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NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED

MINISTRY OF STEEL

COMMITTEE ON PUBLIC UNDERTAKINGS 1992-93

TENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

FIFTEENTH REPORT
COMMITTEE ON PUBLIC UNDERTAKINGS
(1992-93)

(TENTH LOK SABHA)

NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED

(MINISTRY OF STEEL)

[Action taken by Government on the recommendations contained in the 6th Report of the Committee on Public Undertakings (Tenth Lok Sabha)]

Presented to Lok Sabha and
Laid in Rajya Sabha on 30 *April* 1993

LOK SABHA SECRETARIAT
NEW DELHI

April, 1993/*Vaisakha,* 1915 *(Saka)*

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Corrigenda to the Fifteenth Report of the Committee on Public Undertakings (1992-93) on National Mineral Development Corporation Limited.

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(1992-93)

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* Ceased to be a Member of the Committee consequent on appointment as Minister in the Council of Ministers w.e.f. 18th January, 1993.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this 15th Report on Action Taken by Government on the recommendations contained in the 6th Report of Committee on Public Undertakings (Tenth Lok Sabha) on National Mineral Development Corporation Ltd.

2. The 6th Report of the Committee on Public Undertakings was presented to Lok Sabha on 27th April, 1992. Replies of Government to all the recommendations contained in the Report duly vetted by Audit were received by 26th March, 1993. The Committee on Public Undertakings considered and adopted this report at their sitting held on 23rd April, 1993.

3. An analysis of the action taken by Government on the recommendations contained in the 6th Report (1991-92) of the Committee is given in Appendix II.

NEW DELHI;
April 27, 1993
Vaisakha 7, 1915 *(Saka)*

A.R. ANTULAY,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Sixth Report (Tenth Lok Sabha) of the Committee on Public Undertakings on National Mineral Development Corporation Limited which was presented to Lok Sabha on 27th April, 1992.

2. Action Taken notes have been received from Government in respect of all the 37 recommendations contained in the Report. These have been categorised as follows:

(i) Recommendations/observations that have been accepted by Government

Sl. Nos. 2-5, 7, 10, 12-16, 18-24, 26-29 and 31-34.

(ii) Recommendations/observations which the Committee do not desire to pursue in view of Government's replies

Sl. No. 11, 17, 30, 35 and 36.

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

Sl. Nos. 1, 6, 8, 9 and 37.

(iv) Recommendations/observations in respect of which final replies of Government are still awaited

Sl. No. 25.

3. **The Committee desire that the final replies in respect of recommendations for which only interim replies have been given by the Government, should be furnished to the Committee expeditiously.**

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

A. Delay in finalisation of Long-Term Objectives
Recommendation Sl. No. 1 (Paragraph 1.15)

4. The Committee had observed that there was a delay of 11 years on the part of NMDC in submission of the objectives after they were returned by Government in 1979 for revision. Neither the Ministry sent any reminder to NMDC nor the NMDC pursued the matter with Ministry for 11 long years. While wondering how in the absence of Long Term Objectives the performance of the company was being evaluated by the Government, the Committee had strongly deprecated

the lackadaisical manner in which this matter had been handled both by NMDC and the Ministry.

5. In their reply, the Government have stated that NMDC prepared five year plans for its activities for the periods 1980-81 to 1984-85 and for the periods 1985-86 to 1990-91 and these were approved by the Board of Directors in which the Ministry's Representative is also a Member Director. In the context of these plans, the Corporation had been preparing its Annual Corporate Plans from 1978 onwards and these took into account the necessary reviews of the long term objectives prepared in 1977. Thus, there were objectives and action plans for the company which were reflected in the Annual Corporate Plans prepared for each year during the above periods based on which the performance of the company was being evaluated by the Government in the Quarterly and Half Yearly Review Meetings held in each year. The long term corporate objectives of the Company were also formally enumerated and approved by the Ministry in April, 1991.

6. The Committee are not convinced with the justification now given by the Government for non-finalisation of Long Term Objectives of NMDC till April, 1991. The Committee are still of the strong opinion that the Annual Plans being prepared by NMDC from 1978 onwards, on the basis of which the company's performance was being evaluated by the Government in the Quarterly and Half yearly Review Meetings, cannot be a substitute for the Long Term Objectives envisaged by the BPE's guidelines issued in 1979 and 1984. Now that the long term corporate objectives of the company have been enumerated, the Committee hope that there would be more meaningful evaluation of its performance.

B. Penalties on account of delays

Recommendation Sl. No. 6 (Paragraphs 2.84 & 2.85)

7. The Committee had noticed that the Bailadila project-5 scheduled to be completed in 1974 was completed and commissioned in 1977-78 at a much higher cost due to delays in supply of equipments by indigenous suppliers like HEC and MAMC and also because of the technological problems faced by National Projects and Construction Corporation in construction of a tunnel. It was also pointed out that the structural works entrusted to Triveni Structural Limited (TSL) and Hindustan Steel Works Construction Ltd. which were scheduled to be completed as per contract in September, 1973 and July, 1974 respectively were actually completed in December, 1976. The Committee had expressed their surprise that despite such huge delays and increase in the project cost by Rs. 8.08 crores on account of overall increase in the period of constrution, the company did not levy any penalty/liquidated damages.

8. In their reply, the Government have stated as follows:—

"The Company has already informed the Committee that both NMDC as well as the contractors (who were Public Sector Undertakings) raised claims on account of delays and penalties against each other on various accounts. Finally a negotiated settlement was reached between these contractors and NMDC taking into consideration their claims and NMDC's claims."

9. The Committee are surprised to note that the Government have almost repeated what had been stated by them earlier. It is strange that no justification has been given for the company having not been able to quantify the delays and penalties while negotiating claims and counter claims with the contractors. The Committee would emphasise that in future NMDC should invariably claim penalty/liquidated damages from the contractors in case of delay in execution of the contract.

C. Increase in foreign exchange component on Bailadila-5

Recommendations Sl. Nos. 8&9 (Paragraphs 2.88 & 2.89)

10. The Committee had noticed that Government had issued instructions to NMDC to place orders on Heavy Engineering Corporation (HEC) and the Mining and Allied Machinery Corpn. for supply of machinery and equipment required for the Bailadila-5 Project with a view to developing indigenous sources of supply, although NMDC had cautioned the Government against it. The main reason for the Government's directions for placing orders on indigenous manufacturers was the necessity to keep the foreign exchange component to the minimum. However,the Committee found that the Government miserably failed in achieving their objective of encouraging the indigenous firms and in minimising outflow of foreign exchange. For, HEC and Tata Robins Frasers, Jamshedpur on whom the orders for supply of equipments were placed themselves went into collaboration with foreign countries. This resulted in increase by about 76.5% over the original sanction towards the cost of plant and machinery. The foreign exchange component increased by 255 percent and the total foreign exchange incurred amounted to 46.84% of the total cost of plant and machinery against 23.25 percent envisaged in the original estimate. It was also noticed that not only the indigenous firms failed to execute the jobs entrusted to them in time resulting thereby in abnormal time and cost overruns, but also there were inherent deficiencies/defects in equipments supplied by them. As the defects in the equipments could not be rectified by HEC, NMDC had to call the German experts and paid them Rs. 2.85 lakhs for their visits. Similarly there were frequent breakdowns in the apron feeders procured from MAMC being of inferior quality and MAMC failed to supply spares of superior quality for replacement. The Committee had, therefore, concluded that the Government purely out of their zeal to save foreign exchange directed NMDC to place orders on

indigenous firms without assessing their capability and technical competence to do the jobs entrusted to them.

11. The Government have stated in their reply that the general policy of Government at that time was that imports should be resorted to only when indigenous availability is ruled out. Indigenous capabilities were to be encouraged to attain self-sufficiency. In the process of developing indigenous capability, some slippages may occur as indigenous firms may require technology transfer, collaboration, expert advice etc. for carrying out certain areas of sophisticated work. However, this should not deter from the larger objectives of improving local technologies, developing indigenous capability and conserving foreign exchange. It has also been stated that in the present case, the Cabinet Committee on Production, Process & Exports had directed that NMDC should place orders on HEC while the Expenditure Finance Committee had stipulated that NMDC should straightaway settle with HEC and MAMC for all other items that could be fabricated by them.

12. The Committee do not disagree with the overall Government policy to promote indigenisation and conserve foreign exchange and resort to imports only when indigenous availability is ruled out. However, as pointed out earlier by the Committee, in the present case the placement of orders for supply of equipment and machinery on Heavy Engineering Corporation and Mining and Allied Machinery Corporation did not result in keeping the foreign exchange component to the minimum. The foreign exchange component in fact increased by 255 percent. Not only that, there were abnormal time and cost overruns accompanied by inherent deficiencies/defects in equipments supplied by the indigenous firms. The Committee, therefore, recommend that in future, before placing orders for a particular job, capability and technical competence of indigenous firms should be realistically assessed so that it does not eventually result in heavy outflow of the very foreign exchange which is intended to be saved.

D. Scientific Study of Manpower planning

Recommendation Sl. No. 16 (Paragraph 4.21)

13. The Committee had desired the NMDC to make a scientific study of the manpower planning and assess the actual requirement in various fields in order to enable them to identify surplus manpower which could be gainfully utilised where they are most needed.

14. It has been stated by the Government in their reply that NMDC is engaging an outside Consultant for conducting a scientific study on manpower planning. The Company also has an Industrial Engineering Department which conducts studies on a continuous basis.

15. The Committee regret to note that even after about a year since the recommendation was made by them, no scientific study on manpower planning in the company seems to have been initiated. They would

recommend that such scientific study should be made without any further delay.

E. Direct Exports by NMDC

Recommendation Sl. No. 37 (Paragraph 8.33)

16. The Committee had noticed that on permission being granted by Government, NMDC exported 0.56 and 0.38 lakh tonnes of calibrated ore, on trial basis, to Carribean Ispat and Malaysia respectively in 1989-90 and made sizeable profits. The Secretary of the Ministry also informed the Committee during evidence that he was confident that if NMDC was allowed to export directly, it would do well. The Committee had therefore, desired the Government to examine the feasibility of entrusting NMDC with the responsibility of exporting its products directly instead of through MMTC so that it may improve its financial position and also earn valuable foreign exchange for the country.

