Reference

APPROACH PAPER FOR STATE LEVEL PUBLIC ENTERPRISE REFORMS IN KERALA

Enterprise Reforms Committee
Government of Kerala

approved vide G. O. (Ms) No. 29/2002/ID dated 20-03-2002

GOVERNMENT OF KERALA
Abstract

Industries Department – Approach Paper for State Level Public Enterprises Reforms in Kerala – Approved – orders issued.

INDUSTRIES (H) DEPARTMENT

G.O. (Ms) No.29/2002/ID. Dated, Thiruvananthapuram, 20-3-2002.

Read:- (i) G.O. (Ms) No. 151/01/ID dated 8-11-2001.
(ii) Letter No. 285/ERC/012/2001-02 dated 14-12-2001 from the Enterprises Reforms Committee.
(iii) Note No. 4523/PC/01/SPB dated 15-1-2002 from the Members Secretary, State Planning Board.
(iv) Government letter No. 1756/H1/2002/ID dated 14-2-2002.
(v) Letter No. 207/GEN/1280/2001-02 dated 18-2-2002 from the Secretary, Public Sector Restructuring & Internal Audit Board (RIAB).

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ORDER

Government have constituted an Enterprises Reforms Committee (ERC) for the Restructuring of Public Sector Undertakings in the State with Shri R.C. Choudhary, IAS (Retd.) as Chairman, as per the G.O. read above. It was also ordered that the Enterprises Reforms Committee will submit an approach paper regarding the restructuring programme of Public Sector Undertakings to Government within a month. Accordingly, the Chairman, Enterprises Reforms Committee has submitted the approach paper to Government, vide his letter read as second paper above.

2. The State Planning Board at its 7th meeting have considered the approach paper of the Enterprises Reforms Committee and offered remarks on it to Government for their consideration. Government have also consulted the RIAB in the matter and certain modifications were made to the approach paper.

3. Government have considered all aspects of the approach paper which is annexed to this order, in detail, and the suggestions made therein and accordingly they order as follows:

(i) The broad guidelines for State Level Public Enterprise (SLPE) reform programme suggested in the approach paper is approved.
(ii) Special discussions will be conducted for Enterprises dealing with Agricultural Sector, especially, plantation and traditional industries, and ERC will put up proposals thereafter.

(Contd. ....: 2.)

(iii) The ERC will submit detailed proposals on a case-to-case basis for units to be taken up for reforms in the first phase subject to the general criteria mentioned in the approach paper.

(iv) Future budgetary assistance to SLPEs (unless otherwise specifically provided in the Plan) will be given only as part of the restructuring programme of the ERC.

(v) Industries Department will be the Administrative Department of the ERC in Government.

By order of the Governor,
JOHN MATHAI,
Principal Secretary to Government.

To

The Chairman, Enterprises Reforms Committee, TC 5/2384 (PNRA C.3), Kowdiar P.O., Thiruvananthapuram.
The Accountant General (A&E/Audit), Kerala, Thiruvananthapuram.
The Member Secretary, State Planning Board, Pattom, Thiruvananthapuram.
The Secretary, Public Sector Restructuring & Internal Audit Board (RIAB), T.C. 5/2384 (PNRA-C3), Kowdiar P.O. , Thiruvananthapuram.
All Departments of Secretariat.
All State Level Public Sector Undertakings under the classification of BPE.
The Planning & Economic Affairs (BPE) Department.
The Agriculture Department.
All Sections of Industries Department.

Copy to: The Private Secretary to Minister (Industries & Social Welfare).
The P.A. to Principal Secretary (Industries).
Stock file/Office copy.

Forwarded/By Order

Section Officer.

APPROACH PAPER FOR STATE LEVEL PUBLIC ENTERPRISE REFORMS IN KERALA

Executive Summary

- The SLPE reform programme in Kerala may be one among the key initiatives under an integrated development policy management programme for reducing public expenditure in SLPEs and targeting savings thus achieved to reduce poverty and maximise the benefits for human development, considering all the characteristics of Kerala society which make it different from other Indian States.

- A conducive social and political environment has to be created for undertaking the reform programme. Institutional capacity to carryout the reform programme may be ensured.

- The Government may move away from its ownership and financial support to SLPEs that need to be run with commercial considerations, particularly if they are not generating profits or are unable to sustain in the long run. This may be achieved by implementation of comprehensive restructuring programmes including rationalisation of employees, privatisation, management contracts, leasing, mergers and closure of unviable units and may be carried out by the ERC within a definite timeframe, to eliminate the persisting burden on the exchequer.

- The improvement of the efficiency of the SLPEs providing utilities may be achieved by the ERC through implementation of comprehensive reform programmes and institution of regulatory authorities with the objective of providing quality services to customers at economic and reasonable prices.

- A comprehensive cost-benefit framework developed by the ERC shall be the basis for suggesting restructuring strategies after analysis on a case-by-case basis.

- While the reform programme is being implemented, the transition phase has to be managed by the Government with utmost care, minimising the burden on the exchequer. Cash loss funding may not be done. Any further investment for capital upgradation or margin money for working capital in SLPEs must be by accessing commercial borrowings or private investment without Government guarantee.

- To prevent hardships of the personnel adversely affected by the reform programme, social safety nets like schemes for employee separation, retraining, redeployment, counselling & placement services and support for self employment may be instituted by the Government.

- Detailed guidelines may be evolved by the ERC for ensuring transparency of the reform programme at each and every stage of the reform programme implementation.

- The net proceeds realised from private participation or asset sale consequent to implementation of the reform programme may be used for meeting / servicing the cost of structural adjustment, infrastructure development, rural development and welfare activities for which separate guidelines at appropriate stage may be issued by the Government.

- Sustenance of the reform interventions may be ensured by strengthening Corporate governance initiatives through other professional bodies, training institutions and technology centres.

- Public information campaign may be seen as a critical factor for ensuring the success of the reform programme and hence a communication strategy may be put in place.

- Support from international development & reconstruction agencies and bilateral donors may be sought by the Government for implementing the reform programme.

CHAPTER I

BACKGROUND

1.1 In India, around 240 Central and 1020 State Level Public Enterprises account for about 17 per cent of GDP and about 23 per cent of employment in the organised sector. The total investment in Central Public Sector Enterprises (CPSEs) is around Rs.2,30,000 Crores and in State Level Public Sector Enterprises is around Rs.1,17,750 Crores.

1.2 The State of Kerala has the largest number of State Level Public Sector Enterprises (SLPEs) in India (111 out of 1071)[1]. The SLPEs in Kerala consist of 16 development and infrastructural agencies, 3 traditional industries, 10 trading and welfare agencies, 6 public utilities, 9 unclassified units, 4 non manufacturing plantation and agro based units and 63 manufacturing units. The manufacturing units are classified into sectors namely Chemical, Engineering, Electrical Equipment, Textiles, Electronics, Ceramics & Refractories, Agro & Wood Based[2]. The total number of personnel working in these undertakings is 1,25,814. While India has one PSU for every 9.5 lakh people, Kerala has one PSU for every 3.3 lakh people. The annual cash loss made by the manufacturing units itself is Rs.3 lakh per person employed. Most of the SLPEs in Kerala came into existence due to lack of private investment in certain sectors or when the private entrepreneurs lost interest in the enterprises set up by them when they made huge losses. In the latter case, the Governments were forced to take over the units to protect employment.

