

South Asia

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India's bottomless pits

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While the public sector units (PSUs) of the government of India (known as central PSUs) provide much cause for worry, the state-run PSUs are not blameless either, and have become a big drain on their respective governments. Almost half of India's state PSUs create losses. These PSUs had a combined net loss of Rs 2.86 billion (US\$61.7 million) in 2001, along with accumulated losses of Rs 46 billion. The state of Tamil Nadu leads the way with as many as seven PSUs (mostly belonging to State Transport), having the largest accumulated losses.

In contrast to their counterparts at the center, state PSUs are quite small. Their combined revenues amounted to about Rs 330 billion in 2001. The largest state-run PSU, in revenue terms, was Karnataka Power Transmission, with revenues of Rs 55.65 billion in 2001. It is followed by another electricity company, Haryana Vidyut Prasaran Nigam, with revenues of Rs 33.11 billion. Next come the two PSUs from the state of Tamil Nadu, which are involved in trading, namely the Tamil Nadu State Supplies Corp and the Tamil Nadu State Marketing Corp, with revenues of Rs 32.21 billion and Rs 28.76 billion respectively. Both are also loss-making, though.

In terms of profits, the largest state-run PSU is the Gujarat State Electricity Corporation (GSEC). It had a net profit of Rs 910 million on revenues of just Rs 3.50 billion. GSEC is followed by Tamil Nadu Newsprint (net profit of Rs 760 million) and Karnataka Power Transmission (net profit of Rs 750 million).

Together, state PSUs declared a dividend of around Rs 1 billion to their state governments in 2001. The largest dividend payers included GSEC, Tamil Nadu Paper and Gujarat Mineral Development Corporation. However, the harsh reality is that most state-run PSUs rarely make profits.

For instance, 31 of the 55 PSUs belonging to the Tamil Nadu government are losing money, while eight of the 11 units of West Bengal are in the red. On the other hand, 16 of the 35 state-run PSUs are registering profits in Gujarat, while five of the seven PSUs in Andhra Pradesh are in the black.

Haryana has the (dis)credit of having the two biggest loss-making PSUs. They are the Uttar Haryana Bijli Vitran Nigam (loss of Rs 2.15 billion in 2001) and the Dakshin Haryana Bijli Vitran (loss of Rs 820 million). Pradeshiya Industrial and Invest Corporation of India, which belongs to Uttar Pradesh, comes next with a loss of Rs 690 million.

No less damning is a report on state PSU reforms prepared by the Planning Commission. About 60% of the fiscal deficit of state governments is due to the support they have to provide to their public sector undertakings. According to the report, the 750 state-level PSUs in the country registered a compound annual growth of over 17% in their losses instead of providing any return over a 10-year period. The study tracked the health of these PSUs between 1991-92 and 1998-99. As a result, states like Andhra Pradesh, West Bengal, Kerala and Madhya Pradesh, which provided a larger degree of support to the PSUs for ideological reasons, have witnessed a higher state debt growth rate. In 1998-99, the various state governments subsidized these companies by a whopping Rs 49.35 billion.

Let us now focus on the state of West Bengal. According to the Comptroller & Auditor General of India (CAG), of the loss-incurring working government companies in West Bengal, 40 have been found to have exceeded their paid-up capital of Rs 4.13 billion with accumulated losses aggregating Rs 23.95 billion. As per their report (which is available for the period 2001-02), even after five years of existence, the individual turnover of 23 working, seven non-working government companies and two working statutory corporations had been less than Rs 5 million in each of the five years as per their latest finalized accounts.

Even in this respect the report found that the accounts of 40 working government companies and eight working statutory corporations were in arrears for a period ranging from one to nine years. The accounts of three non-working government companies were in arrears for periods ranging from a year to 18 years as of September 30, 2002.

According to the latest finalized accounts, 17 working PSUs (14 government companies and three statutory corporations) earned aggregate profit of Rs 150 million, out of which only Webel Technology Ltd declared a dividend of Rs 8 million. Altogether 57 working PSUs incurred an aggregate loss of Rs 18.79 billion as per their latest finalized accounts.

The budgetary support in the form of capital, loans and grants and subsidies disbursed to the working PSUs stood at Rs 23.78 billion in 2001-02. The total amount of outstanding loans guaranteed by the state government to all PSUs was Rs 90.32 billion as of March 31, 2002.

