sacrificing the quality of services so as to concentrate on the primary business of producing steel.

Large-scale employment generation by PSUs has, infact, over the years, led to a situation where some of the enterprises are saddled with over-employment or excess manpower resulting in low-level of manpower productivity. Government has initiated a voluntary retirement scheme (VRS) to shed excess manpower and to improve the age-mix and the skill-mix. Simultaneously, training and retraining programmes have been undertaken to bring about overall improvement in manpower productivity.

Even with regard to the employment of people belonging to reserved categories, the PSUs have done an excellent job.

5. Export Earnings

PSEs have been contributing greatly to the export earnings of our country.

What is more interesting is that most of these earnings come from firms which are engaged in highly competitive fields. Exports earnings have favourable impact on India's balance of payments condition.

notwithstanding

The Left parties in the country are right when they argue that PSUs should continue to function, economic reforms notwithstanding. PSUs did play crucial role in the past in the development of the economy and there is no reason to doubt their potential to continue to play such a role in future.

Following are some of the measures to improve performance of PSUs:

- Looking at the government for budgetary help is no more possible, for, such support has been withdrawn. Other privileges like purchase preferences and price preferences for purchase by government or other PSUs are also not available.
- PSUs need to face competition both from domestic competition and MNCs.
- Mindset of managers and employees needs to undergo significant change. Laidback style of managers should give place for dynamism and combative mood. The attitude of lethargy and laziness on the part of employees should change into one of eagerness to cooperate and work for production, productivity and profit.
- Capital base needs to be restructured. Huge loans to be converted into equity and PSUs should access capital markets for additional funds.
- Globalisation should not be taken as a threat but as an opportunity to access foreign markets, learn new managerial skills and practices, and raise cheaper offshore funds.
- Cost control and cost reduction to be achieved at every level.
- All the old rhetoric for PSEs- infant industry, a heavy industry based development strategy, lack of resources and low level of technical competence in the private sector, absence of developed regional development, employment promotion and protection, social obligation- have lost relevance in these days of market economy and globalisation. Public sector restructuring and

disinvestment is currently taking place in a large number of developing countries including former socialist countries. We cannot remain isolated from this trend.

6. Balanced Regional Development

India is a vast country with wide variations in climate, demography' resource availability, fertility and topography. At a given time, some parts of the country will be reeling under floods, at the same time there will be severe draughts in other parts. One can also witness vast barren lands with sparce inhabitation by people, juxtaposed with thickly populated areas. Industrialisation has high potential in levelling such differences. The severe draughts being faced by Orissa, Rajasthan, Maharashtra and Madhya Pradesh are a case in consideration.

Public Sector

Recognising the existence of disparities in economic development of different regions, the Industrial Policy Resolutions of 1956, 1977 and 1980, emphasised the need for accelerated rate of growth in the economy and speedy industrialisation and removal of the regional imbalances. In this context, PSUs have a vital role to play since the setting up of large industries in public sector help eliminate regional disparities through such spin-offs as employment opportunities, growth of small and ancillary industries and development of infrastructural facilities. While deciding the location of PSUs, due considerations are given to the backwardness of various regions, subject to the over-riding consideration of techno-economic feasibility.

7. Industrialisation and Economic Development

Industrialisation, as is well known, is a *sine qua non* for economic development. The role of the public sector in achieving industrialisation is considerable. The role is particularly significant when one takes a look at the background against which the country started its industrial progress. "The position in 1947, when we became independent", wrote H.V.R.Iyengar, in a different context "was that we had the rudiments of an industrial apparatus, but we were almost completely dependent for the running of this apparatus on imported equipment and technology. This was the case even after the First Five Year Plan was started. I recall that when I became Secretary of the Ministry of Commerce and Industry in Delhi in 1952, the first thing that I did was to send for the Chief Industrial Adviser to the Government and ask him to look around in my room and tell me what were the items that could be produced in India but were imported. I asked, for instance, whether the ceiling fan which was whirling above our heads had been made in India. The Chief Industrial Adviser said, "Yes, it has been put together in India, but the varnish for the blade is made from the imported chemicals; the ball-bearings inside the fan are imported; the wire is of imported metal; the insulation above the wire is also imported." I asked about the table against which we were leaning. He said the timber was probably Indian, but the saw which cut the timber was imported and a good part of transport equipment used in hauling the timber was also imported such as the trucks and a good part of the railway equipment. The varnish used for the timber was also imported. I looked at the carpet which was spread on the floor in my office-room. He said the wool was probably Indian although he was not certain that the wool-top had not been imported, but the dyes used for colouring the carpet were certainly imported. In desperation, I asked about the paper and the pins and the clips on my table. He said the paper was undoubtedly Indian but the machinery used for manufacturing the paper had been imported and certainly the clips and pins were imported."[4]

> Private sector shunned investment in critical areas. Public sector was conceived to fill the gap.

Such was the position with which the country started its industrialisation. The task of achieving industrialisation was naturally gigantic and the time available was short. The private sector could not be relied upon to achieve faster industrial development. Historically, the private sector was controlled by the British managing agency houses with overriding consideration of serving the interests of British industries at the cost of Indian industries. To expect an overnight change in the culture and orientation of private undertaking was unrealistic. Moreover, the private sector units had the problem of resources. Infact, the two private steel companies, *viz*. the Tata Iron and Steel Company (TISCO) and the Indian Iron and Steel Company, were each given a loan of Rs.10 crore by the government for modernisation. Besides, industrialisation demands a heavy investment in critical projects which involve low profitability, long gestation periods and massive resources. The private sector, whose primary consideration is quick returns and high capital appreciation, shuns the critical projects.

The public sector was conceived to fill the gap which it did ably. The phenomenal growth in investment indicates the way the government undertakings stood up to the challenge. From a mere Rs.29 crore investment in just five enterprises in 1950-51, the investment quantum jumped to Rs.2,74,114 crore, spread over 233 undertakings at the begining of the 10th plan.

In the successive Five Year Plans, preference was shown to the public sector units in outlays as shown in Table 17.2.

> The products portfolio of public sector enterprises had both depth and width.

Such massive investments have yielded results. The products portfolio of public enterprises reveals both width and depth. The products produced include aircraft, ships, rail wagons, rail coaches, teleprinters, computers, sophisticated electronic equipment, telephone cables, earthmoving equipment, turbo-sets, transformers, power boilers, industrial motors, road rollers, diesel engines, steam and water turbines, two, three and four-wheelers, tanks and vessels, equipment for fertilizers, petrochemicals and other industries, water treatment plants, cranes, machine tools, crude oil, gas, petroleum products, synthetic drugs, antibiotics, surgical instruments, medical X-ray film, printing presses, agricultural tractors, equipment for steel and mining industries, equipment for fertilizer and petrochemicals, iron-ore, gold ore, zinc ingots, lead ingots, refractories, diamond, newsprint, cement, chemicals, additives, etc. What is heartening is the majority of these products are manufactured on indigenous scientific know-how and technical do-how.

> PSUs enabled the country to achieve several breakthroughs.

Our country has attained several breakthroughs, thanks to the public sector enterprises. The Fertilizer Corporation of India (FCI), for instance, is one of the few organisations in the world to develop and produce a complete range of fertilizer catalysts. Similarly, the quality control laboratories of Hindustan Antibiotics are equipped with full-fledged units for all chemical, pharmacological, bacteriological and toxicity tests. Discoveries of new antibiotics in the laboratories have attracted international interest.

The massive expansion of public sector enterprises has its ripple effects on the economy in the form of increased export earnings; upgraded technology; higher contributions to the exchequer and increased internal resource generation; greater employment opportunities; opening up of backwards areas; and an overall increase in the style and level of living of the people.

Whatever the critics point out, the fact remains that public undertakings have, as mentioned above, vastly contributed to India being ranked as one of the fast developing countries. Nor should anybody deny the fact that public sector units are singularly responsible for laying a strong foundation for the further development of our economy.

8. Encouragement to Ancillary Industries

Small and ancillary industries occupy a position of importance in our economy. It has been the policy of the government to encourage the development of small and ancillary industries, as a part of overall strategy for industrial growth in the country. The Industrial Policy Resolutions and the successive Five Year Plan documents have spelt out various measures for their development. The approach to the Seventh Five Year Plan document lays down that ancillarisation should be given special emphasis and the necessary push at the licensing stage itself and encourage maximum number of ancillary units with each industrial licence.

The Bureau of Public Enterprises has been monitoring the progress of ancillary development in the Central public enterprises. To give a proper direction to ancillary growth and the needed thrust, the Bureau, initially in 1971 and later in 1974, issued guidelines to the public enterprises on the growth of ancillaries. In the light of the experience gained in their operation, comprehensive guidelines were issued in 1978 which hold validity today. These guidelines earmark the role of different promotional agencies so that better institutional cooperation could be achieved *vis-a-vis* the role of existing public enterprises, new enterprises and those effecting substantial expansion. The guidelines also provide an in-built mechanism for reviewing and monitoring the progress of ancillaries.

As a result of these efforts, there has been a significant progress both in terms of numbers as well as services rendered by the ancillary sector to the public sector enterprises.

Specifically, PSUs help ancillary units in the following ways:

(a) They take responsibility for providing technical know-how, managerial expertise, equipment selection and layout and production aids such as production design, tooling, blueprints, manpower planning, quality control, inventory management and the like.

(b) They guide ancillaries on sources of finance and procedures for obtaining them and

(c) They offer ready demand for the produce turned out by the ancillaries.

[illegible] ancillaries [illegible] production [illegible] often misused by PSUs.

However, the obligation to promote ancillarisation is often misused by the executives of government undertakings who indulge in nepotism. In several cases, the kith and kin of the highly-placed executives, are encouraged to set up ancillary units and out-of-turn favours are shown to them. Adherence to rigid quality specifications is not insisted upon or shortage in weight or quantity of supply is conveniently overlooked. An altogether different treatment is meted out to the owners of ancillary units who have no connection of any sort with the executives of government undertakings.

Barring instances of nepotism and harassment, the role of public enterprises in promoting ancillarisation is noteworthy.

9. Resource Mobilisation

PSUs have contributed enormously to the resources of the Central Government through dividends, interest payments on loans, income tax, and excise and other duties.

In addition, PSEs have generated internal resources for themselves in the form of depreciation provision and retained profits including deferred revenue expenditure written off during the year. It may be stated that only commercial enterprises are allowed to generate internal resources. Enterprises engaged in development and promotional activities are not expected to build up sizable surpluses.

PSUs have generated vast internal resources.

Thus, PSUs have occupied the commanding heights of the economy and have been regarded as the temples of modern India. Without them, India could not have stood in the comity of nations with the self-assurance that has characterised its stature. PSUs have been in the vanguard of the industrialisation process, supplying infrastructure, steel and capital goods essential for a rapidly evolving economy.

In recent times, with the liberalisation of the economy, PSUs have demonstrated their competitiveness in the domestic and international arenas. Consider the case of the power utilities, which despite a decade of liberalisation remain in the public sector. The private sector played coy and quibbled over incentives and guarantees even as the National Thermal Power Corporation (NTPC) commissioned projects and added substantially to the thermal generation capacity year after year and experimented with new fuels and revamped old plans.

PSUs have demonstrated their competitiveness even in international markets.

The public sector is the foundation on which the edifice of modern India has been built. Self-reliance in key infrastructure sectors-the *mantra* of the 1950s, 1960s and 1970s - helped build impressive capacities of petroleum, power, steel, fertilizers and railway and road networks. Even as public investments took care of long-gestation, capital-intensive infrastructure sectors, the private sector was free to provide other goods and services. The uniquely Indian concept of a mixed economy served the country well, but if there is a perception that its time is past, it is not because of the inherent weaknesses in the model itself but because of the distortions imposed by governments which tried to meet a multiplicity of objectives.

PERFORMANCE

Assessment of performance of PSEs is rather difficult because of the multiple objectives they seek to pursue and because some of the objectives conflict with one another. For example, profitability conflicts with employment generation or positive externalities. However, Table 17.7 gives indictions of profitability of PSUs.

Assessment of performance of PSUs is rather difficult because they seek to fulfill multiple objectives.

Table 17.7

Profitability of PSUs

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
No. of profitable enterprises	123	133	131	121	130	–	–
No. of loss making units	111	102	106	117	–	–	–
ROI (%)	4.50	2.80	2.3	2.0	2.2	4.5	–
Gross profit to capital employed(%)	10.9	11.6	11.4	11.6	–	15.1	14.5
Gross margin to capital(%)	17.9	18.8	18.0	17.3	–	–	–
Net profit to capital (%)	2.2	2.0	2.3	2.8	–	5.5	6.1

Thus, poor performance and even losses have become a way of life with the Central Government owned undertakings. Read the financial statements of PSUs, every second enterprise reveals losses accumulated into hundreds of crores of rupees.

The performance of government undertakings is probably the lowest in the steel sector. The following figures tell their own story for the year 1998-99:

(Rs.in crore)

	Profit	*Losses*
Bhilai Steel Plant	457	-
Durgapur Steel Plant	-	489
Rourkela Steel Plant	-	591
Bokaro Steel Plant	-	160
Alloy Steel Plant	-	112
Salem Steel Plant	-	138
		1490

With the exception of Bhilai Plant, all the others have been piling up heavy losses over the years.

The scene in the entire public sector is even more chilling. According to the figures up to March 1999, the losses incurred by 29 PSEs trebled within one year from 1996-97 to 1997-98 from Rs.1040.29 crore to Rs.3655.38 crores.

As many as 66 (out of 117 loss making units) PSUs have been referred to BIFR. The major ones among these include Richardson & Cruddas, Bharat Pumps & Compressors, Triveni Structurals, Tannery & Footwear Corporation of India, Cycle Corporation of India, Mining & Allied Machinery Corporation, Heavy Engineering Corporation, Bharat Gold Mines and Nagaland Pulp & Paper Company.

However, as many as 120 enterprises have been earning surplus and these belong mainly to petroleum,power, service enterprises and agro-based enterprises.

