

ESTIMATES COMMITTEE
(1969-70)

(FOURTH LOK SABHA)

HUNDRED AND TWENTY-FIRST REPORT

MINISTRY OF SUPPLY

Directorate General of Supplies & Disposals

(Supplies Wing)



LOK SABHA SECRETARIAT
NEW DELHI

April, 1970/Vaisakha, 1892 (Saka)

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CORRIGENDA

TO

Hundred and Twenty-first Report of Estimates Committee (Fourth Lok Sabha) on the Ministry of Supply — Directorate General of Supplies and Disposals (Supplies Wing).

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(1969-70)

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* Elected w.e.f. 22-12-1969 since Shri G. G. Swell resigned.

INTRODUCTION

I, the Chairman, Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Hundred and twenty-first Report on the Ministry of Supply—Directorate General of Supplies and Disposals (Supplies Wing).

2. The Committee took evidence of the representatives of the erstwhile Ministry of Foreign Trade and Supply, Department of Supply, (now Ministry of Supply) at their sittings held on the 30th October and 1st November, 1969. The Committee wish to express their thanks to the Secretary and Joint Secretary, Ministry of Supply, Director General of Supplies and Disposals, and other Officers of the Ministry of Supply for placing before them the material and information they wanted in connection with the examination of the estimates.

3. They also wish to express their thanks to Shri H. P. Nanda, representative of the Federation of Indian Chambers of Commerce and Industry, New Delhi, and Shri G. B. Newalkar, representative of the Federation of Associations of Small Industries of India, New Delhi for giving evidence and making valuable suggestions to the Committee on the 17th and 18th July, 1969, respectively. The Committee also wish to thank other non-official organisations who have furnished memoranda to the Committee.

4. The Report was considered and adopted by the Committee on the 3rd & 4th April, 1970.

5. A summary of recommendations/conclusions contained in the Report is appended (Appendix IX).

6. A statement showing the analysis of the recommendations contained in the Report is also appended (Appendix X).

NEW DELHI;
April 14, 1970.

Chaitra 24, 1892 (Saka).

M. THIRUMALA RAO,
Chairman,

Estimates Committee.

CHAPTER I

INTRODUCTORY

A. General: Broad Functions

1.1. The Ministry of Supply is responsible for the procurement and purchase of supplies required by the indenting Departments of the Government of India including the Defence organisations. It is also responsible for the disposal of stores declared surplus by various Government departments. The following attached offices and organisations form part of this Ministry:—

- (a) Directorate General of Supplies and Disposals, New Delhi with regional offices at Bombay, Calcutta, Kanpur and Madras. This office is responsible for purchases and disposals within India and undertakes Inspection work;
- (b) The India Supply Mission, London. This Mission looks after the purchases made in the United Kingdom and Western Europe;
- (c) The India Supply Mission, Washington. This Mission arranges purchases in North America;
- (d) Chief Accounts Officer, India Supply Mission, Washington. This organisation acts as the accounting authority in respect of expenditure incurred and payments made by the D.G., L.S.M., Washington.
- (e) The National Test House, Alipore, Calcutta, with a Branch Test House at Bombay. This organisation arranges to test materials purchased, and issues test certificates; and
- (f) Office of the Chief Pay & Accounts Officer, New Delhi, with regional offices at Bombay, Calcutta and Madras. This Office acts as the accounting authority in respect of expenditure incurred and payments made by the Department.

1.2. The Directorate General of Supplies and Disposals constitutes the Central Purchasing Organisation of Government of India. Bulk of the requirements of all the Ministries and Departments of the Central Government are handled by this Organisation. Besides, the services of this organisation are also utilised by the State Governments, Public Sector Enterprises, Quasi-Public Bodies, etc. whenever necessary. According to the existing instructions, purchase of stores by the Central Government Ministries/Departments exceeding Rs. 25,000 is required to be processed through the D.G.S. & D. The indenting Departments have the discretion

to approach the D.G.S. & D. for procurement of specialised and complicated equipment even where the value is less than Rs. 25,000. As this Organisation is charged with the responsibility of maintaining supply lines in the country both in the times of peace and war, its importance can hardly be over-emphasised. With the progress of implementation of the various plan projects the quantum of purchases made by the D.G.S. & D. has been increasing steadily.

B. Historical Background

(i) *Genesis of the Organisation:*

1.3. Ever since the Organisation came into being, it has undergone tremendous changes, both in character and dimensions. To trace out the history of this organisation one would have to go back to the period prior to the First World War. As far back as 1860, the India Stores Department was established in London for purchases of imported stores. With the outbreak of First World War, the then existing Indian industries were strained to a great extent and the Government of India had to think in terms of laying down an industrial policy for the country. Consequently, an Industrial Commission was appointed in 1916. That Commission while suggesting that the Government should play an active part in the industrial development of the country, also recommended the creation of an Organisation for the purchase and inspection of Government stores in India. While the Industrial Commission was busy conducting its investigations, the Commander-in-Chief with a view to prosecuting the war efforts and to harnessing more Indian sources of supplies for the purpose, set up on 1st April, 1917, the Indian Munitions Board as a Department of the Government of India under the immediate charge of the Member for the Army in Viceroy's Executive Council.

1.4. In May, 1918, the Army Headquarters created a Contracts Directorate for the procurement of general stores required by the Army. Civilian demands, however, continued to be purchased departmentally for a few years more. The recommendations of the Indian Industrial Commission led to the appointment of a Stores Purchase Committee in the year 1919. This Committee recommended the establishment of an expert purchasing agency equipped with facilities for knowing the manufacturing sources throughout the country, able to purchase efficiently and competent to carry out such inspections as might be necessary. The main work of the Indian Munitions Board ended with the Armistice. Thereupon, an expert purchasing agency with the name of 'India Stores Department' took birth in January, 1922. This Department was estab-

lished at Delhi under the Department of Industry. This Department from time to time was made increasingly responsible for purchases for the Government Civilian Departments, while the Contracts Directorate effected purchases for the Army except in regard to a few common user items which were transferred to the India Stores Department. With the setting up of India Stores Department at Delhi, the Organisation of D.G.I.S.D., London was made a branch of the Delhi office working under the High Commissioner for securing of such stores as could not be purchased in India. Besides, the Provincial Governments were also advised to utilise the services of this Department. Different bodies as company managed railways, port trusts municipalities were also free to take the benefit of the services of the India Stores Department.

(ii) *India Stores Department*

1.5. In the earlier years, the clientele of the India Stores Department was quite limited and the volume of purchase was also small. In the year 1922-23, the total purchases were of the order of Rs. 165 lakhs which rose to Rs. 267 lakhs in 1925-26 and Rs. 429 lakhs in 1930-31. These 9 years marked a gradual transfer of responsibility for purchase of several stores from the Indenting Departments to the Central Purchase Organisation. The Army authorised the India Stores Department to purchase on its behalf textile goods as well as plant and machinery and several other items required by the Military Engineering Services. Likewise the Railway Board asked the State-managed Railways to arrange procurement of specified classes of stores through the Central Purchase Organisation and also requested the company-managed railways to do so. By then, the other Civilian Departments of the Central Government were also drawing more and more on the India Stores Department for their requirements.

(iii) *Creation of Department of Supply*

1.6. The two purchasing agencies viz. the India Stores Department under the Department of Industry and the Contracts Directorate under the Department of Defence, were functioning independently. The clouds of the Second World War looming large on the horizon led the Government of India to take a decision with regard to the setting up of a full-fledged Department of Supply to look after the heavy purchase of war requirements, including the indents from U.K. Government and Governments of other allied countries. The Contracts Directorate and the India Stores Department—both the purchasing agencies—were placed under the charge

of a newly created Department of Supply. Meanwhile, the Government of India also set up a War Supply Board to ensure that supplies of all kinds of war stores were available with the utmost speed and to coordinate the activities of all Departments of the Government of India and the commercial firms or organisations to that end.

1.7. With these developments in the year 1940 the India Stores Department (and also Contracts Directorate) was split up into two units, one unit was attached to the newly formed Directorate of Munitions Production at Calcutta for arranging purchases for manufacture of engineering stores and the other to the Directorate General of Supplies at New Delhi for purchase of all other stores. In addition to the purchase and inspection Units, these two organisations were supported by the Planning Directorates which were set up to plan production and develop capacity in full liaison with trade and industry. After July, 1941, the Contracts Directorate and the India Stores Department ceased to exist as separate entities; their functions were integrated and brought under the charge of two Chief Controllers of Purchase—one at Calcutta and the other at Delhi. At about this time various controls and priorities began to be introduced and additional items of stores came to be transferred to the Central Purchase Organisation for procurement. The purchase activities expanded manifold and the establishment also increased in dimensions.

(iv) *Creation of D.G.D.*

1.8. In view of the need for more effective and expeditious utilisation and disposal of Military salvage as well as salvage and surplus stores arising in other Departments of Government of India during the War, a Directorate General of Salvage and Disposal was created in November, 1943 and attached to the Directorate General of Supplies. Earlier, disposals were handled by a Section in each of the two Purchase Units at Delhi and Calcutta when the value of the disposal was small.

(v) *India Supply Mission in U.S.A.*

1.9. As the war began to extend, India with her vast resources became the main reservoir of supplies for the entire war zone extending from the Mediterranean to the Pacific. In spite of her natural resources, India's actual production of many of the war supplies was largely conditioned by her ability to secure certain essential material like plant, machinery etc. from abroad. The War made supplies of these materials difficult from European and other Eastern Group countries. America, with her vast natural and industrial

resources, was in a position to supply the required material for the successful prosecution of war. This situation led the Government of India to a decision for having their own agency in the U.S.A. for obtaining vital supplies and consequently the agency took birth as India Purchasing Mission in July, 1941 with Headquarters at New York. With wider scope of its duties, the name of the Mission was changed in 1942 to the India Supply Mission and its Headquarters shifted to Washington. This Mission had to work in close consultation with the British Purchasing Mission and was considered as a Liaison Office between the Supply Department, USA Government and the American Trade.

(vi) *Post-war Changes*

1.10. With the cessation of hostilities in 1945, purchases were considerably reduced, necessitating reduction in the organisation. A new Department of Industries and Supplies was formed integrating the Departments of 'Supply' and 'Industries and Civil Supplies'. In 1946, the two main offices of the Directorate General of Munitions Production, Calcutta, and the Directorate General of Supply, Delhi, were merged into one unit at Delhi; the Planning Directorates were converted into a Development Wing; and the Civilian Inspection Organisation was brought back-all on a considerably reduced scale-and the Department was restyled as the 'Directorate General of Industries and Supplies.' On the formation of separate Ministries for 'Commerce and Industry' and 'Works, Production, and Supply' in February, 1951, the Development Wing was segregated and attached to the former and the 'Supply' and 'Inspection' Wings to the latter. At the same time, the Disposals organisation lost its entity and came under the control of the then Director General of Supply who was redesignated as the 'Director General of Supplies and Disposals.' As a result of the reorganisation of the Ministries in May, 1952, the administrative control of the Directorate General of Supplies and Disposals was transferred to the Ministry of Works, Housing and Supply. The portion of the office of the Textile Commissioner, Bombay, which dealt with purchase of cotton textiles was also merged in the Directorate General of Supplies and Disposals in November, 1953.

(vii) *Stores Purchase Committee*

1.11. After Independence, the duties and responsibilities of the Government towards the people had considerably changed. Ever since the setting up of the Central Purchase Organisation and its development from time to time, the main functions had been the procurement of stores for the prosecution of two great Wars. The

other important function which the Central Purchase Organisation was also expected to perform viz. the development of industry had become a secondary consideration. There had been no comprehensive review of the activities of the Central Purchase Organisation since long and Government felt the necessity of considering whether the existing organisations for, and the method adopted in, purchasing stores in India and abroad are adequate to deal with the range of variety of stores which have to be purchased, having regard to the expanding activities of the modern democratic State. The volume, value, variety and complexity of stores which had to be purchased had undergone much change and it was essential that the Purchase Organisation should be able to secure the requirements of Government without undue delay and with due regard to development of Indian industries, efficiency and economy. It was essential that there should be careful planning of requirements by users and of purchase, inspection and payments to contractors for stores supplied.

1.12. Accordingly, a Stores Purchase Committee was set up *vide* Resolution dated 11th March, 1953 under the chairmanship of late Shri S. N. Buragohain, then Deputy Minister in the Ministry of Works, Housing and Supply.

1.13. The Stores Purchase Committee submitted their final report in March, 1955 making in all 156 recommendations. Their recommendations were all embracing, covering almost all the fields of the organisation.

(viii) *Vidyalankar Study Team*

1.14. In July, 1964 the then Ministry of Industry and Supply (Department of Supply and Technical Development) appointed a Study Team under the chairmanship of Shri A. N. Vidyalankar, then Member of Parliament to examine the working of the D.G.S. and D., the terms of reference of the Study Team being as follows:—

“The team will examine the organization, structure, methods of work and procedure of the Directorate General of Supplies and Disposals, particularly with a view to locating the points at which delays occur, where the bottlenecks exist and where administrative failures are possible and would suggest measures for improvement so that opportunities for corruption are eliminated.”

1.15. After having examined the working of the Organization, from all angles, the Study Team submitted their interim report in December, 1964 and the final report in November, 1965, making in all 188 recommendations. The recommendations made by the Study

Team were all embracing, covering the organisational and procedural aspects. The report of the Study Team was considered in a series of meetings by an Empowered Committee set up by the Department of Supply under the chairmanship of Secretary of the Department and finally all the recommendations excepting 10 were accepted either in toto or with slight modifications for implementation.

1.16. The Committee note that ever since the setting up of the Central Purchase Organisation in India and its development from time to time upto 1947, the main functions of the Organisation had been the procurement of stores for the prosecution of two great Wars. The Committee also observe that the Organisation has stood the test of time and has shouldered the responsibilities cast on it in regard to the maintenance of supply lines in the country having due regard to the development of Indian industries both in times of peace and war and according to the exigencies of the situation resulting from emergencies from time to time.

CHAPTER II

A. Organisation Set-up

2.1. The Organisation is headed by the Director General assisted by six Deputy Directors General. Five Deputy Directors General are located at the Headquarters and one at Calcutta. The organisation has 4 main Wings, viz., Supplies Disposals, Inspection and Administration. Supplies Wing consists of 9 Purchase Directorates at Headquarters and 5 Regional Purchase Directorates at Calcutta, Madras, Kanpur and Bombay (2 Directorates are located at this Station). These Regional Supply Directorates also handle disposals work in their respective Regions. Disposals Wing consists of a separate Disposals Directorate at Headquarters and small Units attached to various Regional Directorates at Bombay, Madras, Calcutta, and Kanpur. Besides, there are Directorates in charge of Complaints and Public Relations, Planning and Development, Statistics, Progress, Coordination, Organisation and Methods and Shipping and Vigilance Units located at the Headquarters Office. Purchase and Disposals work is looked after by 3 Deputy Directors General at Headquarters. Administration, Vigilance, Statistics, Complaints and Public Relations are under the charge of Deputy Director General (Administration). Deputy Director General (Inspection) is in over all charge of Inspection work at Headquarters and in the Regions. There are two Directorates of Inspection at Headquarters and Regional Directorates of Inspection at Calcutta, Bombay, Madras, Jamshedpur, Burnpur and Delhi. Each Regional Directorate has a number of sub-offices at various important places within its jurisdiction. One Inspection Cell, looked after by a Director of Inspection, is also located in Japan. The Progress Directorates at Headquarters and Progress Units in the Regional Offices are also under the charge of Deputy Director General (Inspection).

2.2. The detailed set-up of the different Wings and Directorates is as follows:—

1. Supplies Wing

This Wing is the mainstay of the Organisation. At Headquarters, this Wing consists of the following nine Directorates, each under the charge of a Director of Supplies:—

- (1) Mechanical Engineering Stores Directorate.
- (2) Workshop Machine and Tools Directorate.
- (3) Railway Stores Directorate.

- (4) Electrical Stores Directorate.
- (5) Miscellaneous and Hardware Directorate.
- (6) Oil, Paints and Chemicals Directorate.
- (7) Timber, Wool and Leather Directorate.
- (8) Vehicles Directorate.
- (9) Project Directorate.

2.3. It has been stated that the distribution of items for procurement purposes among different Purchase Directorates has been made on a rational basis, ensuring the principle that homogeneous groups of items may be dealt with at one place as far as possible. Quite a large number of items, of which individual demands are generally of values less than Rs. six lakhs and sources of supply are scattered all over the country, have been decentralised for procurement by four Regional Offices of the Directorate General at Calcutta, Bombay, Madras and Kanpur. The Directorates at the Headquarters only deal with all indents of centralised items. Also all demands irrespective of the nature of the store and value thereof, which financed from foreign loans, are handled by the Purchase Directorates at the Headquarters.

2.4. The Committee feel that the distribution of items of work among different Purchase Directorates should be periodically reviewed and re-allocated where necessary, so that there may be maximum efficiency in the work of the Directorates.

(a) *Planning and development division*

2.5. It has been stated that the Central Purchase Organisation, being essentially a purchasing agency, is also conscious of the allied problems, which are very essential to make the procurement process a success. To achieve this objective, a Planning and Development Division is functioning and is responsible for the following assignments:—

- (a) Drawing up of comprehensive programme for receipt and bulking of indents for common user items for the major indentors;
- (b) Rationalisation of sizes and specifications and making of advance arrangements for raw materials for planned production upto the optimum capacity;
- (c) Examining the load and capacity of each production unit and recommend placing order so as to ensure timely delivery.

- (d) Encouraging and maximising indigenous production through standardisation and the completion of long-term contracts for stores in short supply;
- (e) To decide to what extent the prescribed specifications can be relaxed, having regard to limitations of local manufacture; and
- (f) To make systematic studies of imported stores requiring the use of imported raw materials, with a view to getting them manufactured indigenously with indigenous raw materials.

(b) *Coordination and O & M division*

2.6. The Coordination Branch under this Division deals with initiation, implementation and interpretation policy and procedure relating to purchase and inspection of stores and disposal work.

2.7. The O & M Branch functioning under this Division assists the Supplies Wing in devising effective control measures to maintain optimum efficiency and output and also to pin-point the handicaps/bottlenecks in their working/methods/procedures with a view to eliminate infructuous work and devise remedial measures for the efficient functioning of the Organisation.

(c) *Statistical Branch*

2.8. The Statistical Branch is responsible for maintaining up-to date statistics of all such items of work as require quantitative/qualitative control within the Organisation. They bring out publications, such as, 'Annual Report on the important activities of the Directorate General of Supplies and Disposals', 'Directory of Government Purchases' etc. The latter publication serves as a reference book to the industrial and trading community to form an idea of Government's normal requirements and assists them in planning their activities so as to meet the demands without delay, by stepping up production, wherever inadequate, and also to improve the quality of their wares. This Branch is now in the process of computerisation, so as to ensure both quality and speed in its functioning.

II. Inspection Wing

2.9. The Inspection Wing of the Organisation under the charge of Deputy Director General (Inspection) plays an important role in the procurement process. This Wing has been regarded as 'eyes and ears' of the Organisation. They are not only to ensure that the stores procured from the market are of the required specifications suiting the requirements of the indentors, but also to keep a constant watch on the quality control during the manufacturing process. They also

advise indentors on technical matters and on the suitability of the particular stores for their requirements. For the efficient and effective functioning of this Wing, there is a net work of Inspection Circles under the charge of suitable technical officers, scattered all over India.

III. Progress Wing

2.10. The placement of a contract on a particular firm does not essentially ensure the completion of supplies to the consignee's satisfaction automatically. A constant watch, after the placement of the contract, thus becomes inevitable. This assignment has been entrusted to the Progress Wing of the Organisation under the overall charge of a Deputy Director General. Active progressing is ensured with the help of field Officers|Inspectors located at different centres in the country. The Wing has been divided into three distinct branches. *viz.*, Defence, Railways and General. and each Branch looks after the orders placed on behalf of the indentors of respective category. Special attention is paid to the procurement of critical items which are required by the Defence indentors.

IV. Disposals Wing

2.11. Whereas on the one hand, the Central Purchase Organisation has been entrusted with the job of procurement of materials, on the other hand, it is also charged with the responsibility of dealing with surpluses available for disposal, in accordance with the policy laid down by the Government of India from time to time. The monetary limit for direct disposal by the different indentors is Rs. 10,000. The services of the Disposals Wing are also utilised by State Governments and State Undertakings for disposal of their surpluses. Disposal of confiscated goods available at various Custom Houses, Excise Collectorates all over India, has also been assigned to this Wing.

V. Public Relations

2.12. The Central Purchase Organisation is a body which has to deal with intelligent, enlightened self-conscious and vociferous sections of the public, requiring not only prompt attention but also satisfaction. In fact, efficiency of this organisation is reflected through the types of relations it has with the public. To meet this requirement, there is a Director of Complaints and Public Relations incharge of Public Relations Organisation. Complaints of serious nature are brought to the notice of this Officer for suitable remedial measures. The Assistant Director (Public Relations), under this officer, is responsible for the dissemination of information pertaining to the working of the Organisation for the benefit of the Trade. He

also guides representatives of the various organisations having dealings with this Department in regard to procedural matters.

VI. Regional Offices

2.13. To facilitate procurement of decentralised items, the Central Purchase Organisation has Regional Offices at Calcutta, Bombay, Madras and Kanpur, each under the charge of a Director (Supplies and Disposals) excepting the Regional Office at Calcutta which is headed by a Deputy Director General. Besides, there is an office of Director of Supplies (Textiles) at Bombay which functions unlike other Regional Offices, exclusively for textile items.

2.14. In addition to undertaking the procurement of stores, the Regional Offices have also been charged with the responsibility of disposal of surpluses as well as shipping and clearance work arising in their areas. Purchases of all jute and jute products, irrespective of value are arranged by the Director of Supplies and Disposals, Calcutta. Likewise, purchases of all coir and coir products, irrespective of value, are handled by the Director of Supplies and Disposals, Madras.

Attached Officers and Cells

2.15. The following Officers and Cells are also attached to the Organisation:—

(a) *Contract Officer*

He is a senior officer from the Ministry of Law functioning directly under the Director General and is responsible to advise the Supplies Directorates in regard to the settlement of all contractual matters and interpretations thereof from legal angle.

(b) *Deputy Secretary (Internal Finance)*

The Internal Finance Branch works under him to advise on all financial matters concerning the Organisation.

(c) *Legal Adviser*

Officers of the Ministry of Law advise the Directorate General in all cases involving matters of law including those relating to the arbitration proceedings and proceedings in courts of law, wherever the same arise.

(d) *Cost Accounts Branch*

It is a unit of the Ministry of Finance under the Chief Cost Accounts Officer and is required to advise the Organisation on matters of cost finding, assessment of profits and reasonableness of prices mainly in respect of such stores as depict monopolistic conditions.

(e) Liaison Cells

To facilitate proper indenting and expeditious procurements of stores indented upon the Organisation and to settle promptly by personal contact any problem arising out of an indent, the following Indenting Departments maintain their Liaison Cells—

- (i) Ministry of Railways . . . Railway Liaison Cell.
- (ii) Ministry of Communications . . . P & T Liaison Cell.
- (iii) Ministry of Defence . . . (a) Defence Services Liaison Cell for procurement.
(b) Defence Services Liaison Cell for disposals.

The National Small Industries Corporation Ltd., also maintain a Liaison Cell in order to have a close liaison with the Supplies Directorates with a view to implementing the policy of the Government of India of increasing the quantum of Government purchases from the Cottage and Small Scale Industries Sector.

(f) Purchase Advisory Council

A Purchase Advisory Council has been set up at the Centre under the chairmanship of the Minister of Supply with the members from representative bodies of trade and industry and from the main Indenting Departments; a few members from States and Parliament have also been included, where necessary; The Council advises the Government on procurement policy and procedure so as to make the Central Purchase Organisation effective and responsive to the industrial and trading community. It makes available to Government the experience of the commercial community including Cottage and Small Scale Industries.

For consideration of regional problems, four Regional Purchase Advisory Council have been constituted by the Central Purchase Advisory Council with the Director General (Supplies and Disposals) as Chairman and with the Directors of Supplies and Disposals at Calcutta for Eastern Zone, Bombay for Western Zone, Madras for Southern Zone and Director (O and M and Coordination), D.G.S. and D. Hqrs. for Northern Zone, as Secretaries.

Officer-Oriented Scheme

2.16. The Vidyalankar Study Team on the Directorate General of Supplies and Disposals had recommended the officer-oriented pattern of working in the Purchase Wing both at the Headquarters and the Regional offices. Regarding achievements realised and economies effected as a result of introduction of the Officer-oriented scheme

recommended by the Study Team, the Ministry of Supply have in a written note furnished the following information:—

“The Officer-oriented scheme as such is undoubtedly action oriented and tends to check delays at various stages. Consequent on the introduction of the officer-oriented scheme in the Purchase Wing, the base officer (viz. Assistant Director/Section Officer) is responsible for handling *ab-initio* pre-Acceptance of Tender work as well as important and complicated work during the post-Acceptance of Tender stages. The inherent drawback in the scheme, however, is that the flow of work is hampered as and when the base officer is on short leave—the unit being a small one having only 2 or 3 dealing hands. Notwithstanding the aforesaid disadvantage in this mode of working, the contracts are now placed in a comparatively shorter period of time after opening of the tenders. The figures tabulated below would also reveal that considerable improvement has been achieved in reducing the pendency of indents and finalisation cases:—

Pending position

Item of work	Prior to the Intro- duction of Officer- oriented Scheme i.e. as on 1-10-66	Period after the introduction of scheme				
		1-1-67	1-1-68	1-1-69	1-8-69	
I. Indents						
(i) Total pendency . . .	4806	4725	4405	4021	3909	
(ii) Over 3 months old . . .	1217	1244	1200	819	570	
(iii) Over 4 months old . . .	785	730	709	460	264	
(iv) Over one year . . .	1	2	16	4	..	
II. Receipts						
Total pendency	39,621	63,545	34,134	39,439	38,126	
III. Finalisation Cases						
Total pendency	4,156	6,491	3,677	2,699	2,565	

“The economy effected is Rs. 6,49,300 per year.”

2.17. The statement showing the staff position in the Purchase Wing before and after reorganisation (1-11-1966) is given at Appendix I.

2.18. The Committee agree with the recommendations of the Vidyalankar Study Team that there should be an officer-oriented Pattern of working in the Purchase Wing both at the Headquarters and the Regional Offices. They hope that as a result of the working of the scheme, delays at various levels have been cut down. As regards difficulties experienced due to absence of staff, the Committee suggest that the Ministry should devise suitable steps so that flow of work is not hampered on this account, and there is no wastage of other personnel when the base officer is on short leave.

2.19. The Committee have been informed that as a result of Vidyalankar Study Team's recommendation about reduction of staff, the saving on this account was worked out at Rs. 15 lakhs approximately, which was reduced to about Rs. 7 lakhs due to delay in re-employment of surplus staff.

