47

UTILISATION OF EXTERNAL ASSISTANCE

MINISTRY OF RAILWAYS (RAILWAY BOARD)

PUBLIC ACCOUNTS COMMITTEE 1992-93

TENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

FORTY-SEVENTH REPORT

PUBLIC ACCOUNTS COMMITTEE
(1992-93)

(TENTH LOK SABHA)

UTILISATION OF EXTERNAL ASSISTANCE

MINISTRY OF RAILWAYS
(RAILWAY BOARD)

Presented to Lok Sabha on 26.4.93
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LOK SABHA SECRETARIAT
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Corrigenda to the 47th Report of Public Accounts Committee (10th Lok Sabha)

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* Elected w.e.f. 23 July, 1992 *vice* Shrimati Krishna Sahi ceased to be a member of the Committee on her appointment as a Minister.

£ Ceased to be members of the Committee consequent upon their appointment as Ministers *w.e.f.* 18 January, 1993.

$ Ceased to be member of the Committee consequent upon his appointment as Minister *w.e.f.* 19 January, 1993.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Forty-seventh Report on Paragraph 14 of the Report of the Comptroller & Auditor General of India for the year ended 31 March, 1990, No. 10 of 1991, Union Government (Railways) relating to Utilisation of External Assistance.

2. The Report of the Comptroller and Auditor General of India for the year ended 31 March, 1990, No. 10 of 1991, Union Government (Railways) was laid on the Table of the House on 17 May, 1991.

3. The Committee's examination has revealed major shortcomings in formulation and execution of projects assisted by World Bank and other similar foreign agencies. Due to lack of proper project planning and their implementation, there have been considerable delays in the utilisation of external assistance. The Committee have found that Railways have generally failed to utilise these foreign loans during their original validity period. Consequently, the Railways have been seeking repeated extensions of these loans resulting in payment of huge additional commitment charges for the extended periods. The Committee have been deeply concerned to note that owing to the failure of the Railways to utilise loan No. 2210-IN/IDA Credit 1299-IN and Loan No. 2417-IN during their original validity periods, the Railways had to pay huge avoidable extra commitment charges amounting to US $ 3059328 for the extended periods. The Committee have recommended that the Ministry of Railways should thoroughly examine the matter and devise ways and means to ensure the utilisation of such loans within their validity period so as to avoid unnecessary outgo of foreign exchange as extra commitment charges.

4. The Committee have also found that delayed finalization of tenders and delayed supplies by the firms have also resulted in substantial non-utilisation of loans to the tune of US $ 13.227 million. The Committee have, therefore, recommended that Ministry of Railways should make all out efforts to suitably streamline the process of tendering and placement of orders and timely arrangement of rupee resources so that the foreign loans are timely and fully utilised.

5. The Committee have been distressed to note that the 18 locomotives procured at a cost of US $ 97 million and which were received in 1988, continue to suffer from a major harmonic content deficiency. Consequently, the Railways have not only been compelled to restrict the use of these locomotives to a particular section only but the main underlying purpose of selecting the most suitable design for indigenous manufacture has thus far remained unachieved. The Committee have concluded that the enormous expenditure of US $ 97 million incurred on these locomotives has remained infructuous. The Committee have strongly recommended that concerted efforts should be made by the Railways to ensure that the persisting harmonic defects in the locomotives are satisfactorily removed within the available warranty periods.

6. The Committee have been extremely unhappy to note that a commutator seasoning machine costing Rs. 35.21 lakhs received in DCW, Patiala in June 1986 has not been commissioned so far. The delayed action on the part of Ministry of Railways has clearly made the expenditure of Rs. 35.21 lakhs incurred on this machine infructuous so far. The Committee have taken a very serious view of the lack of proper action on the part of the Railway and have emphasized that conclusive steps should immediately be taken to find a satisfactory solution to the problem in the interest of safeguarding their financial interests.

7. The Committee (1992-93) examined Audit Paragraph 14 at their sittings held on 12.8.1992, 3.9.1992 and 4.9.1992. The Committee considered and finalised the Report at their sitting held on 8 April, 1993. Minutes of the sittings form Part II* of the Report.

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

9. The Committee would also like to express their thanks to the Officers of the Ministry of Railways (Railway Board) for the cooperation extended to them in giving information to the Committee.

10. The Committee place on record their appreciation of the assistance rendered to them in the matter by the office of the Comptroller and Auditor General of India.

NEW DELHI;
April 20, 1993
Chaitra 30, 1915*(S)*

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

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* Not printed (one cyclostyled copy laid on the Table of the House and Five copies placed in Parliament Library).

REPORT

UTILISATION OF EXTERNAL ASSISTANCE

The Report is based on Paragraph 14 of the C&AG Report for the year 1989-90 (S.No. 10 of 1991) which is appended at Appendix-I.

Introductory

Indian Railways receive external assistance mainly from World Bank and its agencies. Through sixteen operations approved between 1949 and 1984, World Bank assistance totalled US $ 1.8 billion. The first thirteen operations were based on one to three year slices of the Railway's investment programme and covered foreign exchange for acquisition of :

(a) material, parts and components for manufacturing of motive power and rolling stock;

(b) machinery and plant for Railway Production Units; and

(c) materials and equipment for line improvement works and telecommunications.

2. Since 1978, there had been four specific investment projects focussing on particular components in respect of motive power, rolling stock, workshop and track electrification viz. (a) Railway Modernisation and Maintenance Project (credit No. 844-IN); (b) Railway Modernisation and Maintenance Project (Phase-II Credit No. 1299-IN/Loan No.2210-IN) (c) Railway Electrification and Modernisation Project (Loan 2417-IN) and (d) Railway Modernisation Project III(Loan 2935-IN). Besides assistance from the World Bank, bilateral loans/credits are received. These were from the United Kingdom, Japan, Saudi Arabia and West Germany for specific projects.

3. Projects financed by external assistance are monitored by the Planning Directorate of the Railway Board and progress of the projects is reviewed. Accounts in respect of drawal and disbursement are rendered to the Controller of Aid Accounts, Department of Economic Affairs and progress reports on aided projects are submitted to the Ministry of Finance by the Board. The Audit paragraph under review covers a few projects which have either been completed in the recent past of which are at and advanced stage of completion.

4. The Committee enquired about the procedure followed by Ministry of Railways for securing financial assistance from different International Agencies. The Ministry of Railways (Railway Board) in a note have informed the Committee that Ministry of Railways indicate their foreign exchange requirement to the Ministry of Finance. The assessment of

foreign exchange is made through the estimate prepared for major loco components/spares as well as machinery and equipment needed by the Railways. On the advice of Ministry of Finance (Department of Economic Affairs) Ministry of Railways then interacts with visiting country Programming Missions from World Bank & Asian Development Bank and other agencies. During the course of interaction the projects are identified and reports are made to meet with the World Bank & Asian Development Bank guidelines/ requirements. Thereafter, these reports are appraised by the World Bank & Asian Development Bank. During the subsequent discussions, information which may be required by lending agency is made available. A final draft "Staff Appraisal Report" is then submitted by the Bank for Railway Ministry's comments. This is followed by negotiations and the final signing of the agreement.

Slow and Delayed utilisation of External Assistance

5. It has been pointed out in the Audit Para that the progress of utilisation of external assistance was slow due to delayed finalisation of tender and delayed supply by the firms and as a result of which full amount of assistance could not be utilised. An amount of US $ 13.227 million of the loans remain unutilised. The Committee desired to know the reasons for non-delayed utilisation of external assistance. The Ministry of Railways (Railway Board) have in a note stated :

> "That the amount of US $ 13.227 million shown as unutilised by the Audit represents the difference between the amount of commitments entered into by IR, under the Unit Exchange Spares category of IDA Credit and IBRD Loan, and, the amount disbursed by the World Bank. The commitment are based on the value worked out in US $ at the time of release of foreign exchange or contract finalisation, and, for imported items it consist of FOB value and 10% to 11% thereof, towards freight and insurance items, FOR destination price, exclusive of duties and taxes is taken into account. There is always a difference in rate of exchange adopted at the time of foreign exchange release/ contract finalisation and when the disbursements eventually are claimed from the World Bank. This difference widens when there is increase in the value of US dollars vis-a-vis Indian Rupees or other foreign currencies. This is one of the primary reasons for said difference."

6. According to the Ministry the other factors responsible for the said difference of US $ 13.227 are as under :

"(a) As against the provision of 10% to 11% adopted towards freight and insurance charges, the actual expenditure, for Unit Exchange Spares, generally come in the range of 4% to 5% only, and therefore, there was substantial saving in this component.

(b) Despite best efforts, there are always some cases where contractors fail to supply the ordered quantity within the stipulated extended delivery period. This particularly refers to balance 10% payments which are made after satisfactory receipt of material by the consignee, and these payments generally get delayed and reimbursements are not possible.

To cover up slippages on above accounts and to absorb the difference arising out of exchange rate variations certain cushion is built in our commitments and the figures of US $ 13.227 million basically pertains to the same.

Certain commitments charges were paid as per loan conditions due to delay in obtaining disbursement from the World Bank. According to the Ministry of Railways, certain gestation period is involved in finalisation of purchase transaction as well as accrual of payment liabilities, before disbursement can be claimed. The exact amount of commitment fees paid on US $ 13.227 million is not possible of identification for working out the commitment charges."

7. Explaining the position about the utilisation of various loans/credits received by the Indian Railways from World Bank etc. referred to in the Audit Para, the Chairman, Railway Board informed the Committee during evidence as follows :

"The focus of the audit's concern is on the utilisation of the external assistance by the Indian Railways. The position as it exists at present is that the largest number of audit observations relate to the Indian Railways Modernisation and Maintenance II Project funded jointly by the IDA Credit 1299-IN and IBRD loan 2210-IN totalling 440 million US dollards. The utilisation of the total amount was to be completed by 30.9.1989 and it was achieved. The next set of observations relates to Railway Electrification and Workshop Modernisation loan IBRD-2417 IN for 279.2 million US dollars which is to close by 30.9.1992. All the demands have been made and disbursement to the extent of 253.226 million US dollars have also been received. With the disturbed conditions in Yugoslavia, the World Bank's approval has been sought for the further extension upto 31.3.1993 so that this loan is fully utilised. Otherwise, we have done the full utilisation of the loans. The next is the Third Railway Modernisation Project for 390 US million dollars and then two ADB loans. Their closing dates are still far and all efforts are being directed to ensuring that these are also utilised fully. The progress of the utilisation of bilateral loans from Saudi Arabia and Germany is also by and large satisfactory, consistent with the priorities accorded by the Government to the concerned projects and the need for ensuring that orders placed are on the basis of the best value. There are KFW loans with the west Germany which can be utilised only for covering imports from Germany."

8. In regard to Railway Modernisation and Maintenance II Project (Credit No. 1299/Loan No. 2210-IN), the Committee desired to know the original closing date, numbers of extension sought together with the reasons therefor and the final closing date of the loan. The Chairman, Railway Board stated during evidence :

> "the original closing date was 30.9.1987 ...Finally, it was closed on 30.9.1989 after two years. We could not spend the amount and that is why we asked for extension."

9. In a subsequent note, the position was further elaborated by the Ministry:

> "The original validity period of loan 2210-IN/IDA credit 1299-IN was upto September, 1987. An application for extension of the loan period for two years was sent well in advance of the expiry of the same. The World Bank, however, initially conveyed their consent for one year and subsequently agreed for extension of the same for two years period i.e. upto 30.9.1989, as requested.
>
> In the original Agreement an amount of $ 145.0 million was earmarked for procurement of materials for freight wagons. The decision regarding the type of bogies to be procured took considerable time and there was also difficulty in getting DGTD clearance for import. The overall plan allocations towards acquisition of wagons were also inadequate. In view of these circumstances the allocation under this head was reduced and it was decided, in consultation with the World Bank, to utilise the extra funds for procurement of spares for electric locomitives. This procurement was expected to materialise only during 1987-88 and 1988-89 and payments also falling due around same period. Hence, the request for two years extension upto 30.9.1989."

Payment of Commitment Charges

10. The funding agency commits the funds agreed against individual loans. In some cases the funding agencies may indicate amounts year-wise that are committed. In such cases these details are incoporated in the loan agreement. In case separate figures are not given year-wise, the entire amount of the loan is deemed to be available for utilisation by the borrowers from the date of effect of the loan. The commitmont charges is payable as a pre-determined percentage of the total amount remaining unutilised from time to time out of the funds committed by the funding agency. In World Bank loans the total loan amount is not broken up year-wise. However, in the loan given by the ADB the total amount is broken up year-wise. The commitment charges is 0.75% per annum for both the World Bank loans and the ADB Loans. The provisions relevant to

commitment charges in the ADB and World Bank loan agreements as intimated by the Railways are reproduced below :

"Calculation of Commitment Charges

(1) Provision in ADB Loan No. 857-IND

The commitment charges is payable to the Bank by Government of India in terms of Section 2.03 of the loan @ 3/4ths of 1%(0.75%) per annum. Such charges shall accrue on amounts of the loan (less amounts withdrawn from time to time)during successive periods commencing sixty (60) days after the date of this Loan Agreement, as follows: during the first twelve-month period in $ 28,5000,000 during the second twelve-month period on $ 85,500,000 during the third twelve-month period on $ 161,5000,000 and thereafter on the full amount of the loan.

(2) *Provision in World Bank Loan No. 2935-IN (Section 2.04) and 2417-IN (Section 2.06)*

The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

There is no provision for "Extra Commitment Charges" in the standard World Bank or ADB loan agreements. However, in the case of the first ADB loan i.e. No. 857-IND, there is a reference to "Special Commitment" in Section 2.04 of the relevant agreement. This reads as under :—

"For any special commitment entered into by the Bank as the request of the Borrower pursuant to Section 5.02 of the Loan Regulations, the Borrower shall pay to the Bank a fee 3/4ths of 1%(0.75%) per annum on the principal amount of such special commitment outstanding from time to time."

Section 5.02 of the Loan Regulations referred to above reads as Under:—

"Upon the borrower's request and upon such terms and conditions as shall be agreed upon between the Bank and the Borrower, the Bank may enter into special commitments to pay amounts in respect of the cost of goods and services to be financed under the loan agreement notwithstanding any subsequent suspension or cancellation.'

It may be stated that this particular provision has not been invoked. there is no parallel provision either in the World Bank Loan Agreements or even in the Second ADB Loan Agreement which has since been negotiated.

11. The Committee enquired about the commitment charges paid for each of the four loans mentioned in the Audit Para. The Ministry of Railways (Railway Board) in a note have stated the commitment charges

paid in respect of TDA Credit 1299-IN, IBRD Loan 2210-IN/2417-IN, ADB Loan 857-IND, KFW Loan for rail coach Factory, Kapurthala and Saudi Fund for Development for Koraput-Rayagada Rail Link Construction Programme are indicated below :—

Loan No.	Commitment charges paid upto 31.3.1991
IDA Credit 1299-IN	US$ 3,881,630.17 Approx Rs. 4.67 crores
IBRD 2210-IN	US$ 8,328,628.39 Approx Rs. 18.67 crores
IBRD 2417-IN	US$ 9,623,370.55 Approx Rs. 12.85 crores
ADB 857-IND	US$ 1,839,014.67 Approx Rs. 3.15 crores
KFW Loan Agreement No. F. 1545 dt. 17.4 1989 for Rail Coach Factory, DM Kapurthala	58.551.11 Approx Rs. 0.08 crores
Saudi Fund for Development Loan Agreement No. 3/188 dt. 11.8.1983	"NIL"

12. Details about the regular and extra commitment charges in respect of the different loans furnished by the Ministry of Railways at the instance of the Committee are as follows:—

Loan 2210-IN/ Credit 1299-In		Loan 2417-In		Loan 2935-IN
1	2	3		
During the original loan period, i.e. upto 30.9.87	$9,986,401	During the original loan period i.e., upto 30.9.90	$9,528,710	This loan is current upto 31.12.93 as per the Agreement. The Commitment charge paid so far (upto 31.10.92) is $5,340,756.

1	2	3	
During the 1st extended period from 1.10.87 to 30.9.88	$1,703,601	During 1st extended period, from 1.10.90 to 30.9.91	$145,247
During the 2nd extended period from 1.10.88 to 30.9.89 (including the grade period of 6 months thereafter).	$1,122,431	During the 2nd extended period from 1.10.91 to 31.10.92 (Note: Another extension of 6 months, upto 31.3.93, has since been agreed to by World Bank for this loan).	$88,049

13. The Committee desired to know the reasons for the payment of extra commitment charges. The Chairman, Railway Board explained :—

> "Say, for the first twelve months, we should utilise 'X' part of it and in the second year, we should utilise 'Y'. part of it. to that extent we do not utilise there is a commitment charge which is prescribed. For example in most of these loans, they have prescribed three quarter of one per cent. Most of these things are to be imported as they are meant for modernisation. There is a large grey area of specifications. We get offers for foreign machines. For that, we have to understand everything. There are areas, where it is taking time. But, we try to keep the time to the minimum but to a certain extent, the delay does occur, where the suppliers did not send their supplies according to our specifications. We do give tender conditions. It is because, these products are to different firms and when they send us the offers, we have to go through each of these things. So, it is quite a bit of working in the dark which does take time and a number of people have to be consulted. In the process, it takes time, because, these are imported items and complex machinery items."

14. The Committee were informed that Project Reports were prepared and submitted to the foreign donor Agency by the Railways at the time of applying for a loan. The Committee enquired whether there was a large scale variation between the initial project reports and actual execution. The

Chairman, Railway Board during evidence stated:

"It is not only the variation in terms of quantities but in the project report, say, we decide to have a particular machine.

When we invite offers from various sources, different specifications come to us. The cost is also different. Mostly, they are adjusted within the loans."

Asked whether the project report was based on facts, the witness stated:

In these areas, we have not changed the scope as to what we wanted. But, there, some time is taken. When we get the offers, we have to adjust to our needs. What is offered to us and what we need we try to study and match it. So, it takes some time.

Elaborating, the witness added :

"Though we try to get general informal inquiries but we also try to find out how much will be the cost, what will be the specification from the technical literature that is available. Then a broad frame work is drawn. Then we actually go into it and invite tenders and different parties quote their prices. There would be certain changes."

15. When asked about the time lag between the time of submission of the proposal and the granting of the loan, the Committee were informed by Financial Commissioner, Railway Board during evidence as follows :

"I think the time between asking for a loan and the World Bank giving loan could be one year or more."

16. To another query whether any escalation clause was there to cover the timelag between submission of proposal and granting of loan, the Member (Mechanical) stated as follows :

"When we make a project it is not that the total project cost will be covered by World Bank loan. It is a finite amount which we feel that we need, particularly for getting the foreign exchange. To that extent we cover it with the World Bank loan. The rest of the finance will come from our own resources...... When we take up a workshop modernisation project there can be 20, 30, 40 machines which need to be replaced. Smaller number of more modern machines would come from multifarious sources from a number of countries. We frame the specification that this is what we require. When we receive these bids from different suppliers; from different countries, they have their own specificatons. Normally nobody gives machines to tailor-made to our specifications. We see which one fits best with the performance oriented specifications which we need. This is a time consuming process that results in an unintentional delay."

17. The Committee enquired as to how far the payment of commitment charges could be minimised by Undertaking proper and detailed planning at the time of submitting the project report to foreign agency for a loan.

The Financial Commissioner, Railway Board, during evidence stated:

"Even if we spend money during the loan period, commitment charges would still be payable. The World Bank commits a loan on a particular date and within the stipulated date and time we have to spend the amount. Even if we buy the machines within the loan period, Commitment charges are payable on whetever amount remains unspent."

18. When enquired whether delay had any effect on the commitment charges, the witness admitted during evidence:

"That is there, Sir. If there is delay, there will be extra commitment charges. Commitment charges start sixty days after the loan is sanctioned, but the amount of loan on which they charge the commitment charges is limited in the first year, then it becomes higher in the second and yet higher in the third year."

19. In this connection, Chairman, Railway Board added:

"The basic thing is that for the first year they keep some amount for us and till we spend that amount in the first year, the commitment charge starts. In the second year it will be higher and in the third year it will be still higher. But we do concede that it should be minimised, though it cannot be made zero. Some commitment charges will have to be there."

20. Tendering process being a time consuming process, the Committee enquired whether the process could be suitably modified and adjusted so as to avoid delay and save precious foreign exchange out go as commitment charges. The Financial Commissioner, Railway Board during evidence stated:

"Sir, the lending agencies lay down the procedure for tenders. We cannot change that. For example, for some of these loans we have to go in for international competitive bidding. Firstly, we have to advertise widely in all the World Bank countries or countries which are members of that agency. Also, if the amounts are large, we have to send the tender papers and recommendations to the agency and only after their approval we can place the order."

