APPENDIX

Table: Summarised Financial Accounts finalized by Gujarat Fisheries Development Corporation

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss(-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1996-97	1999-00	-86.42	193.77	-332 45	106 96	-63.45	-	Working	0
1998-99	2002-03	-104.91	193 77	-400 87	87.38	-93 59	-	2813 01	1

(Source: CAG Reports)

Table: Summarised Financial Accounts finalized by Gujarat Tractor Corporation Limited

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss(-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1997-98	1998-99	37.37	1530.20	-867.39	2027.09	208.91	10.31	-	-

(Source e: CAG Reports)

Table: Summarised Financial Accounts finalized by Gujarat Communications and Electronics Limited

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss (-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1993-94	Under Process	-171.77	29.00	-281.34	-77.46	-140.47	5.00	Working	-
2000-01	2002-03	-7.86	29.00	-567.14	-365.50	-7.86	-	-	-
2002-03	Under Process	-1.36	29.00	-570.11	-367.06	-1.36	-	-	-
2003-04	2005-06	-25.25	29.00	-595.37	-392.07	-25.25	-	-	-

(Source : CAG Reports)

Table: Summarised Financial Accounts finalized by Gujarat Fintex Limited

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss (-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1994-95	1995-96	-0.08	**	-0.17	-0.01	-0.08	4.00	Under Liquidation	

(Source: CAG Reports)

Table: Summarised Financial Accounts finalized by Gujarat Siltex Limited

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss (-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1994-95	1995-96	-0.08	** Rs. 200 only	-0.17	-0.01	-0.08	4.00	Under Liquidation	

(Source: CAG Reports)

Table: Summarised Financial Accounts finalized by Gujarat Mineral Development Corporation

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss(-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1998-99	1999-00	14139.15	3180.00	2141.39	34581.99	14161.36	40.95	Working	
2001-02	2002-03	10978.87	3180.00	51730.30	64748.37	11143.06	17.21	25256.58	2781
2002-03	2003-04	13052.92	3180.00	58596.00	106175.05	13166.85	12.40	29275.01	2766
2003-04	2004-05	12046.25	3180.00	65077.16	137939.25	12118.61	8.79	27295.60	2705
2004-05	2005-06	16809.59	3180.00	2989.79	180521.33	16829.11	9.32	36925.50	2771

(Source: CAG Reports)

Table: Summarised Financial Accounts finalized by Gujarat State Construction Corporation Limited.

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss(-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1997-98	1998-99	-257.88	500.00	-1770.86	1319.84	-175.76	-	Working	
2001-02	2002-03	-150.56	500.00	-2714.13	731.47	-64.86	-	3723.30	35
2002-03	Under Process	-122.79	500.00	-2917.44	628.17	-44.05	-	3694.88	29
2003-04	2004-05	-167.13	500.00	-3194.97	378.65	-93.83	-	3730.25	11

(Source: CAG Reports)

Table: Summarised Financial Accounts finalized by Gujarat Film Development Corporation Limited

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss (-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1996-97	1999-00	-6.18	100.01	-16.82	83.19	-6.18	-	Working	-
2000-01	2002-03	0.34	100.00	-39.29	60.70	0.34	0.56	-	-
2001-02	2002-03	0.15	100.00	-39.07	60.93	0.15	0.25	-	-
2002-03	2003-04	4.12	100.00	-34.95	65.05	4 12	6.33	-	-
2004-05	2005-06	-	-	-	-	-	-	-	-

(Source: CAG Reports)

Table: Summarised Financial Accounts finalized by Gujarat National Highways Limited

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss (-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1997-98	1998-99	9.59	1000.00	6.23	1006.96	9.59	0.95	Pre-Operative	-
1998-99	2000-01	100.17	1600.00	70.57	1671.95	100.17	5.99	-	-
2001-02	2004-05	132.85	1600.00	344.21	1947.55	132.85	6.82	-	-

(Source: CAG Reports)

Table: Summarised Financial Accounts finalized by Gujarat State Financial Corporation