1.3 The distinction between SLPEs and Government Departments has been narrow and systems to ensure accountability and responsibility among personnel in SLPEs have not been sufficient. There is no fixity of tenure for CEOs. Organizational policy is drafted to ensure vertical mobility in the organizational hierarchy irrespective of the need, with the result that the top management consists of a good proportion of people with low managerial capabilities who have joined at lower levels during the inception of the SLPEs. In some cases, there are not enough people at the shop floor to plan, execute and produce measurable tangible outputs. Governments had been giving emphasis to create more number of SLPEs to generate further direct and indirect employment opportunities, that are not sustainable. Government, the promoter always has had social as well as commercial considerations and SLPEs have not been able to balance these two objectives by drawing up specific strategies for sustenance and growth.

1.4 The net worth of many SLPEs are constantly getting eroded and are overwhelmingly negative despite frequent doses of "oxygen" by way of fresh equity, grants, loans (unserviced) and guarantees to banks which are being invoked. A major reason for the

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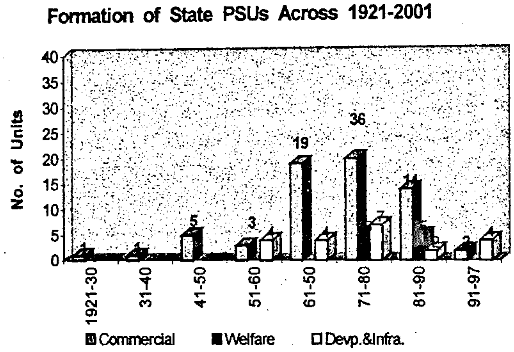
[1] Source : White Paper on Public Sector Enterprises Under the Industries Department published by Industries Department, Government of Kerala.

[2] Source : A Review of Public Enterprises in Kerala by the Bureau of Public Enterprises, Government of Kerala.

flow of governmental funds to prevent closure of unviable State Level Public Enterprises was the "high cost of exit." Funds required for clearing loans from financial institutions and banks guaranteed by Government and the cost of separation of employees is very high. A large proportion of governmental resources, which hitherto could have been used to generate sustainable income generation programmes for marginalized sections of the economy, were invested in SLPEs.

1.5 *Macro view of State Level Public Enterprises in Kerala*

1.5.1 Kerala has 111 SLPEs of which 63 are manufacturing enterprises. A thumb line sketch of the SLPEs in Kerala indicating the pattern of formation is shown.



1.5.2 Financial Position of all SLPEs[3] under the Government of Kerala as on 31-03-2000

Liabilities	Rs. In lakhs	Assets	Rs. In lakhs
a. Share Capital	4,58,081.22	Fixed assets - Gross Block	5,49,009.57
b. Reserves	1,14,835.52	Less Depreciation	1,94,996.21
c. Long Term Loans		a. Net Fixed Assets	3,54,013.36
i. Government	1,88,520.55	b. Capital Work in progress	3,30,324.51
ii.Financial Institutions & Others	7,33,023.11	c. Inventory	1,44,935.32
d. Bank borrowings for W/c	30,064.25	d. Sundry Debtors	1,50,868.35
e. Sundry Creditors	1,36,336.27	e. Other Current Assets	7,90,228.62
f. Current Liabilities	3,94,250.35	f. Acc.loss & Misc.Exp.	2,84,741.11
Total	**20,55,111.27**	**Total**	**20,55,111.27**

Source : BPE Review 1999-2000

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[3] The following organisations have not been considered due to non-availability of data Kerala Khadi & Village Industries Board, Kerala State Rural Dev. Board, SIDCO Mohan, Kerala Engg. Works Ltd., Kerala Inland Fisheries Dev. Corp., Kerala Fisheries Welfare Corp., Kerala Fisheries Corp.

1.5.3 As on 31-03-2000, the capital invested in these 111 SLPEs is ***Rs.13,796 crores*** inclusive of Rs.4,581 crores equity. The gross fixed asset creation is only Rs.8793 crores because of huge cash loss funding. With accumulated losses touching Rs.2847 crores from only Rs.675.91 crores during 1989-90, the net worth has now come down to a mere ***Rs.2,881 crores.*** As on 31-03-2000, the loans availed by 111 SLPEs in Kerala from the Government is Rs.1885 crores and the guarantees issued by the Government against loans from FIs and other sources are above Rs.7630 crores. As of now, the total number of personnel in the 111 SLPEs in Kerala is 1,25,814 which means that the capital invested per employee is around Rs.11 lakhs. But the gross fixed asset creation per employee is only around Rs.7 lakhs, that too not fully productive. It may also be noted that out of above investments the capital invested in Public Utilities is very high at Rs.9,362 crores. The capital invested in Developmental & Infrastructural agencies is Rs.2,316 Crores and in Trading and Welfare units is Rs.508 Crores. The accumulated losses for Public Utilities, Developmental Infrastructural agencies and Trading and welfare units is Rs.1,357 Cores, Rs.84 Crores and Rs.250 Crores respectively.

1.5.4 ***Financial Position of manufacturing SLPEs under the Government of Kerala as on 31-03-2000***

Liabilities	Rs. In lakhs	Assets	Rs. in lakhs
a. Share Capital	73,549.39	Fixed assets - Gross Block	93,364.01
b. Reserves	41,344.74	Less Depreciation	51,795.62
c. Long Term Loans		a. Net Fixed Assets	41,568.39
i. Government	34,358.23	b. Capital Work in progress	3,144.02
ii. Fin. Institutions & Others	46,179.38	c. Inventory	41,244.54
d. Bank borrowings for W/c	25,307.98	d. Sundry Debtors	29,429.41
e. Sundry Creditors	28,873.75	e. Other Current Assets	66,755.67
f. Current Liabilities	46,361.87	f. Acc.loss & Misc.Exp.	1,13,833.31
Total	**2,95,975.34**	**Total**	**2,95,975.34**

Source : BPE Review 1999-2000

1.5.5 As on 31-03-2000, the capital invested in 63 SLPEs in the manufacturing sector is Rs.1540 crores inclusive of Rs.735 crores equity. The gross fixed asset creation is only Rs.965 crores again because of huge cash loss funding. With accumulated losses touching Rs.1138 crores from only Rs.425 crores during 1989-90, the net worth is low at only ***Rs.11 crores.*** As on 31-03-2000, the loans availed by the manufacturing SLPEs in the State from the Government is Rs. 344 crores and the guarantees issued by the Government against loans from FIs and other sources are above Rs.710 crores. As on 31-03-2000, the total number of personnel in these manufacturing units is 53,270. The capital invested per employee in the manufacturing SLPEs is around Rs.3 lakhs. The gross fixed asset creation per employee is less than Rs.2 lakhs. Only 49% of the total long term funds have been used for fixed asset creation in manufacturing enterprises.

1.5.6 For reforming the SLPEs, the relevance of timely completion of audit cannot be understated. The following table gives the progress made in clearing audit arrears.

STATUS OF AUDIT

	1999-'00 *(In nos.)*	1996-97 *(In nos.)*
Audit up to date	35	36
ARREARS		
1 year	24	20
2 years	19	14
3 years	9	8
4 years	3	7
5 years	4	7
6 years	4	3
7 years	Nil	2
8 years	1	2
9 years	Nil	1
10 years	2	Nil
Sub Total	66	64
Units Defunct	10	10
Grand Total	**111**	**110**

Source : BPE Review 1999-2000, 1996-97

Note: Kerala Power Finance Corporation was incorporated in 1998

The arrears in audits and accounts position has to be viewed seriously. Even with these provisional estimates, it is estimated that the implied subsidy for SLPEs in Kerala is around Rs.500 crores during 1996-97 and this has mounted to very high levels now. The positive net worth that we see in many SLPEs is a result of huge share capital infusion without long-term asset creation and not as a result of surplus generated from operations.

