CHAPTER II

2A WEST BENGAL ELECTRONICS INDUSTRY DEVELOPMENT CORPORATION LIMITED

Highlights

West Bengal Electronics Industry Development Corporation Limited (WBEIDC) incorporated in February 1974 to develop electronics and allied industries through establishment of manufacturing, research and development activities, had 10 subsidiaries, five joint sector and nine assisted companies in which WBEIDC had invested Rs 104.03 crore till March 2001.

(Paragraphs 2A.1 & 2A.6)

WBEIDC "Accumulated profit" of Rs 4.92 crore till March 2001 was notional since it was arrived at without providing for doubtful loans and investment of Rs 111.58 crore in sick subsidiary/ managed companies.

(Paragraph 2A.5)

WBEIDC neither framed policies nor criteria for selection of private partners and projects. Consequently, of the nine subsidiaries and three managed companies, five joint sector partners walked out between 1995-96 and 1999-2000. Accumulated losses of subsidiaries/ managed companies aggregating to Rs 112.94 crore out stripped the paid up capital of Rs 32.14 crore, rendering WBEIDC's investment of Rs 94.48 crore unfruitful.

(Paragraph 2A.6)

The Branch in-charge (BIC) of Webel Informatics Limited, New Delhi paid Rs 0.19 crore to a supplier without receipt of materials. Further, Rs 0.11 crore was paid to three suppliers for materials supplied to a customer who disowned the liability.

(Paragraph 2A.6A.1)

Even after withdrawal of sales tax subsidy by the Government, Webel Consumer Electronics Limited (WCEL) continued to grant of sales tax subsidy on assembly of televisions to the original manufacturers and incurred loss of Rs 3.82 crore till December 2000. Absence of follow up after delivery and non collection of debt led to accumulation of Rs 1.89 crore becoming doubtful of recovery. Departmental proceedings were not initiated against the erring officials for misappropriation of cash of Rs 0.69 crore.

(Paragraph 2A.6B)

Due to cessation of activities by Webel Carbon and Metal Film Resistors Limited and Webel Video Devices Limited since April 1996 and January 1998 respectively, idle wages of Rs 7.96 crore were paid till March 2001.

(Paragraphs 2A.6C, 2A.6K)

Even after the Board for Industrial and Financial Reconstruction's (BIFR) directive of March 1997 to wind up Webel Capacitors Limited (WCL), WBEIDC continued to invest Rs 7.83 crore between April 1997 and March 2001 in WCL and sustained losses aggregating Rs 14.68 crore as on 31 March 2001.

(Paragraph 2A.6E)

Due to limited domestic market and unwillingness of the technical and financial collaborator to support an optic-fibre based medical instrument project, the investment of Rs 1.93 crore by WBEIDC proved to be unproductive.

(Paragraph 2A.6F)

WBEIDC did not recover Rs 4.64 crore towards ground rent, rental and service charges in respect of Salt Lake and Taratala electronic estates from eight companies it had promoted.

(Paragraphs 2A.7.1 & 2A.7.2)

2A.1 Introduction

West Bengal Electronics Industry Development Corporation Limited (WBEIDC) was incorporated in February 1974, as a subsidiary of the West Bengal Industrial Development Corporation Limited (WBIDC). The main objectives of WBEIDC were to develop electronics and allied industry through manufacturing, buying, selling, importing and exporting electronic goods and medical instruments as well as research and development activities in electronic technology. It became an independent Government company in August 1981. As on March 2001, WBEIDC had ten[1] subsidiaries, five[2] joint sector companies and nine assisted[3] companies.

WBEIDC is mainly confined to investing in subsidiaries, joint sector and assisted companies, development and maintenance of electronic complexes, functioning as nodal agency for development of information technology (IT) based industries in the State and acting as a trading agent of subsidiaries and assisted companies.

[1] One Company viz. Webel Technology Limited was incorporated as a subsidiary of WBEIDC in February 2001. No fund was contributed by WBEIDC towards share capital upto March 2001.
[2] 3 out of the 5 joint sector companies are managed by WBEIDC
[3] Assisted Companies are those Companies where WBEIDC is a co-promoter but not the principal promoter

2A.2 Organisational Set up

The management of WBEIDC is vested in a Board of Directors headed by the Chairman. As on 31 March 2001, all the 15 Directors of the Board including the Chairman were nominees of the State Government. The Managing Director is the Chief Executive and is assisted by the Executive Director (Finance), five General Managers for Information Technology, Corporate Affairs, Finance, Projects and Infrastructure Development & Investor Service.

2A.3 Scope of Audit

The workings of WBEIDC, nine subsidiaries and six joint sector companies were reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990 (Commercial). The review was not selected for discussion by the Committee on Public Undertakings (COPU). The present review covers the activities of WBEIDC, 10 subsidiaries and three joint sector companies for five years up to 31 March 2001. The audit findings are set forth in the succeeding paragraphs.

2A.4 Funding

2A.4.1 Capital structure

Against the authorised capital of Rs 125 crore, the paid-up capital was Rs 123.60 crore as on 31 March 2001, of which Rs 121.89 crore was subscribed by the State Government and the balance of Rs 1.71 crore by WBIDC. Of above, for a sum of Rs 1.40 crore received from the State Government, allotment of shares was pending (June 2001).

2A.4.2 Borrowings

During 1996–97 to 2000–01 WBEIDC obtained unsecured loans totalling Rs 14.45 crore from the State Government at interest rate of 13.25 *per cent per annum* with a rebate of 2.5 *per cent* for timely repayment. The Government orders sanctioning the loans did not specify the purpose for which the loans were granted. This indicated that the Government exercised no control over the actual utilisation of funds disbursed. WBEIDC did not also monitor the receipt and utilisation of fund through budgetary control. In the absence of separate accounts the extent of utilisation and diversion of fund, if any, could not be assessed.

Further, though funds retained in fixed deposits increased from Rs 5.27 crore in 1996-97 to Rs 22.83 crore in 2000-2001, WBEIDC neither repaid the loan instalments nor paid interest during last five years. Consequently, the outstanding principal amount of all loans shot up three fold from Rs 6.50 crore in April 1996 to Rs 20.95 crore (including overdue of Rs 4.43 crore) in March 2001. Outstanding interest mounted from Rs 1.23 crore in 1996-97 to

Rs 9.01 crore in 2000-01 of which Rs 7.71 crore was due till March 2001. It was observed in audit that during 1996-97 to 2000-2001, WBEIDC had invested a minimum of Rs 5.22 crore in term/ fixed deposits with banks and financial institutions at average annual rates of interest ranging from 8.04 to 15.67 *per cent.* Had WBEIDC utilised the invested fund to reduce its borrowing by at least Rs 5.00 crore, it could have saved interest of Rs 47.00 lakh (interest expenditure – Rs 3.31 crore less interest earning – Rs 2.84 crore). In the years to come, in the absence of internal resource generation the liability would be unsustainable.

2A.5 Financial position and working results

The main sources of income of WBEIDC were interest, rent & service charges from entrepreneurs and trading in electronic goods manufactured mainly by subsidiaries/ joint sector/ assisted companies. The details of financial position and working results are given in Annexures 10 and 11.

Accumulated profit of Rs 4.92 crore was arrived at without providing for doubtful loans and investment of Rs 111.58 crore

It would be observed from Annexure – 11 that sales reduced from Rs 2.68 crore in 1996-97 to Rs 2.45 crore in 2000-01 and was only Rs 1.31 crore in 1999-2000 due to non-receipt of order for electronic soft toys and reduction in sale of telephone sets. However, the net profit rose from Rs 0.09 crore in 1996-97 to Rs 2.57 crore in 2000-2001 which was mainly due to increase in other income consistently i.e. Rs 1.46 crore (1996-97) to Rs 9.08 crore (2000-01). Other income included profits from sale of shares of one joint sector company (Rs 3.91 crore) during 1998-1999 and two assisted companies (Rs 6.23 crore) during 1999-2000 as well as profit on sale of leasehold land (Rs 5.39 crore) during 2000-01. If the other income is ignored, the Company would have incurred loss in all the five years. These losses were attributable to waiver of interest of Rs 24.72 crore, fixation of service charges below cost, reduced rates of rent charged for 64 modules, failure to recover rent and service charges of Rs 4.57 crore from six subsidiaries and two joint sector companies as discussed in Paragraphs 2A.6 & 2A.7 *infra.* Had WBEIDC provided for doubtful loans and investments aggregating Rs 111.58 crore in subsidiary/ managed companies, whose entire net worth had eroded due to accumulated losses, the accumulated profit of Rs 4.92 crore as of March 2001 would have turned into massive loss.

2A.6 Investment in other companies

Annual return on investment in subsidiaries is negligible

As on March 2001, WBEIDC had invested Rs 104.03 crore in the form of share capital (Rs 26.40 crore) and loan (Rs 77.63 crore) in nine subsidiaries, five joint sector and nine assisted companies to develop electronic industries. During the five years up to 2000-01, WBEIDC earned dividend of Rs 0.60 crore from R. S. Software Limited (assisted company) and interest of Rs 10.93 crore during last five years representing an annual return of 0.54 *per cent* on the investment in the form of share capital and 3.95 *per cent* on loans during the same period against the borrowing rate of 13.25 *per cent per annum*. Thus, investment in other companies had not yielded desired benefit.

Further, of the ten subsidiaries and three[4] joint sector companies under WBEIDC's management control, eight companies were in operation, three companies were closed after 15 to 18 years while one company incorporated in April 1999 did not commence production due to withdrawal of collaborators as discussed in paragraphs 6C, 6K, 6L & 6F. The summarised financial position as per latest available accounts of these 12[5] companies (Annexure 12) revealed that all these companies had accumulated losses aggregating Rs 112.94 crore which exceeded their paid up capital of Rs 32.14 crore. As a result, WBEIDC's investment of Rs 18.95 crore towards equity and Rs 75.53 crore as loan till March 2001 (including Rs 5.68 crore as equity and Rs 48.40 crore as loan between 1996-2001) in these companies remains doubtful.

Of the aforesaid 13 companies (10 subsidiaries and three managed by WBEIDC), seven companies were promoted in the joint sector and became subsidiaries or managed units subsequently, while two companies started out as subsidiaries and the private partners, inducted later, had disassociated themselves. WBEIDC had neither framed policies nor criteria for selection of partners and projects. Scrutiny in audit revealed that during November 1995 to October 1999, five joint sector partners opted out after investing only Rs 6.56 crore as compared to the substantially higher exposure of Rs 17.92 crore by WBEIDC. This indicated that WBEIDC had failed to ensure adequate contribution by the joint sector partners.

The performance of nine subsidiaries and three joint sector companies are discussed in the following paragraphs.

A Webel Informatics Limited (WIL)

WIL was incorporated (November 1981) to sell computers to Government Departments and undertakings and to conduct training programmes on different software packages. WIL has been earning profits since 1993-94 and during four years ending 1999-2000, turnover achieved was Rs 34.77 crore with profit of Rs 2.01 crore. Scrutiny in audit revealed that as against average debt collection period of 11 months, the credit period enjoyed by WIL was only eight months. Consequently, WIL took recourse to working capital loans of Rs 1.05 crore from WBEIDC during 1996-97 to 2000-2001 and was liable to pay interest of Rs 13.91 lakh per annum (@ 13.25 *per cent per annum*). Despite allowing an average debt collection period of 11 months, WIL was unable to recover old dues. Consequently, as at March 2000, Rs 10.33 crore was recoverable against dues. During 1996-97 to 1999-2000, WIL wrote off old dues of Rs 11.99 lakh.

[4] Webel Communication Industries Limited (WCIL), Webel Toolsind Limited (WTL) and Webel Electro Optics Limited (WEOL)

[5] One company viz. Webel Technology Limited was incorporated in February 2001. As no fund was disbursed towards its share capital nor activities commenced within 2000-2001, financial position has not been included.

A scrutiny of records of the Branch office at Delhi made available to Audit revealed the following fraudulent transactions undertaken during the tenure of Shri S. Mukherjee, Branch-In-Charge (BIC) :

(i) The branch, through its dealer – M/S Unistar Sales Private Limited, Chandigarh (USPL) received (March 1997) two orders of Rs 41.29 lakh from the Government of Punjab (GP) for supply of Computers and accessories. In turn, the branch placed (March 1997) an order on M/S Indocon Micro Engineers Limited (IMEL) for immediate supply of the specified equipment to GP. The payment of Rs 37.36 lakh to IMEL would be made by the branch only after receipt of payment from GP.

Undue favour to a supplier by the Branch-in-charge resulted in loss of Rs 0.19 crore

It was however, seen in audit that IMEL supplied in October 1997 the equipment to USPL instead of GP. Thereafter, in February 1998, IMEL took back the equipment on the pretext of ensuring their safety and proper storage. Shri S. Mukherjee, the Branch-in-charge, released (March 1998) a cheque of Rs 40 lakh to IMEL in settlement of earlier dues of Rs 20.73 lakh as well as against current supplies. BIC released payment despite custody of the equipment having been taken by the supplier. Thereafter, no steps were taken to hand over the equipment to the customer. Thus, undue favour by BIC to the supplier caused loss of Rs 19.27 lakh (Rs 40 lakh less Rs 20.73 lakh).

Fraudulent transations resulted in loss of Rs 0.09 crore

(ii) The Branch-in-charge paid Rs 9.12 lakh (April to July 1998) to M/S Multi Tech Systems (P) Limited and Ascent Information System (P) Limited for supply of 48 computers and accessories to Directorate of Agriculture (DOA), Government of Rajasthan, Jaipur. While seeking form 'D' for concessional sales tax purposes from DOA (June 2001), it was noticed by WIL that supplies were not effected by the above mentioned firms. Thus, a sum of Rs 9.12 lakh, paid without ensuring supplies, could not be recovered. As a result, WIL sustained a loss of Rs 9.12 lakh.

(iii) Without the approval of Head office, BIC, engaged M/S Computronics System (CS) for commissioning/ installation of computers and accessories. An amount of Rs 17.04 lakh was paid to CS, a firm in which BIC's wife was a beneficiary.

These irregularities indicated gross failure of internal controls and lack of effective monitoring by the Head Office over the activities of the branch. The BIC was suspended in December 2000 and departmental proceedings initiated in March 2001. Criminal proceedings had been initiated in August 2001. The entire workings of Delhi Branch office needs to be thoroughly investigated in view of the glaring lapses in controls.