Rs. in Crore

Period of Accounts	Year in which accounts finalised	Net profit (+) / Loss (-)	Paid up capital	Accumulated Profit (+) / Loss (-)	Capital employed	Total return on capital employed	Percentage of return on capital employed	Turn-over	No. of emplo-yees
1998-99	Under Process	1620.20	9342.45	1414.88	128738.45	19411.92	15.08	Working	-
2001-02	- do -	-12685.16	9400.76	-23688.61	138483.48	6973.60	5.04	9537.44	703
2002-03	- do -	-20159.67	8911.40	-52751.29	139912.00	-5493.21	-	3695.44	670
2003-04	2004-05	-15847.48	8911.40	-73457.88	140757.00	-3762.30	-	4235.20	491
2004-05	2005-06	-13821.88	8911.40	-87248.35	139851.03	-2483.34	-	6224.56	457

(Source: CAG Reports)

Chart: PAT & Capital Employed of Gujarat Narmada Valley Fertilizer Co. Ltd.

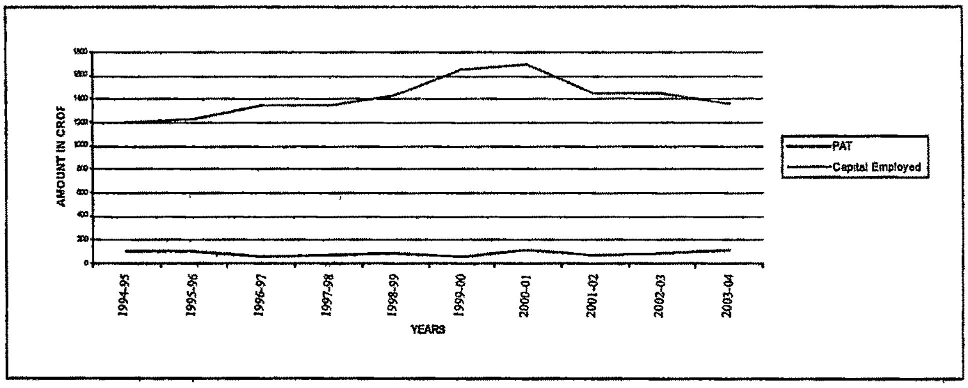


Chart: PAT & Capital Employed of Gujarat State Fertilizer & Chemicals Limited

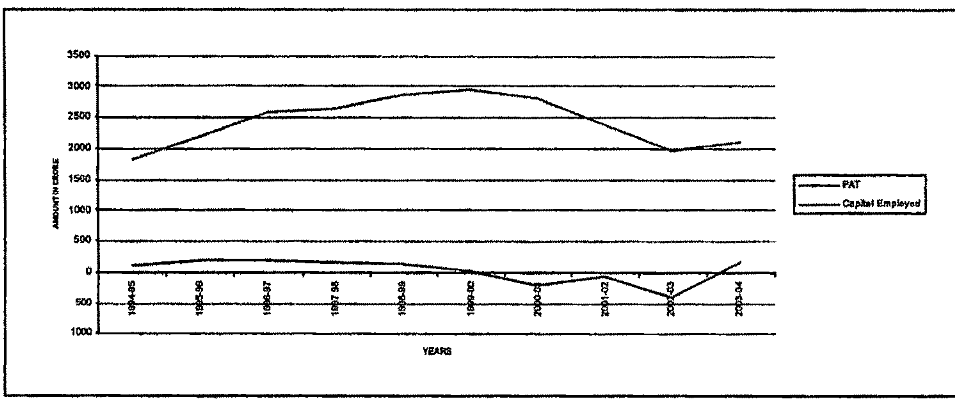


Chart: PAT & Capital Employed of Gujarat State Financial Corporation

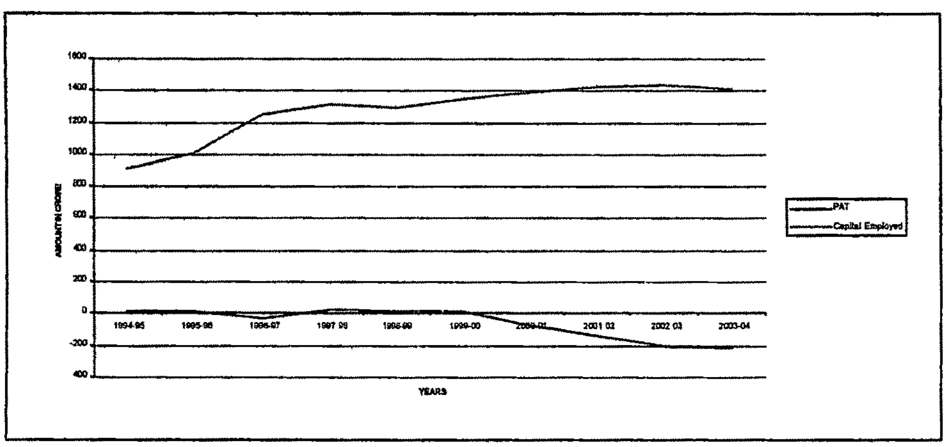


Chart: PAT & Capital Employed of Gujarat Alkalies and Chemicals Ltd.