1.5.7 Personnel strength in manufacturing SLPEs covering all administrative departments

Personnel Strength (Nos.) : Category-wise

Category	Total
Senior Executives	398
Executives	2021
Staff	3471
Workers	47380
Total	**53270**

Source : BPE Review 1999-2000

As can be seen above, 53,270 personnel are employed in the manufacturing SLPEs in Kerala. Of this, 22,234 are in the Traditional Sector. The next highest number of employees is in the Plantation & Agro Sector numbering 8,850. The percentage of senior level executives is high in Electrical, Electronics and Engineering Sectors. There is a substantial scope for rationalisation and re-deployment at these levels. Turnover per employee is the lowest in Traditional Sector followed by Ceramics sector. The average salary of executives, staff & workers show a wide variation across the sectors and also across enterprises within a sector. The increase in salary has always been a result of bargaining power of the Trade Unions and Officer Associations rather than viability.

1.5.8 A ten year analysis of the capital inflow into Public Sector shows that since 1993-94 there has been no marked increase in institutional credit. **The management of SLPEs and bank officials have been mainly grappling with case-by-case issues without reaching a consensus on systems to be put in place to prevent erosion of funds.** Consequently, the managements in most cases, approach the Government for working capital support as an easy way of running the concern rather than approaching banks with worthwhile proposals. The control systems within the SLPEs are not strong to ensure accountability. **There is an urgent need to restructure Short term finances in all the enterprises through stock audits with the involvement from respective bankers.** The debt is beyond unserviceable levels.

1.5.9 There is a situation where large number of SLPEs are saddled with outdated technology and unviable processes which seriously undermine the effectiveness of operations and make them inherently unviable. Because of the above stated reasons, the enterprises have had low levels of returns on investment and they have not been able to invest substantially in any of these critical aspects. The fact that, most SLPEs are highly localized and have not diversified in tune with changing macro economic conditions is fairly clear from the following analysis. Of the five units under the Ceramic & Refractories Sector, Kerala Clays and Ceramic Products Ltd. despite its impressive performance and turnaround from sick private unit to a dividend paying Public Sector, continues to focus only on mining activities. Kerala Construction Components have been manufacturing sand line bricks and has a limited presence confined to Alappuzha district. The Kerala Ceramics Ltd also has no new product line. Kerala Special Refractories Ltd and Chalakkudy Refractories Ltd are non-functional. In the agro based sector, after drastic reduction in the availability of sugar cane in its vicinity and the change in Abkari policy, The Co-operative Sugars Ltd., Chittur survives with sugarcane procured from Tamil Nadu. Travancore Sugars & Chemicals Ltd undertakes distillation with molasses procured from outside the state. Scarcity of timber has affected the wood based sector and it is only the low scale of operations and localized presence that has enabled the units to exist. In the Electrical Sector, Kerala Electrical and Allied Engineering Company Ltd, Metropolitan Engineering Company and Transformers & Electricals Kerala Ltd all make transformers even though of different ratings. Metropolitan Engineering Company Ltd has been functioning as a general engineering workshop. In the Engineering sector also, various divisions of Steel Industrials Kerala Ltd and Scooters Kerala Ltd have been undertaking engineering works of general nature - mainly fabrication of steel structures. Steel Complex Ltd, which imports scrap and sells its products almost exclusively to Government departments in making huge losses.

1.5.10 Except in case of activities with high strategic or social rationale and infrastructure creation in remote locations, no public purpose is served by the SLPEs that are unable to sustain themselves. To cite a few examples, Autokast and KSDP have together availed Rs.65 crores from Government / Governmental agencies subsequent to the announcement of the policy for disinvestment by the Government in 1991. It is to be noted that utilisation of such a huge amount would have substantially contributed to the developmental efforts in Alappuzha District covering many sectors of the economy. Similarly the Kerala Soaps and Oils Ltd, Kerala Electrical & Allied Engineering Co Ltd, Transformers & Electricals Kerala Ltd and Kerala State Electronics Development Corporation Ltd have together availed a financial assistance of more than Rs.150 crores since 1995-96. Even now many of these units are making operating losses and approaching Government for further funds. Even implementation of BIFR approved long term packages, without establishing operational viability, failed miserably. The relevance of the BIFR has also been questioned and the Union Government has also issued orders to close down BIFR.

1.5.11 As per 1992 amendment of the Sick Industrial Companies (Special Provisions) Act, State Level Public Enterprises with 100% net worth erosion are to be registered in the Board for Industrial Financial Reconstruction (BIFR). The Act also specifies that companies with net worth erosion of more than 50% may also be referred to the BIFR. Out of 72 enterprises under the Industries Department, the 12 Co-operative spinning mills and certain enterprises which are classified as SSIs do not come under the BIFR's purview. Till now, Keltron Counters Ltd (KCL), Trivandrum Spinning Mills Ltd (TSML), Kerala Automobiles Ltd (KAL), Keltron Rectifiers Ltd (KRCL), Autokast Ltd (AKL), Keltron Electro Ceramics Ltd (KECL), Steel & Industrial Forgings Ltd (SIFL), Transformers & Electricals Kerala Ltd (TELK), Travancore Sugars & Chemicals Ltd (TSCL), Keltron Power Devices Ltd (KPDL), Steel Complex Ltd (SCL), Kerala State Detergents & Chemicals Ltd (KSDC) and Kerala Minerals & Metals Ltd (KMML) **have been** registered in the BIFR. Certain other units with 100% net worth erosion could not be registered as statutory audit is in arrears.

1.5.12 BIFR approved packages are being implemented in all the above units except KPDL and TSCL. BIFR has issued winding up notice for KPDL and is yet to approve a package formulated for TSCL. Packages are being successfully implemented in KECL, SIFL, KAL and KMML. The package had failed in Autokast, KSDC, TSM, TELK, Keltron Rectifiers, TSM and SCL. The performance of SIFL had slipped since 2000.

1.5.13 Even the profit making SLPEs, including the ones that have come out of the BIFR's purview, have not been consistent performers. For example, The Kerala Minerals and Metals Ltd., which is now making profits because of having a near monopoly and duty protection, had a substantial reduction in profits when the import duty was lowered. Till recently, Travancore Titanium Products also enjoyed a monopoly situation, which will not exist due to globalisation and economic liberalisation. Malabar Cements Ltd, which is now making profits does not have reserve mine capacities for the future. The profits of Travancore Cements Ltd and Travancore Titanium Products have come down substantially. Travancore - Cochin Chemicals, which was making a profit of more than Rs.14 crores per annum is now making a loss of around Rs.15 crores. Even the SLPEs like Kerala State Cashew Development Corporation and CAPEX which speak of providing more than 200 days of employment to cashew workers, operate on negative contribution in spite of around Rs.140 crores financial support from the Government during the past five years. Even retention of employees by giving an allowance at the same level without work has a better economic sense. The arguments that these enterprises provide benchmarks for the service conditions in the private sector do not have relevance as these can be enforced by the Government under the Minimum Wages Act and various other labour and industrial regulations. Many SLPEs that should be commercially run have projected a social logic that is really non-existent and has continued to be a drain on the exchequer. **In many cases, these agencies are functioning for welfare of their own employees than that of the target groups for which they are actually intended.** Here again, the employees are also a disgruntled lot as the profitability of the SLPEs does not fetch them the income levels that they aspire.

