

**COMMITTEE ON PUBLIC
UNDERTAKING
(1982—83)**

(SEVENTH LOK SABHA)

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SIXTY-FIRST REPORT

ON

**CENTRAL COTTAGE INDUSTRIES CORPORATION
OF INDIA LTD.**

(Ministry of Commerce, Department of Textiles)

Presented to Lok Sabha on

Laid in Rajya Sabha on



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1983 Chaitra, 1905 (S)

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CORRIGENDA TO 61ST REPORT OF
COMMITTEE ON PUBLIC UNDERTAKINGS
(1982-83) ON CENTRAL COTTAGE
INDUSTRIES CORPORATION OF INDIA LTD.

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(1982-83)**

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**STUDY GROUP II ON BHARAT ALUMINIUM CO. LTD.,
CENTRAL COTTAGE INDUSTRIES CORPORATION OF INDIA
LTD., MINERALS AND METALS TRADING CORPORATION OF
INDIA LTD., STATE TRADING CORPORATION OF INDIA LTD.
AND INDIAN IRON AND STEEL CO. LTD.**

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2. Shri Partap Bhanu Sharma—*Alternate Convener*
3. Shri Harish Kumar Gangwar
4. Shri Ramnath Dubey
5. Shri N. Kudanthai Ramalingam

INTRODUCTION

1. the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Sixty-first Report on Central Cottage Industries Corporation of India Ltd.

2. The Committee took evidence of the representatives of the Central Cottage Industries Corporation of India Ltd. on 30 September and 1 October 1982 and of the Ministry of Commerce (Department of Textiles) on 22 November, 1982.

3. The Committee considered and adopted the Report at their sitting held on 23 March, 1983.

4. The Committee wish to express their thanks to the Ministry of Commerce (Department of Textiles) and Central Cottage Industries Corporation of India Ltd. for placing before them the material and information which they desired in connection with the examination of the subject. They wish to thank in particular the representatives of the Ministry of Commerce (Department of Textiles) and Central Cottage Industries Corporation of India Ltd. who gave evidence and placed their considered views before the Committee.

NEW DELHI;

April 6, 1983

Chaitra 16, 1905 (Saka)

MADHUSUDAN VAIRALE,

Chairman,

Committee on Public Undertakings.

I

HISTORICAL BACKGROUND

In 1948 the Central Cottage Industries Emporium was established in New Delhi with the object of developing a market for handicraft and cottage industries products. The Emporium functioned as a department of the Ministry upto 1952, when its annual sales were around Rs. 2.3 lakhs. At that stage the Government of India decided to handover the Emporium to the Indian Cooperative Union, which was engaged in the task of rehabilitation of refugees and had been running a Refugee Handicrafts Store for selling the products made by them. In the year 1964 when the annual business was at Rs. 90 lakhs. Indian Cooperative Union found it difficult to manage its further expansion due to shortage of funds at its disposal. Therefore, in the year 1964 the business of the Emporium was handed over to Central Cottage Industries Association, a body registered under the Societies Registration Act. CCIA opened another emporium at Calcutta in 1969 and a third in Bombay in 1970. The CCIA also lacked funds and could not carry on the increased volume of trading with bank borrowings only. To overcome this difficulty, the Central Cottage Industries Corporation of India Ltd. was set up in 1976, as per the Government decision, as a wholly-owned subsidiary of the Handicrafts and Handloom Export Corporation of India Ltd. (HHEC), which in turn is the subsidiary of State Trading Corporation (STC). The authorised capital of the Corporation is Rs. One crore and the paid up capital is Rs. 50 lakhs wholly subscribed by the HHEC.

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II

ROLE AND OBJECTIVES

(a) *Objectives*

2.1 The objects for which the CCIC was established are:

- (1) To purchase or otherwise acquire or take over the whole or any part of the undertaking and business of the Central Cottage Industries Association, New Delhi, And all or any of its property and assets including its showrooms known under the name and style of Central Cottage Industries Emporium-retail outlets being run in different locations in India and all or any of its debts, liabilities and engagements, and to pay for the same either in cash or in shares, or partly in cash and partly in shares or by such other means as may be agreed upon.
- (2) To carry on the business of manufacturers, merchants, importers, exporters, and agents for and dealers in products of cottage industries, and to develop markets for products of cottage industries in India and abroad and to open and run or otherwise assist cottage industries emporiums and/or sale centres in India and abroad.
- (3) To promote, develop aid, counsel assist cottage industries and to provide them with capital, credit means, resources and technical and managerial assistance and to take and adopt other suitable means and measures to enable them to improve methods and techniques of production, management and marketing.
- (4) To promote and encourage the exchange of ideas and techniques between artisans and craftsmen of different regions with a view to encourage and improve their products; to establish or encourage the establishment of institutions or bodies for providing training to artisans and craftsmen or their associations for outstanding achievements; nition and to otherwise encourage individual artisans or craftsmen or their associations for outstanding achievements; and to assist them in all possible ways to increase production and maintain the highest standards and traditions of workmanship and skills.

2.2 On being enquired by the Committee as to how far the above objectives of CCIC had been achieved, the Chairman, CCIC stated during evidence:-

"Our twin objectives are (a) to preserve the traditional craftsmanship and excellence of skill as a part of our national heritage; and (b) to help them secure an important place in the national economy.

These are very wide objectives compared to the role that we play. But there is no denying the fact that CCIC, in its present and earlier shape, was instrumental in highlighting the beauty of the traditional Indian crafts before the urban market. The Cottage Industries Emporium has presented crafts from every part of the country to a discerning public; it has presented the excellence and quality of the crafts in such a way that it has become the focal points for people visiting New Delhi and for those who want to buy anything of the Indian craft. Also, it is only after the Central Cottage Industries Corporation was established as an organisation that practically every State Government also started setting up emporia to sell their crafts in their own States and later on elsewhere."

(b) *Development and Promotional activities*

2.3 One of the main objectives of the CCIC as laid down in the Memorandum and Articles of Association is to promote, assist cottage industries and to provide them with capital, credit means and resources for improving methods of production and also to provide training to artisans and craftsmen. Asked how far the CCIC had been able to help the artisans and craftsmen, the General Manager, CCIC stated in evidence:-

"As far as help to artisans is concerned we feel that marketing is the greatest incentive that could be given to them. CCIC from the very beginning is basically a retail selling organisation, because when Government of India established it, simultaneously they also established the All India Handicrafts Board which is basically a developmental body. Ours is primarily a marketing one. So, through the marketing of handicrafts of these artisans in India and abroad we have helped to preserve the traditional crafts of the country."

2.4 In the same context, the Chairman, CCIC added:

As far as Cottage Industries Corporation is concerned, it was not, at the moment, doing the kind of a role which was envisaged for it, because other organisations have developed."

2.5 In reply to a question on Corporation's role in providing finance for improving methods of production and marketing of products of cottage industries, it has been stated that "as CCIC is not a financial institution; it has no arrangement for providing finance to craftsmen." About the training of craftsmen and artisans, it has been stated that "this falls within the activities of the office of Development Commissioner (Handicrafts) and the CCIC did not have facilities to arrange such training.

2.6 In regard to the actual developmental or promotional work being done by the CCIC, the General Manager, CCIC deposed:

"What we are doing for the small artisans is that whenever they bring their goods for delivery, we make cash payment to them, which again causes a strain on our resources. We are also trying to develop the design input. Today, artisans are sitting in their huts. They might not be aware of the trend prevailing in the national and international arena. We feel that this input is the most important input because the handicraft is a kind of utility product which these people are making. This is kind of product which these people utilise for their rituals. CCIC has provided this assistance to the artisans and we feel that we are playing this role effectively."

He added :

"We have not been able to provide financial help because of our own limitations. The Company was not in a sound position. In the years to come, perhaps, we may provide that assistance. But if artisans want some loan from the bank we provide some security."

2.7. Asked whether any assessment or survey had been made of the immense variety of crafts throughout the country with their diverse cultural and historical traditions and whether it had been evaluated as to what extent these could be marketed in India and abroad, The Chairman, CCIC stated:—

"The All India Handicrafts Board has been set up primarily for the kind of purpose which you have mentioned. District-wise surveys are available with the All India Handicrafts Board on the various crafts available in particular States. It is also expected to co-ordinate the activities between various State Corporations and the CCIC and also the export organisations. What you are expecting the poor CCIC to do, to co-ordinate the entire handicrafts business in the entire

country, is really the duty of the All India Handicrafts Board. CCIC is a very small limited organisation, which is at the moment running only one big Emporia in Delhi, another in Bombay and a small one in Calcutta and Jaipur. Our work is concentrated on running these things without much help from outside. It would be very difficult for us to give you that kind of answer that you really expect from us."

2.8. The Committee asked as to how, without any extensive survey, could CCIC serve the interests of artisans and craftsmen throughout the country particularly in the rural and backward areas. The Ministry in a written reply stated the CCIC would not be in a position to undertake the extensive surveys like the one indicated, in view of time and cost involved. However, the officials in the different Departments of the CCIC had always been looking for new artisans and crafts whenever the opportunity arose. The survey of artisans and craftsmen would be covered by the 1980 Economic Survey the results of which were reported to be under compilation.

2.9. In reply to another question as to whether there was any interaction between the All India Handicrafts Board and the CCIC, the Ministry stated that the Office of the Development Commissioner (Handicrafts) and CCIC had worked together in close cooperation with regard to a number of specific projects. Further, surveys/studies conducted by the office of the Development Commissioner (Handicrafts) were also available to CCIC. CCIC could also avail of various facilities provided by the Office of Development Commissioner (Handicrafts) for specific projects/schemes.

(c) *Design Cell*

2.10. The Committee were informed that in August, 1981 the Corporation set up a Design Cell, composed of a Design Consultant assisted by two Design Artists, for providing assistance for design development and for creating new range of merchandise both for internal market and for export. It has been stated that the designs produced by the Design Unit are passed on by purchase department to artisans to work out samples. Once the samples are passed, orders are placed with them. In addition to this design input, members of the purchase team visit different parts of the country regularly, and keep on modifying the designs to suit customers taste. These modifications/changes are used by craftsmen in making new products. Similarly artisans are also told to maintain quality of their production. Due to strict quality control exercised by CCIC in its own office, artisans become aware of what is required of them.

2.11. Asked how far the Design Cell had been successful in rendering assistance for design development, the CCIC in a note stated:

"The Design Cell was primarily set up to provide that required design-input for the domestic market. However, a line of Western style women's garments for export was also developed through an outside designer of garments. With the Design Development help now available on continuous basis, CCIC is confident of maintaining its position in the market as a trend setter."

2.12. Referring to the Design Cell set up by CCIC, the Chairman, CCIC, stated during evidence:

"We are, in a way, doing development work. There is a design cell which gives out designs. That itself may not be very vast developmental work but, in a way it is a very positive developmental work."

2.13. On being asked for how many products designers had been engaged, the General Manager, CCIC/stated:

"We cannot specify the number of areas in which design help is required today. In fact I would say that design help is required in every area. Diversification of the product can be undertaken in almost every crafts."

2.14. In reply to a question whether, in view of the other organisation like All India Handicrafts Board engaged in the same work, there was any duplication of effort in so far as design development was concerned, the witness stated:

"The All India Handicrafts Board has regional design centres where the artisans could go directly and take help. Most of the States also have their design centres. But you would also appreciate that the area is so vast. Even with these regional and State design centres, still the crafts of this country are varied and there is still scope for this kind of an input on a continuous basis."

2.15. During evidence of the Ministry, the Committee enquired as to how far the CCIC had succeeded in helping the artisans by providing them with most modern designs. The Secretary, Department of Textiles stated:

"There is no direct method of assessing the impact in this regard. The Design Cell of CCIC collects samples from designers. There is a scheme of giving awards to designers. The artisans get familiarised with the new designs and get products made out of them."

He, however, added:

"Apart from this, we have the establishment of Development Commissioner (Handicrafts). They run a fairly large number of training centres in carpet making, wood work, metal work, etc. They try to train up artisans directly in new methods. It is the combined effort of the Development Commissioner (Handicrafts) and the CCIC Emporia which has made a joint impact on the designs of the artisans."

(d) CCIC's share in the trade of handicrafts and handlooms

2.16. The Committee desired to know what was the total volume of trade—internal and external—of handicrafts and handlooms in the country and what was the percentage of CCIC's share in that. The General Manager, CCIC stated during evidence:

"As far as the internal trade in the country is concerned, I am afraid no reliable data exists either with us or with the All India Handicrafts Board which is supposed to collect information on this aspect."

2.17. In regard to CCIC's share in the total trade the General Manager, CCIC stated. "As far as CCIC is concerned, our share is very very small, it is just 4 to 5 per cent of the entire trade. And on the exports side the figure was very very meagre because we were not meant for exports...."

2.18. During examination of the Ministry, the Committee pointed out that according to CCIC, its share was just 4 to 5 per cent of the entire trade of handicrafts and handlooms in the country. They enquired as to how, with such a meagre turnover, the CCIC could make any impact in promoting and developing handicrafts and handloom products in the country. The Secretary Department of Textiles stated as follows:—

"As regards this 4 per cent or 5 per cent, this was based on the exercise which was drawn up long back in 1977-78 basing on certain figures relating to 1974-75 and we did not actually give much importance to this percentage. There was an economic census conducted and we are awaiting the results of the census so that we get the picture of 1980-81. Then it will be more realistic to find out to what extent the share in the public sector has increased. Unless a detailed census is made, it is absolutely impossible for any organisation in the country, even with the help of the State Government undertakings, to arrive at the correct figure of domestic production of handicrafts and their total strength. Unless we have the results of the detailed economic census operations which took place in 1980, we

would be extremely reluctant to hazard any speculative figures."

2.19. On the question of CCIC's impact on the trade in handicrafts and handloom products, the Secretary stated:

"We must acknowledge at the earliest opportunity that it is certainly not the intention of the CCIC that the entire trade in handicrafts will be taken over by the CCIC. It is just not physically possible. But they have acted as a trend-setter and, as a result of the trend setting, the other State Handicrafts Corporation have come up well. Not only that. Much of the impact has been felt in private trade also. They are also trying to be competitive. They are also in many cases trying to purchase quality products from the artisans. To the extent the CCIC is in a position to extend its activities further, there should not be any lack of finance in future. But we do not expect or intend to make the CCIC to be the one and the only organisation in the country for dealing with handicrafts."

