

SATION OF EXTERNAL TANCE

MINISTRY OF RAILWAYS

(RAILWAY BOARD)

**PUBLIC ACCOUNTS
COMMITTEE
1995-96**

TENTH LOK SABHA

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**LOK SABHA SECRETARIAT
NEW DELHI**

EIGHTY-FIRST REPORT
PUBLIC ACCOUNTS COMMITTEE
(1994-95)

(TENTH LOK SABHA)

**UTILISATION OF EXTERNAL
ASSISTANCE**

MINISTRY OF RAILWAYS
(RAILWAY BOARD)

[Action Taken on 47th Report of Public Accounts Committee

(Tenth Lok Sabha)]



Presented to Lok Sabha on 23.12.1994
Laid in Rajya Sabha on 23.12.1994

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(1994-95)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Eighty-First Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 47th Report (10th Lok Sabha) on 'Utilisation of External Assistance'.

2. In their earlier Report the Committee had found that there had been inordinate delays in the installation and commissioning of costly machines procured by the Railways and 71 machines procured by the Railways were yet to be commissioned. The Committee taking a serious note of those delays which resulted in the blocking of large quantum of funds making the expenditure incurred infructuous, had emphasised to take all possible steps to obviate such delays. In this Report the Committee have noted that based on the recommendations of COFMOW study team Ministry of Railways have initiated certain steps for reducing the time in installation and commissioning of the machines and only 46 machines are awaiting commissioning. The Committee have desired that the Ministry of Railways should keep a close watch over the effectiveness of these measures so as to ensure that the machines procured are installed and commissioned in time.

3. In this context the Committee had also noted that a commutator seasoning machine costing Rs. 35.21 lakhs received by DCW Patiala in June, 1986 was lying uncommissioned even after the lapse of almost 8 years due to some defects. The Committee taking a serious view on the lack of proper action by Railways to find a solution to the problem had recommended to take conclusive steps immediately to find a satisfactory solution in the interest of safeguarding their financial interest. In this report the Committee have noted that in pursuance of their recommendation, Railways have now initiated arbitration proceedings against the firm. The Committee have desired that Ministry should make all out efforts to resolve the matter as early as possible so that the financial interest of Railways are safeguarded.

4. The Committee in their earlier Report had also note that the phase-II of a Project for construction of BG line from Machiliguda to Rayagada funded by Saudi Fund for Development which was originally targetted for completion by March, 1987 had been retargetted for completion by 31.10.1993. The Committee expressing regrets over the frequent change in the completion date of the Phase-II of project which had resulted in escalation of cost by more than 47% hoped that the work on the project will be completed by 31.10.1993. In this Report the Committee have noted that the delay in the completion of work has occurred due to unforeseen geological problems encountered in construction of Tunnel No. 23 on this Project which required special soil treatment measures, import of special equipment and technology and the project is now expected to be

completed by the end of March 1995. The Committee have trust that the Ministry of Railways will take all necessary steps for completion of this project within the targetted date i.e. 31.3.1995, and avoid further escalation in cost of project.

5. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 19 December, 1994. Minutes of the sitting form Part II of the Report.

6. For facility of reference and convenience, the recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in the Appendix* to the Report.

7. The Committee place on record their appreciation of the assistance rendered to them in this matter by the Office of the Comptroller & Auditor General of India.

NEW DELHI:
20 December, 1994

29 Agrahayana, 1916 (Saka)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

* Not appended to the cyclostyled copy of the Report.

CHAPTER I

REPORT

1.1 This Report of the Committee deals with action taken by Government on the recommendations and observations contained in their Forty-Seventh Report (10th Lok Sabha) relating to Utilisation of External Assistance based on paragraph 14 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1990 (No. 10 of 1991) Union Government (Railways).

1.2 The Forty-Seventh Report which was presented to Lok Sabha on 26 April, 1993 contained 22 Recommendations/Observations. Action Taken Notes have been received in respect of all the recommendations/observations and these have been broadly categorised as follows:

- (i) Recommendations/Observations which have been accepted by Government:
Sl. Nos. 2, 3, 5, 6, 7, 9 to 13, 15 to 20 & 22.
- (ii) Recommendations/Observations which the Committee do not desire to pursue in the light of the replies received from Government:
Sl. Nos. 1, 4, 8, 14 & 21.
- (iii) Recommendations/Observations replies to which have not been accepted by the Committee and which require reiteration:
-Nil-
- (iv) Recommendations/Observations in respect of which Government have furnished interim replies:
-Nil-

1.3 The Committee will now deal with the action taken by Government on some of their recommendations.

1.4 Indian Railways have been receiving external assistance mainly from World Bank and its agencies for their specific investment projects. In their earlier report (47th Report of 10th Lok Sabha) the Committee had found major shortcomings in formulation and execution of projects assisted by World Bank and other similar foreign agencies. They had noticed that due to lack of proper project planning and their implementation, Railways had generally failed to utilise these foreign loans during their original validity period and had to pay the commitment charges at a pre-determined percentage on the total amount remaining unutilised out of the funds committed by the funding agency. Besides the payment of commitment

charges for non-utilisation of loan within the validity period, the Committee had also found that the repeated extensions sought by the Railways for the utilisation of these loans had resulted in payment of huge additional commitment charges for the extended period.

Delay in Finalisation of Tenders

(Sl. No. 3—Paragraph 135)

1.5 The Committee had found that delayed finalisation of tenders and delayed supplies by the firms had resulted in substantial non-utilisation of loans/assistance of the tune of US \$ 13.227 million received from World Bank etc. The Committee in this connection while emphasizing the need to streamline the process of tendering and placement of orders, in Para 135 of the report had recommended as follows:—

“The Committee find that delayed finalisation of tenders and delayed supplies by the firms are mainly responsible for slowing down the process of utilisation of foreign assistance/loans by the Railways. This not only results in the payment of the avoidable extra commitment charges but also substantial non-utilisation of loans to the tune of US \$ 13.227 millions. According to the Ministry of Railways, the tender finalization process for which even the period approval of the lending agency is required to be taken is a time consuming process which results in an unintestinal delay. According to the Ministry, the sources of supply, specifications and quantities become clear only after successful completion of tendering process. The Committee feel that much of such delays can be eliminated by the meticulous and advance project planning and timely invitation of tenders. The Committee, therefore, recommend that Ministry of Railways may make all out efforts to suitably streamline the process of tendering, placement of orders and timely arrangement of rupee resources so that the foreign loans are timely and fully utilised. They would also like to know the concrete steps taken in this regard.”

1.6 In their Action Taken Notes furnished to the Committee in respect of the above recommendation, the Ministry of Railways (Railway Board) have stated as follows:—

“As regards minimisation of delays in the finalisation of tenders it is stated that an Expert Committee of three SAG Officers has been constituted in pursuance of certain recommendations of a report of RCC (1991) to examine in detail and review the tendering system on the Railways.

This Committee is being requested to note the observations of the PAC and suggest measures for improvement. Meanwhile,

detailed instructions have been issued to the Zonal Railways, to ensure that the tendering process is streamlined and delays of the nature referred to in the PAC's Report do not recur (Annexure-I).*

As regards delays in supplies by the Suppliers, follow-up action, as provided for under the respective contracts, are being taken. This aspect has also been brought to the notice of the Railways."

1.7 The Committee note that their recommendations for minimisation of delays in the finalisation of tenders by Railways have been referred to an Expert Committee which had already been set up earlier for reviewing the tendering systems on the Railways. According to Ministry of Railways, instructions have also been issued to Zonal Railways to ensure that the tendering process is streamlined and that such delays do not recur. The Committee desire that the Ministry of Railways should ensure that the instructions are scrupulously complied with by all concerned and also that the report of the Expert Committee be got expedited and necessary follow-up action taken so that the process of tendering the placement of orders in the Railways is streamlined and the interest of Railways are adequately protected. They would like to be informed of the further steps taken in the matter.

Delay in Installation and Commissioning of Machines

(Sl. No. 8 — Paragraph 141)

1.8 Commenting on the delay in the installation and Commissioning of machines procured by the Railways, the Committee in Paragraph 141 of their 47th Report (10th Lok Sabha) had recommended:—

"The Committee are unhappy to find the malady of long delays in the installation and commissioning of costly machines procured by the Railways. The Audit Paragraph reveals that 19 machines procured by DCW, Patiala with foreign loans were installed/commissioned after a period varying from 11 to 48 months after their receipt in the workshop. Further during the year 1990-91, out of the 210 machines received, only 28 machines could be commissioned within 3 months and 163 machines were commissioned after three months. The latest figure of uncommissioned machines furnished by Ministry of Railways (Railway Board) is 71. The Committee take a very serious note of these delays as the same results in the blocking of large quantum, of the funds making the expenditure incurred infructuous. Based on a study conducted by COFMOW, suggestions for reducing the time for installation and commissioning of machines is presently under consideration of the Railway Board. The Committee emphasize that all possible steps should immediately be taken so as to obviate all

*. Not appended with cyclostyled copy of Report.

delays in the installation and commissioning of the machines in the Railways. They would like to be apprised of detailed remedial steps taken in this regard."

1.9 Further commenting on a specific instance of delay in commissioning of a commutator seasoning machine received in DCW, Patiala in June, 1986 costing Rs. 35.21 lakhs which was yet to be commissioned due to some defects, the Committee had recommended in para 142 of the report as follows:—

"The Committee are extremely unhappy to note that a commutator seasoning machine costing Rs. 35.21 lakhs received in DCW, Patiala in June, 1986 has not been commissioned so far. The Ministry of Railways informed the Committee that initially certain short shipped items were noticed, which were made good by the firm (M/s. Cam International). Subsequently, the firm's engineers visited DCW, Patiala to commission the machine four times between March, 1987 to May, 1988 that too after repeated requests and reminders sent to them but failed to commission the machine. During May 1988 to May 1991, the firm was reminded several times and it was only in October, 1991 that the engineers of the firm visited DCW again to commission the machine. The Committee are not convinced with the plea of reluctance on the part of the firm's engineers to visit Patiala due to the then prevailing law and order situation in the State as the Railways should have assured all safety of the firm's engineers in consultation with the State Government. Meanwhile, the machine was tried out for traction motor armature by DCW engineers and partial production was possible though not at the rated r.p.m. The firm engineer during his last visit in October, 1991 confirmed that the machine would be able to handle only Traction Motors (which is the major part of the workload) and not the Traction generator. The Member (Mechanical), Railway Board informed the Committee that the machine was installed and run but they found that it was not capable of coping with generators and with motors only sporadic performance was obtained which was not up to the mark. The Ministry of Railways have been in correspondence with the company since last five years for getting the defects rectified but without any fruitful result and this is despite the fact that the machine according to the Ministry is a fairly simple not requiring highly skilled labour. As all efforts including assistance from the World Bank, Indian Embassy in USA and USA Embassy in India have not produced the desired results and relevant parts (vibration sensors and the end shields) required for putting the machine into operation as originally envisaged not received, DCW, Patiala on the advice of the Railway Board given in July, 1992 had initiated arbitration proceedings against the firm by invoking the arbitration clause *vide* their letter dated 2.9.1992. The firm is stated

to have requested that another opportunity may be given to them for commissioning of the machine after making some modifications. This request is presently being examined by the Ministry of Railways (Railway Board). The Committee, however, feel that Ministry of Railways took an inexcusably long time in deciding to invoke the arbitration clause for claiming the compensation from the firm for supplying the defective commutator seasoning machine and even further action thereon has been held up consequent to the receipt of the request from the firm for giving them yet another chance for setting the machine right. The delayed action on the part of Ministry of Railways has clearly made the expenditure of Rs. 35.21 lakhs incurred on this machine infructuous so far. The Member (Mechanical), Railway Board conceded during evidence that "the efforts have been there but I feel, we should have taken much less time to solve this." The Committee take a very serious view of the lack of proper action on the part of the Railways and emphasize that conclusive steps should immediately be taken to find a satisfactory solution to the problem in the interest of safeguarding their financial interests. The Committee would like to be kept informed of the final outcome."