17. In their reply, it has been stated by Government that "the Ministry of Steel had written to the Commerce Ministry at the Highest level strongly recommending that NMDC be allowed to make direct exports without the need of canalisation through MMTC. This has not been so far accepted by the Commerce Ministry for various reasons."

18. The Committee are constrained to observe that their recommendation for allowing direct export of iron ore by NMDC has not been taken by the Government in right earnest. No specific reasons have been furnished to the Committee for the Commerce Ministry not agreeing to direct exports by NMDC. It is also not clear whether the matter is still being pursued with the Commerce Ministry. The Committee therefore, strongly urge that the issue should be taken up by the Ministry of Steel for decision at a higher level in the Government and they be apprised of the decision taken at the earliest.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation S. No. 2 (Paragraph 1.16)

The Committee have now been informed that the long term objectives of the company have been approved by Government in April, 1991. The Committee desire the Government to now strengthen its monitoring machinery with a view to keeping constant rapport with NMDC to ensure that concerted efforts are made by the Company to achieve the objectives laid down after such a long time and are not allowed to remain tall claims on paper only.

Reply of Government

NMDC is now one of the MOU signing PSUs and accordingly MOUs for the year 1991-92 and 1992-93 have been signed between NMDC and Ministry of Steel/Government. These MOUs specifically incorporate the main agreed short term and long term objectives of the Company. The performance indicators capture the require performance targets to meet the objectives. The performance of NMDC in terms of the MOU targets is monitored through (a) quarterly performance reviews against MOU indicators by the Ministry of Steel; and (b) half yearly joint review meetings in the Ministry of Steel. Any shortfalls in performance during these review meetings are brought to the notice of the Company for taking remedial action.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VI dated 9.12.1992.]

Recommendation S. No. 3 (Paragraphs 2.76, 2.77 & 2.78)

The Committee on Public Undertakings (1972-73) while examining the performance of Bailadila Iron Ore Project—14 had noticed that there were two lines of crushers while a single line was sufficient to treat enough ore to produce 4 million tonnes of sized ore per annum. The Committee were informed during evidence by the then Chairman of the Company that there was over-designing in the crusher capacity and that the second line of crusher was a standby. After examining the whole matter, the Committee on Public Undertakings had in their 60th Report (1974-75) reiterated their earlier recommendation made in their 37th Report (1972-73) that a single line of crusher could have handled the entire production of the mine and that the matter should be probed into and the responsibility for the lapse fixed. Even now the company has admitted that one crusher could handle 5.5 to 6 million tonnes of iron ore per annum. The Government is stated to have asked the Steel Authority of India Limited (the then Holding Company) in March, 1976 to probe into the matter and submit a report to the Government. According to Audit no such probe seemed to have been conducted by SAIL except for a decision taken in 1978 that one line of crusher should be shifted from BIOP-14 to Bailadila-11-C.

According to the Company's own admission the standby crusher was utilised 38% and the main crusher 58% of the available time. But going by the information made available to the Committee for the years 1984-85 to 1989-90 it is seen that each crusher was utilised on an average only 27% of the available time which implies that each crusher remained un-utilised for over 70% of the available time. Interestingly even one crusher was not utilised to its full capacity. It is rather surprising that despite such poor utilisation of the crushers no effort was made during the last 18 years by the Ministry to conduct the probe recommended by the Committee. On the contrary the Ministry has all along tried to justify the need for a second line of crusher on the ground that in Indian conditions a standby crusher line is essential and BIOP-14 being an export-oriented project an investment of Rs. 1.70 crores on the spare crusher was insignificant compared to the loss of foreign exchange in case spare line crusher had not been installed. During evidence also the Secretary, Deptt. of Steel stated "Based on facts available, the Government felt that this was really necessary........ In that light it appears a formal probe was not initiated." He also stated that "If the Committee still feels that there was need for an enquiry, we will do that." It was only after NMDC was examined by this Committee that an enquiry Committee was constituted by the Government in March, 1991. In fact the purpose of recommending enquiry was to establish conclusively whether the second line of crusher was essential or not but the Government chose the extreme step of not conducting any enquiry which was a serious lapse on the part of the Government. It was really astonishing that without conducting any enquiry into the matter during all these 18 years the Ministry came to the conclusion that the second line of crusher was essential.

The Committee regret and take strong exception to the lapse on the part of the Government in not implementing their recommendation in time. The Committee are constrained to convey their feeling of anguish the way their repeated recommendations were treated by the Government.

Reply of Government

The observations of the Committee have been noted. Government would like to assure the Committee that there was no wilful intention on the part of Government not to implement the recommendations of COPU in time. Although there was delay in instituting a formal probe as desired by the Committee, Government all along was convinced about the need for the second crusher and this conclusion has also been supported by the findings of the Enquiry Committee which submitted its Report in July 1991.

Government would also like to point out that the Company, while mentioning that one crusher could handle only 5.5 to 6 million tonnes per annum, had also mentioned that in case this crusher is down either on account of a breakdown or on account of regular maintenance, the production will come to a standstill resulting in idling of all other equipment and consequent loss to the country. Thus, while there was spare capacity in the single crusher, it did not obviate the need for a second crusher.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VI dated 9.12.1992]

Recommendation S. No. 4 (Paragraphs 2.79 & 2.80)

The Committee note that Bailadila-5 was sanctioned by Government in 1968 inspite of the full knowledge that it would remain a losing venture for all times to come. The principal aim to set up this project was stated to be to export its entire produce of iron ore to earn the vital foreign exchange for the country. Keeping this in view the Committee on Public Undertakings (1972-73) in their 37th Report had recommended that Government should carefully analyse the various components of cost and take concerted measures to ensure that the cost of production and transport charges do not exceed the sale price. Unfortunately, the Company continued to incur losses upto 1980-81. After earning profits during 1981-82 to 1985-86 the Company again came in the red during the years 1986-87 to 1988-89 mainly due to the unremunerative prices paid to the Company by MMTC, their canalising agents. As the domestic demand of iron ore picked up and the Company entered into a commercial agreement with MMTC for 4 years it earned a profit of Rs. 15.60 crores in 1989-90. The Company hopes to earn profit from now onwards.

The Committee feel that since such commercial agreements are in the best interest of the company, NMDC should, in future, enter into such agreements. They also recommend that with the reduction in cost of production claimed to have been achieved by monitoring the budgeted targets/norms the NMDC should aim at maximising production in order to increase its profits.

Reply of Government

The observations of the Committee have been noted. For the information of the Committee, through commercial agreements NMDC earned a profit of Rs. 38.84 crores (before tax) in 1989-90 (and not Rs. 15.60 crores as mentioned in the COPU Report), Rs. 48.10 crores (before tax) in

1990-91 and Rs. 145.21 crores (before tax) in 1991-92. It is expected that profits will continue in future years as well.

In view of the increasing demand for high quality ore from the Bailadila mines of NMDC and also the good quality ore from Donimalai mines, NMDC is continuing its efforts to enter into commercial agreements for supply of iron ore to sponge iron/pig iron manufacturers as well as public sector units like VSP. Simultaneously, NMDC is implementing plans to maximise the production of iron ore in the existing mines by suitable motivation plans, better co-ordination, proper inventory control methods, etc. This has already yielded results and a record production of 121.42 lakh tonnes of iron ore and 17,740 carats of diamonds was achieved in 1991-92.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VI dated 9.12.1992]

Recommendation S. No. 5 (Paragraphs 2.81, 2.82 & 2.83)

The Committee are concerned to note that the cost estimates of Bailadila-5 originally assessed at Rs. 36.53 crores in April, 1970 were revised to Rs. 67.49 crores in February, 1978. Thus there was an increase of Rs. 30.96 crores which represents an increase of 85 percent over the original estimated cost. The project scheduled to be completed in January, 1974 was actually commissioned in January, 1977, after a delay of 3 years. According to Audit the main reasons for increase in the cost over the original estimates have been attributed to escalation in prices of plant and equipment (Rs. 15.53 crores), increase in costs consequent on increase in scope of work (Rs. 3.84 crores), increase in quantities (Rs. 3.32 crores) etc. According to the Company the principal reasons for time and cost overrun were Government's policy of maximum utilisation of indigenous manufacturing capacity and to entrust works to Public Sector organisations. The delays have largely been due to delays in execution of works by concerned Government agencies and supply of equipment by indigenous suppliers like HEC and MAMC.

The Bureau of Public Enterprises had observed in November, 1982 that "NMDC submitted the DPR much too early before the final concept of the Project had been evolved after detailed investigations had been completed. NMDC had neither enough field data nor conceptual plan to estimate correctly the cost of the Project and time of completion of various activities". The CMD had also admitted during evidence that their DPR was not upto the mark.

The above facts do not depict a pleasant picture about the formulation of the Project. It is really amazing that with the experience already gained by the Company in developing mines like Kiriburu and Bailadila-14, the Company could not prepare a realistic DPR taking into consideration all the pitfalls which are generally associated with such projects. The Committee are inclined to agree with the observation of the BPE made in November, 1982 that if the project had been completed by the scheduled date of January, 1974 half of the total cost overrun of Rs. 31 crores could have been avoided. The Committee have no doubt that the foremost reason for revision of cost estimates was nothing else but inadequate project formulation. The Committee are of the firm view that in the interest of expediting project implementation and keeping down the cost, the Ministry should have ensured preparation of realistic project estimates and effective monitoring through monthly or quarterly reports.

Reply of Government

The DPR was prepared on the basis of maximum available data and with the help of consultants both in India and abroad. The DPR was also subjected to critical scrutiny at various levels in the Government as per the prescribed procedure before an investment decision was taken.

Monitoring of the project is normally done at the Ministry level through periodic performance review meetings in addition to regular status reports on the project. However, there were two main reasons for delay in the execution of the project. *i.e.* there was delay in supply of main equipment by the suppliers and serious technical problems due to flowing geological strata encountered during tunnelling, which could not have been foreseen.