21. The Committee further enquired whether in the interest of saving time the completion of the tendering process could be coincided with the signing of the contract with donor agencies. The Chairman, Railway Board explained—

"In respect of Government loans, we have to follow some basic rules—both the sets of rules—the Government rules for tendering as well as the lending agencies direction and their constraints and their step by step approval. It is not that in every case we could not have saved any time. But still the process is what it is and in Government working one has to have certain checks and balances and those have to be applied also."

22. The Financial Commissioner, Railway Board further elucidated as follows :

"One thing I would like to mention and that is obtaining foreign exchange has been made easier. Earlier, we could not have purchased most of these machines unless we had the World Bank's loan because free foreign exchange from Government was very limited. So we could not float tenders and finalise them unless we were sure of World Bank or other loans. Use of free foreign exchange used to be resorted to in a small measure for making very urgent purchases."

23. Subsequently, in a note, the Ministry of Railways (Railway Board) elaborating about the procedure for tendering in case of World Bank and ADB loans etc. have stated as follows :—

"As per guidelines laid down by World Bank and ADB, prior clearance of these agencies is required for floating tenders above specified values (US $ 1 million in respect of World Bank and First ADB Loan, 0.5 million US $ in the ADB Loan). The related tender documents are also required to be got cleared by the World Bank or ADB as the case may be. Even this process can sometimes be time-consuming as back references become necessary in cases where modifications to tender documents suggested by World Bank, ADB etc. are on further examination found to be unacceptable. Limited provisions for retro-financing is sometimes available. In such cases both the limit of total value in monetary terms as also the period during which the commitments should have been completed in order to qualify for reimbursement from the loan amount are prescribed. There are occasions when the formal loan negotiations and resultant formalisation of loan agreements get postponed for various reasons. This being the case it becomes necessary to exercise caution before entering into commitments so as to avoid situations in which the commitments may become ineligible for reimbursement. Similarly, tenders floated for coverage outside the limits available for retro-financing in the expectation that by the time related commitments are made the loan will become available may also become risky in the event of delay in the concerned loan becoming operative. If such a situation arises it will become necessary to fall back on free resources which will defeat the very purpose for which the loans are negotiated. The other factors that determine the pace at which commitments are made and reimbursements obtained are—

(a) Uncertainties of Plan allocation;

(b) Availability of budgetary support;

(c) The time required for technical evaluation especially when now technology is involved."

24. Asked about the efforts made by the Railways to administratively sort out the procedural issues to avoid delays, the Ministry of Railways (Railway Board) have stated that:—

"In respect of the Railway Productivity Improvement Project which is proposed to be covered under new World Bank Loan for US $300 million, efforts have been made to get a set of standard bid documents accepted by the World Bank which, if successful, wil hopefully minimise some of the delays associated with the prior clearance of bid documents by the World Bank. Similarly, over a period of time improved terms for retro-financing have been obtained, This will be borne out from the following details:—

(a) In the World bank Loan 2417-IN the total fund available for retro-financing was US $ 5 million out of the total loan amount of 279.2 million dollars.

10 million US $ out of a total loan amount of US $ 390 million in Loan 2935-IN.

(c) In the New World Bank Loan still under negotiation the provision is expected to be US $ 30 million out of a total of loan amount of 300 million US Dollars.

(d) In the First ADB Loan 857-IND no provision was made for retro-financing.

(e) In the Second ADB Loan 1140-IND there is a provision of 35.5 million US dollars out of a Loan amount of US $ 225 million."

25. In regard to preparation of the project Report and its submission to the World Bank and other international lending agencies for applying for a loan, the committee enquired as to how the project costs estimated and project reports prepared before the loans were contracted. The Ministry of Railways (Railway Board) in a note have stated that traditionally the efforts of the Indian Railways had been to try to cover the cost of inescapable imports through external loans/credits so as to reduce dependence on Free Foreign Exchange. However, the inter-national financing agencies like the world Bank were not keen on financing mere imports so identified and they insisted upon suitable composite projects being made out. In order to meet this requirement of the financing agencies efforts were made to include the items identified for import into packages which could be made parts of broad projects such as Work-shop Modernisation, Railway Electrification etc. and the loans/credits finally negotiated covered only some part of the total project cost.

26. The Committee desired to know whether, while forwarding the Project Report to the lending agency, the requirement of raw materials

and its sources, time-frame for implementation of the project etc. were indicated. The Chairman, Railway Board during evidence stated :

"A lot of details get filled in. When we invite the tenders, we get the facts. We also know what are the items available indigenously, what are the items to be imported etc...... we do take an overview of it. Otherwise we cannot come to a conclusion also. to what extent, it will benefit us. We will also consider whether anyone would be able to make it in the country or not. All the details come into the picture when we firm it up. The general picture is known what things are available in our country, what are not available here."

27. Asked whether these details were noted down in files for the purpose of advance planning, the Member (Mechanical) during evidence stated:

"We know that as a general information. It is only after we invite the tenders that the sources gets pinned down. It all depends upon our requirments....... At the initial stage, the file would at least say what are the likely sources from which it may come. It would not go beyond that. Other details would come at the tender inviting stage."

The witness added :

"We identify the source, the multiple sources which are available. But we can only pin point the particular source when the tender is successful. While we are doing this early exercise, we do evaluate the time-frame. That is how we plan the process. We plan the project on the general information."

28. Asked as to which thing is given priority, the availability of loan or the project report, the Member (Mechanical) Railway Board during evidence stated :

"What comes first is the need."

29. In this connection, Financial Commissioner, Railway Board during evidence stated as follows:

"Every year we are importing a lot of things which are not available in India or not available in adequate quantities. We import steel, we import wheels and axles. It is because our requirements are already know They were purchased either by asking for foreign exchange from the Finance Ministry or we make a project so that they could be funded out of the funds provided by the World Bank. It is true that certain amount of money becomes available to the Finance Ministry and they ask various Ministries to prepare project reports. But they are not prepared just for the sake of getting foreign exchange. They are prepared for things which are in any case required. If the project is not prepared, the Finance Ministry would have to provide foreign exchange out of its own resources."

Monitoring

30. In view of delays in utilisation of various loans and consequential payment of extra commitment charges by Indian Railways, the Committee enquired about the internal system of checks and balances exercised by them to ensure maximum and timely utilisation of such loans. The Ministry of Railways (Railway Board) in a note stated as follows:

> "Year-wise targets for execution are set and a plan is drawn through the Annual Works Programme. Efforts are made for optimal allocation of funds required within the budgetary plan-headwise allocation approved by the Planning Commission. Periodical meetings are convened with the concerned Executive Directors of each project component, to monitor the physical progress of each component. These meetings are normally held once every quarter. In addition, the concerned field units prepare monthly flash reports which are also sent to the Ministry of Programme Implementation. Utilisation of loan amount is monitored every month by the Finance Directorate with the concerned Executive Director(s) and a statement showing the commitments and reimbursements is prepared. This is sent to the Bank every quarter through a Progress Report by the Planning Directorate."

31. As regards physical progress of projects financed by external assistance, the Committee enquired about the mechanism followed by Ministry of Railways (Railway Board) for timely completion of these projects. The Chairman. Railway Board during evidence stated:

> "The subject of time over-run in the projects is an issue which has been engaging our attention very closely; this year we have taken drastic step to see that it is reduced. We do hold meetings with the General Managers. Certain items are decided in consultation with the General Managers concerned and their officers, in a meeting in the Railway Board. Now, we have come to this level, that once a date is accepted by the Board, if that is to be shifted, the GM will personally go into it, to see as to who is responsible for the delay. He will see that and then only they come to us for shifting the dates. Earlier, the shifting of dates was going on just explaining the delay. Now, we are saying that they cannot do like that and the GM should see personally and it is his responsibility to see that time overruns are controlled."

Explaining the monitoring mechanism, the witness added:

> "We have started monitoring the delays. This year, for the first time we have taken up monitoring at the Railway Boards level by Chairman and the Members for each zonal railway. This is for the first time that we have done this in an informal manner, but on a regular basis. We have started this as a full-board review. We take

up project by project. Earlier we used to do once a year. Now, we are doing this one more time, in between, in an informal manner, putting questions to the GMs, etc."

32. When pointed out that as brought out in Audit para there had been delays in all the projects financed by World Bank and other similar agencies, the Chairman, Railway Board admitted during evidence:

"We are now improving our method."

33. Asked as to what improvement have been brought about so far in the monitoring system, the witness stated:

"We have introduced at the highest level one more midterm review. Each Member in the Railway Board is in charge of his functions. The monitoring system has been geared up. Practically at each members level there is interaction with the zonal railway. We call them here, that is, at the Members level once in a quarter."

34. Subsequently, in a note the Ministry of Railways (Railway Board) explained about the system of monitoring the progress of various projects under implementation as under:

"Railway Projects are executed in the 9 Zonal Railways and in other units like the Central Organisation for the Railways Electrification (CORE) and other Production Units. All these units are headed by General Managers. General Managers monitor the progress of projects within their zones every month. All the units also send the progress of their projects monthly and quarterly to the Railway Board. At the level of the Railway Board monitoring of progress is done by calling a meeting of each unit once every quarter. During these quarterly meetings the concerned Member of the Railway Board personally monitors the progress of projects. Once every year the progress of all Railway Projects is monitored by the full Board by calling the General Manager and all concerned Heads of Department from the Zonal units. In addition to the above progress of Railway Projects costing Rs. 20 crores and above is also monitored by the Ministry of Programme Implementation. MPI monitors the progress of projects costing Rs. 100 crores and above every month and the progress of projects costing Rs. 20 crores and above every quarter."

Completed Projects

Railway Modernisation and Maintenance II Project (Credit 1299-IN/Loan 2210-IN-US $444 million)

35. According to Audit, the project under this loan consisted of four specific components for improving the design and maintenance of locomotives and rolling stock. The specific components were:

(i) the establishment and operation of DCW;

(ii) the procurement of parts and compnents; for a unit exchange maintenance system;

(iii) the acquisition of modern AC locomotive prototypes;

(iv) the acquisition of components and materials for High Capacity Wagons for bulk traffic.

It is learnt from Audit that to improve the technology and performance of IR's main line, AC electric locomotives were purchased. Finalisation of bid document for the locomotives by IR took 17 months, bid evaluation took 18 months and other procurement delays took 4 months. The locomotives finally were delivered in early, 1988 and tests were conducted in 1990. The locomotives were procured at the cost of US $ 97 million. But the decision to acquire and manufacture a new design of AC-DC electric locomotives has not been taken (March 1991). The project, therefore, failed to achieve its objectives of introducing modern design of AC electric locomotives even after lengthy, complex and expensive tests of prototypes.

36. The Committee enquired about the reasons for taking 22 months in finalization of bid evaluation and other procurement steps. The Ministry of Railways (Railway Board) in a note stated that the chronological order of events for 13 Nos. of 6000 HP AC Electric Locomotives (Thyristor) from the time the technical offers were opened till the letter of acceptance was issued to the firm was as follows:

Chronological order of events for 18 Nos. of 6000 HP AC Electric Locomotives (Thyristor)

Sl. Nos.	1	2
1.	Technical offers opened on	9.6.1983
2.	Technical offers sent to RDSO for evaluation	13.6.1983
3.	Technical evaluation report received from RDSO on	9.11.1983
4.	Commercial offers opened on	22.11.1983
5.	Minutes of the Tender Committee recommendations put up to the Board on	17.2.1984
6.	Review of the recommendations by Board (CRB/MM) and cleared on	4.8.1984
7.	Approval by MR on	31.8.1984
8.	Memorandum sent to the World Bank for approval of recommendations in November	1984
9.	World Bank's response to the recommendations received on	4.2.1985
10.	Supplementary Tender Committee recommendation submitted on	7.2.1985
11.	Review by Board and final approval by MR on	4.3.1985
12.	Discussions/negotiations with M/s Sumitomo & M/s ASEA on	11th 12th March, 1985
13.	T.C. recommendations made on	18.4.1985

Sl. Nos.	1	2
14.	Recommedations under review by Board (CRB) and approved on	13.6.1985
15.	Recommendations approved by MR on	17.6.1985
16.	Letter of acceptance issued to both the firms on	8.7.1985

37. In this connection, the Ministry of Railways (Railway Board) added that as the procurement of these high horse power locomotives involving Transfer of Technology (TOT) was being done by the Indian Railways for the first time, the procurement involved not only two-stage bidding, *i.e.* technical bids, evaluation thereof and then opening of commercial bids of the short-listed firms but also involved a series of discussions with the tenderers to get technical and commercial clarifications, technical and commercial evaluation of the offers and approval of the World Bank who financed the purchase of these locomotives. As it involved a very detailed examination, even at the Board's level, the decision took some time. Further, the decision of the Ministry of Railways had to be accepted by the World Bank, before the contract could be awarded and in this case the World Bank differed with the view of the Ministry of Railways in regard to the quantities of locomotives to be ordered. Moreover, even for the quantities, initially suggested by the World Bank, the rates were not available necessitating further discussions/negotiations with the Tenderers. All the above actions took time totalling upto about 25 months from the date the technical bids were opened till the final letter of acceptance was issued to the firms.

38. When asked as to why the locomotives delivered in early 1988 were tested in 1990, the Member (Electrical), Railway Board stated during evidence:

> "Regarding thyristons, we have not had much experience as it is only for the last ten years or so, we have been trying to develop it. We have been trying to develop it as an alternative to the tap changer. But we did try with various forms of loco but since we did not succeed. We had been trying this. It is not true that these locomotives are idle. It is on active action. We are only trying to see whether they satisfy all aspects of specifications which would make them work in an unrestricted manner in all the places. There is one place where there is a lacuna and we are interacting with them on it....Testing was taking place but actually, it was not idle. It was put on commercial service. After the receipt of locomotives may be a month or so would have taken to commission but afterwards, they have been in commercial service."

39. All the locos were commissioned and pressed in commercial service for 'instrumental tests' and 'service trials' after they were received in homing shed and initial servicing/tuning etc. As far as testing is concerned, the specifications provide for three types of tests:

(a) Tests at Manufactures's works (in the country of origin)

(b) One or more locomotive of each type design, to be subjected to certain tests in India, mainly to satisfy the Railways regarding operational performance, capability and safety (called 'instrumental tests').

(c) All the 18 prototype locomotives to be evaluated during operation under actual load condition and such evaluation is to be termed as 'service trials'.

Details of actual tests are given below:

Tests as per item (a) were conducted in country of manufacture. Instrumented tests as, per item (b) were conducted from August 88 to July 89. For some locos, limited repeat tests were performed in September-October, 89 and Dec-Jan, 90 service trials as per item (c) are still continuing.

40. In this connection, the Committee enquired about the details of various tests and trials conducted by Indian Railways to ascertain the suitability of locomotives as per the specifications. The Member (Electrical), Railway Board during evidence stated:

"So far as the question about instrumentation trials and tests is concerned, three types of tests and trials are prescribed in the specification. One is test and trials at manufacturer's works before the locomotives are shipped by the manufacturers to India. There was no anomaly noticed in the tests and they were clearly passed before shipment.

Then the specification provides for certain instrumented tests to be done in India under actual service conditions. These are: oscillation tests dynamometer tests, load hauling capacity test on different sections, gradients, emergency braking current collection tests and tests to determine the level of interference with power supply and signal and telecommunication circuits.

These locomotives have been fund suitable in all respects excepting the last test, that is, harmonic level which determines the level of interference with power supply and signal and telecommunication circuits.

Apart from the above two categories of tests, the locomotives are required to be put into actual service with a view to determine their endurance in actual service trials without any hindrance. For this test, they have been working on actual service and there have been some minor anomalies in their performance pertaining to some of the constituent equipments.

Out of the above mentioned three categories of tests these which were prescribed in the manufactuer's works were cleared, before these locomotives were supplied. Further tests have been conducted in India under actual service conditions as per specifications and there has been some anomaly which I have submitted. The Inspecting Authority for all the tests as per the contract is RDSO. They also associated technical officers from the Zonal Railways. But RDSO is the cooordinating agency as per the contract for all Insepction and testing".

41. Asked whether inspection and tests conducted at the manufacturer's works were witnessed by any independent Inspector from the Indian Railways, the witness stated:

"Inspection and tests at manufactuers's works as well as in India were done under the direct supervision of RDSO".

42. The Committee enquired about the details of anomalies noticed by the Indian Railways during the tests and trials of these locomotives, the witness during evidence stated:

"These locomotives have undergone all types of tests and trials and we have evaluated their performance. A review was made in the beginning of the current year, some time in January-February 1992; and from the review, we have come to the conclusion that although the locomotives have satisfied the specified requirements, there are certain areas left, particularly the one pertaining to the harmonic content. In a thyristor locomotive, the very process of rectifying and voltage control involves generation of harmonics and there are specifications in this regard. Those specifications have not so far been complied with. We can sum up the situation by stating that this is one area where some difference remains and there are a couple of other minor things also."

43. Giving details of tests and trials and defects noticed in the locomotives, the witness added:

"Three tests were specified. One is the second harmonic test; the second is the high frequency test and the third one the audio frequency test. There are three tests specified for the harmonic/interference test. The locomotives of ASEA make has passed through the second harmonic test. But they have not passed the audio-frequency test and high-frequency tests. On the other hand, the locomotives of Hitachi make have passed none of the tests. ASEA have also mentioned that our specifications are too stringent. But we have not agreed to that."

44. As reagards deployment of these locomotives, the Committee desired to know about the specific purpose for which these locomotives were imported by Indian Railways, the Member(Electrical) during evidence stated:

"We wanted them for unrestricted use on the mainline, anywhere and to ensure that, a certain characteristic has been specified. But the fact remains that we are using them on a particular section i.e. Waltair-Kirandul, where other conditions are critical but this harmonic content difficulty does not interfere."

45. In this connection, the witness added during evidence:

"There are some areas where they have not come up to the specifications. So, we have put them on regular commercial service. But they are confined to a section where those deficiencies will not interfere with the signalling gear. We are still interacting with them for satisfactory solution of problem pertaining to harmonic content and other minor issues on some of the equipments."

46. In this connection, when the Committee pointed out that these locomotives were being underutilised by the Railways as they were meant for unrestricted mainline operation, the Member(Electrical) stated during evidence:

"I will not subscribe to that conclusion because they are being fully utilised but you have rightly pointed out that they were meant for unrestricted main-line operation and that characteristic has not been realised as yet because of the fact that the harmonic content test, has not been passed to the specifications that we had laid down. I do not think I should call it any negligence on our part. We made the specifications to suit our work up conditions and firms offered and seeing their capability and their own expertise in the matter, orders were placed. It is a fact so far none of these 18 locomotives have passed all the tests laid down in the specification. There are three tests for harmonic content. One of the tests has passed by the ASEA locos. It has not passed the other two tests. We will be interacting with it shortly again. The Implication of it will be examined."

47. On further pointing out that the locomotives were imported for improving the mainline services but they were being utilised elsewhere thereby making the precious foreign exchange spent on them infructuous. Reacting to this, the Member (Electrical) stated during evidence:

"Sir, the conclusion cannot be that categorical. I wish to state that this thyristor technology elsewhere in the world is a proven one. In our case, certain problems arose because we have a very wide network with different types of track circuits in different areas with varying lengths I may explain that these thyristors do generate certain harmonics. So far as our specifications are concerned possibly they are more stringent than elsewhere in the world due to our special working conditions."

The witness further added:

"These locomotives, we wanted to adopt for manufacture so that we could use them all over India. Since they have a particular deficiency *vis-a-vis* the specification, we are waiting for proper filters to get designed and supplied."

48. The Committee enquired as to why all the tests and trials could not be conducted at the manufacturer's works to find out the deficiency in harmonics and singal interference. The Member (Electrical), Railway Board during evidence stated:

"This test was prescribed only under actual service condition in India because it is not only a function of the locomotive's own characteristic but also the power supply under which it works."

49. When pointed out that to obviate such problems the harmonic content test could have been done at manufacturer's works itself, the witness reacted:

"That assumption is partly correct. Some tests must have been done at manufacturer's works in their laboratories. But the specification lays down for conducting this test and measuring the harmonic content under actual service condition in India. The test is not a characteristic of the thyristor alone but also of the power supply under which it works. So, our specification lays down that this test should be done in India. In case the test result is not satisfactory there is remedy available through use of filters."

