EXPENDITURE REFORMS COMMISSION

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GOVERNMENT OF INDIA
MINISTRY OF FINANCE
NEW DELHI

सत्यमेव जयते

भारत सरकार
वित्त मंत्रालय
व्यय सुधार आयोग
GOVERNMENT OF INDIA
MINISTRY OF FINANCE
EXPENDITURE REFORMS COMMISSION
नई दिल्ली/**New Delhi, the 24th January, 2001**

PREFACE

This is the Fourth Report of the Expenditure Reforms Commission. This covers:

(1) Ministry of Small Scale Industry;

(2) Department of Heavy Industry; and

(3) Department of Public Enterprises.

Shri M. Satyapal former Secretary, Government of India and former Member, MRTP Commission functioned as the Commission's advisor and assisted in the preparation of these reports. Shri Satyapal and the Chairman of the Commission had the benefit of detailed interactions with the Secretary and senior officials of these Ministries/Departments. These interactions helped to clarify many issues and give shape to the recommendations as now presented. The Commission would like to place on record its sincere appreciation for the support extended by Shri Satyapal and the Secretaries and senior officials of the Ministry of Small Scale Industry, Department of Heavy Industry and Department of Public Enterprises.

(Kirit Parikh) Member	(V.S. Jafa) Member	(C.M.Vasudev) Ex-officio Member

(K.P. Geethakrishnan)
Chairman

PART I

Rationalisation of the Functions, Activities and Structures of the Ministry of Small Scale Industries and Agro & Rural Industries

MINISTRY OF SMALL SCALE INDUSTRIES AND AGRO AND RURAL INDUSTRIES

CONTENTS

MINISTRY OF SMALL SCALE INDUSTRIES AND AGRO AND RURAL INDUSTRIES

EXECUTIVE SUMMARY

1. Small scale and village industries have and will continue to have an important place in the national economy in view of their impressive contribution to industrial production, employment and exports.

2. Taking into account the structural changes and the process of globalization of the economy, the ambit of government policy in this area should now extend to include the service sector also. Small establishments, and not merely small industries, should be the focus of government attention.

3. The enlargement of the scope of the ministry to include the service sector and the medium establishments are important in the context of the emergence of sunrise, knowledge-based industries like Information Technology, Biotechnology and pharmaceuticals. As a corollary, it may be renamed as the Ministry of Small and Medium Establishments.

4. Small industries represent fresh nuclei for industrial growth and make a unique contribution to the development of new entrepreneurship. Hence, government polices should be such as would encourage them to grow into medium and large enterprises. This would be in line with international experience and in national interest. Existing polices which discourage such natural, organic growth of small to medium and large establishments should be abandoned or modified.

5. An automatic and non-discretionary system of graded incentives should be formulated and adopted which will not discourage the small establishments to increase their operations and move up to the status of medium establishments. This will be made possible if recognition is given to medium establishments through properly defining them and making them eligible for incentives, though at a lower level than for small establishments. The rights of small and medium establishments should be protected through a separate legislation, as is the case in other countries.

6. Accordingly, the tiny, small and medium establishments should be redefined. Adopting the criterion of investment as presently in force, tiny, small and medium establishments could be redefined as those with an investment of Rs.25 lakh, Rs.5 crore and Rs.10 crore, respectively.

7. With the opening up of several areas for increased competition, there is enormous scope for SSI units to modernize, increase operational efficiency and improve quality of output so as to access larger markets. The present reservation policies could well inhibit such efforts and the problem could get accentuated as quantitative restrictions are phased out. There is therefore an urgent need for reviewing the policy of reservations.

8. Marketing should receive top priority in the reorientation of the functioning of small establishments in the new competitive environment. It will be necessary (a) to promote the formation of consortia of small industries to market their products under a brand name (b) to bring about linkages between small and large industries on a mutually beneficial basis to utilize the superior marketing capabilities of large industries to market the products of small industries, and (c) to promote ancillary industries in a large way as vendors to large industries.

9. The role of government in promoting small and medium establishments also needs to be redefined. Very broadly, the approach should be of a facilitator by setting the right policies rather than being a direct participant in production of goods and services and their marketing. The initiative of NGO's and of industrial associations should be fully harnessed to provide technical and marketing services to small establishments. Government and its agencies should progressively withdraw from such services activities, which can be provided equally effectively by the private sector.

10. In the background of the principles enunciated above, SIDO should substantially shed its present extensive activities and make the rest largely self-financing within a reasonable period of time. Accordingly, the number of Small Industries Service Institutes should be drastically reduced; branch SISs should be closed down; as also the Production Centre and the Integrated Training Centre at Nilokheri. The 19 autonomous organizations providing technical support to small industries should be made self-reliant. On the other hand, SIDO should take on new responsibilities in tune with the new priorities of promoting those groups of industries which enjoy comparative advantage globally, and ensuring adequate availability of credit, and implementation of programmes for technology upgradation and market development.

11. The National Small Industries Organization should withdraw from many of its current activities such as hire purchase and equipment leasing and raw material supply to SSIs as well as the running of Prototype Development and Training Centres. It should focus its attention on market promotion, particularly through establishing high brand equity to small industry products to gain wider confidence and acceptability of the consumer. Direct marketing operations undertaken by NSIC should have no subsidy element, should be on a commercial basis and should provide a reasonable return on capital.

12. The Khadi and Village Industries Commission should be restructured by introducing modern business practices and management systems. The major portion of grants under khadi is for rebate on retail sales of khadi. The grant of uniform rebate on sales without product differentiation is not cost effective; prudent marketing strategy will require differential subsidy appropriately calibrated to respond to the demand for different products. Product development, quality upgradation, brand creation etc., in addition to the grant of subsidy on more discriminatory basis is called for. The induction of competent external professional expertise from the private sector to extend a major design and marketing support is what KVIC badly needs. KVIC should also withdraw from directly funding production agencies through loans.

13. Coir Board has embarked on a multiplicity of activities; including regulatory, promotional, commercial and welfare. It should focus attention on a limited agenda, transforming itself into an essentially promotional body. Some of the regulatory functions like enforcing minimum export price are redundant and even counter-productive and should be given up. Coir Board should also withdraw from direct production activity and direct marketing through show rooms. Financial assistance for setting up new production units and modernization of existing units should progressively be left to the banks and financial institutions. Coir Board should concentrate on finding new application for coir and coir products, introducing new value added products such as introduction of multi-fibre products thereby enlarging the value and volume of coir trade and coir market. Research and technology programmes of Coir Board should thus receive high priority.

1. INTRODUCTION:

1.1 Small-scale industries constitute a vibrant sector of the Indian economy. This sector accounts for about 40 per cent of industrial production and 35 per cent of exports. It is estimated that there are about some 32 lakh small-scale industrial units spread throughout the country providing employment to about 17.5 million persons. It has maintained a significant growth in employment even when there has been almost stagnant employment generation in the large-scale industrial sector.

1.2 More than its contribution to production and employment, a more crucial role played by the small industrial sector, though often not fully recognized or appreciated, is its unique contribution to the development of new entrepreneurship in the industrial sector, generating fresh nuclei for industrial growth. In this sense, the small-scale sector has verily been the cradle for nurturing the spread and growth of industries in the country.

1.3 This role of the small-scale sector is not anything unique to this country. Nations all over the world, both developed and developing, have attached great importance to the development of small and medium establishments (SMEs). Most countries also have special legislations to assist and encourage the growth of such establishments.

1.4 The evolution of the policy for the development of small-scale industries stems from the Industrial Policy Resolution of 1956, which envisaged a crucial role to small scale and village industries to generate employment, produce consumption goods and to promote regional development. The subsequent industrial policy statements have continued to lay emphasis on the development of small scale and village industries. The main framework of policy for the development of small scale industries has remained, with some change in emphasis from time to time, on the following: -

(i) ensuring adequate credit availability to meet their financial needs;

(ii) providing technical support for improvement of production processes and quality of products;

(iii) providing market support through according preference to small scale industries in Government purchases;

(iv) reservation of items for exclusive production in the small scale sector;

(v) extending fiscal concessions to small establishments;

(vi) providing infrastructural facilities through industrial estates

(vii) enhancing the managerial and technical skills through training programmes.

1.5 While at the state level, considerable effort has been made to promote small industries through assistance provided through the Directorate of Industries and the agencies set up at the state level, including the state financial corporations, the leadership for the promotion of small scale and village industries has substantially rested with the central government. The Small Industries Development Organisation (SIDO) at the centre has made a pioneering effort, through its large network of Small Industries Service Institutes and various specialized agencies to extend technical and promotional assistance. The establishment of Small Industries Development Bank of India (SIDBI) has been particularly helpful in ensuring that specific requirements of small establishments for finance are attended to. National Small Industries Corporation (NSIC) has also played a significant role in the growth of small industries by providing equipment on hire purchase and arranging the marketing of their products especially by way of assisting them in the purchase programmes of state and central governments. The khadi and village Industries have been similarly supported through large budgetary allocations and technical and market support.

1.6 The efforts over the last four decades or so for the development of small and village industries have borne satisfactory results. Small-scale industries now produce more than 7500 products. In most of them, they compete with large-scale industry for a fair share of the domestic market. Small industries have also been successful in capturing the international market as evidenced from the significant volume of exports. They have acquired a place in technologically sophisticated areas of production like Automobile Components, Pharmaceuticals, Information Technology, etc.

2. CHANGING SCENARIO:

2.1 While, therefore, the policy for the development of small scale industries followed hitherto has brought about significant results, new challenges have emerged which need to be addressed. With the process of integration of the Indian economy with the global economy, far-reaching economic and structural reforms have been and are being introduced in all sectors of the Indian economy. As in other sectors, the small-scale industries will also now have to adapt and adjust themselves to this new situation, requiring them to become internationally competitive. They will have to transit from a protected to a competitive environment.

2.2 This transformation has many implications both in terms of governmental policies to promote small scale and village industries as well as by way of providing a new focus and orientation to the institutions that have been set up to promote them. This transition from a protected to a competitive market is not going to be easy and would need to be steered through appropriate government policies and programmes.

2.3 The thrust of the government policies and programmes in the near future has to be specially geared primarily to bring about this transformation at the least cost to the economy.

2.4 This is all the more important in the context of the existing weaknesses in the small sector. According to RBI, about 3.06 lakh SSI units were sick as at the end of March 1999. If incipient sickness is also included, the number of sick units and closed units taken together will account for about 40% of the total number of small-scale units.

2.5 Furthermore, technological obsolescence and low quality standards of products are matters of concern. These problems are more serious in the case of tiny enterprises – investment below Rs.25 lakh – which account for 95% of the SSI unit s. Technology upgradation and improvement of quality standards have become crucial for the survival and growth of small industries.

2.6 It is in this background that the reforms required in the Ministry of Small Scale Industries and Agro and Rural Industries have been attempted.

2.7 It is gratifying to note that the ministry is alive to the need for an examination of the programmes and policies relating to the development of small-scale industries and a number of steps have already been initiated. A thorough examination of the reforms required in the existing policies, programmes and institutional structures to support the development of small enterprises was undertaken by the Expert Committee on Small Enterprises (popularly known as Abid Hussain Committee) setup by the erstwhile Department (now Ministry) of Small Scale Industries and Agro and Rural Industries. In its report submitted in 1997, it made far-reaching recommendations in the background of the economic reforms initiated by the government. More recently, a study group set up by the Planning Commission on the development of small enterprises has also made in its interim report several observations and recommendations, decisions on some of which have already been taken. The Prime Minister announced on 30th August, 2000 a number of specific steps to reinforce the programme of development of small industries through various measures of assistance to be provided to this sector. Further measures are currently under the consideration of a Group of Ministers headed by the Home Minister. The Ministry of Small Scale and Village and Agro Industries have themselves taken up a review of institutions and programmes under the ministry with a view to re-engineering these institutions to meet with the requirement of strengthening the small-scale industries to face the new competitive market situation. M/s Fergusons & Co. have been entrusted with a study of restructuring the NSIC; Arthur Andersen have been assigned the task of recommending the restructuring of the Khadi and Village Industries Commission.

3. ROLE AND ORGANISATIONAL STRUCTURE OF THE MINISTRY OF SSI & AR INDUSTRIES:

3.1 The Ministry of Small Scale Industries and Agro and Rural Industries is the nodal ministry for policy formulation, promotion, development and protection of small scale and village industries.

3.2 The office of the Development Commissioner (Small Scale Industries) is an attached office of the ministry and assists in formulating, coordinating, and monitoring policies, as well as implementation of programmes for promotion and development of small-scale industries in the country. The vast network of offices under the Development Commissioner constitute the 'Small Industries Development Organisation'. The National Small Industries Corporation, the Khadi and Village Industries Corporation and the Coir Board are the other organizations under this Ministry.

There are a few schemes, which are run directly by the ministry itself.