With half of the units incurring losses and with meager ROI of 4.47 percent , PSUs seem to have no justification to exist. This argument gets reinforced when one compares profitability of public sector with private sector(see Table 17.8)

Table 17.8

Comparing PSEs with Private Sector

Profit after tax as a % of network	*1980-81*	*1990-91*	*1991-92*	*1992-93*	*1994-95*
PSEs including petroleum	-1.6	3.0	2.8	3.5	4.1
PSEs excluding petroleum	-3.6	-0.1	0.8	1.5	0.8
Private sector	13.7	15.9	14.2	11.4	13.5

(**Source**: Vijay Kelkar & V.V.Bhanoji Rao, *India-Development Policy Imperatives* (Ed,) New Delhi, Tata McGraw-Hill, 1996, P.200)

If the Central Government undertakings have been presenting poor performance, reasons can be found, not at their doors but elsewhere.

1. Political Interference

Political interference is a problem faced by public sector units. Be it the location of the enterprise, appointment of chief executives or workers, or any other factor, interference by political leaders is coming in the way of effective functioning of government undertakings.

Business India of Nov. 19,1984, writes that "*Last year, during an earlier strike (in Singareni Coal Co.), N.T.Rama Rao was enraged that it has been resolved in his absence, and as expected, the then Chairman and Managing Director was transferred in no time at all*". The same periodical also reveals how NTR stalled the proposed merger of Singareni with Coal Company, Ltd.

A senior public sector executive even put in his papers unable to cope with the steel minister's demands. This happened in 1991. The affected PSEs drift towards industrial sickness often beyond recognition. The Ranchi-based Heavy Engineering Corporation is one of the many examples.

It is not only the politicians who interfere. A public sector enterprise is subject to multiple masters (naturally, interference) - the Minister, the Secretary-in-charge of the Ministry, the Finance Ministry, Bureau of Public Enterprises, Public Investment Board, Planning Commission and their contradictory directives (Read box 17.2 for more details on intereference).

2. High Cost of Delay

Cost over-runs have taken away the competitiveness of PSUs

No public sector unit (with the honourable exception of Kudremukh which has the distinction of being the only government undertaking to be completed ahead of schedule) is completed as per schedule. *Economic Times* of March 12, 1986, reported that "Twenty-one power projects costing more than Rs.100 crores each with a total anticipated investment of Rs.8,865 crores had been delayed for reasons such as delay in the acquisition of land, supply of critical equipment and materials, approval procedure of foreign aid agencies, law and order disturbances, forest clearance and difficult geological conditions. Some of these reasons together with the problems of power supply had delayed 11 Central coal projects. The total anticipated investment in the coal projects was Rs.3,213 crore. These and other reasons, including slow construction and inadequate funding, had delayed the completion of four Central steel projects, each costing more than Rs.100 crore. The total anticipated investment in these steel projects was Rs.11,870 crore". What are the consequences of delay?

The project costs double and even more. Besides the increase in project costs, the other consequences of delay are the costs of output and employment foregone during the period of delay, the cost of inter-sectoral imbalances which strained production and investment, the cost of foreign exchange spent on making up shortfalls in the physical availability of goods, and above all, the impact of inflation triggered by cost escalation and its financing.[5] (See also Box 17.3). Roll of honour must go to the Metro Rail Project, Calculta. It took 20 years for completion and the cost shot up from Rs.140 cr to Rs.1600 cr.

Box 17.2

All Tied Up in Knots

One of the main reasons why PSU managements move about like robots is because of the fact that the CMDs are governed by Article 12 of the Constitution, which makes them civil servants and not chief executives, which is what they are supposed to be if they are expected to run a commercial enterprise. "This accountability is killing us; we spend most of our time answering bureaucrats, ministers, different vigilance committees and finally, we have to regularly report to Parliament. Where is the time to run the company?" asks the chief of a public sector company.

As if that's not enough, major capital investments of public sector units have to be cleared by the public investment board (PIB). PIB meetings are a bit of a joke; there are enough instances of a PSU project being cleared by the board of directors, and then gathering dust at the PIB stage. Just as the PSU management heaves a sigh of relief when a date for a PIB meeting is set, the problems begin. The ministry secretary is suddenly out of town and the meeting is cancelled or the minister himself is busy visting his constituency and the meeting is put off.

"The biggest problem with the PIB aproach is that the law requires specific bureaucrats like the expenditure secretary, and the concerned minister and secretary to be present at once, otherwise the meeting cannot take place" says the frustrated project manager of a fertiliser company. According to him, a simple PIB clearance for one of his expansion projects took an amazing two years. As many as 12 PIB meetings were scheduled and promptly cancelled at the last minute.

"When I was informed on the telephone that the project was finally cleared, I didn't believe it. I actually sent somebody to the ministry to get the minutes of the PIB meeting," recalls the project manager.

Indeed so ubiquitous is red tape that at a recent seminar, economist Onkar Goswami launched a frontal attack on its impact on Indian PSUs. "Just look at the way public sector boards are being filled; board decisions are being emasculated by ministers," he said, citing the example of SAIL. The company has actually turned in a better operational performance than the private sector TISCO, yet it was the minister who decided on its advertising budget!

Goswami also came down heavily on the practice of PSUs signing MoUs with the government. "These MoUs are total nonsense; the targets are deliberately kept low so that in the end, when they are exceeded, everybody is happy," he said. Talk of number jugglery.

(Source : Economic Times, 9th Feb.1997)

3. Fear of Scams

Executives of PSUs are averse to take risks.

The all pervasive fear of the investigating agencies in the wake of scams involving senior public sector bank officials has deterred many PSE executives from using their discretion in making vital commercial decisions at a time when the market is becoming increasingly competitive. When budgetary support was withdrawn to the PSEs, they were asked to compete in the market. Competition implies "*risk taking*". No PSE executive is prepared to take risks.

4. Headless Plants

There has been considerable delay in filling vacant positions at the top of PSEs. Many undertakings, therefore, remain without chief executives for months.

By end of March 1988, as many as 24 chief executive positions and 52 director posts were lying vacant. Table 17.9 shows delays in filling the top positions. Also see Table 17.10.

Box 17.3

Costs of Delay

The chronic tardiness in implementing and completing government projects has been quantified yet again. From a sample of 307 projects monitored by the programme implementation department, it has emerged that delays have led to a cost escalation of 34.5 per cent. The consequent increase in costs has been Rs.25,468 crore on approved costs of Rs.70,0433 crore. The single biggest factor for the cost overrun has been slippages in project implementation, due to which 80 per cent of the increased cost outlay was incurred. Of the 307 projects reviewed, as many as 177 were behind schedule. The slippages and cost overruns have all been incurred in the industrial infrastructure sectors such as power, coal, steel, railways, telecom, natural gas etc., all of which are vital inputs for industry. Consequently, the total costs to the economy arising out of the delay in the 177 delayed projects will be a multiplier of the Rs.24,468 crore which has been revealed in the study. Again, this figure is by no means an indication of the total cost overruns in the country since it profiles only a fraction of projects under various stages of implementation.

Cost overruns are a drag on any economy, but especially so in a developing economy such as India, where capital is scarce and development needs are prioritised. Though cost escalation and project delays are not unknown in the private sector, the bare fact is that the commanding heights of such tardy practices are the preserve of the public sector, as revealed in this study. Though the issuance of such reports is an annual exercise, the one glimmer of hope this time around is that the incidence of such wasteful expenditures may decline in the future. This may happen not because one can expect better managerial practices from the public sector behemoths, but because private enterprise has been allowed an entry in many of the sectors hitherto the domain of public sector. Some will argue that private enterprise is not much better. Perhaps, but it at least recognises the value of money.

There are also reasons for poor performance of PSEs-reasons which are triggered by management failure. It is pertinent to recollect some of them.

Table 17.9

Delays in Appointment to the Top Positions

Name of post pending with the Cabinet	*Vacancy date*	*Date of PSEB recommendation*	*Delay (in Months)*
Chairman, MMTC	18.9.87	27.11.87	6
CMD, NPTC	3.11.87	5.2.88	5
Director, HEC	24.4.86	26.6.87	23
Pending with the Ministers			
MD, Scooters India Ltd.	26.12.86	24.4.87	16
Chairman, STC	8.10.87	27.11.87	6
CMD, Engineering Projects India	25.9.87	27.11.87	6
CMD, BHEL	12.11.87	18.9.87	5
MD, ITDC	18.3.87	24.3.88	12
Member(Finance)IAA	22.8.86	23.10.86	19
MD(Design)HAL	1.11.86	31.10.86	17

(**Source:***India Today*, April 30, 1988.)

Table 17.10

PSUs Vacancies at the Top

Units	*Turnover (Rs.crore)*	*Headless for Months*
State Trading Corp.	1043	5
National Airports Authority	293	2
Indian Airlines	1500	10
National Hydroelectric Power Corp.	250	18
State Farms corp.	24	17
Indian Oil Corp.	24000	9
Gas Authority of India	3500	27

(**Source**: *Business World*, Feb. 23,1994)

A. Ineffective Management

Management of Central Government undertakings is generally ineffective. This is so because (i) bureaucrats, with neither leadership qualities nor business acumen, are made chief executives; (ii) executives are not allowed to make decisions purely on commercial considerations and (iii) there is considerable delay in appointing executives and even after appointment, there is the uncertainty of tenure.

Management ineffectiveness has reflected on the poor performance of the organisation.

B. Huge Inventories

PSUs had piled up huge inventories

Stock-piling of inventories speaks volumes about inefficiency of management. SAIL carries a large inventory of over a million tonnes worth about Rs.1500 crore. The Visakhapatnam Steel Plant of Rashtriya Ispat Nigam Ltd., also has similar inventory. As many as 73 PSEs carry inventories equal to seven months cost of production. In the private sector, the corresponding figure is three months. Inventory management seems to be lacking or ineffective in most PSEs.

C. Trade Unionism

Many of the public sector units are plagued with the multiplicity of trade unions and intra-union and inter-union rivalries. Union rivalries results in industrial disputes. Singareni Collieries must be remembered in this context. The company has 87,000 employees on its payroll. In 1993, its 19 trade unions went on strike 460 times resulting in a loss of 14 lakh mandays and production loss of 15 lakh tonnes. The sad part of the story is that one union or the other is always on strike and often the demands of rival unions are conflicting on the same issue.

D. Unimaginative Production and Unfavourable Pricing Policies

The products produced by many public sector units are unrelated to market demand. Yet products are being sold because their producers enjoy virtual monopoly. SAIL is an example to be quoted. For a long time, SAIL was producing thicker gauge steel instead of the thinner variety which the buyers want. Only now has SAIL changed its production pattern.

Another instance of unimaginative production policy is the Surgical Instruments Plant set up near Madras. For a long time, this unit could not work well because many of the instruments produced were too big to be used on Indians; the sizes were appropriate for Russians who are much bigger made. Still the unit was set up because technology and machinery were offered on easy terms by the then USSR.

As is well known, the Bureau of Public Enterprises has suggested two norms for pricing in the public enterprises. Accordingly, the enterprises in competition with domestic producers should fix their prices on the basis of the normal market forces of demand and supply and the enterprises in other market conditions should fix the prices of their products within the normal ceiling of the price level set by the '*landed cost*' of comparable imported goods. In case the exports of such goods are subsidised appreciably, the normal price of such goods in the country of their origin should be taken into account while calculating the 'landed costs'.

The pricing practice naturally reveals a lot of variations depending on the nature of the activities carried on by public enterprises. But the sad part of the story is that, irrespective of the practice, the product pricing is leaving only a meagre surplus in the form of excess of sales revenue over the cost of goods sold. This surplus before the provision for depreciation, interest and corporate tax has declined to 8.4 per cent of the total sales revenue during 1980-81 which subsequently increased to 11.0 per cent and continued to increase up to 13.5 per cent during 1984-85, revealing a change in the pricing policy since 1981-82. The gross profit obtained, after deducting the depreciation on the net block from the gross margin, has also declined to 4.9 per cent of the sales revenue during 1980-81, but subsequently it increased up to 8.5 per cent during 1984-85.

On account of heavy reliance on debt financing, an amount ranging from 3.1 to 4.8 per cent of the sales revenue has been paid as interest on loans which left only a meagre sum as pre-tax profit. It has been a mere 0.1 per cent of the sales revenue during 1980-81, but increased later on upto 3.9 per cent during 1984-85. The profit-earning public enterprises are also required to pay corporate tax which has reduced their aggregate net even to a negative value in certain years up to 1980-81. However, subsequently, there emerged a positive net profit but that could go up to 1.7 per cent of the sales revenue during 1984-85.

Most of the public enterprises engaged in producing and selling goods are capital-intensive and require a heavy provision for depreciation. Similarly, most of the enterprises rely on borrowings from the Central Government, State Government, foreign parties, financial institutions and individuals for financing their operations which drain off sufficient surplus in the form of interest on loans. Considering the inevitable high depreciation and interest charge, the gross margin, as per the present pricing practices, seems meagre, which necessarily requires some improvement.

E.Unutilised Capacities

Plant capacities of PSUs were never fully utilized.

Many PSEs have excess plant capacities. These capacities are never fully utilised. While plants operate at below full capacities, costs will be adversely affected because of overheads and wage bills. A study conducted in 1981 found that over the previous 20 years, each rupee of additional annual output had necessitated 7.4 rupees if the public sector was producing the goods, but only 3.6 rupees if the private sector did it.

During 1990-91, four percent of the units recorded capacity utilisation of less than 75 percent. Only 54 percent registered capacity utilisation of more than 75 percent (see Table 17.11).

Table **17.11**

Capacity Utilisation in Public Enterprises

	1990-91	*1989-90*	*1988-89*
Units under production surveyed:	229	257	212
(a) Units which have recorded capacity utilisation of more than 75%	133 (54%)	136 (53%)	126 (60%)
(b) Units where capacity utilisation has been between 50-75%	59 (26%)	58 (23%)	43 (20%)
(c) Units where capacity utilisation was less than 50%	47 (20%)	63 (24%)	[illegible] (20%)
Total	229	257	212

F. Others

Wrong choice of locations, uncertainty of financial allocations, poor quality products, high cost, higher social costs and nepotism and corruption have also contributed to the low performance of PSEs.

At the workers' level, absence of right attitude is the main problem. It is unfortunate that a majority of employees have taken the public sector enterprises as a milch cow meant for squeezing, little realising that the cow must be fed well if it is to hold sufficient milk. Employees have long forgotten the basic and simple philosophy that they have to serve the organisations they are employed in before expecting the organisations to help them (the workers). Dedication to work, commitment to serve and professionalism are woefully absent.

SIL epitomizes all the evils of a jinxed PSU.

