confidential. (Paragraph 203).

Recommendation (Serial No. 64)

It was mentioned during evidence that the Completion Report on Gauhati Refinery had been written in a very subjective manner and "needed sound editing". The Committee feel that if the reports are written in this fashion, according to Ministry's own admission, the purpose of such reports would be defeated. The Committee recommend that Government should issue suitable instructions in this regard so that the reports are written in an objective manner and present a true picture of the past events. (Paragraph 204).

Recommendation (Serial No. 65)

There is an intimate relationship between the quality of planning and execution that attends in the setting up of a project and the subsequent operational phase. Project planning is the foundation on which the edifice of the operational phases or the project rests. Any wrong decision taken at this stage, be it in the matter of laying down on objectives for the undertaking, its viability or the details to be given in the project report or the time schedules or the capital outlay or the import of plant and machinery are bound to effect the timely execution, operational efficiency and economy of the project. Considering the comparative inexperience in the matter of setting up industrial enterprises, it cannot be said that our public undertakings have fared badly. The time in which some of our public enterprises have gone into production can compare well with

similar industries in other countries. The Committee also noted with satisfaction that some of the undertakings even in the construction stage had started manufacturing items/materials which were being used for their own set up. This not only expedited their construction but also resulted in utilisation of their men and overcoming of certain bottlenecks. However, many of the present uneconomic legacies of our undertakings can certainly be related to inadequate attention having been paid to various aspects at the planning stage of the projects. (Paragraph 205).

Recommendation (Serial No. 66)

The Committee have indicated the measures necessary to remedy the shortcomings (given in para 206) at appropriate places in the report. They are glad to notice that there is increasing awareness in the public undertakings towards the need to plan projects in greater details than hitherto. Some of the public undertakings have set up regular agencies to attend to better planning and execution of future units and the expansion of the present units. There are however some matters e.g. a suitable financial structure, setting up of ancillary and auxiliary industries, determining the extent of foreign collaboration where decisions must be taken by Government. The Committee trust that decisions taken by Government in these matters will be such as would leave no scope for the types of shortcomings mentioned above. (Paragraph 207).

Recommendation (Serial No. 67)

One aspect of the subject of 'Management and Administration of Public Undertakings' about which the Committee feel particularly concerned is our extreme dependence on foreign consultants and collaborators for setting up projects. There is hardly any industrial public undertaking in the country which has been set up without the help of foreign consultants and collaborators. The Committee feel that by now we should have acquired enough technical knowledge as to be able to set up some of the plants ourselves, but it seems no conscious effort has been made in this direction. The habit of seeking the help of foreign consultants and collaborators continues. The Committee feel that it is time that we make efforts to stand on our own legs. In this connection the Committee would also recommend that some study of the industrial development of the countries which like us struggled to industrialise should be made. Such a study would be of immense help for our own efforts towards self-reliance. (Paragraph 208).

Recommendation (Serial No. 68)

While planning and execution of projects is essentially the responsibility of the undertaking and the Government, the Committee also feel that since the execution of these projects involves huge sums of money and is also part of national planning, Government which keeps itself informed of the execution of progress of various projects should also keep Parliament so informed. Not unoften in the past serious difficulties/revisions of estimates etc. have come to light only when some Members raised the matter on the floor of the House. The annual reports of the projects and the Audit Reports which are supposed to contain such information are no doubt placed on the Table of the House but Parliament knows of these difficulties at a late stage or *ex post facto*. The Committee feel that if Parliament is kept informed periodically it will provide an institutional check against any rush-decisions being taken on the one hand and care and caution being exercised on the other. (Paragraph 209).

Comments of the Committee

Please see Chapter I, Paras 1—3.

NEW DELHI;
April 22, 1969.

G. S. DHILLON,
Chairman,

Vaisakha 2, 1891 (Saka).

Committee on Public Undertakings.

APPENDIX I

(Vide reply to Recommendation at Sr. No. 3)

No. 687-Adv (c)—Cir. 21/67

GOVERNMENT OF INDIA,

MINISTRY OF FINANCE (DEPARTMENT OF EXPENDITURE)

BUREAU OF PUBLIC ENTERPRISES.

Dated New Delhi, the 9th Aug. 67.

OFFICE MEMORANDUM

SUB: *Initial estimated cost of land of public sector projects and subsequent increase thereof.*

It has been observed that cost of land intimated by the State Governments at the time of consideration of location of Projects had increased considerably subsequently after a decision has been taken to locate the Projects in the States concerned. This had led to the need for revision of estimates and also effected the profitability of the concerns. The Committee on Public Undertakings has suggested that the study of the land costs in various Projects should be undertaken to find ways and means by which the price of land could be limited to a ceiling at the outset.

2. The Ministry of Industrial Development and Company Affairs etc. are requested to examine the cost of acquisition of land of the Public Sector Undertakings under their control in the light of the observations made by the Committee on Public Undertakings and to ensure in respect of Projects to be taken up in the future that such large variations are avoided by having a proper understanding at the outset with the State Governments concerned in this regard. When preparing the estimates of projects in future it is requested also that specific details be given on this point, i.e. that the cost of

the land has been checked to be reasonable and an understanding reached with the State Government on the estimates cost, so that there is no likelihood of any appreciable escalation at a later stage.

Sd: P. GOVINDAN NAIR,
Secretary to the Govt. of India.
Director General, Bureau of Public
Enterprises.

To: All Ministries/Departments of the Govt. of India.

All F. As in the Department of Expenditure.

Dy. Adv (E).

