C. P. U. No. 189

COMMITTEE ON PUBLIC UNDERTAKINGS (1971-72)

(FIFTH LOK SABHA)

ELEVENTH REPORT

[Action taken by the Government on the Recommendations contained in the Forty-ninth Report of the Committee on Public Undertakings [Fourth Lok Sabha]

INDUSTRIAL FINANCE CORPORATION OF INDIA

(MINISTRY OF FINANCE)
(DEPARTMENT OF BANKING)

LOK SABHA SECRETARIAT
NEW DELHI

September, 1971/Bhadra, 1893 (S)
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C O R R I G E N D A

ELEVENTH REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1971-72) ON ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FORTY-NINTH REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (FOURTH LOK SABHA) ON INDUSTRIAL FINANCE CORPORATION OF INDIA.

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			recommendation add	

CONTENTS

2090 (Aii) LS—1.

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(1971-72)

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4. Shri Dahyabhai V. Patel
5. Shri Syed Ahamed
6. Dr. Kailas

*7. Dr. V. K. R. Varadaraja Rao.

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*Rsigned from the Committee on Public Undertakings with effect from 29th July, 1971.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Eleventh Report on the Action Taken by Government on the recommendations contained in the Forty-ninth Report of the Committee on Public Undertakings (Fourth Lok Sabha) on Industrial Finance Corporation of India.

2. The forty-ninth Report of the Committee on Public Undertakings was presented to the Lok Sabha on the 29th April, 1969. Government furnished their replies, indicating the action taken on the recommendations contained in the Report on the 5th March and 25th July, 1970.

3. The replies of Government to the recommendations contained in the aforesaid Report were considered and approved by the Committee on Public Undertakings (1970-71) on the 26th November, 1970. The Report however could not be presented to the 4th Lok Sabha due to its dissolution on 27-12-1970. This Report was again considered and adopted by the Committee on Public Undertakings (1971-72) on 14-9-1971 and the Chairman was authorised to finalise the Report on the basis of the decisions of the Committee.

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

(i) Report.

(ii) Recommendations that have been accepted by Government.

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

(iv) Recommendations in respect of which replies of Government have not been accepted by the Committee.

(v) Recommendations in respect of which final replies of Government are still awaited.

5. An analysis of the action taken by Government on the recommendations contained in the Eleventh Report of the Committee is given in Appendix I. It would be observed, therefrom that out

of 32 recommendations made in the Report 18 (56.3 per cent) recommendations have been accepted by Government. The Committee do not desire to pursue 12 (37.5 per cent) recommendations in view of Government's reply. Reply of Government in respect of 2 (6.2 per cent) recommendations have not been accepted by the Committee as the replies are not satisfactory.

M. B. RANA,
Chairman,
Committee on Public Undertakings.

NEW DELHI;
16*th September*, 1971.
Bhadra 25, 1893 (*S*).

CHAPTER I

REPORT

Assistance to less developed States

Recommendation (Serial No. 6)

In recommendation No. 6 of their 49th Report (4th Lok Sabha) on Assistance to less developed states, the Committee on Public Undertakings had recommended that concrete steps should be taken by Industrial Finance Corporation and the Government to attract applications for loans from entrepreneurs for establishing industries in less developed state.

In reply the Government have stated that the extent to which the I.F.C. can assist the less developed states depends on the number of eligible and viable applications emanating from such states. However, the Committee's observation will be borne in mind to what extent representation can be given within the limits of the statute to the backward regions.

In order to assist the industrial development of backward States and in view that these states may attain a more balanced development comparable to the advanced States, I.F.C. should given more and more assistance to them. The Committee would, therefore, like to reiterate their earlier recommendation made in this regard.

Assistance to big business concerns

Recommendation (Serial No. 7)

In recommendation No. 7, the Committee had stated that they feel that there should be a better balance between big, medium and small industrial houses in the matter of providing finance from Government financial institutions. The Industrial Finance Corporation should have asked the bigger groups of industries to provide more and more funds from their own resources than the smaller groups where the Corporation could be more liberal by giving them greater quantum of assistance.

In reply the Government have stated that the Corporation are conscious of the need, as well as desirability, of requiring the bigger groups of industries to provide adequate funds from their resources;

it is, however, found that the total cost in the case of highly capital intensive industries is quite substantial. In some cases, industries promoted by such groups are of high priority, and it is found from experience that these can be established only with considerable support from financial institutions, such as the I.F.C.

The Committee still feel that distribution of loans by I.F.C. should be in a more widespread manner and the small industries should be provided with more financial assistance as compared to the monopoly groups. The Committee, therefore, reiterate its earlier recommendation in this regard.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Serial No. 1)

The Committee note that the criteria of financial assistance sanctioned by the Corporation has been gradually changing in accordance with the Plan objectives for development of industry. The Committee would suggest that sufficient publicity should be given to the criteria adopted from time to time for granting loans so that the intending applicants are fully aware of what is required of them.

(Para 2.6)

Reply of Government

The criteria for the grant of financial assistance by the Corporation is being publicised in its Annual Reports. The Corporation is also bringing out, from time to time, brochures outlining the activities and procedures followed by it for the use of intending applicants. The Committee's suggestion in this regard has, however, been noted and suitable measures will be taken further to step up the publicity, if need be, through the issue of Press Notes. [Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 4)

The Committee note that there have been a large proportion of withdrawal of applications. The borrower is required to work within his own time scheduled for raising resources to finance a project. It would, therefore, be natural for him to look for an alternative source if he failed to raise funds from IFC in time. The Committee feel that some cases of withdrawal could have been due to delay in the examination of applications. The Committee would, therefore, recommend that the Corporation should take urgent steps to decide applications more expeditiously to obviate withdrawals due to delay in processing application.

(Para 2.21)

Reply of Government

During the years 1965-66, 1966-67 and 1967-68, in all 181 applications from 117 concerns were withdrawn or treated as withdrawn. The reasons therefor are summarised hereunder:—

Reasons for treating the applications withdrawn or lapsed during the period of three years ended the 30th June, 68.	Number of concerns
(i) Abandonment of the project or deferment of the scheme on the part of the applicant concern	12
(ii) Concerns not pursuing their applications or failing to submit the additional information or data called for and/or revised proposals.	11
(iii) Concerns which were unable to obtain Government approvals to either collaboration agreements or import of capital goods or revalidation of Industrial and/or Import Licences etc. or which were unable to meet the basic requirements of the Corporation in regard to the viability of the project, financing proposals, raising of share capital and adequacy of security offered, etc. .	27
(iv) Concerns making alternative financing arrangements—	
(a) concerns which decided to finance the scheme with their own internal resources	10
(b) concerns which had been simultaneously approaching other financial institutions or sources of finance and having secured assistance from these sources, withdrew the application from I.F.C.	14
(c) concerns which had received a guarantee facility from a commercial bank and which had wished to transfer it to the IFC but decided to continue the facility with the bank .	1
(d) the Corporation not interested in granting a small underwriting facility when large portion of the financial accommodation was forthcoming to the concern from other sources.	1
(e) concern to which the other institution decided to grant assistance at the inter-institutional meeting without allocation of any portion of assistance to the IFC. . . .	1
(f) concern in which after sanction of the loan by the IFC, the assistance was cancelled because the whole of the financial arrangements had not been completed . . .	1
(v) Concerns proposing to submit revised applications in the light of the changes/developments taken place or reducing the quantum of assistance applied for or changing the form of assistance etc., leading to the withdrawal of the earlier application and/or withdrawal of the assistance earlier applied for	16
(vi) Concerns found involved in suits/litigations/defaults to the Corporation or in an otherwise unsatisfactory state of affairs	3
(vii) Concerns found ineligible to have assistance from IFC . .	3
(viii) Concerns withdrawing their applications on being advised that their projects had low priority with the IFC, on account of the then prevailing paucity of resources	17
	117

It will thus be seen that the number of concerns which made alternative arrangements for financing was relatively small. In many of these cases the concerns had simultaneously (and in some cases previously) approached other financial institutions and on sanction of the facilities by the latter withdrew their application to the IFC.

However, in the light of the observations made by the Committee, further efforts to the extent feasible will be made to accelerate the processing or disposal of applications by the Corporation.

[Ministry of Finance, Department of Banking, O.M. No. 2 (31) Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 5)

The Committee note that the industry-wise pattern of financial assistance sanctioned by the Corporation has been gradually changing in accordance with the national importance of the industry, plan priorities, and priorities fixed by the Government from time to time. As a consequence, Sugar and Textile had been accounting for a substantial share of assistance from IFC in the past. Fertilizers, Chemicals, Engineering industry, Iron & Steel and Cement are now receiving the greater attention. The Committee hope that the Corporation would continue to follow the plan priorities initiated from time to time in future.

(Para 2.25)

Reply of Government

The Corporation would certainly continue to follow the Plan priorities formulated from time to time for the grant of financial assistance. In fact, the Corporation is under a statutory obligation to adopt these priorities in terms of Rule 5 of the IFC Rules, reproduced below for ready reference:—

"Integration of the Corporation's financial assistance policy with the Five Year Plan

The Corporation shall satisfy itself before granting any financial assistance that the purpose for which it is proposed to be utilised is one which has the approval of the Central Government, particularly with reference to the objectives of the Third Five Year Plan and subsequent Plans. Explanation— For the purposes of this rule, any industrial concern for which a licence has been issued under the Industries (Development and Regulation) Act, 1951 (65 of 1951), shall be deemed to be established for a purpose which has the approval of the Central Government."

[Ministry of Finance, Department of Banking, O.M. No. 2 (31) Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 8)

The Committee regret the failure of the Corporation in utilisation of foreign credit which the country requires so much. If proper assessments of the requirements had been made, the de-obligation or reduction of these loans could have been avoided and the concerns which were obliged to withdraw their applications or to make alternative arrangements could have also received the necessary foreign exchange from the Corporation. The Committee trust that the Corporation will exercise the utmost care in utilisation of foreign credits in future and take steps to reduce the chances of withdrawal of applications from concerns. The Committee recommend that the Government should also consider making available to IFC foreign credit from the World Bank and the credit coming from East European countries.

(Para 2.44)

Reply of Government

There were 39 sanctions involving an aggregate sum of Rs. 1784.05 lacs referred to in para 2.38 of the Report of the Committee which were cancelled or withdrawn due to various reasons, *e.g.* ineligibility of the industry, project abandoned, alternative arrangements made, failure to obtain import licence, etc. These cancellations/withdrawals cover the period commencing from September, 1960, since when the Corporation started granting sub-loans in foreign currencies. For a proper appreciation of the position, the said period may be divided into two parts—one from September, 1960 to June, 1966 when the rupee was devalued and the second, from June, 1966 to June, 1968, that is, the post devaluation period. During the first part, the Corporation's sanctions were much higher with a lower figure for cancellations/withdrawals when compared with the second part. The main reasons for this phenomenon could be traced to the increased rupee cost of projects in the wake of devaluation which caused some of the projects to be abandoned and the recessionary trends that beset the country's economy thereafter.

The figure of gross sanctions and cancellations for the two parts of the above period are given below:

	Gross sanctions Rs.	Cancellations Rs.
(i) *Pre-devaluation period*		
Dollar sub-loans	27,54,92,162	3,43,46,160
D. M. sub-loans. . .	15,24,20,367	1,87,13,612
F.F. sub-loans . .	5,24,52,800	33,948
(6 years approx.) . . .	48,03,65,329	5,30,93,720
(ii) *Post-devaluation period* :		
Dollar sub-loans .	4,74,94,240	4,88,36,812
D.M. sub-loans . .	2,90,37,313	3,72,67,266
F.F. sub-loans . . .	54,11,007	3,92,07,217
(2 years) .	8,19,42,560	12,53,11,295
	56,23,07,889	17,84,05,015

The Corporation is fully alive to the need for the fullest utilisation of the foreign lines of credit available with it. With this end in view, applications for sub-loans in foreign currencies are processed on a priority basis and with despatch. It has, however, to be noted that not only those industrial concerns would normally approach the Corporation for sub-loans in foreign currencies to whom Capital Goods Clearances are granted by the Ministry of Industrial Development, Internal Trade and Company Affairs, against lines of credit available with the Corporation. While Government is anxious to minimise delays in allocating funds out of the lines of credit available with financial institutions some time is inevitably taken in examining applications from the point of view of indigenous availability of the goods. The Corporation has also been giving suitable publicity to the availability of foreign lines of credit with it and has recently made fresh efforts in this direction by contracting its existing borrowers and others in order to interest them in availing themselves of the facilities, which the Corporation can extend in this behalf.

The foreign currency which remained unutilised and was allowed to be deobligated did not result in any loss to the country because the credit has been utilised by the Government for other projects.

4. On the question of Government considering making available to the IFC foreign credits from the world Bank and the credits coming from East European countries, it may be stated that the World Bank has recently evinced some interest in the activities of the IDBI, but it would be difficult to say whether this interest would lead to any financial assistance. On the whole, one has to rate the possibility of the World Bank assistance to the IFC rather low at present. Government has also at present no intention of approaching the World Bank for such assistance to the IFC.

5. As regards lines of credits from East European countries being made available to the Corporation, it may be stated that the Corporation has not so far received any requests from industrial concerns for assistance for import of plant and machinery from these countries. Direct suppliers' credits from these countries on deferred payment terms spread over 8 to 11 years, at a rate of interest lower than that charged by the Corporation are available to the industrial concerns in the private sector. There may not, therefore, be any great advantage in making available to the IFC credits from East European countries for re-lending to the industrial concerns at its normal rate of interest.

*[Ministry of Finance, (Department of Banking) O.M. No. 2(31) Corp/69 dated the 5th March, 1970].

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*At the time off actual verification, the Ministry of Finance (Department of Banking) has observed as follows:—

"The Recommendation, has been included by the Committee in Part II of the Report relating to "Recommendations that have been accepted by Government." A perusal of the Government's reply as given in paras 2 to 5, however, suggests that this recommendation has not been agreed to by the Government as would appear from para 3 and the concluding portions of paras 4 and 5, reproduced hereunder. The Committee might, therefore, consider if this Recommendation be included in Chapter III relating to "Recommendations which the Committee do not desire to pursue in view of Government's reply":—

Para 3. "The foreign currency which remained unutilised and was allowed to be deobligated did not result in any loss to the country beacuse the credit has been utilised by the Government for other projects."

[*contd. on next page*]

The Committee think that when once the loanee company has paid back the foreign currency loan and has discharged its interest liability, it should not made liable to pay any difference of exchange owing to fluctuation of devaluation during the period of the currency of a loan as a whole. The Committee recommend that this question should be examined by the Government to set right this anomaly at an early date.

f (Para 2,47)

Reply of Government

The Committee in dealing with this matter has expressed the view that when once the loanee company has paid back the foreign currency loan and has discharged its interest liability, it should not be made liable to pay any difference of exchange owing to fluctuation or devaluation during the period of the currency of a loan as a whole. The Committee, has, therefore, recommended that this question should be examined by the Government to set right this anomaly at an early date.

2. Prior to 1957, the Central Government was responsible for the loss or gain arising out of fluctuations in foreign exchange in respect of foreign currency loans granted by the Industrial Finance Corporation to the industrial concerns. Section 27(4) of the Act then read as follows:—

"Any loss or profit accruing to the Corporation in connection with any borrowing of foreign currency under Sub-Section (1) or its repayment on account of any fiuctuations in the rates of exchange shall be reimbursed by or paid to, the Central Government as the case may be."

[*Contd. from pre page*]

Para 4. "On the whole, one has to rate the possibility of the World Bank assistance to the IFC rather low at present. Government has also at present no intention of approaching the World Bank for such assistance to the IFC."

Para 5. "There may noNt, therefore, be any great advantage in making available to the IFC credits from East European Countries for relending to the industrial concerns at its normal rate of interest."

[*Vide* Ministry of Finance (Department of Banking) O.M. No. F. 2(81)-Corp/70 dated 18.12.1970].

3. In 1957, a decision was taken that the risk of fluctuations in the rates of exchange which had hitherto been reimbursable by, or paid to, the Central Government, need no longer be taken by Government or paid to it, but should be the responsibility of the industrial concerns. In view of the devaluation of the rupee in June, 1966, what was then thought to be a minor question of marginal adjustment in fluctuations in foreign exchange which could legitimately be passed on to the industrial concern, on whose behalf foreign exchange lines of credit are arranged through the Industrial Finance Corporation, has assumed an unexpectedly large dimension in the post-devaluation period. To what extent the Central Government and/or the financial corporation should bear the loss arising from the fluctuations in the rate of exchange and/or devaluation, during the entire period of the currency of the foreign exchange loan between the Industrial Finance Corporation and the foreign lending institution, after the borrowing concern had repaid completely the sub-loan taken by it from the Corporation, is being examined in all its aspects.

[Ministry of Finance, (Department of Banking) O.M. No. 2 (31) -Corp/69 dated the 5th March, 1970].

Recommendation (Serial Nos. 10 & 11)

It is conceivable that the loanee company may find itself in a position to pay back to the Industrial Finance Corporation in rupees the full amount of the foreign exchange loan taken, well before the expiry of the repayment period. In such cases, the Industrial Finance Corporation should accept such earlier repayments just as is being done in the case of rupee loans. If necessary, Industrial Finance Corporation could obtain a bank or other guarantee from the loanee company to cover the liability of any loss to the Industrial Finance Corporation that may occur due to any fluctuation or devaluation in the foreign exchange rate of the rupee, relevant to the foreign exchange loans, within the original repayment period. By doing this, the Industrial Finance Corporation would be in a position to make use of the rupee amount that it would receive from the loanee company earlier in settlement of the foreign exchange loans. (Para 2.48).

In granting loans, the Industrial Finance Corporation should be concerned essentially with two matters: in the first place, to see that the loans are correctly used and for the purposes for which those have been given in the second place to see the nothing is done which might jeopardise the safety of the loans, The Committee need hardly stress that once the loan has been repaid, there should be no reason for any interference by Industrial Finance Corporation in the working of the loanee company.

(Para 2.49).

Reply of Government

In reply to Recommendation No. 9 at para 2.47 it has already been submitted to the Committee that the legal position of the general question is being examined by the Government. The feasibility of the Committee's suggestion in this recommendation that the loanee company might be permitted to make premature repayment of the sub-loans within the original repayment period, if they wished to make it, provided they furnished a bank (or other) guarantee to cover any loss that might occur to the Corporation due to any fluctuation or devaluation in the foreign exchange of the rate of rupee, relevant to the foreign exchange loan, within the original repayment period, is also being examined simultaneously along with the examination of the general question.

[Ministry of Finance, (Department of Banking) O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Final Reply of Government in Respect of (Serial Nos. 9, 10 & 11)

Government accept the general recommendations of the Committee, in principle. This will need an amendment of Section 27(4) of the I.F.C. Act, 1948.

The question as to whether the I.F.C. or the Central Government should bear the exchange risks arising out fluctuations and/or devaluation after an industrial concern has discharged completely its liability to the I.F.C. or whether the two should share the risks and, if so, on what principles, is somewhat complicated. This has to be examined in great detail before considering in what way Section 27(4) of the I.F.C. Act is to be amended.

[Ministry of Finance, (Department of Banking) O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 12)

The Committee are not satisfied with the Corporation's arguments for giving less assistance to Industrial cooperatives during the last 3 years. The Committee are of the opinion that the quantum of assistance given to industrial cooperatives before 1965 should be maintained.

(Para. 2.54).

Reply of Government

Up to the 30th June, 1965, the Corporation had sanctioned financial assistance of the order of Rs. 40.45 crores for the cooperative sector; this constituted about 18 per cent of the total assistance of Rs. 226.96 crores sanctioned by the Corporation up to the said date. However, sanctions in each year have not and cannot be on an uniform scale since these depend on the availability of viable proposals and other factors. Particulars of the yearly sanctions since the year 1963 to the industrial cooperatives have been as under:—

(Rs. in crores)

Year ended 30th June	Total financial assistance sanctioned during the year	Assistance sanctioned to industrial coopera- ti ves	Percentage of col. (3) to col. (2)
(1)	(2)	(3)	(4)
1963 . .	40·14	6·14	15·3
1964 . . .	38·27	1·11	3·0
1965 . .	33·44	2·63	8·0
1966 . .	43·12	2·43	5·6
1967	22·55	1·60	7·0
1968 . .	26·73	13·20	49·0
1969	30·66	11·46	38·5

2. During the years ended 30th June, 1966 and 1967, the quantum of assistance sanctioned to the industrial cooperatives was, no doubt, on the low side but was not too low when compared to the figures for the two preceding years. During th years 1965-66 and 1966-67, the Corporation was following a system of *inter se* priorities in which sugar and textiles did not enjoy a high priority for the reason that the Corporation had already sanctioned up to the 30th June, 1965 financial assistance of the order of Rs. 64.69 crores for these two industries which constituted about one-third of the total assistance of Rs. 226.96 crores sanctioned by the Corporation for all the industries up to the said date. Further, during the year 1966-67, certain policy issues had been raised by the Reserve Bank in regard to the rate of interest at which IFC could lend to cooperatives against

Government guarantees. Because of these considerations, the Corporation could not take up the processing of applications from cooperatives during the said year. Subsequently, in pursuance of a decision taken by the Central Government in August, 1967, IFC was advised to continue granting financial assistance to cooperatives on its usual terms and conditions. After this decision was made known, the Corporation resumed during the year 1967-68 the processing of applications from industrial cooperatives, and it sanctioned financial assistance of the order of Rs. 13.20 crores for sugar and textile cooperatives, constituting about one-half of the total assistance of Rs. 26.73 crores sanctioned by the Corporation during that year. More or less, the same policy continued during the year 1968-69 and assistance of the order of Rs. 11.46 crores has gone to the industrial cooperatives out of the total assistance of Rs. 30.66 crores sanctioned by the Corporation during the year. Subject to the availability of suitable applications, the Corporation will extend financial assistance to industrial cooperatives to as large an extent as possible.

[Ministry of Finance, (Department of Banking) O.M. No. 2(31) Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 13)

The Committee are surprised to learn that the problem of realising money from the cooperatives was not brought to the notice of the Government by the Corporation. The Committee feel that the State Government's approach should be helpful in facilitating recovery of the funds from the cooperatives. The Committee hope that Government will look into this matter and strengthen the hands of IFC so that the Corporation could get back the funds from the cooperatives. The Committee also recommend that the State Government's guarantee should not be confined to residuary guarantee but it should be an unconditional guarantee, and if cooperatives default in repaying instalments for more than a year, the State Government's guarantee should be invoked and money realised from such State Government.

Reply of Government

In accordance with the decision of Government taken in 1954, the IFC has been granting loans to the cooperative sugar factories by obtaining residuary guarantee on a 50:50 basis from the Central Government and the State Government concerned. In the case of textile cooperatives promoted by weavers, the IFC has been granting loans after obtaining 100 per cent primary guarantees from the

State Governments concerned. From 1967, onwards, in the case of textile cooperative spinning mills promoted by growers, there has been a decision of Government in the Department of Cooperation that the IFC should assist certain licensed factories after obtaining a residuary guarantee on a 50:50 basis from the Central Government and the State Government concerned.

2. As and when a default occurs in the case of a cooperative society, it is the normal practice of the Corporation to inform the concerned Ministry in the Central Government, namely, the Ministry of Food, Agriculture, Community Development and Cooperation (Department of Cooperation) as well as the State Government concerned. If the default persists the Ministry of Finance is also requested to take up the matter with the concerned Ministry.

3. It has, however, to be explained that as far as the cooperative sugar factories are concerned, out of the 62 societies assisted by the Corporation, persistent default have taken place only in two societies. The Department of Cooperation, in consultation with the concerned State Government, are already considering the ways and means of clearing the IFC's outstanding dues. In the case of textile cooperatives promoted by weavers, the Corporation is already getting a 100 per cent primary guarantee of the concerned State Government. In the case of the textile cooperatives promoted by growers, the Corporation has already reviewed the position of the present system of insisting on residuary guarantee on 50:50 basis from the State and the Central Government, after it had granted assistance to a few societies. Since its experience with these societies and others under examination has been that no normal standards of commercial viability the Corporation would not be able to assist them it is proposing to take up the matter with the Department of Cooperation to see if these societies be assisted on he basis of 100 per cent primary guarantees of the State Governments, as in the case of weavers cooperative societies.

4. The Committee's recommendation that in the case of all industrial cooperatives the State Government's guarantee should not be confined to residuary guarantee, but it should be an unconditional guarantee, and if the cooperatives default in repaying instalments for more than a year, the State Government's guarantee should be invoked and money realised from such State Government, has been noted, and has been taken up with the Department of Cooperation.

[Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 19)

The Committee regret to note that a large number of defaulting concerns appear on the list of the Corporation and their number is on the increase during the last four years. In some of the cases, the Corporation took a long time to initiate action for the recovery of its outstanding dues, with the consequence that 10 concerns have either closed down or went into liquidation. The Committee are of the view that the IFC should not hesitate to initiate prompt and timely action to realise the outstanding dues from concerns showing signs of running into defaults.

The Committee recommend that before advancing loan, I.F.C. should carefully examine the stability of the borrowing concerns—review their activity with care and evolve a method as to how best to effect the quick realisation of their money from defaulting concerns in consultation with the Government, if necessary.

(Para 3.12).

Reply of Government

It is true that there has been some increase in the number of defaults during the last four years, in line with the experience of other financial and banking institutions. However, except in a very few cases, where the defaults might be attributed to certain special circumstances *e.g.* inadequate planning, inefficient management, death of the chief promoter etc., the general reason for the increase in the number of amount of defaults has been the recession in the economy resulting in marked decline in the profitability of some of the concerns, and factors such as increase in the cost, and shortage of raw materials, under-utilisation of capacity, shrinkage in demand, labour troubles, etc. The position of each account is also reviewed by the Board from time to time. The detailed procedure followed by the Corporation in dealing with the defaulting concerns has already been fully explained to the Committee. The difficulties in the way of the Corporation in taking drastic legal action may be summed up as follows:—

(i) if action taken by the Corporation results in the closure of the factory, a number of workers are thrown out of employment, giving rise to undesirable social and political consequences;

(ii) legal proceedings are both expensive and time consuming;

(iii) the liquidation of the industrial concerns is generally looked upon with disfavour by the State Governments and the Courts;

(iv) without the cooperation of the State Governments and labour, it is not feasible to put up the mortgaged assets to sale, more specially when it is likely to involve transfer of assets from the State to another. Besides, reasonable offers for purchase of closed factories are not easy to get.

