

Maharashtra
Report of the study group on
joint sector enterprises for
industrial development 1960

Plan Studies No. 2



**GOVERNMENT OF MAHARASHTRA
FINANCE DEPARTMENT (PLANNING)**

**REPORT
OF THE
STUDY GROUP ON
JOINT SECTOR ENTERPRISES
FOR
INDUSTRIAL DEVELOPMENT**



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1961

FOREWORD.

The Government of Maharashtra has set up a Consultative Committee on the Third Five-Year Plan under the Chairmanship of the Chief Minister to advise the Government on preparation of the Plan. The Consultative Committee felt that for rapid industrialisation in the State, certain industries could be started with the joint effort of Government and the private sector and recommended that a study group may be appointed to examine the scope and to work out concrete proposals in this respect. Accordingly a study group consisting of the following members was appointed on the 27th September 1960 :—

Shri R. G. Saraiya	...	<i>Chairman.</i>
Shri Naval, H. Tata	...	Member.
Shri S. M. Joshi, M.L.A.	...	Member.
Shri A. R. Bhat, M.L.C.	...	Member.
Shri R. M. Deshmukh, M.P.	...	Member.
Shri A. B. Bardhan, M.L.A.	...	Member.
The Secretary to Government Industries and Labour Department.	...	Member—Secretary.

The study group submitted its report which was placed before the Consultative Committee at its meeting held on the 19th May 1961. The report as adopted by the Committee is now released for publication as it is of public interest. The recommendations made in the report have been taken into account while finalising the Third Five-Year Plan of Maharashtra State.

M. R. YARDI,
Secretary to Government,
Finance Department.

Sachivalaya,
Bombay.

**REPORT OF THE STUDY GROUP ON JOINT SECTOR
ENTERPRISES FOR INDUSTRIAL DEVELOPMENT SET
UP BY THE CONSULTATIVE COMMITTEE ON THE
THIRD FIVE-YEAR PLAN.**

The Study Group was set up by Government on 27th September 1960, with the following terms of reference :— Introduction.

(1) to assess the scope for "Joint Sector" enterprises for industrial development;

(2) to suggest the industrial projects which could be taken up in the joint sector; and

(3) to suggest the terms of partnership between the Government and the private sector, in regard to their respective shares in capital investment, management and control of the industries in the joint sector.

2. It may be useful to record here the background to the relevant suggestion made by Shri N. H. Tata, one of the members of the Study Group, in the Consultative Committee meeting. When the Air India International was constituted first, the Government of India had only 49 per cent. share capital interest in it but retained the right to take over another 2 per cent. from Messrs. Tata Sons. The latter were given the necessary freedom to manage the undertaking and this happy partnership was able to lead the Company to its well known place in the field of civil aviation.

3. Instances were not wanting in other countries where the Government of the country and its citizens have jointly set up industrial and other enterprises in a manner satisfactory to all. Such cases are common indeed in the Scandinavian countries, Italy, Switzerland, etc.

4. There can be no doubt that there exists considerable First
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Reference. scope and justification in equal measure to establish industrial undertakings in the "Joint Sector". The Industrial Policy Resolution, 1956, has reserved certain types of industries exclusively for establishment by the Government and certain others have been listed where both Government and private enterprise can operate.

5. Planning requires an optimum utilisation of all available resources for achieving other objectives. While in the State of Maharashtra the areas within greater Bombay have been well developed industrially, there are vast areas in the hinterland which have not been developed. In order to achieve the maximum development of industries and to spread industrialisation into the interior, it is necessary to make the best use of the available talent, resources and managerial ability available to Government on one hand and the private sector on the other. In our view, it should be possible to evolve a method

of working the "Joint sector" for furthering these objectives. We understand that the private sector on its side would be willing and desirous to join joint sector ventures. We also hope that the Government of Maharashtra is also keen on such joint sector ventures for the development of industries in the State.

6. It would also be in consonance with the principle voiced more than once in Parliament that the public should have a share in the management—and hence the capital—of public sector enterprises. The socialistic objectives of the State would not be affected adversely by any such step. It will be observed from the further recommendations in this report that enough safeguards are suggested in the scheme to see that economic power and authority do not get concentrated in a few hands merely because it might be necessary to entrust the management of "Joint Sector" schemes to private hands. Indeed, the dispersal of the shareholding among as wide a cross-section of the citizenship as possible is contemplated in the scheme.

7. There have been occasions in the past when the State Governments have played a helpful and promotional role by State aid to nascent industries. Chief among these is the entry of co-operation in the sugar field. In the case of a cement factory, the ex-Bombay Government guaranteed the payment of a minimum dividend to the investing public in the initial non-productive period. In another case, the Government was called upon to guarantee the working capital needs only of a new undertaking. More recently, the State Government has also gained considerable experience in the direct control of textile mills run under the Unemployment Relief Schemes Act, even if their management day after day is not directly under Government. With this experience too, it can be expected to make a success of the new idea of having Joint Sector schemes, which this report covers.