1.10 In their action taken notes furnished in respect of the recommendations made in Para 141 and 142, the Ministry of Railways (Railway Board) have stated as follows:—

Para 141 "The overall position of the uncommissioned machines has further improved during the last one year. The total number of machines now awaiting commissioning as on 1.8.1993 is only 58. This has been made possible due to effective steps having been taken by the Railways to reduce the time taken and the delays in the installation and commissioning of the machines on the Railways."

Some of the important steps taken based on the recommendations of the COFMOW Study Team for reducing the time are:—

1. Policy decision by the Railway Board for change in the mode of transport from rail to road for supply of the machines on a selective basis.
2. Execution of the foundation by the machine suppliers on a "turn-key" basis.
3. Stringent penal clause has been included in the contract for delays in commissioning by the suppliers.
4. Close monitoring is being done by COFMOW and Railways for various activities involved in including covered shed, electrical power connection, pneumatic supply, wherever required.
5. COFMOW is closely monitoring the despatch / receipt of machines individually, from the time machine is supplied by the supplier.

6. Utilities for installation and commissioning.
7. Assessment of the firms—capability of a firm for manufacturing the machine as well as the infrastructure/service engineers available for the installation/commissioning.
8. Proving tests—Proving tests are carried out on the machine at the manufacturer's premises at the time of inspection and the consignees are associated during these proving tests to avoid disputes and any delays in the final installation/commissioning.
9. Technical specifications including the accessories to be ordered, are now framed in consultation with the consignees. The Consignees Railway are also referred by COFMOW during the evaluation/finalisation of the tenders to take into account their requirements for toolings/fixation etc.

All the above steps taken by the Administration have resulted in improving the position and reducing the delays for the installation and commissioning of machines. This is borne by the fact that whereas in 1991-92, only 34 m/cs out of 136 received were commissioned within 3 months of receipts *i.e.* 25%; in 1993-94 (4 months period upto July, 1993), 104 m/cs out of 128 received have been installed and commissioned within 3 months of receipts *i.e.* 81%.

1.11 The Ministry of Railways (Railway Board), while furnishing an information to the Committee on overall position in respect of commissioning of machines have in their updated action taken notes dated 19.8.1994 stated as under:—

“As on 31.7.1994, 46 machines over three months old from date of receipt are awaiting commissioning”

Para 142 “The emphasis initially was to commission the equipment so that it can be put to effective use. After it was declared by the firm's engineers that the machine can not do the job the arbitration clause was invoked and an arbitrator appointed. The firm have refused to nominate their arbitrator and are insisting on commissioning the machine. According to the conditions of the contract, in the event of the firm not appointing their arbitrator, the arbitrator appointed by DCW will act as sole arbitrator. The arbitrator has initiated the proceedings.”

1.12 In their earlier report the Committee had found that there had been inordinate delays in the installation and commissioning of costly machines procured by the Railways and 71 machines procured by the Railways were yet to be commissioned. While taking a serious note of those delays which resulted in the blocking of large quantum of funds making the expenditure incurred infructuous, the Committee had emphasised that all possible step should be taken so as to obviate such delays in the installation and commissioning of machines in the Railways. The Ministry of Railways have

in their action taken note stated that based on the recommendations of COFMOW study team certain steps had been initiated by them for reducing the time in the installation and commissioning of the machines. According to the Ministry, the steps taken by the administration have resulted in improving the position and only 46 machines procured over three months old are awaiting commissioning. The Committee desire that the Ministry of Railways should keep a close watch over the effectiveness of these measures and ensure that the machines procured are installed and commissioned in time. They would also like to be apprised of the latest position in this regard.

1.13 The Committee in their earlier report had in this context also noted that a commutator seasoning machine costing Rs. 35. 21 lakhs received by DCW, Patiala in June, 1986 was lying uncommissioned even after the lapse of almost 8 years from the date of receipt due to some defects thus making the expenditure incurred on the machine infructuous. The Committee while taking a serious view of the lack of proper action on the part of Railways to find a solution to the problem had recommended to take conclusive steps immediately to find a satisfactory solution to the problem in the interest of safeguarding their financial interest. The Committee note that in pursuance of their recommendation, the Ministry of Railways have now initiated arbitration proceedings against the firm. The Committee desire that all out efforts should be made to resolve that matter as early as possible so that the financial interest of Railways are safeguarded. The Committee would like to be informed of final outcome in the matter.

Saudi Fund for Development (Loan 3/188)

(Sl. No. 19 & 20 — Paragraphs 151 and 152)

1.14 Saudi Fund for Development had extended a loan of Saudi Riyal 103.2 million (US \$ 30 million — Rs. 450 million) effective from August, 1983 for construction of BG Line between Koraput-Rayagada (216 kms.) including procurement of rails, sleepers and track machines etc. Phase-I of the project from Koraput to Machiliguda (20 kms.) was opened in December, 1985. Phase-II of the project from Machiliguda to Rayagada was kept pending due to delay in commissioning of Vishakhapatnam Steel plant although the target for completion of Phase-II of the project was March, 1987. On clearance in latter half of 1986 from the Planning Commission group, the execution of the Phase-II of project was started during 1987-88 and by March, 1992 only 42 Kms. from Machiliguda to Lakshmipur could be completed and the balance work of the Phase-II was targetted for completion by 31.10.1993. While regretting to note the failure of Railways to complete the project in due time and cost escalation of the project the Committee in paras 151 and 152 of their 47th Report (10th Lok Sabha) had recommended as follows:—

¶ Para 151 "The Committee note that Saudi Fund for Development (Loan 3/88), a loan of Saudi riyal 103.2 million (US \$ 30 million—

Rs. 450 million) has been available from August, 1983 for construction of BG line between Koraput-Rayagada (216 kms.) including procurement of rails, sleepers and track machines etc. the project was financed partly from Saudi fund and partly from Railway's own resources. The proposed line was expected to promote the development of backward areas of Orissa and also cater to the needs of aluminium plant and Dammanjodi and Visakhapatnam port. In accordance with the loan conditions, Indian Railways has to first spend the money and then claim reimbursement. The Ministry of Railways has informed that while the section (Phase-I) from Koraput to Machiliguda (20 kms.) was opened in December, 1985 execution of Phase-II from Machiliguda to Rayagada has been kept pending because of the delay in commissioning of Vishakapatnam Steel Plant. On Planning Commission group clearance for execution of Phase II in the latter half of 1986, funds were provided for the project during 1987-88. The Committee have been informed that construction of the line from Machiliguda to Lakshmipur (42 kms.) has been completed in March, 1992 and the balance work (102 kms). is targetted to be completed by 31.10.1993. The Committee regret to note that although the target for completion of Phase-II of the project was March, 1987 the project has not been completes so far. According to Ministry of Railways, the delay in construction of Phase-II was on account of collapse of a tunnel, cyclone and heavy rains and inhospitable living conditions in the area. The Committee hope that work on Phase II of the project will be completed by 31.10.1993 without any further delay.

Para 152 The Committee also find that the Saudi Fund for development extended the validity of the utilisation of loan up to 30 September 1990 on request. But due to lack of funds till March, 1990, the Board approached the Ministry of Finance for taking up with Saudi Fund Authority for granting extension of loan agreement up to 30 September, 1991. As the work on Phase-II of the Project could not be completed, Saudi Fund Authority have extended the terminal date of the loan agreement upto 31.12.1993. Till March, 1992 the Saudi Authorities is stated to have reimbursed \$ 5.83 million towards cost of rails, \$ 6.40 million towards civil works and \$ 1.85 million towards cost of sleepers out of the total loan of \$ 30 million. The Committec are distressed to note that due to frequent revisions in the target dates of completion of Phase-II of the project, the estimated cost of the project escalated by more than 47% from Rs. 2650 million to Rs. 3900 million."

1.15 The Ministry of Railways (Railway Board) in their action taken note on the above recommendations have stated as under:—

“As the Committee has already been advised the delay in construction of Phase-II construction work on the Koraput-Rayagada project was on account of unforeseen geological problems on tunnel No. 23, cyclones and heavy rains inhospitable living conditions in the area. The unforeseen geological problems that were encountered in the construction of Tunnel No. 23 on this project require special soil treatment measures, which are taking time. However, all efforts are being made to complete the work as per the revised targetted date *i.e.* in 1993-94”.

1.16 However, the Ministry of Railways in their updated action taken note dated 19 August, 1994 furnished to the Committee have *inter-alia* stated:—

“The unforeseen geological problems that were encountered in the construction of Tunnel No. 23 on this project required special soil treatment measures and import of special equipment and technology. The work is now progressing well and is expected to be completed by end of March, 1995.”

