Rationalisation of the functions, activities and structure of the Ministry of Steel

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1. Introduction

1.1 The rapid growth of the steel industry in India during the 60s and subsequent years is a consequence of the drive towards the goal of self-reliance in the Five Year Plans.

1.2 In accordance with the Industrial Policy Resolution of 1956, under which steel industry was reserved for the public sector, the expansion of the integrated steel industry took place largely in the public sector.

1.3 With the ushering in of economic reforms in 1991, which *inter-alia* opened up the steel industry for private investment, and the emergence of the secondary steel producers in a large way, the private sector currently accounts for more than half the domestic output of about 24 million tonnes of finished steel in the country.

1.4 Simultaneously, there have been several other changes affecting the steel industry. These include:

a) Decontrol of prices of steel and pig iron;
b) Liberalisation of imports along with reduction of import duties;
c) Freedom from allocation and distribution control providing for free market operation;
d) Discontinuance of contribution to Steel Development Fund;
e) Abolition of industrial licensing.

The steel industry has thus become totally market-oriented in terms of investment, production, demand-supply and prices.

1.5 It is in the background of these significant changes in steel policy that the functions and organisational structure of the Ministry of Steel have to be considered.

2. The Role And Functions Of The Steel Ministry

2.1 The Ministry of Steel is responsible for the planning and development of the iron & steel industry, development of essential inputs such as iron ore, lime stone, dolomite, manganese ore, chromite, ferro-alloys, sponge iron etc.

2.2 The main functions of the ministry include:

a) Coordination of the growth of the iron & steel Industry (including re-rolling mills, alloy steel and ferro-alloy industries, refractories) both in the public and private sector.

b) Formulation of policies in respect of production, pricing, distribution, import and export of iron and steel and ferro alloys;

c) Planning, development, control of, and assistance to the iron & steel industry in the country and;

d) Development of input industries relating to iron ore, manganese ore, refractories etc. required mainly by the steel industry.

The ministry is also administratively responsible for 12 public sector enterprises and management of a group of taken-over companies as indicated in ***Appendix-I.***

3. Organisational Structure

3.1 The ministry is headed by a Secretary who is assisted by 3 Joint Secretaries, 4 Directors, 4 Deputy Secretaries, 15 Under Secretaries, 1 Deputy Director and other supporting staff. The ministry also has a Financial Adviser in the rank of Additional Secretary and a Chief Controller of Accounts.

3.2 A technical wing consisting of Industrial Adviser, 4 Development Officers, 2 Assistant Development Officers provides advice to the ministry on technical matters.

3.3 The organizational chart of the ministry is at ***Appendix-II***. The details of personnel in position by category are given in ***Appendix-III.***

3.4 The ministry has an attached office, namely, the office of the Development Commissioner for Iron & Steel (DCI&S) at Kolkata. The DCI&S is an officer of the rank of Joint Secretary and is assisted by a Joint Development Commissioner. The DCI&S has 4 regional offices, one each at Delhi, Mumbai, Kolkata and Chennai headed by regional Development Commissioners for Iron & Steel. The organizational chart of the offices of DCI&S is at ***Appendix-IV***. The staff strength of the DCI&S and its regional offices as obtaining in July 2000 is also presented in ***Appendix-III***.

3.5 In all between the ministry and its attached office, there are 642 sanctioned posts (602 according to Expenditure Budget 2000-01). Details of categories of personnel are given in ***Appendix V***.

4. Public Sector Enterprises Under The Ministry Of Steel

4.1 As the major preoccupation of the ministry revolves around the functioning of the public sector undertakings, to what extent and how soon the Ministry of Steel can be reorganized and downsized will be determined largely by the measures taken to disengage the ministry's responsibility for these public sector enterprises.

4.2 Under the Disinvestment Policy already announced by the government, public sector enterprises that are not in the category of strategic industries will be privatised by disinvesting up to 76% of the government share holding in them; those that are not viable to be so privatised would either be closed down or sold outright. The public sector enterprises under the Ministry of Steel will need to be examined in the light of this policy.

4.3 As earlier indicated, there are 12 public sector enterprises under the Ministry of Steel, and the Bird Group of Companies that are managed by the government. On the whole, the performance of these enterprises has shown a decline in recent years. The post-tax profit / loss of these enterprises over the period 1996-97 to 2000-2001 is indicated in ***Appendix VI***. The two companies that have shown consistently satisfactory performance are National Mineral Development Cooperation (NMDC) and Kudremukh Iron Ore Company Limited (KIOCL). Two smaller companies Manganese Ore India Ltd. (MOIL) and MSTC have also remained profitable, though their contribution by way of dividends has been small.

The financial performance of SAIL declined sharply after 1995-96 and a major restructuring programme is now under way to restore its health. Similarly, the performance of MECON has also steadily deteriorated after 1996-97. The remaining companies have been ailing or have remained at the margin for several years. This lacklustre performance of most of the PSEs under the Ministry of Steel is reflected in the record of dividends paid by them as indicated in ***Appendix-VII***.

4.4 An analysis of the budget of the Ministry of Steel for 2000-01 and 2001-02 reveals that the major draft on the budget arises from the subsidies, loans and grants to the PSEs as compared to the establishment expenditure of the ministry. This is brought out in the statement at ***Appendix-VIII.***

4.5 This, however, does not tell the whole story. The commitments undertaken by the government in respect of these enterprises are staggeringly large – and an extremely small proportion of it is reflected in the budget. In order to contain the fiscal deficit, government has resorted to funding the massive restructuring programmes of some of these enterprises by standing guarantee to large loans agreed to be raised by them from the market. An example of the magnitude of government subsidies and guarantees can be seen from the pattern of financing adopted for the restructuring of SAIL. Similar commitments have been undertaken by the government with respect to other enterprises viz., VSP, HSCL and BRL as brought out in the following paragraphs.