2. The Committee has stated that the concerns closed down or went into liquidation because the Corporation did not initiate timely action for the recovery of its outstanding dues. It may be explained that the concerns had to go into liquidation or to close their factories because of the bad management or other factories which had no bearing on the action (timely or otherwise) taken by the Corporation for the recovery of its ques. In fact, in a few cases some of the assisted concerns of the Corporation could not meet the claims of the unsecured creditors and depositors, and, as a result, the unsecured creditors moved applications in the High Court for the winding up of the company and when the Corporation found from the progress of the winding up proceedings in the High Court that the company was likely to be wound up, the Corporation, with a view to protecting its interests, moved an application under the provisions of the IFC Act for the appointment of Receivers for taking charge of the mortgaged assets so that in the event of the company being finally wound up, the official Liquidator should not be able to lay hands on the fixed assets of the company mortgaged to the Corporation.

3. The Committee's suggestion that before advancing the loans, the I.F.C. should carefully examine the stability of the borrowing concerns—review their activities with care—and to evolve a method for early realisation of dues is already being followed by the Corporation, and improvements in its procedure will be made from time to time in the light of experience. This is naturally possible in the case of the existing concerns, but in the case of new concerns, the emphasis has necessarily to be on the technical and financial viability of the projects and the experience, qualifications and standing of the promoters.

[Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 20)

The Committee are unable to agree with the view of the Corporation that their financial position be improved by raising authorised capital to an amount of double the existing level coupled with corresponding increase of their borrowing limit. The Committee are convinced that the existing borrowing limits are adequate and authorised capital as it is, has room for enhancement up to Rs. 10 crores. The Committee recommend that the Corporation should generate more financial resources on their own by adopting measures like:

(i) selling or re-discounting of short term obligations in open market through other financing institutions;

(ii) issue of medium term bonds;

(iii) fully utilising the drawing facilities of the R.B.I. etc. and identical methods.

The Committee desire that the Government may also look into its financial position at regular intervals and advise them.

(Para 4.12).

Reply of Government

The Committee's observations have been noted and the IFC agrees that there is no immediate need to increased its authorised capital or its borrowing limits by an amendment of the Act.

2. As regards replenshiment of resources by selling or rediscounting short-term obligations in the open market through the other financial institutions, it may be mentioned that the U.T.I. has suggested recently that the financial institutions should give assistance by way of debenture loans which may be taken over by the UTI when it so desires. The mechanics of the procedure to be adopted are under consideration of the IDBI.

3. On the question of issue of medium term bonds, it may be stated that the loan sanctioned by the Corporation are generally for a period 12—15 years. If the maturity period of the bonds issued by the Corporation is for a shorter period, the Corporation would find it necessary to keep an unduly large portion of its resources in liquid form or in short maturities to meet its recurring commitments. Further the bonds of the Corporation are guaranteed as to the repayment of principal and payment of interest at a rate of interest to be fixed by the Central Government. The rate of interest should not, therefore, be out of the alignment with the rates at which the Central

Government, the State Governments and institutions which issue Government guaranteed securities borrow funds from the market. The Corporation has been able to raise funds, during the recent years, in the form of 12 years bonds at the rate of 5¾% with an issue price of 98% giving a yield to redemption slightly less than 6%. Having regard to the rates of interest paid by commercial banks on term deposits, it would not have been possible for the Corporation to have placed on the market an issue of shorter maturity carrying a rate of interest which would attract the medium term investor, as well as the long-term investor, acceptable to the Central Government. On the whole, therefore, it would seem desirable to continue the existing policy of issuing bonds of approximately 12 years maturity.

4. On the question of utilising the drawing facilities of the RBI, under the IDBI statute, the IFC can avail of the refinancing facilities whenever needed. The Committee's observations that the Government may also look into the financial position of the IFC at regular intervals and advise them, have been noted.

[Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 22)

The Committee feel that in view of the increase in the number and amount of defaults, the Corporation's doubtful debts would also increase. The Committee hope that the Corporation would tighten its machinery to realise the money from the assisted concerns and apply necessary safeguards for the future.

(Para 4.18).

Reply of Government

The Government have noted the observations of the Committee. Every effort will be made by the Corporation to secure that there is no undue increase in its doubtful debts by effective processing of the loan applications as well as by taking proper steps for the recovery of overdue amounts.

2. It will, however, be appreciated that it may not be possible to avoid an increase in defaults, and, therefore, in doubtful debts, if these are caused by circumstances external to the industrial concerns, *viz.*, recessionary trends in the economy, the failure of monsoons and other similar factors. It may, however, be hoped that with the revival of economy that has been of late noticeable, there would be some

improvement in the situation and the number of defaults by the assisted concerns will tend to be reduced.

[Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 23)

The Committee are glad to note that the Corporation has made steady progress in its profits during the last few years, and they hope the progress will be maintained in future years.

(Para 4.20).

Reply of Government

The Government shares the hope of the Committee, and expects that barring unforeseen circumstances, the profitability of the Corporation will tend to improve further in future years.

[Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 24)

The Committee regret to note that the Corporation did not implement the recommendation of the Estimates Committee (1962-63) in arranging the meeting of the Board of Directors at places outside Delhi. The Committee trust that the Corporation would in future plan the meetings of the Board as recommended by the Estimates Committee.

(Para 5.5).

Reply of Government

The Committee's suggestion to hold the meetings of the Board at places other than New Delhi, Bombay, Calcutta and Madras has been carefully noted; in fact during the year 1969, meetings of the Board were held at Bangalore and Hyderabad.

[Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 25)

The Committee, while agreeing to the proposal that the Board of Directors of the Corporation should be authorised to establish offices, agencies and Branches wherever the Board deems fit, suggest that the Corporation should establish more such offices and agencies in industrially less developed regions.

(Para 5.8)

Reply of Government

The recommendation of the Committee is accepted in principle. The implementation will, however, depend upon the needs of the business of the Corporation.

[Ministry of Finance, Department of Banking, O.M. No. F.2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 26)

The Committee find that the Central Committee is not doing any useful work and recommend that it should be dissolved.

(Para 5.15)

Reply of Government

The Committee's recommendation has been noted. Action will be taken to amend the Act at the next available opportunity.

[Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 27)

The Committee feel that the 3 principal branch offices should be invested with more delegated authority in respect of sanctioning of loans within certain limits and should be made responsible for realisation of outstanding amounts from defaulting concerns within their territorial jurisdiction.

(Para 5.19)

Reply of Government

At present the Branch Offices are empowered to deal with cases of realisation of outstanding amounts from the assisted concerns, including those in default, except where the legal action has become necessary or there are other circumstances requiring consideration at the higher level. As regards the actual sanction of assistance, it has to be appreciated that unlike the commercial banks, the Corporation provides long-term credits for relatively large amounts. This involves taking a long-term view of each project and, to that end, a detailed appraisal of applications from the technical and economic aspects is necessary. In view of this it has been found necessary so far to centralise the work of sanctions at the Head Office.

2. In this connection it may be stated that the IDBI which has so far been operating only from its Head Office at Bombay, has opened

a Regional Office at Calcutta and proposes to open Regional Offices at Delhi, Bombay and Madras and delegate some powers of sanctioning assistance at these centres to de-centralise the work as far as possible. On the basis of experience gained by the IDBI, the IFC also may consider moving on similar lines in due course. In the meanwhile, the Corporation would continue to review its procedures and take steps to expand its organisation to the extent necessary in order to eliminate delays as far as possible.

[Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 32)

The Committee are glad that the Corporation has been bringing out good informative annual reports with detailed charts and tables, and the report is published soon after the end of each year.

(Para 6.18)

Reply of Government

No comments.

[Ministry of Finance, Department of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

CHAPTER III

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

Recommendation (Serial No. 2)

The Committee find that besides the fresh applications received by the Corporation, a large number of applications were pending disposal with the Corporation during these years. It would thus appear that there was no shortage of applications. Regarding the limited financial resources of the Corporation, the Committee are convinced that except on few occasions, the Corporation did not suffer from shortage of funds. The Committee are unhappy to note that despite the fact that no paucity of funds existed, the Corporation could not consider adequate number of applications. The Committee trust that the Corporation would process more applications and thereby sanction more assistance in future years by quickening the pace of evaluation of applications and by avoiding adherence to outmoded principles of financial assistance. The Committee wish to emphasise the well known saying that assistance delayed is assistance denied.

(Para 2.14)

Reply of Government

The Corporation has to operate within the constraints of statutory limitations imposed upon it by the Industrial Finance Corporation Act and the directives regarding security etc., issued to it. Within these constraints and the constraints of the general law of the land in the matter of provision of mortgage finance, it has been the endeavour of the Corporation to follow policies and practices generally followed by Development Banks, not only in India, but in other countries. In the light of its experience, however, the Corporation has been reviewing its procedures from time to time, so as to minimise the time taken for the examination of applications for financial assistance. The Corporation has also been taking steps to streamline its procedures and has standardised and got printed many of its legal forms with a view to securing expeditious disbursement of the facilities sanctioned.

2. Regarding the pendancy of applications, the Table given below gives the number of applications pending at the close of each of the last three years:—

Years	Applications pending at the beginning of the year	Applications received during the year	Total	Applications withdrawn during the year	Applications disposed of during the year	Applications pending at the close of the year
1	2	3	4	5	6	7
1965-66	100	215	315	39	142	134
1966-67 .	134	128	262	80	81	101
1967-68 .	101	107	208	62	65	81

N.B. The above figures denote the numbers of different types of facilities (rupee loans, foreign currency loans, underwritings, guarantees, etc.) applied for by various industrial concerns and where a concern has applied for more than one type of facility, it has been accounted for more than once in the above figures.

3. It may be appreciated, however, that the mere fact that the Corporation has received a certain number of applications or that a certain number of applications were pending disposal at the end of a particular year does not mean that these applications were complete in all respects and delay in their disposal was because of inaction on the part of the Corporation. The applications were pending because the applicants themselves had to comply with certain basic requirements before the applicants could be processed further.

4. As regards the question of shortage of funds, this has to be examined in the light of the commitments already made by the Corporation and the demands on it during any given period. During evidence before the Committee, it was stated that the Corporation was suffering from paucity of funds mainly during the year 1966-67. At the beginning of that year, the outstanding commitments of the Corporation in respect of rupee loans and underwritings were Rs. 52.32 crores and it had pending applications involving a total sum of Rs. 83.37 crores (inclusive of 7 applications from 4 concerns for an aggregate amount of Rs. 32.31 crores to be financed jointly with other institutions). Further, 128 applications involving a sum of Rs. 179.51 crores were received during the year. These applications were inclusive of 32 applications for an aggregate amount of Rs. 141.12

crores to be financed jointly with other financial institutions). As against the above, the available resources of the Corporation were of the order of Rs. 22.73 crores only made up as follows:—

		Rs. in crores
(i)	Allocation by Government	15·50
(ii)	Corporation's own funds by way of repayments .	7·23
	TOTAL .	22·73

The Corporation had also issued Bond of Rs. 6 crores in September, 1966 and had also certain foreign line of credit out of which foreign currency loan of the order of Rs. 6.63 crores were disbursed during the year 1966-67. The Corporation has, therefore, necessarily to exercise a certain amount of restraint in assuming additional commitments and work according to a scheme of priorities. The Committee have already been informed that in view of the slow off-take of funds, the Corporation was not suffering from any shortage after the year ending 30.6.1967, and all viable and acceptable schemes from eligible applicants were being duly considered.

[Ministry of Finance, Department of Banking O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 3)

The Committee note that the incidence of rejection of applications has gone down during these years. Among the applications rejected, there were some applications for assistance from less developed States. The Corporation should have tried to encourage the applications coming from the less developed areas. The Committee are not satisfied that the Corporation have done all it could to encourage the establishment of new industries in those regions by giving them more consideration or looking at them more sympathetically.

(Para 2.16)

Reply of Government

In paragraph 2.15 of the Report, the Committee has stated that during the last 3 years the IFC had rejected 25 applications out of 309 applications considered by them. Among the referred applications there were 7 applications for assistance from less developed States.

2. In the written reply furnished by the Corporation to the Committee to their Question No. 9, a statement was attached by the Corporation showing the list of cases which were rejected by the Corporation during the last 10 years—1958-59 to 1967-68—together with the reasons for their rejection. This statement accounted for 40 industrial concerns which had filed 51 applications for financial assistance (each type of assistance being counted as one appliaction by the IFC) out of this, during the last 3 years, namely 1965-66, 1966-67 and 1967-68, 15 industrial concerns which had filed 23 applications for financial assistance (not 25 as inadvertantly stated by the Committee in paragraph 2.15 were rejected by the Corporation. Out of these 24 applications, if the applications from the industrial concerns from Gujarat, Maharashtra, West Bengal and Tamil Nadu are eliminated, the rest of the applications numbering 7 received from the following 5 industrial concerns. (Each type of assistance is counted as one appliaction by the IFC as already stated above.)

Sl. No.	Name of the cancern	Year of rejection	Assistance applied for (Rs. in lakhs)
1.	Brake Linings Ltd., Punjab	1965-66	2·50 (Loan) 2·00 (Underwriting)
2.	Assam Sillimanite Ltd. Bihar . .	„	45·00 (Loan)
3.	Kerala Rubber & Re-claims Ltd., Kerala	„	6·00 (Underwriting)
4.	Telefunken India Ltd., Haryana .	1966-67	30·00 (Loan) 10·00 (Underwriting)
5.	Indian Metallurgical Industries Ltd., Haryana .	1967-68	10·00 (Loan)

If the classification adopted by the working Group set up by the Planning Commission on 'Identification of Backward States' were to be adopted, the number of rejected applications from less developed States, would be only one, *viz.* Assam Sillimanite Ltd., Bihar, out of the 24 applications that were rejected by the Corporation during the last three years.

3. Out of the seven applications in the Table, three applications from two concerns, *viz.*, Kerala Rubber & Reclaims Ltd., and Telefunken India Ltd., were reconsidered in the year 1968-69 after the deficiencies pointed out therein had been removed by the applicant concerns, and the same were sanctioned financial assistance by the Corporation. The reasons for rejection of the remaining four applications from three concerns were as follows:—

(1) *Brake Linings Ltd. Punjab* (1965-66).—The IFC advised the Indian promoters as well as the foreign collaborations

to increase their contribution towards the equity issue in their respective approved proportion of capital, but they refused to do so. This balanced capital structure was necessary for the efficient financing scheme of the company. In addition, the Company's financing proposals as also the profitability estimates were not found acceptable, and as such, the Board could not agree to the Company's request for financial assistance.

(2) *Assam Sillimanite Ltd., Bihar* (1965-66).—(Promoters—United Provinces Commercial Corporation, Calcutta, Partners—*S/Shri S. M. Whai and P. M. Whi*).—The Board could not see its way to sanctioning the loan applied for on account of various unsatisfactory features, which were mainly, that the implementation of the scheme had not progressed in a well planned manner, the economics of the scheme were not found to be satisfactory and the management did not inspire confidence. The company had difficulties with their foreign investors.

(3) *Indian Matallurgical Industries Ltd., Haryana.* (1967-68). (*Chief Promoters—Globe Motors Ltd.*)—The project was not considered viable. The Globe Motors Ltd., who were the Chief Promoters of the Company belong to a group of companies (Globe Finance Ltd.) whose conduct of operations did not inspire confidence amongst the public. It will thus be seen that a second view was taken where ever possible provided the deficiencies of the concerns could be reminded.

4. In this connection, it may also be mentioned that the Corporation has since decided, in principle, to grant certain special incentives to encourage the setting up of industrial projects in industrially less developed areas. The salient features of the proposals consist of a reduction in the effective rate of interest (Normal effective rate is 8 per cent), lower margin of security (the Corporation normally aims at 50 per cent), extension of the initial moratorium period for repayment of loans (normal period three years), longer amortisation period for loans (normal period being fifteen years), greater contribution by the Corporation to the project cost inclusive of participation in the share capital by way of underwriting facilities and reduction in the charges for processing examination of applications for assistance and relief in legal charges and recovery of incidental expenses. The scheme of concessions will be available to small and

medium scale industries in selected backward areas, the election of the areas being settled by the Planning Commission, in consultation with the financial institutions and the State Governments.

[Ministry of Finance, Department of Banking O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 14)

The Committee feel that evolving a common loan application form for seeking various details and also to standardise the legal procedure required to be followed in this behalf is a desirable step. Generally financial requirements of an industrial unit are met by a number of lending institutions. If all such institutions process the loan applications and draft legal documents individually, the result will be delay in assistance and inconvenience to the borrowing concern. The Committee are happy to learn that the IDBI has already taken up this matter and hope that a common loan applications form and standard legal form will be evolved in the near future. The Committee also suggest that some arrangement may be arrived at under which the result of investigations by one Government Institution of a concern are made available to other Government financial institutions, and the duplication of the said work is avoided as far as possible.

(Para 2.60).

Reply of Government

Under the present arrangements, when an applicant submits and application to any one of the all-India financing institutions, it furnishes copies of the same to the others also and separate applications are not asked for. This flexible approach has been found very convenient and as such, the IDBI are not proceeding with idea of evolving common application form for the present. Attempts are also being made continuously to reduce the delays through informal discussions and utilisation of common channels and procedures where feasible.

2. As regards the supply of the results of investigations by one institution to another in joint financing cases, there is already a four amount of informal exchange, and matters are being progressively simplified after the establishment of the IDBI in 1964, as a result of the discussions at interinstitutional meetings.

[Ministry of Finance, Department of Banking O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 15)

The Committee are unhappy to note that the Corporation had taken up shares/debentures of a very high amount in pursuance of the underwriting obligation. This has resulted in blocking of capital which could have been utilised in a better way. The Committee desire that the Corporation should gear up its investment Department so that it might study the investment market carefully in future and ensure that underwriting is done in respect of sound concerns, so that the incidence of devolution is not high.

(Para 2.65).

Reply of Government

The Corporation's underwriting operations are not in the nature of investment operations (in fact, under Section 20 of the IFC Act, the Corporation is authorised to invest its funds only in the securities of the Central and State Governments, and in the initial capital of the Unit Trust), but are in the nature of a catalytic operation, intended to give support to concerns which though potentially viable would not in the ordinary course, be in a position to raise sufficient funds from the market. Therefore, the more the Corporation ventures out to assist new or not-so-well-established projects, the greater will be the amount of devolution on the Corporation. Moreover, the demand on the Corporation for underwriting is normally large, when the entrepreneurs do not expect sufficient response from the market. The incidence of revolution of shares/debentures on the Corporation in pursuance of the underwriting obligations has thus been high not because the applications were not critically examined, but because of the continued sluggisness of the capital market, and the long gestation period taken by the newly floated concerns in reaching the dividend paying stage.

2. Of late, there has been some improvement in the capital market leading to a demand for shares of some selected industries like chemicals and fertilisers, and it has been possible for the Corporation to sell shares and debentures to the extent of Rs. 1.59 crores during the year 1967-68 and Rs. 0.73 crore during the year 1968-69. As a result of these operations, the Corporation made a net profit of Rs. 4.41 lakhs during the year 1967-68 and Rs. 24.73 lakhs during the year 1968-69.

[Ministry of Finance, Department of Banking O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation No. 16

The Committee found that there is truth in the general complaint that the time taken in processing the applications and disbursement of loan by I.F.C. is unduly long. Much of the delay is contributed the rigid and unimaginative observance of the rules in processing loan application by th Corporation. Other lending institutions process such application in a more expeditious manner, taking a broad view in assessing the fulfilment of preliminary conditions. The Committee recommend that the Corporation should adopt a practical approach to this problem and follow the pattern set by similar lending institutions in India and abroad for processing the applications expeditiously with a view to curtail the time factor.

(Para 2.68).

Reply of Government

The Corporation, being a public undertaking, with accountability to Parliament, has to work within the framework of the IFC Act and the rules framed thereunder. It has also to observe the directive issued to it under section 6(3) of the IFC Act, which requires the IFC to obtain the prior approval of the IDBI and Government in certain cases *e.g.* when the loan to a single party or group exceeds Rs. 1 crore or for deferred payment guarantees. In so far as the other financial institutions are concerned, they have no such restrictions in the shape of observance of directives issued to them as the ones obtaining in the case of I.F.C.

2. Increasing number of cases require joint financing by the IFC, IDBI, ICICI and the LIC. In these cases the time taken by the Corporation both in sanctioning and disbursing assistance is more or less the same as by the other long-term financial institutions. The practices and policies followed by other financial institutions are more or less similar to those followed by the IFC.

3. Nevertheless, within the framework of the conditions in which it has to operate, the Corporation has been making every endeavour to reduce the time-lag between the receipt of an application and its sanction and also between sanction and disbursement. The Corporation has taken several steps to reduce the time-lag, including the strengthening of its Technical, Financial and Legal Departments at its Head Office and Branches as also simplification of its procedures and standardisation of its various forms, a good number of which have also printed. It is pertinent to mention that the total cumulative disbursements of rupee loans as on the 23rd June,

1969 amounted to Rs. 181.25 crores against the effective sanctions of Rs. 206.48 crores, *i.e.* about 88 per cent of the net sanctions which should be regarded as satisfactory.

[Ministry of Finance, Department of Banking O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 17)

The Committee feel that large amounts over-due from concerns in which the Directors of the Corporation are interested in one form or the other does not show a healthy state of affairs in a financial Corporation. Technically the Directors may be members or Shareholders of the concerns but actually the concerns may belong to and industrial group represented by the Directors. The Committee recommend that the Directors of Industrial Finance Corporation having interest in concerns from which large amounts are over-due should cease to be Directors of the Corporation. Efforts should be made to recover such over due instalments expeditiously.

(Para 2.75).

Reply of Government

In regard to the Committee's observation that large amounts overdue from concerns in which the directors of the Corporation are interested in one form or the other does not show a healthy state of affairs for a financial Corporation, it is again submitted that in all the four cases under reference, the assistance had been sanctioned by the Corporation long before the concerned persons became its directors. As already explained to the Committee, (*vide* paragraphs 2.73 and 2.74 of the Report), in three concerns out of the four referred to by the Committee, from whom certain amounts were overdue, the Directors of the Corporation were interested only as ordinary shareholders and not as directors or as members of the managing agency, of any of these concerns. The shareholdings of the directors in the concerns mentioned were nominal. For example, in the case of Ashoka Paper Mills, Ltd., out of a total equity capital of the company of Rs. 220 lakhs as on the 31st December, 1967, the concerned. Director was holding equity shares of a total face value of Rs. 6,000 only. In the case of the Mandya, National Paper Mills Ltd. out of a total equity capital of Rs. 142.78 lakhs as on 30th June, 1968, the concerned Director was holding equilty shares of the face value of Rs. 2,000 only. These share had been acquired by the concerned Directors before he *became* a director of the Corporation. In the case of one of those concerns, *viz.*, Mandya National Paper Mills Ldd., the Director concerned has already disposed of his shareholdings.

2. In the case of Leiner-Knit Golatine Co. Ltd., from which a small amount, *viz*. Rs. 0.31 lakhs was overdue, the concerned Director of the Corporation, elected to represent Insurance concerns, Investment Trusts etc., was a shareholder-*cum*-director of the company long before she was elected to the Board of Directors of the Corporation. (In this case, while the interest in arrears has since been cleared, rescheduling of the loan has been agreed to as part of a scheme of re-organisation of the company under which M|s. Shaw Wallace & Co., who have considerable experience in the line will have the controlling interest). Shrimati Raksha Saran has also ceased to be a Director of the Industrial Finance Corporation.

3. In the case of Shah Construction Co. Ltd. from which also a small sum of Rs. 6,000 is overdue, the concerned director is a shareholder and the dollar sub-loan in respect of which the default occurred had been sanctioned before he was elected to the Board of the Corporation.

4. The Industrial Finance Corporation has dealings with more than 400 industrial concerns (and this number is progressively on the increase), and it is possible that who may get elected or nominated as directors, might have invested also some of their savings in the past in industrial concerns having dealings with the Corporation. Obviously, it could not be the intention that a person who has a small shareholding in an industrial concern which may be in default in regard to its dues to the Industrial Finance Corporation should be debarred from being the director of the Corporation.

5. In regard to the further observation of the Committee that technically the directors may be members or shareholders of the concerns but actually the concerns may belong to an industrial group represented by the directors, it is submitted that according to the best information available none of the four concerns referred to belong to an industrial group represented by the Directors of the Industrial Finance Corporation.

6. As regards the Committee's recommendation that any director of the Industrial Finance Corporation having interest in a concern from which a large amount is overdue should cease to be a director of the Corporation, it is submitted that a distinction should be made between into interest as a 'shareholder' and interest as a 'director'. Interest as a 'shareholder' may be of two kinds, namely, interest as an ordinary investor shareholder with a small shareholding and interest as a shareholder belonging to the industrialists'

group to which the company may be deemed to belong. Similarly among directors, a distinction may have to be made between a director belonging to the industrialist groups having an important voice in the management of the concern and a director holding office in virtue of his own individual comptence and reputation, elected by the general body of the shareholders. In view of this, the mere fact that a director of the Corporation has some interest in a concern which has run into difficulties and has committed defaults for reasons which might well be beyond its control should not be taken to mean that the loan was granted by the Corporation without the proper scrutiny. In this connection, it is pertinent to point out that out of 12 directors of the Corporation (excluding the Chairman), four are nominated by the Industrial Development Bank of India and two by the Central Government; six directors are elected by shareholders other than the Industrial Development Bank of India, two to represent scheduled banks, two to represent insurance concerns and investment trusts etc., and two to represent cooperative banks. While the directors nominated by the Central Government are generally its own officials, the directors nominated by the Industrial Development Bank of India, at present, consist of one official of the Industrial Development Bank of India, one an industrialist, one an economist and one a person with a trade union backround. Thus, the very composition of the Board of Directors of the Corporation, which represents various interests and view points should be a reasonable safeguard against any individual director exercising undue influence on the operations of the Corporation. However, consideration could be given to adopting such further measures and procedures as might be desirable and practicable.