1.17 The Committee in their earlier Report has noted that the phase-II of the Project from Machiliguda to Rayagada funded by Saudi Fund for Development was originally targetted for completion by March, 1987 but the execution work of Phase-II of the project was started during 1987-88 and retargetted for completion by 31.10.1993. The Committee, while expressing regrets over the frequent change in the completion date of the Phase-II of project by more than 47% had hoped that the work on the project which resulted in escalation of cost will be completed by 31.10.1993. According to the Ministry of Railways (Railway Board) the delay in the completion of work has occurred due to unforeseen geological problems encountered in construction of Tunnel No. 23 on this Project which required special soil treatment measures, import of special equipment and technology and the project is now expected to be completed by the end of March, 1995. The Committee trust that the Ministry of Railways will take all necessary steps for completion of this project within the targetted date *i.e.* 31.3.1995 and avoid any further escalation in cost of project. The Committee desire to be apprised of the progress made in this regard.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee have been informed that commitment charges are levied by World Bank, ADB and other donor agencies at the rate of 0.75% per annum from the date of effect of the loans. The commitment charges are payable as a pre-determined percentage of the total amount remaining unutilised from time to time out of the funds committed by the funding agency. While in the case of the World Bank loans the total loan is for a specified period, in case of ADB loans the total amount of loan is on a yearly basis. The Committee are distressed to note that repeated extensions have been sought by Ministry of Railways beyond the scheduled closing dates of various loans, as the full amounts could not be utilised within the validity period of these loans. Besides, payment of commitment charges for validity period, the Ministry of Railways had to pay substantial amounts of avoidable extra commitment charges for the delays that have occurred in the utilisation of these loans. For instance, as the Railways failed to fully utilise the World Bank loan No. 2210-IN/IDA Credit 1299-IN (\$ 444 million) by the validity period till 30.9.1987 the Railways took recourse to seeking two extensions of one year each till the final closing date on 30.9.1989. Similarly in the case of Loan 2417-IN (\$ 279.2 million) also, two extensions of one year each had to be taken by the Railways from the World Bank till 30.9.1992. Unfortunately, the loan could not be fully utilised even during the extended period of two years and a further extension of 6 months till 31.3.1993 had to be obtained. The delay in utilisation of loans is stated to be on account of lack of sufficient data provided in the project reports submitted to World Bank by Ministry of Railways regarding their requirement of machines and equipment and also the time frame within which the project was to be completed. The Committee note that in respect of Loan 2210-IN/Credit 1299-IN whereas an amount of US \$ 9,986,401 was paid as commitment charges for the original validity period upto 30.9.87 the Railways had to pay avoidable extra commitment charges amounting to US \$ 2,826,032 for the two extended periods of one year each upto 30.9.1989. Similarly, with regard to World Bank Loan 2417-IN, during the original loan period upto 30.9.1990, commitment charges amounting to US \$ 9,528,710 and for the extended period upto 31.10.1992, extra commitment charges of US \$ 232,296 were paid by Ministry of Railways. Thus, owing to the failure of the Railways to utilise both these loans during their original validity periods, the Railways had to pay huge avoidable extra commitment charges amounting to US \$ 30,59,328 for the extended periods. The

Committee recommend that the Ministry of Railways should thoroughly examine the matter and devise ways and means to ensure the utilisation of such loans within their validity period so as to avoid unnecessary outgo of foreign exchange as extra commitment charges.

[Sl. No. 2 (Para 134) of Appendix II of 47th Report of PAC (10th Lok Sabha)]

Reply of the Government

The extension of loans in some cases becomes unavoidable due to unforeseen circumstances arising/cropping up during the implementation of the project, such as inability of firms to supply materials after taking orders due to external reasons such as imposition of sanctions by U.N. etc. In some cases, the procurement of certain items is also excluded from the scope of loan at intermediate stage where sufficient capacity is developed by indigenous industries or non-member countries quote lower rates as compared to member countries against ICB tenders. However, the objective of the Project in such cases is still met by arranging procurement from Government's own resources. Allocation against such component is surrendered to the Bank timely in consultation with DEA/MOF in order to reduce the commitment charges.

Further, in course of execution of projects, the inter-se priority/need for various components sometimes undergoes change requiring review of the project & re-allocation of funds. Government's decisions regarding change of priorities of different projects/part of projects, non-availability of adequate internal resources to finance various projects are among other reasons necessitating extension of closing date of various loans/projects.

An Implementation Coordination Committee has been set up in the Railway Board at Executive Directors level who monitor various projects once in three months for satisfactory implementation of various projects components and also for timely action to surrender the unutilised amount based on the review conducted.

[Ministry of Railways D.O. No. 93-BC-PAC/X/47 dated 25-10-1993]

Recommendation

The Committee find that delayed finalisation of tenders and delayed supplies by the firms are mainly responsible for slowing down the process of utilization of foreign assistance/loans by the Railways. This not only results in the payment of the avoidable extra commitment charges but also substantial non-utilisation of loans to the tune of US \$13.227 millions. According to the Ministry of Railways the tender finalization process for which even the prior approval of the lending agency is required to be taken is a time consuming process which results in an unintentional delay.

According to the Ministry, the sources of supply, specifications and quantities become clear only after successful completion of tendering process. The Committee feel that much of such delays can be eliminated by meticulous and advance project planning and timely invitation of tenders. The Committee, therefore, recommend that Ministry of Railways to make all out efforts to suitably streamline the process of tendering, placement of orders and timely arrangement of rupee resources so that the foreign loans are timely and fully utilised. They would also like to know the concrete steps taken in this regard.

[Sl. No. 3 (Para 135) of Appendix II of 47th Report of PAC (10th Lok Sabha)]

Reply of the Government

As regards minimisation of delays in the finalisation of tenders it is stated that an Expert Committee of three SAG Officers has been constituted in pursuance of certain recommendations of a report of RCC (1991) to examine in detail and review the tendering system on the Railways.

This Committee is being requested to note the observations of the PAC and suggest measures for improvement. Meanwhile, detailed instructions have been issued to the Zonal Railways, to ensure that the tendering process is streamlined and delays of the nature referred to in the PAC's Report do not recur. A copy of the instructions issued in this connection is enclosed.

As regards delays in supplies by the Suppliers, follow-up action, as provided for under the respective contracts, are being taken. This aspect has also been brought to the notice of the Railways.

[Ministry of Railways D.O. No. 94-BC-PAC-81 dated 26.4.1995]

GOVERNMENT OF INDIA (BHARAT SARKAR)
MINISTRY OF RAILWAYS (RAIL MANTRALAYA)
(RAILWAY BOARD)

No. 79/RS(G)/779/16

New Delhi, dated: 25.10.93

The General Manager,
All Indian Railways &
Production Units.

The General Manager,
Metro Railway, Calcutta,
RE/Allahabad.

Sub:—*Expeditious finalisation of tenders.*

Railway Board have been stressing from time to time the need for finalisation of tenders within the original validity of offers, as far as possible. Despite repeated instructions issued by this Office on the subject, last being under Board's letter No. 79/RS(G)/779/16 dated 26.7.90, cases are being highlighted by Audit in their reports to the Parliament, where delays in finalisation of tenders by Railways have caused extra expenditure to Railways.

PAC (10th Lok Sabha) vide their 47th Report submitted to Parliament on 26.4.1993 have observed as under:

“135. The Committee find that delayed finalisation of tenders and delayed supplies by the firms are mainly responsible for slowing down the process of utilisation of foreign assistance/loans by the Railways. This not only results in the payment of the avoidable extra commitment charges but also substantial non-utilisation of loans to the tune of US \$ 13.227 millions. According to the Ministry of Railways the tender finalisation process for which even the prior approval of the lending agency is required to be taken is a time consuming process which results in an unintentional delay. According to the Ministry, the sources of supply, specifications and quantities become clear only after successful completion of tendering process. The Committee feel that much of such delays can be eliminated by meticulous and advance project planning and timely invitation of tenders. The Committee, therefore, recommend that Ministry of Railways to make all out efforts to suitably streamline the process of tendering, placement of orders

and timely arrangement of rupee resources so that the foreign loans are timely and fully utilised. They would also like to know the concrete steps taken in this regard."

Having regard to the above observations of the PAC and with a view to eliminating/minimising the extra expenditure incurred by Railways by way of paying increased price of material due to non-finalisation of tenders within the original validity period of offers, Board desire that all concerned be advised to ensure finalisation of the tenders within the validity of offers and to take follow-up action as provided for under the respective Contracts to avoid delay in supplies by the Contractors to safeguard the interest of the Railways.

Please acknowledge receipt.

(R.S. LAHAN)
Dy. Director, Rly. Stores(G),
Railway Board.

No. 79/RS(G)/779/16

New Delhi, dated: 25.10.93

Copy to:—

- (1) FA&CAOs, All Indian Railways & Production Units, Metro Railway, Calcutta & RE/Allahabad.
- (2) The Chief Administrative Officers, MTP/Rlys., Bombay/Madras/New Delhi.
- (3) GMs (Cons.), S.Rly., Bangalore, S.E. Rly., Bhubaneswar & N.F. Rly., Guwahati.
- (4) DG/RDSO/Lucknow.
- (5) Principal:—Rly. Staff College, Vadodara.
Indian Rly. Institute of Sig. Engg. and Telecomm, Secunderabad.
Indian Rly. Institute of Adv. Track Tech., Poona.
Institute of Mech. & Elec. Engg., Jamalpur.
Indian Rly. Institute of Elec. Engg., Nasik.
- (6) Chairman, Railway Rates Tribunal, Madras.
- (7) Exe. Director, Iron & Steel, Calcutta.
- (8) The CAO/FA&CAO, COFMOW, Rly. Offices Complex, Tilak Bridge, New Delhi-2.
- (9) The ADAI (Rlys.), New Delhi (with 10 spare copies).

Recommendation

According to Ministry of Railways, utilisation of loan amount is monitored every month by their Finance Dte. with the concerned Executive Director(s) and a statement showing the commitments and

reimbursements is prepared. As regards monitoring of the physical progress of projects financed by World Bank etc., yearwise targets for execution are stated to be set and a plan is drawn through the Annual Works Programme. Quarterly meetings are also convened with the concerned Executive Directors of each project component, to monitor the progress of each component. In addition, the concerned field units prepare flash reports which are also sent to the Ministry of Programme Implementation. The Chairman, Railway Board also informed to Committee during evidence that their General Managers have been made responsible for controlling time overruns of various projects. Further, from the current year, the monitoring is being done at the level of Chairman and Members and General Managers of Zonal Railways and each project will now be monitored twice a year at Board level and on a quarterly basis at the Members level with the Zonal authorities. The Committee are constrained to observe that despite such monitoring time overruns have occurred in respect of each project funded by World Bank and other agencies. The Committee, recommend that Ministry of Railways should take all possible steps to strengthen monitoring mechanism for their projects with a view to obviate all possible delays in the timely completion of these projects and apprise the Committee of the progress made in this regard.

[Sl. No. 5 (Para 137) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

Ministry of Railways have taken the following step to strengthen the monitoring mechanism for timely execution of projects funded by World Bank and other agencies.

In addition to the monitoring being done at Railway Board and GMs level for each project, an Implementation Coordination Committee has since been set up in Railway Board in which the review is conducted with various Executive Directors connected with major projects once in three months. The minutes of these meetings are sent to the Lending Agency, which include action taken by Indian Railways to expedite progress of various works and also assistance required for disposing of various issues pending with them.

[Ministry of Railways D.O. No. 93-BC-PAC/X/47 dated 25.10.1993]

Recommendation

The Committee note that the Railway Modernisation and Maintenance II Project (Credit 1299-IN/Loan 2210-IN US \$ 444 million) consisted of four specific components for improving the design and maintenance of locomotive and rolling stock. The specific component were:

- (i) the establishment and operation of DCW;

- (ii) the procurement of parts and components for a unit exchange maintenance system;
- (iii) the acquisition of modern AC locomotive prototype;
- (iv) the acquisition of components and materials for High capacity wagons for bulk traffic.

With a view to improve the technology and performance of Indian Railway's main line, Railways purchased 18 Nos. 6000 HP AC electric locomotives (Thyristor) comprising two makes and three types (M/s. ASEA—6 Nos. and M/s. Hitachi—6 Nos. each of two types). These locomotives were basically procured for intensive prototype tests and trials with a view to select the most suitable design for indigenous manufacture. The Committee are constrained to observe that whereas technical offers relating to the procurement of these locomotives were opened on 9.6.1993, it took more than two years to issue letters of acceptance on 8.7.1985. The Committee cannot but deplore this abnormally long time taken by the Railways in the matter involving procurements funded by foreign loans.

