CHAPTER - II

LITERATURE REVIEW

SYNOPSIS

CHAPTER – II

2.0 INTRODUCTION:

सर्वे सुखिनः संतु सर्वे संतु निरामया ।
सर्वे भद्राणि पश्यंतु मां कश्चित् दुखमाप्नुयात् ॥

Everybody should be happy and nobody should be unhappy across the globe that is the thinking of an Indian. A globe is a family, represented by the phrase "वसुधैव कुटुंबकम् , it is a family of Vasudev. The entire world is one family and they all are brothers and sisters said Swami Vivekanand. This fact now has been realised by the people at large across the globe and the economists in particular.

If entire globe is a family, then there must be a free movement of people, goods and services. But economists say there should be free movement of goods and services. To regulate this phenomenon, the "General Agreement on Trade & Tariff" (GATT) was formed by United Nations Organization (UNO). GATT was monitoring particularly the commerce and trade across the globe; its recommendations were not obligatory but recommendatory. GATT asked to reduce the custom duties on goods for crossing the frontiers. Every member Nation did not follow those instructions. Ultimately GATT was dissolved and World Trade Organization (WTO) was formed after the Uruguay round of talks. It was called as Uruguay round, which lasted for nearly 10 years. Ultimately all the member countries of WTO agreed to follow the rules and regulations made by WTO, compulsorily. This was the time when the process of liberalization started across the world and within the country as well. This process of de-regulation, liberalization promoted the process to privatize State Owned Enterprises.

Doors were opened for Multinational Companies across the globe which gave rise to the competition between the companies within the country and the companies of multinational dias. Through rigorous advertisements through print and electronic media, consumers became aware and conscious about the quantity and quality of the goods and services. Survival for the fittest became the slogan of the day. Domestic companies have to compete with the multinational companies having large network and infrastructure across the globe. Therefore, domestic companies started losing ground in their own countries. For survival, these companies started improving their qualities and increased the production.

2.1 SIGNIFICANCE OF STATE OWNED ENTERPRISES DURING PLAN PERIOD:

2.1.1 Prior to independence

Dr. Jagdish Prakash has stated, "prior to attainment of independence the role of public enterprises has been quite limited. The economic development, then, was left to the efforts of private sector. The government took some interest in certain areas only and that too when it was compelled to do so."[1]

2.1.2 During Five Years Plan

Immediately after independence Central Government established atomic energy commission, industrial finance corporation of India and Indian Telephone Industries. These were governmental departmental enterprises during 1948. This was before commencement of the five year plan .

2.1.2.1 First Five year Plan: 1951-56

Government assumed the responsibility for providing infrastructure facilities and undertaken the direct promotional work during the first five year plan. Government realised the need for intervention in the industrial field. The Planning Commission has stated that "the scope and need for development are so great that it is best for the public sector to develop those industries in which private enterprise is unable or unwilling to put the resources required and to run the risk involved."[2]

In first Five Year Plan, Government recommended to invest Rs.94 crore in state owned enterprises but actual investment was only Rs.52 crore. This has happened because there was a delay in execution of iron and steel projects and slow progress in some other projects.

2.1.2.2 Second Five Year Plan: 1956 – 57

The Government of India proposed to invest Rs.720 crore to invest in state owned enterprises. "The public sector has not only to initiate development which the private sector is unwilling or unable to undertake, it has to play a dominant role in

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[1] Dr. Jagdish Prakash, Public Enterprise in India, Central Book Depot, Alahabad 1980, page 25)
[2] Government of India – First Five Year Plan, Planning Commission, Delhi 1953, page 422

shaping entire pattern of investment in economy".[3] The Planning Commission has expanded the role of SOEs by providing increased outlays. During second five year plan, Heavy Electrical Limited, National Coal Development Corporation Limited, Fertilizer Corporation of India, Hindustan Teleprinter Limited, Shipping Corporation of India Limited, National Instruments Limited, Heavy Engineering Corporation Limited, Export and Risk Insurance Corporation Limited and the Film Finance Corporation Limited were established. State Trading Corporation of India, Life Insurance Corporation of India and three Steel Plants at Bhilai, Durgapur and Rourkela were also established during the same period.

2.1.2.3 Third Five Year Plan: 1961 – 66

There was controversy about the role to be played by public sector and private sector during the year 1961. It has been mentioned specifically that " the industrial plan for the period 1961-66 has to be governed by overriding needs to lay the foundation for further rapid industrialization over the next 15 years. The expansion of the industry will continue to be governed by Industrial Policy Resolution of April 1956."[4]

It was decided in the third five year plan to complete the projects which are already under construction and the projects on which the decision to invest had already been taken. Major projects included in the third five year plan were about iron and steel, industrial machinery, heavy electrical equipments, machine tools, fertilizers, petroleum refineries, essential drugs, and basic chemicals. Following state owned enterprises were established during the third five year plan period:

1. Cement Corporation of India Limited;
2. Hindustan Zinc Limited;
3. Hindustan Aeronautics Limited;
4. Unit Trust of India;
5. India Drugs and Pharmaceuticals Limited;
6. Bharat Earth Movers Limited; and
7. Food Corporation of India

[3] Government of India – First Five Year Plan, Planning Commission, Delhi 1956, page 22
[4] Government of India – First Five Year Plan, Planning Commission, Delhi 1961, page 47

Annual Plans 1966-69,

As per schedule fourth five year plan could not commence, on completion of third five year plan, because

- War with China and Pakistan
- Adverse weather condition
- Delay and suspension in external credit

The total investment during third five-year plan was approximately Rs.6571 crore in state owned enterprises. During the year 1966-69, the annual plans were made in place of long term five year plans, still the following state owned enterprises were established during these annual plans:

1. Machine Tools Corporation of India Limited
2. Central Iyland Water Transport Corporation
3. National Textile Corporation Limited
4. Indian Petrochemicals Limited
5. Hindustan Copper Limited

2.1.2.4 Fourth Five Year Plan: 1969–74

As there was a delay in credit from World Bank, International Monetary Fund and funding countries, the economy was facing recession. At the commencement of the fourth five year plan there was a beginning of recovery from the recession. Due to recession there was considerable underutilized capacity in the industrial sector, "the role assigned to public sector in the Draft Plan emphasized that the public sector has also to pioneer some of the key but difficult projects. These gestation lags are very large and full output can be reached only after several years of operation."[5]

During Fourth Five Year Plan there was Rs.13649 crore plan outlay for state owned enterprises which constitutes 60 percent of the total outlay. The share of state owned enterprises in Industry and Mining was Rs.3050 crore. During this plan period, following SOEs were established:

1. Bharat Gold Mines Limited
2. Bharat Pumps and Compressors Limited

[5] Draft Outline of Fourth Five Year Plan, page 11

3. Coachin Shipyard Limited
4. Jute Corporation of India Limited
5. Indian Dairy Corporation Limited

2.1.2.5 Fifth Five Year Plan: 1974–79

Fifth Five Year Plan emphasized on two objectives – Self-reliance and Growth with Social Justice. It was also considered to keep the objective to have a balance regional development, "An integrated approach covering the creation and expansion of basic infrastructural facilities and the provision of an institutional framework to co-ordinate the essential component of industrial development programmes constitute the basic prerequisite for the more rapid growth of the backward areas."[6]

The plan was concluded before 1979 that is in March 1978. The total expenditure on state owned enterprises during this period amounted to Rs.31400 crore. The major share of investment was towards steel, coal, petroleum and fertilizers. The new SOEs formed wre 1) Coal India Limited; 2) ESSO Refinery; 3) Standard Wagon etc.