However, the observations of the Committee have been taken note of. All projects of PSUs are now being monitored periodically in review meetings.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol VI dated 9.12.1992]

Recommendation S. No. 7 (Paragraphs 2.86 & 2.87)

The Committee further note that the construction of a tunnel of 2.135 kms. length for the conveyor belt was entrusted to National Projects Construction Corporation (NPCC) in December, 1969 even though NMDC was stated to have reservations initially about the capability of the company to undertake the work. As it was later on discovered that NPCC was not having the technical capability required for chemical grouting, the work had to be split up among NPCC and M/s. R.J. Shah Limited. The tunnel was completed in September, 1976 as against the scheduled date of April, 1973, after a delay of 3 1/2 years and the cost also increased from Rs. 85.10 lakhs to Rs. 165.60 lakhs, *i.e.* an increase of 95% over the original estimated cost.

The Committee were apprised by the NMDC during evidence that the delay in construction of a tunnel and the consequent increase in the project cost was due to the inadequate expertise available with NPCC to undertake the job. According to them the construction work had to be entrusted to NPCC in accordance with the policy and directions of the Government to encourage indigenous public sector undertakings. From the facts placed before them, the Committee find that Government had approved the award of the contract to NPCC in December, 1969 only when NMDC informed them that the Board of Directors had on 12 November, 1969 taken the view that NPCC were technically competent to undertake the work and that they also had the equipment, machinery to enable them to complete the work in accordance with the schedule. Going by the evidence given by the Ministry, the Committee has come to the inescapable conclusion that NMDC itself is solely responsible for awarding the contract to NPCC and is now trying to find *alibis* with the Government to cover up their own lapse. The Committee have no doubt that much of the delay of 31/2 years in completion of the work and the heavy increase of Rs. 80.50 lakh on the cost of construction of the tunnel could have been avoided if NMDC had fully satisfied itself about the competence of NPCC to complete the job in time.

Reply of Government

The observations of the Committee have been noted. Since serious technical problems were encountered in the tunnel work which could not be foreseen at the time of award of work, proper appraisal of the capabilities of NPCC by the NMDC would have reduced the long delay.

[Ministry of Steel O.M. No. 10(22)/90-RMI,Vol. VI dated 9.12.1992]

Recommendation S. No. 10 (Paragraphs 2.90 & 2.91)

Donimalai is another project of NMDC where project planning and execution machinery did not seem to exist. The Committee note with serious concern that the cost estimates of the project sanctioned in 1971 at Rs. 1945.56 lakhs were revised to Rs. 4118.47 lakhs in 1978. There was an alarming increase of Rs. 2172.91 lakhs which represented 112 per cent over the original estimated cost. The main reasons which contributed to increase in cost are stated to be change in scope of work (Rs. 339.15 lakhs), increase in quantities and prices (Rs. 679.20 lakhs), increase in establishment expenses and interest on capital consequent upon extension of the Schedule (Rs. 531.63 lakhs), items not provided in DPR including fine ore Handling Plant (Rs 603.44 lakhs) etc. All these reasons have been repeated again and again. The Committee find that due to delay in completion of the project the increase in respect of establishment charges, Head Office expenses and interest on capital alone accounted for 288 per cent which by no standards is justifiable.

The Committee were informed that the Company had a system of monitoring the progress of construction of the project through PERT/CPM/BAR Chart techniques, review meetings at site, review and monitoring at the level of Director (Planning), review at the level of Chairman and Board of Directors and also periodic performance review meetings at the Ministry level to observe the time and cost schedules. In view of the exorbitant cost overruns and inordinate delays in the execution of projects, the Committee are not hesitant to conclude that all these elaborate procedures remained on paper only and were followed more in breach than in observance in the instant case. They are of the firm view that there was complete breakdown in the monitoring machinery of the Company. They are also of the view that if the progress of implementation of the project had been closely followed much of the delay and cost overrun could be avoided. The Ministry also cannot absolve themselves of their responsibility because increase in the project cost was in the knowledge of the Government during its implementation but nothing was done to control the cost and check delay in completion of the project. The Committee desire that the Ministry should strengthen their monitoring machinery and watch implementation of projects closely through Board and performance review meetings with a view to ensuring that such heavy time and cost overruns are not allowed to occur in future.

Reply of Government

The observations of the Committee have been noted.

As already explained, in spite of the continuous monitoring of the projects of Bailadila-5 and Donimalai at various levels, delays could not be avoided due to the delay in the supplies of equipment by indigenous suppliers, problem of flowing strata in the tunnel of Bailadila-5, change in the scope of work, fine ore handling scheme, etc. in Donimalai.

Government and NMDC are continuously upgrading and strengthening the monitoring machinery for keeping a close watch on the implementation of projects.

From 1991-92, a new instrument of control and monitoring of performance of Public Sector Undertakings has been introduced by the Government *i.e.* the MOU System. This system incorporates specific indicators in regard to implementation of Projects. Performance against the specified criteria is monitored on a quarterly basis as well as a joint review meeting every six months of the year. This instrument along with existing control mechanisms are expected to help in avoiding time and cost overruns in projects in the future.

[Ministry of Steel, O.M. No. 10(22)/90-RMI. Vol. VI dated 9.12.1992]

Recommendation S. No. 12 (Paragraph 3.28)

Similarly Bailadila-5 which was designed to yield annually 4 million tonnes of lump ore at 66.7% rate of recovery had actually produced lump ore between 48 to 64 per cent since inception except in 1981-82 when the recovery was 70 per cent. The low recovery of lump ore has been attributed by the Company due to increase in generation of fines which ranged between 26 to 38 percent. It is really very distressing that the project designed to produce 40 lakh tonnes of lump ore at a total estimated cost of Rs. 67.49 crores has failed to achieve its designed capacity due to design deficiencies in mine, plant and equipments and inferior quality of plant equipments supplied by indigenous manufacturers/suppliers. The Committee have no doubt in concluding that the project could not reach its designed capacity because the DPR was not based on adequate and reliable data. The Committee desire the NMDC to make concerted efforts to improve the performance of the equipment by removing the deficiencies. They also desire that action be taken to replace inferior machines by machines with better designs in order to enhance production.

Reply of Government

The DPR was based on the available geological data which at that point of time was considered to be sufficient for designing a mining project. It is not possible to achieve 100% confidence in geological research studies as the cost of drilling/investigation will be prohibitive in case one tries to achieve a very high degree of confidence. However, within the above constraints, NMDC tried to check and cross-check all the data available and project the required details in the DPR.

In the case of equipments supplied by indigenous manufacturers/suppliers, this was the first time that such large items of machinery meant for a large mechanised mine were being manufactured indigenously. Thus there were design deficiencies; however, every effort was made by NMDC to rectify these defects. NMDC continues to make concerted efforts to improve the performance of this equipment by removing the defects, deficiencies etc. wherever needed. Action is being progressively taken to replace inferior machines by machines with better designs so as to enhance production. For example, in the case of Bailadila-5, world renowned consultants like Met-Chem Consultants were engaged to help NMDC for improving the performance of the equipment in the mines of Bailadila-5 and as per their advice, action was taken to improve the performance of the equipment.

The production of Bailadila-5 in 1991-92 was 4.65 million tonnes (highest ever achieved) which shows considerable improvement in performance. This improvement has been possible through the continuous efforts made in removing the deficiencies in the plant and equipment supplied by HEC, MAMC & others.

[Ministry of Steel, O.M. No. 10(22)/90-RMI, Vol. VI, dated 9.12.1992]

Recommendation S. No. 13 (Paragraphs 3.29 & 3.30)

In the case of Donimalai Iron Ore Project, the Committee find that in order to improve the economic viability of the project the DPR which envisaged a production of 17.5 lakh tonnes each of lump ore and fines in September 1968 was changed to 16 lakh tonnes of lump ore and 20 lakh tonnes of fines in 1975. But the project was never operated at the rated capacity. According to Audit one of the reasons for not achieving the rated capacity was that no firm long term contracts for sale of iron ore were entered into before commissioning the mines. NMDC has stated that the project could not be operated at rated capacity due to lack of export orders, world wide recession in steel industry and consequently MMTC having not been able to arrange sale tie-up. In fact the project was conceived and sanctioned without assessing the marketability of the iron ore to be produced. The Secretary, Department of Steel had very candidly admitted in his evidence that "the project was approved at a time when there was no firm marketing tie up." He also stated "the project was sanctioned for exports without prior commitment admittedly." The Committee cannot but come to a definite conclusion that NMDC had no reasonable basis for assessing the demand for iron ore in the international market at the time when the project was commissioned. The Committee need hardly point out that proper assessment of demand of the product and its sale tie-up in the market, before commissioning of the project, is one of the essential pre-requisites for running any commercial enterprise prudently and by not having done so the Government has failed in safeguarding the commercial interest of NMDC.

The Committee note that now with the increase in demand of iron ore in the world market NMDC has improved its exports of iron ore from the Donimalai Project which at the end of 1989-90 was 27.33 lakh tonnes and the project could earn a profit of Rs. 7 crores during the same year. The Committee desire NMDC to take advantage of the changed world scenario and make concerted efforts to achieve the capacity envisaged in the DPR in order to further improve its financial position.

Reply of Government

While as a matter of principle, the Government is committed to safeguarding the commercial interest of its Public Sector Undertakings, in the present case, the Cabinet took a conscious decision to approve the Project because of important expected benefits which have already been given earlier. In retrospect, this decision of opening the mine at Donimalai has been justified by the increased demand for iron ore by the indigenous iron and steel industry including VSP. Exports have also increased in the meantime. As a result total despatch of iron ore from Donimalai was 29.03 lakh tonnes during 1991-92 with a profit before tax of Rs. 28.19 crores.

[Ministry of Steel, O.M. No. 10(22)/90-RMI, Vol. VI, dated 9.12.1992]

Recommendation S. No. 14 (Paragraph 3.38)

The Committee find that in order to meet the requirements of domestic steel industry and to fulfil export commitments on a long term basis, the Company is formulating an expansion scheme to increase production of iron ore from 10 million tonnes in 1989-90 to 18 million tonnes by the end of the Eighth Five Year Plan. According to NMDC the total expenditure involved in implementing the scheme would be Rs. 600 crores. The Company proposes to finance the scheme through budgetary support from the Government, generation of internal resources and also by raising funds from the financial institutions. The Committee also find that Government are making efforts to get necessary funds for NMDC from the Planning Commission to finance the scheme but the Planning Commission with the resources at their command are finding it difficult to meet their requirement to the desired extent. The Committee desire NMDC to make concerted efforts in order to achieve a target of 18 million tonnes of iron ore by the end of 8th Five Year Plan so that they are able to cater fully to the domestic demand. In view of the fact that Company has earned sizeable profit during 1989-90 and has bright prospects in the future it must try to generate maximum financial resources of its own with minimum dependence on the Planning Commission to finance the scheme. The Committee need hardly emphasise that the expansion scheme should be implemented within the monetary limit of Rs. 600 crores so that the cost and time over-runs are avoided.