A. Steel Authority of India Limited (SAIL)

4.6 Steel Authority of India Limited operates and manages five integrated steel plants – Bhilai, Bokaro, Durgapur, Rourkela and Indian Iron Steel Company Limited, Burnpur, which is a wholly owned subsidiary of SAIL. SAIL also operates four special and alloy steel and ferro alloy units at Durgapur, Salem, Chanderpur and Bhadrawati.

4.7 Two main factors have adversely affected the functioning of SAIL. A significant decline of steel prices internationally resulted in corresponding reduction in domestic prices cutting into the profitability of the company. Secondly, the cost and time overrun of the modernization programme at Durgapur, Rourkela and

Bokaro Steel Plants has resulted in a high depreciation provision, making a further dent into the profits of SAIL.

4.8 A major rehabilitation programme is under way as a part of a comprehensive plan to ensure the long-term viability of SAIL through financial and business restructuring. The Cabinet approved the following in February 2000:

a) Financial restructuring of SAIL by waiving of loans advanced to it from Steel Development Fund to the value of Rs.5073 crore and Rs.381 crore from the Government of India.
b) Provision of 50% interest subsidy and guarantee for loan, and interest thereon, of Rs.1500 crore to be raised by SAIL from market to finance reduction in manpower through VRS.
c) Provision of government guarantee for loan, and interest thereon, of Rs.1500 crore to be raised by SAIL from the market primarily for meeting repayment obligation on past loans during 1999-2000.
d) Initiation of the process of divestment of the following non-core assets:
    (i) Power plants at Bokaro, Durgapur and Rourkela;
    (ii) Oxygen plant-2 of Bhillai Steel Plant;
    (iii) Salem Steel Plant, Salem;
    (iv) Alloy Steel Plant, Durgapur;
    (v) Visvesvaraya Iron & Steel Ltd., Bhadrawati; and
    (vi) Fertilizer Plant at Rourkela.
e) Conversion of IISCO into a joint venture with SAIL having a minority share-holding.

This is one of the largest restructuring proposals considered by government, involving an amount of Rs.8000 crore.

B. Rashtriya Ispat Nigam Ltd. (RINL) / Vishakhapatnam Steel Plant (VSP)

4.9 A project that was initially planned for 3.4 million tonnes of liquid steel per annum was subsequently scaled down to 3 million tonnes owing to financial constraints. Further, because of the inability to allocate funds as required, the commissioning of the project also got substantially delayed, leading to considerable escalation of cost. The company has from the beginning been running at a loss, which has progressively increased over time. Notwithstanding two exercises in financial restructuring undertaken in 1993 and 1998, the losses continue and are estimated to be Rs.530 crore in 2000-2001.

4.10 In view of the continuing losses of the company, government considered it necessary that the company develop a comprehensive turn around plan for ensuring its viability on a long-term basis. A comprehensive revival package has since been prepared, which includes extension of government guarantees to loans to be raised by the company for financing its extension and other essential investment as contemplated under the revival package, extension of government guarantee for working capital loans and write off of Rs.3597 crore accumulated loans against government equity over 4 years from 1998-99 to 2001-2002. Meanwhile, Disinvestment Commission recommended the writing off of the accumulated losses and simultaneous disinvestment of not less than 51% to a strategic buyer. While a final decision on restructuring-cum-disinvestment is yet to be taken, the draft on public resources persists through continuing losses.

C. Hindustan Steelworks Construction Limited (HSCL)

4.11 HSCL as a construction company was primarily engaged in the establishment of the various steel plants in the public sector. However, with the decline in investment in the steel Industry, the company was in no position to secure substantial orders for steel construction activities. Hence, it has diversified into other sectors like power, coal, oil & gas and also infrastructural facilities, like roads and highways projects, etc.

4.12 Recently, government has approved a capital restructuring-cum-financial assistance package for revival of HSCL. This revival package consists of:

(i) Conversion of plan loans amounting to Rs.97.10 crore into equity.

(ii) Grant of moratorium on repayment of and interest holiday on all non-plan loans of Rs.189.93 crore for 10 years.

(iii) Waiver of interest accrued and outstanding on all government loans, amounting to Rs.957.82 crore.

(iv) Grant of a non-plan loan of Rs.79.33 crore during 1999-2000 with moratorium on repayment and interest holiday for five years.

(v) Continuance of government guarantee for Rs.12 crore cash credit and Rs.80 crore bank guarantee facility, with waiver of guarantee commission of 1%.

(vi) Raising of Rs.318 crore by the company from banks for separating 2000 employees a year for a period of 3 years through VRS, with the government providing guarantee and full interest subsidy to HSCL for this purpose.

The above revival package is currently under implementation.

D. Bharat Refractories Limited (BRL)

4.13 This company has been incurring losses and was referred to BIFR. BIFR sanctioned a revival package consisting of financial relief to be granted by government, which includes waiving of interest accrued on loans, conversion of a part of plan loan into equity and conversion of non-plan loans into non-cumulative preference shares. However, this revival package did not meet with the requirement of the situation because of the slow down in the steel Industry resulting in the fall of demand for refractories. Therefore, a second revival package has since been sanctioned and implemented, which includes a grant of non-plan loan of Rs.4 crore and non-plan interest free loan of Rs.16 crore for meeting the working capital needs, along with interest holiday and moratorium on loan repayment for existing loans, and government guarantee for an enhanced working capital limit. Even so, the company is still operating at a loss and it is not clear whether it is ever likely to turn the corner.

