

SIXTH REPORT

STANDING COMMITTEE ON COMMUNICATIONS (1999-2000)

(THIRTEENTH LOK SABHA)

MINISTRY OF COMMUNICATIONS
(DEPARTMENT OF TELECOMMUNICATIONS)

*[Action Taken by the Government on the Recommendations/Observations
contained in the Ninth Report (Eleventh Lok Sabha) of the Standing Committee
on Communications on 'Selection of Multi Access Relay
Radio (MARR) Technology']*

Presented to Lok Sabha on 17-04-2000
Laid in Rajya Sabha on 17-04-2000



LOK SABHA SECRETARIAT
NEW DELHI

March, 2000/Phalguna, 1921 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE
ON COMMUNICATIONS (1999-2000)

Shri Som Nath Chatterjee — *Chairman*

MEMBERS

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2. Shri Ambareesha
3. Shri Mahendra Baitha
4. Shri Pawan Kumar Bansal
5. Prof. Dukha Bhagat
6. Shri Tara Chand Bhagora
7. Shri Nikhil Kumar Chaudhary
8. Shri Adhir Ranjan Chowdhary
9. Adv. Uttamrao Dhikale
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12. Shri K.K. Kaliappan
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14. Dr. C. Krishnan
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21. Shri Sheeshram Singh Ravi
22. Shri K.A. Sangtam
23. Shri Saroj Tufani
24. Shri Sardar Buta Singh

25. Shri Chandra Vijay Singh
26. Rajkumari Ratna Singh
27. Shri Vinay Kumar Sorake
28. Shrimati D.M. Vijaya Kumari
29. Vacant
30. Vacant

Rajya Sabha

31. Dr. M.N. Das
32. Shrimati Veena Verma
33. Shri Balkavi Bairagi
34. Shri Shatrughan Sinha
35. Shri Narendra Mohan
36. Dr. Mahesh Chandra Sharma
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38. Shri Munavvar Hasan
39. Shri S. Agniraj
40. Shri Kartar Singh Duggal
41. Miss Lata Mangeshkar
42. Vacant
43. Shri R.N. Arya
44. Vacant
45. Vacant

SECRETARIAT

1. Dr. A.K. Pandey — *Additional Secretary*
2. Shri P.D.T. Achary — *Joint Secretary*
3. Shri S.K. Sharma — *Deputy Secretary*
4. Shri A.S. Chera — *Under Secretary*

INTRODUCTION

I, the Chairman, Standing Committee on Communications (1999-2000) having been authorised by the Committee to submit the Report on its behalf, present this Sixth Report on Action Taken by Government on the Recommendations/Observations of the Committee contained in its Ninth Report (Eleventh Lok Sabha) on 'Selection of Multi Access Relay Radio (MARR) Technology' relating to the Ministry of Communications (Department of Telecommunications).

2. The Ninth Report was presented to Lok Sabha on 21 March, 1997 and also laid in Rajya Sabha on the same day. The Government furnished Action Taken Notes on the recommendations contained in the Report on 29 January, 1998.

3. The Report was considered and adopted by the Committee at its sitting held on 1 March, 2000.

4. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

5. An analysis of Action Taken by Government on the recommendations contained in the Ninth Report of Standing Committee on Communications (Eleventh Lok Sabha) is given in Appendix-II.

NEW DELHI;
1 March, 2000

11 Phalguna, 1921 (Saka)

SOMNATH CHATTERJEE
Chairman,
Standing Committee on Communications.

CHAPTER I

REPORT

This Report of the Standing Committee on Communications deals with the action taken by the Government on the Recommendations/Observations contained in its Ninth Report (Eleventh Lok Sabha) on "Selection of Multi Access Relay Radio (MARR) Technology" relating to the Ministry of Communications (Department of Telecommunications).

2. The Ninth Report was presented to Lok Sabha on 21 March, 1997 and was also laid on the Table of Rajya Sabha the same day. It contained 20 Recommendations/Observations.

3. Action taken notes in respect of all the Observations/Recommendations contained in the Report have been received and categorised as under:—

(i) Recommendations/Observations which have been accepted

by the Government:

Paragraph Nos: 56, 67, 68 and 70

Total—4

Chapter—II

(ii) Recommendations/Observations which the Committee does not desire to pursue in view of the reply

of the Government:

Paragraph Nos.: 52, 53, 54, 57, 58, 60 and 62

Total—7

Chapter—III

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted

by the Committee and which require reiteration:

Paragraph Nos.: 59, 63, 64 and 69

Total—4

Chapter—IV

(iv) Recommendations/Observations in respect of which replies are of interim nature:

Paragraph Nos.: 55, 61, 65, 66 and 71

Total—5

Chapter—V

4. The Committee trusts that utmost importance would be given to the implementation of the recommendations accepted by the Government. In cases where it is not possible for the Government to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation. The Committee further desires that final Action Taken Notes on the recommendations contained in Chapter I and Action Taken Notes in respect of the recommendations contained in Chapter V of this Report should be furnished at an early date.

5. The Committee will now deal with action taken by Government on some of its recommendations.

Non-Availability of Records (Paragraph No. 54)

6. The Committee in its Ninth Report had deprecated irresponsible action of the Department towards maintenance of records in important matters as was observed from the fact that the exact date of Commissioning of the 15 MARR Systems which were imported from M/s Kokusahi of Japan in late 1986 and installed by the middle of 1987 was not available with the Department. In this context, the Committee had cautioned the Department to guard against such inexplicable conduct.

7. The Department in its Action Taken Notes has replied that efforts are being made to properly record the date of installation of Systems. Circle Head-quarters have been requested/instructed to maintain records and to inform the DoT Head-Quarter about equipments and materials received in their circles every month as well as the installation particulars. DoT Head-quarters itself is also maintaining record of equipments despatched to Circles on monthly basis as per report of Quality Assurance Clearance.

8. The Committee would like the Department to ensure that instructions issued to the Circles for maintenance of records in important matters are actually adhered to so that lapses in this regard do not recur in future.

