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SICKNESS IN PUBLIC UNDERTAKINGS

MINISTRY OF INDUSTRY
(DEPARTMENT OF PUBLIC ENTERPRISES)

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COMMITTEE ON PUBLIC UNDERTAKINGS 1998-99

FIRST REPORT

TWELFTH LOK SABHA

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

FIRST REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS
(1998-99)

(TWELFTH LOK SABHA)

SICKNESS IN PUBLIC UNDERTAKINGS

MINISTRY OF INDUSTRY
(DEPARTMENT OF PUBLIC ENTERPRISES)

[Action Taken by Government on the Recommendations contained in the 11th Report of the Committee on Public Undertakings (Eleventh Lok Sabha)]

Presented to Lok Sabha on 17 DEC 1998
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4. Shri Lal Muni Chaubey
5. Shri Chittubhai D. Gamit
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2. Shri Joginder Singh — *Joint Secretary*
3. Shri P.K. Grover — *Deputy Secretary*
4. Shri Cyril John — *Assistant Director*

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this First Report on Action Taken by Government on the recommendations contained in the Eleventh Report of the Committee on Public Undertakings (Eleventh Lok Sabha) on 'Sickness in Public Undertakings'.

2. The Eleventh Report of the Committee on Public Undertakings was presented to Lok Sabha on 15th September, 1998. Replies of the Government to all the recommendations contained in the Report were received on 3rd July, 1998. The Committee on Public Undertakings considered and adopted this Report at their sitting held on 15th September, 1998.

3. An analysis of the action taken by Government on the recommendations contained in the Eleventh Report (1997-98) of the Committee is given in Appendix-II.

NEW DELHI;
October 12, 1998
20, *Asvina,* 1920 *(S)*

MANBENDRA SHAH,
Chairman,
Committee on Public Undertakings.

CHAPTER

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Eleventh Report (Eleventh Lok Sabha) of the Committee on Public Undertakings (1997-98) on "Sickness in Public Undertakings" which was presented to Lok Sabha on 12th August, 1997.

2. Action Taken notes have been received from Government in respect of all 24 recommendations contained in the Report. These have been categorised as follows:—

(i) Recommendations/Observations that have been accepted by Government:—
Sl. Nos. 1, 3, 4, 6, 8, 10, 11, 13 to 19 and 22 to 24.

(ii) Recommendations/Oservations which the Committee do not desire to pursue in view of Government's replies:—
Sl. Nos. 5, 20 and 21

(iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:—
Sl. Nos. 2,7,9 and 12.

(iv) Recommendations/Observations in respect of which final replies of Government are still awaited
NIL

3. The Committee will now deal with the action taken by Government on some of their recommendations.

4. **The Committee wish to emphasise that they attach the greatest importance to the implementation of their recommendations. They, therefore, desire that Government should ensure that the recommendations made by the Committee in regard to sick public undertakings are implemented in letter and spirit. Government should evolve a monitoring mechanism to oversee the implementation of recommendations made by the Committee in their 11th Report (11th LS) as well as in the present report.**

A. Impact of Economic Liberalisation on PSUs

Recommendation (Sl. No. 2, Paragraphs 4 and 5)

5. The Committee had observed that as a result of the economic reforms initiated by Government in 1991, those PSUs which were already beleaguered with outdated technology, financial crunch and low productivity could hardly withstand the stiff competition from the multinationals without any financial support. They were of the view that before

throwing the floodgates open to the multi-nationals an environment should have been created for the public sector to face such a challenge or some breathing period should have been provided for the weaker PSUs to cope up with the new situation. The Committee had expressed concern that some PSUs, especially many of the sick ones were yet to recover from the after effects of liberalisation. They had recommended that special efforts should be made to rehabilitate those undertakings which have particularly been adversely affected by liberalisation.

6. The Government have stated in their reply that the factors responsible for the sickness in the central PSUs do not arise primarily from the programme of economic liberalisation. They have stated that sickness in central PSUs was also attributable to factors like low capacity utilisation related to technological design and equipment deficiencies; aging of the plants leading to frequent equipment breakdowns; power shortages; industrial relations problems; rationalisation of surplus manpower through VRS; resource constraints arising from initial sickness, creating difficulties even for purchase of inputs and essential spares for maintenance, leading to a progressively worsening situation and lack of competitiveness. Steps being taken by Government *inter-alia* included induction of new technology, budgetary support, consultancy studies, rationalisation of manpower, etc.

7. The Committee are not satisfied with the reply furnished by Government. It is a well known fact that performance of a number of sick PSUs has gone from bad to worse after the economic reforms were introduced. This was mainly on account of the fact that those companies were ill-equipped to face the challenges of liberalisation. The Committee, therefore, strongly recommend that in addition to the measures being taken by Government like induction of new technology, rationalisation of manpower, etc. special attention needs to be paid to PSUs adversely affected by economic reforms and all possible efforts made to improve their financial health. They would like to be apprised of the action taken by Government in the matter.

B. Creation of Public Sector Modernisation Fund
Recommendation (Sl. No. 3, Paragraph 6)

8. The Committee had felt that failure in technology upgradation was one of the main factors causing sickness in the public sector, especially in the traditional industries like textiles and jute and financially weaker units. According to them the main constraint coming in the way of technology upgradation was scarcity of funds for financing the huge sums of money required for modernisation. The Committee had, therefore, recommended creation of a public sector modernisation fund in which resources could be pooled together through loans, aid, etc. In this connection they had also recommended that part of the money realised through disinvestment of public sector shares should be made available for this purpose.

9. In their reply Government have stated that it has already been decided by the Government in principle to set up a Disinvestment Fund from the proceeds of disinvestment for providing assistance to the PSUs for their revival/restructuring including modernisation, etc. The modalities for operation of the fund are being worked out.

10. The Committee welcome the decision by Government to set up a Disinvestment Fund using the proceeds of disinvestment for providing assistance to PSUs for restructuring and modernisation. In view of the seriousness of the problem of industrial sickness and the urgency involved, the Committee desire that no further time should be lost in working out the modalities of its operation so that financial assistance could be made available to needy public sector undertakings without any further delay.

C. Workers' Participation in Management

Recommendation (Sl. No. 6, Paragraph 9)

11. The Committee had observed that workers' participation in industry at shop floor and plant level was something which was introduced in the public sector as far back as in 1975. They had desired that workers' participation in management should be reviewed in the light of the experience already gained in the last two decades with a view to make it more constructive and result oriented. The Committee had also recommended that as and when the PSUs show signs of sickness, the management should involve the workers in preparing joint revival scheme. They had desired that instructions should be issued to all the PSUs in this regard.

12. The Government have stated in their reply that BIFR, while preparing revival plans for sick PSEs in accordance with provisions of SICA, 1991 consults all concerned including workers. For the non-referable sick enterprises, the management and the administrative Ministries are also preparing strategies in consultation with the workers and officers. Thus the practice of involving workers in the revival strategies is already in vogue.

13. The Committee are distressed to find that Government's reply is silent on the important recommendation of the Committee that the scheme for workers' participation in management should be reviewed in the light of experience already gained in the last two decades in order to make it more constructive and result-oriented. It appears that Governement have not taken their recommendation with the seriousness it deserved. The Committee reiterate their earlier recommendation and desire that implementation of the scheme for workers' participation in industry at shop floor and plant level introduced in 1975 should be reviewed to evaluate its impact and bring about necessary changes with a view to ensure workers' participation in management. They also desire that the Committee should be apprised of the results of the review and the action taken thereon.

D. National Renewal Fund

Recommendation (Sl. No. 7, Paragraph 10)

14. The Committee had observed that large scale employment by the public sector over the years had led to a situation where some of the enterprises were saddled with excess manpower resulting in low level of manpower productivity. This in turn had been a major cause of sickness, since it was an additional burden on the beleaguered PSUs. The Committee had recommended that a system of productively redeploying the surplus labour should be evolved by Government. The Committee had noted that the National Renewal Fund (NRF) was set up with the objective of helping rationalisation of workforce. However, it was seen that the budgetary allocation to NRF came down from Rs. 700 crores in 1994-95 to Rs. 300 crores 1995-96. Even out of the allocation for the year 1995-96, an amount of Rs. 209.58 crores was spent for meeting expenditure on VRS and only Rs. 7.42 crores was spent for counselling, retraining, etc. They had observed that the allocation of NRF was being used mainly for meeting expenditure on VRS. The Committee had recommended that the Fund should be channelised proportionately for dealing with the various problems relating to surplus manpower in the public sector including their retraining and redeployment.

15. In their reply Government have stated that NRF assistance is presently restricted to VRS in Central Public Sector Undertakings and the schemes for workers counselling/retraining/redeployment. Due to financial constraints, sufficient funds have not been available for various schemes envisaged under the NRF Resolution. Funds for implementing VRS in PSUs and workers retraining schemes are allocated keeping in view the availability of funds and demand against the above schemes. The expenditure on VRS scheme as compared to expenditure on retraining and redeployment are bound to be higher as the cost of VRS per employee is approx. Rs. 2 lakhs while the cost of retraining is only about 4% of this cost (approx. Rs. 8000/- per person).

16. The Committee are not satisfied with the reply given by Government. National Renewal Fund (NRF) was originally set up to protect the interests of public sector workers affected on account of rationalisation of work force. It was meant to provide assistance for retraining and redeployment of surplus work force as well as for counselling to affected employees and meeting expenditure on Voluntary Retirement Scheme (VRS). Nevertheless, the trend so far has been to expend major chunk of the amount on VRS which is not is keeping with the original concept of setting up of the Fund. The Committee are also distressed to find that allocation to NRF has been declining steadily with the provisional expenditure during 1996-97 going down further to Rs. 195.63 crores. According to the Committee this would only dilute the purpose of NRF. The Committee desire that adequate funds should be allocated to NRF. Also due importance need to be given for

retraining and redeployment of surplus workers as well as counselling affected employees, besides meeting expenditure on VRS.

E. Rehabilitation of sick PSUs in non-infrastructural areas

Recommendation (Sl. No. 9, Paragraph 12)

17. The Committee had observed that in the process of growth, the public sector had spread into all spheres including the non-infrastructure and non-core areas. This was stated to be yet another cause of diluting the role of public sector and leading to poor performance. They had also taken note of the observation made by the Planning Commission in the Eighth Five Year Plan document that the public sector should make investments only in those areas where investment is of an infrastructural nature which is necessary for facilitating growth and development as a whole and where private sector participation is not likely to come forth to an adequate extent within a reasonable time perspective. In the light of this the Committee had recommended that while it might not always be necessary for the public sector to invest outside the reserved sector in future the Government should not desist from making such investment in cases when it involved rehabilitation of sick public sector units.

18. Government have stated in their reply that investments in PSUs are made on their commercial consideration with a view to sustain growth and viability of the companies.

19. The Committee are constrained to find that Government have not taken their recommendation with a positive approach. It goes without saying that the responsibility for rehabilitation of existing PSUs, irrespective of the fact whether they are in the infrastructural or in the non-infrastructural areas rests with the Government. It is a fact that Public Sector in our country spread into all spheres on account of various compulsions. Nevertheless it would be unfair to hold a view that investments should not be made even for revival of a sick PSU just because it is in the non-core or non-infrastructural sector. The Committee would like to reiterate their earlier recommendation that when it comes to the question of rehabilitation of existing PSUs, there should be no hesitation on the part of the Government to make the required investments.