3.2.1 Small Industries Development Organization:

The Small Industries Development Organisation headed by the Development Commissioner (DC, SSI) provides a comprehensive range of services and facilities including tooling facilities, technology support services and marketing assistance to small scale units through a network of :

- 28 Small Industries Service Institutes
- 30 branch Small Industries Service Institutes
- 4 Regional Testing Centres
- 8 Field Testing Stations
- 1 Production Centre (since renamed Small Entrepreneur Promotion and Training Institute)
- Integrated Training Centre, Nilokheri and
- Hand Tool Development and Training Centre, Nagaur.

SIDO also supervises tool rooms, product and process development centres and training institutes, which are run as autonomous bodies registered under the Societies Registration Act. These include:

- Institute for Design of Electrical Measuring Instruments (IDEMI), Mumbai
- Electronic Service & Training Centre (ESTC), Ramnagar
- Process and Product Development Centre (PPDC), Agra
- Process cum Product Development Centre (PPDC), Meerut
- Central Footwear Training Institute, (CFTI) Agra

- Central Footwear Training Institute, (CFTI) Chennai
- Fragrance and Flavour Development Centre (FFDC), Kannauj
- Centre for the Development of Glass Industry (CDGI), Firozabad
- Central Institute of Tool Design, Hyderabad
- Central Tool Room, Ludhiana
- Central Tool Room and Training Centre, Calcutta
- Central Tool Room and Training Centre, Bhubaneshwar
- Central Institute of Hand Tools, Jalandhar
- Indo German Tool Room, Indore
- Indo German Tool Room, Aurangabad
- Indo German Tool Room, Ahmedabad
- Indo Danish Tool Room, Jamshedpur
- National Institute of Small Industries Extension Training, Hyderabad
- National Institute of Entrepreneurship and Small Business Development, New Delhi.

In addition, the Small Industries Development Organisation also monitors the Prime Minister's Rojgar Yojana, Integrated Infrastructural Development Scheme for Small Scale Industries in backward and rural areas and Technology Upgradation and Management Programme. (UPTECH)

3.2.2 National Small Industries Corporation:

The main activities of the NSIC are by way of hire purchase and leasing of equipment, marketing and export of the products of SSIs and extending assistance for procurement of raw materials. In addition, it also provides technical training in various technical services. NSIC has a somewhat hybrid character in the sense that while it is a promotional organization, it is also expected to operate as a commercial business organisation. Also, in several areas of its current activities, alternate avenues by way of private sector initiative have now become available. The role of the NSIC would therefore need to be redefined.

3.2.3 Khadi and Village Industries Commission:

The Khadi and Village Industries Commission is a statutory body created by an act of Parliament in 1956 (as amended up to 28th July, 1989) for promotion and development of khadi and village industries. The KVIC programmes are implemented by 30 State and UT level KVI boards, 5149 registered institutions, directly aided by

KVIC, around 30,000 cooperative societies and 7.98 lakh individuals. An output of Rs.80 crore under Khadi and over Rs.550 crore under Village Industries has been projected for the year 2000-2001.

3.2.4 Coir Board:

Coir Board is an autonomous organization established by the Central Government under the provisions of the Coir Industries Act, 1953 for promoting the overall development of the coir industry and upliftment of the living conditions of workers engaged in this traditional cottage industry. The major activities of the Coir Board are research and development with a view to improving the process for the extraction of fibre, development of coir machinery, product development and diversification, market development including exports and welfare measures to improve the working conditions of the workers in the coir industry. It also exercises certain regulatory functions.

4. DIRECTIONAL CHANGES IN POLICY FRAMEWORK

4.1 As earlier indicated, the challenges arising from the liberalization and globalisation of the Indian economy call for a re-examination of the policies and programmes hitherto adopted to promote small and village industries. The broad thrust of the new policy should be to make these industries competitive to retain the domestic markets against imports on the one hand and to aggressively capture external markets to provide opportunities for further growth on the other.

4.2 While government has taken some steps towards reorienting its approach to small and village industries, the situation will need to be reviewed from time to time and fresh initiatives will be required to deal with emerging requirements. In this evolutionary process, there could be no final set of recommendations yet; however, there are certain basic issues which will need to be addressed. These basic issues with suggested indicative directional changes are dealt with below.

4.2 1 Definition of Small Industries:

Presently, the following definitions are used to define tiny and small industries:

Tiny enterprise – a unit is treated as a tiny enterprise where investment in plant and machinery does not exceed Rs.25 lakh.

Small-scale industrial undertaking – an industrial undertaking in which the investment in plant & machinery does not exceed Rs.1.00 crore is treated as a small-scale industrial undertaking. This investment limit also applies to ancillary industrial undertakings.

A prime requirement to make small industries withstand competition from imports is to upgrade the quality of their products and to bring down the cost of production. Both these require technological upgradation which is, therefore, accepted as an important strategy for making small industries competitive. Technological upgradation demands substantial capital investment in renovation and modernization. In view of this, government has already announced a credit linked capital subsidy scheme towards investment on new equipment for technology upgradation and modernization.

The enforcement of the WTO regime opens up new foreign markets for exports. This provides a window of opportunity to small-scale industries to grow and flourish with access to a wider global market. The possibility of taking advantage of this opportunity also rests on substantial upgradation of manufacturing processes through induction of modern machines.

While the need for such upgradation and of new investment is recognized and policies in this direction are being announced, it seems somewhat anomalous that restrictions should be placed to limit small industries to such a low investment level of Rs.1.00 crore. At the present value of the rupee, in several industries it does not seem feasible to set up a production establishment with modern manufacturing processes to operate competitively at this modest level of investment.

Therefore, both the strategy of the Government as well as the requirement of the situation demand that the investment limit for small-scale industries be substantially increased.

In fact, government at a certain point of time increased the investment limit for small industries to Rs.3.00 crore but apparently this did not find favour with a section of the small-scale industries and therefore the limit was brought down to Rs.1.00 crore. In retrospect, it seems to have been a retrograde step.

Given the various considerations that go into making government policies and also the need to reconcile different conflicting interests, the following options could be considered.

i) Taking into account the current value of the rupee, the investment limit for small-scale industries be raised to Rs.5.00 crore. (This limit should be periodically revised – once in three years – to provide for any significant change in the value of the rupee); or

ii) The investment limit be increased to Rs.3.00 crore (as it was before). However, this limit be extended to Rs.5.00 crore in respect of export oriented industries where more than 30% of the output is exported and in respect of modern, knowledge-based industries like Pharmaceuticals, Biotechnology and Information Technology.

As the second option would require a complex and discretionary set of administrative procedures to implement, the across the board increase of the limit to Rs.5 crore as envisaged in the first option could be preferred. The raising of the investment limit on these lines should considerably help to strengthen small-scale industries to become more competitive through the induction of modern technology and equipment.

4.2.2 Graded system of incentives:

Much of the resistance to increasing the investment limit arises from the apprehension that such an increase will bring in the larger players into the small scale sector and with the advantage of incentives available to small-scale sector such larger players in the small-scale sector may unfairly compete with the smaller players in the small-scale sector. The apprehensions of the smaller entrepreneurs in the small-scale sector can substantially be mitigated if there could be a graded system of incentives which distinguishes between tiny, small and medium enterprises. This principle is already in operation, with tiny enterprises as a category being provided with a package of incentives which are more generous than what is normally available to the small-scale sector.

The incentives provided to small industries are intended to compensate them for certain disadvantages arising from their smallness. The purpose was certainly not to condemn them to remain in the small-scale sector in order to be able to take advantage of these incentives. Establishment of such a graded system of incentives is critical for the natural and organic growth of small industries into medium and large industries.

Presently, it appears that there is great reluctance among many small industries to get out of their “small” character, as it would deprive them of these incentives, once the investment limit is exceeded beyond the stipulated limit. This trend stands further reinforced as a result of the recent enhancement of the excise exemption limit which bestows considerable extra financial gain to small industries. Most small industries will now be very unwilling to lose their “small” status.

The present incentive system thus acts as a strong disincentive for small industries to grow into medium and large industries.

This is very unfortunate as the basis for providing various incentives to small industries is to spawn the growth of new entrepreneurs as new foci of industrial growth. This primary and cardinal purpose of developing small-scale industries as a breeding ground for new entrepreneurship will stand defeated if the incentive mechanism discourages normal, natural growth of enterprises to become bigger over time. It seems therefore important that a graded system of incentives should be worked out suitably calibrated to compensate the disadvantages of small industries at various stages of their growth but not such as would deter the organic growth of these establishments to their full potential.

An incentive system based on excise exemption, particularly if it is of a substantial magnitude, is liable to misuse. To be able to avail of the excise exemption, fragmentation of business is resorted to under different roofs, instead of consolidation and growth. In such circumstances, the administration of excise collection also poses various difficulties.

Further, the substantial increase in the exemption limit for payment of excise duty, considerably nullifies the concessions given for locating small-scale industries in the North East, as it enables the SSI sector to concentrate more on traditional areas.

There are also reasons to believe that many of the units set up in the North East for claiming concessions are no more than “shell” units with the actual production and consequently the benefits of employment taking place elsewhere in areas of good infrastructure. It will need to be stipulated that the location concession can be available only when manufacturing actually takes place in that location and not if the goods are manufactured elsewhere and brought to that location (either physically or on paper) for further sales.

Not that small industries should be deprived of the benefits of incentives, but these should be in a form which can be easily administered, not liable to abuse and do not thwart the normal expansion of legitimate business activities.

The formulation of such an incentive system requires urgent and detailed consideration. The system to be put in place should be ‘automatic’ and ‘non-discretionary’, as otherwise an elaborate and complicated administrative procedures would be require to administer it.

A broad principle to follow in devising such a system is to so adjust the levels of incentives to tiny, small and medium industries that the cost advantages of economies of scale by moving from one class to the next higher class should exceed the loss of benefits from a reduction in the incentives.

4.2.3 Reservation:

Another important policy issue that needs to be considered in the context of the opening of the Indian economy and the dismantling of quantitative restrictions on imports is the issue of reservation of certain products exclusively for manufacture in the small-scale sector.

This reservation policy, which has evolved over time, has served a great purpose; certain types of products, which can conveniently be produced in the small-scale sector at “appropriate” levels of technology with larger complement of employment, were identified and reserved for exclusive production in small-scale sector. It served the purpose of promoting more new enterprises and greater volume of employment without starving the domestic consumer of adequate supply of products. The restriction or ban on production of such products in the large-scale sector extended a degree of protection to the small-scale sector engaged in the production of these items.

Over a period of time, the number of items reserved for the small-scale sector has gone up and is now well over 800 products.

With the opening up of several areas for increased competition, there is enormous scope for SSI units to modernize, increase operational efficiency and improve quality of output so as to access larger markets. Continued reservations could well inhibit such efforts. This problem could get accentuated as quantitative restrictions are phased out. There is thus a case for having a fresh look at the list of items reserved for SSI in the context of the emerging scenario. Should Government decide that in the wake of the removal of quantitative restrictions, reservation should also be done away with, then it would be necessary to increase import duties on these items to appropriate level for a period of three or four years, so that all these units get that much time to make the transition to face full competition, domestically and from imports.

4.2.4 Redefine the role of Ministry of Small Industries and Agro & Rural Industries:

The small industries in India have been developed and nurtured in a historical background. At a point of time in the mid 50s with practically no industrial base in the country, the Industrial Policy Resolution of 1956 envisaged the initiation of a process of rapid industrialization in the country to achieve a high degree of self-reliance. The primary emphasis was on the development of strategic and capital goods industries; as a counterpoise, the growing requirement of consumer goods was intended to be provided through the development of small-scale and village industries.

The development of small and village industries was thus a part of the overall industrialization strategy adopted by the country in the mid 50's. Since then much advance has been made and India is now recognized as one of the industrialized nations of the world. But, as happens at a certain stage of economic development, the service sector has become increasingly prominent in the recent past. The contribution of the service sector to GDP is presently on par with that of the manufacturing industries.

It is therefore perhaps opportune to review the policy for the growth of the small sector and to enlarge the coverage of the small sector to include not merely small-scale industries but also small establishments in the fast expanding service sector.

This would be not merely in line with the structural transformation that has taken place in the Indian economy but is also consistent with the approach adopted in most other countries. The objective is to provide encouragement and support to small entrepreneurs running small establishments, irrespective of whether it is manufacturing or service.

Equally important to the broad approach of providing an environment for the natural growth of small establishments is the categorization of establishments into four categories as follows.

1) Tiny
2) Small
3) Medium and
4) Large

The enterprising promoters of tiny establishments should have the opportunity to transit from tiny to small to medium and big establishments. In order that such transition can take place smoothly without any policy-induced discouragement, it is necessary as earlier indicated, to develop a system of graded incentives. As large sector does not need any incentives or special support from the government, the primary concern of the government should be in terms of supporting and encouraging the other three classes of enterprises namely, tiny, small and medium.

To the extent that governmental support on a graded scale is required to be provided to small and medium establishments it would be appropriate to rename the Ministry of Small Industries & Agro and Rural Industries as Ministry of Small and Medium Establishments.

For the purpose of devising the incentive packages for each of these classes of enterprises, it is necessary to define them. While various types of definitions have been adopted by different countries, some on the basis of turnover and others in terms of employment, we have so far defined different classes of enterprises on the basis of capital investment.