1.5.14 The major lacunae in Public Sector Governance has been the problems encountered in professionalising management at the enterprise level. Reduction in number of units through consolidation could result in making this task easier. As of now, despite very clear directions from the Government to have functional directors in the board of SLPEs, only a handful of companies have inducted professional expertise at the board level. This has resulted in lack of direction at the board level. It may be noted that, the Company Law envisages a critical role for the Board to ensure effective management and protect share holder's interests. In the absence of professionals in the Board of Directors, certain enterprises are often run as per the whims and fancies of Chief Executives. Strengthening and professionalisation of Board of Directors of SLPEs as per Government guide lines which stipulate induction of functional directors is one area which requires immediate attention. **The standard of Corporate Governance has to be improved considerably even for implementing the reform programme.**

1.5.15 **To summarise, the major issues identified in Governance and Management of the SLPEs in Kerala are:**

- Lack of direction and commitment in managing the enterprises, primarily due to the diffused nature of ownership
- Lack of synchronization of critical events and efforts by support systems (this leads to duplication of efforts resulting in contradictions).
- Non-participation of support agencies due to lack of trust citing unpleasant experiences in the past.
- Enormous time delays mainly due to poor knowledge management in implementing agencies.
- Conflicting objectives (commercial vs. social) which is often advocated by organized trade unions that prevail in the decision making process
- Lack of clarity in the authority and responsibilities
- Lack of the exposure of Governments to commercial business practices
- Lack of state-of-the-art technical expertise in SLPEs
- Low incentives for management
- Poor management of working capital and pendency in audit

- Lack of timely capital upgradation
- Delayed decision making at times paralyzed by laisse-faire attitude towards state's business
- Redundancy of manpower mainly due to lack of clear norms for recruitment and up gradation of skill sets. (this leads to improper person-task fit)
- Absence of safety nets to take care of displaced labour
- Learned helplessness among the critical mass
- High gearing of projects
- Absence of clear cut strategies and legislations leading to adhocism in SLPEs and challenge in courts later on
- Absence of performance monitoring and management audit
- Absense of comprehensive approach for ensuring **competitiveness of the state** as an investment destination.

1.6 Previous efforts in restructuring SLPEs in Kerala

1.6.1 Efforts for closure of unviable units and for attracting private participation in potentially viable units started in 1991 with the announcement of industrial policy. The need for disengaging from SLPEs that were to be commercially run was underlined and ten chronically sick loss making units were listed for disinvestments. This approach was contrary to the Government of India's approach for divesting its shares in profit making enterprises. Even though the work was entrusted to KSIDC and BPE, progress could not be achieved due to the following reasons.

- Absence of lack of specialised institutional mechanisms for undertaking the privatisation programme and absence of a comprehensive strategy for carrying it out within an integrated development policy management framework.

- Lack of offers for sick units with huge liabilities, poor demonstration of technical capability and redundant manpower, when 10 SLPEs were listed for disinvestment in 1992.

- Lack of strong will and thrust on the part of the decision makers.

- Absence of a Cost – Benefit Policy framework for a decision on a case-to-case basis. (**Cost of closure** of even certain unviable units was very high and funds were not available with the Government).

- Lack of consensus among participating agencies and interest groups on the implementation strategies

- Dearth of Inter-Disciplinary Groups in Government to Conceptualise, Plan & Execute the Reform Process and delay in decision making.

Here it is also to be noted that a practically feasible framework for restructuring loss making enterprises was not conceptualised even at the national level and also with respect to SLPEs in other States.

1.6.2 However, it is heartening to note that even though the previous Government did not proceed with attracting private investments in potentially viable units, certain unviable companies like The Chalakkudy Refractories Ltd, Kerala State Coconut Development Corporation Ltd, Kerala Special Refractories Ltd were closed down and operations were stopped in Trivandrum Spinning Mills Ltd and unviable divisions of certain SLPEs like Kerala Soaps & Oils Ltd. Subsequently, around 2400 persons were brought under Voluntary Retirement Schemes. The focus of budgetary assistance shifted from providing working capital support against cash losses made by the SLPEs to One Time Settlement of Government guaranteed liabilities and implementation of Voluntary Retirement Schemes. As support from Bankers was not forthcoming to managing the transition phase of Public Sector Reforms, Kerala Industrial Revitalisation Fund Board (KIRFB) was set up as a Special Purpose Vehicle. KIRFB, a virtual organisation managed by RIAB, met urgent financial requirements for restructuring SLPEs under a performance contract umbrella. The fund base of KIRFB consists of Rs.45 crores equity and Rs.180 crores raised @ 13.50% through issue of bonds in January 2000. The Pooled cost of funds is 10.69% and the lending rate is 12%. The sanctions from KIRFB till 31/10/2001 is Rs.306 Crores and the disbursements till 31-10-2001 is Rs.204 crores. Around Rs.70 crores could be collected as repayment from the SLPEs and was recycled under a three tier ESCROW mechanism. The percentage of recovery to collectable demand as on 30-09-2001 is 60% for principal and 80% for interest. **In spite of close monitoring by RIAB, funds from KIRFB is being misused. If appropriate steps are not taken by the Government, KIRFB, that now has a deposit of around Rs.75 crores in Treasury, will become a sick organisation very soon.** The bonds issued by KIRFB, amounting to Rs.180 crores, are guaranteed by the Government.

1.6.3 In Kerala, during the last two years, an UNDP assisted pilot project on Public Sector Reforms is being implemented in Autokast, KSDP and KSSCL with guidance from Management and Training Services Division of the Commonwealth Secretariat, London. A Bankers' Working Group has been constituted for close co-ordination with the banking community. Around 100 competent officers "critical mass" identified through a Training Need Assessment by Centre for Management Development (CMD), Trivandrum are expected to be trained in **"Management of the Reform Programme"** within two to three months. Commonwealth Secretariat would be supporting a training programme on corporate governance for the director board members in SLPEs.

1.6.4 **From the experience during the past five years, it can be inferred that reduction in losses will not be practicable beyond a point if the management of SLPEs that need to be commercially run is under state ownership.** The Enterprise Reforms Committee (ERC) opines that Public Enterprises in Kerala have to be subject to a comprehensive reform programme to make "Competitiveness of Kerala as an industrial destination", a reality. These preparations are expected to provide the required impetus for implementing a comprehensive SLPE reform programme in Kerala.

CHAPTER II

FRAMEWORK OF APPROACH FOR SLPE REFORMS

2.1 *Rationale for the suggested framework for SLPE Reforms*

2.1.1 In the complex and ever changing globalised market situation, governments the world over have been divesting themselves of functions that can be discharged by other agencies, and retaining their core functions. This refocusing of priorities and activities is all the more obligatory in a scenario of fiscal crisis exacerbated by the need for continued spending by the state in the social sectors and the ever rising expectations of citizens and economic / business organisations for efficient and effective governance. Private investments badly needed for economic development and employment have to be attracted, overcoming the incentives and environmental pulls of alternative locations, states and countries[4].

2.1.2 While suggesting an approach for SLPE reforms in Kerala, certain important features of the State needs to be looked at.

- For half a century, the elected governments of Kerala (with thin margins in most cases) have had a socialist orientation whose priorities have been on social development, safeguarding employment, and using SLPEs as the vehicle for development, rather than promoting the private sector and a competitive market economy. However, the socialist governments have operated with a free democratic process, an independent civil service and judiciary, and have promoted human rights and civil liberties and hence cannot be compared to statist regimes which prevailed in other parts of the world;

- Kerala has achieved impressively high standards of health, education and social welfare for its population as a result of considerable public investment in social capital over the decades, and now has a well educated workforce (with a level of near 100% literacy among men, and women), a stable population, an informed and active electorate, and relatively little absolute poverty;

- Kerala has generally maintained a harmonious society, with good relations among the main religious communities, and although there are differences of income between the highest and lowest earners, there are no serious disparities of wealth and power leading to social segmentation and dominance. This has fostered a general culture which values social equity and participation. However, there are symptoms of social problems like suicide tendencies and alcoholism.