[Sl. No. 6 (Para 138) of Appendix II of 47th Report of PAC (10th Lok Sabha)]

Reply of the Government

The procurement of 6000 HP thyristor controlled electric locomotive involving transfer of technology was being done by Indian Railways for the first time. The technical evaluation involved a series of discussions with the tenderers to get technical clarifications. Based on these clarifications, approval of the Board and MR and approval of the World Bank was processed. This involved detailed and thorough examination at various stages and took some time even at Board's level and World Bank. Moreover the World Bank differed with the views of Ministry of Railways in regard to the quantities of locomotives to be ordered on each tenderer. Since the slab rates were not available for the quantities suggested by the World Bank, further negotiations had to be carried out with the tenderers. All the above action took time totalling upto about 25 months from the date technical bids were opened till the final letter of acceptance was issued to the firms.

The time taken for the finalising the tender and placement of order, was no doubt high side but the delay took place mainly due to factors beyond control of the Ministry of Railways. The most important of these factors were technology being totally new to the Indian Railways, tenderers not furnishing all technical details in their offer necessitating time consuming process of obtaining clarifications, and processing requiring approval of organisations other than the Ministry of Railways. The observations of the Committee and the

serious concern expressed by them on the delay in this case has been noted and suitable procedure is proposed to be evolved to avoid such delays in future.

ANNEXURE

Chronological order of events for 18 Nos. of 6000 HP AC electric locomotives (Thyristor)

- | | |
|---|---------------------------|
| 1. Technical offers opened on | 9.6.1983 |
| 2. Technical offers sent to RDSO for evaluation | 13.6.1983 |
| 3. Technical evaluation report received from RDSO on | 9.11.1983 |
| 4. Commercial offers opened on | 22.11.1983 |
| 5. Minutes of the Tender Committee recommendations put up to the Board on | 17.2.1984 |
| 6. Review of the recommendations by Board (CRB/MM) and cleared on | 4.8.1984 |
| 7. Approval by MR on | 31.8.1984 |
| 8. Memorandum sent to the World Bank for approval of recommendations in | November, 84 |
| 9. World Bank's response to the recommendations received on | 4.2.1985 |
| 10. Supplementary Tender Committee recommendation submitted on | 7.2.1985 |
| 11. Review by Board and final approval by MR on | 4.3.1985 |
| 12. Discussions/negotiations with M/s. Sumitomo and M/s. ASEA on | 11th and 12th March, 1985 |
| 13. TC recommendations made on | 18.4.1985 |
| 14. Recommendations under review by Board (CRB) and approved on | 13.6.1985 |
| 15. Recommendations approved by MR on | 17.6.1985 |
| 16. Letter of acceptance issued to both the firms on | 8.7.1985 |
- [Ministry of Railways D.O. No. 94-BC-PAC/X/81 dated 26.4.1994]

Recommendation

All the 18 locomotives costing US \$ 97 million were received in 1989. According to the audit para the tests on these locomotives were conducted only in 1990. The Ministry of Railways informed the Committee that the test at manufacturers works were conducted under the supervision of RDSO and there were anomaly found before shipment of these

locomotives. Subsequently 'Instrumented tests' were conducted from August, 1988 to July, 1989 and in respect of some locos limited repeated tests were performed in September-October, 1989 and December-January, 1990. According to the Ministry the 'Service trials' are still continuing under actual service conditions. During 'instrumented tests' these locomotives have been found suitable in all respects except the harmonic level which determines the level of interference with power supply and signal and telecommunication circuits. The Committee are informed that three tests were specified for the harmonic interference test viz., the second harmonic test, the high frequency test and the audio frequency test. While these locomotives of ASEA make have passed only the second frequency test, on the locomotives of Hitachi make have passed none of the tests. The Railways needed these locomotives for unrestricted use on the mainline. But due to the aforesaid defects still persisting the Railways have all along been using these locomotives only on a particular section i.e. Waltair-Kirandul, where this harmonic content difficulty does not interfere with its operations.

[Sl. No. 7 (Para 139) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

The decision to use these locomotives on Waltair-Kirandul Sections was taken to test them under most rigorous working conditions and not due to harmonics limits being exceeded. Ministry of Railways have recently accepted the recommendations of RDSO to increase the permissible limits for harmonics and the locomotives can now be operated on the main line sections as well.

[Ministry of Railways D.O. No. 94-BC-PAC/X/81 dated 26.4.1995]

Recommendation

The Committee are unhappy to find the malady of long delays in the installation and commissioning of costly machines procured by the Railways. The audit paragraph reveals that 19 machines procured by DCW Patiala with foreign loans were installed/commissioned after a period varying from 11 to 48 months after their receipt in the workshop. Further during the year 1990-91, out of the 210 machines received, only 28 machines could be commissioned within 3 months and 163 machines were commissioned after three months. The latest figure of uncommissioned machines furnished by Ministry of Railways (Railway Board) is 71. The Committee take a very serious note of these delays as the same results in the blocking of large quantum of the funds making the expenditure incurred infructuous. Based on a study conducted by COFMOW,

suggestions for reducing the time for installation and commissioning of machines is presently under consideration of the Railway Board. The Committee emphasize that all possible steps should immediately be taken so as to obviate all delays in the installation and commissioning of machines in the Railways. They would like to be apprised of detailed remedial steps being taken in this regard.

[Sl. No. 9 (Para 141) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

The overall position of the uncommissioned machines has further improved during the last one year. The total number of machines now awaiting commissioning as on 1.8.93 is only 58. This has been made possible due to effective steps having been taken by the Railways to reduce the time taken and the delays in the installation and commissioning of the machines on the Railways. Some of the important steps taken based on the recommendations of the COFMOW Study Team for reducing the time are:

1. Policy decision by the Railway Board for change in the mode of transport from rail to road for supply of the machines on a selective basis. Railway Board's letter No. 93 M(M&P)/1063/34/COFMOW dated 13.5.93 enclosed as Annexure 'A'.
2. Execution of the foundation by the machine suppliers on a "turn-key" basis as per Railway Board's letter No. 93 M(M&P)/1063/34/COFMOW dated 20.7.93 enclosed as Annexure 'B'.
3. Stringent penal clause has been included in the contract for delays in commissioning by the supplier. Penalty clause stipulates that damages at the rate of one per cent of the total contract value for each and every month or part thereof for which commissioning is delayed subject to maximum of 5% of the contract value, are recoverable from the supplier in case of delay in commissioning of the machine. Deductions are being made by the COFMOW in case of default by the machine suppliers and as reported by consignees.
4. Close monitoring is being done by COFMOW and Railways for various activities involved in commissioning like readiness of foundation including covered shed, electrical power connection, pneumatic supply, wherever required. COFMOW is closely following up with the consignees immediately after the foundation drawing are supplied by the supplier to ensure that the consignee is in full readiness for installation and commissioning as soon as the machine is received.
5. COFMOW is closely monitoring the despatch/receipt of machines individually, from the time machine is supplied by the supplier.
6. Utilities for installation and commissioning—All information on the

requirements of utilities like requisite power, water supply and pneumatic supply requirements are included in all the contracts for the consignee to make timely arrangements for the same. A check-list indicating the utilities required is enclosed in the bid document for the suppliers to clearly indicate with their offer for ensuring quick installation/commissioning of the machine.

7. **Assessment of the firms**—A complete assessment on the capability of a firm for manufacturing a machine as well as the infrastructure/service engineers available for the installation/commissioning of machine is kept in view before placing orders.
8. **Proving tests**—Proving tests are carried out on the machine at the manufacturer's premises at the time of inspection and the consignees are associated during these proving tests to avoid disputes and any delays in the final installation/commissioning of the machines.
9. **Technical specifications including the accessories to be ordered**, are now framed in consultation with the consignees. The Consignee Railway are also referred by COFMOW during the evaluation/finalisation of the tenders to take into account their requirements for toolings/fixtures etc. All the above steps taken by Administration have resulted in improving the position and reducing the delays for the installation and commissioning of machines. This is borne by the fact that whereas in 1991-92, only 34 m/cs out of 136 received were commissioned within 3 months of receipt *i.e.* 25%; in 1993-94 (4 months period upto July'93), 104 m/cs out of 128 received have been installed and commissioned within 3 months of receipt *i.e.* 81 %.

**GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS
RAILWAY BOARD**

No. 93 M(M&P)/1063/34/COFMOW New Delhi, 13.5.93

Chief Administrative Officer,
COFMOW,
Railway Offices Complex,
Tilak Bridge,
NEW DELHI.

SUB: Movement of M&P from the Manufacturers/suppliers works or from the Port to the destination by road.

Ref: CAO/COFMOW's D.O. letter No. COFMOW/IRM—Survey dated 22nd July, 1991.

The issue of transit delays, damaged, losses to costly Machinery and Plant during transportation has been under consideration of Board since this delays installation and commissioning of M&P.

2. On the basis of the recommendations made in the Reports of the Survey Team of COFMOW, it has been decided that Machinery and Plant ordered may be transported by road from the manufacturers/suppliers works (for indigenous items) and from the Indian Port (for imported items) to the destination *on selective basis*. Universal legislation permitting movement by Road should be avoided. Each case for such movement by road should be on merits and should be considered at the time of drafting the tender conditions. The criteria should be urgency, size of consignment, handling critically, the sophisticated nature of the Machinery etc. which is likely to get damaged etc. if transported by Rail.

3. In case of indigenous contracts where movement of M&P has been ordered by road, 90% payment should be made on delivery at destination in complete and sound condition.

4. This procedure is being implemented on trial basis for a period of one year *i.e.* upto 31.5.94.

5. This issue with the concurrence of the Finance Directorate of Ministry of Railways.

Sd/-

(A. Swami)

Executive Director Mech. Engg. (W), Rly Board.

Copy to:

- 1. General Managers (Mech.), all Indian Railways/PU.**
- 2. COSs of All Indian Railways/Production Units.**
- 3. FA&COSs of Indian Railways/Production Units.**
- 4. Director General, RDSO, Lucknow.**
- 5. DF(S)I, Railway Board, New Delhi.**

(Hindi version will follow)

**GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS
RAILWAY BOARD**

No. 93 M(M&P)/106334/COFMOW New Delhi, 20.7.93

Chief Administrative Officer,
COFMOW,
Railway Offices Complex,
Tilak Bridge,
NEW DELHI.

SUB: Supply, installation and commissioning of Machinery & Plant on a "Turn-key" basis.

Ref: i. CAO/COFMOW's D.O. letter No. COFMOW/IRM—Survey (Study) dated 22nd July, 1991.

ii. Board's letter of even number dated 13.5.93.

In continuation of Board's letter under reference (ii) and as a result of the recommendations made in the report of the Survey Team of COFMOW to reduce the delays in installation and commissioning of Machinery & Plant, it has been decided that the supply, installation and commissioning of machines should be taken up and ordered on "Turn-Key" basis in the main contract being issued for the procurement of Machinery & Plant. This will envisage that the responsibility for construction of the foundations at consignees' site will be resting with the Firm supplying the machines.