2.20. Asked whether as a result of subsequent increases in staff strength the saving has been further reduced and if so, to what extent the Ministry of Supply have in a written note furnished to the Committee the following:—

"In 1967-68 saving of Rs. 7 lakhs could be realised on account of implementation of Study Team's recommendations. But the expenditure increased in 1968-69, 1969-70 and 1970-71 as indicated below:—

Pay of Officers and Establishments	
	Rs.
1967-68	85,96,500
1968-69	86,14,500
1969-70 (R.E.)	85,97,400
1970-71 (B.E.)	87,52,300

The increases are mainly due to the creation of additional posts mentioned below and due to normal increments for staff which during a year results in extra expenditure of Rs. 50,000 approximately:—

Additional Posts	
O.S.D. (Training)	1
Deputy Director (Statistics)	1

A.D. (Statistics) (Gr. I)	2
A. D. (Gr. II)	4
Machine Tabulation Officer	I
Section Officer	I
Assistants	II
U.D.Cs.	4
L.D.Cs.	II
Steno-typists	4
Junior Field Officers	4
Sr. Eco. Investigators	3
Eco. Investigators	13
Computors	14
Comptometer Operators	4
Telephone Operators	3"

2.21. The Committee note that the saving as a result of Vidyalankar Study Team's recommendation about reduction of staff in the Directorate General of Supplies and Disposals was worked out at Rs. 15 lakhs approximately. But as there was considerable delay in the re-employment of surplus staff the saving was reduced to about Rs. 7 lakhs. The Committee further observe that as a result of subsequent increases in staff strength, the saving has been further reduced.

B. Budget Estimates

2.22. The Directorate General of Supplies and Disposals is essentially a service organisation catering to the needs of various indentors seeking purchases through it. As such, the estimates in respect of D.G.S. & D. are compiled mainly in respect of Pay and Allowances pertaining to the Officers and staff sanctioned from time to time to run the organisation for the service of the indentors. The estimates include *inter alia* provision for fluctuating items of expenditure such as T.A., Overtime, Children Education Allowance, Medical Charges etc. which are obligatory in nature. The estimates also include provision for contingent items of expenditure such as Service Postage, Telephone charges, Legal Expenses, Water and Electricity charges, rent of accommodation, etc. which are essential for the efficient running of the organisation. The estimates on fluctuating

items and contingent items are based on past actuals keeping in view the need for maintaining the efficiency of the staff and also the increases/decreases in the sanctioned strength of staff.

2.23. The original estimate, the revised estimate and actual ex-subordinate offices/branches covering the period of estimates is shown in Appendix II.

2.24. The volume of work in the D.G.S. & D. and its attached and subordinate offices|branches covering the period of estimates is shown in Appendix III.

2.25. The sanctioned strength of the Directorate General of Supplies and Disposals as on 31-3-1969 is given in Appendix IV.

2.26. The actual functioning of the Purchase Wing as organised on the basis of recommendations of the Study Team, it has been stated, revealed that the yardstick of 220 *ad hoc* indents per unit per annum was unrealistic and it was absolutely necessary to scale it down in the interest of efficiency. With a view to examining the workability of the yardstick, a fresh work measurement study was carried out in the Headquarters office by the Staff Inspection Unit of the Ministry of Finance during the period October, 1967 to March, 1968. The Staff Inspection Unit recommended 92 units in total for the Purchase Wing at the Headquarters as against 88 units previously formed on the basis of Vidyalkankar Study Team Report. Similar study in respect of the regional offices is being undertaken by the Staff Inspection Unit of the Ministry of Finance. Based on the recommendations of Staff Inspection Unit and with a view to ensuring equitable distribution of the workload, the units in the Purchase Directorate at the headquarters were reallocated among them and the Directorates were reorganised with effect from 1-12-1968.

2.27. It has been further stated that the inadequacy of staff is still being felt in the Purchase Directorates and as a result of study conducted by the Internal O and M Division, proposals for additional staff have been framed and are under examination.

2.28. The Committee note that proposals for additional staff for the D.G.S. & D. Headquarters and Regional Offices are under consideration of the Staff Inspection Unit of the Ministry of Finance. The Committee hope that the proposals will be very carefully scrutinised and decisions taken promptly keeping in view the need for economy and efficiency.

C. Coordination with Indentors and Suppliers

2.29. In reply to a question regarding the periodical meetings between the technical and commercial representatives of the indentors and manufacturers suppliers to exchange views and understand the practical difficulties of both sides, the Ministry have furnished the following written note:—

“Apart from discussions on the supply position of critical items pertaining to Defence Services in the periodical meetings of the Central Purchase Advisory Council and Regional Purchase Advisory Councils, the position of supply of critical items to Defence Services is also discussed in monthly meetings which are held by the Director of Defence Progress in the Directorate General of Supplies and Disposals with the major Defence Indentors belonging to the three Services. In these meetings, coverage of indents, supply position of contracts, prospects of supply, difficulties regarding raw materials and other bottlenecks which hold up supplies, are generally discussed and thereafter, the suppliers are addressed or called in for discussions as necessary for taking remedial action to improve supplies.

In addition to the monthly meetings as aforesaid, review Committee meetings are held regularly twice a month with the representatives of Director of Ordnance Services, Air Force, Navy etc. to discuss important items in short supply. High level fortnightly meetings are also held under the chairmanship of the Director General to review super-critical items. Important decisions are taken after discussions and remedial actions are taken in improving supply position of such items.

Items pertaining to Defence where supplies have not improved in spite of discussions at various levels, are brought up for discussions at the Defence Coordination meeting by the respective indentors and suitable action is decided upon after detailed discussion at this meeting which is held under the chairmanship of the Additional Secretary, Ministry of Defence.

It has been decided to hold once a quarter the meetings of the Co-ordination Committee under the Chairmanship of the Secretary, Department of Supply where discussions are to be confined on general policy issues and mutual appreciation of difficulties of the Defence Services and

the D.G.S. & D. with a view to resolving them and ensuring expeditious coverage of indents and better rate of supply. The first meeting of the Co-ordination Committee to discuss the supply position of critical items of Defence Services was held under the chairmanship of Secretary, Department of Supply on 21st August, 1969.

RAILWAY INDENTORS—Monthly Regional meetings are held with the various Railways and bi-annual meetings are held with the Controllers of Stores of all Railways to discuss problems of common interests.

GENERAL INDENTORS—Periodical meetings to review critical items of important civil indentors like the Director General, Posts and Telegraphs, Director General Border Security Force, Central Reserve Police, Indo-Tibetan border Police, are held regularly. The discussions pertaining to P. & T. and B.S.F. are held every month."

2.30. The Committee note that the forums like the Central Purchase Advisory Panel for Engineering Industry facilitate a fruitful dialogue between the purchasers and the suppliers apart from the periodical meetings with the indentors by the DGS & D to exchange views and understand the practical difficulties. The Committee would, however, suggest that with a view to ensure close liaison and coordination between indentors, the Directorate General of Supplies and Disposals and Suppliers and to exchange views and understand the practical difficulties of various parties, the desirability of calling for the representatives of suppliers at such meetings, where necessary, may be examined.

CHAPTER III

PROCUREMENT OF STORES

3.1. The value of total purchases made by the Directorate General of Supplies and Disposals during the Third Plan period and during the last three years separately showing the break-up of indigenous and imported stores is given in the table below:—

Period	value of orders placed by DGS&D	Percentage to total				
(In crores of Rs.)						
	Total	Indigenous	Imported	Indigenous	Imported	
Third Plan Period	2166	1766	400	82	18	
(Annual Average)	(433)	(353)	(80)			
1966-67	442	369	73	83	17	
1967-68	466	352	114*	76	24*	
1968-69	445	406	39	91.2	8.8	

3.2. Separate statements showing the value of orders placed by the Directorate General of Supplies and Disposals during the three Plans and 1966-67 to 1968-69 classified according to stores, sources of manufacture and indentor-groups are given in Appendix V, VI and VII.

3.3. As already stated, the Purchase Wing is the mainstay of the Organisation. The image of the Organisation in the eyes of public can be projected by smooth and efficient functioning of the Purchase Wing.

3.4. The purchase process adopted in the Organisation is outlined briefly here. On receipt, an indent is registered in the Central Indent Section. If its specifications require checking, it is sent to the Inspection Wing which, if satisfied upon scrutiny, passes it on the Tender Enquiry Section of the Purchase Directorate concerned for

*Increase in those values is the effect of devaluation. For equitable comparison these figures should be reduced by approximately 33%.

initiating procurement action. If not satisfied, it makes a back reference to the Indenting Officer or returns the indent itself. Indents which do not require any scrutiny of specifications by the Inspection Wing are passed on directly to the Tender Enquiry Section by the Central Indent Section. The planning of the indent is done by the Director himself in consultation with the Assistant Director of Supplies concerned with the procurement of the particular store and the Assistant Director incharge of the Tender Enquiry Section, and whenever possible, items are bulked. Invitations to tender are thereupon issued through advertisement, limited tender enquiries or single tender enquiries depending on the value, nature and urgency of the requirement. Tenders above Rs. 5,000 are opened in public. Quotations are then tabulated in a comparative statement and a final decision is taken by the competent purchase officer. Rate Contract and Running Contract cases are directly initiated by the Deputy Directors. Financial advice wherever required under the rules is sought prior to deciding the tenders.

3.5. Once a contract is placed, it becomes the responsibility of the supplier to inform the Inspector concerned as soon as the stores are ready for inspection. Stores inspected and accepted are then despatched to the ultimate consignee by the supplier. Payment for the stores supplied is made direct to the supplier by the paying authority nominated in the contract. As a rule 95 per cent payment (the instalment varies for different types of contracts) is made on receipt of the proof of despatch and the balance payment on the receipt certificate by the consignee or after three months from the date of advance payment in respect of *ad hoc* contracts governed by the General Conditions of Contract. Finalising cases of payment involves amendments to the contract which have to be decided upon and issued by the Director General of Supplies and Disposals before pay-payment can be made by the Pay and Accounts Office.

3.6. Commenting on a statement which described the procedures of the DGS & D to be rather stereotyped, elaborate and time-consuming, the Ministry of Supply have in a written note furnished to the Committee stated as follows:—

“The procedures followed by the DGS & D are as laid down in the Manual issued with the approval of competent authorities. The Study Team appointed by the Government in July, 1964 under the chairmanship of Shri A. N. Vidyalankar, then Member of Parliament, has already examined the organisation, structure, methods of work and procedures of the DGS & D particularly with a view to locating the points at which delays occur and where the bottlenecks exist and made a number of recommendations most of which have already been implemented.

Further entrusted with the responsibility of buying on behalf of various indentors and the overall accountability, DGS & D have to follow prescribed procedures. Nevertheless, continuous efforts are being made to simplify and streamline the procedures so that quick and expeditious decisions can be taken."

3.7. Asked to state in what directions the procedures of the DGS & D have been simplified and what efforts have been made to achieve the desired results, the representative of the Ministry has stated during the course of evidence as follows:—

"In regard to the streamlining of rules and procedure these rules are fairly complicated there is a manual of office procedure containing various rules and procedures which have got to be observed for making purchases, conducting inspection, finalisation of cases and for making payments. These are being constantly reviewed as and when required in order to meet the changing circumstances of a developing economy. In the light of new circumstances, they have been changed and improved upon. In regard to payment, we sometimes receive complaints from the firms saying that the balance payment of 10 per cent, 5 per cent or 2 per cent, as the case may be, was held up for a long time; and our difficulty was that unless and until we get a reply from the consignee that the goods have been received in full and according to the specification, the balance payment was not released to the firm. Now in spite of reminders issued by us to the consignees they take a very long time in sending their replies to us. Recently we issued an order introducing a 'system of automatic payment' i.e. whenever no reply is received within 90 days from the consignee(s), the Pay and Accounts Officer will be authorised to release the payment. Of course, when reply is received saying that they received supplies short or in damaged condition, then the question of balance payment does not arise. If we do not receive any reply, then automatically payment is released. This will go a long way in removing one of the major complaints of the firms and we also hope that this will probably result in our getting better prices."

The representative further added,

"For each stage of making the purchase we have laid down specific time schedules in order to ensure that delays do not take place. For instance, as soon as an indent is re-

ceived, a time-limit is given as to when it would be processed in its entirety; then a time-limit is set for the formulation of purchase proposals. At each stage definite time-limits have been prescribed, check-points have been listed out so that delays in procurement are minimised to the extent possible and these are always seen by the Director General and Officers connected with the tender. Then comes the stage when tenders are received. Depending upon the nature of the item ordered, reasonable time-limits are prescribed five days for the Inspection Wing, so many days for the proposal to be formulated and so many days for the Director concerned. After the order has been placed, a lot of check is exercised by the Progress Wing to see the delivery period which as indicated is really adhered to by the firm. After delivery the question of payment arises. Finalisation is the most critical item for the supplier. We see that all the documents are there, etc."

3.8. The Committee have been informed that out of 178 recommendations of the Vidyalankar Study Team, 22 related to the National Test House leaving 156 recommendations relating to Directorate General of Supplies and Disposals. Out of these 156 recommendations, 140 have been implemented. The remaining 16 recommendations are also in the process of implementation. The Committee have been further informed that the implementation of some of these recommendations is a long-time affair and in some cases the implementation depends on certain connected issues, which are separately under consideration.

3.9. The Committee are glad to note that Government have accepted and implemented most of the recommendations of the Vidyalankar Study Team. They hope that the remaining 16 recommendations will also be implemented at an early date.

3.10. The Committee, however, note that despite all attempts some delay continues to attend on every stage of purchasing processes and procedures followed by the D.G.S. &. In view of the enormous magnitude of the purchases made by the DGS&D, which is around Rs. 450 crores annually, the Committee suggest that no pains should be spared in locating the numerous, at times complex, causes of delay and applying remedial measures.

3.11. The Committee would further urge that relentless efforts should continue to be made in future also to simplify and streamline the procedures so that action may be taken expeditiously at every stage for allaying the apprehensions of the suppliers and satisfying the demands of the indentors.

(i) Imported Stores

3.12. Purchases are made of imported stores either *ex-stock* or on forward delivery wholly or partially with or without issue of import recommendation certificate. Since the indentors may not know initially whether the DGS&D can procure the goods from stocks already available in the country or to be imported from abroad involving issue of import recommendation certificate, they place the indents with the DGS&D in the first instance, and if the latter finds that the stores are to be imported involving issue of import recommendation certificate he refers back the indent to the indenter for obtaining the foreign exchange sanction from the Ministry of Finance. In cases, however, where the indentors are certain that the purchases will have to be made from abroad, they have first to obtain the approval of the Ministry of Finance and then place the indent on the DGS&D giving particulars of the foreign exchange sanction accorded.

3.13. To facilitate procurement of stores which do not involve large amounts of foreign exchange commitment such as maintenance spares, Ministry of Finance have delegated powers to DGS&D to enter into foreign exchange commitment up to certain limits in an individual case, subject to an overall ceiling over half a year. If the indents fall within this limit, the DGS&D can allot foreign exchange expenditure out of his own ceiling. In other cases, the indents will be returned to the indenter to obtain sanction for the foreign exchange expenditure from the Ministry of Finance. If such sanction has been accorded, the DGS&D will immediately take procurement action and place an indent on the Director General, India Supply Mission, London or Washington or other organisations abroad or place the indent with importing firms in India or in a special case direct on the firms in foreign countries.

3.14. All indents for proprietary stores are placed with the prior approval of the Head of the Department or his duly authorised nominee, in consultation with the Associated Finance, where necessary and are accompanied by a Proprietary Article Certificate which should clearly state that no other make/brand will be suitable. Where the Proprietary Article Certificate does not accompany the indent, procurement action is to be held up and the indenter informed to that effect. Where the DGS&D has an alternative to suggest, he has, without holding up the coverage of the indents, try to persuade the indenter to accept the same for future indents.

(ii) Import Substitution—Development of Indigenous sources Supply

3.15. Regarding the measures taken by the DGS&D for the development of indigenous sources of supply for import substitution, the Ministry of Supply have in a written note stated as follows:—

“DGS&D as the Central Purchase Organisation has to effect purchases based on the requirements of the various indentors and specifications governing such requirements. Every effort is made to procure these requirements from indigenous sources to the extent possible and imports are resorted to only where it is inescapable, subject to indentors providing the foreign exchange and clearance being granted by the Directorate General of Technical Development.

Promotion of indigenous industry is primarily the task and responsibility of the Directorate General of Technical Development in the Department of Industrial Development. The Central Purchase Organisation is in constant touch with the developments in the various fields of industry through DGTD and the trade. However, in respect of non-sophisticated items, indentors are often advised to accept alternative items which are indigenously available and which will serve the purpose.”

3.16. It has been represented to the Committee that in respect of engineering stores, particularly spare parts required for various types of equipment already in use, there is a considerable scope for import substitution.

3.17. The Ministry have, however, stated in a written note that

“The Department of Supply are fully conscious of the scope of import substitution in the field of spare parts. But it is fraught with risks to the life of the prime machinery. Every care has, therefore, to be taken to assess the suitability of indigenously manufactured spare part before its acceptance. DGS&D in consultation with DGTD has been trying to enter into rate contracts for indigenously manufactured spare parts wherever their suitability has been established. More and more items are being considered for such rate contracts. Already we have entered into a number of rate contracts for spare parts for vehicles.”

3.18. The Committee feel that it would be useful to make a study of the specific types of spare parts purchased in bulk from abroad.

Information regarding specifications as well as uses of the spare parts should be collected and compared with similar items produced within the country.

3.19. The Committee would further suggest that the Government should also assess the requirements for individual items on a long-term basis so that the manufacturers may also be able to plan and create capacity in time for future manufacture.

3.20. While the Committee agree that every care has to be taken to assess the suitability of indigenously manufactured spare parts before they are accepted, they feel that Government should adopt a helpful attitude in providing guidance to these manufacturers to come up to the standard. The Committee suggest that suitability or otherwise of spare parts manufactured in the country should be tested in as short a time as possible. They hope that the DGTD is fully equipped with technical know-how and appropriate machinery for undertaking such tests within a reasonably short time.

3.21. The Committee would also recommend that feasibility of creating a climate for manufacturing spare parts in small industries or ancillary industries should be quickly examined by Government.

3.22. While explaining to what extent the Directorate General of Supplies and Disposals has fulfilled its role as an agency for development of industries in the country, the representative of the Ministry of Supply has stated in evidence that all the stores of different types which are purchased by the DGS&D on behalf of the different Departments have been classified into four groups. Group IV is reserved exclusively for purchases from Small Scale Industries. Then there is Group III where purchases are made both from the Small and the Large scale sectors. So far as Group III items are concerned, the DGS&D allows price preference upto 15 per cent to Small Scale Industries if they are not in a position to compete otherwise. So far as Group IV items are concerned, the list is being reviewed from time to time and the number of such items is also being increased. As a result of a recent review, the number of items on the list has been raised from 110 to 146. It is the policy of the Government to promote Small Scale Industries and to give them necessary impetus. Procurement of stores from Small Scale Industries has been dealt with in a separate chapter.

3.23. The representative of the Ministry has further stated that even in regard to the large scale sector, or the big industries, although the responsibility for the development of the industry as a whole is that of the Ministry of Industrial Development and the Directorate General of Technical Development, indirectly the

DGS&D does play a certain important role and that role consists in trying to establish new capacity or in trying to increase the existing capacity, and in trying to locate indigenous sources where goods were being imported before by promotion of the import substitution scheme. The representative has added that if in the course of the floatation of a tender it is found that a particular firm evinced some interest in the manufacture of a particular item which used to be imported before, the necessary help and assistance is given to that firm by placing trial orders, after getting the capacity of the firm investigated by the Inspectorate and then advice is also given at the time of manufacture. If the firm is in a position to supply the articles satisfactorily according to the required specifications, then bulk orders are also placed on that particular firm. So it is in this way that gradually considerable improvement has taken place in this field.

3.24. The representative of the Ministry has also stated that during the emergencies created by Chinese and Pakistani aggressions the DGS&D was in a position to indicate the sources from which stores required by Defence, Railways and P&T could be available within the shortest possible time and that the Ministry|DGS&D was complimented on that account.

3.25. It has been represented to the Committee that "the DGS&D has to assume a great deal of responsibility for nurturing the sources of supply of various types of stores, required by Government. It is in this view of things that the Federation is of the opinion that this organisation can influence the general industrial activity. The decision by the DGS&D to plan purchases sufficiently in advance may enable the industrial units to schedule their output appropriately. The expedition with which tenders are invited and orders are finalised and the types of procedures adopted for the payment of bills and finalisation contracts, registration of new firms etc. have a direct and immediate bearing on the general industrial activity. This is ever more so, since the DGS&D purchases stores worth about Rs. 450 crores per annum out of which over 80 per cent are of indigenous origin. The DGS&D purchases not only account for a large share of the market for manufactured products but also some industries may have been set up mainly for the purpose of meeting Government requirements."

3.26. The Committee note that industrial development has been promoted to some extent as a result of the role played by DGS&D. They are, however, of the opinion that there is enough scope in this field, and the Committee, therefore, suggest that the Ministry should keep the matter under constant review and in consultation

with the Ministry of Industrial Development, explore the possibilities of giving a fillip to the industrial development in the country by nurturing the indigenous sources of supply and regulating the procedure of purchases made by the DGS&D on behalf of Government Departments.

..

3.27. In this connection while making out a point that capacity once created should not be allowed to die out, the representative of the Ministry has during the course of evidence stated as follows:—

“But there has been some difficulty inasmuch as after the capacity has been developed, and this happened during the emergency created by the Chinese aggression, and within a very short period the DGS&D was able to establish this capacity; later no however, when the ordnance factories found that they had surplus capacity, they started manufacturing all those very items (armament stores), with the result that this capacity which had been established in the meantime was found to be surplus and those people after waiting for a long time without getting any orders had to close down their factories. In fact, the Metal Box of India who had developed special capacity for the manufacture of charger clips had to shut down their factory, and this work has now been taken over by the Garden Reach Workshop which is a public sector undertaking under the Government of India. Similarly in the case of the AP mines, the Rampur engineering workshop had to shut down, because no orders were being placed on them..... I am of the view that if you create capacity, then you must keep that capacity alive because there were emergencies in the past and there can be emergency in future too. If you allow that capacity to die, in that case in future emergency it would be very difficult for us to persuade the firms to start manufacture of those items again, but on the other hand the difficulty of the Department of Defence Supplies is that during the emergency they were manufacturing certain sophisticated items themselves in the ordnance factories. Once the emergency was over, then their capacity was rendered surplus and so they took over the manufacture of these stores from the sources which were supplied to us by these new firms which had developed capacity. That difficulty was also there from their side and they said that it was a question of keeping the ordnance capacity idle or giving orders to these people. But I have made a suggestion that it would be

better that at least part of the orders should be given to these firms so that we could keep the capacity alive."

3.28. The Committee feel that when a new capacity has been established particularly in promotion of the import substitution scheme, the Ministry should, in consultation with the Departments concerned, take steps to ensure that such capacity is not allowed to die out. They hope that the whole matter will be reviewed by the Ministry in consultation with the Ministry of Defence and the Ministry of Industrial Development so that a similar situation may not arise in future, and it is ensured that factories established are not closed down for want of orders of supplies. In view of the fact that the country has limited resources for planned development, the Committee suggest that concrete measures should be taken to obviate duplication of manufacturing capacity of stores which are available in adequate quantities. They further suggest that the DGS&D should ensure that supply is of guaranteed quality, delivery is assured within time and the prices are competitive.

3.29. It has been represented to the Committee by a non-official organisation that 'a tendency has been observed among some of the indentors to prefer only certain branded products manufactured by the large units, although equally good quality is available in ample quantity in the small scale sector.....Such brand consciousness has been preventing many small scale units from participating in the Government Stores Purchase Programme and as such quality and price should be the criterion for making purchases and not brands.'

3.30. In regard to this, the Ministry of Supply have in a note stated as follows:—

"The DGS&D as the Central Purchase Organisation have to procure the stores according to the requirements of the indentors. Hitherto the practice followed in the DGS&D was that if the indentor wants a particular brand of store manufactured by a particular source, he has to submit necessary Proprietary Article Certificate along with his indent duly approved by his Associated Finance. In such cases the purchases are made on the basis of a Single Tender Enquiry. A proposal is now under consideration that in case the DGS&D is in a position to offer an alternative substitute in conformity with the Indentor's Specification from an alternative source, the indentor

should be apprised of this and given a time limit to communicate his acceptance failing which the DGS&D will go ahead with the procurement of the stores from the alternative sources available. The Department of Supply have addressed the major indentors in this respect and on receipt of their replies the final Government orders will be issued."

3.31. Asked whether any instructions had been issued to the indenting officers that they need not indent for branded items of stores so that fresh supplies might be located and greater competition might be encouraged, the representative of the Ministry has, during the course of evidence, stated:

"We have issued instructions that it should be broad based so that we can get competitive offers from different firms; otherwise, the price may be more. But if the indenter insists, then in that case he has got to furnish a certificate before he sends it on to us. Therefore, the question of price is already taken into account by the Financial Adviser of the indenter before he gives clearance for making purchase of a particular manufacture.

I will give you one instance. Take vehicles. Vehicles are manufactured by Hindustan Motors, Bedford, Premier Automobiles, Dodge and Fargo. Tatas manufacture Mercedes Benz. It sometimes happens that the indenter says, 'I want only Dodge chassis and not Bedford' although the Bedford price may be lower. Now, there is genuine difficulty. Probably they have got a fleet of Dodge vehicles already operating in certain areas where they find that the performance of Dodge is better. They say also that in order to be able to get better service and also spare parts it is desirable to have the same make of vehicles for that particular fleet. Those considerations sometimes come in and they go in for an article of a particular make otherwise we discourage them. There are not many such instances."

3.32. The Committee note that if an indenter wants a particular brand of stores manufactured by a particular source, he has to submit to the DGS&D necessary Proprietary Article Certificate along with his indent duly supported by his Associated Finance.

They are, however, of the opinion that this procedure is not sufficient in itself to achieve the desired end of developing indigenous sources of supply. They hope that Government will ensure that competition is broad-based consistent with quality so as to secure maximum advantage to Government in price. The Committee recommend that a decision should be taken soon by the Government on the proposal under consideration that 'in case the DGS&D is in a position to offer an alternative substitute in conformity with the indenter's specifications from an alternative source, the indenter should be apprised of this and given a time limit to communicate his acceptance failing which the DGS&D will go ahead with the procurement of the stores from the alternative sources available.'

3.33. It has been stated in the Administration Report of the DGS&D for the year 1967-68 that 'to help promote the growth of indigenous industries price preference to deserving cases continued to be accorded during the year.' Asked to indicate the exact mechanism adopted for the purpose, the representative of the Ministry of Supply has stated during evidence:—

"As against imported stores if indigenous stores are available, then we give a price preference upto 25 per cent in some cases, otherwise 15 per cent price preference on the price of the imported goods plus customs duty is given. This is the normal practice because the indigenous producers are not in a position to compete with the foreign manufacturers. In those cases, after consultation with the Finance—each case has got to be examined—and after examination in some very exceptional cases, we give even above 25 per cent price preference. This is to encourage the growth of indigenous industry."

