Chapter 15

State Public Sector Undertakings

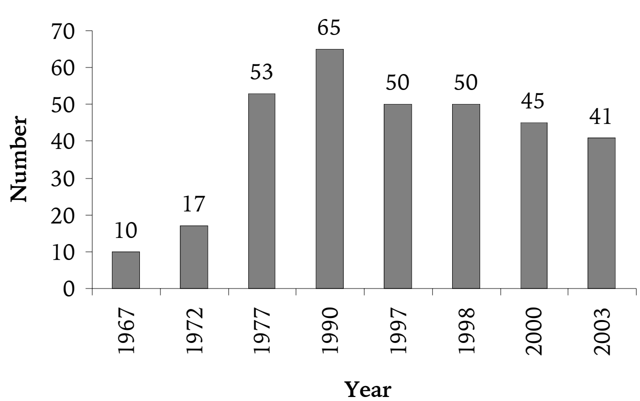
15.1 Introduction

This chapter provides an analysis of the existing state public sector undertakings (SPSUs) in Uttar Pradesh and their current state of fiscal health. We also discuss various issues regarding divestment like identification and prioritisation of SPSUs targeted for divestment, extent and mode of divestment, and transparency and speed of execution.

There are 41 SPSUs in the state, which incurred a loss of Rs. 1193.48 crores in the FY 2002-03. Of these, 19 companies earned a profit of Rs. 226.51 crores and 22 incurred a loss of Rs. 1419.99 crores. The performance of profitable ventures is thus overshadowed by the financial situation of the loss-making enterprises. The SPSUs account for an employment of 173349 and the average annual salary paid to an employee was put at Rs. 1.15 lakh in 2002-03. In view of the recurring losses, the state SPSUs are characterised by overstaffing, high overhead costs and high wage bills.

FIGURE 15.1

Current Scenario : Number of PSUs



Source: Department of Public Sector Undertaking.

The total paid-up capital as of March 31, 2003 was Rs. 8588.53 crores. Accumulated losses of the state's SPSUs amounted to a total of Rs. 9672.81 crore in the FY 2002-03. These losses exceed the paid–up capital and free reserves of the state's enterprises. The accumulated term loans from the state government is of the order of Rs. 4750.70 crore amounting to an estimated 42 per cent of the total PSU outstanding debt, which adversely affects the fiscal position of the state. Working capital loans from the state was estimated to be another Rs. 12.40 crore as on March 31, 2003.

Majority of the SPSUs are small to medium-sized companies and they have become unviable in the prevailing competitive environment. There are 16 companies with an investment of Rs. 5 lakh or less and there are 13 companies with a turnover less than Rs. 5 crore (Table 15.1). There are only 13 companies with an investment of more than Rs 100 crore and 14 companies with the same turnover.

A sectoral analysis of the SPSUs indicates that majority of them lie in the transportation, sugar, financial and infrastructure sectors. The five units under the textile sector have been closed. The infrastructure sector includes UP State Bridge Corporation Limited (UPSBCL), UP Project and Tubewell (UPPT), UP State Road Transport Corporation (UPSRTC), UP State Industrial Development Corporation (UPSIDC), UP Rajkiya Nirman Nigam Ltd. (UPRNNL), and Avash Vikas Parishad. These SPSUs employed 20497 employees with a net worth of Rs. (-) 143.97 crore and net profits of Rs. 33.54 crore as on March 31, 2003. The financial sector includes Pradeshiya Industrial & Investment Corporation of UP Limited (PICUP) and PFC which employed 1454 employees with a net worth of Rs. (-) 74 crore and net profit of Rs. (-) 113 crore as of March 31, 2003. Of the total of 35 units in the financial sector, 11 are closed. The Sugar Corporation employed 2390 employees and has a net worth of Rs. (-) 887 crore and net profit of Rs. (-) 167 crore as of March 31, 2003. Of the total 35 units here, 11 have been closed. (Appendix A-15.1).

TABLE 15.1

Sector-wise Analysis

INR Crore	*Total Investment*	*Total Turnover*
> 700	5	3
100 – 700	8	11
20 – 100	4	8
5 – 20	8	6
< 5	16	13

Source: Company's estimate: Dept. of PSE (as on 31.3.2003).

The subsequent discussion is organised in the following manner: Case studies of six major SPSUs in the state are discussed in terms of their financial position, performance efficiency and privatisation efforts are presented in Section 15.2. Based on these case studies, Section 15.3 discusses the need for reforms in the SPSUs. A plausible reform programme/scheme of reforms is discussed in Section 15.4. Section 15.5 gives conclusions and recommendations.

15.2 Case Studies

This section of the chapter provides an analysis of the important SPSUs in the state, their background and financial performance. The company-specific analysis also measures the efficiency of the company with respect to parameters like timely completion of works, cost efficiency and profitability analysis. It also discusses the attempts to privatise these SPSUs. The case studies discussed are UPSBCL, UP State Sugar Corporation Limited (UPSSCL), PICUP, UPRNNL, UP State Cement Corporation Limited (UPSCCL) and UP State Textile Corporation Limited (UPSTCL).

15.2.1 UP State Bridge Corporation Limited (UPSBCL)

15.2.1.1 Background

The main purpose of UP State Bridge Corporation Ltd., established in 1973, was to construct bridges for the state, eliminating the need for middlemen. At present, the state PWD has retained only the construction of small bridges. The construction of all bigger bridges has been transferred to the Bridge Corporation.

The work undertaken by UPSBCL can be classified into three main types:

(i) Deposit work from the state government on cost plus basis.

(ii) Tenders obtained on a competitive basis within the country.

(iii) Tenders obtained and executed outside the country mainly in the Middle East and Nepal.

15.2.1.2 Key Financials and Prospects

The total unaudited income of UPSBCL has been declining steadily from 2001 onwards before which there was an increase in the total income. Although operating expenses have also declined, the fall in the income is much more due to which the operating profit for March 2003 had become negative. This led to negative values for the cash profit and net profits. Table 15.2 depicts the financial position of the PSU.

TABLE 15.2

UPSBCL-Key Financials and Prospects

(Figures in Rs. Crore)

	Unaudited FY 03/03	*Unaudited FY 03/02*	*Unaudited FY 03/01*	*Unaudited FY 03/00*	*Unaudited FY 03/99*
Total Income	186.33	238.77	280.86	269.06	226.75
Total Operating Expenses	202.63	233.18	273.07	269.74	219.04
Operating Profit	(-) 16.30	5.59	7.79	9.32	7.71
Interest Paid	0.72	0.44	1.87	1.05	1.10
Cash Profit/Loss	(-)17.02	5.15	5.92	8.27	6.61
Depreciation/ Toll Bridge Written Off	5.92	4.92	3.56	4.57	2.98
Net Profit/ Loss	(-) 22.94	0.23	2.36	3.70	4.13
Cumulative Loss	(-) 8.38	14.56	14.42	13.39	11.57
RoE (%)	(-) 229.4	1.5	14.2	22.8	41.3

Source: Company's estimate.

The value of business received from the Government of Uttar Pradesh (GoUP) has been steadily declining (Table 15.3). The decline in business is especially sharp over the past two financial years. An analysis of business-wise breakup of work done over the past five years indicates that any increase in turnover is due to participation in tender work outside the state. An examination of the order book for the past five years indicates that the company has been concentrating on tender works. This is primarily due to budgetary constraints on the part of the state government.

TABLE 15.3

UPSBCL—Business-wise Breakup of Work Done

FY	*Value of Deposit Works from GoUP* (Rs. Crore)*	*Value of Tender Works outside UP State* (Rs. Crore)*
03/03	62.15	109.71
03/02	95.04	126.45
03/01	110.86	164.79
03/00	106.75	156.91

Source: Company's estimate.

Note: *No overseas contracts were awarded over the period.

The company has not bagged any foreign contract work over the past five years. The reason for this is that UPSBCL has participated in tenders overseas mainly in the Middle East and due to the disturbed situation prevailing in the region, no tenders have been submitted.

15.2.1.3 Efficiency Parameters

The efficiency of the company may be measured in terms of the following three parameters:

(i) timely completion of works,

(ii) cost efficiency, and

(iii) profitability analysis.

Tables 15.4, 15.5, 15.6 and 15.7 analyse the performance of the company with respect to the above parameters over the past five years.

(i) Timely Completion of Works

From the data furnished for the past five years, it is seen that there have been relatively more time overruns in deposit works. It is understood that such delays are principally due to bureaucratic constraints and procedural delays from the state PWD.

TABLE 15.4

UPSBCL—Time Overruns of Projects Completed: Deposit Works

	FY 03/03	*FY 03/02*	*FY 03/01*	*FY 03/00*	*FY 03/99*
Works Completed	18	65	38	51	54
Time Overruns 0-6 months	6	26	26	28	25
6 Month–1 Year	9	18	5	5	6
>12 Months	3	21	7	18	24

Source: Company's estimate.

TABLE 15.5

UPSBCL—Time Overruns of Projects Completed: Tender Works

	FY 03/03	*FY 03/02*	*FY 03/01*	*FY 03/00*	*FY 03/99*
Works Completed	7	9	3	11	7
Time Overrun 0-6 months	1	-	1	2	1
6 Month–1 Year	3	1	0	2	2
>12 Months	2	8	2	5	4

Source: Company's estimate.

(ii) Cost Efficiency

There have been cost overruns in all works due to escalation and new items of work being added on. The margin of over-runs has been more in the case of deposit works as compared with tender works, again highlighting the delays associated in dealing with the state government.

(iii) Profitability Analysis

A profitability analysis of the work done by the company during the past five years reveals the following (Table 15.7):

a) The work account surplus from tender works is not sufficient to cover the administrative overheads.

b) Profitability appears to come from the deposit works executed on a cost plus basis. However, the cost plus basis of payment is not conducive from a long-term point of view.

TABLE 15.6

UPSBCL—Deposit Works

(in Rs. Crore)

FY 03-03			FY 03-02			FY 03-01		
Name of Bridge	*Original Estimate/Date*	*Revised Estimate/Date*	*Name of Bridge*	*Original Estimate/Date*	*Revised Estimate/Date*	*Name of Bridge*	*Original Estimate/Date*	*Revised Estimate/Date*
Chambal/ Sahsoghat Lakhna Sandos	548.40 27/12/1986	1846.93 24/01/2003	Shimli Banaki Sarsawa Ghat at Ballipur	92.00 11/03/1996	132.18 07/12/2001	Ghaghra/at Turtipar-Gorakhpur-Ballia	1241.98 14/10/1985	3046.84 22/03/2001
Essan/Aat Gursaraiganj Tirwa Road Dhobighat	153.03 29/06/2002	197.03 13/03/2003	Rari/Chauri Chaura Ahramau Aldas	18.00 04/01/1991	80.56 20/12/2001	Ganga/At Deoprayag	352.19 31/03/1996	629.16 26/06/2000
Chhoti Saryu/ Chistipur Ghat Kopaganj-Bhatkol Road	29.00 07/02/1998	62.85 11/02/2003	Minor Bridge/ Naya Gaon Gharaira Nala Lalpur Nayagaon	25.00 08/02/1994	59.25 18/06/2001			
Jhagra Beria/ Gahra Nala at Lalpur Imalia	98.56 01/10/1993	197.69 10/05/2002	Under Passage No.29A/T-3	618.00 20/02/1995	887.09 12/10/2001			
			Gola River/At Haldwani	274.00 31/03/1992	949.00 29/05/2001			
			Solani/Bho Karheri Taufiqpur	343.10 08/02/1994	545.61 12/10/2001			
			Kathnaiya Nala/ Munderwa Hallaur Hariharpur Jamuhat Gha	60.00 07/01/1997	99.06 06/12/2001			
Total	**828.99**	**2304.50**		**1430.00**	**2752.75**		**1594.17**	**3676.44**

Source: Company's estimate.

TABLE 15.7

UPSBCL—Profitability Analysis

(Rs. in Crore)

Tender Works	*Unaudited FY 03/03*	*Unaudited FY 03/02*	*Unaudited FY 03/01*
Value Work Done	109.71	126.45	164.79
Other Income	141.3	16.84	4.1
Contract Works Expenditure	120.37	120.19	148.55
Surplus From Contract Works	(-) 3.47	23.10	21.15
% of Value Work Done	(-) 2.80	16.12	12.46
Deposit Works			
Value of Work Done	62.15	95.04	110.86
Other Income	0.34	0.44	0.30
Works Expenditure	56.09	85.01	98.29
Surplus From Works a/c	6.40	10.47	12.88
% of Value Work Done	10.24	10.97	11.59
Administrative Expenses	29.13	28.98	28.11
Administrative Expenses as a/c of Value of Work Done %	15.63	12.14	10.00
Depreciation	3.68	4.36	3.56
Profit before Tax	(-)22.94	(-)0.23	2.36

Source: Company's estimate.

15.2.1.4 Staffing

The category-wise breakup of employees as on 31-03-2003 is given below:

TABLE 15.8

UPSBCL—Category-wise Breakup

Class	*Category*	*No. of Employees*
Class I	Regular	103
Class II	Regular	273
Class III	Regular	913
Class IV	Work Charged Regular Gr. B & Daily Wages	5753
Total		**7042**

Source: Company's estimate.

The company is considerably overstaffed with a number of temporary workers who not only pose a problem in terms of staff and wage cost but would also pose a serious concern for potential buyers. The company is dependent on deputation to a large extent in class I and II in the technical category and on PWD engineers to man senior positions.

A comparison with companies in the private sector indicates that the profitability per employee for the company is much lower than that of its competitors.

TABLE 15.9

UPSBCL—Peer Group Comparison as of March 31, 2003

(in Rs. Crores)

	L&T	*Hindustan Construction*	*Gammon India*	*UPSBCL*
Total Income	4339	684	795	186.00
Total Operating Expenses	3921	554	706	209.00
Operating Profit	418	123	84	(-) 23.00
GCF	9.63	17.98	11.07	(-) 12.37
Net Profit/Loss	174	29	21	(-) 23.00
Sales Per Employee	0.59	0.57	0.61	0.026

Source: Company's estimates.

15.2.1.5 Reasons for Losses

The value of work done during FY 03/03 as per the unaudited accounts has fallen by (-) 22.4 per cent to Rs. 171.8 crores over the previous financial year. The main reason for reduction in the value of work done has been the lack of availability of adequate funds for deposit work in the state.

15.2.1.6 Attempt at Privatisation

The government has not yet attempted the privatisation of the company. On the positive side, it is likely that an attempt at privatisation will meet with a favourable response from potential buyers due to the following reasons:

Firstly, due to the overall prospects of the construction industry which are viewed to be good with an estimated growth rate of 10–12 per cent per annum.

Secondly, preliminary interest on the part of the competitors also stems from an interest in the company's technical pool of trained and skilled personnel.

The assets of the company, which are of special interest to potential buyers, would include cranes, batching plant and specialised forms worked.

However, average growth prospects of the state could be a negative aspect of privatising from the buyer's point of view.

15.2.2 UP State Sugar Corporation Limited (UPSSCL)

15.2.2.1 Background

UP State Sugar Corporation Limited (UPSSCL) was established in 1971 by the GoUP to run the 28 'sick' sugar mills acquired by the state government under the UP Sugar Undertakings (Acquisition) Act, 1971.

