



**Presentation on**

**“ ACCOUNTABILITY OF THE  
OWNERSHIP FUNCTION”**

**at the 2006 Asian Roundtable  
on Corporate Governance  
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**by**



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## Historical Perspective : How PSEs Came Into Being

### As Vehicle For Spearheading Planned Development In India

- To Promote Rapid Industrial Development
- To Create Basic Infrastructure Network

### As Crusader of Socio-Economic Objectives

- Balanced Regional Development
- Employment Generation



## Significance of PSEs in Indian Economy

- **Share in GDP : PSEs contribute almost 1/4<sup>th</sup> of GDP**
- **Share in Industrial Production : 27.5 % (More than 1/4<sup>th</sup>)**
- **Share in Revenue Generation : PSEs Account for more than 1/3<sup>rd</sup> of Total Revenue Receipts of Central Government Exchequer**
- **Provides 1.7 million Direct Employment and 10 Folds Indirect Employment in Supply Chain**
- **Model Employer; Setting Benchmark in Employees' Welfare and Work Culture**



## **PSEs Performance in Post-Liberalization Period (1995-96 to 2004-05)**

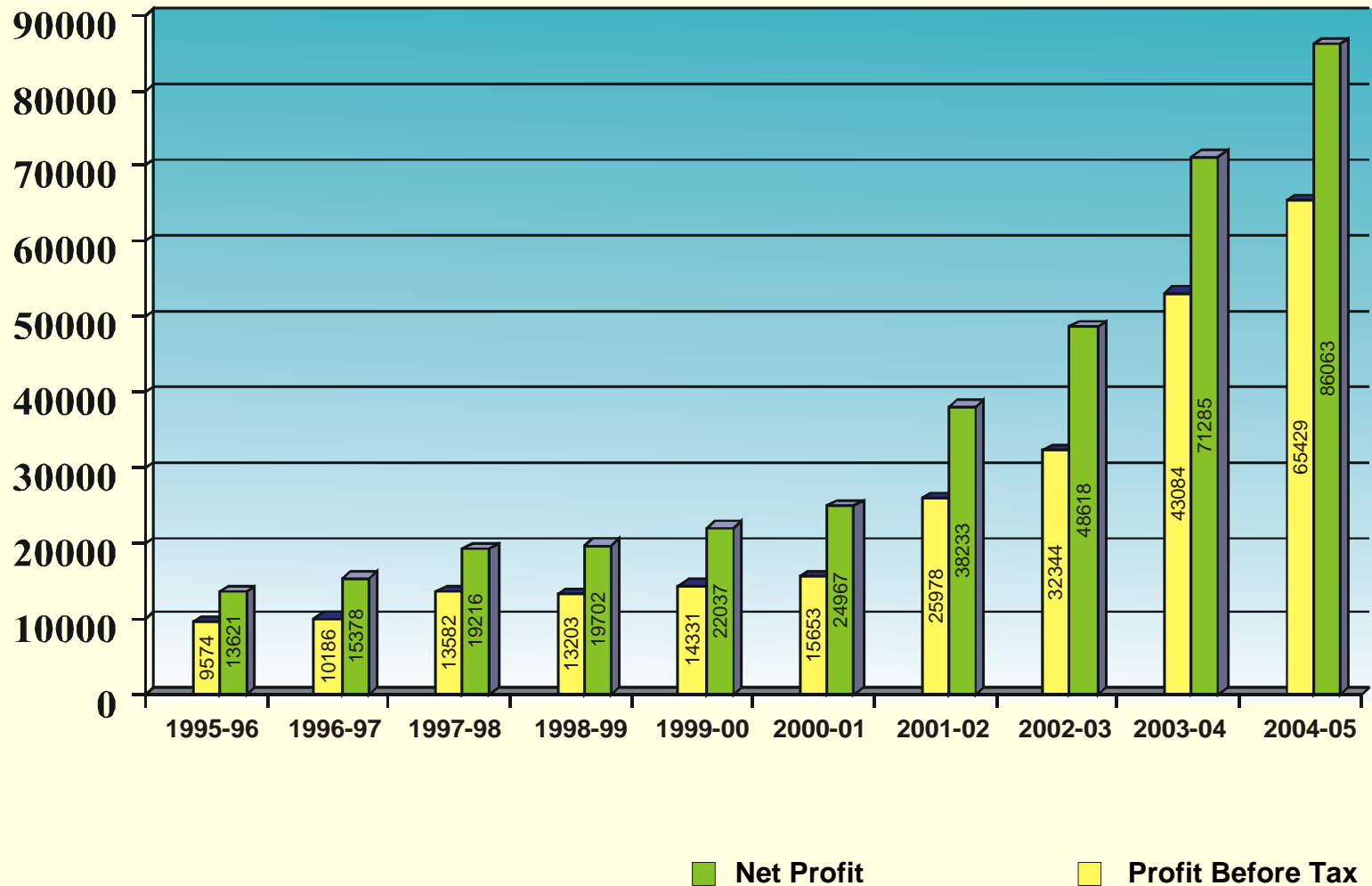
- ✓ **583% increase in Net Profit During 1995-96 to 2004-05 (10 Years)**
- ✓ **532% increase in Profit Before Tax**
- ✓ **Over 100% increase in Investments**
- ✓ **About 9 times increase in Dividends**
- ✓ **245% increase in Contribution to Exchequer**