Regarding quality control exercised in the matter, the representative of the Ministry stated that 'the goods must conform to the specifications prescribed and that is ensured by making inspection by the Inspectorate of the DGS&D. They have got to supply quality goods.'

3.34. Asked to furnish statistics regarding price preference accorded to various indigenously produced stores over the imported items during the last three years, the Ministry have furnished the following information:—

Year	Store	A/T No. and date	Value of order placed	Quantum of Price Preference	% of price Preference
1	2	3	4	5	6
E.S. Dte 1958	Electronic Valves . . .	ES-5/214/35/106/BEL/PAOM 187 dt. 8-1-68.	Rs. 15,000	Rs. 11,310	34.3%
OPC Dte 1968-69	Paraffin Liquid Gr. I . . .	107/51/480/16.10.67/PAOB/2725 dt. 6/8/68.	82,516	37,368	83%
Project Dte 1967-68	Under Carriage spare parts for Caterpillar Equipment.	1. No. S/Proj/RC-7595/TEC/Indig/III /1881 dt. 21-3-67.	Rate Contract		35%
	Caterpillar Equipment	2. No. S/Proj/RC/7595/TPI/Indig/III/ 1782 dt. 8-3-67.	Rate Contract		
1968-59(M)	(i) Filters for Earth Moving Machinery.	(1) No. Proj/RC-7966/Indig/Filter/ APL/III/2360 dt. 18-9-68.	Rate Contract		25%
Proj Dte 1968-69	(i) Filter for Earth Moving Machinery.	(2) No. Proj/RC-7966 Ind/Filter CMG /III/2361 dated 18-9-68.	Rate Contract		
		(3) No. Proj/RC-7966/Ind/Filter/Trtz /III/2362 dated 18-9-68.	Rate Contract		25%
		(4) No. Proj/RC-7966/Ind/Filter/ Voltas/III/2363 dt. 18-9-68.	Rate Contract		
	(ii) Under Carriage spare parts for earth moving machinery.	(1) Proj/RC/8036/Ind/Under Carriage/ VL/2477 dt. 27-2-69.			
		(2) Proj/RC-8036 Ind/Under Carriage/ TPI/III/2478 dt. 27-2-69.			25%
		(3) Proj/RC/8036/Ind/Under Carriage/ GG/III/2479 dt. 27-2-69.			

3.35. The Committee note that with a view to promote the growth of indigenous industries in support of import substitution, the DGS&D have been allowing price preference in deserving cases.

3.36. When asked whether there was any coordination or coordinating agency between the DGS&D and the DGTD to promote the indigenous growth, the representative of the Ministry of Supply replied, "Not that way, but liaison is there."

3.37. Asked to state the functions and duties allotted to the Directorate General of Technical Development, the representative of the Ministry of Supply has replied, "Actually I would only say that DGTD is a part of the Ministry of Industrial Development and Company Affairs. Previously at one time, they used to be part of the Supply Department also. But now, they have gone over to the Ministry of Industrial Development."

3.38. When specifically asked to state whether there was overlapping and duplication of efforts on the part of the DGS&D and DGTD and whether there was a possibility of greater co-ordination between the two organisations, the representative of the Ministry of Supply has expressed as follows:—

"We have some coordination. There is liaison between Technical Development Department and the DGS&D. I agree with you, Sir, that there should be greater coordination."

3.39. In a written note subsequently furnished to the Committee, the Ministry of Supply have added:—

"In our opinion, some improvement is necessary and a regular procedure for an effective liaison with the Development Officers of the DGTD ought to be established particularly to carry out a systematic study of imported stores or stores requiring the use of imported raw materials with a view to getting them manufactured indigenously with the indigenously available raw materials in respect of stores for which indents are received in DGS&D."

3.40. The Committee note that formerly the Development Wing formed part of the Supply Department, and that later on it was separated and taken over by the Ministry of Industrial Development and Company Affairs. The Committee agree that in respect of stores for which indents are received in DGS&D a regular procedure for an effective liaison with the Development Officers of the DGTD should be established, particularly to carry out a systematic study

of imported stores requiring the use of imported raw materials with a view to getting them manufactured indigenously. With this end in view, the Committee would suggest that a high powered Committee consisting of representatives *inter alia* of the Ministries of Supply, Industrial Development and Finance should be appointed to review the entire position in this regard and devise ways and means as to how greater coordination between the DGS&D and DGTD should be effected in the interest of giving a fillip to industrial development.

CHAPTER IV

PROCUREMENT FROM SMALL SCALE INDUSTRIES

4.1. It has been stated that in order to encourage small scale industries so as to bring them to the level of large scale units, subject to the requirement of quality and timely supplies, price preference is given to such units over the large scale units in the Government purchases.

4.2. All items of Government purchases are categorised into the following four groups:—

Group I.—Items which can be purchased only from large scale units;

Group II.—Items which can be purchased only from large scale units, but where it is possible for the large scale units to sub-contract ancillaries and components to small scale units;

Group III.—Items which can be purchased both from the large scale and small scale units; and

Group IV.—Items which are entirely to be reserved for procurement from small scale units. List of Group IV items reserved for exclusive purchase from small scale industry units is given at Appendix VIII.

4.3. As far as items falling under Group II are concerned, the Directorate General of Supplies and Disposals have no objection to the large scale units, on whom orders are placed, purchasing ancillaries and components from small scale units for the execution of contracts placed on them. The responsibility of executing the contracts in such cases is entirely on the large scale units on which the contract is placed.

4.4. As regards items falling under Groups III and IV, the following procedure is followed:—

The Central Liaison Officer of the National Small Industries Corporation Ltd. scrutinises all the indents received by

the Directorate General of Supplies and Disposals (Central Indent Section) for procurement and indicates in the indent itself the items in which the Small Scale Units are likely to be interested. These items incorporate both Group III and Group IV. The Purchase Sections concerned on receipt of the indents thus marked, issue tender enquiries to both large scale units and small scale units in respect of the items marked under Group III and to Small Scale Industries alone in respect of items marked under Group IV.

In the case of Regional Offices such a scrutiny is done by the Regional Liaison Officer of the National Small Industries Corporation Ltd., in consultation with the Director of Supplies and Disposals of the Regional Officer nominated by him.

4.5. It has been represented to the Committee that the small scale industries are playing an increasing role in the developing economy of our country. The Second World War provided a stimulus to small industries due to increased civilian demand consequent on drastic reduction in imports and new demand for defence stores and since then the small scale industries have emerged as a prominent sector of India's industrial economy. Though small industries started on a modest scale on traditional lines, today many of them have undergone modernization employing sophisticated techniques, plants and equipments. It has further been represented to the Committee that the contribution of this sector to the industrial production is nearly 40 per cent. The small scale units are also actively participating in the Government's stores purchase programme. The number of Small Scale Industry Units registered with DGS&D was 802 as on 31st July, 1969.

A. Reservation of Items

4.6. As mentioned above, Group IV consists of items which could be reserved for procurement from the Small Scale Industry. Initially a list of 16 items was drawn up in 1957. This list has been enlarged from time to time and at present 146 items are exclusively reserved for purchase from Small Scale Sector. A Committee under the chairmanship of the Secretary, Ministry of Supply, has been set up to scrutinise and assess further the items which could be brought within the fold of the small scale units.

4.7. A statement showing the total purchases and purchases from small scale and cottage industries made by the DGS&D during the past five years is appended below:—

Year	Total Purchases (in crores)	Purchases from cottage and SSIs (in crores)	Percentage of 3 to 2	Khadi purchases (in crores)	Percentage of 5 to 2
1	2	3	4	5	6
1964-65	456.3	20.81	4.56%	2.22	.48%
1965-66	492.67	24.08	4.8%	0.87	.17%
1966-67	441.56	24.15	5.47%	1.08	.24%
1967-68	466.17	26.17	5.6%	1.24	.26%
1968-69	445	29.47	6.6%	1.00	.20%

4.8. It will be observed from the above statement that the increase in the percentage of purchases from the cottage and small scale industries to the total purchase made by the DGS&D during the last five years has not been appreciable inasmuch as it has increased from 4.5 per cent in 1964-65 to 6.6 per cent only in 1968-69 in spite of the fact that items reserved exclusively for purchase have increased from 16 in 1957 to 146 in 1969.

4.9. Asked to indicate the reasons for the slow progress in the purchases from the small scale industries, the representative of the Ministry during the course of evidence has stated:—

“So far as the Group IV items are concerned, the list is being reviewed from time to time and the number of items are also being increased. A Committee has been set up under my Chairmanship with the Development Commissioner, Small Scale Industries, National Small Industries Corporation, DGTD, major Indenting Departments like the Railways and Defence as members to examine the inclusion of additional items in the Group IV list. The Small Scale Units have to submit the list of additional items which they desire to be included in Group IV list to the Development Commissioner, Small Scale Industries. This list is examined by the Development Commissioner and then it is brought up before this Committee. About four or five months ago, we

had a review and as a result of that the number in the list was raised from 110 to 146. So far as DGS&D is concerned, we can buy only those stores for which they receive indents from various Departments. There are so many items for which there is no demand. And so DGS&D were debarred from buying consumer goods etc. There are only limited number of items which we purchase from the small scale sector. Now, the purchases from them have gradually gone up..... As far as I remember the purchase has gone up to some thing like Rs. 29.47 crores in 1968-69 from the small scale sector as against only Rs. 4.5 crores in the Second Plan and Rs. 1.39 in the First Plan period..... There are certain types of stores which are not manufactured by small scale units at all today. For example, we buy a very large quantity of lubricants and cement which are not manufactured in the small scale sector. This accounts for bulk of orders."

4.10. When asked whether the DGS&D are compelled to place orders for Group IV items only with Small Sector, the representative of the Ministry has stated in evidence:

"No, Sir, As a matter of fact, I find the quality of goods of small scale sector is exceedingly good. Our experience is that if they are properly developed, then they will be in a position to meet our needs. Take for example, Allen Cooper. Their quality is quite good. In fact the State Trading Corporation is exporting a large number of shoes to foreign countries including Russia and there has been no complaint at all with regard to the quality of shoes."

4.11. When asked whether 100 per cent of Group IV items are purchased from small scale units, the representative of the Ministry replied in the affirmative.

4.12. The Committee note that 146 items are included in the list of items which are entirely reserved for procurement from small scale units. The Committee also note that though small industries started with modest beginnings, many of them have by now undergone modernisation and have employed sophisticated techniques and equipment. Moreover the Committee are of the opinion that to meet the growing unemployment problem in our country, small scale industries which are usually employment-oriented should be encouraged to flourish. They are of the view that in the light of

the experience gained more and more items should be brought with-in this group. The Committee, therefore, suggest that a periodical review should be carried out in consultation with the NSIC and fresh items, should be added to this list in consultation with the Director General and Ministries of Defence, Railways and Finance. The review should include to identify the indented items which are available in the small scale sector, and from the experience of the trends of purchase an attempt should be made to persuade the manufacturers to set apart more products in the small scale sector. The meetings of such a Review Committee should be organized at least 3 times a year and targets drawn up, and decision taken be communicated to all concerned.

4.13. The Committee further suggest that while inviting quotations for Group IV items, a special clause should invariably be incorporated in the tender notices to say that the items are reserved for purchase from small scale industries units.

4.14. The Committee note that purchases worth Rs. 29 crores from the small scale industries out of the total purchases made by the DGS&D amounting to Rs. 450 crores annually works out to about 6.5 per cent. The Committee further note that the contribution of Small Scale Industries to the industrial production amounts to nearly 40 per cent. Similarly, Khadi purchases amounting to Rs. 1 crore annually constitute .2 per cent of the total purchases made by the DGS&D. The Committee regret to note that though the items reserved for exclusive purchase from the small scale sector have increased from 16 in 1957 to 146 in 1969, the purchase from this sector has increased by a small percentage to total purchase i.e. 4.56 per cent to 6.6 per cent. It is, therefore, not known how the decision to purchase 100 per cent of requirements from within 146 items is effectively adhered to. The Committee would like that a detailed examination of the whole matter should be made and the Committee informed of the action taken. The Committee suggest that with a view to encourage the cottage and small scale industries, effective steps should be taken to ensure that they are allowed to take much greater part in the stores purchase programme of the Government by liberalising the conditions of awarding contracts to them in a larger measure.

4.15. The Committee note that the items categorised in Group III can be purchased both from large scale and small scale units. There is apprehension that taking advantage of this category, items produced by the small scale sector may not be purchased from it. The Committee, therefore, desire that Government may examine whether the items which can be purchased from small scale sector may be taken out from Group III and included in Group IV. The

Committee recommend that serious efforts should be made to promote the growth of small scale industries by enabling them to contribute to the stores purchase programme of Government in a larger measure.

B. Price Preference

4.16. In respect of items falling under Group III, small scale units have to compete with the large scale units for securing contracts. Considering that the small scale units are not yet in a position to quote competitively along with large scale units, a price preference upto the maximum of 15 per cent over the lowest acceptable tenders received from the large scale units is considered by the Directorate General of Supplies and Disposals on merits of individual cases in consultation with the Ministry of Finance.

4.17. It has, however been represented to the Committee on behalf of non-official organisations that in actual practice the price preference given by the Directorate General of Supplies and Disposals has been negligible as compared to the total volume of purchases made. The following figures have been furnished to the Committee by the representative of the non-official organisation:—

Period Year	Value of Total Purchases Amount (Crores)	Quantum of Price Preference Amount (Rs.)
1960-61	6.57	1,11,123.00
1961-62	11.78	22,515.00
1962-63	29.55	15,326.00
1963-64	39.09	6,992.00
1964-65	20.00	15,090.00
1965-66	24.09	Nil
1966-67	24.15	Nil

4.18. It has been suggested to the Committee that with a view to encourage greater participation by small scale units in the Government Stores Purchase Programme the price preference should be used more liberally as an incentive.

4.19. In a written note furnished by the Ministry to the Committee it has been stated that 'in respect of items which are purchased from both large scale as well as small scale units, the small scale units are accorded a suitable and reasonable price preference over

the large scale units upto the maximum of 15 per cent, the actual quantum being decided in each case on merits in consultation with the Ministry of Finance. The question of price preference arises only where, without it, the small scale units cannot secure orders being under-cut by the large scale units, but where they have been competing successfully with the large scale units in the past, no price preference is accorded for such items. For the purpose comparison a period of 12 months immediately preceding the date on which a particular contract is being considered is taken into consideration.

4.20. During the course of evidence, the representative of the Ministry has stated:—

“So far as the Group III items are concerned, we give price preference upto 15 per cent to small scale industries if they are not in a position to compete otherwise, but our experience has been that the actual price preference given to the small scale firms is very insignificant. That is necessarily so because even without giving price preference the small scale firms are in a position to compete with the large scale manufacturers. Therefore, there is no occasion to give price preference. It is only where big firms come in that the question of price preference comes. But by and large in all the items they are in a position to quote much lower price than the big firms. Therefore, we have not had the occasion to give any price preference.

4.21. Since the DGS&D have not offered any price preference to the small scale units in recent years in actual practice, the Committee wanted to know if in the circumstances it could be done away with. The representative of the Ministry has replied as follows:—

“I shall not recommend it, because wherever necessary we shall allow it. Our experience has been that even without price preference they are in a position to under-cut the large scale sector. In the case of Hosiery, for instance, there is only one mill namely Muir Mills which is producing it in the large scale sector, but they are being under-cut by the small scale people. The same is the case with tents. Tents are manufactured by the small scale industries in Agra, Delhi, Kanpur etc. and they are in a position to quote a lower price. What I was explaining was that for identical stores, if we find that the Small Scale Sector quotes a higher price than the large Scale Sector, we certainly go all out and give them a price preference upto 15 per cent. But our experience has been

that such an occasion does not arise, because the small scale people are in a position to quote a lower price."

4.22. The Committee are of the view that the question of providing price preference upto 15 per cent in favour of the small scale industries has not been given the serious consideration that it deserves. The factors which compel the small scale sector to compete with the large scale sector which have the advantage of large production with relatively less expenditure on overheads are more in the nature of struggle for survival as against the challenge faced for extinction from the big industries. The assertions made that the small scale firms are in a position to compete with large scale manufacturers and are in a position to under-cut the large scale sector could be possible in some cases by making small profits, paying low wages and cutting down minimum amenities to workers and by enduring more strain by the entrepreneur. It would indeed be unrealistic and unimaginative to generalise from an isolated incident like the hosiery industry. It could conversely be argued that large scale sector is quoting a higher price. They, therefore, recommend that in accordance with the policy of Government to promote small scale industries and to give them necessary impetus, the conditions for the grant of price preference should be so altered that benefits go to deserving ones and to entrepreneurs of such industries as are placed at a relatively disadvantageous position, for instance, being away from the hub of metropolis and industrial areas and located in the backward areas so that such units are able to reap real benefit of the provisions.

C. Specific problems of Small Scale Industries

4.23. It has been represented to the Committee that the DGS&D should explore the possibilities of awarding sub-contracts to the small scale units in the Group II items by imposing a condition on the prime contractors. It has been stated that there is a tendency among the large scale units to fabricate as many items as possible under their own roof.

4.24. In para 118 of the Manual of Office Procedure for Supplies, Inspection and Disposals, it has been stated that 'as far as items falling under Group II are concerned, this Directorate General will have no objection to the large scale units, on whom orders are placed, purchasing ancillaries and components from small scale units for the execution of contracts placed on them. The responsibility of executing the contract in such cases has, however, been entirely put on the large scale units on which the contract is placed as it might not be practicable or desirable for the DGS&D to impose any

contractual conditions on the large scale industrial units in this respect.

4.25. The Committee note that in respect of Group II items, the DGS&D have no objection to the large scale units on whom orders are placed, purchasing ancillaries and components from small scale units for completion of the contractual obligations. They would, however, suggest that the Government may examine the feasibility of discouraging the tendency among the large scale units to fabricate in their own factories all the minor items which could be otherwise manufactured by small scale sector.

4.26. It has been suggested to the Committee on behalf of the small scale industries that adequate representation to the Small Industry should be given in the Purchase Advisory Councils. It has been represented that both in the Central and Regional Purchase Advisory Council there is only one non-official representative of small industry represented by FASSI, whereas large scale interests are represented by Federation of Indian Chambers of Commerce and Industry, Associated Chamber of Commerce, Engineering Association of India, All India Manufacturers' Organisation, etc. with the result that the voice of small industry gets scuffled.

4.27. The Ministry of Supply in a written note furnished to the Committee has stated as follows:—

“In the Central and Regional Purchase Advisory Councils the small scale industry is represented, apart from the Federation of Associations of Small Industries of India, also by the National Small Industries Corporation. In the Regional Purchase Advisory Councils, the Directors of Industries of each State also sponsor the interests of the small scale sector. So far, there has not been any complaint of inadequate representation of the small scale interests in the Central and Regional Purchase Advisory Councils.

In view of the above, further representation is not considered necessary.”

4.28. The Committee feel that adequate representation has not been given to the small scale industries on the Central and Regional Purchase Advisory Councils. They suggest that the position may be reviewed and suitable action taken to alleviate the grievances of the small scale sector by giving them greater representation in the Purchase Advisory Councils.

4.29. It has been pointed out on behalf of the small scale sector that 'in case of certain reserved items (Group IV) the larger firms have been found to be tendering and competing with the small scale units. For example, tarpaulins have been reserved for exclusive purchase from small scale units but it was brought to the notice of the Federation that a large scale firm was awarded the order. The Federation emphatically urges that for items in Group IV quotations should not be invited from larger units and the tender forms should be given only to the Small Scale Industries Units.'

4.30. The Committee note that during the course of evidence it was made abundantly clear by the representative of the Ministry of Supply that 100 per cent of the stores included in the reserved category of Group IV items are purchased from the small scale sector. The Committee would, therefore, suggest that the Ministry may examine how the contract for tarpaulin which is an item included in the list reserved for purchase from small scale units was placed on a large scale unit, and fix responsibility on the officers who are responsible for this purchase. The Committee urge that Government should take suitable steps to see that such a situation does not recur.

4.31. The Committee understand that a number of concessions and facilities are offered to the small scale units to secure a greater share in the Central purchases. Briefly stated, they are as follows:—

- (i) Where basic considerations like quality, delivery dates, etc. are comparable, the products of the cottage and small scale industries are given preference over the products of other manufacturers. In the case of items in which SSI units have established themselves as suppliers to Government on competitive terms, such preference is extended to orders being placed on SSI units to the extent possible before orders are placed on the large scale sector.
- (ii) The application form for registration with DGS&D is supplied free of cost to bona fide small scale units.
- (iii) In the case of SSI units the possession of independent testing units is not insisted upon. If they have a proper access to testing facilities readily available in an adjoining unit, industrial areas of the State Government or in an SISI laboratory or in a common testing laboratory provided by some official organisation, it can be utilised during the course of inspection.

- (iv) In the case of items which can be purchased both from large scale and small scale units; the small scale units are accorded a suitable and reasonable price preference over large scale units upto a maximum of 15 per cent, the actual quantum being decided in each case on merits.
- (v) SSI units registered with DGS&D are supplied tender forms free of cost direct. Such small scale units as are not registered with DGS&D have the facility of getting copies of advertised tenders, specifications and drawings in respect of items in which they are interested, free of cost from the NSIC.
- (vi) Normally a firm not registered with DGS&D is required to deposit 5 per cent of the contract value as security for due performance of the contract. This is, however, not insisted upon in the case of an SSI unit which furnishes a satisfactory competency certificate from the NSIC.
- (vii) SSI units registered with Directors of Industries are entitled to all the benefits allowed to units registered with the NSIC.
- (viii) The Directors of Industries in all the States are supplied lists of items normally purchased by DGS&D from the small scale units for their reference and benefit. This list contains information about specifications, drawings and the authorities holding sealed particulars of the stores.

4.32. The Committee hope that Government will ensure that the various concessions and facilities offered to the small scale units for securing a greater share in the Central Purchases will be made available to them in actual practice and in time.

CHAPTER V

INSPECTION OF STORES

5.1. The Inspection Wing of the Directorate General of Supplies and Disposals plays an important role on the technical aspect of the procurement process, right from checking of indents, rendering advice to Purchase Wing in connection with the technical scrutiny of tenders, to the settlement of Consignee's complaints. They also ensure that the stores procured against DGS&D orders conform to the governing specifications by undertaking inspection and testing at the manufacturers' premises during the process of manufacture. They also give advice to the Indenting Departments on technical matters.

5.2. The Inspection Wing also undertake inspection on specific requests against direct orders placed by Railways and other Central Government Departments, State Governments, Public Undertakings, foreign Governments and Private Bodies. The Inspection Wing has many other functions like assisting the manufacturers of machine tools for gradation and inspection of all machine tools, preshipment inspection of some export materials, inspection and certification of tested steel produced at all Steel Plants in India, assistance to the Indian Standards Institution in the preparation of Standards, etc. This Wing discharges the responsibility with the help of Regional Directorates of Inspection at Calcutta, Bombay, Madras, Delhi, Tata-nagar and Burnpur which have a network of inspection offices scattered all over India and an Inspection cell also in Japan.

5.3. Asked to state whether the DGS&D does not accept the I.S.I. Quality marking scheme with the result that the goods certified by the I.S.I. under quality marking scheme are also subjected to inspection and testing involving additional cost and delay in acceptance of stores, the Ministry of Supply have replied to say that the inspection under the I.S.I. Scheme is not on consignment basis, but it is only a sort of periodic check exercised by the I.S.I. on the quality control methods adopted by the Licensee under the Scheme. As against that, the DGS&D, out of their obligation to the indentors, have to carry out the inspection of stores consignment-wise according to the terms of the contract, specifications and indentors' requirements irrespective of the stores bearing I.S.I. mark. Therefore, the I.S.I. Certification Marking Scheme has not been considered as

a substitute for DGS&D inspection against Government orders. As the two inspections are different and for different purposes, there is no duplication of labour and cost involved in case of I.S.I. Certification Marking Scheme and the consignment-wise inspection by DGS&D. The I.S.I. Certification Marking Scheme helps the general public who have otherwise no means of inspection and testing of material. The DGS&D safeguards Government interests more effectively by providing consignment-wise inspection'.

5.4. Asked to further clarify the position in this regard, the representative of the DGS&D has stated in evidence as follows:—

"I will be able to explain what the certification mark scheme of the I.S.I. is because we are actively associated with the certification mark scheme. This certification mark is granted to the party which applies for a licence for the mark. On receipt of the application the ISI send inspectors to find out if they are in a position to manufacture the stores in question according to a particular specification. After they are satisfied with the methods of production and quality control etc. and if the stores manufactured are according to the requirements of the specifications, they permit them to market their goods with the certification mark. It is like the 'agmark'. But having granted the licence on payment of the fee, the I.S.I. does not envisage inspection of every consignment or, for that matter, a daily inspection. If you will permit me, I will just quote the first line of the I.S.I.'s directions: 'The issue of the licence for I.S.I. certification marks is a trust placed with the manufacturers for using the I.S.I. mark'."

5.5. To a question regarding the measures which have been taken in the recent past to streamline the inspection procedure, the Ministry of Supply in a written note have stated that 'Instructions are on record and also refreshers are issued from time to time to ensure that there are no avoidable delays in attending to the Inspection Calls and issue of Inspection Notes. Maintenance of Inspection Call Registers prescribing time limit for attending to the Inspection Calls and Inspection Control Charts keeps a check on delays in attending to the Inspection Calls and issue of Inspection Notes. In order to arrive at a proper assessment of staff requirement, the man-hour analysis, job requirement and job capacity per month per inspector have been worked out by the DGS&D for some 200 major engineering items and 45 metallurgical items. These norms are under examination of the Staff Inspection Unit at present.'

5.6. The Vidyalankar Study Team in their Report on the DGS&D while dealing with delays in the Inspection Wing had observed:—

“That delays are endemic was not only represented to us with some emphasis but has also been established by our case studies in one Inspectorate which reveal that on an average:—

- (i) 8 to 10 days are taken for papers to reach the technical officer concerned after their receipt in the Inspection Circle;
- (ii) in 52.3 per cent cases it takes more than a month after the receipt of the inspection call to complete cases relating to the inspection of stores;
- (iii) in 80.6 per cent cases it takes more than a month after the receipt of request to send reports on capacity|registration cases.”