TRC's functions (Paragraph No. 59)

9. The Committee in its earlier Report had expressed its displeasure over the fact that TRC whose job was to develop suitable products and technology preferred to place orders for 80 Systems worth rupees three crore and seventeen

lakh without obtaining any clearance either from DoT or from the Telecom Commission as well as without any usual tendering process. The Committee was of the opinion that instead of itself placing the orders for 80 systems, TRC should have sought clearance from the Department.

10. The Department in its Action Taken Note has preferred not to give any comment.

11. The Committee is unable to condone the silence of the Department on this issue. The Committee was of the view that the TRC whose primary job was to develop suitable products and technology went overboard in placing orders for 80 systems without any tendering process and any clearance from the Department. Now, the Department more or less appears to be supporting the action of TRC by not expressing its own views. The Committee would like the legal position in this regard be got clarified for future guidance and necessary instructions issued in this regard and further would require a detailed reply to be given on the recommendation of the Committee.

Tendering Process (Paragraph No. 63)

12. In its earlier Report the Committee had observed that no tender was floated for the first 80 and 100 systems which were placed on M/s MACE Ltd. and when tendering process was followed for the next 400 and 500 systems, M/s MACE was awarded the tender on the plea that other parties who participated in the tender had not gone to the process of type specifications. However, these other parties were given 'educational order' for 20 systems. Pointing out that this process of educational orders should have been followed right from the initial stage, the Committee had concluded that the subsequent tendering process failed to encourage competition.

13. The Department has stated that the Purchase Order for 100 systems was issued on M/s MACE against the requirement of urgent nature at the rates approved by the Purchase Negotiation Committee, because by that time they had obtained the type approval of their systems and that the systems supplied against the earlier order of 80 systems were got field tried. The Department has further stated that the first tender of 600 systems was competitive in which 17 vendors submitted their bids. Out of them M/s MACE was the only type - approved vendor. To get the equipment early, DoT placed orders on M/s MACE

for 400 systems. However, in order to develop competition and to enlarge vendor base other 12 firms who had not obtained type approval were given educational orders for 20 systems each.

14. The Committee is not satisfied with the reply of the Department that Purchase Order for 100 systems was issued on M/s MACE against the requirement of urgent nature. Similarly, it is hard to accept that when tendering process was initiated, M/s MACE was again given the orders for 400 systems on the plea of getting the equipment early and the company being the only type-approved vendor out of the 17 other bidders. That these other bidders were given 20 educational orders each is a matter of little consolation in view of the fact that placement of such educational orders should have initiated right at the beginning and right from M/s MACE Ltd. Urgent nature of requirement does not call for obtaining sub-standard or faulty systems and that too without the usual tendering process. Needless to point out such deviations not only resulted in loss of revenue but the very purpose of meeting the target and encouraging competition was also defeated. The Committee is, therefore, of the view that undue favour was granted to M/s MACE in the placement of orders and the matter needs to be thoroughly investigated and action taken inter-alia to fix the responsibility of the persons concerned.

Performance Bank Guarantee (Paragraph No. 64)

15. In its Ninth Report (Eleventh Lok Sabha) the Committee had observed that with each Purchase order, the DoT advanced the sum equivalent to 35 percent of purchase order in utter violation of the prescribed procedure and at no point of time the Department took any effective step to recover the excess payment and advance money till the Auditor raised audit objection on 19 September, 1994. Even after protracted request of the Indian Bank, Vishakhapatnam and Director, Telecom Stores, Madras to DoT for duly discharging and lodging the Bank Guarantee with them, DoT did not respond. Curiously the Bank Guarantee of Rs. 1,92,64,250/- alongwith another Bank Guarantee of Rs. 6,52,050/- was kept by the DoT Directorate while all others were with the Director, Telecom Stores, Madras and were not sent to the latter despite repeated reminders. The Committee, therefore, came to the conclusion that the Department deliberately avoided encashing the Bank Guarantee of Rs. 1,92,64,250.

16. The Department in its Action Taken Notes has stated that claim for encashment of Bank Guarantee amounting to Rs. 6,52,050/- was lodged with the Indian Bank, Vishakhapatnam *vide* letter dated 6.1.1996 and the case was followed up with reminders to the Bank on 23.1.96, 9.2.96, 13.3.96 and 11.4.96 but no response was received from the Bank.

As regards the other Bank Guarantee amounting to Rs. 1,92,64,250/-, the Department has stated that the Original Bank Guarantee was sent to Accounts Officer (TS) Madras *vide* letter dated 27.11.1992 by Registered Post. However, Accounts Officer (TS) Madras informed DoT of the non-receipt of original Bank Guarantee. On short closure of the Purchase Order and the Department's decision to invoke all the valid Bank Guarantees available with the Department under set of clause of the Purchase Order, the claim against the Bank Guarantee for Rs. 1,92,64,250/- could not be lodged with the Bank since the Bank Guarantee had expired.

17. **The Committee is not able to accept the reply of the Department and fails to understand when the original Bank Guarantee amounting to Rs. 1,92,64,250/- was sent by Registered Post to Accounts Officer (TS) Madras, how it was not received by him. Keeping in view the fact that while all other Bank Guarantees were lodged with the Director (TS) Madras, the Bank Guarantee of Rs. 1,92,64,250/- was kept at the Telecom Directorate and the same is reported to have been lost in transit when sent to the former, in this case collusion/connivance of officials of Directorate/ Director (TS) office cannot be ruled out. It is not clear whether the matter was taken up with the Postal Authorities or not. The Committee, therefore, desires that the matter should be thoroughly investigated and action taken and the Committee be apprised accordingly.**

Undue Price Preference (Paragraph No. 69)

18. The Committee had noted in its earlier Report that one of the stipulations for release of advance of Rs. 1,248.50 lakh was that if the delivery was not completed within the stipulated period, the unadjusted advance shall be refunded immediately failing which interest at the current bank-borrowing rate shall be charged from the expiry of the delivery period till the advance was fully adjusted. But this condition was relaxed without any valid reason and the Committee

desired to be apprised of the reasons for showing special consideration to a defaulting vendor.

