

## COMMENT

# Government must pull out of PSUs

*Uttam Gupta demands that the bureaucratic rigmarole of clearances must go if public sector is to perform well*

THE Standing Committee of Parliament on Petroleum recently indicted the concerned oil companies for delay in implementation of five projects in the oil sector (including the prestigious Kandla Bhatinda pipeline and the Neelam oil fields in the Bombay High), which resulted in a cost overrun of a whopping Rs 3,500 crore.

Apart from emphasising the need for improving project planning and implementation, it also suggested adoption of a comprehensive system of incentives/disincentives to encourage efficiency and discourage inefficiency. No one will disagree with the need for these, which, indeed constitute the essential components of the code of effective project management in any enterprise. But, there is a more important dimension to the issue of delay in execution of the projects and resultant cost escalation. This relates to delay in obtaining various approvals and clearances over which the project authorities have no control.

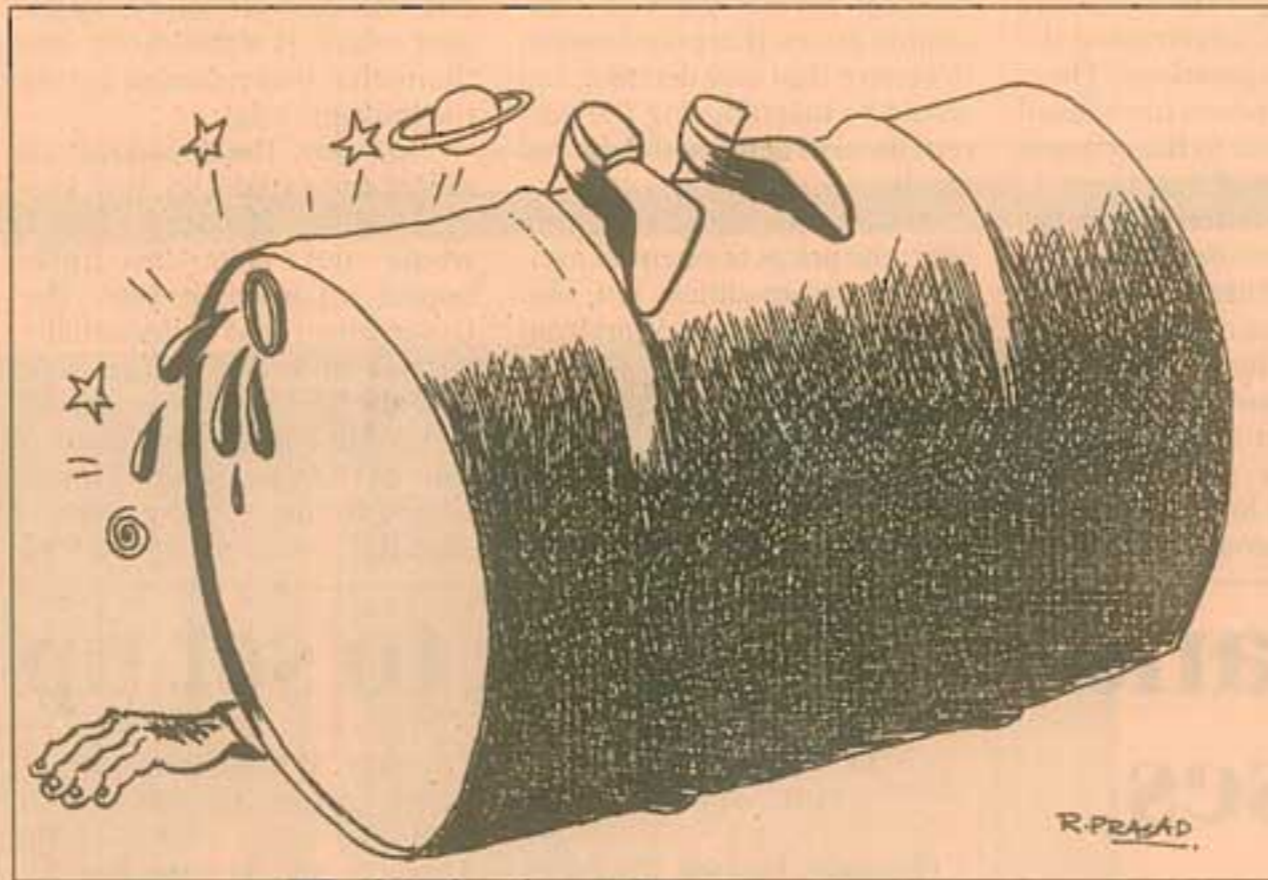
As per the rules applicable to the public sector undertakings, any project involving a capital expenditure of more than Rs 50 crore has to be cleared by the Public Investment Board (PIB) and later the Cabinet Committee on Economic Affairs (CCEA). Thereafter, it is sent to the Cabinet Committee on Political Affairs (CCPA) in case the project scope and content has political ramifications.

Approval of the Planning Commission (PC) is more or less mandatory in case the project requires budgetary assistance. And, even if such support is not needed, then also PC's involvement may not be ruled out. For instance, oil companies cannot borrow from the Oil Industry Development Board (OIDB) unless the financing package of the former's project is approved by PC.