APPENDIX II

(Vide reply to Recommendations at Sr. Nos. 5, 6 and 7)

Copy of D.O. letter No. I&M/4/9/2/66 dated 10.10.1966 from Secretary, Planning Commission to the Secretaries of Central Ministries.

The importance of developing and encouraging indigenous consultancy organisation in the country has been well recognized as an important measure towards achieving self-reliance. As you are aware, a Committee under Member (Industry), Planning Commission is examining the matter and is expected to finalise the recommendations shortly. In the meantime, I would like to draw your attention to the following extract from the Draft Outline of the 4th Plan which expresses the view of the Planning Commission on this matter:

"The efforts towards achieving a measure of self-reliance in basic industrial items and basic goods have to be supplemented by a parallel progress towards developing indigenous design, engineering skills and knowhow. Some progress has been achieved by developing a number of design and consultancy organisations, both in the public and private sectors, such as in the field of iron and steel, mining and fertilizers. The Technical Consultancy Bureau of the NIDC has also built up technological experience and skills in different fields of industrial enterprises. These organisations will have to be strengthened and their scope enlarged. It will be a policy as a general rule to utilise the technical consultancy services built up indigenously in both public and private enterprises to the maximum and to avail of such services from abroad only when unavoidable. The measures required to give a practical shape to this policy are currently under examination".

Your attention is invited to the penultimate sentence of this quotation and it is requested that the views expressed therein may kindly be taken into account in any action taken in your Ministry including any arrangements under consideration, but not yet finalised

APPENDIX III

(Vide reply to Recommendation at Sr. Nos. 5, 6 and 7)

DEPUTY PRIME MINISTER,
INDIA,
NEW DELHI,

No. 1942-DPM/67

My dear,

August 3, 1967.

The question of improving the planning of industrial and mining projects in the public sector, and of streamlining the procedures for examination and sanction in my Ministry, has been engaging my attention for some time. The criticisms that have been voiced in many quarters, of the low returns earned by public sector plants, could have been avoided to a considerable extent if there had been a better understanding of the economics of investment proposals at the time the approvals were given to them. Inaccurate and generally exaggerated estimates of demand, lack of attention to the problems of economic location, plant size and product-mix, inadequate appreciation of the importance of estimating outlays and incomes over time, and the absence of any real analysis of the benefits and costs of a project to the economy as a whole, are some of the deficiencies in project-planning and appraisal.

2. With a view to eliminating these deficiencies and ensuring a thorough study of all factors relevant to project selection, the Planning Commission issued a Manual in May, 1966 for the preparation of Feasibility Studies for industrial projects in the Public Sector. The Manual in its final form was issued after discussion with the Ministries concerned, and I am informed that there was broad agreement on the need for such studies.

3. I am sure demand studies, studies of alternative plant-size and product-mix, estimates of fixed and operating costs, and of the phasing of investments—and summing up these factors by way of profitability and cost-benefit analyses—are essential pre-requisites for wise investment decisions. Since all these studies have to be undertaken in any case, rather than doing these piecemeal, it should be an advantage in every case to prepare a full Feasibility Study on the lines indicated in the Manual. Such a Feasibility Study would help not only the Administrative Ministry in project selection but would also speed up consideration of the project by the Finance Ministry, since

all the data necessary for an economic appraisal would be available at the same time.

4. Although the Manual was issued more than a year ago, it is noticed that project reports which are being received not only do not cover the requirements prescribed in the Manual but lack even basic essential data. The result would be a repetition of the mistakes we have made in the past, apart from the very considerable delay that would ensure due to references and cross-references between the Ministry of Finance, administrative Ministries, and project authorities concerned. I would therefore, like to underline the absolute need for the preparation of proper Feasibility Studies as indicated in the Manual—even if it is not possible to adhere strictly to the letter of the Manual, maximum effort should be made in this direction. I shall be grateful if you could kindly look into this matter personally and impress this need on the officials in your Ministry and the project authorities concerned. An Annexure is attached which summarises the main points to be covered in the Feasibility Study.

5. It is my intention that the Feasibility Study should normally be the basis on which an investment decision can be taken by Government. Prior to the approval of the Study by the Finance Ministry, no expenditure should be incurred on a project other than the outlay on preparing the study itself. After an investment decision has been taken, and even prior to the preparation of detailed cost estimates, if there is urgency, administrative Ministries would be able to obtain Finance's clearance to specific items of preliminary expenditure, such as land acquisition and the site preparation etc. Budget provision for the new project would also normally be made only after approval of the Feasibility Study.

6. The Feasibility Study will be followed by the preparation of a detailed project report or of detailed cost estimates based on full process design and engineering. Formal expenditure sanction to the project as a whole will be given after examination of the detailed project report/detailed cost estimates. Once such sanction has been given, the project authorities can incur expenditure according to the approved estimates without further reference to Government. At present, it sometimes happens that projects are commenced before the detailed cost estimates have been approved. In such cases, the project authorities are unable to exercise their powers to sanction expenditure and have to come up to Government for approval of individual items. Apart from the fact that such piecemeal sanctioning defeats the objective of cost control and hinders any overall view of

the entire project, it also means procedural delays in the Administrative and Finance Ministries.