2.1.2.6 Reformulated Fifth Five Year Plan: 1978 – 83

After emergency, fall of Congress Government and emerging Janta Government period, the fifth five year plan was redrafted by new Government. Janta Government has aimed at expanding the role of state owned enterprises in strategic and maintaining supplies of essential consumer goods. The investment in SOEs by this government was qualitatively different, as major proportion had gone to energy resources specially power generation, this plan has suggested that state owned enterprises should aim at earning a return on investment at 10 percent per annum. Initially, the investment proposed in SOEs was Rs.69380 crore but it was revised to Rs.71000 crore. This reformulated five year plan was again terminated at the end of the second year by the new government. There was a fall of Janta Government and Congress Government came to the power once again, so the sixth five-year plan was announced by the new government.

[6] Government of India – Fifth Five Year Plan, Planning Commission, Delhi 1974, Vol. Ipage 134

2.1.2.7 Sixth Five Year Plan : 1980-85

The sixth five-year plan assigned commanding heights of the economy to the state owned enterprises. The state owned enterprises were required to generate larger resources for financing, expansion and development. "The Public Sector will have to assume the major role in the expansion of basic industries such as steel, non-ferrous metals, capital goods, fertilizers and petrochemicals."[7]

The proposed investment in state owned enterprises amounted to Rs.97500 crore in this sixth five-year plan. There was a feeling to improve the rate of return on investment atleast at 10 percent by the end of the plan period. The proposed investment was distributed between Central SOEs and State SOEs for Rs.47250 crore and Rs.50250 crore respectively. It was also proposed to finance the programme approximately 26 percent of the investment in rural and agricultural sector. It was also proposed to take care of replacement, rehabilitation and technological improvements in existing SOEs. In this plan, it was projected that national income will grow at the rate of 5.2 percent

2.1.2.8 Seventh Five Year Plan: 1985 – 90

It was proposed to invest Rs.180000 crore in state owned enterprises. There was a direct attention on problem of poverty, unemployment and regional imbalances in this seventh five year plan. The estimated growth per annum was 5 percent. The actual investment during this plan period accounted for Rs.154218 crore in state owned enterprises of which the Central SOEs accounted for Rs.95534 crore whereas State SOEs Rs.80698 crore and the Union Territory Rs.3768 crore. In order to generate resources to the extend of Rs.35000 crore, the only choice left was to reduce the losses of state owned enterprises and improve their efficiency.

2.1.2.9 Eighth Five Year Plan: 1992 – 97

In this five-year plan, Government has decided to invest in state owned enterprises for selective purposes. The investment was focusing on strategic, high tech and essential infrastructure. It was also decided to address the SOEs to make them strong and dynamic. The proposed investment in SOEs was amounted to Rs.361000 crore. This constitutes 45.2 percent of total outlay. It was expected from SEOs to strengthening the infrastructure and to re-orient the process of

[7] Government of India, Sixth Plan, Vol 7 – 1980

planning so that projects become economically sound. Budgetary support to the SOEs would be gradually reduced.

2.1.2.10 Ninth Five Year Plan: 1997 – 2002

It is appropriate at this critical period to articulate a development strategy which reaffirms and builds upon what has worked well, initiates corrective steps where needed, and takes new initiates to meet the new challenges which face the economy in the years ahead. The state must withdraw from the role of being a controller and licensor of private enterprise in areas where market competition and an efficient financial sector will ensure appropriate decisions on investment and technology. However, there are many areas where the state must actually increase its involvement. The most important of these is in the area of social development especially in rural areas. The role of the public sector as a direct producer of goods and services needs to be reviewed in the context of experience gained and emerging realities. Initially, divestment was undertaken subject to Government equity remaining at 51 percent. There is no particular reason why the Government should retain a majority equity stake in the public sector enterprises except for those that are in the strategic areas where national security is involved. Reduction in the Government's holding in public sector equity will not have an adverse effect on the health of the public sector units. On the contrary, the removal of Government interference should give these units the corporate freedom they need to function efficiently in a competitive market.

The public sector plan outlay for the Ninth Plan consistent with the accelerated GDP growth of 6.5 percent per annum envisaged, is placed at Rs.859200 crore at 1996-97 prices. This represents at step up of about 48 percent and 33 percent in real terms over the anticipated Eighth Plan expenditure (Rs.39100 crore) and the approved Eighth Plan outlay (Rs.434100 crore) respectively.

2.1.2.11 Tenth Five Year Plan: 2002–07

The tenth five-year plan has estimated 8 percent growth of Gross Domestic Product. SOEs are required to mobilize Rs.1592300 crore. These are 67.4 percent more compared to the ninth plan. Out of the total resources required for SOEs the share of Central Government amounts to Rs.921391 crore that is 57.9 percent of the total whereas the State and Union Territory Government share will be Rs.671009 crore that is 42.1 percent of the total.

The major thrust of tenth five year plan is on improving the internal resources of State SOEs by implementing the five sector reforms, so that the State Electricity Boards earn atleast a minimum rate of return of 3 percent on their assets. It is also considered to impose the limit on State Government to issue the State Guarantees to the State level SOEs by legislative or administrative ceiling.

Table 5.51: Investment in organised industries and SOEs under different five year plans.

Particulars	1st Plan	2nd Plan	3rd Plan	4th Plan	5th Plan	6th Plan	7th Plan	8th Plan	9th Plan
Total Investment in organised industry and minerals (Rs. Crore)	398	1620	2605	5300	16000	50730	104627	227000	501900
SOE investment	60	770	1330	3050	10201	20407	42455	75600	71684
Percentage share of SOE	16	47	51	58	62	40	40	33.3	14.3

(Source: Indian Pocket Book of Economic Information, 1972, Fifth Plan, Tata Services Limited, Statistical Outline, Seventh Plan, Eighth Plan. *Ninth Plan – Mid term appraisal.)

2.2 FISCAL POLICY OF GUJARAT GOVERNMENT:

"The State's fiscal position weakened because of the lack of fiscal discipline and stagnation in tax revenues. State finances were also squeezed by slow growth in Central transfers, because of fiscal consolidation at the Central Government level, and restrictions on overdraft facility from the Central Bank, which forced the State to borrow more. Since 1991 the Government of Gujarat has adopted a cautious fiscal policy and was initially successful in curtailing the overall budget deficit, from over 7 percent of the State's Domestic Product (SDP) in the early 1990s, to 2.6 percent in 1993-94. But the Government was unable to sustain this fiscal adjustment, and the overall budget deficit rose again, reaching 4 percent of SDP in 1995-96. The reversal in fiscal consolidation in Gujarat is attributable to factors such as (i) stagnation in public revenues, (ii) inadequate control over public expenditures, and (iii) generally poor management of public resources."[1]

Mr. S.K. Shelat, Chief Secretary, Government of Gujarat stated in the report submitted by State Finance Commission that "SOEs are active in most sectors of the economy, having virtual monopoly in the mining, power, transport, and water sectors, and a dominant position in housing, finance, and social sectors. SOEs have been used to achieve a number of objectives, including employment creation, provision of subsidized services (such as power and transport), development of backward regions, and welfare of the weaker sections of the population. SOEs are vulnerable to political interference and suffer from the lack of commercial orientation, non merit-based managerial appointments, and inadequate reporting, accounting, and financial control systems." [8]

The State Finance Commission headed by Ex Chief Secretary – Gujarat Mr. S.K. Shelat submitted their report on states fiscal position that the State Owned Enterprises are the destiny of political assignment ignoring merits, which suffer from the lack of business interest. The commission concludes with comprehensive attempt towards privatization and restructuring of State Owned Enterprises in Gujarat to strengthen the fiscal position of the State.

2.3 METHODOLOGY OF REFORM:

The State Finance Commission had suggested the Reform Programme called "Public Sector Resource Management Programme" under which the focus was on privatization, divestment and restructuring of 23 State Owned Enterprises. The State owned enterprises reform programme in Gujarat was the first comprehensive attempt towards privatization. In designing this programme appropriate institutional framework and policies had been put in place in advance to insulate the reforms from political disruption. The Government had set up a high level sub-committee headed by Chief Minister to approve the proposals of State Owned Enterprises' reform. The technical work of privatization and restructuring was being handled by a Technical Secretariat and Price Waterhouse International Group supported by Bank Technical Assistance.