- The economy was traditionally based on small scale agriculture and plantations, producing a few main cash crops, with small scale agro-processing and textiles related main industries. A degree of diversification has been attained through power oriented manufacturing units in the chemical sector (due to low cost of power initially) and some high tech industries.

[4] Adopted from paper prepared by Mr. L.Radhakrishnan IAS, Secretary (Industries & BPE), Government of Kerala

2.1.3 The focus of an SLPE reform intervention in Kerala has to be on **"commercialisation"** of industries through a policy that also ensures competitiveness of enterprises in the post-reform environment. Participation of competent private sector majors in the public enterprises in Kerala is one among the many strategies to be implemented simultaneously to achieve this goal, which would have a social and fiscal impact on the state's economy. **Public Enterprise Reforms has to be one among the key initiatives under an integrated development policy management programme for targeting public expenditure to reduce poverty and maximise the benefits for human development[5].**

2.1.4 The framework for intervention in Kerala will have to capture implementation of competitiveness strategies that would operate at four levels namely national / state policy for public sector reforms, sectoral restructuring programmes keeping in mind market structures; enterprise level re-engineering efforts to make it attractive earning assets and capacity building in the post reform environment by strengthening corporate governance.

2.1.5 Through implementation of a comprehensive SLPE reform policy, access to latest technology will be made available to the SLPEs to increase their productivity and capacity utilisation. Intake of skilled labour force and their retention through implementation of competitive incentive schemes will be possible. Hardships of personnel, who cannot be accommodated in SLPEs due to redundancy, will be reduced by implementation of retirement schemes and institution of safety nets. State Level Public Enterprise reform allows Government expenditure to shift toward education, health, infrastructure development and social services. Moreover, as productivity gains appear in the newly privatized firms, the Government could obtain corporate tax revenues from the profits and in the event of holding minority shares of privatized enterprises, the Government will receive higher dividends than it does presently.

2.1.6 It is in this context that the below mentioned broad dimensions of the strategies of the Government of India on Public Enterprise Reforms needs to be looked at.

1 The public sector will have to narrow down to strategic areas. It may have to exit from other areas especially those of low social concern and where the private sector is already playing an efficient role.

2 Reliance on budgetary support is not a long-term solution. Budgetary support to loss making enterprises would be phased out. Resources for expansion would have to come from internal resources and / or the capital markets.

3 State Level Public Enterprises would have to reorient themselves in such a way that accessibility to commercial borrowings / investments is increased. For this, they must be prepared to be judged by commercial viability norms.

[5] This approach has been suggested by Mr. Michael Gillibrand who is the Director & Special Advisor (Commercialisation) of Management and Training Service Division, Commonwealth Secretariat, International Consultant for the ongoing UNDP project on Public Sector Reforms (IND/96/004)

4 Performance of units in the absence of price / purchase preference would have to improve substantially if increased access to capital markets is the goal.

5 Loss of employment as a part of restructuring may not be acceptable at the macro level and even changes at the micro level would have to carried out with a 'human face'. For workers likely to be affected due to the restructuring process, a social safety net will have to be in place.

2.1.7 Other States in India have also gone ahead with various initiatives for reforming SLPEs. For instance,

- **Andhra Pradesh** Government privatized Allwyn Nissan and a working Group that was constituted to examine the working of SLPEs has given its recommendations in respect of 30 SLPEs so far. A State Renewal Fund (SRF) was created with an initial capital of Rs.5 Crore to provide resources for institution of safety nets and 12,586 employees have availed VRS. Employees who do not qualify for retirement schemes, or who qualify but do not opt for the retirement schemes will be compensated (equivalent to 15 days of wages for each year of service plus other legal dues) under the Industrial Disputes Act. The Public Enterprises Reform Programme in Andhra Pradesh is a component of A.P. Economic Restructuring Project, supported by World Bank. The World Bank has sanctioned about USD 26 million, including 10% contingency to finance 70% of the VRS to employees. The balance of the VRS amount and the terminal benefits will be provided by the State Government. The DFID is also co-funding the AP government in implementing the project.

- **Karnataka** Government had set up Linn Committee to suggest privatization, deregulation and merger of SLPEs and later set up a Public Sector Restructuring Commission, in March 2000. The Commission headed by Shri. P.Padmanabha IAS (Retd.) as full time Chairman and two part time expert members has submitted a report since then on restructuring of fifteen PSUs and a policy on public sector reforms and privatisation has been brought out by the Karnataka State Bureau of Public Enterprises. The policy document also outlines institutional mechanisms for implementation. The Karnataka Government has also structured a voluntary retirement scheme which is similar to what is being adopted by the Government of Kerala.

- **Tamil Nadu** set up the S.V.S.Raghavan Committee for streamlining and restructuring SLPEs and to initiate privatization process. The Committee recommended setting up of a Tamil Nadu Public Sector Disinvestment Commission. A three pronged approach was suggested for restructuring of public sector viz., Retention, Disinvestment and Winding up. Tamil Nadu News Print and Papers Ltd. has been privatised by reducing the Government stake to 35.10%.

- **Maharashtra** has constituted a Cabinet Sub Committee to review the loss incurring, non-viable SLPEs and make recommendations on their restructuring and privatization.

- **West Bengal** has decided to privatize the Great Eastern Hotel. The Chief Minister of West Bengal has announced that the Government would close down loss making SLPEs and also welcome private participation in state run enterprises.

- **Madhya Pradesh** has embarked on an integrated Public Resource Management Programme under which an integrated Public Enterprises Reform is envisaged, with loan and technical assistance grant from the Asian Development Bank (ADB). As a part of reforms, the Government proposes to strengthen SLPEs in which government ownership is required to meet public purpose, close down those which are chronically sick and loss making, and restructure and divest the remaining enterprises to achieve greater efficiency, increase market discipline and have a wider dispersion of ownership. Accordingly, an Empowered Committee, headed by the Chief Secretary to Government and supported by a Technical Secretariat, has been set up. It has also been decided to transfer the responsibility of restructuring SLPEs from the Administrative Departments to the Department of Public Enterprises, in order to accelerate the reform process.

- **Orissa** has set up a Cabinet Sub-Committee under former Deputy Chief Minister and has suggested closure and privatisation of certain units. Orissa is availing Rs. 85 financial assistance from the Department For International Development (DFID), U.K.Government, for implementing the reform programme.

- **Gujarat** Government has approved a Comprehensive Public Sector Restructuring Programme (PSRP) and has been one of the most successful State Governments in winning the confidence of the workers in working out mutually agreed schemes for closure of non-core enterprises. The Government decided to set up a social safety net and a State Renewal Fund was set up with a substantial budgetary provision. As a part, of safety net, Gujarat has made elaborate arrangements for counselling, retraining and redeployment of workers with financial support from the ADB.

- **Punjab** has set up a State Disinvestment Commission and a Core Group for restructuring, reforms and disinvestment of SLPEs and Apex Co-operative institutes. Five SLPEs have been wound up pursuant to the Government policy of closing down chronically loss making non-core, non-strategic SLPEs.

- **Haryana** has set up a High Power Cabinet Sub Committee for Public Sector Restructuring. Six rice mills and one oil mill owned by Haryana State Co-operative Supply and Marketing Federation have been closed. A food & fruit processing plant owned by Haryana Agro Industries Corporation has been closed.

- **Uttar Pradesh** has set up a State Disinvestment Commission in 1998.