Scooters India Ltd. (SIL) epitomises all the evils of a jinxed public sector undertaking. Read Box 17.4 for the saga of a misconceived, wrongly executed and badly managed undertaking.

In the recent past, the government withdrew budgetary support abruptly. Infact, the ushering in of competition in spheres hitherto reserved for the public sector happened simultaneously with the abrupt withdrawal of budgetary support. Yet the government was rather slow in phasing out the market-distorting administered price mechanism. Left to fend for themselves in the face of mounting competition from multinationals with deep pockets, lean structures and predatory practices, many PSUs find themselves at the crossroads today.

WHAT NEEDS TO BE DONE?

After reading through the chapter, it may be concluded that, except on the profit and profitability counts, public sector units have done fairly well in other areas. But it is the profit that matters and it is here that their performance is thoroughly disappointing.

Except in profit and profitability, PSUs have done well in all other areas.

Thus, there is urgent need to improve their performance. As public enterprises have come to occupy a dominant position in our economy, and as they collectively represent a colossal investment by the people of India for a better future for themselves and for the country, the task of improving their performance is a matter of national urgency. There is a clear admission of this in the approach document relating to the First Plan. In the Planning Commission's view, 'inefficiencies can be found in both public and private sectors, and the national task is to remove them'.[6]

How to improve performance in terms of profit is a big question. The answer lies in efficient management. There are instances where sick units have been turned around and made profitable units, thanks to effective management. There is virtually no other way to explain how the Damodar Valley Corporation could increase its plant load factor by 50 per cent in just one year after its management was changed, or how Hindustan Photo Films and Burn and Standard, losing a rupee for every Rs.three of sales, could break even in four years under the new management or how Bharat heavy Plate and Vessels, which had never made any profit after the plant was commissioned and which was losing heavily, could break even in just one year after a new chief executive was brought in. It is also well known that the most efficient car manufacturing company was till recently a public sector undertaking and the most slothful one is in the privatesector.

A number of suggestions have been made and steps initiated to improve the performance of the public sector units.

The Arjun Sen Gupta Report, for example, has recommended several measures. Similarly, the report of the Economic Advisory Council on the public sector, has suggested many ways for improving the autonomy and accountability of these undertakings. The main theme of these reports is that the government should *'distance'* itself from the public sector, and there must be a *'balance'* between autonomy and accountability of the government units.

Forming *'holding companies'* for groups of public sector enterprises and entrusting the management of those enterprises to apex organisations is yet another suggestion

Box 17.4

How not to Organise an Enterprise

A brief recapitulation of the history of the SIL will be instructive. The government had decided in 1969 that a public sector unit for the manufacture of scooters should be set up. This decision was apparently taken because the demand for scooters had been rapidly increasing and, with the production by the two main producers, Bajaj Auto and Automobile Products India (API), being limited by their licensed capacity, there were long waiting lists and a flourishing black market. As developing an indigenous design was difficult, offers were invited from foreign concerns for collaboration. Piaggio of Italy, which had earlier collaborated with Bajaj Auto in the production of scooters, had made an offer which was initially considered good.

Innocenti Plant

But, in the meantime, the government came to learn that the other major Italian scooter manufacturing concern, Innocenti, was closing down its manufacture of scooters. This company had earlier collaborated with API in the production of scooters in India. The government then decided to explore the possibility of buying the plant that was being closed down in Italy. Apparently, the chairman of API, Mr.M.A.Chidambaram, played an important mediatory role in the negotiations. After an inspecting team of technical and financial experts of the government visited Italy in October, 1971, and after considering the report prepared by an appraiser from London, the government decided in 1972 to enter into an agreement with Innocenti and API. The Scooters India Ltd. was set up in September, 1972. The initial idea was that this would be a joint sector project with the government holding 51 per cent equity, and API and Innocenti together holding 49 per cent.

Among the reasons which were supposed to justify the government's preferring the proposal to by the Innocenti plant instead of a new plant as earlier suggested by Piaggio, the important ones were the equipment offered was in a reasonable good condition; the special purpose machines could last over eight years and the general purpose machines over four years, and these could be used for the production of five lakh scooters over a period of seven or eight years. This would ensure an initial saving in capital cost of about Rs.five crore.

Moreover, as production would commence earlier by about two years, that itself would provide a source of saving and generate additional resources which could help replacement of machinery, modernisation and expansion. Foreign exchange was also expected to be saved as well as, out of the price of $2 million to be paid to Innocenti, a part was to be adjusted towards the payment of equity capital by that company and the balance was to be paid out of export earnings over a period of seven years. As Innocenti was closing down its production of stooters, the trade name Lambretta and the worldwide market which it had already established was to be available to the new company, thus facilitating exports which were expected to start after a period of two years.

Irony of Fate

Incidentally, it may be mentioned that an important reason why the proposal of Bajaj Auto to increase its scooter production capacity from 24,000 to 100,000 was not supported by the MRTP Commission was that the government was investing a large amount in this new public sector scooter project and, therefore, it was said, that it would be against public interest if a large capacity was sanctioned to private producers. Acting on this recommendation, the government limited the additional capacity of Bajaj Auto as well as API at that stage (in 1972) to 48,000. It is also interesting to note that, SIL was sanctioned a capacity of 100,000 scooters in the beginning itself, in 1972.

The subsequent history shows that the project was badly handled right from the beginning. API was asked to prepare a detailed projected report; but this was never finalised and submitted. The government decided to go ahead with the purchase of the plant from Italy without a detailed examination of the machinery, even though appraisers had indicated that almost half the plant could only work for about four years. The plant was received in India, brought to Lucknow, and it was claimed- 'overhauled, erected, tested and brought into use within a span of 14 to 18 months.' Even at this stage, no immediate steps for the replacement of machinery appear to have been taken. There was no technical collaboration or assistance available to the unit nor was there any arrangement for importing critical components from a collaborator.

Moreover, Innocenti soon went into liquidation. The idea, therefore, of the two private concerns joining as partners, had to be given up. The assumption that the purchase price would not have to be paid in foreign exchange had also to be given up as no equity could be contributed by Innocenti, and a guarantee for export commitment was found to be impracticable. Even the name 'Lambretta', which was supposed to be an useful asset, was not used because it was later felt by the management that the Lambretta Scooter-marketed by API in India had not made a good name for itself in the Indian market, and there was little opportunity for developing exports on a really significant scale.

Decline in Output

Another advantage expected from buying an old plant was that production could commence much sooner; but, in practice, it commenced only in February 1975. Within a few months, the defects in the plant and machinery began to be obvious; and inadequacies in the product and the resulting complaints gave the product bad publicity in the very initial stages. While originally it was thought that the imported plant was capable of producing an output of 100,000, the capacity was soon downrated to 60,000 on a more realistic basis. The production of vehicles slowly picked up to reach 30,000 in 1982 after which it went on declining to reach 15,000 in 1986. Sales were usually much less than the output despite there being a shortage of scooters and a flourishing black market in the country.

A peculiarity on the approach adopted by the management was that, even before the production of the basic item could be properly and fully established, a number of other developments were taken up instead of focussing all attention on making the basic line successful. Not only was the production of three-wheelers taken up on the basis of a similar old plant obtained from Innocenti, but it was also decided to produce power-packs of scooters to be sent to scooter units established by various state governments which were expected to assemble the vehicles and sell them.

It should be noted that the government itself appeared to have little idea about the importance of economies of scale in a product of this kind. It had licensed a number of state units. As it was found, these units were languishing and there was agitation about the employees who had been recruited, it appears that SIL had to enter into such arrangements under pressure. Many of the units faced marketing problems because of the poor quality of their products, and even had difficulties in ensuring regular supply of components. In turn, these units complained that SIL did not supply the power-packs as agreed upon.

Production Delay

The management also seems to have decided to organise its own sales outlets in an innovative manner through young graduates, but in premises hired by the company. It also took up the production of a moped supposedly based on its own R & D, in premises at Delhi which were acquired in 1976. Later, it was decided that the plant for mopeds should be set up in Lucknow itself. Even though prototypes were developed and the licence for the manufacture granted by the government in 1979, regular production could not be taken up as the product faced many difficulties. Attempts were then made to obtain established designs from abroad.

The premises obtained in Delhi were those of a sick electrical unit. It was decided to manufacture electric fans as the equipment was suitable and the employees had also been taken over. This obviously the government itself forced on SIL, mainly to prevent unemployment of the employees concerned. It is interesting to note that the Ganesh fan produced by SIL is the only item whose output has been steadily increasing so that production in 1986-87 was four times what it was in 1977-78!

The lack of a sense of priorities in management can be further seen in Scooters India Ltd.'s decision in 1976 to organise a 'Farm Fuel Centre' to assist the rural population in the surrounding areas in meeting their essential requirements, at fair prices, for cycle tyres and tubes, fertilizers, seeds, tractor spare parts, drugs, controlled cloth, kerosene, oil, etc.

The Centre which had nothing to do with the business of the company and was not even a welfare facility for its own employees were taken up with much fanfare, probably at the instance of a senior union minister. With the idea of carrying out its social obligations, the company also organised a trucking scheme for the transport of its scooters which would employ ex-servicemen, with a nationalised bank giving credit to meet 85% of the cost of the truck, SIL 10% and the owner only five per cent.

The company also thought, even before establishing its production soundly, of securing export orders. An initial batch of 50 scooters was planned to be sent abroad in 1975. In 1978, it was claimed that the scooters were being well received in Europe, the Company participated in trade fairs abroad and secured an order for the supply of scooters and mopeds worth $6.50 million in 1978-79 - a period when the production of scooters was only getting established, and that for mopeds was quite uncertain. The company also became a joint partner in two state government units engaged in the production of certain ancillary requirements, another capital investment which gave little return, financial or otherwise.

Number of Changes

As usually happens in many public sector products, there have been a number of changes even in the critical managerial positions in the company. The first chairman lasted only for three years. The first managing director appears to have remained in charge for a longer span. But the other directors and also the main executive went on changing, especially from 1978 onwards. The Public Undertaking Committee of Parliament itself commented adversely in its Report (1983) on these changing appointments. The concern has remained without a regular chairman/managing director for quite some time. With such a lack of stability at the top, and all important decisions concentrated in the hands of the government, no wonder that there has been a lack of direction. The result has been that no one was responsible to put matters right, or at least to stop the continuous drift and waste.

One of the difficulties of all public sector enterprises appears to be that, under pressure from all sides, they tend to employ far too many persons. Even though production had reached nowhere near even the revised capacity, by 1980-81, the number of employees was 3600 as against 2200, the strength originally envisaged. It is also interesting that the excess was the largest in the clerical staff (245 employees instead of 25), when it was only plus nine per cent in the case of semiskilled labour, and in the case of skilled labour, the number employed was actually less than one-third of that originally envisaged.

No wonder that the costs of production went on escalating. The PUC had pointed out that the loss per two-wheeler had varied from Rs.997 to Rs.2,381 between 1975 and 1982, while for three-wheelers it had varied between Rs.6,893 and Rs.26,929. The net result of all this is that, according to the industries minister, SIL has accumulated losses up to January 1988 of Rs.128 crore against the total book assets of Rs.30 crore.

offered to improve the performance of government undertakings. The government's job must be: appointment of key people, set targets for them and leave the management to holding companies. This would minimise the government's interference in the day-to-day operations of the public sector units.

It has also been suggested that the chronically loss making units must be allowed to die a natural death. Bharat Gold Mines and Scooters India Ltd., immediately come to mind. There are a few more undertakings in this category (see Table 17.12) which can be wound up.

It is also suggested that the public sector units must be allowed in areas where they enjoy a competitive edge over others. Clearly, soaps, scooters and hotels are not the areas meant for the public sector.

In order to improve the performance of the public sector, the government took a policy initiative by introducing the concept of *memoranda of understanding (MoU)*, also called *performance contracting*. MoU is an instrument which defines clearly the relationship of the PSUs with the government and clarifies the respective roles of the PSUs as well the government in order to achieve better performance. The MoU is also an attempt to bring a proper balance between accountability and autonomy. The emphasis is on achieving the negotiated and agreed objectives rather than interfering in the day-to-day affairs.[7]

MoU system has been extended to cover 108 enterprises (Read Box 17.5 for full list of MoU enterprises). In 1993-94, of the 101 PSEs rated through the MoU process, 44 were rated as 'excellent', 29 as 'very good', 13 as 'good', seven as 'fair', and only six as 'poor'. However, majority of the units rated as good and above subsequently did badly financially, which means that the MoU system has not been very effective in improving performance of PSUs. This is to be expected, since the major players in defining yardsticks-the PSE manages and bureaucrats from the concerned administrative ministries- have a common interest to show '*success*'. More significantly, MoUs have no credible threats for non-performance and no corporate rewards for achievement.

Table 17.12

Top 20 PSUs with Accumulated Losses (Rs. Cr.)

Fertiliser Corporation	6,853
Hindustan Fertiliser Corporation	6,150
Rashtriya Ispat Nigam	4,907
Bharat Coking Coal	4,066
Indian Bank	3,883
Eastern Coalfields	3,846
National Jute Manufacturer	2,763
Indian Drugs & Pharma	1,675
Hindustan Photo Films	1,475
National Textile Corp.(Mah North)	1,430
Cement Corporation of India	1,422
United Bank of India	1,359
Heavy Engineering Corporation	1,342
Konkan Railway Corporation	1,302
Mining & Allied Machinery Corporation	1,285
National Textile Corporation (South Mah)	1,271
National Textile Corporation (WB, Ass,Orr)	1,166
National Textile Corporation (UP)	1,158
Hindustan Shipyard	1,090
National Textile Corporation (Gujarat)	1,021

(**Source**: *The Economic Times*, dated Sept.6, 2002)

Yet, they are talked of as the alternative to privatisation: the magic wand with which all ministerial interference will cease forthwith, where demoralised or politically appointed manages will suddenly become paragons of corporate efficiency, and where shoddy goods and services will be automatically replaced by high quality output[8].

The Industrial Policy Statement announced by the Government in July 1991 envisaged disinvestment of a part of government holdings in the share capital of selected enterprises in order to provide market discipline and to improve the performance of public enterprises. A total amount of Rs.15,547 crore has already been disinvested to the public sector financial institutions, mutual funds and general public till 2003-04.

National Renewal Fund was set up in 1992 to protect interests of workers in PSUs.