2.20. Pointing out that when a separate public undertaking had been established, it should be the aim and objective of the undertaking to cover as much quantity as possible, the Committee enquired as to what concrete steps were being taken in this regard, the Secretary Department of Textiles stated:

"The recommendations and wishes of the Committee are understandable. The Development Commissioner (Handicrafts) has now evolved a system of having period meetings with CCIC and State Handloom Handicrafts Corporation and it will be in this forum that this matter will be discussed. To the extent financial resources are made available to all these organisations, they can try to increase their share of trade within the country. But, quite frankly we do not expect any phenomenal increase in the share of trade in handicrafts in the public sector over the next 5 or 6 years. As regards the figure of 4 or 5 per cent, we are not sure whether it is 4 or 5 per cent or less than 1 per cent. We do not even know that. And the first idea about this will emerge only after we receive the detailed report of the Census. But we appreciate the anxiety of the Committee and we shall certainly act on this. One concrete measure in this direction will, of course, be to inject further equity capital in the CCIC. That will also increase the financial resources and, with the increase financial resources, CCIC can set up other Units in other parts of India to be able to reach out to the handicrafts artisans of those areas much more effectively."

2.21. The Committee desired to know what was the assessment of the Ministry in regard to the role played by CCIC in promoting and encouraging traditional crafts. The Secretary, Department of Textile stated during evidence:

"Articles of Association of a company normally are very all-embracing. Since the commencement of operation of this Corporation, there have been certain other changes also in the Government set up. Today we look upon the CCIC mainly as a retail trading organisation with a development role. But the other aspects like developmental of handicrafts, training of would be artisans, etc. are to be looked after by the establishment of the Development Commissioner. Handicrafts. That establishment was re-organised some five years ago and the main developmental activities have been assigned to that organisation, leaving the field of handicraft products in a limited way to CCIC. So far as this particular area is concerned, we feel that it has started doing reasonably well. In preserving the traditional craftsmanship and excellence of skill of artisans in the country, in acting as a helpful intermediary between the domestic market and the artisans of handicrafts, in providing them with new designs, acquainting them with the changing trends of consumer preference, we feel that CCIC has been moving in the right direction. The sale of the handicrafts items went up from Rs. 2.5 lakhs in 1951-52 to more than Rs. 7 crores in 1981-82. Besides that over the years, attempts have been made by the CCIC... to purchase these handicraft articles directly or from State Handicrafts Corporations... In respect of certain articles like carpets, etc. it becomes necessary for the CCIC to buy from the private trade. But efforts are already afoot today by the buying teams of the CCIC to penetrate remote areas. In this area, we feel that the CCIC has certainly been playing its role quite well in terms of the Articles of Association."

2.22. About the performance of CCIC with reference to the objectives for which it was set up, the Secretary, Deptt. of Textiles stated that "in the principal area of its functioning, that is, exploring the market for the artisans, then exploring as well as putting them in touch with the new designs, and new ideas in the market, the CCIC had done reasonably well and if further funds were placed at their disposal, they could possibly do better and an assessment of its success could be judged to a certain extent from the figures of sales which had maintained a continuous upward trend."

2.23. Asked further in what areas, the Ministry felt, the CCIC had not done justice to these objectives, the Secretary, Department of Textiles

stated in reply: "We would like the CCIC to see that the proportion of its purchases directly from the artisans, the artisans' co-operatives, State Handicrafts Corporations should go up much further and possibly at a faster pace and we would also be happy if the administrative overheads could be brought down. Now we understand that the CCIC management is trying to expand its volume of trade with virtually the same staff strength. If they are able to do that, then the administrative overheads will, of course, be brought down. They are engaged in an exercise to see to what extent the administrative overheads can be brought down."

2.24. The Committee drew attention to the following observations contained in the report of the Management Consultant (Dr. Kamla Chowdhury) on Top Management structure of CCIC:

"Only a clear definition of the mission and purposes of the business will make it possible for CCIC to rationally change itself rather than be at the mercy of events. The discussion of objectives and mission needs to be clarified and explicitly expressed so that strategy and structure in relation to the mission can be understood and accepted."

2.25. Asked about the Government's reaction to the above observations, the Secretary textiles deposed:

"As regards the objectives, I do not think there is any confusion in the mind of the CCIC management or in the mind of the Government. . . . Unlike the other private dealers who would like to maximise their profits, the functioning of this Corporation is to act as an enlightened marketing organisation to see that the artisans get remunerative prices, that the artisans are able to keep themselves uptodate with the changing patterns in the consumer preferences, that they are supplied with all relevant data so that they can keep themselves uptodate while retaining their traditional skills. . . . There is no confusion in the mind of the CCIC management about the objective. But if you try to compare their performance with everything which has been spelt out in the Articles of Association, then one has to come to the conclusion that the CCIC is not playing its role fully. But the Articles of Association of companies are generally very wide and include everything and everything under the sun. The CCIC management, the HHIC, the STC and the Government know about the functions which have been specifically allocated to the CCIC and there is no scope for any confusion."

2.26 Asked further as to what should be the clear-cut objectives of CCIC, the Secretary, Department of Textiles stated:

"About their taking a much more developmental research, we do not think it is necessary—apart from whatever is directly connected with encouraging the artisans and expansion of trade etc. But as regards training facilities to be provided to the artisans and other developmental activities, we have an establishment of the Development Commissioner, Handicrafts and under the plan projects, direct allocations are made to this organisation to help out handicrafts."

2.27 The Central Cottage Industries Corporation was set up in 1976 as a wholly owned subsidiary of the Handicrafts and Handloom Export Corporation of India, which in turn is the subsidiary of the State Trading Corporation. The CCIC, was set up mainly to take over the business of the erstwhile Central Cottage Industries Association, which was at that time running three emporia one each at Delhi, Bombay and Calcutta. However at the time of its incorporation as a Government Company in 1976, some laudable objectives had been set down for the company. These inter alia included development of markets for products of cottage industries in India and abroad, promotion and development of cottage industries by providing them with capital and technical and managerial assistance; establishment of institutions for providing training to artisans and craftsmen; and otherwise assisting the artisans and craftsmen in increasing production and maintaining highest standards and traditions of workmanship and skills.

2.28 The Committee's examination of the working of the company during the last 6 years revealed that precious little had been done for achieving the objectives laid down. Its main activity has been the running of a few emporia for retail sale of handicrafts and handloom products. The actual sales turn over of CCIC has increased from Rs. 400.68 lakhs in 1976-77 to Rs. 715.57 lakhs in 1981-82 but this constitutes a very insignificant fraction of the country's total trade of handicrafts and handloom products. Even though no precise assessment of the total trade of handicrafts and handloom products has been made so far, the CCIC's share in this trade is not expected to be more than 4 or 5 per cent. With such a meagre turnover what impact CCIC could make in promoting and developing handicrafts and handloom products in the country is not clear to the Committee.

2.29 The Ministry considered the role of CCIC only to be that of a retail trading organisation with the developmental activities for promoting and encouraging traditional crafts having been assigned to the Development Commissioner Handicrafts. It has been a retail selling organisation, because when it was established, simultaneously the All India Handicrafts Board was set up, which was basically a developmental body. However that there has been no clear cut demarcation of the functions of

the two organisations is obvious from the fact that the Design Cell set up by CCIC for design development is more of a developmental activity. The Committee do not wish to suggest that CCIC should not undertake any developmental activity but would emphasise that the objectives and obligations should be clearly defined and laid down not in the all embracing language of Articles of Association but in precise terms. The objectives so defined should serve as a mandate for the organisation and its performance should be evaluated with reference thereto.

2.30 The Committee do not consider that the role of CCIC should be limited to running of some emporia or sophisticated retail shops exclusively for elites. It should have a more meaningful purpose for playing a positive role in the economic life of a wider section of poor artisans and craftsmen; thus subserving a larger national cause. In this context the company will have to expand its activities with a view to generating more resources, which can be employed for undertaking more of promotional and developmental work. The Committee, need hardly point out that managerial organisational and financial resources will have to be provided for to enable the CCIC to take over the responsibility of purchasing and disposing of a wider range of handicrafts and handloom products.

2.31 The Committee recommend that concrete measures should be taken to step up the CCIC's share in the total volume of trade in handicrafts and handloom so that it can make an impact and justify its role as an agency for promoting and developing handicrafts and handloom products in the country.

III

GROWTH PLAN AND EXPORTS

(a) Growth Constraints

3.1 According to CCIC, the Corporation does not have adequate freedom to conduct its operations. It has been made a subsidiary mainly to enable it to obtain finance and equity from the parent organisation. The Corporation has not been able to grow at satisfactory rate both in the external and internal market due to lack of finance and lack of operational freedom till recently. During course of evidence, the General Manager, CCIC stated: "Our share capital is Rs. 1 crore but the paid up capital is only Rs. 50 lakh and we have got Rs. 70 lakhs as cash credit from the banks with the size of operation that we have today.... We try to make cash payments to small craftsmen. If we delay payments, then it ultimately goes into the price because they add interest also in the price structure. Keeping all these things in view, we feel that for a turnover of about Rs. 8 crores, Rs. 50 lakhs equity is a very small equity." Asked whether the matter was taken up with the Government and if so, what was their reaction. The General Manager, CCIC stated:

"In 1978-79 we had approached our holding company stating that our equity should be raised and we should be given more equity and the matter is lying with our holding company. We said that it should be a crore of rupees. We have also approached the Handicrafts Board to give us 50 per cent of the capital cost for the new emporia that we open. On this matter it took us 2 years to get this money which they promised.

3.2 During examination of the Ministry, the Committee asked whether the CCIC took up these issues with the holding Company/Ministry and what was the response to the problems faced by the CCIC. The Secretary, Department of Textiles stated:

"as regards the operational difficulties, the CCIC management has said that they did not have operational flexibility until recently. Today, I do not think that they can really have any grievance over organisational flexibility. As regards the financial constraint, I would admit that there has been financial constraint and I would also say that there should be further injection of equity capital in the CCIC. For this, they have

to depend on the HHEC who in turn have to depend on the STC. In terms of the study reports which have been submitted by Dr. Kamal Chowdhury who is the Director on the Board of HHEC, their recommendations are shortly going to be considered jointly by the Board of the CCIC and the HHEC. We are waiting for their recommendations and, after knowing the recommendations, we will see how further equity can be made available to the CCIC. To the extent the equity is raised, it will enable the CCIC to also borrow from the banks and other financial institutions."

3.3 When the Committee pointed out that according to CCIC, their equity should be raised at least to Rs. one crore to overcome its financial difficulties, the Secretary, Department of Textiles stated: "I think, the equity should be raised. To what extent it can be raised during the current year on in the next financial year will depend upon our resources position and the resources position particularly of the STC. The resources will have ultimately to come from the STC."

3.4 In a subsequent reply after evidence, the Ministry intimated that CCIC may have lacked operational freedom "till recently". In the last two years CCIC has not indicated to the Ministry that they lack operational freedom for satisfactory growth. During this period, CCIC had also not made any specific proposal to the Government/holding company regarding increase in their present equity base."

3.5 As to the difficulties faced by the CCIC in their functioning, the General Manager, CCIC stated in evidence:

"...our organisation is only about five years old. We inherited the cultures of three different institutions. The same cultures came, the same problems came. In fact in the first two or three years of our operations, we were in losses. Our main effort was to stabilise our own position. At that time we had no Chairman and no Board. In fact, a kind of direction which should have come from the Board was not there. The Board has to plan many things. We had no Board for a long time; we had no Chairman for a long time. It is only now, about a year or so back, that we have a Chairman and we have a Board also. The things are improving. Our financial results are also improving. We are making profits now."

3.6 The paid-up capital of Rs. 50 lakhs, which is wholly subscribed by the holding company, is obviously inadequate. If the CCIC has to enlarge its area of operation, which the Committee feel it should, it would have to be provided with adequate capital base. The Secretary, Department of Textiles admitted that company suffered from financial constraints

and there was need for injection of more equity capital. The Committee would like that a realistic appraisal of the immediate financial requirements of CCIC, keeping in view the role assigned to it, should be made and necessary finances arranged in whatever form considered desirable. This should be suitably augmented after finalisation of the corporate plans.

(b) *Growth Plan*

3.7 In a note furnished to the Committee, the CCIC stated:

"CCIC had drawn up a perspective plan for the period 1980 to 1984 in 1979 with a view to developing market of handicrafts in India and abroad. The plan provided a total turnover of Rs. 20 crores at the end of the plan period by increasing sale of the existing emporia, opening of new emporia in major cities of India, increasing exports and by expanding branch activities.

The Working Capital requirement of the Corporation for the perspective plan was estimated to be Rs. 0.55 crores, Rs. 0.95 crores, 1 crore, 2 crores and one crore year-wise during the plan period. In addition to this working capital, the Corporation estimated capital expense on establishing new branches, Production Centre and emporia abroad to the tune of Rs. 1.27/1 crores, 0.75 crores and 0.24 crores year-wise during the plan period. It was proposed to raise these funds from development subsidy from the All India Handicrafts Board, loan from Industrial Development Bank of India, grants and subsidies from the Central Government, Cash Credit from the Bank and by raising equity contribution of HHEC, the holding company.

The plan also provided suitable changes and increases in manpower including management cadre. In general, the areas to be strengthened were identified as purchase, finance and sale. Since the plan did not take off on account of paucity of funds subsequent action including working on the return of capital, was not done."

3.8 Asked about the difficulties faced by CCIC in getting clearance from the authorities concerned for the proposed capital expenditure, the CCIC stated:

"Immediately, on drawing up of the plan, the Industrial Development Bank of India was approached to provide loan for opening branches in major cities of India. A series of discussions and meetings were held with the officers of the bank and a

- lot of information asked for by them was provided but till today no final reply has been received by us as to whether we would be getting any loan from them or not. Similarly, we had approached the Handicrafts Board for providing development subsidy for opening Branches. We received a subsidy for our Jaipur Branch only after CCIC had actually opened it. Since we could not make headway in getting loan from IDBI we did not put up proposals for other emporia to the Handicrafts Board. We had also approached HHEC for increasing their equity share but we could not succeed in getting it."