5.7. Questioned about the delays in inspection of stores, the Ministry have in a written note furnished to the Committee stated that ‘it is true that there are some cases where avoidable delay in inspection has taken place, but as would be clear from the particulars given below, there are only a few cases which fall under this category. During the year 1968 it was found that the issue of Inspection Notes was delayed beyond 7 days in 2.6 per cent cases only. The time taken in attending to the Inspection Calls was less than 5 days in 77.5% cases, between 5 and 7 days in 16.6% cases, between 7 and 14 days in 4.2% cases and over 14 days in 1.7% cases. Definite time limits have been fixed for the completion of different jobs right from the initial stage of the receipt of order for Inspection till the last stage of issue of covering Inspection Note and also where complaints are received, the time limit to attend to their investigation has been laid down. The adherence to these time limits is watched through the periodical control statements. Efforts are continuously made to effect improvement by enquiring into the individual cases of delay and taking remedial measures where necessary.’

5.8. When asked whether they still get complaints of delay in inspection, the representative of the Directorate General of Supplies and Disposals stated during the course of evidence: “This is the point which is uppermost in our minds. I have the figures with me, which will prove to you that it is not every time that the delay does take place. The available figures will show that in 77 per cent of the cases my inspector was on the field for inspection within five days of the inspection call from the party concerned.”

5.9. The Vidyalankar Study Team in their Report on DGS&D observed that delays in inspection are almost entirely attributable to:—

- (i) defective office procedure;
- (ii) inadequate inspection procedure;
- (iii) inadequate supervision and control; and
- (iv) delays in the National Test House.

5.10. Asked to indicate the steps taken by the Ministry to rectify the position, they have stated in a written note that, 'the defects in the office procedures pointed out in the report of Vidyalankar Study Team have been eliminated by issuing instructions for achieving reduction in the number of steps and time taken in the diarising and transmission of papers, despatch of copies of Acceptance of Tenders to the Sub-Centres directly, instead of through their Regional Headquarters, and introduction of check-list for use by the Inspection Officers to avoid piecemeal references. The work of preparing uniform Inspection procedures has been taken in hand, (but due to shortage of officers no substantial progress has been made so far). The Vidyalankar Study Team recommended that for effective supervision, a Deputy Director (Inspection) should have not more than 8 Inspecting Officers working under him. At present we have one Deputy Director of Inspection for every 8:6 Inspecting Officers/Assistant Inspecting Officers. However, the question of strengthening the Inspection Wing on the basis of the norms is being examined. It has been observed that in some cases there has been delay in the testing of samples at the National Test House. To augment testing facilities, the proposal to utilise the services of Defence Testing Laboratories for testing of samples of some items of stores against civil demands also is at present under consideration. Difficulties are anticipated in the implementation of recommendation regarding introduction of multipurpose ledgers for opening files, watching their movement and alphabetical index. Some solution to the anticipated difficulties is being found out. Action on the preparation of Inspection procedures has commenced and some Procedures have already been prepared. This is a continuous process and it will continue. The recommendation regarding utilisation of Defence Laboratories for testing of samples is under consideration.'

5.11. The Vidyalankar Study Team in their Report on DGS&D have observed that 'of all limbs of the DGS&D, the Inspection Organization is the one that needs to be inspected most constantly and vigorously by superior officers.'

5.12. When asked to state what steps have been taken to improve

the position and with what results, the Ministry have furnished the information in a written note as follows:—

“A system of supervising the work of junior officers by senior officers exists in the Inspection Organization. The Examiners of Stores, who are the lowest technical personnel in the field, work under direct supervision and control of the Assistant Inspecting Officers or Inspecting Officers. Eight to ten Assistant Inspecting Officers and Inspecting Officers work in one Section under the supervision of a Deputy Director of Inspection who is a Supervisory Officer and also Section Incharge. All Officers in a Circle work under the overall control of the Director of Inspection. The work of all Regional Inspectorates is controlled and co-ordinated by the Deputy Director General (Inspection) who has a separate Inspection Wing at Headquarters. Instructions exist that apart from the normal supervision, 5% of the inspection work and the Capacity and Registration reports furnished by Inspecting Officers and Assistant Inspecting Officers should be checked by the Deputy Directors of Inspection and 1% by the Director of Inspection. A system of regular inspection of sub-centres by Heads of Circles and periodic inspection of Regional Offices and random check of Sub-Centres by the Head of the Inspection Organization has been introduced. The settlement of each complaint received in the Regional Inspectorates is watched by the Inspection Wing at Headquarters through monthly complaint statements. Other aspects of inspection are supervised by headquarters through various control statements. On the recommendations of the Vidyalankar Study Team a regular system of supervisory checks over the work of junior officers by senior officers at each level has been evolved. During the years 1967 and 1968, the number of cases checked by Deputy Directors of Inspection and Directors of Inspection are as under:—

Year	Inspections			Capacity and Registration Report		
	No. of inspections undertaken by all Officers	No. of Inspections checked by		No. under-taken by all Officers	No. checked by	
		DDIs.	D. Is.		DDIs.	D. Is.
1967	40,779	1,698	563	2,962	254	62
1968	58,831	2,186	799	2,276	225	93

Detailed inspection of all Regional Offices is conducted by the Deputy Director General (Inspection) periodically apart from the short inspection visits and the defects found in the working of the Regional Inspectorates are remedied wherever possible."

5.13. Asked how many periodical inspections were made by the DDG(I) during the last three years and with what results, the Ministry of Supply have in a written note furnished to the Committee stated:

"During the past three years two periodical inspections of the Regional Offices have been conducted by the DDG(I) except in respect of Calcutta Office and Metallurgical Inspectorates which have inspected once. Further inspection of Calcutta and Metallurgical Inspectorates will be taken up before the end of the year.

The periodical inspection of the Regional Offices by the Deputy Director General (Inspection) is besides the regular supervision by the Deputy Directors of Inspection and the Directors of Inspection who are stationed in the Regional Offices.

Deficiencies found by the DDG(I) during his short visits and periodical inspection visits are discussed with the Regional Heads and the Inspectors on the spot and remedial action taken. These visits are not in the spirit of fault finding but in the spirit of rendering technical assistance and solving their problems on the spot. The other effort to bring out uniform standard of inspection is taken from Headquarters itself."

5.14. The Vidyalkar Study Team in their Report on DGS&D recommended that "uniform" inspection instructions and criteria should be laid down for the guidance of "Inspecting Officer."

5.15. When asked whether the said recommendation of the Study Team has been implemented, the Ministry of Supply in a written note furnished to the Committee have stated: 'So far, uniform inspection procedures on 20 Engineering items have been finalised and circulated to the Regional Inspectorates for guidance in inspection. Eight such procedures are in hand. The preparation of the Procedures of Inspection and Inspection criteria is a continuous process. The Inspectors are guided by the specifications governing the contracts which lay down the various steps for inspection and acceptance. This method is serving the purpose for the present. Efforts are also being made to see that the standards issued by the Indian Standards Institution incorporate sampling schemes etc. so that they become a part of the contract.'

5.16. The Committee note that a separate Inspection Organisation is maintained by the D.G.S. & D. to 'safeguard Government interests more effectively by providing consignment-wise inspection' while the

inspection under the I.S.I. Scheme is a sort of periodic check on the quality control methods. It has been further stated that 'on receipt of the application the I.S.I. send inspectors to find out if they (parties) are in a position to manufacture the stores in question according to a particular specification after they are satisfied with methods of production and quality control etc.' It has been suggested that DGS&D inspection team carries on inspection of 'every consignment.' Besides the DGS&D, some of the indentors like the Railways have their own inspection team. The Committee recommend that greater advice|assistance of the Indian Standards Institution may also be obtained regarding the inspection of stores against the DGS&D purchases. The Committee also suggest that effective steps should be taken by Government to avoid duplication of inspection by the authorities concerned.

5.17. The Committee note that on the recommendations of the Study Team, the DGS&D have since fixed definite time limits for the completion of different jobs right from the initial stage of the receipt of order for Inspection till the last stage of issue of covering Inspection note and also where complaints are received, the time limit to attend to their investigation has been laid down. The Committee further note that adherence to these time-limits is watched through the periodical statements. Though delays in inspection have been cut down to a great extent as a result of laying down specific time limits, the Committee are constrained to observe that in some cases avoidable delay has taken place. The Committee would, therefore, strongly recommend that efforts should be continuously made to effect improvements by enquiring into the individual cases of delay in Inspection and taking remedial measures where necessary.

5.18. The Committee suggest that the work of preparing uniform Inspection procedures should be completed early. They also suggest that an early decision may be taken with regard to utilisation of Defence Laboratories for the testing of samples.

5.19. The Committee also note that during the past three years only two periodical inspection of the Regional Offices have been conducted by the Deputy Director General (Inspection) except in respect of Calcutta Office and Metallurgical Inspectorates which have been inspected only once. The Committee feel that the periodical inspections by the Deputy Director General (Inspection) have been few and far between, and suggest that these inspections should be more frequent.

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CHAPTER VI

A. Registration of Suppliers

6.1. With a view to ensuring supplies of stores from reliable firms, the DGS&D registers firms in advance to facilitate placing of orders on them. At present, roughly 5,000 firms dealing in various categories of stores, as manufacturers/stockists/agents stand registered with the DGS&D.

6.2. All firms dealing in stores purchased by DGS&D, whether they are in India or abroad are eligible for registration. Indian firms can purchase the necessary application form, after payment of Rupee 1.00, and while submitting the application only filled in, for consideration, have to file a treasury challan for Rs. 10.00. However, in the case of small scale units and cottage industry units, initial registration as well as renewal of registration is done free of any charge. The firms who get themselves registered with the office of the Director General of Supplies and Disposals enjoy the following benefits:—

- (i) Tenders for demands which are not advertised are issued to the registered firms.
- (ii) In case of the advertised demands, copies of the notice are sent to registered firms, giving them advance information of the demands.
- (iii) Rate Contracts and Running Contracts are normally reserved for registered firms.
- (iv) Operational demands are normally reserved for supply by registered firms.
- (v) Normally, 80 per cent of the quantity against express and urgent demands is reserved for supply by the registered firms.
- (vi) Normally, no security money is required to be deposited by registered suppliers.
- (vii) Registration with Directorate General of Supplies and Disposals raises the firm's status in business not only with the Government Department, but also with foreign firms and establishments.

6.3. On receipt of an application in the prescribed form, the Registration Section has to scrutinise thoroughly all particulars given therein. If it is found that the replies given to the various questions are evasive or disclose that the firm is not suitable for registration, the trouble and expense of inspection of its premises or works is not undertaken and registration is refused straightway.

6.4. Asked what particular considerations were taken into account for granting the registration, the Ministry have stated in a written note that 'generally the financial stability and technical capacity of the firm are the particular considerations which are taken into consideration before registration is granted. It is also ensured that the firm is not an evader of income tax. At the time of renewal due importance is given to performance.'

6.5. As a result of Vidyalankar Study Team's recommendation, it was stated, the procedure has been simplified so as to complete the process of registration within a period of two months.

6.6. Certain concrete cases of delay in respect of registration of firms with DGS&D were brought to the notice of the Committee.

6.7. It has been stated by the Ministry that delay in the case of Messrs..... was mainly due to the fact that the test reports were forwarded by the firm 2-1/2 months after the submission of the application. Test Reports were also submitted to the Director of Inspection, Calcutta by the firm direct. These test reports were not acceptable to the D.I., Calcutta. It was explained to the firm that they would have to prepare bulk quantities of each item of stores for which registration had been sought. The D.I., Calcutta would himself draw samples from these lots and seal them for transmission to the Director, National Test House, Calcutta for testing. The firm requested that the Test Report already issued by the National Test House might be accepted. The matter was examined and it was decided that only the samples drawn by the D.I., Calcutta and tested by National Test House would be acceptable. The samples were drawn and sealed by the Director of Inspection on 26-8-1968 for onward transmission by the firm to the Director N.T.H. The Director of Inspection also stated that it would take some time for the N.T.H. to issue the test report. He, therefore, returned the papers to the Registration Branch suggesting that the firm might be asked to apply afresh for registration on receipt of satisfactory test report. With this the case was closed temporarily in the Registration Branch.

6.8. On receipt of a satisfactory test report, the Director of Inspection, Calcutta was requested to undertake the Inspection on

27-11-1968. The Inspection Report was received on 19-2-1968 but registration could not be proceeded with as the firm had not furnished their balance-sheet and current I.T.C.C. On receipt of these documents on 26-5-1969, they were registered on 13-6-69.

6.9. The Committee find that only 5,000 firms are registered to purchase goods worth Rs. 445 crores. The Committee feel that with the growth of trade, commerce and industry in the country the number of registered firms with the DGS&D should also be appreciably increased. A firm date line may be fixed every year to induct new registered firms and proper notice given in the press accordingly. Since purchase stimulates industrial growth, care should be taken to see that purchases are made from all States, as far as practicable, and not confining them to a few metropolitan cities and industrial areas.

6.10. The Committee note that the Ministry of Supply have decided that the process of registration should be completed within a period of two months. However, on examination of a few specific cases brought to their notice, the Committee are unhappy to point out that there has been some delay on the part of the DGS&D regarding the disposal of these applications for registration. The Committee would, therefore, suggest that in the interest of efficiency of work and to avoid any harassment to the parties concerned, effective steps should be taken to lay down realistic time limits for the various steps of the processes involved in the disposal of applications for registration of firms.

6.11. The Committee also suggest that where registration is refused, the reasons for such refusal should be communicated by the DGS&D to the firm concerned.

6.12. The Committee note that the Vidyalankar Study Team had recommended that 'uniform criteria for assessing the requirements of equipment and testing should be laid down by the Deputy Director General (Inspection) to make registration more objective.' The recommendation, though accepted by Government, has not yet been implemented. The Committee urge that Government should take suitable steps to expedite implementation of the said recommendation.

B. Indenting and Calling of Tenders etc.

(i) Indenting

6.13. The demand which an indenter places on the Central Purchase Organization in a prescribed form is known as an 'Indent'. It is the responsibility of the indentors to ensure that the indent submitted to D.G.S. & D. is complete in all respects viz. description

of the stores, specifications|drawings, quantity, name of the consignee(s), Accounts Officer concerned, Financial Certificate and the specific delivery date. The use of terms such as 'IMMEDIATELY', 'AS EARLY AS POSSIBLE' is to be avoided. Before taking procurement action, the purchase officer has also to scrutinise the indent particulars, *inter alia* the delivery period stipulated therein, and if it is found to be unrealistic, he has to bring it to the notice of the indenter, simultaneously giving him a clear indication of the probable date, when the supplies can be arranged.

6.14. Some items dealt with by the D.G.S. & D. have been declared as 'centralised' items, indents for which irrespective of value are required to be placed on the Headquarters Office only. Indents for all other items are placed on the nearest Regional Supplies Office upto the value of Rs. 6 lakhs. Indents for all items which exceed the above monetary limits are to be placed on the Headquarters.

6.15. "Urgent/Express" demands for centralised items are, however, placed with the nearest Regional Supply Organization upto the value of Rs. 6 lakhs.

6.16. Whenever any demand for a centralised item is transferred to a Regional Office in view of urgency or of any other reason, which is to be specifically mentioned, the Purchase Section transferring the indent has to furnish all essential information such as the last price paid, the date thereof and sources of supply etc., for the guidance of Regional Offices. If, however, the last purchase price is not available with the Headquarters, a note to this effect is required to be made in the transfer memo by an officer not below the rank of a Deputy Director.

6.17. Similarly, Regional Offices while dealing with *ad hoc* or urgent demands for centralised items have before effecting actual purchases, to make a reference to the Headquarters office of the DGS&D about the last price paid and any other information considered necessary for their guidance.

6.18. It has been represented to the Committee that "on many occasions detailed description of stores is not given at the time of placing orders. This involves lengthy and time-consuming correspondence even after the orders are placed with the firms. It is essential that description of stores should be given in detail by indentors to the D.G.S. & D. prior to placing of orders on the firm."

6.19. The Committee have been informed by the Ministry that in accordance with the instructions contained in the indent form itself, the indentors are required to give complete details and particulars to facilitate proper identification of the articles by the Trade.

6.20. The Committee agree that the description of stores required should be complete in all details to facilitate prompt action for procurement. The Committee suggest that the Ministry of Supply should impress upon the indentors the imperative need for giving the correct and detailed description of stores in the indents to avoid unnecessary correspondence resulting in delay in supply of stores.

6.21. It has been represented to the Committee by a non-official organization that the requirements should be bulked by the various Departments or various purchase agencies and private sector bodies who need that equipment and there should be continuity in placing the orders.

6.22. The Committee agree that the requirements of various indentors should be bulked by the DGS&D and there should be continuity in placing the orders.

6.23. It has been stated by the Ministry that for the purpose of planned purchase, the D.G.S & D. have brought out Vocab-cum-Programme Books comprising about 8,000 items for Railways and P. & T., and that a similar Vocab-cum-Programme Book is contemplated to be brought out for Defence items also.

6.24. During the course of evidence, the representative of the Ministry of Supply has stated that the Vocab-cum-Programme Book in respect of Defence items is under compilation. He has added:—

“Sometimes we go on getting demands. Indent comes after three months or after six months. If we know what sort of orders and what magnitude we are going to receive in a certain period, we can ask suppliers to plan their manufacture according to the requirement and time specified by them.”

6.25. Asked what the Vocab-cum-Programme Book implied, the representative has replied, “So many items are involved. This book contains 7,000 items. This is for the Railways compiled by us. All of them must know on what date they should send their indent, when they should expect us to order and when supplies will follow. It includes everything including specification.”

6.26. The Committee note that for the purpose of planned purchase the DGS&D have brought out Vocab-cum-programme books comprising 8,000 items for Railways and Posts and Telegraphs, and that such a Book in respect of Defence items is contemplated to be brought out and is rather under compilation. The Committee urge that the DGS&D should expedite the compilation of the vocab-

cum-programme book in respect of Defence items also for facility of reference by all concerned.

(ii) *Calling of Tenders*

6.27. At the time of planning of an indent, one of the following courses of action is open for calling quotations to effect procurement action thereon:—

- (i) By advertisement;
- (ii) By L.T.I. (Limited Tender Inquiry);
- (iii) By S.T.I. (Single Tender Inquiry);
- (iv) By placement of repeat order; and
- (v) By Negotiation.

6.28. Normally, Limited Tender Enquiry is to be issued for coverage of demands upto the value of Rs. 25,000. Other courses of action, as stated above, can also be resorted to, depending upon the circumstances and the merits of the case and even with regard to indents below the value of Rs. 25,000 with the approval of the competent authority. Likewise, in the case of Operational|Urgent|Express indents, the contingency of the advertisement of the demand in respect of indents above the value of Rs. 25,000 can also be dispensed with as each case has to be decided on its merits, with the approval of the competent authority.

6.29. *Tender Opening*.—Unless good and sufficient reasons have been recorded on the file, all tenders of the estimated value of Rs. 25,000 and above are required to be opened in the presence of representatives of tenderers. The Purchase Officer opening the tenders has to verify that only authorised representatives of firms, which have actually submitted the tenders, are present at the tender opening.

6.30. It has been represented to the Committee by certain non-official organizations that in actual practice the time taken for deciding the tenders is rather long. It has been stated that usually quotations are kept open for two months but almost on every occasion requests are received for extending the validity for further periods of two months or even more. Offers have often to be kept open for longer periods and the manufacturing programmes of the firms suffer, as manufacturers are not sure of their offers being accepted.

6.31. Asked to indicate the time within which purchases are usually finalised after the opening of tenders, the Ministry of

Supply have in a written note furnished to the Committee stated, "Normally the purchases for standardised items are finalised within one month of the opening of the tenders which is the time usually given for offers to remain open. In respect of difficult items where tender samples are to be tested and reference to indenter is incapable, or where detailed scrutiny is required in consultation with technical authorities, or where new items which have not been purchased earlier are to be purchased, it takes longer time to finalise the tenders."

6.32. The Committee are unhappy to note that purchases in some cases are not finalised within one month of the opening of the tenders, the time usually given for offers to remain open. With a view to remove complaints of the firms that long time is taken in deciding the tenders, the Committee recommend that the DGS&D should ensure that the decisions on tenders are expedited and purchases are by and large finalised within one month of the date of opening of tenders.

6.33. The possibility of acceptance of unduly high prices quoted as a result of formation of rings by trade groups or having monopolies in supplies was reported in the Press release dated 27th July, 1968. Asked what measures had been taken by Government to obviate the possibility of acceptance of high prices, the Ministry of Supply have in a written note furnished the following information:—

"Wherever it is found that the suppliers have quoted unduly high prices by clear formation of rings or that the prices quoted bear no relationship to the last purchase prices even after taking into account the rise in the cost of materials etc., DGS&D hold post tender negotiations to bring the prices to a competitive level before placement of actual orders. In the case of items which are the monopoly of a particular firm or a group of firms, the contracts are entered into as far as possible on the basis of cost examination by the Government cost accountants with a view to ensuring that undue profit is not made by the firms. The matter was also discussed in the meetings of the Central/Regional Purchase Advisory Councils, and the trade Associations represented in the Councils were asked to advise their constituents to eliminate such undesirable practices and quote competitive prices against the tenders."

6.34. As regards cases where prices were negotiated after opening of tenders, the Ministry have in a written note furnished to the Committee stated as follows:—

"The following statement indicates the number of negotiated contracts placed by DGS&D including Regional Offices during each half of 1967 and 1968 and first half year of 1969:—

Period	No. of contracts
January, 1967 to June, 1967	588
July, 1967 to December, 1967	479
January, 1968 to June, 1968	389
July, 1968 to December, 1968	261
January, 1969 to June, 1969	335

Post tender negotiations are resorted to only in limited number of cases and under exceptional circumstances, such as lack of competition, ring formations, and where the prices thrown up against the enquiry are very much higher than the prices at which the purchases were made in the recent past. In such cases in order to safeguard Government interests negotiations become necessary."

6.35. While explaining the position during the course of evidence, the representative of the Ministry of Supply has stated:

"Negotiations are made where a ring is formed. Sometimes firms get together and they quote identical prices. We find on opening the tender that there is ring formation, we call them and break the ring. We ask them to give at a lower rate—Wire rope is one of such instances. We find prices quoted are sometimes so high that they have no relationship with the previous purchase price in spite of the fact that we have taken into consideration increase in the price of raw material, wage escalation and all that. We find that the price is so high that there is no justification. In each case we send for these people and try to get a better price. Our endeavour is to buy at the cheapest possible price. * * * * Negotiations are resorted to only in exceptional cases. After all, we deal with 25,000 cases and if any 200, 300, 400 such cases are there, there must be very good and valid reasons which have to be recorded in writing, to warrant holding of negotiations. If negotiations are held in all cases, it will lead to all sorts of corruption. Negotiations are resorted in very special cases."

6.36. As the practice of quoting unduly high prices as a result of formation of rings by Trade Groups or having monopolies in supplies is most undesirable and anti-national on the part of the firms concerned, the Committee suggest that the DGS&D should be vigilant for detecting and identifying such undesirable practices, persons and firms in time and black-listing them for future deal.

6.37. In view of the inherent pit-falls attendant on post tender negotiations the Committee suggest that this practice should not be resorted to as a rule unless it is established on valid grounds that the firms have formed a ring to defeat the purpose of the tender.

C. Standardisation and Specifications of Stores

6.38. The Inspection Wing at Headquarters is responsible for the preparation of DGS&D Specifications. Whenever feasible, Schedules of Requirements|Specifications are prepared by the Inspection Wing in preference to calling for samples.

6.39. No new Specification is prepared, nor is the existing Specification revised by Regional Supplies or Inspection Officers. All cases in which such action is considered necessary are referred to Deputy Director General (Inspection).

6.40. Similarly the Director, Technical Development, Ministry of Defence (Controller General of Defence Production) is addressed in respect of any such cases for Defence Stores which are his responsibility to inspect and to provide specification where necessary.

6.41. The Inspection Branch maintains a Register of Specifications which have been accepted by Indentors as standards; and every endeavour is required to be made to induce indentors in general to accept these standards with a view to securing uniformity and economy in the expenditure on stores.

6.42. It has been stated that the Inspection Wing at Headquarters may adopt standards issued by the Indian Standards Institution in lieu of corresponding DGS&D Specifications, if they are considered suitable after scrutiny and verification with the existing DGS&D Specifications. Whenever it is decided to adopt any standard, suitable orders are issued by the Inspection Wing to that effect simultaneously withdrawing the corresponding DGS&D Specifications.

6.43. In regard to the suggestion that "as far as practicable all requirements of stores should be according to the ISI Standards", the Ministry of Supply have in a written note stated that "We insist on procurement of stores to standard specifications. As I.S.I. is a national body to frame standards, their standards are adopted wherever they are available with the concurrence of major indentors. Normally, the standard specifications should cover all the chief characteristics of any product, like physical properties, chemical composition, shape, size, etc. Where the specification is silent about any characteristic, we are guided only by the trade practice."

6.44. It has been represented to the Committee by a non-official organization that specifications for certain items required by Railways and Defence, such as solid joints for Railway signalling equipment and rubberised fabrics for Defence, have been laid down without due regard to the availability of raw materials and components of requisite specifications for manufacture of the same.

6.45. The Ministry of Supply have in a written reply furnished to the Committee stated that "there appears to be some justification in the above statements as far as Railway items are concerned.

"Wherever the DGS&D come across any inclusion of non-standard sizes, composition etc., it is invariably taken up with the user authorities for modification, to fall in line with standard practices.

As regards Defence specifications, they are framed by Defence authorities and most of the stores conforming to Defence specifications are inspected by them. As such we have no comments."

6.46. Asked what steps had been taken by the DGS&D to rectify the position and get the specifications for Railway stores modified suitably, the representative of the DGS&D has during the course of evidence stated, "Due to one or the other reason certain raw materials are not available in the country. We find that the specifications will have to be slightly modified as per conditions obtaining in the country. There is one case relating to the requirement of the Railway Board and the steel to suit their specifications is not being rolled at the moment. We have approached both the parties, one, the indenter, and the other, the Joint Plant Committee to come to a point where this difficulty will be removed. We are in the process of negotiating this matter with both the parties and we hope that this difficulty will be resolved."

6.47. The Committee are unhappy that in some cases specifications have been laid down without due regard to the availability of raw materials and components of requisite specifications for manufacture of the same. They trust that the matter will be finalised by the DGS&D through negotiation with the parties concerned and the difficulty in this direction will be resolved as early as possible.