E. Bird Group of Companies

4.14 Out of 21 companies under the Bird Group that were nationalised by government in 1980, 8 have been placed under the administrative control of the

Ministry of Steel. Of these, the two coal companies, namely, Burrakar and Borrea have become non-operational. Kumardhubi Fire Clay and Silica Works Ltd. having been declared sick is in the process of winding up on the basis of the recommendation of the BIFR. Eastern Investments Limited is an investment company. The remaining 4 companies, while still operational, are running at a loss for the last several years and government continues to find funds to keep them going.

5. Need For A Plan Of Action

5.1 As is evident from the foregoing, the performance of the public sector enterprises under the Ministry of Steel, barring those that are in the iron ore business, is far from satisfactory, with most of them incurring continuing losses. This is in spite of considerable injection of new funds, in addition to write off of past loans, interest holidays and conversion of loans into equity.

5.2 In order that the direct draft on the central budget is kept to the minimum, much of the restructuring programme involving several thousand crores of rupees has been funded largely through the mechanism of providing government guarantees to massive loans being raised by these companies from the market. No doubt, this has the advantage of keeping the fiscal deficit in the budget lower than what it would otherwise be if financial assistance were directly provided by the government. But indirect financing through funds raised by the PSEs in the market would be meaningful only if the moneys so raised for restructuring and rehabilitation of these enterprises eventually transform these loss-making companies into profit-making enterprises. Otherwise, government still carries the large risk of eventually having to find the funds to redeem the guarantees provided to these companies. From the performance so far, it is far from clear whether the injection of funds through this mechanism and the restructuring programmes which are currently under way will eventually lead to a happy situation where these enterprises become viable and be in a position to repay the loans raised by them. It is therefore necessary to put in place mechanisms (either through memoranda of understanding or other means) that will ensure that the expected returns after restructuring actually flow.

5.3 Out of the 12 enterprises under the Ministry of Steel only 4 namely, Kudremukh Iron Ore Company Limited (KIOCL), Sponge Iron India Ltd. (SIIL), MSTC Ltd. and MECON are slated for disinvestment. Two of these viz., MSTC and Sponge Iron India Ltd. have been referred to the Department of Disinvestment for disinvestment / privatisation. In the case of KIOCL, government has for the present deferred the disinvestment till the mining lease issues (extension of the present mining lease as also grant of additional mining lease) are sorted out. The mining lease issues are critical to sustain the continued operation of the company and, therefore, until these are sorted out, there is little possibility of undertaking any meaningful disinvestment programme.

5.4 The remaining 8 enterprises, along with Bird Group of Companies, which are also incurring losses, need to be dealt with not merely in terms of managing their current problems through injection of funds as hitherto. They also have to be scrutinised in a more fundamental way by examining the need to retain them in the public sector or of taking them out of the responsibility of the government through a process of disinvestment /privatisation and /or closure. To the extent that the current restructuring proposals that are under implementation can improve their balance sheets it will make these companies attractive for private investment. This, however, does not seem adequate. The approach should be one of finally disengaging these enterprises and getting them out of the responsibility of the government through disinvestment /privatisation and /or closure within the framework of the existing policy on public sector enterprises.

5.5 It is recommended that a plan of action on these lines be drawn up as an integral part of the strategy for dealing with the public sector enterprises under the Ministry of Steel, with a definite time frame within which to implement it. This alone can eventually bring about a significant reduction in the direct and indirect budgetary requirements and commitments of funds of the Ministry of Steel.

6. Restructuring of the Ministry

6.1 The direct expenditure of the Ministry of Steel on its establishment charges is relatively small at Rs.6.0 crore compared to Rs.420.0 crore to be provided to the public sector enterprises in 2000-01 (RE). Even this latter figure pales into insignificance when compared to the several thousand crores of rupees committed to the various restructuring proposals. Thus, while with the decontrol and de-licensing of the steel industry functions relating to planning and policy formulation of the steel industry have come down drastically, concerns relating to resolution of problems of the public sector enterprises would warrant retention, at least in the near future, of all the senior level functionaries – the Group A officials – in this ministry. However, the nature of the functions to be performed is such as to make this ministry ideally suited for the introduction of the desk officer system recommended by the Pay Commission. While this could lead to creation of more posts at the desk officer level, there would be a drastic reduction – at the Group C and D level.

6.2 The Commission understands that persons from JPC and perhaps other organisations under the ministry work in the ministry on an informal or other basis. Perhaps this practice also extends to use of equipment and other facilities. These are pernicious practices that need to be stopped forthwith. All requirements of additional staff and equipment should be justified in their own right; resort to such camouflaged use of resources is deprecated.

7. Office Of The Development Commissioner For Iron And Steel

7.1 The Ministry of Steel has an attached office, namely, the Development Commissioner for Iron & Steel (DCI&S), which has a very large staff of about 250 personnel of which over 210 are in the C&D categories. They account for a substantial draft on the government budget. This is an area where an immediate reduction on expenditure can be undertaken. Whereas the DCI&S at Kolkata, with its regional offices, played an important role in implementing the regulatory and distribution controls on steel in the past, the office has almost become redundant following the decontrol of the steel industry in January 1992.

7.2 Although government has retained five major customers under the priority category for allocation of iron and steel materials by DCI&S even after decontrol, namely (i) Railways, (ii) Defence, (iii) North Eastern States, (iv) EEPC and (v) Small Scale Industries Corporations, there has been in practice little need for governmental intervention for such allocation, thanks to the easy availability of steel through domestic production and free imports. In effect, DCI&S has merely a few limited functions like monitoring the state of the market, follow up of investment proposals and collection of statistics on iron and steel. The continuation of DCI&S for such limited activities can hardly be justified.