Following the same principle, we can adopt a definition somewhat on the following lines:

		Capital investment (in Rs.)
Tiny	-	25 lakh
Small	-	5.00 crore
Medium	-	10 crore

Any establishment, which has an investment of more than Rs.10 crore need not be extended any special facilities or incentives.

The inclusion of services and the enlargement of the scope of the ministry to medium establishments are important in the context of the emergence of sunrise knowledge-based industries as the harbinger of a new industrial revolution. New knowledge-based industries like Pharmaceuticals and Biotechnology industries to be internationally competitive and will require encouragement and support in the initial period of their development. The emergence of IT and of software in a large way in this country also suggests the need for bringing the service sector prominently into the ambit of encouragement and support given to small and medium establishments.

It is therefore suggested that the ministry be restructured and its scope be enlarged to cover

a) The service sector in addition to the manufacturing sector;

b) To define and include medium establishments.

As a corollary, it may be renamed as the Ministry of Small and Medium Establishments.

4.2.5 Top Priority to Marketing:

Several measures have been taken by government to promote the marketing of the products of small and village industries. These include-

i Subsidy (as for khadi and village industries)

ii Price and purchase preference accorded by central and state governments

iii Institutional support through NSIC in marketing

iv Setting up of sub-contracting exchanges

The primary focus has been to maintain (or enlarge) the share of the domestic market for small and village industries.

While this approach had a rationale, as long as the small industries enjoyed protection from global competition through import restrictions, it is woefully inadequate in a globalized economy.

Marketing against global competition should now form the pivot of the policy and institutional support to small and village industries. Clearly, small and village industries, left to themselves, are incapable individually, to mount the marketing effort required to counter the highly expensive “brand” promoted marketing strategies of multinational companies.

To strengthen the marketing capabilities of the small and village industries, it will, therefore, be necessary

i To form consortia of small industries which collectively are able to put together the resources to aggressively market their products, preferably under a brand name(s), (this may be easier where there are ‘clusters’ of small industries).

ii Combine the inherent strength of small and village industries for low cost production with the marketing strength of large corporations. To this end, it will be necessary, through appropriate policies and incentives, to encourage large corporations to enter into agreement with producers in the small and village sector to purchase and sell their products under their 'brand' names. Such linkages will also lead to improvement in the quality of products.

iii Promote ancillary industries in a large way, as vendors to large industries. The advantage of flow of technical knowhow, of quality improvement is another benefit to small industries arising from such an arrangement.

Except to the extent small industries organize themselves to market their products on a collective basis, this calls for a new approach to bring in large corporations as partners in the development of small and village industries – as distinct from rivals or competitors. The linkage between small and large industries is presently very weak.

The policy framework should help to promote and bring about such an alliance. It should also ensure that the strong purchaser does not exploit the weak producer; necessary safeguards for this purpose should be built into the policy framework. The choice of large corporations to promote and market the products of small and village industries need not be limited to Indian companies. Given the possibilities of nurturing and expanding the market for Indian products in foreign markets, alliance with foreign companies, particularly for exports, should also be encouraged.

Except for demonstration purposes, in metropolitan towns on a selective basis, government or its agencies including public sector enterprises should not directly enter into the business of marketing the products of small and village industries. Given the various procedural and other constraints, government agencies are not particularly suitable to undertake marketing functions.

This alliance with large corporations, both foreign and domestic, can bring about a world of good to small and village industries. As brand images carry with them assurance in regard to high, uniform standards of quality, it will perforce introduce in the small and village industries technological upgradation, standardization and quality consciousness. These are valuable gains which should bestow considerable benefits to small and village industries.

4.2.6 Role of Government Agencies:

The role of SIDO, NSIC, KVIC and Coir Board as the primary agencies to promote small and village industries also need to be redefined in this background. Very broadly, the approach of these organizations should be of a facilitator, rather than a direct participant, in production of goods and services in the small and village sector and their marketing. These activities should be solely left to the private sector functioning within the framework of a market economy.

Where services are provided through government agencies, these should, as far as possible, be suitably priced to recover costs. Subsidy, if required, should be explicit.

Further, government and its agencies should progressively withdraw from such service activities, which can be provided equally effectively by the private sector.

Increasingly the responsibilities for operating common service facilities and other services of a similar nature should be left to the Associations of Small Scale and Village Industries. Similarly NGOs should also be encouraged to assume responsibility to extend help and provide services, particularly for village and artisan based industries at the village level.

5. REVAMPING OF GOVERNMENT AGENCIES

Within the framework of these broad principles, the revamping of the main agencies within the ministry could be considered on the following lines.

5.1 Small Industries Development Organisation (SIDO):

SIDO has a vast network of Small Industries Service Institutes, Testing Centres, Training Centres and even a Production Centre, spread across the country. In addition, it also oversees the functioning of 19 autonomous bodies consisting of Tool Rooms, Product and Process Development Centres and Training Institutes.

The growth of this large infrastructure of institutions within the ambit of SIDO has to be viewed in the historical context of the virtual absence of any supportive institutional framework for the development of small industries.

SIDO thus served a pioneering role to provide organizational and technical support to small industries.

The situation has since undergone a sea change. The state governments have developed their own set of organizations to promote small industries such as District Industries Centres, State Finance Corporations, Small Scale Industrial Development Corporations and Technical Consultancy Corporations. In most states, these state-level organizations have excellent record of performance. Being nearer to the scene of activity, they are able to reach out to small industries needing assistance more promptly and effectively.

This apart, with the dismantling of price, distribution and import controls on raw materials and capital equipment and the liberalized foreign technical collaboration regime, small industries now have easy access to essential inputs required by them without government intervention. A very significant and essential function served by SIDO and its agencies in recommending and securing scarce industrial raw materials and imported capital equipment has now virtually ceased.

This vastly different environment in which small industries currently operate makes the present extensive structures created under SIDO somewhat out of tune with the times, if not substantially redundant.

A very close examination of the large number of offices, common service facilities, production, technical and training centers under SIDO is thus called for.

Very broadly, the following approach needs to be adopted:

i The number of Small Industries Service Institutes should be drastically reduced. If there are certain service facilities, like common service facilities operating under them, these should be transferred to state governments or to small industries associations. Only the Small Industries Service Institutes in relatively backward states in which the supportive infrastructure provided by the state government concerned is grossly inadequate should be retained.

ii The 30 branch Small Industries Service Institutes should all be closed down.

iii The Production Centre should also be closed down, or privatized.

iv The Testing Centres do provide an essential service. These centres should however be progressively turned over to industry associations and made self-supporting.

v The Integrated Training Centre at Nilokheri is reported to be working unsatisfactorily. The State Government could take over this unit, if it considers it worthwhile to do so. Otherwise it should be closed down.

vi All the autonomous organizations (19) providing technical support to small industries by way of tool room facilities, product-specific R&D, technical and entrepreneurial training etc. should be put on notice to become self-reliant within a specified period, say three years. Their services should be demand based and therefore, can be made to be paid for. If in any exceptional case, it is considered appropriate to extend a subsidy, this should be identified and explicitly and separately provided for.

While SIDO should thus withdraw substantially from its traditional activities with considerable part of these being closed or hived off to industry associations, or privatised, it has to assume a set of new responsibilities in response to the challenges and opportunities arising from globalisation. These include the following:

i Studies to formulate sub-sector specific measures to promote particular sub-sectors on the basis of comparative advantage to become globally competitive and to annex global markets – as distinct from generalized support measures for small industries as a whole.

This would require strengthening SIDO in new disciplines. There is, for example, very little expertise in SIDO in new sunrise industries like

IT, biotechnology, pharmaceuticals etc. (The existing technical expertise is still predominantly in mechanical engineering).

ii To assist establishing better linkages, on a mutually advantageous basis, between large and small industries, primarily to expand the market for small industry products and to upgrade their technology.

iii To study the implications of WTO regime on small industries and to educate and advise small industries to deal with them.

iv To take up issues relating to dumping and other unfair trade practices.

v To oversee the implementation of the credit guarantee scheme.

vi To monitor the implementation of the "Interest on Delayed Payments Act".

vii To oversee the implementation of the credit-linked Capital Subsidy Scheme for Technology Upgradation of Small Industries.

viii To assist in establishing international linkages for small industries to promote exports of small industry products.

ix To oversee, and ensure, adequate availability of credit facilities to this sector.

Keeping these broad aspects in view, DC(SSI) should formulate a restructuring programme of SIDO for implementation within a reasonable time frame. It should indicate the existing tasks to be shed, new tasks to be undertaken, the organizational structure and staffing pattern consistent with its new mandate.

DC(SSI) has already committed to a 20% reduction in staff vide Appendix 1.2. The restructuring exercise as suggested above would not only involve down sizing of a much larger order but also result in giving a new focus and direction to the organization. The closure of a number of offices as enumerated earlier, would also result in fresh recruitment having to be stopped in several specialist cadres. As will be seen from the statement at Appendix 1.3, there are far too many areas of specialization. Fresh inductions would have to be limited to a few general categories and the other cadres allowed to wither away as retirements take place. The down sizing recommended in the various offices functioning under the DC(SSI) would also, with a time lag, lead to reduced staff requirements in the headquarters office of DC(SSI) and in some of the SISIs.

5.2 National Small Industries Corporation (NSIC)

NSIC is engaged in a variety of activities – partly promotional and partly commercial. This hybrid character of NIDC makes an objective evaluation of its performance extremely difficult.

The major activities undertaken by NSIC are:

1. Hire Purchase and Equipment Leasing
2. Raw Material Support to SSIs
3. Marketing and Market Promotion
4. Government Stores Purchase Programme and Single Point Registration Scheme
5. Prototype Development and Training Centres (PDTCs)

Thus, NSIC is engaged in a whole range of activities extending from supply of raw materials and equipment to small industries to marketing their products, apart from market promotion through assistance towards participation in exhibitions, buyer-seller meets etc. and provision of technical services and training.

While NSIC claims that this multifarious activities makes it a unique institution – a one-stop service centre – which meets almost all the requirements of a small entrepreneur to set up and to operate an industrial unit, it has also resulted in certain aberrations in its functioning.

The government through grants – both plan and non-plan, funds a large part of its activities. Presumably, these grants are extended to finance the non-commercial (or promotional) activities of NSIC, such as the training programmes and technical services provided through PDTC's and the hidden subsidy element in its marketing activities including market development. Thus, for example, an amount of Rs.27.50 crore is provided as grants in 2000-2001 budget, of which Rs.10 crore is for marketing assistance and the bulk of the rest on PDTC's and technical centres. Additionally, an amount of Rs.18 crore is provided by way of equity capital. This pattern of funding of NIDC partly through grants and partly through equity has been in place for a long time.

Out of a total estimated turnover of about Rs.995 crore in 1999-2000, only Rs.20 crore are accounted for supply of machines on hire purchase and leasing and the rest of Rs.975 crore are by way of its marketing activities. The latter is projected to be stepped up to Rs.1025 crore during 2000-2001.

While there is nothing wrong in increasing the net worth of the company through injection of equity funds so as to enable it to access increased levels of credit to meet the working capital requirements of an expanding business activity, the financial performance of NSIC and the mixture of commercial and promotional activities in the same corporate body without clear demarcation of these activities and their mode of financing suggest a degree of distortion – which, if not corrected, can result in the absence of accountability for performance of the corporation and for the large funds invested in it.

In the normal circumstances, with the substantial grants given to NSIC for its promotional activities, it should have generated adequate profits from its commercial operations. This has not been the case. On a turnover of about Rs.1,000 crore, the net profit has been only around Rs.3 crore. Activities like equipment leasing, hire purchase of machinery and raw material assistance have not been commercially viable, nor have they been of a significant scale as to make an appreciable impact on the development of small-scale industries.

In the context of freer trade with the dismantling of controls and the emergence of leasing companies in the private sector, the need and relevance of NSIC continuing with its schemes for raw material supply and hire purchase/leasing of equipment will need to be re-examined.

Further, from all accounts the training and technical services provided through PDTC's have also not been particularly satisfactory or successful, while they have been a continuing drain on NSIC/Central Government. These are prima facie prime candidates for closure. If at all, however, it is considered necessary to continue their activities for a while, they should be transferred to Small Industries Development Organisation – which already oversees several similar institutions. The broad principle of converting them to autonomous agencies, operating on a demand-driven basis levying appropriate service charges to meet at least the operational costs should apply to them. If there is no demand for their services, they should be closed down or handed over to industry associations.

Arguably, the single primary focus of NSIC should be marketing and market promotion. The marketing function should be generally on a commercial basis and NSIC should generate a reasonable profit on it. Market promotion, though it has an element of self-interest in expanding the trading business of NSIC, will be largely in the wider interest of small industries as a whole and should be eligible for a grant from the government.