50. In this connection, the Committee enquired as to why the power supply characteristics and voltage fluctuation in India were not specified in the specification to enable the simulated tests for harmonic content to be done at manufacturer's works itself. The Member (Electrical) during evidence stated:

"Regarding voltage fluctuation, the outer limits are only specified. But in terms of harmonic content the power supply system is not specified....It is specified to a certain extent but not to the fullest extent which would permit a simulated test at manufacturer's works. So, the test itself was stipulated for being done in India."

Elaborating on the same subject, the witness conceded:

"We will have to look at this aspect afresh. If some of the tests which are being done under actual services conditions could be done through simulation at the manufacturer's works, it would perhaps, obviate the uncertainty experienced in this case... We will ask the RDSO to examine this point. To my mind, something better should be possible."

51. When the Committee pointed out that while placing order, the simulation exercises at the manufactuer's works could have been provided in the specification to avoid such a situation, the witness during evidence stated:

"Perhaps, it is possible. I tend to have that opinion that such crucial tests need not be postponed to the stage of service trials when lot of design work will be required. But the fact is that in this specification, the factual position is as I have explained."

52. In regard to satisfaction of specification, the Committee enquired whether there was any ambiguity in concluding about the likely cause of deficiency in locomotives. The Member (Electrical), Railway Board during evidence stated:

"There is not ambiquity in conclusion about the cause. The deficiency lies in evolution of a suitable filter design."

53. Asked whether provision of a filter was a part of the design, the witness stated:

"Provision of a suitable filter was part of the specification & design."

54. As regards rectification of anomaly and provisioning of suitable filter for the purpose, the Committee enquired, since how long this exercise was going on. The Member (Electrical), Railway Board in his reply during evidence stated as under:

"The last evaluation report made in January, 1992 lists it as an outstanding defect. There have been five meetings for evaluations during this period and after every evaluation they have made some improvement. But in the last evaluation when they found that even after the improvement the filter is not all right. One of the suppliers suggested that the specification is too stringent."

55. Asked about the latest position in regard to designing suitable filter after the evaluation Report made by IR in January, 1992 the witness informed the Committee during evidence as under:

"They have submitted a design and we are examining it. ASEA have given an opinion stating that our specifications could be too stringent; a filter of adequate capacity will be a very heavy filter. This point is under examination."

56. In this connection, the Committee enquired as to whether any provision was there in the contract for carrying out the modifications and the time-frame within which it should be completed. The Member (Electrical), Railway Board during evidence stated:

"There is provision in the contract regarding modifications. I have gone very carefully through the specifications as well as the contract. These 18 locomotives were of two makes and three types. These locomotives were basically procured for intensive prototype tests and trials with a view to select the most suitable design for adoption for further manufacture either in part or whole locomotive in India.

This was the basic approach in this particular contract. The contract provides for Warranty Bond for five years duration; for the entire locomotive in case of Hitachi, *i.e.* 12 locos. There is a vaiation from loco to loco but the last locomotive is covered by the warranty upto July, 1994.

As regards the six locomotives of ASEA make, a complete locomotive carries a warranty of 28 months and some of the equipments which also include the thyristor equipment, carry a warranty of five years. Warranty for the last locomotive will expire in July, 1993. The exact dates vary from loco to loco and I have mentioned only the outer-most dates.

Hence the modifications to satisfy the specification can be carried out upto July, 1994 in case of Hitachi and July, 1993 in case of ASEA locos."

57. Asked whether modifications are being done at their cost, the witness stated that it was being carried out at their cost.

Elaboration about the provisions in the contract about the warranty period, the witness stated:

"The contract also provides for extension of warranty required for any particular item. The exact wordings of the contract are 'if any problem arises or feed-back information is obtained which warrants recheck of the design manufacture and quality of equipment and components, action shall be taken as may be necessary by the contractor to carry out the required investigation and to incorporate improvements considered most appropriate. Such improvements shall be carried out on all the locomotives and shall be evaluated effectively for a further period of time as mutually agreed to'. So, the basic approach is to subject these locos to extensive tests and trials and select the more suitable design for further adoption either in full or in part and we are passing through that stage. The outer-most time has not yet expired. There is time still available. We will have to interact on the subject of the anomalies noticed so far. It is clear that there should be further discussion and review but right now, there is deficiency in compliance of the specification."

58. As regards the modifications being carried out to satisfy the specifications laid down, the Committee enquired whether the IR were satisfied with the efforts being done by the manufacturers or were they thinking to invoke the penalty clause, the Member (Electrical), Railway Board during evidence stated:

"They are designing and intending carrying out some more modification. As I have submitted, they are still working on the filter circuit; there is still time available for them to do it without impinging upon the contracted obligation. If they are doing it successfully, then, this question will not arise. If they are not able to do it, the question will arise at that point of time. Right now to say that they have failed, will not be correct."

59. When asked as to what would be the options left with the IR in case the locomotives did not conform to the stipulated specifications even after the expiry of the warranty period, the witness stated during evidence:

"In case this is not resolved, they will either extend the warranty for this equipment further or we will impose whatever penalty is liable under the contract."

60. The Committee enquired whether similar type of thyristor locomotives were haulding up trains in the mainline in the other foreign countries. The Member (Electrical), Railway Board during evidence stated:

"I would like to inform you that there are new type of track circuits developed which are friendly with this kind of harmonics generated in a thyristor locomotive since our system is a very vast system, we cannot make such changes in track circuits to suit the locomotives as they are offered today."

61. Asked whether the specifications laid down were too stringent to be satisfied by the suppliers, the witness stated:

"There has been no suggestion to that effect. There may be need for some review of standards. As I have submitted the objective was not to lay down very rigid specification but we have been trying to evolve a most suitable design by this interaction. There is some room for flexibility. Right now they have not said that they cannot do it. We have had five or six interactions and the time has now come to conclude this process, either they should satisfy us or we should impose a penalty. You may say that there is an element of learning process in this exercise."

On the same subject, the witness added:

"I can only submit here that the new locomotive proposed to be purchased is to cater for our requirement for the future needs, *e.g.* the growth of traffic, speeds that we would like to have and the other features that we may like to have for maintenance, energy conservation etc. In evolving any new business, there will be problems. Therefore, specifications sometimes, get modified also, when we find that they are too stringent. I do not think that the very rigid attitude is conducive to new development."

62. The Committee wanted to know whether there were any indigenous manufacturers for thyristor type of locomotives. In reply, the Member (Electrical) during evidence informed:

"About ten years back we had placed order on ECIL for the South Eastern Railway. They gave us the equipments; but it could not come up to a satisfactory or acceptable level as yet. We had also placed order on BHEL around the same time. It also could not come up to the required level even now. We have also tried NGEF, another indigenous manufacturer. They have also not so far given anything in working order. We desired to have the thyristor equipment which is working satisfactorily elsewhere. If we want to make any further upgradation of the locomotive fleet, it is necessary to have these from experienced outside source because the equipments which we get from our own could not really succeed so far. So, what we have got now is, perhaps, nearest to the requirement. We will have to do more tests with it and explore the possibility of making it fully compliant with our specification."

63. As regards decision to manufacture these locomotives by IR, the Committee enquired whether final go ahead have been given. The Member (Electrical), Railway Board during evidence stated:

"We have two elements in these locomotives—one is a bogey which can give a higher output and the other is the thyristor equipment itself, which by our own efforts, we were not able to develop. By interaction with these locomotives, we have picked up a design which is not exactly a carbon copy, but very similar to it. With this design, we have been able to uprate our locomotives to 5,000 hp instead of 4,000 hp. If the thyristor equipment also could be improved to meet our specified requirement, we can still obtain T.O.T. for a more powerful locomotive without Tapchanger."

64. Asked whether the CLW could design an engine upto 6,000 HP, the witness stated:

"It is impossible. The maximum that CLW could go is upto 5,000 hp and this too was possible because we were able to copy bogey from these 18 locomotives. According to this particular contract, we may take full or part of the technology. Our main worry is the thyristor part of it. Indigenously, we could not develop a suitable thyristor, reactor, filter and transformer package which would give us such harmonic and interference level that would be acceptable to our track circuits and the electronic gadgets mounted on the track. As the present stage of development we may not necessarily go in for the whole technology. If we can succeed with the thyristor part, it will also be fitted into the package."

Diesel Loco Components Works, Patiala

(Credit No. 1299/Loan No. 2210-IN)

65. It is seen from Audit Para that as against the allocation of US $ 30 million, DCW Patiala entered into commitment for US $ 36.034 million upto September, 1989. However, applications for US $ 29.821 million were

sent to the Board for agetting reimbursement from the World Bank out of which the Bank had reimbursed US $ 27.481 million upto December, 1989. The Committee enquired about the present position in this regard. In a written reply, the Ministry of Railways (Railway Board) have stated that DCW had entered into commitments valuing US $ 36.034 million against IDA Credit 1299-IN and IBD Loan 2210-IN. The said Credit and Loan closed on 31.3.1990. Till the closing date, the World Bank had reimbursed applications to the extent of Special Drawing Rights (SDR) 20.062 million under the said IDA Credit and US $ 14.55 million under the said Loan from the IBRD. The total amount disbursed to the Bank amounted to US $ 31 million. The difference between the amount committed and the amount disbursed is explained by the following factors:

"(a) In import contracts a provision of 10 to 11% of the FOB value was made towards freight and insurance charges. In many cases, the freight and insurance charges were not claimed from the World Bank, as in some cases complete documents were not timely available and also the expenditure incurred was quite small. The freight and insurance charges generally amounted to about 4 to 5% of the FOB value and therefore, even if the same had been claimed these would not have fully covered the gap between the amount committed and the amount disbursed.

(b) During the implementation of the Loan Agreement there have been exchange rate variations starting from the contracting date(s) to the date(s) when payments were made and these were further compounded by the appreciation of US Dollar currency as compared to other currencies.

(c) In some cases part deliveries did not materialse within the Loan closing date and these had to be off-loaded and paid for through release of free foreign exchange later.

(d) In some case the balance 10% of the contract value could not be paid and claimed from the World Bank because of delays in commissioning of the machine.

In view of the above reason certain amount of cushion was provided in our commitments so that later on IR are not faced with a situation where no claimable expenditure is available and the Loan amount has to be surrendered."

Performance of Machines

66. According to Audit Paragraph, 19 machines, procured by DOW Patiala out of the loan, were installed/commissioned after a period varying from 11 to 48 months after their receipt in the workshop. A large amount of capital, therefore remained blocked. Two machines namely co-ordinate three axis machines (Rs. 20 lakhs) and commutator

seasoning machine (Rs. 35.21 lakhs) received in DEW, Patiala during July, 1986 and June, 1986 are still awaiting commissioning.

67. The Committee enquired about the reasons for delay in commissioning of the two machines *viz.* co-ordinate three axis machines and commutator machine. The Ministry of Railways (Railway Board) in a note have stated that both the machines have not been fully commissioned. According to the Ministry the reasons for delay in commissioning are as under:

(1) Commutator Seasoning Machine

Initially certain short shipped items were noticed which were made good by the firm and firm's engineers visited DCW, Patiala to commission the machine five times from March, 87 to October, 1991. Meanwhile, the machine was tried out for traction motor armature by DCW engineers and partial production was possible though not at the rated r.p.m..

Firm engineer during his last visit in October, 1991 has confirmed that the machine will be able to handle only Tracation Motors (which is the major part of the workload) and not the Traction generator. Since the machine is not being able to give full output of traction motor armature at rated r.p.m., efforts are being made to get the machine replaced. Indian Embassy in USA have been written to pressurise the firm to arrange replacement.

(2) Three Axis Coordinate Measuring Machine

This machine suffered serious damage in transit and in the port. Besides, part of the consignments were mis-carried to Calcutta port. Anyhow, after the receipt of the machine, it was noticed that a large number of parts were demaged or missing in transit which were identified when the machine was installed by the firm's engineer. Whereupon a purchase order was placed for the missing parts after sorting out insurance claims and the parts were received in April, 1990. It was further seen that some more items were short which had to be subsequently arranged for. The firm engineers visited DCW to commission machine in February, 1991. The machine has been commissioned in the manual mode. One of the short supply items has been received and the remaining are to be arranged during the visit of the firm engineers to DCW which was due in October, 1991. The engineer has not yet turned up and efforts are being made to get the firm engineers in Patiala to fully commission this machine. Thus, it will be seen that delay in commissioning of this machine was primarily on account of theft and damage in transit.

68. Further, it was seen that there was general reluctance on the part of the firm engineers to visit Patiala due to law and order problem and it was only after great persuasion that the foreign engineers were visiting

the works for commissioning of this machine. This has resulted delay in commissioning of the above machine. The second machine is basically a measuring machine which would ensure proper monitoring of the quality of the product. Both the above machines as originally planned are suitable and required by the Diesel Component works.

69. As regards delay in commissioning of commutator seasoing machine, the Member (Mechanical), Railway Board during evidence stated:

> "The machine was installed and run. What we found initially was that it was just not capable of coping with generators and with motors we were able to get some sporadic performance which was not upto the mark. It certainly did not lead upto what can be described as 'commissioning of the machine'. Then the company was informed and their representatives came and after testing the machine, they said that certain modifications were required. In this way, it went on and on and at the end of 1991, when it was felt that modification were not yielding results, they were given final notice either to take it back and replace it with a new one or to repay the money. Now, they have neither taken the machine nor are they paying back the money. So, I am now invoking the arbitration clause."

70. In this connection, the Committee enquired since how long, the Railways were in correspondence with the Company for getting the defects rectified in this machine. The witness during evidence informed as follows:

> "We have been in correspondence with the company for the last three years. I would like to explain that M/s. Cam International who supplied us this machine are considered to be one of the leaders in the manufacture and supply of this particular type of machine and we were of the view that they have probably gone wrong in this particular case."

71. Asked whether the Railways had verified the performance of machine elsewhere, the witness stated:

> "Not only that, we have been purchasing machines from this company and this is the first instance where we have had this kind of experience....Similar machines are working but they are not this particular type and particular capacity."

72. In regard to specifications of the machine, the Committee wanted to know whether while placing the order for this machine it was ensured that all the basic parameters and specifications had been laid down properly.

The Member (Mechanical), in reply during evidence stated:

"When we order a special purpose machine like this we normally give a performance for specification rather than pin it down for nuts and bolts and components....This is a simple machine and it should have fulfilled the requirement without too much of high level engineering as such."

He also added:

"The specification was for armature seasoning traction generator. The firm undertook to supply us a machine which would fulfil this very purpose. But when the machine came it was not doing the job which it was supposed to do. The engineers came and said that they were not able to help....Seasoning of commutator is a standard job which is required for various types of matters and then this particular designing element would be there as to what would be this size, which are the specifications of the armature and the generator."

73. Asked about the methodology adopted by the Railways to select this firm for the supply of commutator seasoning machine, the Ministry of Railways (Railway Board) in a note stated that a global tender was floated for the procurement of this machine. Only one offer was received.

74. In regard to terms of conditions of supply of this machine, the Committee were informed by Member (Mechanical), Railway Board during evidence as follows:

"Normally, at the time of procurement of machines, 90 per cent payment is made on successful commissioning.....in this event of our not being satisfied with the performance of the machine, we can appoint an arbitrator to settle our claim if the supplier is unable to set it right."

75. When enquired about the period specified for setting right the machine, the witness stated that there was no period specified for it.

76. In this connection, the Committee enquired as to when the Railways came to the conclusion that the company would not be able to rectify the machine to their satisfaction. The Member (Mechanical) stated during evidence:

"About a month ago. Therefore, I have directed the Diesel Component Workshop that they must activiate the clause of arbitration. We have one arbitrator and they will have another arbitrator. They then decide the amount of compensation. If both of them fail to arrive at a mutually agreed figure, then they refer it to an umpire whose decision would be final".

77. Asked about the action taken in the meanwhile before invoking the arbitration clause, the witness stated:

"On this particular contract, the cost of the machine was 19000 dollars. We have withheld out of this 18000 dollars and 2.48 lakh rupees. What we have withheld from others is another 18140 dollars and Rs. 2.76 lakhs. That means total of 36268 dollars and Rs. 5.24 lakhs".

78. From the chronological order of events it is seen that the engineers were sent by the local agents to replace the defective parts of the machine from 26.5.1988 to 7.5.1991. The Committee desired to know as to why the railways waited for 3 years for the engineer and remained content with the efforts in vain for replacement of the defective parts of the machine instead of taking action to advise the firm to replace the machine during this long period. In reply, the Ministry of Railways (Railway Board) in a note have stated as follows:

> "The main aim was to see that the equipment was commissioned and put to use for the purpose for which it was procured. Efforts were therefore made in this direction. The firm was constantly followed up and assistance was sought from the World Bank, Indian Embassy in USA and USA Embassy of India. M/s. Cam International are a reputed manufacturer in traction motor manufacturing equipments and their judgements was generally relied upon. Further, efforts of the firm in between also raised hope that the equipment could be put to effective use. A visit was organised on behalf of the firm by engineers of Central Machine Tools Institute to study the defects. A visit of the engineer was undertaken in December, 1990 but the engineer fell ill in Delhi and had to go back to USA on medical advise. Firm did not send any representative thereafter till October, 91, on the plea of advise of US State department recommendation against visiting Punjab despite several assurances of normal working conditions at Patiala. Thus efforts were mainly directed in seeing that the equipment gets commissioned and is put to effective use."

79. The Committee enquired about the reasons for not taking assistance of Deputy Chief of Mission, US Embassy after coming to conclusion in October, 1991 that the machine would not work instead of going for arbitration at that very stage. In reply, the Member (Mechanical) during evidence stated:

> "We sought their assistance and to tell others. We also informed the World Bank about the failure of M/s. Cam International."

80. When asked whether the Ministry of Railways (Railway Board) was satisfied about efforts made so far in this regard, the witness admitted:

> "No, I am not satisfied, I cannot say that I am satisfied. The efforts have been there but I feel, we should have taken much less time to solve this."

81. In view of this experience with M/s. Cam International regarding commutators, Seasoning Machine, the Committee enquired if the Railways were planning to black list this firm for not fulfilling their objectives. The witness during evidence stated as follows:

> "We have not formally black listed it but it is certainly a company with which I will be most reluctant to do business in future".

82. Subsequently, in a note the Ministry of Railways (Railway Board) added that Railway had initiated the proceedings for arbitration. The option of black-listing would be considered after the outcome of arbitration proceedings.

83. Asked about the present status of the arbitration proceedings, the Ministry of Railways (Railway Board) have informed the Committee in a note that the arbitration clause has been invoked and a letter to this effect has been sent on 02.9.1992. The firm has requested that another opportunity may be given for commissioning of the machine with their modifications. The request is being studied keeping in view the larger interest of Indian Railways.

(ii) Procurement of Loco components under Unit Exchange Scheme (Loan $ 90 million) Chittaranjan Locomotive Works (CLW)

Unsuccessful Transfer of Technology

84. Audit para pointed out that for raising the capacity of Chittaranjan Locomotive Works and to overcome the technical inadequacy in the process of manufacture of cast steel bogies in the steel foundry, Railway Board had decided in April, 1987 to import 150 Three Axle Co-co cast steel bogie frames and bolsters with transfer of advanced technology. The contract was placed with an American firm in May, 1988 at US $ 957188 under IDA credit. The Audit paragraph further reveals that with the help of technology, eleven bogies have so far been cast in CLW, ten of which were not upto the mark and developed cracks. The collaborator, however, had informed CLW before finalisaton of the collaboration agreement that it would not guarantee that the technology transfer would help in the manufacture of a similar bogie casting at CLW using CLW's specifications, infrastructure and indigenous materials. The Committee desired to know the number of bogies cast in CLW so far and whether these have been found upto the mark. The Ministry of Railways (Railway Board) in a note have stated:

> "It was not correct to state that collaboration agreement did not guarantee that technology transfer would help in manufacture of a similar bogie casting at CLW using CLW's specifications, infrastructure and indigenous materials. The technology transfer agreement stated that the collaborator would assist CLW in achieving state of art quality level comparable with their own basic inputs largely available indigenously in India. The collaborator assured that it was possible to manufacture cast steel bogie to specification with infrastructure and indigenous material. 22 bogies have so far been cast with these technology. Only two have not been upto the mark. Rest of the castings cast with Rockwell technology were found to be

satisfactory. Apart from the above, modifications have been made to the existing patterns to take advantage of the technology which incorporate the bottom pouring technique which is one of the main features of the Rockwell casting technology. 16 bogies with these modifications have also been cast."