B Webel Consumer Electronics Limited (WCEL)

WCEL was incorporated (June 1981) to produce Television (TV) sets and in 1985-86 NICCO group was introduced as a co-promoter to invest 25 *per cent* of total share capital. Management control was transferred from June 1988 to NICCO and associates when ratio was changed to 50 : 50. NICCO and associates invested Rs 2.65 crore towards equity (Rs 1.95 crore) and loan (Rs 0.70 crore) till October 1999 against WBEIDC's investment of Rs 4.94 crore (equity Rs 2.15 crore and loan Rs 2.79 crore). WCEL became a subsidiary of WBEIDC since October 1999.

Profit of Rs 0.53 crore in 1996-97 turned into loss of Rs 3.83 crore in 1999-2000

Over the four years up to 1999-2000, the annual sales dipped by 46 *per cent* from Rs 35.91 crore in 1996-97 to Rs 24.54 crore in 1999-2000 due to high prices, technological obsolescence, shortage of working capital due to delayed realisation/ non-realisation of debts, withdrawal of sales tax subsidy by State Government etc. Consequently, the profit of Rs 53 lakh as achieved in 1996-97 turned into loss of Rs 3.83 crore in 1999-2000.

The scrutiny of records revealed that failure of internal controls led to the following financial lapses -

Release of sales tax subsidy to manufacturers even after withdrawal of such subsidy by the Government and consequential loss of Rs 3.82 crore

(i) WCEL was assembling TVs on behalf of other manufacturers on payment of fixed conversion charges since 1992. However, sales tax subsidy to the extent of 90 *per cent* of sales tax enjoyed by the WCEL was to be fully reimbursed to the manufacturers. The subsidy was reduced to 45 *per cent* (April 1998) and subsequently withdrawn (April 1999), as WCEL was not a small scale industrial unit. The agreements with the manufacturers were not re-negotiated for reasons not on record and re-imbursement of sales tax to manufacturers led to loss of Rs 3.82 crore upto December 2000. The Company was registered as small scale industry in January 2001 and is now eligible for sales tax subsidy.

(ii) During 1995-96 to 1998-99, WCEL had procured materials for manufacturing TV sets for M/S Phillips India Limited (PIL). Due to disputes regarding payments, PIL stopped (January 1999) executing orders through WCEL and materials valuing Rs 76.00 lakh remained unutilised (September 2001). Further, PIL issued credit notes for Rs 1.16 crore towards materials returned by WCEL but did not adjust the same. WCEL received an excise claim of Rs 2.78 crore towards production on behalf of PIL. The matter was, however, pending before the tribunal (July 2001).

Unfruitful investment of Rs 2.87 crore by WBEIDC inspite of WCEL's poor performance

(iii) As WCEL was sustaining continuous losses, the NICCO Group proposed to refer WCEL to the Board for Industrial and Financial Reconstruction (BIFR) in February 1999. Further, the Chairman, WBEIDC observed (May 1999) that even if sales tax subsidy was restored, WCEL would continue to sustain cash loss. Moreover, WCEL had no possibility of recovery as installed capacity of 0.85 lakh units was below the annual break-even production level of 1.36 lakh units. Despite being aware of the inherent unviability of WCEL, WBEIDC continued to disburse loans of Rs 2.87 crore in 1999-2000 and 2000-2001. Meanwhile, WBEIDC restructured the capital of WCEL in September 1999 by converting loans of Rs 2.75 crore to equity.

(iv) Sundry debtors increased from Rs 4.81 crore in 1996-97 to Rs 5.15 crore in 2000-2001. Absence of follow-up of old dues resulted in doubtful debts of Rs 1.89 crore representing 37 *per cent* of old dues and the chances of recovery were bleak.

(v) The Chief Executive Officer (CEO) had instructed the branch offices at Siliguri, Gauhati, Asansol and Kolkata to remit a portion of sale proceeds in cash to the Senior Accounts Officer (SAO) at the Head Office, Kolkata, who was to partly utilise the funds to pay suppliers and deposit the balance in bank. In addition, CEO collected the money in cash from the supplier directly. The then Internal auditors of WCEL, detected (July 1997) misappropriation of cash of Rs 69.27 lakh arising as a result of non- maintenance of daily cash book and fictitious payments made to suppliers by demand draft under the direction of CEO. WCEL lodged (July 1997) an FIR and the matter was still under investigation. Departmental proceedings against the erring officials were not initiated (August 2001).

C Webel Carbon and Metal Film Resistors Limited (WCMFRL)

WCMFRL was incorporated in May 1980 with a paid-up capital of Rs 5.50 lakh as a joint sector company to manufacture carbon and metal film resistors. WCMFRL noticed (November 1995) that production of resistors was unviable since imports were cheaper. Scrutiny in audit revealed that WBEIDC approached Shri Dadan Bhai of Pertech Computers Limited (PCL) in October 1995 to utilise the infrastructure of WCMFRL for computer project. As a result, WBEIDC, WCMFRL and PCL entered into an agreement in February 1996 and management was transferred to PCL in March 1996. PCL acquired 30 *per cent* of the share capital (Rs 21.50 lakh) and provided Rs 64.52 lakh as unsecured loan to WCMFRL. WCMFRL discontinued production of resistors from April 1996.

Loss of Rs 2.86 crore due to payment of idle wages and obsolete raw materials and finished goods

Industrial Reconstruction Bank of India (IRBI) sanctioned (July 1996) a loan of Rs 5.00 crore for the project. However, as PCL could not contribute its share of Rs 2.00 crore, the IRBI loan could not be availed. In September 1996, PCL with the knowledge of WCMFRL sold machinery of WCMFRL valued at Rs 71.29 lakh for Rs 13 lakh resulting in loss of Rs 58.29 lakh to WCMFRL. PCL became financially insolvent and left the project in October 1996 disposing of its shares in WCMFRL to WBEIDC for Rs 5.38 lakh. Moreover, WCMFRL remained non-functional since April 1996 and Rs 1.98 crore was paid towards idle wages up to 31 March 2001. Further, raw materials, semi-finished and finished goods valued at Rs 29.68 lakh lying since 1996-97 became obsolete resulting in total loss. Thus, failure of WBEIDC to ascertain the financial viability of PCL led to a loss of Rs 2.86 crore on the above accounts.

D Webel Mediatronics Limited (WML) and Webel Multimedia Limited (WMML)

WML, incorporated in January 1981, was engaged in design and manufacture of professional grade studio equipment, noise pollution control monitors and computerised Braille Transcription systems for the visually-impaired.

On the direction of WBEIDC, WML appointed (February 1995) M/S Teledec International Limited, USA (TIL) for rendering engineering services and supplying equipment at US $ 2.25 lakh and US $ 2.40 lakh respectively for establishment of a multimedia studio, out of which US $ 0.75 lakh was to be adjusted against equity of WML. The multimedia studio was commissioned in February 1997 at a cost of Rs 3.36 crore. However, TIL declined to take over WML for reasons not on record. Consequently, WML withheld part payment of US $ 0.75 lakh towards engineering services. Due to lack of expertise in the multimedia industry, WML handed over the studio to M/S Research Engineer Private Limited (REPL) in April 1998. Further, REPL agreed to acquire entire equity of the new company to be formed with assets and liabilities of the multimedia studio. Accordingly, another company, Webel Multimedia Limited (WMML) was incorporated in August 1998, as a subsidiary of WML. Subsequently, REPL backed out from the project in June 1999. Thereafter, WMML sought to sell the equipment but against replacement cost of Rs 1.40 crore, the highest offer received was Rs 35 lakh. Eventually, the studio was rented in July 2000 to Sky B (Bangla) Limited at the rate of Rs 1.11 lakh per month.

Scrutiny in audit revealed the following :

(i) WML had paid concessional customs duty of Rs 23.09 lakh on the value of imported equipment by pledging fixed deposits of Rs 46.80 lakh of WBEIDC. The benefit of this concession was against an export commitment of Rs 5.69 crore by March 2000. As neither WML nor WMML could fulfil the export commitment an amount of Rs 82.90 lakh was to be paid towards additional customs duty.

(ii) WBEIDC had not initiated legal proceedings against TIL for not taking over WML.

(iii) A claim of Rs 46.17 lakh on REPL as raised (May 2000) by WMML for utilisation of men and machinery beyond the scope of agreement and on other grounds had not yet been settled (June 2001).

(iv) Due to advances in technology, the replacement cost of the multi-media studio came down to Rs 1.40 crore against actual expenditure of Rs 3.36 crore.

Thus, wrong selection of a technical collaborator coupled with absence of requisite technical expertise led to a project in the sunrise sector not taking off.

E Webel Capacitors Limited (WCL)

WCL was promoted in May 1981 by Shri Anup Sen & Associates and WBEIDC in the joint sector for manufacture of capacitors at a cost of Rs 2.76 crore. WBEIDC adjusted (September 1999) the personal loan of Rs 12 lakh to the promoter along with interest thereon of Rs 13.89 lakh against shares held by the promoter having face value of Rs 21.79 lakh and showed a loss of Rs 4.10 lakh in the accounts. However, as the accumulated loss had exceeded the paid-up capital, the shares had no intrinsic value and the entire amount of Rs 25.89 lakh is to be treated as a loss to WBEIDC.

Injudicious investment of Rs 7.83 crore by WBEIDC

WCL had been incurring losses since 1984-85 due to low production, high cost of production, higher prices as compared to domestic and foreign competitors. The accumulated losses of WCL stood at Rs 1.85 crore in 1987-88 and it was referred to BIFR in September 1988. Meanwhile, WBEIDC submitted (March 1997) a rehabilitation package to BIFR which envisaged enhancement of installed capacity from 52 million capacitors to 70.29 million capacitors. Since, the existing capacity utilisation was less than 20 *per cent*, enhancement of capacity was not considered judicious and BIFR ordered (March 1997) winding up of WCL. The Appellate authority of BIFR accepted (January 1999) the rehabilitation package and WBEIDC made further investment of Rs 7.83 crore till March 2001. Despite such huge investment, production came down from 21.70 million in 1998-99 to 15.87 million in 2000-2001. Consequently, WCL was saddled with accumulated loss of Rs 14.68 crore as of 31 March 2001. Besides, WCL had doubtful debts and obsolete stock of Rs 20.47 lakh and Rs 19.30 lakh respectively. Thus, additional investment of Rs 7.83 crore for enhancement of capacity in a loss making company with poor capacity utilisation record was injudicious.

F Webel Electro Optics Limited (WEOL)

Non fulfilment of export commitment led to liability towards custom duty and interest thereon – Rs 7.50 crore

WEOL was incorporated in April 1990 for manufacture of fiber optics products with M/S A. M. Mukherjee & Associates, the promoters. Subsequently, Shri R.K.Poddar (RKP) was inducted as promoter in October 1994. Simultaneously, WBEIDC entered into a technical and financial collaboration agreement with Optim Inc. (USA) for supply and commissioning of production and drawing equipment valued at Rs 4.57 crore. Optim Inc. agreed (October 1994) to buy back 75 *per cent* production and WEOL was registered (July 1996) as a "Export Oriented Unit" (E.O.U). IDBI approved (July 1996) the project at a cost of Rs 8.75 crore with WBEIDC contributing Rs 1.56 crore as equity (Rs 1.05 crore) and interest free loan (Rs 0.51 crore) as well as funding the expenditure of Rs 37 lakh already incurred through interest free loan. IDBI released loan of Rs 3.35 crore up to 1997-98 against personal guarantee of RKP but withheld the release of further loan of Rs 1.02 crore due to default in repayment of principal. The equipment arrived in March 1998 and was stored in a hired godown till May 1999 and thereafter, transferred to a bonded warehouse within the factory. The factory building was completed in April 1999 at a cost of Rs 1.61 crore. Equipment valued at Rs 4.55 crore were stored in the bonded warehouse as WEOL had not commenced production (August 2001). Further, due to non-fulfilment of export commitment, customs duty of Rs 2.50 crore and interest of Rs 5.00 crore thereon would be payable for debonding the equipment.

Investment of Rs 1.93 crore by WBEIDC remained unfruitful

RKP had withdrew from the project in March 1999 for want of funds and lack of technical expertise and WBEIDC took over the management without assessing the demand for the products in the domestic market. The consultant engaged (September 1999) by WBEIDC opined that due to limited domestic market, disproportionate investment and disinclination of Optim Inc. to support the project, any additional investment would not be profitable. Thus, investment of Rs 1.93 crore by WBEIDC, without proper assessment of demand, remained unfruitful.

G Webel Communication Industries Limited (WCIL)

(i) WCIL, incorporated in January 1987, was engaged in the manufacture of Electronic Push Button Telephones (EPBT). In May 1997, the private promoter M/S Communication Consultants and Services Private Limited (CCSPL), decided to opt out of WCIL on the ground that it had no prospects of revival unless it was re-structured, and suggested closure of WCIL. WBEIDC took over the management of WCIL in June 1997. However, transfer of shares by CCSPL was still awaited. During 1996-97 to 1999-2000, it incurred a loss of Rs 4.23 crore on sales of Rs 17.48 crore.

Audit scrutiny revealed that WCIL was unable to secure orders for supply of telephone sets directly from the Department of Telecommunications (DOT) due to quotation of higher rates and it executed part orders at the lowest arrived rates. Consequently, contribution per set was negative and WCIL was incurring losses.

In response to tender inquiry in March 1997 WCIL received an order in July 1997 for Rs 11.90 crore for supply of 2.80 lakh sets of telephone to DOT within January 1998. For execution of order WCIL was to obtain technical approval (TA) from DOT which expired in June 1997. Though average period of two months is required for obtaining the technical approval, WCIL applied only in June 1997 for renewal of TA, which was received in September 1997 and approval for bulk production was received in November 1997. Consequently, the production could not commence in time and resulted in slippages in delivery schedule by ten months. Thereby, WCIL suffered a loss of Rs 28.82 lakh in the form of liquidated damages of which at least Rs 14.01 lakh was avoidable.

H Webel Toolsind Limited (WTL)

WTL was incorporated in February 1977 to manufacture 25,000 portable electric drills and grinders annually. In June 1995, its promoters, (M/S R.N.Saraf and Associates) disassociated themselves due to fund problems and control of WTL was immediately taken over by WBEIDC. However, transfer of shares to WBEIDC was still awaited (June 2000).

Payment of unproductive wages of Rs 0.46 crore per *annum*

It was observed in audit that during 1996-97 to 2000-2001, only 8 to 15 *per cent* of the installed capacity was utilised due to lack of product mix, poor collection of receivables and shortage of working capital. Hence, payment of wages of Rs 45.85 lakh per annum from 1996-97 to 2000-2001 remained largely unproductive. Efforts had also not been made to develop new products with latest technology and with energy conservation features.