Subsequently, one sugar mill in Pipraich was purchased in open auction and one sugar mill in Chandpur was established by UPSSCL.

Soon after, five additional sugar mills were established in Kichha, Chatta, Rae Bareli and Ghatampur, which were managed by the subsidiary companies of UPSSCL.

15.2.2.2 Key Financials and Prospects

The prospects of UPSSCL are not considered to be bright owing to the obsolete technology, outdated machinery, economically unviable size of the plants and concentration in the less attractive (low recovery) areas of eastern Uttar Pradesh.

The company has been incurring losses since its inception. The position of accumulated losses at the close of FY 03-03 is given in the Table below:

TABLE 15.10

UPSSCL—Accumulated Losses as of March 31, 2003

	Rs. Crores
Paid Up Capital	590.67
Total Accumulated losses	(-) 1,920.45

Source: Company's estimate.

TABLE 15.11

UPSSCL—Unit-wise Position of Accumulated Losses till March 31, 2003

Name of Unit	Accumulated Net Loss (in Rs. Crores)	Name of Unit	Accumulated Net Loss (in Rs. Crores)	Name of Unit	Accumulated Net Loss (in Rs. Crores)	Name of Unit	Accumulated Net Loss (in Rs. Crores)
Healthy Units		Sick Units		Closed Units		Additional Units	
Amroha	-58.85	Betalpur	-59.74	Barabanki	-69.73	Chhata	-55.49
Bijnor	-25.03	Bhatni	-84.94	Rampur	-70.56	Rae Bareli	-48.65
Bulandshahr	-77.32	Burhwal	-65.84	Meerut	-65.95	Ghatampur	-65.34
ChandPur	5.80	Deoria	-75.55	Bareilly	-58.96	Nand Ganj	-69.34
Jarwal Road	-55.10	Lakshmi Ganj	-53.67	Hardoi	-76.44		
Khadda	-28.69	Pipraich	-84.28	Maholi	-74.67		
Mohiuddinpur	-52.81	Ramkola	-70.25	Chhitoni	-49.83		
Rohanakalan	-38.59	Shahganj	-61.16	Ghugli	-56.78		
Saharanpur	-56.29			Munderwa	-56.47		
Sakhetitada	-42.78			Nabab Ganj	-65.03		
Siswabazar	-52.12						
Sub-Total (11)	**-481.78**	**Sub-Total (8)**	**-555.43**	**Sub-Total (10)**	**-644.42**	**Sub-Total (4)**	**-238.82**

Source: Company's estimate: *Audited Financials for* FY 03/03.

As indicated above, the position of net losses has shown an increasing trend over the past five years and has rapidly deteriorated particularly over the past two years (Appendix A-15.4).

15.2.2.3 Reasons for Losses

The crushing capacities of the 35 units are below the zonal average. The primary reason for the losses is the obsolescence of plant and machinery. As a consequence, there is low-capacity utilisation and sugar recovery, leading to a higher cost of sugar production as indicated in Appendix A-15.5.

Poor cane availability has been further affected by non-payment/delayed payment of cane prices to the farmers, as a result of the adverse financial position of the sugar factories.

Where there are no long-term prospects of the unit to become financially viable, the government should be willing to take tough steps for closure as in the case of Lakshmi Ganj, Pipraich, Ramkola and Shahaganj.

15.2.2.4 Early Privatisation Efforts and Causes of Failure

The GoUP has made various efforts to sell-off the closed and unviable units by hiving them off into a separate subsidiary company. However, attempts at privatisation have not been successful. Some of the reasons for the lack of success so far can be ascribed to policy considerations.

Under the Indian Government Policy, sugar was considered to be a controlled commodity under the Essential Commodities Act, 1955. The Government of India (GoI) has been exercising control through the following mechanisms:

(i) licensing,

(ii) fixation of price of the major input-sugarcane,

(iii) quantity restrictions on open market sale,

(iv) fixation of price of levy quota sugar,

(v) licensing of operation of sugar wholesalers, and

(vi) control of inventories of sugar.

Until 1998, sugar was one of the nine industries under licensing. Under the government's old licensing policy:

(i) New sugar factories were to have a minimum capacity.

(ii) No cap was placed on maximum capacity .

(iii) New mills were to be located outside a 15-km radius of the existing/licenced mills.

(iv) 'Zoning' or reservation of sugarcane area was introduced.

(v) *Ceteris paribus* preference was to be given to (in order):

a) cooperative sector,

b) public sector, and

c) private sector.

The consequences of the old licensing policy were far reaching. It led to:

(i) killing of private sector initiative.;

(ii) lopsided development of industry in favour of cooperatives; and

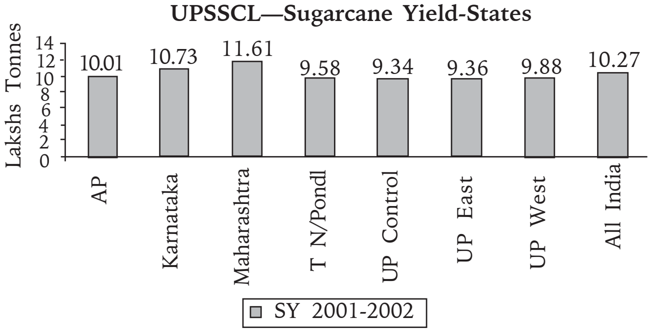
(iii) arbitrage in licences leading to deterrence of free entry.

The future outlook for the sugar industry as a whole is considered to be bleak owing to macro policy decisions of the government in the past.

India produces nearly one quarter of the world's sugarcane, yet India only trades marginally in the world sugar market (Figs. 15.2 and 15.3).

FIGURE 15.2

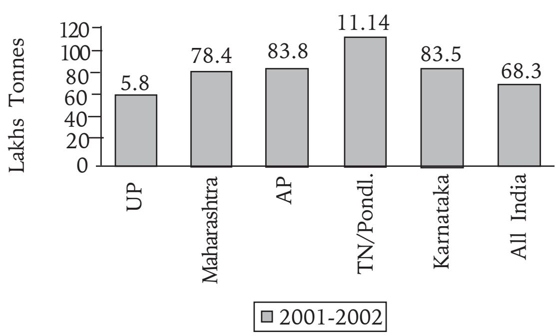
UPSSCL—Sugarcane Yield-States



Source: Company's estimate.

FIGURE 15.3

UPSSCL—Sugarcane Recovery-States



Source: Company's estimate.

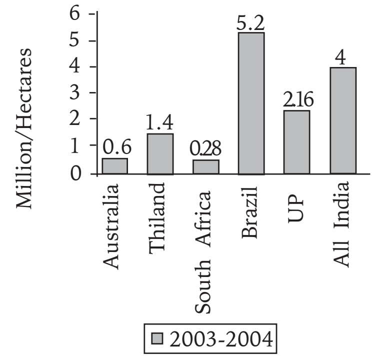
Further, the sugar industry in India is plagued by low yields and poor quality of sugar produced. Among the states, UP is the lowest among its comparable group (main sugarcane growing states) and is even below the national average (Figs. 15.4 and 15.5).

Hence, the privatisation efforts can only be successful in the context of a larger positive macro environment for the industry as a whole.

FIGURE 15.4

UPSSCL—Cane Acreage-Global Comparison for SY 2000

(In Million Hectares Estimate for SY 2004)

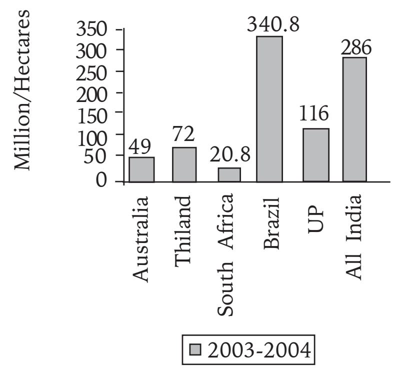


Source: Company's estimate.

FIGURE 15.5

UPSSCL—Cane Production–Global Comparison

(In Million Tonnes Estimate for SY 2004)



Source: Company's estimate.

Lessons from International Experience

From Table 15.12 below, we observe that with respect to natural indicators Brazil, India as a whole and UP as a state are on par.

However, a marked disparity exists with respect to the following indicators:

a) numbers of sugar mills,

b) installed crushing capacity including average,

c) average size of holdings, and

d) number of growers.

(The characteristics and drivers of the Brazilian success story are summarised in Appendix A-15.7)

In terms of sugarcane production, Brazil is a world leader (despite being a much smaller country) followed by India. Uttar Pradesh is the leader among the states accounting for nearly 40 per cent of cane production, as seen from Table 15.12.

TABLE 15.12

UPSSCL-The Brazilian Model

	Brazil	*India*	*UP*
Sucrose Content	14%	12-15%	12-13%
Fibre	13.6%	14	14
Average Yield of Cane	80-90 **Tonnes Hectare**	70	60-65
No. of Sugar Mills Working	265	423	109
Installed Crushing Capacity	5000-36000 TCD	1250-10000 Average	1250-10,000 2450
Average Size of Cane Holdings	Individuals 20-100 Hectare Factories 8-10000 Hectare	-2200 1/2-2 Hectares 3-3.5 Acres	1/2-2 Hectares
No. of Cane Growers	30,000	45 mn	20 mn

The Brazilian Model is characterised by the following drivers:

a) no ceiling on landholdings,

b) large capacity of sugar mills resulting in low cost of production, and

c) large sized units resulting from the historical amalgamation of old and small units, thereby resulting in economies of scale.

A supply side economic analysis indicates that the majority of sugar mill owners are large corporates or independent big suppliers, with small growers accounting for only 8 per cent of the total number of mills. (Appendix A-15.7)

On the licensing/governmental policing side, it is seen that the Brazilian success story has benefited from the lack of restrictive governmental policies *viz*.:

a) No licence or permits are required for establishing new sugar mills.

b) No restrictions are imposed with respect to maximum and minimum capacity.

c) Zones are not legally determined.

d) Sugarcane pricing is determined by the free market system since 1998 and pricing is based on a formula which is based on quality of sugarcane i.e. sucrose content and juice purity, with a staggered payment system linked to quality milestones.

It is clearly seen that the Brazilian success story has been created by the policy reforms initiated by the government as stated above. Therefore, the UP government also needs to introduce a more positive climate for privatisation such as the following:

(i) Removal of Barriers to Entry

While licensing approval to set up a sugar mill is no longer required today, state government approvals are still required, e.g. 'zoning'.[1]

While 'zoning' is practised world-wide and may be acceptable for highly perishable commodities like sugarcane, incentives for achieving higher productivity should be introduced *viz*.:

a) Allowing the zone to a tradeable asset, and

b) Adopting a payment formula for sugarcane based on sugar prices and sugar recovery, thus rewarding efficient mills.

(ii) Removal of State Advised Prices (SAP)

Since the sugarcane procurement price is set by the government on an arbitrary basis (often based on political considerations and there is no relationship with actual cost to the individual producer, and the quality of cane), it has eroded the financial position of the mills and has also reduced competitiveness in the international market. The state government should consider abolishing this system of subsidising the cost to the growers at the expense of the manufacturers in a phased manner.

(iii) Changes in the Legal Framework to Include Amendments in the Land Ceiling Act

Changes in the legal framework to include amendments in the Land Ceiling Act to permit leasing of land and corporate forming and assignment of rights should be enacted. Since land is a state subject, this can be done by the government at the state level.

(iv) Establishment of Futures Market

The state government should consider steps to ensure that a futures market becomes operational, thereby enabling price discovery and hedging of risk. In conclusion, unless the attempt to privatisation is accompanied by the kind of microeconomic reforms mentioned above, any attempts towards privatisation would only be window-dressing attempts at best.

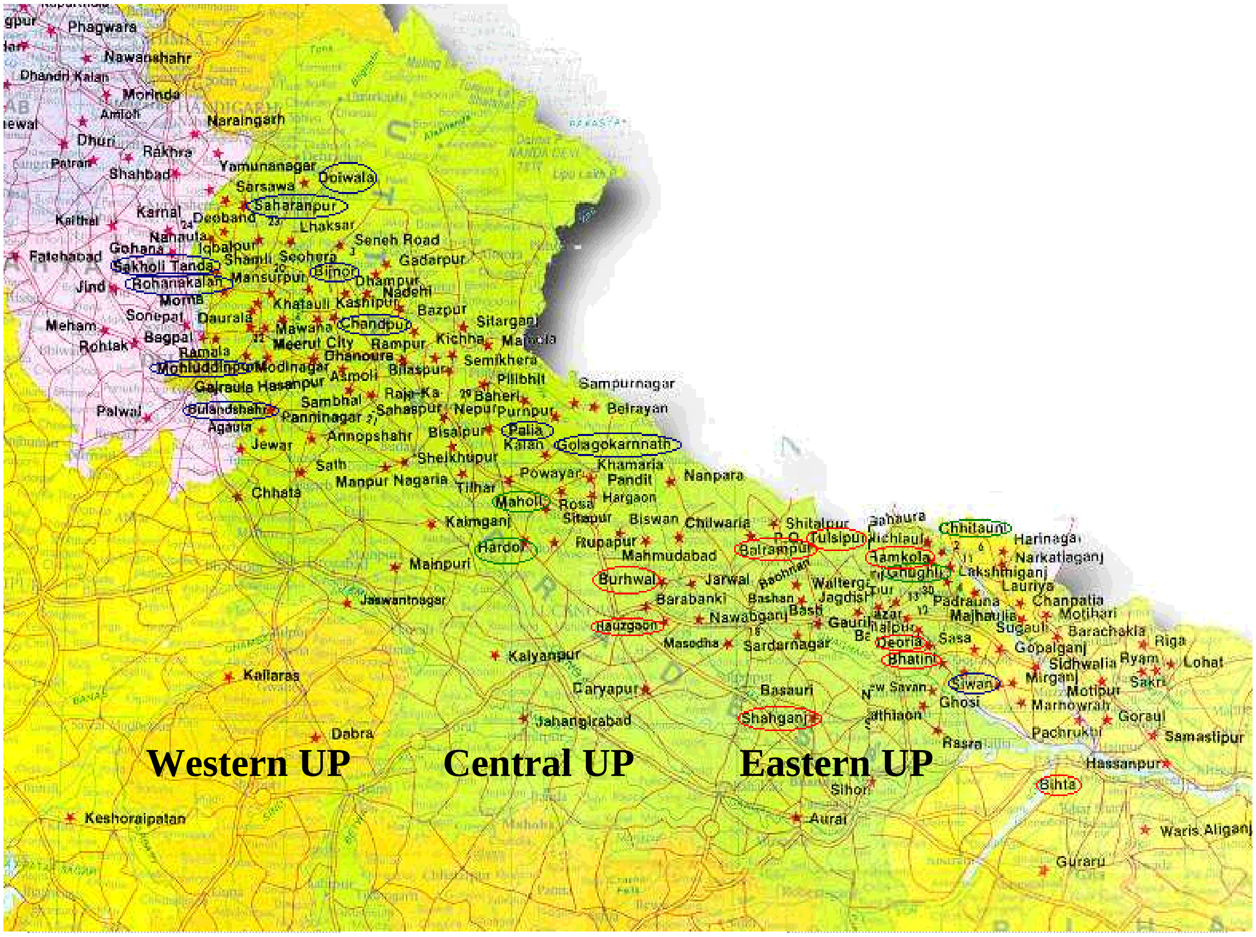
15.2.2.5 Recent Attempts at Privatisation

The state government has recently made another attempt at privatising the sugar mills through floating

1. The state government restricts competition through 'zoning' which requires that no new mill can be established within 15 kms of an existing mill.