85. In this connection, the Committee enquired from the Railway Board about the reasons to opt for a technology for manufacture of cast steel bogie in CLW without ensuring that the technology could be successfully adopted under local conditions and constraints. The Ministry of Railways (Railway Board) stated in a note that the technology could be adopted at CLW. This was borne by the fact that 20 bogies have so far been cast successfully with Rockwell technology.

86. It is learnt from audit that the General Manager/Steel Foundry/CLW had intimated the collaborator (M/s. Rockwell International Corporation) in November 1989 that only marginal improvement/modifications could be made both in infrastructural facilities and raw materials. The following constraints in absorption of technology were indicated:

(a) Sand Plant

(i) Silica Sand—There was no source known to CLW where rounded green sand with clay content around 0.2% was available indigenously. The mix of silica content of 99% was also not available indigenously.

(ii) Bentonite—Bentonite with required standard for new technology was not readily availabe indigenously.

(b) Core Room

The facilities required were not available with CLW and it involved major infrastructural inputs.

(c) Facilites like 7' wheel room blast, Aric Air Machine, High cycle grinders were not available with CLW. Deputy CME (SF) confirmed in December, 1989 that out of 6 bogies cast with partial implementation of RIC technology only one was found upto mark.

In a written reply to Audit Production Engineer confined in December, 1991 that 22 bogies cast in CLW, were having crack leng ranging between 18 cm. and 321 cm. CLW repaired these cracks by welding and despatched these bogies for use. As such it cannot be said that bogies were cast successfully with Rockwell Technology.

87. The Committee desired to know whether all inputs and infrastructural facilities now available with CLW for manufacture of bogies with new technology. In reply, the Ministry of Railways (Railway Board) have stated in a note that all basic inputs and infrastructural facilities are now by and large available and series production of

bogies to the new technology has already been established. The Ministry have further stated:—

"Major technology involved in designing a casting are the metal flow patterns, solidification pattern which are decided by the designs of moulds and cores. These have been adopted in CLW and the patterns and the cores used in manufacture of bogies to the improved technology are to the designs provided by the collactorators. The process of core making in Steel Foundry at Chittaranjan is manual and these do not permit the use of bonding resins in the core making sand as recommended by the collaborators for which mechanisation of the core making process is required. Bogies being cast with manual methods of core making are also being manufactured within the acceptable standards of quality, though the quality will further improve if mechanisation of the core making process is undertaken. It has been decided to mechanise the core shop and the equipments required are under procurement.

As regards raw material such as sand, the best available sand in the country is being used. This has been approved by the collaborators. Bentonite to the quality specified by RIC has been developed.

Equipments such as 7' Wheel Room, equipments and high cycle grinders are employed to clean the castings after manufacture and the available equipments are considered adequate to give desired results.

Thus except for the core making process where further improvements are possible with mechanisation and which is under implementation the improved technology has already been adopted in all other major areas."

88. When asked as to how far the welded bogies would meet the required parameters the Ministry of Railways (Railway Board) have stated:

"Cracks are a phenomena which can not be totally eliminated in all the casting of this size and has to be accepted. A bogie having a cummulative crack length upto 300 cm. is acceptable. With RIC technology in the bogies cast upto date, the crack length of all the bogies except for two were within these specified limits. There were instances where there have been no cracks with the improved technology. Adoption of collapsible cores with the mechanisation of core room will further improve the casting with respect to the cracks lengths."

89. To another query about the targets for casting and how does casting of 22 bogies compare with that, the Ministry of Railways (Railway Board) have stated in a note that the target in the Agreement is to reach an annual production level of 600 bogies by the end of the currency of the Agreement, which is August, 1994. It is expected that by this time all the 600 bogies required from Steel Foundry would be to the improved technology. No monthwise targets were fixed.

PROCUREMENT OF TRACTION MOTORS

90. An order for procurement of 792 traction motors for WAG5 type electric locomotive was placed on BHEL in March, 1988 at US $39.5 million. The procurement was financed under IDA credit. As per stipulation in the contract, the delivery of traction motors was to be made by June, 1989. The period of reimbursement was extended by the World Bank from September, 1989 to February, 1990. BHEL supplied 544 motors within the contractual delivery period and promised to supply the remaining by February, 1990. The Committee wanted to know the reasons given by BHEL for not adhering to delivery schedule. The Ministry of Railways (Railway Board) in a note have stated that CLW placed a contract No. CRJ/ME/TM/727/Pt.III/20/20263 dated 1st March, 1988 for supply of 792 Nos. Traction Motors type HS-15250A. Reasons in general indicated by BHEL in January 1989 for likely delay in supply of all the 792 motors are:

"1) Delay in supply of critical components by Hitachi to BHEL in respect of HS-15250A Traction Motors.

2) Delay in obtaining approval from pollution Control Board of State Government to allow use of insulations with ISOX resin being toxic, keeping in view the environmental conditions and the past experience of Gas Tragedy.

3) Adhering to a large number of safety precautions and elaborate care for handling & usage of ISOX resin.

4) Time taken for lining up the required tools, jigs and fixtures for manufacture of motors. Possible extension of delivery period beyond June '89 and Upto Feb. '90 keeping the limit of March '90 for closing of IDA loan was granted. BHEL was asked to find ways and means for supply of all the 792 motors within extended delivery period.

BHEL supplied 544 motors upto June '89 and 695 motors upto Feb. '90 — the extended delivery period. BHEL did not supply the remaining 97 traction motors for which action has already been initiated for recovering damages as per provision in the contract. Payments were made by CLW for 695 motors only."

91. Audit Para reveals that in July 1989, CLW loaned out to BHEL 13 items of components of 70 traction motors valued at Rs. 10.22 crores at a nominal interest charge of 6.75 per cent to assist it to complete the delivery of motors in time. These components had been imported from a Japanese firm to upgrade the technology of traction motors in pursuance of a collaboration agreement with the Japanese firm. The Committee enquired about the reasons for loaning these components worth Rs. 10.22 crores to BHEL at reduced rate of interest outside the provisions of the contract. The Ministry of Railways (Railway Board) stated in a note stated that some of the components of HS15250A motors were given to BHEL at their requests. This was with a view to maximise the production of traction

motors to meet the increased requirement for production of locos by CLW without affecting the technical upgradation technology absorption programme of CLW, in the overall interest of Indian Railways. Since by loaning these components, the inventory borne in Railway's books on which dividend @6.75 per cent per annum was required to be paid, it was decided to recover the same from BHEL for the period during when these inventories would be in the custody of BHEL.

92. Asked as to how the Railway Board could state that the loaning of the components had not affected CLW's technology upgradation programme, the Ministry of Railways (Railway Board) stated in a note that CLW had planned to absorb technology in phases. Phase II & Phase III and also manufacturing such motors in large number with balancing inputs of indigenous components and required machinery and plant for production of such motors in large number. The Phase II of technical upgradation programme consisted of assembly of motors from completely knocked down component in addition to development of few indigenous items. Therefore, non-assembly of these 70 motors at CLW in Phase II did not have any effect on CLW's technology upgradation programme. Practically all the items were developed as per plan. Even though the quantity was not same the essentials were achieved. Phase III programme was also taken for 20 motors with the available machinery and plant of CLW ahead of time.

93. According to the Audit Paragraph, BHEL could not complete the delivery of 97 motors within the delivery schedule despite loaning of some components by CLW. In July 1990, CLW placed another contract for 300 motors (which included the 97 motors not delivered earlier) at Rs. 17.17 lakhs per motor against Rs. 7.72 lakhs accepted in the contract of March, 1988. The extra expenditure incurred by CLW was Rs. 9.15 crores (97 × 9.45 lakhs) for supply of 97 traction motors. BHEL failed to adhere to the delivery schedule in this contract also. Upto June, 1991, no motor was supplied against their promised delivery of 52 motors by March, 1991. The Committee desired to know the justification for including the 97 motors in the order for 300 machines placed in July, 1990 at 2½ times the cost of the order placed on BHEL in March, 1988. The Ministry of Railways (Railway Board) in their reply have stated that loco production at CLW had been stepped up from 105 in 1989-90 to 110 in 1990-91 and was further planned to be stepped up from 105 in 1989-90 to 110 in 1990-91 and was further planned to be stepped up to 115 in 1991-92. This coupled with increased maintenance requirement of Zonal Railways necessitated procurement of 300 traction motors from BHEL. CLW's programme for electric loco production has been further stepped up to 120 locos in 1992-93 for which procurement of additional traction motors was necessary. Incidentally cost of March '88 orders and July '90 order are not comparable unless the effect of exchange rate variation and absence of duty drawbacks and cash compensation support are taken into account.

94. Asked whether BHEL furnished any reasons for failure in keeping the delivery schedule of the contract entered into July 1990, the Ministry of Railways (Railway Board) stated that as per the delivery was to commence from the month of July, 1991 at a rate of 30 motors per month. Certain commercial terms were modified *vide* Amendment No. 1 dated 15.1.1991 as requested by M/s. BHEL. BHEL had requested for postponement of delivery schedule so as to commence from January, 1992 twelve months after issue of amendment regarding commercial terms. During the meeting held with BHEL in May 1991, it was mutually agreed and the contract was amended accordingly and BHEL commenced supplies against the contract from November, 1991.

95. The Committee enquired about the provisions in the contract for levy of damages due to non-delivery. The Ministry of Railways (Railway Board) in a note have informed that Para 18 of the contract No. CRJ/ME/TM/727 Pt. III/20263 dated 1.3.88 stipulates for levying of damages due to non-delivery. The extracts of the Para 18 are reproduced below:

> "In the event of the contractor's failure to have stores ready for delivery by the time or times respectively specified in the letter of acceptance of contract, the Purchaser may withhold any payment until the whole of the stores have been fully supplied and delivered and may deduct or recover from the contractor as liquidated damages (and not by way of penalty), a sum at the rate of ½ per cent (half per cent) per week subject to maximum of 5% of the price of any stores which the contractor has failed to deliver as aforesaid for each and every week (part of a week being treated as a full week) during which the stores may not be ready for delivery. Provided, however, that if the delay shall have arisen from any cause which the Purchaser may admit as reasonable ground for further time, the purchaser may in his discretion allow such additional time as he may consider to have been required by the circumstances of the case. CLW has asked BHEL to pay Rs. 9,16,43,272/- towards general damages against the subject contract *vide* letter No.CRJ/ME/TM/727 Pt. III/20263 dated 26.6.90. BHEL are contesting these claims. The matter is being pursued."

96. In this connection, the Committee desired to know the present position of action taken by Railways for recovery of damages as per provisions of contract (of March, 1988) for supply of 97 traction motors. The Ministry of Railways (Railway Board) stated that M/s. BHEL had represented against the recovery of damages. The matter was referred to Law Officer of Eastern Railway who had opined that BHEL might not be legally held for breach of contract and no penal action by way of imposition of general damages or otherwise could be taken. For seeking further round of legal opinion, the matter had been referred to Ministry of Law, as to whether CLW was entitled to enforce general damages on BHEL.

97. Asked on what grounds had the BHEL contested the claim of CLW, the Ministry of Railways (Railway Board) stated in a note that BHEL contested the claim on the grounds that the impregnating varrish had to be changed by them in consultation with M/s. Hitachi which was based on I socynides and was considered as safety hazard.

DELAY IN SUPPLY OF STORES

98. According to the Audit Para, CLW had placed an order on a firm 'A' for the supply of 125 loco sets at Rs. 3,08,980 per loco sets with deliveries to complete by August, 1989. The firm failed to adhere to the delivery schedule and CLW had to resort to import from another firm on a single tender basis, 25 Loco Sets of equipment at Rs. 3,52,713.40 per Loco set by awarding a separate contract on 9 August, 1988. This had resulted in extra expenditure of Rs. 10.93 lakhs being the differential between the price against the contract financed by IDA and that committed to be paid against the contract placed on the new firm. The Committee enquired whether this extra expenditure was recovered from the defaulting firm. The Ministry of Railways (Railway Board) stated in a note that CLW had placed the contract on firm A for 125 sets in May, 1988 with deliveries to commence from September, 88 and to complete by August, 1989. Meanwhile some difficulties of financial resource management problem of the firm came to notice and it was decided to finalise a parallel order for small quantity on another firm in August, 1988 itself prior to scheduled commencement of deliveries from firm A. Finalisation of parallel contract on more than one firm was done to ensure timely availability of material for maintaining uninterrupted supply of material for enhanced loco production. The differential in price in the two contracts was basically on account of 'deemed export benefits' by way of reimbursement of taxes and duties and certain concessions available to World Bank financed contract, which were not available to the other contract, and the two prices were not comparable. Out of contracted 125 sets, firm 'A' supplied 106 sets within the stipulated delivery period i.e. upto 1st August, 1989.

99. Differential of the prices was not recoverable form firm 'A' because CLW decided to finalise the parallel contract before breach of contract to ensure availability of material against any possible failure from firm 'A'. The balance quantity of 16 sets was supplied by the firm within 31.8.1989, the extended delivery period.

100. In this connection, the Committee enquired as to when was firm 'A' required to supply the loco sets and when were these actually received from the other firm. In reply, the Ministry of Railways (Railway Board) in a note stated that firm 'A' was required to complete the supply of 125 loco sets ordered on this firm by 1.8.1989 and the supplies from other firm were received during the period from 3.11.88 to .10.7.89.

101. Asked whether any liquidated damages for the delay period were levied on firm 'A' the Ministry of Railways (Railway Board) stated that supply of 18 sets of the equipment ordered on firm 'A' were delayed

beyond the orginal date of delivery of 1.8.89. However, these 18 sets were supplied before 31.8.89 involving less than a month's delay. Full liquidated damages of 2% per month or part thereof, amounting to Rs. 97,791/- had been levied on the firm 'A'.

ON GOING PROJECTS

Electrification & Workshop Modernisation Project (Loan 2417-IN: US$ 279.2 million)

Electrification

102. Audit Paragraph reveals that the progress of Electrification work under IDA assistance was slow. Out of 10 Sections only 3 sections could be energised between March 1989 to September 1989. The Committee enquired about the reasons for delay in electrification work and the present position in the execution of the balance 7 sections. The Ministry of Railways (Railway Board) in note have stated that out of US$ 279.2 million under IBRD Loan 2417-IN, the share of Railway Electrification is US$ 140.5 million. The validity of the Loan has been extended upto 30th September 1992 with a grace period upto January 1993.

103. Further, it was clarified that World Bank Loan for Railway Electrification Projects was primarily meant for procurement of critical items. The total amount of the loan of US$ 140.5 million is only a small fraction of the total estimated cost of the ten projects covered under World Bank Loan.

104. According to the Ministry of Railways, the physical progress on different sections as given in the report is slightly under reported. The factual position is as under:

Section	Realistic RKM	Energised till Sept. 1991 (cumulative)	Target date of completion
1	2	3	4
1. Jhansi-Itarsi	381	381	work completed
2. Itarsi-Nagpur	297	297	-do-
3. Nagpur-Balharshah	212	212	-do-
4. Vijayawada-Balharshah	454	454	-do-
5. Bhusawal-Wardha	314	314	-do-
6. Durg-Nagpur	265	243	Dec. 91
7. Itarsi-Bhusawal	301	117	Dec. 91
8. Bhopal-Nagda	239	158	Dec. 91
9. Bilaspur-Katni	317	—	May, 94

1	2	3	4
10. Bina-Katni	263	—	Sept. 93
Total	3043		

By September 30, 1992, 2716 Route Kms. has been energised.

105. Electrification of 5 sections (items 1 to 5) has been completed. Electrification works on three sections (items 6 to 8) are in an advanced stage of completion and are expected to be completed during the current year *viz.* 1991-92. Balance 580 Route Kms. (items 9 & 10) where electrification works are progressing satisfactorily, will be energised by 1993.

106. The only projects which have been delayed are Bina-Katni and Katni-Bilaspur, as priority was given to trunk routes. This route was also subsequently identified for electrification on a new system of electrification of 2×25 KV AT system which is considerably superior for heavy haul routes. As this was a new system M/s. JARTS (Japanese Railway Technical Services) were appointed as consultants who prepared system designs and drafted specifications which formed the basis of tendering. On receipt of tenders critical review was done to assess the relative costs in 2×25 KV and conventional 25 KV system. It was only in Dec. 90 that Board took the final decision to go in for 2×25 KV system. The work contracts and most of the orders for equipment have since been placed and the balance amount available in the World Bank Loan would be fully utilised during the extended currency of Loan agreement.

107. In this connection, the Committee pointed out that the decision to electrify the remaining two sections *viz.* Bina-Katni and Katni-Bilaspur on a new system of electrification of 2×25 AT system was taken very belatedly by Railway that too in December 1990 after the expiry of initial loan period in September 1990. When enquired about the reaction of the Ministry of Railways (Railway Board) in this regard, the Member (Electrical), Railway Board during evidence stated as follows:

> "So far as keeping the package ready in all respects before going for loan is concerned the point is well taken.....So far as this case is concerned, during the course the loan was available and based on the study, it was thought that we could try this new technology which is potential for matching with our power supply."

Workshop Modernisation Project Phase-II
(Loan No. 2417-IN US $ 132.5 million)

108. The main objectives of the Workshop Modernisation Phase-II were as follows:

— to achieve reduction in periodical overhaul cycle time of rolling stock and to enlarge periodical overhaul and manufacturing capacity of workshops to match the rationalised work-load requirements;

— to improve performance and availability of rolling stock; and

— to effect economics in the cost of rolling stock maintenance.

109. According to the Project Report, Phase-II of Workshop modernisation was scheduled to be completed during the period 1981-84. Subsequently, it was decided to spread Phase-II over 1984-87. It was being actually executed between June to September, 1990. Later on, with the agreement of visiting missions of the World Bank the target date of the completion of the work for different workshops were revised ranging from March, 1990 to December, 1991. The Committee enquired about the reasons for deferring the execution of the workshop modernisation programme from 1981-84 to 1990. The Ministry of Railways (Railway Board) stated in their reply that the loan was actually sanctioned in the year 1983. Accordingly, the scheduled phasing of the project was 1984-87. The target dates for individual projects were fixed in consultation with the visiting World Bank missions and were set between March, 1990 and December, 1991 keeping in view the minimum dislocation to the onging activities. Railways could not afford loss of production the capacity being limited and volatile.

110. In this second phase six workshops—Parel, Liluah, Golden Rock, Ajmer, Jagadhari, Kharagpur and one production unit ICF were taken up under Modernisation Programme. The Committee desired to know the progress of modernisation of workshops in the second phase. In reply, the Ministry of Railways (Railway Board) in a note have stated that the Phase II comprises 6 Workshops and one production Unit *viz.*

(a)	Parel	Central Railway
(b)	Liluah	Eastern Railway
(c)	Jagadhari	Northern Railway
(d)	Ponnamalai	Southern Railway
(e)	Kharagpur Ph. II	South Eastern Railway
(f)	Ajmer	Western Railway
(g)	ICF	Production Unit

According to the Ministry of Railway, out of the above 6 Workshops and one Production Unit the work of modernisation shall be completed to the following extent by 31.3.92 in the following Workshops:

			Progress
1.	Parel Workshop	Central Railway	92%
2.	Liluah Workshop	Eastern Railway	95%

111. The work of modernisation shall be completed to the following extent in the year 1992-93 in the following Workshops:

	Workshop	Railway	Progress	Completion
1.	Jagadhari	Northern Railway	80%	30.9.92
2.	Golden Rock	Southern Railway	90%	31.12.92
3.	Kharagpur	S. Eastern Railway	90%	30.9.92
4.	I.C.F.	Madras	98.7%	30.6.92
5.	Ajmer	Western Railway	80%	30.9.92

112. The Committee desired to know the reasons for not adhering to the revised target dates for completion of the work and whether the work would be completed by the end of the current year. The Member (Mechanical) during evidence stated as follows:

> "We expect to complete it. What has happened is that the majority of the work is completed. It is only some items which got delayed."

113. The Committee enquired about the amount of extra commitment charges paid on this loan due to deferement of modernisation programme, the Ministry of Railways (Railway Board) in a note stated that the amount of commitment charges paid for the extended period of loan No. 2417-IN, i.e. from 1.10.1990 to 30.10.1992 was $ 233,296. This loan has since been extended upto 31.3.1993.