If NSIC is broadly restructured on these lines, it will have a substantially different organizational structure – with marketing professionals occupying the key positions in the hierarchical structure. It will then be able to shed, along with the kind of activities mentioned earlier, considerable surplus or inappropriate staff and become a much leaner, purposeful and efficient organization. NSIC has already agreed to reduce its strength by 602 – to 849 from 1451. This reduction, though valuable, has been of an adhoc nature. What is required is a more thorough examination of the organizational structure in the context of a well defined new role for NSIC in the changed circumstances and to tailor the staff requirements in the background of this new role and the functions flowing from them.

While giving NSIC two years time to set its house in order to carry out its operations – mainly marketing – in a profitable manner, further government budgetary support should thereafter be limited to increasing the equity capital to levels necessary for accessing more credit facilities in line with expanding business activity.

A broad indication of the directional change required in NSIC's role and activities has been given earlier. As a study for the restructuring of NSIC has been entrusted to consultants, M/s Ferguson & Co., a final shape to the future of NSIC should be given after its report is received, which is expected within the next three months or so.

5.3 Khadi & Village Industries Commission (KVIC):

Established by an Act of Parliament in 1956, the Khadi and Village Industries Commission carries out activities relating to the development of khadi and village industries.

The primary objective is to generate employment and income in rural areas, particularly among the poor and weaker sections of the population. Incidentally, it also helps to tap and ensure the productive utilization of local raw materials and artisan skills.

The organization of production of khadi and industrial products at the village level cannot be viewed purely in commercial terms. Because, there is a large welfare content in the programmes and activities of Khadi & Village Industries Commission (KVIC). The main activities of KVIC are

- Financing of eligible agencies
- Training in khadi and village industries
- Arranging supply of raw materials and implements
- Research and Development in khadi and village industries
- Promotion of sale and marketing of KVI products
- Promotion of cooperative efforts among KVI Producers.

These activities are implemented through state Khadi & Village Industries Boards, registered institutions, cooperative societies, departmental sales outlets. It is estimated that over 2.5 lakh villages have been covered by the development programmes of KVIC.

KVIC is wholly dependent on government funds, even for its administrative expenses, as it generates practically no resources of its own. The predominant element of budgetary allocations is in the form of grants, largely as rebate for sale of khadi, interest subsidy and margin money. KVIC also receives substantial non-plan assistance by way of renewal of past loans, as they are unable to recover the loans earlier extended by them.

In the context of the functioning of KVIC, there are two matters, which demand serious attention. These are:

5.3.1 Market Development:

KVIC has considerably depended on the single point strategy of giving attractive sales rebates, much less on product development and product quality, for its market development. This strategy seems to have reached a stage of diminishing returns, as seen from the lack of growth in the sales performance of KVIC and its institutions.

With the changing consumer tastes and easy access to a global market to cater to them, KVIC will need to devise new strategies even to retain its present market. With aggressive marketing, there is on the other hand a good potential to expand this market over a wider front.

The grant of a uniform rebate on sale without product differentiation is not cost effective. Prudent marketing strategy will require differential subsidies, appropriately calibrated to respond to the demand for different products.

Also, a great deal needs to be done in product development and improvement of product quality in harmony with changing times. Creation of a brand image, which is appealing to potential clients, is a strategy, which KVIC will have to seriously work on and implement.

The induction of competent external professional expertise in the private sector to extend a major design and marketing support is what KVIC badly needs. The manner in which such expertise can be brought in and the enthusiastic participation of the private sector can be ensured needs to be explored. An innovative approach to market development with necessary flexibility to take on varied programmes for market development including product development, quality upgradation, brand creation etc., is called for.

5.3.2 Introduction of Modern Business Practices and Management Systems within KVIC:

KVIC is in the business of overseeing the functioning of and rendering financial and market assistance to a large number of public, private and cooperative organizations through grants, subsidies and underwriting of loans. Its annual budget is of the order of Rs.400 crore, but its financial commitments are much larger if the central guarantee given to loans extended by consortium of banks is taken into account. By all accounts, this is a large business operation spread across the country.

The inability to recover past loans and to contain administrative expenses within budgeted amounts is indicative of the managerial shortcoming in KVIC. Similar deficiencies seem to exist in its business practices in the costing and pricing of products and as earlier mentioned, strategies for market development.

KVIC is serving a great national objective of reaching out to the weak and the underprivileged. The vigour and efficiency with which it operates is, therefore, of prime importance.

It seems urgently necessary to look into organizational improvements and restructuring of KVIC.

It is to be hoped that the study entrusted to M/s Arthur Andersen will address these issues.

Most certainly, this will also bring about a considerable reduction in the staff strength and administrative expenditure of KVIC.

5.3.3 Interim Suggestions:

The major portion of the grant under khadi is for disbursement of rebate on retail sales of khadi and interest subsidy on bank finance. Grant under village industries is for meeting expenditure mainly for margin money, rebate on retail sales of polyvastra, interest subsidy on old bank finance, promotional expenditure towards training, subsidy etc.

As earlier mentioned, the grant of rebate, as a marketing strategy will need to be reviewed. KVIC should also withdraw from directly funding production agencies through loans; financing should be left to the banks, which already have an obligation to finance such units, which constitute the priority sector for lending. Additionally, KVIC also has a credit of Rs.1000 crore through a consortium of banks, guaranteed by the government. With the introduction of the margin money scheme, interest subsidy is not required and therefore grants on this account to KVIC can be stopped.

5.4 Coir Board:

Coir Board is a statutory body established under the Coir Industry Act of 1953 for the development of the coir industry.

The main activities of the board include promotion of coir and coir products, developing domestic and oversee markets, encouraging modernization and quality improvement, undertaking R&D work and implementing welfare programmes for coir workers. The Coir Board has a large number of offices, show rooms and other institutions under it spread across the countries. These include

- 2 Research and Technology Centres
- 3 Regional offices
- 4 Coir Training and Development Centres
- 3 Demonstration/Production/Extension/Research Centres
- 30 Showroom cum sales depots
- 1 National Coir Training and Design Centre

Coir Board also has the responsibility for enforcing trademarks, registration of export contracts and implementing purchase price (enforcement) scheme.

The importance of coir industry lies in its contribution to employment and exports.

There is a budgetary provision of Rs.26.38 crore for 2000-2001 – Rs.20 crore under Plan and 6.38 crore under Non-Plan.

Coir Board has embarked on a number of activities through its various programmes over a period of time.

It combines within it both regulatory and promotional functions. In addition, it is also directly engaged in production and marketing. Broadly speaking, it is involved in four distinct categories of activities:

- regulatory
- promotional
- commercial
- welfare

The varied nature of its activities makes an objective evaluation of its performance somewhat difficult. For the same reason, the cost-effectiveness of its various schemes for the promotion of coir and coir products cannot also be easily judged.

5.4.1 New Role for Coir Board

Instead of spreading out rather thinly the limited resources of Coir Board over a multiplicity of schemes and agencies – largely a historical legacy – it seems necessary to focus attention on a limited agenda which can make a significant and impressive impact on the development of the coir industry.

In other words, Coir Board should be transformed into a promotional, rather than a regulatory agency. Some of these regulatory functions like enforcing minimum export price are redundant and may even be counterproductive in promoting Indian exports. There is a good case for giving up this and other similar regulatory functions administered by Coir Board.

Ideally, the activities of Coir Board should be directed to promoting

a) Fuller utilization of available coir resources (At present only about 30% of fibre is utilized).

b) Value addition: This would involve better and newer products to be developed fetching higher prices.

c) Market Development: Both domestic and foreign.

The welfare activities, as assigned under the Act, should, of course, continue.

It is also necessary to fashion a new strategy to promote the above-mentioned objectives. Rather than getting involved in directly executing all of these functions, Coir Board should increasingly bring in the private sector and state governments as its partners to further its objectives. Thus

1) Coir Board should withdraw from direct production activity. Hindustan Coir should be privatized or given over to a cooperative. It has recently been operating at a loss.

2) The showrooms cum sales depots should progressively be handed over to an agency on commission basis to trading houses, with the exception of a few showrooms in metropolitan towns, which may be retained for demonstration purposes. The inability of Coir Board to have access to bank loans and to extend performance-based incentives to its sales employees within its present constitutional structure is a serious handicap for it to undertake trading activities on its own on a commercially profitable basis.

3) State governments should be closely involved and made responsible for the operation of local level demonstration and extension centres.

4) Financial assistance for setting up new production units in the private and cooperative sector and the modernization of existing units should progressively be extended through the banking institutions, the role of Coir Board being limited to providing the margin money or interest subsidy as may be considered necessary. The present schemes involving direct participation of Coir Board in extending financial assistance to production units should be progressively given up.

This leaves the Coir Board to concentrate its attention to finding new applications for coir and coir products, introducing new value added products such as through introduction of multi-fibre products thereby enlarging the volume and value of coir trade and coir market. Introduction of modern production processes to eliminate drudgery and to improve the quality of coir and its products should also continue to be an area of focus for Coir Board.

The research and technology programmes of the Coir Board should thus receive a high priority. Obviously this cannot be limited to in-house research and technology development, but has to draw on external agencies in a large way. Thus the major emphasis should shift to sponsored research.

The Coir Board is implementing a large number of schemes, both of developmental and welfare nature including a centrally sponsored scheme on Coir Cooperativization. It is urgently necessary to review these schemes in the background of the objectives set out above and to limit them to a few which are of a priority nature to make them effective and purposeful.

Coir Board establishment has a total staff strength of 457. With the transfer of several of its current activities to the private and state sectors, and the review of its various schemes to limit them to priority areas, there should be a significant reduction in the staff strength. At the same time, its professional capabilities will need to be built up to initiate and undertake the implementation of research and technology programmes for product and market development.

Appendix

Existing manpower strength of the Ministry of Small Scale Industries & Agro and Rural Industries and the Organisations under it.

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1. Ministry of Small Scale Industries and Agro & Rural Industries

Group 'A' & 'B' – 20 Gazetted (Secretary - 1, Joint Secretary -1, Directors - 2, Under Secretary - 4, PPS – 1, Research Officer – 1, Section Officer – 5, Assistant Director-1, PS – 4).

Group 'B' & 'C' Non-Gazetted – 36 (Assistant – 6, PA –3, UDC – 7, Steno – 1, LDC – 12, Ex-Cadre – 7)

2. Attached Office – Development Commission (Small Scale Industries)

The Development Commissioner (SSI) also functions as ex-officio Additional Secretary in the ministry and the single file system is followed in processing proposals of DC(SSI) in the ministry. The DC(SSI) is assisted, at the senior level by two Additional Development Commissioner, four Industrial Advisers and one Joint Development Commissioner. The group wise break-up of the total staff of all offices of Small Industries Development Organisation taken together, as on 1.1.1999, is as follows:

Category of Posts	Sanctioned Strength
Group - A	539
Group - B	144
Group - B Non-Gazetted	553
Group - C	1734
Group - D	616
Total	**3586**

Since then, 297 posts, mostly in C and D Groups have been abolished. As a result, the present sanctioned strength is 3289.

As a result of a further review, another 184 posts have been identified for abolition. With this, the strength of SIDO will be 3105 as indicated below:

Group A	479
Group B	116
Group B – Non-Gazetted	513
Group C	1424
Group D	573
Total	**3105**

It is also proposed to abolish another 150 direct recruitment posts. In addition, vacancies of all direct recruitment posts arising out of retirement or otherwise till 31-3-2001 will also be abolished. The effective strength of SIDO would consequently be reduced by 20% by 31-3-2001, compared to its sanctioned strength on 1-1-1999.

3. Small Industries Development Organisation (SIDO)

Classification of Group A & B posts.

(Sanctioned strength as on 1.1.1999)

Sl. No.	Trade	Director	Deputy Director	Asstt. Director Gr.I	Asstt. Director Gr.II	SIPO	Investigator
1.	Mechanical	16	64	40	17	109	61
2.	Electrical	4	17	8	9	32	15
3.	Electronics	2	8	15	-	7	2
4.	Metallurgy	3	18	24	12	32	14
5.	Hosiery	1	2	2	1	7	3
6.	Leather/Footwear	2	9	15	4	23	9
7.	Chemicals	5	27	40	9	46	24
8.	Glass/Ceramic	2	12	17	6	28	12
9.	PMT(IMT)	9	12	27	5	43	-
10.	Food	1	4	8	2	7	4
11.	Export Promotion	2	1	-	-	-	-
12.	Publicity	1	1	1	-	-	-
13.	Metal Finishing	-	-	2	2	8	4
14.	Economic Investi-gator (IES cadre post)	1	19	21	-	158	116
15.	Production Index (ISS Cadre Post)	1	6	12	-	-	-
16.	SEPP	3	-	-	-	-	-
17.	GAD	-	5	7	16	-	-
18.	Lens Grinding	-	-	2	-	-	-

4. Khadi & Village Industries Commission (KVIC)

The staff strength of KVIC as on April 2000 is as follows:

Group	Sanctioned Strength	Expenditure on salary and allowances during 1999-2000 (Rs.lakhs)
A	287	469.62
B	580	
C	3105	2692.40
D	659	
	4631	**3162.02**

About 500 posts of the sanctioned strength have since been abolished (in 1993). Efforts are being made to surrender additional 850 posts, which are lying vacant.