FIGURE 15.6

Sugar Map of Uttar Pradesh



Western UP	Central UP	Eastern UP
• High Recovery • Good Agriculture • Close Proximity to Delhi • Good Roads and Infrastructure		• Poor Recovery • Low Reserved Area • Poor Agriculture • Bad Politics • Bad Infrastructure • Units in close Proximity

Source: http://www.sugartoday.com/map_big.jpg.

tenders for leasing 24 sugar mills of UPSSCL and its subsidiary, UP Rajya Chini Evam Ganna Vikas Nigam Limited (UPRCEGVNL) on a 30-year basis.

As seen from the map above, most of the units offered for lease are closed and sick units concentrated in the less-attractive areas of Eastern and far Eastern UP.

The state government has tried to make the privatisation offer more attractive to potential investors by incorporating various incentives as sweeteners. However, the basic issue remains that of the viability of offering all 24 units in one 'bundle' without retrenching the surplus labour force, thereby creating a discount in the minds of potential strategic investors.

A more viable approach may be to split up the company into smaller bundles reflecting a mixture of healthy and sick/ closed mills on the principal of contiguity. This approach may be suitable for western and central Uttar Pradesh. In eastern Uttar Pradesh, which has a large proportion of sick mills, a more viable approach may be to close down the units. Permitting trading of adjoining rights assigned on a permanent basis would be an alternative sweetener to improve the attractiveness of the sale.

Other terms of the potential lease which are viewed to be restrictive and should be reviewed are: Mills are not being sold outright but being leased on relatively short-term leases of 30 years, thereby inhibiting expenditure on capital expansion and modernisation. Management control would be subject to governmental permissions for capital expenditure. No rationalisation of the labour force can be undertaken except through offering Voluntary Retirement Scheme (VRS) to those employees unwilling to work for the lessee.

15.2.3 Pradeshiya Industrial and Investment Corporation of UP Limited (PICUP)

15.2.3.1 Background

The Pradeshiya Industrial and Investment Corporation of UP Limited (PICUP) was established in 1972 by the GoUP to accelerate industrial development in the state by providing funding to prospective entrepreneurs in the medium and large scale sectors.

PICUP has been engaged in the following activities:

(i) provision of term loans,

(ii) provision of equity capital,

(iii) underwriting of capital issues,

(iv) provision of project finance in the joint sector,

(v) operation of subsidy schemes, e.g. interest free sales tax, loan scheme, feasibility study subsidy scheme, etc., and

(vi) operation of special schemes, e.g. capital subsidy scheme, special incentive scheme, etc.

15.2.3.2 Key Financials and Prospects

The total assets of the PSU have been falling since 1998-99. The non-performing assets have been increasing as a proportion of the total assets from 58 per cent in 1998-99 to 75 per cent in 2002-03. The following table shows the financial performance of the PSU in the last five years.

TABLE 15.13

PICUP'S Last Five Years Performance Highlights (Amount in Rs. Crore)

Particular	*FY 1998-99*	*FY 1999-00*	*FY 2000-01*	*FY 2001-02*	*FY 2002-03*
Total Assets	615.69	621.34	579.24	540.00	478.22
Total Performing Assets	255.95	220.96	162.51	103.00	117.10
Total Non-Performing Assets	359.74	400.38	416.73	437.00	361.12
% of NPA to Total Assets	58.23	64.44	71.94	80.93	75.51
Provision Made	12.64	12.79	21.20	20.00	(-)0.33
% of NPA (Net of Provisioning) to Total Assets	44.82	48.89	51.61	55.41	48.81
Refinance Assistance Availed from IDBI/SIDBI	16.15	35.53	3.00	3.42	—-
Payment of Principal to IDBI/SIDBI (Refinance & NDI)	2.66	56.05	37.20	33.86	—
Bonds Raised	87.64	200.00	126.51	50.41	---
Profit/Loss before Provisioning	-39.55	-46.33	-44.00	-47.74	-46.93
Loss after NPA Provisioning	-53.23	-59.69	-68.82	-67.74	-46.93
Cash Accruals/Loss	-37.74	-43.81	-42.75	-46.54	-45.93
Equity Share Capital	110.58	135.58	135.58	135.58	135.58
Reserves	1.24	0.24	0.24	0.24	0.24
Accumulated Losses	-112.54	-172.23	-241.05	-308.79	-314.97
Net Worth	-0.72	-36.41	-105.23	-146.94	-226.33

Source: Company's estimate.

15.2.3.3 Performance Indicators

The performance of the company can be adjudged in terms of the following performance indicators:

(i) Number of industries assisted and nature of dispersal of industries among the regions.

(ii) Loans sanctioned and disbursed.

(iii) Recovery of principal and interest.

(i) Number of Industries Assisted and Nature of Dispersal of Industries Among the Regions

Table 15.14 below gives an indication of the number of industries and their dispersal since the inception of the company. Data for 1999-2003 could not be made available.

TABLE 15.14

PICUP—Number of Industries and their Dispersal

No. of	FY 1973-80	FY 1980-81	FY 1981-82	FY 1982-83	FY 1983-84	FY 1984-85
Hill	6	3	2	3	7	19
Bundelkhand	2	1	-	-	1	2
Eastern	7	2	2	2	1	6
Others	74	13	23	28	23	44
Total	**89**	**19**	**27**	**33**	**32**	**71**

Source: Company's estimate.

Further, it is seen that the pattern of assistance has enhanced instead of reducing regional imbalances. The majority of the industries have been established in the relatively 'prosperous' Western region, especially in and around Ghaziabad and Meerut.

(ii) Loans Sanctioned and Disbursed

(a) The sanction and disbursement of term loans has shown a marked deceleration over the past three years as indicated in Table 15.15 below. This is mainly due to the poor financial situation of the company caused principally by a number of units financed falling sick or becoming commercially unviable.

(b) Out of the total 523 units given term loan assistance over FY 2003-2001, 410 (78.40%) units were non-performing assets. Since the company has been declared sick, there has been a ban on financing and hence no incremental lending has taken place since 2001. However, the deteriorating financial situation has improved only marginally as shown in Tables 15.16 (a) and (b).

TABLE 15.15

PICUP—Sanctions, Disbursement Recovery of PICUP

Loans	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2003-03
Sanction	292.33	110.02	19.75	52.67	49.12	-
Disbursements	162.94	97.15	69.98	36.72	52.14	-
Recovery	157.68	138.89	113.97	126.68	124.37	124.10

Source: GoUP.

Note: *Amount in Rs. crores.

TABLE 15.16

PICUP—Profile of Loan Portfolio

(a) As on March 31, 2001

Loans Sanctioned Companies/Clients	Standard Assets		Non-Performing Assets		Total Assets	
	No.	Amount*	No.	Amount*	No.	Amount*
Below Rs.1.00 Cr.	48	14.98	234	102.55	282	117.53
	17%	13%	83%	87%		
Above Rs. 1.00 Cr. But below Rs. 5.00 Cr.	56	73.96	163	236.68	219	310.64
	25%	24%	75%	76%		
Above Rs. 5.00 Cr. but below Rs. 10.00 Cr.	6	33.63	9	40.44	15	74.07
	40%	45%	60%	55%		
Above Rs.10.00 Cr.	3	38.86	4	24.85	7	63.71
	43%	61%	57%	395%		
Total	**113**	**161.43**	**410**	**404.52**	**523**	**565.95**

Note: *Rs. in crores.
Source: Company's estimate.

(b) As on March 31, 2003

Loans Sanctioned Companies/Clients	Standard Assets		Non-Performing Assets		Total Assets	
	No.	Amount*	No.	Amount*	No.	Amount*
Below Rs.1.00 Crores	35	19.17	185	85.31	220	104.48
Above Rs.1.00 Cr. But below Rs. 5.00 Cr.	35	51.80	153	213.14	188	264.94
Above Rs.5.00 Cr. But below Rs. 10.00 Cr.	7	31.13	7	31.81	14	62.94
Above Rs.10.00 Cr.	1	15.00	4	30.87	5	45.87
Total	**78**	**117.10**	**349**	**361.13**	**427**	**478.23**

Note: * Rs. in crores.
Source: Company's estimate.

(iii) Recovery of Principal and Interest

(a) The deterioration is evidenced in the declining trend in the case of interest recovered as percentage of amount due for recovery during the year.

In Table 15.17 below, it is seen that only 42.48 per cent of the amount due for recovery as principal and interest are being recovered. Further, the percentage has shown a distinct declining trend in particular over the past year.

TABLE 15.17

PICUP-Percentage of Amount Recovered to the Amount Due for Recovery

	FY 2003-99	*FY 2003-00*	*FY 2003-01*	*FY 2003-02*	*FY 2003-03*
% of Recovery/ Net Amount	43.23	37.39	40.52	57.98	42.48

Source: GoUP.

Note: * Rs. in crores.

TABLE 15.18

PICUP-Analysis of Equity Participation Assistance as of March 31,2003

	Assisted Sector	*Underwriting*
Number of Units	54	20
Number of Units under Construction	7	1
Number Lying Closed	5	4
Number in Loss	32	11
Number in Profit	10	4
Out of which Number Paying Dividend	3	4

Source: Company's estimate.

(b) In the case of equity participation, it is seen that out of 54 units in operation in the assisted sector, only 10 are making profits and out of these only 3 are yielding dividends.

15.2.3.4 Reasons for Losses

The reasons for the poor performance of the company can be ascribed to:

(i) As evidenced from the fact that several senior management posts are political appointees, it is clear that political interference and lack of independence in operations is paramount.

(ii) Lack of adequate MIS and controls from the point of view of monitoring credit risk and collection.

(iii) Lack of transparent and streamlined procedures for credit assessment. Further it is evidenced by the fact that no credit manuals have been drawn up and the concept of a professionally appointed credit evaluation committee does not exist. All loans are referred to a committee constituted of the chairman (generally, a political appointee), the managing director and secretaries of various administrative ministries of the GoUP.

15.2.3.5 Staffing

TABLE 15.19

PICUP-Category-wise Breakup

Class	*Numbers*
Class I	85
Class II	30
Class III	134
Class IV	58

Source: Company's estimate.

The category wise breakup of employees as on March 31, 2003 is given in Table 15.19.

15.2.3.6 Privatisation Efforts

A negative net worth of Rs. (–) 146.94 crore and accumulated losses of Rs. (-) 355.79 crore as of FY 03/ 2003 has indicated that the financial position of the company is rapidly deteriorating and the company should be declared as 'sick'.

The GoUP has the following options before it:

(i) Wind-up PICUP to cut losses or merge it with UPFC or UPSIDC.

(ii) Give it a shot in the arm: recapitalise it to meet the capital adequacy requirements.

(iii) Re-capitalise to meet turnaround objectives.

(iv) Privatise PICUP.

(v) Set up an Asset Reconstruction Fund (ARF).

(vi) Convert PICUP into a bank.

In our opinion, the state government should consider the option of winding of PICUP and as it seems unlikely that PICUP would elicit much interest from potential buyers who would undoubtedly be concerned by the poor quality of its portfolio and its considerable over-staffing.

This would undoubtedly be a difficult option in the political sense but appears to be the only way out for the state government to emerge from the current morass.

15.2.4 Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNNL)

15.2.4.1 Background

UPRNNL was established in 1975 as a PSU under the GoUP to undertake civil construction of buildings and works, to introduce the latest techniques and to eliminate middlemen.

The primary business of the company consists of getting orders on a 'cost plus' basis from GoUP companies, statutory bodies and corporations. Only 20 per cent of the total work obtained is on a competitive basis.

The company's performance can be measured on the basis of the following indicators:

(i) timely completion,

(ii) cost effectiveness, and

(iii) profitability analysis.

TABLE 15.20

UPRNNL—Key Financials and Prospects*

	FY 2003-03	*FY 2003-02*	*FY 2003-01*	*FY 2003-00*	*FY 2003-99*
Total Income	242.03	203.91	201.22	192.91	231.97
Total Operating Expenses	213.07	181.19	172.88	166.71	209.88
Operating Profit	28.96	22.72	28.34	26.20	22.09
Interest Paid	-	0.4	0.3	0.3	0.1
Cash Profit/Loss	2.92	(-) 2.09	1.58	1.70	(-) 0.21
Net Profit/Loss	1.70	(-) 3.28	0.51	0.29	(-)1.91
Cumulative Loss	-	-	-	-	-
RoE	-	-	-	-	-

Source: Company's Estimate.
Note: Cash profit-PAT+ Depreciation + Amortisation.
*Value in crores.

TABLE 15.21

UPRNNL—Business-wise Breakup of Work Done

FY	*Value of Deposit Works from GoUP*	*Value of Tender Works outside Uttar Pradesh State*	*Value of Tender Works within Uttar Pradesh*
2003-03	215.77	7.63	18.63
2003-02	173.77	9.45	20.69
2003-01	146.06	9.24	45.92
2003-00	156.61	14.73	21.57

Source: Company's estimate.
Note: *Value in Rs. Crore.

15.2.4.2 Key Financials and Prospects

(i) Timely Completion of Works

From the data furnished for the past five years, it is seen that there have been time overruns only in deposit works. This leads us to conclude that the delay is principally due to bureaucratic constraints and delays from the PWD.

TABLE 15.22

UPRNNL—Time Overruns of Projects Completed: Deposit Works

	FY 2003-03	*FY 2003-02*	*FY 2003-01*	*FY 2003-00*	*FY 2003-99*
Works Completed	352	57	56	104	47
Time Overrun 0-6 Months	15	16	15	12	4
6 Month–1 Year	31	9	16	19	7
>12 Months	106	14	10	28	12

Source: Company's rate.

TABLE 15.23

UPRNNL—Time Overruns of Projects Completed: Tender Works

	FY 2003/03	*FY 2003/02*	*FY 2003/01*	*FY 2003/00*	*FY 2003/99*
Works Completed	9	3	13	7	2
Time Overrun 0-6 Months	-	-	-	3	-
6 Month–1 Year	3	1	5	2	1
>12 Months	6	2	6	2	1

Source: GoUP.

(ii) Cost Efficiency

There have been cost overruns in all works due to escalation and new items of work being added on. The margin of overruns has been more in the case of deposit works as compared with tender works, again highlighting the delays associated with dealing with the state government.