3.9 Referring to the implementation of the perspective plan, the General Manager, CCIC stated:

"At the time when we had planed this, we had envisaged 3 or 4 emporia in the country, because the All India Handicrafts Board had promised us 50 per cent of the capital cost, if we opened the emporia. At that time, we had planned to open one emporium each at Jaipur, Bangalore, Chandigarh and Madras. If we had opened these emporia, with our normal growth rate, we would have achieved the turnover of Rs. 20 crores. But, unfortunately, we could open only one emporium at Jaipur in 1980. We have not been able to find a suitable location for our Bangalore emporium. Now, as things are, we would not be able to achieve the turnover of Rs. 20 crores by 1983-84. This year we would achieve Rs. 8 crores. We had planed to expand our activities in Bombay and Calcutta. But we have not been able to go so fast."

3.10 Article 72(3) of the Articles of Association of CCIC provides that the Company shal, before the expiry of each financial year, formulate its Performance Budget covering the proposed activity for the next finance year and submit the same for approval of the HHEC. The Committee desired to know whether the annual plans of CCIC were linked up with the perspective plan. To this the General Manager CCIC, replied:

"We have made our growth plan and perspective plan which we do submit to the Government. After the Twenty Point Programme we are redrafting our perspective plan, keeping in mind the contribution that this Company could make in this direction."

3.11 Asked whether the perspective plan had been submitted to the Holding Company/Ministry for approval and for providing necessary funds, the Ministry have in a note, stated:

"CCIC did not seek approval or provision of funds or any other action from the Ministry in respect of the perspective plan. It

had also not been considered/approved by the Board of Directors of CCIC/HHEC. Under these circumstances the question of Government's reaction to the plan does not arise."

3.12 During examination of the Ministry, the Secretary, Department of Textiles in reference to the perspective plan stated that this perspective plan which had been prepared three years back had not been persisted with by the CCIC because this did not have the approval of the CCIC Board. This perspective plan was only an idea in bare outline. For the last 2 years the CCIC management had not pressed for adoption of this perspective plan. He added "after considering the report of Dr. Kamla Choudhury they may come forward with a plan which we shall certainly look into. So far they have generally made out a projection of an annual growth of 10 per cent in their volume of operations and they are working on these lines."

3.13 On being enquired whether the Ministry took up the matter with the IDBI, All India Handicrafts Board and HHEC in regard to funds for the plan, the Secretary, Department of Textiles said:—

"This is a half-baked plan, because in the first instance CCIC Board never considered it and approved it. IDBI never gives loans for trading operations and the amount asked for was only a paltry sum of Rs. 10 lakhs. I do not attach importance to this perspective plan because it does not fulfil any requirements. It has approached the wrong organisation for assistance and we shall wait for the considered views of the CCIC and HHEC Board for any further perspective plan which they may have in view after they have studied the report of Dr. Kamla Chowdhry."

3.14 Asked about the future expansion plans of the CCIC, for improving its working, the CCIC, have in a note, stated:

"The Corporation proposes an Annual growth rate of 10 per cent, simultaneous with efforts continuing to streamline the working of its present emporia and stabilising and consolidating the gains of the last few years."

3.15 A perspective plan covering a few years period stated to have been drawn up by CCIC has not been considered/approved by the Board of Directors of CCIC or HHEC. The so-called perspective plan, according to the Ministry, was only a 'bare outline'. In regard to the future expansion plans of the CCIC, the management has projected an annual growth rate of 10 per cent in their volume of operations. The Committee feel that a comprehensive growth plan for the CCIC should be drawn up after its areas of operation have been clearly demarcated and the relationship of CCIC and HHEC clearly laid down in the light of the recommendations of the management consultant.

(c) Exports

3.11 Asked whether the perspective plan had been submitted to the by CCIC, *vis-a-vis* the targets fixed:

(Rs. in lakhs)

Year	Export Target	Actual Export	Variation
1977-78	62.75	74.87	(+)12.12
1978-79	68.00	61.12	(-)-6.88
1979-80	35.50	29.65	(-)-5.85
1980-81	45.00	37.06	(-)-7.94
1981-82	57.00	56.70	(-)-0.30

3.17 Explaining the reasons for the variations in the targets and the actuals, the CCIC have stated:

"The exports of CCIC are an outcome of its retail operation. Therefore, its exports are mainly tourist purchases and small orders placed by foreign buyers and small boutiques. CCIC itself does not go out in the foreign market to book export orders. Therefore, the export figures depend considerably on the foreign tourist purchases and orders from boutiques and foreign visitors.

The shortfall in export and the reduction in target was necessitated mainly by the termination of the contract by the agent."

3.18 Asked about the steps taken to develop export market for Indian handlooms in foreign countries, the CCIC stated:

"The exports of handicrafts and handloom is looked after by HHEC/STC.

CCIC export is incidental to domestic trade and as such no specific steps have been taken to develop export market of Indian products in those countries, this aspect being looked after by HHEC/STC."

3.19 The Committee pointed out that one of the objectives of CCIC was to develop market for cottage industries and to open and run or otherwise assist cottage industries emporia or sales centres abroad. They asked whether the actual functioning of the Corporation was not contrary to the above objective. The Chairman, CCIC explained that "...between HHEC and CCIC, we have divided our activities. For example, STC does not go into handicrafts exports. We do it. Similarly, when it came

to the division of responsibility between CCIC and HHEC, finally we let HHEC concentrate on exports and CCIC did the retail sales...."

3.20 The General Manager, CCIC informed that in 1981 their Board of Directors took a policy decision that CCIC could also divert its resources to the export of handicrafts and handloom products and CCIC had now initiated export efforts in this direction.

3.21 In the wake of the policy decision taken by the CCIC in 1981 to divert their attention to export, the Committee enquired about the reasons for this change in the policy and steps taken since 1981 to promote exports. The CCIC stated in a written reply that "the exports fall within the objective of the company. The Board of Directors felt that to improve the company's performance further, this avenue should also be explored". It has been further stated that a team of two executives was sent to London in August 1982. CCIC was to participate in the India International Trade Fair in London in November, 1982 but this had to be dropped as the clearance from the Government was not received.

3.22 When asked about the reasons for HHEC now asking the CCIC to enter export market, the Chairman, CCIC explained that the primary reason was that there had been a shift or a change in the policy. The shift in this policy was that CCIC over a few years became a profit making company and the confidence in the company had increased. The expertise developed and the experience gained was useful and there was better scope for CCIC to expand its business.

3.23 Enquired whether there was any coordination between HHEC and CCIC in the matter of exports, the Chairman, CCIC who is also the Managing Directors of HHEC stated that "as far as coordination between CCIC and HHEC is concerned, we have practically a common Board, except for the non-officials. But as far as officials are concerned, practically the same officials are representing the HHEC and CCIC." He added, "I do not think there is any serious problem in regard to coordination. There is a problem in the sense that HHEC being a mother organisation wants to control exports. The CCIC does not handle the subjects which we ourselves (HHEC) handle. They do not interfere with that kind of a thing". He further stated that "the coordination aspect as it stands today is not excellent but because we have now a common Chairman, the coordination is not any problem any more." In reply to a question as to how was it ensured that there was no over-lapping of efforts made between CCIC and HHEC, it was stated that "the Chairman of CCIC is the Chief Executive of HHEC and therefore there is coordination at the policy level in this regard."

3.24 The Chairman, CCIC informed during evidence that CCIC had entered into an agreement with HHEC whereby HHEC would do business

abroad on behalf of CCIC. The terms and conditions of the agreement were stated to be as follows:—

1. CCIC will send samples of handicrafts particularly of art-metal ware, marble, wood, wooden crafts etc. directly to our foreign showrooms for display purposes.
2. HHEC's foreign offices on the basis of samples received will exhibit samples to the buyers and book orders directly on the CCIC.
3. CCIC will pay a commission of 5 per cent on orders booked directly by the foreign offices of the HHEC.
4. Goods will be despatched by CCIC to the foreign buyers marking a copy of such transactions to HHEC.
5. The LCS will be opened by the foreign offices either on HHEC or the Buyer keeping the convenience of the buyer in mind.
6. HHEC will be involved in quality control particularly for the goods supplied to the foreign offices to avoid any problems later on since the creditability of foreign offices will be involved.

3.25 During examination of the Ministry, the Committee enquired about the relative responsibilities of HHEC and CCIC in the matter of handling export of handloom and handicraft products. The Secretary, Department of Textiles stated:

"The responsibility for these exports lies with the HHEC which was set up exclusively for this. CCIC was set up broadly for expansion of sales in the domestic market. They also make exports, but in a small way. During 1981-82 for instance, against the total sales of Rs. 7.15 crores, the proportion of exports was only about Rs. 45 lakhs. CCIC is not de-barred from making exports, but that is only incidentally that they cater to some tourists. They do not have any kind of offices abroad or any agency. This was managed through HHEC and the sales are managed through them. Where the CCIC decided that they should also be in a position to export directly, they meant doing so in respect of certain objects only where the CCIC is fairly strong, and they could negotiate export orders on their own. For instance, about export of high fashion garments, CCIC has a unit and they are exporting on their own. This is only to remove any kind of restriction in exporting their products. But the large quantity of exports is done by HHEC for CCIC. Where the HHEC want to export a major item they get in touch with CCIC. That way HHEC gets in touch with the State Handicrafts Corporation also."

Agreements regarding High Fashion Garments

3.26 CCIC had agreements with two parties namely M/s. Heiser Egan of New York and M/s. Tracy Lowe Ltd. of London for importing high fashion garments from India. M/s. Heiser Egan of New York undertook to purchase a minimum of 6000 units of Ladies Silk Garments per annum, the estimated cost of which came to about Rs. 25 to 30 lakhs commencing from 13-8-1979. M/s. Treacy Lowe Ltd. London were the sole agents for Women's and Children's ready-to-wear fashion clothes in U.K., Europe, Canada, USA etc. This agreement was to be for a period of 5 years commencing on 1-7-1973 and was to continue thereafter unless and until determined by either party giving to the other six months' notice in writing. Details of business transacted with Messrs Treacy Lowe London and Messrs Heiser Egan, USA (year-wise) were as follows:—

Amount (Rs. in lakhs)

Year	Treacy Lowe	Heiser Egan
1976-77	52.84	
1977-78	55.13	
1978-79	41.66	
1979-80		7.36 (6 months period)
1980-81		19.77
1981-82		26.17

3.27. During evidence the General Manager, CCIC informed that in 1979-80 CCIC's agreement with M/s. Treacy Lowe Ltd, London was terminated. On being enquired about the reasons for the termination of the agreement with that party, the witness stated that the CCIC was paying certain commission on exports. After 1978-79 the party wanted CCIC to pay more commission i.e. 15 to 20 per cent. The CCIC approached the Reserve Bank of India and they did not agree to the payment of more commission to the party. So the agreement was terminated.

3.28. As regards agreement with the second party M/s. Heiser Egan, it was stated that this party entered into agreement with CCIC in 1979. The CCIC were doing business with them on year to year basis. Since there was slump in the textile trade, the CCIC did not receive orders from that company and the agreement was not renewed. When the Committee pointed out that as per the agreement, the party had to give notice of 6 months before terminating the agreement, the witness admitted that the

party had to give notice but they did not give. The party had however not formally terminated the agreement.

3.29 During evidence the Committee pointed out since exports fell within the purview of HHEC, how CCIC had entered into export agreements. It was stated that these agreements had been made even before HHEC came into existence. As to the reasons why export of high fashion garments was also being done by CCIC, the Chairman, CCIC stated in evidence:

"The high fashion garments were exported by CCIC before it became a subsidiary of HHEC, which was set up only in 1975, whereas the agreement entered into by the Cottage Industries Emporium was before it became the subsidiary of HHEC. It was a continuing process."

3.30. In reply to a question whether CCIC was handling only export of high fashion garments, the General Manager CCIC stated:—

"There was a change in the activity when we inherited from the Association. But, since we were doing this activity, we continued to carry on that activity. Besides, when foreign tourists come, we earn a foreign exchange worth a crore of rupees. There are certain purchases which the tourists make in the cottage industries. They request us when they are round the world trip to ship them to their homeland. So, we are shipping these things to them. There are some Boutique buyers who come to India. Whenever they want things from the cottage industries, they buy them from us and they ask us to export these. This is a kind of ancillary activity which we are doing. Both for handicrafts as well as for high fashion garments, we have staff on our strength. We had an agreement with two parties which we have broken up and we are now handing over the exports to HHEC."

3.31. The Committee desired to know whether markets in the Asian countries had been explored for export of high fashion garments. The General Manager stated:

"As far as European and other Gulf countries' markets are concerned, I think the HHEC would be in a better position to answer that."

3.32. Asked whether any efforts for making exports to Soviet Union and other socialist countries had been made, the Chairman, CCIC stated:

"Basically, the export is with HHEC. I think the question should be addressed to HHEC."

3.33 The CCIC has regarded export activity as only incidental to its domestic trade and until recently no specific steps had been taken for developing export market for Indian products. The Committee were informed that in 1981 the Board of Directors of CCIC took a policy decision to divert its resources to the export of handicrafts and handloom products and CCIC has now initiated efforts in this direction. It has been stated that a team of two executives was sent to London in August, 1982 in this connection. Between HHEC and CCIC there used to be a division of activities in that HHEC concentrated on exports and CCIC did the retail sales in the country. With CCIC entering the field of exports the question of coordination between the two bodies assumes significance. The Chairman, CCIC, who is also the Managing Director of HHEC was candid enough to admit that "there is a problem in the sense that HHEC being a mother organisation wants to control exports." He further stated that "the coordination aspect as it stands today is not excellent but because we have now a common Chairman, the coordination is not any problem any more." The Committee feel that there could be no justification for duplication of efforts. In order to ensure that there is no overlapping of efforts and no scope for any misunderstanding, the role of the respective organisations in the matter of exports should be clearly spelt out.

3.34 The Committee also find that before CCIC became a subsidiary of HHEC, it was exporting high fashion garments through two importers namely M/s. Heiser Egan of New York and M/s. Treacy Lowe Ltd. of London. Through this activity CCIC was not only doing fairly good business in high fashion garments but had also earned valuable foreign exchange. With the establishment of HHEC primarily as an export agency, CCIC's interest in garments export diminished. After the termination of its agreements with two foreign agencies, it has decided to hand over the exports of high fashion garments to HHEC. This particular position has to be reconciled with the policy decision taken by the Board of CCIC in 1981 to enter the field of exports in a big way. The Committee do not find any reason for depriving the CCIC of the benefit of exports in high fashion garments for which they have developed considerable expertise over the year with diluting its main function of internal trade. They, therefore, suggest that the areas of activities of the two sister concerns may be clearly delineated so that CCIC can enter the export field without in any way impinging on the role of HHEC, which has been specially established for handling exports.