Investment of Rs 4.16 crore by WBEIDC doubtful of recovery

An amount of Rs 4.16 crore received from WBEIDC during 1996-97 to 2000-2001 was utilised towards payment of salaries and wages and one time settlement of United Bank of India, WBFC/ WBIDC and Allahabad Bank loans amounting to Rs 92 lakh, Rs 39.46 lakh and Rs 77 lakh respectively.

Thus, further investment of Rs 4.16 crore by WBEIDC in an unviable company was injudicious and recovery of such investment was highly doubtful.

I Webel Power Electronics Limited (WPEL)

WPEL was incorporated in January 1988 to undertake assembly oriented jobs of electrical and electronics based items like control panels, inverters, battery chargers, uninterrupted power supply equipment (U.P.S) etc. and other trading activities. Due to lack of orders, absence of strategic planning and marketing coupled with heavy fixed overhead, WPEL incurred loss of Rs 6.47 crore during 1996-97 to 2000-2001. Despite the continuous heavy loss incurred by WPEL, WBEIDC disbursed fresh loans of Rs 5.35 crore during 1996-97 to 2000-2001, out of which Rs 3.30 crore was utilised towards salaries and wages. Due to lack of persistent efforts, WPEL failed to recover Rs 51.26 lakh out of sundry debtors of Rs 1.90 crore from customers pertaining to the period 1981-82 to 1995-96, recovery of which was doubtful.

J Webel Electronics Communication System Limited (WECSL)

WECSL was incorporated in September 1981, to design and develop telecommunication equipment and electronic communication. In the past four years ending 31 March 2000, WECSL was engaged mainly in database management and Information Technology (I.T.) related services (computerisation of electoral roll preparation, voters identity cards etc.) WECSL had an accumulated loss of Rs 4.38 crore at the end of 2000-2001 against a paid-up capital of Rs 0.84 crore.

K Webel Video Devices Limited (WVDL)

WVDL started manufacturing black and white picture tubes in November 1980 and suffered losses mainly due to low capacity utilisation, production bottlenecks, labour troubles, high cost of production etc. Without undertaking a market survey and cost data, WVDL took up (November 1990) an expansion-cum-diversification scheme for production of 2.70 lakh picture tubes and 85000 computer monitors per annum at an investment of Rs 8.39 crore. The project was funded through equity (Rs 3.31 crore) contributed by

Payment of idle wages of Rs 5.98 crore besides loss on stock obsolescence of Rs 2.08 crore

WBEIDC, term loan (Rs 4.88 crore) from IDBI and capital investment subsidy (Rs 20 lakh) from State Government. Although the project was completed in October 1992 the anticipated benefits were not realised for the reasons mentioned earlier and WVDL decided in December 1997 to discontinue its production as production cost was higher than sale price. WVDL paid idle wages of Rs 5.98 crore till March 2001 since discontinuance of production activities. Further, stock of raw materials, work-in-progress, finished goods and stores and spares valued at Rs 2.27 crore was written down to Rs 19.18 lakh at its realisable value in the accounts for 2000-2001, resulting in loss of Rs 2.08 crore.

The Committee on Public Undertaking (COPU) in its 55th Report observed (July 2000) that a revival plan was stated to be under the active consideration of the State Government in October 1999. Consequently the COPU recommended (July 2000) that the Government should take positive steps for revival of WVDL. No such plan was, however, prepared (September 2001).

L Webel Crystals Limited (WCL)

WCL, incorporated in March 1982 for production of 2.00 lakh quartz crystals per *annum*, sustained losses since inception due to low production and use of obsolete plant and machinery. There was no improvement even after addition of new machines in 1990 at a cost of Rs 45 lakh and in-house upgradation of products made with financial assistance of Rs 30.59 lakh from Department of Electronics (D.O.E.) during 1990-91 and 1991-1992.

Payment of idle wages of Rs 0.60 crore per *annum* besides dead stock of raw materials and finished goods Rs 0.36 crore

Scrutiny in audit revealed that due to change in global technology, the quartz crystals had been replaced totally by synthesised crystals having low cost with improved facilities. However, WCL had no facilities to manufacture synthesised crystals and decided to close down its quartz crystal production from April 2001. Neither WBEIDC nor the State Government has taken any decision to revive WCL in the present scenario. Consequently, WCL would be paying idle wages of Rs 59.75 lakh per annum. Further WCL had dead stock of finished goods worth Rs 15.30 lakh and slow moving items of raw materials and consumables worth Rs 20.81 lakh as of March 2000.

WBEIDC's investment of Rs 94.48 crore in subsidiaries was at stakes due to dismal performance of subsidiaries

6.1 In view of dismal performance, accumulated losses of subsidiary / managed companies of Rs 112.94 crore as of 31 March 2001 completely eroded the paid up capital aggregating Rs 32.14 crore. As a result, recovery of WBEIDC's investment of Rs 94.48 crore in these companies appears bleak. In February 1999, WBEIDC approved restructuring of six[6] subsidiaries by March 2000. However, after expiry of more than one year, only WIL was restructured by way of transferring all its activities except training to a newly formed company viz. Webel Technology Limited with effect from 16 April 2001. For remaining subsidiaries, the proposal for restructuring was not submitted to the Government for approval (September 2001).

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[6] Webel Informatics Limited (WIL), Webel Video Devices Limited (WVDL), Webel Mediatronics Limited (WML), Webel Power Electronics Limited (WPEL), Webel Electronic Communication Systems Limited (WECSL) and Webel Crystals Limited (WCL)

2A.7 Electronics complexes

WBEIDC constructed three electronics complexes at Salt Lake, Taratala and Jalpaiguri on land leased from the State Government and Calcutta Port Trust (CPT).

2A.7.1 Salt Lake electronics complex

The complex, originally developed in 1990, was leased to 95 units of which 46 units, with an investment of Rs 534 crore, were in operation and employed 6491 persons. Of the balance, 43 units were under construction. The lease agreement specified the commencement of construction within three years of allotment of land, three[7] units were yet to commence construction despite lapse of more than four years and the allotments had not been cancelled. On the other hand, WBEIDC cancelled the allotment of four units, without forfeiture of Rs 16.99 lakh towards 20 *per cent* of land premium as specified in the agreements for which no reason was recorded.

Further, WBEIDC constructed the Standard Design Factory Building (SDF) with 192 modules for electronics industries and Software Technology Park Building (STP) with built-up area of 65,000 sft. for software development in June 1990 and December 2000 at a cost of Rs 7.65 crore and Rs 5.11 crore respectively till March 2001. The facilities created at SDF and STP had been fully allotted to 64 entrepreneurs.

Rs 2.10 crore was recoverable on account of ground rent, rental charges

Scrutiny in audit revealed that Rs 87.25 lakh was recoverable from three subsidiaries and one joint sector companies till March 2001 on account of ground rent on land, rental charges on modules and service charges on land and modules. Further, Rs 1.23 crore was recoverable on the same account from 58 entrepreneurs. However, WBEIDC took no measures for recovery of these dues (June 2001). Moreover, WBEIDC did not revise service charges on land and modules at SDF since April 1996/ 1997 for which it had suffered losses of Rs 48.13 lakh in 1999-2000 as the service cost of Rs 74.11 lakh exceeded the recovery of Rs 25.98 lakh.

2A.7.2 Taratala Industrial Estate

This estate was constructed in 1979-80 on 7acres of land leased from CPT out of which space of 56,602 sft. was provided to three subsidiaries, one joint sector company and other 32 industrial units. Although the lease agreement had expired in January 1996, the same had not been renewed due to non-settlement of claim raised by CPT regarding enhancement of rent by Rs 1.20 lakh per month, permission fee of Rs 0.99 lakh and penalty of Rs 18.48 lakh for unauthorised construction.

[7] Eldyne Electronics, MMTC Limited & Simca Management

Failure to recover Rs 3.77 crore from 4 subsidiaries/ joint sector company towards municipal taxes, rent since 1991-92

Scrutiny in audit revealed that the Manager, Estate failed to monitor the recovery of Rs 3.77 crore due from three subsidiaries and one joint sector company on account of municipal taxes, rent, service charges and electricity charges since 1991-92 till March 2001. As these companies had incurred recurring losses the possibility of recovery of the dues is bleak. Moreover, Rs 7.58 lakh was recoverable from 22 other entrepreneurs as on that date. Further, against the annual cost of services and municipal taxes at Rs 18.89 lakh, service charges and municipal taxes recovered from the entrepreneurs aggregated to Rs 3.09 lakh only leading to a loss of Rs 15.80 lakh per annum.

2A.7.3 Jalpaiguri electronics complex

Mention was made in Paragraph 2C.13.2 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1990 (Commercial) that due to lack of interest on the part of entrepreneurs, the expenditure of Rs 32.65 lakh on the complex constructed in December 1987 remained unfruitful. WBEIDC, however, further expended Rs 29.64 lakh since April 1990 towards enhanced land cost, electrical installations, roads, water supply etc. but failed to attract additional entrepreneurs.

2A.8 Other Ventures

2A.8.1 Distance Learning

In February 2000, WBEIDC decided without conducting any feasibility study to provide Lotus Courses through ten distance learning centres throughout the State with the assistance of Lotus Development International Corporation at an estimated cost of Rs 4 crore. In February 2001, one centre in Kolkata was made operational and a sum of Rs 1.43 crore was incurred till March 2001 for hardware, software and Rs 6.81 lakh (June 2001) was incurred towards staff cost & rent against which only Rs 1.40 lakh was realised from 12 students as fees. It was observed in audit that IT Industry preferred IT degree and diploma holders and no tie-ups was entered into by WBEIDC with Universities and as such viability of the scheme was doubtful and investment of Rs 1.43 crore (March 2001) was injudicious.

2A.8.2 Geographical Information System (GIS)

WBEIDC placed (December 1999) *suo moto* an order on WIL, a subsidiary company, directing WIL to engage Riddhi Management Services Limited (RMS) for building up a GIS for 10[8] municipalities at a cost of Rs 12.40 lakh each to be completed by December 2000. Although the value of work exceeded Rs 1.00 crore, no tender was floated to obtain most competitive rates. The work involved scanning the *mouza*[®] maps supplied by the

[8] Kalimpong, Piyali, Kurseong, Halisahar, Chandannagar, Bhatpara, Budge Budge, Panihati, Champadani, Bidhannagar

[®] Mouza is the administrative unit in the lowest rung identified by a Jurisdiction Ledger Number maintained by Land Revenue Authority municipalities and thereafter the intelligent data[9] were to be assimilated by RMS on maps plotted on a computer through a software package.

Scrutiny revealed for vectorisation of *mouza* maps, ammonia print and second phase of vectorisation the RMS was to receive Rs 5.85 lakh per municipality. Since the work depends upon size and number of maps, excess payment cannot be ruled out in the absence of quantity and specification details in the work order. Moreover, WBEIDC did not seek any such details before clearing the payment.

Conclusion

Even after the passage of 20 years, WBEIDC had failed to achieve its objectives of developing electronic and allied industries in the State. The role of WBEIDC in investing funds in the subsidiaries/ joint sector/ assisted sector companies without conducting feasibility study and without binding commitments from partners resulted in colossal cumulative losses. Continued investment in these companies without any coherent revival package was wasteful. 50 *per cent* of the constructed building in Jalpaiguri electronics complex was in use while the entire allocable land remained vacant for 14 years.

In view of continuous losses, State Government may consider closure of the loss incurring subsidiaries and re-appraise the continuance of WBEIDC in its present shape.

These matters were reported to the Government and the Management in May 2001; their replies had not been received so far (September 2001).

[9] Like demographic pattern, infrastructure, etc. also supplied by WIL

2B WEST BENGAL FOREST DEVELOPMENT CORPORATION LIMITED

Highlights

West Bengal Forest Development Corporation Limited (Company), set up in July 1974, was engaged in plantation, harvesting, afforestation and allied operations only in one division of the State (Kalimpong Division) and in logging and sawing operations, cashew plantation, pole treatment in all other Divisions of the State as well as in promoting joint forest management in South West Bengal.

(Paragraphs 2B.1 & 2B.7)

Injudicious drawal of Rs 5.00 crore against loan resulted in avoidable payment of interest of Rs 0.53 crore till March 2001. Similarly, two Divisional Managers failed to invest surplus fund of Rs 1.35 crore to Rs 2.87 crore in short term deposits during 1998-99 to 2000-2001 resulting in loss of interest of Rs 0.19 crore.

(Paragraphs 2B.4(b) & 2B.6(b))

Profits reflected in the 1996-97 to 1998-99 accounts was understated by Rs 3.97 crore due to inconsistencies in the valuation of round timber and sawn timber.

(Paragraph 2B.5)

Failure of the Company in obtaining approval of the Working Plan from Central Government resulted in shortfall in harvesting and loss of potential revenue of Rs 4.55 crore during 1997-98.

(Paragraph 2B.7.1(i))

Encroachment of Forest Land increased from 143.96 hectares in 1987 to 595.23 hectares in June 1996 due to inaction on the part of the Company to evict the encroachers.

(Paragraph 2B.7.1)

Physical verification (July 1998) detected a shortage of 642 cubic metres timber valued at Rs 0.93 crore. The matter had not yet been probed so far to fix responsibility.

(Paragraph 2B.7.4.1(B))

Implementation of Joint Forest Management Scheme reflected various deficiencies *viz.* unplanned selection of sites, plantations below minimum economic size, non-conformity with prescribed models, and non-maintenance of plantation journals.

(Paragraph 2B.10)

Due to poor capacity utilisation and lack of orders, the Company sustained losses of Rs 0.84 crore and Rs 0.35 crore respectively on operation of

Automobile Engineering Workshop during 1996-2001 and Pole Treatment Plant during 1996-2000 .

(Paragraphs 2B.12 & 2B.13)

In Cashew Plantation Division, against the anticipated yield of 14025 MT, the actual yield was less than 10 *per cent* (1225 MT) during 1996-2001 due to failure to adopt improved techniques which resulted in loss of potential revenue of Rs 24.67 crore. Further, Rs 0.35 crore was incurred towards salary and wages of 18 surplus staff in contravention of the recommendation of the Review and Planning Committee.

(Paragraph 2B.14)

2B.1 Introduction

West Bengal Forest Development Corporation Limited (Company) was set up[1] in July 1974 as a wholly owned Government Company with a view to purchase/ acquire forest, waste or any other kind of land, develop forests expeditiously by large scale harvesting followed by sale or disposal of forest produce, promote wood based industries and also to plant/ replant/ afforest in forest or other land. After enactment of the Forest (Conservation) Act, 1980 as amended from time to time the emphasis, however, shifted to conservation of well stocked forests.