(iii) Profitability Analysis

A profitability analysis of the work done by the company during the past five years (Table 15.25) indicates:

TABLE 15.24

UPRNNL-Deposit Works*

FY 2003-03			FY 2003-02			FY 2003-01		
Name of Work	Original/Revised Estimate	Date	Name of Work	Original/Revised Estimate	Date	Name of Work	Original/Revised Estimate	Date
250 Bedded Hospital Okhla, Delhi	1565.04/1682.41	6/1987	Sales Tax Building Ghaziabad	284.04/432.45	10/1989	UP Sadan G.H., Delhi	917.03/995.74	4/1990
Vikas Bhawan, Pilibhit	198.13/242..69	11/1993	Astroturf Rampur	176.97/201.44	4/1996	100 Bedded Hospital, Noida	133.23/290.01	7/1982
Vikas Bhawan, Almora	327.00/455..04	3/2000	G.G.I.C. Badaun	120.05/167.55	12/1996	Sports Pavilion, Ghaziabad	152.89/200.87	9/1989
Girls Hostel, Almora	81.25/90.63	6/1999	Bappu Bhawan Lucknow	3045.08/3979.79	10/1988	30 Court Room, Ghaziabad	247.74/489.05	10/1985
Court Work, Ghaziabad	102.20/111.22	3/1997	60 Bedded ESI Hospital Varanasi	180.43/233.54	4/1984	Firozshah Kotla Pavilion, Delhi	269.00/279.00	12/1995

Note: *Value in Rs. Crore.
Source: GoUP.

a) The work account surplus from tender works is not sufficient to cover the administrative overheads.

b) Profitability appears to come from the deposit works executed on a cost-plus basis.

However, the cost-plus basis of payment is not conducive from a long-term point of view.

TABLE 15.25

UPRNNL—Profitability Analysis*

Tender Works	*FY 03/03*	*FY 03/02*	*FY 03/01*
Value Work Done	26.25	30.14	55.16
Other Income	9.70	7.51	5.06
Contract Works Expenditure	21.25	26.61	43.34
Surplus From Contract Works	5.00	3.53	11.82
% of Value Work Done	0.19	0.12	0.22
Deposit Works			
Value of Work Done	215.77	173.77	146.06
Works Expenditure	191.81	154.58	129.54
Surplus from Works a/c	23.96	19.18	16.52
% of Value Work Done	0.11	0.11	0.11
Administrative Exp.	36.96	33.51	32.89
Administrative Expenses as a/c of value of Work Done %	0.15	0.16	0.16
Profit before Tax	1.70	(-) 3.28	0.51

Note: Figure in Rs. crore.
Source: Company's estimate.

15.2.4.3 Staffing

The category wise breakup of employees as on March 31, 2003 is given below:

TABLE 15.26

UPRNNL—Category-wise Breakup

Category	*No. of Employees*
A	111
B	343
C	1150
D	109
Total	**1731**

Source: Company's estimate.

15.2.4.4 Reasons for Losses

The value of work done during FY 03/03 as per the audited accounts of the company has fallen by (-) 45.47 % to Rs. 301 crore over FY 03/02 over the previous financial year. The main reason for the reduction in the value of work done has been the lack of availability of inadequate funds for deposit work in the state.

15.2.4.5 Attempt at Privatisation

The company's profitability accrues mainly from cost plus works. If it were to lose the business, then it would not be able to compete in the market. In case of tender works, the company's failure to meet the administrative overheads is primarily due to the lack of accountability and lack of ability to raise institutional funding for completion of works.

UPRNNL is not viewed by the investors as an attractive prospect for privatisation, principally due to its large exposure to governmental activities, it being in UP, and as it is considerably over staffed. The order book of the company as of December 31, 2004 was Rs. 1240 crore, indicating that the company has three years of work in hand. This has represented a serious backlog and would affect any attempts to privatise.

Hence, it is unlikely to meet with a favourable response from potential buyers unlike the UPSBCL.

The state government should consider its merger with UPSBCL and the announcement of a VRS package sufficiently attractive for it to be availed of by the surplus and redundant labour.

15.2.5 UP State Cement Corporation Limited (UPSCCL)

15.2.5.1 Background

UPSCCL was incorporated in 1972 and two units of GoUP (at Churk and Dulla with installed capacities of 4.80 and 4.00 lakh tonnes respectively) were transferred to it by the state government. The company subsequently set up a split location plant (KCCP) with facilities of 8.00 lakh tonnes per annum clinker production at Dulla and 16.80 tonnes cement grinding and packing unit at Chunar. The basic objective of the company was to principally produce and sell Portland cement and to prospect and promote cement grade limestone deposits and other raw materials. However, the company was closed down due to the losses it was suffering. The state government decided to sell it but due to problems of labour unrest which led to violence, the decision to sell the PSU was struck down. Two units of the company continue to remain closed.

TABLE 15.27

UPSCCL-Key Financial*

Years	*FY 1980-81*	*FY 1981-82*	*FY 1982-83*	*FY 1983-84*	*FY 1984-85*
Total Sales	15.99	24.30	56.51	51.67	52.31
Total Operating Expenses	17.64	23.80	42.52	48.29	56.71
Operational Profit	(-)1.68	0.50	13.99	(-) 3.37	4.40
Interest Paid	0.21	0.16	3.07	5.97	8.61
Cash Profit/Loss	(-)1.86	0.34	10.92	(-)2.60	(-) 13.01
Net Profit/Loss	(-)2.60	(-)0.38	4.35	(-)17.18	(-) 20.01
Cumulative Loss	(-) 10.00	(-)10.66	(-) 2.57	(-)14.46	(-) 34.48

Source: Company's estimate.
Note: *Figure in Rs. crore.

15.2.5.2 Key Financials

15.2.5.3 Reasons for Losses

The reasons for losses were primarily low capacity utilisation as a consequence of obsolescence in plant and machinery, outdated technology, manufacturing processes, recurrent labour problems, lack of trained personnel, adequate procedural checks and recurring labour problems resulting in higher costs of production.

This, along with surplus labour, resulted in the low productivity of workers (UPSCCL: 0.5-0.6 tonnes per worker, industry norm: 2.5-3.0 tonnes)

15.2.5.4 Attempt at Privatisation

In 1990, the state government announced its decision to induct a strategic partner for UPSCCL. The total accumulated losses of the company exceeded Rs.115 crores as on March 31, 1990 as opposed to total paid-up capital of Rs.68 crores. The government decided to impose two main conditional ties of sale *viz*:

(i) The potential buyer would not be allowed to retrench the labour force.

(ii) GoUP would not bring in pro-rata investment.

The strategic partner was thus expected to primarily bring in additional funds to undertake modernisation.

A meeting was held on May 19, 1990 with 25 prospective industrialists (including all existing cement producers of the country) and all parties were asked for their views. The matter was then referred to a high power privatisation committee (implementation agency) which consisted solely of bureaucrats. The committee continued to hold consultative meetings with various prospective buyers.

SP Billimoria & Company was appointed as valuers. The current asset value of the plant was estimated to be in the region of Rs. 232.75 crores. Many of the potential investors conveyed their interest in only purchasing the asset if they were not allowed the 51 per cent of equity or management control and another serious area of investors concern were the restrictive conditions imposed by the GoUP as stated above. These were viewed to be major stumbling blocks from the point of view of the potential buyers.

A number of bidders showed interest, however, due to restrictive conditions, delayed approach and lack of clarity on the part of the government, many of the potential buyers dropped out. Finally, only two parties were left in the final round *viz*. Dalmias and ACC. ACC informed the government that they would be willing to pay the price as per the valuation report of M/s Billimoria provided the government would agree to the following conditionalities:

(i) right of retrenchment,

(ii) grant seven years exemption from payment of sale tax, and

(iii) state government to make pro-rata investment.

The condition was not acceptable to the government and the government decided to accept the offer of Dalmias with the condition within their framework of the earlier cabinet decision. A restructuring package of Rs. 250 crore was announced by the GoUP and an agreement was signed between Dalmias and the state government on February 14, 1991.

The agreement came under pressure from various quarters from the start, the workers of the three units being privatised were strongly opposed to the deal. *Dharnas* were staged at the factory gates and protest rallies held. Newspaper reports estimated that some 4500 workers were arrested in connection with the agitations against the agreement on June 2, 1991. It took a serious turn when the police fired on the agitating workers, resulting in nine workers being killed. Due to the labour unrest, the decision to sell was struck down by the High Court in Allahabad, which further questioned the state government's valuation. The reserve price arrived at by the state government was held to be undervalued and one unit was transferred back to the state government's control, and the other two continued to remain closed.

The company continued to sustain losses aggregating a total of Rs. 548.86 crores as of March 31, 1998 and was finally declared 'sick' under SICA provisions, 1985 by the Board of Industrial Reconstruction (BIFR). BIFR suggested several rehabilitation packages, to which the GoUP did not consent to bring in capital investment.

Consequently, winding up orders for liquidation of assets were issued by BIFR on December 6, 1997. The order was upheld by the High Court of Allahabad on appeal, and liquidation proceedings started on the understanding that the workers would be given the first priority for payment of dues under the Companies Act, 1956. It is estimated that Rs. 40 crore of arrears in wages are yet to be paid by the state government to the workers.

15.2.5.5 Lessons from the Privatisation Experience

The case study of UPSCCL is a clear indication that the absence of crucial ingredients for the success of the privatisation programme resulted in the lack of success of the programme.

The state government failed in:

(i) defining clearly the objectives of the privatisation programme;

(ii) deploying objectives which were clearly conflicting; and

(iii) lack of effort to educate the labour class as to the objectives and benefits of the programme.

15.2.6 UP State Textile Corporation Limited (UPSTCL)

15.2.6.1 Background

The UP State Textile Corporation (UPSTCL) was set up in 1969 to manage five sick mills taken under the Industries Act, 1951 and Sick Textile Undertaking (taking over of management) Act, 1972. In 1974, the five sick mills were transferred to National Textile Corporation (NTC). UPSTCL then began setting up new spinning mills. Eight spinning mills of 25000 spindles each were set up and were managed by UPSTCL and its subsidiary companies:

(i) UP State Spinning Mills Ltd. (UPSSM (I)),

(ii) UP state Spinning Mills Ltd. (UPSSM (II)).

In the second phase, the capacity was extended to 50000 spindles and five additional mills were set up of 25000 spindle capacity each.

The objectives of the company were to:

(i) To manufacture or deal in all kinds of yarn including man-made fibres and filament materials.

(ii) To promote the textile industry in the state.

TABLE 15.28

UPSTCL-Key Financial*

Years	*FY 1980-81*	*FY 1981-82*	*FY 1982-83*	*FY 1983-84*	*FY 1984-85*
Total Sales	2742	3173	4031	5156	7106
Operational Profit	543	254	323	335	127
Interest Paid	73	76	85	213	294
Net profit/Loss	320	12	(-) 80	(-) 677	(-) 970
Cumulative Loss	278	182	(-) 140	(-) 1223	(-) 2309

Note: *Value in Rs. crore.
Source: Company's estimate.

15.2.6.2 Key Financials

15.2.6.3 Reasons for Losses

The reasons for losses were primarily due to the obsolete technology and plant and machinery. This resulted in low-capacity utilisation and low productivity as a consequence of the fall in production of yarn per spindle.

This was further aggravated by two principle reasons: firstly, due to sharp increases in the prices of raw cotton which could not be passed on to customers as a result of low elasticity of finished cotton. And secondly owing to a product mix which was in favour of medium and course counts, for which there was a glut in the market.

15.3 Need for Reforms

The foregoing discussion indicates that in Uttar Pradesh the SPSUs are over-dependent on the state government for business and operation. They are not competitive and have become unviable because of which the state government is incurring huge losses. Therefore, it is important to privatise these enterprises. Privatisation/closure of the SPSUs will aid in retirement of debt, reduce the fiscal deficit and improve the climate for industrial growth. Hence, the issue of privatisation of the SPSUs is an important focus area of reform. However, the state SPSUs in general are reluctant to face privatisation and their managements are not surprisingly, often opposed to any attempts to privatise them.

Uttar Pradesh was one of the first states to attempt comprehensive reforms in the working of its SPSUs. In its Industrial Policy of 1992, the GoUP declared its intention to privatise all SPSUs, except those with important social objectives. As a part of this policy, the state government closed down 18 SPSUs in the early 90s. However, its attempt of partial privatisation of Auto Tractors Ltd., which was converted into a joint venture by the state government, failed and the company has gone into liquidation since May 2002. With unsuccessful attempts to privatise the sugar sector, the government appears to have withdrawn from its original agenda.

However, the process of privatisation in UP has not been successful due to the following reasons.

15.3.1 Lack of Clarity of Objectives

The main obstacle of the privatisation programme is the lack of clear well-defined goals. The policy documents of the state government lack firm commitment towards a time-bound programme of privatisation.

While the state government did attempt several privatisations, it buckled under pressure of interested groups. Consequently, the government was forced to include unrealistic conditions instead of taking tough calls on issues with respect to sale or closure of the concerned enterprises.

15.3.2 Lack of an Organised Approach

As stated above, the GoUP does not have a comprehensive plan giving a transaction-wise detailed road map for the privatisation and restructuring proposed.

The reports of the Disinvestment Commission (DC) are currently being used in lieu of the detailed plans. However, they would not serve the purpose as they are principally approach papers and do not give the technical framework in terms of listing of activities, sequencing of the time line and technical framework for valuation and pricing due to lack of technical framework in terms of the planning process. There is no direction and accountability in attainment of the goals of privatisation/sale.

15.3.3 Lack of a Political Will/Commitment to Implement the Programme

The most important ingredient for the success of the privatisation programme is the political will to implement. In the present context, the GoUP has not developed a political consensus favouring privatisation with various sections of the government, the SPSUs, workers and the public at large.

This is an important hindrance in the execution of the programme as all the stakeholders are not convinced about the desirability and viability of the privatisation programme in the first place, as a consequence of which they are bound to thwart the attainment of the objectives of the programme.

15.3.4 Lack of an Appropriate Institutional Structure

As a consequence of the lack of a political will to implement, the government has failed to setup an implementation agency with the mandate and authority to effectively implement and take unilateral decisions with respect to all aspects of the programme.

The present structure within the GoUP has dual reporting (administrative ministry and DC), leading to conflict of interests of the entities involved in the implementation of the programme creating a further obstacle towards achievement of the success of the programme.

15.3.5 Lack of Technical Expertise

The implementation of a privatisation programme requires multi-disciplinary skills in areas of valuation, legal procedures and commerce. Decision makers who are currently involved in overseeing the programme need to be provided with adequate assistance from external experts in these fields. This will lead to more confidence in decision-making and recelerate the pace of the programme.

15.4 A Suggested Process of Reform

The GoUP should develop a privatisation master plan listing the strategic objectives of privatisation, a broad policy framework, procedures for selection and implementation and an assignment of priorities among the projects to be privatised. The master plan should be supported by a rolling action plan on a two-year basis, incorporating a list of SPSUs identified to be privatised, a Sales Plan, a Public Policy Plan and a Communication Plan on a transaction-wise basis.

15.4.1 Objectives of Divestment/Restructuring Programme

Of utmost importance, is the requirement to define clear aims and objectives for the privatisation programme. Many programmes have floundered in other countries, where no clear objectives were defined or there were conflicting objectives which were not properly communicated to the stakeholders. Further, the objective should be such that the public support and participation for the programme is ensured.

The objectives of the state privatisation programme should be defined clearly and transparently in terms of socio-economic goals. For example, if proceeds from privatisation were to be earmarked exclusively for infrastructure development and provision of labour safety nets, the government will be able to garner widespread support for the programme. The Uttar Pradesh Enterprises/Corporation Reform Policy, which lays out GoUP's rationale and approach towards disinvestment does not state the objectives and goals of its privatisation programme in a clear and defined manner. For instance, the document does not state whether the goal of the state's privatisation programme is to improve efficiency or reduce fiscal deficit or whether it is to have a broad-based impact in restructuring the SPSUs.