7. The procedure that I have outlined here for feasibility studies and detailed project reports should not only help Government to avoid the sort of mistakes in planning projects that have occurred so far, but also lesson administrative delays among the various Ministries. As a corollary I should like to emphasize that once the outlines of the sectoral programmes in the Plan are settled, the Ministries should take up the formulation of projects immediately. As soon as there is general agreement with the Planning Commission and the Finance Ministry on the need for a project, the administrative Ministry should undertake or commission the preparation of feasibility studies. For most of the projects likely to be undertaken during the Fourth Plan period, approvals and financial sanctions have been issued. For the few projects which remain, it is desirable that feasibility studies should be completed, and appraised by the Ministry of Finance as soon as possible. On account of the constraint on resources, investment on new projects has had to be slowed down somewhat in 1966-67 and 1967-68. The shortfall in agricultural production and slowing down of the rate of growth in the economy generally make it necessary for us to undertake fresh assessments of the demand for most commodities, including capital goods. This reassessment of demand should not be restricted to the period upto 1970-71, but should be projected forward beyond the Fourth Plan period, to enable Ministries to formulate investment projects for the Fifth Plan, on which it may be necessary to undertake some outlay before 1970-71.

With kind regards,

Yours sincerely,

Sd/- MORARJI DESAI.

Addresses of DPM's letter dated 3rd August, 1967.

1. Shri Fakhruddin Ali Ahmed,
Minister of Industrial Development &
Company Affairs, New Delhi.
2. Shri Ashoka Mehta,
Minister of Petroleum & Chemicals
and Planning, New Delhi.
3. Prof. V. K. R. V. Rao, Minister of
Transport & Shipping, New Delhi.

4. Dr. M. Chenna Reddy, Minister of
Steel, Mines & Metals, New Delhi.
5. Dr. Ram Subhag Singh, Minister of
Parliamentary Affairs & Communications,
New Delhi.

Copy to Dr. Dhananjayarao Gadgil, Deputy Chairman Planning
Commission, New Delhi.

ANNEXURE

(Vide para 4 of Appendix III)

*Main points to be covered in a Feasibility Report:***1. Demand Study:**

Requirements as estimated for the 5-year plan period.
 Present and anticipated production.
 present imports.
 Export potential
 price elasticity
 Pattern and location of demand
 Time Phasing of demand.

2. Technical-Features:

Process selection
 Plant size
 Raw material requirements.
 Product-mix.

3. Location:

In relation to raw materials.
 In relation to market
 Transport, Water Supply, power, etc. facilities available
 Alternative locations study and comparative advantages.
 Detailed site studies undertaken.

4. Project Estimates (Capital Cost)

Construction cost (as at page 112 of the Manual)
 Foreign exchange component of capital cost, giving.
 details of inescapable imports of plant and equipment.

5. Project Estimates (operating and Production costs)

Working capital (as at page 117 of the Manual) Direct costs
 of production, overhead or indirect costs.
 Depreciation and residual value.

6. Profitability and Cash flow analysis:

Pages 128 to 130 of the Manual
 Application of investment criteria.

7. Cost-Benefit analysis:

APPENDIX IV

(Vide reply to Recommendation at Sr. No. 8)

No. 2(75)/68-BPE(GM)

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 23rd April, 68

OFFICE MEMORANDUM

SUBJECT:—*Procedure for scrutiny of project proposals.*

In the context of the imperative need for proper preparation and adequate scrutiny of the proposals for projects, certain procedures have already been laid down in letter No. 1942/DPM/67, dated the 3rd August, 1967 from the Deputy Prime Minister and letter No. 3213-S(IPF)/67 dated the 5th August, 1967 from the Secretary Expenditure. For facility of reference these procedures which envisage the following three distinct stages prior to the according of final sanction for all new projects or expansion schemes are summarised below:

(i) *Formulation of project:* Projects are generally formulated by the administrative Ministries when the Five Year Plan is being drawn up, but in some cases new projects take shape also during the Plan period. This stage should normally begin as soon as the sectoral programmes in the Plan are settled and should generally conclude with the commissioning of one or more feasibility studies. Besides the administrative Ministry (which should take the initiative) the Planning Commission and the Finance Ministry are also vitally concerned with the initial stage of project formulation, when the need for additional investment in the public sector has to be established, and the scope for such investment determined in broad terms. The Departments of Expenditure and Economic Affairs in the Finance Ministry both being concerned with project formulation, a joint unit, functioning for this purpose in the Finance Ministry, with one Joint Secretary in the Department of Economic Affairs and Director (Capital

Budget) in the Department of Expenditure, is associated in all discussions, preliminary studies etc. undertaken by the Ministries at the Planning stage of new projects. When it is decided that a feasibility study is to be commissioned, the approval of the Financial Adviser is sought for the expenditure involved.

(ii) *Preparation of Feasibility Study*: Since the studies about the economic, commercial and financial aspects of projects are essential pre-requisites for sound investment decisions, the absolute need for the preparation of feasibility studies as thoroughly as possible on the lines indicated in the Planning Commission Memorandum "Feasibility Studies for Public Sector Projects" has been emphasised. Such feasibility study will normally be the basis on which an investment decision can be taken by Government. The feasibility study will be referred by the administrative Ministry (enclosing at least four copies) to the Financial Adviser, who will be the focal point for all references from this stage, and who will be responsible for arranging such consultations, as may be necessary, with other parts of Finance Ministry including Department of Economic Affairs and Bureau of Public Enterprises. If particular sources of external credit have to be explored for financing the project in question, the Department of Economic Affairs, in the appropriate Division, is to be consulted by the Administrative Ministry, keeping the Financial Adviser informed. When a feasibility study has been accepted, and the investment approved in principle, clearance could be given for preliminary expenditure pending the preparation of the detailed engineering designs and cost estimates.