The Company commenced operation in November 1974 with two territorial[2] divisions at Darjeeling and Kalimpong spread over 83,162 hectares. However, the Darjeeling division of 39,113 hectares was handed back to the Forest Directorate in November 1992 to ensure better management and effective control by the Forest Directorate.

2B.2 Organisational set up

The management of the Company is vested in a Board of Directors (BOD). As on March 2001, there were eight Directors, all appointed by the State Government. The Managing Director is the Chief Executive and is assisted by a Secretary-cum Financial Advisor, two General Managers (Headquarters and North), and eight[*] Divisional Managers. During the period under review, three[@] Officers from the Indian Forest Service held the post of Managing Director.

2B.3 Scope of Audit

The workings of the Company, last reviewed in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1992. The

[1] Set up on the recommendations on Production Forestry – Man Made Forest made in August 1972 by the National Commission on Agriculture

[2] Territorial divisions are those divisions granted on renewable leasehold basis by the Forest Directorate for an initial period of 10 years

[*] Kurseong (Logging), Government Saw Mill (Siliguri), Kalimpong, Buxa (logging), Jalpaiguri Saw Milling, Marketing, Cashew Plantation and Forest Corporation (South) Divisions

[@] Shri M. K. Nandi (01-04-1996 to 31-07-2000), Shri V. Rishi (24-08-2000 to 22-03-2001), Shri V. P. Singh (23-03-2001 to 31-03-2001) review has not been selected for discussion by the Committee on Public Undertakings (COPU). The present review seeks to analyse the performance of the Company during the last five years ending 31 March 2001. The review conducted between December 2000 and April 2001 and August 2001 covers the activities of the Company for the period of five years from 1996-97 to 2000-2001. The audit findings as a result of test check of records[1] are discussed in the succeeding paragraphs.

2B.4 Capital structure, borrowings and other funds

(a) Share Capital

The Company was incorporated with an authorised capital of Rs 10.00 crore comprising 10 lakh equity shares of Rs 100 each. Till March 2001, Rs 5.81 crore was subscribed by the State (Rs 5.11 crore) and Central (Rs 0.70 crore) Governments.

(b) Borrowings

The Company obtained between March 1999 and March 2001 loan of Rs 20.00 crore from West Bengal Infrastructure Development Finance Corporation Limited (WBIDFC) at interest rate of 16.5 *per cent per annum* for implementation of the Joint Forest Management Project (JFM) guaranteed by the Government of West Bengal. The Company repaid principal of Rs 5.85 crore and paid interest of Rs 3.14 crore till March 2001.

Injudicious borrowing of fund from WBIDFC resulted in avoidable payment of interest of Rs 0.53 crore

It was observed in audit that as at March 1999, the Company had invested Rs 5.54 crore in short term deposits with banks at a maximum rate of 9.5 *per cent per annum*. Had the Company utilised the invested fund it could have reduced its borrowing at least by Rs 5.00 crore and avoided the payment of interest of Rs 52.50 lakh and guarantee fee of Rs 2.50 lakh *per annum* till March 2001. There was nothing on record to indicate that the Company had attempted a benefit analysis.

(c) Special Development Fund and other fund

The Company received Rs 10.48 crore till 1999-2000 for implementation of 13 different schemes[#] in Kalimpong and other Divisions and elsewhere against which Rs 10.16 crore was spent in the same period. The implementation of one of the schemes is discussed in Paragraph No. 2B.7.1(ii) *infra*.

2B.5 Financial Position and Working Results

The Company had finalised its accounts up to 1998-99. From the financial position and working results at Annexures-13 & 14 it could be seen that capital

[1] 8 divisions, offices of General Managers (North and Headquarters) and corporate office at Calcutta
[#] West Bengal Forestry Project, D.R.V. Ropeway, Sundarban Biosphere Reserve, Hill Area Development etc.

employed increased by 56 and 28 *per cent* in 1998-99 and 1999-2000 respectively over previous years mainly due to increase (193 and 40 *per cent*) in inventories in these two years. The value of inventories shot up mainly due to inclusion of stock of Rs 3.14 crore and Rs 4.00 crore in 1998-99 and 1999-2000 respectively under Joint Forest Management Project, which was taken up by the Company since 1998-99 (Refer Paragraph No. 2B.10 *infra*). Consequently, the inventory holding represented 4.1 and 5 months' cost of sales in 1998-99 and 1999-2000 respectively as compared to 1.4 month's in 1996-97 and 1997-98. The percentage of return on capital employed increased from 4.2 in 1996-97 to 9.2 in 1999-2000 except in 1998-99 when it dipped to 1.7 *per cent* mainly due to decline in sale of timber from Rs 14.63 crore in 1997-98 to Rs 6.78 crore in 1998-99. This was attributable to closure of felling as discussed in paragraph No. 2B.7.1(i) *infra*. This had resulted in decrease in profits. In 1999-2000, there was steep increase in financial charges and royalty due to payment of interest (Rs 1.21 crore) on loan from WBIDFC and royalty (Rs 1.24 crore) in connection with the JFM Project.

Inconsistencies in the valuation of timber led to understatement of accumulated profit by Rs 3.97 crore

It was observed that during 1996-97 to 1998-99, the Management neither followed its declared policy for valuation of inventory of round timber at Kalimpong Division on the basis of royalty paid to the Forest Directorate nor on the basis of direct cost. As a result, the accumulated profit till March 1999 had been understated by Rs 1.90 crore due to inconsistencies in the valuation of round timber of this Division.

Similarly, valuation of closing stock of sawn timber at five divisions for the years 1996-97 to 1998-99 reflected wide variation, between costs appearing in the accounts and cost calculated for purposes of preparation of performance reports. This resulted in understatement of profit by Rs 2.07 crore over the same period.

The percentage of other income⊗ to total income ranged between 9 and 53 *per cent* during 1996-97 to 1999-2000. Moreover, the profit of Rs 85.17 lakh reflected during 1998-99 and 1999-2000 was primarily due to interest income of Rs 1.79 crore in the same period.

During 1996-97 to 1998-99, the percentage of income from logging and service charges rose by 54 *per cent* and declined by 86 *per cent* in 1999-2000 due to non-approval of working plan and restriction on felling of trees by the Hon'ble Supreme Court in December 1996. This has been discussed in Paragraph No. 2B.7.1(i) *infra*. As a result, percentage of profit before tax to total income decreased from 232 in 1996-97 to 1.65 in 1999-2000 despite a substantial increase of 225 *per cent* in sale in 1999-2000 from the Joint Forest Management Project.

2B.6 Budget and Cash management

(a) The Corporate office is responsible for preparation of annual budget estimates after considering actuals for the preceding year and the extent of logging/ harvesting of timber, plantation, industrial operation etc. to be taken up for the subsequent financial year. Revised estimates are prepared at the end of the

⊗ Includes earning from logging, eco-tourism, joinery and carpentry activities, interest from fixed deposits etc.

third quarter of the current financial year. Audit scrutiny revealed that during 1996-97 to 1999-2000, variance between the revised and actual figures ranged from 2 to 25 *per cent* for income, 1 to 26 *per cent* for expenditure and 28 to 105 *per cent* for profits.

Though the Management had prepared variance analysis for the years 1997-98 to 1999-2000, it did not analyse the reasons for the wide variation for the year 1996-97.

Failure to invest surplus funds deprived the Company of interest of Rs 0.19 crore

(b) The Divisional-Managers were empowered since September 1993 to invest surplus funds in term deposits after assessing requirement of fund. Scrutiny in audit revealed that in two$^{\Omega}$ Divisions, the Divisional Managers failed to monitor the fund periodically or specify the maximum limit for retaining balances in 14 current accounts. As a result, Rs 1.35 crore, Rs 2.45 crore and Rs 2.87 crore remained idle for 46 to 200 days during 1998-99, 1999-2000 and 2000-2001 respectively after meeting all expenses. Had the cash budgeting been done properly and these fund been invested in short term deposits, the Company could have earned interest of Rs 19.44 lakh at rates ranging from 6 to 9.5 *per cent per annum.*

2B.7 Activities

The present activities of the Company are confined to forestry activities, viz. plantation, harvesting, afforestation etc. at Kalimpong division, logging/ harvesting of timber and auctioning the same as an agent of the Forest Directorate, cashew plantation, sawing operations including carpentry and joinery work, pole treatment, automobile & engineering works etc. and to promote joint forest management as well as develop awareness for conservation of nature by setting up of and operating eco-tourism centres. These activities are executed through eight Divisions as discussed in the succeeding paragraphs.

2B.7.1 Territorial Division

The Company undertakes forestry activities on 44049 hectares of forest land in Kalimpong sub-division of Darjeeling District which was obtained on a renewable 10-year lease from the Forest Directorate, Government of West Bengal. The lease expired in November 1994 and the Company applied (December 1995) to the Government for renewal, approval to which was still awaited (June 2001). Scrutiny revealed that encroachment increased 300 *per cent* from 143.96 hectares in 1987 to 595.23 hectares in June 1996, against which the Company retrieved only 60 hectares till June 2001 due to delay in taking legal and administrative measures under the Forest (Conservation) Act, 1980. Further scrutiny in audit revealed the following points :

$^{\Omega}$ Cashew Plantation & Forest Corporation (South)

(i) Non-approval of Working Plan

As per the Forest (Conservation) Act 1980, Forest (Conservation) Rules 1981 and Forest (Conservation) Amendment Act 1988, prior approval of the Central Government is mandatory for all proposals involving clearing of /working in forest areas including re-forestation, for which, Working Plans/ Management Plans are to be submitted. However, the VIII working plan (1991-92 to 2000-2001) for Kalimpong Division of the Company was not forwarded by the Working Plan Division of the Forest Directorate to the Government of India till 1997. The Divisional Manager of the Company did not follow it up with the Forest Directorate to get the working plan approved through the State Government. Forestry activities, however, continued to be undertaken by the Company in contravention of the Act, *ibid*, till the Hon'ble Supreme Court issued orders (December 1996) to suspend felling of trees in all forests except in accordance with the working plans prepared by the State Governments and approved by the Central Government. The IX working plan (1997-98 to 2017-18) of the Division was also sent to the Government of India (June 1997) for approval. As the Division failed to submit additional information sought for (November 2000) by the Ministry of Environment & Forests, Government of India, approval to the plan was not received (August 2001). However, the Company continued felling and removing only dying, diseased and fallen trees on the basis of provisional approval accorded (September 1998) by the Government of India. Thus, due to non-approval of the working plans, the division harvested only 5746 M^3 during 1997-98 against minimum quantity of 10000 M^3 and thereby failed to earn a potential revenue of Rs 4.55 crore[φ].

Shortfall in harvesting due to failure in obtaining approval of working plan resulted in loss of potential revenue of Rs 4.55 crore

(ii) Plantation

From April 1992 to December 1997, the Company undertook plantations on degraded forest land under West Bengal Forestry Project aided by International Development Association. To this end, between 1992-93 and 1997-98, the Company received from the Forest Directorate Rs 1.16 crore for plantation over 1513 hectares against which actual coverage was 1232 hectares. During this period the Company did not undertake any plantation out of its own fund against the target of 252 hectares. During 1998-99 to 2000-2001, the Company undertook plantation out of its own fund in 679.30 hectares against the target of 764 hectares. Thus, there was a total shortfall in cultivation of 617.70 hectares.

Against the norm of 75 *per cent* and above, actual survival rates were between nil and 32 *per cent*

Test check in audit revealed that survival rate of plantations under WBFP in 248 hectares ranged between nil and 32 *per cent* as against the norm of 75 *per cent* and above. Out of 32 Plantation Journals (PJ) required to be maintained for these plantations, three PJs covering 36 hectares were not maintained at all, eight PJs (71 hectares) contained only sketch maps and history sheets. The balance 21 PJs (141 hectares) did not contain vital data/ information as discussed in the subsequent paragraph. In these areas, plantations were found 'bad' and 'non-existent' resulting in plantation expenditure of Rs 14.46 lakh becoming unfruitful. The reasons for low survival were attributed by the

[φ] Based on average revenue earnings of Rs 10684 per cubic metre in 1997-98

Management to inadequate infilling, grazing damage, etc. Though these factors were controllable to a large extent, the Company took no steps to remedy the same. It was observed in audit that the plantations during 1998-99 and 1999-2000 had an average survival rate of above 60 *per cent* which indicated that the Company did not take adequate care of plantation under assisted project.

(iii) Plantation Journal[#]

Details of survival percentage, species etc. not recorded in 163 out of 298 plantation journals

The Divisional Manager did not maintain consolidated record of Plantation Journals. However, at nine[Ω] ranges, audit verification of 298 plantation journals pertaining to 1992 to 2000 plantation revealed that in 163 journals (55 *per cent*) necessary details of survival percentage, cleaning period mandays, species, row, spacing etc. quantity of seed and seedlings used and remarks of the Inspecting Officers were not recorded casting doubt on the authenticity of plantation expenditure booked.

(iv) Thinning[Ā]

Based on the recommendations of National Commission on Agriculture (1972) forest activities were aimed at production of pulpwood to meet the demand of paper and pulp industries as well as to meet social objectives of arresting soil erosion, making hard wood available to local people and ensuring availability of fodder for cattle and wild life. In line with these objectives, the Company initiated plantations of fast growing species (*Dhupi* and Cypresses) over an area of 2486 hectares from 1975 to 1997 in the Lava and Lolegaon ranges etc. under Kalimpong Division for paper industries. However, no plantation of native species (Katus, Utis) was initiated to meet the social objectives. In 1978-79 the possibility of establishing paper mills in the area were ruled out by the Hindusthan Paper Corporation Limited (HPC) and Forest Research Institute, Dehradun due to low specific gravity of these species. Besides, the Review & Planning Committee of the Company also recommended (December 1993) regular thinning which was badly neglected in the past. Despite the Committees' recommendation, the Company not only neglected thinning operation but also continued plantation till 1997.

Rs 0.56 crore spent on plantation proved to be unfruitful due to inadequate thinning

Thus, due to continuance of such plantation and inadequate thinning an amount of Rs 55.59 lakh spent on such plantation during 1992-1997 proved to be largely unfruitful because of high extraction cost and lack of market for timber derived from the operation. The Management also did not analyse the loss of timber arising out of inadequate thinning. Further, the social objectives also remained unfulfilled.

[#] A history of the entire plantation activities in a particular block/ area from plantation to final harvesting.