15.4.2 An Institutional Structure for Achieving Rapid Results

International experience (Appendix A-15.8) has indicated that institutional framework and organisational structure have played a key role in determining the success or failure of the privatisation programme adopted by the state.

Experience from several countries has demonstrated that while individual ministers are reform-oriented and can be pro-privatisation, typically line ministries have been reluctant to sell SPSUs under them.

Most successful privatising countries have therefore found it better to have one centralised Implementation Agency (IA) for executing the implementation of the programme.

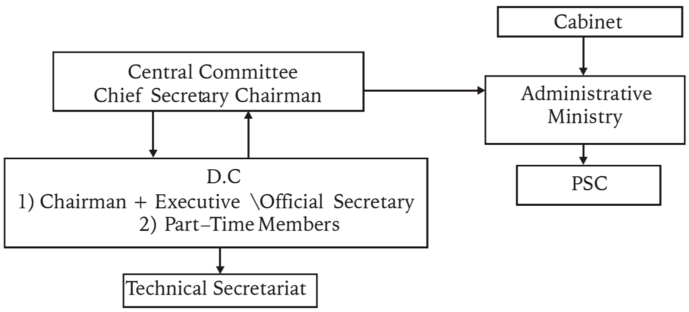
Further, for the implementation agency to be successful, it should operate under clear guidelines with a wide mandate to design and implement all aspects of the government's privatisation programme.

The nodal point, which oversees the process and endorses major decisions related to pricing, valuation, restructuring, post-privatisation regulation and tariff setting rules for utilities in the case of UP, it is the Cabinet/ an inter-ministerial group-the (IMG) of which the Chief Minister is the Chairman. Having such an IMG with political authority is not the ideal situation. It would be preferable for the state to have the authority vested with a single entity deriving its authority from the political executive, after having created a consensus in its favour. This will enable the political agency to be more able and willing to delegate its powers and consequently, make the programme more successful.

In the case of UP, the institutional structure (Fig 15.6) is not conducive to speedy decisionmaking. A Disinvestment Commission (DC) has been constituted with recommendatory powers. However, there is no single nodal point with strong executive powers. As stated, the state government needs to empower the Disinvestment Commission (or the implementation agency) with executive powers. Empowering a ministry of the state government would not serve the purpose, as it would tend to get bogged down in turf issues. The role of the DC/IA should be clearly defined *vis-a-vis* other ministries. This is not the case as per the existing organisational structure. No advantage is being gained by having a dual reporting structure. Once a PSU is earmarked for disinvestment, its management must report directly to the DC/IA, whose powers and mandates should be clearly defined.

FIGURE 15.7

Organisational Structure of the State Disinvestment Commission



Source: GoUP.

15.4.2.1 Staff of the Implementation Agency

The success of a privatisation programme also depends on the quality of the people (both government staff and the outside experts and advisors) in charge of its preparation, implementation, oversight, and the motivating factor for doing a good job.

The organisational structure should be flat with functional expertise. A financial comptroller and public relations manager must be appointed to assist in managing the transaction. While the primary responsibility for execution should be given to transaction managers (TMs), the DC/IA should be auntorised to appoint outside consultants. As seen in the case of the attempts to privatise the UPSSCL, the government has appointed PICUP as a TM. This may not be the optimal approach, as PICUP is another PSU under the state government whose own future is uncertain awaiting privatisation.

15.4.2.2 Recruitment

Special attention needs to be paid to the recruitment and remuneration of the staff responsible for drawing up and implementing the privatisation programme. They will often have to negotiate difficult transactions with powerful and experienced partners, make proposals with far-reaching repercussions for the parties concerned, take decisions involving very large amount of money, and perform other duties of a commercial rather than administrative nature. Even where most of these tasks are contracted out, major policy decisions and oversight usually still rest with civil servants. Most civil servants do not have such specialisations. It is therefore, important to attract staff with the required background and business experience and to provide them with the resources they need to achieve the objectives of the programme. Similarly, where the state government delegates responsibility for executing the programme to other agencies, it will need to ensure that their staff possesses such qualifications.

15.4.2.3 Typical Staffing

Most effective implementation agencies operate with a small core team of around 10 individuals. The quality of the staff is more important than quantity. The Chairman is the liaison between the Cabinet and the implementation agency, other staff typically includes: a) a secretary, b) four to five transaction managers, c) a lawyer, d) financial comptroller, and e) public relations expert.

The educational requirement and other skills required of the various staff is as follows:

1) Secretary

The secretary has knowledge of enterprise operation, management and finance with leadership experience at a senior level in the government. He/she is responsible for managing the secretariat and its staff, coordinating different transactions, liaison between the Chairman and the staff and supervising the work of the staff. He/she has overall responsibility for formulating the overall privatisation strategy and determining approaches to privatise different sectors.

2) Transaction Manager

The transaction manager (TM) has private sector or high-level government experience with proven leadership and managerial skills. He/she has a strong background in marketing, management, finance or investment banking. To carry out the transaction, the TM forms his/her own team from outside consultants and acts as the liaison person between all parties involved in the process (e.g. management of the enterprise, individual consultants, consulting firm/investment banks, etc.). He/she is responsible for a wide range of tasks relating to the design, coordination, supervision and implementation of each transaction.

3) Lawyer

The main responsibilities of the lawyer include reviewing the legal issues related to privatisation, coordinating the work of the legal consultants, assisting in setting up the appropriate post-privatisation regulatory and institutional framework, and assisting in the preparation of the legal documents for the transaction, etc.

4) Financial Comptroller

The Financial Comptroller undertakes all administrative tasks relating to contracting out external advisors, consulting firms and investment banks. He/she coordinates the payments of these parties and assists with all contractual issues, including the design, negotiation and monitoring of contracts and ensures that investment banks and consultants adhere to budgets. He/she also provides feedback on valuations/financial models prepared by consultants and advisors.

5) Public Relations Experts

The public relations expert coordinates the public awareness campaign and supervises the work of any consultant firms assisting the agency in this task. Since the IA would be an organisation with limited life, it would not offer employment security or a long-term career path and remuneration.

The agency may choose among various types of recruitment depending on the situation: long-term consulting contracts, deputation from the private and public sector, retainer-based arrangements with professional firms in the legal accounting, investment banking and management consulting areas. The preferred course, however, would be to bring in a healthy mix of professionals with private sector background and ensure that salary structure is attractive enough for best quality people.

In the context of UP, the DC/IA has hardly being given any resources and the Chairman has to function with a skeletal staff at the time of writing this report.

15.4.3 Sale and Plan for SPSUs to be Divested

The Implementation Agency concerned should prepare a comprehensive Sales Plan for identified transactions to state how the state government and the Financial Advisor or advisors, as the case may be, will carry out the sale. The plan should contain the steps and timetable for the sale—covering the timing and method of sale, responsibilities of various agencies to be defined in a detailed and clear-cut manner: production of sale documents (e.g. information memoranda, prospectus), due diligence targets, accounting requirements, legal tasks and timeline, the composition and hierarchy of various advisors, their functions and roles, their terms of appointment and remuneration should be clearly specified. The plan should be comprehensive, detailing all functions and responsibilities to be addressed, and remuneration should be specified and all hidden costs addressed and specified in conjunction with the Financial Advisors e.g. printing costs, road show expenses, etc.

This detailed Sales Plan after being clearly formulated should be put up to the Cabinet for approval prior to the onset of the transaction. At present, the approvals and plans are made after the starting of the transaction, making it difficult to take a reasoned and detailed call on the various aspects enumerated above.

15.4.4 Developing a Consensus on Divestment and Reforms

In order for the government to achieve successful privatisation, it has to be willing to create a broad consensus favouring divestment and reforms. Privatisation efforts have been more successful where efforts to have greater transparency and to inform and involve employees have been initiated, when combined with a broader public information campaign as support of all the stakeholders is necessary for an effective and efficient privatisation programme. A well-designed media campaign should be designed by the state government so that all the stakeholders are educated on the benefits of privatisation.

The programme can be developed effectively only when the state government develops a communication plan with the advisors before it starts the sale process. The plan should be designed to build public support for privatisation and teach the public about features of the privatisation that require public participation. In this respect, the state government has not done enough to create a broad acceptance of its principle, aim and objectives with respect to privatisation and creation of a public consensus in its favour.

The only steps undertaken by the GoUP have been to create a State Disinvestment Commission in order to achieve the privatisation goals. While the state government has constituted the Commission, it needs to develop a comprehensive time-bound programme for delivering its privatisation objectives along with the institutional framework to achieve greater transparency and speed of execution, for the programme to develop credibility and therefore achieve success.

For instance, the state government may consider empowering the State Disinvestment Commission with executive powers as also developing a time-bound plan for implementation, along with a Public Relations Plan.

15.4.5 Protection of Employee Interests and Enabling Regulatory Provisions

The state government needs to be more realistic in the design and funding of special programmes to deal with the economic and social implications of layoffs.

The GoUP has announced a VRS scheme as per its circulars dated June 8, 1993 and August 2, 2004 (Appendix A-15.2, Part A).

The scheme does not appear to be attractive, leading to the problem of adverse selection. A simple calculation presented in Appendix A-15.2, Part B shows that only those employees who have very few years of service left would be interested in VRS.

The GoUP should take steps to ensure that not only are severance and retirement benefits adequate and just, but that proper thought has been applied in designing and funding special programmss for retraining and redeployment. For instance, in the privatisation of the mining sector in Bolivia and Peru, the government provided not only compensatory assistance but also advice and training, placement services and credit for the self-employed.

15.4.6 Transparency and Speed of Execution

International experience has shown that in instances of 'difficult' and large disinvestment involving large labour redundancies—a lack of openness and transparency with respect to procedures and steps undertaken led to accusations of complicity and secretive dealings favouring vested interests and this derailed the programme. In the case of UPSCCL, had the state government adopted a more transparent approach in terms of making available the agreement documents and conditionalities prior to execution of the agreement to sale and had the basis of valuation and choice of advisors been done in a more open and transparent manner, it would not have resulted in the allegations of undervaluation and corruption which ultimately led to the Allahabad High Court's decision to strike down the sale.

Secretive and covert procedures will lay the government open to criticisms and may well jeopardise the success of the privatisation programme. These issues were virtually responsible for the derailment of the privatisation programme in the case of UPSCCL and UPSTCL.

In order to avoid criticism against unfair process, it is important that all members of the state government and agencies involved in implementing the process should sign an ethics and conduct code. Procedures for selection of the banks and advisors must be developed on the guidelines of competitive bidding and transparency. These should be published and freely available.

Likewise, there is a requirement of providing information to the public who are the ultimate owners of the SPSUs being privatised. The basis of the valuation, the draft bid document and the agreement being between the state government and the buyer should be made available to the public at the time of inviting interest. This transparency will lead to a more general and broader acceptance of privatisation and will garner support for the government's proposals for more difficult aspects of the programme.

15.5 Conclusions and Recommendations

The SPSUs are a huge financial burden of the state. Therefore, reforms in terms of privatisation are important to sustain the fiscal position of the state government. However, in order to succeed in such an effort, it is important to have clarity of objective, and an organised approach with political will. Specifically, the following aspects need to be considered:

(i) **Master Plan:** A master plan involves listing the strategic objectives of privatisation, the broad policy framework for privatisation, procedures for selection and implementation and an assignment of priorities among the projects to be privatised. The master plan should be supported by a rolling action plan on a two-year basis, incorporating a list of SPSUs identified to be privatised, a Sales Plan, a Public Policy Plan and a Communication Plan on a transaction-wise basis.

(ii) **Objectives:** The aims and objectives of the privatisation programme need to be defined clearly ensuring public support and participation including socio-economic goals. By earmarking in an open and transparent manner, the proceeds from privatisation for infrastructure development and provision of labour safety nets, the government will be able to garner widespread support for the programme.

(iii) **Transparency:** A well designed media campaign by the state government will educate the stakeholders on the benefits of privatisation. The government needs to develop a communication plan with the advisors before it starts the sale process. The plan should be designed to build public support for privatisation and teach the public about the features of the privatisation that require public participation. This would help in avoiding charges of corruption and controversy. The basis of the valuation, the draft bid document and the shareholders' agreement being entered into between the state government and the buyer should be made available to the public at the time of inviting interest. This transparency will lead to a more general and broader acceptance of privatisation and garner support for the government's proposals for the more difficult aspects of the programme.

(iv) **Employee Interest:** The government should take steps to ensure that not only are the severance and retirement benefits adequate and just, but that proper thought has been deployed in designing and funding special programmes for retraining and redeployment support, employee share ownership schemes are implemented and mechanisms to ensure labour consultation and participation exist.

(v) **Institutional Structure and Staffing:** International experience has indicated that institutional framework and organisational structure have played a key role in determining the success or failure of the privatisation programme adopted by the state. Transparency and speed in privatising are best achieved by centralising policy responsibilities for privatisation in a strong nodal point. Most successful privatising countries have therefore found it better to have one centralised Implementation Agency (IA) for executing the implementation of the programme. Further, for the implementation agency to be successful, it should operate under clear guidelines with a wide mandate to design and implement all aspects of the government's privatisation programme. The success of a privatisation programme will also depend on the quality of the people (both government and outside experts) in charge of its preparation, implementation, oversight, and on the incentives given so that they have to do the job well. Special attention needs to be paid to the recruitment and remuneration of the staff responsible for drawing up and implementing the privatisation programme.

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APPENDIX A-15.1

All Five Units under the Textile Sectors are Closed

(a) Infrastructure

Name	*Net Worth*	*Net Profit*	*Employees*
UP Bridge Corporation	-3.3	-25.69	7,046
UP Project and Tube Well	-7.3	-1.7	796
UPSRTC	(-) 583.02	-55.18	4, 452
UPSIDC	48.05	11.77	701
UPRNN	9.63	0.17	3,814
Avash Vikas Parishad	391.97	104.07	3,688

(b) Financial Sector

Name	*Net Worth*	*Net Profit*	*Employees*
PICUP	(-) 35	(-) 59	330
UPFC	(-) 39	(-) 54	1124

Source: Company's estimate, Dept. of PSU.
Note: Amount in Crore as on 31.3.2003.

(c) Sugar

Name	*Net Worth*	*Net Profit*	*Employees*
Sugar Corporation	(-) 887	(-) 167	23,90

Note: *Amount in crore as on 31.03.2003.
Total Units : 35, Closed Units: 11.

APPENDIX A-15.2
PART-A

Voluntary Retirement Scheme (VRS)

Office Memo Dated June 8, 1993

1. VRS scheme guidelines laid by state government for SPSUs.
2. SPSUs can announce their own scheme within the guidelines after getting consent from their administrative departments.
3. Basic outline of scheme is as follows:

Eligibility

(1) Employee should have completed minimum service of 10 years and attained the age of 40 years.

(2) Employees have the right to reject the VRS scheme.

Retirement Benefits

(1) Amount payable of PF as per CPF regulations.

(2) Encashment of earned leave as per existing salary.

(3) Gratuity as per the Gratuity Act and schemes applicable to employee.