F. Rehabilitation of IDPL

Recommendation (Sl. No. 11, Paragraph 14 to 16)

20. The Committee had noted that a revival package prepared by IDPL was implemented in 1994-95 with the approval of BIFR. An assistance of Rs. 120 crores required for the restructuring was given by Government. However, the revival package failed to yield the expected results. They had further noted that a modified revival package submitted by IDPL requiring further allocation of funds was not accepted by Government. M/s. A.F. Ferguson was appointed consultant by the operating agency, IDBI, for techno-economic viability study of the revival of IDPL. According to the report of M/s A.F. Ferguson the revival of IDPL has not

been found feasible. The Secretary, Ministry of Chemicals & Fertilizers (Deptt. of Chemicals & Petrochemicals) had informed the Committee that in the light of this, the Ministry had suggested to the Cabinet that IDPL was not revivable any longer and that Government might tell BIFR that it would not like to continue as the chief promoter. Once this was approved by the Cabinet. BIFR would have to seek other options. The Committee had expressed strong apprehensions that in the light of the report and the view taken by the administrative Ministry, IDPL might ultimately be privatised or closed down. They had also expressed their concern about the casual approach on the part of the Ministry while taking a major decision on the future of a crucial company like IDPL. The Committee had felt that the future of IDPL should not be decided on the basis of a single opinion that too given by a private agency. They had recommended that before any final decision was taken on the question of change in ownership of IDPL a second opinion, preferably by a public sector consultancy, should be taken promptly.

21. Government have stated in their reply that in accordance with Section 17(2) of the SICA, 1985, the BIFR approved a revival package which had been drawn up by IDPL and which had been informally vetted by the Industrial Development Bank of India (IDBI). The Government fulfilled all its responsibilities under the agreed programme and when, inspite of the liberal financial assistance, IDPL failed to achieve the targets set by itself, the matter was taken before a Group of Ministers (GoM) which decided that Department of Chemicals and Petrochemicals should move BIFR to appoint an operating agency to appraise the modified package prepared by IDPL. The Department was asked to make it clear to the BIFR that at that stage, the Government was not committed to any financial assistance.

22. They have further stated that the BIFR under Section 17(3) of the SICA 1985, appointed IDBI as the operating agency. M/s A.F. Ferguson & Co. (AFF) a reputed consultant, identified by IDBI, were engaged for the diagonstic study of IDPL. M/s AFF stated that on 'as is where is' basis, IDPL was not revivable and that it would need massive investment, substantial cut down in manpower, radical changes in the marketing set up and drastic reduction in overheads if IDPL was to be revived. They advocated that IDPL would have to compete in the market place with other pharmaceutical companies and would have to succeed in that environment. It was IDBI, the BIFR appointed Government agency, which expressed its inability on the basis of the findings to prepare an economically viable revival package. An Inter-Ministerial Committee, chaired by the Secretary, Deptt. of Chemicals and Petrochemicals and comprising of the Secretary, Deptt of Expenditure, the Secretary, Ministry of Labour and a representative of the Planning Commission also examined the issues relating to IDPL's future. The Committee was of the unanimous view that under the present circumstances, with no revival in sight, there is

no rationale for the Government to bear that heavy burden of payment of wages and salaries for an indefinite period.

23. It was further stated by Government that the latest development in this regard is that a Group of Ministers, set up for the purpose, has asked the management, in consultation with the Unions, to prepare a revival package within the broad parameters indicated by the Government of India. Unitwise revival plan had been received from IDPL and was being exmined by the Government.

24. In view of the fact that the revival of IDPL had been hanging fire for quite some time, the Committee would like to emphasise that the revival of the Company should be given top priority. Unitwise revival plan received from IDPL should be examined without loss of further time and it should be followed up in the right earnest. They would like the Government to pursue it to its logical conclusion this time and at the same time ensure that IDPL continues to be a public sector undertaking. The Committee desire to be apprised of the action taken by Government in this regard.

G. Revival of HFC Units

Recommendation (Sl. No. 12, Paragraphs 17 to 18)

25. The Committee had noted that performance of Namrup-I, Namrup-II, Barauni and Durgapur units of HFC had not been satisfactory and revamping of Haldia Project was found to be not feasible. It was also pointed out that in their 5th Report and 14th Action Taken Report on HFC (Tenth Lok Sabha) the Committee had recommended that in view of the serious financial constraints being faced by the Company, the proposals for revamping and rehabilitation of its plants should be expedited. They had observed that although a revival package to revamp Durgapur, Barauni and Namrup units of the Company was formulated by the Ministry and it received approval of the Government on 20th April, 1995, it had not been implemented so far because funding arrangements of the order of Rs. 464.93 crores had not been tied up. Besides, a proposal for untied loan from Export-Import Bank of Japan was pending for want of certain information from the Government. HFC had informed the Committee that the Company would interact with EXIM-J to quantify the extent of funding facility likely to be available. However, during evidence, the Secretary, Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) had informed the Committee that ICICI, which was appointed operating agency by the BIFR, had come out with a package which would be examined and sent for inter-ministerial consultation.

26. The Committee had expressed their strong displeasure at the lack of seriousness on the part of the Government in tackling the problem of sickness in HFC. They felt that time is being wasted in getting one proposal after the other prepared for revamping the units without any serious efforts being made to arrive at any final decision on those proposals. The Committee desired that a final decision should be taken on

the revival of HFC's plants without delay. They had recommended that conscientious efforts needed to be made for tying up the necessary finance and implementing the rehabilitation package without loss of time.

27. Government stated in their reply that since the fresh investment required for the revamp of the functional units of HFC could not be mobilised from healthy fertilizer PSUs/Cooperatives and financial institutions as stipulated in the approval accorded by the Government in April, 1995 for the revival package of HFC, the revival package was reformulated from the standpoint of funding by the financial institutions on the basis of the report of the Expert Group led by ICICI. The revised cost of revamp of Barauni, Durgapur and Namrup units was estimated at Rs. 869 crore. In addition, other reliefs and concessions including write off of interest and loans payable to the Government to the tune of Rs. 3520 crore are also envisaged to make the package viable. Government have further stated that after inter-ministerial consultations, the revival package was revised taking into account the considerations of unitwise viability and possibility of tieing up the funds required for fresh investment. The proposal for the revamp of the Namrup units of HFC with an estimated expenditure of Rs. 350 crore has been approved by the Government on October 1, 1997. The decision in respect of the other units is yet to be taken. Once the revival package is approved by the Government, the same would be submitted for the final approval of the BIFR.

28. The Committee are greatly distressed to note that despite their repeated recommendations in their three reports there has been no substantial progress towards the revival of HFC's units. Proposals are being got prepared one after the other without arriving at any conclusion. As is seen from the revised estimates, the cost of revival has been going up with the passage of time making it all the more difficult to tie up the necessary finance for implementing the rehabilitation package. This is a clear indication of the lack of resolve on the part of the Government to deal with the problem. Delay in the rehabilitation of the units of HFC is a matter of grave concern to the Committee. They trust that revamp of Namrup units already approved by Government on October 1, 1997 is being implemented in all seriousness. The Committee desire that a final decision should be taken by Government on the revival of Durgapur and Barauni units also without any further loss of time. They would like to be apprised of the action taken by the Government in this regard.

H. Revival of NTC Mills

Recommendation (Sl. No. 13, Paragraphs 19 to 21)

29. The Committee had observed that out of 120 mills, 117 have been incurring continuous losses from 1993-94 to 1995-96. Except NTC (Tamil Nadu & Pondicherry) all the subsidiaries of NTC had been referred to BIFR. They noted that Government had approved a Turn Around Strategy for NTC in 1992 which included phasing out and merger of some

units and the modernisation of 55 mills at an investment of Rs. 532.78 crores. In 1993, a special Tripartite Committee was appointed to review the Turn Around Strategy. The Ministry of Textiles appointed 4 premier Textile Research Associations of the country to draw up fresh plans for revival of NTC mills. Based on the revival plans prepared by the Textile Research Associations and the recommendations of the Special Tripartite Committee thereto, the Turn Around Strategy was approved by the Cabinet in May, 1995 which included modernisation of 79 mills at an investment of Rs. 2005 crores. It was expected that on implementation of the revised Turn Around Strategy, the Company would earn an overall profit of Rs. 114.47 crores per annum. The entire funding for modernisation was proposed to be made from out of the sale of surplus land and buildings available with NTC mills. The Committee had also noted that the revised Turn Around Strategy had not been implemented since no progress could be made in effecting the sale of land. The delay was stated to be on account of non-cooperation of the State Governments, especially the Government of Maharashtra from where 80% of proceeds of sale was expected to come. In the meanwhile Government appointed another Committee of officials to look into the matter and on the basis of its Report the Ministry of Finance was understood to have recommended closure of 107 mills of the Corporation. The Committee has expressed their displeasure at the manner in which Government had proceeded with the revival of NTC mills. The Committee had noted with concern that the move of closure of 107 mills of the Corporation would render more than one lakh employees jobless. They had recommended that Government should earnestly try to implement the Turn Around Strategy which had already been approved and the matter relating to sale of surplus land should be pursued with State Government at the highest level.

30. In their reply Government have stated that in respect of NTC. Government had in August, 1992 approved a Turn Around Strategy envisaging modernisation of 55 mills at an outlay of Rs. 532.78 crores, rationalisation or surplus workforce covering 79980 workers/employees under VRS at a cost of Rs. 689 crores and out right closure of 14 heavily losing mills and closure by merger of 20 mills and provision of Rs. 200 crores towards interim liquidity. By way of implementation. VRS has been offered and availed by 46217 workers/employees at a cost of Rs. 377 crores as on 31 March, 1997. Towards interim liquidity an amount of 150 crore was provided. However, modernisation did not take off due to reluctance of the financial institutions to provide funds to NTC because of sickness and reference to BIFR. Again, Government approved a Revised Turn Around Strategy for NTC on 9 May, 1995 envisaging modernisation of 79 mills of NTC at an outlay of Rs. 2005.72 crores, structuring of 36 unviable mills into 18 viable mills and rationalisation of surplus workforce. As 8 out of 9 subsidiaries of NTC were referred to BIFR and were declared sick by the Board and also since the entire funding of

Rs. 2005.72 crores funding was to be raised from sale of surplus lands and assets which has not materialised, this plan could not be implemented. Non approval of the modernisation scheme by the BIFR was also one of the factors leading to non implementation of the Revised Turn Around Strategy of 1995.

31. The earlier Minister of Textiles as also the present MOT has met the Chief Minister of Maharashtra several times to prevail upon him to permit sale of lands and assets of NTC mills in Maharashtra from where more than 80% of the funds are estimated to accrue. Further, the Hon'ble Speaker of the Lok Sabha had constituted a Committee of five members of Parliament, headed by MOT to meet the Chief Minister for persuading the Government of Maharashtra to obtain clearance. Accordingly, the MOT alongwith the Members of Parliament, met the Chief Minister on 7th June, 1997 and impressed upon them to grant necessary clearance for sale of 100% of the surplus land, without surrendering any land by NTC because NTC is a Public Sector Undertaking which deserves special treatment in the interest of the workers. The Chief Minister assured that the State Government would take a decision in this regard. It was also agreed that the Chief Secretary of Maharashtra and the Secretary (Textiles), Government of India would further discuss and work out the modalities. Accordingly, the Secretary (Textiles) had discussion with the Chief Secretary of Maharashtra on June 17, 1997 and the Chief Secretary of Maharashtra agreed to place all facts before the State Government for taking a suitable decision. The Minister of Textiles again met Chief Minister, Maharashtra in September, 1997. However, nothing has been heard from them. Thus, the funds required for modernisation could not be mobilised.