It was observed across the globe that developed countries as well as under developed countries like China, Brazil, Nigeria etc. were also going through the assessment of the financial performance of State owned enterprises, through different techniques like asset valuation of State owned enterprises by following methodology –

2. Discounted cash flow
3. Book value
4. Transaction multiples / comparable companies
5. Asset valuation

Approved accounting firms were asked to do the asset valuation separately. In case of Initial Public Offer (IPO), emphasis in valuation was on the multiples in the immediate

[8] Source Gujarat Public Sector Resource Manager, by S K Shelat, Chief Secretary, Government of Gujarat

future rather than discounted cash flow value. In asset valuation method the replacement cost of assets appears to be worked out by an Independent Asset Valuer, which may be government approved Valuer. The global advisor uses this valuation to work out the value according to asset valuation method.[9]

2.4 RESTRUCTURING OF SOEs:

State Owned Enterprises were the domestic companies producing goods and providing services to the consumers in India. State Owned Enterprises were also under the attack of liberalization and globalization. Establishment of State Owned Enterprises was under political motives. The losses of State Owned Enterprises were made good by Govt. Budgets started increasing the deficit of the Govt. They became loss making units or marginal profit making units. Earlier it was a monopoly business for State Owned Enterprises, pricing was regulated, production was regulated and employment was regulated by the government and simultaneously there was no worry of funding as government was supporting them. State owned enterprises became the burden to the government as it was adversely affecting the economy.[10]

I believe that the objective for disinvestment should be to benefit the public, the consumer and the investor, and at the same time, to improve competitiveness and eliminate monopoly...

... Our Disinvestment Policy should therefore be, to offer these companies to the public of India. The current system of strategic sale is tantamount to handing over the entities created with the wealth of the people of India to further enrich the already rich. .... In the transfer of VSNL and IPCL we have created monopolies with Tata and Reliance. Cases of rich becoming richer with people's money. If we pursue the strategic sale route in the aluminium and petroleum sectors, it is very likely that we will create monopolies within these vital sectors of the economy. State monopolies will become private monopolies. Is this good for the Indian consumers?[11]

[9] CAG 2004
[10] Disinvestment of Public Enterprises – Indian Economy By Ruddar Datt, KPM Sundharam (Edition 2006)
[11] Letter to PM on 27 August 2002 written by George Fernandes, Ex Defence Minister of India

2.4.1 SOE, performance problem:

Factors fueling the push for privatisation of SOEs' include mounting losses and persisting inefficiencies. For example, in Argentina SOE losses mounted to as much as 9 percent of the Gross Domestic Product (that is about $4.7 billion in 1989) (Ravi, 1991). In the U.K., an early pioneer in privatisation, the borrowing and losses of SOEs were running at about Pounds Sterling 3 billion a year. The Indian public sector (as the SOEs are generally termed in India) shares the feature of low and erratic profitability of SOEs worldwide A study of finances of 236 SOEs owned by the Government of India (1990-91) indicates that the net profitability of the firms is only 2 percent of gross sales. In fact, 109 out of 236 SOEs incurred losses. The reasons for the poor performance of SOEs are well documented and not surprisingly, bear a uniform pattern globally.

According to three recent studies (Paul, 1988; Bradburd, 1992; Moore, 1992), the essential reasons for unsatisfactory performance of SOEs can be summarized as follows: 1) State ownership is abstract and leaves no visible residual claimant to profits. 2) Managers of the SOEs are largely shielded from the effects of the stock market hence do not have to worry about corporate control or stockholder accountability. 3) Managers of SOEs must often try to satisfy multiple objectives determined by politicians. 4) Government subsidies protect internal inefficiencies and perpetuate an internal 'soft budgeting' approach. 5) Risk-reward structure for SOE employees is often performance-neutral; whether SOEs are bold, risk-taking, and growth oriented or diffident, risk-averse and loss making the risks and rewards to the employees are not perceptibly different.

In short State ownership often produces poor performance. (Moore, 1972) Political preferences and pressures govern key project parameters such as plant location, capacity planning, implementation time frame, employment and product/service pricing. Apart from the above, while bad SOEs are rewarded through subsidies, relatively better SOEs are penalized through restricted access to capital compared to other competitive private enterprises.

These adverse reasons emerge in much sharper focus in countries with communist command economy models where the system was grossly deficient in fundamental corporate, legal and financial practices that normally enable benchmarking of firms with regard to their objectives, performance and integrity of management. [12]

2.4.2 State level SOE's investment and returns thereon

Table 2.1: State-Level SOE's investment and Returns

State	Year	Investment (Rs. in crore)	Return (%)	Interest rate on State Govt. borrowings
Andhra Pradesh	1999-00	3832.34	0.08	11-12.25
Arunachal Pradesh	1999-00	12.34	0.001	14, 11.30
Assam	2000-01	475.98	0.15	8.75 – 14.00
Bihar	1998-99	14.03	Nil	12.5
Delhi	2000-01	775.42	1.12	12.5
Goa	1998-99	131.05	0.33	12.15, 12.50
Gujarat	1999-00	3771.71	0.71	12.25, 12.15
Hariyana	1999-00	2568.20	0.30	11.85, 12.25
Himachal Pradesh	1998-99	972.75	0.055	12.50
Jammu & Kashmir	1999-00	355.05	2.18	11.85 – 21.52
Karnataka	1999-00	3532.18	0.34	11.08, 11.85, 12.25
Kerala	1999-00	1774.80	0.56	11.85, 12.25
Manipur	1998-99	80.66	0.06	12.50
Meghalaya	1999-00	98.36	0.61	11.85, 12.25
Mizoram	1999-00	10.98	Nil	12.25
Nagaland	1998-00	41.51	5.13	12.15, 12.50
Orissa	1998-00	1346.56	0.02	12.15, 12.50
Punjab	1998-99	2341.53	0.05	12.15, 12.50, 12.47
Rajasthan	1999-00	2560.08	0.21	11, 11.85, 12.25
Sikkim	1999-00	44.54	2	12.25, 11.85
Tamil Nadu	1999-00	2724.44	1.54	12.25, 11.85, 11.74
Tripura	1999-00	177.98	Nil	12.25
Uttar Pradesh	1998-99	2357.72	0.19	12.15 – 12.50
West Bengal	1999-00	3654.30	0.03	11.85, 12.25

(Source:Audit Reports from the Comptroller and Auditor General of India published by Stanford University Press, 2004)

Table No. 2.1 shows the investments of different State Governments of India in SOEs for different years. The returns on investment compared to the interest paid by the State Government on their borrowings are also shown in the same table. The table is eye opening for State Government how their wasteful investment in SOEs is eating the public money. There is no return on the investment of Bihar's SOEs against payment of interest on borrowing are 12.5 percent. The highest

[12] Source International Perspectives on Privatisation of State-Owned Enterprises, Narendar V Rao, Northeastern Illinois University, C Bhaktavatsala Rao, Ashok Leyland Ltd, Steve Dunphy, Northeastern Illinois University

investment in SOEs is Rs. 3832 Crore of Andhra Pradesh in the year 1999-00 which is earning 0.08 percent return and Andhra Pradesh Government is paying interest on their borrowing at 11 to 12 percent. The second highest investment in SOE is Rs.3771 crore in Gujarat earning only 0.71 percent return while paying 12 percent interest on borrowings.

At the third place West Bengal has invested Rs.3654 crore in their SOEs for the year 1999-00, which earns marginally 0.03 percent return by paying 12 percent interest on their borrowings.

In a business every businessman continues the activity of business so long he earns the normal profit or normal rate of return on his investment. Obviously, this normal rate of return on investment is bound to be more than rate of interest paid by the Banks on deposits. Once the rate of return on investment in business declines for less than rate of interest on deposits in Banks he prefers to close down his business. But the above mentioned State Governments are continuing their businesses in SOEs by earning negligible return like less than 1 percent or no return or negative returns and that's why it can be derived that State Government should disinvest these State Owned Enterprises as it is not their cup of tea.