7. In regard to the recovery of overdue amounts from the four concerns mentioned in paragraph 2.74 of the Report, two, concerns, i.e. M/s. Leiner-Knit Gelatine Co. Ltd., and M/s. Shah Construction Co. Ltd., have already cleared the defaults under reference. As regards M|s. Ashok Paper Mills, Ltd., and M|s Madhya National Paper Mills Ltd., the concerns have run into serious difficulties, as already explained to the Committee, and the process of recovery is likely to be a long drawn-out one. All necessary steps are, however, being taken by the Corporation to expedite the recovery and|or satisfactory settlement of its dues. Certain schemes of re-organisation| rehabilitation are currently under negotiation with the assistance of the State Governments concerned.

[Ministry of Finance, Department of Banking, O.M. No. 2(31) corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 18)

The Committee find that in the Banking Laws (Amendment) Act, 1969, it has been provided that no banking company shall—

"enter into any commitment for granting any loan or advance to or on behalf of—

(i) any of its directors,

(ii) any firm in which any of its directors is interested as partner, manager, employee or guarantor, or

(iii) any company (not being a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956, or a Government Company) of which any of the directors of the banking company is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or

(iv) any individual in respect of whom any of its directors is a partner or guarantor."

The Committee suggest that the feasibility of extending the above wholesome principles to Government financial companies such as the Industrial Finance Corporation may be considered, so as to debar grant of loan by a Government financial institution to a company in which its Director (other than a Government official representing a Government Department|Government Organisation) is interested as a director, partner, guarantor etc.

Pending examintion of the above policy, Government may consider issuing a directive to the I.F.C. that if a company in which a Director of I.F.C. is interested as a director, partner, guarantor, etc., the director should not only withdraw from the Board meeting of the Corporation when the loan application comes up for consideration but severes his connections with the Corporation before the application for financial assistance is taken up for consideration by I.F.C. (Para 2.76)

Reply of Government

Commercial banks normally grant assistance to industrial concerns in the shape of short-term loans for working capital purposes. Their medium term loans are considerably less. They do not grant assistance on long-term basis. On the other hand, the term lending institutions grant only long-term loans to industrial concerns. Prior to nationalisation of the major scheduled banks, there have been instances in which the industrial groups which had promoted those commercial taken considerable advantage of their association and Banks had admittedly position on the Board of those Banks to draw assistance from those Banks for the industries controlled by them. Such an involvement of industrial groups with the I.F.C. does not exist.

Further under the Industrial Finance Corporation Act, the Chairman is appointed by the Central Government after consultation with the Industrial Development Bank of India. 4 Directors are nominated by the Industrial Development Bank of India, and 2 directors are nominated by the Central Government. Two directors are elected by the Scheduled Banks who are shareholders of the Corporation, 2 Directors are elected by the shareholders of the Corporation other than the Development Bank, scheduled banks and the co-operative banks. 2 Directors are elected by the co-operative bank who are a shareholder holder of the Corporation. The I.F.C. in terms of its Charter and accountability to Parliament operates within the scope of certain directives issued to it under Section 6 (3) of the Act. All these ensure adequate check to avoid any undue influence by interested Directors. The suggestion that when a loan application of a company in which a Director of the I.F.C. is interested as a director, partner, guarantor etc., comes up for consideration before the I.F.C., the director should not only withdraw from the Board's meeting of the Corporation but severes his connections with the Corporation, before the application for financial assistance is taken up for a consideration by the I.F.C. may be difficult to implement, as there is a very small number of long-term financial institutions. At present the director concerned withdraws from the proceedings of the meeting of the Board and does not take part in the discussion. However, consideration should be given to adopting such further measures and proceedures as might be desirable and practicable.

[Ministry of Finance, Department of Banking, O.M. No. 2 (31) Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 21)

The Committee feel that there is no reason why the revised rate of interest should not be applied to the loans sanctioned and disbursed by the Corporation after April, 1957 particularly when this was clearly provided for in the loan documents. If this legal right is exercised, it would increase the working funds of the Corporation. (Para 4.16).

Reply of Government

The reasons why the Corporation has not considered it advisable so far to exercise its legal right to raise the rate of interest in the case of old loans are as follows:

(a) Incidence of a higher rate of interest on the old loans might upset the schemes of the borrower companies (who had no option to arrange finance elsewhere) and affect their projections of profitability.

(b) So far as it is known, there is no precedent of any long-term lending institution having increased its rate of interest in respect of the loans already disbursed by it to its borrower concern.

(c) The lending rate of the Corporation is generally linked to the cost of raising funds by the Corporation at the time of sanction of the loans. (A considerable portion of the resources of the Corporation have been hitherto drawn from Government who charge a fixed rate of interest on their loans to the Corporation throughout the currency of the loans).

2. Once the Corporation re-orts to the practice of charging higher rate of interest in respect of loans disbursed before the date from which a higher rate becomes effective, the Corportion may not, in equity, find it possible to resist a demand from the borrowers to whom loans have already been disbursed a higher rate, to charge them interest at a lower rate, if the lending rate of the Corporation is subsequently reduced. In the long run, therefore, it may not be of advantage to apply the current higher rate of interest to the old loans.

[Ministry of Finance, Department of Banking, O.M. No. 2(31) Corp/69 dated the 5th March, 1970].

Recommendation (Serial No. 28)

The Committee are surprised to note that the Corporation have no separate Finance Division for looking into the financial position of the assisted concerns and to pursue the recovery of outstanding loans. A number of divisions are looking after the financial position of the loanee concerns. The Committee are of the opinion that this procedure may lead to delay and lack of co-ordination at some stage The Committee recommend that the Corporation should set up a separate Finance Division by re-arranging the staff of the division dealing with financial matters, and coordinate all work relating to finance. (Para 5.23).

Reply of Government

Information regarding the existing set up of the organisation at the Head Office of the Corporation and at the Branches for the appraisal of projects and for follow-up has already been supplied to the Committee, and taken note of by it in paras 5.20 to 5.22 of the Report.

2. At the Head Office of the Corporation there is a Projects Department organised on an industry-wise basis. There are separate Divisions for 'Engineering', 'Chemicals', 'Sugar', 'Textile & Jute' and 'Misc. industries'. They process the applications from industrial concerns under their charge as well as maintain a watch on their progress. From 1949 to 1964 the work was organised at the Head Office of the Corporation on regional basis. In the light of the experience, it was felt that it would be conducive to the building up of expertise if the work of handling of the loan applications was organised on industry-wise basis. In 1965, accordingly, the work was reorganised on industry-wise basis this arrangement has proved useful, and the staff has been able to acquire specialised knowledge of the problems of various industries which has helped them both in the appraisal of new applications and in keeping a watch over the implementation of the projects, assisted by the Corporation. It is understood from the Industrial Finance Corporation that their experience shows that if the functions of appraisal and follow-up are combined in one and the same department it has the advantage that single division which has full knowledge of the projects requirements and drawbacks can maintain a better watch over its progress. This is another advantage that it gives useful tarining for the appraisal officers to be able to learn from their own mistake in matters such as the estimated cost, completion schedule, projected profitability, cash-flow selection of equipment, quality of management etc. The work "Projects" has a better nomenclature in a Development Bank because it makes the staff conscious that the approach of the officers has to be project-oriented. In the case of long-term loans the real security to the Corporation is the viability and the profitability of the Project. A separate Finance Division, may have a place in an individual concern or a Government Deptt. there is hardly any need for it where the bulk of the staff consists of financial men. The Corporation has, however, recently strengthened its Legal Department and all cases where the Corporation gets involved into litigation for the recovery of the loans are transferred

to the Legal Department which takes necessary action for the recovery of the Loans. Government understand that the existing arrangements are working satisfactorily, and the Corporation feels that it is not necessary to make any change.

[Ministry of Finance, Department of Banking O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation

The Committee after examining the whole issue feel that a stage reached when Industrial Finance Corporation of India and the Industrial Development Bank of India should be merged. It would have a greater impact on industrial growth in the country. If the two institutions are merged, it would lead to access to enlarged resources and experience, better co-ordination of policies, eliminate delays and avoid overlapping of functions, which are inherent in the existing arrangements. As regards, foreign loans, the Committee feel that the foreign lending institutions would not create obstacles in giving credit to a development bank. The Committee recommend that the question may be examined by the Government and an early decision be taken in the matter. (Para 6.8).

Reply of Government

The views of the Government of India have already been communicated to the Committee and are contained in paragraphs 6.1 to 6.7 of the Report. While it may be true that there may be some advantage in amalgamating the two institutions on the ground of overlapping of functions the extent of such overlapping between the Industrial Finance Corporation and the Industrial Development Bank of India is broadly confined to only one important field, namely, giving direct financial assistance to industrial concerns. On the other hand the functions of the Industrial Bank of India are much wider than those of the Industrial Finance Corporation. Apart from direct financing of industry, the Industrial Development Bank of India also undertakes other important activities like refinancing of other financial institutions, including banks, expert finance and rediscounting of hire-purchase and instalment-plan-financing of machinery. Coming to the specialised field of operations, Industrial Finance Corporation specialises in dealing with industrial co-operatives (sugar and textile) and the jute mills which the Industrial Development Bank of India does not. On the general field of examination, most of the large financing projects now come before all the financial institutions for assistance and different view points are brought to bear on the scrutiny of the projects. Such a diversity of views and lines of approach add to the usefulness of the scrutiny of the project of the financial institutions. There is in fact, now a demand in the country for more regionally-based all-India financial institutions and for a certain measure of de-centralisation. In the face of this it would seem a somewhat retrograde step to amalgamate and reduce the number of existing institutions.

To merge the two institutions will involve a great deal of staff changes and transfers. A large amount of conveyancing work now being done in one institution, will devolve on the other. The work leading up to and following the merger would be so voluminous, that for a year or more the main work of sanctioning and disbursing developmental finance will suffer badly.

In these circumstances, perhaps, instead of merging the Industrial Finance Corporation with the Industrial Development Bank of India, the better course might be to try to consider to what extent it is possible to define the respective functions of the two institutions in the field of direct financing. The recommendations of the Committee have been noted and a final decision will be reached when Government arrives at decisions on the various recommendations of the Industrial Licensing Policy Inquiry Committee.

[Ministry of Finance, Department of Banking O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Final Reply of Government

Government have carefully considered the recommendations of the Committee on Public Undertakings as well as the recommendations of the Industrial Licensing Policy Inquiry Committee and have come to the conclusion that the two Institutions, namely, the Industrial Finance Corporation of India and Industrial Development Bank of India need not be merged at this stage.

[Ministry of Finance, Department of Banking O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

Recommendation (S. No. 30)

The Committee feel that it is necessary to frame some principles governing joint financing amongst the lending institutions. They hope that the Government would examine this question in consultation with the IDBI and other lending institutions. (Para 6.12).

Reply of Government

The joint financing by all-India financial institutions has developed after the establishment of the Industrial Development Bank of

India (IDBI) in July, 1964. It is, therefore, comparatively a recent development, and it will not be desirable to subject it to any rigid rules which will take away its informal and flexible character. The present procedure offers considerable scope to the participating institutions to have a free exchange of views on important cases, and, at the same time, to bring to the meetings matters of common or mutual interest. This advantage will be lost if an element of rigidity is introduced in its working. As time passes, the institutions themselves will evolve principles and practices to achieve the objectives the Committee has in view. In fact, already, in the light of its experience, the IDBI is trying to evolve improved procedures for joint financing in several matters such as joint site inspections by technical and financial staff of the participating financial institutions, the holding of joint discussions by officers of the various financial institutions to discuss problems of a particular project, the appointment of a common solicitor for investigation of title and for the drawing up of the requisite legal documentation etc.

[Ministry of Finance, Department of Banking, O.M. No. 2(31) Crop./69 dated the 5th March, 1970].

Recommendation (S. No. 31)

The Committee feel that there should be some regular machinery to coordinate the work of the various State Financial Corporations with the IFC and trust that the IFC would take necessary steps in this direction with the help of the Central and State Governments. (Para 6.17).

Reply of Government

The IFC has no direct control over the State Financial Corporations which are autonomous bodies set up under an Act of Parliament. The S.F.Cs. provide financial assistance mainly to smaller units irrespective of their constitution. The IFC extends long-term financial assistance to medium and large scale industries in the organised sector, constituted as public limited companies or cooperative societies registered in India. However, as a result of the initiative taken by the Reserve Bank, a certain measure of coordination already exists at present between the IFC and the SFCs. The IFC has also been nominating its officials on the Boards of the SFCs, in accordance with the provisions of the State Financial Corporations Act. Under a convention rupee loans upto Rs. 20 lacs are sanctioned by the SFCs and loans in excess of the said limit are granted by the IFC, unless the loan assistance is asked for in conjunction with other facilities, such as underwriting of shares, gurantees etc. The IFC has also been furnishing to the SFCs any information that they may require relating to the Former's business or affairs.

2. With the creation of the IDBI in 1964, it has been acting as an Apex body for all the financial institutions engaged in term lending, including the IFC and the SFCs. In this capacity the IDBI is in a position to give the necessary guide-lines and coordinate the activities of the different agencies in the field. The present position is that the Industrial Finance Department of the Reserve Bank supervises the work of the SFCs and the IDBI, keeps in touch with them.

[Ministry of Finance, Department of Banking, O.M. No. 2 (31) Crop./69 dated the 5th March, 1970].

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (S. No. 6)

The Committee are not satisfied about the quantum of assistance given to the less developed States. Instructions issued by Government to the Corporation in 1948 that they should assist the industrial development of backward areas in order that they may attain a more balanced development, have remained a dead letter. The Committee feel that the Government directive in this regard was clear. In the event of doubt, the Corporation should have sought the clarification of Government as to what category of States or regions were to be treated as backward and the nature of preference to be accorded to them. Moreover, the Corporation should have taken concrete steps on its own also to offer preferential treatment to backward areas. This was not done. The Committee regret that the Government also did not pursue the implementation of their directive. One reason for this neglect of backward areas is that most of the Directors are drawn from metropolitan towns and industrially advanced States.

The Committee recommend that concrete steps should be taken by the IFC and the Government to attract applications from entrepreneurs for establishing industries in less developed areas. In this connection IFC may consider the setting up of educational and consultancy agencies in the less developed regions with a view to offer guidance to entrepreneurs. The Committee hope that the Government will examine the matter fully.

(Para 2.31).

Reply of Government

If assistance aggregating Rs. 56.84 crores sanctioned to 70 industrial cooperative units spread over the various States is excluded, out of the remaining assistance of Rs. 248.21 crores sanctioned upto the 30th June, 1968 for the private sector for 373 industrial units, assistance of the order of Rs. 86.10 crores, i.e., about 33 % of the total assistance for 110 units had gone to the relatively less developed

States of Andhra Pradesh, Assam, Bihar, Orissa, Rajasthan. Uttar Pradesh and Madhya Pradesh. Taking into account the fact that to a large extent the assistance made available by the IFC to particular regions must depend on applications for financial assistance received from entrepreneurs for putting up projects in such regions and the fact that very few applications from the backward States have been rejected by the IFC, this proportion cannot be considered unreasonably low.

2. The question of assisting the backward areas and less developed States has been engaging the attention of not only the Corporation and the Central Government but also of the various Committees appointed to examine the working of the IFC in the past. For example, the Sucheta Kripalani Enquiry Committee (1953) had itself acknowledged the difficulty of particularising the backward areas. The Government resolution passed on the recommendations of that Committee had observed as under:—

> "Hitherto, the funds of the Corporation have been sufficient to deal with all eligible applications so that there has been no occasion for according regional priorities. Government will, however, consider the question of issuing a directive in respect of any particular backward region, if and when the necessity arises."

3. This matter has been coming to the notice of Government and Parliament from time to time. It has been recognised that since the IFC does not promote but merely extends financial assistance to industrial concerns, the extent to which the IFC can assist the less developed States depends on the number of eligible and viable applications emanating from such States. The basic problem, has been insufficiency of suitable applications from the less developed States. Such applications in turn depend on the infra structural and other facilities available to entrepreneurs in the backward States. These are mainly the concern of the concerned State Government and to some extent the Central Government. The financial institutions can hardly be expected to provide such facilities. The problem of reduction of the inter-regional disparities is, in fact, a much wider question of which provision of financial assistance by the institutions is only one part. The question has to be tackled on a national basis as an integrated problem. At the instance of the National Development Council the Planning Commission recently appointed two Working Groups, one for laying down the criteria for defining backward regions and the other for suggesting the incentive that should be given by Government and the financial institutions. Following the

recommendations of these Working Groups it has been decided that certain districts will be selected in each State where the State Governments will provide all necessary infrastructural facilities. The Central Government will also give a capital subsidy for setting up projects in these areas. As part of the scheme, the IFC has also drawn up proposals for grant of certain concessions to proposals emanating from such areas. The salient features of these proposals are: —

a reduction in the effective rate of interest (normal effective rate is 8 per cent), Lower margin of security (the Corporation normally aims at 50 per cent), extension of the initial moratorium period for repayment of loans, (normal period three years) longer amortisation period for loans (normal period being fifteen years) greater contribution by the Corporation to the project cost inclusive of participation in the Share capital by way of underwriting facilities and reduction in the charges for processing of examination of applications for assistance and relief in legal charges and recovery of incidental expenses. The scheme of concesions will be available to small and medium scale industries in selected backward areas, the selection of the areas being settled by the Planning Commission, in consultation with the financial institutions and the State Governments.

4. As regards the suggestion by the Committee that the IFC should set up educational and consultancy agencies in the less developed areas to offer guidance to entrepreneurs, it is submitted that this falls within the purview of the State Governments most of when already have Directorates of Industries for guiding small entrepreneurs. The financial institutions will find it difficult to set up agencies in these areas. They may, however, be prepared to finance a portion of the cost of undertaking feasibility studies in respect of projects in such regions.

5. As regards the observation made by the Committee that one reason for the neglect of backward areas is that most of the Directors are drawn from metropolitan towns and industrially advanced States, it is submitted that the constitution of the Board of the Corporation provides a reasonable assurance that the affairs and business of the Corporation are carried out in accordance with the policy of Government. Out of the 12 directors, apart from the Chairman who is appointed by the Central Government after consultation with the IDBI, two are nominated by the Central Government and are usually Government officials. Four are nominated by

the IDBI and out of these one is its own officials, one a representative of the labour, one an economist and only one an industrialist. The remaining six directors are elected by shareholders, two each from three different electoral colleges, *viz.* the following:—

(a) Cooperative Banks;

(b) Scheduled Banks; and

(c) Insurance companies, Investment Trusts and other financial institutions.

However, the Committee's observation will be borne in mind to see to what extent representation can be given within the limits of the Statue to the backward regions.

[Ministry of Finance, Deptt. of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1969].

Recommendation (S. No. 7)

The Committee feel that there should be a better balance between big, medium and small industrial houses in the matter of providing finance from Government financial institutions.

The Committee are surprised to note that assistance of Rs. 11.85 crores was given to one industrial group. The Committee feel that the Industrial Finance Corporation should have asked the bigger groups of industries to provide more funds from their own resources than the smaller groups where the Corporation could be more liberal by giving them greater quantum of assistance. The Committee would also urge the Government to keep a watch on the distribution of loans by Industrial Finance Corporation so that it is done in a more widespread manner. Regulation should be amended to ensure that monopoly groups are not given financial assistance by the Corporation except with the prior approval of Industrial Development Bank of India, so as to discourage the tendency of concentration of economic power in a few hands. (Para 2.37).

Reply of Government

As already indicated in reply to Question No. 2(c) of Questionnaire for the written replies, out of the total financial assistance of Rs. 305 crores sanctioned by the Corporation upto the 30th June, 1968, 43 groups out of 75 groups listed in the Monopolies, Inquiry Commission Report had together been sanctioned assistance of the order of Rs. 108 crores which constituted about 36 per cent of the total sanctions of the Corporation; no assistance had been sanctioned to concerns owned by the remaining 32 groups listed in the said Report. Out of the remaining 32 groups listed in the said Report. Out of the remaining financial assistance amounting to Rs. 197 crores sanctioned upto the 30th June, 1968, assistance of the order of Rs. 57 crores, *i.e.* 19 per cent of the total amount was sanctioned for 70 industrial co-operative—made up of 62 sugar cooperatives, 7 textile cooperatives, 1 oil extracting unit and the balance of Rs. 140 crores, *i.e.* as much as about 45 per cent had gone to concerns in the private sector which were not awned/controlled by the groups mentioned in the Monopolies Inquiry Commission Report, since the Corporation has been set up primarily to finance relatively large industrial projects, including those of a highly capital intensive nature, which can be normally promoted by entrepreneurs with large organisational resources, it is submitted that the above can be considered to represent a fair distribution of the Corporation's assistance, when account is taken of the developmental needs of the country.

2. The Corporation is conscious of the need, as well as the desirability, of requiring the bigger group of industries to provide adequate funds from their resources; it is, however, found that the total cost in the case of highly capital-intensive industries is quite substantial. In some cases, industries promoted by such groups are of high national priority, and it is found from experience that these can be established only with considerable support from a financial institution, such as the Industrial Finance Corporation.

3. As regards the assistance of Rs. 11.85 crores sanctioned to one industrial group mentioned by the Committee, the reference here is to the following assistance sanctioned by the Corporation to Messrs. Madras Aluminium Co. Ltd. which concern is included in the "Ranga Swami Naidu Group" ranked, in the list of the 75 groups arranged in order of their assets, at No. 47 by the Monopolies Inquiry Commission:

Nature of facilities	Date of sanction	Amount sanctioned (Rs. in crores)
(1) Underwriting :		
Equity	29-11-60	0·60
Preference		0·60
(2) Guarantee for foreign currency loan	26-7-62 / 12-11-62	9·65*
(3) Rupee loan	30-4-64	1·00
		11·85

* Figure at the post-devaluation rate. pre-devaluation figure was Rs. 6·14 crores only.

4. The above assistance was sanctioned by the Corporation in connection with the financing of the Company's project of setting up a plant at Mettur, Tamilnadu State, for the manufacture of 10,000 tonnes of aluminium ingots, in technical and financial collaboration with Messrs. Montecatini of Italy. The size of the total assistance given in this case, is no doubt, large, but it will be appreciated that the industry was of a highly capital intensive nature and nearly 80 per cent of the assistance comprised the guarantee facility which was in the nature of contingent liability. The guarantee was given in respect of supply of plant and equipment from Italy financed by a loan from an Italian bank. Under the rules of the Italian Credit the guarantee had to be given by a public sector institution like the Industrial Finance Corporation. As the Industrial Development Bank of India was not in existence at that time and the present practice of large projects being jointly financed by the various institutions under the auspices of Industrial Development Bank of India had not developed at that time, the Corporation had to provide the entire guarantee facility required for the project which was of a high national priority. The original amount of the guarantee facility sanctioned by the Corporation was equivalent to Rs. 5.60 crores which subsequently went up to Rs. 6.71 crores on finalisation of the financing arrangements. Against the actual estimated cost of Rs. 6.71 crores, the actual delivered cost was Rs. 6.15 crores. This amount subsequently further increased to Rs. 9.65 crores as a result of devaluation of the rupee in June 1966.

5. The loan assistance of Rs. 1 crore was sanctioned by the Corporation for meeting the over-run in the project cost which was of the order of about Rs. 2 crores. The Punjab National Bank provided the balance of the loan of Rs. 1 crore to the Company.

6. It may be mentioned, in this connection, that the company has so far been meeting its obligations to the Corporation as also to the Mediobanca, the Italian Banking Institution, which has given a foreign currency loan to them, and has not committed any default so far.

7. The Committee has also recommended that the Government may keep "a watch on the distribution of loans by Industrial Finance Corporation so that it is done in a more widespread manner and that regulations may be amended to ensure that monopoly groups are not given financial assistance by the Corporation except with the prior approval of the Industrial Development Bank of India." In this connection, it may be mentioned that at present in terms of one of the directives issued by the Central Government and which has

been subsequently adopted by the Industrial Development Bank of India, the Corporation has to refer to the Industrial Development Bank of India all cases where the total amount of loans granted to industrial concerns which are owned, managed or controlled by a closely connected group of industrialists exceeds Rs. 1 crores.

8. The following directives issued by the Government of India and subsequently adopted by the Industrial Development Bank of India on the acquisition of 50 per cent shareholding in the Industrial Finance Corporation, provide for Industrial Development Bank of India's approval for large assistance by way of loans to any one party or to concerns owned, managed or controlled by a closely connected group of industrialists:—

(i) The Industrial Finance Corporation shall not grant loans to any one party where the party concerned has already been granted loans by it on three previous occasions or where the aggregate loan to the party will exceed Rs. 1 crore except with the prior approval of the Ministry of Finance.

(ii) The Industrial Finance Corporation shall refer to the *Ministry of Finance for orders; all cases where the total amount of loans granted to industrial concerns which are owned, managed or controlled by a closely connected group of industrialists exceeds Rs. 1 crores.

For purposes of Clauses (i) and (ii) above the aggregate loan of Rs. 1 crore should be calculated by adding up the outstandings of the previous loan or loans and the amount of the fresh loan granted.

Further all proposals involving large assistance are now generally discussed at the monthly Inter-Institutional Meeting of the four all-India institutions, *viz.* Life Insurance Corporation, Industrial Credit & Investment Corporation of India, Industrial Finance Corporation of India and Industrial Development Bank of India, for arriving at a consensus of opinion besides the close coordination existing between the Industrial Finance Corporation of India and Industrial Development Bank of India in all matters. In this context it may be stated that Government have now decided to make certain changes in the policy to be followed in regard to assistance from public sector financial institutions to industrial concerns in

* (Note: Now Industrial Development Bank of India)

the private sector, in the light of the recommendations of the Industrial Licensing Policy Inquiry Committee. Subject to a suitable mechanism which has to be worked out for which necessary instructions will be issued to the financial institutions in this regard it may be ensured in future that there is a greater degree of participation in management, particularly at policy level, in the case of major projects involving substantial assistance from public sector financial institutions. The institutions will also, as part of their financial assistance arrangements, exercise option in suitable cases for converting loans given and debentures issued in future, either wholly or partly, into equity within a specified period of time.