32. According to the Government it has not been possible to make headway with the 1995 Turn Around Plan in view of the above facts. In the meanwhile, on account of cross-subsidisation of funds from profitable mills to loss-making mills, the viable mills are also facing financial crunch. The Government is, meeting the shortfall faced by NTC for payment of wages and salaries to its workers. Extending budgetary support towards payment of wages and salaries every year has been providing to be an unproductive exercise in view of the fact that no definite target is in sight for the revival of the mills. In these circumstances, the NTC had been asked to prepare a unitwise viability plan for revival of mills. Accordingly, they have submitted a report which is under consideration of the Government. As per the report, 49 mills are found to be viable as their net worth would become positive. The remaining 70 mills are not found viable which needs to be closed and the interests of the workers could be protected by offering an attractive VRS.

33. It is a matter of great concern to the Committee that there has been no progress in the revival of NTC mills so far. As a result of this the health of the Company has further deteriorated. Paying of wages and salaries to the workers has become a heavy burden on the Government. It is surprising

to note that all the efforts made by Government to effect the sale of surplus land owned by NTC in Maharashtra have not yielded any positive response. The Committee desire that the matter should be pursued with the Government of Maharashtra at the highest level. They also recommend that in the meantime the unitwise viability plan submitted by NTC should be pursued vigorously and a decision taken on the revival of NTC mills as early as possible.

I. Board for Industrial and Financial Reconstruction

Recommendations (Sl. Nos. 16, 17 & 18, Paragraphs 24, 25 & 26)

34. The Committee had noted that in view of the alarming growth of sickness in industrial enterprises and the hurdles coming in the way of their speedy rehabilitation, it has become a pragmatic compulsion on the part of the Government to enact the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) for the rehabilitation of sick industrial companies in the private sector. In pursuance of the industrial policy statement on 24 July, 1991 SIC Act was amended to bring Central and State Government Undertakings under the purview of the Board for Industrial and Financial Reconstruction (BIFR). They had further noted that BIFR was set up in 1987 as a fast facilitation agency with a single point reference and rapid disposal. An important issue that has been brought to focus before the Committee was the question of desirability of referring sick PSUs to the BIFR. They had recommended that decision should be taken on the question of referring sick PSUs to BIFR after assessing the merits and demerits of the existing arrangement. The Committee had expressed their displeasure about inordinate delays in disposal of cases by BIFR which have been detrimental to the rehabilitation of sick companies. They had also recommended that in the light of the performance of BIFR its role and structure should be reviewed and necessary restructuring should be done to facilitate more efficient and speedier functioning of BIFR. The Committee had expressed the view that the entire procedure of processing revival of sick units should be streamlined with prescribed time limits so that the whole exercise could be completed within a period of six months to one year. They had desired that these recommendations should be taken into consideration before passing the Bill which has been introduced in Lok Sabha for replacing the SIC Act, 1985.

35. Government have stated in their reply that the issues raised by the Committee were dealt in the Sick Industrial Companies (Special Provision) Bill, 1997 (SICA Bill) introduced in Lok Sabha on 16 May, 1997. With the dissolution of Lok Sabha in December, 1997 the Bill lapsed. Pesently the Bill is being reviewed. They have further stated that the recommendations of the Committee on Public Undertakings would be taken into consideration at the time of review of the SICA Bill.

36. The Committee need hardly re-emphasise the urgency of reviewing the SIC Act and making BIFR more effective in the light of its working so far. By merely introducing a legislative measure for referring sick PSUs to BIFR, no tangible progress has been achieved in coping with the problem of sickness in the public sector. It was still doubtful if BIFR had played an effective role in the rehabilitation of sick public undertakings. Inordinate delay in disposal of cases by the Board had only compounded the problem of industrial sickness. The Committee are fully convinced that to deal with the problem of sickness effectively, it is necessary to review the SIC Act and streamline the working of BIFR. However, with the dissolution of Eleventh Lok Sabha the Sick Industrial Companies (Special Provision) Bill, 1997 introduced in Lok Sabha on 16 May, 1997, which had dealt with some of these issues, lapsed. The Committee, therefore, recommend that immediate steps should be taken to review the SIC Act with the view to making BIFR more effective. They also desire that the recommendations of the Committee in this regard should be taken into consideration while reviewing the SIC Act.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 1, Paragraphs 1 to 3)

The origin of the public sector in India can be traced back to the early years of planning. Independence set in an urge for rapid industrialisation. Domestic capital in the private sector was scarce and foreign capital was not easily available. To tide over the problems which were being faced by the country on economic, social and strategic fronts, the Industrial Policy Resolution of 30 April, 1956 laid down that all basic and strategic industries and public utilities should be in the public sector. Accordingly, the public sector was set up with the objective of strengthening the economy by entrusting to it the development of certain specified basic industries and services. Over the period of last four decades there has been a phenomenal growth of the public enterprises in terms of investment, scope, activities and overall development . As against 5 enterprises under the Union Government with an investment of Rs. 29 crores in 1951, there were as many as 243 Central public sector enterprises (excluding financial institutions and insurance companies) with an investment of Rs. 1,78,628 crores as on 31 March, 1996.

In terms of the objectives specified in the Industrial Policy Resolution, public enterprises have certainly established their dominance in basic and strategic industries like coal, petroleum, steel, non-ferrous metals, heavy engineering etc. and a substantial presence in industries like machine tools, fertilizers, basic and intermediate chemicals, drugs, etc. However, eventually its coverage went far beyond the basic heavy industries into light manufacturing, variety of consumer goods, electronics, high-tech products, construction, consultancy services and tourism and hotel industries. Notwithstanding the phenomenal growth, overall performance of the public sector has been far from being satisfactory, especially in terms of generation of resources and profitability. The public sector, as envisaged in the Industrial Policy Resolution, was to be run on commercial and business lines and contribute to the growth and development of the nation by providing surplus reinvestible resources. It was also deployed as an instrument of socio-economic development with a view to develop sound agricultural and industrial base, overcome economic and social backwardness, generate employment opportunities and balanced regional development. Obviously the public sector has played a tremendous role in expanding production, opening up new areas of technology and building up a reserve of technical competence in a number of areas. It has also played a vital role in the economic development, industrialisation and balanced regional development of our country. Nevertheless, it goes without saying that a strong and vibrant public sector cannot be one with financially weak foundations. A number of PSUs have been making substantial losses continuously for a number of years leading to continuing drain on the exchequer and aggravating the problem of sickness in the public sector. Sickness, particularly in the public sector, has serious ramifications because of its direct impact on the national economy. It leads to various ill effects like loss of production, loss of revenue to the Government and locking up of investible funds. As such the phenomenon of sickness in the public sector is a matter of serious concern to the Committee.

Although the percentage of net profit of PSUs to capital employed has increased from 2 in 1991-92 to 2.33 in 1992-93, 2.84 in 1993-94, 4.42 in 1994-95 and 5.68 in 1995-96, the number of loss making PSUs during the corresponding period was 102, 106, 116, 109 and 101 units and the amount of loss involved was Rs. 3723 crores, Rs. 4113 crores, Rs. 5223 crores, Rs. 4883 crores and Rs. 4826 crores respectively. The figures indicate that the malady of losses in public undertakings has only aggravated over the years. The Committee cannot but express their strong displeasure over the growing predicament of sickness in the public sector. Admittedly, one of the main factors responsible for this phenomenon is the recurring losses by many of those companies which were taken over by Government from the private sector, on account of the delay to go in for restructuring and modernisation. The cavalier and lackadaisical manner in which Government has been dealing with such a vital issue like restructuring of PSUs is, to say the least, deplorable. The Committee strongly feel that the situation is quite alarming and calls for concerted efforts by all concerned to check the phenomenon. The succeeding paragraphs of this Report deal with some of the common causes and other issues relating to sickness and the recommendations of the Committee.

Reply of the Government

The serious concern expressed by the Committee on public undertakings has been noted for guidance and prompt action for control of sickness in and rehabilitation of sick public enterprises. It is submitted that within the statutory framework of the Sick Industries Regulation Act and the supervision of BIFR, a number of measures are being taken by Departments having such enterprises including restructuring and modernisation.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/4(12)/97-Fin. dated 1 July, 1998]

Recommendation (Sl. No. 3, Paragraph 6)

Failure in technology upgradation is one of the main factors causing sickness in the public sector, especially in the traditional industries like textiles and jute and financially weaker units. One of the sequels of liberalisation is the precedence being accorded to technological excellence. With many of the enterprises opting for the latest technology available in the market, the basic strength in the field of competition has emerged as superior technology. Technology is the touch stone of cost efficiency, because older the technology, higher the cost. The Committee cannot therefore over emphasize the urgent need for technological upgradation by public undertakings. The main constraint coming in that way of technology upgradation is scarcity of funds for financing the huge sums of money required for modernisation. However, it is strange to note that although Government pleads its inability to finance modernisation of old plants, in most of the cases large amount of money is being made available to sustain the units after their financial health has deteriorated. Had this assistance been made available in a more planned way for the modernisation of the plants, the Committee are sure that the state of sickness in the PSUs would not have aggravated to this extent. The situation now calls for some sort of an arrangement of finding resources for modernisation of the public sector units. The Committee would therefore, suggest the creation of a public sector modernisation fund in which resources could be pooled together through loans, aid, etc. In this connection the Committee recommend that part of the money realised through disinvestment of public sector shares should be made available for this purpose. The Committee desire that the decision taken in the matter be communicated to them within three months of the presentation of this Report.

Reply of the Government

It has already been decided by the Govt. in principle to set up a Disinvestment Fund, from the proceeds of Disinvestment for providing assistance to the PSUs for their revival/restructuring including modernisation etc. The modalities for operationalisation of the fund are being worked out.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/4(12)/97-Fin. dated 1 July, 1998]

Comments of the Committee

(Please *see* paragraph 7 of Chapter I of the Report)

Recommendation (Sl. No. 4, Paragraph 7)

Another major reason identified for industrial sickness is management failure. This seems to be all the more relevant in the case of public enterprises. The Committee note with concern that in a number of sick PSUs there is no full-time chief executive and also there have been frequent changes of the incumbent. There are also, reportedly, quite long intervals between one chief executive leaving the Company and the successor taking over on account of lack of effective succession planning. The damage is even more disastrous when it is a sick company. Surprisingly Government appears to be less concerned about finding regular chief executives for loss making PSUs as compared to the blue chip companies. However, it needs no emphasis that remaining headless for too long a period, frequent changes of the incumbent and undue delay in succession planning are all detrimental to the health of any enterprise and would only push the sick companies further into the red. The Committee have dealt with this aspect pertaining to top management in the public sector in several reports earlier. The recommendation of the Committee in their 49th Report (7th Lok Sabha) that "frequent changes of chief executive should be avioded and there should be a minimum tenure of five years subject to satisfactory performance" was accepted by Government. In their 10th report (Eleventh Lok Sabha) on ITI Ltd. the Committee have recommended the Government to take advance action and ensure that the post of Chief Executive of an undertaking is filled up as and when it falls vacant. The Committee desire that this being a very vital issue for the efficient functioning of a company should receive focused attention of the Government. The Committee should be informed of the number of posts of chief executives now lying vacant and time bound action plan should be drawn up to fill up the post of chief executives in those Undertakings which are functioning without a full time incumbent. Efforts should be made also to ensure effective succession planning and continuity in top management.

Reply of the Government

The recommendations of COPU have been noted.