Railway Modernisation Project III
(2935-IN) (Loan US $ 390 million)

114. This project which was estimated to cost US $390 million became operative from 14 June, 1988 with closing date as 31 December, 1993. The project covered relaying of about 4000 kms. of track on high density routes including procurement of 4,80,000 tonnes of rails and 143 track machines. The track renewal was scheduled to be completed by June 1993. The Committee desired to know the progress of various works financed from this loan under Railway Modernisation Project III (2935-IN). The Ministry

of railways (Railway Board) in note have stated that this loan covers procurements of rails and track machines required for the Track Rehabilitation Programme. Against the rail component on the loan a total of 4.80 lakh tonnes of rail was envisaged to be procured. Against this, 1.73 lakh tonnes have been received upto May, 1992 and orders for another 80,000 tonnes are under execution at present. Against the programme of upgradation of 4000 track kms. about 2400 track kms. were upgraded by March, 1992.

115. Against the track machines component of the loan, out of the total requirement of 141 machines, orders for 105 have been placed. World Bank's approval for placement of order for 15 machines has since been received. Recommendations for 5 machines have also been sent to World Bank for approval. Action is afoot towards framing specification and floating tenders for some of the balance items.

116. As regards upgradation of tracks, the Committee were informed that out of 4000 track kms. programmed for upgradation, 90% (3600 kms.) was expected to be completed by 31.12.1990. It is proposed not to import any more rail and to short-close the loan for this component and complete the renewal of blance 10% works (400 kms.) in 1994-95 with indigenous resources.

117. As regards track machines, based on the delivery schedules quoted and likely orders to be placed during 1992-93, about 10 machines are expected to be supplied beyond 31.12.1993.

118. Asked about the commitment charges paid by Indian Railway on this loan so far, the Committee were informed by Ministry of Railways (Railway Board) that an amount of US$ 5,340,756 has been paid as commitment charge under this loan upto October, 1992.

Saudi Fund for Development (Loan 3/188)

119. It is seen from the audit paragraph that Saudi Fund for development extended a loan of Saudi Riyal 103.2 million effective from August, 1993 for construction of BG line between Koraput-Rayagada (216 kms.) including procurement of rails, sleepers and track machines etc. In accordance with the loan conditions, Indian Railways has to first spend the money and then claim the reimbursement from Saudi Fund for development. The Saudi Fund for development extended the validity of the utilisation of Loan upto 30 September, 1990 on request. But due to lack of funds during March, 1990, the Board approached the Ministry of Finance in March, 1990 for taking up with the Saudi Fund authority for granting extension of the loan agreement upto to 30 September, 1991.

120. The Committee enquired about the latest position about the construction of 210 kilometres BG line between Koraput-Rayagada. The Chairman, Railway Board during evidence stated:

"Most of the work is completed but there are three points, where one is a big tunnel which has collapsed during construction because the whole hill came down. This has delayed the completion of the project. There are certain other problems which are of a local nature, that is, because of increase in the minimum wages, etc. and the labour is running away or the contractors running away etc. But the main item was the tunnel collapse while the work was going on that has delayed the project."

121. The Ministry of Railways (Railway Board) in a post evidence note have stated that the physical progress of the work upto 31st October, 1992 was 91.6%. The section from Koraput to Machiliguda (120 km). is targetted to be completed by 31.10.93. The present estimated cost is Rs. 390.00 crores. The outlay for 1992-93 has been revised to Rs. 22.00 crores from the original Rs. 12 crores for the current financial year.

122. According to the audit paragraph, the implementation of the phase-II of the project was very slow due to the fact that low priority was accorded by the Planning Commission to this project and insufficient funds were made available to it. The Committee desired to know the reasons for Railway/Planning Commission according low priority to the second phase of the Koraput-Rayagada Project. In a note, the Ministry of Railways (Railway Board) have stated that after opening of Phase-I (Koraput to Machiliguda-20 km.) in December, 1985 the Planning Commission pended the execution of Phase-II (Machiliguda to Rayagada) because delay in commissioning of Vishakhapatnam Steel Plant was anticipated. In late 1986, Planning Commission indicated that the Phase-II of the project should be taken up for execution. Funds were accordingly provided for it is 1987-88.

123. When asked as to whether the utilisation of Saudi Fund was dependent on matching fund from Railway's own resources, the Ministry of Railways (Railway Board) informed the Committee that Saudi Fund for development extended a loan of Saudi Riyal 103.2 million (equivalent to US $ 30 million at the time of signing of loan agreement in August, 1983) for this project. In accordance with the laon conditions, Indian Railways has to first spend the money and then claim the re-imbursement from the Saudi Fund for development. To complete the work on priority, adequate funds have been allotted every year since 1987-88.

124. Asked as to why the construction of this line could not be completed during the validity period of the loan, the Ministry of Railways (Railway Board) have furnished the following main reasons for delay in commissioning of the project:

a) Cyckin of unprecedented severity in May, 1990 and consequences thereof. Heavy and prolonged rains in the monsoon of 1991.
b) In hospitable living conditions in the construction area.
c) Hazardous tunneling conditions in Tunnel NO. T-23."

125. As regards reimbursement of the loan till date, the Ministry of Railways (Railway Board) have informed the Committee that till march, 1992 the Saudi authorities have reimbursed $5.83 million towards cost of rails, $6.40 million towards civil works and $1.85 million towards cost of sleepers.

126. When enquired about the closing date of the loan, the Ministry of Railways (Railway Board) informed the Committee that the Saudi Fund authorities have extended the terminal date of the loan agreement upto 31.12.1993.

West German Loan

127. A loan for DM 30 million was obtained from Federal Republic of Germany in April 1989 for financing import of machinery for the Rail Coach factory, Kapurthala. The closing date of the loan was December 1991. The Committee desired to know the utilisation position of this loan on date. In a note, the Ministry of Railways (Railway Board) gave the following utilisation position of loan:

i) Machines ordered and received: DM 7.37 million
ii) Machines ordered and yet to be received: DM 1.18 million

128. Asked as to why the entire amount of loan could not be utilised till December 1991, the closing date of the loan, the Ministry of Railways (Railway Board) stated in a note that the entire amount could not be utilised because the loan only funded the machines procured from Germany. The order was placed on the German firms only if these were successful lowest technically suitable bidder in Global tenders. It was seen that the contract could not be awareded to the German firms to the extent as it was assumed.

129. To a further query whether the closing date of the loan had been extended, the Ministry of Railways (Railway Board) stated as follows:

> "Yes, the closing date of Loan for DM 30 million for import of machinery for the Rail Coach Factory (RCF) Kapurthala has been extended for another year from December 1991 to December 1992. Utilisation position upto October 1992 is DM 10.461 million. A fresh application for further extension of the Loan period upto December 1993 has been sent to the Ministry of Finance."

130. As the utilisation of the loan was available only for purchases from West German supplies, the Committee enquired about the steps taken by the Railway Board to identify items to be procured from that country's suppliers and also the position regarding placement of orders. The Ministry of Railways (Railway Board) in a note stated that the items required to be imported were identified. However, specifications framed were need based and global tenders were floated in order to ensure competitive bidding. The suitable lowest tender was awarded the contract and the finance was organised from KFW in case the successful bidders was from West Germany. For the balance machines which are yet to be procured, some of

the machines are under advance stage of ordering. The balance machines include the machines which are design dependent and the procurement of which will be initiated after the finalisation of the new design of the coach.

131. The Committee desired to know whether all the machines procured under West German loan of DM 30 million had been received in RCF–Kapurthala. The Ministry of Railway (Railway Board) in a note stated that against 27 machines ordered on West Garman firm against KFW loan, 24 machines had been received and 3 were yet to be received. Out of 24 machines received, 22 had been commissioned and were running satisfactorily. One machine was received on 31.8.1991 and was under installation and commissioning. Another machine had been partly comissioned, with the main machine giving satisfactory service and one of the auxiliary equipment procured with the machine not working satisfactorily for which firm's engineers were being regularly followed upto ensure early completion.

132. The audit para reveals that out of commissioned machines, 5 machines were either not working to full capacity or not working satisfactorily due to damage in transit. The Committee enquired about the reasons for damages in transit and steps taken to prevent such recurrence. In note, the Ministry of Railways (Railway Board) informed the Committee that the main reason for damage in transit were theft at port and mis-handling at the port which resulted in damage to the consignment. As far as internal movement was concerned, the Railways had been given powers to move the consignment by road if so required. Further, escorts were being booked by rail or road to ensure that there was no theft enroute. Efforts were also made to clear the consignment quickly to minimise the instances of theft at port.

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

Railways have been seeking repeated extensions of these loans resulting tin payment of huge additional commitment charges for the extended periods. The Committee are unhappy over the failure of the Railways in utilising the precious foreign loans during their validity period.

134. The Committee have been informed that commitment charges are levied by World Bank, ADB and other donor agencies at the rate of 0.75% per annum from the date of effect of the loans. The commitment charges are payable as a pre-determined percentage of the total amount remaining unutilised from time to time out of the funds committed by the funding agency. While in the case of the World Bank loans the total loan is for a specified period, in case of ADB Loans the total amount of loan is on a yearly basis. The Committee are distressed to note that repeated extensions have been sought by Ministry of Railways beyond the scheduled closing dates of various loans, as the full amounts could not be utilised within the validity period of these loans. Besides, payment of commitment charges for validity period, the Ministry of Railways had to pay substantial amounts of avoidable extra commitment charges for the delays that have occurred in the utilisation of these loans. For instance, as the Railways failed to fully utilise the World Bank Loan No. 2210-IN/IDA Credit 1299-In ($ 444 million) by the validity period i.e. till 30.9.1987 the Railways took recourse to seeking two extension of one year each till the final closing date on 30.9.1989. Similarly in the case of Loan 2417-In ($ 279.2 million) also, two extensions of one year each had to be taken by the Railways from the World Bank till 30.9.1992. Unfortunately, the loan could not be fully utilised even during the extended period of two years and a further extension of 6 months till 31.3.1993 had to be obtained. The delay in utilisation of loans is stated to be on account of lack of sufficient data provided in the project reports submitted to World Bank by Ministry of Railways regarding their requirement of machines and equipment and also the time-frame within which the project was to be completed. The Committee note that in respect of Loan (2210-IN/Credit 1299-IN) whereas an amount of US $ 9,986,401 was paid as commitment charges for the original validity period upto 30.9.87 the Railways had to pay avoidable extra commitment charges amounting to US $2,826,030 for the two extended periods of one year each upto 30.9.1989. Similary, with regard to World Bank Loan 2417-IN, during the original loan period upto 30.9.1990, commitment charges amounting to US $ 9,528,710 and for the extended period upto 31.10.92 extra commitment charges of US $232,296 were piad by Ministry of Railways. Thus, owing to the failure of the Railways to utilise both these loans during their original validity periods, the Railways had to pay huge avoidable extra commitment charges amounting to US $30,59,328 for the extended periods. The Commitee recommend that the Ministry of Railways should thoroughly examine the matter and devise ways and means to ensure the utilisation of such loans within their validity period so as to avoid unnecessary outgo of foreign exchange as extra commitment charges.

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

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

137. According to Ministry of Railways, utilisation of loan amount is monitored every month by their Finance Directorate with the concerned Executive Director(s) and a statement showing the commitments and reimbursements is prepared. As regards monitoring of the physical progress of projects financed by World Bank etc., year-wise targets for execution are stated to be set and a plan is drawn through the Annual Works Programme. Quarterly meetings are also convened with the concerned Executive Directors of each project component, to monitor the progress of each component. In addition, the concerned field units prepare flash reports which are also sent to the Ministry of Programme Implementation. The Chairman, Railway Board also informed the Committee during evidence that their General Managers have been made responsible for controlling time overruns of various projects. Further, from the current year, the monitoring is being done at the level of Chairman and Members and General Managers of Zonal Railways and each project will now be monitored twice a year at Board level and on a quarterly basis at the Members level with the Zonal authorities. The Committee are constrained to observe that despite such monitoring time overruns have occured in respect of each project funded by World Bank and other agencies. The

Committee, recommend that Ministry of Railways should take all possible steps to strengthen monitoring mechanism for their projects with a view to obviate all possible delays in the timely completion of these projects and apprise the Committee of the progress made in this regard.

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

(i) The establishment and operation of DCW;

(ii) the procurement of parts and components for a unit exchange maintenance system;

(iii) the acqusition of modern AC locomotive prototype; and

(iv) the acquisition of components and meterials for High Capacity wagons for bulk traffic.

With a view to improve the technology and performance of Indian Railways's main line, Railways purchased 18 Nos. 6000 HP AC Electric locomotives (Thyristor) comprising two makes and three types (M/s. ASEA - 6 Nos. and M/S. Hitachi - 6 Nos. each of two types). These locomotives were basically procured for intensive prototype tests and trials with a view to select the most suitable design for indigenous manufacture. The Committee are constrained to observe that whereas technical offers relating to the procurement of these locomotives were opened on 9.6.1983, it took more than two years to issue letters of acceptance on 8.7.1985. The Committee cannot but deplore this abnormally long time taken by the Railways in the matter involving procurements funded by Foreign loans.

139. All the 18 locomotives costing US $ 97 million were received in 1988. According to the audit para the tests on these locomotives were conducted only in 1990. The Ministry of Railways informed the Committee that the tests at manufactures works were conducted under the supervision of RDSO and there were no anomally found before shipment of these locomotives. Subsequence 'Instrumented tests' were conducted from August 1988 to July 1989 and in respect of some locos limited repeal tests were performed in September-October, 1989 and December-January 1990. According to the Ministry the 'Service trials' are still continuing under actual service conditions. During 'instrumented tests', these locomotives have been found suitable in all respects except the harmonic level which determines the level of interference with power supply and signal and telecommunication circuits. The Committee are informed that three tests were specified for the harmonic interference test viz., the second harmonic test, the high frequency test and the audio frequency test. While the locomotives of ASEAN make have passed only the second frequency test, on the locomotives of Hitachi make have passed none of the tests. The Railways needed these locomotives for unrestricted use on the mainline. But due to

the aforesaid defects still persisting the Railways have all along been using these locomotives only on a particular section i.e. Waltair-kirandul, where this harmonic content difficulty does not interfere with its operations.

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

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

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

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

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

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

144. The Committee note that for raising the capacity of Chittaranjan Locomotive Works and to overcome the technical inadequacy in the process of manufacture of cast steel bogies in the steel foundry, it was decided in April 1987 to import 150 Three Axle co-co cast steel bogies frames and bolsters with transfer of advanced technology. The contract was placed with an American firm in May, 1988 at US $957188 under IDA credit. The technology transfer agreement provided that the collaborator would assist CLW in achieving state of art quality level comparable with their own basic inputs largely available indigenously in India. According to Ministry of Railways out of the 22 bogies cast so far with the said technology, only two have not been found upto the mark and the rest were found to be satisfactory. All basic inputs and infrastructural facilities are stated to have by and large become available and series production of bogies to the new technology has already been established. As the process of core making in Steel Foundary at Chittaranjan is manual and these do not permit the use of bonding resins in the core making sand as recommended by collaborators

the core-shop is being mechanised and equipments required are under procurement. The Committee, however, find that audit were informed by Production Engineer, CLW in December, 1991 that 22 bogies cast in CLW were having crack length ranging between 18 cm and 321 cm. CLW repaired these cracks by welding and despatched these bogies for use. According to the Ministry cracks are a phenomena which cannot be totally eliminated in all castings of this size and as such bogies having a cumulative crack length upto 300 cm should be acceptable. The Ministry has informed that with RIC technology in the bogies cast up to date, the crack length of all the bogies except for two were within these specified limits. The Ministry has also assured that adoption of collapsible cores with the mechanisation of core room will further improve the castings with respect to the crack lengths. The Committee regret to note that even after a period of about 4½ years, the complete transfer to technology for the manufacture of cast steel bogies has not taken place. They find that in the absence of mechanisation of core shop the core making was done manually by CLW, on account of which cracks ranging from 18 to 321 cm have developed in the bogies cast with RIC technology. Although, the bogies having crack lengths upto 300 cm are being repaired and sent for use, the Committee feel that with persistent use these cracks my reappear which may endanger the whole structure of the bogies. Further the Committee believe that the appearance of cracks in all the bogies produced with the new technology undoubtedly establish that the technology transfer process and its adoption needs to be looked into in consultation with the collaborators. The Committee also recommend that the mechanisation process of core shop should be expedited so as to eliminate the possibility of cracks being developed in the bogies cast by the new Rockwell technology.

145. The Committee note that an order for procurement of 792 traction motors for WAG5 type electric locomotive was placed on BHEL in March 1988 at US $ 39.5 million. The procurement was stated to be financed under IDA credit. As per stipulation in the contract, the delivery of traction motors was to be made by June, 1989. In July, 1989, CLW loaned out to BHEL 13 items of components of tranction motors valued at Rs.10.22 crores at a nominal interest charge of 6.75 per cent to assist it to complete the delivery of motors in time. BHEL supplied 544 motors within the contractual delivery period and promised to supply the remaining by February 1990. According to Ministry of Railways (Railway Board), the World Bank in anticipation of possible extension of delivery period beyond June, 1989 upto February, 1990 granted extension of time till March 1990 for utilisation of IDA loan. BHEL supplied a total of 695 motors only upto February 1990—the extended a delivery period. Inspite of the unusual assistance valued at Rs. 10.22 crores extended to BHEL, BHEL failed to supply the remaining 97 traction motors even within the extended validity period of IDA credit due to which the credit of US $ 3.235 million could not be utilised, which is highly deplorable. Action for recovering the damages as

per the provisions of the contract has already been initiated by Ministry of Railways and CLW has asked BHEL to pay Rs. 9,16,43,272 towards general damages against this contract vide their letter dated 26.6.1990. M/s. BHEL had however, represented against the recovery of damages on the grounds that the impregnating varnish had to be changed by them in consultation with M/s. Hitachi which was based on isocyanides and was considered a safety hazard. Once again this highlights the fact that enough thought has not been given before entering into a deal with M/s. Hitachi. The matter was referred to the Law Officer of Eastern Railway who opined that BHEL might not be legally liable for breach of contract and no penal action by way of imposition of general damages or otherwise could be taken. The matter had subsequently been referred to Ministry of Law seeking their opinion as to whether CLW was entitled to enforce general damages on BHEL. The Committee desire that the legal opinion from the Ministry of Law be expeditously obtained so that further action relating to the recovery of Rs. 9,16,43,272 from BHEL is taken. If the Ministry of Law points out any legal lacuna in the contract, suitable action should also be taken to plug such lacunae in the future contracts.

146. The Committee find that CLW had placed an order on firm 'A' for the supply of 125 loco sets at Rs. 3,08,980 per loco set in May, 1988 with deliveries to commence from September, 1988 and to complete by August, 1989. CLW also resorted to import from another firm on a single tender basis, 25 loco sets at Rs. 3,52,713.40 per loco set by awarding a separate contract on 9 August, 1988, prior to scheduled commencement of deliveries from firm 'A'. According to the Railway Board, they resorted to the parallel placement of the second order for 25 loco sets because some financial difficulties of firm 'A' had come to their notice. According to Audit, this had resulted in extra expenditure of Rs. 10.93 lakhs being the differential between the price against the contract financed by IDA and that committed to be paid against the contract placed on the new firm. In this connection, the Ministry of Railways (Railway Board) informed that finalization of parallel contract on more than one firm was done to ensure timely availability of material for maintaining uninterrupted supply of material for enchanced loco production. The price differential in the two contracts, was basically on account of 'deemed export benefits' by way of reimbursement of taxes and duties and certain concessions available to contracts funed by World Bank, which were not available to the other contract and as such the two price were not comparable. The firm 'A' supplied 106 sets out of contracted 125 sets within the delivery period i.e. upto 1st August, 1988 and the balance was supplied by them within the extended delivery period upto 31.8.1989. The supplies from the other firm were received during the period from 3.11.1988 to 10.7.1989. According to Railway Board, the differential was nor recoverable from firm 'A' because CLW decided to finalise the parallel contract before there was a breach of

contract to ensure availability of material against any possible failure from firm 'A'. The Committee are extremely unhappy to observe that the parallel placement of the second order of 25 loco sets on another firm in anticipation of delay in supplying the requisite loco sets within the delivery period by firm 'A' was erroneous because there was hardly a months's delay by firm 'A' in supplying all the 135 loco sets. They feel that due to this incorrect decision, the Ministry had to incur an avoidable expenditure of Rs. 10.93 lakhs i.e. the differential between the two contracts.