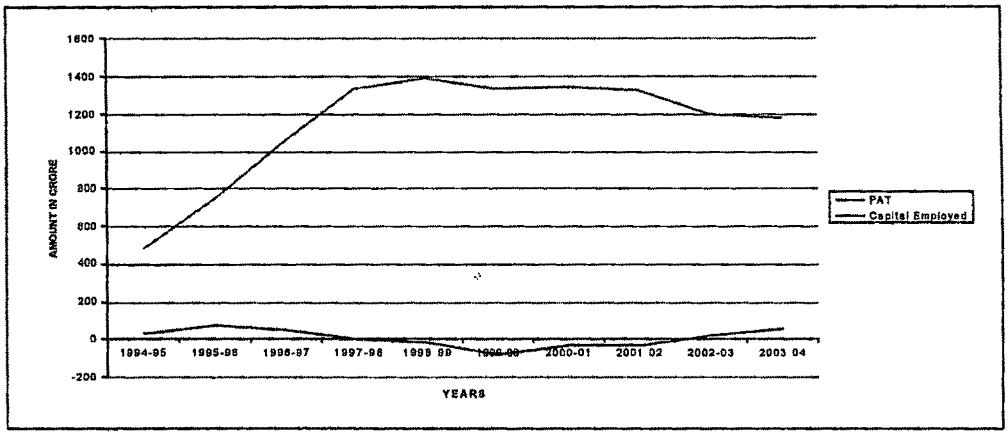
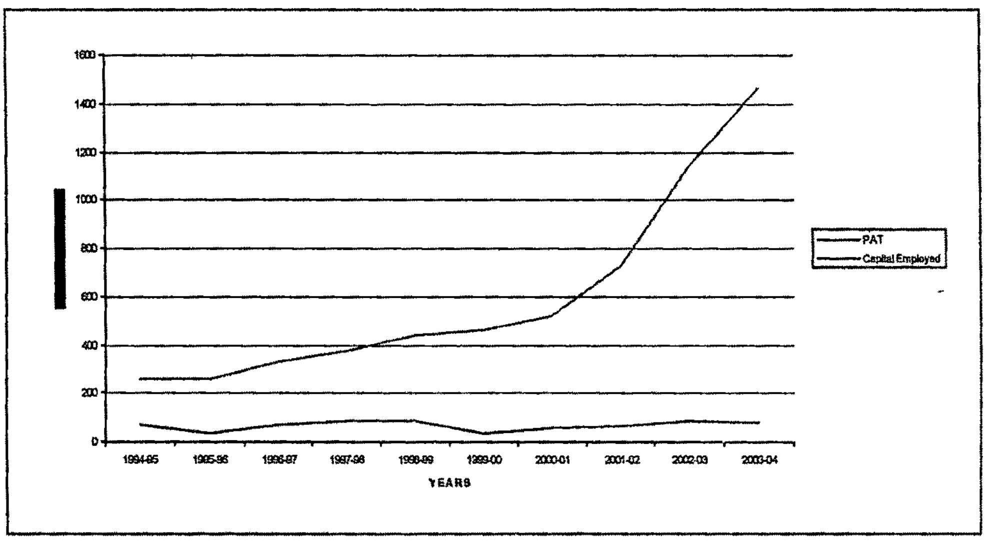


Chart: PAT & Capital Employed of Gujarat Minerals Development Corporation



- **Loss due to deficiency in Memorandum of Understanding**

As per the Memorandum of Understanding (MoU) entered (May 1989) with Gujarat Industries Power Company Limited (GIPCL), the Company was to draw 24.42 crore Kilo-Watt House (KWH) energy annually from GIPCL. The Company was also receiving energy supply form GEB with the contract demand of 31,000 Kilo-Volt Ampere (KVA) since July 1999. During 2000-01 and 2001-02, against the Company's entitlement of 24.42 crore KWH energy annually, GIPCL supplied only 21.22 crore and 21.10 crore KWH respectively. Consequently, the shortage in power supply was met from GEB at an extra cost of Rs.12.87 crore. The Company recovered penalty of Rs.1.09 crore from GIPCL for the short supplied energy during 2000-02, as per the terms of the MoU.