(iii) *Preparation of a Detailed Project Report*: Where the feasibility study gives sufficient information as indicated in the Planning Commission's Memorandum, there may be no need for a separate D.P.R. Otherwise after the acceptance of feasibility study and approval of the investment, in principle, the D.P.R. is to be commissioned, or detailed engineering done and cost estimates prepared separately, depending upon the circumstances of the case. The sole point of scrutiny of D.P.R. or detailed cost estimates will again be the Financial Adviser, who may, however, consult the Bureau or any other agency.

2. After the above three stages, formal expenditure sanction to the project as a whole will be given on the detailed cost estimates. Once such sanction has been given, the project authorities can incur expenditure according to the approved estimates and the capital budget for the year, without further reference to Government.

3. As a supplement to the instructions of August, 1967, the following procedures are also laid down, with a view to further stream-

lining the procedure for the formulation and scrutiny of project reports|feasibility studies:—

- (a) At the project formulation stage, the investment decision, in principle, should be taken in case of each project at a meeting convened by the Secretary of the Administrative Ministry. Besides, the Secretaries of the Ministries of Finance and the Industrial Development, Secretary, Planning Commission should also be associated. The administrative Ministry should in each case prepare and circulate in advance a Summary of the proposal.
- (b) This meeting should also take a decision on whether foreign collaboration or consultancy is required and the machinery for preparing the feasibility study.
- (c) In finalising foreign collaboration terms, if this is being sought, the present procedure for consideration of such agreements, above specified limit, by the Negotiating Committee should continue.
- (d) Where the Project Report (or feasibility study) is not to be prepared by the foreign|Indian Consultants, the administrative Ministry should set up a team for preparing it.
- (e) In case of all major projects|expansions, the feasibility study should give to the fullest extent possible the details required in the Planning Commission's Manual and specially cover the main points indicated in the Annexure.
- (f) The Bureau of Public Enterprises assists in the scrutiny of Feasibility|Project Reports, but in the present stage of its organisation, it is hardly in a position to associate itself with the preparation of such reports. However, the Bureau can assist in the drawing up of D.P.R.|Feasibility Studies in so far as they relate to construction and financial (as distinct from technical) aspects. It will also be relevant to point out that there are a number of consultancy organisations existing in the country, both in the public and the private sectors. As regards the information about existing capacities, both in the public and the private sectors, reliance should be placed on the Directorate General of Technical Development.
- (g) On receipt of feasibility study, the administrative Ministry should send sufficient copies to the Finance Ministry,

Planning Commission and other Ministries concerned together with a summary of the information required for financial examination. Once the respective views have been formulated, the Secretary of the administrative Ministry concerned may, if necessary, call an ad hoc meeting of the Secretaries of the Ministries concerned (including the Finance Ministry) to reconcile differences.

- (h) If fundamental differences still exist the unresolved issues should be presented if necessary, to the Cabinet or appropriate sub-Committee of the Cabinet. Reference of such issues to another Committee of Secretaries is not necessary.
- (i) With the enforcement of the system of scrutiny of investment proposals at the three stages of formulation, feasibility study, and DPR/Detailed engineering costs, the Expenditure Finance Committee procedure would no longer be necessary.

4. The above procedure will apply to all fresh projects, including the Public Enterprises of the Ministry of Defence (other than Ordnance Factories and Units catering only for the Defence Forces), and expansions. In the case of projects or expansion schemes, which are already being processed, this procedure need not be applied, unless the administrative Ministries themselves so desire.

Sd/- P. K. BASU,
23/4/68

Director, Bureau of Public Enterprises.

To

All Ministries|Departments of the Govt. of India.

Copy to: (i) Secretaries to Government of India (by name)
(ii) Adviser (P)|Adviser (C)|Adviser (F)|D.S. (I&R),
in the Bureau of Public Enterprises.
(iii) F.As in the Deptt. of Expenditure.

ANNEXURE

Main points to be covered in a Feasibility Report

1. Demand Study

Requirements as estimated for the 5-year Plan period
Present and anticipated production
Present imports
Export potential
Price elasticity
Pattern and location of demand
Time phasing of demand

2. Technical Features

Process selection
Plant size
Raw material requirements
Product-mix

3. Location

In relation to raw materials
In relation to market
Transport, Water supply, power, etc. facilities available
Alternative locations study and comparative advantages
Detailed site studies undertaken

4. Project Estimates (Capital Cost)

Construction cost (as at page 112 of the Manual)
Foreign exchange component of capital cost, giving details of inescapable imports of plant and equipment.

5. Project Estimates (Operating and production costs)

Working capital (as at page 117 of the Manual)
Direct costs of production, overhead or indirect costs Depreciation and residual value.

6. Profitability and Cash Flow Analysis

Pages 128 to 130 of the Manual
Application of investment criteria

7. Cost-Benefit analysis

APPENDIX V

(Vide reply to Recommendation at Sr. No. 13)

No. Pr. C.16(14),/65-I

GOVERNMENT OF INDIA

MINISTRY OF INDUSTRIAL DEVELOPMENT AND COMPANY AFFAIRS

(DEPTT. OF INDUSTRIAL DEVELOPMENT)

New Delhi, the 5th January, 1968.

OFFICE MEMORANDUM

SUBJECT:—*Source of foreign credit to be assured before preparation of Detailed Project Report.*

The undersigned is directed to say that the Committee on Public Undertakings in Recommendation No. 13 (Paras 50—53) of their 13th Report (Third Lok Sabha) on Management and Administration of Public Undertakings have observed that the source of foreign credit from which a project is to be financed has an important bearing on the preparation of Detailed Project Report. In the case of certain public sector project(s), the foreign authorities made it a condition precedent that they would prepare their own Detailed Project Report although one such report had already been prepared. It is therefore, necessary that the Detailed Project Report should be prepared only after the source of foreign assistance is located.