To protect the interests of public sector workers, a National Renewal Fund (NRF) was set up in February 1992 and schemes have been proposed to assist the employees in re-training, redeployment and counselling. Provision of funds through NRF also exists for cases where workers retire voluntarily or are declared surplus. To implement the NRF schemes, an empowered authority has been created and a provision of Rs. 700 crore has been made in the current year's budget. A major portion of the amount has been utilised in the textiles sector.

In order to establish a system of rehabilitation and restructuring of PSUs without having the government to bear the whole financial burden, the provisions of the Sick

Box 17.4

List of MoU Enterprises

1. Air India
2. Airports Authority of India
3. Andrew Yule & Company Ltd
4. Artificial Limbs Mfg. Corp. Ltd
5. Balmer Lawrie & Co. Ltd
6. Bharat Aluminium Co. Ltd
7. Bharat Bhari Udyog Ltd
8. Bharat Earth Movers
9. Bharat Petroleum Corp Ltd
10. Bharat Yantra Nigam
11. Bharat Heavy Electricals Limited
12. Bharat Electrical Limited
13. Bharat Dynamics Limited
14. Bonaiagon Refineries Ltd
15. Central Warehousing Corp
16. Central Cottage Industries Corp
17. Central Electronics Ltd
18. CMC Ltd
19. Coal India Ltd
20. Cochin Shipyard Ltd
21. Cochin Refinery Ltd
22. Container Corporation of India Ltd
23. Cotton Crop of India Ltd
24. Dredging Corp of India Ltd
25. Educational Consultants India Ltd
26. ECIL
27. Engineering Projects (India) Ltd
28. ET & T Corp Ltd
29. Export Credit & Container Corp
30. Ferro Scarp Nigam Ltd
31. Fertilizers & Chemical Trans. Ltd
32. Garden Reach Ship Build. & Eng.
33. GAIL
34. Goa Shipyard Ltd
35. Hindustan Latex Ltd
36. Hindustan Copper Ltd
37. Hindustan Zinc Ltd
38. Hindustan Aeronautics Ltd
39. Hindustan Insecticide Ltd
40. Hindustan Vegetable Oil
41. Hindustan Antibiotics Ltd
42. HPCL
43. Hindustan Organic Chemical Ltd
44. Hindustan Steel Works Cons. Ltd
45. Hindustan Cables Ltd
46. HMT Ltd
47. Hospital Services Consultancy Corp
48. Housing & Urban Dev. Corp
49. Hindustan Teleprinters Ltd
50. IBP Co.
51. Indian Tourism Dev. Corp
52. Indian Trade Promotion Org.
53. IREDA.
54. IOC
55. Indian Railways Finance Corp
56. Indian Airlines Ltd
57. Indian Rare Earth's Ltd
58. IPCL
59. IRCON International Ltd
60. ITI Ltd
61. Karnataka Antibiotics & Pharmaceutical Ltd
62. Kudremukh Iron Ore India Ltd
63. Lubrizol India Ltd
64. Madras Refineries Ltd
65. Madras Fertilizers Ltd
66. Manganese Ore India Ltd
67. Mazagon Docks Limited
68. Met. & Eng. Consult Corp
69. Mineral Exploration Corp
70. Mishra Dhatu Nigam Ltd
71. Mineral & Metal Trading Corp
72. Modern Food Industries India Ltd
73. Metal Scarp Trading Corp
74. National Building Cons. Corp Ltd
75. National Film Development Corp
76. National Handloom Dev. Corp
77. National Research Dev. Corp
78. NMDC
79. National Seeds Corp Ltd
80. National Small Scale Indus. Ltd
81. National Hydroelectric Power Corp.
82. NTPC
83. National Fertilizers Ltd
84. National Aluminium Co. Ltd
85. National Industrial Dev. Corp
86. NLC
87. North-Eastern Elec. Power Corp Ltd
88. NE Regional Agriculture Mark. Corp.
89. NE Power Grid Corp.
90. OIL
91. Paradeep Phosphates Ltd
92. Power Finance Corp
93. Projects Equipment Corp Ltd
94. Pyrite Phosphates & Chem. Ltd
95. Rail India Tech & Eco. Services
96. Rashtriya Ispat Nigam Ltd
97. Rashtriya Pariyojana Nirman Nigam Ltd
98. Rashtriya Chemicals & Fert. Ltd
99. Rural Electrification Corp.
100. Shipping Corp of India Ltd
101. Sponge Iron Ore India Ltd
102. State Farms Corp of India Ltd
103. Sate Trading Corp of India Ltd
104. SAIL
105. Telecom Consultants of India Ltd
106. Uranium Corp of India Ltd
107. VSNL
108. Water & Power Cons. Services Ltd.

Industrial Companies Act (SICA) have been amended to bring PSUs under its purview. Several PSUs have been registered with Board of Industrial and Financial Reconstruction (BIFR). BIFR has so far issued orders for revival of IDPL and Biecco Lawrie Ltd. It has also so far recommended the winding up of National Bicycle Corporation Ltd., Cawnpore Textiles Ltd., Elgin Mills Ltd. and British India Corporation Ltd.

Withdrawal of 696 Department of Public Enterprise Guidelines and the introduction of stock option schemes are other reform measures.

OWNERSHIP PATTERN OF PSUS

Though owned by the government, public sector units are organised differently for purposes of management and control. The following are the usual ways:

1. Ministry

In this, an undertaking is managed by a whole ministry of the government as is the case in the Indian Railways. Railways are run by the Ministry of Railways which is accountable to the Parliament. The Ministry has its own budget which is debated and approved by Parliament. The Ministry has a Ministry for Railways and its management vests with the Railway Board headed by a Chairman. Besides the Chairman, the Board has three members and a Financial Commissioner. These five persons enjoy the status of secretary to the Government of India.

2. Departmental Undertakings

These undertakings are directly subordinate to a ministry. Yet these units are self-contained, and each has a management responsible for its activities. The need for secrecy, strategic importance and similar conditions make the departmental form the most suitable organisation in certain areas, defence being one example. Chittaranjan Locomotive Works, Integral Coach Factory, Post and Telegraphs and Defence Production Units are run as departmental undertakings.

3. Statutory Corporations

The Life Insurance Corporation of India (LIC), Air-India, Industrial Finance Corporation, Reserve Bank of India, Employee's State Insurance Corporation, Oil and Natural Gas Commission and National Textile Corporation are examples of statutory corporations, also called public corporations.

A corporation is a body corporate created by a separate law, independently financed and vested with autonomy in managing its affairs. The corporation is answerable to the Parliament which has created it.

4. Central Boards

These are common in river valley projects which involve huge capital investments. Set-up jointly by the Central and concerned State Governments, the central boards are charged with the responsibility of executing big projects. Such boards were set up for Bhakra Nangal, Hirakud and Nagarjuna Sagar. A similar board is now working towards cleaning the river Ganga.

5. Companies

Companies are more common and are particularly preferable for commercial and industrial activities.

An enterprise becomes a government company when it has the following characteristics:

(a) It has most of the features of a private limited company.

(b) The whole of the capital or 51 per cent or over is owned by the government.

(c) All the directors or a majority of them are appointed by the government.

(d) It is created under the provisions of the Companies Act, 1956.

(e) Its funds are obtained from the government and in some cases, from private shareholders and through revenues derived from the sale of its goods or services.

If a part of the share capital is held by private investors, the enterprise is said to come under the joint sector.

A distinguished author, Professor W.A.Robson, has castigated the company form. Long before that, a former Auditor-General of India had commented that the company form was a fraud on the Constitution. Nevertheless, it seems to be the accepted pattern and is the pattern which is likely to prevail, unless something unexpected happens.[8]

That the companies are the accepted patterns stems from the following reasons:

1. A company provides for a great deal of flexibility and freedom of management.
2. Makes the government undertaking carrying on a commercial activity constitute itself into, and be seen to be, a separate business entity.
3. Being a separate entity, a company enables and stimulates the management to adhere and adopt sound commercial policies.
4. A company enables, legally, a very large formal delegation of functions and assignment of resources.
5. The Companies Act, 1956, which governs companies is beneficial for the management. It is a statutory discipline imposed by the law directly.

1991 INDUSTRIAL POLICY STATEMENT ON PUBLIC SECTOR

The Industrial Policy Statement (1991) identifies the following priority areas for the growth of public enterprises in future:

- Essential infrastructure goods and services.
- Exploration and exploitation of oil and mineral resources.
- Technology development and building of manufacturing capabilities in areas which are crucial in the long-term development of the economy and where private sector investment is inadequate.
- Manufacture of products where strategic considerations predominate such as defence equipment.

The following specific industries are reserved for public sector:

1. Arms and ammunition and allied items of defence equipment, defence aircraft and warships.

2. Atomic energy.
3. Coal and lignite.
4. Mineral oils.
5. Mining of iron-ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
6. Mining of copper, lead, zinc, tin, molybdenum and wolfram.
7. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.
8. Railway transport.

The Policy Statement also underlines that the public sector will not be barred from entering areas not specifically reserved for it.

In 1993, items 5 and 6 were deleted from the reserved list. Therefore, now only six items are reserved for the public sector.

QUESTIONS

1. What do you understand by Public Sector Enterprises? State their objectives.
2. Review the performance of PSUs.
3. Mention the reasons for poor performance of PSEs.
4. Explain the reasons for heavy losses in PSEs.
5. Suggest ways of improving the performance of PSUs.

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CHAPTER 18

Privatisation

CHAPTER OUTLINE

History of Privatisation
Nature and Objectives
Privatisation Routes
- *Sale to Outsiders*
- *Management Employee Buyout*
- *Equal-access Voucher Privatisation*
- *Spontaneous Privatisation*

Record to Date
Disinvestment in India
Arguments Against Privatisation
Ranga Rajan Committee on Privatisation
Disinvestment Commission

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:

1. *Define privatisation and trace the history of privatisation*
2. *Explain the different routes of privatisation stressing that the 'sale to outsiders' route is more effective*
3. *Detail the extent of privatisation in India and outside*
4. *Argue against hasty privatisation*
5. *Recollect the recommendations of an expert committee on the subject.*
6. *Point out the task of Disinvestment Commission*

In the previous chapter, it was stated that privatisation is one of the ways of improving the efficiency of PSUs. This chapter focusses on a detailed discussion of privatisation.

Privatisation can be likened to a revolution or a boon.

The word *'privatisation'* has been receiving much attention in business, government and academic circles on a global platform. Infact, the language and programmes of privatisation have disseminated so rapidly throughout the world that the phenomenon can be likened to a revolution or a boon.[1] Privatisation techniques have already been tried in countries like Great Britain, China, the US, Turkey, Brazil, Mexico and Japan. In our country too, a beginning towards privatisation has been made with the sale upto 20 per cent of the equity capital of 30 plus select public sector units (PSUs), first to mutual funds and financial institutions and later to the investing public. While the experience of disinvestment of PSUs has been a mix of encouragement and disheartenment, it is advisable to go slow in the direction. This chapter tries to justify the need for going slow in the process of privatisation. First, it is useful to know history, nature, objectives and the extent of privatisation in our country and elsewhere.

HISTORY

The history of privatisation is very short-just 10 to 15 years old to be precise. Though real disinvestment started only in the 1980s, the word 'privatisation' first made its appearance way back in the late '60s. The credit for inventing the word goes to Peter F.Drucker, who used the term first in his famous book, ***The Age of Discontinuity*** in 1969.[2] Ten years later, Margaret Thatcher became Prime Minister of Great Britain and it was she who gave practical shape to privatisation. Later, country after country fell in line with Great Britain in the move towards privatisation.

NATURE AND OBJECTIVES

Privatisation is the process whereby activities or enterprises that were once owned and operated by government are now transferred to private hands.

Privatisation may be understood as the process whereby activities or enterprises that were once performed or operated by the Government and it employees are now performed, managed or owned by private business and individuals, often with much better results in terms of cost and quality of service. Privatisation achieves these results by replacing government monopolies with the competitive pressures of the marketplace to encourage efficiency, quality and innovation in the delivery of goods and services.[3]

Replacement of government monopolies by the market forces is often effected by the sale-full or partial-of ongoing PSUs or by the sale of their assets following liquidation.[4] Sale of the business or of its assets has been the most widely employed and debated form of privatisation and this is the option that is stressed in this chapter. The other techniques of privatisation are *contracts, leases* and *concessions*. In these three techniques of disinvestment, only the management of PSUs is privatised but not their ownership.

The basic objective of privatisation everywhere is to improve the performance of PSUs so as to lessen the financial burden on tax payers. The other objectives aim at increasing the size and dynamism of the private sector, distributing ownership more widely in the population at large; encouraging and facilitating private sector investments, from both domestic and foreign sources; generating revenues for the state; reducing the administrative burden on the state; and in the case of the former socialist countries-launching and sustaining the transformation of the economy from a command to a market model.[5] Popularisation of the private sector too is an objective of privatisation.

PRIVATISATION ROUTES

Privatisation is sought to be achieved through any or more of the four important routes: sale to outside owners, management-employee buy-out, equal-access voucher privatisation, and spontaneous privatisation.[6]

1. Sale to Outsiders

Disinvestment is one of the routes of privatisation.

This involves the sale of state enterprises, case by case, as going concerns to outsiders. Popularly called disinvestment of shares, this has been the best-known model, which had been very successful in established market economies like the UK and in developing countries like Chile. Sale to outsiders has been favoured as it fetches revenue and turn the firm to the real owners who possess the expertise and incentives to govern the company efficiently.

Sale to outsiders has largely fulfilled expectations about performance improvements. But the route is costly and slow and far more difficult to implement.

Lack of adequate domestic capital, resistance from managers and employees and difficulty of evaluating and negotiating deals make this route difficult to follow.

2. Management-Employee Buy-out

Management-employee buy-out is a widely used alternative to sale, notably in Croatia, Poland, Romania, and Slovenia. Buy-out is relatively fast and easy to implement, both politically and technically. The route may lead to better corporate governance as insiders have better access than outsiders to information needed to monitor managers.

There are disadvantages however. One disadvantage is that the benefits are unevenly distributed: employees in good firms get valuable assets while those in money-losers get little or nothing of value. Another disadvantage is that the governments typically charge low prices to insiders and thus realise little revenue. Insiders do not bring in new skills and new capital. There could be managerial and worker entrenchment that might block further reforms.