5. National Small Industries Corporation (NSIC)

The staff strength of NSIC is as follows:

As on	Group A	Group B	Group C	Group D	Total Manpower
31.3.1997	367	269	731	229	1596
31.3.1998	356	307	655	207	1525
31.3.1999	372	270	595	177	1414
1.3.2000	339	271	589	174	1373

The expenditure on salary and wages is estimated at about Rs.23 crore during 1999-2000.

A further reduction of its strength to 849 has been agreed to.

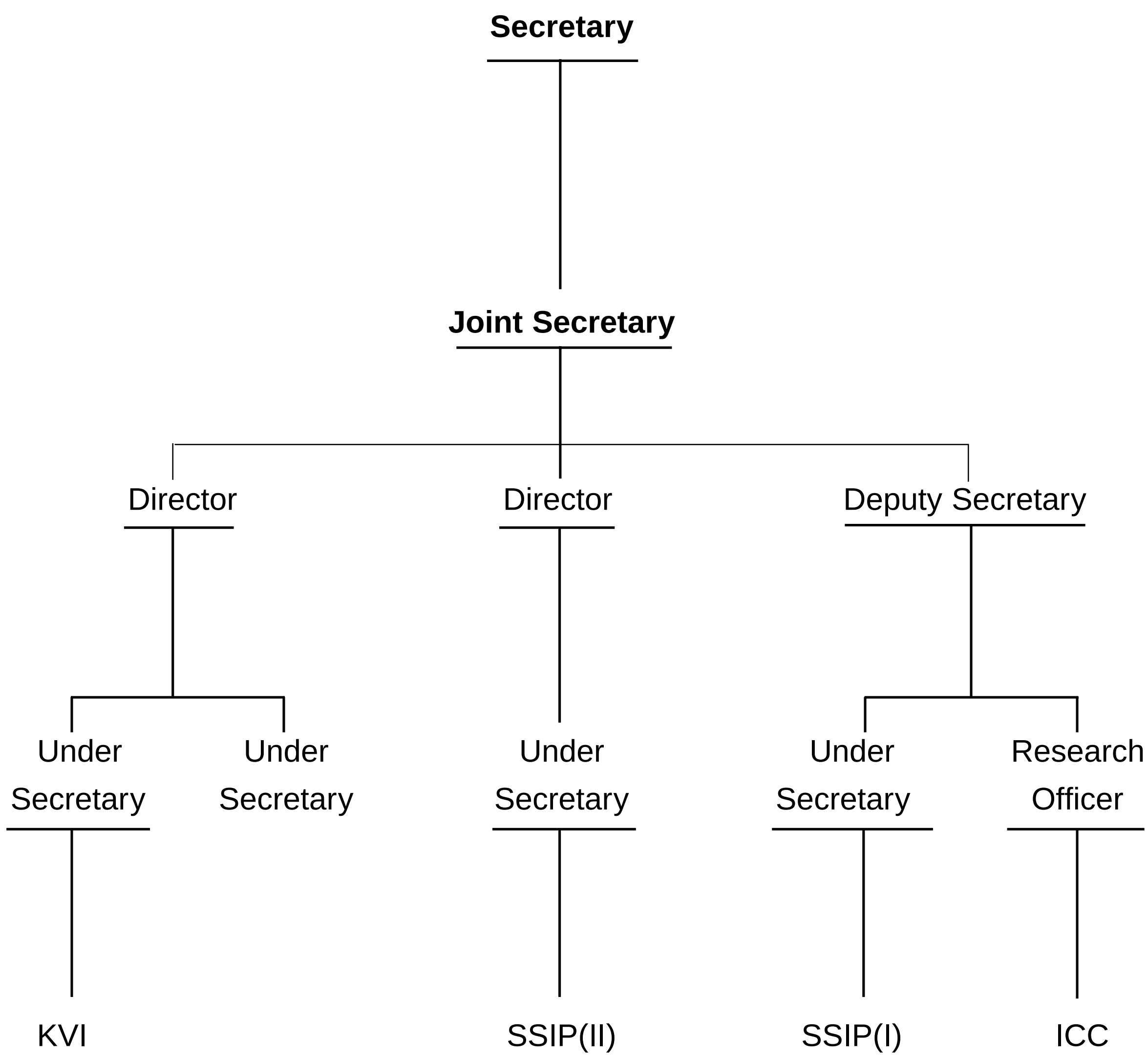
6. COIR BOARD

The sanctioned strength is 501. The Coir Board abolished 101 posts in 1993. It has agreed to abolish further 33 posts.

The organisational chart of the Ministry of Small Scale Industries and Agro and Rural Industries is annexed.

Annexe

Organizational Chart of the Ministry of Small Scale Industries and Agro and Rural Industries



DEPARTMENT OF HEAVY INDUSTRY

EXECUTIVE SUMMARY

1. The Department of Heavy Industry administers 48 PSEs representing almost a fifth of the total 240 central PSEs. Unfortunately most of these are sick or near sick enterprises. Only 16 out of 48 made profit in 1998-99, but this was overshadowed by the large losses made by the remaining 32 enterprises. All the PSEs together made a net loss of Rs.411 crore.

2. Almost the entire budgetary allocation of the department amounting to about Rs.460 crore in 2000-01 is intended for meeting expenses towards rehabilitation and restructuring of loss making PSEs and on VRS to their employees.

3. With the policy of liberalization leading to competition from private sector and from imports, most of these PSEs are finding it difficult to survive. Even otherwise, there is little justification to continue to retain most of them in the public sector.

4. Any significant saving in expenditure is possible only through early disposal of these PSEs.

5. Consistent with the government policy, the approach should be to privatise all the PSEs which are non-core and also close down those which cannot be revived/ privatized. Towards this end, a well conceived plan of action, with a time frame of three to four years and well defined milestones for achievement would need to be drawn up.

6. Although a decision was taken in 1997 for conversion of 24 PSEs into joint ventures, progress has been very slow. Only one undertaking has so far been disinvested and management transferred to a private party and 11 PSEs have been referred to Department of Disinvestment. But here again, there has been little progress. Similarly, although 9 companies have been recommended by BIFR/Disinvestment Commission for winding up, only one, namely Mandya National Paper Mills has so far been closed down. Revival schemes of 12 enterprises as recommended by BIFR are in progress; in respect of 7 others, recommendations are still awaited. All these point to the need for examining the reasons for the slow progress and for putting in place necessary remedial measures without delay.

7. A broad principle that may be adopted is to treat those companies whose current operations, relieved of the burden of old debts, are profitable as potential candidates for restructuring to make them viable. If the current operations are profitable and could be expected to continue to be profitable in future, such an enterprise should be made viable through financial restructuring by lifting the burden of debts piled up from loans extended by government to finance previous losses.

8. The task ahead of Department of Heavy Industry includes the following

(i) To proceed ahead expeditiously with the conversion into joint ventures all undertakings already identified for this purpose.

(ii) Take steps expeditiously for closing down enterprises which have already been recommended by BIFR for winding up (and not wait for completion of long drawn winding up operations).

(iii) Undertake a time bound study of all other enterprises, if necessary through consultants, to identify (a) those which can be made viable through restructuring and (b) those which are chronically ill that there is no option but to close them down.

(iv) To take action expeditiously to close down those which are so identified as chronically sick or dispose of them through outright sale.

(v) Undertake restructuring of those undertakings which can be made viable easily and quickly. An important element in such a process would be shedding of all unviable items of activities in these undertakings.

(vi) All those undertakings which are neither considered crucial enough for continued retention in the public sector now are to be closed down or converted into joint ventures or be privatised. In respect of those units which are already fit for privatization, action would need to be initiated straightway in consultation with the Department of Disinvestment.

9. Funding of PSEs for VRS/VSS and revival should, as far as possible, be arranged from sources other than the budgetary resources of the government. Several of the ailing PSEs have valuable assets by way of extensive land in prime locations and a way needs to be found to utilize these physical assets, either through partial sale or through SPV route, to generate the resources for this purpose.

10. Having regard to the nature of work in this department, the suggestions of the Fifth Pay Commission for 'delayering', level-jumping and desk officer oriented system could be introduced, making not only considerable reductions in the total staff strength but also enhancement of efficiency in operations.

1. INTRODUCTION

The Department of Heavy Industry was initially set up in 1990-91 under the Ministry of Industry. In October 1999, it was brought under the new Ministry of Heavy Industries and Public Enterprises.

2. ROLE AND FUNCTIONS

The Department of Heavy Industry has been assigned the work relating to 51 public enterprises. These include 48 operating enterprises, one non-operational enterprise and two holding companies viz., Bharat Bhari Udyog Nigam Ltd. (BBUNL) and Bharat Yantra Nigam Ltd. (BYNL). The holding companies were created with the objective of coordinating and deciding policies regarding financial, budgetary, production, marketing and commercial aspects, HRD and other policy matters of the subsidiary companies.

The department also handles matters pertaining to Maruti Udyog Ltd. which has become a non-government company, but in which government has a substantial stake.

Additionally, the Department of Heavy Industry has been allocated the following subjects:

(i) Manufacture of heavy engineering equipment for all industries

(ii) Heavy electrical engineering industries

(iii) Machinery industries including machines tools

(iv) Auto-industries including tractors and earthmoving equipment

(v) All types of diesel engines.

The list of 48 operating PSEs, categorized into nine activity groups is at Appendix I.

3. ORGANIZATION

The department exercises administrative control on the public sector enterprises referred to above. It is headed by a Secretary to the Government of India who is assisted by three Joint Secretaries. The department is also supported by the Economic Adviser and Additional Secretary and Financial Adviser.

The staffing pattern of the department is as follows:

	Sanctioned strength	Existing strength
Group A	22	32*
Group B	135	120
Group C	10	11
Group D	47	47
	214	**210**

* *10 Group B Officers holding posts in Group A on in situ basis.*

4. PUBLIC ENTERPRISES UNDER THE DEPARTMENT OF HEAVY INDUSTRY

The 48 public sector enterprises are engaged in manufacturing engineering/capital goods/inter-mediate and consumer goods/consultancy and contracting activities. The range of manufactured products covers machine tools, industrial machinery, boilers, gas/steam/hydro turbines, turbo generators, railway traction equipment, prime movers, electrical equipment, agricultural tractors and consumer goods such as scooters, leather goods and watches.

These 48 PSEs represent about a fifth of the total of 240 central PSEs, has a gross block of Rs.7,595 crore with an annual turnover of Rs.11,400 crore, providing employment to 1.77 lakh persons.

The budgetary allocation for the Department of Heavy Industry for 2000-2001 is Rs.461.43 crore. This consists of:

		Rs.Crore
i)	Investment in government enterprises	93.46
ii)	Loans to Govt. enterprises	260.44
iii)	Grants to PSEs for implementation of VRS	33.50
iv)	Secretariat-Economic Services	6.96
v)	Interest subsidy	51.27
vi)	Guarantee fee subsidy	3.76
vii)	Other expenditure	3.04
viii)	R&D automotive industries	9.00
		461.43

Almost the entire budgetary allocation of the Department of Heavy Industry, barring about Rs.20 crore, is utilised for meeting expenses towards rehabilitation and restructuring of loss-making PSEs and in VRS to their employees.

5. PERFORMANCE OF PSEs UNDER THE DEPARTMENT OF HEAVY INDUSTRY

The department is unfortunately burdened with a large complement of sick or near sick PSEs. Out of the 48 PSEs under the department, only 26 are new ventures set up by the government while the remaining 22 are sick private sector companies taken over by the Government largely in the interest of the employees. The list of the PSEs, classified as new and taken over, is given at Appendix II.

Notwithstanding considerable infusion of funds in the rehabilitation of these taken over undertakings, several continue to incur substantial losses. Thus out of 22 taken over enterprises, 14 incurred substantial losses while only 8 showed some marginal profits in 1998-99.

Not that all the 26 newly started enterprises are in good health. Only 8 of these made profits in 1998-99. With the exception of BHEL which made a profit of over Rs.900 crore, the rest showed only modest or marginal profits. Eighteen of the new enterprises showed losses in 1998-99. The major loss making companies were the Cement Corporation of India, Hindustan Cables, Rehabilitation Industries Corporation, Hindustan Photo films, Mining and Allied Machinery Corporation.

Of the total of 48 undertakings, only 16 made profits totaling to Rs.990 crore (BHEL contributing to almost 95% of this). On the other hand, 32 PSEs made losses adding unto Rs.1401 crore, All the PSEs together thus made a net loss of Rs.411 crore in 1998-99.

The cumulative financial performance of PSEs as at the end of 1998-99 is presented in Appendix III.

It will be noted that several enterprises like, Heavy Engineering Corporation, Hindustan Photo Films, Hindustan Paper Corporation, Nagaland Pulp & Paper Corporation, Hindustan Cables, Engineering Projects India Ltd., Mining & Allied Machinery Corporation, Cement Corporation, Bharat Opthalmic Glass, National Instruments, Rehabilitation Industries Corporation, Burn Standard, Jessop & Co., Braithwaite & Co., Bharat Process & Mechanical Engineers Ltd., Cycle Corporation of India, Prag Tools, National Bicycle Corporation of India, Mandya National Paper Mills, Nepa, Tannery & Footwear Corporation of India and Tyre Corporation of India have large accumulated losses.