Reply of Government

NMDC plans to increase the production of iron ore to 18 million tonnes by the end of 8th Five Year Plan and concerted efforts are being made to achieve this objective. Now that there is likely to be no budgetary support from the Government to finance the expansion schemes of NMDC, the company is trying to generate the required funds from its own internal sources and meet the balance through raising funds from financial institutions/Public etc. The Government also assures the Committee that these schemes will be effectively monitored to reduce time and cost overruns.

[Ministry of Steel, O.M. No. 10(22)/90-RMI, Vol. VI, dated 9.12.1992]

Recommendation S. No. 15 (Paragraphs 4.19 & 4.20)

The Committee are concerned to note that the manpower strength in all the iron ore projects of the company was far in excess of the strength envisaged in the DPRs. In Bailadila-14 against 1000 persons provided for in the DPR for 40 lakh tonnes of production the actual number was 1918 in 1987-88 for about 20 lakh tonnes. During the same year in Bailadila-5 against 1400 envisaged in DPR for 40 lakh tonnes there were actually as many as 1950 persons for about 31 lakh tonnes and likewise in Donimalai as against 1200 the actual staff in position was 1511 men. In other words against 3600 men envisaged in the DPRs the actual strength in the three projects put together was 5379 in 1987-88. In 1988-89 the number rose to 5414 but there was a small decrease in 1989-90 when the actual strength stood at 5392. Though the company claims that its Industrial Engineering Department always studied and assessed the manpower requirement of the Company yet it seems that the system of study of this unit was not realistic as otherwise the manpower strength would not have increased so much beyond the DPRs prepared by the company itself.

Justifying the increase of manpower, the Secretary, Department of Steel informed the Committee during evidence that all the Projects — Bailadila-14, Bailadila-5 and Donimalai—had undergone some change in the scope during implementation of the projects necessitating more men than originally estimated. The increase was also attributed to the facilities provided like Hospitals, Schools, canteens etc. which were not provided for in the DPRs. But the Secretary admitted during evidence that "DPR should mention all this. The Committee have no doubt that the Detailed Project Reports prepared by the company were not realistic and left much to be desired as the fields of increase in staff mentioned by NMDC were not such which could not have been foreseen by the company, except of course Fine Ore Handling System which was a later addition. Since the company has already gained sufficient experience in the development of iron ore projects during the last 30 years, the Committee desire that in setting up all future projects, such like deficiencies in the preparation of DPRs be taken due care of.

Reply of Government

Recommendations of the Committee are noted.

At the time of preparation of DPR, manpower envisaged in the DPR is taken as indicative. When the project goes into production stream, the manpower requirement for the project for production stage is always reviewed which takes care of the variations etc. which have occurred during the execution of the project with respect to equipment, plant, machinery, infrastructure facilities created, additional services, para production facilities created etc. The review of manpower requirement is generally placed for the approval of the Board of Directors before it is sanctioned to the production project.

The Board has been monitoring the staff strength position from time to time from the point of view of productivity, output per man year etc. Government is also observing the productivity trends to take suitable measures to effect improvement.

NMDC states that they will be making continuous efforts to improve future DPRs, and take care of the deficiencies noticed in the past in the preparation of DPRs with specific reference to infrastructure facilities and the related manpower requirements.

[Ministry of Steel, O.M. No. 10(27)/90-RMI, Vol. VI, dated 9.12.1992]

Recommendations. No. 16 (Paragraph 4.21)

The Committee take a serious note of the fact that there is no manpower planning in the company. During evidence they were informed that "utilisation of manpower on the planned basis can be helpful." The Committee desire the company to make a scientific study of the manpower planning and assess the actual requirement in various fields in order to enable them to identify surplus manpower which could be gainfully utilised where they are most needed.

Reply of Government

As desired by the Committee, the Corporation is engaging an outside Consultant for conducting a scientific study on manpower planning. At the same time, as already intimated, the Company has an Industrial Engineering Department which conducts studies on a continuous basis.

[Ministry of Steel, O.M. No. 10(22)/90-RMI.Vol. VI, dated 9.12.1992]

Comments of the Committee

(Please see paragraph 15 of Chapter I of the Report)

Recommendation S. No. 18 (Paragraph 4.23)

The Committee feel concerned to note that though the overall annual output per employee had increased from 1598 tonnes in 1987-88 to 1826 tonnes in 1989-90 the productivity of iron ore per man year had decreased from 2598 tonnes in 1987-88 to 1746 tonnes in 1989-90 in Bailadila-5 and from 1903 tonnes in 1987-88 to 1631 tonnes in 1989-90 in Donimalai, except in Bailadila-14 where it had increased from 1616 tonnes in 1987-88 to 2106 tonnes in 1989-90. The Committee desire that all out efforts be made to improve productivity of iron ore per man year in order to maximise production.

Reply of Government

The output per man year for the years 1990-91 and 1991-92 as compared to 87-88 for the iron ore projects are given below:

Project	1987-88	1990-91	1991-92
Bailadila-14	1616	1711	2323
Bailadila-5	2598	1767	2437
Donimalai	1903	1941	1938

From the above, it may be observed that the productivity per man year has generally improved especially in 1991-92. NMDC states that they will make sustained efforts to further improve productivity and maximise production.

[Ministry of Steel, O.M. No. 10(22)/90-RMI. Vol. VI, dated 9.12.1992]

Recommendation S. No. 19 (Paragraphs 5.34 & 5.35)

Panna Diamond Mining Project comprised of two main mines, *viz* Ramkheria and Majhgawan. The scheme envisaging revival of diamond deposits at Ramkheria and Majhgawan for exploitation with production capacity at 11,250 carats and 12,000 carats, at a capital investment of Rs. 68 lakhs and Rs. 105 lakhs respectively was approved by Government in December, 1967. The mines were commissioned in 1968-69 at a total capital cost of Rs. 183.28 lakhs. In para 7.12 of their 37th Report (1972-73) the Committee on Public Undertakings took note of the undue haste with which the Ramkheria mine was taken up for exploitation without a thorough and careful techno-economic study of the project resulting in an infructuous expenditure and recommended that the entire matter should be thoroughly investigated by the Government and the responsibility for the loss fixed. This recommendation was reiterated by the Committee in their 60th Report (1974-75). Surprisingly, NMDC closed the mine in June, 1980 becasue of its unviability but no such enquiry has been conducted by the Government during the last 18 years. The Secretary (Steel) had admitted during evidence that "This is another bad case where a formal enquiry was not instituted."

The Committee note that after their examination of the Ministry, an Enquiry Committee was set up in March, 1991 to investigate the whole matter and that Committee's Report was received by Government in July, 1991. The Enquiry Committee is stated to have expressed their inability to fix the responsibility for the lapse because that involved examination of very old records. The Committee take a serious view of non-implementation of their such an important recommendation in time. They, therefore, desire that Government should evolve some foolproff procedure and ensure its strict observance so that such grave lapses are not repeated in future.

Reply of Government

Government regret the lapse. There is a well laid down procedure for preservation of importat records including those relating to the working of important Committees. It will be ensured that this procedure is meticulously followed to avoid such lapses.

[Ministry of Steel, O.M. No. 10(22)/90-RMI. Vol. VI, dated 9.12.1992]

Recommendation S. No. 20 (Paragraph 5.36)

The Committee find that there is an established procedure in the Ministry that till the implementation of the recommendation is intimated to the Parliamentary Committee concerned the matter remains on a regular reviewing list and in cases where Government finds it difficult to implement the recommendation the matter invariably goes to the Minister. The relevant files are stated by the Ministry to have been destroyed but it is not clear whether or not the extant procedure was followed in the instant case. The Committee cannot but deprecate the casual approach on the part of the Ministry in destroying such important files without intimating to the Committee the final action taken in the matter.

Reply of Government

As already mentioned under Recommendation No. 19, Paragraph 5.34 and 5.35, the Ministry has been strictly following the procedure laid down for dealing with the recommendations of the COPU and also ensures that the relevant files etc. are kept intact for future reference. In the present case also, these procedures were followed. Details of the same were furnished to Lok Sabha Secretariat vide Ministry of Steel, O.M. No. 10(22)/90-RMI. dt. 14.11.91 as reply to Point 6 of their O.M.

No. 135/1(10)-PU/90 dt. 4.3.1991 enclosing all the earlier correspondences/CAG vetting on the said matter.

The said files seem to have been destroyed inadvertently in view of the considerable lapse of time of about two decades. However, all necessary steps will be taken in future to prevent a recurrence of such a lapse.

[Ministry of Steel, O.M. No. 10(22)/90-RMI.Vol. VI, dated 9.12.1992]

Recommendation S. No. 21 (Paragraph 5.37)

The proposal to close the Ramkheria mine, being uneconomical, was mooted in 1973. Even though the actual production in the mine ranged between 1600 carats and 2300 carats per annum from 1973-74 to 1978-79 as compared to the designed capacity of 11250 carats per year the mine was finally closed in June, 1980 i.e. after 7 years and during this period the company incurred a loss of Rs. 158.87 lakhs on account of delay in taking the decision and another Rs. 41.23 lakhs during July, 1980 to March, 1985 due to maintenance of mine and township. The reasons advanced by the Government in defence of these costly delays are hardly convincing. The Committee have no doubt that the loss of Rs. 200 lakhs in all suffered by the company from 1973 to 1985 could have been avoided if the Government had moved quickly in the matter. The Committee cannot help deprecating the unnecessary and avoidable delay on the part of the government in deciding the closure of the mine which was already proving a drag on the scarce financial resources of the Company.