Apart from these, there are routine clearances/approvals that the undertaking must independently seek from the concerned administrative ministry, the Ministry of Finance, and no less important, the Ministry of Environment. These would be required irrespective of the level of capital expenditure.

For projects under scrutiny by the Standing Committee, commencement of the execution work got substantially delayed mainly because of the delay in getting government approval. In view of this, and considering that the original cost estimates were based on prices prevailing in 1991-92, the inflation factor alone, until the start of the project work, obviously accounted for the bulk of cost escalation. Under such circumstances, it would be totally inappropriate to lay the blame on the door steps of the management.

A clear demarcation between the role of the management and that of the government machinery in granting approval is absolutely necessary to prevent any demoralising and humiliating effect on the former.



The various incentives or disincentives as recommended by the committee pale into insignificance in a situation of the management getting identified with major lapses for which it is not responsible.

Time overruns and concomitant cost overruns in project implementation are a generic problem facing a majority of the public sector projects, the common denominator being mandatory approvals and inordinate delays in granting them. The recent decision of the Government to raise the investment ceiling below which the approval of the PIB/CCEA is not required, will be of no great help. This is because the cost of most of the public sector projects being higher than even the revised ceiling, they will still have to be approved by the PIB/CCEA.

Apart from project implementation, a related issue is promotion of joint ventures (JVs) with private companies. These have assumed significance in the context of the massive resource requirements of new projects which the concerned PSUs are not able to arrange on their own. Besides, there are unavoidable gaps in technology and related capabilities which MNCs alone can fill. The Government recognises these and, as a matter of conscious policy, is willing to encourage JVs, but, is in no mood to relinquish the decision making powers in favour of the managements. The recent decision of the Committee of Secretaries not to give the necessary autonomy to ONGC in this regard abundantly confirms the Government's intransigent attitude.

If the bureaucracy is prone to delaying

*It is high time the administrative ministries stopped interfering in matters of management*

approval of new projects or any expansion scheme, the approach to JVs is unlikely to be any different, which are also bound to get delayed. No private company / MNC would be willing to wait that long. In these circumstances, the contemplated JV by ONGC or any other PSU, will simply be a non-starter and opportunities presented by it remain will only on paper.

It is important to note that the woes of PSUs are not going to end even if the Government decides to do away with the PIB clearance which, at the moment, it is not needed to do. This is because the necessary approval from the concerned administrative ministry would still be required. Even assuming that in an extreme circumstance this is dispensed with, the problem of lack of freedom and independence of action will still persist as, by virtue of full ownership, the board of directors would still be predominantly from the Government and crucial decisions can still be held up due to lack of cooperation from them.

In this context, about three years ago, the Cabinet had taken a decision to induct professionals on the board of PSUs and reduce Government's nominees from the concerned administrative ministry to at best one. Even this decision is yet to be implemented, giving a clear indication of bureaucracy's intention to remain in the driver's seat by hook or by crook.

It is clear that so long as the Government continues to be the sole owner of these undertakings, the former's involvement in conducting the latter's affairs will be unavoidable. And this would happen even if

the Government decides to dispense with the existing paraphernalia of approvals/clearances which is only theoretical. To expect that the bureaucracy will reform itself and speed up decision making in tune with the demands of changing times tantamounts to asking for the sky. During the last four years of reform, it has given no demonstration of doing better, nor it is serious about improving now.

The only way managements can hope to commission projects in time and control cost is by ensuring that the Government distances itself from these undertakings. It cannot happen in the present dispensation of the latter being the majority owner. The Government should offload its equity holding to the extent of 51 per cent which would result in vesting absolute authority in the board of directors for taking important decisions including planning and implementation of the new projects.

For undertakings in the oil sector specifically, it should initiate necessary steps to implement the recommendation of the Soundararajan Committee to offload 40 per cent of the equity directly to the public and 11 per cent to the public sector mutual funds to begin with. In due course, even the latter should be divested in favour of the general public.

In the present dispensation characterised by much bigger problems of huge delays caused by external factors, the deficiency of the management, if any, is likely to be glossed over. In the suggested arrangement of the Government's role being reduced to a minority partner and resultant disappearance of the problems on that account, accountability can be pinpointedly fixed and systems of incentives and disincentives too will become meaningful and effective.

While in France some time ago, the Prime Minister was reported to have said that the Government had no intention of selling the public sector. In other words, the suggestion of reducing GOI's stake to minority status will be unacceptable to the political leadership. With the Government itself not managing the PSUs well, can the country afford the resultant heavy burden on the exchequer and the monumental loss inflicted on the consumers by way of ever increasing administered prices?

The situation should not be allowed to drift any further. It is high time that the Government took a pragmatic view of the situation and vacates the industrial territory where it is no longer needed. Instead, it should concentrate mainly on its prime responsibility of governance e.g., maintaining law and order and catering to the social sector needs i.e. health, education and family welfare etc., and no less important, on improved tax collection to finance these activities.

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