In above mentioned table no. 2.1, the available data of 24 States reflect that on an average the rate of return on investment in SOEs is 0.69 percent against which State Governments are spending 11.29 percent interest on their borrowings which results in the ultimate outcome of negative return on 10.6 percent per annum on their investment. This loss of 10.6 percent on investment is getting accumulated for number of years; hence State Governments have to pump the money in SOEs regularly to keep them alive.

2.4.3 Restructuring of SOEs in India

Continuous deficits in the budget had opened the eyes of the government and State Owned Enterprises were one of the reasons for the deficit identified by the government. Secondly free and fare competition is the demand of WTO. The WTO rejected subsidies, which probably State Owned Enterprises were obtaining. Many State Governments in India started analyzing the financial performance of State Owned Enterprises. Similarly the Government of India at center also realized after analysing that the public enterprises are either loss making or marginal profit making. As a result of analysis and interpretations, Government of

India started the restructuring programme of State owned enterprises. Government of India established one Disinvestments Department; the portfolio of disinvestments was allotted to a separate minister to assess the financial performance of State Owned Enterprises. The continuous deficit in the budget and move to reject subsidies by WTO, has forced the Government to privatize and restructure the loss making State Owned Enterprises.

Under the disinvestments programme, Government of India sold the shares of Government Ownership to the private entrepreneurs either Indian or Non Resident Indians.

Table: 2.2 Realization through strategic sale during 1999-2000 to 2004-05

Sr. No	Name	Percentage of Government Equity sold	Realization Rs. in crore	Profit/Loss Making during the year of disinvestment
1 a.	Modern Food Industries (India) Ltd. (MFIL)	74	105.45	Loss Making
1 b.	(MFIL) Phase II	25.995	44.07	
2.	Bharat Aluminum Co. Ltd.	51	826.92 ^	Profit Making
3 a.	CMC Ltd.	51	152	Profit Making
3 b	CMC Ltd. @		6.07	
4	HTL	74	55	Profit Making
5.	Lagan Jute Machinery Corporation	74	2.53	Loss Making
	ITDC-19 HOTELS			
6.	Hotel Agra Ashok	89.97	3.61	Loss Making
7	Hotel Bodhgaya Ashok	89.97	1.81	Loss Making
8.	Hotel Hassan Ashok	89.97	2.27	Loss Making
9.	TBABR Mamallapuram	89 97	6 13	Loss Making
10.	Hotel Madurai Ashok	89.97	4.97	Loss Making
11.	Hotel Ashok Bangalore *	89.97	39.41	Loss Making
12.	Qutab Hotel, New Delhi	89.97	34.46	Loss Making
13.	Lodhi Hotel, New Delhi	89.97	71.93	Loss Making
14.	LVPH, Udaipur	89.97	6.77	Loss Making
15.	Hotel Manali Ashok	89.97	3 65	Loss Making
16.	KABR, Kovalam	89.97	40.39	Loss Making
17.	Hotel Aurangabad Ashok	89.97	16.50	Loss Making
18.	Hotel Airport Ashok, Kolkata	89.97	19 39	Loss Making
19.	Hotel Khajuraho Ashok	89.97	2.19	Loss Making
20.	Hotel Varanasi Ashok	89.97	8.38	Loss Making
21.	Hotel Kanishka, New Delhi	89.97	92.37	Loss Making
22.	Hotel Indraprastha , New Delhi	89.97	43.39	Loss Making
23.	Chandigarh Hotel project	89.97	17 27	Loss Making
24	Hotel Ranjit, New Delhi	89.97	29.28	Loss Making
25.	HCI - Centaur Hotel Juhu Beach, Mumbai	100	153	Loss Making
26.	HCI-Indo Hokke Hotels Ltd.(Centaur Rajgir)	100	6.51	Profit Making
27.	HCI - Centaur Hotel Airport, Mumbai	100	83	Loss Making
28.	IBP Co Ltd	33.58	1153.68	Profit Making
29.	Videsh Sanchar Nigam Ltd.	25	3689^	Profit Making

Sr. No	Name	Percentage of Government Equity sold	Realization Rs. in crore	Profit/Loss Making during the year of disinvestment
30.	Paradeep Phosphates Ltd.	74	151.70	Loss Making
31 (a)	Hindustan Zinc Ltd.	26	445	Profit Making
31 (b)	Hindustan Zinc Ltd. @		6.19	
31 (c)	Hindustan Zinc Ltd. @@	18.92	323.88	
32	Maruti Udyog Ltd.	4.2	1000	Profit Making
33.	Indian Petrochemicals Corporation Ltd.	26	1490.84	Profit Making
34.	State Trading Corporation of India		40 ^^^	
35	MMTC Ltd.		60 ^^^	
36	Jessop & Co Ltd	72	18.18	Loss Making
	Grand Total		**10257.19**	

(Source: website of Government of India -- Disinvestment Department)

* Including NPV of future earnings on MGAP & lease rentals ^ including dividend & divi. Tax Companies at Sr. No. 5, 23, 25, 26, 27, 36 are subsidiaries. ^^^ The receipt is on account of transfer of cash reserves. @ Disinvestment in favor of employees. @@ Realization from call option Shares also given to VSNL employees, the amount of which is not included

On the similar pattern, Government of Gujarat set up a State Finance Commission in October 1992 to look at the issues of State Owned Enterprises. The Commission submitted its report in May 1994. The Government of Gujarat owns around 84 State owned enterprises, out of which 37 are registered under Companies Act 1956.

2.4.4 Privatisation is a spark that went out in India

In the four years that privatisation was the prevailing ideology, the government of former Prime Minister Atal Bihari Vajpayee sold controlling stakes in 12 State owned companies and 22 hotels, earning 129 billion rupees, or $ 2.9 billion.

As Shourie wrote in his book, "The way to reform this system is not to tinker with this procedure or institution; but to just jettison the function, to hack away the limb wherever that is possible". [13]

2.4.5 Privatization in India isn't just about raising money

The process also has to be about unloading "the baggage of 50 years of socialist discourse," as Arun Shourie termed it in an interview two years ago.[14]

[13] Source: Privatisation is a spark that went out in India, by Andy Mukherjee, Bloomberg News, 09 11 2004
[14] Source: Commentary: Privatization is a spark that went out in India-2001

2.4.6 Effects of Losses of SOEs

In essence, it means the closing down of at least 29 perpetually loss-making government companies and corporations and the possible laying off of a chunk of the 70000 workers in these units over the next couple of years. These include State transport corporations and several manufacturing units.

It also carries with it a social safety net clause that not only ensures payment of dues to the laid-off workers but also "re-skilling" a section of them so that they can be "employable" in new ventures.[15]

The paper concludes that, if they are right in asserting that there is a weak chain of causality between ownership and efficiency, nationalization or privatization may be appropriate only when a change of ownership provides the best way to improve internal motivation. In other cases, attention to factors that affect motivation in State owned enterprises might provide a better remedy than simply concentrating upon changing the ownership form.[16]

2.4.7 Losses of West Bengal SOEs

State Owned Enterprises under the West Bengal Government reported a loss of Rs.912 crore in 1999-2000, against nearly Rs.1,025 crore reported in 1998-99.

The data collected from official statistics showed that only 13 out of the 66 SOEs, whose performances were reviewed, made profits in 1999-2000.

Together, the 66 undertakings employed over one lakh persons and Rs.3,081.82 crore in share capital. In addition, the Government had provided funds as loans and grants-in-aid.

The West Bengal State Electricity Board emerged as the higher loser, even as it was able to show a declining trend. In 1999-2000, its losses stood at Rs.584.82 crore against Rs.716.79 crore in 1998-99.