2. The Committee have further observed that if a fairly detailed report is available in anticipation of aid, the time to be spent on the preparation of a Detailed Project could be shortened. In cases, where the implementation of a project is dependent on foreign assistance, being assured, only a techno-economic study should be prepared in detail giving enough basic information to the aid-giving country to determine its feasibility.

Sd/- K. L. TULI,

Under Secretary to the Govt. of India.

To

All Ministries/Departments concerned with public sector undertakings.

Copy forwarded to:—

1. All the Industries Sections concerned with public sector undertakings.

2. Ministry of Finance (Bureau of Public Enterprises), New Delhi.

Sd/- K. L. TULI,

Under Secretary to the Govt. of India.

APPENDIX VI

(Vide reply to Recommendation at Sr. No. 14)

P. GOVINDAN NAIR

D.O. No. 3213-S (IPF) /67

FINANCE SECRETARY

(INSURANCE & PLAN FINANCE)

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

New Delhi, the 5th August 1967.

The Deputy Prime Minister has written to your Minister separately (copy enclosed) on the planning of industrial and mineral projects in the public sector, emphasising the need for the preparation of adequate feasibility Studies. *Muttatis Mutandis* his observations also apply to Central projects in the field of power and Transport.

2. My limited purpose in addressing you is to set out the mechanics of consultation with the Finance Ministry up to the stage of issue of a detailed financial sanction for the project. It has been the case that Administrative Ministries have had to secure clearances from different Departments of the Ministry of Finance before a project was approved. Apart from the time taken in separate references, this procedure for seeking clearances leads to avoidable duplication of effort and sometimes results in conflicting advice being tendered.

3. It is proposed to rationalise the arrangements for seeking the approval of the Ministry of Finance to new projects (including major expansion schemes) so that there will be only one focal point in the Finance Ministry for reference at each stage of a project. Broadly, the stages prior to plant construction are:

- (1) Project formulation on the basis of the Five Year Plan.
- (2) Preparation of a preliminary project report or feasibility study.
- (3) Preparation of a detailed project report.

4. The first stage—of planning or project formulation—begins usually with sectoral studies for the Five Year Plan, and should end

with the commissioning of one or more Feasibility Studies. Besides the Administrative Ministry (which should take the initiative), the Planning Commission and the Finance Ministry are also vitally concerned with this initial stage of consideration, when the need for additional investment in the public sector has to be established, and the scope for such investment is determined in broad terms. The Departments of Expenditure and Economic Affairs in the Finance Ministry both being concerned with project formulation, it has been arranged that a joint unit will be functioning for this purpose in the Ministry, under my charge, consisting of one Joint Secretary in Economic Affairs (at present Shri Ajit Mazoomdar) and the Director (Capital Budget) in the Department of Expenditure (at present Shri R. Ganapati). I would request that Shri Ajit Mazoomdar, or in his absence Shri Ganapati, may be associated as a representative of the Finance Ministry, in all discussions, preliminary studies etc., undertaken by your Ministry at the planning stage of new projects. When it is decided that a Feasibility Study is to be commissioned, the approval of your Financial Adviser has to be sought for the expenditure involved.

5. When the Preliminary Project Report or Feasibility Study has been prepared, on the lines indicated in the Planning Commission's manual entitled "Feasibility Studies for Public Sector Project", it should be referred (enclosing at least 4 copies) to your Financial Adviser. From the stage onwards, the Financial Adviser will be the focal point for all references and he will be responsible for arranging such consultations as may be necessary with his colleagues in other parts of the Finance Ministry, including the Bureau of Public Enterprises and the Department of Economic Affairs. The Financial Adviser will then indicate to you the considered view of the Finance Ministry as a whole on the investment proposal. We shall try to set a time limit to the consideration of Feasibility Studies in this Ministry.

6. If at this stage particular sources of external credit have to be explored for financing the project in question, the Department of Economic Affairs, in the appropriate division, should be consulted keeping the Financial Adviser informed.

7. When a Feasibility Study has been accepted, and the investment approved in principle, the further action which will follow will be—

- (i) Commissioning of a Detailed Report or preparation of detailed engineering designs and cost estimates.
- (ii) Sanction to preliminary expenditure.
- (iii) Initial budget provision.

Your Financial Adviser will continue to be the sole point of reference at the stages following the investment approval. It will be for him to consult the Bureau or any other agency, while scrutinising the DPR of detailed cost estimates. The Financial Adviser will be responsible for conveying to you the views of this Ministry as a whole so far as the detailed estimates are concerned.

8. I hope this procedure will meet with your approval, and that you will ensure that the stages are understood by your officers.

**Yours sincerely,
Sd/- P. GOVINDAN NAIR**

APPENDIX VII

*(Replies of Government to Recommendations at Sls. No. 44, 45, 49 and 51 received after the adoption of the Report by the Committee)
Note showing the action taken or proposed to be taken on the recommendations of the Committee on Public Undertakings.*

Recommendation (Serial No. 44)

The Committee noticed that in their anxiety to have adequate spares, components and imported raw materials, the projects, often, at the very initial stages acquired heavy inventories, thus blocking up large amount of valuable foreign exchange. Often these heavy inventories were also unbalanced in the sense that there was too much of some items and too little of others. Such unbalanced inventories caused loss of production through inadequacy of particular item of raw material and spares and components, although there was no overall inadequacy. It has been explained by Government that there were difficulties in restricting the inventories to the required quantity because norms for the inventories have not been laid down. In support of this it was argued that the very fact that some undertakings do have large stocks illustrate the difficulties in establishing norms. The Committee are not convinced by these arguments. In the opinion of the Committee it should be possible though not with absolute accuracy to determine the requirements of raw materials, spares, construction material and equipment etc., at the initial stages of the project, just as it is now possible to determine the requirements of raw materials etc., of operating units in terms of months of consumption. The Committee would therefore suggest that norms in regard to inventories should be worked out and after working out such norms, stricter control on the acquisition of such materials should be exercised in future. (Paras 141—143).