Further, with the exception of Hindustan Paper Corporation, all of the above PSEs have a negative net worth. All of them have also posted large losses during 1998-99 with the exception of Hindustan Paper Corporation, Jessop and Braithwaite. In the last two, the modest profits shown by them had been made possible as a result of a restructuring programme under implementation.

On the basis of anticipated results for 1999-2000 and budgeted figures for 2000-2001, the same dismal picture is expected to continue.

The new PSEs set up by the government were governed by the policy objectives of the Industrial Policy Resolution of 1956 and not by profitability criterion. Thus, the concern for regional development and for self reliance through domestic production did result in setting up a number of industrial units in the public sector in what, in retrospect, will be considered as uneconomic locations; similarly unviable units with sub-optimal capacities without cost considerations were established in order to save on imports and to achieve self-sufficiency.

The pre-liberalisation economic policies of import restrictions, administered price mechanisms and purchase preferences provided the necessary cushion to these enterprises to operate in a protected environment.

Furthermore, in the drive towards rapid industrialization, government embarked on development of industries requiring highly sophisticated and closely held technologies, access to which was not easily available to it. In many cases, this resulted in public sector enterprises being set up based on technical know-how, which was often less than the best. The inability to upgrade these technologies has also been a severe handicap to these enterprises.

With the dismantling of the protective policy framework and the opening up of the economy to liberal imports, these initial inbuilt handicaps have exposed many PSEs to unequal competition. The private sector has now come up in a big way and is directly competing with the public sector. This applies to a variety of capital, intermediate and consumer goods produced in the public sector. Thus, the wisdom of continuance of many of these undertakings, particularly those that can't be restructured easily to function in a healthy and profitable manner, now stands seriously challenged.

In this dismal scenario, BHEL is one of the exceptions. Having branched out into new products and also inducted modern technologies it has been able to successfully withstand the onslaught of global competition.

6. FUTURE STRATEGY

With such a large number of loss making enterprises to cope with, Department of Heavy Industry has a very hard task ahead.

Consistent with the government policy, the approach should be to privatize all the PSEs which are non-core and also close down those which cannot be revived/ privatized. Given the large number of sick enterprises under the Department of Heavy Industry, it is not suggested that all of these should be closed down at one go. It may be necessary to phase these out over the next three or four years. But what is of crucial importance is to take firm decisions for the closure of identified sick units and to draw up a well conceived plan of action, with clearly set milestones for implementation.

7. ACTION TAKEN SO FAR

The Department of Heavy Industry has already taken several steps towards cleaning up the vast portfolio of PSEs of good as well as indifferent nature under its charge.

7.1 Conversion to Joint Ventures

A decision has been taken "in principle" to convert some of the PSEs into joint venture companies with offer of equity holding unto 74% to the joint venture partner. Government has also given separately its approval to outright sale in some cases. 24 PSEs have been identified for this purpose. A list of these PSEs is at Appendix IV. The progress achieved so far is

(1) The Belting Division of Andrew Yule has been made into a joint venture with Phoenix of Germany holding 74% of the equity.

(2) The Yeraguntlas plant of Cement Corporation of India has been sold to a private party.

(3) 74% of equity of Lagan Jute Machinery Co. was disinvested, and management was transferred to a private party.

(4) 13 PSEs have been referred to Department of Disinvestment. (Refer Appendix V).

(5) Government decided to wind up the Mandya National Paper Mills giving voluntary separation to its employees.

The progress has been slow. The list of 24 includes unsound and sick companies which understandably are not strong candidates to attract privatization.

Out of the list of 24 PSEs drawn up in 1997 for conversion to joint ventures 11 have been referred to the Department of Disinvestment for JV formation or disinvestment. The present position is that in several of these cases, consultants have been appointed; and in some even bids have been invited. The response has not been generally satisfactory. Attempts for JV formation in the case of HMT have not borne fruit. The process of invitation of bids, their evaluation, negotiation with potential strategic partners and the drawing up documents for sale is a fairly time consuming operation requiring consultation and approval at different levels of the government. The progress so far has been somewhat tardy. It will be necessary to examine the reasons for this and take sufficient corrective measures so that action can be completed in a time bound manner.

7.2 Reference to BIFR

Twenty seven PSEs were referred to BIFR. BIFR approved revival of 12 and the revival schemes are under implementation. It recommended winding up of 8. Recommendations of BIFR on 7 companies are still awaited.

7.2.1 Companies in which BIFR schemes are under implementation

The 12 companies which are implementing the revival schemes are:

1. Burn Standard Ltd.
2. Bharat Brakes and Valves Ltd.

3. RBL Ltd.
4. Jessop & Co. Ltd.
5. Braithwaite & Co. Ltd.
6. Bharat Pumps & Compressors Ltd.
7. Richardson & Credas Ltd.
8. Triveni Structurals Ltd.
9. Instrumentation Ltd., Kota.
10. National Instruments Ltd.
11. Scooter India Ltd.
12. Heavy Engineering Corporation Ltd.

The revival schemes of these 12 enterprises involve a commitment of government funds to the extent of Rs.3325 crore. Details are at Appendix VI.

Revival of sick enterprises is thus expensive. A large part of government commitment is in the form of write-off of government debts and conversion of government loans into equity. As these loans are in any case not likely to be recovered, these should be regarded as sunk cost and not a fresh charge on the government.

If, therefore, small infusion of fresh funds can make sick companies viable, it would be worthwhile to do so. Such funds required from government are Rs.637 crore and this is relatively a small cost if these 12 enterprises can be put on their feet.

More importantly, it will enable these enterprises to be converted into joint ventures; thereby relieving the government of its responsibility to pump in additional funds later; on the other hand they should hopefully give some returns as dividends to government.

That there are excellent possibilities of converting these enterprises into joint ventures is evident from the fact that six of them (namely, Bharat Brakes & Valves Ltd., RBL Ltd., and Scooters India Ltd.) have been referred to the Department of Disinvestment for JV formation/disinvestment.

It is, however, necessary that the restructuring schemes are kept under close watch and modified, if necessary, to achieve the end results. It appears that such modifications have already been found necessary in a few cases. If such scrutiny reveals that the possibilities for revival or for joint venture formation have receded, then it would be necessary to initiate action for closure without delay, so that infusion of further capital is avoided.

7.2.2 Companies recommended by BIFR for winding up/closure

The companies recommended by BIFR/Disinvestment Commission for winding up are the following:

1. Bharat Process and Mechanical Engineers Ltd. (BPMEL)
2. WeighBird (India) Limited (WIL)
3. Mining and Allied Machinery Corporation
4. National Bicycle Corporation of India Ltd.
5. Cycle Corporation of India Ltd.
6. Bharat Opthalmic Glass Ltd.
7. Tannery and Footwear Corporation Ltd.
8. Mandya National Paper Mills
9. Rehabilitation Industries Corporation

Of these 9 companies, a decision has so far been taken to close down one namely, Mandya National Paper Mills.

Cases that are referred to BIFR are scrutinized by it in consultation with all the interests concerned and various options for reviving are examined. It is only when all the options are closed that BIFR comes to the conclusion to recommend a winding up operation. An expert committee that went into the matter thereafter has also concluded that these units are unviable. As these PSEs have been subjected to detailed and extensive examination by an expert body, there should ordinarily be no delay in reaching an early decision. All the enterprises recommended by the BIFR for winding up have large accumulated losses and keeping these enterprises in existence will only add to the burden on the exchequer. It is therefore suggested that government take an early decision on them and the procedure for their closure be put into motion at the earliest.

The lengthy procedure and almost open-ended time frame for dealing with sick enterprises referred to BIFR, whose recommendations thereafter have to be processed through equally lengthy winding up procedures are inimical to finding expeditious solutions to ailing companies. An alternate approach would be to seek permission for closure of the undertakings which are found to be totally unviable, under the Industrial Disputes Act. The closure of an undertaking, even when the winding up operations are in progress, is feasible under the provision of the ID Act. In accordance with the notification issued in July 1998, permission for closure of such central public sector undertakings can be granted by the central Ministry of Labour and does not require the approval of the state government. The workers can be given the facility of the generous Voluntary Separation Scheme; those who do not avail of this facility are still entitled to compensation under the ID Act. In adopting this approach, the continuing expenditure on wages, salaries and overheads until the long drawn winding up operations are completed can be avoided. This was the procedure adopted in the case of Mandya National paper Mills and will merit consideration for adoption in other similar cases involving inevitable winding up of unviable companies. As a start, it can be adopted in all cases already identified for winding up by the BIFR/Disinvestment Commission.

7.2.3 Companies pending with BIFR

The following cases are pending with BIFR:

1. Nagaland Pulp and Paper Corporation Ltd.
2. Praga Tools Ltd.
3. Hindustan Photo Films Manufacturing Company Ltd.
4. Cement Corporation of India Ltd.
5. NEPA Ltd.
6. Tyre Corporation of India Limited and
7. Hindustan Salts Ltd.

In one other case of Triveni Structural Ltd., a review is being undertaken by BIFR.

A decision on these PSEs will have to wait until receipt of the recommendations of BIFR

Meanwhile, three of these PSEs, namely Praga Tools, NEPA Ltd., and Hindustan Salts Ltd., have been referred to the Department of Disinvestment for JV formation/disinvestment.

7.2.4 Other PSEs on which a view is still to be taken

Leaving aside those PSEs which have been examined/are under examination of BIFR, PSEs on which a decision have been taken in principle for disinvestments/JV formation, there are still a dozen companies, on the future of which a view is yet to be taken.

These are listed under F of Appendix VII setting out the present position of PSEs under the Department of Heavy Industry.

A view has to be taken as to whether any of them has to be retained in the public sector in the national interest.

For the rest, they should be subjected to a detailed study to ascertain their viability, where necessary through restructuring, to make them attractive for JV formation. Those which cannot be made profitable even after restructuring should be closed down.

8. TASKS AHEAD

The task ahead of Department of HI include the following:

(i) To proceed expeditiously with the conversion into joint ventures all undertakings already identified for this purpose.

(ii) Take steps expeditiously for closing down enterprises which have already been recommended by BIFR for winding up (and not wait for completion of long drawn winding up operations).

(iii) Undertake a study of all other enterprises, if necessary through consultants, to identify (a) those which can be made viable through restructuring and (b) those which are so chronically ill that there is no option but to close them down.

(iv) To take action expeditiously to close down those which are so identified as chronically sick or dispose of them through outright sale.

(v) Undertake restructuring of those undertakings which can be made viable easily and quickly. An important element in such a process would be shedding of all unviable items of activities in these undertakings.

(vi) All those undertakings which are neither considered crucial enough for continued retention in the public sector now are to be closed down or converted in to joint ventures or be privatized. In respect of those units which are already fit for privatization, action would need to be initiated straightway in consultation with the Department of Disinvestment.

9. FINANCING OF THE PROGRAMME

As already indicated, almost the entire budgetary allocation of the Department of Heavy Industry is presently utilized for meeting expenses towards rehabilitation and restructuring of loss making PSEs and in VRS to their employees.

Any major economy in expenditure under the Department of Heavy Industry can be achieved only by addressing the crucial issue of the disposal of the large number of PSEs under this department.

This will require privatization/conversion into joint ventures, and closure of those which are chronically ill and cannot be made into viable enterprises.

A programme on these lines will require a measure of funding for VRS (for companies undergoing restructuring) and VSS (for those enterprises which are to be closed down). Some funds may also be required for working capital and/or minimum of repairs and rehabilitation to get the ailing enterprises back into production.

Funding of PSEs for VRS/VSS and other purposes mentioned above should, as far as possible, be arranged from sources other than the budgetary resources of the government. Several of the ailing PSEs have valuable assets by way of extensive land in prime locations and a way needs to be found to utilize these physical assets, either through partial sale or through the SPV route, to generate the resources for this purpose. Once the enterprise attains viability through restructuring, the funds so raised could be repaid from the resources of the enterprises. A self-financing mechanism of this nature should considerably help to speed up the implementation of the programme of disinvestment/closure of the PSEs under the Department of Heavy Industry.

In this connection, a proposal currently under the consideration of the Ministry of Textiles for funding the VRS/VSS and for revival of potentially viable textile mills under the National Textile Corporation can be considered as a model, with appropriate modification, if necessary, for financing the VRS/VSS and revival of ailing enterprises under the Department of Heavy Industry. This envisages

- One time settlement (OTS) with secured and pressing creditors through bonds issued by NTC guaranteed by government.
- Offer of VSS to workers, VSS being funded from loans raised against unencumbered physical assets.
- Closure of the mill under ID Act after obtaining the requisite permission from Ministry of Labour, Government of India.
- Retrenchment compensation under ID Act to be paid to those workers who do not opt for VSS.
- Sale of assets of the mill thereafter by FIs/banks/OA (Operating agency).