3.35 The Committee would also like that in the matter of exports new areas of Asia, Gulf countries and Socialist countries like USSR be explored for giving a fillip to the export of Indian Handicrafts and Handloom.

IV

PROCUREMENT AND PRICING POLICY

(a) *Method of Procurement*

4.1 According to CCIC, merchandise is procured from all the States of India through a system of centralised buying. This function is discharged by the Buying Department of the Corporation. The buying teams consisting of one Addl. General Manager, two Managers, 5 Assistant Managers and about 12 Supervisors regularly visit centres of production to assess production conditions. This provides them with a first hand knowledge of different designs, quality and prices available in the market. They also study the costing of items and the degree of competition to enable them to place orders. According to CCIC the entire purchases are planned at the beginning of the year and Research Department of the Corporation reviewed the performance every month.

4.2 Asked as to how the Buying Team ensured that the costing of items was done in realistic manner giving reasonable margin of profit to the craftsmen and artisans and also avoiding payment of exorbitant prices, the CCIC informed that "the members of the team which visit the centres of production are fully acquainted with the costing of items as they have a long experience of buying merchandise. Wherever they find that prices are higher than what they should be detail of costing is obtained from the craftsmen or the suppliers to assess the real value of the product. On the basis of this costing and reasonable margin of profit demanded by the craftsmen the final price is worked out before placing the order. Generally the members of the team are encouraged to offer them reasonable margin of profit and pay slightly higher price say up to 5 per cent so that craftsmen and the artisans are patronised.

4.3. The Committee were informed during evidence that before 1979, CCIC had been buying the bulk of merchandise from the traders. After 1979 the share of the artisans, State Corporations and Cooperative had gone upto 75 per cent whereas before that it was much less.

4.4. The General Manager, CCIC stated:

"The Cottage Industries Corporation, while making the purchases of handicrafts, as a policy give first preference to the artisans and then to the cooperative societies and the State Corporations and finally, in case we could not procure certain things

directly from the artisan, we do buy them from the traders because at times the demand is immediate and since the small artisans cannot cope up with the demand fully and immediately, we have to take it from other people. Since procurement takes a long time, we take it right from the ready stock available in the market."

4.5 The following table indicates the break-up of the value of items purchased by CCIC from craftsmen, cooperatives, State Government Corporations and other sources during the last 3 years:—

	1979-80		1980-81		1981-82	
	Amount	%	Amount	%	Amount	%
1. Artisans	120.22	33.48	149.12	34.00	179.61	34.10
2. Manufacturers	86.08	23.97	105.26	24.00	125.88	23.90
3. Cooperatives	12.94	3.60	15.35	3.50	18.70	3.55
4. Corporations	22.72	6.33	27.85	6.35	32.92	6.25
5. Dealers/Manufacturers	117.10	32.62	141.00	32.15	169.60	32.20
TOTAL	359.06	100	43.58	100	526.71	100

4.6 It is seen from the above that the value of items purchased from dealers/manufacturers constituted more than 32 per cent of the total purchases made by CCIC. The Committee desired to be furnished with a list of items which were purchased by the CCIC from traders and those purchased directly from the craftsmen. The Committee also wanted to know what efforts were being made to reduce the purchases made from the traders-cum-manufacturers and the middlemen. In a note the CCIC have stated:—

"Generally CCIC makes purchases from craftsmen and manufacturers for all its items. If an item is not available in the quantities required, purchases are diverted to manufacturers and traders. In emergency also it may have to buy from traders. Certain items like Carpets, Shawls, Ivory Silver-jewellery, art objects etc., are not easily available from craftsmen and therefore bulk of these purchases are made either from manufacturers or from traders. Thus traders items are basically expensive items requiring big investment in raw materials and equipment. Even here efforts are made to

divert purchases to cooperatives wherever such cooperatives exist. For instance, Carpets are also purchased from co-operatives in Kashmir."

4.7 During evidence the Committee enquired what were the plans of CCIC to minimise the purchases from the traders. The G.M., CCIC stated:

"Before 1979 our links with the traders were more than the links with the artisans but now our involvement with the artisans is increasing."

4.8. The Committee pointed out that according to CCIC, about 68 per cent of the purchase of crafts made by the CCIC were from artisans, cooperatives and State Corporations and 32 per cent from the private traders. They asked whether the holding company/Government had impressed upon CCIC the need to eliminate middlemen and to establish direct contact with artisans and craftsmen and whether any direction had been given to CCIC in this regard. The Ministry stated in a written reply that "the pattern of trade in many items requires the purchases to be made through traders (viz., carpets, gems and jewellery, etc.) In addition, emergency purchases have also to be made through traders. However, CCIC has always been trying to procure the maximum possible directly from artisans and craftsmen. Government has also generally impressed upon CCIC (during Performance Review Meetings) that it should procure directly from the artisans and craftsmen to the maximum possible."

4.9. With regard to traders-manufacturers, the Committee pointed out that they advanced money to the small artisans, got the goods and then sold to the CCIC, in which case the market value of those articles could be much higher. If the Corporation approached the small artisans and craftsmen and dealt with them directly by advancing them money etc., the price of articles bought from them would be much less than what the Corporation was required to pay for 2 per cent of the articles purchased from the private traders. The Committee asked whether it would not help eliminate the middlemen if CCIC also followed the same practice as was followed by the traders-manufacturers. The G.M., CCIC stated, "Yes, they do advance money to those people...these masters weavers, as they are called in the field of handlooms or in the carpet trade, there the trader is very active and we do not have the field agencies." Thereupon the Chairman, CCIC, stated that in that case some problems might crop up as to whether the artisans would supply the goods at all, or in time and sometimes the advances may not be recoverable. He, however, added that so far as CCIC was concerned, he was not sure whether any money was lost, but in HHEC they had lost some money. Asked whether this matter was discussed in the Board, the witness replied that he was not sure.

4.10 On being enquired whether any calculation had been done as to what extent the articles would be less costly if purchased directly from the artisans instead of buying them from the trader-manufacturers, the Chairman, CCIC stated, "We are trying to work that out. I think, it is a very good suggestion.

4.11 Asked further whether, at the time of purchase of an item from the trader, the Corporation was in a position to know as to how much he was charging and how much profit was there. The Chairman, CCIC, stated that it was not done at random. The General Manager, CCIC, however, stated that in the case of costly items like shawl, it was done by their expert teams. The expert teams in the Corporation were aware of the market rates that were prevalent. These people were conscious of the price at which these things were being sold. This kind of market survey was done by their Research Department continuously. Asked whether any analysis had been made to find out as to how much margin an ordinary artisan was getting, how much margin a private trader was getting and how much margin the Corporation was giving to the private trader. In reply, the G.M., CCIC stated: "We have not compiled the figures on that. It is a kind of personal contact with these people and we find that most of the craftsmen are happy to supply to us because we pay them a better price for their goods."

4.12 In reply to a question, the General Manager, CCIC informed during evidence that in emergency when the articles were purchased from the private traders, a margin of 10 per cent was paid to them as compared to the payment made by them to an artisan.

4.13 Asked whether any analysis had been made to determine the additional cost paid to a trader while buying goods from him rather than buying the same directly from the craftsmen, the CCIC stated that no specific analysis had been made so far.

4.14 During evidence of the Ministry the Committee asked whether such an analysis was not called for. The Secretary, Department of Textiles stated:—

"It is difficult to conduct reliable analysis about the additional cost. Our directive has been to the CCIC to reduce the proportion of purchases from traders. So, some academic exercise can be done, but I would submit this analysis will not be reliable and help us making any worthwhile decision. The basic objective is to increase the purchases from artisans and cooperatives. Therefore, this analysis is not required when the basic objective is already very clear."

4.15 Asked about the difficulties experienced in the procurement of handicrafts and handlooms, CCIC stated that the Corporation laid stress

on tradition and excellence of workmanship but it did not always get traditional products of good quality in quantities sufficient to meet demand. It has also been stated that because of the delicacy or fragility of many products, transporting them to CCIC's emporia from areas of production is a major problem. Secure packing increases costs to a very high margin. The CCIC has suggested that the State Corporations engaged in the development of crafts can play an important role in maintaining tradition and excellence of craftsmanship by providing design input, technical know-how and quality raw material to craftsmen.

Similarly, the State Corporation should lay stress on developing packing with indigenous and traditional packing material and techniques so that the craftsmen of their respective regions should use those various material instead of industrial techniques of packing which is more suited to industrial items produced by machines. Asked whether those suggestions had been taken up with the State Corporations, the CCIC stated that since State Corporation were autonomous bodies, they were not answerable to CCIC. When enquired about the role of CCIC in regard to these matters, it was stated that "the CCIC has been playing this role with regard to the merchandise procurement from different sources. However, with its limited resources, it cannot cover the entire area of such a vast country as India and hence it considers that the State Governments whose operations are limited to a particular State can play much greater role in this regard."

4.16 The Committee pointed out that procurement of raw material had always been a problem for small artisans. They enquired about the assistance that the CCIC had been able to give to these artisans in the matter of raw materials. The General Manager, CCIC stated that they had not been able to give assistance in the procurement of raw materials to the artisans. Asked further whether the CCIC could visualise any steps for giving such assistance, the witness stated, "We do not have any agency for that. Out of the four emporia three are selling agents. This responsibility of providing raw material or helping the artisans with raw materials is discharged by State Industries Board. The CCIC has not been able to provide assistance to them."

4.17 During the course of examination of the Ministry, the Committee pointed out that the traditional craftsmen and other artisans were not getting facilities to sell their products to CCIC. They wanted to know whether there was a good network for purchasing the products from the craftsmen and artisans by the CCIC. The Secretary, Department of Textiles, *inter alia*, stated, "I would not say that we are completely happy with the present situation. But in the first instance, it is mainly for the artisans to group themselves into Cooperatives...if there is a cooperative institution it helps them to market the products better, it also helps

them to obtain the finance and raw materials better...of course, the CCTC is making all out efforts to approach as many individual artisans as possible but it is really a difficult task. To the extent cooperativisation penetrates more and more among artisans, it helps them...."

4.18 Asked whether the CCIC was in a position to ensure purchase of all quality products all over the country, the Secretary, Department of Textiles stated:

"The CCIC is certainly not in a position, nor is it likely to be in a position, to purchase whatever handicrafts are produced in the country. It is just not possible. They have to share it with the other State Handicraft Corporations and the private sector. The CCIC does not have the managerial, organisational or financial resources to take over the responsibility of purchasing and disposing of the entire range of handicraft products."

(b) Pricing Policy

4.19 According to CCIC, it follows a pricing policy based on the principle of "What the market can bear". It is reported to have determined mark-ups on this basis which are followed in pricing goods. The Committee enquired how the mark-ups were actually fixed and what were the components of the mark-up. In a note, the CCIC have stated:

"As per decision of the Board, a Committee consisting of the Chairman, the General Manager and the Addl. General Managers decide mark-ups on different items. The Manager (Buying), Manager (Showroom) and Manager (Research) are associated in the deliberations of the Committee. The Committee is guided by the following considerations;

- (i) Mark-up should be such as to enable CCIC to obtain the margin that the market can bear while at the same it should be reasonable in terms of the image of the company.
- (ii) mark-up should be adequate to cover the cost and recover reasonable profit to meet the overheads, and
- (iii) the mark-up on comparative items such as textiles and ready-to-wear are generally lower as compared to items like jewellery, furniture, art objects, handicrafts etc, which do not offer stiff competition in terms of quality, variety and range.

Based on the above considerations, standard mark-ups are decided by the Committee and are reviewed every year or every two years. Within these broad limits, mark-up can be varied on specific items, with the permission of the Chairman, General

Manager or Addl. General Managers. For example one-of-a-kind items can carry a higher mark-up than the standard mark-up. Again breakable items like terracotta which are inexpensive are marked higher than the normal, because they can be sold at that price.

There are two components of the standard mark-up; (i) expenses on procurement and (ii) actual gross profit margin. Expenses on procurement include, Central Sales Tax, packing and forwarding, freight and insurance. Expenses on procurement are about 10 per cent on an average. The remaining portion of the mark-up is gross margin."

4.20 The following table indicates the break-up of sales realisation of CCIC in terms of (i) cost of procurement (ii) administrative overheads (iii) tax component and (iv) profit margin during the years 1978-79, 1979-80 and 1980-81:

(Rs. in lakhs)

	1978-79	1979-80	1980-81	Remark
1 Total Sales	500.99	531.59	597.55	
2 Cost of Sales. (Procurement)	370.70	406.36	438.58	
3. Administrative Overheads .	136.97	138.40	155.79	
4. Tax	Due to carrying forward losses
5. Profit Margin	18.56	20.93	9.00	

4.21 Referring to the general impression in the minds of the consumers that prices charged by CCIC were very high, the Committee desired to know what was the percentage that was added to the price of an article paid to the artisan. The General Manager, CCIC stated during evidence:

"There are two factors that we have to keep in mind when fixing up the price. One, is, how much can the article bear? Second thing is what is the price of a similar item in the market? When we fix a price we also consider what we should pay to the artisans, out of it. In general our mark-ups are upto 35 per cent to 5 per cent."

He added:

"But this mark up also includes our procurement cost as well. So, when we say that we added on the average 25 to 30 per cent or 45 per cent, this includes about 7 to 8 per cent as the

procurement cost, and also distribution cost. We have also to add octroi duty and other things. These are the factors which we have to keep in mind. We have also to consider what people think and select. That happens only for some categories, these are the areas which we call art objects..... We are certainly selling certain items which private traders are also selling. Here our research department plays a very active part as to at what price these are sold in the private market. At times private traders come to us and they buy some items because we have spent all this money in procuring them. The Private traders add their mark-up and sell it. We do not want these items which come in a small quantity, to go into their hands. Here our mark-ups are high. There are certain items where we have the bulk sale during four or five months of winter whereas there are other things which are sold round the year. These are the items where our mark-ups are 10 to 15 per cent higher than the usual items."

4.22 From the item-wise list of the mark-up as determined by CCIC for the year 1982, it is seen that the mark-ups range between 35 per cent on items like shoes, dress fabrics, children's wear to 60 and 65 per cent on jewellery and 50 to 55 per cent on gifts and accessories etc. As stated by CCIC the expenses on procurement came to about 10 per cent of the price of an article and therefore the remaining portion of the mark-up constituted gross margin. Asked whether it was a fact that certain goods of the same quality were available in the market at lesser prices, the CCIC stated that "it was possible." Asked whether it was due to higher mark-up of CCIC or because the private trader was able to get the article at a lower price, the Secretary Textiles said: "Possibly the latter is more possible."