8. We would like to invite attention here to the provisions of section 25 of the State Financial Corporation Act, 1951. They permit the investment by that body in the shares, stocks and debentures of undertakings, the issue of which it underwrites, provided that these are disposed of by the Corporation within a period of seven years. Such investment in "Joint Sector" schemes sponsored by Government would permit the induction of the State Financial Corporation into the scheme under consideration. This may involve a change in the constitution or powers of the State Finance Corporation so that its investments need not be compulsorily disposable within a period of seven years. The Madras Industrial and Investment Corporation, for example, is empowered to invest the moneys received from the Madras Government in the shares of Joint Stock Companies.

9. It may be added at this stage that it may not be necessary for the Government of Maharashtra to tie up their funds in Joint Sector ventures for all time to come. It should be possible for the State Government to sell out their shares in course of time and invest the proceeds for the development of other industries. In this way, the quantum of investment by the State Government will be able to stimulate the growth of larger number of industries than would be possible if the money is to be permanently locked up.

10. The broad principle which the Study Group would propose in this regard would be that joint sector schemes should relate generally to such industries for developing which private enterprise is not easily forthcoming. But this would need one qualification. Reference has already been made to the Schedule "A" industries of the Industrial Policy Resolution, whose development by Government alone is vital in public interests. Second
Term of
Reference.

11. Another important purpose of the Joint Sector scheme ought in our view to be the need to attract entrepreneurs to the relatively backward areas of the State in the matter of industrial development. Many of them have valuable resources but risk capital is not easily attracted to them because of the many other uncertain factors of industry in the minds of the entrepreneurs. State partnership would help considerably in removing such doubts in cases where the scheme is otherwise economic and proven.

12. About Marathwada, however, the Study Group would like to make a few other observations. Nature has not gifted this part of the State with any mineral resources of value nor are the consumption levels so large as to warrant local production. As such, industrial development of this area has to be encouraged indirectly by making it more attractive for entrepreneurs to go there. In other words, it is not new risk capital investment by the State that is suggested but there appears to be a distinct case for offering concessions to industries going there and creating a nucleus of skill and employment. It would be desirable for the Government to appoint a separate Commission to examine the issues involved in detail and recommend suitable measures.

13. Bearing this in mind, the Study Group considers the following as distinct possibilities :—

- (i) Establishment of a coke-oven-cum-bye products recovery or fertilizer plant ;
- (ii) Production of alumina in Kolaba, Thana Districts ;
- (iii) Production of Stainless Steel and ferro-alloys by electrical smelting processes ;

(iv) Production of purified salt and chemicals on large scale in the Ratnagiri area ;

(v) Manufacture of fine and superfine cloth under the export promotion scheme by installation of modern composite spinning and weaving units with automatic looms and most advanced machinery ;

(vi) Production of electrolytic manganese utilising, low grade ores ;

(vii) Large scale mining of manganese and iron ore in the areas reserved for "Public Sector" working ;

(viii) Manufacture of town gas meters, a large number of which will be in demand in Bombay once the Trombay Fertiliser project increases the City's gas supplies, combined with other types of meters and measuring instruments in an economic sized unit ;

(ix) Utilisation of sugar-cane baggase for manufacture of paper.

14. There could be other schemes such as Petro-chemicals, fatty acids and glues, etc., as well but the Study Group does not intend to make the list exhaustive. As new opportunities arise, it is likely that other manufacturing or operative lines will suggest themselves. So long as the policy of Joint Sector working is kept open, the entrepreneur will have the attraction in suitable cases to approach the Government for such partnership.

15. Secondly, there is the limitation of public resources. It is not clear how much amount could be set apart by Government in the Third Plan for such "Joint Sector" schemes. It is not possible, at this stage, to indicate what would be the total amount of funds required for the industries mentioned in paragraph 13 above. But we would suggest that the Government of Maharashtra may indicate a figure, say Rs. 8 to 10 crores, which it will be prepared to invest in the Joint Sector ventures to start with. Detailed investigations in regard to the schemes mentioned in paragraph 13 may be undertaken by the Department of Industries, preferably in conjunction with the prospective parties.

16. The idea of Joint Sector working offers another possibility of attracting capital as well. Such schemes will be companies in the private sector and can secure the assistance of the Industrial Credit and Investment Corporation of India. Moreover they would be eligible to the utilisation of the vast sums remaining to the credit of the P. L. 480 programme of the United States of America in India.

17. In this context, the Study Group would also like to refer to the position of the textile industry, which is the biggest employer in the State. Many of the textile units have been facing

difficulties and Government has itself been running a few of them as Unemployment Relief Schemes or under the provisions of the Industries (Development and Regulation) Act, 1951. There would appear to be a case for establishing a separate Corporation to take over such textile mills and rehabilitate them either financially or with proper rationalisation of the machinery.

18. By far, this is the most important aspect of the work entrusted to the Study Group. It has itself distinguished three aspects of a scheme of the present nature—

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Reference.

- (a) Organisation ;
- (b) Management ; and
- (c) Control.

The point which the Study Group would like to emphasise even to begin with is the need to have mutual trust in all such cases of joint investment. No scheme will succeed in practice unless the trust is implicit and effective.