6.48. While explaining the position regarding preparation of standard specifications by ISI who prepare specifications to meet the indigenous conditions of manufacture and availability of raw materials etc. the representative of DGS&D has during the course of evidence stated:—

"It is the function of the Indian Standards Institution to prepare the standard specifications which are to be follow-

ed later on in the country. For this purpose they have got expert bodies for each and every specification where all the interests are represented—interests of manufacturers, buyers, inspectors and so on. When they sit down and discuss on the formation of specifications, each one puts the case of his side. Since all the interests are represented there, the specifications that come out do, by and large, take into account all the angles—the availability of raw materials, the techniques, the processes available in the country—and at times we even go to the extent of finding out what the foreign Governments think of our specifications. Draft specifications are circulated to the other countries and they give us suggestions to change so that our specifications are accepted in their countries. When the specifications have been finalised, they are adopted by the DGS&D in consultation with our indentors. Often times it happens that those standard specifications will be superseding the departmental specifications that existed before the Indian Standard specifications came into being. After the specifications have been adopted—I am able to say that more than 90 per cent of the Indian standard specifications have already been adopted by this Department—it is our function to see that all the purchases are made exactly in terms of the specifications prepared by the Indian Standards Institution. Now it is in very rare cases that we adopt the departmental specifications—such as from the Railways, Defence and P&T—because the Indian standard specifications do not exist for those items. Once we have adopted the Indian standard specifications and if it becomes necessary to effect some changes either due to lack of materials or due to better techniques being available, then we approach the ISI to effect those amendments, and the process is again repeated. The amendments are placed before the expert body and then the amendments are issued. It would not be correct to say that the DGS&D would alter the specifications on their own; we do not do that.”

6.49. Clarifying the position further, the representative of the DGS&D has stated that whenever there is a necessity for changing the specifications already approved by ISI, the matter is referred back to ISI for future contracts. On the other hand, if an order has been placed in accordance with certain specifications and it becomes necessary during the currency of that order, either due to

shortfall of raw materials or for some other reason, to make certain changes, necessary action is taken in consultation with indentors.

6.50. The Committee suggest that with a view to develop indigenous capacity for various stores in support of import substitution, Government should seriously consider the question of revision of specifications in consultation with the indentors and Indian Standards Institution in order to accommodate Indian suppliers, having due regard to the production of quality goods.

CHAPTER VII

A. Procedure for entering into Contracts/Agreements

7.1. The contract is brought into existence upon communication of the acceptance which must be within the time prescribed. Where the post is the medium of communication between the parties, the acceptance is complete as soon as it is posted. Proper care has to be taken to address the letter or telegram of acceptance correctly.

7.2. After a decision has been taken in regard to the Acceptance of a Tender, the formal 'Acceptance of Tender' is normally issued within 48 hours of the decision. Under certain circumstances, it may be necessary to issue advance advice of Acceptance of Tender by telegram or letter, but this is restricted to the minimum. The advance acceptance whether by telegram or letter bears the same number which would be allotted to the formal Acceptance of Tender.

7.3. It has been represented to the Committee that clarification and confirmation of certain points of the contracts are often delayed by the DGS&D, which causes delay in the execution of orders.

7.4. In a written note furnished to the Committee the Ministry have stated that 'Generally, during the post-contract period, requests are made by the firms for extensions in delivery period on various grounds. Instructions already exist that requests for amendments to contracts should be accorded due priority and extensions in delivery period should be issued within 7 days of the receipt of such requests. In cases where a reference to Indentor or other authorities is required, replies/extensions in each case should be issued within 7 days of receipt of reply from the indentor/other authorities. As the clarifications/amendments to the contracts sometimes necessitate references to other authorities such as Indentor/ Department of Supply/Ministry of Finance/Ministry of Law etc., delay, if at all in such type of cases in taking and communicating the decision is, therefore, unavoidable/inescapable.'

7.5. The Committee suggest that the Directorate General of Supplies and Disposals should ensure that clarification and confirmation of any points of the contract required by the contractors concerned should be issued to them expeditiously to avoid any delay in execution of the orders.

B. Working of the system of Rate|Running Contracts.

7.6. A rate contract is a contract for the supply of stores at specified rate during the period covered by the Contract. No quantities are mentioned in the contract and the contractor is bound to accept any order which may be placed on him during the currency of the contract at the rates specified therein. As a reciprocal consideration, the D.G.S.&D. undertakes to order from the contractor all stores under the contract which are required to be purchased, subject to certain reservations for submitting prices to competition and for dividing the contract between more contractors than one. It is also incumbent on the D.G.S.&D. to place orders on the Rate Contract holder for a minimum total value.

7.7. A running contract is a contract for the supply of an approximate quantity of stores at a specified price during a certain period. The approximate requirements of a number of Indentors for the period in question are combined by the Department and the contract provides that any of these indentors may demand his requirements at any time or at specified periods during the currency of the contract either direct from the firm or by indent on the Department. In terms of the conditions governing these contracts, the purchaser has the right to take a certain quantity (usually 25 per cent) over and below the approximate quantity mentioned in the contract. Guaranteed quantity (usually 75 per cent of the contractual quantity) is taken up before the expiry of the contract.

7.8. All the stores of standard types, other than those required in small quantities only, which are in common and regular demand and the price of which is not subject to appreciable market fluctuations, are normally purchased on the basis of Rate|Running contract whichever is most suited to the circumstances of each particular case.

7.9. The indentors are declared as Direct Demanding Officers on their own request against Rate Contracts and authorised to operate the contracts direct by placing supply orders on the firms. In such long term contracts, supplies are obtained by the indentors quickly instead of undergoing formalities of placement of indents on the D.G.S.&D. and processing of such indents by D.G.S.&D. by inviting tenders and placement of orders in individual cases. Supplies also spread out their production all through the year to meet the requirements of all the Central Government Departments and of other Departments, State Governments and autonomous bodies all over the country, as they always have substantial and recurring demands

for these stores. It has been stated that the suppliers, assured of a reasonably large demand, spread over a fairly long period, derive benefits from comparatively more economic planning of their production programmes, continuous technical advice from the Inspection organisation of the Directorate General of Supplies and Disposals and from the experience generally gained in the line of manufacture from handling the steady flow of the particular item(s) from their production units.

7.10. It has been stated that the number of items at present under Directorate General of Supplies and Disposals' Rate|Running Contracts is 4,000 approximately. The question of bringing more items on Rate|Running contracts is discussed in the periodical meetings held with major indentors like Railways and Ministry of Defence and those items for which the indentors have a regular and constant demand over a period of time, are brought on the Rate|Running contracts.

7.11. Regarding publication of rates agreed to in Rate|Running contracts, the Ministry of Supply have stated that 'efforts are always made to extend the Rate|Running contracts to as many items as possible.' Statements of contracts placed by the Directorate General of Supplies and Disposals and its Regional Offices, including Rate|Running Contracts concluded, are published in the Indian Trade Journal. The statements, *inter alia* contain the rates etc.

7.12. It has been represented to the Committee by a prominent non-official organisation that though in the case of rate and running contracts the intention of the purchaser is to place such a contract to cover all the indents to be received during the pendency of such a contract, yet instances are not rare when fresh tenders are invited for identical items even when the rate or running contracts have been placed and are in force. The purchaser may justify this on the plea of the magnitude of the demand. But in the opinion of the non-official organisation, before inviting fresh tenders the Directorate General should negotiate with the existing holders of rate/running contracts about their capacity to meet the demand. They have cited a concrete case where the question of available capacity with the firms with whom the Running Contract had been completed was not taken into consideration. The facts of the case may be briefly stated as follows:—

Running contract No. SR-51|RGC|VBH|7757(3).II|142, dated the 16|3|1968 was concluded for supply of certain types of vacuum Brake Horses during the period from 1-4-1968 to 14-5-69. Although the RGC was valid till 14-5-69 and the quantities ordered against it were far too inadequate as compared to the total available capacity of the concerned

manufacturers, it was found that the Railways had floated direct tenders as per particulars given below:—

- (i) South Eastern Rly—Tender No. M/10/51/68 opened on 13-5-68 for 1,25,000 Nos. V.B. Hoses valued at Rs. 10 lakhs (approx.)
- (ii) Eastern Railway—Tender No. SP/EVB/VB-504/R3/LLH/68 opened on 20-5-68 for 40,000 Nos. of V.B. Hoses valued at Rs. 3.35 lakhs (approx.).

7.13. Asked to state whether during pendency of rate|running contracts, fresh tenders for identical items are invited and if so whether it is done after ascertaining the inability of existing holders of rate|running contracts to meet further demand, the Ministry of Supply have in a written note furnished to the Committee stated as follows:—

“Where stores are urgently required and the Rate Contract holder is unable to supply the stores within the delivery period, fresh tenders are invited to meet that demand. Also when a monetary limit is prescribed in a rate contract, indents of higher value are reviewed in D.G.S.&D. for which, depending upon the circumstances, fresh tenders may be invited in view of the possibility of lower prices being secured. In case of Running Contracts, if the firm is not in a position to effect supplies and prospects of getting supplies therefrom are remote, fresh tenders have to be invited to arrange for repurchase of the stores at the risk and expense of the Running Contract holder. This action is necessary as Running Contracts are analogous to Acceptance of Tenders.”

7.14. The Committee agree that before inviting fresh tenders for identical stores, the DGS&D should ascertain whether the Rate Contract holder is unable to supply the stores within the delivery period except in those cases where monetary limit is prescribed in a rate contract.

7.15. The Committee note that the Railways issued tenders for large quantities of an item (V. B. Hoses) which is already covered by a Running Contract and for which DGS&D is unable to place adequate indents to feed those undertakings with whom the Running Contract is concluded. The Committee suggest that the whole position in this regard should be reviewed by the Ministry and necessary steps taken to streamline the procedure so that there is

no hardship to the suppliers, and the indentors get the maximum benefit.

7.16. It has been represented to the Committee that Rate Contracts are usually awarded late after expiry of a part of the period to which the contract relates. Asked to state the total number of cases in which contracts were actually awarded after the expiry of periods ranging upto two months and more than two months from the date of commencement of the contract, the Ministry of Supply have in a written note explained the position as follows:—

“In order to avoid delay in the conclusion of rate contracts there are standing instructions that Rate/Running Contracts should be concluded or renewed in time to avoid inconvenience to the indentors. For this purpose a table indicating the date of expiry as well as the programme fixed by the Director of Supplies concerned for conclusion/renewal of such contracts should be prepared in a prescribed proforma and should be maintained upto-date. DDGs are also to carry out a physical check of the maintenance of the Master Charts and analyse reasons for departure from the time tables laid down in actual cases so that causes of delay can be pin-pointed. It has also been laid down that at the time of conclusion of a Rate Contract, it should be specifically examined whether it would not be desirable to have a Rate Contract for two years keeping the market conditions at that time and other relevant factors in view.

Assistant Directors/Section Officers who are the base Officers for initiating action on Rate Contracts, are responsible for any lapse or non-compliance of the existing instructions on the subject. In some cases it may be that because of exceptional circumstances or on account of post-tender negotiations to be conducted with suppliers there is some delay in conclusion of Rate/Running Contracts. The statistics as desired, are not being maintained.”

7.17. As both Indentors and Suppliers must know about new contracts before the old ones expire—the indentors to plan their inventories and the suppliers to plan their production—the Committee are of the view that the rate/running contracts should be finalised by the DGS&D sufficiently in advance of the expiry of current contracts. The Committee, therefore, suggest that the whole procedure for awarding rate/running contracts should be reviewed and suitable steps taken to avoid delays at various stages.

7.18. A leading automobile manufacturer has represented to the Committee that a number of applications for accepting prices and increase in prices for passenger cars and commercial vehicles on the Rate Contract are pending with the DGS&D. Asked how many applications for price acceptance and increase in prices under the Rate/Running Contracts (say for example, for passenger cars, commercial vehicles etc.) are pending for more than three months, the Ministry of Supply have in a written note stated as follows:—

“15 requests for price acceptance and increase in prices under rate contracts are pending and are mentioned below:

Name of Supplier	No. of requests pending
1. M/s. Ashok Leyland Ltd., Madras	(i) General price increase w.e.f. 1-10-67 in price of chassis. (ii) Tyre increase from 13-8-68. (iii) Tyre increase from 1-12-68.
2. M/s. Tata Engineering & Locomotive Co. Ltd., Bombay.	(i) Tyre increase w.e.f. 12-8-68. (ii) General increase in price of chassis w.e.f. 17-9-68. (iii) Tyre increase w.e.f. 1-12-68. (iv) Price increase from 5-2-68.
3. M/s. Hindustan Motors Ltd., Calcutta.	(v) Tyre increase w.e.f. 9-2-68.
4. M/s. Mahindra & Mahindra Ltd., Bombay.	(i) Tyre increase w.e.f. 22-4-68. (ii) Tyre increase w.e.f. 17-8-68. (iii) General increase w.e.f. 1-1-69.
5. M/s. Premier Automobiles Ltd., Bombay.	(i) Tyre increase w.e.f. 16-9-68. (ii) Tyre increase w.e.f. 26-12-68. (iii) General price increase w.e.f. 7-2-67, 28-10-68, 19-5-69, 2-6-69 and 1-7-69.
6. M/s. Bajaj	(i) Tyre increase and General increase w.e.f. 21-5-68, 27-6-67, 17-1-67 applied 4-2-69.

The prices of commercial vehicles were being controlled and noted down by the Ministry of Industrial Development & Company Affairs upto 22nd September, 1967 for light commercial vehicles and upto 14th September, 1968 for other vehicles. The main reason why

the increases claimed by the firm after decontrol have been pending is that some of the increases claimed relate to the period when the prices were under informal control by the Department of Industrial Development and it is difficult for the Department of Supply to accept these increases without full justification for these increases. The basis on which the price increase is asked for and the variation is to be allowed after decontrol is under active examination in consultation with the Department of Industrial Development and a decision is expected to be taken shortly."

7.19. Asked to indicate the latest position of the case, the representative of the Ministry has during the course of evidence stated as follows:—

"So far as the Commercial vehicles are concerned, the price control was being exercised by the Department of Industrial Development upto 15th September, 1967. The car manufacturing companies were asked not to increase prices for a period of one year and they were asked to exercise some sort of a discipline and control, which they did. On the 15th September, 1968 the control on the prices of commercial vehicles was withdrawn. Just after that, all the vehicle manufacturers came to us and wanted substantial price increase. And that has created a lot of complications for us because we feel that there is no adequate justification for asking for such high price increase. We are prepared to consider whatever is reasonable. But the firms are also claiming increases in respect of certain items which were already disallowed by the Department of Industrial Development when the formal control was exercised. We felt that all these things must have been taken into account by that Ministry and that there was no justification for the firms to ask price increase in respect of those items also. In some cases they tried to cover up their past losses. We felt that this was unreasonable. In fact, meetings have been held with the representatives of the Ashoka, Leylands, Premiers, Hindustan etc. Representatives of the four top manufacturing companies came to my office. We held meetings with the Department of Industrial Development and we have said that unless they can give us a complete break-up of the price increase which they are now asking, we are not in a position to accede to their demand. But on receipt of this information, we shall go into it at some

length and with great care and then we shall decide what is the reasonable price increase which we can agree to. Pending that, what we have done is that we have allowed the increases in respect of tyres because there is still a price control on tyres and tubes which is exercised by the Department of Industrial Development. So, whatever price increase is allowed by the Department of Industrial Development, is communicated to us and we give those price increases, provided the firm gives an internal Auditor's certificate that it does not include any element of profit. Subject to that, we have allowed the increase in respect of tyres and tubes which were communicated by the Department of Industrial Development. But in so far as the general price increase for commercial vehicles is concerned, that matter is still under consideration. And it will take a little more time because the matter is extremely complicated.

So far as passenger cars are concerned, Government has again reimposed control on the price of passenger cars—Ambassador.”

7.20. When asked whether the manufacturers are prepared to consult the Ministry of Supply in the matter, the representative of the Ministry has stated “They have gone to the Supreme Court but we shall certainly not buy at a higher price.”

7.21. Asked whether the Ministry of Supply was bound to accept the prices of cars fixed by the Ministry of Industrial Development and Company Affairs, the Ministry of Supply have in a written note furnished to the Committee clarified the position as follows:—

“If the prices of any particular item are fixed by the Department of Industrial Development statutorily or under agreements with the Industries, the Ministry of Supply accept those prices. The DGS&D do not try to vary the prices fixed by the Department of Industrial Development. Ministry of Industrial Development and Company Affairs have now fixed the prices of passenger cars statutorily as per Resolution published on October 4, 1969.”

7.22. The Committee note that a number of suppliers of automobiles have filed claims for increase in prices and that these are under examination of Government. Most of the claims of the automobile manufacturers for an increase in the price relate to a period when these existed formal or informal control on sale price of

automobiles. The representative of the Ministry has stated in evidence that "there is no adequate justification for asking for such high price increase and the firms are also claiming increase in respect of certain items which were already disallowed." But again the representative of the Ministry has stated that on the break-up of price is given, 'we shall decide what is the reasonable price increase which we can agree to'. While the Committee would like all matters to be settled with expedition, they need hardly stress that every care should be taken in finalising the pending claims to ensure that in no case such increase is allowed beyond the prices fixed under formal or informal control on sale of automobiles.

CHAPTER VIII

A. Procedure for payments for Supplies made—delays in payments etc.

Paying Authorities

8.1. (i) Payments in respect of acceptance of tenders placed by DGS&D including its regional offices with effect from 1-4-1965 irrespective of the values of the contracts are made by the respective Pay and Accounts Officers according to the location of suppliers and not according to stores as was being done previously. For this purpose the different regions which are dealt with by each Pay and Accounts Officer are as follows:—

PAY AND ACCOUNTS OFFICER, NEW DELHI

(Punjab, Haryana, Rajasthan, U.P., M.P., H.P., J&K and Delhi).

PAY AND ACCOUNTS OFFICER, CALCUTTA

(West Bengal, Assam, Bihar and Orissa).

PAY AND ACCOUNTS OFFICER, BOMBAY

(Maharashtra, Gujarat and Goa).

PAY AND ACCOUNTS OFFICER, MADRAS

(Andhra Pradesh, Madras, Mysore, Pondicherry and Kerala).

8.2. (ii) The decentralisation of payment in accordance with the location of suppliers envisaged above does not, however, apply to:—

- (a) All long term contracts, namely, Rate and Running Contractors, including Supply Orders placed against those contracts.
- (b) Contracts placed on Indian Agents for imported stores stipulating payment on F.O.B./F.A.S. basis to their principals abroad and reimbursement of shipping freight bills, charges of indigenous stores and Indian Agent's Commission.
- (c) Purchase orders with the State Forest Departments for supplies of Timber

8.3. Payment of bills in respect of the aforesaid categories of contracts is made on the basis of the allocations made according to the Directorates, Regional Offices placing the Contracts.

Terms of payment against various types of DGS & D. contracts

8.4. According to the conditions of contract advance 95 per cent is payable on proof of Inspection and despatch and the balance 5 per cent on receipt of stores in good condition by the consignee, in cases of ad hoc A/Ts other than those for plant and machinery. In case of the letter 90 per cent is paid in advance on proof of delivery/despatch and on production of initial I|Note. The balance 10 per cent is payable on final inspection and test. The procedure being followed for making such balance 5 per cent or 10 per cent bills is detailed below:

(a) Balance 5 per cent payment against ad-hoc A/Ts.

With effect from 1-9-1966 a system of automatic payment of balance 5 per cent has been introduced, with the exception of F.O.R. destination contracts, Rate|Running contracts and contracts for timber. Under this procedure. immediately after making the advance payment of 95 per cent, the concerned P&AO issues a notice to the consignee advising him of the advance payment having been made and telling him that if no complaint regarding damages, shortages etc. is received within a period of 90 days from the date of advance payment, the balance payment of 5 per cent would be made automatically after expiry of the 90 days of the advance payment. While claiming payment of balance 5 per cent automatically, the contractor has to certify that he has not received the inspection note duly receipted from the consignee nor has he been intimated of non-receipt of stores shortages or defects in the stores supplied and that he undertakes to make good any defect or deficiency that the consignee may report within 6 months from the date of despatch of stores. Such payments would be made only after the delay has been regularised and the contract price if liable to variation has been finalised.

(b) Balance payment 10 per cent in case of Plant and Machinery contracts

Normally 10 per cent balance payment in case of plant and machinery contracts is made after final inspection and test at site. However, in cases where the erection or final

inspection and test of the plant at site is delayed for any reasons for which the purchaser is responsible, 5 per cent of the contract price of the plant can be paid after the expiry of 4 months from the date of arrival of the last consignment at site, remaining 5 per cent being payable after erection and test and acceptance of the plant by the Inspector. As a special case, the remaining 5 per cent can also be paid without the consignee's receipt certificate, if so asked for by the contractor against an authorisation letter in the prescribed form after 8 months from the date of arrival of the last consignment at site provided no defect or shortage, proved or unproved, has come to notice within that period. In the authorisation letter, the firm *inter alia* undertakes that if the consignee certified short-receipt of any stores supplied or components, or part of the plant or of the equipment or lawfully reject the plant or the equipment or part thereof and/or any stores required therewith in accordance with the terms and conditions of the contract, the firm is required to refund forthwith on demand the full price of such stores, components etc. as the case may be.

- (c) *Balance 5 per cent payments in F.O.R. destination contracts and contracts other than those covered against para (a) above.*

If a consignee fails to furnish the receipt certificate within 60 days of the date of despatch of inspection note and railway receipt, the contractor has to address the consignee under registered cover acknowledgement due for issue of receipt certificate and has to endorse copies of the letter to the supply officer and Indentor. In case the supply officer does not receive any communication from the consignee or the Indentor giving satisfactory reasons for delaying the issue of receipt certificate, he will, on the 10th day of receipt of letter, issue a notice to the next higher officer of the Consignee under registered cover, acknowledgement due, asking him to arrange for return of the inspection note or state reasons for delay in release of the Inspection notes within 15 days. Consignee/Indentor is also told that failure to comply will lead to automatic payment of the balance payment on the 90th day. If no satisfactory reasons are furnished by the consignee, on the 91st day from the date of the despatch of inspection note and railway receipt an authorisation in standard form

is issued to enable the contractor to claim the balance payment bills without a receipt certificate from the consignee. The standard authorisation is subject to the condition that if the consignee, within a period of 90 days from the date of balance payment, certifies short receipt or lawfully rejects the stores in accordance with the terms and conditions of the contract, the firm shall forthwith refund on demand the full price of such stores.

8.5. It has been brought to the notice of the Committee that there are some complaints of delay with respect to payment of balance 5 per cent or 10 per cent of Bills. Such payments are required to be made with the stipulated period of 90 days. It has been represented that payments are not always authorised within the stipulated time.

6.6. While explaining the position during the course of evidence, the representative of the Ministry stated:—

“The firms were complaining that large amounts were blocked because of delay in finalisation of the cases. So what we have done is: previously we used to send reminders to the consignees, but they were firstly not sending replies for months together. They did not even send any intimation to the Pay and Accounts Officer saying that they have received the goods although the goods have been received by them 2-5 months earlier. Therefore, naturally there is a legitimate complaint from the suppliers and industry was saying that their payments are being held up and we also realised that if payments are held up for a long time, they will be reflected in the prices later on. Next time when the firm quotes, it will obviously quote an increased price. So we have issued instructions that if the reply is not received from the consignee within 90 days then the Pay and Accounts Officer will make payments automatically.”

8.7. The Committee are happy that the present mode of payment in respect of balance 5 per cent against ad hoc Acceptance of Tenders is an improvement over the previous system inasmuch as the balance payment is made automatically after the expiry of 90 days of the advance payment. The Committee, however, feel that the procedure of payment of balance 5 per cent should be further simplified and streamlined so as to ensure that the entire payment against the A/T is made to the supplier invariably within 90 days and that he has not to wait, if he has fulfilled his terms of contract, till the expiry of 90 days from the date of advance payment.

8.8. It has been suggested to the Committee that as the delay in acceptance of price and price increases results in the contractors not getting the full amount and blocking up of their funds, the present payment terms of 95 per cent payment against proof of despatch and balance 5 per cent against receipt certificates from consignee should be changed to 98 per cent payment against proof of despatch and 2 per cent balance payment against receipt certificates from consignees.

8.9. On the above suggestion, the representative of the Ministry of Supply has, during the course of evidence, stated:

"As I mentioned, in respect of long term running contracts we have already agreed to 98 per cent. But in the case of *ad-hoc* indents, by and large, we do not agree to that because we want to keep 5 per cent in case there is any change in the excise duty and other decrease in the prices or delay in supply necessitating recovery of liquidated damages. We have got to keep a margin for that. * * * We have therefore, taken a decision that we cannot go beyond 95 per cent and 5 per cent."

8.10. The Committee agree that in the case of *ad hoc* indents by and large status quo should be maintained in regard to the present ratio of 95 per cent payment against proof of despatch and balance 5 per cent against receipt certificates from consignees subject to automatic payment within 90 days from the date of advance payment. The Committee feel that keeping a margin of 5 per cent is essential on account of change in excise duty, customs duty, sales tax, variation in price etc.

8.11. The Committee have been given to understand that there are cases where the finalisation of the Acceptance of Tender has been pending for years together. Asked to indicate brief details and circumstances of such pending cases and reasons for non-finalisation of payment in respect of them, the Ministry of Supply have in a written note furnished to the Committee, stated as follows:

"In order to give an impetus to finalisation work, a seminar was organised in the D.G.S. & D. As a result of discussions in the seminar, comprehensive instructions on the subject were issued. These instructions have simplified the procedure of finalisation of purchase cases, and have also stipulated timely limits for finalising such cases. Further in order to help combat recession prevailing in the country, a concerted drive has been launched to ensure expeditious action for finalisation of purchase cases. These special efforts have yielded the desired results in bringing down the pendency of cases, as would be observed from

the data given below:—

	As on				
	1-10-66	1-1-67	1-1-68	1-1-69	1-8-69
Total pendency . . .	4,156	6,491	3,677	2,699	2,565

The Ministry have added that:—

“A definite programme has also been set out to clear all cases whose supplies have been completed by 31st December, 1968, wherever documents are complete. However, some cases are held up due to non-receipt of documents required to be furnished by the firm in terms of the contracts, non-furnishing of despatch particulars of stores by the firms, receipt certificates from consignees, etc.”

8.12. The Committee are constrained to observe that in the Directorate General of Supplies and Disposals as many as 2,565 finalisation cases were pending on the 1st August, 1969. The Committee note that the number of pending cases was reduced to the present figure as a result of a concerted drive launched by the Ministry as the number of such cases on 1st January 1967 was as high as 6,491. The Committee are unhappy to observe that the present state of affairs in regard to pending finalisation cases is a sad commentary on the working of the D.G.S. & D. and casts a reflection on the efficiency of work in that Organisation. The Committee would, therefore, urge that suitable steps should be taken by the Ministry of Supply on a high priority basis to liquidate the pending cases early.

8.13. It has been represented to the Committee that in spite of the fact that a period of three years has elapsed since devaluation, a large number of cases involving payment against devaluation have not been decided so far.

8.14. Asked what was the number of such cases pending at present and what steps had been taken by Government to liquidate them, the representative of the Ministry of Supply stated during the course of evidence:—

“So far as devaluation is concerned, if I may mention, devaluation came about in June 1966 and there were a number of cases where the firms put forward their claims. Naturally the matter was very complicated and it had to be examined in great detail in consultation with the Ministries of Finance and Law. Comprehensive instructions were issued

in January, 1967 and we have dealt with a large number of cases. Only about 105 cases are still pending. But in those cases the difficulty is that the firms, in spite of repeated reminders, have not so far furnished the relevant documents. Without the production of documents, we cannot proceed further in the matter."