[Ω] Kalimpong, Pankhasari, Lolegaon, Lava, Neora, Jaldhaka, Samsing, Noam & Chail

[⊗] Thinning means reducing the number of stems/ plants per unit area to ensure improved growth, higher timber production and better hygiene

2B.7.2 Logging operations

Loss of Rs 1.75 crore on logging operation due to failure to obtain approval of working plan

The Company undertook harvesting and marketing of timber on behalf of the Forest Directorate through three[©] divisions and earned Rs 375 and Rs 75/80 per M^3 of timber and firewood respectively as well as 10 *per cent* service charges on net revenue as fixed by the Forest Directorate. The details of logging operations, operating profit and loss etc. are enumerated in Annexure-15 from which it would be apparent that due to failure of the Forest Directorate in obtaining approval of working plan and consequential ban on clear felling by the Hon'ble Supreme Court (December 1996) there had been a decline in logging operations. Consequently, these three divisions sustained loss of Rs 1.75 crore during 1997-98 to 1999-2000.

As against the aforesaid income from timber and firewood, the Saw Milling Division, Jalpaiguri and Kurseong (Logging) Division incurred an average total expenditure of Rs 486 and Rs 561 per M^3 respectively in 1996-97. Despite this, the two divisions earned profit in 1996-97 due to substantial amount of service charge received from the Forest Directorate against interest on working capital, selling and distribution expenses etc.

2B.7.2.1 Auction of timber

Timber is sold in lots through auction and the reserve price is determined by the concerned Divisional Manager (DM) on the basis of the quality of the lot, average price obtained against similar lots in the immediately preceding three auctions and the prevailing market price. As per the terms and conditions of auctions, the intending bidders deposit only Rs 1000 as earnest money since April 1987, with the successful bidders paying 25 *per cent* of the bid amount within 20 days and the balance 75 *per cent* within 100 days. Failure to deposit the money would result in forfeiture of earnest money. After completion of each timber auction, Bid and Instalment Registers are to be prepared within seven days with details of lots, species, reserve price, details of payment made by successful bidders, date of lifting of timber, payment of surcharge, depot rent, forfeiture of earnest money etc. The registers are to be checked by Assistant Divisional Manager.

It was observed in audit that-

(i) Although the reserve price was the key to maximising revenue, the recorded opinion of no other official was obtained in order to ensure the reliability of the reserve price fixed by the Divisional Manager.

(ii) The Management never reviewed the necessity for enhancing the earnest money to limit participation to financially sound timber merchants only.

(iii) The Assistant Divisional Manager (ADM) / Assistant Manager (AM) in Kalimpong Division did not maintain Instalment Registers (IR) in five out of 12 ranges between 1997-98 and 1999-2000.

[©] Buxa (Logging), Kurseong (Logging) and Saw Milling Divisions

(iv) Against 348.105 M^3 timber auctioned in September 1999 by the Kalimpong Division for Rs 9.01 lakh, no payment was received till June 2001 as the Divisional Manager delayed issue of notices to the successful bidders for not remitting the bid amount within the prescribed period. In the absence of maintenance of basic records the Company could not earn potential revenue of Rs 9.01 lakh.

(v) At Kurseong Division, reserve prices in respect of 225 lots, withdrawn between 1996-97 and 2000-2001 due to failure to attract reserve price, were not mentioned in the Bid Register. Also, the basis of fixation of reserve price was not verifiable as assessment sheets to substantiate the reserve prices fixed were not maintained. Thus, the system of auctioning followed was neither transparent nor objective.

Delay in re-auctioning of unlifted timber led to loss of potential revenue of Rs 0.33 crore

(vi) The Buxa (Logging) Division delayed issue of forfeiture notice to the successful bidders, resulting in delay in re-auction of unlifted timber (111 lots). As a result, the Company could not earn potential revenue of Rs 33.46 lakh (original auction value Rs 91.30 lakh – re-auction value Rs 57.84 lakh).

2B.7.3 Sawing of timber

Under-utilisation of capacity of sawing mills

(a) The Company purchases round timber from the Forest Directorate at prices fixed by the price fixation committee of the Directorate and also obtains the same from its Kalimpong Division. The round timber is sawn at four saw mills[*] with an annual capacity for sawing of 16,200 M^3 round timber. The performance of four saw mills is given in Annexure-16. It would be seen from the Annexure that the capacity utilisation of SMD, GSM and SSM came down from 55, 46, 85 *per cent* in 1996-97 to 43, 22, 27 *per cent* respectively in 2000-01. As analysed in audit, the reasons for poor capacity utilisation were attributable to fall in demand of sawn timber mainly due to steep hike in prices by 20 to 44 *per cent* in May 1997 and suspension of 28 out of 104 dealers for non-submission of sales tax registration certificate etc. In December 1998, the Company reduced prices of sawn timber. It was seen that utilisation at Government Saw Mill dipped further to 17 *per cent* in 1998-99 and 1999-2000 due to want of logs (2304.4 hours) and power failure (343.9 hours). However, the utilisation could have been enhanced had the Company taken action to transport logs from its Kalimpong Division and repaired the defective 180 KVA diesel generator set lying in the mill premises since December 1995. Consequently, the Company lost potential revenue of Rs 1.70 crore which could have been avoided. In 2000-01, the utilisation marginally increased to 22 *per cent* due to increase in availability of logs.

Avoidable loss of potential revenue of Rs 1.70 crore due to power failure and shortage of logs

(b) No norm for wastage in sawing operations had been fixed by the Company so far (August 2001). During 1996-97 to 2000-2001 the percentage of wastage in the saw mills fluctuated from an average minimum of four *per cent* to a maximum of 13 *per cent.*

[*] (1) Saw Milling Division, (SMD) Jalpaiguri, (2) Government Saw Mill, (GSM) Siliguri, (3) Sanugarah Saw Mill, (SSM) Siliguri and (4) Bhuttabari Saw Mill, (BSM) Kalimpong.

The Management neither analysed the reasons for wide fluctuations in the percentage of loss nor implemented measures to restrict the same. Moreover, the possibility of pilferage of timber cannot be ruled out.

2B.7.4 Marketing

2B.7.4.1 Major Forest Produce - Sawn Timber

(A) The Company had been marketing sawn timber throughout the State through 104 dealers and six[2] sales centres under three[3] divisions. The procedure for allotment of sawn timber to dealers specified that at least 25 *per cent* of each allotment should comprise assorted, short piece and second quality-sawn timber.

Loss of Rs 0.11 crore on sale of sawn timber

Audit observed that Madarihat Saw mill did not adopt this procedure till March 1999 for which reasons were not on record. Consequently, till March 1999, 206.291 M^3 of poor quality timber was accumulated and attempts to sell the same to dealers at 8 to 18 *per cent* below list price in December 1998/ March 1999 were not successful. Further, attempts to sell the sawn timber in February and April 1999 also did not fructify. Finally, against a tender of September 2000, the sale was effected at 68 *per cent* below the list price at a loss of Rs 11.22 lakh. Thus, failure to follow the prescribed procedure resulted in a loss of Rs 11.22 lakh to the Company.

Shortage of sawn timber valued at Rs 0.93 crore

(B) The Company did not periodically verify the physical stock of sawn timber stored at sales centres. Scrutiny in audit revealed that at the instance of the then Managing Director, physical verification of sawn timber was not undertaken till July 1995 at the Salt Lake Depot. Shortage of 608 M^3 timber was detected during physical verification in July 1995. Physical verification was discontinued as one of the verifiers expired. Subsequently, a fresh verification in the same depot in July 1998 reflected a shortage of 642 M^3 valued at Rs 93.05 lakh. After being pointed out (October 2000) by Audit, the BOD was apprised of the shortage only in December 2000 after a delay of 30 months. A three member committee was constituted on 16 January 2001 to enquire into the matter and fix responsibility. The Committee scheduled to submit the report within three months, had not taken up the assignment so far (August 2001).

2B.7.4.2 Honey

Loss of Rs 0.17 crore on procurement of crude honey of poor quality

The Company procured 171 MT crude honey during 1995-96 to 1999-2000 from the Forest Directorate without assessing the quality. The Company marketed honey after filtration. The Company received complaints from the customers regarding poor quality of honey and found out that poor quality was due to prolonged storage of crude honey. Out of total closing stock of 83.17 MT of crude honey as of March 2000, 47 MT (Cost Rs 17.39 lakh) was found to be unsuitable for filtration due to high moisture content. Attempts to sell that crude honey did not produce any result. Thus, failure of the Company

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[2] Salt Lake, Bankura, Midnapur, Durgapur, Purulia, Raigang.
[3] Marketing, Cashew Plantation & Kurseong Divisions.

to assess the quality of honey before procurement resulted in a loss of Rs 17.39 lakh.

2B.8 Eco-tourism centres

The Company started diversifying its activities since 1996-97 by establishing ten[*] eco-tourism centres with accommodation of 172 beds in four districts. The eco-tourism centres were established with the object of developing awareness regarding conservation of nature and capital expenditure of Rs 1.67 crore was incurred till March 2001.

Test check of five centres *viz.* Lava, Lolegaon, Santhelkhola, Samsing, Mukutmanipur revealed that during 1996-97 to 1999-2000, these centres had an average occupancy of 20 *per cent* during season[&]. The low occupancy was due to failure to develop transportation facilities, package tours and inadequate publicity. As a result the objective of increasing awareness about nature conservation remained largely unfulfilled.

2B.9 Polythene Tube Manufacturing Unit (PTMU)

PTMU was set up in July 1986 at Godapeasal, Midnapore to produce Virgin polythene tubes to meet the requirement of the afforestation programme. The unit became non-viable since 1992-93 due to shift in demand to cheaper (26 *per cent*) variety 'High Density' tubes and higher overheads compared to small scale units. Consequently, the Committee of Directors (COD) and the Review & Planning Committee (RPC) recommended in July and December 1993 to wind up the unit. Ignoring the recommendation, PTMU continued to trade in HD tubes procured from the market. During 1996-97 to 2000-2001, against the total expenditure of Rs 1.32 crore, PTMU earned Rs 0.98 crore, thereby sustaining a loss of Rs 0.34 crore which would further increase unless it is wound up.

2B.10 Consolidation of Joint Forest Management (JFM)

Shortfall in harvesting resulted in loss of potential income of Rs 3.30 crore

During 1996-97 and 1997-98, two[!!] divisions were entrusted with felling and harvesting on 13040 hectares as contractor of the Forest Directorate against which the Company harvested 7643.25 hectares (59 *per cent*) and earned revenue of Rs 3.88 crore by way of harvesting charges (10 *per cent* on gross revenue and service charges 10 *per cent* of net revenue). Thus, due to shortfall

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[*] Lava, Lolegao, Samsing, Santhelkhola, Tarkhola, Kalimpong, Mongpong (all in Darjeeling district) Rasikbill (Coochbehar), Murti (Jalpaiguri), Mukutmanipur (Bankura)

[&] i.e. after excluding off – season performance when occupancy in normally low

[!!] Forest Corporation (South) and Cashew Plantation Division.

in harvesting (41 *per cent*), the Company failed to earn potential income of Rs 3.30 crore.

Subsequently, the Government of West Bengal, Forest Department entrusted in March 1999 the consolidation of JFM of five[3] districts of South Bengal to the Company. The project[4], to be executed through these divisions over 12 years at an estimated cost of Rs 43.95 crore would be partly financed by loan of Rs 34.90 crore from WBIDFC[ϕ]. After commencement of JFM in 1998-99 the shortfall in achievement (2504 hectares) against target (11461 hectares) fell to 22 *per cent* during the period 1998-2000, resulting in loss of potential contribution of Rs 3.38 crore. Scrutiny in audit revealed that shortfall were attributable to the Divisional Manager's failure in obtaining the marking list from the Forest Directorate in time which was essential before taking up harvesting and delay in payment of due share to Forest Protection Committees towards harvesting costs.

Audit scrutiny revealed that -

Non-maintenance of plantation journals, plantation not conforming to model, shortfall in number of trees planted

(i) Plantation journals for 50 out of 86 blocks were not updated for 1998-99 and 1999-2000 raising doubts about the veracity of the achievements stated.

(ii) Though the project presented two plantation models, to distinguish them from earlier plantations, plantation over 605 acres out of 2005 acres covering 86 blocks undertaken during 1999-2000 did not conform to either model.

(iii) A fourth of the area under plantation was below the prescribed minimum economic size of 20 hectares.

(iv) Some of the plantation sites selected were infested with older stumps, weeds and partial planting under older plantations.

(v) There had been overcrowding of non-timber forest produce in 110 hectares of East Midnapore and Rupnarayan (P&S) Divisions. Moreover, against envisaged tree density of 1600 trees per hectare, one division had declared the tree density at 1550 and three divisions at 1500 in their plantation journals. Consequently, there was shortfall in the number of trees planted.

The adverse financial impact of deficiencies in plantation, non-conformity to model, unplanned selection of sites, uneconomic plantation blocks etc. would occur in the years to come.

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[3] Midnapore, Bankura, Birbhum, Burdwan & Purulia

[4] Harvesting/regeneration of 73,000 hectares existing sal plantation, regeneration of 9000 hectares degraded land; construction of 6 modern nurseries, 105 housing units for grassroots functionaries and 4 eco-tourism centres

[ϕ] West Bengal Infrastructure Development Finance Corporation Limited

2B.11 Undue financial benefit to the Forest Directorate

At a Price Fixation Committee meeting held (March 1997), PCCF*, West Bengal expressed his desire 'that the Company would take up some work like (i) maintenance and improvement of forest roads which they use for the extraction of timber and (ii) fringe area development activities to build up the goodwill of the Company in the area'.

Rs 4.20 crore spent for the forestry activities of the Forest Directorate

However, it was seen in audit that instead of taking up the jobs directly, the Company simply released Rs 4.20 crore till March 1999 against proposals from the PCCF in March 1997/ 1998 on the basis of estimates and utilisation certificates. Moreover, the BOD specifically approved expenditure of Rs 3 crore in December 1997 while the balance of Rs 1.20 crore was yet to be approved as a distinct item by the Board (September 2001). Further, it was observed that the fund was utilised for the entire gamut of forestry activities including plantation in logged areas, re-forestation of degraded forest land, tending operations like multiple shoot cutting, ecological restoration in fringe areas, eco-tourism and maintenance/ renovation of timber depots owned by the Forest Directorate. Thus, the Company financed the forestry activities of the Forest Directorate without recorded reasons. Moreover, this fund was expended by the Directorate without Legislative sanction and the Company had aided the Directorate in circumventing the control of the Legislature.