19. There may be cases where the Government or the State Financial Corporation underwrites the issue of capital of an undertaking and this does not result ultimately in any direct outlay of public funds. But the present comments would not relate to them. The problem needs closer attention.

20. The Study Group feels that the objectives of the State in all such schemes would have to fulfil the following conditions :—

(a) The pattern of association should be such that Government can have a substantial voice in public interests in the policy matters of the undertaking but so that, in cases where the managing partner proves to be a lame duck or it is considered necessary for his specific actions or inactions to displace him, the Government can intervene and take over the management too for a limited or unlimited period and extent without recourse to the provisions of the Industries (Development and Regulation) Act, 1951.

(b) The distribution of ownership should be so worked out that there is the minimum concentration of capital in the hands of individuals or associated groups, this being, however, circumscribed in suitable cases by the needs of (a) above and the desirability of associating available and reputed entrepreneurship within the country itself or even from abroad where foreign capital is necessary and forthcoming.

21. Under the Company law as it stands today, only ordinary shareholders have a full voice in its affairs at the time of the general meetings of the Company. A majority of 3/4ths of their numbers is required to pass a special resolution affecting

the organisation of the Company itself. Hence, when Government participates in the share capital of a Company, a minimum holding by it of 26 per cent. of the ordinary shares would appear imperative. The maximum limit of Government partnership would be 49 per cent. as any higher participation would convert the Company into a Government undertaking.

22. Again, if it be one of the Articles of Association that no individual or associated group shall hold more than a specified number of shares ordinarily, it may be necessary to limit the Government's holding to the said figure of 26 per cent. (or even less in exceptional cases) and let the working entrepreneur have a holding sufficient between him and Government to have a simple majority in the total share capital. As a corollary to this, the Study Group recognises the fact that in suitable cases managing agents or secretaries and treasurers would have to be appointed to enable the Company to draw upon their specialised knowledge and experience in fields such as export, managements, sales and the like. Not all of such shares need be found in cash either. In industries based on mining, Government could consider capitalisation of royalties as well.

23. It would thus be neither desirable nor necessary to adopt an uniform pattern of organisation. There ought to be a promoter's agreement in the case of each scheme, suggesting the details (arrived at by negotiation between Government and the other major entrepreneurs) of the organisation suited to the needs of each. The terms and conditions of such agreement would be incorporated in full later in the Articles of Association of the Company so that they become a substantial part of its constitution at all times.

24. Government ought to have as many Directorships on the Company's Board as its shareholding justifies and it should be ensured in the Articles of Association that a simple majority holding of others will not oust it from the Board by the peculiar operation of legal procedure in any circumstances. Having said so, however, the Study Group would like to add that all Government officials cannot in the normal course be expected to be experts in Company finance or business administration; it would also be difficult for them to find the time necessary for giving close attention to the affairs of the Company of which they may be Directors. Hence, appointment of Government Directors, while at the discretion of the Government in every way, should not be confined to Government officials alone. We are happy to say that in this regard the record of this Government has been noteworthy.

25. The Company form of management provides also two vital points of control. One is the appointment of the Chairman of the Board and the other of the auditor(s). We would suggest that both these appointments should have Government's prior

approval and continuing consent. The Companies should also be bound by the Articles to furnish Government with such information or reports as it would like to have without infringing the legitimate autonomy of the management. Subject to the control indicated above, the joint sector ventures should have complete autonomy in regard to day to day working, purchases, sales, appointments, promotions, transfers and general management.

26. The next question is whether it would be desirable to have a separate "Industrial Development Corporation" or an "Investment Corporation" to undertake the above tasks on behalf of Government. We understand that some other States are thinking of setting up such institutions or are already having them. But this appears unnecessary in our case. According to the pattern proposed, Government will not manage such joint sector schemes day after day nor will all its nominee Directors be officials. It could always be provided that any senior and direct representative of Government has also the authority to attend the general meetings of the Company without involving Government in the procedure of proxy. Any Industrial Development or Investment Corporation would have hardly any work to do in the management of such a venture, unless it is used as a mechanism for raising additional resources for the exchequer. The Study Group considers that, rather than go into such details at this stage, the scheme of "Joint Sector" working should be put through in select promising lines to begin with. Once its success is established and public confidence aroused, there would be little difficulty in organising its further development.

27. In conclusion, the Study Group would like that the Government of Maharashtra should give wide publicity to the Joint Sector scheme after it has examined and accepted it. The contents of this report, as finally approved, should also be circulated so that entrepreneurs in the Private Sector would be able to come forward with schemes and suggestions for joint sector ventures. In the meanwhile, the State of Maharashtra should also undertake investigation of the schemes mentioned in paragraph 13 above under the second term of reference so as to have some project reports ready for such joint sector ventures. There is enterprise in the joint sector which, we feel sure, when properly directed will help in the process of rapid industrialisation of the State. Some of the early ventures in the joint sector will themselves suggest methods for improvement of the schemes and the organisational pattern and they will also open a vista of further avenues of development in the State.

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