8.15. The Committee regret to note that a large number of cases involving payment to the firms concerned against devaluation have not been settled by the D.G.S. & D. so far though more than three years have elapsed. The Committee urge that the Ministry of Supply should take immediate steps to settle all pending cases on account of devaluation.

8.16. It has come to the notice of the Committee that fraudulent transactions were carried out by certain firms which obtained advance payments by quoting bogus and fictitious railway receipt numbers in their bills, even though the stores were not actually despatched or stores other than the contracted stores were despatched or by despatching smaller quantities of stores than those mentioned in the bills.

8.17. Asked to state what steps Government had taken to curb the above-mentioned fraudulent practices, the Ministry of Supply have in a written note furnished to the Committee stated as follows:—

"The Government have adopted the following safeguards for preventing contractors from obtaining payments fraudulently by quoting fictitious| bogus R/R No. etc.:—

- (a) Sub-clause 9 of Clause 14 of the conditions of Contract has been amended specifying that the Railway Receipt| Consignee's note or Bill of Lading, if any, should be drawn in the name of the Consignee or the interim consignee, as the case may be, and should be sent to him.
- (b) Instructions have been issued to the Purchase Officers that in future A/Ts, the Consignees should be requested to send an intimation to the Purchase Organisation immediately on receipt of stores giving particulars of the A/T No. and date, date of despatch of stores by the contractor with Railway Receipt No. and date and date of actual receipt by the consignee along with the quantity received.
- (c) In case of progress payments, in addition to test checks of Railway Receipts and transport documents by Progress Field Staff, they will also test-check the actual receipt of stores by the Consignee. This will be done by checking Consignees' receipts, sending letter to Consignee to

certify the receipt and even in important cases by visits to the consignee's premises.

- (d) Consignees have been asked to promptly report to the P and A.O. concerned, with a copy to the D.G.S. and D., any cases of shortage|discrepancies found in the stores received by them.
- (e) Instructions have been issued that all serious complaints received from consignees and other malpractices, fraud etc. reported by them should immediately be brought to the notice of and also periodically reviewed by the Senior Officers so as to ensure prompt and proper action.
- (f) It has been decided that the P and A.O. would immediately after making payment of advance bills send a registered letter to the consignee asking him to confirm receipt in full or the extent of short supply of stores as indicated in the R|R, within 45 days of receipt of the letter.
- (g) As a further measure of safeguards, it has been decided to obtain a certificate from the contractor that the particulars of R|R and other despatch documents quoted in the bills are genuine and that the goods charged for were actually despatched under that R|R| etc."

8.18. Asked whether the Vigilance Branch of the DGS&D launched prosecutions for bribery etc. the representative of the Ministry has during the course of evidence stated as follows:—

"Yes. Prosecutions have been launched in the recent notorious case in which a firm committed a big fraud on Government and Government lost nearly Rs. 2 crores. There was also another case—Kushalbai Patel Case—where the accused firm of contractors are being prosecuted. Some members of our inspection staff also have been prosecuted."

8.19. While explaining the position in regard to the UPCC (United Provinces Commercial Corporation) Road Roller case, the representative of the Ministry has added during the evidence:

"Government were the only purchasers in that case. The case is before the Chief Presidency Magistrate, Calcutta, so far as prosecution is concerned; but in regard to the case itself, the company has gone into liquidation, an official receiver has been appointed and we have put in our claims. Earlier

we had filed civil suits for the recovery of the amount. Actually, this formed a part of the Audit paragraph and we were examined at great length by the PAC."

8.20. Asked whether after the discovery of the fraud committed by the party concerned, the Ministry have come across any serious lacuna in their system, the representative of the Ministry replied in the affirmative. He has added that the Public Accounts Committee have made several recommendations and that the Ministry has also been examining the matter very carefully.

8.21. Asked what steps Government was taking to remedy the state of affairs in the Organization, the representative of the Ministry has during the course of evidence stated: "If an unscrupulous firm wants to commit fraud, with the best of will in the world and with whatever steps we take to stop this sort of thing in hundred per cent cases, I do not think it is at all feasible to stop it."

8.22. Asked specifically how this sort of thing could happen in spite of their system of receiving tenders, deposits, having the case history of parties who tender for such a big item, the representative of the Ministry of Supply has stated:—

"I will explain how the fraud occurred, and that will give you an idea of it. According to our procedure, we can make advance payments to the firm to the extent of 95 per cent on inspection and despatch of goods. After despatch of goods the firm produces the railway receipt numbers and sends the bill to the Pay and Accounts Officer for making payment. In this case what the firm did was that instead of despatching the goods after inspection they submitted bogus railway receipt numbers and on the basis of that they were able to draw payment from the P.A.O. For quite some time we did not get any complaints from the consignee. When after a fairly long period it came to our notice, we made enquiries and found that this was a peculiar way of committing fraud. It had not been done earlier; it was the first time that we found that by quoting bogus railway receipt numbers they got the payment order."

8.23. Asked whether there was no machinery to check whether the goods had despatched or not, the representative of the Ministry has stated: "This firm managed to commit this fraud very cleverly. In collusion with some of the inspectors of DGS&D it was able to get the same and roller inspected over and over again, but did not despatch it. Where the consignee complained, it immediately rushed the supply. This is how it was able to avoid detection for a fairly long

time. By the time we found it out, it was able to get a payment of Rs. 2 crores. I would request you not to judge the performance of the Department by this one case. I will tell you what efforts we made to get copies of RRs but we failed in our effort. We took up the matter with the Railway Board and asked them to give a duplicate copy of the RR to us. But they said that it was not possible. * * * I will give you some figures which will show that it is not really so bad as all that. The number of cases of fraud reported during 1947 to 1968 was only 37, the number of firms involved in them is 22, the total amount of payment drawn fraudulently was Rs. 223.86 lakhs, the total purchases made by DGS&D were for Rs. 4,826 crores and the percentage of fraudulent payment over total purchases is .05 per cent. The amount of advance payment drawn by UPCC was Rs. 1.84 crores. The percentage of fraudulent payment excluding UPCC comes to 1008 per cent. During the course of the last so many years, only one particular firm committed this big fraud in which nearly Rs. 2 crores were involved."

8.24. As regards assessment of the extent to which the amount could be recovered, the representative of the Ministry has stated: "My own personal information is that they have very little. They have not only cheated us but also cheated the banks from whom they had taken advances."

8.25. Asked whether there was any attempt on the part of some of the big executives of the firm to get out of the country, the representative of the Ministry has replied, "An attempt was made, but it was stopped in time. As you probably know, the plane was brought back. He was arrested and was released on bail," adding that the case is being handled by the C.B.I.

8.26. Asked whether the case was likely to be finalised within the next five years, the representative of the Ministry stated: "I cannot hazard a guess. It will be difficult for me to say that."

8.27. In a subsequent written note furnished to the Committee, the Ministry of Supply have furnished the following statistical information regarding loss incurred by Government from fraudulent payments since 1947 onwards:—

A.(i) No. of cases of frauds reported during the period from 1947 onwards	94
(ii) No. of firms involved	55
(iii) Total amount of payment drawn fraudulently	Rs. 241.55 lakhs

(iv) Total purchases made by DGS & D during 1947 to 1969 (upto Nov. '69)	Rs. 5,480.16 crores
(v) Percentage of fraudulent payments over total purchases	— 04%
B. (i) Amount of advance payment drawn by M/s. UPCC for supply of 403 Road Rollers	Rs. 1,84,92,735
(ii) Amount of fraudulent payment excluding the UPCC case	Rs. 56.62 lakhs
(iii) Percentage of fraudulent payment excluding the UPCC case.	01%

8.28. The Committee regret to note that in the U.P.C.C. road roller case the firm committed a big fraud on Government, and the latter lost nearly Rs. 2 crores. They further note that the firm instead of despatching the goods to the consignee after inspection submitted bogus railway receipt numbers to the Pay and Accounts Officer and drew advance payment from him. The Committee do not want to make comment at this stage on the merits of the case as they understand that the matter is pending investigation. They would, however, like to be informed about the final outcome of the case.

8.29. As regards percentage of loss to the total amount of purchases made by the DGS&D, the Committee do not agree that losses are on the lower side. The fact remains that in one single case the Government has been put to a loss amounting to as high a figure as Rs. 2 crores. The Committee suggest that the procedure of inspection and payment etc. obtaining in the office of the DGS&D should be reviewed and streamlined, loopholes plugged, wherever necessary, and suitable effective steps taken to put a stop to such serious irregular practices resulting in heavy losses to Government. They further suggest that Government should ensure that the procedure as evolved is implemented fully. The Committee also stress that no stone should be left unturned by Government to recover as much of the amount of loss as possible from the party concerned and bring to book those who are found guilty of the serious lapses so that it may serve as a deterrent to others.

B. Delays in Supplies of Stores—Liquidated damages for Delays

8.30. In reply to a question as to what is the percentage of cases in which the specified dates of delivery are adhered to for supplies, it has been stated by the Ministry that 'during 1968-69, 28.2 per cent of cases were covered within the original delivery period while another 10.3 per cent cases were covered within 21 days (grace period) of the original delivery period. Asked whether the above position was not unsatisfactory, the Ministry of Supply have in a written note furnished to the Committee stated as follows:

“(a) The position cannot be said to be unsatisfactory in the prevailing circumstances of scarcity of essential raw materials, labour unrest etc. The difficulties are explained below:

Delays occur for a variety of reasons:—

- (1) The supply of items fabricated from steel materials is delayed very often on account of the fact that the production of steel producers is not adequate to meet the requirements of the country.
- (2) Shortage of imported raw material.
- (3) Labour trouble hampers supplies of materials.
- (4) While paints, oils and lubricants are made available, containers required for packing are in short supply in view of the shortage of thinner gauges of steel sheets. For the same reason, kerosene supplies to distant out-stations are held up although there is no shortage in the supplies of kerosene.
- (5) Delays in obtaining requisite foreign exchange sanction for imported stores and the changes in the import policy of the Government dislocate supplies. There are frequent changes in the import policy regarding wool, spare parts for automobiles, tractors and other earth moving machinery, non-ferrous metals etc.
- (6) Although the industrial potential in the country has developed to a large extent, yet there are certain sectors where the capacity is inadequate to meet the country's requirements.
- (7) Wide fluctuations in the requirements of the indentors.
- (8) Obligations to develop small scale and cottage industries.

8.31. Asked to indicate the longest period taken by some of the defaulting cases and the reasons for the default, the Ministry have added:—

- “(i) Among the very old cases are those pertaining to the year 1961-62 for stores which are required to be fabricated out of raw materials to be provided to the contractor. For instance, a contract for Bridge Girders could not be completed because the distribution of required sections of the steel was controlled by the indenting organization, i.e. the Railway Board and they could not release some of the

sections for the manufacture of Bridge Girders for a long time.

- (ii) Contracts in respect of stores which are in short supply like wheels, tyres and axles for the Railways. Production of M/s. Tata Iron & Steel Co., who are the suppliers of these stores, is being regulated by production schedules drawn up in consultation with the indentors the railways. Since stores to certain drawings could not be included in the production schedules, some of the orders could not be supplied for several years.
- (iii) There are other cases where it has not been possible to cancel the contracts as the suppliers could not be provided with the requisite raw materials or components for a long time. Such cancellations could be effected only with the consent of the suppliers who are not always willing to accept cancellations."

8.32. The Committee suggest that the DGS&D should take suitable steps to ensure that the delivery period stipulated in the contract is adhered to as far as possible, and that there are no delays in supplies of stores to the indentors. The Committee feel that, wherever necessary, arrangements for procuring of scarce raw materials to the suppliers, release of controlled items and removal of bottle-necks should be made to ensure timely supplies of stores against the DGS&D contracts.

8.33. The conditions of Contract in clause 14(7) (i) provide for damages for late delivery as liquidated damages. The clause stipulates that in the event of late delivery of stores, the purchaser is entitled to recover from the contractor by way of liquidated damages, a sum of equal to 2 per cent of the price of the stores delivered late.

8.34. It has been stated that liquidated damages accrue only in cases of delay in supplies. Where no supplies have been made under a contract, the DGS&D can, upon cancellation of the contract or part thereof, as the case may be, recover the damages occasioned thereby i.e. either recover the general damages or the extra expenditure incurred in risk purchase. This is so even in cases where the cancellation was preceded by one or more extensions of delivery period with reservation of right to recover liquidated damages. The reservation does not mean that by the mere fact of asking for extension in time the seller has made himself liable to pay the liquidated damages. It only means that the seller is promising to perform

and that the buyer is agreeable to take supplies beyond the original delivery period, but the buyer imposes a condition that in view of the delay, he will take besides the goods compensation for the delay also at the specified rate (i.e. 2 per cent per month). The reservation for liquidated damages ceases to operate when the contract is ultimately broken in whole or in part, to the extent of the breach.

8.35. Where time is the essence of the contract, it is required that delivery is completed by the agreed date. The contract comes to an end on the failure of the seller to deliver the stores by the agreed date and the purchaser may refuse to take delivery of the stores if offered after the agreed date. If delivery is taken unconditionally after the agreed date, it is presumed in law that the agreement as to the time being the essence of the contract has been waived and the purchaser is not then entitled to claim any damages for delay in delivery. Where, however the purchaser accepts delivery after due date with a notice to the seller that he would claim damages for delay in delivery, the former is entitled to claim damages by serving notice in a standard letter (DGS&D 160) for granting extension in contract delivery period. It then naturally follows that acceptance of stores after the agreed delivery date without giving a notice to the seller of the intention to claim damages for late delivery puts an end to the right to claim such damages.

8.36. Though the General conditions of Contract, as stated above provide for recovery of liquidated damages at the rate of 2 per cent per month in respect of delayed supplies, all that the DGS&D can recover from the supplier according to law, is only a reasonable compensation not exceeding the amount specified.

8.37. It has been represented to the Committee that the delay in issue of import licence often makes it obligatory for the contractor to seek extension of delivery period. The need for revalidation of import licence also involves delays and there have been cases where liquidated damages were imposed on the suppliers although extensions of the delivery period were due to factors beyond the control of suppliers. It has been brought to the notice of the Committee that in a concrete case regarding the supply of salenium rectifier welder where the A/T was issued in February 1965 with the validity period upto 18th February, 1966, the DGS&D while recommending the extension of the delivery period on account of delay in issue of import licence, reserved the right to levy liquidated damages.

8.38. Asked to give their comments on the above statement, the Ministry of Supply have in a written note furnished to the Committee, stated as follows:—

"An A/T conforming to the description of the store mentioned was placed on 27th February, 1965 on M/s..... and the D/P was indicated as 8 to 10 weeks after the receipt of import licence. As the import licence was actually issued on the 7th September, 1965, the delivery was refixed as 28th February, 1966 and this refixation was not with the reservation of rights to levy liquidated damages. It was only when the firm failed to make supplies by the extended date, that further extension in D/P was granted upto 30th September, 1966 with reservation of rights to levy liquidated damages."

8.39. The Committee feel that the D.G.S.&D. should ensure that no such cases arise where the liquidated damages are imposed on the suppliers when it becomes obligatory for them to seek extension of delivery period due to delay on the part of Government in issue of import licences or revalidation of import licences etc.

C. Arbitration and legal proceedings

(i) Arbitration

8.40. The General Conditions of Contract provide for settlement of disputes arising out of a contract by Arbitration where it is so agreed by both the parties.

8.41. Asked whether clause 25 relating to Arbitration was not anomalous and unfair to supplier as it lays down in specific terms that no person other than the person appointed by the DGS&D should act as an arbitrator, the representative of the Ministry of Supply has during the course of evidence stated:—

" DGS&D appoints the Joint Secretary in the Ministry of Law as an arbitrator by name. Of course it is open to the supplier to accept him or not; if he does not agree, he can go to a court of law. * * * This point was raised in the last meeting of the Central Purchase Advisory Council."

The representative of the Ministry further said that this was unfair to the industry and they wanted that the arbitrator should be appointed from a panel of the Council of Arbitrators in India. The representative of the Ministry has added, "Now that matter is under consideration. But I have my own views. I personally would not like to give this opportunity because there are a lot of snags in this|"

8.42. The Committee feel that in view of the fact that the sole arbitrator in respect of DGS&D contracts is appointed by the DGS&D, the supplier on his part has got a very limited choice inasmuch as either he accepts the arbitrator appointed by the DGS&D or he goes to a Court of Law. The Committee recommend that feasibility of accepting the suggestion of the Industry that the arbitrator should be appointed from a panel of the Council of Arbitrators in India may be examined.

(ii) *Legal Proceedings*

8.43. The Director General (Supplies and Disposals) is authorised to sanction:

- (a) Institution of suits and other legal proceedings including arbitration cases, excepting appeals on behalf of the Government wherever necessary for the recovery of any amounts due from contractors in respect of the contracts for the purchase or sale of stores.
- (b) Defence of suits and other legal proceedings including appeals which are brought against the Government and which the DGS&D are required to defend.

8.44. DGS&D is, however, required to consult his internal Financial Adviser and Ministry of Law before instituting any suit, arbitration case etc. and engaging any special Counsel. He has also to obtain the approval of the Counsel before filing any appeal or engaging Counsel at high fees.

8.45. In reply to Unstarred Question No. 2414, the Deputy Minister of Foreign Trade and Supply has stated in Lok Sabha on the 6th August, 1969 that criminal cases relating to the supply of inferior quality of bottom boards to the Central Railways have been pending in the Poona Court since 1960.

8.46. While clarifying the position, the Ministry of Supply have in a written note furnished to the Committee stated as follows:—

“Against Central Railway’s demand following orders were placed:—

- (1) A/T No. ST2/22534?E/1/2346 dated 26-7-55 with M/s.... for supply of 1306.5 tons of Bottom Boards of sizes in species Aini, Kalpine and Haldu of the value of Rs. 3,99,557/-
- (2) A/T No. ST2/22530-F/1/2523 dated 16-3-56 with M/s.... for supply of 307.5 tons of Bottom Boards Hardwood, Benteak, Piney and Poon of the value of Rs. 94,403/-.

Full quantity was passed in inspection by Assistant Works Manager (Timber Inspection), Central Railway, Bombay and the passed quantity was despatched by the firms to the Central Railway depots at Matunga, Lallagude and Jhansi. The stores were accepted by the consignees and inspection notes released thereof.

Later on, a complaint was received by the SPE, Madras that the stores supplied by the firms did not conform to the supplies mentioned in the contracts. By that time the consignees had already used major portion of supplies. The SPE, Madras seized of the remaining supplies and had them examined by Wood Technologist, Dehra Dun, when it was found that about 0.16 per cent of the stores in one case and 1.345 per cent in the other case confirmed to the specification and the remaining were inferior jungle wood. After detailed investigation the SPE, Madras lodged criminal proceedings against the firms and the cases were pending before the Special Judge, Poona.

Judgement in the criminal cases of M/s..... has been delivered by the Special Judge, Poona and accused of the firm have been sentenced to imprisonment and fined. Copy of the judgement is awaited. The criminal cases of M/s..... have ended in acquittal. Copy of the judgement is awaited.

The case lodged by the police was of a criminal nature only. In order, therefore, to set up civil liability against the firm in relation to the contracts the cases have already been referred to arbitration at the instance of Central Railway claiming *inter alia* a sum of Rs. 1,72,650/- and Rs. 39,592, respectively towards breach of warranty (being the difference in price payable to the contractor under the contract and the reduced price of stores actually supplied).

The arbitration cases have been adjourned *sine die* pending final decision of the criminal proceedings against the firm."

8.47. As regards expenditure incurred by Government on these cases so far, the Ministry have stated:—

"The SPE, Madras has intimated that a sum of Rs. 20,240.16 has been paid to the special counsel, Poona from September, 1959 to January, 1969. No further amount has been paid so far.

A further sum of Rs. 9,253.30 has been spent towards T.A. on staff. This amount is for the period 1967 to October, 1969 only (figures prior to 1967 are not available as T.A. bills have been destroyed)."

8.48. Asked what Departmental action was taken in these cases against the officers who inspected and approved the bottom boards, the Ministry have added:

"Shri....., Asstt. Controller of Stores (Timber Inspection) C. Railway, Bombay has been removed from service from 15-5-1961. The Central Railway have, however, been asked on 18-11-1969 whether action against any other official/officer has also been taken."

8.49. Asked what steps had been taken to avoid recurrence of such irregularities in future, the Ministry have stated as follows:—

"Business dealings with M/s....., Bombay and M/s....., Bombay were suspended and they have been finally black-listed. Ministry of Railways (Railway Board) have intimated that there is already a well laid down procedure regarding inspection and acceptance of timber on the Railways. Instructions to the Railway Administrations have been issued from time to time that the Code provisions and extent orders on the subject be properly followed so as to ensure that there is no passing and acceptance of timber below specification."

8.50. The Committee note that criminal cases relating to the supply of inferior quality of bottom boards by two firms of Bombay to the Central Railways have been pending in the Poona Court since 1960. The Committee regret to note that full quantity was passed in inspection by an officer of the Central Railway, Bombay. They note that on receipt of a complaint, the S.P.E., Madras, got the supplies examined by the Wood Technologist, Dehra Dun when it was found that only 16 per cent of the stores in the case of one firm and 1.345 per cent in the case of another conformed to the specification and the remaining were inferior jungle wood. The Committee would not like to comment on the cases on merits at this stage as they understand that they are pending in a Court of law. They would, however, desire to be informed about the outcome of the cases. The Committee urge that Government should adopt stringent measures to ensure that recurrence of such irregularities is avoided in future.

CHAPTER IX

REGIONAL OFFICES

9.1. The procedures and problems pertaining to the Headquarters office hold good *mutatis mutandis* in respect of the Regional Offices.

9.2. As regards the case of M/s, Bombay the representative of the Ministry of Supply has during the course of evidence stated as follows:—

“The amount involved was about Rs. 2 lakhs. The party used a very unique way of committing fraud. It is ingenious, I should say. He despatched the goods and yet was able to commit a fraud, and take his advance payment. In the case of UPCC they got payment on proof of inspection and despatch, that is, by bogus receipts without despatching the stores. This man had entered into a contract for lining cloth with the suppliers. One is.....Mills in Gwalior. Cloth was manufactured and despatched to the various consignees by the supplying mills. This man got the correct railway receipt numbers from the Mills, they were not bogus receipts. He got those from supplying mills and presented to the Pay and Accounts Office and drew the payment. He did not make the payment to the supplying mills. And they served notice. The Director of Supplies, Bombay went into the matter and the fraud came to light. The Controller of Central Radio Stores, New Delhi, also reported about it. Everybody got to know of it and we referred the case to the Police. This man was arrested in Bombay. He cheated the factory and ourselves. The case is with CBI. Prosecution is launched. He is released on bail. This is for C.B.I., and we don't come into that.”

9.3. The Committee note that a firm of Bombay cheated Government to the extent of a sum of Rs. 2 lakhs in connection with the supply of lining cloth against an order placed by the Director of Supplies (Textiles), Bombay during July-November, 1967.

9.4. The Committee urge that the entire procedure of payment

should be streamlined and suitable remedial steps taken to avoid such serious lapses in future.

9.5. It was brought to the notice of the Study Group of the Committee during their tour to Bombay in June, 1968 that the delays in supplies were largely in the case of manufactured items like tents, bags etc. Asked what peculiar circumstances led to the delay in supplies of the above stores and what steps were taken or were proposed to be taken to remove the bottle-neck, the Ministry of Supply in a written note stated as follows:—

“Tents.—The majority of the tent suppliers are small-scale units with limited means. These suppliers have to depend on the smooth flow of supply of the correct quality of Dasooti, which is the main basic raw material and is manufactured only by a limited number of mills. * * * There is also the difficulty of getting the quality dyes which are imported and for which necessary permits are issued by the Textile Commissioner to importers|stockists.

Tentage is a hand-made item. Although the specifications governing supply allow some manufacturing tolerances in dimensions, stitching etc., yet it has not been possible always to produce finished stores within the permissible manufacturing tolerances, with the result that stores are rejected. Such rejections result both in blocking the money of the firms and delay in supply of stores. * * *

Bags.—There has been difficulty and delay in the supply of T.N.T. Bags which are required by the Ammunition Factory, Kirkee. The delay in supply of stores is mainly due to the fact that the right quality of canvas of the required breaking strength is not readily available. Since the stores are required for Ammunition purposes, no relaxation beyond the permissible limits as provided in the specification can be allowed, resulting in abnormal delays. * * * The Ordnance Clothing Factory, of late, has been showing interest in the manufacture of Blue Air Mail Bags. It is expected that most of these difficulties would be overcome shortly.”

9.6. Asked what efforts had been made to procure in time Dasooti, Sheeting Cotton, Duck Cotton etc. which went into production of tents to the suppliers, the Ministry stated that “the purchase of tentage is effected from units situated in North India. The orders are placed for complete tentage and the Government have no responsibility in releasing the raw materials like Dasooti, Sheeting,

Duck and Cordage etc. It is the responsibility of the suppliers to make their own arrangements for the raw materials. They procure their requirements from mills as well as Power Looms units and other Cottage Industries establishments. Supplies are coming through from all these sources in sufficient quantities conforming to required specifications."

9.7. Asked what steps had been taken by Government for removing difficulties like getting the quality dyes which were imported and whether some indigenous substitute could not be found out for the purpose, the Ministry replied that "the specifications allow use of indigenous Vat Dyes. The real difficulty arises with some of the tentage manufacturers who do not procure dyes from recognised manufacturers as also their process of dyeing is somewhat defective resulting in shade variations. If the manufacturers take proper care during the process of production, these difficulties can easily be overcome. Inspectors are available for advising firms in all technical matters during the stage inspection."

9.8. The Committee are concerned about the delays in supplies of manufactured items like tents, bags etc. against the orders placed by the Director of Supplies (Textiles), Bombay. The Committee understand that there is only one supplier of tents in the Bombay region and that the majority of the tent suppliers are small-scale units with limited means. These suppliers have to depend on the smooth flow of supply of the correct quality of Dasooti, which is the main basic raw material and is manufactured by a limited number of mills. The Committee urge that Government should take suitable steps for removing the difficulties coming in the way of the suppliers early.

9.9. Asked what types of cases were referred to Headquarters by the Regional Offices, the Ministry of Supply in a written note furnished to the Committee, stated:—

"In Regional Offices where there is Associated Finance purchase proposals etc. which requires the approval of DDG/DG in Headquarters and cases which requires the approval of the Department of Supply are referred to Headquarters. In respect of the Regional Offices at Madras and Kanpur cases requiring concurrence of Finance are also referred to Headquarters except in cases in respect of which special powers have been delegated to D.S. & D., Madras."