[Ministry of Finance, Deptt. of Banking, O.M. No. 2(31)-Corp/69 dated the 5th March, 1970].

(Please see Chapter I).

CHAPTER V

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

—NIL—

NEW DELHI;
16*th September*, 1971.
Bhadra 25, 1893 (*Saka*).

M. B. RANA,
Chairman,
Committee on Public Undertakings.

APPENDIX

(*Vide* Para 5 of introduction)

Analysis of action taken by Government on the recommendations contained in the Twenty-second Report of the Committee on Public Undertakings (Fourth Lok Sabha)

I. Total number of recommendations made	32
II. Recommendations that have been accepted by Government (vide recommendations at S. Nos. 1, 4, 5, 8, 9, 10, 11, 12, 13, 19, 20, 22, 23, 24, 25, 26, 27 and 32)	18
Percentage to total	56·3%
III. Recommendations which the Committee do not desire to pursue in view of Government's reply (*vide* recommendations at S. Nos. 2, 3, 14, 15, 16, 17, 18, 21, 28, 29, 30 and 31) . . .	12
Percentage to total	37·5%
IV. Recommendations in respect of which replies of Government have not been accepted by the Committee (*vide* recommendation at S. Nos. 6 and 7)	2
Percentage to total	6·2%
V. Recommendations in respect of which final replies of Government are still awaited	Nil

GMGIPND—L.S. II—2090 (Aii)—L.S.—11-12-71—1340.

1	2	3	4
9.	Tamil Nadu Government . .	25·16	1966-67 (1·65)
10.	Tripura Administration .	166·76	1967-68 (8·02)
11.	West Bengal Government	2802·28	1966-67 (223·77)
		4942·20	
(ii)	*Government of India*		
	(a) For Defence supplies.	661·26	1966-67 (9·80)
	(b) On other account (Supplies to erstwhile C.S.Ds. incidentals subsidiary etc.	1011·43	
		1672.69	
(iii)	*State Trading Corporation of India*	104·87	
	Grand Total . .	6719·76	

11.18. The Corporation have stated that their total annual sales were about Rs. 750 crores. Thus the outstandings on 30th November, 1970 represented about 15 days' sales only. According to the Corporation, considering the volume of transaction the outstandings were not 'too high'. The Corporation have assured that every effort was being made by them to keep these outstandings as low as possible.

11.19. During evidence, the Food Secretary stated, "it is certainly a big amount (Rs. 36.60 crores as on 30th November, 1970) but it represents only about 15 days dues transactions. These are outstandings against the State Governments and we give them a reasonable time to pay the same. I think any businessman would have at least 15 days' outstandings."

11.20. The Committee enquired what time was allowed for payment and what interest was charged by the FCI on over due amounts. The Managing Director of the FCI stated that normally they gave about 48 hours from the time of presentation of the Bill, for payment of their bills. If bills were not paid in time, interest was liable to be charged. He added, "We do seek the assistance of the Government of India also in enforcing a certain amount of discipline in the payment of the bills. Unfortunately delays do take place, sometimes possibly for genuine reasons and at times because of the ways and means difficulties. When we are dealing with Government we have to be a little circumspect." The Food Secretary stated that 95 per cent of dues were supposed to be paid in 48 hours. The remaining 5 per cent took time to collect. Interest was recovered by including it in the incidentals.

11.21. The Committee find that the outstandings of the Food Corporation of India have gone up from Rs. 36.60 crores as on 30th November, 1970 to Rs. 67.19 crores as on 31st October, 1971 despite efforts made by the Corporation to bring down the outstandings. In this connection the Committee note that of the total amount of Rs. 67.19 crores, the outstandings from State Governments alone are Rs. 49,42 crores. Some of the oldest items outstanding from State Governments date as far back as 1966-67. The Committee are not averse to a reasonable time limit being allowed to State Governments to settle bills and make payment. But if the outstandings linger on for years and the Corporation find itself unable to clear the outstanding items within a reasonable time limit the Central Government should come to the aid of the Corporation by persuading the State Governments concerned to clear the outstandings expeditiously. It is obvious that if the outstandings are kept low, the Corporation would have larger liquid resources and will not be forced to lean too heavily on loans on which they have to pay a high rate of interest.

E. Loans, Overdrafts and Stocks

11.22. The Government of India loan to the Corporation amounted to Rs. 214.00 crores and Bank overdraft of the Corporation stood at Rs. 181.63 crores as on 31st March, 1971. During evidence, the Food Secretary stated that at the end of July, 1971, there was a "staggering loan" of Rs. 246 crores from Government and Rs. 300.85 crores from the Banks. The witness assured the Committee that the amount was fully secured by the stocks held by the Corporation. The stocks held by the Corporation from time to time were as under:

Year	Stocks (tonnes in lakhs)	Value (Rs. crores)
1965-66	5·61	37·31
1966-67	6·85	48·43
1967-68	15·64	128·60
1968-69	32·56	286·32
1969-70	37·31	309·13
1970-71	49·68	446·32

11.23. The Composition of the stock at the end of the year 1970-71 was:

	Million tonnes
(a) Wheat	2·3
(b) Rice	2·2
(c) Grain	0·5
	5·0

11.24. During evidence, official representative of the Ministry of Agriculture alleged the apprehension that the Corporation was being heading towards a financial crisis because of the mounting overdrafts and added, "F.C.I. is still going very strong. Borrowing is quite a respectable profession for any commercial body and the banks are meant for this purpose." He explained, "bulk of the working capital of any commercial organisation is obtained by borrowings from banks. Equity is only utilised for storage godowns and for mechanical appliances like rice mills and so on. So far as the capital required for machinery is concerned, this is not secured by advances obtained from banks but so far procurement is concerned, it is financed by loans from the Government of India and from the banks."

11.25. The Committee find that while the stocks with the FCI increased by about 11 times i.e. from Rs. 37.31 crores in 1965-66 to Rs. 446 crores in 1970-71, its loans and overdrafts went up by 18 times i.e. from Rs. 30.00 crores in 1965-66 to Rs. 546.85 crores in July, 1971. This does not reflect a comfortable position because Corporation's dependence on loans and overdrafts has far exceeded the value of stocks held by it. They recommend that the loans and overdrafts should be kept by the Corporation within reasonable limits as the "burden" of borrowing involves payment of interest at a higher rate and thus raises the cost of intermediate handling affecting the consumers in the long run. The Government should ensure that the Corporation does not, as a rule, lean heavily on loans and overdrafts to sustain its activities.

F. Profitability

11.26. The Corporation earned the following profits since its inception: ..

(Rupees in Lakhs)

Year	Profit (Prior to tax)	Profit (After taxation)
1965-67	22·57	10·07
1966-67	304·73	95·27
1967-68	391·08	88·34
1968-69	126·05	14·05
1969-70	263.89	41·73
1970-71 •	157·84	N27.41

11.27. The percentages of profits to sales, gross fixed assets, capital employed, equity capital and net worth are shown in the following table:

Percentage of Net Profit prior to Tax on	1965-66 %	1966-67 %	1967-68 %	1968-79 %	1969-70 %
(a) Sales	0·17	1·21	1·02	0·22	0·3
(b) Gross fixed assets .	3·43	24·88	22·94	4·16	5·1
(c) Capital employed	0·58	7·12	2·72	0·34	0·8
(d) Equity capital	2·51	21·82	22·90	4·66	4.9
(e) Net worth . . .	2·50	20·85	20·79	4·31	4.7
Percentage of Net Profit after Tax on					
Equity capital . .	1·12	6·82	5·17	0·52	0.8
Net worth . . .	1·11	6·52	4·70	0·48	0·8

11.28. During the evidence of the Food Corporation of India, the Committee asked why the profitability of the F.C.I., had gone down, the Chairman, F.C.I., said, "As I said we have a social objective to perform. We do not make an unduly high profit." The Committee pointed out that they got such an answer from all public undertakings who make losses. F.C.I.'s percentage of net profit prior to Tax on sales in 1969-70 was 0.3 per cent. This was low looking to the investment and overhead costs as also the turnover of Rs. 1500 crores. The representative explained that purchase and issue prices were determined by Government. F.C.I. operated on no profit no loss basis i.e., the Government reimbursed actual expenses incurred by the F.C.I. The Committee pointed out that if the F.C.I., worked efficiently, actual expenses would be less and the consumers would be able to get foodgrains at a lesser price. As it was, incidentals, especially the establishment charges were going up. In reply, the witness stated "I may explain that there is a very plausible reason for that, that is, when we build up buffer stocks, we have to store for a much longer period. In some cases we are hoarding the stocks for over two years. And so the storage charge for hoarding the buffer stocks as also the interest charges mounts up."

11.29. During evidence of the Ministry of Agriculture, the Food Secretary stated that under the present policy, the Food Corporation worked on no profit basis, in that bulk of the transactions regarding wheat and rice were subsidised by the Government and the loss was made good by the Government. The witness added that if there was any profit it was due to certain commercial transactions like purchase of pulses and also purchase and sale of coarse grains. As the quantity of such transactions was limited, the profit was small. Moreover, he said, while F.C.I.'s turnover had gone up the quantities of its commercial transactions had remained limited.

11.30. In the round-up of "The Review 1965—70", the Food Corporation has *inter alia stated*, "....the prime motivating factor of private trade is profitability. For the Corporation, it cannot be and is not so. This is evidenced by the financial results of its operations so far. It has to secure the social objective of the State policy. Everything else is subservient to it." In the conclusion part of the "Performance and Provisional Financial Results 1970-71", the Corporation has emphasised that "Profitability can neither be its aim nor can it be the yardstick for judging its performance." Citing an example, it has been stated that the Corporation purchased over 3 lakh tonnes of Maize during 1970-71 in price support to remunerate the farmer for his effort knowing fully well that there was no demand for maize at that price. Likewise, the Corporation also purchased lakhs of tonnes of rain affected wheat during the Rabi season fully aware of consumers resistance to its sale and risk of deterioration in storage. The object was not to let the enthusiasm of the farmer get dampened.

11.31. The Committee note that the profit (prior to tax) earned by the Food Corporation of India has come down from Rs. 305 lakhs in 1966-67 to Rs. 158 lakhs in 1970-71. The Committee are convinced that in the case of Food Corporation the conventional yardstick of judging the performance of an enterprise by the quantum of profit earned by it should not apply, though the Committee are not averse to marginal profits being made by the Food Corporation to meet any unforeseen contingencies. The Corporation has to be more judged by the achievement of the social objectives underlying its set up. The Committee would therefore like the Corporation to spare no efforts to ensure that the farmer is paid remunerative price, that the high cost of handling at present incurred by the FCI is reduced to the minimum so that the consumer is sold the foodgrains at reasonable prices and on assured basis. The Committee would also like Government to examine whether the cost for maintaining the buffer stock should not in all fairness be met by the Government so that it does not go unnecessarily to inflate the handling charges of the Food Corporation. The Committee need hardly stress that the size of the buffer stock should be most judiciously fixed in the light of experience gained and every care should be taken to see that stocks are duly rotated so that the foodgrains are sold well before the normal period of their preservation is exceeded.

G. Audit

11.32. Statutory auditors are appointed by the Food Corporation of India annually from among a list of auditors approved by the Central Government on the advice of the Comptroller and Auditor General of India. There are at present six auditors who audit the accounts of the Corporation in various regions. The C.A. and A.G. does not exercise any direct control over the audit of the accounts of the Corporation. During 1969-70, the Internal Audit and Physical Verification Teams were placed under the direct charge of the Financial Adviser.

11.33. Ministry of Agriculture (Department of Food) contemplate to amend the Food Corporation of India Act, 1955 so as to provide for audit of the accounts of the Food Croporation of India by the Comptroller and Auditor General of India.

11.34. The Committee recommend that steps to bring the Food Corporation of India within the audit control of Comptroller and Auditor General of India be taken as early as practicable.

XII

A. Staff Strength

The staff strength of the Food Corporation of India has increased from 2,150 persons in 1965 to 28,982 in 1971. The year-wise increase was as under:—

Staff Strength as on	Category I	Category II	Category III	Category IV	Total
31-3-65	24	61	915	1150	2150
31-3-66	65	295	2032	1707	4099
31-3-67	110	426	5905	4912	11353
31-3-68	124	545	8224	6335	15228
31-3-69	210	1104	14246	10530	26090
31-3-70	507	1024	15313	9892	26719
31-3-71	500	1104	16086	11292	28982

12.2. The expenditure on the staff strength and its percentage to the total purchase and sales turnover had been as under:—

Year	Salary Bill	Purchases and Sales	Percentage to turnover
	(Rs. Crores)		
1965-66	1·17	289·61	0·41
1966-67	2·66	493·06	0·54
1967-68	5·75	824·42	0·70
1968-69	8·02	1281·89	0·63
1969-70	13·40	1485·49	0·90
1970-71	17·19	1413·05	1·22

(*Note* :—The wages, salaries, contributions and staff welfare given above in Col. 2 represents the total amount. inclusive of the wages, salaries, Contributions and staff welfare pertaining to buffer operations also.)

12.3. It has been stated by the Corporation that their first attempt was to ensure smooth taking over of the functions and to see that no disruption in work was caused by the change-over. Scientific manning studies were, it has been stated, not practicable in the initial stage.

12.4. A study on operational norms and manpower assessment for procurement staff in the Chandigarh region made by IBCON(P) Ltd., has revealed that currently, volume of procurement, during a season, is taken as a basis for arriving at "mandiwise" staff requirement whereas it is the volume of arrivals, and not procurement, which should in their opinion, govern the workload of the procurement staff. The study has recommended standard staff requirement for procurement of operations for each Mandi, the F.C.I., representative visiting two days in the week, as follows :—

(i)	For arrivals upto 10,000 tonnes of Rabi crop during a season	: 1 person
(ii)	For every additional 1200 tonnes	: 1 person in addition

On the basis of this standard requirement IBCON have assessed that in Punjab 258 persons would be required as against the present requirement of 287 persons. IBCON have also recommended that during the lean season, procurement staff could be gainfully utilised as below :—

(a) For attending to storage and despatch of foodgrains at Food Storage Depots;

(b) For attending to preservation of foodgrains, after proper training;

(c) For carrying out physical vertification of stocks.

12.5. In March, 1970, the Corporation entrusted to the Indian Institute of Management, Ahmedabad a study of the staffing norms relating to the storage and quality control functions at the depot level in the Corporation. Later the Institute was also asked to simultaneously examine whether there was a possibility of cutting down unnecessary paper work and wastage of manpower and make recommendations for the staffing pattern. Some of the shortcomings in the existing staffing norms pointed out by the Institute are:—

(i) present practice accepts storage capacity as the sole criterion for assessing staff requirements and does not take into account the activity in a depot.

(ii) current norms also do not take into consideration fully the problem of promotional avenues for the staff.

2.6. M/s. IBCON Private Ltd. submitted two reports, one on the procurement operations in Punjab and the other on the procurement operations in U.P. In the case of Punjab, it has been decided that the classification of mandies should be made on the basis of procurement potential. As for the super-inspection, it will continue at the loading points. The consideration of the report on the procurement operations in U.P. could not still be completed because of the destruction of records at Lucknow during the last floods.

12.7. During the evidence of the Ministry of Agriculture (Department of Food), the Committee enquired as to how it was that while the turn over the Corporation had increased only 5 times, its staff strength had increased by 12 times since its inception in 1965. In reply, the Food Secretary stated that when the Corporation was set up in 1965, its activities were confined to Southern States only. Later on, its activities spread to other states On 1st April, 1969 all the storage depots and warehouses of the Government of India were transferred to it and alongwith about 10,000 persons employed on that work. Similarly, when the distribution work in West Bengal entrusted to the Corporation, about 5,000 employees of West Bengal were transferred to the Corporation. Stressing the functional aspect of the development of staff, the witness stated that function-wise break up of the staff strength was as follows:

Function	Staff strength
(1) Procurement	1,743
(2) Godowns and clearance work at ports/harbours .	17,095
(3) Quality Control.	2,317
(4) Engineering	870
(5) Other (including W.Bengal employees) . .	6,957
Total :	28,982

B. Integration of Cadres

12.8. The staff strength of the Corporation comprises three distinct cadres. These are:—

(a) Transferees from the Regional Directorates of Food of the Government of India;

(b) Direct Recruits;

(c) Deputationists drawn from Central/State Government.

As on 31st March, 1971 "Transferees" constitute about 57 per cent, direct recruits, 24 per cent and Deputationists, 19 per cent of the total strength in the Corporation.

12.9. The extra expenditure on employees transferred to the Corporation on 'foreign service' terms is normally represented by the amount of leave salary and pension contributions paid in respect of them. The year-wise amount of these contributions was as follows:—

Year	Amount of leave of salary and pension contribution (Rupees)
1965-66	8,32,397
1966-67	20,30,461
1967-68	41,50,808
1968-69	55,55,039
1969-70	96,50,998
1970-71	1,03,83,414
Total :	3,26,03,117

12.10. The Corporation are of the view that expenditure on these contributions cannot be treated as an additional liability. If the persons concerned had been the employees of the Corporation, leave salary and employers' contribution towards contributory provident fund would have been paid by the Corporation. In the case of deputationists, after payment of the leave salary and pension contributions to the parent department, the liability is discharged by the Department when the occasion arises.

12.11. The following amounts were paid to the deputationists as 'deputation allowance':—

Year	Amount (Rs.)
1965-66	1,23,339
1966-67	1,74,700
1967-68	2,90,716
1968-69	5,24,086
1969-70	6,25,266
1970-71	6,42,544
Total :	23,89,651

Note:—Figures for all the years are not inclusive of the amounts paid in Assam.

12.12.It has been stated by the Corporation that the efforts made by them to evolve a long term personnel policy had not been very successful so far owing to the fact that the bulk of their employees were taken over on 'foreign service' in respect of whom the practices followed in Government had to be continued. The flexibility normally enjoyed by an employer, with a homogenous body of men, was thus denied to the Corporation. Some of the problems, is apprehended, would persist even after the permanent transfer of Food Department employees to the Corporation took place as the statutory safeguards provided in the Amendment Act may facilitate their continued existence as a distinct group *vis-a-vis* other directly recruited Corporation employees. The re-orientation of this diverse body of employees drawn from different sources, posed a complex problem. The Corporation are of the view that it was only when complete integration takes place in the cadres of the Corporation, that the task of welding them as one whole will become easy.

12.13. The Corporation have intimated that the 'Staff Regulations' framed for the purpose of integration of cadres have since been finalised and notified in the Gazette of India on 8th May, 1971. The employees proposed to be finally transferred to the Food Corporation of India under Section 12(A) of the Food Corporations Act have been a ked by the Government of India, under Sub-section (i) of the said Section, to indicate by 29-2-72 if any of them do not intend to become employees of the Corporation. Necessary notification regarding their statutory transfer to the Corporation will, it has been stated be issued by the Government after these intentions are known.

C. Departmentalised Labour at the Ports and Depots

12.14. With the heavy increase in the quantum of imports since 1964, the problem of grain handling at the ports, assumed a serious proporation on account of heavy congestion at most of the major ports. At Bombay, following the failure of the then clearance and transport contractors in early 1964, a decision was taken, after negotiations with the labour unions to carry out clearance operations departmentally from 1-8-1964. Since then the labour was departmentalised at the other ports also. The total strength of the departmentali ed dock workers at the four major ports as follows:—

Port	Total strengh of departmentalised dock workers
1	2
Bombay . .	4,737
Madras	2,987

1	2
Kandla	2,124
Vizag . .	529
Calcutta .	213
Total	10,590

12.15. The total strength of the labour departmentalised at Bombay, Madras, Vizag and Calcutta Depots is indicated below:—

Name of Port	Total strength
Bombay .	1653
Madras (Egmore)	90
Vizag .	401
Manmad .	425
Calcutta .	1801
Total :	4,370

12.16. It has been stated by the Corporation that on account of reduction in imports of foodgrains and also fertlizers, the problems of prospective surplus of departmental labour is looming large. Asked whether port workers at various ports were taken over by the Corporation on an ad-hoc, specified or on a permanent basis, the Corporation have stated that port operation work was taken over by the Corporation on 'as is where is' basis, without execution of fresh Memoranda of Settlement by the Corporation at that time. The port workers unions subsequently raised certain demands and agreements were reached by the Corporation with them covering their demands for enhanced benefits with respect to attendance allowance, minimum guaranteed days/shifts, leave, paid holidays, maternity leave, gratuity medical benefits, etc. etc. As there had been no change in the general pattern of work subsequently to the transfer of work to the Corporation, this constituted practically a regular arrangement, and not one of an ad-hoc nature or confined to a specified period.

12.17. In July, 1969, the Corporation introduced a 'voluntary retirement scheme' to tackle the problem of surplus departmentalised labour at the ports. The Scheme carried the following provisions:—

(i) introduction of voluntary retirement scheme to enable the surplus workers to retire voluntarily even if they have not completed 5 years of continuous service, which entitled them to the benefit of Contributory Provident Fund and Gratuity.

(ii) Transfer of surplus departmental workers at the ports to the godowns to the extent possible.

12.18. As the Scheme achieved only partial success, Committee was constituted by the Corporation in July, 1970 to examine the problem further. The Committee prepare a suitable scheme for the voluntary retirement and made suggestions for absorption of surplus workers within the organisation or outside. It also prepared an 'alternative employment scheme' for providing fresh employment to the surplus labour after they retire voluntarily on payment of *ex-gratia* amount equivalent to retrenchment compensation admissible under the Industrial Disputes Act, besides payment of full terminal benefits such as gratuity, contributory provident fund and leave salary. It has been stated that as a result of these measures extent of surplus departmental labours has been considerably reduced as would be apparent from the following figures:—

A. Surplus assessed in		
(i) Regular		1800
(ii) Non-regular		1189
	Total	2989
B No. of Surplus labour shed till December 71		1005
C. Balance surplus		1984

12.19. The following are some other steps being taken to tackle the problem of surplus departmental labour:—

(i) To transfer the workers from the port to the local godowns as far as possible where activities are likely to contiune, even if the imports stop altogther.

(ii) The Dock Labour Board/Port Trust are being persuaded to take over the surplus labour where ever possible, avoiding fresh recruitment. The respose from Vizag Dock

Labour Board considering absorption of the permanent gangs is hopeful. Madras and Kandla Port Trust/Dock Labours Board apprehend the problem of surplus labour. Bombay Dock Labour Board may consider taking over a couple of hundred people.

(iii) The condition of 5 years' minimum qualifying service for being eligible to get the benefit of Gratuity, Provident Fund contribution etc. has been waived with the concurrence of the Department of Food, in order to induce the departmental workers to seek voluntary retirement.

(iv) Details are also being worked out for a voluntary retirement scheme, offering attractive terms to induce the labour to seek voluntary retirement.

12.20. The Committee find that, as on 31st March, 1971, while the turnover of the Corporation has increased five times its staff strength has increased 12 times. The Committee are not able to appreciate the passive and somewhat complacent attitude adopted by the Corporation in the matter of taking over a large number of staff on the plea that they were doing the work before the Corporation was formed and took over those functions. The Committee feel that it should not have taken the Corporation long to work out some realistic norm and critically examine on each occasion to see whether it was at all necessary to add the entire staff while taking over some functions. It was obviously incumbent on the Corporation to ensure on each such occasion that the number taken over was absolutely the minimum and essential for the discharge of responsibilities. The Committee feel that had this critical and analytical approach been applied from the very inception, the Corporation would not have found itself burdened with the problem of an excessively large number of staff.

12.21. The Committee note that recently the Corporation have had two studies made of the operational norms and man-power by IBCON(P) Ltd. and the Institute of Management, Ahmedabad. Now that the role and responsibilities of the Corporation are well defined and they have the benefit of the studies made by two expert bodies and extensive experience in the field it should be possible for the Corporation to evolve, without further delay, realistic norms for manning of the different operations. In evolving these norms, the

Corporation would no doubt keep in mind the imperative need for reducing the unconscionably high handling charges which are at present being charged by them.

The Committee note that as on 31-3-71 the staff strength of the Corporation is made up of direct recruits (24 per cent.) deputationists 19 per cent) and transferees (57 per cent). There should be no difficulty in placing back the services of deputationists who are surplus to the requirements at the disposal of the respective parent departments. No additional recruitment should be made unless it is absolutely inescapable and certified as such by the Managing Director in consultation with the Finance Adviser.

The Committee also find that the Corporation have taken over as many as 5,000 employees of West Bengal Government when the distribution of foodgrains was taken over at the instance of West Bengal Government. The Committee feel that the Food Corporation should not be saddled with the duties and responsibilities of internal distribution which should appropriately be discharged by State auhorities who had detailed knowledge and experience of local requirements. There should be no question of such State employees being taken over by the Corporation and swelling further the Staff strength.

12.22. The Committee would also like to draw attention to the problem of dock labour engaged specially for handling of foodgrains. A study made in 1970 had revealed that as many as 2,989 dock labour were surplus to requirements. The Committee note that as a result of introduction of various measures such as Voluntary Retirement Scheme and alternative employment scheme, the Corporation were able to shed 1005 dock labour leaving still 1984 of dock labour as surplus. As our country has already attained self-sufficiency in foodgrains and we have adequate buffer stock of 7 million tonnes of foodgrains, the import of foodgrains is bound to cease. The Committee recommend that keeping in view these factors, the Corporation should undertake continues study to determine the extent of surplus departmental dock labour engaged in handling of foodgrains and draw up a time bound programme in consultation with Port Trusts, Dock Labour Boards, Ministries of Transport & Labour for finding alternative employment for them.