Notice Period

Salary for one month or three months as per contract in lieu of notice period.

Severance Benefits

Whichever is lesser amount of A or B:

A. Severance benefits at rate of one and a half months of salary (basic plus DA) for every year completed of service.

or

B. Amount calculated for remaining service of employee as on date of retirement or super annuation (whichever is less).

C. Retired employee and family will be entitled to travel expanses to any place outside or within the state where the employee wishes to reside after retirement (terms of travel to be specified).

D. State has the right to make amendments to the scheme (see paras eligibility and severance benefits above) with prior approval of the PSU department .

Posts which fall vacant due to enforcement of VRS shall not be refilled.

VRS scheme would be announced by the PSU through its administrative department before its reconstitution or privatisation and is not compulsory for PSU.

Administrative financial package would have to be prepared as part of VRS.

If the PSU cannot afford the scheme, then the administrative department can announce it only after getting aid from the national renewal fund and the state government.

VRS scheme is applicable to all employees of the SPSUs with exception of the CEO and executive officers of the PSU.

PART-B

Office Memo Dated June 8, 1993

1. Not only will vacancies arising out of VRS not be filled up but a complete ban on further recruitment in those units where funds were available through the government for VRS will be imposed.
2. Beneficiaries of VRS may not be re-employed in other SPSUs or government departments.
3. Before implementing the VRS scheme the administrative department shall obtain decision regarding the prviatisation, restructuring, rehabilitation, financial reform of the sick units and their downsizing.
4. If the SPSUs cannot pay afford to pay for the VRS, the government department may advance a loan only for that purpose.

Case A

Employee 40 years old.

Retires at 60 years.

Joined at the age of 28 years.

Under scheme A is eligible for 18 month salary for 12 years of service.

Under scheme B is eligible for 20*12=240 months salary.

Is entitled to 18 months salary if he avails of VRS and if he remains in service, he is entitled to receive 240 months of salary at a higher base.

Hence, it makes sense for him to avail of the VRS.

Case B

Employee is 50 years old.

Retires at 60 years.

Joined at the age of 28 years.

Under scheme A an employee is eligible for 33 months salary for 22 years of service.

Under scheme B he is eligible for 10*12=120 months salary.

An employee is entitled to 33 months salary if he avails of VRS and if he remains in service, he is entitled to receive 120 months of salary at a higher base.

Hence, it makes sense for him to avail of the VRS.

Case C

Employee is 58 years old.

Retires at 60 years.

Joined at the age of 28 years.

Under Scheme A an employee is eligible for 45 months salary for 30 years of service.

Under Scheme B he is eligible for 2*12=24 months salary.

An employee is entitled to 24 months salary if he avails of VRS and if he remains in service, he is entitled to receive 24 months of salary, unlikely to be at a higher base.

Hence, it makes sense for him to avail of the VRS.

Conclusion

It is clearly seen that only employees who have got very few years service left would be interested in availing of the VRS.

APPENDIX A-15.3

Details of Dates Sanctioned *versus* First Disbursement for Deposit Works Project by PWD of GoUP for

(a) Financial Year 2002-03

Code	*District*	*Name of Bridge*	*Sanctioned Cost*	*Sanctioned Date*	*First Instalment*	
					Amount	*Date of Receipt*
1432	Jalaun	Pahuj/Ninawali Ghat Rampura Sidhpura Road	546.12	07/03/03	281.31	26/03/03
1438	Varanasi	Malviya Bridge Repairing Work	113.00	18/02/03	11.30	26/03/03
1433	Lucknow	ROB at X-ing No.3A/T3 Mawaiya-Rajajipuram Road	961.23	03/03/03	48.77	26/03/03
1434	Lucknow	ROB at X-ing No.215/3 Tat Sadar Bazar	1198.89	03/03/03	66.00	26/03/03
1435	Saharanpur	Dhamola/Madhonagar Road in Place of Old bridge	67.67	13/02/03	27.00	20/03/03
1421	Kaushambi	Sasur Khaderi/near Manauri-Sarai Akil Kaushambi SH95	145.48	31/03/03	46.00	31/03/03
1454	Sant Kabir Nagar	Ami River Pararia	160.72	10/03/03	80.36	31/03/03
1429	Ambedkar Nagar	Chhoti Saryu/Usra Balrampur (Raje Sultanpur) Bhimakol	101.56	02/01/03	10.16	27/01/03
1429	Ambedkar Nagar	Ufrauli Nala/Near Tons River Buddhital Ufrauli	69.48	02/01/03	6.95	27/01/03
1428	Gonda	Chandaha Nala/Katka Paska Road	65.61	02/01/03	6.56	27/01/03
1420	Muzaffarnagar	Krishna/Panipat Khatima - SH to Join Delhi	112.80	02/01/03	11.00	27/01/03

Contd. ...

...Contd. ...

Code	District	Name of Bridge	Sanctioned Cost	Sanctioned Date	First Instalment	
					Amount	Date of Receipt
		Jamunotri R				
1440	Muzaffarnagar	Krishna River/Jalalabad Dhakauri Road	98.54	31/03/03	0.50	31/03/03
1439	Muzaffarnagar	Kali River/Kairana Khatauli Road 45 Kms	215.15	31/03/03	25.00	31/3/03
1426	Saharanpur	Hindon/Burhakhera Gurjar Nainital Road	214.63	28/12/02	10.00	25/08/03
1427	Saharanpur	Dhamola River/Retha Piki Road	39.64	28/12/02	7.00	22/8/03
1436	Deoria	Chhoti Gandak/ Lartown Chanukighat	335.70	12/03/03	35.57	26/3/03
1422	Ambedkar Nagar	Tons/Tanda-Kukibazar Sikenderpur Surhurpur Road	229.19	07/12/02	91.67	27/1/02
1437	Ghaziabad	Hindon/Muradnagar to Delhi	464.74	31/03/03	46.40	31/03/03
1458	Sant Kabir Nagar	Gharghra Bridge/Bidhar Ghat	2147.00	28/03/03	16.00	Apr.-03
1361	Gorakhpur	ROB at X-in No. L.C-10 Gkp-M' Ganj Road near Dharamshala	1146.77	13/12/02	100.00	27/01/03
1289	Allahabad	ROB at X-ing No.25B/3T Allahabad-Jhansi Mirzapur Road	758.14	30/03/03	77.30	31/03/03
1423	Ambedkar Nagar	ROB at X-in No.83A K.M 907/2-3 Moughalsarai-Fzd-Lko Road	1003.20	25/11/02	81.32	27/1/03
1449	Agra	ROB Shashtripuram Agra	1294.00	25/10/02	195.00	14/12/03
1382	J.P. Nagar	Karula/Amroha-Kanth Road 20 Kms	98.03	31/03/03	1.00	31/03/03
1390	Barabanki	Pipervaran Nala/Haidergarh-Subeha Chakora Road	67.28	31/03/03	1.00	31/03/03
1396	Kanpur	Pandu/Sanigawa Majhawar road Peeprawa Ghat	132.36	31/03/03	1.00	31/03/03
1393	Kanpur Dehat	Rind River/Near Marauli Village	210.15	31/03/03	1.00	31/03/03
1383	Sitapur	Gomti/Mill-Kakarghat Road	346.83	31/03/03	1.00	31/03/03
1388	Sultanpur	Kadu Nala Bridge	43.94	31/03/03	1.00	31/03/03
1407	Gonda	Bisuhi/Bhabanpur Garra Chauki Road	83.19	31/03/03	1.00	31/03/03

Source: Company's estimate.

(b) Financial Year 2002-01

Code	District	Name of Bridge	Sanctioned Cost	Sanctioned Date	First Instalment	
					Amount	Date of Receipt
1357	Hamirpur	Birma/Rath Charkhari Road Gram Parakhera	570.79	22/12/01	286.00	15/11/02
1372	Shajahanpur	Khannaut/Between Gram Niyamatpur and Tiulak	270.11	22/03/02	50.00	15/11/02
1370	Hardoi	Kherwa Nala/At Gram Nagar Block Shahabad	77.24	31/03/02	63.66	15/11/02
1371	Hardoi	Serha Nala/Pali-Allaganj Road near Gram Hatharua	81.34	31/03/02	65.34	15/11/02
1417	Balrampur	Bhawar Nala/Gaisari Dhobha Road	168.00	29/08/01	84.00	30/12/01
1414	Varanasi	Nad River/Jhinjhora Chittaura Road	58.23	30/03/03	29.10	13/06/02

Contd. ...

...Contd. ...

Code	*District*	*Name of Bridge*	*Sanctioned Cost*	*Sanctioned Date*	*First Instalment*	
					Amount	*Date of Receipt*
1380	Chandauli	Chandraprabha/Gaurihar-Garhwa-Mainpur Road	166.80	22/12/01	50.00	21/01/02
1341	Jaunpur	Bisuhi/Sahjani Saraideeh Joguveer Ghat	149.51	19/11/01	30.00	30/03/02
1418	Gorakhpur	Bhutaha Nala/Pirhani Beria Road	104.00	26/03/02	25.00	07/05/02
1356	Balrampur	Bhaiselwa/Tulsipur-Etwah Road 12 Kms	195.40	22/12/01	98.00	15/11/02
1360	Siddarthnagar	Rapti/Bansi Dhani Road at Bhugahighat	660.15	20/12/01	50.00	15/11/02
1340	Sultanpur	Gomti/Diyara Lambhua Road Diyaraghat	504.48	31/03/03	50.00	15/11/02
1374	J.P.Nagar	Link Road from Hasanpur Rehta to Gangeshwari Pairara	77.19	20/12/01	32.50	26/03/03
1373	Basti	Manoroma/Lakarmandi Makhaura Road	75.65	29/11/01	43.50	26/03/03
1355	Barabanki	Gomti/Ausaneshwar Ghat	405.78	20/12/01	50.00	26/03/03
1349	Kanpur Dehat	Pandu River/at Vikas Khand Maitha(Shobhan Sarkar)	107.97	04/12/01	43.43	26/03/03
1352	Sitapur	Sarain/ Machherehata-Jalapur Road15 Kms	148.10	20/12/01	60.00	26/03/03
1354	Sitapur	Baraila/Rampur-Thangaon Road	349.96	20/12/01	15.00	22/08/03
1353	Sitapur	Chowka River/Bansura Marhatia Road	263.49	20/12/01	15.00	22/08/03
1368	Ghazipur	Gangi/Sourabh-Sambhua Road	163.32	20/12/01	0.00	-
1369	Ghazipur	Maghali/Near Nonhara-Rasoolpur	221.80	20/12/01	0.00	-
1367	Ghazipur	Udanti/Majuhi Dulhapur Road	136.12	20/12/01	0.00	-
1362	Balrampur	Kachhni Nala/Shivpur-Ramnagar Road	82.70	24/12/01	18.25	13/03/02
1366	Partapgarh	Sai/Samaspur-Chahin Road Samaspur Ghat	316.44	31/03/02	32.00	29/06/02
1364	Deoria	Chhoti Gandak/ Baikunthpur-Mahwapur Karibi Road 3 kms	238.23	30/03/02	24.00	29/06/02
1337	Chandauli	Chandraprabha/Chakia Ahirori Road	290.75	24/08/01	72.70	13/03/02
1365	Azamgarh	Maghai/Meh Nagar Diha Road near Diha Bazar	113.27	30/03/02	12.00	29/06/02
1363	Lakhimpur Khiri	Motipur Tikoniya Kauriyawala Ghat Setu	409.14	27/3/02	41.00	29/06/02

Source: Company's estimate

APPENDIX A-15.4

UPSSCL-Financial Position

Name of Unit	*Net Loss*				
	FY 2003-99	*FY 2003-00*	*FY 2003-01*	*FY 2003-02*	*FY 2003-03*
Healthy Units					
Amroha	(-)443.85	(-)1382.72	1440.36	(-)282.88	(-)2066.4
Bijnor	329.07	100.05	1395.05	(-)49.05	(-)1090.63
Bundelshahr	(-)2645.67	(-)2459.7	5885.28	(-)857.78	(-)2136.62
Chanpur	(-)172.32	60.85	93.76	(-)139.63	(-)1086.68
Jarbal Road	(-)750.95	(-)563.73	3705.12	(-)523.37	(-)1545.18

Contd. ...

...Contd. ...

Name of Unit	Net Loss				
	FY 2003-99	*FY 2003-00*	*FY 2003-01*	*FY 2003-02*	*FY 2003-03*
Khadda	(-)363.37	(-)231.25	176.24	(-)354.46	(-)993
Mohiuddinpur	(-)605.13	(-)470.59	2986.73	(-)214.48	(-)768.47
Rohanakalan	(-)420.81	(-)424.33	997.48	(-)772.09	(-)1589.9
Saharanpur	(-)416.27	(-)394.12	2667.07	(-)605.36	(-)1815
Sakhetitada	(-)113.7	(-)47.81	877.44	(-)161.18	(-)1063.55
Siswabazar (-)1424.34		(-)514.04	(-)523.04	1782.03	(-)366.78
Total	**(-)6117.04**	**(-)6336.39**	**(-)22006.56**	**(-)4327.06**	**(-)15579.80**
Sick Units					
Betalpur	(-)535.79	(-)609.14	(-)833.19	(-)829.85	(-)962.04
Bhatni	(-)775.3	(-)855.58	(-)856.34	(-)941.32	(-)982.72
Burhwal	(-)602.78	(-)604.23	(-)719.79	(-)705.03	(-)845.1
Devriya	(-)737.23	(-)917.38	(-)933.33	(-)971.79	(-)1062.72
Lakshmi Ganj	(-)629.93	(-)572.88	(-)647.11	(-)821.48	(-)869.1
Pipraich	(-)704.92	(-)909.37	(-)955.27	(-)1015.45	(-)1136.71
Ramkola	(-)893.59	(-)804.94	(-)865.32	(-)885.98	1070.57
Shahganj	(-)629.45	(-)671.15	(-)737.6	(-)850.97	(-)999.86
Total	**(-)5508.99**	**(-)5944.67**	**(-)6547.95**	**(-)7021.87**	**(-)7928.82**
Closed Units					
Barabanki	(-)260.58	(-)468.87	(-)575.66	(-)492.79	(-)520.14
Rampur	(-)1211.34	(-)676.11	(-)545.97	(-)511.25	(-)516.65
Meerut	(-)780.36	(-)609.97	(-)529.16	(-)442.65	(-)425.63
Bareilly	(-)260.49	(-)371.44	(-)444.51	(-)379.41	(-)467.65
Hardoi	(-)819.62	(-)599.17	(-)561.59	(-)477.67	(-)552.05
Maholi	(-)323.75	(-)606.73	(-)549.37	(-)464.68	(-)490.27
Chhitoni	(-)685.04	(-)705.78	(-)664.39	(-)502.92	(-)488.6
Gugli	(-)680.84	(-)610.52	(-)579.75	(-)460.8	(-)469.97
Munderwa	(-)540.43	(-)594.91	(-)612.2	(-)478.19	(-)379.9
Nabab Ganj	(-)257.5	(-)489.15	(-)594.53	(-)543.57	(-)467.03
Total	**(-)5819.59**	**(-)5732.65**	**(-)5657.13**	**(-)4777.89**	**(-)77.89**
Additional Units					
Chhata	(-)362.51	267.87	(-)293.21	(-)827.04	(-)1070.63
Rae Bareli	(-)357.13	(-)337.77	(-)422.08	(-)481.78	(-)938.52
Ghatampur	(-)625.78	(-)542.99	(-)476.64	(-)662.43	(-)978.61
Nand Ganj	(-)460.82	(-)459.61	(-)422.65	(-)276.91	(-)250.5
Total	**(-)1806.24**	**(-)1072.5**	**(-)1614.58**	**(-)2248.16**	**(-)3238.26**
Net Total	**(-)19252.22**	**(-)19628.29**	**8186.90**	**7553.32**	**(-)31524.74**

Source: Company's estimate.