4.23 During examination of the Ministry, the Committee asked whether the Government or the Holding Company at any time analysed CCIC's cost of procurement, other overheads and margin of profit and assured itself of their reasonableness. The Secretary, Deptt. of Textiles stated. "As regards the marks-up and profit and their reasonableness, actually we have not interfered because we have more or less endorsed their general approach that the prices should be fixed in such a way that the artisans get remunerative prices and the products can be sold at a price which the consumers can bear."

4.24 In a reply furnished subsequent to evidence, the Ministry stated that the Government had not conducted any special study of CCIC's cost of procurement, other overheads or margin of profit. It was further stated that "the CCIC deals in quality products and articles which are not items

of necessity to the general public. The prices charged are not considered to be unreasonable for the quality products and the type of clientele it caters to. Further, the growth in the total sales of CCIC indicates that the prices charged are quite acceptable to customers."

4.25. The Committee wanted to know whether the artisans were being paid reasonable prices by CCIC. The Secretary Textiles stated: "So far we have not had any complaint from any group of artisans anywhere that they are being exploited because of the prices." He further added:

"On the whole, the CCIC management tries to see that the artisans do not suffer. In fact, CCIC has paid them more. We normally receive so many representations every day from different sections of the people. But during the last one and half years of my tenure we have not received any such complaint that the CCIC is paying meagrely to the craftsmen."

4.26 In the same context the Addl. Secretary and Financial Adviser of the Ministry stated, "within the Corporation they have the Committees. They go to the artisans and meet them. They are able to make an assessment as to whether the cost of production and cost of labour are going up. They are compensating the craftsmen and artisans adequately and the prices are also increased from time to time. With a view to removing the hardship to these persons payments are usually made in cash. Therefore, the interest of the craftsmen and artisans is adequately taken care of."

4.27 The Committee enquired whether under the pricing policy based on the principle "what the market can bear" any additional benefit accrued to the artisans when a relatively higher mark-up was added to the price of an article. In a written note, the CCIC have stated:

"Four concrete example of fixing prices on the principle of what market can bear are:

1. Banjara embroidery purchased directly from Banjara craftswomen. The sale price fixed is on the principle "What the market can bear" CCIC margin remains fixed. The additional value goes to the craftswomen. This is upto double the price they were asking.
2. The same thing is happening with Khurja pottery which we are buying directly from 'potters.
3. The third example is of Molela terracotto.
4. Another concrete instance is the case of Banni embroidery."

(c) *Coordination with State Corporations*

4.28 The State Corporations or State Organisations are agencies working independent of CCIC for the promotion of handicrafts. Asked about the relationship of CCIC with the State Government Emporia and the nature of coordination with these State level and other organisations engaged in the development of handicrafts and handlooms, it was stated that CCIC invited each of them and this was followed with those who responded. CCIC entered into buying arrangements with four State Corporations but unfortunately these did not last. Asked about the nature of coordination and cooperation with the State Corporation expected by CCIC in the matter of procurement and sale of handicrafts and handloom goods, the CCIC stated that the Corporation had been offering to purchase merchandise through State Corporations because being on the spot they could follow up orders placed by CCIC. They could also exercise quality control and secure delivery schedules.

4.29 During examination of the Ministry, when the Committee asked whether the Ministry took up this matter with the State Governments so as to evolve guidelines and working arrangements with the State Corporation, the Secretary Department of Textiles stated that the work of coordination was being attempted by the Development Commissioner, Handicrafts. The Development Commissioner, Handicrafts, *inter-alia*, stated in evidence that the present working arrangement was that the CCIC and State Corporations had their separate outlets. When they bought goods, they approached each other first, but the question whether CCIC should necessarily buy from State Corporations only, and not from any other source, was also discussed. The general conclusion reached to which the State Corporations also agreed was that no compulsory regulation should be laid down. CCIC would buy according to the suitability and quality of the product which a particular State Corporation was manufacturing.

4.30 Asked as to how duplication of efforts and unhealthy competition between CCIC and State Corporation could be avoided, the Development Commissioner, Handicrafts stated:

"In the field of handicrafts, no amount of effort can bring about duplication. The nature of work in this field is such that the State Corporations can also work in certain areas... We do not find any duplication so far but there is a supplementing of effort. There is no unhealthy competition either. We have not come across any under-cutting or out-bidding of each other in various matters..... I do not think that CCIC and State Corporations have such a large sale that there will be unhealthy competition. So, during the last couple of years when the State Corporations have started coming up, we have seen to it that there are buying arrangements between CCIC and

State Corporations, not on a competitive but on a business-deal basis."

4.31 The Committee pointed out that if it was planned to have emporia in more places, it could be possible to enlarge the scope of working of these corporations much more. The D.C. Handicrafts stated:

"We ask them to undertake a kind of marketing study of that particular town and ask them to make certain projections on the basis of market study. Then we take a decision whether a fresh outlet is necessary there where it is reasonably economically viable. On the basis of that we decide only to open a main outlet either for CCIC or the State Corporation."

4.32 The Committee pointed out that the five star or ITDC Hotels could be a very good medium to sell out the handicraft and handloom products. Asked whether any effort was made in that direction, the witness stated, "We have not made any effort as such. Individual corporations made these efforts — States or Central both." Asked whether, HHEC had any arrangements with them, the Secretary, Department of Textiles stated in reply, "At the moment, no. HHEC has installed it in Akbar and Ashoka Hotels. This is an interesting idea which I am sure HHEC will work out."

4.33 The Committee have been informed that before 1979 CCIC had more links with the private traders than the artisans, as it had been buying the bulk of merchandise from the traders. This meant that right upto 1979, the Company had been functioning like any other retail trader by buying articles from the middlemen and selling the same after adding a mark-up which would ensure a margin of profit. That surely could not have been the objective envisaged for a public undertaking like CCIC.

4.34 It has been stated that after 1979, the CCIC, while making purchases of handicrafts has been giving preference to artisans, cooperative societies and State corporations. However, even during the years 1979-80 to 1981-82 the share of the private traders in the total purchases made by CCIC remained as high as 32 per cent and this figure has remained almost stationary all these years indicating that even now much effort has not been made to approach more artisans and craftsmen.

4.35 The Committee feel that the tendency to resort to purchases from private traders in preference to artisans and craftsmen or their cooperatives needs to be curbed effectively. CCIC must keep in mind that the primary object for its setting up is to assist artisans and craftsmen and eliminate the middleman. The Committee would expect the CCIC to make every effort to procure maximum possible quantities from the artisans and craftsmen and to bring down the percentage of purchases from

the private traders to the minimum. The procurement policy should be reoriented to provide that no purchases will be made from the private traders except in very exceptional cases. The Committee also recommend that the infrastructure for the procurement may be suitably strengthened. The Committee would like to be informed about the concrete measures taken in this direction.

4.36 One way of increasing the proportion of purchases from the artisans or craftsmen could be that just as private traders are helping the artisans etc. by advancing money, CCIC should also consider extending financial help or arranging for supply of raw material at reasonable rates. It need hardly be pointed out that maximisation of purchases from the artisans and craftsmen will not only eliminate the Company's dependence on private dealers but will also be conducive to healthy inter-action culminating in financial benefit both to the Company and the artisans and craftsmen.

4.37 The Committee were given to understand that the traditional craftsmen and other artisans were not getting facilities to market their products to CCIC. The Secretary, Department of Textiles while admitting this in evidence stated "I would not say that we are completely happy with the present situation. . . ." He added that 'in the first instance, it is for the artisans to group themselves into cooperatives. . . if there is a co-operative institution, it helps them to market the products better, it also helps them to obtain the finance and raw materials better. . ." The Committee suggest that the artisans and craftsmen should be afforded all possible help including finance to enable them to form their own cooperative societies so that the sale of products produced by the artisans and craftsmen is regulated in a manner which would enable them to safeguard their interests and save them from exploitation by the private traders.

4.38 The Committee have been informed that the CCIC do not always get traditional products of good quality in quantities sufficient to meet demand. According to the CCIC, the State Corporations engaged in the development of crafts could play an important role in maintaining tradition and excellence of craftsmanship by providing design input, technical know-how, quality raw material to craftsmen, developing packing with indigenous and traditional packing material etc. The Committee desire that the matter should be pursued through the Development Commissioner Handicrafts.

4.39 The Committee are anxious to see that the artisans and craftsmen are enabled to get the maximum prices for their products and at the same time are freed from the clutches of unscrupulous middlemen. They regret that no systematic analysis has been made to ascertain the cost of

production of articles produced by the artisans and craftsmen and the extent of profit margin accruing to them and the traders. This aspect of the matter needs to be studied with a view to ensuring a reasonable return for the labours of artisans and craftsmen. This will incidentally help the CCIC in exercising a check on the reasonableness of the prices of products required to be purchased from the traders in the interest of business in exceptional circumstances.

4.40 The Committee note that the State Corporations/State organisations are agencies working independent of CCIC for the promotion of handicrafts. They have been informed that the CCIC entered into buying arrangements with four State Corporations, as according to them, the State Corporations could follow up orders placed by the Company and they could also exercise quality control and secure delivery schedules, but these arrangements did not last. The Development Commissioner (Handicrafts) informed in evidence that according to the present working arrangements, the CCIC and State Corporations have their separate out-lets. There were however buying arrangements between CCIC and State Corporations not on the competitive but on a business-deal basis. Even then the Committee would like the Ministry/Company to ensure that there is no duplication of efforts and unhealthy competition between the CCIC and State Corporations in the matter of promotion of handicraft and handloom products in various States. There is also need for better and more purposeful coordination between CCIC and the State Corporations.

4.41 The Committee have been informed that no detailed survey has been done in regard to opening emporia and sale out-lets in places where Five-Star hotels are coming up, nor any efforts have been made in that direction. The Committee feel that big tourist hotels, other tourist centres and international airports in the country could be a very good medium to sell handloom and handicraft products and it could enlarge the scope of working of CCIC much more.

MANAGEMENT STRUCTURE

(a) *CCIC as Subsidiary*

5.1 It has been stated that in 1975, the Government approached Handicrafts and Handloom Export Corporation of India Ltd. (HHEC), to take over the Central Cottage Industries Association, as its subsidiary. In 1976, the CCIA became the Central Cottage Industries Corporation and a subsidiary HHEC which in turn is a subsidiary of the State Trading Corporation (STC).

5.2 Asked as to what were the consideration for which CCIC was made the subsidiary of HHEC, the Chairman, CCIC stated during evidence:

"We can only give you the background; the final decision was taken by the Government. Prior to this, the two organisations were handling similar kinds of items one was doing the internal trade and the other was doing external trade. It was thought that they should support each other. We do not know from where the suggestion came. Further, a Committee, known as the Tandon Committee was appointed by the Government and it was asked to go into the whole working of the organisation. The Committee suggested that CCIC should be a subsidiary of the STC, not of HHEC, but the Government decided to make it a subsidiary of the HHEC."

5.3 In this connection the Ministry have, in a note, stated as under:

"The proposal, initially under consideration by the Ministry was that CCIC may be formed as a subsidiary of STC. It was later felt by Government that the purpose in view would be better achieved by entrusting the management responsibility to HHEC and the responsibility for financing to STC. CCIC was formed as a subsidiary of HHEC due to the above stated considerations".

5.4 According to the Management Consultant (Dr. Kamla Choudhury) who had gone into the management structure of CCIC "one of the main considerations for this step was that Mrs. Pupul Jayakar who was then Chairman of HHEC would be able to provide the leadership and expertise required to deal with the Association's problems".

5.5 The appointment of the Board, the Chairman, as also of the Chief Executive is made by Government. Article 59 of the Articles of Association of CCIC however, provides that at least 2/3rd of the Directors on the Board should always be from amongst the Directors on the Board of the HHEC and the STC. In terms of reporting too CCIC reports directly to the Government, although it also sends reports to HHEC as required under article 72 of the Articles of Association.

5.6 The Committee enquired about the areas of coordination and cooperation between HHEC and CCIC and whether any difficulties were felt by CCIC in so far as its relationship with HHEC is concerned. In a note, the Ministry have explained:

"According to the Articles of Association of CCIC, 2/3rd of Board of Directors of CCIC are the existing Directors of STC/HHEC. This ensures coordination at the policy formulation level. The areas of operation of HHEC and CCIC are substantially different. HHEC is predominantly an export Trading Organisation, whereas the CCIC is predominantly a retail marketing organisation.

In this background no difficulties are apparent in the relationship between CCIC and HHEC".

5.7 Asked why CCIC was not following the procedure as laid down in the Articles of Association in regard to furnishing of periodic reports and whether the dual control was conducive to efficient functioning of the CCIC. In reply the Ministry have stated that "the reports of CCIC are sent to HHEC and STC and these are forwarded to the Government to obviate delays. There is no dual control of the Company".

5.8 On the question of coordination between CCIC and HHEC, the Chairman of CCIC stated during evidence:

"As far as coordination between CCIC and HHEC is concerned, we have practically a common Board except for the non-officials. But, as far as officials are concerned, practically the same officials are representing the HHEC and CCIC..... The coordination between the two organisations, is so much a matter of personalities. If two people can get along very well two different organisations can get along very well. I do not think there is any serious problem in regard to coordination. There is a problem in the sense that HHEC being a mother organisation wants to control exports. The CCIC does not handle the subjects which we ourselves handle. They do not interfere with that kind of a thing. Now, the coordination aspect as it stands today is excellent. But because we have

now a common Chairman, coordination is not any problem any more”.

5.9 In regard to the monitoring of the activities of the CCIC by the HHEC, the Secretary Textiles stated that “when it came to monitoring the activities of the CCIC, it is done directly by the Ministry.”

5.10 In a note furnished to the Committee the CCIC have stated:

“The Corporation does not have adequate freedom to conduct its operation. It may be worthwhile to mention that it has been made a subsidiary mainly to enable it to obtain finance and equity from the parent organisation. On the other hand, CCIC has been in existence under the different names for the last 30 years and has acquired an expertise in retailing not available to any other government organisation. It has always been a trend setting organisation and has been a leader in this field. It has a modern retail operation in India, modelled on the pattern of leading departmental stores in Europe and America. This needs to be encouraged and adequate freedom given to keep its place in this field. The organisation has not been able to grow at satisfactory rate both in the external and internal market mainly due to lack of finance and lack of operational freedom till recently”.