Recently, guidelines have been issued vide the Department of Personnel and Training's D.O. letter dated 23.5.97 as amended on 31.12.97, stipulating the time frame for processing selections to the posts of Chief Executives and Functional Directors in the Central Public Sector Undertakings. As per the guidelines, the PESB will initiate the selection process six months in advance from the date on which the vacancy will arise. Even in the case of unforeseen vacancies at the level of Chief Executives and Functional Directors, occurring due to various reasons, like resignation, shifting of the Board Level Executives from one PSU to another or within the same organization or due to demise, etc., the PESB initiates selection process immediately when the vacancy is reported to it by the Ministry/Department concerned. Normally the selection process takes about eight to ten weeks before the PESB finalises its recommendations. In the case of open advertisement in the newspapers, the time taken is slightly longer.

Vide the Department of Personnel and Training's OM dated 15.10.97 powers have been delegated to the Ministries and Departments to make appointments of CMDs and Functional Directors in Schedule 'C' and 'D' companies. This delegation has been done so as to expedite the appointments of Board level functionaries in these PSUs.

The Deptt. of Personnel & Training *vide* Office Order dated 1.6.98 have conveyed that in respect of sick and potentially sick Public Sector

Undertakings, the Administrative Secretary of the Ministry/Department concerned in consultation with the Chairman, Public Sector Enterprises Selection Board (PESB) and with the approval of the Cabinet Secretary, could take a decision at any stage in the process of recruitment to the post of CMD of the PSU, to take a person as on deputation from any of the All India/Group 'A' Central Services without insisting on the rule of permanent absorption.

In cases where deputation of AIS/Group 'A' Central Services officer on a whole time basis is not considered necessary in view of the extremely poor financial state of affairs of the PSU, an appropriate additional charge arrangement could also be recommended/decided upon.

As on 30.4.98 there were 29 posts of Chief Executives vacant in Central Public Sector Undertakings and action has already been initiated to fill these vacancies.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/4(12)/97-Fin. dated 1 July, 1998]

Comments of the Committee

(Please *see* paragraph 10 of Chapter I of the Report)

Recommendation (Sl. No. 6, Paragraph 9)

A suggestion that has been made before the Committee for improving the working of PSUs is participative managment. Workers' participation in industry at shop floor and plant level is something which was introduced in the public sector as far back as in 1975. The Committee suggests that the workers' participation in management should be reviewed in the light of the experience already gained in the last two decades with a view to make it more constructive and result oriented. They are of the view that consultation with workers on important matters is essential. This becomes very relevant in respect of sick PSUs. The Committee recommend that as and when the PSUs show signs of sickness, the management should involve the workers in preparing joint revival scheme. Necessary instructions may be issued to all the PSUs in this regard.

Reply of the Government

BIFR, while preparing revival plans for sick PSEs in accordance with provisions of SICA, 1991 consults all concerned including workers. For the non-referable sick enterprises, the management and the administrative Ministries are also preparing strategies in consultation with the workers and officers. Thus the practice of involving workers in the revival strategies is already in vogue.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/4(12)/97-Fin. dated 1 July, 1998]

Comments of the Committee

(Please *see* paragraph 13 of Chapter I of the Report)

Recommendation (Sl. No. 8, Paragraph 11)

The public sector has been set up with a complex mix of socio-economic objectives which endow on it certain social obligations like balanced regional development, generation of employment, integrated rural development, development of small scale industries etc. Immediately after independence, neither was sufficient private investment available nor were the investors willing to come forward to invest in those spheres where risk was involved. The country had no other option to tide over the problems which were being faced on economic, social and strategic fronts other than to deploy the public sector as an instrument to develop sound agricultural and industrial base, overcome economic and social backwardness, generate employment opportunities and promote balanced regional development. It is beyound doubt that the public sector has proved to be a powerful agent of the Government in discharging social responsibilities. The Committee have dealt with social responsibilities of public undertakings in detail in their 24th Report and 38th Action Taken Report (Tenth Lok Sabha). The Committee reaffirm that being potent instruments of the State, the public sector has a significant role to play in meeting social objectives. However, they desire that public undertakings should not undertake social responsibilities to the extent of undermining their financial health. The Committee would, therefore, suggest that PSUs which are declared sick or have been in the red consecutively for a period of three years should not take up fresh social responsibilities till their turn around.

Reply of the Government

In November, 1994, based on recommendations made by Committee on Public Undertakings (1993-94) in its 24th Report on 'Social Responsibilities and public Accountability of Public Undertakings' DPE has issued instructions on the subject vide OM No. 2 (1)/94-GM dated 29.11.94. It is for the individual PSUs to identify and implement social responsibilities keeping in view its financial ability to sustain such activities, operating environment and provisions in its MOMMA/Statute. In line with the recommendation of COPU, sick and loss making PSUs are not forced to take up fresh social responsibilities till their turn around.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)/97-Fin. dated 1 July, 1998]

Recommendation (Sl. No. 10, Paragraph 13)

Another aspect to which the Committee would like to draw attention is the need for operational autonomy to public undertakings. The Committee have dealt with this question in detail in their 32nd Report (Eighth Lok Sabha). For any enterprise to function efficiently, it needs to operate in an environment of autonomy. Without autonomy accountability has no meaning. Public enterprises are expected to function with a good deal of autonomy as per existing policy guidelines. However, the Committttee find that in actual practice the freedom of operation of the managment is often curtailed by formal and informal Government interventions. While the PSUs are expected to earn profits comparable to that earned by the private sector, they are denied the freedom enjoyed by the latter. Even in less important matters the chief executive of a PSU is required to take clearance from the Ministry. While some of these arises from the general nature of our economic structure, others stem from poor managerial practice within the enterprises and undue interference by Government. The Committee wish to emphasis that in an environment of stiff competition in the post-liberalisation. era, the public sector cannot function efficiently without sufficient freedom of operation. Giving autonomy to PSUs would mean that the Ministry is responsible for the formulation of policy and the public sector management for the implementation of that policy. The interaction should be only to facilitate overall Government supervision without impairing the efficiency of operation of the enterprise. The Committee note with concern that lack of autonomy has played havoc with the working of the public sector. They recommend that an organisational pattern should be evolved which would reduce the points of intervention by Government in the management of the PSUs without minimising Government's right to have needed information for evaluating their performance. The Committee would like to be apprised of the step taken by Government in this regard.

Reply of the Government

Delegation of enhanced powers to the PSUs is a continuous process. Earlier, the MOU signing co·ıpanies have been given additional powers for incurring capital expenditure as well as in other operational matters. Recently the profit making companies which fall within the category of Navratnas/Mini Ratnas have also been delegated substantial powers both financial and managerial. This would enable these PSUs to work with sufficient freedom.

The Govt. have identified 11 PSUs for enhanced delegation of autonomy. The Board of Directors of these PSUs have been delegated powers *inter-alia* to incur capital expenditure, to enter into joint ventures, to set up subsidiaries, to formulate the schemes of personnel and Human Resources Management etc. without any reference being made to the Govt. Besides, the other profit making PSUs, subject to certain guidelines in the matter, have been delegated financial powers to incur capital expenditure and to enter into joint ventures, depending upon their profitability and Net Worth. The Financial powers of the Board of Directors of the other profit making PSUs have also been enhanced substantially. The action already taken are aimed at reducing the points of intervention by Government in the Management of PSUs.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)/97-Fin. dated 1 July, 1998]

Commendation (Sl. No. 11, Paragraphs 14 to 16)

The Committee took up Indian Drugs & Pharmaceuticals Ltd. (IDPL) and Hindustan Fertilizer Corporation Ltd. (HFC) for case study in the context of the horizontal study on sickness in public undertakings. IDPL is a flaring example of a public sector enterprise having been crippled with industrial sickness. It is alarming to observe that the Company has been incurring losses since its inception except for a brief period of five years from 1974-75 to 1978-79. As on 31 March, 1996 the accumulated loss of the Company was provisionally estimated at Rs. 690.15 crores as against the paid up capital of Rs. 267 crores. Some of the main reasons for sickness identified were incidence of social objectives, certain regulations on manufacture and sales, price control, high employment cost, interest burden, etc. The Company was declared sick by BIFR on 12 August, 1992. It is a matter of grave concern that except for nominal operations in Gurgaon and Madras, production in the plants of IDPL has been discontinued. The Company has not been able to pay even the salaries of their employees regularly.

The Committee note that a revival package prepared by IDPL was implemented in 1994-95 with the approval of BIFR. An assistance of about Rs. 120 crores required for the restructuring was given by Government. However, the revival package failed to yield the expected results. Against the targeted gross profit of Rs. 52.35 crores for the year 1994-95, the Company incurred a loss of Rs. 25.88 crores. Against a targeted reduction of manpower of 3300 persons, only a reduction of 2059 persons could be achieved. As regards the exact reasons for non-realisation of the targets there seemed to be difference of opinion between the Ministry and the Company. A modified revival package submitted by IDPL requiring further allocation of funds was not accepted by Government. M/s A F Ferguson was appointed consultant by the operating agency, IDBI, for techno-economic viability study of the revival of IDPL. According to the report of M/s A F Ferguson the revival of IDPL has not been found feasible.The Secretary, Ministry of Chemicals & Fertilizers (Deptt. of Chemicals & Petrochemicals) informed the Committee that in the light of this, the Ministry has suggested to the Cabinet that IDPL is not revivable any longer and that Government might tell BIFR that it would not like to continue as the chief promoter. Once this is approved by the Cabinet, BIFR would have to seek other options.

The Committee express their deep concern over these developments. They have strong apprehensions that in the light of the report and the view taken by the administrative Ministry, IDPL might ultimately be privatised or closed down. It is disheartening to find such a casual approach on the part of the Ministry while taking a major decision on the future of a crucial company like IDPL. The Committee strongly feel that the future of IDPL should not be decided on the basis of a single opinion that to given by a private agency. On the question of obtaining a second opinion before taking any final decision on the future of IDPL, the Secretary, Ministry of Chemicals & Fertilizers (Deptt. of Chemicals & Petrochemicals) only gave an evasive reply: "Sir, I will have to seek instructions on that." The Committee have taken strong exception to the callous attitude of the Government. They desire that before any final decision is taken on the question of change in ownership of IDPL a second opinion, preferably by a public sector consultancy, should be taken promptly under intimation to them.

Reply of the Government

IDPL, after it became sick, had to be referred to the Board for Industrial & Financial Reconstruction (BIFR) as per the Sick Industrial Companies (Special Provisions) Act, 1985 (SIC, 1985). In accordance with Section 17(2) of the SICA, 1985, the BIFR aproved a revival package which had been drawn up by the company and which had been informally vetted by the Industrial Development Bank of India (IDBI). The Government fulfilled all its responsibilities under the agreed programme and when, inspite of the liberal financial assistance, IDPL failed to achieve the targets set by itself, the matter was taken before a Group of Ministers (GOM) which decided that Department of Chemicals and Petrochemicals should move BIFR to appoint an Operating Agency to appraise the modified package prepared by IDPL. The Department was asked to make it clear to the BIFR that at that stage, the Government was not committed to any financial assistance.

The BIFR under Section 17(3) of the SICA 1985, appointed IDBI as the Operating Agency. M/s. A.F. Ferguson & Co. (AFF) a reputed consultant, identified by IDBI, were engaged for the diagnostic study of IDPL. M/s AFF did not come to the conclusion that IDPL was not revivable at all. However, they did state that on 'as is where is' basis, IDPL was not revivable and that it could need massive investment, substantial cut down in manpower, radical changes in the marketing set up and drastic reduction in overheads if IDPL was to be revived. They advocated that IDPL would have to compete in the market place with other pharmaceutical companies and would have to succeed in that environment. It was IDBI, the BIFR appointed Govt. agency, which expressed its inability on the basis of the finding to prepare an economically viable revival package. It may also be mentioned that an Inter-Ministerial Committee, chaired by the Secretary, Deptt. of Chemicals and Petrochemicals and comprising of the Secretary, Deptt. of Expenditure, the Secretary, Ministry of Labour and a representative of the Planning Commissoin also examined the issues relating to IDPL's future. The Committee was of the unanimous view that under the present circumstances, with no revival in sight, there is no rationale for the Government to bear the heavy burden of payment of wages and salaries for an indefinite period.