The State's current Economic Review noted that of the 23 units under the Public Enterprises Department, only four were set up as Government companies. The

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[15] Source Buddha talks PSU reforms & World Bank - The Indian Express- internet-May 18,

[16] Source The relative performance of public and private enterprise under conditions of active and passive ownership by Willner J – Centre on egulation and Competition (CRC), Manchester, 2002

remaining were sick private sector companies, taken over to protect the employees. However, even among these, sustained efforts have brought some turnaround in their performance.[17]

Industry department sources say that losses of the SOEs being controlled by the Government have been on the rise and their 1998-99 audited results show that the losses of 42 SOEs totaled Rs.1000 crore. Apart from the State power undertakings, the other heavy losers were the transport sector companies.[18]

2.4.8 Privatization - A success story in Andhra Pradesh

A key component in the GoAP's reforms strategy is a comprehensive Public Enterprise Reforms Programme, launched in 1998. The rationale for launching the Public Enterprise Reforms Programme was to reduce Government support to inefficient loss making, State-owned enterprises (SOEs). Costly support to SOEs diverts scarce resources away from the Government's health and education budgets and undermines future prosperity of the citizens.

The Public Enterprise Reforms Programme in Andhra Pradesh has gained an impressive momentum during the last two and a half years. The success of the reforms can be attributed to a great deal to the strong political will and commitment of the Government to carry out privatization and disinvestments. So far, the reforms have generated a revenue of Rs.485.50 crore from the process completed in respect of 84 enterprises. Of this, Rs.262 crore has come from the sale of assets of the enterprises restructured / closed and the remaining Rs.223.50 crore has been realized from the disinvestments of GoAP's stake in seven listed companies.

2.4.8.1 Why SOEs Reforms in Andhra Pradesh

i. Serious deterioration in the performance of Public Sector. It has become a drag on the economy of the State.

ii Drain on financial resources will hamper growth of the State.

iii SOEs are unable to generate sufficient resources and are heavily dependent on Government budgetary support leading to fiscal imbalance.

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[17] Source Bengal PSUs incur Rs 912 crore loss published in Business Line - Internet Edition, Financial Daily from THE HINDU group of publications- March 08, 2001

[18] Source Bengal Plans 'restructuring' of State owned enterprises published in Business Line - Internet Edition, Financial Daily from THE HINDU group of publications- February 12, 2001

iv Lower generation of resources has resulted in inefficient exploitation of available opportunities.

v Without further investment, SOEs cannot survive.

vi Financial strength of the Government does not permit it to continue supporting loss-making SOEs.

Andhra Pradesh has 40 public sector enterprises, employing 3.5 lakh people, have over Rs.5,242.46 crore in paid up share capital and over Rs.1,869 crore in accumulated losses. There are also 73 co-operatives in which the State is the majority shareholder. These include 18 sugar mills and 12 spinning mills. The co-operatives employ over 29,000 people, have over Rs.1,000 crore in paid up share capital and accumulated losses of over Rs 250 crore.

2.4.8.2 Financial Performance of SOEs in Andhra Pradesh

- The net profit after tax has always been negative in the last 5 years, resulted into continuous increase in the accumulated losses, which increased from Rs.522.76 crore in 1996-97 to Rs 1147.92 crore in 2000-01.

- The annual loss incurred by these units average to about Rs.145 crore per annum.

- The positive net worth of Rs.67.98 crore in 1996-97 has been eroded completely and stood at a negative value of Rs.251.19 crore as in March, 2001.

- GoAP stood the majority shareholder contributing about 91 percent of the total capital held by these enterprises as in March 2001 (Rs.371.09 crore - GoAP vs. Rs.408.17 crore - total)

- GoAP's loan to these units has increased from Rs.117.24 crore in 1996-97 to Rs.389.98 crore in 2000-01.[19]

[19] Privatization - A success story in Andhra Pradesh - Implementation Secretariat - Public Enterprises Department, Government of Andhra Pradesh

2.5 SOEs REFORMS IN THE WORLD:

2.5.1 Objectives and performance monitoring

Private owners care about profits. A well-managed private firm will seek to maximise owners' profits by lowering production costs and producing innovative products. In contrast, the political masters who monitor public firms face a range of objectives. These may include efficient operation and even profit maximisation. However, they are also likely to include electoral imperatives, such as maintaining employment or providing universal service, even to those customers who would be unprofitable for a private firms operating with higher profits and potentially lower costs than equivalent GBEs.

Government ownership is unnecessary if private market interaction is reasonably competitive and there are no significant negative externalities associated with profit-maximizing behaviour.

The potential need for direct government ownership arises because the regulation of private firms is imperfect. [20]

From my own experience as a former manager of a unit of BFIDC, I can confidently say that an enterprise in the State-sector can always be run profitably by controlling the costs, modernising the machinery, developing the human resources and shedding unnecessary staff and developing an honest and dedicated management system. The chairman of Privatisation Commission and the Finance Minister could do a great service to the nation, had they requested the World Bank for extending necessary loans and grants to restore these industries instead of closing them off. While the concept of privatisation may hold good for better management of certain types of small industries, the idea of closing down the industrial units for the lame excuse of "if no buyers are found" point to nothing but a poor management of the State economic system as whole.[21]

When privatisation is not feasible or palatable in some developing countries, Governments seek to improve the performance of State enterprises by negotiating

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[20] Why privatisation? A review of the Australian experience by Stephen P. King

[21] The Daily Star Web Edition Vol.4 Num 64, Committed to People's Right to Know, Editorial Opinion WB Loan and Poor management of SOEs by Hafeejul Alam a management specialist

performance contracts with their managers. Many of these contracts have been put in place with World Bank assistance.

Despite a global wave of privatisations, State enterprises still account for about 10 percent of Gross Domestic Product (GDP) in developing countries. These enterprises are often the largest and most valuable or problematic firms with monopolies in mining, petroleum, infrastructure, and heavy industry.[22]

The cases of different countries for analyzing the financial performance of State Owned Enterprises are discussed by different authors in different books and articles. The impact of financial performance of State owned enterprises on national economy can be understood by the following examples; largely the underdeveloped countries are favouring privatisation of the State Owned Enterprises.

2.5.2 China's SOEs:

The huge debt being incurred by China's State sector has increasingly become a worry to multinational companies who operate in the country, according to REL Consultancy (Asia Pacific). Simon Littlewood, Managing Director of the consultancy said that several multinationals, especially the ones who did business with State owned enterprises, had to wait for close to three-quarters of a year before being paid after delivery. Investments are being raised by multinationals in China but some are now encountering troubles in inventories and accounts receivables. In 1996, State debt rose another $12 billion, which adds to an already existing debt of $96 billion. This figure is equal to more than 13 percent of China's GDP in 1996. Littlewood said that the multinationals concern was reflected by a new survey being done on the subject by his firm. Around 12 large companies, including many Fortune 500 companies, decided to undertake the survey, the largest of its kind in China. It is scheduled to be completed in February and will cover the revenue management process, contract management, terms and conditions, delivery, billing and collection.[23]

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[22] Why Performance contracts for State owned enterprises haven't worked by Mary Shirley, Research Manager, Development Research Group, published in the Public Policy for the Private Sector at Note No 150, August 1998

[23] China Morning Post (Hong Kong) 09.01.1997

2.5.3 The Struggling SOEs of China

Although the Chinese economy is showing good economic figures for 1996, some economists warn that the government was too involved in keeping the money-losing State owned enterprises alive. While doing this, the government has given a huge pile of bad debt to Banks which has, in turn, slowed down the economic reforms, says Chen Xidong, a Beijing based economist for Crosby Securities. Loses from January to October of 1996 increased to $8.29 billion, a rise of 45 percent from the same period in 1995. He said that many of these companies will be forced into mergers or forced to declare bankrupt. Some others will receive government assistance to "get back on their feet," he said. These struggling SOEs could seriously endanger China's economy, especially the banking sector, many analysts predict. About 60-70 percent of the loans went to State companies in 1996, said Chen. Approximately 30 percent of this amount should be counted as bad debt. Zhu Chaoyang, a Beijing based analyst for China Securities Co believes that the Chinese government should allow the Banks to determine themselves who they grant loans to, especially for companies who are part of non-key industries. [24]