7.3 A committee set up by the Ministry of Steel under the chairmanship of B. Mallik, Director, Finance, in its report recently submitted to the ministry, has noted that, "an organization derives its sanction from the objectives set for it; but once such objectives have faded away……..…, there is no justification for its survival". It has come to the conclusion that, "the organisation of DCI&S has no substantial role to play in the iron and steel sector in the changing economic scenario" and that the best option for this organisation (DCI&S) in the present circumstances is to cease to exist.

7.4 The Mallik Committee has, however, recommended a phased winding up of the organisation and transferring of the residual functions to its sister organisation, viz., Joint Plant Committee. The Mallik Committee has proposed reduction of the staff strength from the present level of 251 to 105 (involving a reduction of 146) with immediate effect and the organisation to be finally wound up following a review after two years.

7.5 As the primary functions for which the DCI&S was created have ceased to exist, and since in the assessment of the Mallik Committee itself there is no justification for its (DCI&S's) survival, this organisation needs to be closed down straightaway, allowing a maximum of two months for an orderly winding up. All the posts in this organisation should be abolished immediately thereafter and the staff declared surplus and dealt with accordingly.

8. Joint Plant Committee (JPC)

8.1 The Mallik Committee set up by the Ministry of Steel had not gone into the functioning of the JPC as this was not referred to it, presumably because it is a non-official body drawing no budget support. However, considering that this organisation is closely linked in many ways with the DCI&S and is also managing a variety of funds constituted during the control regime, a review of the functioning of the JPC becomes necessary in the context of restructuring of the Ministry of Steel.

8.2 The Joint Plant Committee (JPC) was set up by the government as a non-official institution, through a notification in February 1964 for formulating guidelines for production and distribution of steel materials. Under a subsequent notification in April 1971, its decisions on its notified functions were made binding on the main producers and consumers. The functions of the JPC were:

(a) Coordination of work of the main producers with a view to evolving common procedures and action in regard to planning, dispatch and pricing of products and drawing up of rolling programmes;

(b) To assist Steel Priority Committee on dispatch and allocation of iron and steel;

(c) Reviewing the general market situation and fluctuation of free market prices, trends of production, movement and availability of iron and steel.

8.3 The JPC was thus an important link in the organisational mechanism for implementing the control on production, distribution and prices of iron and steel materials. Regional offices were set up primarily to assist the Regional DCI&S in matters such as collection and compilation of statistics etc. In 1983, an Economic Research Unit was set up at Delhi to assist the Ministry of Steel in evaluation of project investments, and for undertaking studies in tariff related issues, production costs, demand projections etc. Currently, the total staff strength of the JPC, including its regional and other offices is 265 of whom 205 are in position; one-third are in executive positions and the rest are supporting staff. The administrative overheads of this organisation are met out of the JPC Cess Fund and there is no government budgetary support.

8.4 With the easy availability of most of the iron and steel material, the control on production and distribution exercised by the government through JPC was relaxed from time to time. And with the virtual decontrol of the steel industry in 1992, the main functions hitherto carried out by JPC ceased to exist. JPC at present occupies itself primarily in such matters as maintaining a data bank on iron and steel industry, particularly on dispatches and sales of various categories of steel products by main producers, and also to an extent on similar data on secondary producers, and imports/exports of iron and steel. The data so collected with analytical reports as necessary, are then disseminated to official and non-official agencies. JPC also undertakes surveys, issues quarterly bulletins, organises seminars and other similar activities generally supporting the cause of the iron and steel industry.

Development and Other Funds

8.5 Over a period of time as many as 10 funds were set up in this sector for different purposes. The most important has been the Steel Development Fund set up in 1978 with a levy of Rs.350 to Rs.500 per tonne of steel produced. The fund was primarily for extending development loans to major steel producers for expansion, modernisation and infrastructure projects. While the levy was discontinued in 1994 and the present balance is only around Rs.12 crore, the main steel producers (SAIL and TISCO) owe over Rs.2500 crore to the fund. There has neither been repayment of the loan instalments nor interest payments on these loans so far.

8.6 There are virtually no transactions or balances now in the three funds – Import Pool Price Equalisation Fund and Iron Steel Freight Equalisation Fund. However, recovery of loans – about Rs.11 crore granted to SAIL from the first fund is still pending.

8.7 The Billet Development Fund, the Billet Pool Price Equalisation Fund, Engineering Goods Export Assistance Fund, and Iron and Steel Contribution Fund have been merged in the JPC A/c General Fund. A balance of Rs.236 crore is currently available in that fund. There is also a Contingency Reserve Fund with a very small balance.

8.8 The monies available in these funds total up to around Rs.250 crore and these are kept with commercial banks. While there are virtually no current transactions except for release of funds to the JPC towards its administrative overheads and for the setting up of the training institution at Rourkela, the loans extended from these funds which are still pending recovery are quite substantial at around Rs.2500 crore.

8.9 As in the case of the Office of Development Commissioner for Iron & Steel, the JPC also needs to be wound up. An association of steel producers, à la SCOPE or IBA, could undertake such research work and collection of statistics as is now being done by this organisation. All the officials working in the JPC and its various offices should be given a suitable golden hand shake, expenditure on which would constitute a legitimate outgo from the surpluses available in the JPC Cess Fund. A maximum of 3 months could be provided for completing the winding up process in an orderly manner. It is hoped that the steel producers would in the near future be able to form an association of their own and undertake such promotional activities as may be considered to be in their common interest.

