CHAPTER - II

Organisational Structure and activities of the Corporations

The present chapter has been devoted to analyse the organisational structure of the Corporations under review and highlight their activities. Section I of the chapter broadly pertains to organisational structure of the corporations; section II deals with the project promotion activities whereas the project financing activities have been discussed in section III; and section IV includes the specific activities of the individual Corporations.
 SECTION - 1

Introduction

Modern society is the result of evolution and has passed through several stages of growth and development. It has rightly been termed as “organisational society” and its population as “organisational man”\(^1\). The significance of organisation cannot be over emphasised as “we born in organisation, educated by organisation and most of us spend much of our lives working for organisations, we spend much of times paying, praying and playing organisation, most of us will die in an organisation and when the time comes for burial, the highest organisation of all, the state must grant official permission”\(^2\). Moreover, “without well run organisations, our standard of living, our level of culture and our democratic life could not be maintained. Thus, to a great degree, organisational rationality and human happiness go hand-in-hand”\(^3\).

An organisation is defined as a cooperative social system involving the coordinated efforts of two or more people pursuing a shared purpose\(^4\). In other words, when people gather and formally agree to combine their efforts for a common purpose, an organisation is the result. Although, most people think that they have an idea of what ‘organisation’ means, in the more rigorous field of scientific terminology

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3 Ibid., p. 2
things are much less simple. Organisation can also be defined as “the frame-work for developing a communication channel by which manager can coordinate, direct and control activities of an operation for achieving the desired goals and objectives". Further more, organisation is a “structure developed for carrying out the tasks entrusted to the chief executive and his subordinates”. Administrative organisation involves job analysis and allocating suitably the work to be accomplished, to individuals, teams and departments and then synchronising their activities into a harmonious whole. Therefore, organisation facilitates the achievements and goals through the establishment of relationship between authority and responsibility. “It (organisation) is a system where people together with physical resources, combine through hierarchy of ranks and division of labour to achieve a common predetermined goal or purpose”. Organisation can also be viewed as “a planned system of cooperative efforts on which each participant has a recognised role to play and duties and tasks to perform”. Therefore, organisation is “the pattern of relationships between persons in an enterprise, so contrived as to fulfil the enterprise’s function”.

Careful analysis of the various definitions lead to the following characteristics of an organisation:

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7 F.M. Marx (Ed.), Elements of Public Administration, New Delhi, Prentice Hall of India, 1964, p. 16.
a) it is a group of individuals;
b) the group works under the direction of executive leadership;
c) it is a mechanism of management;
d) it has some directing authority;
e) the division of labour, power and responsibilities are deliberately planned;
f) refers to a structure of duties and responsibilities;
g) it is established for accomplishment of common objectives; and
h) it is a functional concept\textsuperscript{11}.

To sum up, it can be said that organisation is a combination of necessary human-beings, tools, materials, equipment, working space etc., brought together in sympathetic and effective correlation to accomplish some desired objectives. It is clearly noticed from the definitions that organisation is not merely a structure. Besides this, it embraces the human-being also, who run the structure to achieve the predetermined goals. An organisational structure can be defined as a way in which an organisation is built up, the way in which relations and relationships between people in an organisation are more or less regulated. Structure formation could be seen as a process of generating and recreating meaning, one in which organisational members wish to secure their 'provinces of meaning'\textsuperscript{12}. Structure may be considered as the established pattern of relationships among the components or part of the organisations. However, the structure of a social system is not visible in the same way as a biological

or mechanical system. It cannot be seen but is inferred from the actual operations and behaviour of the organisation.

There is a direct relationship between organisational structure and the pattern of authority. In fact, many traditionalists made the underlying assumption that the authority relationships were synonymous with the organisational structure. In as much as structure is concerned with the establishment of the positions and the relationships between the positions, it does provide the framework for authority relationships. However, the authority pattern is just one part of the total structure. Authority refers to a relationship between the participants in the organisation and is not an attribute of one individual. The authority structure provides the basis for assigning tasks to the various elements in the organisation and for developing a control mechanism to ensure that these tasks are performed according to plan. It provides for the establishment of formalised influence transactions among the members of the organisation.

A typical way of depicting the structure is through organisational charts which specify the formal authority and communication networks of the organisation. An organisational chart is a diagram of an organisation’s official positions formal lines of authority. In effect, an organisational chart is a visual display of an organisation’s structural skeleton. With their familiar pattern of boxes and connecting lines, these charts (called tables by some) are a useful management tool because they are an organisational blue print for developing human resources. Every organisation chart has two dimensions, one representing vertical hierarchy and one representing horizontal

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specialisation. Vertical hierarchy establishes the chain of command or who reports to whom; horizontal specialisation establishes the division of labour. The organisational chart provides a useful starting point for the investigation of structure. Its inaccuracy generally lies in its simplicity and in its lack of consideration of many other important aspects of the structure. "It usually errs by not reflecting the nuances of relationships within the organisation; it usually deals poorly with informal control and informal authority, usually under estimates the significance of personality variables in molding the actual system, and usually exaggerates the isomorphism between the authority system and the communication system".¹³

The organisational structure of the corporations under review has been discussed in the following paragraphs through the chart-2.1 to chart-2.5, which shows the line of authority and responsibility in these organisations.