2.5.3.1 Reviewing the Performance of SOEs

Although many economists believe that the 1996 GDP growth rate is sustainable over the long term, China's State-owned enterprises are a continual drag on the economy. The total value added industrial output increased 13.1 percent over 1995 but value-added SOE output rose only 6.7 percent. According to the State Statistical Bureau, unsold inventory was worth and estimated $65.1 billion. The World Bank estimated that 17 percent of China's GDP consists of "unsaleable" SOE-manufactured goods. Despite the poor performance of these firms, the government continued to channel State loans to them. The government will not allow any big SOE reforms until SOE's social welfare functions, from pensions to housing, are shifted to the local level. Until that time, loans will be needed if SOEs are to provide these services to employees.[25]

[24] The Asian Wall Street Journal (US) 17 01 1997
[25] The China Business Review (US) 01.03.1997

2.5.3.2 Funds supplied through State Banking Sector

In 1978, only 24 percent of the total provision of funds (for both fixed assets and working capital) was supplied through the State-banking sector. This proportion rose to 88 percent in 1997. These changes are yet to achieve their final goals but have contributed directly to the weakening of the financial system. First, even though the reform policies introduced intended to establish a truly independent Central Bank and purely commercially State Owned Banks, this has never been achieved. Since the Branch Managers of the State-owned Commercial Banks are appointed by the local governments, Banks' lending decisions can hardly avoid administrative intervention. [26]

2.5.3.3 SOEs – India V/s China

But, given the continuing dead weight of the State Owned Enterprises on the Chinese growth path, this has not led to a commensurate difference in their growth rates during their reform periods, with Chinese growth between 1978-98 being 9.7 percent per annum on official and over 7 percent per annum on the best independent estimates, whilst India grew by 6.1 percent per annum from 1991-2000.

But the growth in China has been more labour intensive than India's. This was the unintended consequence of the end of collectivisation in agriculture which led to an explosion of labour intensive small-scale rural industry for export. [27]

2.5.4 Privatization in Hungary

State ownership of entrepreneurial assets has been reduced to such an extent that the State sector of the economy now accounts for just 15-20 percent of Hungary's GDP. Since this ratio corresponds to the average size of the State sector in the developed market economies, Hungary may now be considered a market economy in which the main motto of economic development is competition based on private initiative. [28]

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[26] 1998 National Centre for Development, China Update Conference Papers, submitted on 03.08.1998 by Yiping Huang, The Australian National University

[27] India V/s China by Deepak Lal, 14.05.2005

[28] Privatisation in Hungary 1990-2000, Dr. Kovacs Arpad

2.5.5 SOEs in Sudan

Table 2.2 : Estimated Revenues and Expenditures of public enterprises (in millions of Sundanese pounds) and the coverage ratio for 1980/81 – 1989/90.

Year	Revenues	Expenditures	Surplus (Deficit)	Coverage Ratio (%)
1980-81	526.8	508.1	18.7	103.7
1981-82	510.7	495.9	14.8	102.9
1982-83	677.2	676.2	0.93	100.1
1983-84	850.9	910.8	(59 9)	93.4
1984-85	927.63	844.9	82.73	109.8
1985-86	1338.15	1186.4	152.1	112.8
1986-87	1802.3	1651 1	151.2	109.2
1987-88	1891.5	673.3	218.2	113
1988-89	2209.2	2032.6	176.6	108.7
1989-90	2870.2	2508.3	261.9	114.4

[Source:Economic Review 1989-90 page 159 (African Training and Research Centre in Administration for Development–CAFRAD] [29]

2.5.6 Privatization in Brazil–The Brazilian Privatization: Experience

In 1991-2000, Brazil privatized 130 SOEs, generating revenues of US$82.1 billion and transferring debts of US$18.1 billion to the private sector. These figures make the Brazilian privatization one of the largest in the world – for example, upto 1997 the total of privatization in all the OECD countries mounted to US$153.5 billion [Nestor and Mahboodi (1999)]. But it is not only the scale of the companies involved that makes the program noteworthy. Equally important is the fact that in only four years the State has greatly reduced its participation in sectors in which, for several decades, it was the single producer. Ironically, the participation of SOEs in the Brazilian economy in 2000 was not much different from that a century before. Thus, private investors now control the telecom and railway sectors, the country's largest ports, some of the main highways, two-thirds of the distribution and a fifth of the generation of electricity, together with a small but growing share of sewage and water services. Some large public Banks have been privatized, while the oil and gas sectors were open to private

[29] 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

investment. Only 10 years ago, few would have foreseen such remarkable transformation.[30]

2.5.7 Privatization in Nigeria

Generally; privatisation refers to the relinquishment of part or all of the ownership equity held by the State in public enterprises and transferring it to the private sector. Commercialization on the other hand, is the reorganization of enterprises owned partly or wholly by the Federal government in which such commercialised enterprises start operating as profit making ventures and without subventions from the government. According to Paul Starr an economist, privatisation has come to mean any shift of the production of goods and services from public to private. This definition excludes deregulation and spending cuts except when they result in a shift from public to private in the production of goods and services.

Secondly, he further defined Privatization as "any shift of activities or functions from the State to the Private Sector". This broader definition includes all reductions in the regulatory and spending activity of the State.

Privatization of State owned enterprises often mean denationalization – a transfer of control to foreign investors or managers. Since State ownership often originally came about as an act of national self-assertion, privatisation appears to be a retreat in the face of international pressure. The more dependent a nation is on foreign investment, the greater the likelihood that privatisation will raise the prospect of diminished sovereignty and excite passions of nationalism which is liable to derail or distort privatisation plans.

Economically strong nations, knowing that they can privatise without jeopardizing their sovereignty, lecture the weak on the perils of State ownership of enterprises and restrictions on investment.

Privatization is a world wide policy movement carried along by a combination of objective forces, imitative processes, and international financial sponsorship.

[30] 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

Privatization is now one of the policies that the IMF promotes in negotiating loans with developing countries

New Zealand, the United Kingdom and Mexico, just to mention a few, are successful 'privatizers'. Their privatisation was accompanied by reforms to open markets, removal of price and exchange rate distortions, and free entry into the private sector. Revenue maximization should not be the primary goal of privatisation. Far better to eliminate monopoly power and unleash potentially competitive activities than to boost the sales price by divesting into protected markets. It is also better to create regulations to protect consumer welfare than to maximize price by selling into an unregulated market.[31]

2.5.7.1 Privatization process in Nigeria

Privatization of State owned enterprises in Nigeria was formally introduced by the privatization and commercialization Decree of 1988 as part of Structural Adjustment Programme (SAP). As McGrew was argued, SAP is a neo-liberal development strategy devised by international financial institution to incorporate national economics into the global market. He adds that "The vision of a 'global market civilization" has been reinforced by the policies of the major institutions of global economic government namely up to the mid 1990s underlying them structural adjustment programmes has been a new liberal development strategy-referred to as the washing on consensus which prioritizes the opening up of national economics to global market forces and the requirement for limited government intervention in the management of the economy. There is also the concern for the disregard for the constitution and rule of law in the whole privatization process. The 1999 constitution in Nigeria not only provides that the State operates in a way to prevent the concentration of wealth or the means of production and exchange in the hands of few individuals or group but also that the State should operate and manage the major sectors {State owned enterprise} of the economy. The privatization process in Nigeria is a fragment abuse of this provision of the constitution. The civil society activists who are concerned about the philosophical basis of privatization argue that privatization is a neo-liberal

[31] 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

approach to development, which is imposed by the Brettons woods institution as part of globalization that can only favour rich countries and individuals. They argue that privatization is anti-labour and will always lead to unemployment. In addition, privatization is always anti-poor. It is clear that in most cases privatization particularly of public utilities (SOE) like roads, electricity, water etc. will always lead to increase in prices.