Reply of Government

These questions were gone into in detail in the context of the recommendations made by the Committee on Public Undertakings in their 40th Report (3rd L.S.) on "Materials Management in Public Undertakings". The Government's replies to the recommendations at Serial Nos. 1, 4, 5, 6, 50 and 51 therein will be particularly relevant. As indicated in these replies, attention of the Public Enterprises has been drawn to the importance of keeping the level of inventories as low as possible. The enterprises have also been advised to ensure

that requirements of stores and spares are properly planned by the Public Enterprises, so that it could be ensured that the existing stocks and those under orders are invariably taken into account while resorting to fresh purchases. Further, systems of regular periodical reviews of all items in stocks are to be introduced by the enterprises to locate non-moving surplus stores and to dispose of the same early. Similarly, the enterprises have been advised to give due emphasis to the fixation of material consumption norms and critically investigate instances of over-consumption. Material consumption and material consumption norms are also to be reviewed periodically. In this connection, Bureau of Public Enterprises, Office Memoranda No. 9(28)/FI/67-Cir-Adv(P)-1, No. 9(28)/FI/67/Cir-Adv(P)-2 and No. 9(28)/FI/67-Cir-Adv(P)-22, dated 16-10-1967 (copies enclosed) refer.

In addition, a detailed study of the levels of inventories and system of inventory planning and control in selected Public Enterprises has been undertaken by a Special Committee set up in the Bureau of Public Enterprises, consisting of representatives both from the Public and the Private Sector. The Committee has already completed the study of a few undertakings where it has been possible to suggest specific measures for reducing the inventory level. Such detailed examination is being continued so as to cover all the major enterprises.

No. 9 (28) | FI | 67 | Cir | Adv (P) -1

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

North Block, New Delhi.

October 11th 1967

OFFICE MEMORANDUM

SUBJECT:—*Inventories (Conclusions|Recommendations S. Nos. 1 & 2 in Appendix III of 40th Report of the Comm'ttee on Public Undertakings)*

The Committee on Public Undertakings have observed that even granting that the inventories in any concern vary according to the nature of the undertaking and the type of materials required and thus the average inventory holding in the private sector companies may not be quite comparable with those in the public sector undertakings, the holding of inventory to the extent of 15 months value of production can by no means be justified. It needs hardly any emphasis that the reduction of inventories can help in releasing the capital so scarce in the country and in conserving valuable foreign exchange. Any avoidable locking up of capital in inventories deprives some other essential project or programme of finances. Further, inventories also cost a good deal by way of interest charges, cost of storage and handling, deterioration and obsolescence costs. Even on a conservative estimate the cost of carrying inventory is estimated at a minimum of 15 per. cent per annum. To the extent that there are excessive inventories, the cost of production as well as the profitability of a concern is affected. The Committee has further stated that if the inventories of industrial running concern could be reduced to 6 months production—which would by no means be difficult—it would mean release of capital to sufficient extent which could be gainfully employed either in the undertaking or to finance some other essential project or programme.

2. The Ministry of Industry, etc., are requested to advise the Public Undertakings that every effort should be made towards materials management and the application of various scientific techniques to control inventories and also draw their attention to the importance of keeping the level of inventories as low as possible. The Public Sector undertaking concerned be also requested to send a report before 31-3-68 on the progress of action taken in respect

of the recommendations, to the administrative Ministry, with a copy to the Bureau of Public Enterprises.

Sd/- P. GOVINDAN NAIR,
Secretary to the Govt. of India &
Director General, Bureau of Public
Enterprises.

To

All Ministries/Departments of Government of India.

COPY

No. 9(28)/FI/67/Cir.Adv(P)-2

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES

North Block, New Delhi

October 11th 1967.

OFFICE MEMORANDUM

SUBJECT:—Heavy stock of stores and spares in the Public Undertakings—(Conclusions/Recommendations S. Nos. 4, 5 & 6 in Appendix III of 40th Report of the Committee on Public Undertakings.)

It has been suggested by the Committee on Public Undertakings that the Public Sector undertakings should review the system prevalent in their concerns about the planning and purchasing of the stores and spares and also review the items in stock to ensure that the undertakings are not burdened with excessive stock.

The Ministry of Industry, etc. are requested to advise the Public Undertakings to ensure that requirements of stores and spares are properly planned by them so that the existing stocks and those under orders should be invariably taken into account while resorting to fresh purchases and also systems of regular periodic reviews of all items in stock should be introduced to locate non-moving surplus stores and to dispose of such stores early. The Public Sector undertaking concerned be also requested to send a report before 31-3-68 on the progress of action taken in respect of the recommendations, to the administrative Ministry, with a copy to the Bureau of Public Enterprises.

Sd/- P. GOVINDAN NAIR,
Secretary to the Govt. of India &
Director General, Bureau of Public
Enterprises.

To

All Ministries/Departments of Government of India.

No. 9 (28)/FI/67-Cir/Adv (P) -22.