An alternative method would be to raise loans with government guarantee for VRS/VSS/revival, to be later repaid from sale of assets/surplus assets. Government thus does not get involved with guaranteeing past loans, which in most cases, may be in the nature of NPAs of FIs/banks.

10. RIGHT SIZING OF THE DEPARTMENT

The agenda before the Department of HI is fairly heavy and will require considerable effort until the privatization programme is completed. It will therefore be somewhat unrealistic to expect any significant reduction at the middle and senior officer levels in the Department of HI in the immediate future. Any such downsizing can take place only after the process of privatization has substantially been gone through.

The department is almost exclusively concerned with policy formulation and issues related to implementation of the privatization/closure of the bulk of the PSEs. These are essentially officer oriented activities. There is little by way of routine functions requiring a large number of staff in Group C & D or even in Group B. Though the proportion of Group C and D employees to the total strength in this department is comparatively low compared to many other departments, the proportion, taking groups B, C and D together, is quite high. There is thus scope as well as need for introducing ‘delayering’, level jumping and desk officer oriented systems as recommended by the Fifth Pay Commission. Apart from leading to a substantial reduction in the total staff strength, this will also contribute to increased operational efficiency in the department.

Appendix-I

ACTIVITY WISE CATEGORY OF PUBLIC SECTOR ENTERPRISES

I. CAPITAL GOODS

1. Bharat Heavy Electricals Ltd.
2. HMT Ltd.
3. Heavy Engineering Corporation Ltd.
4. Mining & Allied Machinery Corporation Ltd.
5. Praga Tools Ltd.

II. INTERMEDIATE GOODS

1. Andrew Yule & Co. Ltd.
2. Instrumentation Ltd., Kota
3. HMT bearings Ltd.
4. Lagan Jute Machinery Corporation Ltd.
5. RBL Ltd.
6. National Instruments Ltd.
7. Rajasthan Electronics & Instrumentation Ltd.
8. Hindustan Cables Ltd.
9. Weighbird India Ltd.
10. Bharat Opthalmic Glass Ltd.

III. PROCESS PLANT

1. Bharat Heavy Plates & Vessels Ltd.
2. Bharat Pumps & compressors Ltd.
3. Bharat Process & Mechanical Engineers Ltd.

IV. STRUCTURAL

1. Richardson & Crudas Ltd.
2. Triveni Structurals Ltd.
3. Tungabhadra Steel Products Ltd.

V. RAILWAY ROLLING STOCK

1. Burn Standard Co. Ltd.
2. Bharat Brakes & Valves Ltd.

3. Braithwaite & Co. Ltd.
4. Bharat Wagons & Engineering Ltd.
5. Jessop & Co. Ltd.

VI. AUTOMOTIVE

1. Scooters India Ltd.

- HMT listed at category I manufactures tractors also

VII. CONSTRUCTION

1. Bridge & Roof Ltd.
2. Engineering Projects India Ltd.
3. Burn, Braithwaite, Jessop Construction Co. Ltd.

VIII. CONSUMER GOODS

1. Hindustan Paper Corporation Ltd.
2. Hindustan Newsprint Ltd.
3. Nagaland Pulp & Paper Corporation ltd.
4. Mandya National Paper Mills Ltd.
5. Hooghly Printing Ltd.
6. Nepa Ltd.
7. Cement Corporation of India Ltd.
8. Tyre Corporation of India Ltd.
9. Cycle Corporation of India Ltd.
10. National Bicycle Corporation of India Ltd.
11. Hindustan Photo Films Manufacturing Co. Ltd.
12. Hindustan Salts Ltd.
13. Sambhar Salts Ltd.
14. Tannery & Footwear Corporation Ltd.
15. Bharat Leather Corporation Ltd.
16. Rehabilitation Industries Corporation Ltd.

- Andrew Yule produces Packet Tea and
- HMT produces watches

IX. CONSULTANCY SERVICES

1. National Industrial Development Corporation Ltd.
2. HMT International Ltd.

Appendix-II

LIST OF PSEs NEWLY ESTABLISHED AS SUCH

S.No.	Enterprise	Sector & Product Profile
1	Bharat Heavy Electricals Ltd. (BHEL)	Power plants, defence, space, oil drilling, transportation, industry.
2	Bharat Pumps & Compressors (BPCL), Naini.	Petroleum & fertilizer equipment.
3	Bharat Heavy Plates & Vessels (BHPV), Vishakapatnam.	Pressure vessels, process plants.
4	Heavy Engineering Corporation (HEC), Ranchi.	Steel, mining, railway, engineering equipment.
5	HMT, Bangalore.	Machine tools, tractors, watches.
6	HMT International, Bangalore	Exports of machine tools, etc.
7	Hindustan Paper Corporation (HPCL), Kolkata.	Writing & printing paper, newsprint
8.	Hindustan Newsprint Ltd. (HNL), Kottayam.	Newsprint
9.	Nagaland Pulp and Paper Co. (NPPC)	Writing & printing paper.
10.	Hindustan Photo Films Mfg. Co. (HPF), Ootacamund.	Black & white films, X ray films.
11.	Hindustan Cables Ltd., Calcutta.	Telecommunication cables.
12.	Hindustan Salts (HSL), Jaipur.	Industrial & common salt.
13.	Sambhar Salts (SSL), Jaipur	Industrial & common salt.
14.	Engineering Projects (EPI), New Delhi.	Turnkey construction of industrial & infrastructure projects.
15.	National Industrial Dev. Corpn. (NIDC), New Delhi.	Consultancy in industrial planning, Project management.
16.	Instrumentation Kota Ltd. (ILK), Kota.	Industrial instrumentation & controls.
17.	Mining & allied Machinery Corporation (MAMC), Durgapur.	Equipment for coal mining, steel, Power & port sector.
18.	Scooters India (SIL), Lucknow.	Two wheelers & three wheelers.
19.	Cement Corporation of India (CCIL), New Delhi.	Portland cement.

20.	Bharat Opthalmic Glass (BOCL), West Bengal.	Crown glass, flint buttons optical blanks.
21.	National Instruments (NIL), Kolkata.	Theodolite, binoculars, survey & leveling instruments, night vision equipment.
22.	Tungabhadra Steel Products (TSP), Hospet.	Structurals, cranes, hydraulic gates, transmission towers penstocks, pressure vessels.
23.	Triveni Structurals (TSL), Naini.	Hydraulic gates, structurals, transmission, TV & microwave towers, ropeways.
24.	Rajasthan Electronics & Instrumentation (REIL), Jaipur.	Solar photo-electric, milk testers, energy meters, RAX/MAX cards etc.
25.	Bharat Leather Corporation (BLC), Agra.	Leather products.
26.	Rehabilitation Industries Corporation (RIC), Kolkata.	Small scale, consumer goods, shoes & textile sector.

LIST OF PSEs FORMED BY TAKE OVER OF PRIVATE UNITS

S.No.	Enterprises	Sector Product Profile
1.	Andrew Yule & Co., Kolkata.	Industrial fans, tea processing, pollution control equipment, transformers & switchgear, tea marketing.
2.	Hooghly Printing Co. Kolkata.	Printing.
3.	Burn Standard Co. Ltd. (BSCI), Kolkata.	Wagons, wagon components, refractories, offshore platforms, Ash handling systems.
4.	Bharat Brakes & Valves (BBCL), Kolkata.	Vacuum and air brakes, slack adjusters, exhausters, compressors, door operating systems, fuel and oil handling systems.

5.	RBL Ltd., Kolkata.	H.T. Oil & vacuum circuit breaker.
6.	Jessop & Co. (JSP), Kolkata.	DC & AC EMU coaches, wagons, road roller, paper & mining machinery, cranes.
7.	Braithwaite & CO. (BCL), Kolkata.	Wagons, oil tankers, grey iron castings, forging, jute machinery, structurals, cranes.
8.	Bharat Wagon & Engineering Co. (BWEL) Patna.	Wagons, sugar mill rollers, CI castings, bridge girders, oil tanks, railway & road bridge components.
9.	Bharat Process & Mechanical Engineers, (BPMEL), Kolkata.	Water treatment plant, oil & gas processing equipment, EOT cranes, fabrication.
10.	Weighbird India, Ltd. (WIL), Kolkata.	Weighing equipment, industrial coils, springs.
11.	Lagan Jute Machinery Corpn. Ltd. (LJMC), Kolkata.	Jute machinery & spares.
12.	Burn, Braithwaite & Jessop Co. Ltd. (BBJ), Kolkata.	Railway steel bridges, marine structures & ropeways.
13.	Richardson & Crudas Ltd. (R&C), Mumbai.	Railway points & crossings, sugar plants, tubulars, structurals, pressure vessel, heat exchanger, rail tankers, treatment plants, deep well hand pump, air conditioning.
14.	Bridge & Roof Co. Ltd. (B&R), Kolkata.	Civil & mechanical construction, turnkey projects, floating roof tanks, steel & concrete bridges, marine containers, pressure vessels, highway construction, cooling towers, Bailey bridges.
15.	Cycle Corporation of India (CCIL), Kolkata.	Bicycles and components
16.	National Cycle Corporation of India Ltd. (NBCIL), Mumbai.	Bicycles and components

17.	Praga Tools Ltd., Secunderabad.	Tool & cutter grinders, milling machines, thread rolling machine, lathe chucks, railway screw couplings, CNC machining centres, lathe, forging & castings.
18.	HMT Bearings Ltd., Hyderabad.	Ball, taper & roller bearings, cylindrical roller bearings.
		(RIC), Kolkata.
19.	Mandya National paper Mills (MNPM), Belagula.	Newsprint, bagasse based.
20.	Nepa Ltd., Nepanagar.	Newsprint, writing & printing paper.
21.	Tannery & Footwear Corpn. (TAFCO), Kanpur.	Shoes.
22.	Tyre Corporation of India Ltd. (TCIL), West Bengal.	Automotive tyres, tubes, flaps, cord repair, fabric, cycle & moped tyres, conveyor, fan & V belts, hoses.

Appendix-III

PERFORMANCE OF PUBLIC SECTOR ENTERPRISES 1998-99

(Rs. In crore)

Sl. No.	Enterprises	Performance in 98-99 Output	Performance in 98-99 Profit/ Loss	Cumulative Profit/ Loss	Net worth
1	2	3	4	5	6
1.	Bharat Heavy Electricals Ltd.	6795.00	933.00	2840.00	3083
2.	Bharat Pumps & Compressors Ltd.	45.74	-13.03	-83.04	-31.12
3.	Bharat Heavy Plates & Vessels Ltd.	209.58	1.12	13.97	43.27
4.	Heavy Engineering Corporation Ltd.	271.61	-50.63	-1095.35	-647.59
5.	HMT Ltd.	810.12	-36.57	-139.60	24.25
6.	HMT (International) Ltd.	39.49	0.47	0.28	20.75
7.	Hindustan Paper Corpn. Ltd.	347.01	9.32	-605.60	85.79
8.	Hindustan Newsprint Ltd.	238.86	24.62	124.80	207.26
9.	Nagaland Pulp & Paper Corp, Ltd.	0	-12.98	-159.34	-39.14
10.	Hindustan Photo Films Mfg. Co. Ltd.	48.65	-240.78	-868.30	-596.87
11.	Hindustan Cables Ltd.	217.43	-145.80	-470.76	-63.77
12.	Hindustan Salts Ltd.	4.59	-2.16	-7.09	-0.24
13.	Sambhar Salts Ltd.	6.53	-0.18	-1.07	1.29
14.	Engineering Projects India Ltd.	144.88	-34.19	-825.87	-757.36
15.	National Industrial Development Corporation Ltd.	2.80	-5.88	-11.60	-9.61
16.	Instrumentation Ltd.	126.88	-.13.35	-72.94	-7.14
17.	Mining & Allied Machinery Corp. Ltd.	8.03	-170.86	-897.72	-881.73
18.	Scooters India Ltd.	125.91	6.60	-6.79	31.59
19.	Cement Corporation of India Ltd.	209.70	-184.95	-974.77	-576.90
20.	Bharat Opthalmic Glass Ltd.	2.20	-24.58	-197.99	-193.12
21.	National Instruments Ltd.	2.51	-29.02	-215.93	-209.63
22.	Tungabhadra Steel Products Ltd.	25.39	0.06	0.11	9.66