2. This measure, together with the Board's earlier approval given for movement of M&P by road as per letter under reference (ii), will entail that the contract being given for the supply of Machinery & Plant will give the responsibility to the Firm from the time of despatch from the manufacturers/suppliers works till the time the machine is finally commissioned and handed over to the consignee.

3. For such turn-key contracts, where the foundation/installation is to be done by the machine supplier, Railways/PUs should suitably eliminate any D&G and Labour/Stores provision from the Civil Works of the M&P estimate.

4. Both these measures should reduce the delays being taken for supply, installation and final commissioning of the machines.

5. This procedure should be implemented on a trial basis for a period of one year i.e. upto 13.7.94 and will be reviewed thereafter.

6. This issues with the concurrence of the Finance Directorate of the Ministry of Railways.

Sd/-

(A. Swami)

Executive Director Mech. Engg. (W), Rly Board.

Copy to:

1. General Managers (Mech.), all Indian Railways/PUs.
2. COSs of All Indian Railways/Production Units..
3. FA&CAOSs of Indian Railways/Production Units.
4. Director General, RDSO, Lucknow.
5. DF(S)I, Railway Board, New Delhi.

[Ministry of Railways D.O. No. 93-BC-PAC/X/47 dated 25.10.1993]

Recommendation

The Committee are extremely unhappy to note that a commutator seasoning machine costing Rs. 35.21 lakhs received in DCW, Patiala in June 1986 has not been commissioned so far. The Ministry of Railways informed the Committee that initially certain short shipped items were noticed, which were made good by the firm (M/s. Cam International). Susequently the firms's engineers visited DCW, Patiala to commission the machine four times between March 1987 to May 1988 that too after repeated requests and reminders sent to them but failed to commission the machine. During May 1988 to May 1991 the firm was reminded several times and it was only in October, 1991 that the engineers of the firm visited DCW again to commission the machine. The Committee are not convinced with the plea of reluctance on the part of the firm's engineers to visit Patiala due to the then prevailing law and order situation in the State as the Railways should have assured all safety of the Firm's engineers in consultation with the State Government. Meanwhile, the machine was tried out for traction motor armature by DCW engineers and partial production was possible though not at the rated r.p.m. The firm engineer during his last visit in October, 1991 confirmed that the machine would be able to handle only Traction Motor (which is the major part of the workload) and not the Traction generator. The Member (Mechanical), Railway Board informed the Committee that the machine was installed and run but they found that it was not capable of coping with generators and with motors only sporadic performance was obtained which was not up to the mark. The Ministry of Railways have been in correspondence with the

company since last five years for getting the defects rectified by without any fruitful result and this is despite the fact that the machine according to the Ministry is a fairly simple not requiring highly skilled labour. As all efforts including Assistance from the World Bank, Indian Embassy in USA and USA Embassy in India have not produced the desired results and relevant parts (vibration sensors and the end shields) required for putting the machine into operation as originally envisaged not received, DCW Patiala on the advice of the Railway Board given in July, 1992 had initiated arbitration proceedings against the firm by invoking the arbitration clause *vide* their letter dated 2.9.1992. The firm is stated to have requested that another opportunity may be given to them for commissioning of the machine after making some modifications. This request is presently being examined by the Ministry of Railways (Railways Board). The Committee, however feel that Ministry of Railways took an inexcusably long time in deciding to invoke the arbitration clause for claiming the compensation from the firm for supplying the defective commutator seasoning machine and even further action thereon has been held up consequent to the receipt of a request from the firm for giving them yet another chance for setting the machine right. The delayed action on the part of Ministry of Railways has clearly made the expenditure of Rs. 35.21 lakhs incurred on this machine infructuous so far. The Member (Mechanical), Railway Board conceded during evidence that "The efforts have been there but I feel, we should have taken much less time to solve this". The Committee take a very serious view of the lack of proper action on the part of the Railway and emphasize that conclusive steps should immediately be taken to find a satisfactory solution to the problem in the interest of safeguarding their financial interests. The Committee would like to be kept informed of the final outcome.

[Sl. No. 10 (para 142) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Action Taken

The emphasis initially was to commission the equipment so that it can be put to effective use. After it was declared by the firms engineers that the machine can not do the job the arbitration clause was invoked and an arbitrator appointed. The firm have refused to nominate their arbitrator and are insisting on commissioning the machine. According to the conditions of the contract, in the event of the firm not appointing their arbitrator, the arbitrator appointed by DCW will act as sole arbitrator. The arbitrator has initiated the proceedings.

[Ministry of Railways D.O. No. 94-BC-PAC/X/81 dated 26.4.1995]

Recommendation

The Committee note yet another instance of inexcusable delay in the commissioning of three axis coordinate measuring machine costing Rs. 20 lakhs received in DCW, Patiala in July, 1986. The machine could not be

commissioned because a large number of parts were damaged and found missing in transit. The purchase order for the missing parts was placed after sorting out the insurance claims and the parts were received in April, 1990. Subsequently, it was seen that some more parts were not available which had to be arranged for. The firms's engineers visited DCW in February, 1991 and the machine was commissioned in the manual mode. The machine has not been fully commissioned because the firm's engineer has not visited Patiala so far. The Committee strongly deplore the lack of proper action on the part of the Railways in this case as well due to which the machine costing Rs. 20 lakhs procured in July, 1986 has not been fully commissioned so far. The Committee desire that all efforts should immediately be made to get the machine fully commissioned without any further delay.

[Sl. No. 11 (para 143) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Action Taken

The delay in commissioning the machine is due to extensive damage to the equipment in transit. The firms's engineers visited DCW Patiala on 6.02.92 and commissioned the machine in CNC mode. The machine has since then been in regular use.

[Ministry of Railways D.O. No. 94-BC-PAC/X/81 dated 26.4.1995]

Recommendation

The Committee note that for raising the capacity of Chittaranjan Locomotive Works and to overcome the technical inadequacy in the process of manufacture of cast steel bogies in the steel foundry, it was decided in April, 1987 to import 150 Three Axle co-co cast steel bogies frames and bolsters with transfer of advanced technology. The contract was placed with an American firm in May, 1988 at US \$ 957188 under IDA credit. The technology transfer agreement provided that the collaborator would assist CLW in achieving state of art quality level comparable with their own basic inputs largely available indigenously in India. According to Ministry of Railways out of the 22 bogies cast so far with the said technology, only two have not been found upto the mark and the rest were found to be satisfactory. All basic inputs and infrastructural facilities are stated to have by and large become available and series production of bogies to the new technology has already been established. As the process of core making in Steel Foundry at Chittaranjan is manual and these do not permit the use of bonding resins in the core making sand as recommended by collaborators the core-shop is being mechanised and equipments required are under procurement. The Committee, however, find that audit were informed by Production Engineer, CLW in December, 1991 that 22 bogies cast in CLW were having crack length raging between 18 cm. and 321 cm. CLW trepaired these cracks by welding and dispatched these bogies for use. According to the Ministry cracks are a phenomena which cannot be totally eliminated in all castings of this size

and as such bogies having a cumulative crack length upto 300 cm should be acceptable. The Ministry has informed that with RIC technology in the bogies cast up to date, the crack length of all the bogies except for two were within these specified limits. The Ministry has also assured that adoption of collapsible cores with the mechanisation of core room will further improve the casting with respect to the crack lengths. The Committee regret to note that even after a period of about 4 and 1/2 years, the complete transfer of technology for the manufacture of cast steel bogies has not taken place. They find that in the absence of mechanisation of core shop the core making was done manually by CLW, on account of which cracks ranging from 18 cm to 321 cm have developed in the bogies cast with RIC technology. Although, the bogies having crack lengths upto 300 cm are being repaired and sent for use, the Committee feel that with persistent use these cracks may reappear which may endanger the whole structure of the bogies. Further, the Committee believe that the appearance of cracks in all the bogies produced with the new technology undoubtedly establish that the technology transfer process and its adoption needs to be looked into in consultation with the collaborators. The Committee also recommend that the mechanisation process of core shop should be expedited so as to eliminate the possibility of cracks being developed in the bogies cast by the new Rockwell technology.

[Sl. No. 12 (Para 144) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

Bogie castings are made with weldable quality steel and repairs by welding are a normal practice. These cracks normally do not reappear with passage of time. Cracks can not be totally eliminated in casting of this size. The average crack length of bogies cast with RIC technology have come down during 1992-93 as compared to 1991-92. Technology has been implemented in most of the areas such as melting, metal flow designs, designs of core and moulds and heat treatment procedures. Further, all the equipments required for core shop are in advanced stages of ordering and are expected to be ordered shortly.

[Ministry of Railways D.O. No. 94-BC-PAC/X/81 dated 26.4.1995]

Recommendation

The Committee note that an order for procurement of 792 traction motors for WAG5 type electric locomotive was placed on BHEL in March 1988 at US \$ 39.5 million. The procurement was stated to be financed under IDA credit. As per stipulation in the contract, the delivery of traction motors was to be made by June, 1989. In July, 1989, CLW loaned out to BHEL 13 items of components of traction motors valued at Rs. 10.22 crores at a nominal interest charge of 6.75 per cent to assist it to complete the delivery of motors in time. BHEL supplied 544 motors within the contractual delivery period and promised to supply the remaining by

February 1990. According to Ministry of Railways (Railway Board), the World Bank in anticipation of possible extension of delivery period beyond June, 1989 upto February 1990 granted extension of time till March 1990 for utilisation of IDA loan. BHEL supplied a total of 695 motors only upto February 1990—the extended delivery period. In spite of the unusual assistance valued at Rs. 10.22 crores extended to BHEL, BHEL failed to supply the remaining 97 traction motors even within the extended validity period of IDA credit due to which the credit of US \$ 3.235 million could not be utilised, which is highly deplorable. Action for recovering the damages as per the provisions of the contract has already been initiated by Ministry of Railways and CLW has asked BHEL to pay Rs. 9,16,43,272 towards general damages against this contract *vide* their letter dated 26.6.1990. M/s. BHEL had however, represented against the recovery of damages on the grounds that the impregnating varnish had to be changed by them in consultation with M/s. Hitachi, which was based on isocyanides and was considered a safety hazard. Once again this highlights the fact that enough thought has not been given before entering into a deal with M/s. Hitachi. The matter was referred to the Law Officer of Eastern Railway who opined that BHEL might not be legally liable for breach of contract and no penal action by way of imposition of general damages or otherwise could be taken. The matter had subsequently been referred to Ministry of Law seeking their opinion as to whether CLW was entitled to enforce general damages on BHEL. The Committee desire that the legal opinion from the Ministry of Law be expeditiously obtained so that further action relating to the recovery of Rs. 9,16,43,272 from BHEL is taken. If the Ministry of Law points out any legal lacuna in the contract, suitable action should also be taken to plug such lacunage in the future contracts.