2B.12 Automobile and Engineering Workshop (AEW)

The Company set up in April 1992 an automobile and engineering workshop (AEW) at Salugarah, Jalpaiguri for repair and maintenance of Company vehicles and vehicles of the Forest Directorate. The Review and Planning Committee (RPC) recommended (December 1993) improvement in efficiency and revision of repairing rates to make AEW viable.

Scrutiny in audit revealed (January/ August 2001) that between 1996-97 and 2000-2001, the number of repair jobs undertaken by AEW drastically reduced from 318 to 100. Moreover, the Company had not fixed any time schedule for completion of major repair jobs. In 60 out of 84 cases of major repairs, the jobs took a minimum of 31 days and a maximum of 210 days. In view of the dearer repairing cost, delay in repair and shoddy work; vehicles were not repaired at AEW and instead placed with private garages.

Loss of Rs 0.84 crore due to gross under-utilisation of capacity

As a result, facilities of AEW were grossly under-utilised and the Company sustained losses of Rs 83.78 lakh during 1996-2001. Nevertheless, the Divisional Manager, Kurseong Logging Division failed to act on the recommendations of RPC despite lapse of seven years for reasons not on record (April 2001).

* Principal Chief Conservator of Forests

2B.13 Pole Treatment Plant (PTP)

Capacity utilisation was negligible with consequential operating loss of Rs 0.35 crore

The Forest Directorate set up in June 1974, a PTP at Sarugarah, Siliguri with a capacity of treating 12000 sal poles per *annum* for supply to West Bengal State Electricity Board (WBSEB). The PTP, was subsequently transferred to the Company in June 1978. During 1996-97 to 1999-2000, the average capacity utilisation of PTP was less than 10 *per cent* and the plant sustained operating loss of Rs 34.79 lakh during this period.

Scrutiny in audit revealed that the sale value was only 32 to 75 *per cent* of the direct cost of production. Moreover, as WBSEB had switched over to concrete poles, there was a lack of orders. In view of this development, continuance of the PTP is not in the interest of the Company.

2B.14 Cashew Plantation Division (CPD)

Mention was made in Para 2B.6 of the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1992 about shortfall of 41 *per cent* in average yield due to closer plantation of cashew and cultivation of eucalyptus as inter crop.

Low yield resulted in loss of potential revenue – Rs 24.67 crore

Extra expenditure of Rs 0.35 crore on salary and wages of 18 excess staff

The RPC recommended (December 1993) that the Company should adopt improved techniques of tending and horticultural practices and reduce the number of casual daily labourers (CDL) from 93 to 75 by redeployment of surplus staff elsewhere with a view to increase cashew yield. However, the Divisional Manager had not acted upon the recommendation. Consequently, the position of yield had further deteriorated during 1996-97 to 2000-2001. The actual yield was 1225.427 MT against the anticipated yield of 14025 MT and shortfall resulted in loss of potential revenue of Rs 24.67 crore. Further, in violation of the recommendation of the RPC, 18 excess CDLs were absorbed in June 1998 on the payroll of the Company resulting in extra expenditure of Rs 35.39 lakh on account of salaries and wages between 1994-95 and 2000-2001. The Company sustained a loss of Rs 34.67 lakh on operation of CPD between 1996-97 and 2000-2001. In order to avoid recurring losses, the Management may review the continuance of the CPD.

2B.15 Idle expenditure on pay and allowances

Idle wages of Rs 0.70 crore

The Company transferred the Darjeeling Division to the Forest Directorate in November 1992 and 17 clerical staff attached to the Division were allowed to work in different offices of the Directorate since March 1995. Although the staff had not been rendering any service to the Company, their pay and allowances was continued to be paid by the Company on the pretext that the terms of deputation were not finalised (June 2001). During 1995-96 to June 2001, the Company incurred idle expenditure of Rs 69.75 lakh towards the pay and allowances of these staff without the approval of the Board of Directors. Further, concurrence of the Finance Department to the transfer of these staff was not obtained.

Conclusion

The Company was established in July 1974 for harvesting, logging, afforestation and development of wood based industries in the forest areas of Darjeeling and Kalimpong in the State.

Due to non-maintenance of plantation journals and instalment registers, the possibility of misappropriation of funds arising out of bad/ non-existent plantations, poor survival rates and non-payment/ delay in payment of bid amount can not be ruled out. Moreover, the profit reflected during 1998-99 and 1999-2000 would not have arisen but for interest income. Unprofitable subsidiary activities like polythene tube manufacturing unit, Automobile and Engineering Workshop and pole treatment plant should be shut down and the Company should focus on core activities. Further, the consolidation of joint forest management should be accorded priority to restore the ecological balance through plantation and regeneration in association with local stakeholders.

These matters were reported to the Government and the Management in May 2001; their replies had not been received so far (September 2001).

2C WEST BENGAL SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED AND WEST BENGAL FINANCIAL CORPORATION

Highlights

West Bengal Small Industries Development Corporation Limited (WBSIDC) was incorporated in March 1961 to develop infrastructural facilities, render technical and financial assistance and promote the interest of small scale industries while West Bengal Financial Corporation (WBFC) was set up in 1954 to aid and assist in the growth and development of industries (including small scale industries) in West Bengal. Despite being in existence for more that three decades, neither agency was able to plough back any funds for development. WBSIDC suffered a cash loss of Rs 1.75 crore which adversely affected its fund position and hampered its activities. WBFC had aggregate gross business receipts of Rs 196.94 crore against the payments of Rs 202.29 crore leading to negative fund generation of Rs 5.35 crore during 1996-97 to 2000-2001.

(Paragraphs 2C.1 & 2C.4)

Non-development of industrial estates at Tangra (New) and Taratala and inappropriate selection of site by WBSIDC for Santoshpur Garment complex led to locking up of Rs 5.53 crore. Further, industrial estates in the backward districts of Bankura and Purulia were not developed even 20 years after acquisition of land.

(Paragraphs 2C.5.1.1,2C.5.1.2, 2C.5.1.3 & 2C.5.1.4)

Twenty six non-SSI units occupied premises intended for SSI units. One hundred and eleven units failed to commence activity after allotment of premises, while 101 units stopped operation.

(Paragraphs 2C.6 & 2C.6.1)

Under Marketing Assistance Scheme, sales to Government were below targets by 30 to 54 *per cent* between 1996-97 and 1998-99. Moreover, Rs 5.54 crore was due till March 2001 resulting in loss of margin money of Rs 0.19 crore.

(Paragraph 2C.8.1)

WBFC failed to achieve targets for sanction/ disbursement despite lowering targets. Further, inadequate care by the Management of WBFC at the appraisal stage resulted in a three-fold increase in cumulative undisbursed sanctions between March 1997 and March 2001.

(Paragraphs 2C.9.1 & 2C.9.3)

Sanction to industrially backward districts ranged from 19 to 32 *per cent* reflecting a greater focus in the already developed districts.

(Paragraph 2C.9.5)

Despite introduction of One Time Settlement, recoveries continued to be poor. Principal dues of Rs 106.59 crore from 9424 borrowers were classified as "doubtful/ loss" assets. WBFC continued to disburse loans to 48 defaulting units with outstanding dues of Rs 58.40 crore to rehabilitate them.

(Paragraph 2C.10)

2C.1 Introduction

The State Government routes assistance to small scale industrial (SSI) units through three Directorates[ϕ], West Bengal Small Industries Development Corporation Limited (WBSIDC) and West Bengal Financial Corporation (WBFC). West Bengal Small Industries Corporation Limited (WBSIC) was set up as a wholly-owned Government company in March 1961 with a view to promoting growth of SSI units by way of providing financial assistance, aiding, advising, protecting the interest of SSI units as well as ensuring availability of raw materials and by creating infrastructural facilities. WBSIC was renamed as West Bengal Small Industries Development Corporation Limited (WBSIDC) in May 1998. WBFC was incorporated in March 1954 under the State Financial Corporations Act, 1951 (SFC) to aid and financially assist the growth and development of industries, including small scale industries in West Bengal.

The activities of WBSIDC are at present restricted to operation of 33 industrial/ commercial estates, marketing assistance to SSI units and procurement/ distribution of raw materials. On the other hand, WBFC extended financial assistance by way of loans to SSI units including SRTO[#]s.

2C.2 Audit Objectives and Scope

The present review conducted during November 2000 to January 2001 and July 2001 covering the records of WBSIDC and WBFC's Head office and Kolkata, Siliguri and Durgapur branches for the period 1996-97 to 2000-2001. The objective of the review is to evaluate the effectiveness of these agencies in the development of SSI units in West Bengal. The results of audit are discussed in the succeeding paragraphs.

[ϕ] Directorate of Industries, Directorate of Handloom and the Directorate of Sericulture
[#] Small Road Transport Operators

2C.3 Organisational set-up

The management of WBSIDC is vested in a Board of Directors headed by the Chairman. As at March 2001, there were 12 Directors including the Chairman, all of whom were nominees of the State Government. The Managing Director is the Chief Executive and is assisted by an Executive Director, Senior Manager (Administration), Managers for Marketing and Estate, an Executive Engineer (Industrial & Commercial estate construction) and the Chief Accounts Officer.

In the case of WBFC, the management is vested in a Board of Directors headed by the Chairman. As at March 2001, there were seven Directors, of whom five including the Chairman, were nominees of the State Government and two of financial institutions. The Managing Director is the Chief Executive and is assisted by three General Managers, Secretary and 14 Deputy General/ Chief/ Branch Managers.

2C.4 Sources & Application of funds

A West Bengal Small Industries Development Corporation Limited

Cash loss of Rs 1.75 crore between 1996-97 and 2000-2001

The accounts of WBSIDC were in arrear since 1996-97. As per provisional accounts, the accumulated loss rose from Rs 11.73 crore in March 1997 to Rs 15.52 crore in 2000-2001 indicating a loss of Rs 3.79 crore over this period. The cash loss was Rs 1.75 crore which led to a fund crunch thereby frustrating the object of development of infrastructure for SSI units on account of inability to recover dues against rent, electricity, marketing assistance etc. as discussed subsequently.

B West Bengal Financial Corporation

Negative fund generation of Rs 5.35 crore

The sources and application of fund by WBFC indicated that during the last five years ending 2000-2001, Rs 230.60 crore were raised by way of bonds/ deposits and from IDBI[*]/ SIDBI[&] while Rs 19.75 crore were raised through issue of shares. Further, during the same period the aggregate gross business receipts of Rs 196.94 crore were less than the payments of Rs 202.29 crore, thereby leading to a negative fund generation of Rs 5.35 crore.

[*] Industrial Development Bank of India.
[&] Small Industries Development Bank of India.

2C.5 West Bengal Small Industries Development Corporation Limited

2C.5.1 Infrastructure Development

The Company was providing infrastructural facilities such as development of land, construction of sheds, providing water and electricity to the SSI units in 23 Industrial and 10 Commercial estates as of March 2001.

Six industrial estates were transferred to the Company in July/ August 1995 by the C & SSI[Ξ] Department free of cost for operation. During 1998-99, only one industrial estate was added i.e. Pagladanga while the Barjora industrial estate was sold after development of the land to the Home (Police) Department during April 2000. Land purchased for industrial estate at Purulia and Santoshpur Garment complex was not developed till date (September 2001). No industrial estate was set up in the industrially backward districts during 1996-97 to 2000-2001. The detailed audit analysis on infrastructure development are discussed in succeeding paragraphs.

2C.5.1.1 Land acquired from erstwhile Bengal Potteries Limited for development of Industrial Estates

The Company took physical possession of land at Pagladanga (674 cottahs[#]), Taratala Mini Industrial Estate (67.76 cottahs) and at Tangra (New) (306.6 cottahs) at Kolkata. The land belonging to the erstwhile Bengal Potteries Limited was taken over from the Official Liquidator, Hon'ble High Court, Kolkata in January/ June 1996 to develop an industrial complex and to provide agglomeration of non-polluting SSI units at one location. The acquisition was completed in December 1998 at a cost of Rs 12.10 crore and thereafter Detailed Project Report was prepared only in April 1999. The acquisition was partly financed through a loan of Rs 9.55 crore from the State Government and the balance was met from its own resources. Actual allotment of plots commenced in January 1999 at Pagladanga.

Locking up of Rs 4.32 crore due to non-development of Taratala and Tangra industrial estates

Out of 89 plots, only 64 were allotted to SSI units till March 2001 leaving 25 plots un-allotted. However, none of the allottees had set up industries till March 2001 due to failure of the Company to effect mutation in its name. Consequently, the Company was unable to sanction building plans of the entrepreneurs. Since the Company did not get sufficient response from entrepreneurs even after development of an estate at Pagladanga, the Management decided (March 2001) not to develop Taratala and Tangra (New) Industrial estates, thereby frustrating the entire exercise of development of SSI units. In addition, Rs 4.32 crore was locked up towards cost of land on which proportionate liability towards interest on loan was Rs 1.36 crore up to September 2001.

[Ξ] Cottage & Small Scale Industries
[#] One Cottah means 720 Sq. ft.

2C.5.1.2 Modern Integrated Readymade Garment complex, Santoshpur

Inappropriate selection of site led to blocking of Rs 1.21 crore

The Company acquired in December 1998 land measuring 1267.41 cottahs at Kalinagar, Santoshpur from CMDA[^] for Rs 75 lakh to facilitate the production of readymade garments by prospective SSI units. The Company placed (August 1999) an order on M/S Mackintosh Burn Limited on single tender basis for Rs 1.96 crore (Infrastructural facility : Rs 63.25 lakh, Gala[±] building : Rs 1.33 crore) to be executed by August 2000. The project was to be funded out of loan of Rs 4.87 crore bearing interest of 16 *per cent per annum* obtained in March 1999 from West Bengal Infrastructure Development Finance Corporation Limited. However, the Company drew only Rs 1.23 crore in March 2000. Till March 2001, expenditure of Rs 45.92 lakh was incurred with 73 *per cent* of infrastructure facilities complete, while the gala building construction was kept on hold due to financial constraints. Subsequently, the construction of gala building was dropped by the Company (June 2001). Thus, delay in development of plots had blocked Rs 1.21 crore in an incomplete estate besides interest liability of Rs 45.54 lakh till March 2001. Moreover, newspaper advertisement in November 2000 for allotment of 45 plots evoked no response indicating inability to attract entrepreneurs. Consequently, anticipated benefits did not accrue to the SSI units.

2C.5.1.3 Barjora Industrial Estate, Bankura

The Company acquired (September 1981) 43.18 acres land at Bankura, an industrially backward district and paid (April 1984 - September 1986) Rs 1.56 lakh towards cost of land to develop an industrial estate. The Company took possession in September 1984 and incurred Rs 62.18 lakh between August 1984 and March 1991 on construction of boundary wall and arranging water supply through Public Health Engineering Department.