All these facts were brought to the notice of the Hon'ble Committee on Public Undertakings and in this context, attention is drawn to paras 5.9 to 5.13 of the report. The latest development in this regard is that a Group of Ministers, set up for the purpose, has asked the management, in consultation with the Unions, to prepare a revival package within the broad parameters indicated by the Govt. of India. Unitwise revival plan has been received from IDPL and is being examined by the Government.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)/97-Fin. dated 1 July, 1998]

Comments of the Committee

(Please *see* paragraph 24 of Chapter I of the Report)

Recommendation (Sl. No. 13, Paragraphs 19 to 21)

Industrial sickness is more rampant in the PSUs/in textile and Jute sector. Most of the units in the textile sector have been incurring continuous losses over the years. NTC which has 120 mills managed by nine subsidiary corporations was set up with the main objective of managing the affairs of the sick textile mills taken over by the Government. The Committee are dismayed to observe that out of 120 mills, 117 have been incurring continuous losses from 1993-94 to 1995-96. Except NT (Tamil Nadu & Pondicherry) all the subsidiaries of NTC have been referred to BIFR. This subsidiary has also been incurring losses since 1992-93 and it might also be referred to BIFR in case it incurs losses during 1997-98 also. The accumulated losses of British India Corporation Ltd. (BIC), another public sector company in the textile sector, was Rs. 257.85 crores as against the total net worth of Rs. 212.69 crores as on 31 March, 1996. Both subsidiaries of BIC namely, Elgin Mills Company Ltd. and Cawnpore Textile Ltd. have also accumulated losses amounting to Rs. 411.05 crores and Rs. 56.35 crores as against total net worth of Rs. 409.81 crores and Rs. 55.72 crores respectively at the end of 1995-96. According to the Ministry of Textiles the main external factor for sickness in NTC was the growth of powerloom in cloth production which has increased considerably over the last decade. On the other hand, mill production has dwindled from 25% in 1985 to 7% after a decade. The internal factors causing sickness are obsolete technology, delay in modernisation and discontinuation of budgetary support. The Secretary Ministry of Textiles was candid enough to admit before the Committee that the objectives of taking over the mills had not been achieved. The condition of NTC and BIC mills even after several years of their taking over is nothing more impressive than what it was before. The Committee have come the inescapable conclusion that failure to take adequate and timely steps for revival of these units is mainly responsible for the present situation.

Government had approved a Turn Around Strategy for NTC in 1992 which included phasing out and merger of some units and the modernisation of 55 mills at an investment of Rs. 532.78 crores. In 1993, a

Special Tripartite Committee was appointed to review the Turn Around Strategy. The Ministry of Textiles appointed 4 premier Textile Research Associations of the country to draw up fresh plans for revival of NTC mills. Based on the revival plans prepared by the Textile Research Association and the recommendations of the Special Tripartite Committee thereto, the Turn Around Strategy was approved by the Cabinet in May, 1995 which included modernisation of 79 mills at an investment of Rs. 2005 crores. It was expected that on implementation of the revised Turn Around Strategy, the Company would earn an overall profit of Rs. 114.47 crores per annum. The entire funding for modernisation was proposed to be made from out of the sale of surplus land and buildings available with NTC mills.

The Committee regret to note that the revised Turn Around Strategy has not been implemented so far since no progress could be made in effecting the sale of land. The delay is stated to be on account of non-co-operation of the State Governments, especially the Government of Maharashtra from where 80% of proceeds of sale was expected to come. Government is understood to have appointed another Committee of officials to look into the matter and on the basis of its Report the Ministry of Finance is understood to have recommended closure of 107 mills of the Corporation. The Committee are to say the least disappointed at the manner in which Government has proceeded with the revival of NTC mills. No serious efforts were made by Government to expedite the process of revival of the mills which has been hanging fire over the past several years. Even after the Cabinet approved a Turn Around Strategy in May, 1995 which included modernisation of 79 mills, no serious efforts seem to have been made by Government to effect the sale of surplus land for raising the funds. The Committee note with concern that the latest move of closure of 107 mills of the Corporation would render more than one lakh employees jobless. This would be a very hard option by the Government. The Committee urge that Government should earnestly try to implement the Turn Around Strategy which has already been approved. The matter relating to sale of surplus land should be pursued with State Government at the highest level. The Committee would like to be kept apprised of the steps being taken by Government in this regard within three months.

Reply of the Government

The losses suffered by NTC and its subsidiaries and BIC and its two cotton subsidiaries, namely, Elgin Mills Co. Ltd. and Cawnpore Textiles Ltd. are due to obsolete machinery, excess manpower and in the recent years acute shortage of working capital due to budgetary constraints.

In respect of NTC, Government had in August, 1992 approved a Turn Around Strategy envisaging modernisation of 55 mills at an outlay of Rs. 532.78 crores, rationalisation of surplus workforce covering 79980 workers/employees under VRS at a cost of Rs. 689 crores and out right closure of

14 heavily losing mills and closure by merger of 20 mills and provision of Rs. 200 crores towards interim liquidity. By way of implementation, VRS has been offered and availed by 46217 workers/employees at a cost of Rs. 377 crores as on 31.3.97. Towards interim liquidity an amount of 150 crores was provided. However, modernisation did not take off due to reluctance of the Financial Institutions to provide funds to NTC because of sickness and references to BIFR.

Again, Government approved a Revised Turn Around Strategy for NTC on 9.5.95 envisaging modernisation of 79 mills of NTC at an outlay of Rs. 2005.72 crores, restructuring of 36 unviable mills into 18 viable mills and rationalisation of surplus workforce. As 8 out of 9 subsidiaries of NTC were referred to BIFR and were declared sick by the Board and also since funding was to be raised from sale of surplus lands and assets which has not materialised, this plan could not be implemented so far. The sale of surplus lands has not materialised due to reluctance of the State Governments, particularly Government of Maharashtra to approve the sale of surplus land and assets. More than 80% of sale proceeds are estimated from the sale of NTC surplus land in Maharashtra. Non-approval of the modernisation scheme by the BIFR is also one of the factors leading to non-implementation of the Revised Turn Around Strategy of 1995.

Government are examining a Revised Turn Around Strategy, 1997 for the viable mills of NTC, under which 49 viable mills are proposed to be rehabilitated and modernised keeping in view of the important factor of net worth becoming positive, and close the operations of 70 unviable mills whose net worth will not become positive. The interest of the workers will be kept in mind.

As far as BIC and its two cotton subsidiaries are concerned, these have been referred to and declared sick by the BIFR. The BIFR also passed orders for winding up these three companies. The companies have appealed to ASIFR which at its hearing held on 9.5.97 dismissed the appeals against winding up orders. Consequently these three companies are before the High Court of Allahabad for liquidation proceedings. However, Government have issued orders in respect of Elgin Mills Co. Ltd. and Cawnpore Textiles Mills Ltd. offering VRS, although these companies are not slated for revival, in order to protect the interest of the workers by giving them the benefit of VRS. Government have also issued orders for continued payment of wages and salaries for a period upto 31.7.98. Instead since the woollen mills under BIC stand on a different footing from the cotton subsidiaries, Government have commissioned a detailed study by the Wool Research Association with a view to exploring the possibility of revival.

Government have made every effort to implement the Revised Turn Around Plan approved on 9.5.95. However, the BIFR has not approved the rehabilitation scheme in respect of 8 subsidiary corporations referred to it. In respect of 4 subsidiaries, namely, NTC (MP), NTC (Guj.), NTC (UP) and NTC (WBAB & Co.), the Board has issued show cause notices for winding up as their net worth will not become positive in 10 years of implementation of the plan unless Government loans and interest are waived and certain other reliefs are given. In respect of remaining 4 subsidiaries, namely, NTC (APKK&M), NTC(MN), NTC(SM) and NTC (DPR), the Board has sought for certain reliefs and concessions. Since the entire funding amounting to Rs. 2005.72 crores has to be raised from sale of surplus lands and assets which has not taken place, the modernisation plan could not be implemented. The earlier Minister of Textiles as also the present MOT has met the Chief Minister of Maharashtra several times to prevail upon him to permit sale of lands and assets of NTC mills in Maharashtra from where more than 80% of the funds are estimated to accrue.

Further, the Hon'ble Speaker of the Lok Sabha recently constituted a Committee of five Members of Parliament, headed by MOT to meet the Chief Minister for persuading the Government of Maharashtra to obtain clearance. Accordingly, the MOT alongwith the Members of Parliament, met the Chief Minister on 7th June, 1997 and impressed upon them to grant necessary clearance for sale of 100% of the surplus land, without surrendering any land by NTC, because, NTC is a Public Sector Undertaking which deserves special treatment in the interest of the workers. The Chief Minister assured that the State Government would take a decision in this regard. It was also agreed that the Chief Secretary of Maharashtra and the Secretary (Textiles), Government of India would further discuss and work out the modalities. Accordingly, the Secretary (Textiles) had discussion with the Chief Secretary of Maharashtra on June 17, 1997 and the Chief Secretary of Maharashtra agreed to place all facts before the State Government for taking a suitable decision. The Minister of Textiles again met Chief Minister, Maharashtra in September, 1997. However, so far nothing is heard from them. Thus, the funds required for modernisation could not be mobilised.

In view of the above facts, it has not been possible to make headway with the 1995 Turn Around Plan. In the meanwhile, on account of cross-subsidisation of funds from profitable mills to loss-making mills, the viable mills are also facing financial crunch. Th Government is, however, meeting the shortfall faced by NTC for payment of wages and salaries to its workers.

Extending budgetary support towards payment of wages and salaries every year has been proving to be an unproductive exercise in view of the fact that no definite target is in sight for the revival of the mills. In these circumstances, the NTC had been asked to prepare a unit-wise viability plan for revival of mills. Accordingly, they have submitted a report which is under consideration of the Government. As per the report, 49 mills are bound to be viable as their net worth would become positive. The remaining 70 mills are not found viable which needs to be closed and the interests of the workers could be protected by offering an attractive VRS.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)97-Fin. dated 1 July, 1998]

Comments of the Committee

(Please *see* paragraph 29 of Chapter I of the Report)

Recommendation (Sl. No. 14, Paragraph 22)

The Committee are strongly of the view that Companies like IDPL, HFC (Hindustan Fertilizer Corporation Ltd.), FCI (Fertilizer Corporation of India Ltd.) and NTC should be saved from being closed down. They recommend that necessary funds should be made available on urgent basis by Government by sustaining their operations till such time the revival packages are implemented.

Reply of the Government

It may be added that none of the 120 mills of NTC except Ajudhia Mills have been closed, as wages and salaries continue to be paid, although there is cessation of activities either partially or completely in some of the mills for want of working capital funds. Since the Turn Around Strategy of May 1995 stipulated the entire funding would be from sale of surplus land and assets, it has not been possible for Government to release any funds except for payment of wages and salary and bonus. Ajudhia Textile Mills, Delhi has already been closed as per the orders of the Supreme Court on polluting industries. Enhanced compensation as per the orders of the Court to the workers of this mill has already been paid. Due to budgetary constraints, it is not possible to sustain the operation of the 120 mills of NTC. However, some of the mills of NTC are doing job conversion work to meet part of the expenditure towards payment of wages and salaries.