19. The Department has replied that considering that PSUs are eligible for price preference upto certain limit, M/s MACE was granted advance at the rate of 10% instead of the market rate of interest with the approval of the Telecom Commission.

20. **The Committee is not satisfied with the reply of the Department. It fails to understand the reason for showing special favour to M/s MACE more so when it was a defaulting vendor and the original stipulation was to charge interest at the current bank-borrowing rate in case the unadjusted advance is not refunded immediatley. The Committee would, therefore, like to know whether lowering of interest at the rate of 10% as approved by the Telecom Commission, is commensurate with the usual price preference being granted to the PSUs and if at all it was so, whether it was prudent to give such preference to a defaulting vendor of doubtful credentials.**

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation/Observation of the Committee (Paragraph No. 56)

The Committee is unhappy at the contradictory statements made by the department that the task force did not recommend anything towards availability of spare components and later on correcting that at page 68 of the Task Force the matter has been discussed. But after a perusal of the Report, the Committee observes that the matter has been dealt with cursorily by the Task Force. Needless to mention the Task Force which itself recommended the use of MARR technology neglected the vital aspect of availability of spare components for which the imported equipments became non-functional much before their normal life span was over. Therefore, the plea that the equipments could not be fully utilised because of non-availability of spares cannot be accepted.

Reply of the Government

The Task Force Report of Dr. S.K. Hajela's Task Force (copies of which have been supplied to the Committee) covered broader aspects of overall rural network development, design and planning and to justify the need for development of rural telecommunications. The technology options suitable for rural network were the parts of the recommendations of the Task Force. As regards keeping of spare components for the technology, the quantity of initially imported Kokushai make systems is very small and it was for experimental basis and perhaps due to this reason the long term maintenance spares were overlooked at that time, and only some spares were ordered. Subsequently indigenously manufactured MARR systems procured by the Department till now are more than 4000 MARR since 1988 to September, 1997. The originally imported systems have served their purpose of trial and experimentation in the Indian environment.

The Committee's observation is noted for future guidance. The Department has included three years SPARES in the recent tender for the MARR systems.

Recommendation/Observation of the Committee (Paragraph No. 67)

The Committee, recommends that except in deserving cases, to be decided at the appropriate level in future, the Department should desist from giving any advance to any vendor/company for purchase of equipments. The payments should ordinarily be released only after the supplies are duly made.

Reply of the Government

Department of Telecom has now stopped payment of advance to all public and private firms except M/s. ITI and M/s. HTL who are departmental PSUs.

However, as a special case, an advance of 50% against the order for 13.5 LCKMS of PIJF Cable was sanctioned in October 1997, to M/s. HCL, a Central Government Undertaking of the Department of H.I. to help the company overcome the present financial and liquidity crises.

As regards release of payment it is stated that 95% payment is released on submission of proof of receipt by the consignee, if the goods are transported by road. In case goods are sent by railways, the payment is made on proof of despatch *i.e.* production of RR. However, in both the cases the supplier is responsible for ensuring that goods reach the ultimate consignee. Balance 5% payment is released after issue of certificate for full receipt of equipment by the consignee.

Recommendation/Observation of the Committee (Paragraph No. 68)

The Committee feels that a mere mentioning of the clause now existing under the Tender that the bidder shall furnish the documentary evidence in support of his financial capabilities to perform the contract would not serve the purpose. The Committee, therefore, recommends the Department to find out suitable ways for examining the financial capability of a particular company whenever any contract is awarded to it.

Reply of the Government

The following clause of general conditions of Bid documents for tenders is being amended:

“Clause 10.2(i) The bidder shall furnish Annual report and/or a certificate from its bankers as an evidence that he has financial capabilities to perform the contract.”

“Clause 10.2(ii) The bidder shall furnish documentary evidence about technical and production capability necessary to perform the contract.”

Recommendation/Observation of the Committee (Paragraph No. 70)

The Committee must express its anguish that in matters of vital public interest an important Department and/or its associate organisations, had taken an attitude totally lacking in transparency, and had indulged in adhocism violating all known norms of official function, specially in case of making costly purchases.

Reply of the Government

In the beginning the shortcomings of this technology were not known. The initial purchases were done on experimental basis.

Department is now taking all precautions to avoid this in future.

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DOES NOT DESIRE TO PURSUE IN VIEW OF THE REPLY OF THE GOVERNMENT

Recommendation/Observation of the Committee (Paragraph No. 52)

Expansion of Rural Telecommunication network has been one of the priorities of the Department of Telecommunications (DoT) since long. With this end in view, DoT started probing for suitable modern technologies such as Wireless Radio system to overcome the constraints of the conventional system. On the recommendations of the Task Force which was set up for this purpose, DoT selected Multi Access Relay Radio (MARR) system. Initially, 15 MARR systems were imported and it was decided to indigenise the system based on field trials of imported equipments which could withstand Indian conditions. Committee's examination of development and procurement of the MARR systems has brought out glaring lapses of inaction and injudicious and premature actions to say the least, on the part of DoT, which have been summarised in the succeeding paragraphs. In brief, there has been unjustified haste in placing orders for systems whose specifications/parameters were yet to be formalised on the basis of field trials; in choosing a vendor of unknown credentials and obscure standing, of having a lack-lustre approach, evincing lack of responsibility, lack in recovering Government money amounting to crores of rupees, adhocism, and gross negligence and failure to take required steps to protect its interest.

Reply of the Government

A global tender was issued by the DoT and M/s. Kokushai was selected in the above tender.

- It may be appreciated that DoT's concern was to bring in a new technology in the initial stages of the induction of a technology, action taken may not conform to a set pattern. However, the department is taking precautions and preventive measures to ensure that these lapses do not recur in future.