Failure to develop industrial estate at Bankura despite expenditure of Rs 0.64 crore

The Company invited applications in March 1996 against which only three SSI units applied. Given the insufficient number of applicants, the Company did not allot plots. Thereafter, the Managing Director of the Company observed (November 1999) that “An attempt to explore the possibility of joint venture has been made half-heartedly but the same has not yet materialised”. Consequently at the instance of State Government (December 1999) the Company transferred (April 2000) the entire land to the Home (Police) Department against reimbursement of Rs 63.74 lakh incurred by the Company. The Company, however, had to forego interest of Rs 66.38 lakh on the investment for the period April 1984 to March 1997. Thus, due to half-hearted attempts by the Company for development of the industrial estate over two decades not only did industrialisation of a backward district suffer a setback, besides causing loss of interest of Rs 66.38 lakh to the Company.

[^] Calcutta Metropolitan Development Authority.
[±] A large building with provision for housing multiple small entrepreneurs

2C.5.1.4 Purulia Industrial Estate

Purulia Industrial estate failed to take-off due to non-development of infrastructure

In January 1981,the Company took possession of 16.17 acres land in mouza "Raibandh" of the industrially backward Purulia district for development of an industrial estate. A project report was prepared in 1982-83 for development of plots and construction of sheds at an estimated cost of Rs 36.47 lakh. The Company paid Rs 1.38 lakh in July 1985 towards cost of land. However, development of the estate infrastructure like power and water was not undertaken Consequently, the local SSI entrepreneurs who were allotted plots did not set up their units.

In August 1992, the Company realised that it could not construct the requisite infrastructure for power as the cost for the same had not been factored into the lease premium approved by the Board of Directors (BOD) of the Company in October 1988 and desired that intending entrepreneurs make their own arrangements for power. Further, the Company was unable to arrange water. In May 1994, the Company leased four acres land to a SSI unit M/S Purulia Cement Private Limited (PCPL) and received the premium of Rs 1.15 lakh in July 1994. In August 1994, Shri Sanat Kr Banerjee initiated legal proceedings claiming ownership of the land allotted to PCPL and the Company refunded the entire premium to PCPL in November 1995. Subsequent attempts of the Company to lease the land failed to mature for reasons not on record though called for in audit. Thus, failure of the Company to develop infrastructure like power and water as well as vacate the encumbrances on the land frustrated the development of SSI units in a backward district.

2C.6 Allotment and pricing

Comprehensive records regarding allotment not maintained

The Board of Directors of the Company resolved in July 1997, that 75 *per cent* of the plots /sheds available for allotment would be earmarked for new entrepreneurs while the balance 25 *per cent* would be allotted to existing units. Priority would be accorded to units (a) with good employment potential, (b) utilising modern techniques and (c) promoted by technically trained/ women/ physically handicapped entrepreneurs. Further, allottees would be selected after assessing seriousness of purpose, capability of setting up of industry and present state of preparedness. However, in absence of records indicating the criteria for selection, the extent of compliance could not be assessed in audit.

7 of 47 allotments cancelled within seven months

Scrutiny in audit revealed that out of the 47 long term allotments made in December 2000 at Dabgram and Durgapur, all were new SSI units. Of these allotments, seven at Dabgram were subsequently cancelled in July 2001 for non-payment of lease premium. This indicated that these units lacked the capability and were not prepared and their selection was not properly assessed.

The position of availability/ vacancy of plots/ sheds is given below:

		Availability/ vacancy of plots/ sheds			
Year	**No. of Industrial/ Commercial Estates**	**Total Plots/Sheds at the end of the year**	**Plots/ sheds alloted at the and of the year**	**Plots/sheds lying vacant at the end of the year**	**No. of non-functioning units**
1996-97	32	2239	1898	341	232
1997-98	32	2239	1927	312	240
1998-99	33	2328	1970	348	240
1999-2000	33	2328	2042	286	253
2000-2001	33	2328	2032	296	260

The reasons for vacancy in various estates were (a) fixation of land premium at high rates and (b) non-availability/ inadequate physical infrastructure at estates as elucidated below.

The pricing of the plots/ shed/ floor space for long term and short term lease of different industrial/ commercial estates was last revised in April 1998 with the approval of BOD after considering the representations received from different entrepreneurs' associations. The pricing of long term lease for Pagladanga, Tangra (New), Santoshpur and Taratala was made on cost plus basis and ranged from Rs 0.70 lakh per cottah to Rs 2.50 lakh per cottah which was considered high by entrepreneurs. Further, at Behala, Tangra (Old) and Dabgram estates, road conditions were poor, drainage was defunct or absent, water availability was inadequate etc. The Company initiated steps to remedy these deficiencies only in August 2001.

26 non-SSI units occupied premises intended for SSI units

A review of occupancy of eight[Θ] industrial estates revealed that 26 non-SSI units such as horticultural nursery/ Government establishment were allotted/ occupied premises intended for SSI units only. Dues of Rs 45.60 lakh were outstanding from two non-SSI units as discussed at Paragraph 2C.7.1 *infra.*

2C.6.1 Non-functional units

The lease agreements entered into by the Company with the entrepreneurs specify that if the premises were not utilised for the intended purpose within a period of three months or remained closed for three months consecutively in short term leases, the Company could take back the premises. For long-term leases, the period was 12 months and six months respectively.

111 units failed to commence activity while 101 units stopped operation

It was observed (August 2001) in audit that at 16[τ] estates, 111 units allotted between April 1971 and September 2000 had not commenced activity. Further, 101 units commenced activity but subsequently stopped operation between March 1993 and September 2000 due to labour

[Θ] Behala, Howrah, Kalyani, Siliguri, Tangra, Kasba, Durgapur & Baruipur

[τ] Siliguri, Dabgram, Kasba-Phase I to III, Malda, Howrah, Tangra (Old), Ultadanga, Baruipur, Raigunj, Manicktala, Kharagpur, Haldia, Bauria & Behala problems, non-availability of orders, financial crisis, construction problems etc. Further, test check at six[ϕ] of these estates revealed that an amount of Rs 17.16 lakh was outstanding against 36 units (March 2001) towards lease rent, municipality taxes etc.

Lack of efforts to evict 22 non-functional units

At Siliguri, the Company issued (March 1993 to July 1999) notice for termination of lease on only nine of the 22 non-functional units. Subsequently, in August 1999, another termination notice was issued on all 22 units. However, the eviction was not effected (August 2001) despite issue of resumption notice in June 2001, indicating the Company's failure to monitor the functioning of SSI units.

2C.6.2 Expired lease agreements

Lease agreement not renewed

At 11 estates up to September 1999, 193 units had not renewed their lease agreements which had expired. Scrutiny in audit revealed that at Behala industrial estate out of 150 units, 45 units failed to renew their lease agreement which expired between June 1988 and September 1998 while at Tangra (Old) out of 53 units, 38 units failed to renew their lease agreement that had expired during July 1978 to June 1999. At Siliguri industrial estate, out of 104 units, 19 units failed to renew lease agreement that expired between May 1994 and April 2001.

In absence of lease agreements the Company was unable to invoke the eviction against defaulting units as well as to realise dues as discussed in Paragraph 2C.7 *infra*.

2C.7 Income from Industrial/ Commercial Estates

A) The annual rental income in respect of 27 Industrial and Commercial estates during the last five years ending 31 March 2001 went up marginally from Rs 1.43 crore in 1996-97 to Rs 1.46 crore in 2000-2001 while outstanding dues under this head rose from Rs 3.15 crore to Rs 3.24 crore primarily due to poor recovery at seven[λ] estates, non-recovery of dues pertaining to evicted units and dues locked up in legal proceedings.

Dues against municipal tax rose from Rs 0.76 crore in 1995-96 to Rs 0.97 crore in 2000-2001

Further, the Company has to pay Municipality tax for 16 estates located in different municipality areas and recovered the occupier's share from the allottees. The dues against municipality tax increased by 27 *per cent* from Rs 76.15 lakh in March 1996 to Rs 96.87 lakh as of March 2001 due to poor recovery.

The Board of Directors (BOD) reiterated (December 1996) that defaulting units should be served notice of 30 days for showing cause as to why allotment should not be cancelled and possession be resumed.

At Behala industrial estate, Rs 10.68 lakh was due as of March 2001 from 20 defaulting units whose lease agreement had expired. It was observed in

[ϕ] Siliguri, Howrah, Tangra (Old), Kharagpur, Haldia & Behala
[λ] Behala, Tangra, Silpa Bhavan , Kalyani-I, Durgapur, Siliguri & Bauria

audit that three[@] units were repeatedly served show-cause/ resumption notices from July 1990 to September 2000. However, the Company continued to accommodate these defaulting units and did not evict them for reasons not made known though called for (August 2001).

Electricity dues of Rs 1.34 crore was not recovered at 11 estates where power supply was converted

B) The Company billed electricity charges from the allottees in 11 estates from whom Rs 1.34 crore was due as at 31 March 2001. The Management stated (September 2001) that necessary persuasion was under way to recover dues. The Management's reply is not tenable as power supply of these units have already been transferred in the name of the units and the Company had no further scope for recovery of dues of Rs 1.34 crore.

2C.7.1 Two instances of non-SSI units defaulting in payment of dues are discussed below.

(a) West Bengal State Leather Industries Development Corporation Limited (WBSLIDC), a non-SSI unit, occupied office space (3746.60 sft.) at Shilpa Bhavan. Despite non-receipt of Rs 15.85 lakh towards rent, municipal taxes and electricity for the office space from WBSLIDC till March 2000, the Company not only failed to evict WBSLIDC but also offered (February/ March 1999) alternative accommodation at the Kasba Industrial Estate on 99-years lease at a premium of Rs 23.69 lakh. The dues of Rs 15.85 lakh remained outstanding till date (March 2001).

(b) The Company handed over possession of eight sheds at Siliguri on rent to Wood Industries Centre (a non-SSI unit under the C&SSI Department) in May 1984. The unit has not paid its dues of Rs 29.75 lakh since inception till date (March 2001). Despite repeated issue of reminders, eviction notice was not issued so far (August 2001). The C&SSI Department proposed (September 2000) adjustment of the dues against transfer value of Siliguri estate which originally belonged to Directorate of C&SSI. The Company, however, took no steps to adjust the dues as the liability had not been assessed (September 2001).

2C.8 Marketing Assistance scheme

2C.8.1 Furniture

The Company acts as a marketing agency for 14 items of furniture manufactured by 142 SSI units to various State Government departments and autonomous bodies at a margin of 12 *per cent*. The Company supplies the furniture on credit while payments to SSI units are to be made within a reasonable time.

The Company failed to achieve the targets for 'Government' sales during 1996-97 to 1998-99 by 30 to 54 *per cent*. In 1999-2000 and 2000-2001

[@] Bose Corporation (Rs 0.25 lakh), Centre Point Estates (Rs 5.25 lakh) and Deepika Engineering & Electrical (Rs 0.65 lakh) the achievement exceeded targets by 63 and 190 *per cent* as flood relief materials (tarpaulin) were procured and sent to the affected areas on priority basis under the direction of the Government. The Company failed to realise dues of Rs 5.54 crore from different Government departments/ bodies till March 2001. As a result, it could not get the margin money of Rs 19 lakh.

2C.8.2 Procurement and distribution of raw materials

The Commercial Division of the Company was engaged in procurement and distribution of paraffin wax, fertiliser, mineral turpentine oil (MTO), bulk drugs etc. However, following decontrol of these raw materials with effect from 1April 1998 by the Government of India, the turnover of these items reduced from Rs 12.21 crore in 1996-97 to Rs 3.66 lakh in 2000-2001 as detailed in the table below:-

Sl. No.	Items	Turnover				
		1996-97	1997-98	1998-99	1999-2000	2000-2001
		(Rupees in lakh)				
1)	Paraffin wax	1152.27	791.33	481.03	Nil	Nil
2)	Fertilisers	25.27	28.82	22.05	31.35	0.41
3)	MTO	1.96	4.97	3.52	52.42	3.25
4)	Titanium Dioxide	Nil	7.04	Nil	Nil	Nil
5)	Manganese Dioxide	0.76	6.67	6.24	Nil	Nil
6)	Drugs	40.76	2.81	1.87	Nil	Nil
	Total	**1221.02**	**841.64**	**514.71**	**83.77**	**3.66**

It was observed that though the total turnover plunged due to lack of demand from SSI units, the Company neither framed any policy to sell the materials in the competitive market nor diversified its' market portfolio.

Idle wages of Rs 0.39 crore *per annum*

Consequently, 40 employees of the division and four raw material banks (stores) at Siliguri, Durgapur, Howrah owned by the Company and one rented (Rs 6000 per *annum*) at Cossipore remained idle from 1998-99. The Company paid on an average Rs 38.77 lakh per *annum* towards salary and wages. The Management stated (January 2001) that it was exploring the possibility of acting as 'product promoter' of bitumen and a proposal to this effect was being sent to the Council of Small Industries Corporations in India. However, the Company had not sent any proposal so far (September 2001).

2C.8.3 Diversification of Commercial activities - Sale of Bulk drugs and Polymer Products

To diversify its activities, the Company sold on credit polymer products and bulk drugs to SSI units from July 1992 to January 1993 and September 1992 to July 1997 respectively without assessing the credit worthiness or bonafides of the buyers.

Sale on credit without safeguarding the Company's interest led to doubtful recovery of Rs 2.09 crore

(a) An amount of Rs 2.20 crore including interest on overdues was recoverable towards polymer sales from nine parties, of which one[Ω] was a non-SSI unit. Legal proceedings were instituted against eight parties, of which only Rs 11.32 lakh was recovered against claim of Rs 14.96 lakh resulting in loss of Rs 3.64 lakh. Further, Court orders were obtained in May/ August 1999 against four units of which one was liquidated (Dues : Rs 49.09 lakh) and no action was taken to execute the court orders in the remaining three cases (Dues : Rs 68.40 lakh) by the Commercial Manager for reasons not on record (March 2001).

(b) Similarly, Rs 93.57 lakh was due from 24 units as at March 2001 towards sale of drugs of which Rs 35.10 lakh was recoverable from September 1992 from Gluconate Health Limited, which was not a SSI unit. Further, whereabouts of three units (Dues : Rs 6.49 lakh) was not traceable while one unit was liquidated (Dues : Rs 5.63 lakh) and another locked out (Dues : Rs 11.98 lakh). The Company stated (January 2001) that legal action was being contemplated. Further developments were awaited (September 2001).