3. Equal-access Voucher Privatisation

A third form of privatisation distributes vouchers across the population and attempts to allocate assets approximately evenly among voucher holders. Such programmes excel in speed and fairness. But they raise no revenue for government and they have unclear implications for corporate governance. Mongolia, Lithuania and the former Czechoslovakia were the first to implement this route to privatisation.

4. Spontaneous Privatisation

This route to privatisation is easy, obstacle - free, with no revenue generation for the government and has doubtful impact on corporate governance. Small firms lend themselves to this type of privatisation. Russia has divested most of its small units through this route. So is the case with Czechoslovakia, Hungary and Poland.

Table 18.1 brings out the comparative picture of the four routes of privatisation.

Table 18.1

Four Routes of Privatisation

Method	Objectives: Better corporate governance	Speed and feasibility	Better access to capital and skills	More government revenue	Greater fairness
Sale to outside owners	+	—	+	+	—
Management employee buyout	—	+	—	—	—
Equal-access voucher privatisation	?	+	?	—	+
Spontaneous privatisation	?	?	—	—	+

(Source: *World Development Report 1996*, p.52)

RECORD TO DATE

Privatisation, as was pointed earlier, is a global phenomenon. As many as 6,832 sales have taken place all over the world during 1980-91. Region-wise distribution of divestiture is shown in Table 18.2.

Table 18.2

Number of PSUs Privatised World-wide by Region 1980-91

Region	No.of Sales	% of total
1 Former GDR	4500	66%
2 Latin America and Caribbean	804	12%
3 Eastern Europe(Other than GDR)	805	12%
4 Sub-Saharan Africa	373	5%
5 OECD	170	2%
6 Asia	122	2%
7 Middle East & N.Africa	58	1%
	6832	100

(**Source**: *Privatisation-Lessons of Experience* by Sunita Kikeri, et al. p.22).

It is interesting to note that approximately 70 per cent of the 6,800 plus sales has taken place in industrial countries. The developing countries (see Table 18.3) have accounted for 2000 plus sales. Of these, a major share is accounted for by Eastern Europe, Latin America and Caribbean. Table 18.4 shows that India ranked ninth among developing countries in realisation of disinvestment proceeds between 1990 and 1998.

DISINVESTMENT IN INDIA

Initiated a couple of years back, the Government till now has disinvested several PSUs (see Table 18.5) varying degrees of their equity. In 1997-98, a little over Rs.900 crore was raised, whereas only Rs.15,547 crore was realised in 2003-2004. (See Table 18.6).

Table 18.3

Number of PSUs Privatised in Developing Countries, by Region, 1980-91

	Region	No. of Sales	% of total
1	*Eastern Europe*	805	37%
2	*Latin America and Caribbean*	802	37%
3	*Sub-Saharan Africa*	373	17%
4	*Asia*	122	6%
5	*Middle East & N.Africa*	58	3%
		2162	100

(**Source**: *Privatisation-Lessons of Experience* by Sunita Kikeri, et al. p.23).

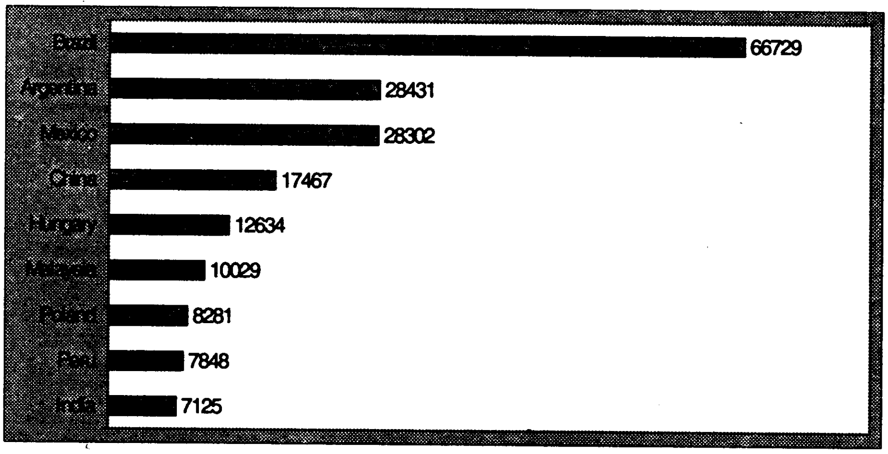

Table 18.4

International Comparison of Disinvestments 1990-98 ($ million)

ARGUMENTS AGAINST PRIVATISATION

Privatisation, to be successful, requires certain pre-requisites. The way the disinvestment is pushed through clearly reveals that no adequate homework was done before the process was set in motion. This explains the reason why the Government failed to mop up the targeted amount of resources (see Table 18.6). Besides, privatisation has become an obsession with several people. The way it is sought to be implemented smacks of a motive which is not just disinvestment of a few PSUs but to dismantle the public sector itself. This is an unfortunate trend and hence needs to be checked. In short, there is the need for exercising caution and restraint while privatising PSUs. Any hasty move in this respect is going to result in avoidable negative consequences. Several reasons may be advanced in support of this argument.

1. The primary reason for privatisation must be to improve the efficiency of PSUs. It is believed that once the units are handed over to the private sector, they will be debureaucratised, will have professional management and will improve performance in all respects. Whether this claim holds any water can be seen if one were to dig for reasons which contributed to the sickness in the public sector in the first place.

In the *first* place, enterprises, irrespective of the sectors, would run profitablyy or otherwise by people. It is the people who matter and not the sector. If the enterprises

Table 18.5 *The Strategy So Far*

Realisation through strategic sale during 1999-2000 to 2004-05

Name	*% of Govt. Equity sold*	*Realisation Rs.in Cr.*	*Profit/Loss during Disinvestment*
Modern Food Industries	74	105.45	Loss Making
(MFIL) Phase II	25.995	44.07	
Bharat Aluminium Co.Ltd.	51	826.92^	Profit Making
CMC Ltd.	51	152	Profit Making
CMC Ltd.*		6.07	
HTL	74	55	Profit Making
Lagan Jute Machinery Corp	74	2.53	Loss Making
Hotel Agra Ashok	89.97	3.61	Loss Making
Hotel Bodhgaya Ashok	89.97	1.81	Loss Making
Hotel Hassan Ashok	89.97	2.27	Loss Making
TBABR Mamallapuram	89.97	6.13	Loss Making
Hotel Madurai Ashok	89.97	4.97	Loss Making
Hotel Ashok Bangalore*	89.97	39.41	Loss Making
Qutab Hotel, New Delhi	89.97	34.46	Loss Making
Lodhi Hotel, New Delhi	89.97	71.93	Loss Making
LVPH, Udaipur	89.97	6.77	Loss Making
Hotel Manali Ashok	89.97	3.65	Loss Making
KABR, Kovalam	89.97	40.39	Loss Making
Hotel Aurangabad Ashok	89.97	16.5	Loss Making
Hotel Airport Ashok, Kolkata	89.97	19.39	Loss Making
Hotel Khajuraho Ashok	89.97	2.,19	Loss Making
Hotel Varanasi Ashoik	89.97	8.38	Loss Making
Hotel Kanishka, New Delhi	89.97	92.37	Loss Making
Hotel Indraprastha, N.Delhi	89.97	43.39	Loss Making
Chandigarh Hotel Project	89.97	17.27	Loss Making
Hotel Ranjit, New Delhi	89.97	29.28	Loss Making
HCI-Centaur Hotel, Juhu	100	153	Loss Making
HCI-Centaur Rajgir	100	6.51	Loss Making
HCI-Centaur Hotel, Airport	100	83	Profit Making
IBP Co.Ltd.	33.58	1153.68	Profit Making
Videsh Sanchar Nigam Ltd.	25	3689	Profit Making
Paradeep Phosphates Ltd.	74	151.7	Loss Making
Hindustan Zinc Ltd.	26	445	Profit Making
Hindustan Zinc Ltd.*		6.19	
Hindustan Zinc Ltd.**	18.92	323.88	
Maruti Udyog Ltd.	4.2	1000	Profit Making
IPCL	26	1490.84	Profit Making
STCI		40	
MMTC Ltd.		60	
Jessop & Co.Ltd.	72	18.18	Loss Making
Grand Total		**10257.19**	

* Including NPV of future earnings on MGAP and lease rentals including dividend and divi.Tax Copmpanies at Sr.No.5,23,25,26,27,36 are subsidiaries. The receipt is on account of transfer of cash reserves. Disinvestment in favour of employees.

** Realisation from call option shares also given to VSNL employees, the amount of which is not included.

(**Source:** Department of Disinvestment, GOI)

Year	Target	Proceeds
1997-98	4,800	902
1998-99	5,000	5,371
1999-00	10,000	1,860
2000-01	10,000	1,871
2001-02	12,000	5,632
2002-03	12,000	3,348
2003-04	14,500	15,547

Table 18.6

Disinvestment of Equity in PSEs

(**Source**: *Privatisation-Lessons of Experience* by Sunita Kikeri, et al. p.23).

are sick, it is because the people who man them are sick. Unfortunately, all the loss-making PSUs are manned by such people. These elite few have considered PSUs to be their private properties meant for personal use. *Secondly*, where there are bright spots, bosses in the government and political parties do not leave the bright men and women to run the enterprises on profitable lines. *Thirdly*, some of the PSUs are born with serious defects, locational aspects, for example. As is well known, many undertakings were set up in backward areas for political reasons. But inadequate infrastructure which had to be built up, haulage of raw materials from long distances and transport of finished goods to faraway markets hiked up both project and operational costs. Often, the labour available in the backward areas was not well trained to handle technology of the undertaking, with the result that sub-standard products were dished out which were promptly rejected by buyers. *Fourthly*, extraneous reasons often killed the PSUs even before they were born. Many factories, for example, were set up just because technology and machinery were offered on easy terms by countries like the erstwhile USSR. The Surgical Instruments plant near Chennai is a glaring example. For a long time, this unit could not run well because many of the instruments produced were too big to be used on Indians. The sizes were more appropriate for Russians. *Fifthly*, it is a historical irony that many of today's sick PSUs are earlier sick private sector units and got nationalised subsequently. National Textile Corporation Units, Cycle Corporation of India, Burn and Co. and Jessops and Braithwaite are but a few examples. *Sixthly*, nationalised banks have a different story. It is estimated that more than Rs.25,000 crore are locked up in '*non-performing*' assets with the nationalised banks. This amount, perhaps, represents the default of many private sector units. In other words, these are loans advanced to the private sector companies that have been neither repaid nor serviced.

One of the arguments for privatisation is to improve efficiency. Efficiency depends on people but not on the sector.

Thus, the reasons for the sickness of PSUs appears to be *ad infinitum* and most of them lie outside the public sector (Also read Chapter 17). The sad part of the story is that till now no serious efforts have been made to cure sickness in the PSUs. All efforts have been *adhoc* in nature, providing solutions such as constituting committees, injection of fresh finances or scattered price increases which were temporary. Now, privatisation is conceived to be a magic wand to cure sickness, little realising the fact that what disinvestment results in is mere change of hands.

2. A study made by Dr.Nagaraj (*Economic and Political Weekly*, Januaryy 16-23, 1993) adds a new dimension to the myth of the sickness of PSUs and strengthens our argument that there is need to go slow in privatisation. As is well known, one of the arguments toted for privatisation is that the PSUs are mainly responsible for fiscal imbalances in the recent years. His study reveals that the problem of growing fiscal imbalance is not on account of the declining savings rate of PSUs but due to administrative departments.

Another argument in favour of privatisation is that the PSUs are causing fiscal imbalances. But fiscal imbalances are caused not so much by PSUs but by administrative departments.

His study reveals that although overall deficit of PSUs, defined as net of all financial flows between PSUs and the Government as a proportion of GDP-increased marginally over the three decades since 1960-91, it is insignificant compared to the sharp deterioration in the gross fiscal deficit witnessed since the mid 70s. The widening gap between the two suggests that the increase in gross fiscal deficit is not on account of PSUs' overall deficits.

According to him, the two measures of budgetary burden estimated are (i) the sum of governments equity, loans and capital grants to PSUs as a proportion of the current GDP at market prices, and of (ii) PSUs' gross expenditure (defined as the sum of intermediate consumption, compensation to employees and gross investments). While the first measure of budgetary burden has nearly halved to two per cent of GDP since the mid 80s, the second measure of burden witnesses a fairly steady decline since the early 60s, from around 35 per cent in 1861-62 to about seven per cent in 1989-90.

Thus, the argument that PSUs are responsible for a major share of fiscal imbalance holds no water.

3. Privatisation presupposes the prevalence of country conditions-a composite factor that takes into account the extent to which macro-economic policy framework is or is not market friendly and the effectiveness of regulatory and supervisory institutions. Favourable macro-economic milieu helps attract private investors and makes the process feasible. It also ensures that privatisation will expand competition and produce efficiency rather than simply transfer rents from PSUs to new private owners. Successful privatisation such as seen in Chile and Mexico began macro-economic reforms well before privatisation.

Macro economic reforms-resulting in favourable country conditions should precede privatisation. This was what was done in Chile and Mexico.

It goes to the credit of the present government that it has partly succeeded in creating a favourable macro-economic environment which is market friendly (partly because, bureaucratic hassles are still there) and the so called reforms have not percolated down to the State's level. What any economist or finance minister advocates has no meaning to an official in an electricity board or water supply board.

Favourable legal framework, by amending several existing legislations, should also precede privatisation.

A well-defined legal framework is especially important to successful privatisation. Creating such a framework entails developing important aspects of business legislation (property law, competition law, corporate dispute settlement, environmental legislation and so on), defining property rights, modifying the legislation of PSUs to be divested and developing laws for organising the privatisation process.

Workers in PSUs, for example, are treated as government servants. Being government employees, they cannot be legally transferred to the private sector and transfer is however inevitable in any privatisation programme.

Similarly, there is also the fear of violation of constitutional provision which needs to be set right first. The present practice of off-loading equity to a handful of mutual funds and financial institutions has a consequence of benefitting a few and denying others of an opportunity to buy a part of national prosperity.

Privatisation should not tamper with constitutional provisions.

Legal hurdles of the type mentioned above are several. It is therefore, necessary to clear these barriers to make privatisation meaningful.