- **Rajasthan** has set up a committee on 'Re-organization, Strengthening and Disinvestment of SLPEs and Industrial Development'.

- **Jammu and Kashmir** has appointed a Committee on Economic Reforms (Godbole Committee) and an apex committee has been set up to consider the recommendations of the Godbole Committee. The Committee has already taken a view on the closure of 7 non-viable units. A Cabinet Sub Committee has been constituted to work out a Voluntary Retirement Scheme for units where decision on closure has been taken.

2.1.8 Here it is also to be noted that out-right privatization of public enterprises in many countries without a strategic plan has brought to light the following undesirable impacts while the targets in number of agencies privatised have been achieved[6].

- Many non-competitive transactions reflecting lack of transparency
- No broader participation due to weak or non-existent capital markets
- Low level of investor interest
- No post privatization monitoring
- No estimate of overall fiscal impact
- Lack of concern over the **"Economic and Social Effects"** of outright closure of units. In many unviable SLPEs the employment levels were high and the loans availed by the SLPEs are guaranteed by the Government. Social safety nets were inadequate or non-existent
- The Reform process was too slow in the absence of well defined systems. Then deal is hurried through under pressure and this has resulted in sub-optimal outcomes.
- While more than 50% of the buyers did not honour payment terms, there is no information about the utilization of such receipts including details on settlement of liabilities that existed.

<u>The Enterprise Reforms Committee has considered all the above aspects while evolving an approach for SLPE reforms in Kerala.</u>

2.2 Recommended Policy Framework for SLPE Reforms in Kerala

2.2.1 The broad dimensions of the recommended approach for SLPE reforms in Kerala are outlined below:

- The SLPE reform programme in Kerala may be one among the key initiatives under an integrated development policy management programme for reducing public expenditure in SLPEs and targeting savings thus achieved to reduce poverty and maximise the benefits for human development, considering all the characteristics of Kerala society which make it different from other Indian States.

[6] Paper on "SLPE Reforms in Kerala : Preparing for a Strategic Change" by Mr. K. Padmakumar. Secretary, RIAB & Fund Manager, KIRFB who is also the Associate National Project Coordinator of UNDP Project on Public Sector Reforms (IND/96/004)

- A conducive social and political environment has to be created for undertaking the reform programme. Institutional capacity to carryout the reform programme may be ensured.

- The Government may move away from its ownership and financial support to SLPEs that need to be run with commercial considerations, particularly if they are not generating profits or are unable to sustain in the long run. This may be achieved by implementation of comprehensive restructuring programmes including rationalisation of employees, privatisation, management contracts, leasing, mergers and closure of unviable units and may be carried out by the ERC within a definite timeframe, to eliminate the persisting burden on the exchequer.

- The improvement of the efficiency of the SLPEs providing utilities may be achieved by the ERC through implementation of comprehensive reform programmes and institution of regulatory authorities with the objective of providing quality services to customers at economic and reasonable prices.

- A comprehensive cost-benefit framework developed by the ERC shall be the basis for suggesting restructuring strategies after analysis on a case-by-case basis.

- While the reform programme is being implemented, the transition phase has to be managed by the Government with utmost care, minimising the burden on the exchequer. Cash loss funding may not be done. Any further investment for capital upgradation or margin money for working capital in SLPEs must be by accessing commercial borrowings or private investment without Government guarantee.

- To prevent hardships of the personnel adversely affected by the reform programme, social safety nets like schemes for employee separation, retraining, redeployment, counselling & placement services and support for self employment may be instituted by the Government.

- Detailed guidelines may be evolved by the ERC for ensuring transparency of the reform programme at each and every stage of the reform programme implementation.

- The net proceeds realised from private participation or asset sale consequent to implementation of the reform programme may be used for meeting / servicing the cost of structural adjustment, infrastructure development, rural development and welfare activities for which separate guidelines at appropriate stage may be issued by the Government.

- Sustenance of the reform interventions may be ensured by strengthening Corporate governance initiatives through other professional bodies, training institutions and technology centres.

- Public information campaign may be seen as a critical factor for ensuring the success of the reform programme and hence a communication strategy may be put in place.

- Support from international development & reconstruction agencies and bilateral donors may be sought by the Government for implementing the reform programme.

2.2.2 **The suggested approach is elaborated below:**

- As a first step, the Government of Kerala needs to develop a comprehensive public enterprise reform policy (perhaps outside the industrial policy) which addresses the problems and prospects of restructuring / privatizing different types of enterprises, strategies for transitional period management, structural reforms, market structures, and strategies to deal with the political economy of reforms. The approach indicated in this paper may be adopted for this purpose.

- The SLPE reform programme should not be seen as an end in itself to sell off companies, but as an essential component of broader development strategies. The long term purpose can be seen in terms of Kerala aspiring to achieve a four-cornered strategy of development which integrates the imperative goals of democratic governance, social cohesion, environmental sustainability and economic competitiveness. Of these, Kerala is proud to have gained high standards of the first three imperatives, but recognises that economic competitiveness is seriously lagging. The task is to regain economic competitiveness without compromising the other imperatives, and indeed to use economic strength to further improve standard of governance, social benefit, and environment for higher standards in the quality of life for citizens. Some development strategists perceive these four imperatives as essentially competing, whereby high levels of economic competitiveness are gained at some cost to social cohesion, democratic governance or environmental sustainability. The task for Kerala is to seek ways to not only balance these imperatives but to use each to reinforce the others.

- A comprehensive cost-benefit framework is regarded as the most effective approach to tackling these issues. The conventional approach to reforms has tended to reduce the cost-benefit framework to the single factor of consumer welfare, which may certainly be an effective concept for reforms in advanced industrial societies, but is inadequate for capturing all the factors in the conditions of Kerala which need to be considered by the decision makers. Hence the cost-benefit framework needs to be designed to incorporate all other relevant factors, including the balance of the number of jobs lost and created, net value added, industrial linkages created or cut. The policy framework will need to identify them and ensure that they are recognised for decision making and analysis if needed on a case-by-case basis.

- For public enterprise reform to happen, it is necessary to prepare the ground for privatisation, and that involves a number of prerequisites. One prerequisite is creating a conducive social and political environment in which the decision-making is made and the mechanisms by which that is got done and is accepted for implementation. A second prerequisite is to develop the institutional capacity to carryout the reform programme. It is also necessary to have a competitiveness policy having the legal infrastructure and market infrastructure in which privatized entities can operate efficiently. The investors are to be given some form of protection for their investments through a well defined labour policy. In order to facilitate smooth functioning of the labour market, the Government may establish a consistent legal framework that allows timely and just resolution of labour disputes.

- The ERC can initiate work based on the below mentioned categorisation of SLPEs done by RIAB. SLPE is defined as a company established under the Companies Act, 1956 (Central Act 1 of 1956) with more than 50% investment in equity by the Government of Kerala or a Co-operative Society registered or deemed to have been registered under the Kerala Co-operative Societies Act, 1969 (21 of 1969) with more than 50% investment in equity by the Government of Kerala or a statutory corporation / corporate body established under a Statute / Act of Legislature with more than 50% investment in equity by the Government of Kerala or a joint sector company registered under the Companies Act, 1956 (Central Act 1 of 1956) with not less than 40% investment in equity by the Government of Kerala or subsidiaries of the above stated entities.

  - **Group I** enterprises having negative net worth, obsolete products. These enterprises are incurring continuous losses and are not remitting their statutory dues. The cost of running these units for a few more years will be much higher than the cost of closure. Moreover, the technology and products are obsolete Closure of these companies would be the only feasible option. Lay off may be declared in such cases and an employee separation package may be implemented without delay.

