

10.9 Cement requirement of DRDAs - Insufficient supply of cement by TANCEM – Other alternatives- Requested-Suggestions

Rural Development & Panchayat Raj (CGS III) Department

G.O. (2D) No.37

Dated : 6.6.2007

Read :

Director of Rural Development and Panchayat Raj, D.O.Lr.No. 7868/2007/JU3, dated 31.5.2007

ORDER

The Director of Rural Development & Panchayat Raj in the D.O. letter read above has stated that cement is one of the major materials required for implementation of various Centrally and State sponsored schemes of Rural Development and Panchayat Raj Department as per estimation for the year 2007-2008, the total cement requirement by various districts for various schemes is as under:-

1	Cement requirement for pending works of RD-Schemes of 2006-07	-	3.5 lakh tonnes
2	Cement requirement for 2007-08 RD Schemes including newly introduced Panchayat Union School Renovation Programme	-	10.5 lakh tones
3	Cement requirement for Tsunami works as intimated by Project Implementation Officer, Tsunami Project Implementation Unit.	-	2 lakh tonnes
	Total	-	16 lakh tonnes

The Chairman and Managing Director, TANCEM has stated that TANCEM has supplied cement to DRDAs at an average of 4.5 lakhs tonnes per annum for the last 6 years and at present, it is able to supply an approximate quantity of 60,000 M.T. per month. At present, going by the present cement production capacity, TANCEM will be able to supply only a total of 6.60 lakhs tonnes from May 2007 to April 2008. However the Chairman and Managing Director, TANCEM has also informed that TANCEM proposes to carry out major repairs for the kilns at Alangulam cement works and Ariyalur cement works, due to which the existing supply of cement also will be hampered in August and September 2007. Hence, there will be a gap of minimum 9.40 lakhs tones (16-6.60 lakh tonnes) between the demand and supply of cement if the cement is procured only from TANCEM and TANCEM also gives regular supply every month. If TANCEM reduces supply in August and September 2007, the demand-supply gap will be even more.

Government of India releases its second instalment of funds based on the expenditure statement of first instalment for various schemes. If there is delay in procuring the cement resulting in shortfall in financial expenditure of first instalment of various schemes, the second instalments of schemes of Government of India may not come through in time and the State may suffer because of this. Also, Anaithu Grama Anna Marumalarchi Thittam, which is the flagship scheme of Government of Tamil Nadu, will be badly affected if early decision is not taken about filling up the demand-supply gap in cement as it exists at present.

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3. In order to overcome the shortfall, the following possibilities have to be considered:-

- **Option-1:** For the tendered schemes, the contractors themselves can be asked to procure cement by purchasing it from the local market. Also, the beneficiaries themselves can be asked to purchase cement from the local market for beneficiary oriented schemes.
- **Option-2:** The District Rural Development Agencies can be asked to go for open tenders, fix rate-contracts and procure cement locally.
- **Option-3:** TANCEM can be asked to procure additional cement through calling tenders at the State level itself and supplying cement to the DRDAs.

4. The Director of Rural Development and Panchayat Raj has offered the following remarks on the above 3 options:-

➤ **Option-1 – Contractors/Beneficiaries buying cement from Local Market.**

It will be a tedious task, if the contractors or beneficiaries are themselves asked to buy the cement from the local market. Most of the contractors undertaking the Rural Development Schemes are small time contractors of Class-III category, who do not have a large working capital and who undertake the works which are broadly in the range of Rs.2 to 3 lakhs. If such contractors are asked to buy the cement locally, the works will be held up because in the absence of giving cash advances as per the policy of the government, they will not have necessary working capital for procuring cement which may cost 40-60% of the estimated value of works. Also the cement rates are fluctuating widely in the local market. For example, at present OPC Grade 43 cement costs approximately Rs.230 per bag in the open market, whereas, the PWD schedule of rates prescribe, it at Rs.215 per bag. A contractor will be unwilling to buy cement when the schedule of rates for cement in the estimates is lower than the market rate. Likewise, the beneficiaries who are supposed to do the works directly in schemes like IAY, will also not be able to procure cement from the local market, due to the reasons of lack of working capital in hand, ban on advances by the Government and fluctuating prices of cement in the local market. This will badly delay the progress of works and as discussed earlier, result in insufficient expenditure in the first instalments of schemes and consequently delay in getting the next instalments from Government of India.

➤ **Option-2 – DRDAs procuring cement through Tendering:**

The DRDAs can buy cement by open tendering. This was permitted by the Government in the years 1997-2001. However, the disadvantage of this will be that different districts may have different rates of procuring cement and also the advantage of procuring cement in much lower prices if State-wide tender is called for will not be possible as the negotiation capacity of a District level Committee may be less than that of a State level Organisation by which much higher quantity of cement will be sought to be procured.

➤ **Option-3 – TANCEM procuring cement through Imports/Tendering:**

TANCEM can go for procuring additional cement by going for open tenders and can negotiate with the bidders effectively for getting an advantageous 'Rate Contract' since a large quantity of cement is to be procured. TANCEM, being a cement manufacturer itself, will also ensure better quality controls and checks over the cement to be supplied to the districts.

The Director of Rural Development and Panchayat Raj, has also stated that of three options, the third option is the most advantageous one. He has further stated that after discussion, a decision was arrived at wherein the Managing Director, TANCEM has accepted in principle to procure the additional cement required for the District Rural Development Agencies from other cement manufacturers by calling

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for Open Tenders and fixing rate contracts, and TANCEM will charge a margin money of Rs.2 per bag of cement. The Director of Rural Development and Panchayat Raj has recommended that utilizing TANCEM for procuring the additional quantities of cement from cement manufacturers on behalf of DRDAs in order to ensure that the phase of implementation of Rural Development Schemes and Tsunami Rehabilitation Schemes is not affected and to avail of advantageous price due to bulk purchase.

5. The Government have carefully examined the proposal of the Director of Rural Development and Panchayat Raj and have accepted it and direct that the District Rural Development Agencies will place orders with TANCEM for procuring the additional quantities of cement from other cement manufacturer. The TANCEM should go in for procuring cement through open tenders and can negotiate with the bidders effectively for getting an advantageous 'Rate Contract; and approve a panel of suppliers since a large quantity of cement is to be procured. TANCEM, being a cement manufacturer itself, should be in a position to ensure better quality controls and checks over the cement to be supplied to the District Rural Development Agencies manner. The funds for this purchase will be from the various Rural Development and Panchayat Raj Scheme funds.

6. This order issues with the concurrence of Finance Department vide its U.O.No. 1798/FS/P/07, dated 3.6.2007.

(By order of the Governor)

K.ASHOK VARDHAN SHETTY
SECRETARY TO GOVERNMENT