Generally, there are three types of boards- functional, policy and a mix of both.

i) Policy making board- the members of such a Board are part-time except the chief executive who may be a full-time Chairman or Managing director.

ii) Functional board- the members of such a Board are full-time and have specific responsibilities for different subjects like finance, personnel, production, and marketing.

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Chart - 2.1: Organization Chart of PSIDC
Chart -2.2: Organization Chart of HSIDC

Board of Director

Managing Director

Infrastructure Planning Cell
D.T.P. & Supporting Staff

Supporting Staff
AM-1, Asstt -1
Steno Girl-1
Peon-1

Supporting Staff

Executive (PR)-1
Sr. Comm. Artist-1
Peon-1

Secretary
AGM cum Co Secy.

Public Relations
Dy. Mgr-1

Supporting Staff

Oy. Mgr-1
AM-1

Managers (LagaO
AGM (L)

Personnel & Admin.
G.M.

Supporting Staff

O.G. M.

Sr. Managers (P)
Internal Audit Cell
AddlGM (F)

Manager (Legal)

Library
Sr. Librarian

Library

Peon-1

Supporting Staff

Sr. Manager -3
AGM-cum-EO-2
A.G.M. (F)

Sr. Manager -5
AGM(T)

Manager (IA)

Manager -5

Supporting Staff

Sr. Managers

Supporting Staff

Manager -5

Supporting Staff

Managers

Supporting Staff

Supporting Staff

Public Deposit Cell
Management Trainee

Sr. Manager (F)

Supporting Staff

Legal Cell

AGM(L)

Managers (Legal)

Management Trainee

Supporting Staff

Sr. Manager -2
Supporting Staff

Sr. Manager - 2

Manager (Legal)

Group Engineer

Sr. Manager

Manager (Legal)

Supporting Staff

Dy. Mgr-1
AM-1

Supporting Staff

[D.G.M.]
Chart 2.4 Organizational Chart of HPSIDC

Board of Directors

Managing Director

Project promotion development
Industrial Finance Development
Personnel Department
Engineering Wing
Accounts Department

Industrial Advisor
Senior Manager (F & A)
Sr. Manager (Personnel)
Secretary
Supdl. Engineer
Senior Manager (F & A)

Manager (Mech)
Manager (Recovery & Monitoring)
Manager (Project)
Manager (Project)
Dy. Manager (Personnel)
Asst. Secy.
Asst. Engineer
Architect
Assistt. Engineer
Dy. Manager (F & A)

Staff
Dy. Manager (F&A)
Staff
Assistant Architect & Staff
Dy. Manager (Engg. Wing) & Staff
Divisional Accountant & Staff
iii) The mixed Board- which has both part-time and full-time Directors, the later having specific responsibility for some of the subjects.\textsuperscript{14}

The functioning also of these corporations is controlled by the BODs headed by the Chairman who controls all the aspects of the working of the corporations. The number of the Directors and criteria of their appointments differ from corporation to corporation. All corporations have moreover a similar type of board except DSIDC. For instance, in DSIDC, the Lieutenant Governor of Delhi constitutes the BODs by nominating members from various concern departments and other organisations. All Directors are appointed by the President of India. The number of directors of the corporation cannot be more than nine and less than two, however, the number of directors can be increased only by a general body meeting of the boards.

The BODs of DSIDC consists of a Chairman who is a non-official, Managing Director, two MLAs of the Government of NCT Delhi, Commissioner Industries, Director of Small Industries Service Institute, Secretary Finance Government of NCT Delhi, Chairman-cum-Managing Director Delhi Financial Corporation and Joint Secretary Ministry of Industry Government of India. The Director holds office at the pleasure of their appointing authority i.e. the President of India or until their office become vacant in terms of the provisions of Section 283 of the Act\textsuperscript{15} whichever is earlier and they are not liable to retirement by rotation.\textsuperscript{16}

It can be observed that the other corporations are having a policy board in which the State Governments have been appointing officers as its members. For example,

\textsuperscript{14} B.P.Mathur, Public Enterprise Management, MacMillan India Limited, New Delhi, 1993.

\textsuperscript{15} Whatever is earlier.

\textsuperscript{16} Retirement by rotation.
Secretaries for Industries and Finance are appointed on the Board of Directors of these corporations. They perform functions of the board in addition to their duties and responsibilities of the position, which they hold under the government. They formulate the general policy as a whole and the implementation is left to the Managing Director.