Audit observed that penalty clause for short supply of energy was defective as the MoU entered in May 1989 provided penalty at the rate of Rs.0.10/ KWH on the short supplied quantity. Although the average tariff per KWH of energy charged by both GIPCL and GEB had increased by 61 and 73 percent respectively over a period of 12 years since 1990-91, yet proportionate increase in the penalty rate was not allowed in the absence of any provision made in this regard in the MoU. Moreover, neither the Company had made any effort to review and revised the MoU for safeguarding its interest nor had taken any legal action against GIPCL for non-performance of its obligation under the MoU (May 2004).

The management / Government stated (March / April / November 2004) that the Company entered into an MoU to get assured quantity of the energy at a cheaper cost from GIPCL. Accordingly, the energy tariff of GIPCL always remained cheaper compared to GEB so far. The clause for charging the penalty of Rs.0.10/KWH was inserted in such a way so that its commitment for minimum of 70 percent PLF could be achieved.

The reply was not tenable, since as per the MoU, in the event of the Company's failure to purchase the committed units of energy from GIPCL, the Company had to pay minimum applicable demand charges of Rs.0.57/KWH during 2000-02. However, the penalty of Rs.0.10/KWH remained the same since May 1989. Thus, the Company incurred extra expenditure of Rs.11.78 (Rs.12 87 crore – Rs.1.09) crore in purchase of energy due to defective penalty clause in MoU. [1]

- A series of failure of the Gujarat State Financial Corporation resulted in non-recovery of dues of Rs.185.49 lakh after considering security deposit of Rs.29.60 lakh. The matter was reported to Government / Corporation in July 1999. The Corporation replied (July 1999) which was also endorsed (October 1999) by Government, indicated that, at that relevant time necessary risk assessment tools were not present in the financial system. [2]

- Sanction of loan when the various risks involved in the project were known to the Corporation, had resulted in on-recovery of outstanding amount of Rs.0.67 crore.[3]

- Audit analysis revealed that in 40 cases having outstanding amount of Rs.13.93 crore, the last date of repayment was not yet over. However, the Corporation settled these cases for Rs.7.72 crore and sustained a loss of Rs.6.21 crore. In 54 cases having outstanding amount of Rs.15.67 crore though the units were working, the Corporation considered OTS proposals and settled the cases for Rs.7.75 crore and thereby sustained a loss of Rs.7.92 crore. Thus, the exercise of OTS in respect of these 94 cases was not in accordance with the eligibility criteria and the Corporation sustained loss-aggregating Rs.14.13 crore. As per the guidelines issued by the Corporation in December 1994, the settlement amount to be approved under OTS should never be less than the principal amount of loan outstanding. However, in 71 cases, the amount of principal outstanding was Rs.12.18 crore, whereas, the Corporation allowed OTS at Rs.9.07 crore sacrificing the principal amount to the extent of Rs.311 crore. The Corporation settled 15 cases for Rs.1.98 crore against the outstanding amount of Rs.3 70 crore resulting in loss of Rs.1.72 crore even though the valuation of assets was Rs.10.11 crore. One Time Settlement scheme.[4]

- The Corporation was established to provide financial assistance to small and medium industrial units to accelerate industrial growth in the State.

[1] CAG Report March 2004, page 63
[2] CAG March 1999, Page 111,
[3] CAG Report March 2002 Page 63,
[4] CAG March 2002, Page 72

Management's failure to follow the laid down procedure for sanction and disbursement of loans, lack of inspections after disbursement, poor monitoring of the recovery and imprudent settlement of cases under One Time Settlement scheme had put the Corporation's funds at stake. This had further resulted in increased borrowings and interest burden thereby adversely affecting the financial position of the Corporation.[5]