4. Yet another reason in support of the need for going slow stems from the fact that privatisation requires (i) adequacy of capital market to absorb new securities, (ii) availability of financial expertise to evaluate the work of PSUs' assets and (iii) possibility of undertaking financial and organisational restructuring to make PSUs' attractive to private investors. It is doubtful how we score on these three counts.
5. It may be stated that poorly planned privatisation will do more harm than any good. According to the Adam Smith Institute, London, many governments in Eastern Europe and in the former Soviet Union have committed the classic error of selling state monopolies intact into the private sector, without either breaking them up or creating mechanisms to regulate their prices. Privatisation programme ran into disrepute in these countries and has been, therefore, slowed down considerably.

   Poorly planned privatisation will cause more harm than good.
6. One of the principles of privatisation is that revenue maximisation must not be the main objective of disinvestments of PSU equity. The objective, instead, should be to improve efficiency of these units. It is too well known that the objective of disinvestments to the tune of Rs.11,000 crore is more for revenue maximisation and not to improve the efficiency of PSUs.
7. Further, privatisation must not result in greater concentration of assets. Rather the process of disinvestment should ensure greater competition through more dispersed ownership. Though the process of disinvestment was set in motion sometime back, still no concrete efforts have been made to disperse sales widely. What has happened till now is the divested equity-between five and twenty per cent of the 30 odd PSUs-has merely changed hands within the Government, i.e., from the Government to mutual funds and financial institutions which are again owned by the Government. Only a handful of scrips are listed and trading volumes in them are thin. Having secured these equities at throwaway prices, mutual funds and financial institutions are sitting tight on the scrips.
8. Successful privatisation requires the cooperation of labour force which may not come forward for obvious reasons. Privatisation may involve the reduction of work force, retraining, change of technology or a combination of all which will not be acceptable to the employees of PSUs. This was demonstrated by the protest launched by the workers of the Dalla factory of the UP Cement Corporation. The agitation against the privatisation move of the factory turned violent resulting in the death of nearly 30 workers due to police firing.

   Cooperation from labour is a pre-requisite for successful privatisation. Such cooperation may not come forward easily.

9. Another principle of privatisation is that every transaction of sale must be transparent. Transparency can be ensured through clear and simple selection criteria for evaluating bids, clearly defined competitive bidding procedures, disclosure of purchase price and buyer, well defined institutional responsibilities and adequate monitoring and supervision of the programme. Lack of transparency can lead to a political backlog and is often associated with poorly and very costly sales. There may be a perception of unfair dealing and an outcry that can threaten not only privatisation but also reforms in general.

That there were irregulatiries in the disinvestment of PSUs was brought out clearly by the Janakiraman Committee. The question that is being increasingly asked is whether the Government went about the PSU disinvestment in the right manner and what were the ultimate gains out of it?

Sheer size of PSUs defers any privatisation efforts.

10. Another compelling reason why there is need to go slow in disinvestment is the sheer size of the public sector as a whole. There are 233 PSUs with a capital employed standing at a whopping Rs.274,114 crore employing 22.17 lakh people. It maybe stated that the entire organised private sector employs only less than half of this number. Who will absorb these employees as and when they are displaced?

11. It is stated that the privatisation of enterprises that produce tradables in competitive or potentially competitive sectors such as industry, airlines, agriculture and repair operations is easier than privatisation in the non-competitive sectors and is likely to yield solid and rapid economic benefits as long as there are no economy-wide distortions that hinder competition. As a rule, a government activity can work only if there is monopoly. It cannot function if there are other ways to do the job-if there is competition. As is clear from Table 18.4, many units which operate in the monopoly environment are put up for sale. This reinforces the argument that the sale of PSUs is designed to generate revenues and not to improve efficiency.

12. Privatisation to be successful needs strong will on the part of the government and consensus across political parties. To be fair to the Government, there is strong commitment to privatise PSUs and to usher in other economic reforms. But dependence on the Left parties for support makes the government vulnerable when the chips are down. Nor is there consensus among political parties about economic reforms. Opposition parties vie with one another in accusing the government of yielding to the International Monetary Fund (IMF) dictates and of subjugating economic sovereignty. Clearly this type of environment is hardly helpful to carry on the privatisation programme.

Public sector helped, shielded, and encouraged private sector. With privatisation, private sector is likely to become orphaned.

13. It is generally not realised that the dominance of the public sector has in fact admirably suited the private sector, saving it from the responsibilities and the criticisms it would have been exposed had it handled the enterprises now run by the former. The farming out of the supply of components, plant and machinery which the public sector undertakings needed to the private sector enabled it to strike it rich with earnings which would never have been otherwise possible. While the public sector enterprises themselves were incurring huge losses, the private sector firms which were meeting their requirements were having a good time

with a steady flow of cash. If the disinvestment programme could change this scenario, it would pin down the private sector to the exacting tasks from which it had been kept free for decades by the pursuit of a policy aimed at raising the public sector to the "*commanding heights*" of the economy. It is doubtful whether the private sector is prepared to face the challenges (Also read Box 18.1).

Box 18.1

Seven Sins of Privatisation

Privatisation, conceived as one element of a total package, can stimulate private enterprise. Unfortunately, the process in many countries has been very different from this-more a 'garage sale' of public enterprises to favoured people than an integral part of a coherent strategy to encourage private investments.

Privatisation in developing countries has, therefore, had very mixed results. In some cases, as in Maxico, it has been part of a process of fundamentally altering the organisation of production-with benefits for consumers and the economy as a whole. In too many cases, however, privatisation has taken place in the wrong way. Many countries seem to have been committing one or more of the seven deadly sins of privatisation.

1. **For the wrong reason**-Many privatisation strategies have aimed at maximising short-term revenue rather than building competitive markets for the long-term. For example, the sale of a telecommunications company as a monopoly would probably get a better price from a buyer who thought the company's activities would not be closely regulated. Short-term revenue for the government but long-term losses for consumers and the efficiency of the economy as a whole is one of the reasons. As the World Bank cautioned in its latest review of privatisation experience: Maximis-ing short-term revenues should not be the primary consideration. So, it could be better to create a competitive environment than to maximise revenue from sales into protected markets.
2. **In the wrong environment**-Privatisation makes sense only if enterprises are released in an environment that allows them to become competitive and efficient. Where the market functions poorly and enterprises are still vulnerable to arbitrary government edicts, transferring ownership to the private sector is unlikely to achieve much.
3. **With non-transparent procedures**-Privatisation has sometimes been accompanied by allegations of corruption and claims that the process has enriched a few privileged cronies of the government. The disposal of assets should be so open and public that such allegations cannot arise. It should start with a publicity campaign explaining the rationale for the privatisation and the method of selling and then proceed through competitive bidding, preferably through the stock exchange.

The entire process of transferring ownership should be kept open to external scrutiny and should clearly state the national objectives that privatisation hopes to accomplish.

4. **Only to finance budget deficits**-Harassed finance ministers are often tempted to sell state assets to cover their current budget deficits. The sale of public assets should be seen instead

as a way of reducing the national debt- since these debts were often incurred in the first place for the establishment of such enterprises. Selling assets to meet current liabilities is mortgaging the options of future generations.

5. **With a poor financial strategy-** The best way to dispose off assets is through the capital markets selling shares to the public, difficult in many developing countries where capital markets are undeveloped. Rather than take into account that stock exchanges are narrow and monopolised by a privileged minority, the financial strategies of many governments often make matters worse. A surprising number of governments have actually tried to privatise while at the same time issue high-yield, low-risk, tax-free government bonds. Many governments have further narrowed their options by restricting sales of shares to foreigners. The aim instead should be a widespread distribution of shares to nationals and foreigners alike-with a proper timing and distribution of shares that both maximise revenue and protect national interest.

6. **With unrealistic labour strategies-** Some governments have been so nervous about labour agitation in the privatised industries that they have demanded guarantees from prospective buyers that no workers will subsequently be laid off. Others have 'bought' labour cooperations by offering handshakes so golden that they exceed the asset's sale value. Employment is one of the most sensitive areas of privatisation. But experience shows that it is better to have an open and free dialogue in advance. This should cover the possibilities of workers' ownership and retraining schemes, as well as the inevitable job losses.

7. **With no political consensus-** Privatisation is not merely a technocratic exercise. It is also a political process. A hasty privatisation forced through executive orders, risks immediate conflict-and reversal after a change in governments. Should still attempt to build as broad a consensus as possible and to use democratic parliamentary procedures to minimise violent lurches in policy.

The enumeration of these sins is a caution not against privatisation, but against privatising within the wrong framework and without a human development purpose in mind.

(**Source**: *Human Development Report*, 1993(UNDP).

14. There is no advantage in transferring a public sector monopoly, no matter how inefficient, into the private sector, where it would become a private sector monopoly. It cannot improve further the performance of any undertaking. Inefficiencies in production units are more closely associated with their being monopolies, rather than with the type of ownership, public or private.
15. There is not a great deal that the government can do to ward off foreign competition, given its WTO obligations, nor can it favour particular firms in the private sector. Under the circumstances, some of our public sector enterprises are our best hope for emerging as globally competitive firms.[7]

Conclusion

The foregoing arguments do not in anyway constitute uncritical support for our PSUs. Undeniably, there is an urgent need to restructure them to improve their performance. But privatisation is not the only way to put the PSEs on the right track because the private sector is not rosy and glory. There is inefficiency, sickness, nepotism and corruption even among private sector units.

Further, with the government determined to hold on to atleast 51 percent equity in its PSEs, the question of privatisation does not arise. What has happened till now is to offload equity upto 20 percent of the selected PSUs. This exercise has been more in the nature of revenue-generation than handing over PSEs to private hands.

> The exercise till now seems to be one of revenue generation rather than a genuine interest in transferring ownership of PSUs.

But the 66 PSEs which have been referred to BIF can be privatised through any of the first three routes discussed earlier. Here again there are three major 'ifs': (a) *if* the BIFR invites take-over bids for any of these companies as a part of a rehabilitation plan under S.18(4) of SICA, (b) *if* there are bonafide bidders whose offer prices are acceptable to BIFR, the banks and the FIs and (c) *if* such takeover is not stymied by labour unions through the High Court and Supreme Court appeals.[8]

RANGA RAJAN COMMITTEE ON PRIVATISATION, 1993

The Government appointed a Committee under the Chairmanship of Sri.C.Ranga Rajan to study and recommend new measures to make privatisation more effective. The Committee submitted its report in 1993.

The major recommendations of the Committee are as follows:

1. Units to be disinvested need to be identified.
2. There is need for the government to retain majority holding in the equity of undertakings in areas like defence and atomic energy. In others, disinvestment can be upto any level.
3. Disinvestment shall be in stages and the sales are to be staggered so as to fetch the best possible price from the bidders.
4. Workers' interests need to be protected. Employees of the privatised units are to be allowed to buy shares.
5. Disinvestment must be transparent.
6. An autonomous body needs to be set up to monitor the process of disinvestment.

DISINVESTMENT COMMISSION

The five-member Disinvestment Commission was set up on August 7, 1996. Its major tasks have been spelled out as follows:

i. To prepare long-term disinvestment programme.
ii. To determine extent of disinvestment in each PSU.
iii. To decide on instrument, pricing and time.
iv. To supervise sales process.
v. To monitor disinvestment process.

Among the guidelines provided to the Commission, important ones have been:

(i) Financial advisors for specified PSUs to be selected.
(ii) Substantial number of shares to be offered to workers.
(iii) Clawback mechanism and instalment purchases of shares to be introduced.
(iv) A chain of share shops to be encouraged.

The Commission plans to work on a six-point recipe for reforming PSUs:

— *Power to Hive Off Assets*: The board of directors of a PSU should be empowered to hive off a portion of its assets, either as an independent subsidiary or as a joint venture entity without being subjected to vetting by a government's decision-making process.

— *Powers to Form Joint Ventures*: No permission should be required for a PSU to form joint ventures, with Indian or foreign companies, in which the partner holds less than or equal stakes.

— *Aolition of Investment Permission from the PIB*: The process is time consuming and leads to heavy cost overruns in PSU projects.

— *Power to Fix Salaries of Top Management.*

— *Introducing Accountability*: Salary structures and bonuses of the top management will be linked to performance parameters of a PSU. Performance assessment will be carried out at routine intervals.

QUESTIONS

1. What do you mean by privatisation? What are its objectives?
2. Justify the need for the slow pace of privatisation.

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CHAPTER 19

Small Scale Industries

CHAPTER OUTLINE

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:

1. *Understand the meaning of an SSI unit*
2. *Trace the growth of SSI sector*
3. *Explain the significance of SSI sector*
4. *Describe the various facilities available for the growth of SSI sector*
5. *Bring out the problems faced and offer remedial actions to overcome the shortcomings*
6. *Bring out the salient features of SSI sector policy*
7. *Point out the findings of the SIDBI Survey on SSI sector*

The Small-Scale Industries (SSIs) have a place of pride in our economy. They have a high potential, among others, for generating employment, dispersal to semi-urban and rural areas, promoting entrepreneurship and earning foreign exchange. Aware of this, the SSIs have been accorded a strategic position in the successive five year plans towards fulfilment of the socio-economic objectives, particularly in achieving growth with equity. The importance of the small industries sector has been highlighted by its inclusion in the new 20-Point Programme which has reiterated the need for giving all facilities to the SSIs.

MEANING

The term 'small-scale industries' has been defined in three ways. The conventional definition includes cottage and handicraft industries which employ traditional labour-intensive methods to produce traditional products, largely in village households. They employ none or almost a few hired hands. The handloom textile industry is an example. Though once famous, this sector has been steadily declining.

The operational definition of SSI unit relates to the investment in fixed assets.

The operational definition for policy purposes includes all those undertakings having an investment in fixed assets in plant and machinery, whether held on ownership terms or by lease or by hire-purchase, not exceeding Rs.60 lakh. A tiny unit is one whose investment in fixed assets in plant and machinery does not exceed Rs.five lakh. An ancillary undertaking is one whose investment in plant and machinery does not exceed Rs.75 lakh and is engaged in (a) the manufacture of parts, components, sub-assemblies, toolings or intermediate; or (b) rendering of services or supplying 1/3 per cent of their total service or production, as the case maybe, to other units for production of other articles. The investment ceiling has been raised recently to Rs.3 crore for SSI units and to Rs.25 lakh for tiny units. (The government has decided to lower the ceiling from Rs.3 crore to Rs.1 crore). The operational definition is considered relevant for discussion in academic circles as well as policy decisions (See Box.19.1 for changing definitions).