## PSEs Performance in Post-Liberalization Period (1995-96 to 2004-05)



### Income in Net Profit and Profit Before Tax

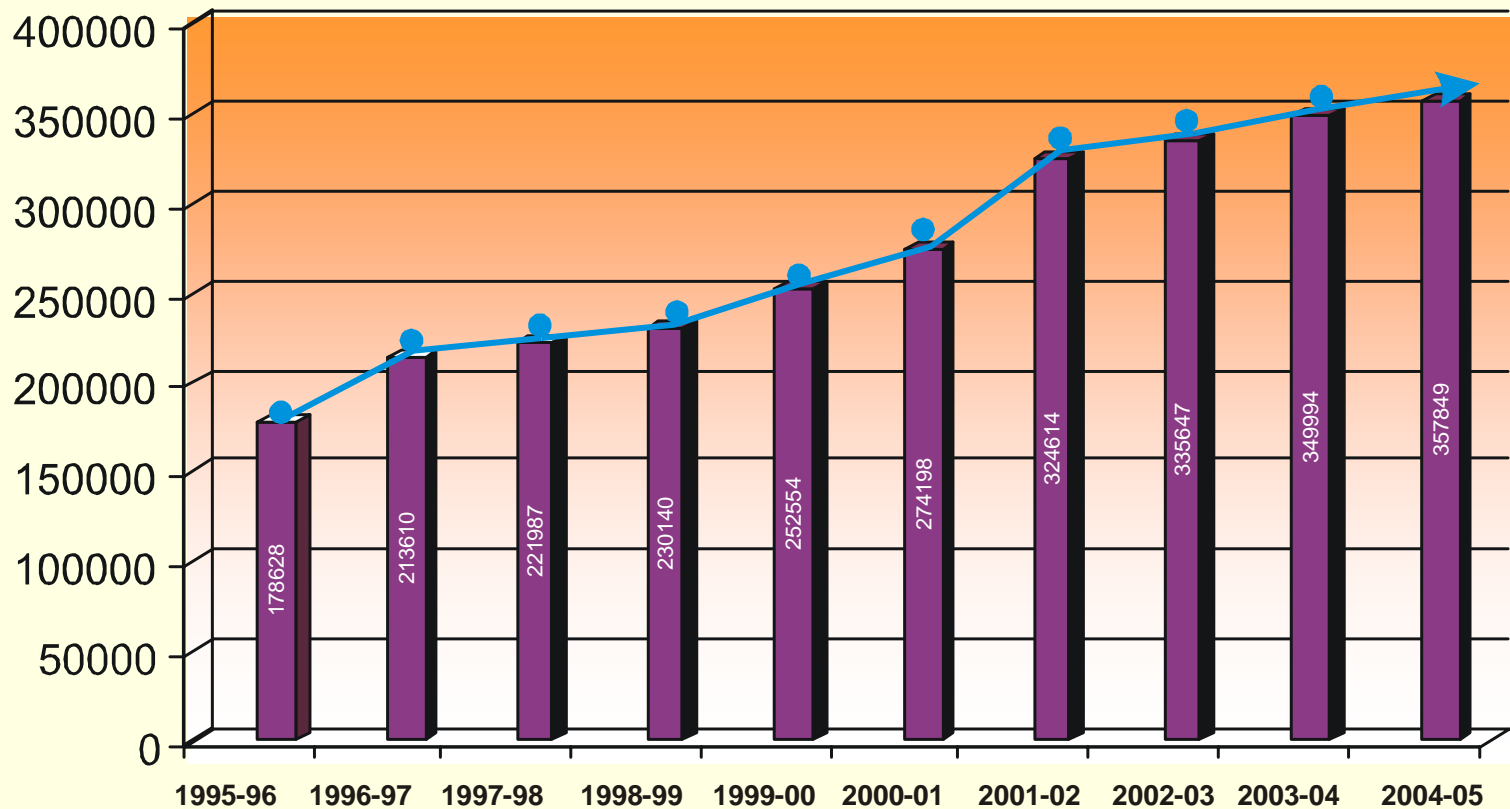




## PSEs Performance in Post-Liberalization Period (1995-96 to 2004-05)



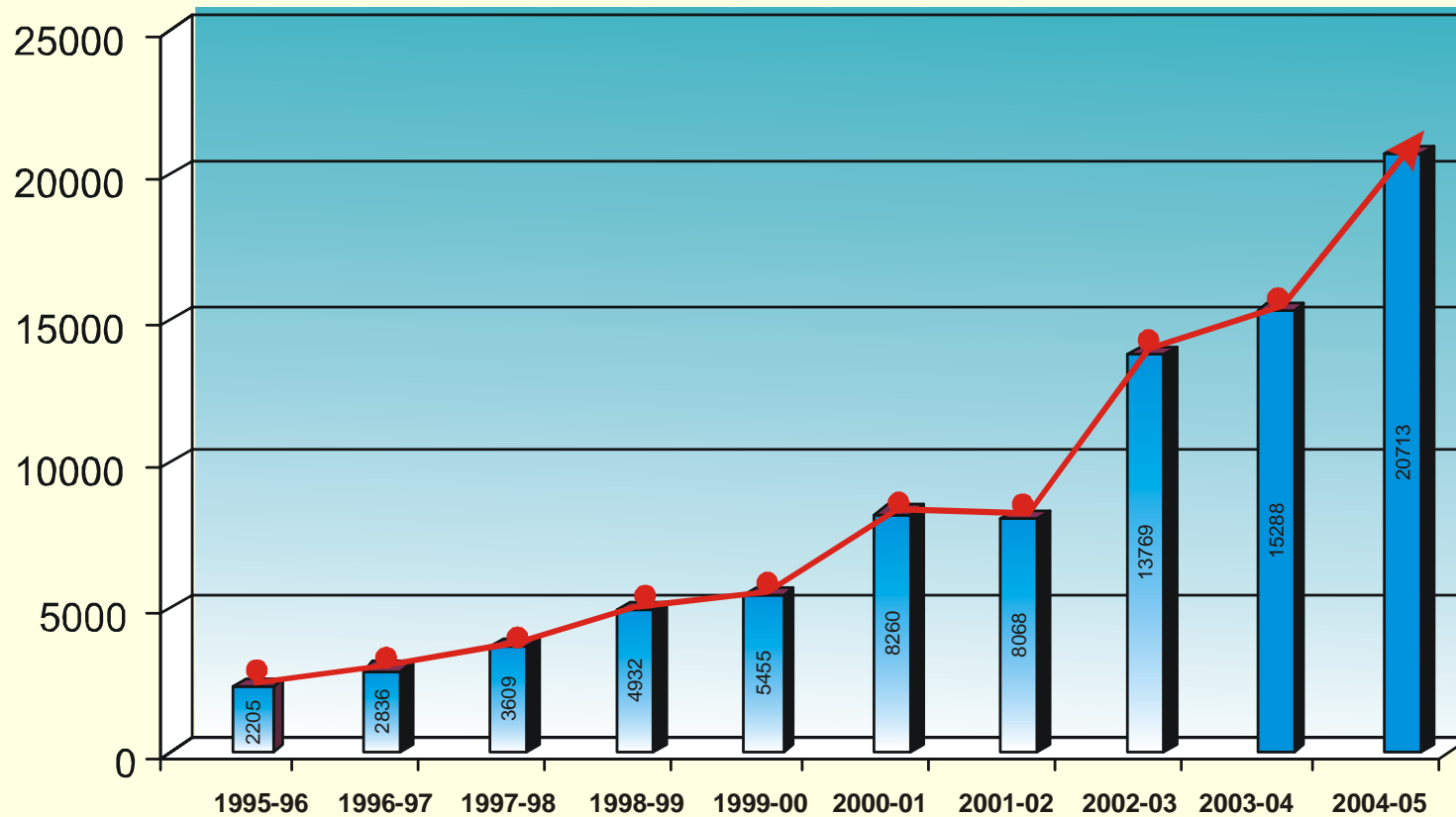
### Increase in Investments





## PSEs Performance in Post-Liberalization Period (1995-96 to 2004-05)

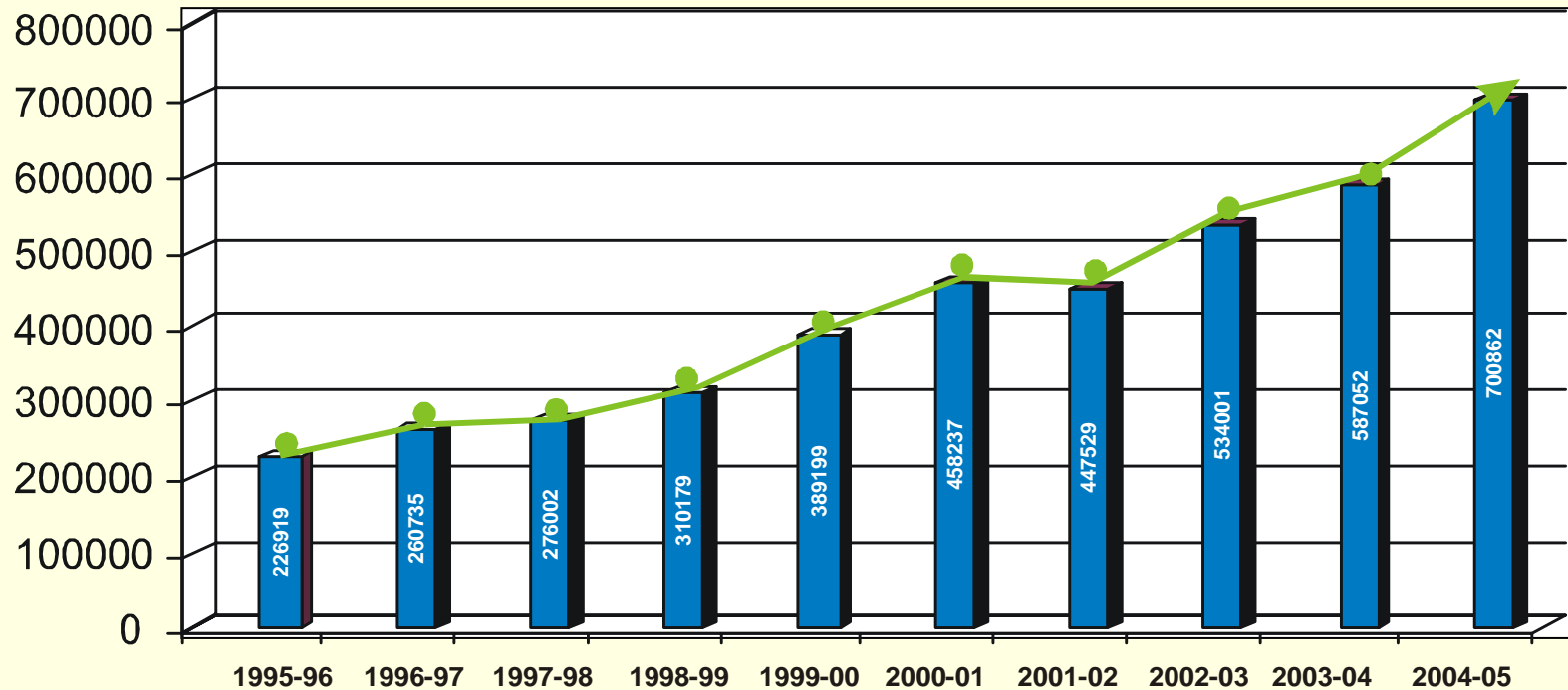
### Increase in Dividends





## PSEs Performance in Post-Liberalization Period (1995-96 to 2004-05)

### Increase in Contribution to Exchequer





## Role of Ownership Function of the Government

- To Provide Policy Direction and Regulatory Support