Reply of Government

The observations of the Committee have been noted. Closure of the mine was delayed in view of the large work force which had to be rehabilitated.

[Ministry of Steel, O.M. No. 10(22)/90-RMI. Vol. VI, dated 9.12.1992]

Recommendation S. No. 22 (Paragraph 5.38)

The Committee note that despite increase in production of diamonds from 13209 carats in 1988-89 to 16071 carats in 1989-90, the company incurred a loss of Rs. 1.20 crore in 1989-90 as compared to Rs, 0.94 lakh in 1988-89. According to the company, the main reasons for increase in loss in 1989-90 as compared to 1988-89 were write off of tuff, additional payments on account of wage settlement, increase in expenses due to inflation etc. NMDC hoped to reach break-even in 1990-91. The Committee trust that the company would achieve its aim. They recommend that the company should make all out efforts to maximise production and reduce their cost of production in order to improve their profitability.

Reply of Government

In the year 1990-91 NMDC produced 17,401 carats of diamonds and earned a profit of Rs. 0.58 crores for the year. Taking into account the reversal of cess provided for in the earlier years, the profit before tax for the year came to Rs. 3.76 crores. In the year 1991-92 the production of diamonds was 17,746 carats. The profit for the year was Rs. 1.93 crores. After charging full depreciation on the new additions to the existing plant which has been fully depreciated, the net profit before tax was Rs. 0.80 crores.

From the above, it may be noted that NMDC has been making efforts to maximise production and improve profitability.

[Ministry of Steel O.M. No. 10 (22)/90-RMI. Vol. VI dated 9.12.1992]

Observations of Audit

"The production of diamonds in the years 1991-92 was 17,741 carats".

Comments of the Government

The production of diamonds in the year 1991-92 was 17,741 carats which has been reflected in the Annual Report of NMDC for the year 1991-92. The production of 17,746 carats earlier indicated was the site weight whereas the production of 17,741 carats as finally reconciled is the net weight.

[Ministry of Steel O.M. No. 10 (22)/90-RMI. Vol. VII dated 2.3.1993]

Recommendation S.No. 23 (Paragraph 5.39)

The Committee note with concern that the requirement of manpower in Ramkheria and Majhgawan mines was not provided for in the diamond mining revival scheme of 1967. A study conducted in 1978 by the Industrial Engineering Unit of NMDC revealed that as against the requirement of 607 employees in Majhgawan Mine and Panna Office the actual strength was 780 employees. The Company introduced voluntary retirement scheme and 327 daily workers opted for it upto March, 1980. Consequent upon closure of Ramkheria mine and transfer of its employees to Majhgawan Mine Panna Office the actual strength was far in excess of the requirement during the years 1984-85 to 1989-90 and the total incidence of payments to surplus staff as at the end of 1989-90 was Rs. 240.19 lakhs. The Committee were informed that there were only 70 surplus employees now in Ramkheria Mine and the company hope to utilise this manpower in their expansion programme currently being implemented. Strangely, a number of studies were conducted by the Industrial Engineering Unit of the company to review the manpower requirement of Panna between 1979 and 1987 but the unit seems to have not been able to prescribe the actual manpower requirement of Panna Diamond Mine. The Committee desire that an expert independent agency may be engaged to scientifically assess the manpower requirement of the mine and some procedure may be devised to ensure that the strength does not exceed the prescribed limits in future.

Reply of Government

As desired by the Committee, NMDC is taking action to engage an expert outside agency to scientifically assess the manpower requirement of the mines. Pending a detailed report, tentatively, the company has assessed that most of the surplus employees at present will be absorbed in the expansion schemes under implementation.

In future, the Industrial Engineering Department of the Company will maintain a close watch on the manpower position to contain the strength within prescribed limits.

[Ministry of Steel O.M. No. 12(22)/90-RMI. Vol. VI dated 9.12.1992]

Recommendation S.No. 24 (Paragraph 6.29 & 6.30)

The committee note that a scheme to develop a deposit adjoining Bailadila-14 viz. Bailadila 11-C was prepared in May, 1978 at an estimated cost of Rs. 9.90 crores with an initial production of 33 lakh tonnes of ROM per annum. The cost of the project as finally revised to Rs. 29.52 crores was approved by Government in October, 1986 against which an expenditure of Rs. 30.89 crores was incurred upto March, 1988. Thus there was a huge increase of Rs. 21 crores, representing more than 200 per cent increase over the original estimated cost of Rs. 9.90 crores. It is regrettable that the Bailadila 11-C which was conceived in May, 1978 completed only in October, 1987, after a period of more than 10 years.

According to audit the overall delay in completion of work was expected to be 41 months out of which 15 months was due to delay in award of the work order and 26 months was due to delay in supply of the equipment by the contractor. The Committee have no doubt that 15 months delay could have been avoided if other management had been alert in taking timely action to award the work order.

Reply of Government

The observations of the Committee have been noted. Monitoring systems are now functioning more vigorously to avoid future repetition.

[Ministry of Steel O.M. No. 10(22)/90-RMI. Vol. VI dated 9.12.1992]

Recommendation S.No. 26 (Paragraph 6.33)

The Committee find that even though Hindustan Steel Construction Limited had delayed structural work by 2 years upto June, 1986 and Alumimium Industries (Private) Limited which were to complete supplies by December, 1986 completed the same by February, 1988 but no penalty was levied by NMDC against either of the companies. NMDC and the firms are stated to have filed claims/counter claims against each other and the matter is before the arbitrator. The Committee desire NMDC to make serious efforts to expedite the award of the arbitrators.

Reply of Government

The arbitrator has since given the award.

[Ministry of Steel O.M. No. 10(22)/90-RMI. Vol. VI dated 9.12.1992]

Recommendation S. No. 27 (Paragraph 6.40)

The Committee find that iron ore fines produced in Bailadila-5 were dumped in a valley as these were not a saleable product. Anticipating high demand of iron ore fines after the Comminssioning of Visakhapatnam Steel Plant, NMDC formulated a Fine Ore Handling Scheme (FOHS) in July, 1980 for handling fine ore at Bailadila-5. The Committee note with concern that the cost estimates of FOHS orginally assessed at Rs. 13.86 crores in July, 1980 were intially revised to Rs. 25.94 crores in January, 1982 *i.e.* the cost doubled in just 16 months and were finally revised to Rs. 30.77 crores and approved by the Government in March, 1987. It is surprising that the scheme which was started in September, 1982 and was expected to be completed in September, 1985 was actually completed in December, 1986 and commissioned in July, 1987. This shows that there was no control either at NMDC's level or at the level of the Ministry to see that the scheme is completed within the stupulated time schedule. In Committee's view this is yet another bad case of faulty planning and implementation of scheme by NMDC.

Reply of Government

The observations of the Committee have been noted. NMDC has pointed out that the delay in the completion of FOHS at Bailadila-5 was mainly due to the problems faced in the supply of equipment, and hence not totally within the control of the Company.

[Ministry of Steel O.M. No. 10(22)/90-RMI. Vol. VI dated 9.12.1992]

Recommendation S. No. 28 (Paragraph 6.41)

The Committee note that as against its full rated annual handling capacity of 1.8 million tonnes of fine ore the system could handle only 4.76 lakh tonnes in 1987-88 and 9.26 lakh tonnes in 1988-89. Thus NMDC had not been able to achieve the installed capacity of this scheme since commissioning. According to the company the reasons for less handling of fines during the above years was non-commissioning of Visakhapatanam Steel Plant, for which FOHS had been mainly installed, and lack of demand for export. The Company handled 11.48 lakh tonnes of fine ore in 1989-90 and hope that the demand would increase in the coming years. Since the company foresee good marketability of fine ore from Bailadila-5 in future, the Committee desire that the scheme be geared up properly so that it can achieve its installed capacity without further loss of time. They also desire that new areas both in domestic and foreign fields be explored to market the products fully.

Reply of Government

The observations of the Committee have been noted. It is also planned that the FOHS at Bailadila-5 should finally handle another 1.00 million tonnes of fines per annum by reclaiming the earlier dumped fines.

The quantity of fine ore handled through the FOHS of Bailadila-5 was

15.53 lakh tonnes in 1990-91 and 21.30 lakh tonnes in 1991-92. Thus NMDC is gearing up to utilise the FOHS facility at Bailadila-5 to the maximum extent possible by selling as much fine ore as possible from this project both in the domestic and foreign markets.

[Ministry of Steel O.M. No. 10(22)/90-RMI. Vol. VI dated 9.12.1992]

Observations of Audit

"The quantity of fine ore handled through the FOHS of Bailadila-5 was 21.27 lakh tonnes in 1991-92".

Comments of the Government

The quantity of fine ore handled through the FOHS in 1991-92 was 21,26,628 tonnes which had been rounded off to 21.30 lakh tonnes in Government's reply

[Ministry of Steel O.M. No. 10(22)/90-RMI. Vol. VII dated 2.3.1993]

Recommendation S. No. 29 (Paragraph 7.17)

The Committee find that during the years 1983-84 to 1988-89, the cost per tonne in BIOP-5 and DIOP iron ore projects had been considerably higher than the BICP estimates of March, 1987, except of course in 1986-87 when it was less than the BICP estimate in BIOP. In the case of BIOP-14, though the actual cost was less than that of BICP estimates during 1984-85, 1985-86 and 1986-87, it was much higher than the BICP estimate during the years 1987-88 and 1988-89. Undoubtedly, the efficiency of the management lies in reducing the cost of production and achieving optimum results with minimum use of resources. The Committee desire NMDC to make concerted efforts to bring down the cost of production to the standard fixed by BICP. They also recommend that NMDC must identify the areas where there is scope for controlling the costs and take appropriate action to minimise the cost in these areas.

Reply of Government

NMDC has already informed the Committee that the cost standards fixed by BICP are at variance with the methodolgy used by NMDC in working out the cost of production. However, concerted efforts are being made by NMDC to bring down the cost of production through increased production quantitites, energy conservation, increased output per man year etc. This is also being monitored through appropriate indicators in the annual MOU of the Company with the Ministry.

However, as recommended by the Committee, NMDC has been asked to specifically identify areas where there is scope for controlling costs and to initiate appropriate action for minimising costs in these areas.