The third definition of small-scale industries relates to national income accounting. This includes all manufacturing and processing activities, including maintenance and repair services, undertaken by both household and non-household small-scale manufacturing units, which are not registered under the Factories Act, 1948.

GROWTH OF SSIs

Table 19.1 reveals the growth of the small-scale units during 1991-92 to 2002-03.

The number of small-scale units, the volume and range of products manufactured, the employment provided and the value of exports by these industries have grown substantially during the last decade. During 1997-98, the production of SSIs was estimated to be around Rs.500,000 crore at current prices, providing employment to about 167 lakh persons. The small-scale sector accounts for 44 per cent of the total exports of our country.

The phenomenal growth in the small-scale industries sector is partly due to the encouragement, support and guidance given by the government. What the government has done to promote the decentralised sector and what are its problems are issues worth examining.

Box 19.1

Changes in the Definitions of SSIs and Ancillaries

Year	Units	Investment
The Industries(Development and Regulation)Act, 1951	SS	Rs.5 lakhs and employing less than 50 persons with power and less than 100 persons without power
1966	SS	Not exceeding Rs.7.5 lakh
1975	SS	Rs.10 lakh
	Au	Rs.10 lakh
1980	SS	Rs.20 lakh
	Au	Rs.25 lakh
1985	SS	Rs.35 lakh
	Au	Rs.45 lakh
1990	SS	Rs.60 lakh and Rs.75 lakh for EOU
1991	Au	Rs.75 lakh
1997	SS	Rs.3 Crore – but later reduced to Rs.1 cr
	Tiny	25 lakh

Table **19.1**

Growth of SSI Sector

Year	*No.of units (in lakhs)*	*Output at current prices*	*Employment (lakh Nos.) (Rs.cr)*	*Export Earnings (Rs.cr)*
1991-92	20.82	1,78,699	129.80	13,883
1992-93	22.46	2,09,300	134.06	17,785
1993-94	23.90	2,41,648	139.40	25,307
1994-95	25.71	2,96,886	146.56	29,068
1995-96	26.60	3,62,656	152.61	36,470
1996-97	28.00	4,11,858	160.00	39,249
1997-98	29.40	4,62,641	167.20	43,946
1998-99	30.80	5,20,650	171.50	48,979
1999-00	32.10	5,72,887	178.50	53,975
2000-01	33.12	6,39,024	185.60	59,978
2001-02	34.42	6,90,316	192.23	N.A.
2002-03	35.72	7,42,021	199.65	N.A.

SIGNIFICANCE OF SMALL-SCALE INDUSTRIES

As we said in the beginning of this chapter, the small-scale sector has a high potential for providing employment, dispersal of industries, promoting entrepreneurship and earning foreign exchange to the country. The following points further demonstrate the importance of small-scale industries.

1. *Small is Beautiful*: 'Small is beautiful', said E.F.Schumacher. He maintains that man's current pursuit of profit and progress, which promotes giant organisations and increased specialisation, has infact resulted in gross inefficiency, environmental pollution and inhuman working conditions. Schumacher emphasises on small working units, communal ownership and regional work places utilising local labour and resources. For him, emphasis should be on the person and not on the product.

2. *Innovative and Productive*: It is the small units which are highly innovative, though they do not maintain their own research and development wings. "*...a disproportionate share of innovation and success in business seems to come from 'skunk works', tiny groups that tend to outperform the much larger labs that often have a cast of hundreds. We have now, several score examples of effective skunk works.*"[1]

3. *Individual Tastes, Fashions and Personalised Service*: Small firms are quick in studying changes in tastes and the fashion of consumers and in adjusting the production process and production accordingly.

Small units score better in areas requiring personalised service.

Small firms seem to have an edge in industries that call for personalised service, attention to detail and the flexibility to adapt quickly to changes in the business or technological environment. For instance, in the garments and electronic fields, the small units have ruled the roost, a chorus of garment and TV industry voices says that big companies delegate responsibility down the line and cannot swiftly change the trace when necessary. Says a garment exporter: "*...the garment business is personalised, oriented to changing fashions and has to be tightly controlled. Professional managers do not have the motivation for all this. And most people in the electronic business agree that big firms have so far had limited success because of their lack of flexibility.*"[2]

4. *Symbols of National Identity*: Small enterprises are almost always locally owned and controlled, and they can strengthen rather than destroy the extended family and other social systems and cultural traditions that are perceived as valuable in their own right as well as symbols of national identity.[3]

5. *Happier in Work*: People who work in small enterprises are happier in their work than those who work in large ones inspite of lower wages and poor standards of safety, comfort and welfare facilities.[4]

6. *Always Winners of the Game*: Small companies and new entrepreneurs were at the forefront of practically every business boom of the last decade, whether it was computers, television sets, consumer electronics, garments, diamond exports or advertising. And they frequently put the established large industrial houses in the shade with the quality of their performance, their ability to seize business opportunities and their aggressive feeding of burgeoning markets. Remarkably enough, the giants of the corporate sector fell flat on their faces in precisely these areas. With losses piling up, the JK group had to pull out of manufacturing television sets, while the Sarabhai's Telegrad limped along. In garments, virtually all the big firms, including the cigarette behemoth, the Indian Tobacco Company (ITC), tested the waters to call it quits or retain a small presence in the field.[5]

Small business owners are always winners of the game.

7. *Dispersal Over Wide Areas*: It is only small-scale units which have a tendency to disperse over wider areas. According to the second All-India Census of small-scale units, 62.19 per cent of the units are located in backward areas. (Also See box 19.2).

Box 19.2

Growing Interest in SSI Sector

Following are some of the reasons for the increased interest in small industry sector:

- The number of small businesses is growing (see Table 19.1)
- Small firms generate more employment opportunities (see Table 19.1)
- Public favours small business. Public supports small industries because of their propensity to disperse, are relatively pollution-free, test skills and abilities of owners; and turn youngsters into innovators and entrepreneurs
- There is increasing interest in small business entrepreneurship at MBA and other courses. The Bangalore University offers a specialisation stream of papers in small business management at its MBA course. And the Bangalore University is no exception
- Entrepreneurship is attractive to youth. Many women are taking interest in this area and there are exclusive programmes to train women entrepreneurs and facilities to help them run small businesses.

THE CASE FOR SMALL-SCALE ENTERPRISES

Small-scale enterprises have been the subject of controversy in the past and the controversy continues even to this day. Some are ardent supporters of small enterprises, while others vehemently oppose them. It would be worthwhile to examine the arguments favouring the growth of small enterprises. All these arguments have been briefly summarised in the Industrial Policy Resolution of 1956 which while emphasising the role of cottage and small-scale industries states:

"They provide immediate large-scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country."
The Industrial Policy Resolution, therefore, puts forth four arguments in favour of small enterprises:

Small enterprises being labour intensive, are creaters of jobs.

1. The Employment Argument Emphasizing the employment argument, Karve Committee 1955 stated: *"The principle of self employment is at least as important to a successful democracy as that of self-government."* The argument is based on the assumption that small enterprises are labour-intensive and thus create more employment per unit of capital employed. It is also assumed that the low cost on overheads in such enterprises partly compensates for the otherwise high cost *vis-a-vis* large enterprises. Thus, it is argued that, let alone capital goods industries and the building up of social and economic infrastructure where capital intensive projects are a necessity, in other spheres of production in a developing economy, small enterprises which help to enlarge the volume of employment with scarce capital should be encouraged.

2. The Equality Argument The equality argument suggests that the income generated in a large number of small enterprises is dispersed more widely in the community than income generated in a few large enterprises. In other words, the income benefit of small enterprises is derived by a large population while large enterprises encourage more concentration of economic power. In this way, small enterprises bring about greater equality of income distribution. It is also held by some that as most of the small enterprises are either proprietary or partnership concerns, the relations between the workers and the employers are more harmonious in small enterprises than in large enterprises.

Income generated in SSI sector gets dispersed widely.

3. The Latent Resources Argument This argument suggests that small enterprises are able to tap latest resources like hoarded wealth. To the extent small enterprises encourage dishoarding, there is definite gain to the community. Secondly, small enterprises encourage the growth of a class of small entrepreneurs which introduces a dynamic element in the economy. There is no evidence of an overall shortage of small entrepreneurs in India. But the assertion does not appear to be very sound. If the small entrepreneurs were present in abundance, then what obstructed the growth of small enterprises? The growth of an entrepreneurial class requires an environment. Small enterprises provide that the environment which encourages a growing network of feeder and complementary relations among plants and firms. It is in this environment that latent talents of individual entrepreneurs find self-expression in localised innovations and cost-saving measures. The growth of a very large number of small firms in the post independence period only highlights the fact that given the basic conditions such as supply of power and credit facilities, the latent resources of entrepreneurship can be tapped by the growth of small enterprises only.

Dishoarding is encouraged by SSI units. Economy gains thereby.

4. The Decentralisation Argument This argument impresses the necessity of regional dispersal of industries. Large enterprises are mostly concentrated in metropolitan cities. The smaller towns and the countryside, in order to benefit from modern industrialism, must encourage small enterprises. Industrialisation of the country can become complete only if it penetrates into the remote corners of the country. It may not be possible to start small enterprises in every village, but it is quite possible to select a group of villages, and start small enterprises to cater to the needs of the small area from the local centre. The International Perspective Planning Team rightly pointed out-A policy of trying to implant large amount of industry in the most backward areas as directly in villages is doomed to fail and cannot be justified economically. The focus for industrial development under a dispersal policy should be neither the metropolis nor the village, but rather the large range of potentially attractive cities and towns between these two extremes. Decentralisation of industrial enterprises also helps to tap local resources-such as raw materials, idle savings, local talents and also improves the standard of living in backward regions. Moreover, decentralisation helps to solve the problems of congestion in the few industrial towns by enlarging the area of employment.

Small units disperse widely thus removing regional imbalances.

To sum up, small enterprises need to be developed along with large enterprises. This is also the accepted policy of the government. No doubt that the employment argument has a substantial weight in it, but it would be suicidal to encourage inefficient small enterprises in the long run. From a long period point of view, the capacity of small manufacturers to become technically progressive and efficient and develop competitive strength shall be the only justification for the continuance. In the intervening period, it would be fair to protect them, and the government should help to create conditions which facilitate their growth.[6]

From economic reasoning too there are strong justifications for SSI sector. Per-unit investment, employment-investment ratio, and output-labour ratio are positive indicators of small sector units.

FACILITIES

Realising the unique place of small-scale industries in our economy, the Central and the respective State Governments have been providing a variety of facilities for the growth and development of SSIs. (See Fig.19.1).

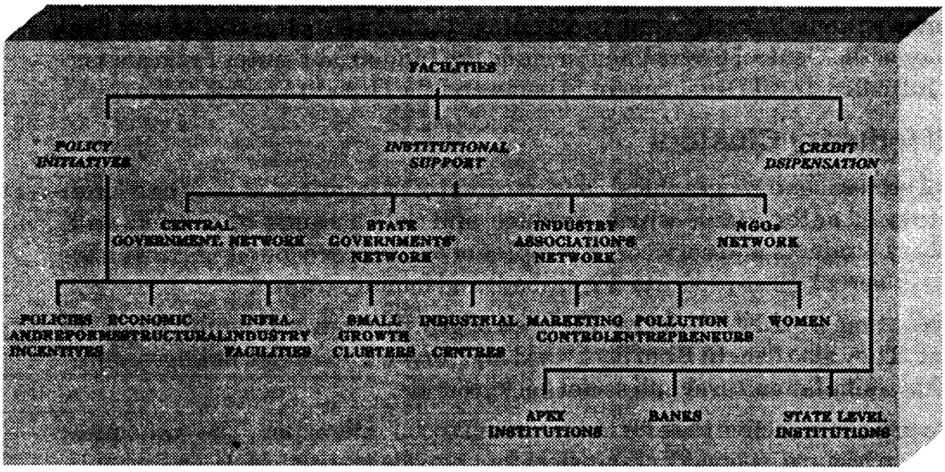

Figure 19.1

Facilities for SSI Sector

A. Policy Initiatives

(i) Small Industry Policies and Incentives

Starting from the Industrial Policy Resolution, 1948, the Central Government has come out with a total of six resolutions and statements. All the policies gave a thrust to the promotion of small units through various incentives. These incentives pertained to financial, fiscal, and infrastructure-related measures targeted at achieving the growth of the SSI sector.

Every state government or government of an union territory evolves its own industrial policy which shall be complementary to the policies of the Central Government. The state governments also design suitable incentives to encourage the growth of the SSI sector.

There is the policy of reservation of items for exclusive manufacture by small units. This policy has been made applicable only to those product lines which are techno-economically suitable for manufacture by SSIs. As on March 1, 2003, the number is reduced to 674.

There is also the Preferential Purchase Policy designed to help SSIs to market their produce better. The Director General of Supplies and Disposal (DGS&D) is responsible to buy stores from small units and supply them (the former) to different ministries.

Topping all these is the Small and Medium Enterprises Devlopment Bill 2005 (soon to became an Act). The Bill focuses on the growth contribution of small industry.

(ii) Economic Reforms and SSI Policy

Economic reforms initiated since 1991 facilitate the growth of the SSI sector. For example, foreign direct investment is allowed upto 24% in the equity of an SSI unit. This inflow of funds results in better financial strength, the upgradation of technology and promotion of exports.

(iii) Infrastructural Facilities

The Central as well as the State Governments have devised various schemes for the development of suitable infrastructure to encourage the growth of the SSI sector. The main schemes of the Central Government include the Industrial Estates Programme, Integrated Infrastructural Development Scheme and the Growth Centres Scheme.

(iv) Small Industry Clusters

A cluster is a sectoral and geographical concentration of enterprises. It may be a local agglomeration of enterprises, which produce and sell a range of related and complimentary products and services. Examples of clusters are found in items like sports goods (Meerut), glass products (Firozabad) and foundry (Agra).

SSIs operating in clusters derive their strength through a unique sense of togetherness. They also benefit from backward and forward economic linkages since such units have similar cultural and social backgrounds.

Clusters provide an active base for business and social interaction. The economies of agglomeration ensures a network of suppliers that provide raw materials, equipment, machinery, spares, repair and other services. Clusters encourage specialisation in manufacturing processes, inter-firm relationships in production, division of labour, and sharing of information.

