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Not quite what the doctor recommends

At a time when PSUs are being made to face the onslaught of competition from the private sector, including foreign companies/multinationals, and the need for autonomy and freedom of action is even greater, the government seems inexplicably determined to perpetuate its control over the PSUs. Parliament should take the lead in catalysing this much-needed change, says Uttam Gupta.

THE recent modification in the guidelines announced by the government in regard to the approval of the public sector projects by the Public Investment Board (PIB) purportedly aim at enhancing the efficiency of public outlays in these projects.

Amongst others, the new set of guidelines require presentation by the concerned administrative ministry (under whose jurisdiction the undertaking proposing the project comes) on the overall sectoral situation, examination of the financial structure by designated rating agencies/financial institutions and prioritisation of project in the context of overall availability of resources etc.

The very premise on which the proposed modifications are based is fallacious. Evaluation of the efficiency of public outlays has a meaning only if these are being provided to the PSUs for supporting their expansion and modernisation programmes including implementation of new projects.

It is no secret that during the post-reform era, the government has progressively reduced plan support and PSUs are expected to fund the new projects, expansion schemes from internal and extra budgetary resources (IEBR). In fact, in key sectors like petroleum and natural gas, telecommunication and power etc., where major expansion and growth plans are already under implementation, the budgetary support from the government is nil.

Notwithstanding this, the government may still insist on prior appraisal before the project is taken up for implementation by virtue of being the owners of these undertakings. What then is the objective behind the appraisal and in what way, the proposed changes would help in realising this in a more effective manner? The focus has to be necessarily much broader inasmuch as the government needs to be convinced that the project is viable and is capable of being implemented with available resources. Needless to say that this indeed is the prime responsibility of the management of the concerned enterprise which is vested in the boards of directors.

An analysis of the overall sectoral situation is fundamental to assessing the economic viability of the project. Amongst other, this includes estimation of the likely demand for the product, projected aggregate supplies (based on existing capacity and addition resulting from projects already under implementation), and resultant demand-supply balance.

Assessment of the macro-economic policy environment and sector specific policies i e import duty structure e.g. covering raw material, components, capital good, and finished product, excise duties, local taxes and impact of special concession or subsidy scheme, if any, is another essential element of the exercise.

The related question of whether implementation of the project can be fully funded is no less critical. After carrying out the preliminary feasibility studies, the management is expected to ascertain how much money the enterprise can invest on its own by way of internal generation, how much it can raise from the capital market and how much it can borrow from the FIs and commercial banks. Unless various sources of funds can be tied up well in advance there is no point in taking up the implementation of the project.

These are bare minimum requirements to ensure that the project is satisfactorily commissioned, to protect the estimated investments in the project (not just the funds contributed by the government by way of budgetary support) and to ensure timely servicing of the loans and payment of reasonable dividend.

It is undoubtedly important to ensure that the management makes the right moves and takes the right decisions at the right time. For this, all that is needs to do is to apprise the concerned administrative ministry who should give its concurrence within a reasonable time frame. Considering that the latter is the designated authority in all dealings pertaining to the enterprise, the need for further reference to other institutions/departments should not arise.

In fact, keeping in view the fact that the government nominee from the concerned ministry is already on the board of directors of the undertaking and since all major decisions including taking up new projects are taken by the board, there is no need for reference to the ministry. Whatever concerns the government may have can be taken care at the level of the board and unnecessary delays avoided.

The revised guidelines require the administrative ministry to make a sectoral presentation before the PIB. This is not at all necessary, particularly when the undertaking is proposing to fully fund the project out of its own resources and borrowings from the market or through public issue. Unfortunately, even the borrowing programme is approved by the MOF, which is illogical. It will only lead to further delays and cost overruns.

Presentation by the ministry means unnecessary duplication of the exercise; it may also run the risk of a good project being dropped for want of proper and objective appreciation of the facts of the case. For a project to be assessed strictly on merits, it is necessary that the concerned CE and his team of professionals who are directly responsible for its implementation, alone should be asked to make the presentation.

Prioritisation of the projects is a concept that has lost its relevance in the contemporary economic milieu. This is in view of two basic reasons. First, except for social infrastructure like health and education, the government is no longer providing budgetary support. In view of this, which project should get how much one is irrelevant.

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Second, all vital industries are facing high shortfalls in supplies vis-a-vis demand and are starved of funds needed to implement new projects and add to capacity. Consequently, it is not proper to divert resources from one undertaking/project to another.

Examination of the financial structure of the project and how the management will mobilise resources and whether it will succeed or not is again an issue in which the the PIB need not interfere. In any case, all these aspects are thoroughly scrutinised by the financial institutions/commercial banks before they give their approval and sanction loans.

At a time when the PSUs are being made to face the onslaught of competition from the private sector, including foreign companies/multinationals, and the need for autonomy and freedom of actions is even greater, the government seems determined to perpetuate its control over the PSUs.

The ceiling of Rs 50 crore below which the approval of PIB is not required was fixed long ago. Because of inflation and depreciation of the rupee, it has become obsolete. But, the government sees no merit in revising it. The message is that all projects must come to PIB.

The administrative control over running of the PSUs is very much in tact and has, in fact, increased during the reform era. In several undertakings in key areas, the CEs' position lies vacant for several months and, in some cases, years. This enables the concerned ministry to virtually run the entire show. Three years ago a decision to induct professional directors in PSU boards was taken; it is yet to be implemented.

Because of all this, already there is clear evidence of even viable and self-supporting projects having been delayed inordinately with consequential adverse repercussions on the cost and overall inflationary trends in the economy. The amended guidelines for clearance by the PIB is yet another step in the series that will further perpetuate administrative stronghold over the PSUs which, in turn, will exacerbate the problem of delays in project implementation and resultant cost escalation.

In the present dispensation of the government being the majority owner of PSUs, the situation is unlikely to improve. During the last four years, despite the loud talk, there has been no change for the better. Now the government does not even talk about restructuring and reform of the PSUs.

In the circumstance, substantial disinvestment of government's equity holding (to reduce it to minority) alone may hold the beacon of hope for these undertakings.

There is an urgent need to mobilise public opinion for the same. The parliament should, in fact, take the lead in this and catalyse the much-needed change which the executive on its own is unable to carry out. A large number of MPs are already strongly wedded to this idea. They should endeavour to build a consensus to facilitate giving a practical shape to it.