Recommendation/Observation of the Committee (Paragraph No. 53)

The Committee expresses its displeasure over the contradictory statements of the DoT that M/s. ITI was solely responsible in selecting M/s. Kokushai of Japan for procurement of the MARR systems, whereas as a matter of fact, the ITI team which selected the Japanese company was actually a joint team of ITI and DoT. The Committee fails to understand why right at the beginning M/s. ITI which was one of the leading public sector companies was not entrusted or encouraged to manufacture the MARR systems, more so, when it was owned by DoT.

Reply of the Government

As regards Committee's concern about why M/s. ITI was not entrusted to manufacture the MARR systems in the beginning, it is stated that at that time the technology and the design and infrastructure facility was not available in M/s. ITI.

At the time of induction of any new technology, this situation is likely to exist, as Indian PSUs generally do not possess advanced R&D facilities as normally available in developed countries.

The Department regrets the error. On subsequent confirmation from M/s. ITI, the information regarding visit of joint team of DoT and ITI to Japan was made available.

Recommendation/Observation of the Committee (Paragraph No. 54)

The Committee deprecates that the exact date of commissioning of the 15 MARR systems which were imported from M/s Kokushai of Japan in late 1986 and installed by the middle of 1987 is not available with the department. It displays grossly irresponsible action of the Department towards maintenance of records in such important matters. This Committee would like the department to guard against such inexplicable conduct.

Reply of the Government

Efforts are being made to properly record the date of installations of the systems. Circles Head Quarters have been requested to maintain records and provide the informations to DoT HQ whenever required. DoT HQ is maintaining record of equipments despatched to circles on monthly basis as per reports of

QA clearance. Also instructions have been given to Circles to inform about equipments and materials received in their circles every month and installation particulars.

Comments of the Committee

Please see Paragraph No. 8 of Chapter I

Recommendation/Observation of the Committee (Paragraph No. 57 & 58)

The Telecom Research Centre developed the prototype and devised specifications 2/15 VHF Analog for MARR systems and placed orders for 80 Nos. of systems on M/s. MACE Ltd. By issuing letters of Intent on 26.12.1988. Purchase order was, however, issued on February, 1989 at the negotiated price of Rs. 317.928 lakhs. Prescribed tendering process was given a go-bye on the consideration that this order was for vendor development and that M/s. MACE limited was the only vendor which came forward to develop shared radio system. The Committee is unable to comprehend how TRC concluded without floating any tender enquiry or even making any market enquiry that there was only one vendor capable for developing the MARR systems of prescribed specifications. It is also intriguing to note point how the negotiated price of Rs. 3,97,400/- per system was arrived at when the imported cost including spares worked out to less than Rs. 70,000/- per system. In the case of DoT's purchases also the price negotiated was Rs. 7.81 lakh in the first order, Rs. 4 lakhs in the 2nd order and Rs. 7.7 lakh in the 3rd order per system. The abnormally high price paid raised many queries. Thus, one of the basic objectives of indigenous development i.e. to economise on cost was conveniently ignored and inflated price was sanctioned which had no relation to the actual cost.

The Committee is perturbed to note that orders for purchase of eighty systems were placed in December, 1988/February, 1989 much before the field trials of imported shared radio systems in March-April and July-September, 1989.

Reply of the Government

The field trial mentioned for 1988 and 1989 periods pertained to the indigenously developed systems of M/s. MACE. The erstwhile TRC was responsible for this.

Price of imported systems of Kokushai has been given by DoT to the committee as JY 12990060/- per system including spares. This comes to Rs. 10,41,803/- per unit @ 1JY = Rs. 0.0802 as per RBI's rate of exchange in 1986-87. Each systems could give 15 VPTs i.e. per VPT cost for equipment comes to Rs. 10,41,803 divided by 15 = Rs. 69,454/-.

As regards placement of three orders by DoT, a comparative statement of all orders (package unit price) is given below in ANNEX-I. It may be noted that the items in the packages of these PO's were different and as such the cost of materials are varying accordingly.

The cost paid in PO's is not arbitrary and is related to items. The details are on page 8 please.

Sl. No.	Description	Quantity	Rate	Total
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ANNEXURE-I

Desc.	Qty.	Sl.	Desc.	Qty.	Sl.	Desc.	Qty.	Sl.	Desc.	Qty.
80 Nos. ordered by TRC dated 26.12.88			100 Nos. ordered vide PO No. MMCT/1134/90-91 dt. 17.5.90			400 Nos. ordered vide PO No. MMCT/1162/90-91 dt. 12.11.90			500 Nos. ordered vide PO No. MMCT/8131/90-91 dt. 1.10.91	
1. BSUs	1200		1. Base Station	100		1. 2/15 MARR system (BSU + 15x RSV) including power supply and DC to DC	400		1. BSU (with built in DC to DC converter	500
2. RSU's	80		2. Rural Station Unit	1500		2. Spare one complete system per 20 systems	20		2. Plus R.S.U.	7500
3. Feeder Cable 30M connector with type 'N' connectors	1360		3. 12V Battery	1500		3. 75 Mts. long coaxial feeder cable along with 'N' male end connectors for Exchange End (RG-213 A/U)	400		3. Plus Built in Antenna Coupler unit inclusive of isolator	500
4. 12V, 180 AH Exide Battery	80		4. Feeder cable 30 M each with 'N' type connectors for BSU (2 Nos.) & RSU	1700		4. 30 Ms long Coaxial feeder cable along with 'N' male end connector for subscriber end RG-213			4. Omni Directional Antenna 6 DBI gain	500
5. 12V battery charger	80		5. 12V AH Exide Battery for RSU	1500		5. Two Chl Coupler	400		5. Directional Antenna Yagi in DBI gain	7500
			6. 45 feet Triangular Lattice-guyed Masts for BSU (2 nos.) & RSU	1700		6. Antenna coupler for RSU	400		6. Feeder Cable 75 Mts. each for BSU with N type BSU with N type connector and clamps (one for each meter length) type RG-213 A/U	500
			7. One set (2 Nos.) of Omni-directional antennas for BSU (6 dB gain) for RSU	100						

8. Yagi antenna 10 dB gain for RSU	1500	500
9. Maintenance spares for three years for one BSU	100	500
10. Maintenance spares for 3 years for one RSU	1500	7500
7. Feeder cables 30 Mts. each (for BSU with N type connector & clamps (one each for each meter 213 AVU		
8. Masts 40 Mts. self support- ing for BSU		
9. Masts 15 Mts. self supporting for RS		
10. Spare one complete system per 20 systems		25
Cost of one package unit 3.97 lakhs	Cost of one package unit system— Rs. 7.81 lakhs*	Cost of one package unit system* Rs. 7.71 lakhs (approx.)