The Government of India has evolved unique schemes for the development of clusters.

(v) Industrial Growth Centres

Growth centres were envisaged, way back in 1988, for the promotion of industries in backward areas. Once a growth centre has been identified, government provides to it the best of infrastructure. So far, 66 centres have been taken up and funds for them have been released by the Government of India to the respective State Governments.

(vi) Marketing

Marketing of products is a serious problem faced by small units. The marketing infrastructure, as available for SSIs, consists of a combination of agencies and incentives as shown below:

- National Small Industries Corporation (NSIC) to promote the marketing of SSI products to government departments under the preferential purchasing policy.
- 16 sub-contracting exchanges to identify items for ancillarisation from various public sector undertakings.
- Marketing Development Assistance (MDA) to reimburse expenses incurred by SSI delegations that visit foreign countries with a view to promote exports.
- Training programmes for export packaging.
- Organising exhibitions and international trade fairs.
- Export Promotion Councils.
- Quality certification by the Bureau of Indian Standards.

(vii) Pollution Control

The Water Act, 1974, the Air Act, 1981 and the Environment Protection Act, 1986 are the three legislations mainly concerned with ecology in our country. Provisions of these Acts do not apply to SSI units. However, certain highly polluting industries are required to obtain no objection certificates to establish units, even in the SSI sector.

Subsequently, the Government of India has notified 17 industries, wherein an SSI unit needs to obtain clearance from the Central Pollution Control Board.

For industries other than the 17, a mere acknowledgement by the State Pollution Control Board of the application form would serve as consent for an SSI Unit.

(viii) Women Entrepreneurs

The term 'Woman entrepreneur' signifies that section of the female population who venture out into industrial activities. With the passage of time, awareness has motivated women to start their own enterprises and contribute to the family income. According to the *Survey of Manufacturing Enterprises 1994-95*, there were more than two million women-owned proprietary units in our country. The activities covered by these units include food products, beverages, textiles, jute, wood, leather, chemicals, metals, transport equipment, printing, hosiery and several others.

In order to promote and develop units owned by women, a number of exclusive facilities have been provided. The Small Industries Development Organisation (SIDO) has been conducting development programmes for the women entrepreneurs.

In view of the changing outlook for the promotion of women enterpreneurs, the SSI Board in 1991 revised the definition of women entrepreneurs by omitting the condition of employing 50 per cent of women workers. This provided a boost to women entrepreneurs to take up businesses and avail of facilities as are applicable to all SSIs.

SIDBI too has been encouraging women entrepreneurs. The Bank has designed programmes, with a focus on women, *viz.*, Mahila Vikas Nidhi, Mahila Udyam Nidhi, Micro Credit Scheme and Women Entrepreneurship Development Programmes.

Special recognition has been given to encourage women entrepreneurs in Andhra Pradesh. The State has set up an exclusive industrial estate for women in Ranga Reddy District.

B. Institutional Support

Series of institutions have been set up by the Central Government, State Governments, industry associations and non-government organisations.

Central Government Network

Institutions set up by the Central Government include Small Scale Industries (SSI) Board, Small Industries Development Bank of India (SIDBI), Small Industries Development Organisation (SIDO), Small Industries Service Institutes (SISIs), Product-cum-Process Development Centres (PPDCs), Regional Testing Centres (RTCs), Central Footwear Training Institutes (CFTIs), National Small Industries Corporation Ltd. (NSIC), Technology Transfer Centre (TTC) and National Productivity Council (NPC).

Institutes established by respective state governments include District Industries Centres (DICs), State Financial Corporations (SFCs), Small Industrial Development/ Investment Corporations (SIDCs/SIICs), State Small Industries Development Corporations (SSIDCs) and Technical Consultancy Organisations (TCOs).

Institutional support network made available by industry associations include the Confederation of Indian Industry (CII), Federation of Indian Chamber of Commerce and Industry (FICCI), Consortium of Women Entrepreneurs of India (CWEI), Indian Council of Small Industries (ICSI) and the like.

Beside the Central and State Governments and industry associations, there have been set up NGOs in different states to provide financial assistance, information, training, marketing support and legal advice to SSIs.

(C) Credit Dispensation

Availability of timely and adequate financial assistance is vital for the growth of SSI units. A multi-agency credit structure to fill the financial needs of small scale units has evolved over the years (See Box 19.3). The structure available for credit dispensation is as follows:

Box 19.3

Milestones in Institutional Credit Facility

* Setting up of National Industrial Credit (Long Term Operations) Fund as per the RBI Act, 1934
* Passing of State Financial Corporations (SFCs) Act, 1951 and establishment of SFCs
* Establishment of NSIC, 1955
* Establishment of SIDCs/SIICs/SSIDCs, 1956
* Establishment of KVIC, 1956
* Establishment of IDBI, 1964
* Nationalisation of 14 commercial banks in 1969 and six others in 1980
* Passing of SIDBI Act, 1989 and establishment of SIDBI in 1990

Apex Level Institutions

- Small Industries Development Bank of India (SIDBI)

Banks

- Commercial Banks (CBs)
- Regional Rural Banks (RRBs)
- Co-operative Bank (State, Central and Primary)

State Level Institutions

- State Financial Corporations (SFCs)
- State Industrial Development Corporations (SIDCs)/State Industrial Investment Corporations (SIICs)
- State Small Industries Development Corporations (SSIDCs)

PROBLEMS AND REMEDIALS

Thus, the facilities available to small industrial owner/manager are varied. Right from the stage of inception, all aspects of the small unit, *viz.*, production, marketing, finance, training, export, modernisation, turning around in case of sickness and others are taken care of by the government. It looks as though you should only make up your mind to start a small unit, you will be automatically raised to the status of an industrialist, just as you are pushed to the other end of the road by a huge and thick crowd, provided you allow yourself to be jostled.

But it is ironic that there are not many takers, though several facilities are available. One is tempted to question the educated youths why they should not grab the facilities thrown open by the government and start small-scale units instead of lining up before the employment exchanges for jobs.

If there are not many takers, there are supporting reasons. In other words, problems of the SSI sector are many and serious as explained below.

1. The expansion of the SSI sector till now has been policy-driven. Raising the assets limit, increasing the reservation net and providing concessions and subsidies have contributed to the enormous increase in the number of small scale units, many of them turning sick subsequently. If some units have prospered, it is because of the dynamism of the owners-managers. Successful entrepreneurs do not know what a small unit means. Nor are they aware of the reservation net (It is estimated that only 22 per cent of units have benefited from reservation). It is time that the policy-driven measures are replaced by more forward-looking and entrepreneurial-oriented measures like : (a) favouring the growth-oriented and viable units and the units satisfying the socio-economic norms; (b) fostering more of the clustered units to reinforce backward and forward linkages; (c) relying exclusively on assistance related to raw materials, marketing, machinery, technical advice etc., sparingly and (d) offering timely and adequate assistance.

2. In today's environment, it is performance and not protection that is at the top of agenda of any SSI unit. In order to achieve performance, small scale units require efficient and willing human resources. Since small scale units cannot offer the kind of packages that large companies can, they lose personnel. Remedial measures are needed to check high employee turnover in small units.

3. Sickness is a perennial problem afflicting the SSI sector. Table 19.2 shows the extent of sickness among small scale units. (See Table 19.3 for different causes).

Table 19.2

Sickness in SSI Units

Year	*No.of Units*	*Amount outstanding (Rs.cr)*
1999	3,06,221	4,313.48
2000	3,04,235	4,608.43
2001	2,49,630	4,505.54
2002	1,77,336	4,818.95
2003	1,67,980	5,706.35

(**Source**: Reserve Bank of India, *Handbook of Statistics on the Indian Economy*, 2003-04)

Table 19.3

Closed Shop: Plagued with Problems

Reasons	*No.of units (in '000)*	*% of total*
Labour problems	7	2.3
Disputes among owners	11	3.7
Rawmaterials problem	17	5.6
Finance problem	105	34.9
Marketing problem	43	14.3
Natural	10	3.3
More than one reason	50	16.6
Others	58	19.3
	301	100.0

(**Source**: Second Census of Small Industries Report).

The causes for sickness are several as Table 19.3 shows. Whatever the causes, sickness needs to be tackled with urgency.

4. Finance has been a bugbear. Commercial banks have been fulfilling only partially their commitment to the SSI sector. Even while assessing small units, banks play safe by using conventional, objective yardsticks without appreciating the owner-entrepreneur-his enthusiasm, dynamism and innovative ability.

State Finance Corporations (SFCs), which lend long-term funds, have also become strict about lending particularly since many are deeply troubled by their own profitability concerns.

Nor small units can access capital market because of their size and costs involved. The Over the Counter Exchange of India (OTCEI), promoted as the small company's option, still excludes most of the small sector.

Lending agencies need relax their evaluation methods and be generous in extending credit to the worthy units (See Box 19.4 for expert committee recommendations).

5. The other problem is marketing. Small firms often do not have the resources for serious marketing efforts. A market development fund may be set up by the government to solve the marketing problem. Alternatively, the government could itself market products of small units under a common brand name. Government need

Box 19.4

Naik's Committee Recommendations on SSI financing

1. Banks should give preference to village industries, tiny industries and other small scale units in that order, while meeting the credit requirement of the small scale sector.
2. Henceforth, for the credit requirement of village, tiny industries and other SSI units having aggregate fund-based working capital credit limits upto Rs.50 lakhs from the banking system, the norms for inventory and receivables as also the first method of lending will not apply. Instead, such units may be provided working capital limits computed on the basis of a minimum of 20% of their projected annual turnover for new as well as existing units.
3. The banks should step up the credit flow to meet the legitimate requirements of the SSI sector in full during the 8th Five Year Plan. For this purpose, the banks should draw up Annual Credit Budget for the SSI sector on a bottom-up basis.
4. An effective grievance redressal machinery within each bank which can be approached by the SSI in case of difficulties has to be set up.
5. Procedure and time-frame laid down for the disposal of loan applications received from SSI borrowers should be strictly enforced. Whenever an application for fresh limits/enhancement of existing limits was not considered favourably by the sanctioning official or where the limits applied for are proposed to be curtailed, the same should be referred to the next higher authority with all relevant particulars, to ensure scrutiny by an independent authority and the latter should confirm the decision of the sanctioning official or otherwise dispose off the same, within a time-bound manner.
6. Banks should adopt the single window scheme of SIDBI for meeting the credit requirements of small units.
7. Banks should take immediate steps to ensure full adherence in letter and spirit by all their branches and controlling offices to the RBI guidelines in the matter of financing the working capital requirements of small scale units, rehabilitation of sick small scale units, coordination between commercial banks and State Financial Corporations (SFCs) in meeting the credit requirements of these units and other related aspects.
8. Training to the bank staff to develop right aptitude, skills and orientation in regard to finance to the small scale sector. Training input may also consist of awareness of the importance of the small scale sector from the point of view of creation of additional employment opportunities, exports, etc. and a smooth loan recovery in respect of healthy small scale units. Banks may also consider awarding trophies to branches for outstanding performance in financing SSI units as a mark of public recognition.
9. Banks should desist insistence on compulsory deposit mobilisation as a **'quid pro quo'** for the sanction of credit facilities to the units.
10. State Financial Corporations (SFCs) to act as the principal financing agency for SSIs in 40 out of the 85 districts, each having more than 2000 registered SSI units, to take care of both term loan and working capital requirements of all new SSI units which can be financed under the Single Window Scheme (SWS) of SIDBI. Commercial banks should act as the principal financing agency under the SWS in the remaining 45 districts as well as in the rest of the country. It has also been decided that in order to effectively discharge their responsibility, commercial banks should open specialised branches to cater to the SSI clientele in the 45 districts where they will be acting as the principal financing agency as also in the 119 districts, each having between 1000 and 2000 registered SSI units.

not shy away from intervention although the present trend is non-intervention in economic activities.

6. Technology modernisation has become a problem particularly because of the asset limit being fixed at Rs.60 lakh for definitional purpose. To circumvent this problem, several entrepreneurs set up new units with modern technology leaving the old ones to languish.

In order to meet a long-standing demand, the government is now considering twin packages for the reserved and non-reserved sectors. First, the investment limit is likely to be raised to Rs.1.5 crore for units falling under the reserved net and Rs.5 crore for those falling outside. The logic is that since excise concessions stop after a unit reaches the Rs.two crore turnover limit, the revenue loss will not be high. Units will be able to start with modern technology, or upgrade the existing one. Small units might also choose to consolidate multiple units.[7]

7. There are endless hassles from the government and other agencies, who are otherwise meant for encouraging the development of the small scale sector. There are 30 to 40 inspectors from various departments visiting an average unit. The entrepreneurs are also confronted with cumbersome procedures. To the credit of the governments, both Central as well as State, are trying to minimise inspectors and reduce procedures (See box 19.6).

8. There are a plethora of agencies (see Fig.19.1) offering advice, training, expertise and other support systems for small units. Unfortunately, most small units are unaware of what is available to them. Further, the agencies are content with providing existing infrastructure to the small units. The bodies must become more aggressive, mobilise resources and assist the growth of the small units.

9. Economic reforms will affect the fortunes of small units badly. This will be particularly true of the units which are engaged in the production of consumer goods without the benefit of any brand advantage. The new product launches of giant corporations will sooner or later encroach severely on the small segments of consumer markets which have hitherto been the sheltered domain of the SSI units.

10. The organisational base of many of the SSI units has remained weak in terms of what the emerging competitive conditions will warrant. The recent transformation of the Indian capital market has not benefited the SSI sector which continues to operate as proprietory concerns. If they are to access capital markets, small units must restructure their ownership forms into corporate outfits. This also implies that the SSI units must grow in size to become corporate entities.

11. Much of the current crisis faced by the SSI sector is the lack of clarity with regard to the nature of an SSI unit. There has been a proliferation of definitions of SSIs (See box 19.1) and consequently, many small entrepreneurs are not sure whether they fit into the government's definitions.

Ancillary units (with the stipulation that they should not be subsidiaries of other industrial units) hardly number 8,000 out of the nearly 24 lakh SSI units. Infact, it is this sub-sector which holds much promise for the emergence of sub-contracting as a major strategy for competitive positioning of our industry. Unfortunately, these units are likely to be lumped with other loosely-defined units for the purpose of benefits.[8] This problem needs to be tackled immediately.