[Ministry of Steel O.M. No. 10(22)/90-RMI. Vol. VI dated 9.12.1992]

Recommendation S. No. 31 (Paragraph 7.19)

The Committee find that during the years 1983-84 to 1988-89 the cost of production per carat of diamond in the Diamond Mining Project, Panna was much more as compared to the sales realisation. Consequently the project had been incurring losses year after year. According to the company the reasons mainly responsiblic for loss have been high cost of production due to increase in cost of inputs, increase in salaries and wages, surplus staff and low incidence of diamonds. The Committee note that with the increase in production from 13209 crarts in 1988-89 to 16071 carats in 1989-90, the Panna Diamond Project has been able to reduce the loss from Rs. 1196 per carat to Rs. 410 per carat during the same years. The Committee are, therefore, convinced that the company can overcome these factors which attribute to losses by increased production and proper utilisation of available resources in the project.

Reply of Government

The production in the Panna Diamond Mining Project in the year 1990-91 was 17401 carats and in the year 1991-92 was 17746 carats. With the increased production and better sales realisation Panna is now earning profits. It is expected that this trend will continue in future as well.

[Ministry of Steel O.M. No. 10(22)/90-RMI. Vol. VI dated 9.12.1992]

Observations of Audit

"The production in Panna Diamond Mining Project during the year 1991-92 was 17,741 carats".

Comments of Government

The production of diamonds in Panna Diamond Mining Project in 1991-92 as finally reconciled was 17,741 carats which has been reflected in Annual Report of NMDC.

[Ministry of Steel O.M. No. 10(22)/90-RMI. Vol. VI dated 2.3.1992]

Recommendation S. No. 32 (Paragraph 7.20)

NMDC is also stated to be planning to modernise the process plant to optimise production and improve the grinding process to recover larger diamonds fetching higher sales realisation per carat. The Committee desire that in order to make the project viable, the company must frame some time-bound programme to maximise production and reduce the cost of production by effecting economy in the sectors identified to be chiefly responsible for increase in the cost of production. The company should also explore the possibility of purposeful utilisation of the surplus staff or in the alternative offer them voluntary Retirement Schemes to shed the extra burden on the company, otherwise by continuously incurring losses in this project, the company would find it difficult to justify the continuance of this project as the country can not afford to fritter away its hard earned money on such losing ventures.

Reply of Government

The modification and rationalisation work to optimise the production improve the grinding process in the Panna project has been completed and is under trial run. The results obtained so far show that the breaking of larger diamonds during grinding process has come down. Once this new process gets stabilised, the production is expected to go upto 18000 carats.

In regard to surplus manpower of Panna, action is being taken to absorb some of them in the modified processes which require additional hands. Some are being offered jobs at R&D Centre at Hyderabad which needs extra manpower for the third shift operation of its Demonstration Plant for producing ferric oxide. Further expansion of Panna is also being planned and it is expected that the balance surplus manpower will be absorbed in the expanded Project.

[Ministry of Steel O.M. No. 10 (22)/90-RMI. Vol. VI dated 9.12.1992]

Recommendation S. No.33 (Paragraph 7.21)

The Committee also desire the Government to keep a watch on the progress of implementation of the plan chalked out by the company to optimise production and to improve the incidence of diamonds extraction and take appropriate corrective measures to ensure that the project becomes financially viable soon.

Reply of Government

The project to optimise production and improve diamond production has been completed within the scheduled time with no cost over run. With increased production at around 18,000 carats per annum, it is expected that Panna would continue to make profits as was the case in 1990-91 and 1991-92.

[Ministry of Steel O.M.No.10 (22)/90-RMI.Vol.VI dated 9.12.1992.]

Recommendation S. No. 34 (Paragraph 8.29)

The Committee regret to note that NMDC has been incurring losses since its inception in 1958. In 1986-87 the company, however, made a profit of Rs. 65.62 lakhs but incurred huge losses of Rs. 1783.58 lakhs and Rs. 1769.28 lakhs in 1987-88 and 1988-89. The accumulated losses of the company as on 31.3.1989 were of the order of Rs. 32.97 crores. According to the company the major causes for the losses suffered by it in the past were the unremunerative prices paid by MMTC for the iron ore, the policy of the Government to export iron ore to earn foreign exchange and the uncertain market conditions. Since the company entered into an independent commercial agreement with MMTC in 1989-90 for four years from 1989-90 to 1992-93 for supply of iron ore for export and had also started supplying iron ore to Visakhapatnam Steel Plant at mutally agreed prices, NMDC turned the corner and made a profit of Rs. 38.85 crores in 1989-90 and wiped out the accumulated losses of Rs. 32.97 crores as on 31.3.1989. As the domestic demand for iron ore has picked up with the coming up of VSP and sponge iron units and there is stability on the price front due to the agreement with the MMTC, the Committee hope that the company will further improve and maintain its trend of earning profits in future.

Reply of Government

The profit earned by the company on 1990-91 was Rs. 48.10 crores (before tax) and in 1991-92 was Rs. 145.21 crores (before tax). The company declared a maiden dividend of 4% per share in the year 1990-91 and a sum of Rs. 5.17 crores was distributed as dividend. The company has declared a dividend of 20% on equity for the year 1991-92, amounting to Rs. 26.43 crores. As per the existing plans and sales tie up, it is expected that NMDC would continue its trend of earning profits in the future also.

[Ministry of Steel O.M. No. 10 (22)/90-RMI.Vol. VI dated 9.12.1992.]

CHAPTER III

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

Recommendation S.No. 11 (Paragraphs 3.26 & 3.27)

The Committee on Public Undertakings (1972-73) after examination of the working of Bailadila Iron Ore Project-14 had observed that recovery of lump ore from Bailadila had not exceeded 65 per cent of the targeted capacity of 4 million tonnes as compared to 75 per cent envisaged in DPR. The Committee had, therefore, recommended that the Management should strive to increase recovery of lump ore and enhance efficiency in production in order to improve the economics of the Project. The Committee note that NMDC appointed three Committees in 1970, 1975 and 1977 to study the achievable rated capacity of the mine. An expenditure of Rs. 171.48 lakhs on augmentation of mining equipment, as recommended by the first Committee, was also incurred. The Committee regret to observe that even after augmentation of mining equipment the actual production did not improve and ranged between 58 to 69 per cent in later years upto 1989-90 and never reached the envisaged level of 75 per cent. Thus an expenditure of Rs. 171.48 lakhs proved infructuous as it failed to achieve the desired results.

The Committee note that the iron ore reserves of Bailadila-14 were depleting and the production was to reach zero level in 1991-92. To improve its economics the Company has taken a decision to continue mining under Deeper Level Mining Scheme at the rate of 2 million tonnes per annum upto the year 2000 and also commissioned Bailadila 11-C mine as a part of Bailadila-14. The new designed capacity of the mine has been fixed at 5.3 million tonnes of ROM per annum. The Committee desire the Comapny to make all out efforts to achieve the designed capacity of the Project.

Reply of Government

With the addition of equipments in Bailadila-14, total excavation in the mine increased from a level of about 29 lakh tonnes per annum in 1968-69 to a level of 40 to 45/49 lakh tonnes per annum in the years around 1980 and 1981. The additional equipment provided could take care of additional waste excavation which had become necessary, besides stepping up ROM from a level of around 26 lakh tonnes to 40 lakh tonnes in the corresponding periods. Had the additional aquipment not been provided, the total excavation would have stayed around 29 lakh tonnes per annum thereby further reducing the ROM and consequently lump ore production. Geological uncertainties came into play in mining benches considering that limited tests/drilling were carried out for preparing the DPR.

The fines produced and stacked in the earlier years have now become saleable. With the increase in export demand for fines and the establishment of domestic steel plants including VSP, the ratio of lump recovery to ROM is important primarily for producing the required quantities of lump without sacrificing scientific mining. Therefore, purchase of the additional equipment procured as per the recommendations of the three Technical Committees should not be considered infructuous since it has helped the Corporation to maintain ROM production, adequately cater to increased incidental waste mining, keep the mining excavation on scientific lines and at the same time meet the target of production of lumps to the maximum extent possible.

The production from the combined mines of Bailadila-14 & 11/C has reached 5.10 million tonnes of ROM in 1991-92. Thus, it can be seen that the company is making concerted efforts to achieve the designed capacity of 5.3 million tonnes of ROM from the combined Deposit Bailadila-14 (including Deeper Level Mining) and Deposit 11/C.

(Ministry of Steel O.M. No. 10 (22)/90-RMI. Vol. VI dated 9.12.1992)

Observations of Audit

"The production from the combined mines of Bailadila-14 & 11/C has reached 5.01 million tonnes of ROM in 1991-92".

Comments of the Government

The production from the combined mines of Bailadila-14 & 11/C during the year 1991-92 as finally reconciled and adopted for finalising the annual accounts was 51,01,063 tonnes of ROM (i.e. 5.10 million tonnes of ROM).

(Ministry of Steel O.M. No. 10(22)/90-RM I Vol. VII dated 2.3.1993)

Recommendation S. No. 17 (Paragraph 4.22)

The Committee find that the incidence of payment and benefit to labour per tonne of production exceeded the norms fixed by BICP in respect of all the iron are projects. In Bailadila-14, against the BICP norm of Rs. 5.18 in 1981-82 and Rs. 12.37 in 1987-88 the incidence of payment and benefit to labour per tonne of production was Rs. 7.68 and Rs. 20.38 during the same years. Similarly in Bailadila-5 it increased from Rs. 8.90 in 1980-81 to Rs. 12.88 in 1987-88 as against the BICP norm of Rs. 5.62 and Rs. 7.64 respectively. Likewise in the case of Donimalai it ranged from Rs 13.51 in 1981-82 to Rs. 26.28 in 1987-88 against the BICP norm of Rs. 5.55 and Rs. 7.91 during the same years. The Company has contested the norms fixed by BICP on the ground that BICP took both fines and lumps as products for working cost of production whereas NMDC calculated cost of production based mainly on lumps ore as fines were not saleable. The Committee are not convinced with this explanation. They are of the view that if the norms were not acceptable to them, NMDC should have represented against them when these were being fixed by BICP. Now that the company has been able to find a good domestic market for sale of fines, the Committee desire that concerted efforts be made now to observe the BICP norms as otherwise it would badly affect the financial health of the Company.