*Conditional Price PNC price/tender price whichever is less.

Recommendation/Observation of the Committee (Paragraph No. 60)

The Committee is gravely disturbed to note that certain relaxations with regard to multi metering and dynamic assignment of channel etc. were given to M/s. MACE by TRC on the ground that there was an urgent requirement to meet the demand of long distance public telephones (LDPTs) in the country and the manufacturer had produced the equipments against the order from TRC itself. Surprisingly, neither any quantification of the value of relaxation was done nor any price reduction was sought from the company in view of the relaxation/ departure granted from the TRC specifications. The Committee considers it to be a serious lapse. It does not find any justifications in favouring the MACE Ltd. At a cost so enormous to the exchequer. The Committee will like to be assured in no ambiguous terms that no favour was granted to the vendor. It will also like the relaxation to be quantified for all the purchase orders executed by M/s. MACE Ltd.

Reply of the Government

(i) The order for 80 systems placed by TRC was based on TRC specification No. TS-2/15 SRS-1/1 this was a development specification. OR/QR specification for 2/15 shared radio system was finalised by Technical Co-ordination Committee in its meeting held on 27.9.89. This meeting also considered the parameters of MACE systems and recommended that relaxation could be given to some of the parameters like multi metering, dynamic channel assignment. These parameters were either not specified in TRC specification or values were same as TRC. This relaxation was for 80 systems. The relaxation did not affect the basic functioning of the equipment. Standing Committee is assured that by granting the relaxation there was no favour given to the company.

(ii) Production clearance for the modified version of 2/15 MARR systems was accorded *vide* 41-34/90-TEC dated 1.2.1991. DCC in its meeting held on 7/8.3.91 had agreed to relaxation/tolerance in specifications of the following parameters:—

- (a) Power consumption at BSU in standby mode: 15 Watts against 10 Watts.
- (b) Multi metering pulse: (16 K/Hz) level at 2 W point of RSU: 0 dbm against plus 8 dbm.
- (c) Busy tone frequency tolerance: 400 Hz +—5 Hz.

(d) Ringing voltage/frequency: 75 Volt RMS +/-5 volts, 25 Hz +/-2 Hz.

(e) Squelch level: below—109 dbm against—116 dbm.

The above relaxations are related to tolerance limits of certain parameters. The equipments supplied are as per the above relaxation. The relaxation in parameters have been quantified. These parameters do not affect value/cost of the systems.

Recommendation/Observation of the Committee (Paragraph No. 62)

The Committee notes that major faults like bad workmanship, bad designing/ component selection, cumbersome design and ineffective quality control in the factory were identified as a result of the investigations conducted in the factory by the Quality Assurance Wing of the Department after procurement first lot of 80 systems. Even though the mistakes in design and quality control, problems were brought out in the notice of the vendor and solutions were also suggested to some of the problems. M/s. MACE failed to take any effective steps either to improve its products in the factory or to upgrade the same in the field for lack of finances. This led the IEC to revoke the type approval on 30.6.1992. Had the financial standing of the Company and its capability been adjudged before selecting the vendor the DoT would not have suffered financially and in terms of missing of physical targets. The Committee will like to know why the Quality Assurance Wing of the Ministry did not inspect the manufacturing process of systems in factory premises of the vendor before supply of first lot.

Reply of the Government

1. Infrastructure Assessment, which includes the manufacturing process, is done as part of the Type approval procedure and as a pre-requisite for according Type Approval. This has been done in the case of the MARR equipments of M/s. MACE, Vizag.

2. All QA Practices that were normally being performed for any Telecom product at that point of time, have been carried out in the case of M/s. MACE.

3. Some of the environmental test on components/assembled PCBs that were introduced as part of the manufacturing process progressively, based on the reported field performances, were not done in the first lot, as there were additional

tests which were not being performed for other telecom products during that period of time.

4. The major reason for the poor performance of the MARR systems of M/s. MACE was due to design limitations, though component variability/drifts were also responsible for instabilities in systems performance to a limited extent.

5. Based on experience gained, a lot of stringent measures have been introduced as part of the QA procedure for MARR systems, and these have been compiled a document titled "QA Procedure for MARR systems" (QM-326/Issue-2/March, 1997). Copies of this quality manual has already been distributed to all the MARR suppliers of DoT for enabling them to comply with all the QA requirement stipulated in this document.

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation/Observation of the Committee (Paragraph No. 59)

The Committee cannot but express its grave displeasure that TRC whose job was to develop suitable products and technology preferred to place orders for 80 systems worth Rupees three crores and seventeen lakhs without obtaining any clearance from the Department of Telecommunications or Telecom Commission and at last without the usual tendering process. The reasoning of the Secretary, DoT that TRC being an autonomous body need not get any clearance from the department does not convince the Committee. In the opinion of the Committee, TRC should have sought clearance from the Department before placing orders with M/s MACE, instead of itself doing so. In any event, purchase of 80 systems in one go without awaiting field trials reports about the functioning on imported systems was totally unwarranted and no acceptable reason has been offered to justify purchase of so many systems at one time.

Reply of the Government

No comments.

Comments of the Committee

Please see Paragraph No. 11 of the Chapter I

Recommendation/Observation of the Committee (Paragraph No. 63)

The Committee deprecates that no tender was floated for the first 80 and 100 systems which were placed on M/s MACE Ltd. and when tendering process was followed for the 400 and 500 systems, M/s MACE was awarded the tender on the plea that other vendors/parties who participated in the tender had not gone to the process of type specifications. However, they were given educational order of 20 systems. The Committee is of the opinion that this process of educational orders should have been followed right at the initial stage to develop

indigenous vendors and different sources of supply. The Committee, therefore, cannot but conclude that the subsequent tendering process failed to encourage competition and discourage monopoly, rather it turned out to be the other way round.