❖ Imprudent financial assistance: It was observed in audit that the Corporation at first did not agree to sanction any assistance under the scheme to the units in November 1997, as unit 'H' was very much irregular in repayment of term loan earlier availed of from the Corporation. Unit 'H' and 'P' belonged to same promoter and there were no manufacturing activities in the units. Moreover, the units would not be having adequate cash accruals to pay hire purchase instalments. Although these facts were in the knowledge of the Corporation at the time of sanctioning assistance in February 1998 there was no justification on records for subsequent sanction of the assistance to the units. Besides, the Corporation failed to verify antecedent and bonafides of the supplier before making payments for purchasing the machineries.[6]

❖ The Corporation stated (June 2002) that the unit 'H' was irregular in repayment of the previous loan, however it had finally repaid (November 1995) the loan after rescheduling. Hence, the assistance were sanctioned to the units. The reply of the Corporation was not tenable as the poor track record of repayment of previous loan was one of the reasons for non-sanctioning of the assistance earlier in November 1997. Thus, the fact remains that the sanctioning of financial assistance to the units having poor track record in repayment of previous loan and inadequate cash accruals and non verification of antecedent and bonafides of supplier of machineries before placing purchase orders are indicative of unprofessional approach of the Corporation in disbursing credit facility.[7]

❖ Loans sanctioned were personally guaranteed by promoters / directors for repayment within due dates. Out of 20093 loan accounts which included 12455

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[5] CAG March 2002, Page 73
[6] CAG March 2002, Page no 95
[7] CAG March 2002, Page no. 95

defaulters, the Corporation had issued notices for invoking the personal guarantee only in 30 cases of the loan in default without making any recovery.[8]

- Firm 'E' was registered as a sick unit with BIFR in May 2001 and the physical possession of firm 'A' was taken over by the Corporation in January 2001 under Section 29 of State Financial Corporation Act, 1951. Total dues of Rs.10 47 crore from firm 'E' (Principal: Rs.1.34 crore, interest and other charges: Rs.3.87crore, total : Rs.5.21 crore) and from firm 'A' (principal : Rs.1.27 crore, interest and other charges: Rs.3.99 crore, total Rs.5.26 crore) were outstanding as on 31 March 2004.[9]

- During the year 2003-04, the State Government disinvested Gujarat State Export Corporation Limited (GSECL). In October 1992, the Government of Gujarat had constituted State Finance Commission to examine the potential for privatisation and disinvestment of SOEs of the State Government. The recommendations of the Commission including setting up of a High Level Committee for formulating broad guidelines and constitution of a Cabinet Sub-Committee (Constituted in March 1996) were reported vide 1.2.2 of Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial) Government of Gujarat.[10]

- GIIC - Assistance to backward area is no more from the year 1998-99, the net profit of the corporation suddenly shows loss of Rs. 20 crore in the year 1998-99 compare to Rs.40 crore profit for the year 1997-98. Since 1998-99 the loss is continuously increasing and for the year 2001-02 it reached to Rs.70 crore, since then the company has stopped showing the financial results.

- The company obtained a credit of Rs.2081.51 lakh from M/s. Takraft Export/Import GMBH Berlin (Germany) which was approximately 85 percent of cost of plant and machinery As per agreement made in November 1984 / December 1985, the loan was repayable in 16 half yearly instalments with interest at the rate of 4.5 percent per annum commencing from March 1990.

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[8] CAG report March 95, page 56
[9] CAG report March 94, page 84
[10] CAG Report March 2004, page 11

With unification of two Germanies, the East German supplier who was to wind up his operation made a proposal (December 1993) for discounting of the outstanding dues with the Company and for the premature recovery of dues keeping into consideration the then prevailing interest rate in financial market of India for allowing discount on dues. As observed in audit, an amount of Rs.910.66 lakh with Rs.81.96 lakh interest was payable from September 1994 to September 1997 in seven instalments. In July 1994, the Company executed an agreement with the supplied and paid Rs.719.42 lakh as full and final settlement against the principal amount outstanding and thereby secured Rs.191.24 lakh discount calculated at the rate of 10.50 percent per annum being the difference of interest rate prevailing (i.e. 15 percent) and interest to be charged by the supplier (i.e. 4.5 percent).[11]

❖ Audit analysis however revealed that the borrowing rate under cash credit arrangement with bank then prevalent was 17.25 percent per annum whereas the Company agreed to consider the rate of 15 percent per annum as a result of which it could get discount at the rate of 10.5 percent per annum instead of 12.75 percent per annum (17.25 percent minus 4.50 percent). Thus, the Company lost Rs.40.98 lakh by way of lesser discount by ignoring prevalent bank rate of 17.25 percent. Though the Company agreed to premature repayment of loan, it did not bargain with advantage particularly knowing that M/s. Takraf had their compulsion due to their imminent winding up.[12]