Referring to Calcutta Tramways Company, sources said that the company had been making sustained losses since its inception, with accumulated losses touching Rs 3.58 billion as of March 31, 2002, which was as much as 18 times its paid-up capital. Its diversification into bus operations proved to be a drag on the company instead of helping it shore up its sagging bottom line, the CAG report noted. As for the West Bengal Tea Development Corporation, which has gardens in Jalpaiguri and Darjeeling, the report revealed that the company's accounts for 1995-96 and onwards had not been finalized and it had eroded its entire paid-up capital.

Not only this. There are 37 central government undertakings in West Bengal. Of these, 20 of them are "sick" and were referred to the Board for Industrial & Financial Reconstruction (BIFR) and are awaiting a verdict on possible revival or closure. What is important to note is that a unit is not declared "sick" and referred to the BIFR just because it has incurred losses for a year or two. It is declared "sick" and sent to the BIFR only after it has incurred losses for four years in a row, and only after its net worth has been eroded by 50% or more of its peak net worth in the preceding four years.

In Bengal, the net worth of eight other central PSUs has sunk to minus Rs 18.43 billion, though they have not yet been referred to BIFR. On the other hand, those which have been referred to BIFR have been rotting there for up to a decade without any perceptible attempt to revive them. In several instances, having spent years and heaps of public money on these fruitless chases, the BIFR has had to recommend that the units be closed. Governments have not been able to act on the recommendation. Political pressure has been mounted to prevent closure. Stay orders have been secured from the courts. Pledges have been made that new revival schemes will be explored. And all the while, the public exchequer continues to bleed - just to keep the corpses around.

The condition of the public enterprises of the states, needless to say, is much worse.

While the PSUs have been bleeding the states, the states have also failed to redeem themselves otherwise. According to the CAG report on West Bengal, over the years, capital expenditure as a

percentage of the state's total expenditures kept dwindling: it was 12% in 1996-97, and 5% in each of the following years. In the meanwhile, expenditures locked in "incomplete projects" had increased from Rs 7.66 billion in 1996/97 to Rs10.83 billion. The ratio of "capital outlay" to "capital receipts" has been less than even 0.50 during the last five years, the CAG noted, and came down drastically from 0.43 in 1996-1997 to 0.14 in 2000-2001 indicating that almost all of the entire capital receipts were spent either on revenue expenditure or on repayment of debt. "As there is no return from such application of capital receipts, the sustainability of operations of government are weakened considerably," warned the CAG.

Nevertheless, the West Bengal government resorted to ingenious ways of raising funds by involving the state's enterprises. The corporations of the state were in such a condition that they could not raise funds on their own. The state itself was straining against the borrowing limits prescribed by the Reserve Bank. As a result, they provided a "guarantee" so that the corporations could borrow. And the corporations put the money at the disposal of the state government. The "guarantees" provided by the state government amounted to Rs 56.06 billion in 1999/2000. They increased to Rs 96.77 billion in 2000/01. For example, the guarantees given during 2000-2001 included Rs 28.12 billion guaranteed against loans obtained by West Bengal Infrastructure Development Finance Corporation (WBIDFC).

Further more, WBIDFC raised Rs 45.41 billion during 1999-2001 through bonds/bank loans for the purpose of infrastructure development of the state. However, they spent only Rs 2.92 billion while the remaining funds were kept in the deposit account with the government, raising serious doubts about the stated purpose of raising these funds.

Examining the Rs 15.68 billion that had been raised in 1999-00 by the WBIDFC through bonds and bank loans, ostensibly for infrastructure development, the CAG found that Rs 11.18 billion of this had been placed by the corporation in the deposit accounts with the pay and accounts officer (PAO), Kolkata, for utilization by the state government for other purposes. During the year 1999-2000, an aggregate of Rs 12.15 billion was taken by the state government from WBIDFC as loan. Further scrutiny revealed that Rs 5.82 billion remained in the deposit account of WBIDFC as of March 31, 2000, awaiting conversion to loans. In addition, during the year 2000-2001, WBIDFC raised Rs 29.73 billion bonds at interest rates varying from 11.75 to 14% per annum for the purpose of infrastructure development of the state. Out of Rs 29.73 billion, Rs 25.49 billion was parked in the deposit account with PAO. The state government converted Rs 25.09 billion into loans repayable in 92 equated monthly installments, along with interest, at the rate of 18%. Thus, the total loans received by government from WBIDFC amounted to Rs 37.24 billion, of which government repaid the principal amount of Rs 1.84 billion and paid interest of Rs 4.86 billion during 1999-2001.

Clearly, with the government being unable to borrow, they get a corporation under them to borrow. Then, instead of using the amount for the purpose for which that entity borrowed it, the corporation puts it as a deposit with the government and they convert that deposit into a loan to themselves.

A sorry state of affairs indeed.

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