Reply of the Government

The P.O. for 100 systems was issued on M/s MACE against the requirement of urgent nature, at the rates approved by the PNC because by that time they had obtained the type approval of their systems and the systems against the earlier order of 80 systems were got field tried.

The first tender of 600 systems was competitive. 17 vendors submitted their bids. MACE was the only type-approved vendor. To get the equipment early, DoT placed orders with M/s. MACE for 400 systems. In order to develop competition and to enlarge vendor base, other 12 firms, who had not obtained type approval, were given educational orders of 20 systems each.

Comments of the Committee

Please see Paragraph No. 14 of Chapter I

Recommendation/Observation of the Committee (Paragraph No. 64)

The Committee is shocked to note that with each Purchase Order, DoT advanced the sum equivalent to 35 percent of Purchase Order in utter violation of the prescribed procedure. As a result of it, entire advance of Rs. 1348.50 lakhs of the third Purchase Order of 500 systems which was subsequently cancelled and a sum of Rs. 4.78 lakh on account of excess payment of second Purchase Order are outstanding against the vending company. The Company ran into financial difficulties and refused to repay the money vide its letter dated 15 October, 1994. Curiously, DoT did not take any step to recover the amount of advance till Resident Auditor pointed out overpayment on 19 September, 1994. Only, thereafter, the DoT asked the Company to refund the advance. Meanwhile, the advance money of Rs. 1348.50 lakhs multiplied to Rs. 24.3 crores as on 31 May, 1996 at the concessional rate of interest of ten per cent per annum. There appears to be bleak chance of recovering the Government dues as the Company has been referred to BIFR. The Committee finds a number of lapses and instances of lack of foresight on the part of DoT as mentioned below which led to this sorry state of affairs.

- (i) At no point of time, the Department took any effective step to recover the excess payment and advance money till the auditor raised audit objection on 19 September, 1994.
- (ii) Even after protracted request of the Bank and Director, Telecom Stores, Madras to DoT for duly discharging and lodging the bank guarantee with them, DoT did not respond.
- (iii) The matter was seriously pursued by DoT with the Ministry of Finance and RBI towards the end of 1996, only when the Committee took up this subject for examination.
- (iv) Fourthly, the Bank Guarantee of Rs. 1,92,64,250 which was taken for the third advance of Rs. 1348.50 lakh was accepted though valid for only one year. Bank Guarantees are normally valid for a period of 3 years and more.
- (v) Purchase Order was cancelled all of a sudden without realising its implications and getting the Bank Guarantee extended with the vendor was willing to do at that stage. Prudence required that Bank Guarantee would have been got extended prior to cancellation of Purchase Order.
- (vi) Curiously, the Bank Guarantee of Rs. 1,92,64,250 along with another Bank Guarantee of Rs. 6,52,050 was kept by the DoT Directorate while all others were with the Director, Telecom Stores, Madras and were not sent to the latter despite repeated reminders.

The Bank was willing to accept the Bank Guarantee for Rs. 6,52,050 and wanted it duly discharged which was not done.

- (vii) The Department deliberately avoided encashing the Bank Guarantee of Rs. 1,92,64,250 on the plea that this Bank Guarantee was of a 'very little amount' and was meant only for a safety against performance of the equipments.

Reply of the Government

- (i) The excess payment pointed out by Audit was not detected in the Deptt. However, on receipt of information from the Audit for recovery of

Rs. 9,18,188/- action was immediately initiated and an amount of Rs. 4,40,049/- was recovered from the supply bills and balance Rs. 4,78,139/- by invoking set off clause of the P.O. and claim was lodged with the Bank for encashment of Bank Guarantee amounting to Rs. 39,07,250/- furnished against P.O. No. NMCT/1134/90-91 dated 17.5.90. But M/s MACE approached the Court of Law against this for an interim injunction to restrain DoT from encashment of the Bank Guarantee. The case is still pending in the court.

- (ii) The request of the bank and Director (TS), Madras relates to two different Bank Guarantees. It is stated that claim for encashment of B.G. amounting to Rs. 6,52,050/- was lodged with the bank vide letter dated 6.1.96, under set of clause of the P.O. and the bank was specifically told that the original Bank Guarantee to the bank on receipt of pay order for the claimed amount. The case was followed up by with reminders to the bank on 23.1.96, 9.2.96 and again *vide* letter No. 9/0-153/92-MMC dated 13.3.96 and 11.4.96 but no response was received from the bank.

As regards that other B.G. amounting to Rs. 1,92,64,250/-, it is stated that the original B.G. was sent to AO(TS), Madras vide letter dated 27.11.92 by Registered Post. However, AO(TS), Madras informed DoT of the non receipt of original B.G. On short closer of the P.O. and the department's decision to invoke all the valid BGs available with the department under set of clause of the P.O., it was observed that the claim against the B.G. for Rs. 1,92,64,250/- could not be lodged with the bank since the B.G. had expired.

- (iii) Action was taken to encash all the Bank Guarantees with Indian Bank, Vishakhapatnam in May, 1993 but when no response was received despite repeated reminders the case was referred to RBI and Ministry of Finance to intervene in the matter. When RBI, New Delhi intimated that the case may be taken with their branch of Chennai, the matter was referred to RBI, Chennai who showed their inability to intervene in the matter as some court cases pending against encashment of BGs. RBI, Chennai was then clarified that the court case is pending against one Bank Guarantee only and in that case too Hon'ble court has not given

any stay order and, therefore, Indian Bank may be instructed to honour the claims submitted by DoT.