The requirement of funds for sustaining operations of IDPL in 1997-98 were projected at Rs. 38 crores. However, the Ministry of Finance allowed a budgetary provision of Rs. 20 crore only. The company has so far been provided with non-plan loan of Rs. 50.10 crore during 1997-98. The requirement of additional funds to the extent of Rs. 26.80 crores has been communicated to the Ministry of Finance.

Concerted efforts are being made to secure an early decision on the revival of Hindustan Fertilizer Corporation Ltd. (HFC) and Fertilizer Corporation of India Ltd. (FCI). Pending a final decision on the revival of HFC/FCI, the Government is providing budgetary support to enable these companies to sustain their production units and to undertake essential renewals/replacements. A budgetary provision of Rs. 543 crore (Rs. 325 crore for FCI and Rs. 218 crores for HFC) has been made for these companies during the current financial year.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)/97-Fin., dated 1 July, 1998]

Recommendation (Sl. No. 15 Paragraph 23)

In the jute sector there are three public sector undertakings, namely National Jute Manufacturers Corporation Ltd. (NJMC), its subsidiaries, Birds, Jute & Exports Ltd. and Jute Corporation of India Ltd. (JCI). NJMC was registered with BIFR on 12 August, 1992. After hew initial investments in 1984, no steps were taken for modernisation of the NJMC mills. A package involving Rs. 253.92 crores has already been prepared for modernisation of the mills. The Company is stated to be geared up for the implementation of the revival package which is yet to be sanctioned. Though JCI has been making continuous losses it was not declared sick since it is engaged in price support operations of raw jute and the losses are reimbursed by Government. The Secretary, Ministry of Textiles was of the view that JCI should got out and purchase raw jute from the market and start commercial operations to tide over the problem of increasing losses. The Ministry was stated to be in the process of arranging some working capital for the Company so that it could start commercial operations. The Committee desire that since JCI is already geared up for implementation of the modernisation package, it should be finalised and implemented without any further delay. Steps might also be taken to make necessary working capital available to JCI for commencing procurement of raw jute.

Reply of the Government

NJMC Ltd. has been incurring losses since long because of variety of reasons *viz.* low capacity utilisation, legacy of surplus labour, under numerative product-mix, administered prices of raw jute charged by JCI etc. The case of NJMC (turn around proposal) is under active consideration of the BIFR. Based on the report of the OA (IIBI formerly IRBI) a revival package involving induction of funds to the tune of Rs. 253.92 crores is presently under consideration of the Government of India. The proposal was referred to the Cabinet. The Cabinet in its meeting held on 19.8.97 decided that the matter may be considered by the GOM in the first instance. GOM met on 13.9.1997 and found the projections disproportionally optimistic. They have given some guidelines based on which a revised proposal is under preparation.

JCI Ltd. was set up primarily to safeguard the interest of the jute growers and workers by conducting price support operations for procurement of raw jute. In order to arrest the declining trend in prices of raw jute in the current season. The RBI also authorised JCI an enhanced credit limit of Rs. 32 crore till Sept., 1997. GOI have also sanctioned a

Bank Guarantee of Rs. 33 crore to JCI for drawal of Bank credit of Rs. 99 crore against hypothecation of stocks. The JCI started price support operations from end July, 1997 in the early sown areas. As arrivals gained momentum, price support operation by the corporation commenced in other areas and are presently being carried on in all the major jute and mesta growing States. As on 31.10.97 the JCI have already purchased 8,29,100 qtls. of raw jute. There is no proposal under consideration for preparation of Turn Around Plan for modernisation of JCI.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/4(12)/97. Fin., dated 1 July, 1998.]

Recommendation (Sl. No. 16, Paragraph 24)

In view of the alarming growth of sickness in industrial enterprises and the hurdles coming in the way of their speedy rehabilitation, it became a pragmatic compulsion on the part of the Government to enact the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) for the rehabilitation of sick industrial companies in the private sector. In pursuance of the industrial policy statement on 24 July, 1991, SIC Act was amended to bring Central and State Government Undertakings under the purview of the Board for Industrial and Financial Reconstruction (BIFR). BIFR was set up in 1987 as a fast facilitation agency with a single point reference and rapid disposal. The Board consists of a Chairman and a maximum of 14 members appointed by the Central Government. The Chairman has the power to constitute benches consisting of not less than two members. There is also an appellate authority called the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) for hearing appeals against the decisions of the Board. BIFR functions as a quasi-judicial body. Initially there were only four benches in the BIFR. The Board was expected to have experts from different fields as its members for efficient functioning. Taking into account the large number of sick industries being referred to BIFR, it is felt that the number of Benches in the Board need to be increased and experts need to be inducted as members. In their 15th Report (Ninth Lok Sabha) on BIFR, the Estimates Committee had recommended that the role of BIFR needed to be redefined and the Board suitably restructured to enable it to tackle the problem of industrial sickness more effectively. The Committee desire that in the light of the performance of BIFR so far, its role and structure should be reviewed and necessary restructuring should be done to facilitate more efficient and speedier functioning of BIFR. A Bill has already been introduced in Lok Sabha with a view to replace the SIC Act, 1985. The Committee desire that the recommendations made in the succeeding paragraphs of this Report on BIFR should also be taken into consideration before passing legislation on the subject.

Reply of the Government

The issue referred in the above recommendation pertain to increasing the number of Benches in the BIFR, induction of experts as members, restructuring of BIFR with a view to facilitate more efficient and speedier functioning of BIFR. These issues were dealt in the Sick Industrial Companies (Special Provision) Bill, 1997 (SICA Bill) introduced in Lok Sabha on 16th May, 1997. With the dissolution of Lok Sabha in December, 1997 the Bill lapsed. Presently the Bill is being reviewed. The recommendations of the Committee on Public Undertakings would be taken into consideration at the time of review of the SICA Bill.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/4(12)/97. Fin., dated 1 July, 1998.]

Comments of the Committee

(Please *see* Chapter 36 of Chapter I of the Report)

Recommendation (Sl. No. 17, Paragraphs 25 to 27)

Another issue that has been brought to focus before the Committee is the question of desirability of referring sick PSUs to the BIFR. What the Board is expected to determine in respect of sick public undertakings is whether the Company is really sick, whether it is in public interest to revive the Company and whether it is techno-economically viable to revive the same. Most of the witnesses who appeared before the Committee in connection with examination of the subject were of the view that Government has at its disposal all the expertise needed to determine these issues. On the other hand, BIFR has to depend on Government or an operating agency to determine these things. Moreover, BIFR has no mandatory powers to enforce its decision either on the Government, the undertaking or the financial institutions. It also happens that what is acceptable to one may not be acceptable to the others. What BIFR has to go into are mere technicalities, since policy decisions can be taken only by the Government being the chief promoter. Quite a lot of delay also occurs on account of the long time taken by Government to take decisions on revival package.

Special Tripartite Committees/Industrial Committees had been formed for labour, Textiles, Jute, Chemicals, Engineering, etc. who have been assigned role of reviewing the working of the public undertakings in these sectors particularly the sick enterprises. Some of the witnesses felt that instead of referring to BIFR, sick PSUs should be referred to the Special Tripartite Committees/Industrial Committees who could take decisions on such matters. The Inter-Ministerial Group can also take the advice of such Special Tripartite/Expert Committees. Many witnesses felt that the BIFR channel was not required for the public sector. They were of the view that its role could be discharged more effectively by other agencies. They suggested that the real impact that the BIFR has been able to make while dealing with sickness in the public sector should be assessed in the light of the Board's performance so far. It would be worthwhile to evaluate the benefits which have actually been derived by the public sector since the time it was decided that rehabilitation of the PSUs would be done through the BIFR channel.

The Committee desire that the whole question of referring the sick public enterprises to the BIFR should be reviewed. They recommend that a decision should be taken on the question of referring sick PSUs to BIFR after assessing the merits and demerits of the existing arrangement. They desire the Government to take necessary steps in this regard in right earnest in the light to such assessment under intimation to the Committee.

Reply of the Government

The public sector companies were brought under the purview of BIFR in 1991 by an amendment in the Sick Industrial Companies (Special Provisions) Act, 1985. This provision was retained in the SICA Bill 1997 which has since lapsed. The recommendation of the COPU would be taken into consideration at the time of review of the SICA Bill.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)/97. Fin., dated 1 July, 1998]

Comments of the Committee

(Please *see* Paragraph 36 of Chapter I of the Report)

Recommendation (Sl. No. 18, Paragraph 28)

A major factor coming in the way of BIFR in stemming industrial sickness is the delay in disposal of cases. According to the Chairman, SCOPE there have been instances when the Board has taken more than three years to dispose of cases. Various procedures like consultation with/ references to Government Departments, operating agency, financial institutions as also resorting to frequent litigations have all contributed to such delays. Obviously such delays make the revival all the more difficult. During the period of reference to BIFR, the sick company suffers on various accounts like lack of working capital, higher interest rates charged by banks, lack of orders, denial of incentives to employees etc. The Secretary, Ministry of Industry (Department of Heavy Industry) admitted before the Committee, "There cannot be any difference of opinion on the point that the delays that we have witnesses have not contributed to the health of these companies at all. Whatever steps that can be taken to reduce the delays would be welcome." The Committee express their displeasure about such inordinate delays in disposal of cases by BIFR which have been detrimental to the rehabilitation of sick companies. On account of such delays the very objective of referring sick PSUs to BIFR is defeated. The Committee are of the considered view that the entire procedure of processing revival of sick units should be streamlined with prescribed time limits so that the whole exercise could be completed within a period of six months to one year. They would like to be informed about the corrective measures taken by Government in this regard.

Reply of the Government

The issue raised in this recommendation was dealt with in the SICA Bill, 1997 which has since lapsed. This recommendation would be taken into consideration at the time of review of the SICA Bill.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE./ 4(12)/97. Fin., dated 1 July, 1998.]

Comments of the Committee

(Please *see* Paragraph 36 of Chapter I of the Report)

Recommendation (Sl. No. 19, Paragraph 29)

It has been brought to the notice of the Committee that more often than not, the delays in revival of sick units are on account of exceptionally long time taken by Government in the process of decision making. BIFR meetings are often adjourned because of the failure of the Government to come out with any clear-cut package. Surprisingly, BIFR has also not been using its judicial powers to check such tactics of delay by the Government. The requirement of obtaining approval from Government Departments, Cabinet, etc. at various stages of finalisation of restructuring proposals has also been causing inordinate delay besides increase in the cost of revival. In this context, the initiative taken by the Ministry of Industry (Department of Heavy Industry) to act as a nodal agency for obtaining approval from all concerned agencies for the revival scheme in respect of PSUs under their administrative control is commendable. In view of the undue delay involved in the existing arrangement of obtaining separate clearance from different Government Departments/agencies, the Committee recommend that a system of single window clearance should be introduced for obtaining approval of revival packages for sick industries in order to expedite the process of decision making.

Reply of the Government

The revival proposals of sick PSUs registered with BIFR are processed as per the laid down procedure. The inter-ministerial consultations are made to ascertain the views of other Ministries/Departments in order to minimise the time taken by the Cabinet/Cabinet Committees.

The administrative ministry acts as a nodal agency for obtaining approval from all the concerned agencies for the revival schemes in respect of PSUs under their administrative control.

The views of the Committee have been noted.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE./ 4(12)/97. Fin., dated 1 July, 1998.]