8.10 As far as the various funds are concerned the non-recovery clearly indicates either that at the time of sanctioning of these loans the economic viability of the projects was not properly examined or that the recovery process has been totally slack. In the circumstances, an entirely new mechanism needs to be put in place to attend to both the utilisation of the balances of these funds and for effecting recoveries. Towards this end, it is recommended that these funds be transferred, by appropriate legislative or executive action as may be necessary, to the Public Account of the Government of India, and into a new separate Steel Development Fund. All balances in these funds as certified by the Comptroller and Auditor General be transferred into this newly created consolidated fund, which could be administered by a committee that could be chaired by Secretary (Steel) with

Additional Secretary and FA (Steel) as Member Secretary and with representatives of different interests of the steel industry as members. In regard to the loans earlier given and which are pending recovery an early assessment needs to be made in the ministry on the prospects of recovery, so that such amounts as could be recovered are indeed recovered early while the balance is written off. Clear guidelines would need to be drawn up by the steel ministry regarding the purposes for which these balances could be utilised, which could include common facilities, setting up training or research institutions etc.

8.11 As earlier mentioned, JPC has already been utilising these funds for financing various activities and programmes, including economic and statistical data collection, technological research, training programmes etc. With the abolition of the JPC, these should also cease to be JPC run or managed activities. It is hoped that the structures created by JPC for this purpose would be taken over by an association of steel producers. To the extent these activities fall within the guidelines, they should then be eligible to apply for financing from the new separate Steel Development Fund administered by the committee under the chairmanship of Secretary (Steel).

9. Summary Of Conclusions And Recommendations

9.1 The Ministry of Steel is responsible for the planning and development of iron & steel industry and played a key role in the rapid growth of the steel industry in the public sector. It also administered an elaborate system of controls on production, imports, supply and prices of steel products through the powers vested under the Iron and Steel Control Order.

9.2 However, with the decontrol of the steel industry in January, 1992 and the opening up of the steel industry to private investment, exposing the industry almost totally to a market regime, functions relating to planning and policy formulation of the steel industry do not take a great deal of time of the ministry; the major concern of the ministry currently relates to dealing with the resolution of problems of 12 public sector enterprises under its charge and management of a group of taken over companies(Bird Group).

9.3 As the major preoccupation of the ministry revolves around the functioning of the public sector undertakings, to what extent and how soon the Ministry of Steel can be reorganized and downsized will be determined largely by the measures taken to disengage the ministry's responsibility for these public sector enterprises.

9.4 The performance of these enterprises, on the whole, has shown a decline in recent years. With the exception of National Mineral Development Corporation and Kudremukh Iron Ore Company Ltd., which have shown consistently satisfactory performance, all other enterprises have either built up large losses – like Steel Authority of India (SAIL) and Rashtriya Ispat Nigam Ltd.(RINL) – or have remained at the margin for several years.

9.5 This has resulted in a substantial draft on the budget of the Ministry of Steel by way of subsidies, loans and grants to these enterprises to meet their losses.

9.6 This apart, government has undertaken commitments of a staggeringly large order by funding the massive restructuring programmes of some of these enterprises by standing guarantee to large loans agreed to be raised by them from the market. Thus, for example, the restructuring programme of SAIL involves an amount of Rs.8000 crore, that proposed for RINL involves writing off of almost Rs.3600 crore of accumulated loans and guarantee for raising further loans for expansion and working capital. In the case of Hindustan Steel Works Construction Ltd. (HSCL), a restructuring programme involving interest waiver and subsidy, moratorium on repayment of and interest holiday on loans, conversion of loans into equity and government guarantee for fresh loans to be raised from banks, amounting in all to a financial package of over Rs.1700 crore.

9.7 In order that the direct draft on the central budget is kept to the minimum, bulk of the restructuring programmes involving several thousand crores of rupees have been funded largely through government providing guarantees to massive loans being raised by these enterprises from the market. Indirect financing by way of PSEs raising funds from the market is meaningful only if funds so raised for restructuring and rehabilitation of these enterprises eventually lead to transforming these loss-making companies into profit making enterprises. From the performance so far, it is far from clear whether the injection of funds through this mechanism and the restructuring programmes which are currently under way will eventually lead to a happy situation where these enterprises become viable and be in a position to repay the loans raised by them. It is therefore necessary to put in place mechanisms (either through memoranda of understanding or other means) that will ensure that the expected returns after restructuring actually flow.

9.8 Of the 12 enterprises under the Ministry of Steel, only 4 are slated for disinvestment. The remaining 8 enterprises, along with the Bird Group of Companies, which are also incurring losses, need to be dealt with by examining whether there is a need to retain them in the public sector and whether these cannot be taken out of the responsibility of the government through a process of disinvestments /privatisation and /or closure within the framework of existing policy on public sector enterprises. It is recommended that a plan of action on these lines should be drawn up with a definite time frame within which to implement it.

9.9 This alone can eventually bring about a significant reduction in the direct and indirect budgetary requirements and commitments of funds of the Ministry of Steel.

9.10 Even so, there is still considerable room for restructuring the ministry and bringing about a substantial reduction in the size of the ministry and its attached office, namely, the office of the Development Commissioner for Iron & Steel (DCI&S) at Kolkata.

9.11 The ministry has a staff strength of 290 of which two thirds are in the category of C&D posts. While the concerns relating to resolution of problems of public sector enterprises would warrant retention, at least in the near future, of all the senior level functionaries – the Group A officials -there is little in the nature of routine functions requiring a large complement of low-level staff. The nature of functions to be performed is ideally suited to an officer-oriented administration. This being so, it should be possible to make a drastic reduction in the C&D categories.

9.12 The Commission understands that persons from JPC and perhaps other organisations under the ministry work in the ministry on an informal or other basis. Perhaps this practice also extends to use of equipment and other facilities. These are pernicious practices that need to be stopped forthwith. All requirements of additional staff and equipment should be justified in their own right; resort to such camouflaged use of resources is deprecated.