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

148. As regards Railway Electrification Projects, an amount of US $ 140.5 million was provided primarily for procurement of critical items. The Committee are informed that by 30 September, 1992, 2716 Kms. of track route has been energised. further, out of 10 sections, electrification of 5 sections have been completed, electrification on three sections are in the advanced stages of completion and was expected to be completed by December, 1991. Balance 580 Kms. Bilaspur-Katni (317 km.) and Bina-katni (263 km.) electrification works are stated to be progressing satisfactorily and will be energised in 1993. In regard to Electrification of the remaining two routes, the Committee have been informed that priority was given to trunck routes. These routes were subsequently identified for electrification on a new system of electrification of 2 × 25 KVAT system which is considerably superior for heavy haul routes. The decsion was taken by the Railway Board very belatedly in December, 1990 after the expiry of original loan period in September, 1990. The Committee feels that this decision to go in for the new technology should have been taken at the stage of preparation of project report before applying for a loan from World Bank. Due to this belated decision, the Railway Board had to take extension of 2 years for utilisation of full amount of loan leading to the payment of extra commitment changes for the extended period. The Committee deplore the causal attitude of Railway Board in deciding upon this new technology for Bina-Katni and Katni-Bilaspur, on account of which the completion of the project was delayed and caused avoidable expenditure as payment of

extra commitment charges for the extended period of the loan. They emphasize that such vital decisions should be taken promptly and not left to be taken during the final stages of the project in order to ensure project completion by the scheduled date.

149. The Committee also note that Workshop Modernisation Project Phase-II (Loan No. 2417-IN-US$132.5 million) covering & Workshops and one Production unit (ICF, Madras) of Indian Railways was scheduled to be completed between March, 1990 to December, 1991. The target dates for individual projects were stated to have been fixed in consultation with the visiting World Bank missions keeping in view the minimum dislocation to the ongoing activities. The Committee are distressed to find that progress of modernisation has been slow in respect of all the 6 workshops and the production unit at ICF Madras, consequently delaying the modernisation project beyond the target date of completion i.e. December, 1991. This again resulted in extension of the loan by 2 years in the first instance and again for another 6 months till 31 March, 1993. They are concerned to note that due to delay in utilisation of this loan, extra commitment charges to the tune of US $ 233,296 had to be paid by Railways for the extended period of loan No. 2417-IN from 1.10.1990 to 20.10.1992. Additional extra commitment charges will also have to be paid for further extension of loan till 31.3.1993. The Committee feel that seeking extension of loans has become almost a normal practice with the Railways. The Committee cannot help expressing their strong displeasure in the costly time over-run in this project.

They recommend that with a view to ensure the timely completion of such projects, the project planning and monitoring mechanism for the execution of such project should be suitably revamped.

150. The Committee have been informed that the Railway Modernisation project III (2935-IN/Loan US $390 million) to be completed by 31 December, 1993 was progressing satisfactorily. As regards upgradation of tracks, the Ministry of Railways have decided to short close the loan for this component after completion of 90% (3600 km.) tracks out of 4000 kms. programmed for upgradation and complete the renewal of balance 10% works (400 kms.) in 1994-95 with indigenous resources. Based on the delivery schedules quoted and likely orders to be placed during 1992-93 the Committee apprehend that procurement of about 10 track machines might get delayed beyond 31.12.1993 i.e. the target date by which loan is to be utilised, necessitating further extension and the concomitant extra commitment charges. The Committee, therefore, emphasize that all out efforts should be made to complete the project within the validity period of the loan.

151. The Committee note that Saudi Fund for Development (Loan 3/88), a loan of Saudi Riyal 103.2 million (US $30 million—Rs. 450 million) has been available from August, 1983 for construction of BG line between

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

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

153. The Committee note that a loan for DM 30 million was obtained from Federal Republic of Germany in April 1989 for financing import of machinery for the Rail Coach Factory, Kapurthala. Although the closing date of the loan was December, 1991, it could not be utilised till that date because the loan only funded the machines procured from Germany. According to the Ministry of Railways as orders on the German firms were to be placed only if they were the lowest bidders in the Global tenders invited, the contracts could not be awarded to the German firms to the extent originaly envisaged. Consequently, the loan had to be got extended by another year till December, 1992. The utilisation position upto October,

1992 was DM 10.46 million. Further extension of the loan period upto December, 1993 had, therefore, to be sought. The Committee find that due to slackness on the part of Railways (Railway Board) in identifying the likely sources of machines required for the Railway Coach Factory, Kapurthala, they had to take extensions resulting in payment of additional extra commitment charges. The Committee trust that all efforts for the timely procurement of the machines will be made in the interest of utilisation of the entire amount of the loan by the extended date till December, 1993.

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

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

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

NEW DELHI;
April 20, 1993

Chaitra 30, 1915(S)

APPENDIX I

(*Vide* Para 1)

Paragraph 14 of the Report of the C&AG for the year ended 31 March 1990, No. 10 of 1991, Union Government (Railways) relating to Utilisation of External Assistance

Introduction

Indian Railways receive external assistance mainly from agencies of World Bank i.e., the International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD). Through sixteen operations approved between 1949 and 1984, World Bank assistance totalled US$ 1.8 billion. The first thirteen operations were based on one to three year slices of the Railways' investment programme and covered foreign exchange for acquisition of:

(a) material, parts and components for manufacture of motive power and rolling stock;

(b) machinery and plant for Railway Production Units; and

(c) materials and equipment for line improvement works and telecommunications.

Since 1978, there had been four specific investment projects focussing on particular components in respect of motive power, rolling stock, workshop and track electrification viz. (a) Railway Modernisation and Maintenance Project (Credit No. 844-IN) (b) Railway Modernisation and Maintenance Project (Phase-II Credit No: 1299-IN/Loan No: 2210-IN) (c) Railway Electrification and Modernisation Project (Loan 2417-IN) and (d) Railway Modernisation Project III (Loan 2935-IN). Besides assistance from the World Bank, bilateral loans/credits are received. These were from the United Kingdom, Japan, Saudi Arbia and West Germany for specific projects.

14.2 Organisation

Projects financed by external assistance are monitored by the Planning Directorate of the Railway Board and progress of the projects are reviewed. Accounts in respect of drawal and disbursements are rendered to the Controller of Aid Accounts, Department of Economic Affairs and progress reports on the aided projects are submitted to the Ministry of Finance by the Board.

14.3 Scope of Review

The review covers a few projects which have either been completed in the recent past or which are at an advanced stage of completion and the extent of utilisation of external assistance.

14.4 Highlights

— Progress of utilisation of external assistance was slow due to delayed finalisation of tender and delayed supply by the firms. As a result full amount of assistance could not be utilised, the loans not utilised being US$ 13.227 million.

— 24 machines procured against the World Bank loan and bilateral credits remained unutilised due to delay in their installation and commissioning;

— Transfer of technology at a cost of Rs. 14.36 crores did not yield fruitful result in a production unit;

— Unintended benefit of Rs. 63.00 lakhs was extended to a public sector undertaking outside the provisions of the contract;

— Due to inadequate evaluation of tender there had been short utilisation of loan of Rs. 19.02 lakhs;

— Injudicious rejection of the lowest offer resulted in a loss of Rs. 33 lakhs;

— All activities against a loan of US$ 190 million approved in 1987 lagged far behind in June 1990;

— Injudicious placement and cancellation of an order against UK credit on a firm which was not a proven supplier resulted in a loss of Rs. 1.05 crores.

14.5 Completed Projects

14.5.1 Railway Modernisation and Maintenance II Project (Credit 1299-IN/Loan 2210-IN-US $ 444 million)

The loan, which was approved in November 1982, was meant for

(a) further improvements in the maintenance system through establishment of a facility for reclamation of diesel locomotive components and assembly workshop and provision of unit exchange spares; and

(b) components and materials for new design high capacity wagons as under:

	Loan amount (million US $)
Diesel component works at Patiala	30
Loco components for Unit Exchange Scheme in the Railway Production Units	75
Electric locos (CLW, Chittaranjan) Diesel Locos (DLW, Varanasi)	100.5
Wheel Tyres and Axles	85
Materials for high capacity wagons (Wheelsets, cartridge bearings, bogies, couplers etc.)	73
AC prototype of electric locos	64
Technical assistance for acquisition/installation of Plant and Machinery for DCW etc.	13.5
Fees	2.956

The closing date viz. March 1988 was extended by two years and the project was closed by March 1990. The works were behind schedule due to disturbance in Punjab and delays in initiating procurement action for electric locomotive components and bogies and couplers for wagons.

Credit/Loan amount had been committed fully and the loan was closed by March 1990. All the prototype of locomotives had been received by October 1988 and were under service trials. Procurement of materials for high capacity wagons was reviewed in Audit and mention was made on avoidable import of wheelsets and cartridge bearings in paragraphs 4.3 and 3.3 of the Reports of the Comptroller and Auditor General of India, Union Government (Railways) for the year ended 31 March 1987 and 1988.

A review of the other elements of the loan has been conducted in Audit and the findings are indicated in the subsequent paragraphs.

(i) *Diesel Loco Component Works Patiala: (Credit No. 1299/Loan No. 2210-IN)*

A loan of US$ 444 million was sanctioned by the World Bank in December 1982 for the Railway Modernisation Project II which included US$ 55 million earmarked for DCW/Patiala. The allocation to DCW/ Patiala was later reduced to US$ 30 million by the Board. The closing date of the loan was 30 September 1989 and the grace period was up to 31 March 1990.

As against the allocation of US$ 30 million, DCW Patiala entered into commitment for US$ 36.034 million up to September 1989. However, applications for US$ 29.821 million were sent to the Board for getting reimbursement from the World Bank out of which the Bank had reimbursed US$ 27.481 million up to December 1989.

Performance of Machines

19 machines, procured by DCW/Patiala out of the loan, were installed/ commissioned after a period varying from 11 to 48 months after their receipt in the workshop. A large amount of capital, therefore, remained blocked. The delay in installation and commissioning of the machines were attributed to the following reasons:

(a) firm's engineer could not remove defects noticed during commissioning;

(b) firm's engineer could not commission the machine in time;

(c) delay on account of non-availability of firm's engineer;

(d) delay in receipt of damaged parts and insurance claim involved; and

(c) lack of airconditioned building for the machine.

Two machines namely, co-ordinate three axis measuring machine (Rs. 20 lakhs) and commutator seasoning machine (Rs. 35.21 lakhs) which were received in DCW, Patiala in July 1986 and in June 1986 respectively were still (October 1990) awaiting commissioning resulting in blocking of funds amounting to Rs. 55.21 lakhs for over four years.

(ii) *Procurement of Loco components under Unit Exchange Scheme (Loan $ 90 million)*

Chittaranjan Locomotive Works (CLW)

During the Seventh Plan (1985—90), CLW entered into commitments to utilise world bank loan to the extent of $ 90 million with the authorisation of the Board/World Bank. In February 1987, CLW submitted to the Board an abstract estimate for utilisation of the loan for procurement of electric loco components of approximate value, which worked out to $ 73.76 million to be restricted to US $ 65 million depending upon the actual quotations received against the tender. Eventually, commitment was made to procure electrical items with the aid of US $ 77.874 million and diesel loco items of US $ 12.291 million making a total commitment of US $ 90.165 million. 45 contracts (26 for diesel items and 19 for electrical) were placed for procurement under this IDA credit. Out of a commitment of US $90.165 million, disbursement of US $ 76.938 million, could be effected leaving a shortfall of US$ 13.227 million as under in February 1990:

Diesel electric contracts	Commitment as per Railway Board upto February 1990 US $ million	Disbursement US $ million	Variation US $ million
Diesel contracts (23 nos)	11.421	10.958	0.463
Electric contracts (5 nos)	3.095	2.766	0.329
Diesel contracts (3 nos)	0.870	0.557	0.313
Electric contracts (14 nos)	74.779	62.657	12.122
Total:	90.165	76.938	13.227

The reasons attributed to variation between the commitment and utilisation were:

— fluctuations in exchange rates;

— part supplies against the contracts;

— Payment made through free resources even after commitment to finance from IDA;

— non-reimbursement of C.I.F. value;

— short closure of the contracts; and

— non-reimbursement of balance 8/10 per cent payments.

A review of 45 contracts finalised under the above loan revealed the following:

Unsuccessful transfer of technology

For raising the capacity of Chittaranjan Locomotive Works and to overcome the technical inadequacy in the process of manufacture of cast steel bogies in the steel foundry, Board had decided in April 1987 to import 150 Three Axle CoCo cast steel bogie frames and blosters with transfer of advanced technology. The contract was placed on an American firm in May 1988 at US $ 957188 under IDA credit. The delivery of the bogie frames was to commence within six months from the date of letter of credit and was to be completed in the next three months after approval of sample.

Eastern Railway was required to disburse US $ 6416548 for supply of stores and CLW was required to disburse US $ 3155340 for transfer of technology, charges, training of Indian personnel and payment for software facilities. Apart from this, CLW was required to bear expenses for travelling to and from USA, cost of medical, lodging, boarding, air travel within USA etc. Thus a total amount of US $ 11,143,300, equivalent to Rs. 14.36 crores, was released on 10 March 1988.

Out of the above commitment of US$ 11,143,300, disbursement was made and re-imbursement of US $ 5943718 effected up to 28 February 1990 when the IDA credit expired. The reasons for failure to utilise the full commitment against the contract were mainly due to delay in (1) arriving at a decision to import advance technology together with import of bogies and bolsters and (ii) delay in finalising the supply contract dated 31 May 1988 and subsequent collaboration agreement dated 4 August 1989 (i.e. at the fag end of the period for making re-imbursement under the IDA credit).

With the help of technology, eleven bogies have so far been cast in CLW, ten of which were not up to the mark and developed cracks. The collaborator, however, had informed CLW before finalisation of the collaboration agreement that it would not guarantee that the technology transfer would help in the manufacture of a similar bogie casting at CLW using CLW's specifications, infrastructure and indigenous materials. The design of the bogie casting and implementation of transferred technology were the responsibility of CLW. The collaborator had also made it clear that it had only agreed to transfer technology and to participate in the joint development of a revised technology and process applicable in CLW environment. Utilisation of hard currency, especially financed under IDA credit, was made evidently without ensuring that the technology could be successfully adopted under local conditions and constraints.

Procurement of traction motors

An order for procurement of 792 traction motors for WAG-5 type electric locomotive was placed on BHEL in March 1988 at US $ 39.5 million. The procurement was financed under IDA credit. As per stipulation in the contract, the delivery of traction motors was to be made by June 1989. The period of reimbursement was extended by the World Bank from September 1989 to February 1990. BHEL supplied 544 motors within the contractual delivery period and promised to supply the remaining by February 1990.

In July 1989, CLW loaned out to BHEL 13 items of components of 70 traction motors valued at Rs. 10.22 crores at a nominal interest charge of 6.75 per cent to assist it to complete the delivery of motors in time. These components had been imported from a Japanese firm to upgrade the technology of traction motors in pursuance of a collaboration agreement with the Japanese firm. Despite this unusual assistance, delivery of 97 motors, 74 gear cases and 68 gear wheels was not completed by BHEL within the validity of IDA credit (February 1990) and the credit of US Dollar 3.235 million could not be utilised. Besides, CLW had to postpone its programme of upgradation of technology of traction motors during 1989-90 for want of those components which were loaned to BHEL in July 1989.

BHEL did not also pay interest of Rs. 38 lakhs, calculated at 6.75 per cent on the value of components, taken on loan from CLW. By charging a mere one third of the rate of commercial bank rate CLW extended an unintended benefit of Rs. 63 lakhs to BHEL.

The Board stated (March 1991) that the loaning of component to BHEL did not affect the programme of technology upgradation and that the interest amounting to Rs. 38 lakhs had been recovered in March 1991. The fact remained that 70 motor sets were over due for the second phase of upgradation programme.

Non-utilisation of loan

A contract (F1/88-89/36849) was placed on an Australian firm in April 1988 for supply of 68 sets of pantograph for electric locomotives. The firm completed the delivery of 24 sets in the first lot in June 1989 and the balance was to be supplied on satisfactory service trial report of the first lot. There was delay in the issue of service trial report to the firm and consequently the firm could not complete the delivery of pantograph within the validity of the loan (February 1990). This led to short utilisation of loan to the extent of A $ 37476.47 (Rs. 5.04 lakhs) representing ten per cent payment which was made from free foreign exchange.

Non-realisation of claim from insurance company

An order was placed on a foreign firm for supply of 50 loco sets of Rheostatic Dynamic Breaking Resistors with blower motors in January 1989. Procurement was financed under IDA credit. One equipment valued at Rs. 7.63 lakhs was received in a damaged condition in January 1990. The Board stated that CLW was pursuing with the insurance company to compensate the loss.

Non-utilisation of IDA credit due to inadequate evaluation of offers

A global tender floated for procurement of 105 and 24 loco sets of Field Divertor Resistance for WAG-5 and WAP-1 electric locomotives respectively was opened on 7 April 1987. The ex-works price of Rs. 70.95 lakhs of an indigenous firm which included customs duty element of Rs. 14,200 per WAG-5 locomotive and Rs. 17,125 per WAP-locomotive was recommended for acceptance ignoring the fact that the firm was entitled to get exemption of customs duty against IDA tender. The order was thus placed on the firm at an inflated price on 15 January 1988. Consequently, commitment for payment had to be made against IDA credit at a higher rate. The contract was, however, amended by issue of amendment on 7 June 1989 and ex-works price of the contract was reduced from Rs. 70,95,300 to Rs. 51,93,300. Due to inadequate evaluation of the ex-works price by the Tender Committee, an amount of Rs. 19.02 lakhs could not be utilised during the currency of IDA credit.

Injudicious rejection of tenders

CLW used to procure tap changer and its spares from a firm A on single tender basis. It was only in 1986 a global tender was floated when a cheaper price was quoted by another firm B and an order for 100 tap changers and intitial spares was placed on the firm on 17 March 1987. Procurement was financed from free foreign exchange. Another global tender for procurement of 33 items of spares was invited for utilisation of IDA credit and tender was opened on 16 February 1987. Though 15 out of 33 items of spares the rates quoted by firm B were substantially lower than those of firm A, B's offer was not considered on the ground that the offer was given for only 15 items and the offer was submitted in Swiss Francs instead of US Dollars or the currency of the manufacturer's country. The agent of the firm B submitted the offer in US Dollar in May 1987, but the offer of firm B was treated as 'unresponsive' and order was placed on firm A at an extra cost of Rs. 33 lakhs.

Decision to overlook the cheaper offer was injudicious especially in view of the fact that the splitting up of tender quantity was permitted as in the case of tender for procurement of wheel sets in June 1986 and also for procurement of the spares of tap changers invited in February 1988 under IDA credit.

Delay in supply of stores

A global tender for procurement of 125 loco sets of fully assembled and tested silicon rectifer for WAG-5 loco was opened on 21 August 1987 but the Tender Committee took more than four months to evaluate the offer. On 16 February 1988 Tender Committee recommended placement of an order on a foreign firm at Rs. 3,08,980 per loco set with the date of completion by August 1989. The contract was placed on 3 May 1988. The firm failed to adhere to the delivery scheduled and CLW had to resort to import from another firm on a single tender basis, 25 loco sets of equipment at Rs. 3,52,713.40 per loco set by awarding a separate contract on 9 August 1988. This had resulted in extra expenditure of Rs. 10.93 lakhs being the differential between the price against the contract financed by IDA and that committed to be paid against the contract placed on the new firm. CLW could not utilise IDA credit of US $ 5,13,702 due to failure of the firm to complete the delivery by February 1990.

(iii) *Diesel Locomotive Works (DLW), Varanasi (Credit NO. 1299-IN/ Loan No. 2210-IN US $ 110 million*

During the Seventh Five Year Plan an amount of US $ 110 million was allocated to DLW for purchase of components for diesel locomotives under

Unit Exchange System. The loan was effective from 23 December 1982 with a closing date as 30 September 1989. The loan was closed on 31 March 1990 with the approval of the World Bank.

Extent of utilisation

The progress of procurement of components was by and large according to schedule. The procurement started from 1985-86 and continued till 1989-90. The utilisation of loan up to 31 March 1990 was US $ 100.015 million for imported items (US $ 70.561 million) and indigenous items (US $ 29.454 million). The short utilisation of loan (US $ 10 million) was mainly attributed to non-receipt of supplies from foreign firms. Due to delay in submission of claims by DLW, an amount of Rs. 9.16 lakhs could not be utilised.

Non-utilisation of loan

Spares under the Unit Exchange Scheme were procured from BHEL and supplied to Zonal Railways. 90 per cent payment was made on proof of despatch and the remaining 10 per cent was to be released on completion of supply and proof of receipt by Railways. BHEL, did not produce receipt notes from the consignee Railways in time resulting in non-utilisation of Rs. 4.83 lakhs which had to be paid by DLW from free foreign exchange.