Civil society in Nigeria are concerned that privatization exercising in Nigeria will lead to further widening of the gap between the rich and poor. Already, Nigeria is among the 20 countries in the world with widest gap between the rich and the poor.

Privatization is not a blanket solution for the problems of poorly performing State owned enterprises. It cannot in and of itself make up totally lack of competition, for weak capital market or for the absence of an inappropriate regulatory framework. But where the market is basically competitive, or when a modicum of regulatory capacity is present, private ownership yields substantial benefits.[32]

2.5.8 Privatisation in Sri Lanka

However, though the enterprises have been run profitably around the world by the State, these have been more the exception than the rule. World Bank estimates show that in the years between 1989 and 1991, losses in SOEs accounted for 9 percent of GDP in Argentina, 8 percent in former Yogoslavia and more than 5 percent on average in selected Sub Saharan African countries. In 1991 around 30 percent of SOEs ran at a loss in China, while the consolidated government and enterprise deficit was around 8 percent of GDP (McKinnon, 1994: Yusuf and Hua, 1992). Alarmingly a survey by the World Bank in 1988 revealed that in 25 developing countries the median contribution of the SOEs to the overall public sector deficit was 48 percent (Cavendish, 1992). Cowan (1990) states that the budgetary costs of SOEs in terms of GDP, were 11 percent in Sri Lanka and 10 percent in Zimbabwe. Obviously, the nationalization programs were not providing the desired results and governments especially those in the developing world

[32] Privatization of State owned enterprises in Nigeria, Paper presented by Otive Igbuzor, web at igbuzor@cddnig.org

could not go on sustaining them, wasting precious public funds and sacrificing investment in vital areas of the economy.

With scarce resources being channeled to these enterprises, investment in other vital areas of the economy had to be foregone and increased reliance was placed on foreign funds. Most of the foreign funds came at a cost with a number of conditions attached including overall public sector reforms.[33]

2.6 PRIVATISATION AND ITS BENEFIT:

From the theoretical discussion, several empirical implications have been proposed.

1. Publicly owned enterprises in competitive environment would not perform better than privately owned companies in the same circumstances in terms of profitability and may perform worse.
2. One should expect important efficiency gains from the change in ownership structure in competitive sectors.
3. In general, increases in profitability are not equivalent to increases in efficiency. This will only be true in a competitive environment.
4. Fully privatised firms should perform better than firms that have been partially privatised, under the same conditions.
5. Privatization improves the public sector's financial health (lower deficits, lower debt)
6. Privatization reduces the net transfer to SOE's in the aggregate. These transfers become positive if the government actually starts collecting taxes from privatised firms.
7. Privatization has a positive impact on the development of the financial sector.
8. Privatization has a negative effect on employment in the short run, a positive effect in the medium and long run.
9. The effect on unemployment is ambiguous and no clear trend can be identified.
10. Finally, it is important to mention the lack of detailed research in the area of the effect of privatisation on income distribution and poverty. Privatization of

[33] Performance of Privatized Enterprises: Planatation Sector in Sri Lanka, Executive Summary of DBA Research Proposal by Suren Peter, Sri Lanka - MSM - DBA Proposal Defense

infrastructure services might indeed be a candidate for careful study to understand the role of market imperfections on efficiency and distributive outcomes.[34]

"In a study Bakul H. Dholakia has contested the validity of the profitability based criteria to assess the performance of state owned enterprises. To quote him "the profit cretierion is not the only criterion nor is there any a priori ground on which it may qualify even as the most important criterion for assessing the performance of the state owned enterprises'[35] in his view, "we can distinguish between the performance viewed from the narrow commercial angle and from the wider social angle, the appropriate criterion for the former being the net profits earned by the enterprises while the one for the latter being the contribution made by the enterprise to the country's net national product. The total benefit to the economy as a whole accruing from any production process is represented by the sum of related factor incomes, generated out of it, i.e., by the sum of rent, wages and salaries, interest and profit. The conventional profitability criterion focuses attention only on the last of these four items and ignores the first three types of income flows, in as much as the first three items represent 'costs' rather than 'benefits' from the view point of the private entrepreneur. However, while the individual entrepreneur may emphasise only his individual or private gain, the total gain that accrues to the economy as a whole, out of the production activity of the enterprise, would also include the other three income flows'. He, therefore, advocates the use of the criterion of the total factors productivity to assess the performance of the public enterprises. The total factor productivity involves measurement of productivity with respect to all factors of productions.

In his study covering a period of 15 years i.e. from 1960-61 to 1975-76, Dholakia assesses the performance of the State owned Enterprises vis-à-vis that of the private enterprises on the basis of the criterion of total factor productivity. He finds that the overall economic efficiency of the state owned enterprises increased at the rate of 2.44 percentage points per annum during the period 1967-68 to 1975-76, whereas that of the private enterprises increased at the rate of only 0.59 percentage points per annum. They study reaches the following conclusion:

"The broad conclusion that emerges from the above findings of the study is that the performance of Indian State Owned Enterprises during the period 1960-61 to 1975-76

[34] Privatization and its benefits: Theory and evidence by Eytan Sheshinski and Luis F. Lopez-Calva, CESifo Economic Studies, Vol.49, 3/2003, 429-459, October 1997, A Handbook Prepared for the Treasury
[35] The Changing Efficiency of Public Enterprises in India (Somaya) Bombay 1980, page 3) Presently Professor of IIM, Ahmedabad.

can be regarded *as quite satisfactory especially in relation to that of the corresponding private enterprises*, if we evaluate the relative performance of these enterprises by the criterion of total factor productivity rather than net profitability. In fact, it is quite satisfying to find that the state owned enterprises, which have been absorbing a progressively increasing amount of scarce national resources, have actually been utilising these resources with progressively increasing efficiency. These enterprises have contributed a great deal to the output growth, employment generation income generation, capital formation and technical progress in Indian economy during the last 15 years, *It is on the contrary the performance of the private enterprises that appears to be rather unsatisfactory especially in regards to the rate of improvement in the overall efficiency of resource utilisation* which actually constitutes one of the main determinants of the rate of national economic growth. This obviously implies that the severe criticism of the management of Indian state owned enterprises exclusively on the ground of their low profitability is to a large extent misleading in as much as it represents only a partial view of the overall performance, and does not necessarily find adequate support when we apply some of the other, perhaps more relevant as well as comprehensive criteria, of evaluating the performance of these state owned enterprises."[36]

Dholakia goes on to add that 'if the private enterprises has also perform equally well on the total factor productivity from the overall performance of Indian economy would have been much better than the one actually observed during recent years."[37]

2.7 CAG REPORTS

2.7.1 Gujarat State Financial Corporation Limited

2.7.1.1 The audit scrutiny regarding non recovery of dues[38]:

- Inspite of irregularity in repayment of earlier two term loans disbursed by the Corporation, the fresh HP assistance to same firm was sanctioned.
- The Corporation relied upon verbal information from the banker of firm about the financial soundness of the firm.
- Though notice under section 138 of Negotiable Instrument Act, 1881 was issued, on dishonour of cheques, the same was never followed with the criminal case.

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[36] IBID, pp 179-80
[37] IBID, pp 165
[38] CAG report March 1999.page 110

- ❖ The existence of the assets purchased out of HP assistance was not ensured by timely inspection and at a belated stage, it was noticed that, assets were not present at the site. Absence of timely inspection also ruled out possibility of re-possession of assets as provided for in the agreement.