9.13 This apart, the DCI&S has a very large staff of about 250 personnel, of which 210 are in the C&D categories. Whereas the DCI&S at Kolkata, with its regional offices, played an important role in implementing the regulatory and distribution controls on steel in the past, the office has almost become redundant following the decontrol of the steel industry in January 1992. Since the primary functions for which the DCI&S was created have ceased to exist, there is clearly no justification for maintaining it; it needs to be closed down straightaway, allowing a maximum of two months for an orderly winding up. All the posts in this organisation should be abolished immediately thereafter and the staff declared surplus and dealt with accordingly.

9.14 The Joint Plant Committee (JPC) set up by the government, as a non-official body, through a notification issued in February 1964 also had a significant role, along with DCI&S, in administering production and distribution control on steel products. Currently, the total staff strength of the JPC is 265 of whom 205 are in position. As in the case of DCI&S, the main functions hitherto carried out by JPC have ceased to exist after the decontrol of the steel industry in 1992. For the same reasons, as in the case of Office of Development Commissioner for Iron & Steel, the JPC also needs to be wound up. An association of steel producers, à la SCOPE or IBA, can undertake such research work and collection of statistics as is now being done by JPC. All the staff working in the JPC and its various offices should be given a suitable golden handshake, expenditure on which would constitute a legitimate outgo from the surpluses available in the JPC Cess Fund. A maximum of 3 months could be provided for completing the winding up process in an orderly manner.

9.15 The JPC has also been administering and maintaining different funds which were created for various purposes during the control regime. Contributions to most of these funds have since ceased. The monies available in these funds as of now, total up to around Rs.230 crore. With the winding up of the JPC, it is recommended that these funds be transferred, by appropriate legislative or executive action as may be necessary, to the Public Account of the Government of India, and into a new separate Steel Development Fund. All balances in these funds as certified by the Comptroller and Auditor General be transferred into this newly created consolidated fund, which could be administered by a committee that could be chaired by Secretary (Steel) with Additional Secretary and FA (Steel) as Member Secretary and with representatives of different interests of the steel industry as members. Clear guidelines would need to be drawn up by the steel ministry regarding the purposes for which these balances could be utilised.

9.16 JPC has already been utilising these funds for financing various activities and programmes. With the abolition of the JPC, these should cease to be JPC run or managed activities. It is hoped that the structures created by JPC for this purpose would be taken over by the association of steel producers. To the extent these activities fall within the guidelines, they should then be eligible for financing from the new separate Steel Development Fund administered by the committee under the chairmanship of Secretary (Steel).

9.17 With the work relating to planning and policy formulation of the steel industry having already come down drastically and with the suggested abolition of the office of the Development Commissioner of Iron and Steel and the winding up of the JPC, the Steel Ministry's work will revolve essentially around overseeing the implementation of the restructuring of some of the undertakings and disinvestment in the others. The question therefore arises whether "Steel" should continue as a separate ministry or whether this can be merged with another ministry/department with somewhat similar activities. The ERC will be making necessary recommendations in this regard in one of the subsequent reports.

Appendix I

Public Sector Undertakings under the Ministry of Steel

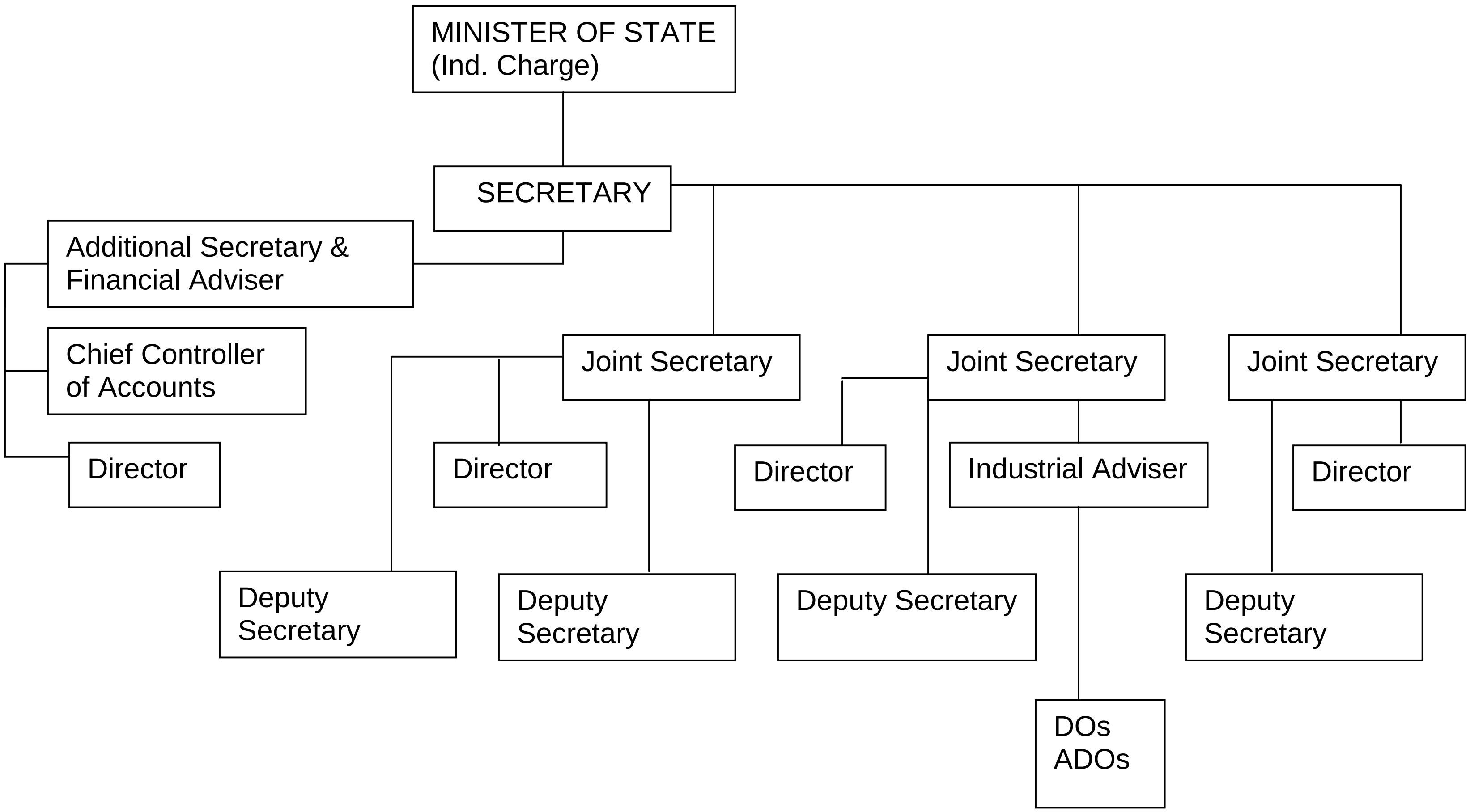
1. Steel Authority of India Ltd. (SAIL).
2. Kudremukh Iron Ore Company Ltd. (KIOCL).
3. National Mineral Development Corporation Ltd. (NMDC).
4. Hindustan Steelworks Construction Ltd. (HSCL).
5. MECON Limited.
6. Manganese Ore (India) Ltd. (MOIL).
7. Sponge Iron India Ltd. (SIIL).
8. Bharat Refractories Ltd. (BRL).
9. Rashtriya Ispat Nigam Ltd. (RINL).
10. MSTC Ltd.
11. Ferro Scrap Nigam Ltd. (FSNL).
12. Kudremukh Iron and Steel Company Ltd. (KISCO).