  - **Group II** enterprises that have negative net worth and are incurring continuous losses due to low capacity utilisation, huge wage bills and unserviceable finance charges. These units will have to undergo a comprehensive restructuring exercise to attract private investments. Unserviceable government loans will have to be converted to equity, One Time Settlement (OTS) of government guaranteed liabilities will have to be made, excess land may be taken over by the Government and sold at market value, accumulated losses will have to be set off against equity and manpower rationalisation & organisational restructuring will have to be done to attract private investments. Lay off may be declared in some of the Group II companies or its unviable divisions or could be closed down. During the transition phase itself, management contracts and leasing of facilities could be tried in under performing potentially viable units wherever the investor lacks confidence. There is a good opportunity for consolidation of operations by mergers / amalgamation of enterprises of similar nature or similar product lines to improve their viability and make them more attractive for private participation.

  - **Group III** enterprises have positive net worth, but are incurring losses. These enterprises could be revived if appropriate managerial interventions and need based working capital is brought in through private participation. Attempts in the past to sustain these units with Government support have not yielded results. If OTS and labour rationalization can be done, these units can be made attractive for private investments.

- ➢ **Group IV** enterprises are profit making units with positive net worth. However, it may also be noted that many profit making units that perform under duty and tariff protection can sustain their activities only by increasing the volume of business through implementation of expansion and diversification programme with private participation. Steps may be taken to list these enterprises in stock exchange.

- ➢ **Group V** consists of **"Social Enterprises"**. The social objective and performance of these SLPEs (eg. Handicrafts Development Corporation of Kerala Ltd., Kerala Artisans Development Corporation Ltd., KELPALM, Kerala State Civil Supplies Corporation, Kerala State Housing Board etc.) needs to be examined in detail to decide on their continuance with budgetary support.

- ➢ **Group VI** enterprises consist of **"Public Utilities"** such as KSEB, KSRTC, KWA etc. where the Government have been investing huge amounts and the mounting maintenance costs are passed on to the consumers. Major reform programmes are being conceived with initiatives from the State Planning Board and based on MOUs with the Government of India. The progress will also have to be monitored by the ERC.

- ➢ **Group VII** enterprises consisting of state owned **"Developmental & Infrastructural Agencies"** like KFC, KSIDC, SIDCO, KINFRA, KSFE and KSIE will also have to be studied in detail for their justification to continue or restructuring.

- A time-table needs to be prepared for implementation of the reform programme perhaps taking around 15-20 SLPEs in a year. This would result in significant achievements by March 2005, but in three phases. Prioritisation of SLPEs for the purpose of reforms may be done by the ERC on the following criteria.

  - ➢ Health code cited in the previous para
  - ➢ Progress achieved in one time settlements & implementation of Voluntary Retirement Schemes
  - ➢ Potential for attracting funds for technology upgradation, expansion and diversification
  - ➢ Decisions of the BIFR
  - ➢ SLPEs where the problems have been clearly diagnosed under controlled lending by KIRFB.
  - ➢ SLPEs specifically referred to ERC by the Government.

- As a policy, till such time the Government take a decision on the restructuring package of the SLPEs and cash losses may not be funded from the budgetary allocation. **Any further investment for capital upgradation or margin money for working capital in SLPEs must be by accessing commercial borrowings or private investment without Government guarantee.** However, during the process of implementation of the reform programme, the potentially viable loss making SLPEs having bankable orders will have to be kept as **"going concerns"** till the private investors come in. KIRFB is meant for this transitional phase management and even budgetary resources that can be provided as working capital may only be routed through the controlled lending arrangement by KIRFB. This arrangement ensures re-cycling of working capital finance during the transition phase without any leakage. **Government may, therefore, avoid issuing any orders which upsets the controlled lending arrangement under KIRFB.**

- The Government / BIFR had ordered closure of Keltron Power Devices Ltd, Kerala Special Refractories Ltd, The Chalakkudy Refractories Ltd, Kerala State Coconut Development Corporation Ltd, The Kerala Premo Pipe Factory Ltd, Kerala State Engineering Works Ltd, Kerala Inland Fisheries Development Corporation Ltd, Kerala Fisheries Corporation Ltd, and Kerala Fishermen Welfare Corporation Ltd. But information available reveal that the winding up process have not been completed and some of these are still continuing with a number of employees in their rolls. Immediate steps may be taken to get rid of the redundant work force and the employees may be compensated under suitable Employee Separation Schemes, including settlements under the provisions in the ID Act.

- Benefits that need to accrue to the poorer regions and people, impacts on employment and labour relations and quantification of resources for retraining and re-employment need to be identified. An assessment of costs as well as benefits of privatization and whether/how privatization regulation can be structured to effectively champion the interests of civil society need to be carried out. Strategies will have to be evolved to ensure that development impact is felt beyond financial terms. Poverty alleviation programmes such as social funds to provide compensatory assistance, counselling & training, placement services and credit for self-employment need to be conceived. The services of State level training agencies and polytechnics may be utilised for this. For this purpose, ERC should conduct a series of sensitisation workshops on enterprise reforms on a regular basis. This approach would also take care of the political economy dimensions of the reform programme.

- Guidelines may be formulated by the Government for channelising the structural adjustment assistance, savings in Government budgets and privatization receipts for One Time Settlement of government guaranteed loans and for instituting Employee Separation Schemes. Social Safety Nets are to be targeted at both the workers facing extreme economic distress when redundancies occur and the poor.

- Periodic training will have to be imparted on analytical techniques for managers in enterprises (pre and post reform) to understand and respond to the complex impacts of Government policy / strategies on their enterprise and sustain the openended and continuous process of change. Corporate Governance will have to be strengthened to ensure that the enterprises are competitive globally and commercially run in the post reform environment without seeking concessions and duty & tariff protection from the Government.

- Support from international development agencies and bilateral donors has to be ensured for Technical Assistance (TA) and for availing structural adjustment loans for execution of the reform programme by the Government. Under the TA, clear guidelines will have to be evolved for ensuring transparency of the reform process including selection of consultants. The transaction costs would involve cost of appointment of consultants for valuation of assets, stock audits valuation of business from a cost benefit perspective, due diligence, advertisements for attracting offers and for assistance to the ERC / Government in negotiations.

- It is expected that even the preparatory work will result in a financial commitment of around Rs.5 crores that needs to be mobilised from bilateral donors or met from the budgetary allocation. Implementation of Employee Separation Schemes and One Time Settlement of government guaranteed liabilities will be required during the transition phase for fetching a higher value. Funds available in the budget may only be used for these purposes. Considering the financial commitments involved, structural adjustment assistance will have to be sourced from international development and reconstruction banks like ADB for facilitating this without creating a burden on the exchequer. The proceeds from privatisation could also be used to service the soft loans sourced for meeting the transitional costs.

- It should be ensured that the first set of reform measures is a success and a showcase for later measures. The reform programme must receive publicity not only for marketing the enterprises but also for gaining public support. Public information is also seen as a critical factor for ensuring the success of the whole programme. The reform programme must receive publicity not only for marketing the enterprises but also for gaining public support through credible explanation of its purposes and justification, not simply through public relations. A communication strategy needs to be put in place. Participation of public / private organizations (policy councils, industry associations, professional institutes, management / technical training institutions, technology centres) needs to be ensured.