APPENDIX A-15.5

UPSSCL-Sugar Recovery and Capacity Utilisation for Past Five Years

		Sugar Recovery %					Capacity Units %				
Category	*Name of Unit*	*FY 2003-03*	*FY 2003-02*	*FY 2003-01*	*FY 2003-00*	*FY 2003-99*	*FY 2003-03*	*FY 2003-02*	*FY 2003-01*	*FY 2003-00*	*FY 2003-99*
	A) Eastern										
C20	Barabanki										
S13	Bhatni	6.72	7.39	8.31	7.62	7.64	21.92	15.55	21.78	42.59	48.82
H6	Khadda	8.87	8.80	9.95	9.64	8.40	118.42	89.00	71.46	102.67	83.04
S17	Pipraich	7.80	7.83	8.58	8.42	7.70	58.42	48.17	47.75	66.75	55.00
S14	Burhwal	7.13	7.93	7.44	8.08	8.00	35.17	45.08	33.50	39.25	40.42
H5	Jarwal Road										
S18	Ramkola	7.48	7.64	8.66	8.49	7.59	66.71	78.58	58.37	73.95	57.70
S16	Lakshmi Ganj	7.34	8.01	9.05	8.91	7.87	46.30	56.67	40.30	62.89	47.56
H11	Siswabazar	8.08	8.67	9.92	9.15	8.37	99.79	81.65	64.32	83.97	58.13
C27	Ghugli										
C26	Chhitauni										
C28	Munderwa										
	B) Western										
H7	Mohiuddinpur	9.50	9.50	9.83	9.45	8.80	87.96	93.64	82.49	69.96	64.64
H10	Sakhotitanda	9.29	10.32	9.73	9.21	9.51	77.96	86.70	84.60	72.93	72.01
H8	Rohanakalan	8.57	9.24	10.20	8.93	9.42	110.17	79.19	84.53	63.50	87.78
H9	Saharanpur	9.26	8.84	8.90	8.90	8.88	89.11	72.96	80.31	80.40	80.80
C22	Malyana										
H3	Bulandshahr	8.68	8.91	8.77	8.67	8.08	86.40	71.38	55.89	41.49	37.24
	Doiwala										
	C) Central										
C23	Bareilly										
C24	Hardoi										
C25	Maholi										
H1	Amroha	9.09	8.97	9.77	8.91	8.85	84.82	78.84	70.40	61.02	57.67
H2	Bijnor	9.50	8.80	9.39	8.94	9.11	133.49	122.96	123.44	108.56	108.48
C21	Rampur										
	D) Eastern										
A33	Nandganj										
A31	Rae Bareli (Central)	8.79	9.16	9.28	9.12	9.12	67.78	75.91	68.80	58.67	54.22
	Kichha										
	Chhata	8.45	8.12	8.65	8.81	7.90	47.09	82.69	76.91	63.25	55.92
A30	Chandpur	9.47	9.35	9.63	9.23	8.96	114.05	114.05	107.63	93.89	92.88
H4	Missing										
S12	Betalpur	8.00	8.15	8.89	9.03	8.10	62.70	60.46	46.58	64.94	59.04
S15	Deoria										
S19	Shahganj										
C29	Nawatganj										
A32	Ghatampur	9.22	9.56	9.65	9.74	8.56	43.04	39.16	40.58	40.18	38.04

Note: Names of units have been taken of J.L. Bajaj but do not tally with data provided by Secy. H= Healthy, S= Sick, A= Additional, C-= Closed.
Source: Company's estimate.

APPENDIX A-15.6

UPSSCL-Sugercane Required *Versus* Cane Availability for Past Five Years

	Name of the Factory	*Cane Required %*		*Cane Availability %*			
			FY 2003-03	*FY 2003-02*	*FY 2003-01*	*FY 2003-00*	*FY 2003-99*
	Owned Units (Eastern)						
C20	Barabanki						
S13	Bhatni	15.24	21.92	15.55	21.78	42.59	48.82
H6	Khadda	24.00	118.42	89.00	71.46	102.67	83.04
S17	Pipraich	12.00	58.42	48.17	47.75	66.75	55.00
S14	Burhwal	12.00	35.17	45.08	33.50	39.25	40.42
H5	Jarwal Road						
S18	Ramkola	11.87	66.71	78.58	58.37	73.95	57.70
S16	Lakshmi Ganj	13.50	46.30	56.67	40.30	62.89	47.56
H11	Siswabazar	37.50	99.79	81.65	64.32	83.97	58.13
C27	Ghugli						
C26	Chhitauni						
C28	Munderwa						
	Western						
H7	Mohiuddinpur	45.00	87.96	93.64	82.49	69.96	64.64
H10	Sakhotitanda	32.40	77.96	86.70	84.60	72.93	72.01
H8	Rohanakalan	23.40	110.17	79.19	84.53	63.50	87.78
H9	Saharanpur	45.00	89.17	72.96	80.31	80.40	80.80
C22	Malyana						
H3	Bulandshahr	45.00	86.40	71.38	55.89	41.49	37.24
	Doiwala						
	Central						
C23	Bareilly						
C24	Hardoi						
C25	Maholi						
H1	Amroha	45.00	84.82	78.84	70.40	61.02	57.67
H2	Bijnor	37.50	113.49	122.96	123.44	108..56	108.48
C21	Rampur						
	Eastern						
A33	Nandganj						
A31	Rae Bareli	22.50	67.78	75.91	68.80	58.67	54.22
	Central						
	Kichha						
A30	Chhata	37.50	47.09	82.69	76.91	63.25	55.92
H4	Chandpur	37.50	114.05	115.05	107.63	93.89	92.88
	Missing						
S12	Betalpur	16.93	75.24	72.55	55.90	77.93	70.85
S15	Deoria						
S19	Shahganj						
C29	Nawatganj						
A32	Ghatampur	18.75	43.04	46.99	48.69	48.21	45.65

Note: H=Healthy, S=Sick, A=Additional, C=Closed
Source: Company's estimate

APPENDIX A-15.7

The Brazilian Model: Lesson from International Experience Uttar Pradesh: The Super Sector

(a) Overview

- Largest procedure of sugarcane in the world.
- Approx. 5 mn hectares of land (approx. 14%) available land under sugarcane cultivation.
- No requirement for irrigation.
- Old and small units were amalgamated into large size units to upgrade technology .
- Low cost of production is due to large capacity.

(b) Supply-Side Economics

80%	:	Factory owned farms
12%	:	Big independent supplier
08%	:	Small growers with land holding of 100 hectares on average

(c) Emphasis on Fuel Alcohol

- Emphasis on ethanol production.
- Ethanol is a good substitute for fossil fuels.
- Government of Brazil actively promoted ethanol production through policy initiatives.

Silent Features

- 60% sugarcane juice extracted at sugar mills to be used for ethanol production.
- Excise duty exemptions granted to ethanol cars initially.

(d) Benefits

- Reduction of national surplus.
- Reduced wide fluctuations in sugar price
- Reduced vehicular pollution.

Licencing Policy

- No licence or permit required for establishing a new sugar mill.
- No restrictions on maximum and minimum capacity
- Zones not legally determined.

(e) Sugarcane Pricing

- Free market system—since 1988 sugar mills and cane growers derive the cane price.
- Pricing is based on a formula which is based on quality of sugarcane i.e sucrose content and juice purity.
- Payment is staggered.
- Purchase of cane-60 per cent.
- Determination of quality stage.
- Final sale stage-30 per cent.
- Period of one year limitations.
- No laws governing situation-based on practice.

APPENDIX A-15.8

Country Case Studies

Peru

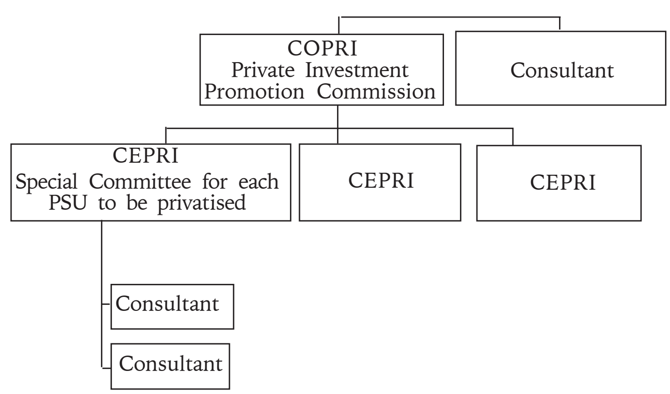
In Peru, an inter-ministerial commission (COPRI) consisting of six members of government, oversees the work of special committees (CEPRIs) responsible for specific enterprises to be privatised. Most of the members are from the private sectors, however, as a rule they may be employed by the PSU to be privatised. (In 1992 a small technical secretariat was created to assist the COPRI.)

The members of each CEPRI are appointed by supreme resolution of the executive on the proposal of the COPRI. Most of the members come from the private sector and may not as a rule be employed in the PSU to be privatised.

Legal Basis

The COPRI draws up the list of SPSUs to be privatised, designates the CEPRI members responsible for carrying out the privatisation operations for each PSU and supervises the work of each PSU.

Peru



Functions

Each CEPRI prepares for the PSU for which it is responsible, a plea for promoting private investment. This plan includes a description of the privatisation techniques to be used, an assessment of the PSU's value and a timetable for implementation. Once this plea is approved by the COPRI, the CEPRI is responsible for implementing it.

Degree of Autonomy

All major decisions of COPRI have to be ratified by the executive; this applies, to the list of the SPSUs to be privatised, the appointment of the members of each CEPRI, and the approval of the plans submitted to COPRI by the CEPRIs.

The CEPRIs send regular reports on their activities to COPRI, each CEPRI has exclusive competence to settle disputes relating to the privatisation operations it conducts.

Other Entities Involved

Each CEPRI may use the services of consultants; COPRI can also do so, for example, identify structural reforms in a given economic sector that will be needed before privatisation.

Brazil

In Brazil, there is a privatisation committee comprising of four members of the government and seven representatives of the private sector, whose duties include submitting to the President, the names of the enterprise to be privatised, approving the main privatisation techniques and the selling price. The executing agency for the privatisation programme called the BNDES (Bank for National Economic and Social Development) is responsible for administering the programme, for managing the privatisation fund, for appointing advisers and auditors and generally for executing the privatisation transactions.

Chile

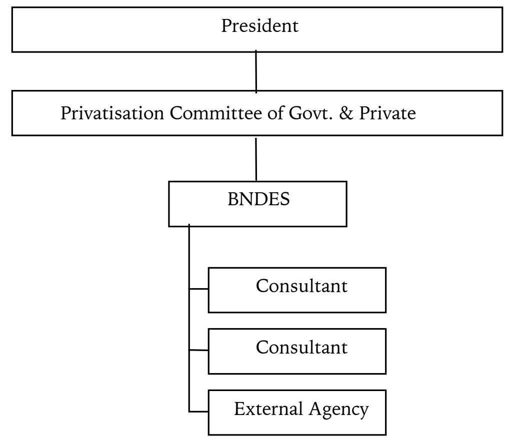
In Chile, the policy and decision making, is carried out by the board of Directors of CORFO, the state holding company which is comprised of the ministers of the economy (Chairman), finance and planning, the vice-minister responsible for CORFO and one other member appointed by the president of the republic.

The board authorises the sales of shares and approves the sale terms and conditions, it is assisted by a committee comprising the members' direct deputies or assistants, plus a small 'standardisation unit' each which manages the entire process, subcontracting the bulk of the work.

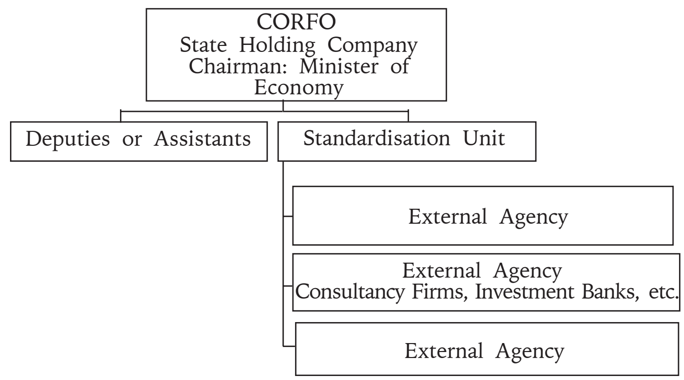
France

In France, there is a central authority in the form of the minister of economy who has been assigned additional charge of privatisation and who takes decisions on privatising the enterprises listed under the privatisation law. Under the minister there is a privatisation commission. The privatisation commission comprises seven members appointed by decree for a term of five years, who are supported by a secretary general.

Brazil



Chile



The privatisation commission is responsible for setting a minimum price for the shares of the PSU to be privatised. The members are chosen for their competence and experience in the economic, financial and legal areas and have the ability to undertake valuable studies with assistance of consultants and investment bankers.

The Treasury Head of the MoF is in charge of implementing the privatisation programme.

The commission's powers were strengthened by a privatisation law passed in July 1993. For example when the minister opts to select a buyer without pursuing the competitive bidding process for the major SPSUs or to select a group of core shareholders, the commission must concur.

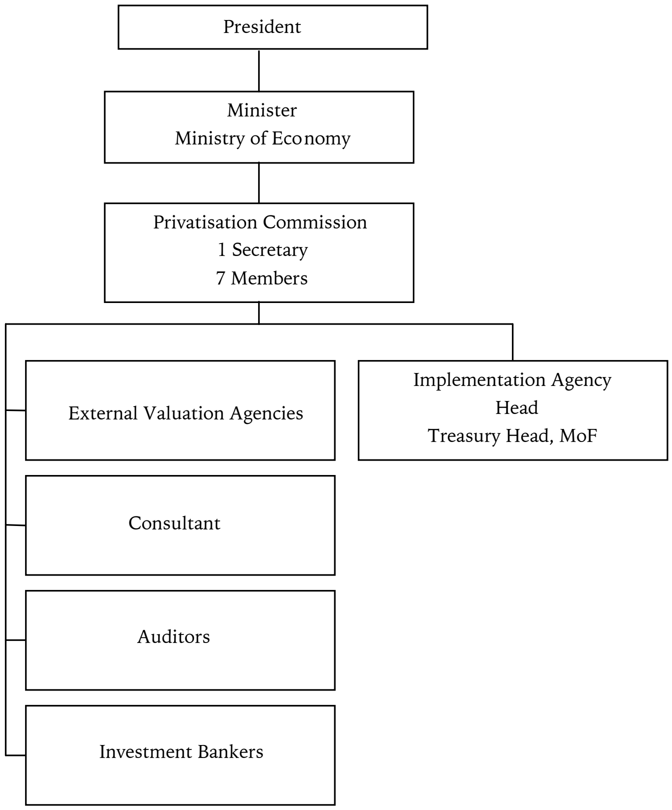
Legal Basis

Various privatisation laws.