Reply of Government

The Company did represent against the norms fixed by BICP. The Three Reports submitted by BICP; in 1981, in 1984 and in 1987, adopted a certain basis for calculating the cost of production, cost of labour, escalations etc. When NMDC raised objections regarding the variations in respect of the above cost/expenditure from the realistic situation, NMDC was informed by BICP that they were working out a normative cost mainly with a view to allocate the amount available from export realisation to the various agencies involved in the iron ore exports *viz.* NMDC, Railways, Port and MMTC. The issues concerning the cost/price finally went into arbitration to a one man committee called the "R.R. Gupta Committee". NMDC had to accept the Report of this Committee in which no escalation was allowed for the years 1987-88 & 1988-89, and the price which was fixed in 1986-87 was extended to 1987-88 and 1988-89 inspite of considerable increase in these years.

Thus, the actuals are not strictly comparable with the norms fixed by BICP.

NMDC states that they are making all out efforts to contain costs and improve the financial health of the Company.

[Ministry of Steel O.M. No. 10(22)/90-RMI., Vol. VI dated-9.12.1992]

Recommendation S. No. 30 (Paragraph 7.18)

The Committee further note that, as acknowledged by BICP in 1981, the price realised by NMDC by exporting iron ore has not been commensurate with the cost involved in production, despatch and sale of iron ore. They desire that in case of exports Government should examine the feasibility of reimbursing to NMDC the difference between the cost and sales realisation, in the form of subsidy, as suggested by BICP.

Reply of Government

Due to increase in domestic demand for Bailadila ore, and a better commercial agreement with MMTC for export realisation, the Company has been making profits since 1989-90 and has wiped out its losses. It attained a record profit of Rs. 145.21 crores in 1991-92. Therefore, there is perhaps no longer any need for grant of subsidy.

[Ministry of Steel O.M. No. 10(22)/90-RMI., Vol. VI dated 9.12.1992]

Recommendation S. No. 35 (Paragraph 8.30)

The Committee find that the profit of Rs. 38.85 crores made by the company during 1989-90 reportedly works out to about 22 percent return on investment of Rs. 169.95 crores. The company is stated to have received a sizeable amount from MMTC in 1989-90 as arrears due from MMTC on account of settlement of claims pertaining to the years 1986-87 and 1987-88. The overall profit shown by the company during the year 1989-90, therefore, does not reflect a true picture of operating performance of the company. The Committee would like to be informed about the operating profit during 1989-90 and the return on investment worked out in relation to operating profit. The Committee feel that if the figures so worked out reveal a steep decline in return on investment, it would call for a new strategy to be evolved to accelerate the profitability of the company. As the company envisages to achieve a return of not less than 15% on the capital employed in future also, the Committee trust that NMDC will make earnest efforts to achieve their objective.

Reply of Government

NMDC did not account any amount in 1989-90 due from MMTC as arrears pertaining to settlement of claims for the years 1986-87 and 1987-88. However, it included subsidy of Rs. 9.95 crores. Excluding that, the profit for the year 1989-90 was Rs. 28.90 crores which works out to a return on capital employed at 17% which is higher than 15% of ROI envisaged by the Company.

In subsequent years of 1990-91 and 1991-92 also NMDC achieved an Return on Investment of more than 15%

NMDC expects to continue to achieve a return of not less than 15% on capital employed in future also.

[Ministry of Steel O.M. No. 10(22)/90-RMI., Vol. VI dated 9.12.1992]

Recommendation S. No. 36 (Paragraphs 8.31 & 8.32)

The Committee note that Bailadila and Donimalai Projects were sanctioned by the Government with the prime objective of export of iron ore to earn foreign exchange for the country. Iron ore produced in Bailadila and Donimalai mines is exported by NMDC through MMTC, their canalising agent. Besides NMDC, MMTC Railways and Ports are also engaged in the export of iron ore. The Committee also note that the sale price demanded and received by NMDC in respect of iron ore exports has been a matter of dispute between MMTC and NMDC for a number of years. MMTC, Railways and Ports got their full share of cost whereas NMDC received only the residual price which was not enough even to cover their cost of production. As a consequence, NMDC continued incurring heavy losses.

The Committee further note that the matter regarding payment of price by MMTC for NMDC's iron ore during the recent years was considered by the Committee of Secretaries chaired by the Cabinet Secretary in April, 1983 and a decision was taken that MMTC would pay NMDC the cost of production as determined by BICP from 1983-84. Regrettably NMDC continued receiving the residual price. The Committee of Secretaries again met in 1983, 1986 and 1987 but no tangible solution to the vexed problem was found as their decisions were not honoured by one or the other agency leaving NMDC perpetually in a losing position. It is very surprising that the matter defied solution even at the hands of Secretary (Expenditure) to whom it was referred for giving his final verdict, being an officer not connected with any of the agencies. Surprisingly the recommendations made by him in February, 1988 [that (i) all agencies engaged in iron ore export should be given a fair price and (ii) all agencies may be paid the standard cost without return on investment worked out by BICP for the year 1986-87, during April, 1986 to March, 1989] were not implemented by MMTC. It is regrettable that the decisions of such high powered Committee of Secretaries were not implemented defeating the very purpose for which these were appointed from time to time and the whole matter remained unresolved for a considerably long time resulting into loss to NMDC for no fault of theirs. From the facts placed before them, the Committee have come to an inescapable conclusion that the apportionment of price of iron ore between MMTC and NMDC was not handled with due seriousness and expedition. In the Committee's opinion if the problem was beyond the capacity of the Committee of Secretaries to resolve, the matter should have been taken to the highest authority of the Government. The Committee are of the opinion that since iron ore was being exported by NMDC at the instance of Government who were mainly interested in earning foreign exchange, Government should have adequately compensated NMDC by way of subsidy and helped them to tide over their financial difficulties.

Reply of Government

The observations of the Committee have been noted. Now that the matter has been amicably settled between MMTC & NMDC, and NMDC has wiped out its accumulated losses and is making increasing profits from 1989-90, there is perhaps no longer any need for grant of a subsidy by the Government.

[Ministry of Steel O.M. No. 10(22)/90-RMI., Vol. VI dated 9.12.1992]

CHAPTER IV

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

Recommendation S. No. 1 (Paragraph 1.15)

In terms of BPE's guidelines issued in 1979 and 1984 each public undertaking was required to formulate with the specific approval of the administrative Ministry, a statement of micro objectives consistent with the broad objectives spelt out in Industrial Policy statement of December, 1977 to facilitate realistic and meaningful evaluation of the enterprise by Parliament and the Government. The National Mineral Development Corporation is stated to have framed its Long Term Corporate Objectives and submitted the same to the Steel Authority of India Limited (the then Holding Company) and the Government in 1979 for approval but were not approved by them all these years. The Secretary, Ministry of Steel & Mines (Department of Steel) clarified in evidence that Government had examined the objectives and returned the same to the Company suggesting their revision. The revised objectives were resubmitted by NMDC for approval of Government in October, 1990 i.e. after a gap of 11 years but these were again returned to them for making them more specific. The delay of 11 years in submission of the objectives to Government has been attributed by the Company to the frequent changes in their controlling agencies between 1973 and 1977 and non-settlement by Government of apportionment of sale proceeds of iron ore between MMTC and NMDC. The Company's contention that frequent change of their masters was the inhibiting factor in framing their long term objectives does not hold good because since 1978 NMDC has been continuously under the control of the Department of Steel. It is surprising that neither the Ministry sent any reminder to NMDC nor the NMDC pursued the matter with Ministry for 11 long years. It is also very strange that the objectives were not even discussed in the Board Meetings during this period. The Secretary, Department of Steel had stated during evidence, "I do entirely agree that 11 years' time is certainly a very long time for reviewing the Long Term Objectives which had been sent earlier." The Committee are not able to understand how in the absence of Long Term Objectives the performance of the Company was being evaluated by the Government. The Committee cannot but strongly deprecate the lackadaisical manner in which both NMDC and the Ministry have handled this matter.

Reply of Government

The broad role of the Corporation was well identified since the beginning of the 1970s. Its major role was to pursue activities in respect of iron ore production for meeting the requirements of the steel plants and for export, develop minerals other than coal and oil, and undertake improvements in mining technology.

NMDC has been continuously under the Ministry of Steel since 1978. It has prepared five year plans for its activities for the periods 1980-81 to 1984-85 and for the periods 1985-86 to 1990-91 and these were approved by the Board of Directors in which the Ministry's representative is also a Member Director. In the context of these plans, the Corporation was preparing its Annual Corporate Plans from 1978 onwards and these took into account the necessary reviews of the long term objectives prepared in 1977. Thus, there were objectives and action plans for the company which were reflected in the Annual Corporate Plans prepared for each year during the above periods based on which the performance of the company was being evaluated by the Government in the Quarterly and Half Yearly Review Meetings held in each year. These reviews were also attended by representatives from the Planning Commission, Bureau of Public Enterprises and other authorities as and when necessary.

The long term corporate objectives of the Company were also formally enumerated and approved by the Ministry in April, 1991.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VI dated 9.12.1992]

Comments of the Committee

(Please see paragraph 6 of Chapter I of the Report)

Recommendation S.No. 6 (Paragraphs 2.84 & 2.85)

The Committee note that the Bailadila Project-5 scheduled to be completed in 1974 was completed and commissioned in 1977-78 at a much higher cost due to delays in supply of equipments by indigenous suppliers like HEC and MAMC and also because of the technological problems faced by National Projects and Construction Corporation in construction of a tunnel. The Project was constructed with 80% indigenous equipment and machinery.

The Committee also note with concern that the structural works entrusted to Triveni Structural Limited (TSL) and Hindustan Steel works Construction Limited (HSCL), both Public Sector Undertakings in January, 1971 and November, 1971 to be completed as per contract in

September, 1973 and July, 1974 respectively were both actually completed in December 1976, after a delay of 29 months and 39 months respectively. It is very strnage that despite such huge delays and increase in the projet cost by Rs. 8.08 crores on account of overall increase in the period of construction the company did not levy any penalty/liquidated damages.