[Sl. No. 13 (Para 145) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

The legal opinion from Ministry of Law has since been obtained. They have opined that as the contract on M/s. BHEL has been cancelled by the Railways at their Risk & Cost, and the BHEL have failed to pay the demanded amount, the right course of action was to invoke the Arbitration Clause of the Contract to enforce recovery of general damages. CLW has got a good case before the Arbitrator particularly when Order on BHEL for 300 Nos. was placed at a much higher rate and only differential amount was being claimed by CLW. They have further opined that the opinion given by Sr. Law Officer of Eastern Rly. may therefore, not be relevant.

Based on the opinion of Ministry of Law the Rly. administration has since appointed Chief Mechanical Engineer, Steel Foundry, CLW as Arbitrator for going into the dispute.

[Ministry of Railways D.O. No. 94-BC-PAC/X/81 dated 26.4.1995]

Recommendation

The Committee further find that under the on going projects financed by World Bank, a loan of US \$ 279.2 million (Loan 2417-IN) was sanctioned in April 1984 for electrification of 3044 Kms. and modernisation of six workshops and one Production Unit. The closing date of the loan was 30th September, 1990 but due to delay in completion of the projects two extensions of one year each were obtained by Railway Board upto 30th September, 1992. As the loan was not expected to be utilised by that date another six months extension upto 31st March, 1993 was sought by the Railway Board. The Committee are once again constrained to observe the avoidable extra commitment charges being incurred on account of delays and emphasise that concerted efforts should be made by the Ministry of Railways through better planning and co-ordination to utilise the foreign loan/credit within the validity period.

[Sl. No. 15 (Para 147) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

Of the total loan amount of US \$ 279.2 million under 2417-IN, the reimbursements for \$ 215.83 million had been claimed upto 30th September, 1990 i.e. within the original validity of the loan. One of the reasons was orders under ICB materialising for a large number of indigenous machines whose value in dollar terms got reduced due to rupee devaluation. Further, introduction of latest technology of 2×25 KV Traction was taken up on Bina-Katni section, the procurement of some equipments for which took more time as the technology was new and also it major equipments got delayed due to troubled conditions in Yugoslavia.

The above reasons resulting in delay were unavoidable. However, the observations of the Committee are noted.

[Ministry of Railways D.O. No. 93-BC-PAC/X/47 dated 25.10.1993]

Recommendation

As regards Railway Electrification Projects, an amount of US \$40.5 million was provided primarily for procurement of critical items. The Committee are informed that by 30 Sept., 1992, 2716 Kms. of track route has been energised. Further, out of 10 sections, electrification of 5 sections have been completed, electrification on three sections are in the advanced stages of completion and was expected to be completed by Dec., 1991 Balance 580 kms. Bilaspur-Katni (317km) and Bina-Katni (263 km) electrification works are stated to be progressing satisfactorily and will be energised in 1993. In regard to Electrification of the remaining two routes, the Committee have been informed that priority was given to trunk routes. These routes were subsequently identified for electrification on a new system of electrification of 2×25 KV AT system which is considerably superior for heavy haul routes. The decision was taken by the Railway Board very belatedly in Dec., 1990. The Committee feel that this decision

to go in for the new technology should have been taken at the stage of preparation of project report before applying for a loan from World Bank. Due to this belated decision, the Railway Board had to take extensions of 2 years for utilisation of full amount of loan leading to the payment of extra commitment charges for the extended period. The Committee deplore this casual attitude of Railway Board in deciding upon this new technology on Bina-Katni and Katni-Bilaspur on account of which the completion of the project was delayed and caused avoidable expenditure as payment of extra commitment charges for the extended period of the loan. They emphasize that such vital decisions should be taken promptly and not left to be taken during the final stages of the project in order to ensure project completion by the scheduled date.

[Sl. No. 16 (Para 148) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

The observations of the Committee have been noted. Out of the 3044 RKMs covered under the World Bank Loan No. 2417-IN 2737 RKMs have already been completed by March, 1993 and balance 306 RKMs on Bina-Katni and Katni-Bilaspur section are planned for completion by Sept. 1994.

[Ministry of Railways D.O. No. 93-BC-PAC/X/47 dated 25.10.1993]

Recommendation

The Committee also note that Workshop Modernisation Project Phase-II (Loan No. 2417-IN-US \$ 132.5 million) covering 6 Workshops and one Production Unit (ICF Madras) of Indian Railways was scheduled to be completed between March, 1990 to December, 1991. The target dates for individual projects were stated to have been fixed in consultation with the visiting World Bank missions keeping in view the minimum dislocation to the ongoing activities. The Committee are distressed to find that progress of modernisation has been slow in respect of all the 6 Workshops and the Production Unit at ICF Madras, consequently delaying the modernisation project beyond the target date of completion i.e December, 1991. This again resulted in extension of the loan by 2 years in the first instance and again for another 6 months till 31 March, 1993. They are concerned to note due to delay in utilisation of this loan, extra commitment charges to the tune of US \$ 233,296 had to be paid by Railways for the extended period of Loan No. 2417-IN from 1.10.1990 to 20.10.1992. Additional extra commitment charges will also have to be paid for further extension of loan till 31.3.93. The Committee feel that seeking extension of loans has become almost a normal practice with the Railways. The Committee cannot help expressing their strong displeasure in the costly time over-run in this project. They recommended that with a view to ensure the timely completion of such projects, the

project planning and monitoring mechanism for the execution of such projects should be suitably revamped.

[Sl. No. 17 (para 149) of Appendix II of 47th Report of PAC (10th Lok Sabha)]

Reply of the Government

Of the total loan of US \$ 132.5 million (subsequently reduced to \$ 131 million) under 2417—IN covering six Workshops and one Production Unit, i.e. ICF, commitments had been made for US \$ 144.860 million by September, 1989 while the Loan was current upto September, 1990. The reimbursements had also been claimed for US \$ 113.478 million against this component by the end to September, 1990, i.e. within the original validity period of the Loan. It may be seen that major portion of this component of the loan (i.e. 87%) was utilised within the original validity period. Further by September, 1991 US \$ 123.266 million i.e. 94% had been claimed and by September, 1992 US \$ 127.413 million i.e. 97% had been claimed. Thus, the extra commitment charges aid against this component of the loan due to extension was very small. Since most of the Machinery and Plant had been received by the original loan closing date (September, 1990) and the physical completion of the project is not directly related to the utilisation of the loan but is an operation for tying all loose ends, the delay in physical completion of the Workshop Modernisation project as such, has not resulted in any substantial non-utilisation of funds and consequent extra commitment charges.

As already explained to the Committee, the main reason necessitating extension to this loan was delay in execution of Railway Electrification Projects in Bina-Katni and Katni-Bilaspur Sections. These projects got delayed due to adoption on these sections the new system of 2×25 KV AT Electrification. Also the placement of orders for some major equipments for this new system had got complicated partly on account of devaluation of rupee and partly on account of troubled conditions in Yugoslavia. Some of the contractors had difficulty in supplying the equipment as they were manufacturing the same for the first time for this new system.

The reasons for the utilisation figures not catching up, during the original validity period, with the allocation made for workshop modernisation, were unavoidable, such as devaluation of rupee as a result of which the amount claimed for reimbursement for indigenous machines, which constituted a substantial proportion of the total procurement under the loan, kept dropping below the project levels, inability in claiming part of the cost of some of the machines in time due to delay in commissioning of the same because of transit damage/theft, non-arrival of service engineers in time from abroad etc.

While all out efforts are made to execute the projects in time and their progress reviewed periodically for timely utilisation of funds, the extension

of loans in some cases becomes inescapable due to unforeseen factors arising during the implementation of the projects. The observations of the Committee are, however, noted.

[Ministry of Railways D.O. No. 94-BC-PAC/X/81, dated 26-4-1995]

Recommendation

The Committee have been informed that the Railway Modernisation Project III (2935-IN/Loan/US\$ 390 million) to be completed by 31 December, 1993 was progressing satisfactorily. As regards ungradation of tracks, the Ministry of Railways have decided to short close the loan for this component after completion of 90% (3600km) tracks out of 4000kms. Programmed for upgradation and complete the renewal of balance 10% works (400km) in 1994-95 with indigenous resources. Based on the delivery schedules quoted and likely orders to be placed during 1992-93 the Committee apprehend that procurement of about 10 track machines might get delayed beyond 31-12-1993 *i.e.* the target date by which loan is to be utilised, necessitating further extension and the concomitant extra commitment charges. The Committee, therefore, emphasize that all out efforts should be made to complete the project within the validity period of loan.

[Sl. No. 18 (para 150) of Appendix II of 47th Report of PAC
(10 Lok Sabha)]

Reply of the Government

Noted please. Tenders for balance machines have been opened in July/August, 1993. All out efforts are being made to enter the commitment for the remaining machines before 31-12-1993.

[Ministry of Railways D.O. No. 93-BC-PAC/X/47, dated 25.10.1993]

Recommendation

The Committee note that Saudi Fund for Development (Loan 3/88), a loan of Saudi Riyal 103.2 million (US \$ 30 million — Rs. 450 million) has been available from August, 1983 for construction of BG line between Koraput-Rayagada (216 kms.) including procurement of rails, sleepers and track machines etc. The Project was financed partly from Saudi Fund and partly from Railway's own resources. The proposed line was expected to promote the development of backward areas of Orissa and also cater to the needs of aluminium plant at Damanjodi and Visakhapatnam port. In accordance with the loan conditions, Indian Railways has to first spend the money and then claim reimbursement. The Ministry of Railways has informed that while the section (Phase-I) from Koraput to Machiliguda (20 km) was opened in December, 1985 execution of Phase-II from Machiliguda to Rayagada has been kept pending because of the delay in commissioning of Vishakhapatnam Steel Plant. On Planning Commission

group clearance for execution of Phase-II in the latter half of 1986, funds were provided for the project during 1987-88. The Committee have been informed that construction of the line from Machiliguda to Lakshampur (42 km.) has been completed in March, 1992 and the balance work (102 km.) is targetted to be completed by 31.10.1993. The Committee regret to note that although the target for completion of Phase-II of the project was March, 1987 the project has not been completed so far. According to Ministry of Railways, the delay in construction of Phase-II was on account of collapse of a tunnel, cyclone and heavy rains and inhospitable living conditions in the area. The Committee hope that work on Phase-II of the project will be completed by 31.10.1993 without any further delay.

[Sl. No. 19 (para 151) of Appendix II of 47th Report of PAC
(10 Lok Sabha)]

Reply of the Government

As the Committee has already been advised the delay in construction of Phase-II construction work on the Koraput-Rayagada project was on account of unforeseen geological problems on Tunnel No. 23 cyclones and heavy rains and inhospitable living conditions in the area.

The unforeseen geological problems that were encountered in the construction of Tunnel No. 23 on this project require special soil treatment measures, which are taking time. However, all efforts are being made to complete the work as per the revised targetted date *i.e.* in 1993-94.