2.7.1.2 Deficiencies in appraisal / sanction of term loan - Sanction of loan without verifying the credential of NRI promoters:

- ❖ The Corporation had sanctioned (August 1997) a term loan of Rs.1.70 crore followed by an additional loan (July 1998) of Rs.32 lakh to Vibah Polymers Private Limited, Silvassa for manufacturing stretch blow moulded PVC bottles and mineral water bottles and disbursed Rs.2.01 crore between November 1997 and August 1998. An amount of Rs.3.82 crore (Principal: Rs.2.01 crore, interest: Rs.1.72 crore and others: Rs.9 lakh) was outstanding against the unit (March 2002). The Corporation had not initiated (June 2002) action for invoking personal guarantees, as majority of the promoters were NRIs.[39]

- ❖ The Corporation sanctioned (February 1997) a term loan of Rs.0.90 crore to Bita Writing Instruments (India) Private Limited, Ahmedabad for manufacturing polymer pencils and disbursed Rs.0.75 crore between March 1997 and July 1998 to the loanee. The product being non-traditional and introduced in the State for the first time, could not capture the market from the existing conventional wooden pencil. Consequently, the unit had become a defaulter and the Corporation took possession of the unit in September 1999. The unit was sold by the Corporation for Rs.20 lakh in November 2001, and action for invoking personal guarantee and collateral security for recovery of balance amount of Rs.1.54 crore was not initiated (June 2002). Thus, the failure of the Corporation in properly appraising the marketability of a new project had resulted in non-recovery of Rs.1.54 crore (Principal: Rs.0.72 crore, interest: Rs.0.79 crore and others: Rs.3 lakh) as on 31 March 2002.

- ❖ The Gujarat State financial Corporation sanctioned (May 1998) a term loan of Rs.45 lakh to Yogeshwar Cement Private Limited, Baroda for setting up grinding plant for manufacturing cement and disbursed Rs.44.72 lakh between July 1998

[39] CAG Report, March 2002 Page 62,

and October 1999. Power connection of the unit was disconnected due to non-commencement of production and the unit was closed (August 2000). The unit was taken under possession in November 2001 and its disposal was pending (June 2002). As on 31 March 2002 the total outstanding against this unit was Rs.0.67 crore (Principal: Rs.44.72 lakh, interest: Rs.21.51 lakh and others: Rs.0.31 lakh).

- Gujarat State Financial Corporation sanctioned (July 1995) a term loan of Rs.0.63 crore to Nilkanth Oxygen, Bhavnagar for setting up oxygen gas plant and disbursed Rs.0.53 crore between July and December 1995. Due to non-achievement of production as per rated capacity and not getting desired quality of product from the 'Titan' make plant, the unit became defaulter in the repayment of Rs.47.11 lakh which was subsequently settled for Rs.23 lakh under One Time Settlement scheme (January 2001) by sacrificing Rs.24.11 lakh.[40]

- Sanction of loan to a completed project facing recession and working capital problem:– Himali Steels Limited, Khatraj, an existing unit since March 1998 manufacturing mild steel sheets, had availed a loan of Rs.1.05 crore from Corporation Bank. As it was facing liquidity crunch and financial assistance provided by the bank was inadequate, the unit approached (April 1999) the Corporation with a request to sanction Rs.2 crore as term loan. The Corporation had sanctioned (June 1999) a term ban of Rs.2 crore and disbursed Rs.1.92 crore in August 1999 without ensuring availability of working capital as per general terms and conditions of sanction. Due to recession and continuous working capital problems, the unit became sick and failed to repay the loan with interest (March 2002) amounting to Rs.2.71 crore (Principal. Rs.1.92 crore, interest: Rs.0.76 crore and others: Rs.3 lakh).[41]

- Settlement of dues:- The settlement of cases were taken up by the Settlement Committee (constituted in March 1992) at Head Office for loans about Rs.15 lakh and by Regional Loan Committee at Regions for laons up to Rs.15 lakh. The Committees settled 763 cases having outstanding amount of Rs.77.13 crore at Rs.33.08 crore giving concessions of Rs.44.05 crore during the years 1992-93 and 1993-94.

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[40] CAG Report 2002, page 63
[41] CAG Report 2002, page 64

It was observed that even after giving concessions of 57.11 percent the Corporation could recover only Rs.17.53 crore (June 1994) and amount of Rs.16.45 crore was outstanding.

@ An analysis by Audit about non payment of the dues in 155 cases (outstanding: Rs.28.83 crore) settled by the Committee at Head office revealed that most of the cases were not even subjected to recovery under Section 29 of the SFCs Act. Four cases (outstanding: Rs.40.15 lakh) were settled only for one rupee each.

Thus the exercise of one time settlement was not in the financial interest of the Corporation.[42]

- Out of the total loan of Rs. 828.25 crore as on 31st March 1994, Rs.249.24 crore (including interest of Rs.157.17 crore) were overdue for recovery during the year. The percentage of overdue amount to the total dues increased from 27.2 in 1992-93 to 30.09 in 1993-94).[43]

- Residual recovery:- For recovery of outstanding amount in respect of the units sold, the Corporation had to initiate action by invoking personal guarantees of the promoters. The amount of residual recovery outstanding for the last four years upto 2000-01 was Rs.101.72 crore pertaining to 648 units. Against this, records in respect of 72 units involving an amount of Rs.38.17 crore were made available to audit. Analysis of 72 units revealed that in 59 units involving residual amount of Rs.32.52 crore, the Corporation was yet to identify the guarantor's property, as it failed to obtain evidence of property details such as property card, revenue record, 7/12 utara etc., at the time of executing personal guarantee. Though the Corporation decided (May 2001) to obtain the evidences of properties at the time of sanction of loan, it had not taken action for the loans sanctioned prior to May 2001.[44]

- Imprudent financial assistance:- The Corporation sanctioned (February 1998) financial assistance for purchase of machineries under the scheme to M/s.

[42] CAG report-March 95, page 67
[43] CAG report March 94, page 24
[44] CAG March 2002, Page 71

Hercules Engineering Industries (Unit 'H') and its associate concern M/s. Pioneer Drums and Containers (Unit 'P'), Sarigam, of Rs.1.34 crore and Rs.1.32 crore respectively. The amounts were repayable in 48 instalments ending March 2002, by the units. The Corporation made payments (March 1998) of Rs.1.20 crore and Rs.1.19 crore respectively for purchasing machineries for the units to M/s. ATINS Industries, Ahmedabad (the supplier), who was selected (March 1998) as per suggestion made by the units. However, the supplier did not at all deliver any machinery. Consequently, the Corporation neither made any further payment to the supplier nor the units in turn, repaid the instalments to the Corporation.[45]

2.7.2 Gujarat Mineral Development Corporation Limited

2.7.2.1 Undue benefit to a firm

- The Company decided (May 2000) to give discount on the basic price of lignite to the bulk consumers entering into long-term contracts with the Company for the purchase of lignite. The discount was allowed from June 2000 at the rate of five and eight per cent on the annual purchase quantity of lignite over one lakh to three lakh metric tonne (MTs) and over three lakh MTs respectively. The Company further decided (July 2001) to give the discount at the rate of 08, 12 and 15 percent on the annual purchase quantity of lignite over three lakh to five lakh MTs. five lakh to seven lakh MTs. and over seven lakh MTs. respectively. The Company took this decision mainly to attract Sanghi Industries (firm) which wanted (July 2001) to purchase five to seven lakh MTs. of lignite for its cement plant at Motiber in Kutchh district.

  The Firm after entering into (January 2002) a Memorandum of Understanding (MoU) with the Company for annual purchase of four to seven lakh MTs. of lignite, started to purchase lignite from April 2002. Subsequently, an agreement in this regard was also signed (April 2003) by the Company with the firm for a validity period of three years. As per the terms of MoU and the agreement, the firm was entitled to discount only on the quantity of lignite purchased over three lakh MTs. in a year at the rates as decided in July 2001. The terms explicitly

[45] CAG March 2002, Page no. 95

disallowed discount to the finn on the quantity of lignite purchased below three lakh MTs. in a year.

Audit observed that the firm purchase only 2.77 MTs. of lignite during April 2002 to March 2003. Despite this, the Company, on the request (February 2003 and April 2003) of the firm, allowed (February 2003 and June 2003) discount at the rate of five per cent on the entire quantity of 2.77 Mts lignite, purchased by the firm. This resulted in loss of Rs.62.23 lakh to the Company and undue benefit to the firm.[46]

[46] CAG Report March 2004, page 54