RBI, New Delhi recently responded that the written complaint may be sent to the Central Control Office, Indian Bank and if no reply is received upto 2 months, then complaint may be lodged with the Banking Lok Pal, C/o RBI, Fort Glacius, South Beach Road, Chennai-600001 or C/o RBI, 15, Netaji Subhash Road, Calcutta-700004. Accordingly action in this regard is initiated.

- (iv) During 1991 when the purchase order for 500 Nos. was issued the terms and conditions of the purchase order states that :

Performance Bank Guarantee:

The contractor shall furnish and maintain during the performance of this contract, a security deposit in the form of a Bank Guarantee from any nationalised Bank of India in the prescribed format computed at the rate of 5% of the value of the P.O. towards performance and observance of the contract before receipt of advance.

The Bank Guarantee shall be kept valid till the expiry of warranty period mentioned in clause 11. The paying authority shall ensure that the Bank Guarantee is obtained and kept on record as early as possible. He will ensure that the contractor maintains the bank guarantee valid till the expiry of the warranty period. The extracts of warranty clause 11 in the P.O. reads as under:

Clause 11

“.....This warranty shall survive inspection or payment for/and acceptance of goods, but shall expire (except in respect of complaints notified prior to such date) twelve months from the date of commissioning or 18 months from the date of supply whichever is earlier.”

In 1993 the manual of procurement procedure was prepared and accordingly Bank Guarantees were accepted for a period of 3 years. Again the system was reviewed in this office and in 1996 the acceptance of performance Bank Guarantee was linked with the duration of delivery schedule.

- (v) Before the short-closure of the P.O. the case was thoroughly examined and considering the fact that no supplies are made against the P.O. and TEC has withdrawn type approval the P.O. was cancelled. Moreover, the delivery schedule expired and foreseeing no probability of supply of equipment in near future, it was decided to short close the P.O. and paying authority instructed to arrange withdrawal of advance alongwith interest.

The original Bank Guarantee was sent to AO(TS), Chennai on 27.11.92 with the request to get the Bank Guarantee revalidated which has already expired on 10.9.92.

- (vi) The Bank Guarantee for Rs. 1,92,64,250/- in original was sent to AO(TS), Chennai by registered post on 27.11.92.

The other Bank Guarantee amounting to Rs. 6,62,050/- is in the safe custody of AO (MMD), DEPARTMENT OF TELECOMMUNICATIONS. As per existing procedure the original Bank Guarantee is returned to the Bank only after receipt of pay order for the amount claimed by DEPARTMENT OF TELECOMMUNICATIONS. This fact was clearly stated in DoT's letter to the Bank, but it is observed, the bank instead of honouring the claim by issue of pay order, requested the Director (TS), Chennai to return the Bank Guarantee (in original) to them.

- (vii) The Department did not deliberately avoid to encash the Bank Guarantee for Rs. 1,92,64,250/-. The B.G. was initially accepted valid for one year, *i.e.* upto 10.9.92 but the firm agreed to extend the B.G. upto 10.9.93. However, before the extended B.G. was received from M/s. MACE, DoT decided to short close the P.O. on 4.12.92. The B.G. (in original) was sent to AO(TS), Chennai by registered post on 27.11.92.

Comments of the Committee

Please see Paragraph No. 17 of Chapter I

Recommendation/Observation of the Committee (Paragraph No. 69)

Another interesting aspect of purchase of systems which came to notice is that one of the stipulations for release of advance of Rs. 1248.50 lakh was that if the delivery was not completed within the stipulated delivery period, the

unadjusted advance shall be refunded immediately. In case the unadjusted advance was not refunded, interest at the current bank-borrowing rate shall be charged from the expiry of the delivery period till the advance was fully adjusted. However, the Committee finds that this condition has been relaxed without any valid reason. The Committee will like to know reasons for showing special consideration to a defaulting vendor.

Reply of the Government

Considering that PSUs are eligible for price preference upto certain limits M/s MACE was granted advance at the rate of 10% instead of market rate of interest with the approval of Telecom Commission.

Comments of the Committee

Please see Paragraph No. 20 of Chapter I.

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES ARE OF INTERIM NATURE

Recommendation/Observation of the Committee (Paragraph No. 55)

The Committee is concerned to note that out of the 15 systems imported from the Japan, 3 were replaced during October, 1993, January, 1994 and March, 1995 respectively. Much before the completion of their normal life span and another is working with reduced capacity. Presuming that the systems were commissioned during 1987 itself, as the date of commissioning is not available and taking into consideration of reply of the department that the normal life span of these imported systems were 10-15 years, the Committee is inclined to believe that 3 equipments were replaced much before the expiry of their normal life span at considerable cost to the exchequer. The factors responsible for break down of costly equipments much before the expected service period requires to be investigated. The reason that spares were not available as the systems had gone out of service because of obsolescence of technology is not acceptable.

Reply of the Government

Department agrees with the concern of the Committee. Investigations into the reasons for early scrapping are being initiated.

Recommendation/Observation of the Committee (Paragaraph No. 61)

The Committee notes that 3 purchase orders were placed with M/s. MACE Ltd. By DoT in quick succession i.e. for 100 MARR systems on 17.5.90 worth Rs. 781.45 lakhs, for 400 systems on 12.11.1990 worth Rs. 1593.24 lakhs, and for 500 systems on 1.10.1991 worth Rs. 3852.85 lakhs. Here it may be mentioned that a consolidated and authenticated analysis of the feedback as regards to the first 80 systems ordered by TRC were received from the field in August, 1991 which brought out some major faults like bad and cumbersome design, ineffective quality control etc. in the equipments supplied by M/s. MACE Ltd. Thus it was highly objectionable that first two orders were placed with MACE much before getting any feedback from the field on the performance of the first 80 systems. It is intriguing to note that another order was placed for the same systems from the

same company two months after the detection of major deficiencies in their performance. Experiment in product development and compulsions to achieve targets in village public telephones—the two reasons put forward by the department for placing the orders of 80, 100, 400 and 500 systems belie the statement when the net result is seen at the end. Neither the experiment was successful nor the target to provide VPTs could be achieved. The action of the department in placing Purchase orders of 500 systems knowing well that the major faults in the MACE equipments is highly deplorable. Thus after summing up, the sequence of placement of all the orders, the Committee feels that the failure to observe the norms with regard to DoT placing order with MACE Ltd. smacks of grant of undue favour to the company.