[Ministry of Railways D.O.No. 93-BC-PAC/X/47 dated 25.10.1993]
Recommendation

The Committee also find that the Saudi Fund for development extended the validity of the utilisation of loan up to 30 September, 1990 on request. But due to lack of funds till March 1990, the Board approached the Ministry of Finance for taking up with Saudi Fund Authority for granting extension of loan agreement upto 30 September, 1991. As the work on Phase-II of the Project could not be completed, Saudi Fund Authorities have extended the terminal date of the loan agreement upto 31.12.1993. Till March, 1992 the Saudi Authorities is stated to have reimbursed \$ 5.83 million towards cost of rails, \$ 6.40 million towards civil works and \$ 1.85 million towards cost of sleepers out of the total loan of \$ 30 million. The Committee are distressed to note that due to frequent revisions in the target dates of completion of Phase-II of the project, the estimated cost of the project escalated by more than 47% from Rs. 2650 million to Rs. 3900 million.

[Sl. No. 20 (Para 152) of Appendix II of 47th Report of PAC
(10 Lok Sabha)]

Reply of the Government

As the Committee has already been advised the delay in the construction of Phase-II work on this project was on account of unforeseen geological problems in construction of Tunnel No. 23 and cyclones, heavy rains and inhospitable living conditions in the area. The unforeseen geological problems encountered in the construction of Tunnel No. 23 on this project require special soil treatment which is taking time. However, all efforts are being made to complete the work as per the targetted schedule in 1993-94.

[Ministry of Railways D.O. No. 93-BC-PAC/X/47, dated 25.10.1993]

Recommendation

The foregoing paragraphs abundantly reveal that due to lack of proper project planning and their implementation, there have not only been considerable avoidable delays in the utilisation of foreign loans/credits but a substantial amount of these loans aggregating to US \$ 13.227 millions could not even be utilised and therefore allowed to lapse. Further, due to failure to utilise the foreign loans during their original validity periods, Railways have been forced to seek repeated extensions of those loans resulting in payment of enormous extra commitment charges. For instances in respect of the two loans (Loan 2210-IN/credit 1299-IN and Loan 2417-IN) alone, extra commitment charges paid by the Railways was to the tune of US \$ 3059328. The Committee's examination has also revealed that the 18 locomotives procured in 1988 at a cost of US \$ 97 million still continue to suffer from major harmonic content deficiency, defeating the main purpose for which they had been procured. There have also been abnormal delays in the satisfactory installation and commissioning of the costly machines funded through the foreign loans. For instance, a commutator seasoning machine costing Rs. 35.21 lakhs received in DCW, Patiala in June, 1986 has not been commissioned so far. Similarly there has also been delay in the commissioning of measuring machines costing Rs. 20 lakhs. The Committee take a very serious view of lack of proper project planning and co-ordinated approach on the part of the Railways due to which the aforesaid costly aberrations and slippages and other such instances discussed in this Report have occurred.

The Committee view seriously the costly lapses that have occurred on account of inadequate planning and inordinate delays in the implementation of the projects funded by foreign loans/credits and recommend that the entire subject of utilisation external assistance be examined threadbare with a view to fix responsibility of individual officers incharge of monitoring and execution of these projects. The Committee further recommend that on that basis detailed guidelines be drawn up for the utilisation of such assistance.

[Sl. No. 22 (para 154) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

As already explained to the Committee, it is not correct to say that a substantial amount of loan aggregating to US \$ 13.227 million could not be

utilised and allowed to lapse. This amount of US \$ 13.227 million shown as unutilised by the Audit represented the difference between the amount of commitments entered into by IR, under the unit exchange spares category of IDA Credit 1299-IN/IBRD Loan No. 2210-IN, and the amount disbursed by the World Bank. To provide for various factors such as commitments/supplies not likely to materialise during the loan period, inability to claim 10% payment due to possible non-commissioning of some equipments in time, actual cost of freight and insurance being lesser than expected levels, possible exchange rate variation, etc. some cushion is provided for between the total commitments and the loan allocation, the level of total commitments and the loan allocation, the level of total commitments being kept at a slightly higher level. The said amount of US \$ 13.227 million remained in this category. The IDA Credit/IBRD Loan under reference were fully utilised before their terminal closing date and there was not under-utilisation and the amount of US \$ 13.227 million was also drawn against other commitments.

While the ideal situation may be to complete the projects and utilise the loans during their original validity periods, in actual practice it has been found that the extension of loan closing date becomes inescapable in most of the cases due to unforeseen factors cropping up during the execution of the projects. These include failure of firms to supply stores after taking orders due to external reasons like UN sanctions or internal turmoil, as a result of which tendering process for the items has to be initiated afresh. Uncertainties of Plan allocation/budgetary support, time required for technical evaluation/adaptation where new technology is involved, etc. are among other reasons necessitating extension of closing dates of various foreign loans.

The 18 locomotives procured in 1988 revealed higher harmonic content during field trials as compared to the prescribed level. However, these limits have been considered stringent and revised recently after trials were conducted by RDSO. These locomotives are handling heavy freight trains on Waltair-Kirandul Section of S.E. Railway consistent with their rated capacity and performance specifications. Thus, these are serving the intended purpose for which the same were procured.

In the case of Commutator Seasoning Machine, the emphasis initially was to commission the equipment so that it can be put to effective use. After it was declared by the firm's engineers that the machine cannot do the job, the arbitration clause was resorted to.

In respect of co-ordinate seasoning machine received in DCW/Patiala, the delay in commissioning was due to extensive damage to the equipment in transit. The firm's engineers were required to visit DCW initially to identify defects so that parts could be ordered for replacement. After the parts were received so defects were further noticed by the commissioning engineers which were required to be arranged. The delay was mostly due

to the reluctance of the firm's engineers from overseas to come to Patiala owing to the then prevailing law and order situation in Punjab and instructions from their Embassy not to travel in that region.

It will thus be seen that wherever slippages have occurred the same were not on account of inadequate planning or monitoring but were mainly due to unforeseen and unavoidable problems which were confronted in the course of actual execution of the projects. However, the Committee's observations have been noted.

[Ministry of Railways D.O. No. 94-BC-PAC/X/81, dated 26.4.1995]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

Indian Railways receive external assistance mainly from World Bank and its agencies. Since 1978, there had been four specific investment projects focussing on particular components in respect of motive power, rolling stock, workshop and track electrification viz. (a) Railway Modernisation and Maintenance Project (Credit No. 844-IN); (b) Railway Modernisation and Maintenance Project Phase II (Credit No. 1299-IN/Loan No. 2210-IN); (c) Railway Electrification and Modernisation Project III (Loan 2417-IN) and (d) Railway Modernisation Project III (Loan 2935-IN). Besides assistance from the World Bank bilateral loans/credits are also received. These were from the United Kingdom, Japan, Saudi Arabia and West Germany for specific projects. The Committee's examination has revealed major shortcomings in formulation and execution of projects assisted by World Bank and other similar foreign agencies. Due to lack of proper project planning and their implementation, there have been considerable delays in the utilisation of external assistance. The committee find that Railways have generally failed to utilise these foreign loans during their original validity period. Consequently, the Railways have been seeking repeated extensions of these loans resulting in payment of huge additional commitment charges for the extended periods. The Committee are unhappy over the failure of the Railways in utilising the precious foreign loans during their validity period.

[Sl. No. 1 (para 133) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

While all out efforts are made to execute the projects in time and their progress reviewed periodically at various levels, as already explained to the Committee, for timely utilisation of funds, the extension of loans in some cases becomes inescapable due to unforeseen factors arising during the implementation of the projects. On an average, major projects provide for 4 to 6 years for completion. During such a long span, many new issues crop up in the course of execution of the projects. While sometimes the law and order conditions prevailing in a particular project area may not be conducive for execution of the work, prevailing internal turmoil in some countries abroad sometimes compel the foreign suppliers to back out from contracts for supply of material/equipment, as a result of which tendering

process for the item has to be initiated afresh. Further, in course of execution of projects, the *inter se* priority/need for various components sometimes undergoes change, requiring review of the project and reallocation of funds. In some cases, the procurement of certain items is excluded from imports at intermediate stage where sufficient capacity is developed by indigenous sources or where non-member countries quote lower rates as compared to member countries against ICB tender. Government's decisions regarding change of priorities of different projects/ part of projects, periodic review of needs for specific investments, non-availability of adequate internal resources to finance various projects, uncertainties of Plan allocation/budgetary support, time required for technical evaluation/adaptation where new technology is involved, are among other reasons necessitating extension of closing dates of various loans/projects.

[Ministry of Railways D.O. No. 93-BC-PAC/X/47 dated 25.10.1993]

Recommendation

The Committee have been informed by the Ministry of Railways that in respect of the Railway Productivity Improvement Project which is proposed to be covered under new World Bank Loan for \$ 300 million, efforts are being made to prepare a set of standard bid documents acceptable by the World Bank. According to the Railways, the finalisation of the standard bid documents with the approval of the World Bank will minimise some of the delays associated with the prior clearance of bid documents by the World Bank. The Committee would like to know the progress made in this regard.

[Sl. No. 4 (para 136) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

Ministry of Railways had made out, at the instance of the World Bank, a draft standard bid document for adoption in respect of new projects to be financed by World Bank. This was discussed with the World Bank officials who had visited this Ministry in connection with negotiations regarding the Railway Productivity Improvement Projects which was proposed to be covered under a new World Bank loan for US \$ 300 million. As the discussions were inconclusive the process of finalisation of the said bid document was continued through correspondence with the World Bank. Meanwhile, the Ministry of Railways decided not to avail of the proposed new World Bank loan and accordingly the negotiations, including the finalisation of the said standard bid documents, were not pursued further.

[Ministry of Railways D.O. No. 94-BC-PAC/X/81 dated 26-4-1995]

Recommendation

The Committee are constrained to observe that although efforts have been made by the suppliers to overcome the deficiency no headway has been made so far though more than 4 years have elapsed since the purchase of these locomotives. It is learnt that the suppliers are trying to design a suitable filter as provided in the specifications for these locomotives with a view to absorb harmonics generated and to make these suitable for use on main-line track circuits all over the country. Five meetings for evaluation of filter have been held so far and after every evaluation some improvements are stated to have been made by the suppliers. Despite this, the last evaluation report made in January, 1992 still mentions that the harmonic level is not as desired. The suppliers have submitted design recently which is still under examination by the Railways. The Committee have also been informed that all the 18 locomotives are covered by five year warranty bonds whereas the warranty for the last locomotive of ASEA will expire in July 1993, in the case of Hitachi the last locomotive is covered by the warranty upto July, 1994. The Committee are distressed to note that even after the receipt of these 18 locomotives procured at a cost of US \$ 97 million, these locomotives continue to suffer from a major harmonic content deficiency. Consequently, the Railways have not only been compelled to restrict the use of these locomotives to a particular section only but the main underlying purpose of selecting the most suitable design for indigenous manufacture has thus far remained unachieved. Under these circumstances, the Committee can not but conclude that the enormous expenditure of US \$ 97 million incurred on these locomotives has remained infructuous. The Committee strongly recommend that concerted efforts should be made by the Railways to ensure that the persisting harmonic defects in the locomotives are satisfactorily removed within the available warranty periods. They also desire to be apprised of the outcome of these efforts within a period of six months. While giving specifications for purchase, it may also be considered that the same are not so stringent so as to make them impracticable or unrealistic and thus become counter-productive.