9.10. As regards scope for further delegation of powers, the Ministry have stated that "the powers to Purchase Officers in the

Regional Offices have been delegated by the Ministry of Supply on the basis of recommendations of the Study Team as accepted by the Empowered Committee. The Regional Office at Calcutta where the volume of work is considerable in view of the jute purchases is under the charge of a D.D.G. (S. & D.) who ensures expeditious finalisation of the purchases. It is felt that there is no scope for further delegation of power to Purchase Officers in the Regional Offices."

9.11. Asked whether the Regional Offices concerned could not be provided with Financial Advisers so that these cases need not be referred to Headquarters, the Ministry of Supply stated:--

"While the Regional Offices at Calcutta and Bombay are assisted by a Finance Officer, there is no Associated Financial Adviser in the Regional Offices at Kanpur and Madras. In the case of Regional Office at Madras, D.S.&D., Madras has been granted the following special powers:—

- (i) To conduct negotiated purchases or purchase where free competition is lacking upto Rs. 30,000.
- (ii) To accept price preference to Small-Scale Industrial units on merits of each case in respect of contracts upto the value of Rs. 30,000."

9.12. The Committee note that the Regional Supply Offices at Kanpur and Madras have not been provided with any Associated Financial Adviser with the result that all cases requiring concurrence of Finance are referred by those Offices to the Headquarters except in certain cases in respect of which special powers have been delegated to the Director of Supplies and Disposals, Madras. The Committee suggest that the Ministry of Supply should examine the feasibility of appointing Associated Financial Advisers in the offices of the Directors of Supplies and Disposals at Kanpur and Madras also to enable them to take decisions on the spot and avoid delays in obtaining the concurrence of Finance by making references to the Headquarters office at New Delhi.

9.13. It was brought to the notice of the Study Group of the Committee during their tour to the Western Zone in September, 1969, that the absenteeism in the office of the Director of Supplies and Disposals, Bombay, was about 22 per cent on an average, resulting in accumulation of arrears of work.

9.14. Asked whether the above figure of absenteeism was not on the high side, the representative of the D.G.S. & D. has during the

course of evidence stated: "It is explainable because people are entitled to take leave upto 111th of the service. We are not clear about the period in the Regional Office. And we would look into that and find out. There are occasions like 'Shiv Sena' trouble and all that. Nobody could attend."

9.15. Asked about the suggestion for increasing the leave reserve, the representative of the D.G.S. & D. has stated that the leave reserve was fixed on an overall formula. On behalf of the Regional Office it was submitted that since the Unit was so small, unless there was an increase in the leave reserve, they could not cope up with the situation and once there was absenteeism, the whole system collapsed. The representative of the Ministry stated, "I agree in principle. But rules are already laid down by Government. They will not relax the rule." The representative of the D.G.S.&D. added: "Leave reserve is fixed by Government of India on the basis of the recommendations of the Central Pay Commission, 1959 and no Department of Government is competent to change it. In this particular case because of the smallness of the non-gazetted staff the leave reserve has become inadequate and that has led to virtual collapse of the unit. I agree that this can be gone into on merits. I don't think the Finance Ministry will accept that."

9.16. When the gravity of the situation (*viz.* the high-paid officer sitting idle for days together on account of personal staff being on leave) was pointed out by the Committee, the representative of the Ministry replied as follows:—

"I agree that certain recommendations were made by Vidyalankar Committee and they asked us to introduce that scheme. Here is an Assistant Director who is the base officer sitting idle because some body proceeded on leave and there was no substitute provided. There must be some special provision for the leave reserve. This is a very special case and something ought to be done."

9.17. The Committee are constrained to note that the absenteeism of staff in the office of the Director of Supplies and Disposals, Bombay, was as high as 22 per cent on an average resulting in accumulation of arrears of work. Under the Officer-oriented scheme where the Assistant Director|Section Officer is the base officer for dealing with cases, with the help of the Stenographer, if the personal staff is on leave, the officer concerned is handicapped in the disposal of cases. They would suggest that the whole position regarding such absenteeism should be examined and suitable steps taken to ensure that the work is not allowed to fall into arrears on account of casual absence

of staff. The Committee would also recommend that in the special circumstances of the case, the question of an increase in the leave reserve may also be considered in the interest of efficiency of work if the situation so demands.

M. THIRUMALA RAO,

Chairman,

Estimates Committee.

NEW DELHI;

April 14, 1970

Chaitra 24, 1892.

APPENDIX I

(Vide para 2.17)

Statement showing the staff position in the Purchase Wing before and after reorganisation.

(i) Before organisation.

Designation of Post	No. of Posts
Gazetted posts	Headquarters Office (7 Purchase Dtes. Project Dte. & Fz. Dte.)
Addl. D. G.	2
Deputy Director General	2
Director of Supplies	8
Control Officer	1
Deputy Director (Supplies)	18
Dy. Director (Fz.)	1
Asstt. Director (Supplies) (Gr. I)	28
Do. (in lieu of S.O.)	1
Do. (Finalisation)	1
Asstt. Director (Supplies) (Gr. II)	17
Do. (in lieu of S.O.)	5
Do. (Finalisation)	1
Asstt. Director (Gr. II) (Leave Reserve)	5
Section Officers	40
<i>Dte. of Supplies & Disposals, Calcutta</i>	
Director of S & D	1
Deputy Director (Supplies)	2
Asstt. Director (Gr. I)	5
Asstt. Director (Gr. II)	4
	(including 1 LR)
<i>Directorate of Supplies & Disposals, Bombay.</i>	
Director S & D	1
Dy. Director (Supplies)	1

Designation of Post	No. of posts
Asstt. Director (Grade I)	1
Asstt. Director (Grade II)	4 (including 1 LR)
<i>Directorate of Supplies (Textiles), Bombay</i>	
Director of Supplies (Tex.)	1
Dy. Director (Supplies)	2
Asstt. Director (Gr. I)	4
Asstt. Director (Gr. ⁷ II)	3 (including 1 LR)
<i>Directorate of Supplies & Disposals Madras.</i>	
Director of Supplies & Disposal	1
Asstt. Director (Gr. I)	2
<i>Directorate of Supplies & Disposals, Kanpur.</i>	
Director of Supplies & Disposals	1
Asstt. Director (Gr. I)	2
<i>Non-gazetted posts Headquarters</i>	
Assistants	144
U. D. Clerk	135
L. D. Clerk	255
Stenographers	40
Stenotypists	3
Junior Progress Officers	10
Technical Assistants	28
J. F. O.	16
Estimators	8
<i>Regional Offices</i>	
Junior Progress Officers	16
Technical Assistants	5
Junior Field Officers	32
Class III (Ministerial)	885

(ii) After re-organisation (I-II-66).

Designation of post	No. of posts
<i>Headquarters (nine Purchase Dtesl. & FZ Wing).</i>	
<i>Gazetted posts</i>	
Additional D. G.	2
Dy. Director General	2
Director of Supplies	9
Control Officer	1
Dy. Directors (Supplies)	18
Dy. Director (FZ)	1
Asstt. Director of Supplies (Gr. I)	38
Asstt. Director (Gr. I) (FZ)	1
Asstt. Director (Gr. II)	32
Do. (FZ)	1
Do. (Leave Reserve)	9
Section Officers	25
<i>Directorate of S & D, Calcutta</i>	
Director of S & D	1
Dy. Director (Supplies)	2
Asstt. Director (Gr. I)	5
Asstt. Director (Gr. II)	4
	(including 1 L. R.)
	<u>12</u>
<i>Dte. of Supplies & Disposals, Bombay.</i>	
Director of Supplies & Disposals	1
Deputy Director (Supplies)	1
Assistant Director (Gr. I)	1
Assistant Director (Gr. II)	5
	(including 1 L.R.)
<i>Dte. of Supplies (Textiles), Bombay.</i>	
Director of Supplies (Tex.)	1
Dy. Director (Supplies)	2
Asstt. Director (Grade I)	6
Asstt. Director (Gr. II)	4
	(including 1 L.R.)

Designation of posts	No. of posts
<i>Dte. of Supplies & Disposals, Madras.</i>	
Director of Supplies & Disposals	1
Asstt. Director (Gr. I)	4
Asstt. Director (Gr. II)	2
<i>Dte. of Supplies & Disposals, Kanpur</i>	
Director of Supplies and Disposals	1
Asstt. Director (Gr. I)	3
<i>Non-Gazetted posts Headquarters</i>	
Assistants	117
U. D. Clerks	115
L. D. Clerk	203
Stenographers	18
Stenotypists	88
Junior Progress Officers	9
Technical Assistants	24
Junior Field Officer	20
Estimators	6
<i>Regional Office:</i>	
Junior Field Officer	13
Technical Assistants	5
Junior Field Officer	35
<i>Class III (Ministerial)</i>	715

APPENDIX II

(Vide Para 2.23)

Budget Estimates for the year 1968-69

DIRECTORATE GENERAL OF SUPPLIES AND DISPOSALS (SUPPLIES WING)

Serial No.	Budget Sub-head/Primary Head	Original Estimates	Revised Estimates (Final)	Actual, Exp.	Variation bet. Col. 3 & 4	Variation bet. 4 & 5	Reasons for variations under Col. 6.	Reasons for variation under Col. 7.
1	2	3	4	5	6	7	8	8

1968-69

A. 1—JGS (Supplies Wing) GRANT No. 87—SUPPLIES AND DISPOSALS

1	A. 1(1) Pay of Officers	27,82,000	27,96,600	27,84,526	(+) 14,600	(-) 12,074	Due to increased provision for Leave Salary & Leave Salary contribution & provision or Training Reserve Posts.	The figures shown under Col. 7 of the Statement do not reflect the correct actual expenditure for the year 1968-69, as the same are compiled on the basis of
2	A. 1(2)—Pay of Estt.	59,48,300	57,82,500	57,83,221	(-) 1,65,800	(+) 721	Due to large number of casual vacancies and changes in personnel.	March, 1969 (Preliminary) figures.
3	A. 1(3)—Allow. Hon. Etc.	57,31,500	57,76,600	57,62,919	(+) 45,100	(-) 13,681	Due to revision of rates of D.A. w.e.f. 1-9-68, merger of D.A. with Pay resulting in enhanced HRA/CCA partly	Certain adjustments of debits in respect of leave salary contribution, passage charges, liveries, Legal Charges etc.

1 2 3 4 5 6 7 8 9

4 A. 1(4) Other Charges. 12,07,600 13,75,300 13,08,479 (+) 167,700 (-) 66,821 Due to increased provision or Service postage, Telephone charges etc. on account of revision of rates. to be carried out 4 the March, 1969 Final) accounts (in July, 1969 after reconciliation of departmental figures with accounts office actuals.

Ad Hoc provision for Addl. posts. 3,00,000 (-) 3,00,000 Provision utilised under the different units of appropriation.

TOTAL . . 1,59,69,400 1,57,31,000 1,56,39,145 (-) 238,400 (-) 91,855

1968-69

Grant No. 87—Supplies and Disposals.

A-2(1)—Pay of Officers .	1,35,800	1,36,600	1,38,785	(+) 800	(+) 2185	Excess due to Provision for leave salary.	Excess due to provision for leave salary to one officer
A-2(2)—Pay of Establishment.	2,61,700	2,57,100	2,56,932	(-) 4,6000	(-) 168	Saving due to casual vacancies.	Saving is insignificant
A-2(3)—Allow. Hon. etc.	2,49,600	2,63,700	2,64,028	(+) 14,100	(+) 328	Excess due mainly to revision in the rates of Dearness Allowance w.e.f. 1-9-68, increased expenditure under TA/TC and merger of DA	Excess is negligible

with pay resulting in enhanced HRA and CCA.

A-24—Office Charges (Voted)		3,78,400	4,03,600	3,12,044	(+)	25,200	(—)	91,556	Excess due to increase provision required for auctioneering omission.	Certain debits are awaiting adjustments Final position of actuals will be clear in March 1969
Do. (Charged)		2,077 (Suppl.)	2,100	2,077	(+)	23	(—)	23	Due to rounding of the Estimates to the nearest hundred.	Final accounts after reconciliation of Departmental figures with these of the Accounts Office actuals in July, 1969.
GRAND TOTAL : (Voted)		10,25,500	10,61,000	9,71,789	(+)	35,500	(—)	89,211		
(Charged)		2,077 (Suppl.)	2,077	2,077						

1968-69

Grant No. 87—Supplies and Disposals.

A-3(1)—Pay of Officers		27,55,800	26,75,200	26,70,042	(—)	80,600	(—)	5,158,311	The figures shown under Col. 7 of the statement do not reflect the correct posts, changes in personnel.	due mainly to casual vacancies, abolition of certain posts, changes in personnel.
A-3(2)—Pay of Establishment.		32,39,000	31,73,300	31,72,158	(—)	65,00	(—)	1,142	Saving mainly to casual vacancies, changes in personnel etc.	certain adjustment debits are to be carried out in March 1969 final Account in July, 69 after reconciliation of Departmental figures with Accounts Office
A-3(3)—Hon. etc.		40,67,500	42,24,100	41,92,309	(—)	1,56,500	(—)	30,791	Excess is due to increased expenditure under TA/TC/Post-	actuals.

I	2	3	4	5	6	7	8	9
							age charges, re- vision in the rates of D.A. w.e.f. 1-9-68 and enhanced ex- penditure under HRA and CCA due to merger of DA with Pay.	
A.3(4).	-Other Charges .	5,60,000	5,85,400	5,66,158	(+)25,400	(-)19,242	Due to increased pro- vision for chemical and apparatus and service postage.	
A.3(5)	-Inspection Charges	39,400	26,600	25,246	(-)12,800	(-)1,354	Due to less number of orders for inspection involving payment of fees to outside agencies than anti- cipated.	
	"							
GRAND TOTAL		5,99,400	1,06,84,600	1,06,26,913	(+)22,900	(-)57,687		

APPENDIX III

(Vide Para 2-24)

Statement of work-load in the DGS&D

PURCHASE WING

Year	Indents		Receipts		Cases finalised	No. of contracts placed	Value of contracts placed in crores
	Recd.	Disposed of	Recd.	Disposed of			
1966-67	.	22,002	19255	11,96,291	11,65,169	14,267	16,663
1967-68	.	20,353	20,295	11,42,623	11,59,619	18,334	14,381
1968-69	.	16,388	16,631	10,32,034	10,29,360	10,631	14,043
Outstanding as on 1-6-69	.	4028		38,970	2,637	2,637	360.27*

*Provisional as drawal reports against a few rate contracts from I.O.C. etc. are yet to be received

INSPECTION WING

Year	No. of orders received	Value of orders received (in crores)	Value of stores inspected (Rs. crores)		
			Against DGS&D orders	Against direct orders placed by Govt./other Departments	Total
1966-67	.	.	1,36,339	305.96	173.42
1967-68	.	.	1,20,101	279.35	206.12
1968-69	.	.	123,990	275.27	174.53
					479.38
					485.47+
					170.25*
					449.80+
					160.08*

*Value of steel certified under ISI certification marking scheme.

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DISPOSAL WING

(Figures in lakhs)

Year	Book value of Declarations recd.	Book value of Stores disposed of	Sale value realised
1966-67	3233	2501	595
1967-68	7300	4818	1079
1968-69	5092	5810	1416

APPENDIX IV

(Vide para 2-25)

Statement showing the sanctioned strength of the Dte. GS&D (Headquarters and Regional Offices) as on 31-3-69.

Posts	Headquarters	Dte. of S&D, Calcutta	Dte. of S&D, Bombay	Dte. of S (Tex.) Bombay	Dte. of S&D., Madras	Dte. of S&D., Kanpur	Total
I	2	3	4	5	6	7	8
(a) SUPPLIES WING							
(i) Gazetted	.	223	23	11	16	10	7
(ii) Non-Gazetted	.	1196	331	160	117	118	46
(iii) Class IV	.	324	137	79	41	25	11
							290
							1968
							617
TOTAL	.	1,743	491	250	174	153	64
							2,875
(b) DISPOSALS WING							
(i) Gazetted	.	10	2	1	..	1	..
(ii) Non gazetted	.	40	21	10	..	7	..
(iii) Class IV	.	20	6	3	..	3	..
TOTAL		70	29	14	..	11	..
							124

Posts	Headquarters	Dte. of I. Calcutta	Dte. of I. Bombay	Dte. of I. Madras	Dte. of I. Jamshedpur	Dte of Insp. Burnpur	Dte. of Insp. NI Circle New Delhi	Dte. of Insp. Japan	Total
1	2	3	4	5	6	7	8	9	10
(c) INSPECTION WING									
(i) Gazetted	36	85	45	27	66	30	40	4	333
(ii) Non-gazetted	51	351	203	98	189	69	133	3	1097
(iii) Class IV	40	123	61	24	96	35	38	1	818
TOTAL	127	559	309	149	351	134	211	8	1848

APPENDIX V

(Vide Para 3.2)

Statement showing the Store-wise value of orders placed by the D.G.S. & D. during the three Plans and 1966-67 to 1968-69
(Value in crores of Rupees)

Group of Store	1st Five Year Plan		2nd Five Year Plan		3rd Five Year Plan		1966-67	1967-68	1968-69
	Total	Average (Yearly)	Total	Average (Yearly)	Total	Average (Yearly)			
1	2	3	4	5	6	7	8	9	10
1. Textiles	74.38	14.88	90.60	18.12	326.89	65.38	45.36	62.56	47.26
2. Footwear except Rubber Footwear	4.02	0.80	6.46	1.29	21.94	4.39	4.23	3.47	3.25
3. Wood & Wood Products	22.10	4.42	22.70	4.54	36.39	7.28	4.45	6.28	6.89
4. Paper & Paper Products	18.35	3.67	40.83	8.17	70.47	14.09	13.75	12.83	18.12
5. Leather & Leather Products (except Footwear)	1.41	0.28	1.41	0.28	5.23	1.05	1.14	1.01	1.32
6. Rubber Products	8.77	1.75	19.73	3.95	39.12	7.82	12.64	10.30	17.55
7. Chemical & Chemical Products	18.40	3.68	45.22	9.04	92.95	18.59	24.12	57.99	24.61
8. Non-metallic Mineral Products including Product of Petroleum & Coal	106.41	21.28	306.22	61.24	644.23	128.85	173.78	124.84	173.12
9. Basic Metal Industries	36.62	7.33	70.57	14.12	138.44	27.69	32.45	35.34	30.22

I	2	3	4	5	6	7	8	9	10
10. Metal Products (except Machine & Transport equipment) . . .	6.39	1.26	12.85	2.57	41.67	8.33	4.40	7.92	5.41
11. Machinery (except Elect. Machines) . .	44.01	8.80	77.32	15.46	205.58	41.12	38.61	43.67	32.33
12. Electrical Machines, Appliances & Supplies	49.37	9.87	105.62	21.13	202.56	40.51	31.20	49.08	37.28
13. Transport Equipment	75.18	15.04	177.94	25.59	300.37	60.07	48.24	40.06	35.92
14. Miscellaneous Industrial Products & Others	7.92	1.58	25.56	5.11	40.41	8.08	7.37	10.83	11.95
TOTAL	473.23	94.64	1003.03	200.61	2166.25	433.25	441.74	466.18	445.23

APPENDIX VI

^a (Vide Para 3.2)

Statements showing the value of orders placed by DGS&D during the three Plans and 1966-67 to 1968-69, classified by Source of Manufacture.
(Value in crores of Rupees)

Source of Manufacture	1st Five Year Plan			2nd Five Year Plan			3rd Five Year Plan			1966-67	1967-68	1968-69
	Total			Total			Total			Average (Yearly)		
	2	3	4	5	6	7	8	9	10			
(i) Cottage and Small Scale Industries	6.99	1.39	20.75	4.15	123.60	24.72	24.16	26.17	29.47			
(ii) Large Scale Industries	271.94	54.39	743.13	148.63	1641.89	328.38	344.43	325.39	376.19			
Total Indigenous	278.93	55.78	763.88	152.78	1765.49	353.10	368.89	351.56	405.66			
Imported	194.30	38.86	239.15	47.83	400.76	80.15	72.85	114.62	39.57			
GRAND TOTAL	473.23	94.64	1003.03	200.61	2166.25	433.25	441.74	466.18	45.23			

APPENDIX VII

(Vide Para 3·2)

Statement showing the value of orders placed by D.G.S. & During the three plans and 1966-67 to 1968-69. classified by Indentor-Groups.

(Value in Crores of Rupees)

Indentor-Group	1st Five Year Plan		2nd Five Year Plan		3rd Five Year Plan		1966-67	1967-68	1968-69
	Total	Average (Yearly)	Total	Average (Yearly)	Total	Average (Yearly)			
I	2	3	4	5	6	7	8	9	10
(i) Railways	154·90	30·8	275·10	55·02	352·46	70·49	68·25	81·85	9·77
(ii) Other Central Ministries	236·78	47·35	285·95	57·19	1258·53	251·71	269·51	274·52	239 1
(iii) State Govts. Public Sector Undertaking etc.	8206	16·41	95·59	19·12	337·06	67·41	95·90	96·56	99·59
(a) Public Sector Undertakings	1·93	0·39	7·33	1·47	14·79	2·96	1·25	1·98	3·70
(b) State Govts. and Union Territories	71·84	14·37	75·99	15·20	67·43	13·49	10·71	10·94	10·78
(c) Quasi-Public Bodies & Foreign Government	8·29	1·65	12·67	2·45	26·03	5·20	2·58	14·35	2·99

1	2	3	4	5	6	7	8	9	10
(d) Orders against Rate Contracts for which breakup under a, b & c not available .				..	228.81	45.76	81.36	69.29	82.1
(iv) Orders against Rate/Running Contracts where Indentor-wise breakup under (i) to (iii) is not available	346.39	69.28	218.20	43.64	8.08	13.25	6.36
TOTAL	473.23	94.64	1003.03	200.61	2166.25	433.25	441.74	466.18	455.23

APPENDIX VIII

(vide para 4.2)

List of group IV items reserved for exclusive purchase from S.S.I. Units

1. Animal driven vehicles (civil requirements only).
2. Anklets web khaki.
3. All badges, cloth embroidered and metals.
4. Attache cases.
5. Bags ice head (Civil requirements only).
6. Bandage cloth.
7. Barbed Wire.
8. Basket cane.
9. Belt leather.
10. Belt leather and strips.
11. Blacksmith hearth.
12. Bone Meal.
13. Boxes made of metal (Civil requirements only).
14. Boxing boots.
15. Boots and shoes of all types (Civil requirements only).
16. Brass dampers.
17. Brass padlocks.
18. Brief cases.
19. Brooms.
20. Brushes.
21. Buckles.
22. Button metal.
23. Cans (made up of G.I. sheets for milk and measuring)-
24. Cash bags.
25. Caps cotton.
26. Caps woollen.
27. Caps Waterproof.
28. Casing and capping.
29. Ceiling roses upto 15 amps.
30. Centrifugal steel plate blowers.
31. Copper Sulphate.
32. Chains lashing.
33. Chappals and sandals.
34. Coir fibre and coir yarn.

35. Conduit pipes (Metallic).
36. Cotton Wool (Non-absorbent)
37. Cotton hosiery (Civil requirements only).
38. Cotton cord twine (other than Defence).
39. Crates wooden.
40. Cumblies.
41. Curtains mosquito (Civil requirements only).
42. Distribution Boards upto 15 amps.
43. Dusters cotton all types except the items required in Khadi.
44. Dust bins (Civil requirements only).
45. Dust shield leather.
46. Electric call bell.
47. Electric buzzers.
48. Electric Soldering iron.
49. Eyelets.
50. Expanded metal.
51. Football boots.
52. French Polish.
53. Garments (Civil requirements only).
54. Gas mantles.
55. Gauze Cloth.
56. Ghamellas (Civil requirements only).
57. G. I. Padlocks.
58. G. I. Buckets.
59. Glass ampules.
60. Gauze surgical all types (Civil requirements only).
61. Gun metal bushes.
62. Gun cases.
63. Hand drawn carts of all types (Civil requirements only).
64. Handles wooden and bamboo.
65. Hand Numbering Machine.
66. Hair passam wool.
67. Hand gloves.
68. Hide and country leather of all types (Civil requirements only).
69. Horse & mule shoes.
70. Hob nails.
71. Hold-alls.
72. Invalid wheeled chairs.
73. Insecticides dusts and sprayers (manual only).
74. Keys wooden.
75. Kit bags.
76. Kodali.
77. Kullahs.

78. Lace leather.
79. Lanterns posts and bodies.
80. Lathies.
81. Lamps signal.
82. Lamp-holders.
83. Leather bags.
84. Leather boxes (not army type).
85. Leather harness.
86. Leather washers.
87. Metalclad switches.
88. Mail bags (canvas and dossoti).
89. Mainhole covers.
90. Metal polish.
91. Metric weights.
92. Miniature Bulbs (for torches only).
93. Nail tip heel rustless.
94. Nail cutters.
95. Newar (other than Defence).
96. Ordinary bench vices.
97. Paper conversion products.
98. Pillows (cotton).
99. Patient coats and pyjamas.
100. Plaster of Paris.
101. Postal lead seals.
102. Piles fabric.
103. Plugs.
104. Pouches.
105. Postal weighing scales.
106. Quilts, Razais (Cotton).
107. Rags cotton (Civil requirements only).
108. Railway platform drinking water trolleys (Civil requirements only).
109. Razors.
110. Rubber ballons.
111. Scissors cutting (ordinary scissors).
112. Shoes laces.
113. Sign boards painted.
114. Shellac.
115. Skin sheep all types (Civil requirements only).
116. Skiboats and shoes.
117. Sole leather (Civil requirements only).
118. Soap washing or laundry soap (Civil requirements only).
119. Sockets.
120. Spiked boots.

121. Steel racks.
122. Steel stools.
123. Steel trunks (Civil requirements only).
124. Stockinette (Civil requirements only).
125. Stone curry and stone curry rollers.
126. Suitcases.
127. Tacks I Metallic.
128. Tape cotton (Civil requirements only).
129. Tarpaulins (Civil requirements only).
130. Teak fabricated round blocks.
131. Tentage jute.
132. Tin trays.
133. Umbrellas.
134. Utensils cooking (except stainless steel utensils and vessel pressure cookers).
(Civil requirements only).
135. Wood wool.
136. Wood
137. Wooden ammunition boxes.
138. Wheel barrows.
139. Wicks cotton (Civil requirements only).
140. Wooden packing cases of all sizes (Civil requirements only).
141. Woollen hosiery (Civil requirements only).
142. Wire nails and horse shoe nails.
143. Boot polish.
144. Coir mattress and matting.
145. Steel desks.
146. Tip books.