D. Overtime Allowance

12.23. The following amounts of overtime allowance were paid to the staff of the Corporation each year since its inception:

Year	Total amount of overtime allowance paid
	(Rupees)
1965-66 .	9,942
1966-67 .	35,971
1967-68	2,42,822
1968-69 . .	11,96,084
1969-70 . .	31,71,322
1970-71	56,57,650

12.24. The Ministry of Agriculture (Department of Food) have intimated that the steep increase in the overtime allowance paid from 1969-70 onwards as compared to the earlier years was mainly attributable to the fact that the clearance operations at all the ports in the country alongwith the staff working at those ports had been transferred to the Corporation by the Government of India (from 16th December, 1968 in all the ports other than western ports and from 1st March, 1969 in western ports also). The increase in overtime allowance, it has been stated, was also attributable to the enormous increase in procurement, movement and storage operations undertaken by the Corporation from 1969-70 onwards as compared to earlier years.

12.25. Asked as to how it was that the Corporation paid overtime allowance to their staff at the rates applicable to their staff at the rates applicable to Central Government employees when their staff had their own scales of pay, the Corporation have stated that the overtime allowance is related to the actual emoluments of an employee and not to his scale of pay.

12.26. The Committee enquired that if the steep increase in overtime allowance since 1969-70 had been due to transfer of port operations work to the Corporation from 16th December, 1968 what overtime allowance was paid at the clearance ports earlier and what the quantity of foodgrains handled then. In reply, the Corportion intimated that the following amounts of overtime allowance was paid at the clearance ports during the years 1967-68 and 1968-69:—

	1967-68		1968-69	
	OTA Paid (Rs.)	Qty of food-grains handled (in M.T.)	OTA Paid* (Rs.)	Qty of food grains handled (In (M.T.)
CALCUTTA . .	1,70,490	16,22,621	2,31,843 (upto (15-12-68)	9,08,915
WESTERN ZONE	4,69,440	38,93,000	7,01,379	22,60,000
SOUTHERN ZONE	Figure not readily available	14,79,545	23,038	6,73,595 (up to 15-2-68)

12.27. Asked whether incentive wages are being paid for clearance operations the Corporation have intimated that incentive wages are being paid for clearance operations on the basis of Schedules I & II of the Memorandum of Settlement dated 30th October, 1964 at Bombay Port and of the letter dated 29th September, 1967 of the Department of Food and the Venkatachallam Award dated 24th July, 1971 at Vizag Port. These rates represent the total rates constituting the normal rates plus the element of incentive. The incentive wages scheme is in vogue at two ports *viz.*, Bombay and Vizag. The following amounts were paid at these ports as an incentive:—

Year	Incentive Amount (Rs. in lakhs)
BOMBAY	
1969-70 . . .	0·79
1970-71 . .	2·71
VIZAG	
1969-70 . .	0·72
1970-71 .	1·03

*The amount of overtime allowance paid covers not only the work relating to handling of foodgrains but also other work like handling of fertilizer and gift consignments at the clearance ports.

12.28. Normally when the staff strength of an undertaking increases, expenditure on overtime allowance is expected to come down. The Committee, however, observe that in the case of the Food Corporation of India, despite increase in its staff strength, expenditure on overtime allowance to staff showed an upward trend. Expenditure on Overtime Allowance has increased from about Rs. 10 lakhs in 1965-66 to Rs. 56 lakhs (approximate) in 1970-71 Keeping in view the fact that the Corporation have more than adequate number of personnel on their rolls, the Committee suggest that the deployment of manpower and rosters of duty should be so arranged as to bring down the incidence of overtime.

E. Labour-Management Relations

12.29. The 'transferees' continue to be members of the same service Associations as existed while they were employed in the Food Department of the Government of India. The All India Central Government Food Employees' Association is the all-India organisation representing non-gazetted employees. The present status of the Food Department transferees in the Corporation is that of deputationists on foreign service terms without entitlement of deputation allowance. The direct recruits of the Corporation have also formed themselves into a Union known as Food Corporation of India Employees' Union representing categories III and IV employees. The Union was registered in Madras in May, 1967 under the Indian Trade Union Act. This Union has also got regional branches.

12.30. The Association of Food Department transferees and the Union of direct recruits have been representing for recognition of thier Unions by the Corporation. They have not been accorded recognition so far because the Corporation are of the view that until the Food transferees are finally absorbed in the Corporation, the status of he Association would be fluid and the question of its recognition premature. The number of direct employees of the Corporation is very small and the Corporation thinks that to give recognition to their union at this stage will give rise to multiplicity of Unions after the Food Department 'transferees' are finally absorbed in the Corporation. It is only when one cadre of Corporation's own employees including transferees and direct recruits emerges that the time will come to give recognition to the most representative Union to ensure harmonious staff relationship.

12.31. At present, the Association|Union have been given a *de facto* status for purposes of negotiating staff relations etc. Although formal recognition has not been extended to the staff Association and the Union, it has been stated that the Corporation do not deny to them access to different levels of management in the Districts, Regions and the Head-quarters. It has been stated by the Corporation that "Regular periodical and *ad hoc* meetings are being held with them at various levels and efforts are constantly being made constructively to the problems brought out by them. The Corporation have stated that this approach has been on the whole working well.

12.32. The Committee recommend that genuine grievances of the employees of the Corporation should be attended to with sympathy by the management of the Corporation.

XIII

PLANNING AND RESEARCH

Planning and Research Dixision of the Food Corporation of India is responsible for formulating and recommending to the Management, policies and programmes pertaining to purchase sale, behaviour of market prices, development schemes, assessment and evaluation of their progress and identifying new activities for diversification. The Division undertakes market surveys relating to appraisal of crop out-look and prospects, market arrivals, stocks with trade and market sentiments. It also prepares complete project reports, feasibility reports for location of plants|rice mills, planned movement of foodgrains to derive maximum advantage at minimum cost and other operational research studies and long range planning in regard to operations. It keeps the Management informed of All-India position of foodgrains, progress of regulatory measures of selective credit control and advises measures to be adopted in case of regulation of forward trading, credit squeeze, restrictions on inter-state movements, exports etc.

13.2. It has been stated by the Corporation that due to limited staff in the Division till now, the scope of market intelligence had been largely limited to the collection of prices, analysis and preparation of perodical reports, etc. However, since the Corporation has been increasingly involved both in procurement and distribution operations all over the country, the need to enlarge the coverage of functions of the Planning and Research Division of the Corporation so as to keep the management better informed about the crop prospects, market arrivals during the post harvest period in the producing areas and later in the terminal markets, prices in the producing and consuming areas, general market sentiments etc. was felt and the following additional functions had been entrusted to the Division:

(i) Assessment of Kharif Crop prospects during August of every year covering the major States.

(ii) Similar assessment of rabi crop prospects in major rabi States.

(iii) Study of actual operations in the peak marketing season of both kharif and rabi reasons in December|January, May/June respectively. In these studies actual procurement market systems movement pattern, storage, payment etc. will be etc.

(iv) Special surveys of purchases and sales in respect of commercial commodities like gram, mustard, seeds, groundnut pods, oil etc.

13.3. The Corporation contemplate strengthening of the Planning & Research Division by the addition of a Senior Deputy Manager, two Assistant Managers etc. for dealing exclusively with the market intelligence work. In addition to this, there would soon be a Deputy Manager (Operations Research) with the Division who would be in a position to apply Operations Research technique to transport planning, storage utilisation, optimum product mix, rotation of stocks and other related studies.

13.4. During 1971-72 the Planning and Research Division has completed (i) a location study for a Soya Bean plant, (ii) sales strategy for Ujjain plant, Maize Mill and Rice Bran solvent extraction plant, (iii) Inventory Control study of Chemicals (iv) Rotation problem of Buffer stocks, (v) study of implications of abolition of single-State Rice zone, (vi) examination for diversification of purchase and seales programme in strategic sectors, (vii) study of price behaviour of Rice in W. Bengal and (vii) velocity of stocks in storage godowns. Their programme for 1971-72, includes exploration of export potential for selected agricultural produce and processed food and preparation of Project-Report on Cattle and Poultry feed.

13.5. The Committee note that the Food Corporation of India have a Planning and Research Division which has been expanded recently. The Committee feel that the work could have been handled by a cell instead of a Division, as the main purpose of planning and research is to help the management in devising tools for exercising vigilant, contemporaneous and effective control of field operations. The expenditure on this cell should be kept under close scrutiny and should be commensurate with the services it is able to render to the management. The Committee need hardly stress that the approach of the cell should be problem-oriented. The Committee would commend that the following problems, amongst others, may be taken up by Research and Planning Cell for urgent study:

(i) Devising ways and means for purchasing either directly or through genuine cooperatives from the producer so that he gets the maximum benefit of floor price;

(ii) planning movement of foodgrains so as to obviate "damage by wet";

(iii) Location of storage capacity, keeping in view the size of Buffer Stock to be built and the need to remove regional imbalances and transport bottlenecks;

(iv) Analysis of "incidentals" incurred by the Corporation with a view to reduce them to the minimum, and

(v) Perspective plan so that the Corporation may modify|rationalise its structure and modes of operation in keeping with changing requirements.

XIV

CONCLUSION

The Food Corporation of India was set up on the 1st January, '65 with the object of:—

(i) ensuring that the primary producer obtains the minimum price that may be announced by Government from time to time;

(ii) protecting the consumer from the vagaries of speculative trade;

(iii) securing for itself a strategic and commanding position in the foodgrains trade of the country.

14.2. The Corporation have been able to fulfil these objectives to a very large extent. During Rabi season 1970-71, apart from taking over 2.18 million tonnes of wheat procured by State Governments or their cooperative Marketing Federations, the Corporation purchased one million tonnes of wheat, 90,000 tonnes of rabi coarse grains and over 5,000 tonnes of mustard seeds. During the kharif season of 1970-71 the Corporation purchased over 1.35 million tonnes of rice procured by State Government or their agencies. The Corporation sold a total quantity of 5.1 million tonnes of wheat and 2.4 million tonnes of rice during 1970-71 through the public distribution system. It handled transportation of over 9 million tonnes of foodgrains. It has successfully implemented Crash Programme and added 8 lakh tonnes of storage capacity at a cost of Rs. 16 crores during 1970-71 raising the total storage capacity to 6.4 million tonnes as on 31st March, 1972. The Corporation have also launched a project of setting up 24 modern rice mills in the country.

14.3. The Committee have found that FCI's direct procurement of Foodgrains from farmers had ranged between 0.1 to 3.4 per cent of the total procurement during the last three years. The Committee have also found that the current involvement of cooperatives is only 25 per cent of total procurement. The Committee have expressed the feeling that if the Cooperative movement is to make any significant advance in the area of procurement of foodgrains, its involvement should be stepped up from year to year on a programme basis.

Where the cooperatives are not functioning, direct purchase centres may be got opened in consultation with State Governments so as to procure the foodgrains directly from the producers without the intervention of "Addhartias" and other middlemen.

14.4. The utilisation of godowns on gross capacity has improved from 52 per cent in 1965-66 to 77 per cent in 1971-72 (April-June). On usable capacity the utilisation was 58 per cent in 1965-66 but in 1971-72 (April-June) it was gone up to 86 per cent. Though some improvement in the utilisation of godowns over the years is thus discernable, the Committee cannot regard the present level of utilisation as the optimum one. The Committee have therefore, recommended that concrete measures aimed at optimum utilisation of storage capacity should be evolved and given effect to.

14.5. During 1966-67 to 1970-71 the Food Corporation of India suffered a total storage loss of Rs. 21.96 crores. Although viewed against the total turnover, these storage losses are not large but in themselves they are substantial and they call for urgent and effective steps to minimise such losses. The Committee have recommended that norms for storage losses should be fixed suitably which should be the lowest leaving no scope for unscrupulous elements to take advantage of high norms and remove the foodgrains. Every case of storage loss which is in excess of the norm should be promptly and thoroughly investigated with a view to finding out the exact reasons for the loss and taking remedial measures. There is also a clear need to intensify vigilance and surprise checks at the various loading, unloading and weighment points.

14.6. Losses of foodgrains in transit had been rising steadily from Rs. 95 lakhs in 1965-66 to 780 lakhs in 1970-71. In relation to the quantity moved the percentage of transit loss has increased from 1.13 per cent in 1965-66 to 1.58 in 1966-67 and 1.76 in 1967-68 until 1968-69 when such losses reached an all time high at 3.26 per cent. The Committee also note that subsequently, the Corporation had been able to arrest the rising trend of transit losses in close coordination with Railways. 1969-70 transit losses were brought down to 1.4 per cent and it is estimated that these losses may be only 1.23 per cent during 1970-71. The Committee have welcomed the efforts made by the Food Corporation of India and the Railways to bring down these losses under control but feel that vigorous efforts are called for the further minimise the transit losses. With this end in view, the Committee have recommended adoption of certain measures such as use of standardise bags, adoption of uniform scales for weighment, avoidance of open wagons for transport of foodgrains intensification of enrouts checks and augmentation of security arrangements etc.

14.7. One of the main grievances voiced before the Committee by a Federation of the Roller Flour Millers was that millers had to buy all their requirements of wheat from the Food Corporation of India and that even when open market prices of wheat were less than the Corporation's prices they could not take advantage of the reduced open market prices. During evidence the official representative of the Ministry of Agriculture (Department of Food) informed the Committee that the ban on the Roller Flour Millers to purchase their requirements from open market had since been lifted and now if a Miller did not want supplies from Government, he was free to purchase 100 per cent of the required grain from the open market but if a Miller still wanted supply from Government he can buy only upto 30 per cent from the open market. While the Committee hope that this relaxation will remove the main grievance of the Roller Flour Millers, the Committee wish to invite attention of Government to the need to ensure that whatever quantities of wheat are sold by the Corporation to the Roller Flour Millers at a fixed price are in fact milled into Atta and are not surreptitiously sold in the market in order to earn profits without rendering any service to the consumers of Atta.

14.8. The Committee have stressed the need for further strengthening of the public distribution system and in particular mentioned the need for making foodgrains available at reasonable prices to those living in rurl or inaccessible areas.

14.9. Though the project to set up 24 modern rice mills in the county was approved in 1967, but so far only 16 out of these 24 mills have been commissioned. The Committee have expressed the feeling that an important project like the Rice Mills should have been given high priority in allocation of steel, fabrication of parts and acquisition of land to facilitate the commissioning of the Mills wthout delay.

14.10. Since July, 1967, the Food Corporation of India had produced 62,030 tonnes of 'Balahar' and fortified 42,012 tonnes of Mill Atta since 1970. The Committee are convinced that at this rate it will not be possible to touch even the fringe of the problem of malnutrition and under-nutrition in the country. The Committee are glad to note that Government are considering proposals to expand these programmes so as to embrace the entire country and also launch other programmes. The Committee have expressed the hope that keeping in view the urgency of combating protein deficiency in the daily diet of the people particularly in the weaker sections of society, decisions on these proposals would be arrived at soon and the approved programmes would be implemented with speed and vigour as to bring these fortified foods within the reach of weaker sections of society.

14.11. The Food Corporation of India having been primarily constituted in the interest of the producer and the consumer it should be its ceaseless endeavour to serve both these interests (i) by procuring foodgrains directly from the producer and obviating the intervention of middlemen, (ii) by giving wide publicity to the grades of foodgrains and the prices being currently paid by Food Corporation amongst thee farmers so that they are encouraged to sell their foodgrains directly to the Corporation rather than to 'Arahityas' and other middlemen, (iii) by ensuring quick and prompt payment 'on the spot' to the farmers for their foodgrains so as to win and sustain their confidence, and (iv) by accelerating procurement of foodgrains through Cooperatives.

14.12. The Committee note that the Food Corporation have already drawn as much as Rs. 67.98 crores as subsidy from Government up to May, 1971.

The Committee feel that the Food Corporation should spare no efforts to cut these overhead charges and operational losses so as to reduce the need and quantum of subsidy which is being paid to the Corporation to cover the difference between the economic cost of foodgrains and their sale price.

14.13. The Committee have found that the outstandings of the Food Corporation of India have gone up from Rs. 33.60 crores as on 30-11-70 to Rs. 67.19 crores as on 31-10-1971. Of the total amount of Rs. 67.19 crores, the outstandings from State Governments alone are Rs. 49.42 crores. Some of the oldest items outstanding from State Governments date as far back as 1966-67. The Committee feel that Government should persuade the State Governments concerned to clear the outstandings expeditiously, so that the Corporation can have larger liquid resources and will not be forced to lead too heavily on loans on which they have to pay a high rate of interest.

14.14. As on 31st March, 1971, while the turnover of the Corporation has increased five times its staff strength has increased 12 times. The Committee have not been able to appreciate the passive and somewhat complacent attitude adopted by the Corporation in the matter of taking over a large number of staff on the plea that they were doing the work before the Corporation was formed and took over these functions. The Corporation should have worked out some realistic norm and critically examined on each occasion to see whether it was at all necessary to add the entire staff while taking over some functions. Had this critical and analytical pproach been applied from the every inception, the Corporation would not have found itself burdened with the problem of an excessively large number of staff. The Committee recommend that services of deputationists who are surplus to the requirements may be placed back at the disposal of the respective parent departments.

14.15. The Committee feel that with the increase in its staff strength, it should have been possible for the Corporation to reduce expenditure on over-time allowance. Expenditure on Over-time allowance has increased from about Rs. 10 lakhs in 1965-66 to Rs. 34 lakhs in 1970-71. The Committee have suggested that deployment of manpower and duty rosters should be so arranged so as to bring down the incidence of Over-time allowance.

14.16. The Committee have viewed with concern the fact that there had been steep rise in the incidental expenses of the Food Corporation of India. In the case of wheat, handling charges are Rs. 9.15 per quintal and constitute 12 per cent of the procurement price of Rs. 76 per quintal of wheat. When 'procurement incidentals' of Rs. 10.26 per quintal are added to the Corporation's incidentals of Rs. 9.15 per quintal, handling charges amount to Rs. 19.41 per quintal and constitute about 25 per cent of the procurement price of wheat. As the turnover of the Corporation had increased manifold and it is now admittedly one of the biggest trading Corporation in the world dealing as it does, with 10 million tonnes of foodgrains and sales to the tune of Rs. 800/- crores, the Committee feel that the Corporation should desire full benefit of economy of scale and reduce its incidentals to a reasonable level.

M. B. RANA,
Chairman,
Committee on Public Undertakings.

NEW DELHI;
April 12, 1972
Chaitra 23, 1894 (S)

APPENDIX I

(*vide* para 2·16)

Statement Showing the Powers Delegated to Zonal Managers in the Food Corporation of India

Sl. No.	Nature of powers delegated	Extent to which powers are delegated	Remarks
1	2	3	4
		SECTION-I	
1	Controlling authority for travelling and other allowances	(i) Cat. I/II in Zonal Office except D.F.A. (ii) Tours of all officers beyond the Zone. (iii) Air travel of officers drawing pay below (Rs.1000/- All over India) (iv) May authorise officers to travel by higher class than to which entitled.	
2	Authority Competent to create posts.	*(i) Category-III & IV upto one year. *(ii) Posts of Asst. Mgr. upto 3 months, subject to a report being sent to the R.O. *immediately* will full justification for sanctioning extension beyond 3 months if considered necessary.	*In Consultation with FA / DFA
3	Authority competent to appoint persons to posts.	Cat II	
4	Authority competent to promote employees.	Do.	
5	Disciplinary authority for the employees in respect of :		
	(i) Minor penalties	Cat. II in the Zonal Office.	
	(ii) Major penalties	Cat. II in the Zone.	
6	Appellate authority for the employees in respect of :		
	i) Minor penalties	All Cat. II except in Zonal Office Cat. III & IV (of the Zonal Office).	
	(ii) Major penalties	Cat. III (entire Zone) Cat. IV Zonal Office.	

1	2	3	4
7	Authority competent to transfer employees.	Employees of and below the rank of S.D.M. within the Zone.	
8	Authority competent to grant earned leave.	R.Ms and other under his control where no relief is required except D.F.A.	
9	Appointment of staff paid from contingencies and limits upto which they could be paid.	Full powers subject to Budget provision.	
	SECTION-II		
1	Local purchase of stationery and other articles needed for an office.	Full powers.	
2	Contingent Expenditure :		
	(a) recurring . . .	Full powers.	
	(b) non-recurring . . .	Full powers.	
	(c) Fxpenditure on entertainment (light refreshment on informal meeting or conference) within the office).	Full powers.	
	(d) Entertainment charges, light refreshments etc. outside office premises.	Full powers.	
3	Grant of advances for the following :—		
	(a) From Provident Funds		
	(b) Advance of pay		
	(c) Advance of T.A.		
	(d) Festival advance		
	(e) Conveyance Advances	Zonal Manager/D.F.A. will function as controlling officer in respect of the Zonal Office staff for grant of advances. Conveyance advance to the Zonal Office staff will be sanctioned by the Secretary, treating the Zonal Office as part of the Head Office.	
4	(a) Purchase of furniture	Full powers.	
	(b) Hiring of office furniture including electric fans.	Full powers.	
	(c) Purchase of type-writers, duplicating machines, franking machines and other office requirements.	Full powers.	
	(d) Purchase of Electric fans needed for office.	Rs. 2,000 per year.	

1	2	3	4
5	Payment for maintenance, upkeep and repairs of motor cars.	Full powers.	
6	Telephone rents for existing connections.	Full powers.	
7	Installation of new telephones.	Full powers.	
8	(a) Repairs to or erection/removal of machinery	Full powers.	
	(b) Purchase and repair of fire fighting equipment.	Full powers as per scale.	
9	(a) Purchase of priced official publications such as books, maps newspapers etc.		
	(i) recurring and (ii) non-recurring	Full powers.	
	(b) Purchase of general publications for the recreation of the staff.	Rs. 2,500	
10	Purchase of cycles, repairs to cycles etc.	Full powers.	
11	(a) Hiring of typewriters and repairs to typewriters.	Full powers.	
	(b) Purchase of comptrometers and repairs to them.	Full powers.	
12	Sanction of expenditure for despatch/receipt of stationery stores etc. from one place to another.	Full powers.	
13	Incidental expenditure — Municipal rates & taxes.	Full powers.	
14	Maintenance and repairs to buildings and installations :		
	(a) Major repairs	Full powers subject to budget provision.	
	(b) Urgent and minor repairs	Do.	
	(c) Special repairs including sanitary fitting, water supply, electric installations etc.	Do.	
15	(a) Hiring of office accommodation and execution of lease agreements.	Full powers.	
	(b) Hiring Storage accommodation.	Full powers.	
16	Postal, telegraph and telephone charges.	Full powers.	

1	2	3	4
17	Purchase of liveries, badges and other articles of clothing and sanctioning washing allowances.	Full powers as per scale laid down.	
18	Funds required for foundation laying ceremonies, opening of public buildings and similar functions.	Full powers.	

SECTION III

1	2	3	4
1	Powers to write off losses of foodgrains.	1% of the value of the grain.	
	(a) In transit by rail. Operation & Transit Losses (*vide* order No. K-3/68/Genl (1) dated 15-11-68)		
	(b) In transit by road.	Do.	
	(c) In storage.	Do.	
2	Payment of wagon and shed demurrage charges.	Full powers subject to responsibility being fixed as laid down in the manual.	
3	Powers to engage labour departmentally on daily wages under emergent cases.	Full powers subject to justification.	
4	Write off of losses of dunnage in storage.	Full powers.	
5	Servicing of weigh-bridge and weighing machines.	Full powers.	
6	Powers to write off of deficiencies and depreciation in the value of stores other than foodgrains included in the stock and other accounts.	Full powers.	
7	Powers to write off loss of gunnies.	Full powers.	
8	Powers to dispose of dead stock articles and write off of losses connected therewith.	Full powers.	
9	General write off of losses :-		
	(a) irrecoverable losses of stores.	Full powers.	
	(b) Losses of revenue or irrecoverable loans and advances or other money due.	Rs.5000 in each case or subject to a maximum Rs.25000 in a year.	
10	Disposal of unserviceable, surplus and obsolete stores.	Full powers.	
11	Disposal of sub-standard, damaged or deteriorated foodgrains.	Full powers.	

1	2	3	4
12	Local purchase of		
	(a) Gunnies	Full powers.	
	(b) Jute twine	Full powers.	
	(c) Dunnage	Do.	
	(d) Locks and electric bulbs	Full powers.	
	(e) others	Full powers.	

SECTION IV—PORT OPERATIONS

1.	Payment of freight charges		
	(a) Railway Frieght	..	
	(b) Steamer Frieght	Full powers	
2.	Payment of ship's demurrage	Full powers.	
3.	Write off of losses arising out of discharging and clearnace operations		
	(a) Loss of foodgrains in tranist including LOB/ @LOP.	Full powers.	
	(b) Loss of damaged foodgrains	Full powers.	
	(c) Loss of dunnage	Full powers.	
	(d) Loss of gunnies Jute twine including LOB-LOP	Full powers.	
4.	Disposal of obsolete/surplus/unserviceable stores and deadstock articles.		
	Other than gunnies	Full powers.	
5.	Disposal of substandard	Full powers.	
6.	General write off of losses. (This will cover losses other than those directly connected with discharge/ clearance mentioned in item 5 above)		
	(a) Irrecoverable losses of stores including gunnies and jute twine/foodgrains, public money due to theft, fraud or negligence.	Full powers per year.	

@L.N.B. : LOST OVER BOARD : (i) the rates secured are not lower than the rates announced by the Government of India from time to time for the disposal of old serviceable gunnies; (where the most favourable rates secured are lower than the Government of India rates, the Regional Managers/Joint Manager (Port Operations)/ Deputy Zonal Managers should consult the Zonal Manager).

L.O.P. : LOST OVER PIER : (ii) In cases where the State Government approach the Regional Managers/Joint Manager (Port Operations) / Deputy Zonal Managers may effect direct sale if the rate payable by the State Governments is fixed as the average of the rates secured during these auctions/tenders immediately proceeding the sale or the Government of India rates for serviceable gunnies whichever is higher.