Recommendation (Sl. No. 22, Paragraph 32)

The Committee find that while on the one hand attempts have been made to enter the international arena and globalise the economy, on the other hand there has been lack of resolve and initiative on the part of the Government to deal with the menace of sickness in the public sector. They are of the strong opinion that globalisation would be successful only when the country's economy has a strong foundation supported by steadily growing industry. Regrettably nothing much has been done to set the house in order. Even after a lapse of many years there has been no major initiative to revive the sick units which were taken over by Government from the private sector. It needs no reiteration that what is required is firm determination, bold initiatives and pumping in of required finances for embarking upon rehabilitation of sick enterprises in a massive way. It calls for a number of definite strategies like undertaking financial restructuring, providing of working capital, adoption of the right technology, modernisation, having efficient managerial personnel, giving sufficient autonomy, evolving an effective marketing strategy, etc. In Committee's view the most efficacious method to deal with sickness is to take prompt steps to revive the enterprise as soon as sickness is detected. If rehabilitation is viable, every effort should be made to revive the company by providing working capital and even writing off loans, if so required.

Reply of the Government

The causes for sickness are specific to the PSUs and therefore the revival proposal has to be enterprise specific. Efforts are made to arrest the industrial sickness as soon as the sickness is detected. Considering the need for quick redressal of sickness in PSUs, the SICA Act is being reviewed. As turnaround srategy, various options are explored by the Ministries/ Departments including financial restructuring, joint ventures etc. Such proposals are considered on case to case basis depending upon the viability of the unit/PSU and in a number of cases financial reliefs/concessions have been granted.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE./ 4(12)/97-Fin., dated 1 July, 1998]

Recommendation (Sl. No. 23, Paragraph 33)

On the question of rehabilitation of sick public undertakings, various suggestions have been placed before the Committee by different witnesses. It was felt that when closure of a unit might cost more than its revival, it would be only logical to revive the unit by investing the required funds rather than closing it down. Thus before taking any winding up decision the replacement cost and the opportunity cost for creating equivalent employment should be worked out. It has been brought to the Committee's notice that there have been instances when PSUs referred to

BIFR started making profits in the subsequent years. However, the Company continued to be in the red because of past liabilities. For instance, Scooters India Ltd. improved its financial performance after it was referred to BIFR. In such cases there is a solid ground for writing off the past liabilities so that the company could come out of the red. A view was expressed that there might be instances when a bold decision is required to be taken to sell or close down a unit if it is found to beyond revival. It was also felt that when a unit is not viable efforts should be made for its sale rather than closure so that the unit would continue to operate under a new management which might have the required resources to take it back to the right track. Another suggestion was to facilitate merger of sick units with healthier ones to cope with the problem of sickness as per the existing provisions in the SIC Act. The Committee would suggest that these proposals be kept in view while reviewing the strategy for dealing with sickness in public undertakings.

Reply of the Government

All efforts are made for revival of sick PSUs including the change of management through the process of joint venture formation etc. The possibility of joint venture formation is already being explored in a number of PSEs. The views of the Committee have been noted.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)/97-Fin., dated 1 July, 1998]

Recommendation (Sl. No. 24, Paragraph 34)

After completion of the horizontal study on sickness in public undertakings, the Committee have arrived at the inevitable conclusion that industrial sickness of PSUs is a matter of grave concern and serious magnitude which needs to be addressed by Government. Other than introducing the legislative measure for referring the sick PSUs to BIFR, no major initiatives have been taken by Government to cope with sickness in the public sector. This is a clear indication of the lack of resolve on the part of the Government to deal with the problem. While expressing their grave displeasure for the lack of initiatives on the part of the Government in dealing with the problem, the Committee would urge that concerted efforts should be made to evolve a comprehensive strategy to face the Herculean task of overcoming sickness in the public sector. Delaying Government's action any further would be catastrophical to the very concept and role of the public sector in the country. What is required first and foremost is a firm resolve on the part of Government to deal with sickness in PSUs. It calls for an effective, well-defined and time-bound strategy for timely detection of the sick and potentially sick companies and implementation of remedial measures for their rehabilitation. The Committee desire the Government to, at least now, view the problem of sickness in public undertakings in the right perspective and draw up a time-bound action plan for the rehabilitation of sick public sector undertakings.

Reply of the Government

The advise of the Committee is noted for guidance. Government are committed to deal with sickness in public enterprises in a systematic way and to evolve time bound action plan.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)/97-Fin., dated 1 July, 1998]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Sl. No. 5, Paragraph 8)

Quite a lot of professional competence is required for the efficient management of the public sector. One of the factors responsible for managerial inefficiency in the public sector reportedly is appointment of civil servants and others without any professional background to the top managerial positions in the PSUs. There are also instances of over-representation of Government Directors on the Board. The tendency of appointing civil servants to top posts in the public sector is fraught with various adverse effects. This deprives the undertaking of expert guidance of professionals at top managerial levels for the kind of specialised tasks carried out by the company. One cannot ignore the fact that operations of some of the public sector enterprises are of a very technical and specialised nature. Besides being ill-equipped to manage technical and specialised tasks, it is observed that the non-professionals lack the required experience and skills. The Committee have gathered an impression that Government has not paid sufficient attention to forming of a strong management cadre for the public sector. Keeping in view the emerging need to have a very efficient management cadre for the public sector in the face of stiff competition being faced by it in the post liberalisation scenario, an urgent need is felt to review the existing procedure for selection of top executives for PSUs. The Committee desires that the whole procedure for selection of top executives for the public sector should be streamlined and necessary changes introduced. In order to have a pool of competent personnel at the senior levels of public sector management, they desire that a common management cadre for the public sector should be created.

Reply of the Government

Government has already recognised the need for professionalising the Boards of PSUs and has issued detailed guidelines relating to composition of Board of Directors. According to these guidelines the number of Government Directors has to be restricted to the maximum of two and the number of outside professionals, who are to be appointed as non-official part time directors, should be at least 1/3rd of the actual strength of the Board. The procedure for selection of non-official directors has also been streamlined so that only professionals of high standing are selected and appointed. In so far as profit-making companies (which are known as NAVRATNAS and MINI RATNAS) are concerned, the selection is being made by the Search Committee consisting of Chairman (PESB), Secretary

(DPE), Secretary of the administrative Ministry and some eminent persons.

The question of forming a common management cadre for the public enterprises was considered earlier also. The Industrial Management Pool (IMP) was set up for manning top posts in the industry. However, the experiment did not succeed and the IMP was discontinued.

Public Sector Enterprises are separate entities set up as corporate bodies under the Companies Act or specific Statutory Acts. Each PSU and each post in it have a different job to perform and in the liberalised scenario even the PSUs have to compete each other. Top level posts (Board level posts) are tenure posts, appointments to which are made on contract basis, normally for a period of 5 years with a proviso for premature termination of the contract by either party. Thus considering the diversity of activities and also the differences in the service conditions in different PSUs and the experience of IMP, it would appear that the suggestion for forming a Common Management Cadre for the public sector is neither advisable nor feasible. This position was intimated to COPU on 25.4.88 in connection with Recommendation No. 12 of 49th Report (1987-88) of COPU.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)/97-Fin., dated 1 July, 1998]

Recommendation (Sl. No. 20, Paragraph 30)

After a company is referred to BIFR it suffers from acute shortage of working capital. The Committee note with concern that the interest rate charged by the creditors for companies referred to BIFR goes up to 21% because the company gets listed in "C" group, as against 16% and 16.5% interest rate charged for 'A' and 'B' group companies. There is also a requirement for Government guarantee for availing credit from the banks by these companies which entails one per cent extra fee charged towards the guarantee. These are all in fact additional burdens which are required to be borne by the sick companies after they are referred to BIFR. Apparently, this is quite irrational since it only adds to the woes of the sick company and makes the whole process of revival still more difficult. The Committee therefore, suggest for a review of these regulations in the light of the hardships experience by the sick enterprises when they stand referred to BIFR.

Reply of the Government

Reserve Bank of India (RBI) has reported that as per their extant instructions when the case of a sick industrial company is under the consideration of BIFR, banks should not abruptly stop the credit facilities to the unit but should exercise their judgement in regard to the continuance of the 'holding on' operations. Banks do not also raise the interest rate on existing credit limits to companies whose cases stand referred to BIFR. In the case of such companies, the borrowal accounts would have been categorised as Non Performing Assets (NPAs) and banks are precluded from reckoning income on such borrowal accounts under RBI's Income Recognition Norms. No purpose would, therefore, be served by hiking the interest rates charged by banks on such borrowal accounts. When a rehabilitation package for a sick unit is drawn up under the aegis of BIFR, banks in fact charge lower than the rates normally charged on working capital, term loan etc. on the basis of the BIFR package which takes into account the norms for relief/concessions laid down by the RBI.

RBI had issued instructions in October 1994 regarding extension of reliefs/concessions by banks under rehabilitation packages evolved for sick public sector undertakings considered as potentially viable. As per these instructions of RBI while continuing to finance such units with such reliefs/concessions as have been agreed upon, banks are free to insist on any type and form of security including guarantee by the Government (Central/State) for existing/fresh credit limits. The concerned Government would have to give the guarantee where considered necessary by the banks and it would not be feasible for RBI to advise the banks not to insist on such a guarantee.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/4(12)/97-Fin., dated 1 July, 1998]

Recommendation (Sl. No. 21, Paragraph 31)

The Committee are surprised at the stance taken by the Ministry of Finance that the Planning Commission should reallocate funds for revival of sick units. In the absence of such reallocation the Government is unable to finance any revival plan for want of funds. However, it appears to the Committee that Government has not formulated any long term strategy for the revival of sick public sector undertakings to facilitate allocation of funds by the Planning Commission during a Five Year Plan period. In the absence of such clear policy of the Government one cannot expect the Planning Commission to reallocate funds for the revival of sick units. The Committee, therefore, recommend that Government should first decide upon the units which are to be rehabilitated, formulate the revival plans and convey the requirement of funds to the Planning Commission so that the funds could be allocated for their revival. They would like to be informed of the details of the units in respect of which proposals have been finalised by Government and request of funds communicated to Planning Commission for the Ninth Five Year Plan.

Reply of the Government

Outlays are provided for the Government approved revival plans of sick public sector enterprises at the time of finalisation of Five Year and

Annual Plans. Specific allocation of funds are made after the revival plan have been approved by the Government.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)/97-Fin., dated 1 July, 1998]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 2, Paragraphs 4 and 5)

While the exact causes of sickness vary from undertaking to undertaking depending on its operations, technology, location, financial stability etc, some of the common causes which have been identified are the impact of economic reforms, outdated technology, failure to carry out modernisation, resources crunch, managerial inefficiency, surplus manpower, and lack of autonomy. Admittedly, the causes of sickness among PSUs are many and varied.