APPENDIX IX

(Vide Introduction)

Summary Conclusions/Recommendations contained in the Report

Sl. No.	Reference to Para. No. of the Report.	Summary of Conclusions Recom- mendations
1	2	3
1	1.16	The Committee note that ever since the setting up of the Central Purchase Organisation in India and its development from time to time upto 1947, the main functions of the Organisation had been the procurement of stores for the prosecution of two great Wars. The Committee also observe that the Organisation has stood the test of time and has shouldered the responsibilities cast on it in regard to the maintenance of supply lines in the country having due regard to the development of Indian industries both in times of peace and war and according to the exigencies of the situation resulting from emergencies from time to time.
2.	2.4	The Committee feel that the distribution of items of work among different Purchase Directorates should be periodically reviewed and re-allocated where necessary, so that there may be maximum efficiency in the work of the Directorates.
3.	2.18	The Committee agree with the recommendations of the Vidyalankar Study Team that there should be an officer-oriented pattern of working in the Purchase Wing both at the Headquarters and the Regional Offices. They hope that as a result of the working of the scheme, delays at various levels have been cut down. As regards difficulties experienced due to absence of staff, the Committee suggest that the Ministry should devise suitable steps so that flow of work is not hampered on this account, and there is no wastage of other personnel when the base officer is on short leave.

1	2	3
4.	2.21	The Committee note that the saving as a result of Vidyalankar Study Team's recommendation about reduction of staff in the Directorate General of Supplies and Disposals was worked out at Rs. 15 lakhs approximately. But as there was considerable delay in the re-employment of surplus staff the saving was reduced to about Rs. 7 lakhs. The Committee further observe that as a result of subsequent increases in staff strength, the saving has been further reduced.
5	2.28	The Committee note that proposals for additional staff for the D.G.S.&D. Headquarters and Regional Offices are under consideration of the Staff Inspection Unit of the Ministry of Finance. The Committee hope that the proposals will be very carefully scrutinised and decisions taken promptly, keeping in view the need for economy and efficiency.
6	2.30	The Committee note that the forums like the Central Purchase Advisory Council and the Advisory Panel for Engineering Industry facilitate a fruitful dialogue between the purchasers and the suppliers apart from the periodical meetings with the indentors by the DGS&D to exchange views and understand the practical difficulties. The Committee would, however, suggest that with a view to ensure close liaison and coordination between indentors, the Directorate General of Supplies and Disposals and Suppliers and to exchange views and understand the practical difficulties of various parties, the desirability of calling for the representatives of suppliers at such meetings, where necessary, may be examined.
7	3.9	The Committee are glad to note that Government have accepted and implemented most of the recommendations of the Vidyalankar Study Team. They hope that the remaining 16 recommendations will also implemented at an early date.
8.	3.10	The Committee, however, note that despite all attempts some delay continues to attend on every stage of purchasing processes and procedures followed by the DGS&D. In view of the enormous magnitude of the purchases made by the DGS&D, which is around Rs. 450 crores annually, the Committee suggest that no pains should be spared in locating the numerous, at times complex, causes of delay and applying remedial measures.

1	2	3
9	3.11	The Committee would further urge that relentless efforts should continue to be made in future also to simplify and streamline the procedures so that action may be taken expeditiously at every stage for allaying the apprehensions of the suppliers and satisfying the demands of the indentors.
10	3.18	The Committee feel that it would be useful to make a study of the specific types of spare parts purchased in bulk from abroad. Information regarding specifications as well as uses of the spare parts should be collected and compared with similar items produced within the country.
11	3.19	The Committee would further suggest that the Government should also assess the requirements for individual items on a long-term basis so that the manufacturers may also be able to plan and create capacity in time for future manufacture.
12	3.20	While the Committee agree that every care has to be taken to assess the suitability of indigenously manufactured spare parts before they are accepted, they feel that Government should adopt a helpful attitude in providing guidance to these manufacturers to come up to the standard. The Committee suggest that suitability or otherwise of spare parts manufactured in the country should be tested in as short a time as possible. They hope that the DGTD is fully equipped with technical know-how and appropriate machinery for undertaking such tests within a reasonably short time.
13	3.21	The Committee would also recommend that feasibility of creating a climate for manufacturing spare parts in small industries or ancillary industries should be quickly examined by Government.
14	3.26	The Committee note that industrial development has been promoted to some extent as a result of the role played by DGS&D. They are, however, of the opinion that there is enough scope in this field, and the Committee, therefore, suggest that the Ministry should keep the matter under constant review and in consultation with the Ministry of Industrial Development, explore the possibilities of giving a filip to the industrial development in the country by nurturing the indigenous sources of supply and regulating the procedure of purchases made by the DGS&D on behalf of Government Departments.

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15	3.28	The Committee feel that when a new capacity has been established particularly in promotion of the import substitution scheme, the Ministry should, in consultation with the Departments concerned, take steps to ensure that such capacity is not allowed to die out. They hope that the whole matter will be reviewed by the Ministry in consultation with the Ministry of Defence and the Ministry of Industrial Development so that a similar situation may not arise in future, and it is ensured that factories established are not closed down for want of orders of supplies. In view of the fact that the country has limited resources for planned development, the Committee suggest that concrete measures should be taken to obviate duplication of manufacturing capacity of stores which are available in adequate quantities. They further suggest that the DGS&D should ensure that supply is of guaranteed quality, delivery is assured within time and the prices are competitive.
16	3.32	The Committee note that if an indenter wants a particular brand of stores manufactured by a particular source, he has to submit to the DGS&D necessary Proprietary Article Certificate along with his indent duly supported by his Associated Finance. They are, however, of the opinion that this procedure is not sufficient in itself to achieve the desired end of developing indigenous sources of supply. They hope that Government will ensure that competition is broad-based consistent with quality so as to secure maximum advantage to Government in price. The Committee recommend that a decision should be taken soon by the Government on the proposal under consideration that 'in case the DGS&D is in a position to offer an alternative substitute in conformity with the indenter's specifications from an alternative source, the indenter should be apprised of this and given a time limit to communicate his acceptance failing which the DGS&D will go ahead with the procurement of the stores from the alternative sources available.'
17	3.35	The Committee note that with a view to promote the growth of indigenous industries in support of import substitution, the DGS&D have been allowing price preference in deserving cases.
18	3.40	The Committee note that formerly the Development Wing formed part of the Supply Department, and that later on it was separated and taken over by the Ministry of Industrial Development and Company Affairs.

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The Committee agree that in respect of stores for which indents are received in DGS&D a regular procedure for an effective liaison with the Development Officers of the DGTD should be established, particularly to carry out a systematic study of imported stores requiring the use of imported raw materials with a view to getting them manufactured indigenously. With this end in view, the Committee would suggest that a high powered Committee consisting of representatives *inter alia* of the Ministries of Supply, Industrial Development and Finance should be appointed to review the entire position in this regard and devise ways and means as to how greater co-ordination between the DGS&D and DGTD should be effected in the interest of giving a fillip to industrial development.

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4.12

The Committee note that 146 items are included in the list of items which are entirely reserved for procurement from small scale units. The Committee also note that though small industries started with modest beginnings, many of them have by now undergone modernisation and have employed sophisticated techniques and equipment. Moreover the Committee are of the opinion that to meet the growing unemployment problem in our country, small scale industries which are usually employment-oriented should be encouraged to flourish. They are of the view that in the light of the experience gained more and more items should be brought within this group. The Committee, therefore, suggest that a periodical review should be carried out in consultation with the NSIC and fresh items should be added to this list in consultation with the Director-General and Ministries of Defence, Railways and Finance. The review should include to identify the indented items which are available in the small scale sector, and from the experience of the trends of purchase an attempt should be made to persuade the manufacturers to set apart more products in the small scale sector. The meetings of such a Review Committee should be organised at least three times a year and targets drawn up, and decision taken be communicated to all concerned.

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4.13

The Committee further suggest that while inviting quotations for Group IV items, a special clause should invariably be incorporated in the tender notices to say that the items are reserved for purchase from small scale industries units.

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21	4.14	<p>The Committee note that purchases worth Rs. 29 crores from the small scale industries out of the total purchases made by the DGS&D amounting to Rs. 450 crores annually works out to about 6.5 per cent. The Committee further note that the contribution of Small Scale Industries to the industrial production amounts to nearly 40 per cent. Similarly, Khadi purchases amounting to Rs. 1 crore annually constitute .2 per cent of the total purchases made by the DGS&D. The Committee regret to note that though the items reserved for exclusive purchase from the small scale sector have increased from 16 in 1957 to 146 in 1969, the purchase from this sector has increased by a small percentage to total purchase i.e., 4.56 per cent to 6.66 per cent. It is, therefore, not known how the decision to purchase 100 per cent of requirements from within 146 items is effectively adhered to. The Committee would like that a detailed examination of the whole matter should be made and the Committee informed of the action taken. The Committee suggest that with a view to encourage the cottage and small scale industries, effective steps should be taken to ensure that they are allowed to take much greater part in the stores purchase programme of the Government by liberalising the conditions of awarding contracts to them in a larger measure.</p>
22	4.15	<p>The Committee note that the items categorised in Group III can be purchased both from large scale and small scale units. There is apprehension that taking advantage of this category, items produced by the small scale sector may not be purchased from it. The Committee, therefore, desire that Government may examine whether the items which can be purchased from small scale sector may be taken out from Group III and included in Group IV. The Committee recommended that serious efforts should be made to promote the growth of small scale industries by enabling them to contribute to the stores purchase programme of Government in a larger measure.</p>
23	4.22	<p>The Committee are of the view that the question of providing price preference upto 15 per cent in favour of small scale industries has not been given the serious consideration that it deserves. The factors which compel the small scale sector to compete with the large scale sector which have the advantage of large production with relatively less expenditure on overheads are more in the nature of struggle for survival as against the challenge faced for extinction</p>

from the big industries. The assertions made that the small scale firms are in a position to comp with large scale manufacturers and are in a position to under-cut the large scale sector could be possible in some cases by making small profits, paying low wages and cutting down minimum amenities to workers and by enduring more strain by the entrepreneur. It would indeed be unrealistic and unimaginative to generalise from an isolated incident like the hosiery industry. It could conversely be argued that large scale sector is quoting a higher price. They, therefore, recommend that in accordance with the policy of Government to promote small scale industries and to give them necessary impetus, the conditions for the grant of price preference should be so altered that benefits go to deserving ones and to entrepreneurs of such industries as are placed at a relatively disadvantageous position, for instance, being away from the hub of metropolis and industrial areas and located in the backward areas so that such units are able to reap real benefit of the provision.

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| 24 | 4.25 | The Committee note that in respect of Group II items, the DGS&D have no objection to the large scale units on whom orders are placed, purchasing ancillaries and components from small scale units for completion of the contractual obligations. They would, however, suggest that the Government may examine the feasibility of discouraging the tendency among the large scale units to fabricate in their own factories all the minor items which could be otherwise manufactured by small scale sector. |
| 25 | 4.28 | The Committee feel that adequate representation has not been given to the small scale industries on the Central and Regional Purchase Advisory Councils. They suggest that the position may be reviewed and suitable action taken to alleviate the grievances of the small scale sector by giving them greater representation in the Purchase Advisory Councils. |
| 26 | 4.30 | The Committee note that during the course of evidence it was made abundantly clear by the representative of the Ministry of Supply that 100 per cent of the stores included in the reserved category of Group IV items are purchased from the small scale sector. The Committee would, therefore, suggest that the Ministry may examine how the contract for tarpaulin which is an item included in the list reserved for pur- |

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chase from small scale units was placed on a large scale unit, and fix responsibility on the officers who are responsible for this purchase. The Committee urge that Government should take suitable steps to see that such a situation does not recur.

- 27 4.32 The Committee hope that Government will ensure that the various concessions and facilities offered to the small scale units for securing a greater share in the Central Purchases will be made available to them in actual practice and in time.
- 28 5.16 The Committee note that a separate Inspection Organisation is maintained by the DGS&D to 'safeguard Government interests more effectively by providing consignment-wise inspection' while the inspection under the I.S.I. Scheme is a sort of periodic check' on the quality control methods. It has been further stated that 'on receipts of the application I.S.I. send Inspectors to find out if they (parties) are in a position to manufacture the stores in question according to a particular specification after they are satisfied with methods of production and quality control, etc.' It has been suggested that DGS&D inspection team carries on inspection of 'every consignment.' Besides the DGS&D, some of the indentors like the Railways have their own inspection team. The Committee recommend that greater advice/assistance of the Indian Standards Institution may also be obtained regarding the inspection of stores against the DGS&D purchases. The Committee also suggest that effective steps should be taken by Government to avoid duplication of inspection by the authorised concerned.
- 29 5.17 The Committee note that on the recommendations of the Study Team, the DGS&D have since fixed definite time limits for the completion of different jobs right from the initial stage of the receipt of order for inspection till the last stage of issue of covering inspection note and also where complaints are received, the time limit to attend to their investigation has been laid down. The Committee further note that adherence to these time-limits is watched through the periodical statements. Though delays in inspection have been cut down to a great extent as a result of laying down specific time-limits, the Committee are constrained to observe that in some cases avoidable delay has taken place. The Committee would, therefore, strongly recommend that efforts should be conti-

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		<p>nuously made to effect improvements by enquiring into the individual cases of delay in Inspection and taking remedial measures where necessary.</p>
30	5.18	<p>The Committee suggest that the work of preparing uniform Inspection procedures should be completed early. They also suggest that an early decision may be taken with regard to utilisation of Defence Laboratories for the testing of samples.</p>
31	5.19	<p>The Committee also note that during the past three years only two periodical inspections of the Regional Offices have been conducted by the Deputy Director-General (Inspection) except in respect of Calcutta Office and Metallurgical Inspectorates which have been inspected only once. The Committee feel that the periodical inspections by the Deputy Director-General (Inspection) have been few and far between, and suggest that these inspections should be more frequent.</p>
32	6.9	<p>The Committee find that only 5,000 firms are registered to purchase goods worth Rs. 445 crores. The Committee feel that with the growth of trade, commerce and industry in the country the number of registered firms with the DGS&D should also be appreciably increased. A firm date-line may be fixed every year to induct new registered firms and proper notice given in the press accordingly. Since purchase stimulates industrial growth, care should be taken to see that purchases are made from all States, as far as practicable, and not confining them to a few metropolitan cities and industrial areas.</p>
33	6.10	<p>The Committee note that the Ministry of Supply have decided that the process of registration should be completed within a period of two months. However, on examination of a few specific cases brought to their notice, the Committee are unhappy to point out that there has been some delay on the part of the DGS&D regarding the disposal of these applications for registration. The Committee would, therefore, suggest that in the interest of efficiency of work and to avoid any harassment to the parties concerned, effective steps should be taken to lay down realistic time limits for the various steps of the processes involved in the disposal of applications for registration of firms.</p>

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34	6.11	The Committee also suggest that where registration is refused, the reasons for such refusal should be communicated by the DGS&D to the firm concerned.
35	6.12	The Committee note that the Vidyalankar Study Team had recommended that 'uniform criteria for assessing the requirements of equipment and testing should be laid down by the Deputy Director-General (Inspection) to make registration more objective.' The recommendation, though accepted by Government, has not yet been implemented. The Committee urge that Government should take suitable steps to expedite implementation of the said recommendation.
36	6.20	The Committee agree that the description of stores required should be complete in all details to facilitate prompt action for procurement. The Committee suggest that the Ministry of Supply should impress upon the indentors the imperative need for giving the correct and detailed description of stores in the indents to avoid unnecessary correspondence resulting in delaying in supply of stores.
37	6.22	The Committee agree that the requirements of various indentors should be bulked by the DGS&D and there should be continuity in placing the orders.
38	6.26	The Committee note that for the purpose of planned purchase the DGS&D have brought out Vocab-cum-programme books comprising 8,000 items for Railways and Posts and Telegraphs, and that such a Book in respect of Defence items is contemplated to be brought out and is rather under compilation. The Committee urge that the DGS&D should expedite the compilation of the vocab-cum-programme book in respect of Defence items also for facility of reference by all concerned.
39	6.32	The Committee are unhappy to note that purchases in some cases are not finalised within one month of the opening of the tenders the time usually given for offers to remain open. With a view to remove complaints of the firms that long time is taken in deciding the tenders, the Committee recommend that the DGS&D should ensure that the decisions on tenders are expedited and purchases are by and large finalised within one month of the date of opening of tenders.

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40	6.36	As the practice of quoting unduly high prices as a result of formation of rings by Trade Groups or having monopolies in supplies is most undesirable and anti-national on the part of the firms concerned, the Committee suggest that the DGS&D should be vigilant for detecting and identifying such undesirable practices, persons and firms in time and black-listed them for future deal.
41	6.37	In view of the inherent pit-falls attendant on post-tender negotiations the Committee suggest that this practice should not be resorted to as a rule unless it is established on valid grounds that the firms have formed a ring to defeat the purpose of the tender.
42	6.47	The Committee are unhappy that in some cases specifications have been laid down without due regard to the availability of raw materials and components of requisite specifications for manufacture of the same. They trust that the matter will be finalised by the DGS&D through negotiation with the parties concerned and the difficulty in this direction will be resolved as early as possible.
43	6.50	The Committee suggest that with a view to develop indigenous capacity for various stores in support of import substitution, Government should seriously consider the question of revision of specifications in consultation with the indentors and Indian Standards Institution in order to accommodate Indian suppliers, having due regard to the production of quality goods.
44	7.5	The Committee suggest that the Directorate-General of Supplies and Disposals should ensure that clarification and confirmation of any points of the contract required by the contractors concerned should be issued to them expeditiously to avoid any delay in execution of the orders.
45	7.14	The Committee agree that before inviting fresh tenders for identical stores, the DGS&D should ascertain whether the Rate Contract holder is unable to supply the stores within the delivery period except in those cases where monetary limit is prescribed in a rate contract.
	7.15	The Committee note that the Railways issued tenders for large quantities of an item (V.B. Hoses) which is already covered by a Running Contract and for which

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DGS&D is unable to place adequate indents to feed those undertakings with whom the Running Contract is concluded. The Committee suggest that the whole position in this regard should be reviewed by the Ministry and necessary steps taken to streamline the procedure so that there is no hardship to the suppliers, and the indentors get the maximum benefit.

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7.17

As both Indentors and Suppliers must know about new contracts before the old ones expire—the indentors to plan their inventories and the supplies to plan their production—the Committee are of the view that the rate/running contracts should be finalised by the DGS&D sufficiently in advance of the expiry of current contracts. The Committee, therefore, suggest that the whole procedure for awarding rate/running contracts should be reviewed and suitable steps taken to avoid delays at various stages.

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7.22

The Committee note that a number of suppliers of automobiles have filed claims for increase in prices and that these are under examination of Government. Most of the claims of the automobile manufacturers for an increase in the price relate to a period from there existed formal or informal control on sale price of automobiles. The representative of the Ministry has stated in evidence that 'there is no adequate justification for asking for such high price increase and the firms are also claiming increase in respect of certain items which were already disallowed.' But again the representative of the Ministry has stated that once the break-up of price is given, 'we shall decide what is the reasonable price increase which we can agree to.' While the Committee would like all matters to be settled with expedition, they need hardly stress that every care should be taken in finalising the pending claims to ensure that in no case such increase is allowed beyond the prices fixed under formal or informal control on sale of automobiles.

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8.7

The Committee are happy that the present mode of payment in respect of balance 5 per cent against *ad hoc* Acceptance of Tenders is an improvement over the previous system inasmuch as the balance payment is made automatically after the expiry of 90 days of the advance payment. The Committee, however, feel that the procedure of payment of balance 5 per cent should be further simplified and streamlined so as

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to ensure that the entire payment against the A/T is made to the supplier invariably within 90 days and that he has not to wait, if he has fulfilled his terms of contract, till the expiry of 90 days from the date of advance payment.

- 49 9.19 The Committee agree that in the case of *ad hoc* incidents by large *status quo* should be maintained in regard to the present ratio of 95 per cent payment against proof of despatch and balance 5 per cent against receipt certificates from consignees subject to automatic payment within 90 days from the date of advance payment. The Committee feel that keeping a margin of 5 per cent is essential on account of change in excise duty, customs duty, sales tax, variation in price etc.
- 50 8.12 The Committee are constrained to observe that in the Directorate-General of Supplies and Disposals as many as 2,565 finalisation cases were pending on the 1st August, 1969. The Committee note that the number of pending cases was reduced to the present figure as a result of a concerted drive launched by the Ministry as the number of such cases on 1st January, 1967 was as high as 6,491. The Committee are unhappy to observe that the present state of affairs in regard to pending finalisation cases is a sad commentary on the working of the DGS&D and casts a reflection on the efficiency of work in that Organisation. The Committee would, therefore, urge that suitable steps should be taken by the Ministry of Supply on a high priority basis to liquidate the pending cases early.
- 51 8.15 The Committee regret to note that a large number of cases involving payment to the firms concerned against devaluation have not been settled by the DGS&D so far though more than three years have elapsed. The Committee urge that the Ministry of Supply should take immediate steps to settle all pending cases on account of devaluation.
- 52 8.28 The Committee regret to note that in the U.P.C.C. road roller case the firm committed a big fraud on Government, and the latter lost nearly Rs. 2 crores. They further note that the firm instead of despatching the goods to the consignee after inspection submitted bogus railway receipt numbers to the Pay and

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Accounts Officer and drew advance payment from him. The Committee do not want to make comment at this stage on the merits of the case as they understand that the matter is pending investigation. They would, however, like to be informed about the final outcome of the case.

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8.29

As regards percentage of loss to the total amount of purchases made by the DGS&D, the Committee do not agree that losses are on the lower side. The fact remains that in one single case the Government has been put to a loss amounting to as high a figure as Rs. 2 crores. The Committee suggest that the procedure of inspection and payment etc., obtaining in the office of the DGS&D should be reviewed and streamlined, loopholes plugged, wherever necessary, and suitable effective steps taken to put a stop to such serious irregular practices resulting in heavy losses to Government. They further suggest that Government should ensure that the procedure as evolved is implemented fully. The Committee also stress that no stone should be left unturned by Government to recover as much of the amount of loss as possible from the party concerned and bring to book those who are found guilty of the serious lapses so that it may serve as a deterrent to others.

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8.32

The Committee suggest that the D.G.S. & D. should take suitable steps to ensure that the delivery period stipulated in the contract is adhered to as far as possible, and that there are no delays in supplies of stores to the indentors. The Committee feel that, wherever necessary, arrangements for procuring of scarce raw materials to the suppliers, release of controlled items and removal of bottlenecks should be made to ensure timely supplies of stores against the D.G.S. & D. contracts.

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8.39

The Committee feel that the D.G.S. & D. should ensure that no such cases arise where the liquidated damages are imposed on the suppliers when it becomes obligatory for them to seek extension of delivery period due to delay on the part of Government in issue of import licences or revalidation of import licences etc.

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8.42

The Committee feel that in view of the fact that the sole arbitrator in respect of DGS&D contracts is appointed by the DGS&D, the supplier on his part has

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		<p>got a very limited choice inasmuch as either he accepts the arbitrator appointed by the DGS&D or he goes to a Court of Law. The Committee recommend that feasibility of accepting the suggestion of the Industry that the arbitrator should be appointed from a panel of the Council of Arbitrators in India may be examined.</p>
57	8.50	<p>The Committee note that criminal cases relating to the supply of inferior quality of bottom boards by two firms of Bombay to the Central Railways have been pending in the Poona Court since 1960. The Committee regret to note that full quantity was passed in inspection by an officer of the Central Railway, Bombay. They note that on receipt of a complaint, the S.P.E., Madras, got the supplies examined by the Wood Technologist, Dehra Dun when it was found that only .16 per cent stores in the case of one firm and 1.345 per cent in the case of another conformed to the specification and the remaining were inferior jungle wood. The Committee would not like to comment on the cases on merits at this stage as they understand that they are pending in a Court of law. They would, however, desire to be informed about the outcome of the cases. The Committee urge that Government should adopt stringent measures to ensure that recurrence of such irregularities is avoided in future.</p>
58	9.3	<p>The Committee note that a firm of Bombay cheated Government to the extent of a sum of Rs. 2 lakhs in connection with the supply of lining cloth against an order placed by the Director of Supplies (Textiles), Bombay during July-November, 1967.</p>
59	9.4	<p>The Committee urge that the entire procedure of payment should be streamlined and suitable remedial steps taken to avoid such serious lapses in future.</p>
60	9.8	<p>The Committee are concerned about the delays in supplies of manufactured items like tents, bags etc. against the orders placed by the Director of Supplies (Textiles) Bombay. The Committee understand that there is only one supplier of tents in the Bombay region and that the majority of the tent suppliers are small-scale units with limited means. These suppliers have to depend on the smooth flow of supply of the correct quality of Dasooti, which is the main basic raw material and is manufactured by a limited number of mills. The Committee urge that Government should</p>

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		take suitable steps for removing the difficulties coming in the way of the suppliers early.
61	9.12	The Committee note that the Regional Supply Offices at Kanpur and Madras have not been provided with any Associated Financial Adviser with the result that all cases requiring concurrence of Finance are referred by those Offices to the Headquarters except in certain cases in respect of which special powers have been delegated to the Director of Supplies and Disposals, Madras. The Committee suggest that the Ministry of Supply should examine the feasibility of appointing Associated Financial Advisers in the offices of the Directors of Supplies and Disposals at Kanpur and Madras also to enable them to take decisions on the spot and avoid delays in obtaining the concurrence of Finance by making references to the Headquarters office at New Delhi.
62	9.17	The Committee are constrained to note that the absenteeism of staff in the office of the Director of Supplies and Disposals, Bombay, was as high as 22 per cent on an average resulting in accumulation of arrears of work. Under the Officer-oriented scheme where the Assistant Director Section Officer is the base officer for dealing with cases, with the help of the Stenographer, if the personal staff is on leave, the officer concerned is handicapped in the disposal of cases. They would suggest that the whole position regarding such absenteeism should be examined and suitable steps taken to ensure that the work is not allowed to fall into arrears on account of casual absence of staff. The Committee would also recommend that in the special circumstances of the case, the question of an increase in the leave reserve may also be considered in the interest of efficiency of work if the situation so demands.

APPENDIX X

(Vide Introduction)

Analysis of Recommendations/conclusions contained in the Report.

I. CLASSIFICATION OF RECOMMENDATIONS.

A. Recommendations for improving organisation and working :

Serial Nos. 2, 3, 5, 6, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 54, 55, 56, 57, 60, 61 and 62.

B. Recommendations for effecting economy.

Serial Nos. 52, 53, 58 and 59.

C. Miscellaneous Recommendations :

Serial Nos. 1, 4 and 7.

II. ANALYSIS OF MORE IMPORTANT RECOMMENDATIONS DIRECTED TOWARDS ECONOMY.

Sl. No. as per summary of Recommendations (APPENDIX IX)	Particulars
	2
52 and 53	Fraud on Government to the extent of Rs. 2 crores in the U.P.C.C. Road Roller case.
58 and 59	Fraud on Government to the extent of Rs. 2 lakhs by a firm of Bombay against an order placed by the Director of Supplies (Textiles), Bombay, for lining cloth.

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 Narain & Sons, 3241, 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 Narakari 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 Poul 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.	5
32.	Jayana Book Depot, Chaparwala Kuan, Karol Bagh, New Delhi.	66			

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