1	2	3	4
	(b) Irrecoverable losses of stores including gunnies and jutetwine/foodgrains, public money otherwise than due to theft, fraud or negligence.	Full powers.	
	(c) Losses of revenue or irrecoverable loans and advances or other moneys due.	Upto Rs. 10,000/- per year.	
7.	Settlement of shipping claims valued upto:	Rs. 25,000/-	
8.	PURCHASES		
	(a) Purchases of gunnies and jutetwine	Full powers.	
	(b) Purchase of miscellaneous articles such as metric weights, threads, needless discharging equipments spare parts and accessories for all kinds of equipments including grain vayors, vacuators etc. stores for silos, dunnage for use in the parts, pellets for fork lifts.	Full powers.	
	(c) Purchase of weighting scales	Full powers.	
	(d) Purchase of sophisticated machineries & equipments including grain vayors, vacuators, conveyor belts, fork lift cranes. etc.	—	
9.	Powers to make departmental arrangements for stedoring, clearing, handling, loading, unloading, transport and other operational work at the ports/depots inside the port areas.	Full powers in case of emergency for a period not exceedig 3 months.	

SECTION V—General Administration

—Nil—

SECTION VI

1.	Negotiated or single tender contracts (including limited or open tender) which results in only one effective tender like handling, transport etc.	Rs. 5 lakhs.
2.	Authority competent to refund security deposits.	**May authorise in consultation with the Deputy Financial Adviser the refund of security deposits to contractors who are unable to submit 'No Demand Certificate' owing to non-settlement of their claims against the Corporation.
3.	Power to finalise schedules of contract rates for the Regions falling within the Zone.	Full powers.

SECTION—VI(A)

1.	Transportation of foodgrains fertilisers etc. by road.	Open tenders Full power. (in consultation with the Dy. Fin. Adviser of the Zone).

** Copy of the order passed by the G.O. for refund of security deposits in such case should be endorsed by the Head Office. In respect of contract not within the jurisdiction of ZMs proposals for the refund of security deposit without production of 'No Demand Certificate' should be referred to the H.O.

Sl. No.	Nature of powers delegated	Zonal Manager
1	2	3

SECTION VII

Legal Matters

1.	Sanction of and defending law suits etc, and filing and defending appeals where the subject matter of the suit or appeal does not exceed.	Rs. 10,000/-
2.	Sanction for reference to arbitration in accordance with arbitration Agreement between the parties and defence of arbitration cases.	Rs. 10,000/-
3.	Settlement of cases out of Court or withdrawing or dropping of appeals or making compromises.	Rs. 10,000/-
4.	Authority competent to sanction payment from Corporation's funds in accordance with the degree of a court of the award of an arbitrator.	Rs. 10,000/-
4A.	Authority competent to sanction defence of claims under Workmen's Compensation Act and to make payment of Compensation under the Act as per orders of the Commissioner/Appellate Authority.	Rs. 10,000 in each case (in consultation with the SDM/DM (Legal) also with DFA/AFA attached to the ZM's Office.)
5.	Authority competent to sign and execute Vakalat and sign and verify pleading and connected papers	Appropriate officer not below the rank of a District Manager after obtaining necessary prior approval of the authority competent to sanction filling defending suits/appeals etc.
6.	Authority competent to appoint counsel and to pay fees to him.	Do.
7.	Fees to Central Govt./State Govt. pleaders in accordance with the scales prescribed by the Central/State Govt. as the case may be.	Rs. 1,000/-
8.	Sanction for filing criminal cases, including complaints to police.	District Manager or any other superior authority with the prior approval of the Managing Director.
9.	Authority competent to sanction defence before a criminal court. Original or appallate of any Official of the FCI accused of any offence alleged to have been commited by him while acting or purporting to act in the discharge of official duties.	Managing Director in consultation with the F.A.

Note :

1. Officers/authorities empowered to act for the Corporation in respect of any judicial proceeding in accordance with the delegations contained in this Section shall be deemed to be the recognised agents by whom appearances, acts and applications under this Section may be made or done on behalf of the Corporation.

2. The Managing Director is empowered to give ex-post-facto sanction in suitable cases concerning items 1 to 8 where prior sanction of the Managing Director as required was not obtained. This note shall be deemed to have come into force on 1-4-65.

3. The amounts shown in the above statement indicate the maximum limits in respect of each case or a batch of related or similar cases.

4. In this Section, Central Government/State Government pleader shall be deemed to include a standing Council or solicitor appointed to handle Food Corporation of India's litigation/legal work with the prior approval of the Managing Director.

5. In the Section, the expression 'District Managers' shall be deemed to include a Deputy Manager, an Assistant Manager and any other officer discharging the functions of a "District Manager" similarly a Regional Manager shall be deemed to include any officer discharging the functions of a "Regional Manager".

Further clarifications issued *vide* Circular No. 3/1/70-Legal dt. 11-5-70.

Item No. 1,2, & 3 *of Section VII* : These powers relate to and cover only suits and arbitration matters where some money claims form the subject matter and not writs where important questions of law/policy are generally involved. Therefore, all cases of writs proposed to be filed by the Food Corporation of India or filed by others against the Food Corporation of India (irrespective of pecuniary limits) should be referred to the Administrative Division concerned in the Head Office for Managing Directo's sanction for filing or defending the writs as the case may be.

SECTION—VIII

1.	Laboratory/storage equipments/other miscellaneous items costing upto Rs. 50/-.	Full powers.
2.	Laboratory/Storage equipments/other miscellaneous items costing Rs. 51/- to Rs. 200/-.	Full powers.
3.	Laboratory/storage equipments whose individual cost is Rs. 200/- and above.	Full powers.
4.	Entering into contract for stitching of new fumigation covers of specifications approved by Head Office.	Full Powers.
5.	Maintenance and repairs to Laboratory/Storage equipments and Gas proof covers.	Full powers.
6.	Purchase of Laboratory chemicals .	Full Powers.
7.	Purchase of Rectified spirit for Laboratories. .	Full powers.
8.	Emergency purchase of insecticides/Fumigants/chemicals of approved specifications etc.	Full powers.
9.	Purchase of Technical Books/journals. .	Full power .
10.	Purchase and Repairs of Laboratory Furniture including electrical/water fittings etc. according to the approved scale.	Full powers.

N.B. :—Items 1,2,3, and 10 : while exercising the powers under these items the scales laid down by Head Office will be strictly adhered to.

DELEGATION OF POWERS FOR OPERATION AND MAINTENANCE OF FOOD-GRAIN HANDLING EQUIPMENT AT PORTS AND DEPOTS

SECTION LX—PORTS & DEPOTS

1.	Purchase without call of tenders of stores borne on DGS&D Rate Contract (such as diesel oil etc.) but without going through DGS&D)	5,00,000	
2.	Purchase of proprietory stores direct from manufactures/ authorised distributors (e.g. spare parts etc.)	50,000	
3.	Purchase of stores other than those in items 1 and 2 above against tender enquiry.	1,00,000	
4.	Condemnation/scrapping and write-off of over-aged machinery, plant or equipment.	10,000	(book value less depreciation).
5.	Award of contracts for repairs to plant and machinery.	50,000	
6.	Cash purchases (miscellaneous items not exceeding Rs. 100/- each)	25,000	

APPENDIX II

(*Vide* para 3·2)

RABI PROCUREMENT

Procurement of Foodgrains during Rabi April, 1968—*March*, 1969

S.No.	States	Quantities in tonnes Target Fixed	Procurement from April '68-March '69
1	2	3	4
Wheat			
1	Rajasthan FCT	1,00,000	70,146
2	Bihar	—	131
3	Madhya Pradesh FCT	1,00,000	1,02,182
4	Gujarat	—	74
5	Delhi	—	580
6	U.P. from State Govt.	—	4,00,183
7	Uttar Pradesh	—	85,019
8	(a) Punjab F.C.T.	4,00,000	5,28,013
	(b) Markfed Punjab	—	5,19,164
9	(a) Haryana	—	1,69,532
	(b) Markfed Haryana	—	5,958
	(c) U.T. of Chandigarh	—	1,664
	(d) Himachal Pradesh	—	19
	Total	6,00,000	18,82,665
Barley			
1	Punjab	—	12,685
2	Haryana	—	10,822
3	Rajasthan	—	8,146
4	Uttar Pradesh	—	384
5	U.P. from State Govt.	—	4,351
6	Delhi	—	243
		—	37,031

1	2	3	4
Pulses (Gram/dal)			
1	Punjab/Haryana	30,000	25,707
2	Uttar Pradesh	20,000	22
3	U.P. from State Govt.	—	878
4	Madhya Pradesh	25,000	1,311
5	Delhi	—	1,179
6	Rajasthan	50,000	60,422
	Total	1,25,000	89,519
Black Gram/Urad			
1	Andhra Pradesh	—	757
2	Uttar Pradesh	—	875
		—	1,632
Arhar			
1	Bihar	—	46
2	Madhya Pradesh	—	2,052
		—	2,098
Massoor			
1	Madhya Pradesh	—	32
	Grand Total	7,25,000	20,12,977

(II) *Procurement of Rabi Grains from April, 69 to March, 70*

(In 000 tonnes)

Sl. No.	States	Target	Procurement	% of procurement
Wheat				
1.	Assam	15	0·1	
2.	Bihar	50	9·7	

1	2	3	4	5
3.	Delhi	2	1·2	
4.	*Haryana*			
	(a) Through State Govt.	200	246·4	
	(b) Through Markfed	—	24·4	
5.	Himachal Pradesh	..	0·2	
6.	*Madhya Pradesh*			
	(a) Directly by FCI	85	6·5	
	(b) Through Markfed		12·9	
7.	Mysore	1·5	0·1	
8.	**Punjab*			
	(a) Directly by FCI	775*	763·6	
	(b) Through Markfed	775	802·6	
9.	Rajasthan	75	4·0	
10.	Uttar Pradesh	730	199·2	
11.	West Bengal		0·1	
	TOTAL	2708·5	2074·0	
	Taken over from Punjab Provincial Reserve :—		307·2	
	Taken over from Haryana Provincial Reserve :—		31·8	
	TOTAL	2708·5	2413·0	89·09%
	Gram			
1.	Punjab	10·0	0·2	
2.	Haryana			
3.	Rajasthan	30·0	1·7	
	TOTAL	40·0	1·9	4·75%
	Barley			
1.	Punjab	5·0	..	
2.	Haryana	.	Neg.	
3.	Rajasthan	5·0	..	
4.	Delhi	..	Neg.	
	TOTAL	10·0	Neg.	

*Including U.T. Chandigarh

Note : Neg. stands for negligible.

1	2	3	4	5
	Pulses			
1.	Uttar Pradesh	..	1·7	
	GRAND TOTAL OF RABI GRAINS : . .	2758·5	2416·6	87·60%

(III) *Procurement of Rabi Grains from April,* 1970 *to March,* 1971

(Figures in '000' tonnes)

Sl. No.	States	Target for 1970-71	Procurement April, 70 to March, 71 (upto dates in March, 71 for which figures are available).	Percentage for procurement made so far.
(1)	(2)	(3)	(4)	(5)
Wheat				
1.	Assam . . .	5	..	
2.	Bihar . . .	10	Neg	
3.	Delhi.	2	Neg	
4.	*Haryana*			
	Through State Government Through Markfed . .	350	482	
5.	Himachal Pradesh . . .		Neg	
6.	*Madhya Pradesh*			
	(a) Through Markfed . . .	30	5	
7.	Mysore	0·5	Neg	
8.	*Punjab*			
	(*a*) By F.C.I. . . .	700	670	
	(*b*) By Markfed . . .	700	701	
	(*c*) By State Govt. . . .	1,000	995	
	(d) U.T. Chandigarh . . .	..	4	
9.	Rajasthan	32	Neg	
10.	Uttar Pradesh	300	322	
	TOTAL	3,129·5	3,179	101·58 %

Note : Neg. stands for negligible.

1	2	3	4	5
	Barley			
1.	Delhi		Neg.	
2.	Haryana			
3.	Punjab	6	6	
4.	Rajasthan	..	Neg.	
5.	Uttar Pradesh	..	1	
	TOTAL	6	7	116·67%
	Mustard Seed			
1.	Delhi		Neg.	
2.	Haryana		1	
3.	Punjab		Neg.	
4.	Rajastan	..	4	
5.	Uttar Pradesh	..	Neg.	
	TOTAL		5	
	Gram/Gramdal			
1.	Delhi	..	1	
2.	Punjab	20	10	
3.	Haryana		32	
4.	Rajasthan	60	40	
5.	Madhya Pradesh	20	..	
6.	Uttar Pradesh	..	1	
	TOTAL	100	84	84·00%

Note : Neg. stands for negligible.

1	2	3	4	5
SOYABEAN				
1. Uttar Pradesh	. . . . .	—	Neg	
2. Rajasthan	. . . . .	—	Neg	
TOTAL	. . . . .	—	Neg	
Arhar				
1. Uttar Pradesh	. . . . .	3	Neg.	
GRAND TOTAL	. . . . .	3238·5	3275	
Percentage of procurement in 1970-71	=	101.13%		

NOTE : Neg. stands for negligible.

APPENDIX III

(*Vide* para 3·2)

1. *Procurement of foodgrains* Vis-A-Vis *targets fixed by the F.C.I. during Kharif Nov.* 1967-*October*, 1968

(Quantities in tonnes)

States	Target fixed	Procurement from Nov. 67-Oct'68	Percentage of procurement.
1	2	3	4
Rice / Paddy in terms of Rice :			
Andhra Pradesh	7,00,000	6,80,200	
Assam	1,00,000	69,921	
Madhya Pradesh	4,00,000	2,51,493	
Madras	2,00,000	1,86,415	
Punjab/Haryana	2,75,000	3,49,702	
Orissa	2,50,000	1,64,601	
West Bengal	3,00,000	2,65,596	
Uttar Pradesh	..	5,218	
Bihar	1,00,000	338	
Pondicherry	..	7,661	
TOTAL	23,25,000	19,18,145	85·21 %
Maize			
Punjab/Haryana	2,50,000	2,35,027	
West Bengal	..	24	
Rajasthan	15,000	28,112	
TOTAL	2,65,000	2,63,163	99·31 %
Jowar			
Andhra Pradesh	..	502	
Madhya Pradesh	20,000	80,445	
Rajasthan	10,000	24,807	
Mysore	..	15	
TOTAL	30,000	1,05,769	352·56%

1	2	3	4
Bajara			
Haryana		5,107	
Rajasthan	7,000	14,608	
TOTAL	7,000	19,913	284·47%
GRAND TOTAL	26,27,000	23,69,990	

Percentage of procurement :—90·3%

Shortfall : 9·7 %

II.—*Procurement of foodgrains* vis-a-vis *the targets fixed by the F.C.I. during Kharif—November*, 1968—October, 1969

(Quantities in tonnes)

States	Target Fixed	Procurement from Nov. '68—Oct.'69
1	2	3
(Rice / Paddy in terms of Rice)		
Andhra Pradesh*	5,50,000	3,76,659
Madras	2,25,000	2,38,347
Mysore	3,500	3,296
Orissa	3,00,000	2,71,989
Punjab	2,00,000	2,49,998
Haryana	1,00,000	1,41,012
Madhya Pradesh	3,50,000	3,03,469
West Bengal	4,50,000	4,36,768
Assam	70,000	85,207
Pondicherry	..	8,239
Bihar	75,000	66,582
Uttar Pradesh	10,000	1,060
TOTAL	23,33,500	21,82,626

1	2	3	4
Maize			
Mysore . .		1,000	709
Andhra Pradesh . . .		1,000	..
Haryana		5,000	105
Punjab		20,000	64,352
Uttar Pradesh . . .		20,000	29,873
TOTAL		47,000	95,039
Jowar			
Madhya Pradesh . .		1,00,000	32,671
GRAND TOTAL		24,80,500	23,10,336

Percentage of procurement: 93·1 %

Shortfall : 6·9%

III.—*Procurement of Kharif Grains from November*, 1969—*October*, 1970 *and FCI targets fixed thereof and the percentage of Achievement*

(Figures in '000 tonnes)

S. No.	States	Targets	Procurement	Percentage
1	2	3	4	5
	Rice & Paddy in terms of Rice			
1.	Andhra Pradesh	290	169	
2.	Tamil Nadu	170	183	
3.	Mysore	..	..	
4.	Orissa	300	299	
5.	Punjab	250	360	
6.	Haryana	150	225	
7.	Madhya Pradesh	375	347	
8.	West Bengal	450	411	
9.	Assam	100	60	
10.	Pondicherry	10	5	
11.	Bihar	35	33	
12.	Uttar Pradesh	100	99	
	TOTAL	2230	2191	98·25%

1	2	3	4
Progressive total of rice and paddy for Tamil Naidu, Pandicherry and Punjab/Haryana are from October, 1969.			
Jowar			
1. Madhya Pradesh	50	..	
2. Mysore	..	Neg	
TOTAL . .	50	Neg	
Maize			
1. Haryana	10	Neg	
2. Himachal Pradesh	..	Neg.	
3. Punjab	60	55	
4. U.T. Chandigarh	..	Neg	
5. Uttar Pradesh	60	Neg	
6. Rajasthan	5	..	
7. Mysore	2	..	
TOTAL	137	55	40·14%
Progressive total of Maize for Punjab/Haryana/U.T. Chandigarh are from October, 1969.			
Bajra			
1. Haryana . . .	..	4	
2. Punjab . . .	..	11	
3. Rajasthan . . .	12	Neg.	
TOTAL .	12	15	125%
Pulses			
1. Rajasthan (Moong) . . .	2·5	0·5	
2. Rajasthan (Urad)	..	0·1	
TOTAL . .	2·5	0·6	24%
GRAND TOTAL	2431·5	2261·6	

Percentage of procurement :	93·01%
Shortfall :	6·09%

APPENDIX IV
(*Para* 4.11)

Storage Accommodation available with Food Corporation of India as on 1-11-1971

(Figures in '000 tonnes)

Sl. No.	Name of the State	Owned		Hired as on 31-10-71 from		Storage space being utilisd by F.C.I. as on 31-10-71 in			Total Storage Capacity available
		Taken over from Food Deptt.	Constructed by FCI/Food Deptt. as on 31-10-71	State Govt.	Private Parties	C.W.C. Crash Programme godowns	C.W.C. General Warehouses	S.W.C. General Warehouses	
1	2	3	4	5	6	7	8	9	10
1.	Andhra Pradesh	129·70	25·00	12·20	26·78	272·02	1·83	13·46	481·04
2.	Assam	39·90	5·00	12·43	97·99	..	12·50	10·34	178·16
3.	Bihar	165·10	..	3·82	20·16	..	..	31·80	220·88
4.	Delhi	114·00	5·00	..	..	27·00	14·20	..	160·20
5.	Gujarat	48·60	37·50	141·45	137·13	12·62	5·54	..	382·84
6.	Haryana	15·30	128·20	..	6·62	10·00	9·40	38·20	207·72
7.	Kerala	103·30	45·00	24·10	34·21	..	0·94	..	207·55
8.	Madhya Pradesh	45·90	101·75	51·74	179·17	2·42	9·41	67·13	457·12
9.	Maharashtra	680·40	20·20	43·73	159·44	..	..	..	903·77
10.	Manipur	..	..	6·50	..	..	..	..	6·50
11.	Mysore	22·90	43·25	16·50	..	..	2·00	19·08	103·73
12.	Orissa	15·30	35·00	6·40	..	1·20	5·15	12·65	75·7[illegible]

1	2	3	4	5	6	7	8	9	10
13.	Pondicherry . . .	..	2·50	..	3·36	..	..	..	5·86
14.	Punjab	33·10	659·89	0·53	408·09	10·00	..	6·37	1117·98
15.	Rajasthan . . .	65·00	164·80	0·12	2·08	30·00	11·51	204·49	418·00
16.	Tamil Nadu . .	191·70	10·85	..	23·91	25·87	11·34	..	263·67
17.	Uttar Pradesh . .	381·20	196·00	40·48	537·99	10·00	27·14	257·40	1450·21
18.	West Bengal . .	242·00	65·00	251·46	367·88	..	119·80	73·24	1119·38
	TOTAL . .	2293·40	1484·94*	611·46	2004·81	401·13**	230·81	734·16	7760·71

1. 6,000 tonnes capacity constructed by Food Corporation of India in Mysore State was sold to the State Government (3,000 tonnes each at Srirangapatna and Ponnempet). This capacity has not been included.

2. Food Corporation of India has furnished guarantee for occupation of the storage space of 2,58,930 tonnes capacity constructed by C.W.C. in Andhra Pradesh.

3. Food Corporation of India is utilising storage space of 25,870 tonnes out of a total capacity of 2 lakh tonnes constructed by C·W.C. in Tamil Nadu under the Crash Programme. No guarantee is given to C.W.C. in respect of this capacity

4. During the period from 1-10-1971 to 31-10-1971 capacity completed is as indicated in Annexure I below.

* Inculees 74,500 tonnes capacity completed by Food Corporation of India before launching Crash Programme (35,000 tonnes in Kerala, 37,000 tonnes in Mysore and 2,500 tonnes in Pondicherry).

** Includes 3,10,430 tonnes guaranteed capacity (2,58,930 tonnes at 90% guarantee and 51,500 tonnes at 60% guarantee).

ANNEXURE I

Details of Capacity Completed—All by C.P.W.D.

Crash Programme	State	Centre	Capacity	Total
III	Rajasthan	Alwar	1,250 tonnes	1,250 tonnes
V	Punjab	Nihal Singhwala	2,500 tonnes	5,000 tonnes
	Rajasthan	Kishangarh	1,250 ,,	
	Uttar Pradesh	Eatah	1,250 ,,	
				6250 tonnes

APPENDIX V

(*Vide* Para 7.7)

Statement showing the number of various types of Rice Mills in India

(Total with all agencies)

(*As on* 1-1-1970)

	Name of State/Territory	Single hullers	Batteries of hullers	Shellers-*cum*-hullers	Shellers	Total No. of Mills	No. of Rice Mills installed in the Coop. Sector
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	5332	29	3032	316	8709	138
2.	Assam	409	*	412	10	831	30
3.	A & N Island	95	..	3		98	..
4.	Bihar	1839	181	3	2	2025	11
5.	Chandigarh	19	..	..	1	20	..
6.	Dadra & Nagar Haveli	14	..	4		18	..
7.	Delhi	40	1	..	..	41	..
8.	Gujarat	2641	27	169	242	3079	22
9.	Goa, Daman & Diu	396	14	8	..	418	
10.	Haryana	1447	110	36	121	1714	9
11.	Himachal Pradesh	763	..	..	..	763	..
12.	J & K	1810	..	..	27	1837	22
13.	Kerala	3861	11	4	35	3911	7
14.	Madhya Pradesh	3502	250	275	195	4222	84
15.	Maharashtra	3075	..	444	321	3840	116

1	2	3	4	5	6	7	8
16.	Mysore.	5289		212	671	6172	6
17.	Manipur	59	3	27	..	89	
18.	Nagaland	..	..	..	124	124	..
19.	Orissa	2388	206	169	1	2764	59
20.	Punjab	2435	108	22	192	2757	16
21.	Pondicherry, Karikal Mahe, Yenam	184		..	..	184	..
22.	Rajasthan	344	..	40	15	399	4
23.	Tamil Nadu	11207	96	92	21	11416	40
24.	Tripura	146	..	4	..	150	
25.	Uttar Pradesh	4017	228	171	256	4672	17
26.	West Bengal	6133	661	37	16	68,47	2
		57445	1925	5164	2566	67100	665

NOTES :— (1)* Assam : Information about batteries of hullers awaited.

(2) Rajasthan : Information about Banswara district awaited.

(Source : Department of Food Ministry of Agriculture Government of India, New Delhi.)

(3) Information given in the last column about the number of rice mills installed in the Co-operative sector is as at end of 1971 and is based on the information collected from the National Cooperative Development Corporation.

APPENDIX VI

(*Vide* Para 9.21)

Grainwise break up of total Amount of subsidy paid during the years

(Rs. Amount in crores)

Name of grain	1967-68	1968-69	1969-70	1970-71	1971-72 (April & May 71)
Wheat imported	..	..			+1·83
Wheat indigenous	..	—12·10	—21·17@	—7·08*	—9·54
Rice imported	..	..	—8·79	+1·44	+0·46
Rice indigenous	—1·25 & (on account)	..	+4·00	—0·40	+0·11
Milo			—2·03	—0·05	
Maize			—1·85	..	
Jowar			—0·81	..	
				—12·45 % (on account)	
TOTAL	—1·25	—12·10	—30·65	—18·54	—7·14
				Paid Rs. 17·98 crores only	Paid Rs. 6 crores only

(+) Gain

(—) Loss

& pertains to the year 1965-66 / 1966-67

@Rs. 8 crores pertain to the year 1968-69

*0·53 crores pertain to the year 1968-69

% Pertains to the year 1968-69 and is for all grains against the claim of 16·26 crores.