1	2	3	4	5	6
23.	Triveni Structurals Ltd.	30.96	24.74	-93.85	-72.74
24.	Rajasthan electronics & Instrumentation Ltd.	19.86	0.11	3.04	4.29
25.	Bharat Leather Corporation Ltd.	4.99	-3.64	-21.72	-15.67
26.	Rehabilation Industries Corporation Ltd.	1.68	-125.89	-606.45	-606.45
27.	Andrew Yule & Co.	24.61	4.10	-7.76	-56.36
28.	Hooghly Printing Co.	2.28	0.02	-0.14	1.03
29.	Burn Standard Co. Ltd.	272.41	-26.95	-261.80	-160.97
30.	Bharat Brakes & Valves Ltd.	8.47	-3.28	-29.66	-22.04
31.	RBL Ltd.	4.19	-1.49	-13.34	-10.14
32.	Jessop & Co. Ltd.	68.08	0.70	-258.49	-170.74
33.	Braithwaite & Co. Ltd.	161.74	0.41	-104.85	-8.33
34.	Bharat Wagon & Engineering Ltd.	110.39	0.22	1.16	9.25
35.	Bharat Process & Mechanical Engineers Ltd.	0.07	-29.29	-180.44	-179.54
36.	Weighbird India Ltd.	0.36	-5.01	-42.60	-41.17
37.	Lagan Jute Machinery Co. Ltd.	5.92	-0.74	-0.97	4.14
38.	Braithwaite, Burn,Jessop Corporation Ltd.	22.37	-2.27	-13.21	-11.38
39.	Richardson & Crudas Ltd.	90.93	2.59	-48.75	6.09
40.	Bridge & Roof Co. Ltd.	337.07	3.89	18.63	31.11
41.	Cycle Corporation of India Ltd.	0.39	-56.45	-425.80	-413.61
42.	Praga Tools Ltd.	12.02	-28.84	-156.17	-140.21
43.	HMT (Bearings) Ltd.	42.91	2.73	3.40	13.07
44.	National Bicycle Corporation of India Ltd.	0.56	-19.75	-187.36	-179.27
45.	Mandya National Paper Mills Ltd.	0.56	-18.14	-254.75	-233.00
46.	Nepa Ltd.	98.65	-0.12	-114.14	-2.43
47.	Tannery & Footwear Corporation of India Ltd.	0.07	-27.99	-325.40	-313.30
48.	Tyre Corporation of India Ltd.	118.76	-61.27	-397.74	-313.96
	TOTAL	**11330.21**	**-411.32**	**-7178.34**	**-3278.01**

Appendix IV

List of 24 PSEs Proposed by Government in 1997 for Conversion into Joint Ventures

1. Andrew Yule & Co. Ltd.
2. Bharat Heavy Plates & Vessels Ltd.
3. Bharat Leather Corporation Ltd.*
4. Bharat Pumps & Compressors Ltd.*
5. Bridge & Roof Company India Ltd.
6. Hindustan Cables Ltd.*
7. Engineering Projects India Ltd.
8. HMT Ltd.
9. HMT Bearing Ltd.
10. Scooters India Ltd. *
11. Hindustan Photo Films Manufacturing Co. Ltd.
12. Cement Corporation of India Ltd.
13. Hindustan Salts Ltd.*
14. Instrumentation Ltd.*
15. Lagan Jute Manufacturing Co. Ltd.
16. Sambhar Salts Ltd.
17. Nepa Ltd.*
18. Tungabhadra Steel Products Ltd.*
19. Praga Tools Ltd.*
20. Hindustan Paper Corporation Ltd.
21. Mandya National Paper Mills Ltd.
22. National Industrial Development Corporation Ltd.*
23. Tyre Corporation of India Ltd.
24. RBL Ltd.*

Out of these 24 enterprises, 11 (marked with asterisk) have already been referred to the Department of Disinvestment (D.O.D.) for JV formation/Disinvestment.

In addition, the following two enterprises have also been similarly referred to D.O.D.

1. Jessop & Co. Ltd.
2. Bharat Brakes & Valves Ltd.

Thus there are altogether 13 PSEs under reference to D.O.D.

Appendix V

PSEs referred to Department of Disinvestment for JV formation/Disinvestment

1. Nepa Ltd. (NEPA)
2. RBL Ltd. (RBL)
3. Instrumentation Ltd. (ILK)
4. Bharat Brakes & Valves Ltd. (BBVL)
5. Bharat Leather Corporation Ltd. (BLC)
6. Scooters India Ltd. (SIL)
7. Bharat Pumps & Compressors Ltd. (BPCL)
8. Hindustan Salts Ltd. (HSL)
9. Tungabhadra Steel Products Ltd. (TSPL)
10. Jessop & Co. Ltd. (Jessop)
11. Hindustan Cables Ltd. (HCL)
12. National Industrial Development Corpn. Ltd. (NIDC)
13. Praga Tools Ltd. (PTL)

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Appendix VI

GOVERNMENT INPUTS IN PSEs UNDER REVIVAL PLANS SANCTIONED BY BIFR

(Rs.Cr.)

No.	PSU	Date of Sanction	Fresh infusion of funds Amount	Relea-	Write-off by Govt.	Conve-rsion: loan as equity	Govt. Guaran-tee	Total
1	2	3	4	5	6	7	8	9 (4+6+7+8)
1.	**Braithwaite & Co.**	Oct-96	26.68	26.68	84.85	59.61	35.00	206.14
2.	**Bharat Brake & Valves Ltd.**	Jan-96	6.27	6.27	16.29	4.05	2.70	29.31
3.	**Bharat Pumps & Compressors**	Sep-95	15.75	15.75	53.91	26.78	56.09	152.53
4.	**Triveni Structurals Ltd.**	Sep-95	29.22	29.22	30.48	9.78	48.26	117.74
5.	**Richardson & Cruddas Ltd.**	Nov-95	-	-	97.91	35.04	46.54	179.49
6.	**Heavy Engg. Corpn.**	Aug-96	252.00	190.65	272.10	99.41	253.00	876.51
7.	**Scooters India Ltd.**	Set-96	22.45	17.13	593.59	27.22	18.54	661.80
8.	**Rerolle Burn Ltd.**	Sep-96	4.13	3.95	0.21	2.15	4.43	10.92
9.	**Jessop & Co.**	Sep-97	43.00	43.00	119.98	21.11	70.68	254.77
10.	**Instrumentation Ltd., Kota.**	Mar-99	66.00	62.00	17.00	25.98	25.00	133.98
11.	**Burn Standard Co. Ltd.**	Apr-99	150.00	134.49	329.64	135.72	65.00	680.36
12.	**National Instruments Ltd.**	Nov-99	21.00	17.96	-	-	-	21.00
	TOTAL		**636.50**	**547.10**	**1615.96**	**446.85**	**625.24**	**3324.55**

Appendix VII

Statement indicating the present position of

PSEs under Department of Heavy Industry

A. PSEs recommended/decided for closure

1. Mandy National Paper Mills Ltd.
2. Bharat Process and Mechanical Engineers Ltd.
3. Weighbird (India) Ltd.
4. Mining & Allied Machinery Corporation Ltd.
5. National Bicycle Corporation of India Ltd.
6. Tannery & Footwear Corporation of India Ltd.
7. Rehabilitation Industries Corporation
8. Cycle Corporation of India Ltd.
9. Bharat Opthalmic Glass Ltd.

B. PSEs referred to Department of Disinvestment for J.V. formation/disinvestment

*1. Nepa Ltd.
2. RBL Ltd.
3. Instrumentation Ltd.
4. Bharat Brakes & Valves Ltd.
5. Bharat Leather Corporation Ltd.
6. Scooters India Ltd.
7. Bharat Pumps & Compressors Ltd.
*8. Hindustan Salts Ltd.
9. Tungabhadra Steel Products Ltd.
10. Jessop & Co. Ltd.
11. Hindustan Cables Ltd.
12. National Industrial Development Corporation.
*13. Praga Tools Ltd.

C. PSE which has already been converted into a J.V. Lagan Jute Machinery Co.

D. PSEs in regard to which decisions of BIFR are awaited (excluding those already referred to Department of Disinvestment)

1. Triveni Structurals Ltd.
2. Tyre Corporation of India Ltd.
3. Nagaland Pulp and Paper Corporation Ltd.
4. Cement Corporation of India Ltd.

E. PSEs which are agreed in principle to be converted into JVs (excluding those already referred to Department of Disinvestment)

1. Andrew Yule & Co. Ltd.
2. Bharat heavy Plates & Vessels Ltd.
3. Bridge & Roof Company (India) Ltd.
4. Engineering Projects India Ltd.
5. HMT Ltd.
6. HMT Bearings Ltd.
7. Hindustan Photo Films Manufacturing Co. Ltd.
8. Sambhar Salts Ltd.
9. Hindustan Paper Corporation Ltd.

(In addition, Cement Corporation of India Ltd. and Tyre Corporation of India on which recommendations of BIFR are awaited, Mandya National Paper Mills, which it has been decided to close down and Lagan Jute Manufacturing Co. Ltd. which has already been converted into a JV were also included in this list).

F. PSEs in regard to which a decision on JV formation/disinvestment is yet to be taken.

1. Bharat Heavy Electricals Ltd.
2. Heavy Engineering Corporation
3. HMT International
4. Hindustan Newsprint
5. Rajasthan Electronics & Instrumentation Ltd.
6. Hooghly Printing Co., Kolkata.
7. Burn Standard Co. Ltd., Kolkata.
8. Braithwaite & Co.
9. Bharat Wagon & Engineering Co.
10. Braithwaite, Burn & Jessop Corporation Ltd.
11. Richardson & Cruddas Ltd.
12. National Instruments Ltd.

* *These have also been referred to BIFR whose recommendations are awaited.*

PART III

Rationalisation of the Functions, Activities and Structure of the Department of Public Enterprises

DEPARTMENT OF PUBLIC ENTERPRISES

The Bureau of Public Enterprises (BPE) was set up in 1965, in pursuance of a recommendation of the Estimates Committee, to provide policy and overall guidance to the central public sector undertakings and to make a continuous appraisal of the performance of these undertakings. In 1990 BPE was made a full fledged Department of Public Enterprises and presently it is part of the Ministry of Heavy Industry and Public Enterprises. The Secretary of the Department of Heavy Industry also functions as the Secretary of the Department of Public Enterprises.

The organisational structure of the department, along with the allocation of functions, is set out below:

(i) Finance Division – Wage policy, issues relating to Navratnas & Miniratnas, purchase preference, Annual Survey of PSEs, restructuring of sick PSUs, disinvestment, board level appointments, etc.

(ii) Management Division – General management, policies of PSEs, performance appraisal of top executives, search committees for selecting part time directors, training and skill development of PSE executives, etc.

(iii) MOU Division - Preparation of MOUs for 108 PSEs (150, if subsidiaries are also taken into account), through the mechanism of adhoc task forces (ATF)

(iv) Permanent Machinery of Arbitration – consists of two Joint Secretary level officers (one position is vacant now) drawn from the Law Ministry, to 'arbitrate' on disputes between PSEs, so as to avoid costly litigation. The pre and post arbitration support is extended by the Finance Division.

(v) Administration and Coordination Division: Budget, Parliament work, reservations, vigilance policies for PSEs, etc.

Except for arbitration matters all other areas come under the charge of the Joint Secretary, who in turn reports to Secretary (HI&PE).

The emphasis in the earlier years was more on controlling the functions of the PSEs and on securing a certain measure of uniformity in the approach to various issues, through an elaborate network of guidelines. With the recent change in the economic policy and the opening up of many sectors to competition, the role of the DPE has, out of necessity, to shift from the erstwhile control mode to that of a supportive role. To some extent this has already happened. In the last few years there has been a greater delegation of powers to PSEs resulting in the scrapping of nearly 700, out of the total of 900 guidelines. Even the remaining guidelines, numbering 196, need to be constantly reviewed with the objective of delegating more powers to PSEs; thus enabling these to take business decisions quickly and without delay.

Equally importantly, it is also necessary to examine to what extent the functions now discharged by the DPE can be transferred to the administrative ministries. These functions were possibly vested in a “neutral” agency like the BPE/DPE on the presumption that an administrative ministry would adopt a soft approach towards its PSEs. If past experience is any guide, building such checks and balances has not been a very productive experience. Moreover in the emerging competitive scenario, it is necessary that the levels in decision making should be kept to the minimum. The functions now vested in the DPE would therefore merit indepth examination with the objective of transferring, as many of these as feasible, to the administrative ministry.

The task of preparing MOUs can as well be left to the concerned administrative ministries, which can take recourse to outside expertise, as the DPE itself is now doing through the mechanism of the ATF. Likewise, areas like performance appraisal of top executives, training and skill development of executives, constituting search committees for selecting panels of non-official directors etc. are also best left to the administrative ministries. In matters of restructuring of sick undertakings as well as joint venture formation or disinvestment, the administrative ministries can deal directly with the Department of Disinvestment. Preparation of the annual survey can be entrusted to SCOPE, an organisation in which all PSEs are members. In arbitration cases, the pre and post arbitration support can be extended by the concerned administrative ministries. In such an arrangement, the arbitrators can well be located in the Law Ministry.

Viewed this way, it will be sufficient if the DPE is vested with the task of monitoring compliance with a decreasing number of guidelines and some functions like wage policy, including pay revision at board and below board level. For this purpose, a small unit – Joint Secretary, supported by a Director (Finance), and two Deputy Directors with necessary support staff should be sufficient. The other positions in the Finance Division as also the Management Division, MOU Division and the Administration and Coordination Division can all be abolished. The small unit headed by the Joint Secretary can be made part of the Department of Heavy Industry and the Department of Public Enterprises abolished.