In regard to items procured under Unit Exchange Spare-electric and diesel locos, the Board stated (February 1991) that commitments, as a general strategy against the loan, were kept in excess of the loan amount keeping in view exchange rate fluctuations, non-materialisation of deliveries, spill over of transfer of technology payments beyond the closing date of the loan etc. The Board confirmed that the credit/loan had been fully utilised barring a few items which had been mentioned in the paragraph which had to be subsequently covered under free foreign exchange. It was further explained that in some cases as for example traction motors from BHEL, vacuum exhausters, payments were made in rupees only.

14.6 *On going projects*

14.6.1 *Electrification and Workshop Modernisation Project (Loan 2417-IN: US $ 280.7 million)*

A loan of US $ 280.7 million was sanctioned by the World Bank in April 1984 for electrification of 3044 route kilometres and modernisation of six workshops viz. Parel (Central Railway) Lilluah (Eastern Railway), Ajmer (Western Railway), Jagadhri (Northern Railway) Golden Rock (Southern Railway), Kharagpur (South Eastern Railway), Integral Coach Factory.

The closing date of the loan was 30 September 1990 with grace period up to 31 January 1991. With the approval of the World Bank, however, the closing date of the loan was extended to 30 September 1991 with grace period up to 31 January 1992. Out of 280.7 million US dollars, an amount of US $ 132.5 million was sanctioned for modernisation of workshops which was later reduced by US $ 1.5 million for misprocurement against one contract. The utilisation of the loan was US $ 205.04 million as on 30 June 1990.

Electrification

The project which commenced in April 1984 was behind schedule. Only 13 per cent of the loan amount was disbursed at the end of May 1988. The electrification component was delayed because funding shortfalls towards the end of Sixth Plan delayed the progress on Government financed parts of the electrification programme (out side the project) which preceded the Bank assisted projects.

The physical progress on different sections as on 30 June 1990 was as under:

Section	Route Kms	Percentage of Progress	Route energised on
Jhansi-Itarsi	381	100	29.3.89
Itarsi-Nagpur	298	74	
Vijayawada-Balharshah	454	100	10.7.89
Nagpur-Balharshah	298	100	30.9.89
Bhuswal-Wardha	314	74	
Durg-Nagpur	265	61	—
Itarsi-Bhuswal	301	21	—
Bhopal-Nagda	239	42	—
Bilaspur-Katni	317	10	—
Bina-Katni	263	—	—
	3044		

14.6.2 Workshop Modernisation Project Phase-II (Loan No. 2417-IN US $ 132.5 million)

The main objectives of the Workshop Modernisation Project Phase-II were:

— to achieve reduction in periodical overhaul cycle time of rolling stock and to enlarge periodical overhaul and manufacturing capacity of Workshops to match the rationalised workload requirements;

— to improve performance and availability of rolling stock; and

— to effect economies in the cost of rolling stock maintenance.

Target date of completion

According to the Project Report, Phase II of Workshop Modernisation was scheduled to be completed during the period 1981-84. Subsequently, it was decided to spread Phase-II over 1984-87. It was being actually executed from June to September 1990. Later on, with the agreement of visiting missions of the World Bank the target date of completion of work for different workshops was revised as under:

	Revised target date of completion
Liluah (Eastern Railway)	March 1991
Parel (Central Railway)	March 1990
Golden Rock (Southern Railway)	June 1991
Integral Coach Factory Kharagpur	March 1990
(South Eastern Railway)	June 1990
Ajmer (Western Railway)	June 1990
Jagadhri (Northern Railway)	December 1991

Physical progress

According to the schedule of disbursement originally agreed upon with the Bank the full amount of the loan should have been disbursed by March 1990. The actual progress of utilisation of loan was, however, not according to the plan as may be seen from the table below:

	Commitment		Disbursement		Authorisation (Rs. in lakhs)
	planned in US $ million	actual (Rs. in lakhs)	planned (Rs. in lakhs)	actual (Rs. in lakhs)	
1985-86	5	134	—	—	—
1986-87	20	1856	341.27	312.30	165.18
1987-88	45	5921	1651.35	1925.30	1882.10
1988-89	52	8581	6076.74	6066.89	6083.69
1989-90	10.5	3710	7266.60	7051.60	6715.58

As on 31 May 1990, the status of utilisation of funds was as under:

i) Loan amount	$ 131.000 million
ii) Commitment entered	$ 149.442 million
iii) Reimbursement claimed	$ 104.568 million

The main reason for not achieving the targets was stated to be non-adherence to the delivery period by the suppliers.

14.6.3 Railway Modernisation Project III (2935-IN) (Loan US $ 390 million)

The Project estimated to cost US $ 390 million became operative from 14 June 1988 with closing date as 31 December 1993. The project covered relaying of about 4000 Kms of track on high density routes including procurement of 4,80,000 tonnes of rails and 143 track machines. The track renewal was scheduled to be completed by June 1993.

Physical progress of the project as on 31 March 1990 was under:—

(i) *Procurement of rails and track machines*

Against the total requirement of a quantity of 4,80,000 tonnes of rail, 83,500 tonnes of rails were procured. Tender for balance quantity was in progress. Out of 138 track machines planned to be acquired, orders were placed for 58 against which 17 were received. Procurement action for 23 machines was initiated and another 57 were proposed to be procured during 1990-91.

(ii) *Track renewals*

Against 3951 Km of track planned for renewal under the loan agreement, renewal of 1002 Km length of track was completed up to March 1990. Utilisation of US $ 56.95 million dollars was against US $ 390 million up to March 1990.

14.6.4 Asian Development Loan (No: 857-IND)

A loan of US $ 190 millions was sanctioned on 16 December 1987 with closing date as 31 January 1993. The main components of the loan were:

		Loan amount (million US $)
(i)	Freight locomotives 30 nos with 6000 HP	114.5
(ii)	Ground-to-train communication equipment	5.50
(iii)	Electric locomotive workshop/ signalling equipment	17.25
(iv)	Overhead electric traction sub-station facilities	5.50
(v)	Interest and other miscellenous charges	56.25
	Total	190.00

All the activities under this loan are behind schedule.

14.7(a) Saudi Fund for Development (Loan 3/188)

A loan of Saudi Riyal 103.2 million (US $ 30 million—Rs. 450 million) was effective from August 1983 for construction of BG line between Koraput-Rayagada (216 Kms) including procurement of rails, sleepers and track machines etc. The project was partly financed from Saudi Fund and partly Railway's own resources. The proposed line was expected to promote the development of backward areas of Orissa and also to cater to the needs of aluminium plant at Damanjodi and Visakhapatnam port.

The final location survey for the Koraput-Rayagada line was completed on 31 March 1984. The first phase of construction of the line from Koraput to Machiliguda (19.65 Kms) was opened on 18 December 1986 to serve the aluminium plant at Damanjodi. The construction of the phase II is in progress. The target for completion of the phase II of the project was March 1987.

The implementation of the phase II of the project was very slow due to the fact that low priority was accorded by the Planning Commission to this project and insufficient funds were made available to it.

The Saudi Fund for development extended the validity of the utilisation of loan up to 30 September 1990 on request. But due to lack of funds till March 1990 and delay in the production of concrete sleepers and procurement of survey equipment, the Railway expected completion of the project by March 1992. The Board approached the Ministry of Finance in March 1990 for taking up with the Saudi Fund Authority for granting extension of the loan agreement up to 30 September 1991. The estimated cost of the project meanwhile rose from Rs. 2650 million to Rs. 3220 million. Saudi loan of Rs. 83.18 million only was utilised against the total loan of Rs. 450 million approved in March 1983.

(b) UK-India credit

A grant of 31.264 million pounds was negotiated in February 1983 for procurement of goods and services of UK origin with no specific closing date. Grant had been utilised except to the extent of 2.5 million pounds which is proposed to be utilised in 1990-91 for the Train Description System for Delhi.

In order to effect replacement of traction motors damaged on Eastern Railway during the flood in September 1978 and also to provide requisite unit exchange spare for AC EMU services, the Board decided in January 1980 to procure 98 traction motors. The requirement of Eastern Railway was urgent as 56 motors coaches were damaged in the flood in 1978 and more than 50 per cent EMU trains had been cancelled as a result of damages to BHEL make traction motors used in the EMU stock.

Against a global tender invited in April 1981 thirteen offers were received including indigenous offer from BHEL. After technical scrutiny by the RDSO and detailed evaluation of offers the Tender Committee ignored the indigenous offer of BHEL for meeting the performance requirements of specifications of new motors and recommended placement of development order on a Japanese firm and bulk order on a British firm though the British firm was not a proven supplier of motors to EMU application either of AC and DC system.

Accordingly the contract for supply of 26 motors (with 30 per cent option) was placed on a Japanese firm on 14 October 1982. The purchase was financed from "free resources". The firm supplied four prototypes in August 1984 and completed shipment by December 1987. These motors received in 1988 were fitted to EMUs on Eastern Railway and no adverse reports has been received.

The contract for 72 motors was placed on a British firm on 11 November 1982 with the provision that prototype motors would be delivered within eight months from date of order and bulk supply would commence after service trials. The rate of bulk supply was stipulated as 20 motors per month to be completed within 4 months. Purchase of 72 motors was financed from UK — India loan — 1982-83 and advance payment of 475436.07 pounds, representing 50 percent of the value of the contract was also made to the firm on the date of placement of the contract even though it was known to the Board that the firm was not a proven supplier of EMU motors.

The British firm supplied 4 prototype motors for inspection in February-March 1985 two and half years after the placement of the order but the motors could not meet the required specification. There was excessive temperature rise. According to the contract, in case of excessive temparature rise, the firm was required to redesign the motor. Instead the British firm offered a price reduction of 100000 pounds for relaxation in design. The offer was not accepted by the Board who insisted supply according to specification incorporated in the contract. The contract was finally cancelled on 11 February 1988 at the risk and cost of the British firm and the firm was asked to refund 50 per cent of the advance made in November 1982 with interest and other losses suffered by Railways. The British firm, however, refused to entertain the claim and the Board had to recover the advance payment made to the firm by encashing the bank guarantee. The loss sustained by the Railway on cancellation of the contract was Rs. 1.05 crores representing interest and commission charges paid to the bank to keep the letter of credit valid from 16 February 1983 to 15 January 1988. Besides, UK-India loan of 950872 pounds could not be utilised by the Railway. The Board, however, decided to utilise this loan for Train Description System for Delhi in 1990-91.

The Board stated (March 1991) that Tender Committee while recommending procurement stated that the motors offered could be considered to be of proven design in view of the design of motors and its reliable service on British Railways and other countries and added that payment of 50 per cent advance to the firm under UK Grant did not involve any outgo of foreign exchange. The contention of the Board is, however, not acceptable as the Adviser, Electrical had observed in May 1982 that the motors had not been proven on EMU application of either AC or DC system though these were in use in United Kingdom and other countries on diesel locomotives. The Railways had to pay $ 409667 towards interest charges for keeping the letter of credit valid up to March 1988.

(c) *West German Loan*

A loan from DM 30 million was obtained from Federal Republic of Germany in April 1989 for financing import of machinery for the Rail Coach Factory (RCF), Kapurthala. The closing date of the loan was December 1991.

As against the loan allocation of DM 30 million RCF Administration entered into a commitment for DM 7.57 million up to March 1990 and authorisation was received for only Rs. 4.95 crores. The percentage of utilisation of the loan and the progress of the project till March 1990 was 25 per cent and 22 per cent respectively as indicated below:

	Percentage of Utilisation of loan.	Percentage of Physical progress
1987-88	3.86	4
1988-89	19.25	16
1989-90	2.12	2
Total	25.23	22

The main reason for the slow progress was stated to be that while global tenders were floated for procurement of machinery and contracts were finalised on the merits of the case, the loan was available only when the supplier was West German. The collaboration agreement was yet to be finalised which delayed the procurement of machinery and progress of the project.

Contract for the supply of 22 machines had been finalised till March 1990 out of which 15 machines were actually received, installed and commissioned. The balance 7 machines were still awaited. It was found that out of the 15 machines commissioned, 5 machines were either not working to full capacity or not working satisfactorily due to damage in transit.

APPENDIX II

Conclusions and Recommendations

Sl. No.	*Para No.*	*Ministry/ Deptt. concerned*	*Conclusion/Recommendation*
1	2	3	4
1	133	Ministry of Railways (Railway Board)	Indian Railways receive external assistance mainly from World Bank and its agencies. Since 1978, there had been four specific investment projects focussing on particular components in respect of motive power, rolling stock, workshop and track electrification viz. (a) Railway Modernisation and Maintenance Project (Credit No. 844-IN); (b) Railway Modernisation and Maintenance Project Phase II (Credit No. 1299-IN/Loan No. 2210-IN); (c) Railway Electrification and Modernisation Project (Loan 2417-IN); and (d) Railway Modernisation Project III (Loan 2935-IN). Besides assistance from the World Bank bilateral loans credits are also received. These were from the United Kingdom, Japan, Saudi Arabia and West Germany for specific projects. The Committee's examination has revealed major shortcomings in formulation and execution of projects assisted by World Bank and other similar foreign agencies. Due to lack of proper project planning and their implementation, there have been considerable delays in the utilisation of external assistance. The Committee find that Railways have generally failed to utilise these foreign loans during their original validity period. Consequently, the Railways have been seeking repeated extensions of these loans resulting in payment of huge additional commitment charges for the extended periods. The Committee are unhappy over the failure

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			of the Railways in utilising the precious foreign loans during their validity period.
2	134	Ministry of Railways (Railway Board)	The Committee have been informed that commitment charges are levied by World Bank, ADB and other donor agencies at the rate of 0.75% per annum from the date of effect of the loans. The commitment charges are payable as a pre-determined percentage of the total amount remaining unutilised from time to time out of the funds committed by the funding agency. While in the case of the World Bank loans the total loan is for a specified period, in case of ADB loans the total amount of loan is on a yearly basis. The Committee are distressed to note that repeated extensions have been sought by Ministry of Railways beyond the scheduled closing dates of various loans, as the full amounts could not be utilised within the validity period of these loans. Besides, payment of commitment charges for validity period, the Ministry of Railways had to pay substantial amounts of avoidable extra commitment charges for the delays that have occurred in the utilisation of these loans. For instance, as the Railways failed to fully utilise the World Bank Loan No. 2210-IN/IDA Credit 1299-IN ($444 million) by the validity period i.e. till 30.9.1987 the Railways took recourse to seeking two extensions of one year each till the final closing date on 30.9.1989. Similarly in the case of Loan 2417-IN ($279.2 million) also, two extensions of one year each had to be taken by the Railways from the World Bank till 30.9.1992. Unfortunately, the loan could not be fully utilised even during the extended period of two years and a further extension of 6 months till 31.3.1993 had to be obtained. The delay in

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			utilisation of loans is stated to be on account of lack of sufficient data provided in the project reports submitted to World Bank by Ministry of Railways regarding their requirement of machines and equipment and also the time-frame within which the project was to be completed. The Committee note that in respect of Loan 2210-IN/Credit 1299-IN whereas an amount of US $9,986,401 was paid as commitment charges for the original validity period upto 30.9.87 the Railways had to pay avoidable extra commitment charges amounting to US $2,826,032 for the two extended periods of one year each upto 30.9.1989. Similarly, with regard to World Bank Loan 2417-IN, during the original loan period upto 30.9.1990, commitment charges amounting to US $9,528,710 and for the extended period upto 31.10.92 extra commitment charges of US $ 232,296 were paid by Ministry of Railways. Thus, owing to the failure of the Railways to utilise both these loans during their original validity periods, the Railways had to pay huge avoidable extra commitment charges amounting to US $ 30,59,328 for the extended periods. The Committee recommend that the Ministry of Railways should thoroughly examine the matter and devise ways and means to ensure the utilisation of such loans within their validity period so as to avoid unnecessary outgo of foreign exchange as extra commitment charges.
3	135	Ministry of Railways (Railway Board)	The Committee find that delayed finalization of tenders and delayed supplies by the firms are mainly responsible for slowing down the process of utilization of foreign assistance/loans by the Railways. This not only results in the payment of the avoidable extra commitment charges but also substantial non-utilisation of loans to the tune of US $ 13.227 millions. According to the Ministry of Railways the tender finalization process for which even the prior approval of the lending agency is required to be taken is a time

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			consuming process which results in an unintentional delay. According to the Ministry, the sources of supply, specifications and quantities become clear only after successful completion of tendering process. The committee feel that much of such delays can be eliminated by meticulous and advance project planning and timely invitation of tenders. The Committee, therefore, recommend that Ministry of Railways to make all out efforts to suitable steamline the process of tendering, placement of orders and timely arrangement of rupee resources so that the foreign loans are timely and fully utilised. They would also like to know the concrete steps taken in this regard.
4	136	Ministry of Railways (Railway Board)	The Committee have been informed by the Ministry of Railways that in respect of the Railway Productivity Improvement Project which is proposed to be covered under new World Bank Loan for 300 million, efforts are being made to prepare a set of standard bid documents acceptable by the World Bank. According to the Railways, the finalization of the standard bid documents with the approval of the World Bank will minimise some of the delays associated with the prior clearance of bid documents by the World Bank. The Committee would like to know the progress made in this regard.
5	137	-Do-	According to Ministry of Railways, utilisation of loan amount is monitored every month by their Finance Directorate with the concerned Executive Director(s) and a statement showing the commitments and reimbursements is prepared. As regards monitoring of the physical progress of projects financed by World \Bank etc., year-wise targets for execution are stated to be set and a plan is drawn through the

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			Annual Works Programme. Quarterly meetings are also convened with the concerned Executive Directors of each project component, to monitor the progress of each component. In addition, the concerned field units prepare flash reports which are also sent to the ministry of Programme Implementation. The Chairman, Railways Board also informed the Committee during evidence that their General managers have been made responsible for controlling time overruns of various projects. Further, from the current year, the monitoring is being done at the level of Chairman and members and General Managers of Zonal Railways and each project will now be monitored twice a year at Board level and on a quarterly basis at the Members level with the Zonal authorities. The Committee are constrained to observe that despite such monitoring time overruns have occured in respect of each project funded by World Bank and other agencies. The Committee, recommend that Ministry of Railways should take all possible steps to strengthen monitoring mechanism for their projects with a view to obviate all possible delays in the timely completion of these projects and approve the Committee of the progress made in this regard.
6	138	Ministry of Railways (Railway Board)	The Committee note that the Railways Modernisation and Maintenance II Project (Credit 1299-IN/Loan 2210-IN US 444 million) consisted of four specific components for improving the design and maintenance of locomotives and rolling stock. The specific component were: (i) the establishment and operation of DCW; (ii) the procurement of parts and components for a unit exchange maintenance system; (iii) the acqusition of modern AC locomotive

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			prototype; (iv) the acquisition of components and materials for High Capacity wagons for bulk traffic. With a view to improve the technology and performance of Indian Railway's main line, Railways purchased 18 Nos. 6000 HP AC Electric locomotives (Thyristor) comprising two makes and three types (M/s. ASEA-6 Nos. and M/s. Hitachi- 6 Nos. each of two types). These locomotives were basically procured for intensive prototype tests and trials with a view to select the most suitable design for indigenous manufacture. The Committee are constrained to observe that whereas technical offers relating to the procurement of these locomotive were opened on 9.6.1983, it took more than two years to issue letters of acceptance of 8.7.1985 The Committee cannot but deplore this abnormally long time taken by the Railways in the matter involving procurements funded by foreign loans.
7	139 & 140	Ministry of Railways (Railway Board)	All the 18 locomotives costing US $ 97 million were received in 1988. According to the audit para the tests on these locomotives were conducted only in 1990. The Ministry of Railways informed the Committee that the tests at manufacturers works were conducted under the supervision of RDSO and there were no anomalies found before shipment of these locomotives. Subsequently 'Instrumented tests' were conducted from August 1988 to July 1989 and in respect of some locos limited repeat tests were performed in September-October, 1989 and December-January 1990. According to the ministry the 'Service trials' are still continuing under actual service conditions. During 'instrumented tests' these locomotives have been found suitable in all respects except the harmonic level which determines the level of interference with power supply and signal and