APPENDIX VII

Summary of main conclusions|Recommendations

Sl. No.	Preference to Para No. in the Report	Summary of conclusions and Recommendations.
1	2	3
1	1.10	The Committee note that the activities of the Food Corporation of India cover all the States except the State of Jammu & Kashmir. The question of extending some of the functions of the Corporation to the State of Jammu & Kashmir is stated to be still under the consideration of the Government of India. The Committee recommend that a decision in this regard should be taken soon to enable the Corporation to operate in that State and ensure remunerative prices to growers and sustained supply of foodgrains at reasonable prices to consumers. The Corporation should be permitted to undertake the storage as well as procurement work in the State of Jammu & Kashmir on the same lines as in other States.
2	2.6	The Committee find that the Food Corporation of India have got one full time Chairman and one full time Managing Director as provided for in Section 7(1) of the Food Corporation Act, 1964. In their Report on Public Sector Undertakings, the Administrative Reforms Commission had recommended that a Board of Management of the Public Sector Corporation should have a full time *Chairman-cum*-Managing Director. The Government considered that recommendation and decided that as a rule there should be full time Chairman-*cum*-Managing Director and in exceptional cases where the Chairman might be only a part time one, there should be a full time

1	2	3
		Managing Director. The Committee recommend that Government should explore the possibility and study the feasibility of combining the posts of Chairman and Managing Director of the Food Corporation of India in pursuance of their own decision.
3	2.7	The Committee also find that since the inception of Food Corporation of India in 1965, the post of Managing Director has changed hands thrice and the post of Chairman has been held by four different persons so far during six years of working of the Corporation. The Committee feel that such frequent changes at the top level of an Undertaking engaged in country-wide operations in essential foodgrains are not conducive to efficient management. The Committee, therefore, urge that Government should discourage such frequent changes at the top level of management.
4	2.23	The Food Corporation of India was set up at a time when the country was faced with shortage of foodgrains and there was imperative need for building up buffer stock primarily from imported foodgrains to meet any contingency. Now that India has become practically self-reliant in foodgrains, the main emphasis in the operations of the Corporation will have to be on price support measures to benefit the producer so as to sustain his enthusiasm for increased production. It is equally important that foodgrains should be made available through fair price shops, particularly to the weaker sections of the society at reasonable prices. This twin objective can be achieved only if the overheads incurred by the Corporation in the handling operations are kept to the minimum by organising its activities in a most efficient and rational manner. Now that the Corporation has been functioning for several years and there is a new trend discernible

1	2	3
		in the range and scope of its functions, the Committee would like Government to have its organisation and working critically examined early with a view to reduce handling charges.
5	3.10	The Committee find that since 1967 there had been shortfalls in achievement of targets of procurement ranging from 6 to 12 per cent despite the fact that Government had been keeping a watch on the progress of procurement in more than one way and taking remedial measures as and when problems arose. The Committee feel that whenever shortfalls in achievement of targets of procurement occur beyond a certain level in future, an investigation should invariably be carried out by Government to find out what had caused these shortfalls and devise remedial measures for future.
6	3.16	The Committee are conscious of the fact that food is a concurrent subject under the Constitution and hence the procurement policy had to be decided by the State Governments keeping in view the local conditions, in consultation with the Central Government. The Committee, however, recommend that Central Government should utilise the forum of Chief Ministers' Conferences and urge upon the State Governments to evolve their procurement policies on a stable basis so that changes from year to year or even during the course of a year in such policies are obviated. The Committee are of the view that stability in procurement policies is vital for effective implementation of food policy. It is to be achieved by the Central Government and the State Governments by mutual consultation and above all by making the operations of the Food Corporation so efficient and economic in the field as to win the confidence of the agriculturist, the consumer and the local authorities.

1	2	3
7	3.26	The Committee are perturbed to find that FCI's direct procurement of Food Grains from farmers had been so low that it ranged between 0.1 to 3.4 per cent of the total procurement during the last three years. The Committee also find that the current involvement of cooperatives is only 25 per cent of total procurement. This involvement is not adequate. The Committee are glad to learn that the Government have agreed to increase the involvement of cooperatives in a phased manner in the years to come. The Committee feel that if the Cooperative movement is to make any significant advance in the area of procurement of foodgrains, its involvement should be stepped up from year to year on a programme basis. The Committee would like the Government/Food Corporation of India to draw up a detailed plan of action for "Rabi" and "Kharif" from year to year, to achieve this objective. Where the cooperatives are not functioning, direct purchase centres may be got opened in consultation with State Governments so as to procure the foodgrains directly from the producers without the intervention of "*Arhtias*" and other middlemen.
8	3.30	The Committee note that procurement of wheat and rice in various States is at present being done by multiplicity of agencies, namely, the State Governments, Food Corporation of India and Marketing Societies/Federations, etc. The Committee feel that if procurement operations are handled by a multiplicity of agencies it was bound to give rise to problems of coordination, costlier overheads and what is more, render the task of long term planning difficult. The Committee, therefore, recommend that Government should take up this problem with the Chief Ministers of various States and strive to evolve an agreed pattern which would assure the Food

1	2	3
		Corporation of India a major role in price support and buffer stock operations.
9	3.32	The Committee note that the turnover of the Food Corporation of India has registered marked growth from Rs. 289.61 crores in 1965-66 to Rs. 1423 crores in 1970-71. The Committee, however, feel that efficiency of a trading enterprise like the Food Corporation of India had to be judged more on the basis of the service it renders to farmers and consumers in the country than on the basis of turnover alone.
10	3.36	The Committee note that some States have still not passed the necessary legislation to establish regulated markets and that out of 3406 markets in the country as many as 1261 are not regulated. The Committee cannot too strongly stress the need for establishment of regulated markets in all the States for these are the best means of assuring a fair deal to the farmer as also facilitate the task of any Government agency like the Food Corporation of India to procure foodgrains in well regulated conditions. The Committee also wish to draw in this connection attention of Government to the recommendation made by the Estimates Committee (1960-61) in para 77 of their 129th Report on the Directorate of Marketing and Inspection (Ministry of Food and Agriculture), wherein it was stressed that (i) States which had not enacted legislation for regulation of markets should be persuaded to do so; (ii) constitution of Market Committee should be uniform; (iii) representation of growers in market Committees should not be less than 50 per cent; (iv) rates for various Commodities should be widely disseminated among producers, and (v) grading facilities should be provided to make the producers quality conscious. The Committee would like concerted measures to be taken to

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		achieve these objectives in the interest of the producer.
11	3.40	The Committee need hardly stress that marketing intelligence is the key to market operations and therefore no pains should be spared in making it as precise and as realistic as possible. At the Conference on Agricultural Marketing held at New Delhi in September, 1969, the Economics and Statistics Adviser had conceded the viewpoint of representatives of State Governments that the information that was disseminated was often out of date and lacked precision, as it was for the Fair Average Quality. The Committee, recommend that Government should coordinate and streamline the market intelligence operations of the Economics and Statistical Wing and the Food Corporation of India in consultation with the State Governments so that the feeling among some State Governments that market intelligence machinery was not equal to the task expected of it was removed and what is more the market intelligence served as a reliable basis of planning procurement operations by the Food Corporation.
12	3.45	The Committee recommend that Advisory Committees may be set up at local or mandi level so that matters of local interest may be resolved in consultation with representatives of all concerned by producers, cooperatives etc.
13	4.5	The Committee are happy to note that the target of buffer stock of 5 million tonnes of foodgrains by the end of the Fourth Five Year Plan fixed by the Central Government has already been achieved because the present stock of foodgrains with the Government is stated to be about 8½ million tonnes which includes an operational stock of 2½ million tonnes.

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14	4.20	The Committee are glad to note that the Expert Committee appointed by the Planning Commission and consisting of representatives of the Planning Commission, Ministries of Agriculture, Finance, Railway Board, Food Corporation, etc. had carried out a systematic assessment of country's requirements for storage during the Fourth Five Year Plan. The Committee hope that their assessment will serve as a guide for Government and the Food Corporation of India for drawing up a programme for augmentation of storage capacity. The Committee recommend that while drawing up a programme for augmentation of storage capacity in the country, the point up to which storage would be absolutely necessary and beyond which the money locked up in storage would be counter-productive should be carefully determined. The Committee find that if past experience is any guide wheat virtually "cascades" into mandis in wheat producing States and has to be bought at support prices. This naturally creates problems of storage and transportation. The Committee feel that perhaps the best way is to encourage provision of warehouses and storage accommodation by the co-operative societies in agriculturally surplus areas so that it achieves the dual purpose of providing staying power to the farmer and regulating the flow of the food-grains into the market. The spare storage capacity could be utilised for other grains also depending on the seasonal requirements. The Committee would, therefore, urge Govt. to give encouragement to co-operative societies to set up modern storage facilities which are free from rodent and other pests and would serve best the interests of the producers and the people at large. Government should also exercise necessary vigilance in the formative years to ensure that the producers get dependable storage ser-

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		vices, free from any suspicion of malpractices or mismanagement. Government/Food Corporation of India should also develop in the light of their experience and in consultation with Research Institutions design and specifications for storage which would meet best the requirements of co-operative societies.
15	4.21	During evidence it was admitted by the official representatives of the Ministry that some of the storage accommodation in the country was not of the requisite standard. The Committee wish to stress that whatever additional storage capacity is created under the Fourth Five Year Plan or subsequent Plans, it should be based on the most modern scientific techniques and should be equipped with latest facilities to prevent damage of foodgrains during storage and to ensure most economic handling.
16	4.22	The Committee understand that the latest trend is to provide bulk storage structures like Silos and Bins although the capital costs of bulk storage may not compare favourably with the present system of storage in bags. The operating costs are lower in the case of bulk storage with the added advantage of better preservation of grains. For taking up proposals for construction of silo storage, a detailed feasibility study would be necessary to examine what other complementary facilities are necessary to be provided in "Mandis" and elsewhere in order to ensure that working of silos was efficient and economical. The Committee are of the view that it is better to spend more on scientific storage now than lose year after year by allowing widespread damage to foodgrains owing to faulty and outmoded storage system.
17	4.23	The Committee feel that the view expressed at the Seventh Asia-Pacific Food Production Conference held in January, 1971 in New Delhi that

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		colossal wastage of foodgrains due to inadequacy of transport and storage facilities can be prevented by setting up a chain of "Portable Warehouses" in the country deserves a close study by Government. The Committee recommend that feasibility studies should be carried out to determine whether it would be advantageous and if so to what extent, to introduce portable warehouses in the country to cater for the requirements of peak periods.
18	4.24	The Committee regret to note that Crash Programme had failed to correct regional imbalances in the creation of storage capacity and that even now the Corporation had to resort to storage of stocks in the open which carried with it attendant risks of pilferage and damage due to vagaries of weather. The Committee, therefore, recommend that Government should draw up future programme of augmentation of storage capacity with an eye on correction of regional imbalances and keeping in view the field experience gained by the Food Corporation of India.
19	4.32	The Committee are of the view that in order to achieve efficiency in operation and ensure greater utilisation of storage capacity, coordination has to be secured not only at the Centre but at the State level between various agencies including the State Governments, State Warehousing Corporations and Co-operatives on the one hand and the Food Corporation of India, Central Warehousing Corporation and the Railways on the other. The Committee are glad to note that in order to ensure coordination among various agencies like the Food Corporation of India, Central Warehousing Corporation, State Governments etc., the State Governments of Andhra, Mysore, Kerala, Madhya Pradesh, Punjab, Maharashtra, Haryana, Orissa, Gujarat, Assam, West

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		Bengal, Tripura and Manipur have already formed Storage Committees. They hope that the remaining State Governments of Tamil Nadu, Rajasthan and Bihar would also form such committees soon and thus help in tackling the problem of storage on rational lines.
		The Committee recommend that the position should be closely watched by the Central Storage Committee so that corrective action to obviate overlapping or duplication of capacities may be taken in time.
20	4.35	The Committee find that the utilisation of godowns on gross capacity has improved from 52 per cent in 1965-66 to 77 per cent in 1971-72 (April—June). On usable capacity, the utilisation was 58 per cent in 1965-66 but in 1971-72 (April—June) it has gone up to 86 per cent. Though some improvement in the utilisation of godowns over the years is thus discernable, the Committee cannot regard the present level of utilisation as the optimum one. It is rather strange that on the one hand it is said that storage capacity in the country is inadequate to cater to the growing needs of the country but on the other hand one finds the utilisation of existing capacity as only 77 per cent of gross capacity and 86 per cent of usable capacity. It appears that Government and the Food Corporation of India are not giving adequate attention to the problem of optimum utilisation of existing storage capacity in the country. Optimum utilisation of storage capacity at procurement centres and consumption points cannot be ensured without evolving an integrated pattern for procurement, movement, storage and distribution after a close study of full conditions. The Committee, therefore, strongly recommend that concrete measures aimed at optimum utilisation of storage capacity should be evolved and given effect to.

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21	4.39	The Committee recommend that Government should undertake a comparative study of operational costs of godown management of the Food Corporation of India, Central Warehousing Corporation and other agencies engaged in the construction and maintenance of godowns in the country so as to evolve norms for guidance of various agencies. Unless these norms are evolved, the Committee cannot see as to how the cost of storage of the Food Corporation of India or for that matter any other agency can be adjudged as reasonable or excessive. The Committee would like this comparative study to be undertaken without further delay. The Committee need hardly stress that in the light of this comparative study remedial action may be taken to reduce the cost of construction as well as of maintenance of godowns so that overheads on food handling and storage by the Food Corporation of India are reduced to the minimum, in the interest of consumers.
22	4.50	The Committee find that the Food Corporation of India suffered a total storage loss of Rs. 21.96 crores during 1966-67 to 1970-71 (5 years). The Committee are not impressed with the plea that viewed against the total turnover, these losses were not large. By themselves, these storage losses are substantial and they call for urgent and effective steps to minimise such losses. The Committee recommend that every case of storage loss which is in excess of the norm should be thoroughly investigated with a view to finding out the exact reasons for the loss and taking remedial measures. Investigation into storage losses should be undertaken promptly because if it was taken in hand after a lapse of appreciable time, the very purpose of such investigation to plug loopholes would be defeated. Besides the parties at fault would also evade

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		responsibility. Norms for storage losses should be the lowest and should be so fixed as to leave no scope for unscrupulous elements to take advantage of high norms and remove the foodgrains. There is also a clear need to intensify vigilance and surprise checks at the various loading, unloading and weighment points. The Committee need hardly point out that if responsibility for storage loss is fixed in every case, where the loss exceeds the norms, and deterrent action is taken against those found guilty, it will have salutary effect in bringing down the storage losses.
23	4.51	The Committee note that as on 31-10-71 the Food Corporation of India had hired storage capacity of 6.11 lakh tonnes from the State Governments and 20.05 lakh tonnes from private parties. Since the Food Corporation is heavily dependent on private parties at present for godown accommodation, the Committee feel that every care should be exercised by the Food Corporation to ensure that the accommodation to be taken over or already taken over by them is made rodent-proof by the owners and that all necessary alterations and repairs are carried out efficiently to obviate chances of damage to foodgrains due to rains or flood waters. The Committee need hardly stress that Food Corporation should ensure that the rent paid by it for the godowns is fully competitive so that it does not lead to the development of any vested interest.
24	4.58	The Committee are perturbed to note that there had been as many as 241 cases of thefts/pilferages at the godowns of the Food Corporation of India since its inception in 1965 involving a total loss of Rs. 13.08 lakhs.

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		The Committee expected Food Corporation of India to be seriously exercised about the matter and spare no effort to get an officer whose services would be available on an assured basis for a length of time so that all loopholes in the existing system which gave rise to thefts and pilferages were identified and effective remedial measures taken to plug them. The Committee are therefore not able to appreciate how the Corporation could persuade itself to employ as Manager Security in scale of Rs. 1600—2000 a person who was on the verge of retirement. The Committee would like the Corporation/Government to go into the matter and ensure that an officer whose services would be available for a length of time and who has proven experience and ability in security duties, is appointed to the post and held responsible for effectively organising the security measures so as to bring about appreciable reduction, if not elimination, of thefts from the godowns of the Food Corporation.
25	4.65	The Committee attach importance to standard weighment, stitching and packing of bags so as to reduce wastage and losses on these accounts to the minimum. The Committee note that the present capacity of bags is 100 Kgs. and that the labourers are paid an additional incentive amount of 5 per cent for handling these heavy bags. The Corporation, however, admit that difficulties are being experienced by labourers in certain parts of the country to carry such heavy loads. Apart from the possibility of providing wheel barrows or trollies to facilitate handling of bags, the Committee would like the Food Corporation of India to thoroughly examine the question of reducing the weight of the standard bag keeping in view the trade requirements, the cost of filling of bags and the difficulties experienced by labourers, etc.

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26	5.30	The Committee note that from May to July 1968, out of 12.36 lakh tonnes of foodgrains transported from Punjab, Haryana and Andhra Pradesh on Government account from May to July during 1968, 2.36 lakh tonnes of foodgrains were transported in open wagons. Unfortunately there were early monsoon rains in the Eastern and Western regions where the bulk of despatches were concentrated and consequently 6,741 tonnes of foodgrains got wet and were rendered unfit for human consumption. The Dave Committee which investigated into the damages to foodgrains moved in open wagons recommended *inter-alia*, that fodgrains should under no circumstances be carried in open wagons without tarpaulins. The Committee regret that despite Dave Committee's recommendation, the Food Corporation used 2,814 open wagons in 1970 of which 467 wagons were stated to be without tarpaulins. During 1971, 14,336 open wagons with tarpaulins were used. It was found that 58 wagons reached West Bengal Region and 21 wagons reached U.P. without any tarpaulins. It was explained by the Corporation that 'due to early rains and late harvesting' in 1970 and because of the fact that public offering of foodgrains was more in 1970 than in 1969, peak despatches had to be compressed in a much shorter period and consequently movement by open wagons had become necessary. The Committee recommend that keeping in view the experience of 1968 and as a matter of abundant caution, the use of open wagons should be avoided in future. Should it become unavoidable to use open wagon owing to unforseen reason, it should be ensured that open wagons are covered with tarpaulins without fail. The Committee feel that the Corporation cannot afford to take chances in an important matter like this. The Committee have been informed by the Ministry of Railways that availability of

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		covered wagons has increased from 1,58,083 BG and 76,205 MG in 1966 to 1,86,639 BG and 81,841 upto October, 1971.
27	5.31	During evidence, the representative of the Ministry of Railways (Railway Board) opined that 'the danger is not that the foodgrains are moved in open wagons but the detention at terminals is fraught with danger in that they get exposed to rains'. The Committee also learnt during evidence that for the last six months or so, there had been hold-ups of movement in the Eastern sector. The wagons, it was stated, were not unloaded in time resulting in delays in the return back of the wagons. The Committee are deeply concerned with the problem of hold-up of wagons at terminals. Delays in unloading of wagons not only result in less availability of wagons for movement of foodgrains in the country but also create bottlenecks, frustrating the very objective of ensuring movement of foodgrains on a planned basis. The Committee, therefore, recommend that concerted efforts should be made by the Department of Food/Food Corporation of India and the Railways to ensure that wagons carrying foodgrains are not held up *en-route* or at terminals to obviate losses by 'wet' or pilferage.
28	5.32	In the Committee's view, smooth movement of foodgrains depends to a large extent on how well the movement of foodgrains is planned by the Food Corporation of India in coordination with the Railways. The Committee recommend that while preparing Movement Plans, the aim should be to spread out movement of foodgrains throughout the year so as to avail of closed wagons for safe transport. Now that the Food Corporation of India/Government have adequate storage capacity at their disposal this task should not prove fromidable and it should be possible

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		to draw up integral plan for procurement, movement and storage on the basis of well verified data.
29	5.33	The Committee find that the Food Corporation of India have been moving larger quantities of foodgrains by road particularly from Haryana to Delhi. The quantity of foodgrains moved by road into Delhi was 23,881 tonnes in 1968-69, 39,684 tonnes in 1969-70 and 57,255 tonnes in 1970-71. The Committee recommend that a comprehensive study be undertaken to determine break-even point between the cost of road transportation and cost of movement of foodgrains by rail for various regions in the country. Any enlargement of the scope of movement of foodgrains by road should depend on the results of such study and availability of spare capacity on the Railways to undertake the transport expeditiously and in time.
30	5.40	The Committee note that losses of foodgrains in transit had been rising steadily from 1.13 per cent of the quantity moved in 1965-66 to 1.58 per cent in 1966-67 and 1.76 per cent in 1967-68 until 1968-69 when such losses reached an all time high at 3.26 per cent. The Committee also note that subsequently, the Corporation had been able to arrest the rising trend of transit losses in close co-ordination with Railways. In 1969-70 transit losses were brought down to 1.4 per cent and it is estimated that these losses may be only 1.23 per cent during 1970-71. The Committee welcome the efforts made by the Food Corporation of India and the Railways to bring down these losses under control. The Committee, however, feel that scope for further reduction of transit losses still exists. Vigorous efforts are called for to minimise the transit losses. With this end in

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		view, the Committee recommend the adoption of the following measures:—
		(i) bagging, stitching and weighment should be done with utmost care to avoid spillage of foodgrains. Use of non-standardised bags should be eliminated. Same types of scales for weighment may be used at loading and unloading points;
		(ii) loading and unloading operations should be supervised by responsible officials of the Corporation and the Railways because if the loading is done in a careless manner no amount of *en route* checks would be able to prevent these losses;
		(iii) with the improvement in the availability of covered wagons with the Railways, use of open wagons should be resorted to only in exceptional circumstances and after making sure that necessary provision for covering these wagons securely with tarpaulins and safe escort would be there;
		(iv) *en route* checks be intensified by the Railways to plug leakage of foodgrains and to ensure that tarpaulins remain in position and are not removed by unscrupulous people;
		(v) *en route* surprise checks be carried out to ensure observance of instructions; and
		(vi) security arrangements be augmented to avoid pilferage of foodgrains at loading and unloading points and Railway yards.

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31	5.44	The Committee are glad to note that Food Corporation of India had entrusted the task of preparing a Wheat Movement Plan for 1970-71 to an expert body like the National Council of Applied Economic Research. This was no doubt a step in the right direction. The Committee hope that the recommendations made by the Council for rationalisation of wheat movement would continue to guide the Corporation in evolving movement plans for future years.
32	5.45	The Committee find that the National Council of Applied Economic Research had suggested improvement in the system of tele-communication including the installation of teleprinters in the Food Corporation of India in the context of problem of transportation of foodgrains. The Corporation, however, are not in favour of its introduction because utility of the communications will in their view have to be seen not only with reference to its orientation in terms of limited transportation problem during the peak "Rabi" season but also with regard to purchase and sale operations in a free market when the Corporation will necessarily have to take snap decisions on the basis of day-to-day fluctuations in market prices. Moreover, installation of teleprinters|telex at the important producing and receiving centres would involve extra investment which, the Corporation feel, may not be commensurate with the advantages claimed. While it is true that installation of teleprinters/telex involve expenditure, the Committee would like the Corporation to re-examine the matter in the light of the following facts:— (i) For a country—wide Organisation like F.C.I. reliable and quick means of communication are an essential tool;

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		(ii) teleprinter|telex would naturally reduce heavy expenditure at present spent on trunk telephones;
		(iii) the investment on telex|teleprinters may be reduced to the minimum necessary in consultation with Directorate of Telegraphs. To begin with only the most vital points where fast communications are a "must" may be connected by telex|teleprinters and the position reviewed in the light of experience.
33	6.8	The Committee note that at the Conference of the Chief Ministers of the States held in New Delhi in October, 1971, need was felt for further strengthening of the public distribution system, particularly in rural and inaccessible areas. The Committee also note that as a follow up measure, the Ministry of Agriculture (Department of Food) have requested the State Governments to "review the position in different areas of their State and keep arrangements ready for enlarging the fair price distribution system and extending it to areas where it does not exist at present, so that the system may start working immediately when need is felt for it in any particular area." The Committee are aware of complaints sometimes voiced in the Press that fair price shops in the rural areas hardly function and where they do, the quantum of ration available is insufficient. The Committee have no doubt that in extending the system to rural areas and inaccessible areas in States, Government would take into account the difficulties being experienced by weaker sections of consumers in rural areas. The Committee desire that in the event of enlargement of the public distribution system to rural and inaccessible areas in various States, the Food Corporation of India would make special efforts to feed the

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		public distribution system in such areas with assured supply of foodgrains at a reasonable price.
34	6.13	The Committee note that sometime back the Government of India had suggested to various State Governments that the Food Corporation of India should be given the responsibility for wholesale distribution of foodgrains also, so that by taking on this additional work and using its staff, which did not have much work during the non-procurement seasons, the Corporation could reduce its overheads and thereby both procurement and distribution could be done a little cheaper than otherwise. The Committee have been informed that Government are examining this matter and a policy decision will be taken by them soon. The Committee would like Government to expedite their decision. The Committee would, however, like to stress that the approach should be for finding greater utilisation of staff already on the pay rolls of Food Corporation of India and not to add to them in the name of additional responsibilities taken over from States. As recommended elsewhere in the Report, there is a pressing need to reduce the burden of overheads, which are borne largely by the consumer and exchequer. Moreover, Government should keep in mind the fact that with growing abundance of foodgrains in the country the need for regulatory measures and extensive distribution agency may in course of time come to be reduced. As far as the internal distribution of foodgrains in the States is concerned, it is and should continue to be the primary responsibility of the respective State Governments. The State Governments have a civil supplies organisation which is expected to handle this work. There should, therefore, be no question of transfer of internal distribution work to the Corporation alongwith the staff concerned in any State.

