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Landscape: Recent policy reforms and main challenges in SOE governance

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India: Recent policy reforms and main challenges in SOE governance

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Presentation Landscape

India: A snap shot of SOEs

Recent development and initiatives

Challenges

India: A snap shot of SOEs

- Public Sector Undertakings (240 Central and 1036 State) comprise of statutory corporations and incorporated companies (excluding departmental bodies such as Posts, Railways, etc.)
- Contribute almost $\frac{1}{4}$ of GDP
- Share in industrial production 27.5%
- Account for more than $\frac{1}{3}$ of the Total Revenue Receipts of Central Govt. Exchequer
- Provides 1.7 million direct & indirect employment in supply chain
- Market cap approximately 35% of BSE in 2005.

Recent Developments and Initiatives

- Approval of Guidelines on Corporate Governance for Central Public Sector Undertakings (SOEs) (March 2007)
- Dr. J. J. Irani Committee recommendations
- Turnaround of Indian Railways
- CG of Indian SOEs: Introspection

Guidelines on CG of Central SOEs

- Guidelines are for non-listed SOEs.
- Listed SOEs are required to follow CG guidelines (Clause 49 of Listing Agreement) issued by Securities and Exchange Board of India (SEBI).

Board of Directors:

- At least 1/3 Board to be independent
- Fee to be fixed by Board subject to Government guidelines
- List of information to be made available to Board, provided.
- Director not to be member of more than 10 committees or act as chairman of more than 5 committees
- Board to lay down code of conduct for directors and senior management who shall affirm compliance on annual basis. CEO to confirm declaration in Annual Report.

Guidelines on CG of Central SOEs (Cont.)

Audit Committee:

- Minimum 3 directors as members. Minimum 2/3 independent directors. Chairman to be independent.
- All members financially literate and at least 1 accounting or related financial management expert.
- Chairman or his nominee shall attend AGM to answer queries
- Well defined role provided in guidelines

Subsidiary Companies:

- At least 1 independent director of holding company shall be on board of subsidiary
- Audit committee of holding to review subsidiary accounts
- Board minutes of subsidiary to be placed before holding board

Guidelines on CG of Central SOEs (Cont.)

Disclosures:

- Detailed guidelines provided on disclosures.

Corporate Governance Compliance:

- Annual Report to carry a separate section on CG. List of items to be included provided in guidelines
- A certificate by auditors or company secretary to be obtained, to be placed before members and Parliament

Implementation:

- As soon as possible and latest within 12 months

J. J. Irani Expert Committee on Company Law

Recommendations:

Little justification for SOEs being provided relaxations in compliances. They should compete in the market on equal terms. Unfair to investors/creditors if SOEs allowed to present their performance on basis of dissimilar parameters.

Imposition of cost of non-commercial/ commercially unviable social responsibilities should be transparently assessed and provided by the Government through the budget as a subsidy.

There is no rationale for the definition of Government company being extended to companies set up by Government companies in course of their commercial activities.

Turnaround of Indian Railways

- Indian Railways (IR) was declared to be heading towards bankruptcy as per the Expert Group on Indian Railways in 2001. Largest Railways in the world. Considered thoroughly inefficient and lacking governance.
- Today it is the second largest profit making Public Sector Undertaking after ONGC - the fund balance crossed Rs.12,000 crores (USD 2.79 Bn) in 2005-06, which had reached a low of just Rs.149 crores (USD 35 Mn) in 1990-2000.
- The total investment being planning for the eight-year time frame (2007-2015) is tentatively in the order of Rs.350,000 crores (USD 81.4 Bn).

Challenges

Macro Issues

- Effective implementation of Corporate Governance guidelines
- Empowerment of SOEs
- Suitable competition policy – level playing field, pricing

Micro Issues

- Treating Nominee Directors of Financial Institutions/Banks as Independent Directors
- Appointing truly Independent Directors

Thanks

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