❖ The GMDC decided (March 1999) to restart bauxite calcinations project at Gadhsisa which was not in operation since June 1996 due to its non-viability. The decision was taken based on the Company's assessment that there would not be any loss in running the plant if the cost of depreciation was ignored while matching other cost components of production of calcined bauxite against its sales realization. Accordingly, the Company worked out (August 1999) the cost of production (excluding depreciation) of calcined bauxite as Rs.2,250 per metric tone (PMT). The Company under an agreement with M/s. Meena Agency,

[11] CAG report March 1999, Page no. 87
[12] CAG March 1997, Page no. 87

Jamnagar (the firm) decided (September 1999) to sell the calcined bauxite at a rate of Rs.2,275 PMT for a period of three years upto September 2002.

Audit analysis of records revealed that the Company prepared cost estimate by considering plant operation at 75 percent of installed capacity. However, the actual capacity utilization was 42 to 69 percent of the installed capacity. The Company failed to estimate the cost of production PMT in case actual production fell below the assumed capacity utilization. Moreover, against the estimated cost of Rs.2,250 PMT, the actual cost of production (excluding depreciation) of calcined bauxite ranged between Rs.2,801 and Rs.3,907 PMT during September 1999 to March 2002. Besides, price escalation clause incorporated in the agreement was deficient as some of the main items of cost such as, power, wages and salaries were not covered under the clause.

The Company stated (July 2002) that due to inadequate availability of high-grade bauxite in the area under mining operation of the Company, the actual capacity utilization of the plant fell below the estimation made in this regard. Besides, the factors such as, heavy initial maintenance cost of the plant, increase in the salaries and wages and large absenteeism of labour were the causes for high PMT cost against the estimated PMT cost of calcined bauxite. It was also stated that the Company would take due care in future for inclusion of the items which were left uncovered under the price escalation clause of the agreement with the firm.

Thus, the fact remains that incorrect estimation of the cost of production of calcined bauxite as well as the failure to cover some of the items of input under the price escalation claque of the agreement had entailed an excess cost to the Company ranging from Rs.211 to Rs.1,632 PMT (after considering price escalation recovered) over the sales price. Consequently, the Company suffered a loss of revenue of Rs.3.52 crore on 69,693 MTs of calcined bauxite sold to the firm at the rate of rs.2,275 PMT between September 1999 to March 2002.[13]

- SOE has retrenched a total 1720 employees during the period of five years. Reduction in number of employee by 80 percent from 2002-03 to 2004-05 and still turnover climbed up by 48 percent from Rs.45217 lakh to Rs.66910 lakh.

[13] CAG March 2002, Page no 76

- At present Government of Gujarat has nearly 40 State Owned Enterprises working, out of which only 12 to 17 SOEs are finalizing their accounts between the years 2002 and 2005. 24 to 28 working state owned enterprises have failed to finalise their accounts during the said period. If the accounts are not finalized then evaluation of the performance is impossible.

- The creation and development of these financial problems in China were closely associated with an evolving triangular relationship between public finance, the banking sector and the State-owned enterprises during the reform period. In the pre-reform period, fund allocation was almost exclusively handled by the State plans. The People's Bank of China, a subordinate body of the Department of Finance at that time, was only auxiliary in providing supplementary working capital to the State-owned enterprises. Reforms were introduced and attempts were made to distinguish budget and banking financing of investment in a bid to improve the efficiency of capital utilisation (Qian 1994). While the policy-oriented items would continue to be covered by government funding, other capital requirements, including that by the State-owned enterprises, would be met through the banking sector on a commercial basis.[14]

- During the ten short years of Hungarian privatisation, the vast majority of State-owned entrepreneurial assets have been placed under private ownership. The State has effectively withdrawn from the entrepreneurial sector. It has been replaced by agile, efficient, and service oriented private enterprise. Privatisation is one of Hungary's economic successes. It is a fundamental element in the process leading to full Hungarian membership of the European Union.[15]

- While privatisation remains the best reform policy in my view, one cannot expect the government to privatise all PEs in the near future. Therefore, the government should enhance the commercialisation policies not only through financial incentives to employees, but also through more PE accountability. Management contracts have proved to be useful in a number of countries (ECA, 1994). Therefore, to ensure achievement of budgeted transfer of profit surplus, a contract

[14] 1998 National Centre for Development, China Update Conference Papers, submitted on 03.08 1998 by Yiping Huang, The Australian National University
[15] Privatisation in Hungary 1990-2000, Dr. Kovacs Arpad

should be agreed upon between the PE management and the State Ministry of Public Enterprises in Sudan.