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
BUREAU OF PUBLIC ENTERPRISES

New Delhi, the 16th October, 1967.

OFFICE MEMORANDUM

SUBJECT:—*Fixation of Material Consumption Norms. (Conclusions| Recommendations) S. Nos. 50 & 51 in Appendix III of the 40th Report of the Committee on Public Undertakings.*

The Committee on Public Undertakings have observed that the norms of consumption for various materials are fixed on a scientific basis and the actual consumption checked periodically with the norms to locate the cases of excess consumption.

2. The Ministry of Industry, etc., are requested to advise the Public Undertakings to give due emphasis to the fixation of material consumption norms and critically investigate instances of over-consumption. Material consumption and material consumption norms should be reviewed periodically. The Public Sector Undertakings concerned be also requested to send a report before 31st March, 1968 on the progress of action taken in respect of the recommendations, to the administrative Ministry, with a copy to the Bureau of Public Enterprises.

Sd/- P. GOVINDAN NAIR.

*Secretary to the Government of India and
Director General, Bureau of Public Enterprises.*

To

All Ministries/Deptts. of the Govt. of India.

Recommendation (Serial No. 45)

The Committee notice from the Report of the Company Auditors of HSL for the year 1963-64 that in the case of the Durgapur Steel Plant construction material and equipment of the value of Rs. 71 lakhs was lying in stock. Similar stocks may be found in other undertakings. The Committee would suggest that the possibility of utilizing it for expansion of the units or of lending it to other

public undertakings should be examined. The Committee would further suggest that the position of inventories in projects under construction should be included in the 'Annual Report on the working of Industrial and Commercial Undertakings' published by the Ministry of Finance, which at present confines itself only to inventories of running concerns. (Para 144).

Reply of Government

The suggestion made for incorporating the position of inventories of the projects under construction also in the "Annual Report of the working of Industrial and Commercial Undertakings of the Central Government" brought out by the Ministry of Finance has been considered. In this regard it may be mentioned that the over-all position of inventories held by public sector undertakings during construction is shown in the consolidated Balance-Sheet brought out in the said Annual Report. In addition the figures of inventory holdings of individual undertakings under construction will also be given as an Appendix to the Report for the year commencing from 1968-69, after collecting all the necessary data. It may, however, be mentioned that as the inventories during construction mainly relate to Capital Works-in-progress, analysis on the basis of inventory turn-over relationship etc., will not be realistic.

As regards improved utilisation of construction material and equipment, referred to in the recommendation, it may be mentioned that arrangements have since been introduced for ensuring that the available equipments are put to maximum use, thereby expediting execution of works and simultaneously, keeping down the costs of operation. For this purpose the enterprises had been asked to submit suitable returns to the Adviser (Construction), Bureau of Public Enterprises, who could assist in the procurement or disposal of construction machinery and equipment. This Ministry's O.M. No. 322-ADV(C)/Cir-7/66, dated the 15th November, 1966, refers. The information furnished by the enterprises is published in the monthly journal "Lok Udyog" brought out by the Bureau. This will help in quicker disposal of surplus equipment and also give wider publicity to the equipments required by or lying surplus with the enterprises. This Ministry's O.M. No. 785-ADV(C)/Cir-24/76, dated the 1st September, 1967, refers. For pooling the use of construction equipment, the enterprises are also to intimate, in the prescribed proforma, to Adviser (Construction) about equipment procured from time to time whenever the value exceeds Rs. 10,000 in each case. This Ministry's O.M. No. 532-Adv.(C)/Cir-20/67, dated the 17th Ju'y, 1967 refers.

Note showing the action taken or proposed to be taken on the recommendations of the Committee on Public Undertakings.

Recommendation (Serial No. 49)

The Committee also consider that the projects set up with higher proportion of foreign exchange should be under an obligation to earn foreign exchange for the country when they go into production. Therefore, while deciding on the feasibility of the project the period within which the foreign exchange expenditure on the capital cost and the recurring cost (spares, raw materials etc.) of the project will be redeemed by the reduction in imports and earnings from exports should invariably be considered. The representative of the Ministry of Finance has agreed with the suggestion. (Para 157).

Reply of Government

Even now while considering any investment proposal, the various factors relating to the profitability of the project such as firm demand estimates, economic location, plant size and product-mix, adequate appreciation of the importance of estimated outlays and incomes over time, detailed analysis of the benefits and costs of project to the economy as a whole, etc., are taken into account. The foreign exchange saving that is likely to materialise by setting up the project, as also the foreign exchange earnings, which may accrue therefrom, are also aspects which receive detailed examination before accepting any investment proposal. The need for preparation of proper feasibility studies, as indicated in the Manual issued by the Planning Commission in May, 1966, has been emphasised in a letter addressed by Deputy Prime Minister in August, 1967, to all Ministers concerned with public sector projects. The main points to be covered in such feasibility studies have been indicated therein as:

- (i) Demand study;
- (ii) Technical feasibility;
- (iii) Location;
- (iv) Project estimates (capital cost);
- (v) Profitability and Cash flow analysis; and
- (vi) Cost benefit analysis.

In analysing the cost benefits to the national economy, the studies are to cover *inter alia* savings and earnings in foreign exchange.

It may be mentioned that it has been recently emphasised to the Ministries/Departments concerned with Public Enterprises *vide*

Government's decision on Recommendation No. 18 of the A.R.C. in their Report on "Public Sector Undertakings", that such feasibility studies should be prepared for all projects.

Note showing the action taken or proposed to be taken on the recommendation of the Committee on Public Undertakings.