- To Provide initial Investment and Budgetary Support
- To Provide Government Guarantee in International Projects



## Mechanisms / Systems Governing PSEs

- ▶ **Parliamentary Accountability**
- ▶ **Compliance with SEBI Guidelines (For all listed Companies)**
  - **Appointment of Independent Directors**
  - **Audit Committee**
  - **Disclosure Norms**
- ▶ **New Accounting Standards**
- ▶ **Statutory Audit by Audit Firms**
- ▶ **Internal Audit**
- ▶ **Companies Act and Guidelines of Company Law Board**
- ▶ **Supervision by Regulators in Regulated Sectors**



## **Additional Mechanisms/ Systems Governing PSEs**

- **MoU Sysytem**
- **Review by Administrative Ministry**
- **Review of Annual Accounts by CAG**
- **Concurrent Transaction Audit by CAG/Proprietary Audit**
- **Vigilance Administration by CVC**



## Accountability of the Ownership Function

- To Provide for Natural Progression in terms of Performance and Growth
- To Promote Good Corporate Governance
- To allow Operational and Financial Autonomy for Facilitating Commercial Operations
- To Promote and Facilitate Growth of PSEs in place of Controlling their Operations.



## Advantages of the Accountability of the Ownership Function

- **Consistency and Uniformity in Rules and Guidelines applicable to all PSEs.**
- **Clarity in overall long-term Goals and Policy Orientation.**
- **Ensures High Degree of Transparency and Accountability and Greater Degree of Investors' Confidence.**



## **Challenges/Bindings of Ownership function of the Government**

- **Lack of Independence/freedom to take Commercial Decisions affects Business Decisions.**
- **Too much intervention/day-to-day Interference affects Competitiveness.**
- **Multiple Control Mechanisms and Multiple Audit cause Cost and time over-runs.**
- **Influencing Board Appointments, Performance Appraisal, Vigilance Investigations affect Efficiency and Decision-Making.**



## Suggestions

- Dismantling unnecessary Control Mechanisms
- Segregating Ownership and Control Systems
- Empowerment of PSEs



*Thank you*