Finally, the government should expose PEs to strict financial discipline. In this respect PEs should be allowed greater managerial autonomy to fix their prices and tariffs irrespective of the social and political consequences, should not be given indirect subsidies in any form and should not be given any preferential treatment when it comes to access to loans from the local commercial banks and foreign aid.[16]

- The principle goals of voucher privatization in Bulgaria are acceleration of privatization through attraction of local participants who have limited finance and couldn't afford taking part in cash privatization; broadening the investment culture of many Bulgarian citizens who have the opportunity to take investment decision defining the particular size of their profit and thus to run the risk to open further with shares acquired by selling them through the Stock Exchange at a fare market price.[17]

- There was always an ideology of State intervention (whether in the form of statism, nationlism, or developmentism), in which the point of reference was the concept of the nation. This was why, on the ideological plane, these three "isms" often appeared in an intermingled form, as interchangeable concepts. It is historically inexact, however, to state, as is now frequently stated, that the business activities of the State emerged in Brazil almost accidentally and without any link to any defined political project.[18]

- Form of privatisation vary in the extent to which they move ownership, finance and accountability out of the public sector. Under partial privatisation, the government may continue to finance but not to operate services or it may continue to own but not manage assets / enterprises; partial privatisation diminishes government control and accountability without eliminating them. Where

[16] The Impact of Public Enterprise Reforms on the State Budget in Sudan, by El Khider Ali Musa in Tangier, Morocco - 2002 of African Training and Research Centre in Administration for Development

[17] A Review of Bulgarian Privatisation by Mr Gueorgui Prohaski – OECD Headquarters, 23-24 November 1998

[18] The Brazilian Privatization Experience What's next? By Armando Castelar Pinheiro presented paper at the Second Annual Global Development Conference, Tokyo, December 10-13, 2000. Rio de Janeiro, November 2000

government pays for privately produced services, they must continue to collect taxes. Privatization in the partial sense diminishes the operational but not the fiscal or functional sphere of government action. Government may divert claims and complaints to private organizations, by putting the delivery of services into the hands of a third party, but they also risk seeing these third parties become powerful claimants themselves. Whether this sort of partial privatisation achieves any reduction in government spending or deficits must necessarily be a practical, empirical question.[19]

- Meanwhile it has been documented that whenever user fees are introduced in the provision of social services, the utilizations by the rich increases, while utilization by the poor decreases. This is compounded by the fact there is a lot of double talk and hypocrisy in the whole business of privatization. It is viewed that the privatization programme will reinforce male dominance and gender inequity in ownership of property in Nigeria.

  Otive Igbuzor reiterates that the environment of Nigeria as presently constituted will not lead towards successful privatization of State owned enterprises because, 'Most privatization success stories come from high income and middle income countries. Privatization is easier to launch and more likely to produce positive results when the company operates in a competitive market and when the country has a market friendly policy environment and a good capacity to regulate. The poorer the country, the longer the odds against privatization producing its anticipated benefits, and the more difficult the process of preparing the terrain for sale of State owned enterprises.[20]

- **Performance Measurement:** Performance measures can provide information on three areas: financial performance, public policy, and internal process. Financial indicators begin with net income, and the percentage of extra budgetary revenue. Public policy indicators are specific to each corporation. Internal process indicators include measures such as administrative expenses as a percentage of total costs and marketing costs as a percentage of revenue.

[19] Preliminary Report (Literature Review and Power Mapping) on the Privatization Programme By Eze Omyekpere and Ngene Chukwuemeka published in Socio Economic Rights Initiative (SERI) August 2003
[20] Privatization of State owned enterprises in Nigeria, Paper presented by Otive Igbuzor, web at igbuzor@cddnig.org

With respect to performance measurement, it is easier to prescribe than to perform. It is difficult to set meaningful targets in corporate plans and to compare them to actual results. It is also difficult to collect performance information on the outcomes of corporate programs and initiatives. Financial information does not provide an indication of productivity or quality. Information is easy to provide on what was done - difficult to provide on what was achieved. The Canadian Auditor General, recognizing these difficulties, suggests bench marking - provide comparative information from similar entities or activities. The Ministry of Finance should assist State enterprises by providing guidance on performance measurement as well as on the contents of corporate plans and annual reports.