5.11 During evidence the Committee asked whether it was not a fact that the CCIC, being a subsidiary of HHEC which in turn was a subsidiary of STC, had been given a secondary or even third position in the whole set up. The Committee also desired to know the utility of the three-tier system. The Secretary, Department of Textiles stated in reply as follows:—

“... The three-tier factor as you see, is just a structural or organisational fiction, in the sense that, so far as resources are concerned, STC is the ultimate provider. But STC does not interfere in the day-to-day activities of the CCIC nor of the HHEC, for that matter. For all operational matters, CCIC has developed its own culture and its own systems over the years. It is trying to adjust its system according to the demands of the market and a lot of operational flexibility... has now been extended to the CCIC. Whether things would have improved had the CCIC been directly undertaken by the Government of India is in my humble opinion a debatable question because, at the moment, there is no interference in the working of the CCIC. The recommendations of Dr. Kamla Choudhury also mentioned that we should not manipulate the structure any further because over the last 30 years, CCIC has

had four reincarnations. . . . What is necessary is to ensure that the CCIC definitely has the desired degree of operational freedom and whatever financial constraints are there, have to be looked into by the HHEC. . . . We would like that the present experiment be continued until it proves to be a failure and it has not yet proved a failure”.

5.12 The structure of CCIC with particular reference to its relationship with HHEC was reviewed by Dr. Kamla Choudhury, Management Consultant, who submitted her report in April 1982. The Management Consultant had *inter-alia* recommended that no major change in the institutional structure be made at present. Changes, had however, been emphasised in its relationship with MMEC, providing greater autonomy, and a status of equality rather than of a subordinate organisation to HHEC. The following were the recommendations made by the Management Consultant:

1. That CCIC continues as a subsidiary of HHEC.
2. That HHEC & CCIC have a Common Board with a common Chairman.
3. The Chairman should be responsible for clarifying basic objectives, mission and purpose of the two organisations and help develop long range plans based on basic trust and mutuality of interests.
4. The Board may have some working Directors in areas and competence where full time persons of the requisite calibre may not be available.
5. The executive head of CCIC should be on par with HHEC's executive head.
6. The chief executive of CCIC should be designated as Managing Director and should be a member of his Board.
7. The Managing Director of HHEC and CCIC should also be on each other's Boards.
8. The Managing Director would be responsible, for overall planning, evaluation, control and coordination.

5.13 During evidence, the Committee wanted to know as to what changes the management of CCIC would like to suggest in the present structure for better functioning. The Chairman, CCIC stated:—

“Changes are required in any organisation because of the changes in the commercial situations and the movement of time. That is the reason why we had suggested that some consultant should look into it and the same consultant should look into the HHEC and STC set ups. Dr. Kamla Choudhury's report

is there for CCIC. She has also reported about HHEC. As soon as the report is gone through and the management takes a decision, we will know the changes that are required".

He added:—

"A month and a half back Kamla Choudhury's Report was placed before the Board and Directors felt they would like to go through a little more and would also like the Management's views to be placed before it. In the October meeting, the Management's views will be placed and they will discuss Kamla Choudhury's Report also".

5.14 The CCIC stated in a reply furnished after evidence that a meeting of the Board of Directors had been called on 2.11.1982 to consider the report of the Management Consultant.

5.15. In their letter sent subsequently (10-11-1982) the CCIC intimated that the following resolution was passed at the Board of Directors meeting held on 2-11-1982:

"The Board considered the Agenda Item. Representatives of the Department of Textiles and of State Trading Corporation had been invited to attend the meeting but were unable to do so. As the matter affected CCIC relationship with its holding Company, the Board felt that the Kamla Choudhury Report should be considered in a Joint meeting of the HHEC and CCIC Board, with the consultant being requested to attend as a special invitee. The Board requested the Chairman to call a special meeting".

5.16 In the absence of a clear perception of the objectives and obligations of CCIC at the time of its incorporation in 1976, no serious attention seems to have been paid in determining its management structure. It has been stated that the proposal initially under consideration by the Ministry was that CCIC may be formed as a subsidiary of STC. Later, however, it was felt by Government that the purpose in view would be better achieved by entrusting the management responsibility to HHEC and the responsibility for financing to STC. This is how CCIC came to be formed as a subsidiary of HHEC, which in turn is a subsidiary of STC. The appointments to the Board, the Chairman as also of the Chief Executive of CCIC are made by Government. In terms of reporting too, CCIC reports directly to the Government although it is reportedly sending reports to HHEC also as required under Article 72 of the Articles of Association. The relationship between HHEC and CCIC has been limited to the appointment of some Directors of HHEC alongwith some Directors of STC on the Board of CCIC. Even the monitoring of the

performance of CCIC was being done directly by the Ministry. This arrangement has apparently not worked satisfactorily and the dual control has not been conducive to efficient functioning of CCIC. The structure of CCIC with particular reference to its relationship with HHEC has been reviewed by a Management Consultant who has inter-alia suggested several changes in CCICs relationship with HHEC. The Committee feel that efficiency and development of an organisation depends upon the management structure it has. The Committee have not gone into the merits of the recommendations made by the management consultant. They nevertheless feel that in case CCIC continues as a subsidiary of HHEC, it should have a separate Board even though there could be a common Chairman for the two companies. The Committee also wish to emphasise that the recommendations of the management consultant should be considered early and necessary action initiated for their implementation to the extent acceptable.

(b) Chairman and Chief Executive

5.17 When CCIC was established, the Chairman of HHEC (Smt. Pupul Jayakar) was appointed as the Chairman of CCIC w.e.f. 1-4-1976. She, however, resigned on 2 May, 1977. Upto 15-2-1980 there was no Chairman of CCIC. The following were the various Chairmen of CCIC Board since it became a Corporation:

1. Smt. Pupul Jayakar—1-4-1976 to 21-5-1977 (resigned)
2. Sh. S. K. Bhandarkar—16-12-1980 to 14-2-1981
3. Sh. R. S. Pal—19-3-1981 to 3-12-1981
4. Sh. Diljeet Aurora—8-2-1982 (Continuing)

5.18 During the course of evidence, the Chairman, CCIC stated that it was correct that for 2 to 3½ years there was no Chairman of CCIC. There were only two Directors. Even in the four years, four Chairmen and three Chief Executives had changed and these rapid changes affected the working of the Corporation. Asked about the reasons for not appointing Chairman in the CCIC for 3½ years, the Ministry explained in a note that the Chairman of CCIC resigned in May, 1977. Thereafter Government considered various names for appointment as Chairman and efforts were indeed under way for appointment of the Chairman.

5.19 The Secretary Textiles stated during evidence:

“As regards the non-appointment of the Chairman for 3½ years, I have very little to say. After all, appointments are made by the Government for some reasons. Government did not find themselves in a position to appoint any Chairman. But there was no dislocation in the working”.

5.20 On being pointed out that if there was no dislocation of work in the absence of a Chairman, the post could as well be done away with, the Secretary Textile stated:

"We do not think so. If there is a Chairman, he can give a lot of guidance to the Chief Executive. This helps the organisation in discharging its functions much better. Government could not find a suitable non-official Chairman for reasons best known to Government. We do not agree that there need not be a Chairman".

5.21 As regards the reasons for frequent changes in the appointment of the Chairman and Chief Executives, the Ministry stated that in December, 1980 Managing Director of HHEC was appointed as Chairman of CCIC. When the appointee (Managing Director of HHEC) relinquished charge in the parent organisation, it was also necessary to change the Chairmanship of CCIC. There had been no change in the Chief Executive since 1979.

5.22 On being enquired as to how many times did the two Directors meet when the Chairman was not there and the Board was not properly constituted the General Manager CCIC stated that the two Directors used to meet once a quarter. One of them used to preside over the meeting. In the Annual General Meeting, these two Directors used to transact the business.

5.23 Since 1980, it seems to have become a convention of appointing the Managing Director HHEC as Chairman of CCIC. While the Corporation pleaded its ignorance about this convention, the Ministry stated that:—

"The Articles of Association of CCIC prescribes that not less than 2/3rd of the members of the Board of CCIC should be members of the Boards of STC/HHEC. Prior to May, 1977, Chairman of HHEC was also Chairman of CCIC. Further, Managing Director of HHEC was also Managing Director of CCIC. While considering the appointment of a new Chairman, it was felt that we could nominate more non-officials in the Board. In the light of this position, Managing Director, HHEC was appointed as Chairman, CCIC".

5.24 The Chief Executive of CCIC is presently designated as General Manager and he is not a member of the Board. Earlier the Chief Executive was called the Executive Director and was also a member of the Board. When asked whether it affected the operational independence of the Corporation, the General Manager stated:

"As far as operational freedom till recently is concerned, when the company was formed in 1976, the Chairman was appointed

by the Government of India but that Chairman resigned in 1977. After that, for three years, we had no Chairman in the Company and even in four years we have had four Chairmen, three Chief Executives and even the Chief Executive of the Company is not a Member of the Board. The working of the Company did suffer and it suffers if the Chief Executive is not a member of the Board and if there is no Chairman of the Housing Company....".

5.25 Asked whether the Chief Executive of CCIC should not be a member of the Board, the Chairman, CCIC stated during evidence "of course, it has been written to the Government so many times". In reply to a question about the Members of the Board, the witness stated that at the moment the Board had not been reconstituted. At present there were seven members.

5.26 During evidence of the Ministry, the Committee asked about Government's thinking on the General Manager of CCIC to be member of the Board. The Secretary, Department of Textile stated, "we are awaiting the comments of the Boards of the CCIC and the HHEC on the recommendations of Dr. Kamla Choudhury's report. But at the level of the Government, we have now more-or-less decided that the General Manager should be the Managing Director of the CCIC and should be on the Board of CCIC".

5.27 Subsequently, the Ministry informed in a written reply that it had now been accepted by the Ministry that the Chief Executive should be designated as Managing Director, where he would also be the member of the Board. The matter was being processed for obtaining the requisite approvals.

5.28 One obvious drawback arising out of the dual control of CCIC by Government and HHEC has been that top appointments have been badly delayed to the detriment of the CCIC. It is surprising that for a period of more than 3½ years the Company was without a Chairman. During the same period only two Government Directors constituted the Board and discharged the functions of the Board. Between 1976 and 1982 as many as 4 Chairmen and 3 Chief Executives changed hands. Although the present Chief Executive, who is known as General Manager, is in position since 1979, surprisingly he is not a member of the Board. The Chairman CCIC has informed that the need for making the Chief Executive a member of the Board has been felt and Government approached in the matter. The Secretary, Department of Textiles, however, stated that Government was still awaiting the comments of the Boards of CCIC and the HHEC on the suggestions/recommendations made by the

Management Consultant. After examination of the Ministry's representatives, the Committee have, however, been informed that the Ministry have accepted that the Chief Executive should be designated as Managing Director and the matter was being processed for obtaining the requisite approval. It only illustrates how casually the working of CCIC has been looked upon both by Government and the holding Company. The Committee cannot but express their unhappiness at this state of affairs. They trust that necessary action to make the Board a meaningful body and the Chief Executive a more purposeful functionary will be taken without further loss of time.

(c) *Monitoring*

5.29 The Committee enquired whether the Annual Reports and Accounts of CCIC come up for review at Ministry's level and what specific steps had been taken or directives given to CCIC arising out of such meetings, to improve the working of CCIC. In a note, the CCIC have stated:

"The Annual Reports and Accounts of CCIC are being submitted to the Ministry. No meetings were held for review of annual accounts".

5.30 During evidence before the Committee, the Secretary Textiles stated:

"Under the present policy directive of the Government, we have to make periodic performance reviews of all public sector undertakings under the administrative control of the Ministry. Since the CCIC is a public sector undertaking, we try to make a quarterly review of its activities and see to what extent it is living up to what is expected of this organisation".

He added:

"During the last 2 years, for instance, there were review meetings on 9th January 1981, 8th December 1981 and 19th July 1982. The next meeting is scheduled to be held sometime in December or January. The last two meetings were held under the Chairmanship of the Deputy Minister himself, where the general performance of the CCIC was taken into account. At the last meeting the main instructions given to the CCIC were to see what extent they could contain or reduce their administrative overheads, including advertisement expenses. Today the proportion of administrative overheads in the CCIC is about 26 per cent. They have been able to reduce it somewhat but still Government would have been

happy if they could reduce it still further. At the last meeting that was the main instruction given to CCIC. But from time to time, during every periodical performance review meeting, the entire operations are gone into and, where things are looking up, we do express our appreciation of the efforts made by the CCIC management in improving the affairs and wherever we think that efforts should be increased or accelerated to reach certain corporate objectives, we try to give them the necessary guidance. At the next meeting we would particularly concentrate our attention on seeing to what extent the administrative overheads have or have not been contained by this Corporation."

5.31 In a note furnished to the Committee, the CCIC have however, stated:

"During the last 4 years the Ministry held performance appraisal meetings on 17th November, 1980, on 9th January, 1981, on 8th December, 1981 and 19th July, 1982. The Ministry gave one directive, for reducing advertisement expenses. However, it was pointed out to the Ministry that our advertisement cost was within the usual business norm for our types of trade."

5.32 In reply to a question whether the Holding Company was also making periodical assessment of the working of CCIC, the Secretary Textiles, stated in evidence:

"The holding company gets periodic reports. But at this particular meeting the holding company was not represented".

5.33 In another context the Secretary, Textiles stated that "when it came to monitoring the activities of the CCIC, it is done directly by the Ministry".

5.34 The Committee have received an impression that in the matter of monitoring the administrative Ministry has not played the role expected of it. During the last 4 years the Ministry held only 4 performance appraisal meetings. There is no indication to suggest if the holding company was associated with any of these meetings. In fact as the immediate owner of the Company, the holding Company on its own should have organised periodic performance reviews of its subsidiary. According to CCIC, the Ministry gave only one directive for reducing advertisement expenses in reply to which the CCIC pointed out that their advertisement cost was within the usual business norms. More important problems besetting the company such as inadequacy of finance, need for coordination between CCIC and HHEC do not appear to have been discussed at any

stage. No meetings were held for review of annual accounts. The Committee cannot but stress that in order to make the concept of accountability of the enterprise to Government effective and purposeful, the performance review meetings should be held more frequently. While holding these review meetings care should be taken to discuss and analyse the problems and difficulties faced by the undertaking and provide guidance where necessary. It is also imperative that the representatives of the holding company are also associated with these meetings.