2.3 Institutional arrangements for implementing the Reform Programme

2.3.1 The **Enterprise Reforms Committee (ERC)** headed by a retired IAS officer of the rank of Chief Secretary has been set up by the Government to expedite implementation of the SLPE Reform programme. The ERC has Principal Secretary (Industries), Principal Secretary (Finance), and Secretaries of BPE, Planning, Law, Labour and the concerned administrative departments, as members. To achieve successful implementation of the SLPE reform programme, the Government may ensure that the ERC, with its mandate, makes timely recommendations with regard to the SLPEs under the proposed Phases I, II and III of the reform programme (in terms of coverage in number of SLPEs) and SLPEs specifically referred to ERC by the Government. The ERC would take into consideration, the views of all stakeholders while formulating its recommendations, keeping in mind the best interests of all concerned. The ERC would draw upon expertise both within itself and external to it. Due regard will be paid to social and environmental concerns and issues of concern to the employees of the SLPEs.

2.3.2 In carrying out its functions in regard to reforms of the SLPEs, the ERC would perform the following tasks:

i. Prioritization of the SLPEs in Kerala for a comprehensive reform intervention.

ii. Identification of the SLPEs for which restructuring would be desirable extending the recommendations to alternative systems of management including privatisation, disinvestment, merger, management contracts, leasing etc. The modalities for doing so may be considered taking into account all issues including the interests of stakeholders, employees, consumers and others, as may be appropriate in case of each SLPE.

iii. Evolve appropriate principles for rationalisation of employment in the SLPEs, ensuring that the interests of labour are adequately safeguarded. Such principles may include Employee Separation Schemes, safety nets and modalities for financing it.

iv. Lay down transparent procedures for implementation of the reform programme.

v. Assist the Government in negotiating with donor agencies for financing the reform programme.

vi. Supervise and monitor milestones in the reform process and to ensure that appropriate measures are taken during the reform process to protect the interests of the stakeholders and affected employees.

vii. Recommend policies and strategies for ensuring competitiveness of SLPEs in Kerala in the post reform environment.

viii. Assist the Government in creating public awareness of the Government's reform policies and programmes with a view to develop a commitment among the people for successful implementation of the Reform programme.

2.3.3 Industries Department will be the nodal department of the ERC in Government. Once ERC identifies an SLPE for comprehensive reforms based on prioritisation, Public Sector Restructuring & Internal Audit Board (RIAB) will guide that SLPE to conceptualise its restructuring package to be submitted to the ERC. For this, ERC / RIAB may seek assistance from trained professionals from various SLPEs and other expert consultants.

2.3.4 The ERC shall make its specific recommendations for restructuring each SLPE which shall then be placed before the State Planning Board for consideration and recommendation to the Council of Ministers. Once the recommendations of the ERC for restructuring the SLPE are approved by the Government, a detailed time-table will be formulated by the ERC for implementation of the reform package. Enterprise specific transaction proposals for implementation will then be prepared by specialists / consultants / trained professionals in RIAB in line with the decision of the State Planning Board on the restructuring package which among other measures, would include the following activities.

- Concluding One Time Settlements of liabilities to Financial Institutions and Banks
- Preparation of Employee Separation Schemes.
- Asset valuation
- Due diligence
- Advertisement for invitation of bids
- Tendering and bid evaluation
- Post evaluation work including final recommendations regarding reform package
- Drafting of documents for facilitating transactions
- Company Law related matters
- Media affairs

2.3.5 Enterprise specific transaction proposals thus prepared by RIAB, in close consultation with the concerned SLPE and its administrative department, will be placed before the ERC. The recommendations of the ERC will be placed before the State Planning Board. The State Planning Board shall make its recommendations to the Council of Ministers. The decision of the Government on each proposal will be implemented by the concerned SLPE under close supervision of the concerned administrative department, within a specific time-frame. RIAB shall provide necessary support to the concerned Administrative Department for post decision implementation. The progress of implementation will be monitored by the ERC.

2.4 Expected external aid for SLPE Reforms in Kerala

2.4.1 Considering the above stated steps that will have to be taken immediately, the below mentioned two Technical Assistance projects have been conceived by MTSD, COMSEC and RIAB as an output of the UNDP project on public sector reforms that concluded in December 2001.

2.4.2 **The action plan would involve the following two separate but linked Technical Assistance (TA) projects during the preparatory phase and a Financial Assistance programme expected from ADB / Government of Netherlands, during the implementation phase.**

TA – I Documentation of present status of all manufacturing & trading SLPEs and estimation of their costs for One Time Settlements and Employee Separation Schemes in these SLPEs where operations need be stopped and in potentially viable enterprise that can be offered for private investments. This assignment which will provide vital inputs to the Asian Development Bank for processing the loan application is to commence in February 2002 and is expected to be completed by a specialised consulting firm by March / April 2002, with funding from the Government of Netherlands. The Royal Netherlands Embassy, New Delhi has agreed, in principle, to fund this TA that would also include development of a communication strategy for the Government and a 10 day training of 25 professionals from the SLPE in **"Management of SLPE Reform Programme"**, through RIAB/CMD/IMG at Thiruvananthapuram. These professionals would support ERC and RIAB in implementing the reform programme.

TA – II Development of a comprehensive strategic plan and policy framework for the restructuring and potential privatisation of manufacturing & trading SLPEs. This TA project is intended to commence in March / April 2002. This TA is expected to extend to December 2002 and funding is expected from the Government of Netherlands. There would be a component for capacity building in ERC and RIAB and also to train 75 core professionals for implementation of the reform programme at enterprise level.

The above stated TA projects will be supplemented by a **financial assistance programme** (structural adjustment assistance) which is expected to be supported by the ADB and Government of Netherlands for commercialisation, privatisation, closure and institution of safety nets covering all manufacturing SLPEs initially and launching of income generation programmes as appropriate in accordance with the strategic plan developed under the TA-II and government policies. This programme is to commence by the fourth quarter of 2002 and anticipated to continue for at least four years.

2.4.3 **The focus of the above stated international developmental agencies and bilateral donors to Kerala without duplication of efforts will help to attract international attention and will result in a greater visibility to the Kerala Industrial Sector.**

2.4.4 The above stated initiatives, which would start with reforms in manufacturing enterprises, are expected to help complete the State Level Public Enterprise Reform Programme within a definite time frame. These initiatives would also help to save more than Rs.150 crores per annum from its budgetary resources, augment governmental resources, bring investments in the State and enable delivery of cost effective services to the consumers. A substantial structural adjustment assistance for SLPE reforms is also expected from the Asian Development Bank and other developmental agencies in a phased manner.

Annexure

SLPEs for which recommendations for restructuring will be submitted by the ERC by 30th June 2002

1 Autokast Ltd
2 Kerala State Salicylates & Chemicals Ltd
3 Keltron Counters Ltd
4 Kerala State Drugs and Pharmaceuticals Ltd
5 Kerala State Textile Corporation ltd
6 Transformers and Electricals Kerala Ltd
7 Meat Products of India
8 Travancore Cochin Chemicals Ltd
9 Steel & Industrial Forgings Ltd
10 Trivandrum Spinning Mills Ltd
11 Keltron Component Complex Ltd
12 Kerala State Detergents and Chemicals Ltd

SLPEs for which recommendations for restructuring will be submitted by the ERC by 31st March 2003

1 Keltron Power Devices Ltd
2 Kerala Soaps and Oils Ltd
3 Sidkel Televisions Ltd
4 The Metropolitan Engineering Company Ltd
5 Kerala Electrical and Allied Engineering Company Ltd
6 Travancore Plywood Industries Ltd
7 Travancore Sugars and Chemicals Ltd
8 Kerala Automobiles Ltd
9 Sitaram Textiles Ltd
10 Steel Industrials Kerala Ltd
11 Steel Complex Ltd
12 Kerala State Electronics Development Corporation Ltd
13 Kerala State Wood Industries Ltd