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			telecommunication circuits. The Committee are informed that three tests were specified for the harmonic interference test viz., the second harmonic test, the high frequency test and the audio frequency test. While the locomotives of ASEA make have passed only the second frequency test on the locomotives of Hitachi make have passed none of the tests. The Railways needed these locomotives for unrestricted use on the mainline. But due to the aforesaid defects still persisting the Railways have all along been using these locomotives only on a particular section i.e. Waltair-Kirandul, where this harmonic content difficulty does not interfere with its operations.
			The Committee are constrained to observe that although efforts have been made by the suppliers to overcome the deficiency no headway has been made so far though more than 4 years have elapsed since the purchase of these locomotives. It is learnt that the suppliers are trying to design a suitable filter as provided in the specifications for these locomotives with a view to absorb harmonics generated and to make these suitable for use on main-line track circuits all over the country. Five meetings for evaluation of filter have been held so far and after every evaluation some improvements are stated to have been made by the suppliers. Despite this, the last evaluation report made in January, 1992, still mentions that the harmonic level is not as desired. The suppliers have submitted a design recently which is still under examination by the Railways. The Committee have also been informed that all the 18 locomotives are covered by five year warranty bonds whereas the warranty for the last locomotives of ASEA will expire in July 1993, in the case of Hitachi the last locomotive is covered by the warranty upto July 1994. The Committee are distressed to note that even after the receipt of these 18 locomotives procured at a cost of US $ 97 million, these locomotives

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			continue to suffer from a major harmonic content deficiency. Consequently, the Railways have not only been compelled to restrict the use of these locomotives to a particular section only but the main underlying purpose of selecting the most suitable design for indigenous manufacture has thus far remained unachieved. Under these circumstances, the Committee cannot but conclude that the enormous expenditure of US $ 97 million incurred on these locomotives has remained infructuous. The Committee strongly recommend that concerted efforts should be made by the Railways to ensure that the persisting harmonic defects in the locomotives are satisfactorily removed within the available warranty periods. They also desire to be apprised of the outcome of these efforts within a period of six months. While giving specifications for purchase, it may also be considered that the same are not so stringent so as to make them impracticable or unrealistic and thus become counter-productive.
8	141	Ministry of Railways (Railway Board)	The Committee are unhappy to find the malady of long delays in the installation and commissioning of costly machines procured by the Railways. The audit paragraph reveals that 19 machines procured by DCW Patiala with foreign loans were installed/commissioned after a period varying from 11 to 48 months after their receipt in the workshop. Further during the year 1990-91, out of the 210 machines received, only 28 machines could be commissioned within 3 months and 163 machines were commissioned after three months. The latest figure of uncommissioned machines furnished by Ministry of Railways (Railway Board) is 71. The Committee take a very serious note of these delays as the same results in the blocking of large quantum of the funds making the expenditure incurred infructuous. Based on a study conducted by COFMOW, suggestions for reducing the time

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			for installation and commissioning of machines is presently under consideration of the Railway Board. The Committee emphasize that all possible steps should immediately be taken so as to obviate all delays in the installation and commissioning of the machines in the Railways. They would like to be apprised of detailed remedial steps being taken in this regard.
9	142	Ministry of Railways (Railway Board)	The Committee are extremely unhappy to note that a commutator seasoning machine costing Rs. 35.21 lakhs received in DCW, Patiala in June 1986 has not been commissioned so far. The Ministry of Railways informed the Committee that initially certain short shipped items were noticed, which were made good by the firm (M/s. Cam International). Subsequently the firm's engineers visited DCW, Patiala to commission the machine four times between March 1987 to May 1988 that too after repeated requests and reminders sent to them but failed to commission the machine. During May 1988 to May, 1991 the firm was reminded several times and it was only in October, 1991 that the engineers of the firm visited DCW again to commission the machine. The Committee are not convinced with the plea of reluctance on the part of the firm's engineers to visit Patiala due to the then prevailing law and order situation in the State as the Railways should have assured all safety of the firm's engineers in consultation with the State Government. Meanwhile, the machine was tried out for traction motor armature by DCW engineers and partial production was possible though not at the rated r.p.m. The firm engineer during his last visit in October, 1991 confirmed that the machine would be able to handle only Traction Motors (which is the major part of the workload) and not the Traction generator. The Member (Mechanical), Railway Board informed the Committee that

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

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			conclusive steps should immediately be taken to find a satisfactory solution to the problem in the interest of safeguarding their financial interests. The Committee would like to be kept informed of the final outcome.
10	143	Ministry of Railways (Railway Board)	The Committee note yet another instance of inexcusable delay in the commissioning of three axis coordinate measuring machine costing Rs. 20 lakhs received in DCW, Patiala in July, 1986. The machine could not be commissioned because a large number of parts were damaged and found missing in transit. The purchase order for the missing parts was placed after sorting out the insurance claims and the parts were received in April, 1990. Subsequently, it was seen that some more parts were not available which had to be arranged for. The firm's engineers visited DCW in February, 1991 and the machine was commissioned in the manual mode. The machine has not been fully commissioned because the firm's engineer has not visited Patiala so far. The Committee strongly deplore the lack of proper action on the part of the Railways in this case as well due to which the machine costing Rs. 20 lakhs procured in July, 1986 has not been fully commissioned so far. The Committee desire that all efforts should immediately be made to get the machine fully commissioned without any further delay.
11	144	-Do-	The Committee note that for raising the capacity of Chittaranjan Locomotice Works and to overcome the technical inadequacy in the process of manufacture of cast steel bogies in the steel foundry, it was decided in April 1987 to import 150 Three Axle Co-co cast steel bogies frames and bolsters with transfer of advanced technology. The contract was placed with an American firm in May, 1988 at US $957188 under IDA credit. The technology

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			transfer agreement provided that the collaborator would assist CLW in achieving state of art equality level comparable with their own basic inputs largely available indigenously in India. According to Ministry of Railway out of the 22 bogies cast so far with the said technology, only two have not been found upto the mark and the rest were found to be satisfactory. All basic inputs and infrastructural facilities are stated to have by and large become available and series production of bodies to the new technology has already been established. As the process of core making in Steel Foundry at Chittaranjan is manual and these do not permit the use of bonding resins in the core making sand as recommended by collaborators the core-shop is being mechanised and equipments required are under procurement. The Committee, however, find that audit were informed by Production Engineer, CLW in December, 1991 that 22 bogies cast in CLW were having crack length ranging between 18 cm and 321 cm. CLW repaired these cracks by welding and despatched these bogies for use. According to the Ministry cracks are a phenomena which cannot be totally eliminated in all castings of this size and as such bogies having a cumulative crack length upto 300 cm should be acceptable. The Ministry has informed that with RIC technology in the bogies cast up to date, the crack length of all the bogies except for two were within these specified limits. The Ministry has also assured that adoption of collapsible cores with the mechanisation of core room will further improve the castings with respect to the crack lengths. The Committee regret to note that even after a period of about $4^1/_2$ years, the complete transfer of technology for the manufacture of cast steel bogies has not taken place. They find that in the absence of mechanisation of core shop the core making was done manually by CLW, on account of which cracks ranging from 18 cm to 321 cm have developed in the bogies cast with RIC technology. Although, the bogies having crack

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			lengths upto 300 cm are being repaired and sent for use, the Committee feel that with persistent use these cracks may reappear which may endanger the whole structure of the bogies. Further the Committee believe that the appearance of cracks in all the bogies produced with the new technology undoubtedly establish that the technology transfer process and its adoption needs to be looked into in consultation with the collaborators. The Committee also recommend that the mechanisation process of core shop should be expedited so as to eliminate the possibility of cracks being developed in the bogies cast by the new Rockwell technology.
12	145	Ministry of Railways (Railway Board)	The Committee note that an order for procurement of 792 traction motors for WAG5 type electric locomotive was placed on BHEL in March, 1988 at US $39.5 million. The procurement was stated to be financed under IDA credit. As per stipulation in the contract, the delivery of traction motors was to be made by June, 1989. In July, 1989, CLW loaned out to BHEL 13 items of components of traction motors valued at Rs. 10.22 crores at a nominal interest charge of 6.75 per cent to assist it to complete the delivery of motors in time. BHEL supplied 544 motors within the contractual delivery period and promised to supply the remaining by February, 1990. According to Ministry of Railways (Railway Board), the World Bank in anticipation of possible extension of delivery period beyond June, 1989 upto February, 1990 granted extension of time till March, 1990 for utilisation of IDA loan. BHEL supplied a total of 695 motors only upto February 1990—the extended delivery period. Inspite of the unusual assistance valued at Rs. 10.22 crores extended to BHEL, BHEL failed to supply the remaining 97 traction motors even within the extended validity period of IDA

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			credit due to which the credit of US $ 3.235 million could not be utilised, which is highly deplorable. Action for recovering the damages as per the provisions of the contract has already been initiated by Ministry of Railways and CLW has asked BHEL to pay Rs. 9,16,43,272 towards general damages against this contract vide their letter dated 26.6.1990. M/s. BHEL had however, represented against the recovery of damages on the grounds that the impregnating varnish had to be changed by them in consultation with M/s. Hitachi which was based on isocyanides and was considered a safety hazard. Once again this highlights the fact that enough thought has not been given before entering into a deal with M/s. Hitachi. The matter was referred to the Law Officer of Eastern Railway who opined that BHEL might not be legally liable for breach of contract and no penal action by way of imposition of general damages or otherwise could be taken. The matter had subsequently been referred to Ministry of Law seeking their opinion as to whether CLW was entitled to enforce general damages on BHEL. The Committee desire that the legal opinion from the Ministry of Law be expeditiously obtained so that further action relating to the recovery of Rs. 9,16,43,272 from BHEL is taken. If the Ministry of Law points out any legal lacuna in the contract, suitable action should also be taken to plug such lacunae in the future contracts.
13	146	Ministry of Railways (Railway Board)	The Committee find that CLW had placed an order on firm 'A' for the supply of 125 loco sets as Rs. 3,08,980 per loco set in May, 1988 with deliveries to commence from September, 1988 and to complete by August, 1988. CLW also resorted to import from another firm on a single tender basis, 25 loco sets at Rs. 3,52,713.40 per loco set by awarding a separate contract on 9 August, 1988, prior to

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			scheduled commencement of deliveries from firm 'A'. According to the Railway Board, they resorted to the parallel placement of the second order for 25 loco sets because some financial difficulties of firm 'A' had come to their notice. According to Audit, this had resuled in extra expenditure of Rs. 10.93 lakhs being the differential between the price against the contract financed by IDA and that committed to be paid against the contract placed on the new firm. In this connection, the Ministry of Railways (Railway Board) informed that finalization of parallel contract on more than one firm was done to ensure timely availability of material for maintaining uninterrupted supply of material for enhanced loco production. The price differential in the two contracts, was basically on account of 'deemed export benefits' by way of reimbursement of taxes and duties and certain concessions available to contracts funded by World Bank, which were not available to the other contract and as such the two prices were not comparable. The firm 'A' supplied 106 sets out of contracted 125 sets within the delivery period i.e. upto 1st August, 1988 and the balance was supplied by them within the extended delivery period upto 31.8.1989. The supplies from the other firm were received during the period from 3.11.1988 to 10.7.1989. According to Railway Board, the differential was not recoverable from firm 'A' because CLW decided to finalise the parallel contract before there was a breach of contract to ensure availability of material against any possible failure from firm 'A'. The Committee are extremely unhappy to observe that the parallel placement of the second order of 25 loco sets on another firm in anticipation of delay in supplying the requisite loco sets within the delivery period by firm 'A' was erroneous because there was hardly a month's delay by firm 'A' in supplying all the 125 loco sets. They feel that due to this incorrect decision, the

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			Ministry had to incur an avoidable expenditure of Rs. 10.93 lakhs i.e. the differential between the two contracts.
14	147	Ministry of Railway (Railways Board)	The Committee further find that under the on going projects financed by World Bank, a loan of US $279.2 million (Loan 2417-IN) was sanctioned in April, 1984 for electrification of 3044 kms. and modernisation of six workshops and one production unit. The closing date of the loan was 30th September, 1990 but due to delay in completion of the projects two extensions of one year each were obtained by Railway Board upto 30th September, 1992. As the loan was not expected to be utilised by that date another six months extension upto 31st March, 1993 was sought by the Railway Board. The Committee are once again constrained to observe the avoidable extra commitment charges being incurred on account of delays and emphasise that concerted efforts should be made by the Ministry of Railways though better planning and co-ordination to utilise the foreign loans/credit within the validity period.
15	148	-Do-	As regards Railway Electrification Projects, an amount of US $140.5 million was provided primarily for procurement of critical items. The Committee are informed that by 30 September, 1992, 2716 kms. of track route has been energised. Further, out of 10 sections, electrification of 5 sections have been completed, electrification on three sections are in the advanced stages of completion and was expected to be completed by December, 1991. Balance 580 kms. (Bilaspur—Katni (317 km.) and Bina-Katni (263 km.) electrification works are stated to be progressing satisfactorily and will be energised in 1993. In regard to Electrification of the remaining two routes, the

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			Committee have been informed that priority was given to trunk routes. These routes were subsequently identified for electrification on a new system of electrification of 2 × 25 KVAT system which is considerably superior for heavy haul routes. The decision was taken by the Railway Board very belatedly in December, 1990 after the expiry of original loan period in September, 1990. The Committee feel that this decision to go in for the new technology should have been taken at the stage of preparation of project report before applying for a loan from World Bank. Due to this belated decision, the Railway Board had to take extensions of 2 years for utilisation of full amount of loan leading to the payment of extra commitment charges for the extended period. The Committee deplore this casual attitude of Railway Board in deciding upon this new technology for Bina—Katni and Katni-Bilaspur on account of which the completion of the project was delayed and caused avoidable expenditure as payment of extra commitment charges for the extended period of the loan. They emphasize that such vital decisions should be taken promptly and not left to be taken during the final stages of the project in order to ensure project completion by the scheduled date.
16	149	Ministry of Railways (Railway Board)	The Committee also note that Workshop Modernisation Project Phase-II (Loan No. 2417-IN-US $2132.5 million) covering 6 Workshops and one Production unit (ICF, Madras) of Indian Railways was scheduled to be completed between march, 1990 to December, 1991. The target dates for individual projects were stated to have been fixed in consultation with the visiting World Bank missions keeping in view the minimum dislocation to the ongoing activities. The Committee are distressed to find that progress of modernisation has been slow in respect of all the 6 workshops and the

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			production unit at ICF Madras, consequently delaying the modernisation project beyond the target date of completion i.e. December, 1991. This again resulted in extension of the loan by 2 years in the first instance and again for another 6 months till 31 March, 1993. They are concerned to note that due to delay in utilisation of this loan, extra commitment charges to the tune of US $233,296 had to be paid by Railways for the extended period of loan No. 2417-IN from 1.10.1990 to 20.10.1992. Additional extra commitment charges wll also have to be paid for further extension of loan til 31.3.1993. The Commitee feel that seeking extension of loans has become almost a normal practice with the Railways. The Committee cannot help expressing their strong displeasure in the costly time over-run in this project. They recommend that with a view to ensure the timely completion of such projects, the project planning and monitoring mechanism for the execution of such projects should be suitably revamped.
17	150	Ministry of Railways (Railway Board)	The Committee have been informed that the Railway Modernisation Project III (2935-IN/ Loan $ 390 million) to be completed by 31 December, 1993 was progressing satisfactorily. As regards upgradation of tracks, the Ministry of Railways have decided to short close the loan for this component after completion of 90% (3600 km.) tracks out of 4000 kms. programmed for upgradation and complete the renewal of balance 10% works (400 kms.) in 1994-95 with indigenous resources. Based on the delivery schedules quoted and likely orders to be placed during 1992-93 the Committee apprehend that procurement of about 10 track machines might get delayed beyond 31.12.1993 i.e. the target date by which loan is to be utilised, necessitating further extension and the concomitant extra commitment charges. The Committee, therefore, emphasize that all out

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			efforts should be made to complete the project within the validity period of the loan.
18	151	Ministry of Railways (Railway Board)	The Committee note that Saudi Fund for Development (Loan 3/38), a loan of Saudi Riyal 103.2 million (US $ 30 million—Rs.450 million) has been available from August, 1983 for construction of BG line between Koraput—Rayagada (216 kms.) including procurement of rails, sleepers and track machines etc. The Project was financed partly from Saudi Fund and partly from the Railway's own resources. The proposed line was expected to promote the development of backward areas of Orissa and also cater to the needs of aluminium plant at Damanjodi and Visakhapatnam port. In accordance with the loan conditions, Indian Railways has to first spend the money and then claim reimbursement. The Ministry of Railways has informed that while the section (Phase—I) from Koraput to Machiliguda (20 km.) was opened in December, 1985 execution of Phase—II from Machiliguda to Rayagada has been kept pending because of the delay in commissioning of Vishakhapatnam Steel Plant. On Planning Commission group clearance for execution of Phase—II in the latter half of 1986, funds were provided for the project during 1987-88. The Committee have been informed that construction of the line from Machiliguda to Lakshmipur (42 km.) has been completed in March, 1992 and the balance work (102 km.) is targetted to be completed by 31.10.1993. The Committee regret to note that although the target for completion of Phase—II of the project was March, 1987 the project has not been completed so far. According to Ministry of Railways, the delay in construction of Phase—II was on account of collapse of a tunnel, cyclone and heavy rains and inhospitable living

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			conditions in the area. The Committee hope that work on Phase—II of the project will be completed by 31.10.1993 without any further delay.
19	152	Ministry of Railways (Railway Board)	The Committee also find that the Saudi Fund for development extended the validity of the utilisation of Loan upto 30 September, 1990 on request. But due to lack of funds till March 1990, the Board approached the Ministry of Finance for taking up with Saudi Fund Authority for granting extension of loan agreement upto 30 September, 1991. As the work on Phase—II of the Project could not be completed, Saudi Fund Authorities have extended the terminal date of the loan agreement upto 31.12.1993. Till March, 1992 the Saudi Authorities is stated to have reimbursed $5.83 million towards cost of rails, $6.40 million towards civil works and $1.85 million towards cost of sleepers out of the total loan of $30 million. The Committee are distressed to note that due to frequent revisions in the target dates of completion of Phase—II of the project, the estimated cost of the project escalated by more than 47% from Rs. 2650 million to Rs. 3900 million.
20	153	-Do-	The Committee note that a loan for DM 30 million was obtained from Federal Republic of Germany in April, 1989 for financing import of machinery for the Rail Coach Factory, Kapurthala. Although the closing date of the loan was December, 1991, it could not be utilised till that date because the loan only funded the machines procured from Germany. According to the Ministry of Railways as orders on the German firms were to be placed only if they were the lowest bidders in the Global

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			tenders invited, the contracts could not be awarded to the German firms to the extent originaly envisaged. Consequently, the loan had to be got extended by another year till December, 1992. The utilisation position upto October, 1992 was DM 10.46 million. Further extension of the loan period upto December, 1993 had, therefore, to be sought. The Committee find that due to slackness on the part of Railways (Railway Board) in identifying the likely sources of machines required for the Railway Coach Factory, Kapurthala they had to take extensions resulting in payment of additional extra commitment charges. The Committee trust that all efforts for the timely procurement of the machines will be made in the interest of utilisation of the entire amount of the loan by the extended date till December, 1993.
21	154	Ministry of Railways (Railway Board)	The foregoing paragraphs abundantly reveal that due to lack of proper project planning and their implementation, there have not only been considerable avoidable delays in the utilisation of foreign loans/credits but a substantial amount of these loans aggregating to US $13.277 millions could not even be utilised and therefore allowed to lapse. Further due to failure to utilise the foreign loans during their original validity periods, Railways have been forced to seek repeated extensions of those loans resulting in payment of enormous extra commitment charges. For instance in respect of the two loans (Loan 2210-IN/credit 1299-IN and Loan 2417-IN) alone, extra commitment charges paid by the Railways was to the tune of US $3054328. The Committee's examination has also revealed that the 18 locomotives procured in 1988 at a cost of US $ 97 million still continue to suffer from major harmonic content deficiency, defeating the main purpose for which they had been procured. There have also been abnormal delays in the satisfactory installation and

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			commissioning of the costly machines funded through the foreign loans. For instance, a commutater seasoning machine costing Rs. 35.21 lakhs received in DCW, Patiala in June, 1986 has not been commissioned so far. Similarly there has also been inexcusable delay in the commissioning of three axis coordinate measuring machine costing Rs. 20 lakhs. The Committee take a very serious view of lack of proper project planning and coordinated approach on the part of the Railways due to which the aforesaid costly aberrations and slippages and other such instances discussed in this Report have occurred. The Committee view seriously the costly lapses that have occurred on account of inadequate planning and inordinate delays in the implementation of the projects funded by foreign loans/credits and recommend that the entire subject of utilisation of external assistance be examined threadbare with a view to fix responsibility of individual officers incharge of monitoring and execution of these projects. The Committee further recommend that on that basis detailed guidelines be drawn up for the utilisation of such assistance.

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