Government Managed Undertakings

Bird Group of Companies.

Appendix II

ORGANISATIONAL CHART OF MINISTRY OF STEEL



Appendix III

Statement showing the number of employees in position in the Ministry of Steel

Classification of Post	Number of employees in position
A	46
B	75
C	96
D	73
Total	**290**

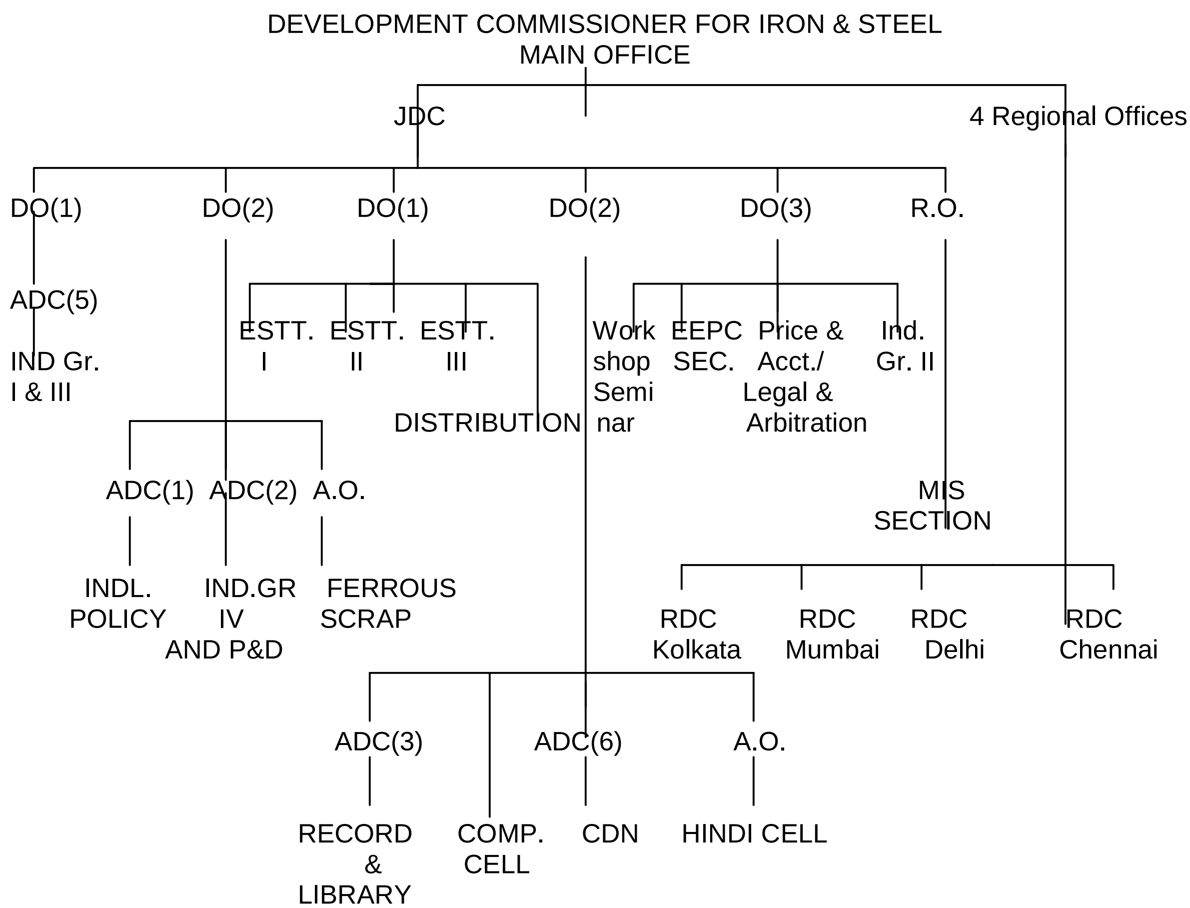
Statement showing the number of employees in DCI&S and its regional offices

Classification of Post	Sanctioned strength	Employees in Position
Group A	16	12
Group B	27	27
Group C	154	146
Group D	71	66
Total	**268**	**251**