[Sl. No. 8 (para. 140) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

The locomotives were procured for hauling heavy freight trains on Waltair-Kirandul Section and are serving the purpose for which the purchase was made. Therefore, the expenditure incurred on these locomotives cannot be returned as infructuous in any manner. The locomotives could not meet the limits of harmonic current specified in the contract. These limits have been found to be too stringent and have been recently revised after detailed study by RDSO. Action has also been initiated against the suppliers for recovery of damages on account

of their not meeting the specification in respect of harmonic contents as per stipulations of the contract. The locomotive would continue to be used on Waltair-Kirandul Section without any restriction for traffic use. Keeping in view the further development, Indian Railways have already decided to go in for indigenous manufactures of 3-phase locomotives. The question of selecting the most suitable design for indigenous manufacture, out of three types of locomotives procured, does not arise now.

[Ministry of Railways D.O. No. 94-BC-PAC/X81 dated 26-4-1995]

Recommendation

The Committee find that CLW had placed an order on firm 'A' for the supply of 125 loco sets at Rs. 3,08,980 per loco set in May, 1988 with deliveries to commence from September, 1988 and to complete by August, 1989. CLW also resorted to import from another firm on a single tender basis, 25 loco sets at Rs. 3,52,713.40 per loco set by awarding a separate contract on 9 August 1988, prior to scheduled commencement of deliveries from firm 'A'. According to the Railway Board, they resorted to the parallel placement of the second order for 25 loco sets because some financial difficulties of firm 'A' had come to their notice. According to Audit, this had resulted in extra expenditure of Rs. 10.93 lakhs being the differential between the price against the contract financed by IDA and that committed to be paid against the contract placed on the new firm. In this connection, the Ministry of Railways (Railway Board) informed that finalization of parallel contract on more than one firm was done to ensure timely availability of material for maintaining uninterrupted supply of material for enhanced loco production. The price differential in the two contracts, were basically on account of 'deemed export benefits' by way of reimbursement of taxes and duties and certain concessions available to contracts funded by World Bank, which were not available to the other contract and as such the two prices were not comparable. The firm 'A' supplied 106 sets out of contracted 125 sets within the delivery period *i.e.* upto 1st August, 1988 and the balance was supplied by them within the extended delivery period upto 31.8.89. The supplies from the other firm were received during the period from 3.11.1988 to 10.7.1989. According to Railway Board, the differential was not recoverable from firm 'A' because CLW decided to finalise the parallel contract before there was a breach of contract to ensure availability of material against any possible failure from firm 'A'. The Committee are extremely unhappy to observe that the parallel placement of the second order of 25 loco sets on another firm in anticipation of delay in supplying the requisite loco sets within the delivery period by firm 'A' was erroneous because there was hardly a month's delay by firm 'A' in supplying all the 125 loco sets. They feel that due to this incorrect decision, the Ministry had to incur an avoidable expenditure of Rs. 10.93 lakhs *i.e.* the differential between the two contracts.

[Sl. No. 14 (para. 146) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Reply of the Government

In order to ensure un-interrupted production of Locomotives, Chittaranjan Locomotive Works follow multi sourcing of various items required for manufacture of Locos at their Works. In this particular case, as pointed out by the Audit, against the IDA Tender, full quantity was ordered on one source, as splitting of orders is not permitted under the IDA terms and conditions. However, in order to keep up their policy of ordering on more than one source, another order was placed on an alternative source at a slightly higher rate on single tender basis. Multi sourcing is done even at differential prices if so warranted. Accordingly the second order placed by C.L.W. at a slightly higher rate, cannot be construed as an avoidable expenditure. It is once again reiterated that the second order was placed as an abundant precaution and in line with the principle of multi-sourcing adopted in production units like CLW and not with any anticipation of delay in supplies by first firm.

[Ministry of Railways D.O. No. 94-BC-PAC/X/81 dated 26-4-1995]

Recommendation

The Committee note that a loan for DM 30 million was obtained from Federal Republic of Germany in April, 1989 for financing import of machinery for the Rail Coach Factory, Kapurthala. Although the closing date of the loan was December, 1991, it could not be utilised till that date because the loan only funded the machines procured from Germany. According to the Ministry of Railways as orders on the German firms were to be placed only if they were the lowest bidders in the Global tenders invited, the contracts could not be awarded to the German firms to the extent originally envisaged. Consequently, the loan had to be got extended by another year till December, 1992. The utilisation position upto October, 1992 was DM 10.40 million. Further extension of the loan period upto December, 1993 had, therefore, to be sought. The Committee find that due to slackness on the part of Railways (Railway Board) in identifying the likely sources of machines required for the Railway Coach Factory, Kapurthala, they had to take extensions resulting in payment of additional extra commitment charges. The Committee trust that all efforts for the timely procurement of the machines will be made in the interest of utilisation of the entire amount of the loan by the extended date till December, 1993.

[Sl. No. 21 (Para 153) of Appendix II of 47th Report of PAC
(10th Lok Sabha)]

Action Taken by the Government

The likely sources of the machines were identified and it was then estimated that it would be possible to procure equipment of 30 million DMs from West German sources. However, in actual tenders, it was

seen that German firms could not be awarded contracts to the extent originally envisaged, as the tenders had to be awarded to the lowest suitable firm.

The loan has since been closed on 31-12-1992 and the loan amount was reduced to 8.94 million DMs.

[Ministry of Railways, D.O. No. 94—BC—PAC/X/81
dated 26-4-1995]

CHAPTER IV

**RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH
HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH
REQUIRE REITERATION**

—NIL—

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

—NIL—

NEW DELHI;
20 December, 1994

29 Agrahayana, 1916 (Saka)

BHAGWAN SHANKAR RAWAT,
Chairman,
Public Accounts Committee.

PART II

MINUTES OF THE 18TH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 19 DECEMBER, 1994.

The Committee sat from 1500 hrs. to 1530 hrs. on 19 December, 1994 in Committee Room No. 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri Bhagwan Shankar Rawat — *Chairman*

MEMBERS

2. Sqn. Ldr. Kamal Chaudhry
3. Dr. K.V.R. Chowdary
4. Shri Jagat Veer Singh Drona
5. Smt. Geeta Mukherjee
6. Shri Mohan Singh
7. Smt. Krishnendra Kaur
8. Shri S.B. Thorat

SECRETARIAT

1. Smt. P.K. Sandhu — *Director*
2. Shri P. Sreedharan — *Under Secretary*

REPRESENTATIVES OF AUDIT

- | | |
|-------------------------|--|
| 1. Sh. Vikram Chandra | — Pr. Director, Reports
(Central) |
| 2. Sh. B.C. Mahey | — Pr. Director of Audit Eco. &
Service Ministries |
| 3. Sh. A. Satyavardhana | — Principal Director (Indirect
Taxes) |
| 4. Smt. Anita Pattnayak | — Director (Railways) |
| 5. Smt. Suman Saxena | — Director, Reports (Auto-
nomous Bodies) |

The Committee considered and adopted the following draft Reports:

- | | | | |
|--------|----|----|----|
| (a) ** | ** | ** | ** |
| (b) ** | ** | ** | ** |

(c) ** ** ** **

(d) Utilisation of External Assistance (Action Taken on 47th Report of PAC (10th Lok Sabha)).

2. The Committee authorised the Chairman to finalise these draft Reports in the light of the verbal changes suggested by Audit arising out of factual verification and present the same to the House.

3. ** ** *

4. ** ** *

The Committee then adjourned.

APPENDIX

Conclusions and Recommendations

Sl. No.	Para No.	Ministry / Deptt.	Conclusions / Recommendations
1	2	3	4
1.	1.7	M/o Railways	The Committee note that their recommendations for minimisation of delays in the finalisation of tenders by Railways have been referred to an Expert Committee which had already been set up earlier for reviewing the tendering systems on the Railways. According to Ministry of Railways, instructions have also been issued to Zonal Railways to ensure that the tendering process is streamlined and that such delays do not recur. The Committee desire that the Ministry of Railways should ensure that the instructions are scrupulously complied with by all concerned and also that the report of the Expert Committee be got expedited and necessary follow-up action taken so that the process of tendering the placement of orders in the Railways is streamlined and the interest of Railways are adequately protected. They would like to be informed of the further steps taken in the matter.
2.	1.2	-do-	In their earlier report the Committee had found that there had been inordinate delays in the installation and commissioning of costly machines procured by the Railways and 71 machines procured by the Railways were yet to be commissioned. While taking a serious note of those delays which resulted in the blocking of large quantum of funds making the expenditure incurred infructuous, the Committee had emphasised that all possible steps should be taken so as to obviate such delays in the installation and commissioning of machines in the Railways. The Ministry of Railways have in their action taken note stated

1	2	3	4
			<p>that based on the recommendations of COFMOW study team certain steps had been initiated by them for reducing the time in the installation and commissioning of the machines. According to the Ministry the steps taken by the administration have resulted in improving the position and only 46 machines procured over three months old are awaiting commissioning. The Committee desire that the Ministry of Railways should keep a close watch over the effectiveness of these measures and ensure that the machines procured are installed and commissioned in time. They would also like to be apprised of the latest position in this regard.</p>
3.	1.3	M/o Railways	<p>The Committee in their earlier report had in this context also noted that a commutator seasoning machine costing Rs. 35.21 lakhs received by DCW Patiala in June, 1986 was lying uncommissioned even after the lapse of almost 8 years from the date of receipt due to some defects thus making the expenditure incurred on the machines infructuous. The Committee while taking a serious view of the lack of proper action on the part of Railways to find a solution to the problem had recommended to take conclusive steps immediately to find a satisfactory solution to the problem in the interest of safeguarding their financial interest. The Committee note that in pursuance of their recommendation, the Ministry of Railways have now initiated arbitration proceedings against the firm. The Committee desire that all out efforts should be made to resolve the matter as early as possible so that the financial interest of Railways are safeguarded. The Committee would like to be informed of final outcome in the matter.</p>
4.	1.17	-do-	<p>The Committee in their earlier Report has noted that the phase-II of the Project from Machiliguda to Rayagada funded by Saudi Fund for Development was originally targetted for</p>

completion by March, 1987 but the execution work of Phase-II of the project was started during 1987-88 and retargetted for completion by 31.10.1993. The Committee, while expressing regrets over the frequent change in the completion date of the Phase-II of project by more than 47% had hoped that the work on the project which resulted in escalation of cost will be completed by 31.10.1993. According to the Ministry of Railways (Railway Board) the delay in the completion of work has occurred due to unforeseen geological problems encountered in construction of Tunnel No. 23 on this Project which required special soil treatment measures, import of special equipment and technology and the project is now expected to be completed by the end of March 1995. The Committee trust that the Ministry of Railways will take all necessary steps for completion of this project within the targetted date i.e. 31.3.1995 and avoid any further escalation in cost of project. The Committee desire to be apprised of the progress made in this regard.