Recommendation (Serial No. 51)

The Committee observe that barring a few instances where the debt is slightly more than the equity capital, in all other cases, the equity was more than the debt. While appreciating that in capital intensive plants, it might be necessary to have higher proportion of equity, the Committee do not feel that the present ratio of 50 : 50 between equity and loan is conducive to bringing about cost-consciousness in the management of the public undertakings. Unlike a private enterprise there is no compulsion in the public undertakings to declare dividends on the equity capital. A larger proportion of equity (and lower proportion of debt) can also enable the management of public undertakings to artificially show lower cost of production and hence lower prices. But if the loan capital is more, the management is bound to be vigilant because it has to pay interest on the loan. The Committee would therefore recommend that the present equity-debt ratio which was fixed in 1960 should be reviewed with a view to raising the proportion of debt. In the opinion of the Committee a ratio of 1 : 2 could be safely adopted, as it was also the ratio obtaining in industry generally. The representatives of the Ministries agreed with this view. (Para 162—165).

Reply of Government

The question of equity-debt ratio for financing the projects of Public Enterprises were recently gone into in detail in the context of the recommendations of the Administrative Reforms Commission in their Report on "Public Sector Undertakings", and also the observations of the Committee on Public Undertakings in their 15th Report (Fourth Lok Sabha) on "Financial Management in Public Undertakings". The Committee on Public Undertakings at Rec. No. 26 in the Report referred to above observed as follows:—

"There is thus a marked divergence of opinion between the undertakings and the Ministries in regard to equity debt

ratio. After considering the replies given by all the undertakings and the evidence given before them, the Committee are inclined to think that there cannot be one common ratio applicable to all the undertakings. Moreover, for the same undertaking also one ratio cannot be made applicable for all times. The Committee, therefore, recommend that rigidity may be avoided in applying the ratio to all public undertakings. If some undertakings make out a strong case for altering the ratio, Government should give it due consideration. The suggestion that the first half of total investment should be in the form of equity and the other half might be in the form of loan also merits consideration."

Government's reply to this recommendation was:

"The Committee's observations on equity debt ratio have been noted. The undertakings have been advised that there is no rigidity about the equity debt ratio of 1 : 1. Each case will be decided on its merits. (See Cir. No. 46/Adv. F/BPE/68/10, dated 12th September, 1968).

The suggestion that the first half of total investment may be in the form of equity and the other in the form of loan will be kept in view at the time of release of funds to the undertakings."

As stated in the above reply, it has already been decided that there should be no rigidity about the equity-debt ratio as 1 : 1. A copy of this Ministry's O.M. No. 46/Adv.F./BPE/68/10, dated the 12th September, 1968 is appended below.

No. 46/Adv.-F/BPE/68/10

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

BUREAU OF PUBLIC ENTERPRISES)

New Delhi, the 12th September, 1968.

OFFICE MEMORANDUM

**SUBJECT:—15th Report of the Committee on Public Undertakings on
Financial Management—Equity debt ratio.**

The question of equity debt ratio for financing the projects in public sector undertakings has been engaging the attention of the Government. In circular No. 9(28)/P.II/61, dated 13th June, 1961, the Ministries concerned with public sector undertakings were advised that unless there were exceptional reasons to the contrary the equity debt ratio should be 1:1. Since then this matter has been gone into by the Committee on Public Undertakings in their 15th Report on Financial Management in public undertakings. They have recommended that rigidity may be avoided in applying the ratio of 1:1 to all public undertakings. If the undertakings made out a strong case of a different equity debt ratio, due consideration will be given on merits. Since the equity debt ratio has a direct bearing on the profitability, the assumptions made in this regard in financing the project should be clearly indicated in the feasibility study reports and detailed project reports together with the reasons for such assumptions so that at the time of examining the feasibility report, this question may be also gone into and necessary decisions taken.

Sd/- P. GOVINDAN NAIR,

*Secretary to the Government of India and
Director General, Bureau of Public Enterprises.*

To

All Ministries/Departments to the Government of India.
Copy to all Financial Advisers.

APPENDIX VIII

(*Vide* para 5 of Introduction)

Analysis of action taken by Government on the recommendations contained in the 13th Report of the Committee on Public undertakings (Third Lok Sabha)

I.	Total number of recommendations made	68
II.	Recommendations that have been accepted by Government (<i>vide</i> recommendations at Serial Nos. 1, 3, 4, 5, 6, 7, 8, 9, 11, 12, 13, 14, 15, 17, 60):	
	Number	15
	Percentage to total	22%
III.	Recommendations which the Committee do not desire to pursue in view of Government's reply (<i>vide</i> recommendations at Serial Nos. 2, 10, 16, 18):	
	Number	4
	Percentage to total	6%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee	Nil
V.	Recommendations in respect of which final replies of Government are still awaited (<i>vide</i> recommendations at Serial Nos. 10 to 59 and 61 to 68) :	
	Number	49
	Percentage to total	72%

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
	DELHI		33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68
24.	Jain Book Agency, Connaught Place, New Delhi.	11	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
25.	Sat Narian & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9	36.	Hind Book House, 82, Janpath, New Delhi.	95
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11	37.	Bookwell, 4, Sant Naran-kari Colony, Kingsway Camp, Delhi-9	96
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15		MANIPUR	
29.	The English Book Store, 7-L, Connaught Circus, New Delhi.	20	38.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annexe, Imphal.	77
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23		AGENTS IN FOREIGN COUNTRIES	
31.	Bahree Brothers, 188, Lajpatrai Market, Delhi-6.	27	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON—W.C.—2.	99
32.	Jayana Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi.	66			

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