Performance Evaluation: The annual report should provide a comparison and evaluation of results achieved in each major business segment in relation to the objectives and performance targets adopted by the corporation for the year under review as set out in the corporate plan summary provided to Parliament.

A meaningful evaluation of performance in annual reports, linked to planned objectives and performance targets, is important to the functioning of the accountability regime for crown corporations envisaged by Parliament.

In introducing the legislation providing for the new regime in Parliament in 1984, the President of the Treasury Board stressed that one of its key goals was to ensure Parliament has access to a systematic flow of timely, pertinent information to allow it to judge whether Crown corporations have met their stated objectives for each planning period.

The review of objectives and performance targets should include any related material necessary for a full understanding of performance, such as an evaluation of the strategic adopted by the corporation for the achievement of objectives.[21]

❖ From the financial performance outlined, it is evident which SOEs are star performers and which ones are lagging behind. The beauty of this report is that it puts the SOE sector on the radar screen of everybody to begin to exercise the required oversight role on these assets of the State.

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[21] Expenditure Management: Lessons learned the Hard Way - prepared by the Canadian Team for the Russian Public Expenditure Project - 2002

This report also points out very sharply the challenges and constraints faced by the SOE sector. This requires us to internalize the report and look closely at how we restructure the SOEs to be financial sound and put them in a position to operate on a going concern basis without any explicit recourse to the fiscus.

The Department as the shareholder, have a direct interest in that the SOEs contribute to Government objectives and have a long-term horizon on investments in key infrastructure of the economy and therefore the focus is not merely placed on their short-term accounting profit.

The Department firmly believes that the overall performance of the main SOEs is heading in the right direction and that the strategies implemented will certainly take us away from the "parastatal culture".[22]

❖ In the Indian conditions the costs should not ordinarily be as high as these are at present. In fact these should be lower than the developed countries for comparable products. With abundance of labour, the cost of labour as also of supervisory overheads (wages and salaries) are small compared to those in the developed countries. Large many material costs are also lower. As such both the capital cost as also operating cost should be lower than in the developed countries. It is generally accepted that these state owned enterprises after initial capital costs borne by the government, should earn enough surpluses to finance their own expansion. But Indian state owned enterprises till recently had not much to their credit in this respect. According to a study on "Capital market in Planned Ecnomy", the National Council of Applied Econ0omic Research found that the state owned enterprises provided internal finance for capital formation to the tune of only 28 percent. As against these in the private corporate sector it was as high as 60 percent. According to the annual reports of the working of industrial and commercial state owned enterprises of the Central Government, there has been some improvement in the situation, although the performance is far below that of the private sector.[23]

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[22] An Analysis of the Financial Performance of State Owned Enterprises · Public Enterprises, Republic of South Africa, April 2005

[23] HM Patel "Why Public Sector Projects are not Profitable") (Indian Economy by AN Agrawal

- There were initial heavy costs in setting up of new and big projects in the public sector. At the beginning stage of the construction of these units, India did not possess very high level of technological competence. As a result, the cost of planning and implementing project became high. Thus in respect of projects started earlier there is this element of heavy capital investment. However, with the passage of time the situation has improved considerably in this sphere.[24]

- Public utility approach treats the state owned enterprises like public utilities in the traditional sense, resulting in no-profit no-loss situation. Rate of return approach emphasizes the need for adequate return on capital increased.[25]

- The Industrial Policy of July 1991, as extended in December 1992 and as incorporated in the Eighth and Ninth Plans, contained a number of features directed at ensuring health of the PSUs.

  1. Not further nationalisation of existing units; budgetary support to sick units to be reduced.

  2. Reduction in the number of industries reserved for public sector. An element of competition to be introduced in the remaining reserved areas.

  The new policy permitted an increasing number of PSUs to raise finance from the market. The policy also allowed privatisation of some of their operations / services.[26]

[24] Indian Economy by AN Agrawal page 409
[25] Indian Economy by AN Agrawal, page 411
[26] Public Finance by H L Bhatia, 24th Edition 2003, page 591,