Degree of Autonomy

Each transaction affecting the SPSUs listed is submitted to the commission by the minister of economy. The commission was set up to underscore the independence of the valuation process from the ministry of economy.

France



Other Entities Involved

Auditing firms and investment banks are selected by the minister of economy to carry out valuation studies of the SPSUs to be privatised. These studies serve as the basis of the work of the privatisation commission.

Morocco

In Morocco, implementation of the privatisation law is entrusted to a minister responsible for the privatisation process who is assisted by an inter-ministerial transfers commission and a valuation commission.

Notes:

1. The government is considering a merger of the transfer and valuation commission as the valuation commission has frequently set very high minimum prices.
2. However, at the same time requisite technical skills for establishing valuations are to be present in the merged commission.

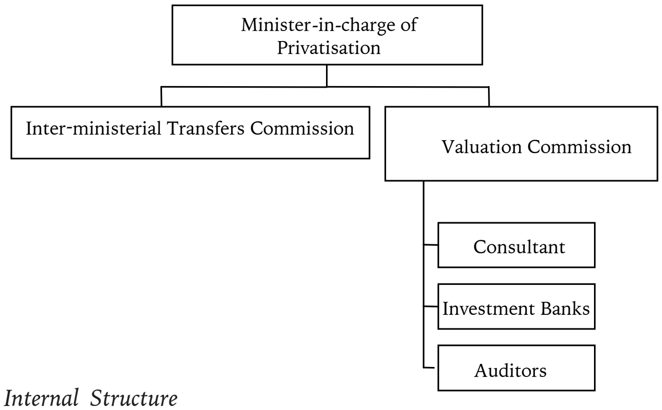
Poland

In Poland, while the public treasury (an agency with legal ownership of the SPSUs) is placed under the MoF, the minister for ownership changes is responsible for their transfer.

Legal Basis

Various privatisation laws creating the office of minister of ownership changes and privatisation.

Morocco



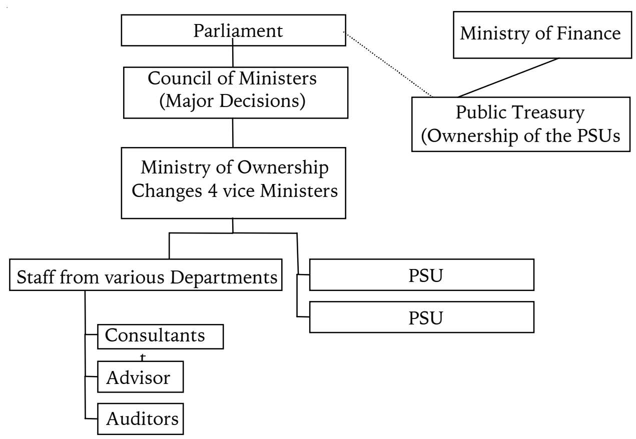
Internal Structure

The ministry of ownership changes has had since its inception, a staff ranging between 300 and 400 civil servants working in a number of departments and supervised by four or five vice-ministers.

Functions

The ministry of ownership changes is responsible for organising the privatisation process, executing ownership tranfers and disseminating information on privatisation and on the promotion of private initiatives.

The ministry exercises the government's ownership rights over



the SPSUs after their commercialisation and pending their effective transfer to the private sector. It designates the executive directors and a majority of the members of the supervisory council of the SPSUs.

Degree of Autonomy

Major decisions such as determining which companies are deemed essential to the national economy and eligible for privatisation have to be taken by the council of ministers as a whole.

Parliament defines the privatisation programme guidelines each year and decides on the allocation of privatisation receipts.

The MoF authorisation is required, in particular, to let the ministry of ownership changes take over the debts of SPSUs to be privatised.

Other Entities Involved

- The National Investment Funds.
- The ministry of trade and industry takes part in liquidation operations and privatisation negotiations for large enterprises.
- The Industrial Development Agency (IDA) cooperates with the ministry of ownership changes when enterprises have to be restructured before they can be privatised.
- The ministry of ownership changes extensively uses the services of consultants and investment banks.

Indonesia

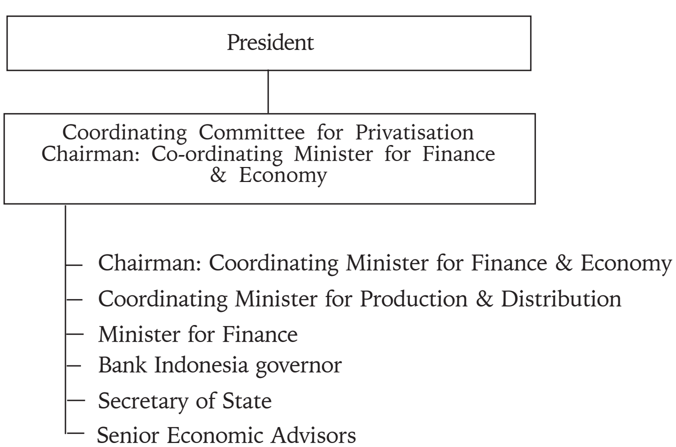
Since 1996, the privatisation process is overseen by a team led by the coordinating minister for finance and economy, which reports directly to the President. The ministers of this superteam include the coordinating minister for production and distribution, the minister of finance, Bank Indonesia governor, secretary of state and the senior economic advisors.

The implementation of the programme is led by the Director General (DG) of State Owned enterprises who reports to the Minister of Finance. The DG is also charged with supervising the performance of the 160 state-owned enterprises belonging to the government.

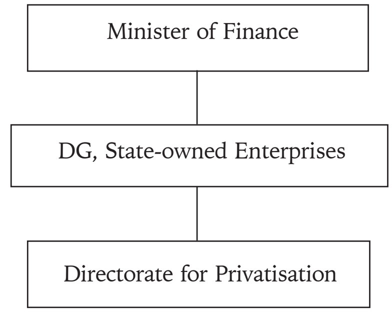
In mid-1997, the formation of a separate directorate for privatisation was approved under the supervision of the DG of State Owned Enterprises.

(To strengthen collaborations between the public and private sectors in infrastructural development, the government is proposing to setup a Public Private Partnership (PPP) Coordination Body to monitor cross-sectoral projects and to design integrated set of policies and guidelines and criteria. Also proposed is a PPP centre to be a comprehensive reference centre, to provide advice, training and

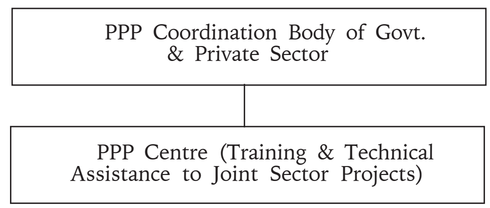
Indonesia-Political Authority (PA)



Indonesia-Implementation Agency (I)



Indonesia-Infrastructural Development Body



technical assistance to all parties involved in public-private infrastructural projects.)

Malaysia

The privatisation programme began in 1983 and was at first a piecemeal response. Due to severe constraints on central government funds and also due to rapidly growing infrastructure requirements, the government subsequently, launched the broader Privatisation Master Plan (PMP).

The PMP contained a broad policy framework for privatisation, procedures for implementation and an assignment of priorities among the projects to be privatised. An important element of the PMP was the rolling two-year Privatisation Action Plan (PAP), which were drawn up to assist the annual implementation of the programme. The Action Pan contained a list of projects identified either for immediate privatisation or restructuring prior to a later sale.

The objectives of the PMP were:

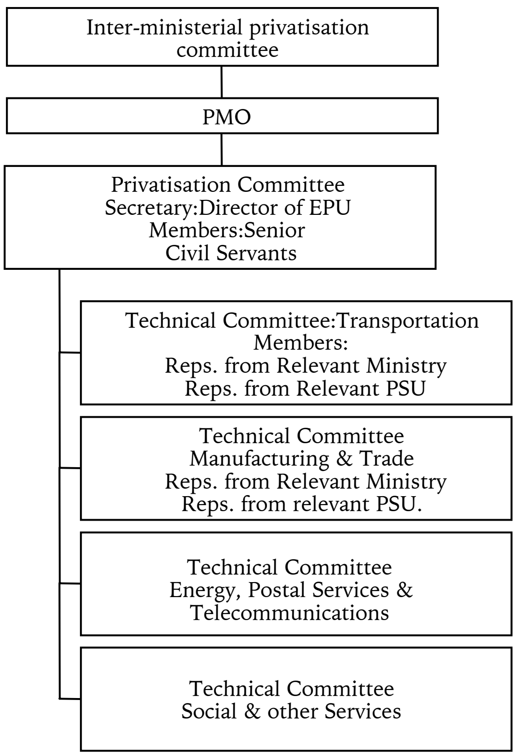
1. To facilitate economic growth.
2. To relive the financial and administrative burden on the government and to reduce the size and presence of the public sector in the economy.
3. To improve efficiency and productivity.
4. To help meet the objectives of the National Development Policy and the Nations Plans including increasing the holding by the *Bhumiputras*.

The privatisation programme is overseen by the government's Economic Planning Unit (EPU) within the office of the Prime Minister and includes senior civil servants from key ministries. It is assisted by a privatisation secretariat of civil servants and has been charged with overseeing the privatisation programme. Private experts (bankers, lawyers, and accountants) assist the government in drawing up the privatisation master plan; private experts also provide advisory assistance on specific transactions. Technical committees comprising of representatives of ministries with jurisdiction over the SPSUs to be privatised and representatives of the SPSUs assist the privatisation secretariat.

Legal Basis

Government Decisions.

Malaysia



Functions

The privatisation committee is responsible for planning, coordinating, implementing, evaluating and monitoring the privatisation programme.

The privatisation secretariat provides liaison between the various technical committees and the privatisation committee; it also studies the feasibility of privatisation operations and advises the privatisation committee.

The four technical committees prepare information reports for the privatisation operations and submit recommendations to the privatisation committee.

Degree of Autonomy

The entire process is highly centralised; every decision to proceed with the privatisation of a PSU, as well as the techniques to be used has to be approved by the government.

Germany

The *Truehandansnstalt* (THA) was the privatisation and restructuring agency from 1990 to 1994. As the holding company, it was the sole shareholder of East German SPSUs.

Legal Basis

Various privatisation laws on privatisation and reorganisation of community assets and on the termination of the activities of the THA.

Internal Structure and Staffing

At its peak, the THA employed about 4,100 staff. Half the staff was assigned to the Head Office in Berlin and half to the fifteen regional offices in the five new Lander.

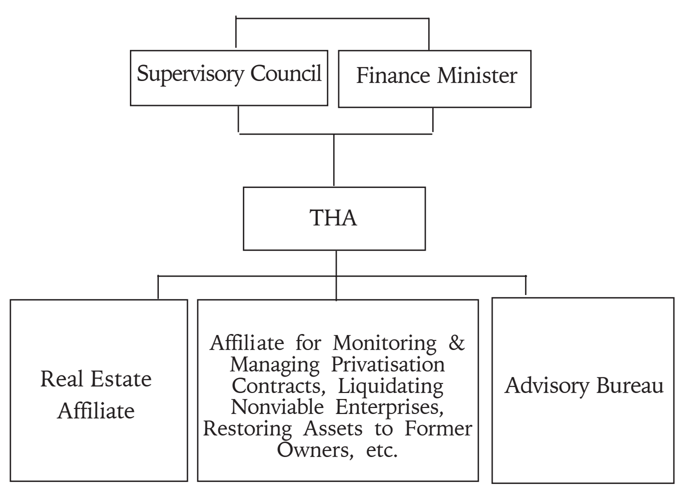
The THA was headed by a supervisory council, whose members were appointed by the federal government and parliament. They comprised representatives of the industrial sector and the political class. The council oversaw the activities of THA's management board, comprising of at least five members.

THA's operations were organised on a sectoral basis. In addition, THA created affiliates responsible for monitoring and managing privatisation contracts, restoring assets to their former owners and liquidating nonviable enterprises. The THA set-up an advisory bureau *Treuhand Osteuropa Beratungsgesellschaft* (TOB), to export its expertise to Eastern Europe. Eventually, the TOB was itself privatised and bought by a German accounting firm.

Functions

THA was a holding company, owner of the SPSUs to be privatised; its mandate was to transfer the SPSUs in its portfolio to the private sector whenever possible, restructuring them if required first. THA had to liquidate SPSUs that could not be restructured to become viable entities and was responsible for managing SPSUs not yet liquidated or privatised.

Germany



Degree of Autonomy

The THA reported on its activities to the minister of finance. Completion of major sales (those relating to more than 2,000 employees, whose value was estimated at over DM 100 million, or whose turnover exceeded DM 30 million), required the agreement not only of the minister of finance but also of the supervisory council.

Other Entities Involved

The minister of finance, the minister of economy and other ministers may also be involved in major policy decisions arising in the context of privatisation.

In the case of real estate sales, THA had to consult with representatives of the municipal authorities to identify the obligations to be imposed upon the investors.

Having largely accomplished the purposes for which it was created, THA closed its doors in December 1994. Its remaining tasks were taken over by the Federal Agency for Special Tasks Arising from Unification (BVS) and the Holdings Management Company Berlin, (BMGB) both under supervision of the ministry of finance.

Phillipines

Major privatisation agencies are:

- Committee on Privatisation
- Privatisation Office
- Asset Privatisation Trust

Internal Structure and Staffing

The privatisation committee comprises the secretary (minister) of finance (chairman), the secretary of trade and industry, the secretary of trade and industry, and the secretary of economic planning, the secretary of budget and management, and the secretary of justice.

The Asset Privatisation Trust consists of five members, a director and four associates, appointed by the president on the recommendation of the privatisation committee.

Functions

The privatisation committee is responsible for identifying the assets and enterprises to be privatised, establishing the guidelines, and designating agency (for example the Asset Privatisation Trust or the parent company of the enterprise to be privatised) for each privatisation.

The privatisation office was set up to assist the minister of finance in the duties of chairman of the privatisation committee.

The Asset Privatisation Trust is responsible for transferring the assets entrusted to it by the privatisation committee either directly or through other agencies; it exercises the ownership rights pertaining to these assets and manages them pending their transfer to the private sector.

Degree of Autonomy

The list of assets and enterprises to be privatised is drawn up by the privatisation committee but has to be approved by the government.

The privatisation committee must submit a report on its activities to the resent and the legislative assembly.

The Asset Privatisation Trust has to obtain the agreement of the privatisation committee on the price, the buyer, and the method of transfer before proceeding to sell assets; the Asset Privatisation Trust must submit a quarterly report on its activities and financial situation to the privatisation committee and an annual report to the president and the legislative assembly.

Other Entities Involved

When assets that were originally entrusted to the Asset Privatisation Trust but were subsequently transferred by the trust to other agencies are in imminent danger of being lost or destroyed, the Securities and Exchange Commission appoints, at the request of the trust, a temporary administrator to manage such assets; Presidential Proclamation no. 50 expressly states that the Asset Privatisation Trust may use the services of domestic or foreign private experts.