As a result of the economic reforms initiated by Government in 1991, the number of industries reserved for the public sector came down from 17 to 6. In many sectors where public sector enjoyed monopoly, domestic and multi-national private companies made a sudden entry. Advantages like budgetary support, protected market, support price, etc. which were thus far being enjoyed by PSUs were taken away all of a sudden. Many of the checks imposed on imports were removed leading to easier imports. In fact, many of the PSUs, especially those which were not healthy enough, were caught napping, since they were not equipped to face the new situation. Those PSUs which were already beleaguered with outdated technology, financial crunch and low productivity, could hardly withstand the stiff competition from the multi-nationals without any finaicial support. What the Committee are more appalled over is the fact that while the PSUs were expected to meet this challenge there were certain controls and regulations of the Government which continued to apply to the public sector pushing some of them to a still more uncomfortable position. Having withdrawn most of the privileges which were being enjoyed by the public sector till liberalisation, the Committee are of the firm view that it was imperative for the Government to have ensured at least level play field for PSUs as compared to the private sector. Even if the removal of certain kinds of protection to PSUs was inescapable, it would have been more expedient had it been done in a methodical and phased manner instead of doing it in one go. Before throwing the floodgates open to the multi-nationals an environment should have been created for the public sector to face such a challenge or some breathing period should have been provided for the weaker PSUs to cope up with the new situation. Therefore any reforms in the economy should not be detrimental to the operations, growth and autonomy of the enterprises in the public sector. It, indeed, is a matter of concern to the Committee that some PSUs, especially many of the sick ones, are yet to recover from the after effects of liberalisation. The Committee recommend that at least now special efforts should be made to rehabilitate those undertakings which have particularly been adversely affected by liberalisation. There can be no two opinions that the public sector in the Indian context is as relevant today as it has been in the past particularly in view of the role being played by it in the socio-economic development of the country.

Reply of the Government

Sickness in Central PSUs is on account of number of variable factors. The factors responsible for the sickness in the central PSUs do not arise primarily from the programme of economic liberalisation. The sickness in central PSUs is attributable to the following factors also:

(a) low capacity utilisation related to technological design and equipment deficiencies;

(b) aging of the plants, leading to frequent equipment breakdowns;

(c) power shortages;

(d) industrial relations porblems;

(c) rationalisation of surplus manpower through VRS.

(f) resource constraints arising from initial sickness, creating difficulties even for purchase of inputs and essential spares for maintenance, leading to a progressively worsening situation; and

(g) lack of competitiveness.

Steps being taken inter-alia includes induction of new technology, budgetary support consultancy studies, rationalisation of manpower etc. However, the recommendations have been noted.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)97-Fin., dated 1 July, 1998]

Comments of the Committee

(Please *See* paragraph 5 of Chapter I of the Report)

Recommendation (Sl. No. 7, Paragraph 10)

Large scale employment by the public sector over the years has led to a situation where some of the enterprises are saddled with excess manpower resulting in low level of manpower productivity. This in turn has been a major cause of sickness, since it is an additional burden on the beleaguered PSUs. Not only that having been weighed down with sickness and surplus manpower, employees in these companies are being deprived of some of the benefits which were otherwise admissible to them. As a result of this, qualified and competent people are leaving the public sector undertakings creating a vaccum especially in the management cadre. There is undoubtedly a need to pay greater attention to the rationalisation of surplus manpower. The Committee recommend that a system for productively redeploying the surplus labour should be evolved by Government. At the same time efforts also need to be made to check the exodus of experienced and talented persons from the public sector. The Committee note that the National Renewal Fund (NRF) was set up with the objective of helping rationalisation of workforce. However, it is seen that the budgetary allocation to NRF came down from Rs. 700 crores in 1994-95 to Rs. 300 crores in 1995-96. Even out of the allocation for the year 1995-96, an amount of Rs. 209.58 crores was spent for meeting expenditure on VRS and only Rs. 7.42 crores was spent for counselling, retraining, etc. Obviously the allocation to NRF is being used mainly for meeting expenditure on VRS. This is in a way defeating the very purpose for which the Fund was set up. The Committee are of the view that the Fund should be channelised proportionately for dealing with the various problems relating to surplus manpower in the public sector including their retraining and redeployment.

Reply of the Government

NRF assistance is presently restricted to VRS in Central Public Sector Undertakings (CPSUs) and the schemes for workers counselling/retraining/ redeployment. Due to financial constraints, sufficient funds have not been available for various schemes envisaged under the NRF Resolution. Funds for implementing VRS in CPSUs and workers retraining schemes are allocated keeping in view the availability of funds and demand against the above schemes. The expenditure on VRS scheme as compared to expenditure on retraining and redeployment are bound to be higher as the cost of VRS per employee is approx. Rs. 2.00 lakhs while the cost of retraining is only about 4% of this cost (approx. Rs. 8000/- per person).

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/ 4(12)97-Fin., dated 1 July, 1998]

Comments of the Committee

(Please *see* paragraph 16 of Chapter I of this Report)

Recommendation (Sl. No. 9, Paragraph 12)

In the process of growth, the public sector has spread into all spheres including the non-infrastructure and non-core areas. This is stated to be yet another causes of diluting the role of public sector and leading to poor performance. However, the Committee note that in the Eighth Five Year Plan document, the Planning Commission has observed that "the public sector should make investments only in those areas where investment is of an infrastructural nature which is necessary for facilitating growth and development as a whole and where private sector participation is not likely to come forth to an adequate extent within a reasonable time perspective". The Committee are of the view that while it might not always be necessary for the public sector to invest outside the reserved sector in future the

Government should not desist from making such investment in cases when it involves rehabilitation of sick public sector units.

Reply of the Government

Investment in PSUs are made on commercial consideration with a view to sustain growth and viability of the companies.

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/4(12)/97—Fin. dated 1 July, 1998]

Comments of the Committee

(Please *see* paragraph 19 of Chapter I of this Report)

Recommendation (Sl. 12 Paragraphs 17 to 18)

Yet another public sector undertaking under the spell of sickness is HFC. Performance of Namrup I, Namrup II, Barauni and Durgapur units of the Company has not been satisfactory. Revamping of Haldia Project was found to be not feasible. Capacity utilisation in HFC's plants was only 17.8%, 16.11% and 19.21% from 1993-94 to 1995-96 respectively. Net loss incurred by the Company was Rs. 375.07 crores, Rs. 412.07 crores and Rs. 485.22 crores during these years. HFC was registered as a sick company with BIFR on 30 June, 1992. The Committee on Public Undertakings had in their 5th Report and 14th Action Taken Report on HFC (Tenth Lok Sabha) recommended that in view of the serious financial constraints being faced by the Company, the proposals for revamping and rehabilitation of its plants should be expedited. The Committee are constrained to observe that although a revival, package to revamp Durgapur, Barauni and Namrup units of the Company was formulated by the Ministry and it received approval of the Government on 20th April, 1995, it has not been implemented so far because funding arrangements of the order of Rs. 464.93 crores have not been tied up. Besides, a proposal for untied loan from Export-Import Bank of Japan is pending for want of certain information from the Government. HFC informed the Committee that the Company would interact with EXIM-J to quantify the extent of funding facility likely to be available. However, during evidence, the Secretary, Ministry of Chemicals & Fertilizers (Deptt. of Fertilizers) informed the Committee that ICICI, which was appointed operating agency by the BIFR, has come out with a package which would be examined and sent for inter-ministerial consultation.

The Committee express their strong displeasure at the lack of seriousness on the part of the Government in tackling the problem of sickness in HFC. Time is being wasted in getting one proposal after the other prepared for revamping the units without any serious efforts being made to arrive at any final decision on those proposals. This has only helped the Company's production and financial performance go from bad to worse. The Committee find that to a great extent, Government itself is responsible for the present state of affairs in the Company. They desire that at least now a final decision should be taken on the revival of HFC's plants. Conscientious efforts need to be made for tying up the necessary finance and implementing the rehabilitation package without any further loss of time. The Committee would like to be apprised of the actual steps taken in this direction within three months.

Reply of the Government

Since the fresh investment required for the revamp of the functional units of HFC could not be mobilised from healthy fertiliser PSUs/Cooperatives and financial institutions as stipulated in the approval accorded by the Government in April 1995 for the revival package of HFC, the revival package was reformulated from the standpoint of funding by the financial institutions on the basis of the report of the Expert Group led by the Industrial Credit and Investment Corporation of India Ltd. (ICICI). The revised cost of revamp of Barauni, Durgapur and Namrup units was estimated at Rs. 869 crore. In addition, other reliefs and concessions including write off of interest and loans payable to the Government to the tune of Rs. 3520 crore are also envisaged to make the package viable. After inter-ministerial consultations, the revival package was revised taking into account the considerations of unitewise viability and possibility of tieing up the funds required for fresh investment. The proposal for the revamp of the Namrup units of HFC with an estimated expendiutre of Rs. 350 crore has been approved by the Government on October 1, 1997. The decision in respect of the other units is yet to be taken. Once the revival package is approved by the Government, the same would be submitted for the final approval of the Board for Industrial and Financial Reconstruction (BIFR).

[Ministry of Industry (Department of Public Enterprises) OM No. DPE/4(12)/97—Fin. dated 1 July, 1998]

Comments of the Committee

(Please *see* paragraph 28 of Chapter I of this report)

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

—NIL—

NEW DELHI;	MANBENDRA SHAH,
October 12, 1998	*Chairman,*
20 Asvina, 1920 (S)	*Committee on Public Undertakings.*

APPENDIX I

MINUTES OF SECOND SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 5TH SEPTEMBER, 1998

The Committee sat from 1500 hrs. to 1530 hrs.

PRESENT

Shri Manbendra Shah— *Chairman*

MEMBERS

2. Shri Sudip Bandyopadhyay
3. Dr. S. Venugopalachary
4. Shri Lal Muni Chaubey
5. Shri Chittubhai D. Gamit
6. Shri P. R. Kyndiah
7. Shri Vilas Muttemwar
8. Shri R. Sambasiva Rao
9. Shri H. P. Singh
10. Shri Surender Singh
11. Shri Tarit Baran Topdar
12. Shri Balram Singh Yadav
13. Dr. Gopalrao Vithalrao Patil
14. Shri Gopalsinh G. Solanki
15. Shri Jitendra Prasad
16. Shri Yerra Narayanaswamy

SECRETARIAT

1. Shri Joginder Singh — *Joint Secretary*
2. Shri P. K. Grover — *Deputy Secretary*
3. Shri R. C. Kakkar — *Under Secretary*
4. Shri Cyril John — *Assistant Director*

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

1. Shri A. K. Chakrabarti— *Chairman, Audit Board*
2. Shri B. B. Pandit — *Member Secretary, Audit Board*
3. Shri G. Bhattacharjee — *Asstt. C & AG (Commercial)*
4. Smt. Meena Chaturvedi— *Director (Commercial)*

2. *** *** ***

3. The Officers of C&AG then withdrew from the meeting. Thereafter, the Committee considered the draft Report on the Action Taken by Government on the recommendations contained in the 11th Report of Committee on Public Undertakings (1997-98) on "Sickness in Public Undertakings" and adopted the same.

4. The Committee authorised the Chairman to finalise the Report on the basis of factual verification by Ministry concerned and to present the same to Parliament.

5. The Committee also decided to hold their next sitting on 8th October, 1998.

The Committee then adjourned.

APPENDIX II

(*Vide* Para 3 of the Introduction)

Analysis of the Action Taken by Government on the recommendations contained in the Eleventh Report of the Committee on Public Undertakings (Eleventh Lok Sabha) on "Sickness in Public Undertakings"

I.	Total number of recommendations	24
II.	Recommendations that have been accepted by the Government (*vide* recommendations at Sl. Nos. 1, 3, 4, 6, 8, 10, 11, 13 to 19 and 22 to 24)	17
	Percentage to total	71%
III.	Recommendations which the Committee do not desire to pursue in view of the Government's reply (*vide* recommendations at Sl. Nos. 5, 20 and 24)	3
	Percentage to total	12%
IV.	Recommendations in respect of which replies of the Government have not been accepted by the Committee (*vide* recommendations at Sl. Nos. 2, 7, 9, and 12)	4
	Percentage to total	17%
V.	Recommendations in respect of which final reply of the Government are still awaited.	NIL
	Percentage to total	NIL