VI

FINANCIAL MATTERS

(a) *Annual Accounts*

6.1 According to Section 210 read with sections 217 and 166 of the Companies Act, 1956, balance sheet and profit and loss accounts of a company together with the audit reports thereon and a report of the Board of Directors should be placed before the annual general meeting of that company within a maximum period of 9 months of the close of the year failing which penal provisions of the law would be attracted.

6.2 According to Section 619A of the Companies Act annual report of a Government company in which Central Government is a member should be prepared within three months of the annual general body meeting and laid before both Houses of Parliament together with a copy of the audit report made by the Comptroller & Auditor General of India. Thus, the accounts should be finalised audited and laid before Parliament with an annual report within one year of the close of the financial year concerned.

6.3 The annual Reports and Accounts of the CCIC have been completed upto the year 1978-79 only. The accounts for the year 1979-80 are stated to be with C&AG for their comments. The accounts for the years 1980-81 and 1981-82 are yet to be finalised.

6.4 The CCIC has submitted the following reasons for the delay in the finalisation of Accounts for the years 1979-80 and 1980-81.

1979-80

1. Detection of fraud and embezzlement in July, 1979.
2. Seizure of certain records by the CBI for investigation in embezzlement case.
3. Extra cautious approach adopted by the Statutory Auditors/Government Auditors in finalisation of Audits.

1980-81

1. The delay in finalisation of accounts for the year 1980-81 is linked up with the delay in finalisation of audit for the year 1979-80.
2. The Statutory Auditors for the year 1980-81 were appointed by the Company Law Board on 23-4-1982. The Statutory Auditors have already taken up the Audit. It is likely to take about 4 to 5 months in completing the Audit.

6.5 During examination of the Ministry, the Committee wanted to know the reasons for delay in the finalisation of the Accounts. The Secretary, Department of Textiles, while admitting that there was delay in the finalisation of the accounts, explained as under:

"Under the provisions of the Company Law these accounts have to be placed before the annual general meeting after audit within six to nine months of the termination of the previous financial year. The accounts of 1979-80.....were delayed because of some fraud and embezzlement case and the records were kept back by the CBI for investigation. Anyway, the accounts of 1979-80 were audited and placed before the annual general meeting on the 19th October, 1982. The Accounts of 1980 are in the final stages of preparation. Here the Corporation has been lagging behind.....I understand from the CCIC Management that they are trying to complete the accounts by February, 1983. There has been a chain of delay."

6.6 Under the provisions of the Company Law, the balance sheet and profit & loss accounts of a Company together with the Audit Reports thereon are to be placed before the annual general meeting after audit within six months of the close of the previous financial year. The Committee find that there has been undue delay in the presenting of Annual Reports of the CCIC to Parliament. The reports for the years 1979-80, 1980-81 and 1981-82 have not yet been presented. During the course of evidence, Secretary Department of Textiles admitted that there has been a 'chain of delay' in the finalisation of accounts. Such delays should be avoided in future. The Committee would suggest that Government should impress upon the Company to finalise the accounts, get them audited within the stipulated period and arrange to present the same to Parliament without further loss of time.

(b) *Embezzlement Case*

6.7. During evidence, the General Manager, CCIC informed that in 1979 the CCIC had discovered an incident of embezzlement by an employee working in the Accounts Department of the Corporation to the tune of Rs. 11 lakhs by fraudulent acts and forgery. The employee had floated a fictitious firm known as 'Bless and Bloom' in 1972 which went on unnoticed for seven years. The case was in the court. A sum of Rs. 3 lakhs had been recovered from him in cash and his property had also been attached.

6.8. Asked as to how the misappropriation was detected, the General Manager, CCIC while admitting certain lacunae in the system stated:—

"As far as the agency is concerned, this was mainly happening in our consignment account area. I certainly admit that had the

reconciliation been done periodically, it could have been detected earlier. There were certain lacunae in the system. As far as the direction was concerned, I would admit that it was just a chance when this gentleman was away on leave, a forged signature was found on the consignment account register. He used to forge the signature of the Assistant Manager who himself happened to see the register and found that it was forged."

6.9 Asked about the departmental action taken against the person involved, it was stated that the main accused and three other people for negligence in supervision had been suspended.

6.10 The CCIC informed in a note after evidence that four employees were implicated in the embezzlement case detected in July, 1979. They were charged on 24-1-1981 under sections 120-BR/W 420, 468, 471 and 477-A, of the IPC in the court of Metropolitan Magistrate, New Delhi. The court examined the charge-sheet filed by CBI and ordered that all the accused be tried under 120B/R/W 420 and 477-A of IPC. The court also ordered that a Senior Accounts Assistant be additionally tried under section 420 of IPC.

The case was still in the court and CBI recovered cash amounting to Rs. 2.53 lakhs approximately from the Senior Accounts Assistant's possession.

6.11 The following steps are reported to have been taken by the CCIC to avoid recurrence of such cases in future:—

- (a) The procedure with regard to payment to consignment parties has been streamlined.
- (b) We have started rotating staff from one job to another.
- (c) The earlier practice of issuance of cheques across the table to the parties personally approaching for payment has been discontinued. The cheques are now being sent to the respective addresses of the suppliers by post.
- (d) Endorsement of cheques by the authorised signatories in respect of any corrections made in the cheques has been completely stopped. In case of any mistakes in the writing of cheques the cheques are cancelled and fresh cheques issued in lieu thereof.
- (e) The authority to sign cheques of value of Rs. 50,000/- and above has been withdrawn from Assistant Managers (Finance) and assigned to Manager (Finance).

- (f) To strengthen the accounting operation at Headquarters we have appointed another Chartered Accountant as Deputy Manager (Finance).
- (h) The scope of internal audit has been enlarged to cover 100 per cent checking of Store Accounts records.

6.12 More than Rs. 11 lakhs were embezzled by an officer by resorting to fraudulent acts and forgery. The case remained unnoticed for 7 years and was detected just by chance. This causes a serious reflection on the supervisory staff. It is also indicative of the lacunae in the system followed in the CCIC. The Committee would like that suitable remedial steps be taken to avoid recurrence of such cases in future. The Committee would also like to be informed about the outcome of the cases now pending in the Courts in this connection.

VII

WORKING RESULTS

7.1 The table below indicates the position regarding the actual turnover, gross margin, expenses and the profit/loss of the Corporation since its inception in 1976-77 to 1981-82:—

(Rs. in lakhs)

	Sales	Gross Margin	Expenses	Net Profit /Loss	% of Net Profit to Sales
1976-77	400.68	117.09	130.24	(-) 13.15	
1977-78	486.66	144.24	146.49	(-) 2.25	..
1978-79	500.99	157.54	138.98	(+) 18.56	3.74
1979-80	531.59	159.33	138.40	(+) 20.93	3.97
1980-81	597.55	164.79	155.79	(+) 9.00	1.05
1981-82	715.57	199.00	186.26	(+) 12.74	1.77

7.2 It is seen from the above that although the actual sales have recorded an increase over the years, the Corporation has suffered losses in the years 1976-77 and 1977-78. In the subsequent years Corporation made profits which as a percentage of the sales range between 1.05 per cent in 1980-81 to 3.97 per cent in 1979-80. During the same period the percentage of gross profit to sales ranged between 27.39 per cent in 1976-77 to 29.33 per cent in 1978-79.

Administrative Overheads

7.3 The overhead expenditure of CCIC consists of personnel expenses, administrative expenses, trade expenses, interest, depreciation and others.

The following table indicates the break-up of the overheads of CCIC during 1978-79, 1979-80 and 1980-81:

	1978-79		1979-80		1980-81	
1. Personnel	82.06	52%	87.44	63%	96.12	62%
2. Administration	30.52	22%	35.61	25%	39.43	25%
3. Trade Expenses	18.66	13%	11.01	7.9%	11.75	7.5%
4. Interest	4.86	3%	0.50	0.4%	3.40	2%
5. Depreciation	2.33	1.7%	3.55	2.6%	4.89	3.1%
6. Others	0.54	0.4%	0.29	0.2%	0.40	0.3%
	138.97		138.40		155.79	

The percentage of administrative overheads to total sales was 27.7 per cent in 1978-79, 26.0 per cent in 1979-80 and 26.0 per cent in 1981-82.

7.4 Asked whether the overheads of CCIC were not on the high side, the Corporation stated, "We do not think that the percentage of overheads to the total sales are on the high side. They vary between 25 to 27 per cent which is well within the standard norm applicable to any retail organisation. Even if we compare it with the highly organised retail units in America and Europe our overheads work out to be much lower. . ."

7.5 However, when the Committee pointed out that the percentage of administrative overheads to total sales during 1978-79, 1979-80 and 1980-1981 appeared to be on the high side and asked whether any guidelines had been issued by the Holding Company/Ministry to CCIC to reduce the overhead expenses, the Addl. Secretary and Financial Adviser of the Ministry stated in evidence "In so far as the retail shops dealing with handicrafts are concerned, there is no yardstick as such by which we can say that 27 per cent is high or low. Prima facie it does give an impression that overheads of the order of 27 per cent are on the high side. CCIC has been advised to have one more look with a view to reducing the overheads in this direction." He added that "an attempt in this direction was being made."

7.6 The Secretary Textiles also stated during evidence:

"About the administrative expenses we... showed our concern and at the last performance review meeting, we wanted the CCIC to look into this and try to reduce this."

7.7 In regard to expenditure on personnel the record note of discussions held by the Minister of State for Commerce with the representatives of HHEC and CCIC on 8 December, 1981, reveals:

"Shri Bhasin (General Manager of CCIC) stated that total staff employed, both in Delhi Centre as well as the Branch Offices at Bombay, Calcutta and Jaipur is 625, of which 450 employed in Delhi. Though he admitted that it is on the high side, it would not be possible to reduce the strength."

7.8 In the first 2 years (1976-77 & 1977-78) of its operations the CCIC incurred loss of Rs. 15.40 lakhs. From 1978-79 to 1981-82 the Company has made profit of Rs. 61.23 lakhs. However, as a percentage of the total sales, the net profits earned during the last four years ranged only between 1.05 per cent in 1980-81 to 3.97 per cent in 1979-80, although the minimum mark-up for sales fixed by the Company is 30 per cent and this goes up to 65 per cent in certain categories of goods. The obvious inference is that the overhead expenses of the Company are quite high.

7.9 The percentage of administrative overheads to total sales was 27.7 per cent in 1978-79, 26.0 per cent in 1979-80 and 26.0 per cent in 1981-82. Though the management do not agree that percentage of overheads to the total sales was on the high side keeping in view the standard norms applicable to any retail organisations, the Ministry feel the prima-facie the percentage of administrative overheads is excessive. This calls for a detailed review and the Committee trust that the matter will be looked into with a view to reduce the overheads and thus increase Company's profits.

7.10 From the figures of overheads expenses of the company made available to the Committee, it is seen that the expenses on personnel were as high as 63 per cent of the total overhead expenses in 1979-80 and 62 per cent of the total in 1980-81. A realistic assessment of the requirement of personnel may also be undertaken and concrete steps taken for the optimum utilisation of the existing staff, which is admittedly on the high side.

NEW DELHI;

April 6, 1983

Chaitra 16, 1905 (Saka)

MADHUSUDAN VAIRALE.

Chairman,

Committee on Public Undertakings.

APPENDIX

SUMMARY OF CONCLUSIONS|RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS CONTAINED IN THE REPORT

Sl. No.	Reference to para No. in the Report	Summary of Conclusions Recommendations
(1)	(2)	(3)
1.	2.27 & 2.28	<p>The Central Cottage Industries Corporation was set up in 1976 as a wholly owned subsidiary of the Handicrafts and Handloom Export Corporation of India, which in turn is the subsidiary of the State Trading Corporation. The CCIC, was set up mainly to take over the business of the erstwhile Central Cottage Industries Association, which was at that time running three emporia one each at Delhi, Bombay and Calcutta. However at the time of its incorporation as a Government Company in 1976, some laudable objectives had been set down for the Company. These <i>inter alia</i> included development of markets for products of cottage industries in India and abroad, promotion and development of cottage industries by providing them with capital and technical and managerial assistance; establishment of institutions for providing training to artisans and craftsmen; and otherwise assisting the artisans and craftsmen in increasing production and maintaining highest standards and traditions of workmanship and skills.</p> <p>The Committee's examination of the working of the Company during the last 6 years revealed that precious little had been done for achieving the objectives laid down. Its main activity has been running of a few emporia for retail sale of handicrafts and handloom products. The actual sales turn over of CCIC has increased from Rs. 400.68 lakhs in 1976-77 to Rs. 715.57 lakhs in 1981-82 but this constitutes a very insignificant fraction of the</p>

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country's total trade of handicrafts and handloom products. Even though no precise assessment of the total trade of handicrafts and handloom products has been made so far, the CCIC's share in this trade is not expected to be more than 4 or 5 per cent. With such a meagre turnover what impact CCIC could make in promoting and developing handicrafts and handloom products in the country is not clear to the Committee.

2.

2.29

The Ministry considered the role of CCIC only to be that of a retail trading organisation with the developmental activities for promoting and encouraging traditional crafts having been assigned to the Development Commissioner Handicrafts. It has been a retail selling organisation, because when it was established, simultaneously the All India Handicrafts Board was set up, which was basically a developmental body. However that there has been no clear cut demarcation of the functions of the two organisations is obvious from the fact that the Design Cell set up by CCIC for design development is more of a developmental activity. The Committee do not wish to suggest that CCIC should not undertake any developmental activity but would emphasise that the objectives and obligations should be clearly defined and laid down not in the all embracing language of Articles of Association but in precise terms. The objectives so defined should serve as a mandate for the organisation and its performance should be evaluated with reference thereto.

3.

2.30

The Committee do not consider that the role of CCIC should be limited to running of some emporia or sophisticated retail shops exclusively for elites. It should have a more meaningful purpose for playing a positive role in the economic life of a wider section of poor artisans and craftsmen; thus subserving a larger national cause. In this context the Company will have to expand its activities with a view to generating more resources, which can be employed for undertaking more of promotional and developmental work.

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The Committee, need hardly point out that managerial, organisational and financial resources will have to be provided for to enable the CCIC to take over the responsibility of purchasing and disposing of a wider range of handicrafts and handloom products.