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35	6.16	The Committee recommend that the present system of sale of foodgrains may be reviewed to see how it could be improved so as not to discourage small and bona-fide traders.
36	6.27	One of the main grievance voiced before the Committee by a Federation of the Roller Flour Millers was that millers had to buy all their requirements of wheat from the Food Corporation of India and that even when open market prices of wheat were less than the Corporation's prices they could not take advantage of the reduced open market prices. During evidence the official representative of the Ministry of Agriculture (Department of Food) informed the Committee that the ban on the Roller Flour Millers to purchase their requirements from open market had since been lifted and now if a Miller did not want supplies from Government, he was free to purchase 100 per cent of the required grain from the open market but if a Miller still wanted supply from Government he can buy only upto 30 per cent from the open market. While the Committee hope that this relaxation will remove the main grievance of the Roller Flour Millers, the Committee wish to invite attention of Government to the need to ensure that whatever quantities of wheat are sold by the Corporation to the Roller Flour Millers at a fixed price are in fact milled into Atta and are not surreptitiously sold in the market in order to earn profits without rendering any service to the consumers of Atta.
37	7.6	The Committee are unhappy to note that the demurrage incurred by the Food Corporation on foodgrains and fertilizers had shot up from Rs. 0.28 lakhs in 1965-66 to 57.56 lakhs in 1969-70. During 1970-71, demurrage is estimated to be Rs. 15.79 lakhs. While as pointed out by the official representative of the Ministry, it was

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		true that the Corporation had earned more despatch money than the demurrage incurred by it each year since 1965-66, the Committee stress that there should be unceasing effort to so regulate flow of imports as to avoid bunching of ships at ports and unload the foodgrains with utmost expedition so as to earn maximum despatch money and obviate any demurrage. The Committee recommend that the Corporation should undertake a critical investigation of each case of demurrage; assess responsibility for the lapse, and devise concrete remedial measures for future to arrest this disturbing trend.
38	7.21	The Committee find that though the Rice Mills Project was approved by Government in 1967 the location of the last 2 out of 24 rice mills was finalised as late as October, 1970. It thus took three years to complete finalisation of location of these Rice Mills. The time taken is obviously excessive and it should have been possible to finalise the matter with greater sense of urgency. The Committee also find that so far it had been possible to commissio nonly 16 out of 24 modern Rice Mills in the country. The Committee understand that in setting up these Mills, the Corporation encountered difficulties like delay in acquisition of land, delay in supply of mild steel plates required for fabrication of Dryers, parboiling tanks and chimneys and special steel plates for boilers etc. The Committee feel that an important project like the Rice Mills should have been given high priority in allocation of steel, fabrication of parts and acquisition of land so as to make the Mills operative with the least possible deliay.
39	7.22	The Committee find that according to the locations finalised by F.C.I. for setting up modern mills, the States of Tamil Nadu, Andhra Pradesh and West Bengal will have 4 rice mills each, the State of Orissa will have 3 rice mills, the State of

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		Assam, Bihar and Punjab will have 2 rice mills each, and the States of U.P., Haryana and Kerala will have one rice mill each. There would be no rice mill in Madhya Pradesh. During evidence the official representatives of the Ministry stated that one reason why no rice mill was located in M.P. was that there were already a large number of private mills there. Stating that efforts were being made to get rice milling in that State under the Cooperative Department's activity, the official representative assured the Committee, "but if it is considered necessary, we will certainly see that the rice mills were set up there." The Commitee feel that the Corporation should make a careful re-assessment of the requirement of rice mills in the States not given adequate attention in the plan of location of rice mills hitherto (e.g. M.P., U.P., and other rice producing States). The plea that large number of private rice mills exist in a State is not a convincing argument. The Committee feel that no chances be taken with private mills and hence the Corporation should decide soon to locate rice mills in such States so that there is healthy competition between private and public rice mills or to break the monopoly of the private mills as they might misbehave any time.
40	7.23	The Committee note that in the original Project Report submitted to Government, additional out-turn of rice mills taken into account for determining the economic viability of all the 24 rice mills was only 2 per cent. The Committee have been informed by the Ministry of Agriculture that the return on capital was expected to be 41.37 per cent, 23.78 per cent and 12.06 per cent at 100 per cent, 70 per cent and 50 per cent capacity utilization. In other words, the key to ensure adequate return on capital and profitability of this venture depended on whether and if so

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		to what extent, the Corporation was able to utilise the capacity of these rice mills. The Committee have no doubt that knowing as they do this fact, the Corporation and the Government would do their utmost to see that these mills operate at their full capacity and look after the interests of the growers also.
		The Committee would like Government/Food Corporation of India to keep a close watch on the financial results of working of the Rice Mills so as to obviate losses.
		The Committee note that out of 67,100 rice mills in the country as on 1-1-1970 only 665 rice mills have been installed in the cooperative sector. The Committee are of the view that Government should publicise the salient features of the modern rice mills and their attendant advantages to encourage the cooperative sector to set up modern rice mills in the country. The Committee have an impression that not a few of the malpractices obtaining in rice trade are traceable to the private rice mills. The Committee consider that Government and Food Corporation should exercise great vigilance in their dealings with the rice mills so that there is no scope for any surreptitious leakage or diversion of rice contrary to orders and that in no case trade indulges in charging an unconscionably high price from the consumers particularly those coming from weaker sections of society.
41	7.25	The Committee are unhappy that the Rice Dryers were not properly located in the first instance and that additional expenditure would be incurred on their shifting. The Committee are con-

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		cerned that a heavy investment of Rs. 1.11 crores should have been made without trying out the dryers on a pilot scale in the field. The Committee would like Food Corporation of India to keep a close watch on the working of the dryers so as to ensure their maximum use and obviate any loses.
42	7.27	The Committee would like the Corporation to carefully evaluate the working of the Maize dryer at Khanna (Punjab) before installing additional dryers.
43	7.47	The Committee find that since July, 1967 Food Corporation of India had so far produced 62,030 tonnes of 'Balahar' and Mill Atta fortified by it since 1970 was 42,012 tonnes. The Committee are convinced that at this rate it will not be possible to touch even the fringe of the problem of malnutrition and undernutrition in the country. The Committee are glad that Government are conscious of the magnitude of this problem and are considering proposal to expand these programmes so as to embrace the entire country and launch other programmes like setting up of 40 Nutrition Mobile Extension Units under the Fourth Plan, establishment of small scale Bakeries, stepping up of rate of production of Miltone, setting up Soyabean and Groundnut flour production plants, development of a weaning food utilising vegetable protein, etc. The Committee have no doubt that keeping in view the urgency of combating protein deficiency in the daily diet of the people particularly in the weaker sections of society decisions on these proposals would be arrived at soon and the approved programmes would be implemented with speed and vigours so as to bring these fortified foods within the reach of weaker sections of society.

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		The need for a nutrition programme particularly for the weaker sections of society has been recognised for decades in our country and a mention about it has also been made in our Five Year Plans. Now that Government have a country-wide agency in the Food Corporation of India and also adequate stocks, the Committee feel that it should not be too difficult to implement in letter and spirit the programme of making available nutritious foodgrains e.g. 'Balahar', fortified 'atta' etc. at reasonable prices to the weaker sections of the society. The Committee need hardly stress that the programme should be so implemented in the field that the benefit reaches the weaker members of our society, particularly the children.
44	826	The Committee note that the Food Corporation of India exercised quality control over foodgrains at three vital stages of procurement, storage and processing, and that for this purpose the network of laboratories had been considerably expanded from 22 laboratories in 1965 to 95 in 1971. The Committee learnt during evidence that there were a few unresolved problems which called for urgent attention in order to ensure quality. The first problem which the Chairman of the Corporation termed as major one was that despite the fact that FCI had their agency for quality inspection, when the State Government or the Marketing Federation passed on stocks to the Corporation at the loading points, that is Railway Stations, cases had come to notice where such stocks were not put up to the Corporation for their inspection. The Committee consider this a serious lacuna and would urge the Central Government to take up all such cases promptly with the State Governments concerned. The Committee would like to be informed of the concrete

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		measures taken to ensure that such lacuna in quality inspection are rectified.
45	8.27	Another problem that needed to be tackled was the preponderence of subjectivity in the matter of enforcement of quality of foodgrains. It has been represented to the Committee that in some cases the officials of the Corporation, who were on the spot, rejected the grain offered by farmers for sale as being below "fair average quality" but when the same grain was purchased by the middlemen and offered to the Corporation, it was accepted. This naturally gave rise to suspicion that in such dealings, the conduct of FCI officials was not above board and that it was the subjective judgement of officials on the spot which really mattered. This is what was alleged to have happened while purchases of "Bajra" were made in Rajasthan. It was admitted during evidence that Government had received such complaints from U.P. and Rajasthan and they were looking into them. As was hinted during the evidence of official representatives, it was just likely that in some cases the middleman indulged in the malpractice of purchasing the grain from the farmer, blending it with the better type of grain and passing it on to the Corporation as a blended grain. The official representative of the Ministry added that in Rajasthan, 'Bajra' was purchased through middlemen because the market there was not properly organised and the availability of grain was not very large. The Committee are of the view that it should be possible for the Corporation to check this malpratice. The Committee are also convinced that if the supervisory staff of the Corporation are alert and vigilant, it should be possible to introduce a greater measure of supervision on the exercise of discretionary authority

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		by the officials on the spot. The F.C.I. should strive continuously to avoid the entry of middlemen in the Corporation's purchase of foodgrains.
46	8.28	The Committee consider that since the Food Corporation of India has been primarily constituted in the interest of the producer and the consumer it should be its ceaseless endeavour to serve both these interests and eliminate the intervention of middlemen to the max mum extent possible. In this context, the Committee would urge that either the foodgrains should be procured directly from the farmer or from "collection centres" which may be organised in cooperation with agricultural cooperative societies of standing. The Committee are glad to note that the Food Corpoartion of India procured 25 per cent of foodgrains in "Rabi" season through cooperatives. This trend needs to be greatly accelerated. The Food Corporation may also have their own procurement organisations in "Mandis" so that the farmers who come there can sell the foodgrains directly to them without the intervention of any middlemen. In order to inspire in the producers a feeling of confidence in the categorisation of food-grains and the prices being paid for them, the Committee suggest that the Food Corporation/local authorities should widely publicise the grades of foodgrains and the prices being currently paid by the Food Corporation amongst the farmers so that they are encouraged to sell their foodgrain directly to the Corporation rather than to *'Arhitias'* and other middlemen. The specifications should be so laid down that they are readily understandable to a farmer. What is even more important is that the process for categorisation should be done in such a manner as to leave no scope for any unfair or malpractice to creep in. The farmers need payment in cash. The Corporation should ensure that there is quick

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		and prompt payment "on the spot" to the farmers for their foodgrains so as to win and sustain their confidence. The Committee consider that the Food Corporation should continuously endeavour to pass on the benefit of higher prices to the producer so as to serve one of the primary objectives for which they have been set up.
47	8.29	The Committee feel unhappy that there were complaints both from U.P. and Rajasthan that foodgrains were purchased not directly from the producer but through the intervention of middlemen to the detriment of producers. The Committee note that the matter is being thoroughly investigated by the Corporation. The Committee would like to be informed of the outcome of the investigations and the action taken against all those found responsible for indulging in any unfair or malpractice. The Committee expect the large supervisory staff which the Corporation has to be alert and vigilant in their duties so as to ensure that officers on the spot render fair service to the producers and there is no ground for any suspicion of malpractice either in grading or payment for foodgrains or avoidable intervention of middlemen to the detriment of the producer.
48	9.13	The Committee note that the procurement price of wheat since 1969-70 had been and still is Rs. 76/- per quintal for all varieties except red indigenous variety subject to marginal adjustments in price in some States. Marginal increase in procurement price may have been just about sufficient to cover the higher cost of inputs and the general rise in price index. Agricultural Prices Commisison had been recommending lowering of the procurement price of wheat but the Government firmly stuck to its view that such a step will dampen the spirit of farmers and

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		reduce over all production of foodgrains. The Committee agree that farmers must get an incentive price in order to maintain the tempo of green revolution. The Committee are equally concerned that the interests of consumer should be fully taken care of. Farmers should have the satisfaction that the procurement price not only adequately compensates them for the rise in the cost of inputs like fertilizer, power etc. but also leaves them with a fair return on their investment. and labour. The consumers should have the feeling of sharing the glow of green revolution by ensuring to them supply of foodgrains at a reasonable price. The Committee have no doubt that Government would take care of the legitimate interests of farmers and expectations of consumers in fixing the base price for foodgrains.
49	9.28	The Committee find that since 1965-66 the Food Corporation of India has been paid a total sum of Rs. 67.98 crores as subsidy by Government upto May 1971. Subsidy is mostly paid on account of wheat because the economic cost of wheat is more than its wholesale issue price. In the case of rice, distribution was made at the economic cost and consequently the subsidy thereon was negligible. During evidence the Committee could not get an assurance from the Corporation and the Government that the amount of subsidy would decline in the years to come. On the other hand, the Committee were informed in a note furnished by the Ministry of Agriculture after evidence that with the reduction in the import component of wheat, its economic cost and consequently the subsidy were likely to increase unless the issue price was correspondingly increased or the procurement price was reduced. The Committee are of the view that as the wholesale price of wheat is higher than the procurement price by Rs. 2/- per quintal the Food Cor-

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		poration of India which now has a dominating share in the foodgrains trade should be able to cut on its overhead charges and operational losses. The Committee are convinced that these expenses need initial analysis and meaningful follow up action so as to reduce the need and quantum of subsidy paid to the Food Corporation of India by General Exchequer and make available foodgrains at more competitive and reasonable prices to the consumers.
50	9.35	The Committee find that during the years 1961-62 to 1966-67, the production of foodgrains in the country was almost static with lowest production being 72.3 million tonnes in 1965-66 and the highest being 89.4 million tonnes in 1964-65. It was in the year 1967-68 that a major break-through was achieved by attaining a record production of 95.1 million tonnes. Since then the production of foodgrains had been steadily rising and in 1970-71, the production is estimated to have exceeded 107 million tonnes. This "Green Revolution" naturally raised high expectations that prices of not only foodgrains but also of other commodities would come down. But this did not happen. Index number of foodgrains wholesale prices which during the years 1961 to 1966 had ranged between 99.3 and 171.0 moved between 202.8 and 210.4 during the years 1968 to 1971—the years of bumper crops. In the context of this paradoxical phenomenon of rising prices in the midst of plenty, the Corporation bid to curb the rising market prices of wheat by opening sales centres is a welcome step inasmuch as Corpoartion's direct participation as a seller in the open market is expected to offer healthy competition to the private traders and check rising prices of wheat in particular and foodgrains in general. The Committee hope that as foodgrains price is an important determinant of

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		general price level, Corporation's strategy to curb the rising prices of wheat by pumping into the open market adequate stocks would have a salutory effect on the general price level in the country. The Committe however wish to caution the Corporation that if unscrouplous private traders lift the additional wheat stocks from the open market and hoard the same, the Corporation's venture may ultimately fail. It is, therefore, essential that the Corporation should take adequate precautions to ensure that as far as possible the stocks released by them reach the genuine customers and are not cornered by speculative traders for hoarding at present with a view to release them when artificial scarcity is created so that they may indulge in profiteering.
51	10.28	The Committee view with concern the fact that there had been steep rise in the incidental expenses of the ood Corporation of India. During 1967-68 when the work was being handled by the Food Department directly, incidental expenses amounted to Rs. 51.40 per tonne. With the transfer of work relating to procurement, storage and distribution of foodgrains to the Corporation, these expenses rose to Rs. 77.10 per tonne during 1969-70 inclusive of buffer stock, carrying charges. These expenses were provisionally allowed at Rs. 91.50 per tonne. The Committee would like to focus attention of the Corporation as well as Govt. on some of the important components of incidental expenses in respect of which the rise has been phenomenal. For example 'transit and storage loss' has increased by 350 per cent, 'establishment charges' by 170 per cent and 'Godown Charges' by 37 per cent as compared to the charges incurred when the Food Department handled directly foodgrains. The Committee recognise that there has been increase in the 'scope, size and area' of operations of the Corporation and that some increase

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		in such charges could not be ruled out but they find it hard to accept that the present charges of Rs. 91.50 per tonne (Rs. 9.15 per quintal) are the barest minimum and there is no scope for reduction. During evidence, a representative of the Roller Flour Millers Federation of India informed the Committee that 'no where in the history of the foodgrains trade, handling charges are anything more than 3 to 4 per cent.' In the case of the Food Corporation of India, handling charges of Rs. 9.15 per quintal constitute 12 per cent of the procurement price of Rs. 76 per quintal of wheat. When 'procurement incidentals' of Rs. 10.26 per quital are added to the Corporation's incidental of Rs. 9.15 per quintal, handling charges amount to Rs. 19.41 per quintal and constitute about 25 per cent of the procurement price of wheat. Some of the State Governments have also categorically stated in written memoranda to the Committee that incidental charges of the Corporation are extremely high and needed to be brought down to a reasonable level. The turnover of the Corporation has increased manifold and it is now admittedly one of the biggest trading Corporation in the world dealing as it does, with 10 million tonnes of foodgrains and sales to the tune of Rs. 800 crores. The Committee are constrained to observe that the Corporation have not been able to derive full benefit of economy of scale.
52	10.29	The Committee find that though the Food Corporation of India are in existence for the last seven years they have not evolved any norms for regulating the incidental expenses. In its Report on incidental expenses of the Corporation, the Cost Accounts Officer of the Ministry of Finance has expressed the opinion that 'perhaps one of the reasons why the unit incidentals as claimed by the FCI year by year is going up, despite more than proportionate increase in the quantity of foodgrains handled, is because the

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		allocations are related by FCI only to annual sales'. The Cost Accounts Officer has recommended that FCI should work out the incidence of handling charges for the years 1967-68 to 1970-71 on the basis indicated in his Report to 'exhibit a more realistic and acceptable picture' and to study the trend for the purpose of evolving norms for the future. The Committee expect that no further time would be lost in evolving such norms which are a vital instrument in the hands of Management to exercise check on such expenses and are indespensable for creation of cost consciousness among officers and staff at all levels of the Corpoartion.
53	10.30	The Committee note that the Food Corporation had got some aspects of their management and costs analysed by the Institute of Management, Ahmedabad and Ibcon (P) Ltd., but their Reports remain still under consideration of the Food Corporation of India. The Committee would like the Food Corporation of India to give highest priority to the processing of these Reports of expert bodies and take concrete measures to effect economies.
54	10.31	The Committee have dealt with the question of high cost of unduly large staff carried by Food Corporation of India in a separate Chapter on "Personnel and Administration" but they cannot help repeating that there is a paramount need for rationalisation of staff strength keeping in view the trends of procurement, stocking, distribution etc. To give an example, the large handling staff at ports are no longer obviously required when the imports of foodgrains have perceptibly come down and adequate buffer stock of 5-7 million tonnes built up. The Committee consider that the question of reducing the heavy 'incidentals' brooks no further delay and they

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		reiterate that it should receive earnest and continuous attention at the highest level. The Committee recommend that the Food Corporation of India/Government should critically analyse the present incidental expenses of the Corporation with the help of best experts available in the field of costing, management etc. and initiate effective steps to bring down the 'incidental' expenses to the barest minimum level, for in the last analysis it is the poor consumer and the Exchequer who have to bear this unconscionably high productive burden of handling charges of foodgrains by the Food Corporation of India.
55	11.16	The case of misappropriation of Rs. 32 lakhs in 1968 in the Calcutta Regional Office of the Food Corporation of India is the most serious of all cases of misappropriation, fraud, over-payments etc. which have so far occurred in the Corporation. The Corporation have intimated that the CBI which had conducted the investigation into this case had not found any lacunae in the rules and procedures of the Corporation but had pointed out that there should have been effective checks on the dealings of the Corporation's officials involved in the case. As the case is *sub-judice*, the Committee do not wish to offer any views thereon. The Committee, however, recommend that the Corporation should tighten the financial discipline in their enterprise, tone up the administration of rules and procedures and provide adequate supervisory checks and enforce their observance at all important levels to prevent recurrence of such cases which besides entailing financial loss tarnish the fair image of the Corporation.
56	11.21	The Committee find that the outstandings of the Food Corporation of India have gone up from Rs. 36.60 crores as on 30th November, 1970 to Rs. 67.19 crores as on 31st October, 1971 despite

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		efforts made by the Corporation to bring down the outstandings. In this connection the Committee note that of the total amount of Rs. 67.19 crores, the outstandings from State Governments alone are Rs. 49.42 crores. Some of the oldest items outstanding from State Governments date as far back as 1966-67. The Committee are not averse to a reasonable time limit being allowed to State Governments to settle bills and make payment. But if the outstandings linger on for years and the Corporation find itself unable to clear the outstanding items within a reasonable time limit the Central Government should come to the aid of the Corporation by persuading the State Governments concerned to clear the outstandings expeditiously. It is obvious that if the outstandings are kept low, the Corporation would have larger liquid resources and will not be forced to lean too heavily on loans on which they have to pay a high rate of interest.
57	11.25	The Committee find that while the stocks with the FCI increased by about 11 times i.e. from Rs. 37.31 crores in 1965-66 to Rs. 446 crores in 1970-71, its loans and overdrafts went up by 18 times i.e. from Rs. 30 crores in 1965-66 to Rs. 546.85 crores in July, 1971. This does not reflect a comfortable position because Corporation's dependence on loans and overdrafts has far exceeded the value of stocks held by it. They recommend that the loans and overdrafts should be kept by the Corporation within reasonable limits as the "burden" of borrowing involves payment of interest at a higher rate and thus raises the cost of intermediate handling affecting the consumers in the long run. The Government should ensure that the Corporation does not, as a rule, lean heavily on loans and overdrafts to sustain its activities.

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58	11.31	The Committee note that the profit (prior to tax) earned by the Food Corporation of India has come down from Rs. 305 Lakhs in 1966-67 to Rs. 158 lakhs in 1970-71. The Committee are convinced that in the case of Food Corporation the conventional yardstick of judging the performance of an enterprise by the quantum of profit earned by it should not apply, though the Committee are not averse to marginal profits being made by the Food Corporation to meet any unforeseen contingencies. The Corporation has to be more judged by the achievement of the social objectives underlying its set up. The Committee would therefore like the Corporation to spare no efforts to ensure that the farmer is paid remunerative price, that the high cost of handling at present incurred by the FCI is reduced to the minimum so that the consumer is sold the foodgrains at reasonable prices and on assured basis. The Committee would also like Government to examine whether the cost for maintaining the buffer stock should not in all fairness be met by the Government so that it does not go unnecessarily to inflate the handling charges of the Food Corporation. The Committee need hardly stress that the size of the buffer stock should be most judiciously fixed in the light of experience gained and every care should be taken to see that stocks are duly rotated so that the foodgrains are sold well before the normal period of their preservation is exceeded.
59	11.34	The Committee recommend that steps to bring the Food Corporation of India within the audit control of Comptroller and Auditor General of India be taken as early as practicable.
60	12.20	The Committee find that, as on 31st March, 1971, while the turnover of the Corporation has increased five times its staff strength has increased 12 times. The Committee are not able to ap-

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		preciate the passive and somewhat complacent attitude adopted by the Corporation in the matter of taking over a large number of staff on the plea that they were doing the work before the Corporation was formed and took over those functions. The Committee feel that it should not have taken the Corporation long to work out some realistic norm and critically examine on each occasion to see whether it was at all necessary to add the entire staff while taking over some functions. It was obviously incumbent on the Corporation to ensure on each such occasion that the number taken over was absolutely the minimum and essential for the discharge of responsibilities. The Committee feel that had this critical and analytical approach been applied from the very inception, the Corporation would not have found itself burdened with the problem of an excessively large number of staff.
61	12.21	The Committee note that recently the Corporation have had two studies made of the operational norms and man-power by IBCON(P) LTD. and the Institute of Management, Ahmedabad. Now that the role and responsibilities of the Corporation are well defined and they have the benefit of the studies made by two expert bodies and extensive experience in the field it should be possible for the Corporation to evolve, without further delay, realistic norms for manning of the different operations. In evolving these norms, the Corporation would no doubt keep in mind the imperative need for reducing the unconscionably high handling charges which are at present being charged by them. The Committee note that as on 31-3-71 the staff strength of the Corporation is made up of direct recruits (24 per cent), deputationists (19 per cent) and transferees (57 per cent). There should be no difficulty in placing back the services of

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		deputationists who are surplus to the requirements at the disposal of the respective parent departments. No additional recruitment should be made unless it is absolutely inescapable and certified as such by the Managing Director in consultation with the Financial Adviser.
		The Committee also find that the Corporation have taken over as many as 5,000 employees of West Bengal Government when the distribution of food-grains was taken over at the instance of West Bengal Government. The Committee feel that the Food Corporation should not be saddled with the duties and responsibilities of internal distribution which should appropriately be discharged by State authorities who had detailed knowledge and experience of local requirements. There should be no question of such State employees being taken over by the Corporation and swelling further the Staff strength.
62	12.22	The Committee would also like to draw attention to the problem of dock labour engaged specially for handling of food-grains. A study made in 1970 had revealed that as many as 2,989 dock labour were surplus to requirements. The Committee note that as a result of introduction of various measures such as Voluntary Retirement Scheme and alternative employment scheme, the Corporation were able to shed 1005 dock labour leaving still 1984 of dock labour as surplus. As our country has already attained self-sufficiency in food-grains and we have adequate buffer stock of 7 million tonnes of food-grains, the import of food-grains is bound to cease. The Committee recommend that keeping in view these factors, the Corporation should undertake continuous study to determine the extent of surplus departmental dock labour engaged in handling of food-grains

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		and draw up a time bound programme in consultation with Port Trusts, Dock labour Boards, Ministries of Transport and Labour for finding alternative employment for them.
63	12.28	Normally, when the staff strength of an undertaking increases, expenditure on overtime allowance is expected to come down. The Committee however, observe that in the case of the Food Corporation of India, despite increase in its staff strength, expenditure on overtime allowance to staff showed an upward trend. Expenditure on Overtime Allowance has increased from about Rs. 10 lakhs in 1965-66 to Rs. 56 lakhs (approximate) in 1970-71. Keeping in view the fact that the Corporation have more than adequate number of personnel on their rolls, the Committee suggest that the deployment of manpower and rosters of duty should be so arranged as to bring down the incidence of overtime.
64	12.32	The Committee recommehd that genuine grievances of the employees of the Corporation should be attended to with sympathy by the management of the Corporation.
65	13.5	The Committee note that the Food Corporation of India have a Planning and Research Division which has been expanded recently. The Committee feel that the work could have been handled by a cell instead of a Division, as the main purpose of planning and research is to help the management in devising tools for exercising vigilant, contemporaneous and effective control of field operations. The expenditure on this cell should be kept under close scrutiny and should be commensurate with the services it is able to render to the management. The Committee need hardly stress that the approach of the cell should be problem-oriented. The Committee would commend that the following problems, amongst

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		others, may be taken by Research and Planning Cell for urgent study: (i) Devising ways and means for purchasing either directly or through genuine cooperatives from the producer so that he gets the maximum benefit of floor price; (ii) planning movement of foodgrains so as to obviate "damage by wet"; (iii) Location of storage capacity, keeping in view the size of Buffer Stock to be built and the need to remove regional imbalances and transport bottlenecks; (iv) Analysis of "incidentals" incurred by the Corporation with a view to reduce them to the minimum, and (v) Perspective plan so that the Corporation may modify|rationalise its structure and modes of operation in keeping with changing requirements.

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