Appendix IV

Office of the Development Commissioner for Iron and Steel

ORGANISATIONAL CHART



Appendix V

Ministry Of Steel & Attached Office

Staff Strength (Sanctioned)

According to Pay Research Unit (Ministry of Finance)		According to Expenditure Budget 2000-2001 (Vol.I) Annexure 7
Group A (Gazetted)	50	======== 602 ========
Group B (Gazetted)	71	
Group B (Non Gazetted)	59	
Group C	298	
Group D	164	
Unclassified	-	
Total :	========= 642 =========	

Appendix VI

PROFIT/LOSS AFTER TAX

(Rs. in Crore)

	1996-97 (Actual)	1997-98 (Actual)	1998-99 (Actual)	1999-2000 (RE)	2000-01 (BE)
	(1)	(2)	(3)	(4)	(5)
1.SAIL (Excluding Subsidiaries)	515.17	132.99	(-)1573.66	(-)2199.00	(-)1450.00
2. RINL/VSP	(-)245.94	(-)176.73	(-)457.18	(-)470.24	(-)530.69
3. SIIL	(-)1.30	(-)3.36	(-)9.64	(-)10.39	(-)7.85
4. HSCL	(-)132.57	(-)224.65	(-)281.58	(-)172.06	(-)123.72
5. BRL	(-)12.19	(-)20.75	(-)41.61	(-)20.98	(-)7.20
6. MECON	8.40	1.67	(-)11.17	(-)13.70	5.40
7. MSTC	2.30	1.83	2.15	2.45	2.60
8. FSNL	9.59	11.18	10.41	9.61	8.50
9. NMDC	129.99	175.01	140.40	114.60	114.30
10. KIOCL	72.38	81.82	18.53	64.22	66.28
11. MOIL	13.30	14.22	13.72	7.58	7.54
12**. BIRD GROUP OF COMPANIES**					
(a) OMDC	0.43	(-)4.74	(-)3.68	(-)5.35	(-)6.70
(b) BSLC	(-)14.77	(-)22.24	(-)26.71	(-)24.52	(-)25.54
(c) KDCL	(-) 0.56	(-)0.29	(-)0.33	(-)0.35	(-) 0.31
(d) SSL	(-) 1.36	(-)1.39	(-)1.35	(-) 1.82	(-) 1.92

Appendix VII

DIVIDEND PAID BY PSUs OF THE STEEL MINISTRY

(Rs in Crore)

PSU	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-2000**
SAIL	233.95	88.62	45.43	0.00	0.00
IISCO	0.00	0.00	0.00	0.00	0.00
RINL	0.00	0.00	0.00	0.00	0.00
MECON	80.60	72.60	0.59	0.00	0.00
HSCL	0.00	0.00	0.00	0.00	0.00
BRL	0.00	0.00	0.00	0.00	0.00
BIRD GROUP	0.00	0.00	0.00	0.00	0.00
MOIL	2.50	2.50	3.07	3.07	3.07
NMDC	26.43	26.43	33.04	33.04	33.04
KIOCL	20.41	20.41	22.21	15.87	22.21
MSTC	0.00	0.00	0.44	0.55	0.73
TOTAL	364.28	210.95	104.78	52.53	59.05

Appendix VIII

Budget for 2000-2001 and 2001-02
of the Ministry of Steel, IISC, HSCL, SAIL etc.

Non-Plan

(Rs. in Crore)

	Description	BE 2000-01	RE 2000-01	BE 2001-02
1	Secretariat of the Ministry	6.69*	6.47*	6.70*
2	Development Commissioner for Iron & Steel Orgn. for Tariff and Price Regulations	3.63	3.51	3.49
3	Subsidy to Hindustan Steelworks Constn. Ltd. for payment of interest on loans raised from Banks for implementation of VRS	33.45	27.00	35.00
4	Subsidy to Hindustan Steelworks Constn. Ltd. for waiver of Guarantee Fee for the Guarantee given by GOI for Cash credit and bank guarantee	0.92	0.92	0.92
5	Subsidy to Steel Authority of India Ltd. for its subsidiary, India Iron & Steel Authority Ltd. for waiver of GOI loans and interest thereon	0.00	381.00	0.00
6	Subsidy to Steel Authority of India Ltd. for payment of interest on loans raised from Banks for implementation of VRS	0.00	0.00	16.25
7	Awards to Distinguished Metallurgists	0.05	0.05	0.05
8	Lump Sum Provision for North Eastern Region & Sikkim	1.50	0.00	0.00
	TOTAL	**46.24**	**418.25**	**62.41**

* This includes budgetary provision for Information & Technology as detailed below:

2000-2001 (BE)	2000-2001 (RE)	2001-2002 (BE)
0.15	13.50	11.00

Non Plan Loan to PSUs under Capital Section

The details of Non-Plan loans extended to some of the loss making companies to enable them to meet the expenditure for payment of salary, wages, wages and statutory dues are indicated below:

Rs. Crore

	2000-01 B.E	2000-01 R.E	2001-02 B.E.
Bird Group of companies	4.00	2.00	2.00

Plan Loan to PSUs under Capital Section

The details of Plan assistance to the PSUs under the administrative control of Ministry of Steel are given below:

Rs. Crore

S.No. PSUs	2000-01 B.E	2000-01 R.E.	2001-02 B.E.
1. Bharat Refractories Ltd.	*4.00	3.50	*4.00
2. Bird Group of Cos.	4.00	3.00	1.00
3. Sponge Iron India Ltd.	3.00	1.00	3.00
4. Hindustan Steelworks Constructions Ltd.	2.50	2.50	4.00
5. MECON Ltd.	0.00	0.00	2.00
Total	**13.50**	**10.00**	**14.00**

*Includes Equity of Rs.0.50 crore.