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| 4. | 2.31 | The Committee recommend that concrete measures should be taken to step up the CCIC's share in the total volume of trade in handicrafts and handloom so that it can make an impact and justify its role as an agency for promoting and developing handicrafts and handloom products in the country. |
| 5. | 3.6 | The paid-up capital of Rs. 50 lakhs, which is wholly subscribed by the holding company, is obviously inadequate. If the CCIC has to enlarge its area of operation, which the Committee feel it should, it would have to be provided with adequate capital base. The Secretary, Department of Textiles admitted that the Company suffered from financial constraints and there was need for injection of more equity capital. The Committee would like that a realistic appraisal of the immediate financial requirements of CCIC, keeping in view the role assigned to it, should be made and necessary finances arranged in whatever form considered desirable. This should be suitably augmented after finalisation of the Corporate Plan. |
| 6. | 3.15 | A perspective plan covering a few years period stated to have been drawn up by CCIC has not been considered/approved by the Board of Directors of CCIC or HHEC. The so called perspective plan, according to the Ministry, was only bare a 'bare outline'. In regard to the future expansion plans of the CCIC, the management has projected an annual growth rate of 10 per cent in their volume of operations. The Committee feel that a comprehensive growth plan for the CCIC should be drawn up after its areas of operation have been clearly demarcated and the relationship of CCIC and HHEC clearly laid down in the light of the recommendations of the management consultant. |

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7.	3.33	<p>The CCIC has regarded export activity as only incidental to its domestic trade and until recently no specific steps had been taken for developing export market for Indian products. The Committee were informed that in 1981 the Board of Directors of CCIC took a policy decision to divert its resources to the export of handicrafts and handloom products and CCIC has now initiated efforts in this direction. It has been stated that a team of two executives was sent to London in August, 1982 in this connection. Between HHEC and CCIC there used to be a division of activities in that HHEC concentrated on exports and CCIC did the retail sales in the country. With CCIC entering the field of exports the question of coordination between the two bodies assumes significance. The Chairman, CCIC, who is also the Managing Director of HHEC was candid enough to admit that "there is a problem in the sense that HHEC being a mother organisation wants to control exports." He further stated that "the coordination aspect as it stands today is not excellent but because we have now a common Chairman, the coordination is not any problem any more." The Committee feel that there could be no justification for duplication of efforts. In order to ensure that there is no overlapping of efforts and no scope for any misunderstanding, the role of the respective organisations in the matter of exports should be clearly spelt out.</p>
8.	3.34	<p>The Committee also find that before CCIC became a subsidiary of HHEC, it was exporting high fashion garments through two importers namely M/s. Heiser Egan of New York and M/s. Treacy Lowe Ltd. of London. Through this activity CCIC was not only doing fairly good business in high fashion garments but had also earned valuable foreign exchange. With the establishment of HHEC primarily as an export agency, CCIC's interest in garments export diminished. After the termination of its agreements with two foreign agencies, it has decided to hand over the exports of high fashion</p>

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garments to HHEC. This particular position has to be reconciled with the policy decision taken by the Board of CCIC in 1981 to enter the field of exports in a big way. The Committee do not find any reason for depriving the CCIC of the benefit of exports in high fashion garments for which they have developed considerable expertise over the years, without diluting its main function of internal trade. They, therefore, suggest that the areas of activities of the two sister concerns may be clearly delineated so that CCIC can enter the export field without in any way impinging on the role of HHEC, which has been specially established for handling exports.

9.	3.35	The Committee would also like that in the matter of exports new areas of Asia, Gulf countries and Socialist countries like USSR be explored for giving a fillip to the export of Indian Handicrafts and Handloom.
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10.	4.33	The Committee have been informed that before 1979 CCIC had more links with the private traders than the artisans, as it had been buying the bulk of merchandise from the traders. This meant that right upto 1979, the Company had been functioning like any other retail trader by buying articles from the middlemen and selling the same after adding a mark-up which would ensure a margin of profit. That surely could not have been the objective envisaged for a public undertaking like CCIC.
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11.	4.34	It has been stated that after 1979, the CCIC, while making purchases of handicrafts has been giving preference to artisans, cooperative societies and State corporations. However, even during the years 1979-80 to 1981-82 the share of the private traders in the total purchases made by CCIC remained as high as 32 per cent and this figure has remained almost stationary all these years indicating that even now much effort has not been made to approach more artisans and craftsmen.
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12.	4.35	<p>The Committee feel that the tendency to resort to purchases from private traders in preference to artisans and craftsmen or their cooperatives needs to be curbed effectively. CCIC must keep in mind that the primary object for its setting up is to assist artisans and craftsmen and eliminate the middleman. The Committee would expect the CCIC to make every effort to procure maximum possible quantities from the artisans and craftsmen and to bring down the percentage of purchases from the private traders to the minimum. The procurement policy should be reoriented to provide that no purchases will be made from the private traders except in very exceptional cases. The Committee also recommend that the infrastructure for the procurement may be suitably strengthened. The Committee would like to be informed about the concrete measures taken in this direction.</p>
13.	4.36	<p>One way of increasing the proportion of purchases from the artisans or craftsmen could be that just as private traders are helping the artisans etc. by advancing money, CCIC should also consider extending financial help or arranging for supply of raw material at reasonable rates. It need hardly be pointed out that maximisation of purchases from the artisans and craftsmen will not only eliminate the Company's dependence on private dealers but will also be conducive to healthy interaction culminating in financial benefit both to the Company and the artisans and craftsmen.</p>
14.	4.37	<p>The Committee were given to understand that the traditional craftsmen and other artisans were not getting facilities to market their products to CCIC. The Secretary, Department of Textiles while admitting this in evidence stated "I would not say that we are completely happy with the present situation. . ." He added that "in the first instance, it is for the artisans to group themselves into cooperatives . . . if there is a cooperative institution, it helps them to market the products better, it also helps</p>

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them to obtain the finance and raw materials better. . ." The Committee suggest that the artisans and craftsmen should be afforded all possible help including finance to enable them to form their own cooperative societies so that the sale of products produced by the artisans and craftsmen is regulated in a manner which would enable them to safeguard their interests and save them from exploitation by the private traders.

15. 4.38 The Committee have been informed that the CCIC do not always get traditional products of good quality in quantities sufficient to meet demand. According to the CCIC, the State Corporations engaged in the development of crafts could play an important role in maintaining tradition and excellence of craftsmanship by providing design input, technical know-how, quality raw material to craftsmen, developing packing with indigenous and traditional packing material etc. The Committee desire that the matter should be pursued through the Development Commissioner Handicrafts.

16. 4.39 The Committee are anxious to see that the artisans and craftsmen are enabled to get the maximum prices for their products and at the same time are freed from the clutches of unscrupulous middlemen. They regret that no systematic analysis has been made to ascertain the cost of production of articles produced by the artisans and craftsmen and the extent of profit margin accruing to them and the traders. This aspect of the matter needs to be studied with a view to ensuring a reasonable return for the labours of artisans and craftsmen. This will incidentally help the CCIC in exercising a check on the reasonableness of the prices of products required to be purchased from the traders in the interest of business in exceptional circumstances.

17. 4.40 The Committee note that the State Corporations/State organisations are agencies working independent of CCIC for the promotion of handicrafts.

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They have been informed that the CCIC entered into buying arrangements with four State Corporations, as according to them, the State Corporations could follow up orders placed by the Company and they could also exercise quality control and secure delivery schedules, but these arrangements did not last. The Development Commissioner (Handicrafts) informed in evidence that according to the present working arrangements, the CCIC and State Corporations have their separate outlets. There were however buying arrangements between CCIC and State Corporations not on the competitive but on a business-deal basis. Even then the Committee would like the Ministry/Company to ensure that there is no duplication of efforts and unhealthy competition between the CCIC and State Corporations in the matter of promotion of handicraft and handloom products in various States. There is also need for better and more purposeful coordination between CCIC and the State Corporations.

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The Committee have been informed that no detailed survey has been done in regard to opening emporia and sale outlets in places where Five-Star hotels are coming up, nor any efforts have been made in that direction. The Committee feel that big tourist hotels, other tourist centres and international airports in the country could be a very good medium to sell handloom and handicraft products and it could enlarge the scope of working of CCIC much more.

19.

5.16

In the absence of a clear perception of the objectives and obligations of CCIC at the time of its incorporation in 1976, no serious attention seems to have been paid in determining its management structure. It has been stated that the proposal initially under consideration by the Ministry was that CCIC

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may be formed as a subsidiary of STC. Later, however, it was felt by Government that the purpose in view would be better achieved by entrusting the management responsibility to HHEC and the responsibility for financing to STC. This is how CCIC came to be formed as a subsidiary of HHEC, which in turn is a subsidiary of STC. The appointments to the Board, the Chairman as also of the Chief Executive of CCIC are made by Government. In terms of reporting too, CCIC reports directly to the Government although it is reportedly sending reports to HHEC also as required under Article 72 of the Articles of Association. The relationship between HHEC and CCIC has been limited to the appointment of some Directors of HHEC along with some Directors of STC on the Board of CCIC. Even the monitoring of the performance of CCIC was being done directly by the Ministry. This arrangement has apparently not worked satisfactorily and the dual control has not been conducive to efficient functioning of CCIC. The structure of CCIC with particular reference to its relationship with HHEC has been reviewed by a Management Consultant who has *inter-alia* suggested several changes in CCIC's relationship with HHEC. The Committee feel that efficiency and development of an organisation depends upon the management structure it has. The Committee have not gone into the merits of the recommendations made by the management consultant. They nevertheless feel that in case CCIC continues as a subsidiary of HHEC, it should have a separate Board even though there could be a common Chairman for the two companies. The Committee also wish to emphasise that the recommendations of the management consultant should be considered early and necessary action initiated for their implementation to the extent possible.

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5.28

One obvious drawback arising out of the dual control of CCIC by Government and HHEC has been that top appointments have been badly delayed to the detriment of the CCIC. It is surprising that for a period of more than 3 1/2 years the Company

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was without a Chairman. During the same period only two Government Directors constituted the Board and discharged the functions of the Board. Between 1976 and 1982 as many as 4 Chairmen and 3 Chief Executives changed hands. Although the present Chief Executive, who is known as General Manager, is in position since 1979, surprisingly he is not a member of the Board. The Chairman CCIC has informed that the need for making the Chief Executive a member of the Board has been felt and Government approached in the matter. The Secretary, Department of Textiles, however, stated that Government was still awaiting the comments of the Boards of CCIC and the HHEC on the suggestions/recommendations made by the Management consultant. After examination of the Ministry's representatives, the Committee have, however, been informed that the Ministry have accepted that the Chief Executive should be designated as Managing Director and the matter was being processed for obtaining the requisite approval. It only illustrates how casually the working of CCIC has been looked upon both by Government and the holding Company. The Committee cannot but express their unhappiness at this state of affairs. They trust that necessary action to make the Board a meaningful body and the Chief Executive a more purposeful functionary will be taken without further loss of time.

21.

5.34

The Committee have received an impression that in the matter of monitoring the administrative Ministry has not played the role expected of it. During the last 4 years the Ministry held only 4 performance appraisal meetings. There is no indication to suggest if the holding company was associated with any of these meetings. In fact as the immediate owner of the Company, the holding Company on its own should have organised periodic performance reviews of its subsidiary. According to CCIC, the Ministry gave only one directive for reducing advertisement expenses in reply to which the CCIC pointed out that their advertisement cost was within the usual

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business norms. More important problems besetting the Company such as inadequacy of finance, need for coordination between CCIC and HHEC do not appear to have been discussed at any stage. No meetings were held for review of annual accounts. The Committee cannot but stress that in order to make the concept of accountability of the enterprise to Government effective and purposeful, the performance review meetings should be held more frequently. While holding these review meetings care should be taken to discuss and analyse the problems and difficulties faced by the undertaking and provide guidance where necessary. It is also imperative that the representatives of the holding company are also associated with these meetings.

22.

6.6

Under the provisions of the Company Law, the balance sheet and profit and loss accounts of a Company together with the Audit Reports thereon are to be placed before the annual general meeting after audit within six months of the close of the previous financial year. The Committee find that there has been undue delay in the presenting of Annual Reports of the CCIC to Parliament. The reports for the years 1979-80, 1980-81 and 1981-82 have not yet been presented. During the course of evidence, Secretary Department of Textiles admitted that there has been a 'chain of delay' in the finalisation of accounts. Such delays should be avoided in future. The Committee would suggest that Government should impress upon the Company to finalise the accounts, get them audited within the stipulated period and arrange to present the same to Parliament without further loss of time.

23.

6.12

More than Rs. 11 lakhs were embezzled by an officer by resorting to fraudulent acts and forgery. The case remained unnoticed for 7 years and was detected just by chance. This causes a serious reflection on the supervisory staff. It is also indicative of the lacunae in the system followed in the CCIC. The Committee would like that suitable remedial steps be taken to avoid recurrence of such cases in

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		future. The Committee would also like to be informed about the outcome of the cases now pending in the Courts in this connection.
24.	7.8	In the first 2 years (1976-77 & 1977-78) of its operations the CCIC incurred loss of Rs. 15.40 lakhs. From 1978-79 to 1981-82 the Company has made profit of Rs. 61.23 lakhs. However, as a percentage of the total sales, the net profits earned during the last four years ranged only between 1.05 per cent in 1980-81 to 3.97 per cent in 1979-80, although the minimum mark-up for sales fixed by the Company is 30 per cent and this goes up to 65 per cent in certain categories of goods. The obvious inference is that the overhead expenses of the Company are quite high.
25.	7.9	The percentage of administrative overheads to total sales was 27.7 per cent in 1978-79, 26.0 per cent in 1979-80 and 26.0 per cent in 1981-82. Though the management do not agree that percentage of overheads to the total sales was on the high side keeping in view the standard norms applicable to any retail organisation, the Ministry feel that <i>prima-facie</i> the percentage of administrative overheads is excessive. This calls for a detailed review and the Committee trust that the matter will be looked into with a view to reduce the overheads and thus increase Company's profits.
26.	7.10	From the figures of overhead expenses of the Company made available to the Committee, it is seen that the expenses on personnel were as high as 63 per cent of the total overhead expenses in 1979-80 and 62 per cent of the total in 1980-81. A realistic assessment of the requirement of personnel may also be undertaken and concrete steps taken for the optimum utilisation of the existing staff, which is admittedly on the high side.