Failure to monitor the recovery of outstanding dues from private parties saddled the Company with irrecoverable debts of Rs 2.68 crore.

Further, bulk drugs valuing Rs 5.03 lakh had outlived their shelf life and were sold in July 1998 for Rs 2.03 lakh with approval of the BOD. However, it is not clear how the BOD could approve sale of expired drugs.

2C.9 West Bengal Financial Corporation

2C.9.1 Target and achievements

The annual BPRF[ϖ] target for sanctions and disbursement of loans and achievement thereagainst for the last five years ending 2000-2001 in respect of SSI units (including SRTOs) is given in the table below :

(Amount: Rupees in crore)

	Sanction			Disbursement		
Year	**Target (Rs)**	**Achievement (Rs)**	**Percentage of achievement to target**	**Target (Rs)**	**Achievement Rs)**	**Percentage of achievement to target**
1996-97	46.15	30.75	67	40.15	35.87	89
1997-98	77.05	64.53	84	76.55	42.61	56
1998-99	96.00	72.50	76	71.25	59.88	84
1999-2000	93.00	68.20	73	70.30	49.78	71
2000-2001	68.00	64.30	95	51.00	50.77	100

[Ω] Biax Limited (Rs 26.99 lakh)
[ϖ] Business Plan and Resource Forecast

Failure to meet the BPRF target for sanctions and disbursements

From the table above, it could be seen that sanction targets over the last five years could not be achieved by the Corporation despite lowering the target in 2000-2001. Further, disbursement targets could not be achieved (except 2000-2001) over the same period even after reducing the target in 1998-99 and 1999-2000.

The Management stated (August 2001) that in recent years nationalised banks had entered into term lending business at lesser interest rates and it was felt that it was increasingly difficult to keep good borrowers in their fold and also to attract new borrowers as they were quite cost conscious. Therefore it was prudent to keep the targets for sanction and disbursement on a practical achievable level. The Corporation can not, however, absolve itself of its responsibility by lowering the targets for sanction and disbursement of loans to SSI units.

2C.9.2 Schemes for assistance

The Corporation provides financial assistance to the SSI units under 10[f] schemes. The monetary ceilings for the schemes are Composite loan- Rs 0.50 lakh, Single Window- Rs 0.50 lakh, NEF term loan & working capital- Rs 32.50 lakh and NEF soft loan- Rs 10.00 lakh, Women Entrepreneur- Rs 10.00 lakh, Ex-servicemen Scheme- Rs 15.00 lakh, ERS- Rs 2.40 crore, ECFS- Rs 2.40 crore, TUFS- Rs 2.40 crore and TDMF- Rs 80.00 lakh. While assistance under ERS, ECFS, TUFS and TDMF are extended to the existing units, Single window assistance is extended to both new and existing units.

No targets fixed for assistance under different schemes

It was seen in audit that the Corporation had not sanctioned any loans under SEMFEX (1996-2001) and WES (1998-2000). In addition, the Corporation did not maintain scheme-wise details in respect of sanctions against ERS, ECFS, TDMF and TUFS. Consequently, the performance of the Corporation under these four schemes could not be evaluated in audit. In reply, the Management stated (August 2001) that unsatisfactory recoveries under SEMFEX and absence of applications under WES resulted in non-sanction. The Management was, however, silent about non-maintenance of separate details under ERS, ECFS, TDMF and TUFS. Moreover, the Corporation had not fixed targets for assistance under individual schemes except for NEF scheme, thereby restricting the scope of monitoring the sanction and disbursement of loans under different Schemes.

2C.9.3 Undisbursed sanctions

The table below indicates loans sanctioned and undisbursed sanctions (cumulative) for the years 1996-97 to 2000-2001 :

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[f] Composite loan (CL), Single Window Scheme (SWS), National Equity Fund (NEF), Women Entrepreneurs Scheme (WES), Scheme for Ex-servicemen (SEMFEX), Small Road Transport Operators (SRTO), Equipment Refinance Scheme (ERS), Extended Credit Facility Scheme (ECFS), Technology Development & Modernisation Fund Scheme (TDMF), and Technological Upgradation Fund Scheme (TUFS)

Sl. No.		1996-97	1997-98	1998-99	1999-2000	2000-2001
		(Rupees in crore)				
i)	Loan sanctioned during the year (net)	30.75	64.53	72.50	68.20	64.30
ii)	Gross undisbursed sanction (Cumulative)	26.92	50.42	62.06	82.06	92.94

Three fold increase in undisbursed commitment

It would be observed from the table that there was a three – fold increase in cumulative undisbursed sanctions between March 1997 and March 2001. Scrutiny in audit revealed that the comparative position of undisbursed sanction (six months and above) pertaining to Siliguri, Durgapur and Kolkata branches at the end of 1996-97 and 2000-2001 was Rs 2.75 crore (37 units) and Rs 4.94 crore (44 units) respectively. The undisbursed sanctions rose due to non-submission of legal papers in respect of land, buildings, alteration of building plans and lack of interest by the parties. Further, as of 31 March 2001, the undisbursed sanctions (total and partial) lying for more than six months which were not cancelled by the Corporation amounted to Rs 4.96 crore (41 units) sanctioned during April 1998 to August 2000. At Siliguri, Kolkata and Durgapur branches totally undisbursed sanctions beyond six months as on 31 March 2001 amounted to Rs 93.10 lakh (four units), Rs 33.23 lakh (six units) and Rs 1.38 crore (five units) respectively.

While evaluating the performance of the Corporation, IDBI[∂] observed (July 2000) that increase in undisbursed sanctions arose primarily to delay in execution of legal documents, permission for conversion for land usage, non-compliance with the terms and conditions of the sanction and failure to bring in promoter's contribution in time.

2C.9.4 Analysis of assistance

During 1996-97 to 2000-2001, the Corporation extended assistance to SSI units under various schemes for the purpose of setting up new projects, expansion, rehabilitation, modernisation, technological upgradation, pollution control and quantity control, as tabulated below –

(Amount: Rupees in crore)

Year	New projects				Exp./ Rehab/ Modernisation etc.			
	Sanctioned		Disbursed		Sanctioned		Disbursed	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1996-97	212	20.86	335	27.94	147	9.89	155	7.93
1997-98	336	31.76	578	32.44	243	32.76	321	11.32
1998-99	318	44.90	792	37.90	206	27.60	308	21.98
1999-2000	271	42.58	225	32.35	206	25.62	156	17.43
2000-2001	406	18.58	122	20.12	234	45.72	166	30.64

[∂] Industrial Development Bank of India

Shift in emphasis on expansion/ modernisation instead of new projects

It would be apparent from the table above that over the period 1996-97 to 2000-2001, the average sanction in respect of new projects fell from Rs 9.84 lakh to Rs 4.58 lakh (53 *per cent*) while average sanction for expansion/ modernisation in the same period rose by from Rs 6.73 lakh to Rs 19.54 lakh (190 *per cent*). Similarly, growth in average disbursements for new projects and expansion/ modernisation in the same period rose by 98 and 260 *per cent* respectively i.e. Rs 8.34 lakh to Rs 16.49 lakh and Rs 5.12 lakh to Rs 18.46 lakh. Further, in two of the five years from 1996-97 to 2000-2001, six[ℜ] branches had sanctioned assistance to 301 existing units for modernisation/ rehabilitation against 224 new units. This indicated a shift in emphasis on expansion/ modernisation/ rehabilitation of the SSI units instead of giving impetus to the growth of new SSI units by the Corporation thereby retarding the growth of new SSI units.

The Government/ Corporation attributed (July 2001) this preference to absence of applications for new projects due to reluctance of first generation entrepreneurs. However, details of applications for new projects were not furnished to Audit, though called for.

2C.9.5 Sanctions to industrially backward districts

Greater focus on developed districts than that of backward districts

Up to March 1999, five and eight districts fell under categories of 'industrially backward' and 'industrially least developed' districts respectively. From April 1999, the State Government had re-classified the 18 districts of West Bengal into eight[∞] districts which were industrially developed and 10[θ] districts that were industrially backward by upgrading three districts from backward to developed. It would be seen from the table below that the percentage of sanctions and disbursements to industrially backward districts ranged from 19 to 32 *per cent* reflecting a greater focus in the already developed districts than that of the industrially backward areas of the State indicating lop-sided prioritisation.

(Rupees in crore)

	1996-97		1997-98		1998-99		1999-2000		2000-2001	
Category	**S**	**D**	**S**	**D**	**S**	**D**	**S**	**D**	**S**	**D**
Developed	22.85	26.22	51.61	32.81	57.01	48.78	50.75	37.27	43.54	39.79
Backward	7.90	9.65	12.92	10.95	15.49	11.10	17.45	12.52	20.67	10.98
Percentage of assistance to backward districts	26	27	20	25	21	19	26	25	32	22

(S : Sanction, D : Disbursement)

The Government/ Management, however, stated (July 2001) that the Corporation disbursed more to the hitherto backward districts which were converted to developed districts as per classification of State Government effective from March 2000. The reply is not tenable as the disbursement to

[ℜ] Bankura, Berhampore, Calcutta, Durgapur, Midnapore and Malda

[∞] Calcutta, Howrah, Hooghly, North & South 24 – Parganas, Burdwan, Nadia and Midnapore

[θ] Murshidabad, Birbhum, Purulia, Bankura, Malda, Coochbehar, North & South Dinajpur, Jalpaiguri and Darjeeling backward districts even before the re-classification done in April 1999 was meagre.

2C.10 Recovery of loans

Recovery of loans disbursed by the branches is monitored by the respective branch offices and the Head office is responsible for watching the overall recovery position of the Corporation. Recovery camps are conducted from time to time in branch offices and Default Review Committee (DRC) meetings are held in the Head office for analysing the reasons for default and granting re–schedulement of repayment of loan and interest and one time settlement (OTS) as a measure of relief to prevent further default. During last five years ending 2000-2001, 54 DRC meetings were held to review the default of the loan cases and for expediting recovery.

2C.10.1 Recovery and demand

Recovery under OTS was not encouraging

Scrutiny in audit revealed that out of 169 cases of defaulting SSI units referred to DRC between August 1999 to December 2000, in 41 cases (24 *per cent*) the entire outstanding amount of Rs 17.77 crore was in default. Further, at Siliguri Branch against outstanding of Rs 50.90 lakh, settlement was made for Rs 29.28 lakh in 1996-97 (30 cases) whereas against an outstanding of Rs 1.71 crore in 2000-2001 (15 cases), Rs 65.41 lakh was settled. Similarly, in Kolkata Branch an outstanding of Rs 2.58 crore was settled for Rs 1.43 crore in 1998-99 (54 cases) whereas against an outstanding of Rs 40.22 lakh in 2000-2001 (37 cases) only Rs 13.82 lakh was settled. At Head Office against an outstanding of Rs 10.92 crore settlement was made for Rs 3.63 crore only in 2000-2001 (37 cases). As a result, at these three branches, the Corporation sacrificed Rs 12.24 crore during the period under review.

A review of 146 out of 1415 defaulting loanee accounts revealed the range of default as follows :

Sl. No.	Range of default	No. of loanees	Amount (Rupees in crore)
I	Rs 10 lakh to Rs 25 lakh	38	6.72
II	Rs 25 lakh and above to Rs 50 lakh	39	13.97
III	Rs 50 lakh and above to Rs 100 lakh	31	22.10
IV	Rs 101 lakh and above	38	72.53
		146	**115.32**

Repeated disbursement of loans to 24 defaulting units despite having recoverable dues of Rs 46.27 crore

Out of total 146 defaulting units, 48 units (Annexure-17) had total outstanding dues aggregating Rs 58.40 crore (March 2001). Further scrutiny revealed that out of total outstanding dues (Rs 58.40 crore), 79 *per cent* (Rs 46.27 crore) was recoverable from 24 units whose individual dues were in the range of rupees one crore and above. Nonetheless, the

Corporation did not take over the assets of these habitual defaulters under Section 29 of the State Financial Corporation Act, 1951. On the contrary, the Corporation continued to disburse loans repeatedly up to four times ostensibly for their revival/ rehabilitation, but to no avail.

Non identification of sick/ rehabilitated units

Further, the Corporation did not even attempt to identify the sick SSI units during the last five years and on requests from the defaulting units, the Corporation restructured or rescheduled loans including interest of Rs 34.08 crore in 1996-97, Rs 18.99 crore in 1997-98, Rs 9.12 crore in 1998-99, Rs 7.45 crore in 1999-2000 and Rs 19.53 crore in 2000-2001. Moreover, the Corporation maintained no database regarding number of units thus rehabilitated.

This indicated that the Corporation had extended undue favour to the selected defaulting units. The Government/ Management conceded (July 2001) that the efforts for rehabilitation of these units were not fruitful.

2C.10.2 Non-Performing Assets – Classification

Poor recovery led to rise in non-performing assets

The Corporation's aggregate loans were classified into three categories of Non-Performing Assets (NPAs) *viz*. sub-standard assets≠, doubtful assets and loss assets according to Reserve Bank of India guidelines. Further, the outstanding NPAs shot up from Rs 150.01 crore in March 1996 to Rs 179.77 crore in March 2001.

Dues from 5367 and 4057 SSI units classified as 'doubtful/ loss assets'

Moreover, the principal outstanding as on March 2001 against 5367 SSI units in doubtful asset category was Rs 91.34 crore of which principal in default was Rs 67.12 crore. Similarly, under the loss asset category there were 4057 SSI units with outstanding principal of Rs 15.25 crore of which Rs 9.91 crore was in default, thereby blocking of a substantial amount in NPAs which hampered the development of other projects.

Conclusion

WBSIDC failed to attract successful entrepreneurs by creating appropriate physical infrastructure and thereby facilitating the growth of SSI sector as well as employment therein. Inability to recover dues hampered the fund flow of WBSIDC and thereby frustrated the objectives of marketing products manufactured by SSI units. WBFC also did not make any noticeable headway in its objectives of promoting SSI units owing to poor recovery management which had adversely affected the internal generation of funds for assisting SSI units. WBSIDC should stop activities relating to the procurement and distribution of raw materials and focus on operation of industrial/ commercial estates. WBFC should give more priority in assisting units in backward areas to promote balanced industrial development in the State.

≠ Sub-standard assets – Instalments of principal are over due for periods exceeding one year but not exceeding two years; Doubtful assets – Instalments of principal are overdue for more than two years; Loss assets – Loans which are not collectible

Efforts should be directed to encourage the SSI units to shift to industrial estates and also to make proper marketing arrangement of SSI manufactured products. Recovery performance from defaulting units should be improved to plough back funds for providing assistance to SSI units.