Reply of the Government

The case is under investigation by the CBI. The outcome of the investigation is awaited.

The POs were placed in quick succession in order to provide LDPTs and Panchayat telephones to meet the target fixed by DoT. At that time M/s. MACE was the only type approved vendor and supplied systems which had undergone field trails by QA and TEC.

Recommendation/Observation of the Committee (Paragraph No. 65)

The Committee is inclined to conclude that even if the department becomes successful in encashing the performance bank guarantee which under the circumstances seems to be a distant possibility, only a small fraction will be recovered leaving as stragging amount of more than Rs. 23 crores. Now that the company has been referred to BIFR and due to the procedural lapses on the part of the Department, it is nearly impossible that DoT would get back its outstanding dues.

Reply of the Government

In case department fails to recover the amount against performance B.G. for which claims have already been lodged with the bank, the following steps are proposed:

1. Deptt. appointed Arbitrator in this case. The arbitration proceedings were started by him. These were recently stopped by the Arbitrator, since AP High

Court has appointed official liquidator. DoT has now authorised Director (TS) Chennai to file the claim with the official liquidator.

2. Department has also taken up the case with the RBI and Ministry of Finance for their intervention in payment of claimed money to DoT by the Indian Bank RBI, New Delhi recently responded that the written complaint may be sent to the Central Control Office, Indian Bank and if no reply is received upto 2 months, then complaint may be logged with the Banking Lok Pal, C/o RBI, Chennai or C/o RBI, Calcutta. Accordingly, action in this regard has been initiated.

Recommendation/Observation of the Committee (Paragraph No. 66)

The most serious aspect of this entire episode is that the Department did not feel it necessary to hold an enquiry into the matter. The Committee desires the Department to hold a proper enquiry into the matter immediately so that the delinquent officials do not go scot-free. The Committee also recommends the Department to discard its lackadaisical attitude and less than sincere approach for recovering its outstanding dues from M/s. MACE Ltd.

Reply of the Government

The case is under investigation by the CBI. The outcome of the investigation is awaited.

Recommendation/Observation of the Committee (Paragraph No. 71)

In the circumstances, the Committee cannot but strongly recommend for an in-depth and thorough enquiry into the matter by a suitable agency, preferably, outside DoT.

Reply of the Government

The case has been handed over to the CBI. The outcome of the investigation is awaited.

NEW DELHI;

SOMNATH CHATTERJEE,

1 March, 2000

Chairman,

11 Phalgun, 1921 (Saka)

Standing Committee on Communications.

Appendix I

MINUTES OF THE FIFTH SITTING OF THE STANDING COMMITTEE ON COMMUNICATIONS (1999-2000)

The Committee sat on Wednesday the 1st March, 2000 from 1500 hours to 1600 hours in Room No. 139, Parliament House, Annexe, New Delhi.

PRESENT

Shri Somnath Chatterjee — *Chairman*

MEMBERS

Lok Sabha

2. Shri Mahendra Baitha
3. Shri Pawan Kumar Bansal
4. Prof. Dukha Bhagat
5. Shri Nikhil Kumar Chaudhary
6. Shri Adhir Ranjan Chaudhary
7. Shri T. Govindan
8. Shri K.K. Kaliappan
9. Shri Shreechand Kriplani
10. Dr. C. Krishnan
11. Shri Bhartruhari Mahtab
12. Shri Simranjit Singh Mann
13. Shri A.K. Moorthy
14. Shri Karia Munda
15. Shri Sheeshram Singh Ravi
16. Shri K.A. Sangtam
17. Shri Chandra Vijay Singh

18. Shri Vinay Kumer Sorake

19. Shrimati D.M. Vijaya Kumari

Rajya Sabha

20. Shri Balkavi Bairagi

21. Shri Narendra Mohan

22. Shri Kartar Singh Duggal

SECRETARIAT

1. Shri P.D.T. Achary — *Joint Secretary*

2. Shri S.K. Sharma — *Deputy Secretary*

3. Shri A.S. Chera — *Under Secretary*

2. The Committee took up for consideration the following Draft Reports and adopted the same with amendments/modifications as shown in Annexures A, B and C respectively.

(i) Draft Sixth Report on Action Taken by Government on the recommendations of the Committee contained in its Ninth Report (Eleventh Lok Sabha) on 'Selection of Multi Access Relay Radio (MARR) Technology' relating to the Department of Telecommunications. (Annexure 'A')

(ii)

(iii)

3. The Committee then authorised the Chairman to finalise and present the above mentioned Reports to the House.

The Committee then adjourned.

AMENDMENTS/MODIFICATIONS MADE BY THE COMMITTEE IN
THE DRAFT SIXTH REPORT

Page No.	Para No.	Line No.	For	Read
4	14	Last		Add at the end: "inter-alia to fix the responsibility of the persons concerned".
5	17	6		Add after "to the former": "in this case"
5	17	Last		Add after "thoroughly investigated": "and action taken".

APPENDIX II

(Vide Paragraph No. 5 of Introduction of the Report)

ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE NINTH REPORT OF STANDING COMMITTEE ON COMMUNICATIONS (TWELFTH LOK SABHA)

I. Total number of Recommendations	20
II. Recommendations/observations which have been accepted by the Government:	
Paragraph Nos. 56, 67, 68 and 70	Total 4 Percentage 20%
III. Recommendations/observations which the Committee does not desire to pursue in view of the reply of the Government:	
Paragraph Nos. 52, 53, 54, 57, 58, 60 and 62	Total 7 Percentage 35%
IV. Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:	
Paragraph Nos. 59, 63, 64 and 69	Total 4 Percentage 20%
V. Recommendations/observations in respect of which replies are of the interim nature:	
Paragraph Nos. 55, 61, 65, 66 and 71	Total 5 Percentage 25%