Reply of Government

The company has already informed the Committee that both NMDC as well as the contractors (who were Public Sector Undertakings) raised claim on account of delays and penalties against each other on various accounts. Finally a negotiated settlement was reached between these contractors and NMDC taking into consideration their claims and NMDC's claims.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VI dated 9.12.1992]

Observations of Audit

"Reply of Government does not touch upon the penalty and liquidated damages claimed from the contractors".

Comments of the Government

The Government's reply to this recommendation has already touched upon the aspect of panalties and liquidated damages raised by way of claims and counter claims on each other by NMDC and the contractors (who were also public sector undertakings). Though the delays and penalties were not quantifiable in view of several factors, a negotiated settlement acceptable to both the parties was finally reached by NMDC and the contractors on the claims and counter claims.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VII dated 24.3.1993]

Comments of the Committee

(Please see paragraph 9 of Chapter I of the Report)

Recommendation S. No. 8 (Paragraph 2.88)

The Committee note that in November, 1968 Government had issued instructions to NMDC to place orders on Heavy Engineering Corporation (HEC) for the supply of machinery and in July, 1972 for placement of orders on the Mining and Allied Machinery for supply of equipment required for the Bailadila-5 Project with a view to development indigenous sources of supply. NMDC is stated to have cautioned the Government against it. The main reason for the Government's directions for placing orders on indigenous manufacturers was the necessity to keep the foreign exchange component to the minimum. But these companies failed to come up to the expectations of the Government as the indigenous companies viz. HEC and Tata Robins Frasers, Jamshedpur on whom the orders for supply of equipments were placed themselves went into collaboration with foreign countries. HEC went into foreign collaboration with USSR for manufacturing crushers and with DEMAG of West Germany for manufacturing the reclaimer and the Wagon loader and Tata Robins Frasers with

Robins Engineers and Construction Ltd. of USA for manufacturing the downhill conveyor system. This resulted in increase by about 76.5% over the original sanction towards the cost of plant and machinery. The foreign exchange component was increased by 255 percent and the total foreign exchange incurred amounted to 46.84% of the total cost of plant and machinery against 23.25 percent envisaged in the original estimate. The Committee find that the Government miserably failed in achieving their objective of encouraging the indigenous firms and in minimising outflow of foreign exchange.

Reply of Government

The general policy of Government at that time was that imports should be resorted to only when indigenous availability is ruled out. Indigenous capabilities were to be encouraged to attain self-sufficiency.

In the process of developing indigenous capability, some slippages may occur as indigenous firms may require technology transfer, collaboration, expert advice etc. for carrying out certain areas of sophisticated work. However, the foreign exchange outgo is likely to be much higher and that too on a continuing basis if orders for supply of machinery are placed only on foreign suppliers.

In the present case, in fact, the Cabinet Committee on Production, Process & Exports had directed that NMDC should place orders on HEC while the Expenditure Finance Committee had stipulated that NMDC should straightaway settle with HEC and MAMC for all other items that could be fabricated by them.

The Committee may consider the issue in the larger context of Government policy to promote indigenisation and conserve foreign exchange.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VI dated 9.12.1992]

Comments of the Committee

(Please see paragraph 12 of Chapter I of the Report)

Recommendation S. No. 9 (Paragraph 2.89)

Not only the indigenous firms failed to execute the jobs entrusted to them in time resulting thereby in abnormal time and cost overruns, but also there were inherent deficiencies/defects in equipments supplied by them. The reclaimer and wagon loader supplied by HEC were based on the design supplied by DEMAG of West Germany. As the defects in the equipments could not be rectified by HEC, NMDC had to call the German experts and paid them Rs 2.85 lakhs for their visits. Similarly there were frequent breakdowns in the apron feeders procured from MAMC being of inferior quality and MAMC failed to supply spares of superior quality for replacement. The Committee were informed during evidence that the defects and deficiencies of the indigenous equipments supplied by HEC and MAMC adversely affected the production of the project. These equipments even now are not performing satisfactorily. The Committee have no doubt that the Government purely out of their zeal to save foreign exchange directed NMDC to place orders on indigenous firms without assessing their capability and technical competence to do the jobs entrusted to them and this definitely casts a poor reflection on the working of the Government.

Reply of Government

As mentioned in Government's reply to Recommendation No. 8, there may be some slippages at the initial stages of absorption of new technology by indigenous manufacturers. However, this should not deter from the larger objectives of improving local technologies, developing indigenous capability and conserving foreign exchange. In the present case, the decision regarding placement of orders on HEC and MAMC was taken at the highest level of the Government in the context of the need for developing indigenous capability and its perception of the capacity of the Indian firms.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VI dated 9.12.1992]

Comments of the Committee

(Please see paragraph 12 of Chapter I of the Report)

Recommendation S.No. 37 (Paragraph 8.33)

The Committee find that on permission being granted by Government, NMDC exported 0.56 and 0.38 lakh tonnes of calibrated ore, on trial basis, to Carribean Ispat and Malaysia respectively in 1989-90 and made sizeable profits. The Secretary of the Ministry informed the Committee during evidence that he was confident that if NMDC was allowed to export directly, it would do well. However, it is for the Commerce Ministry to see. Since NMDC has made a small beginning in export of iron ore directly to some countries and has met with some success, the Committee feel that given an opportunity it can develop its own marketing expertise, which it lacks at present, and can make profits at the export front also. The Committee, therefore, desire the Government to examine the feasibility of entrusting NMDC with the responsibility of exporting its products directly instead of through MMTC so that it may improve its financial position and also earn valuable foreign exchange for the country.

Reply of Government

The Ministry of Steel had written to the Commerce Ministry at the highest level strongly recommending that NMDC be allowed to make direct exports without the need of canalisation through MMTC. This has not been so far accepted by the Commerce Ministry for various reasons.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VI dated 9.12.1992]

Comments of the Committee

(Please see paragraph 18 of Chapter I of the Report)

CHAPTER V

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

Recommendation S. No. 25 (Paragraphs 6.31 & 6.32)

The Committee note that the Department of Steel had set up an Enquiry Committee in 1986 to go into the reasons for unsatisfactory planning, preparation and implementation of the project as also time and cost overruns and that Committee found the various reasons for delay in the implementation of the project.

The Enquiry Committee is also stated to have identified some of the factors which contributed to cost and time overruns. Since deficiencies in the system of formulation and implementation of the project have been identified, the Committee desire the Government to lay down detailed guidelines for the future to avoid such pitfalls. They also desire that the monitoring machinery be adequately strengthened to ensure strict observance of the time schedules in completion and commissioning of the project in future and to avoid repeated revision in cost of the projects.

Reply of Government

The existing procedures for monitoring implementation of projects provide for mandatory reviews by NMDC from time to time as well as obtaining clearance of the Government whenever variations in cost occur beyond certain limits of the sanctioned cost. There is also a provision for review of the cost by the Government when 50% of the cost estimates of the project have been spent. In addition to these stipulations, in the recent past, additional comprehensive guidelines have been issued for preparation of the feasibility report and PIB clearance which are intended to improve the process of project formulation. In addition, recent guidelines issued by the Ministry of Finance have increased the monetary limit for PIB approval from Rs. 20 crores to Rs. 50 crores and this should help in preventing understating of initial cost estimates.

However, in order to further strengthen the monitoring mechanism, the Ministry is referring the above recommendation of the Committee to the Department of Public Enterprises and the Ministry of Programme Implementation for appropriate action.

[Ministry of Steel O.M. No. 10(22)/90-RMI, Vol. VI dated 9.12.1992]

NEW DELHI;
April 27, 1993
Vaisakha 7, 1915(S)

A.R. ANTULAY
Chairman,
Committee on Public Undertakings.

APPENDIX I

Minutes of the 56th sitting of Committee on Public Undertakings held on 23rd April, 1993.

THE COMMITTEE SAT FROM 15.30 HRS. TO 17.30 HRS.

PRESENT

Shri V. Narayanasamy—In the chair

MEMBERS

2. Shri Rudrasen Choudhary
3. Shrimati Bibhu Kumari Devi
4. Shri Madan Lal Khurana
5. Shri Sushil Chandra Verma
6. Shri V. S. Vijayaraghavan
7. Shri Santosh Kumar Sahu

SECRETARIAT

1. Shri T.R. Sharma—*Under Secretary*
2. Shri P.K. Grover—*Assistant Director*
3. Shri A.L. Martin—*Assistant Director*

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

Shri N. Sivasubramanian—Dy. C&AG (Commercial)-cum-Chairman, Audit Board.

In the absence of Chairman, the Committee chose Shri V. Narayanasamy to act as Chairman for the sitting under Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

2. The Committee first considered the following audit based Action Taken Reports and adopted the same:

(i) Draft Report on Action Taken by Government on the recommendations contained in the 6th Report of Committee on Public Undertakings (1991-92) on National Mineral Development Corporation Limited.

(ii) ** **** **** ****

3. ** **** **** ****

4. ** **** **** ****

5. The Committee authorised the Chairman to finalise the Reports on the basis of factual verification by audit (in respect of reports mentioned in para 2) and also the Ministry/Undertakings concerned and to present the same to Parliament.

The Committee then adjourned

APPENDIX II

(*Vide* Para 3 of Introduction)

Analysis of the Action Taken by Government on the recommendations contained in the 6th Report of the Committee on Public Undertakings (Tenth Lok Sabha) on National Mineral Development Corporation Limited.

I.	Total number of recommendations	37
II.	Recommendations that have been accepted by Government (*vide* recommendations at Sl. Nos. 2-5, 7, 10, 12-16, 18-24, 26-29 and 31-34)	26
	Percentage to total	70.3%
III.	Recommendations which the Committee do not desire to pursue in view of Government's replies (*vide* recommendations at Sl. Nos. 11, 17, 30, 35 and 36)	5
	Percentage to total	13.5%
IV.	Recommendations in respect of which replies of Government have not been accepted by the Committee (*vide* recommendations at Sl. Nos. 1, 6, 8, 9 and 37).	5
	Percentage to total	13.5%
V.	Recommendation in respect of which final reply of Government is still awaited (*vide* recommendation at Sl. No. 25)	1
	Percentage to total	2.7%

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