The MD of any corporation acts as the Chief Executive. The MD in the functioning of the corporation holds a critical position. In the meeting of the corporation, he represents the whole management and also represents the BODs while managing the affairs of the corporation. At the boards meeting he is also responsible for laying down the policies for the corporation as well as outside the board he implements the policies and run the administration of the corporation. In DSIDC the appointment and choice of the incumbent is limited as the appointing authority is the Delhi administration and the cadre controlling authority (for UT cadre) is the Ministry of Home Affairs. In other corporations the respective state governments appoint the MDs from the senior IAS officers of the state. However, in case of PSIDC, a post of Additional MD has been created where a specialist is appointed from within or outside the corporation. There are Executive Directors below the Managing Directors in case of Punjab and Haryana who are the heads of some department or division.

The post of General Manager (G.M) exists below the MD of the Corporation, which is existing only in case of Haryana, Delhi and Jammu and Kashmir. In HSIDC, there were two GMs in the divisions of Industrial Area and Projects and Planning whereas the personnel and Administration division was under an Additional GM but

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15 Section 283 of the Companies Act, 1956.
recently the post of GM has been created for this division\textsuperscript{17} with restructuring three new divisions of Merchant Banking & Appraisal, Disbursement & Recovery and Information Technology division. In DSIDC, the General Manager is in-charge of various activities, which are also grouped into divisions. In the beginning there were five General Managers and all of them were drawn from the Indian Administrative Services. Later on, their number was reduced to three and at present there is only one GM who is drawn from Dehli, Andaman Nicobar Island Civil Services and there is no fixed tenure for them. In case of JKSIDC there are two GMs who are managing and responsible for two different offices at Srinagar and Jammu and both of them are having almost same hierarchical staff downwards. In DSIDC and JKSIDC, the GMs constitute the second line of management unlike PSIDC and HSIDC where Executive Director is supposed to be above the GMs.

\textit{Investment and Finance Division (I &FD)}

In case of PSIDC and HSIDC, the division is headed by an Executive Director (ED) and further assisted by Deputy General Managers (DGMs), Assistant General Managers (AGMs), Senior Managers (SMs), Managers and other supporting staff down in the hierarchy. In DSIDC, a Financial Advisor is at the apex of this division and is responsible for the Accounts division. In HPSIDC, a SM heads this division who is further assisted by three Managers and a Deputy Manager (DM) whereas in case of JKSIDC, the division is controlled by a Finance Manager assisted DM Finance

\textsuperscript{16} Memorandum and Articles of Association of DSIDC, 1976, pp.1-6.
and other subordinate staff. This division is concerned with the work pertaining to investment, term loans and other financial assistance given by these SIDCs under various schemes.

**Project Promotion Division (PPD)**

The PPD division in PSIDC is headed by an Executive Director (ED), whereas in HSIDC it is controlled by a GM. In both the SIDCs the heads are supported by the DGMs, AGMs, and Managers generally who are technocrats or specialists in different disciplines of engineering and technology. In DSIDC, there is no such division as this activity is not undertaken by the corporation. In HPSIDC, an Industrial Advisor (IA) who is further assisted by two Managers with other supporting staff heads the division. A deviation from this trend is worth mentioning that in JKSIDC where this division is headed by a Project Manager (Constructions) further assisted by Assistant Manager (Civil) and Junior Engineers with other subordinate staff. This division is mainly concerned with promoting viable industrial projects in the medium and large scale sectors in their respective states.

**Personnel and Administration Division (P&AD)**

This division looks after all the affairs of general administration of the respective corporations. It maintains the service record and personal files of the officers/officials besides, taking care of the recruitment, appointments and promotions

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17 Minutes of the 238th Board Meeting of HSIDC held on 4.6.1999.
of the employees. It is also entrusted with the task of general maintenance of the building and other properties of the corporations. In PSIDC and HSIDC, this division is known as Administrative Division, which is headed by an Addl. GM and Personnel and Administration division headed by a GM (until 4.6.99 the division was headed by an AGM) respectively. It is worth mentioning that the Legal Division in case of HSIDC is under the purview of the GM (P&A), whereas in other corporations the Secretarial Division is entrusted with the legal works. In case of DSIDC the aspects personnel, general administration and security are headed by three different Divisional Managers (DMs) who are subordinate to the GM. In case of HPSIDC, a Senior Manager (SM), assisted by Manager and other administrative staff, whereas in JKSIDC, the division is headed by a Deputy Manager and the other supporting staff manages this division.

Accounts Division (AD)

The AD is headed by a DGM in case of PSIDC and HSIDC further assisted by Asst. GM, Sr. Manager and Managers with other supporting staff. In case of DSIDC, the division again comes under the Financial Advisor and this division is named as Commercial Accounts and Internal Audit which is handled by a Chief Account Officer (CAO). In HPSIDC, the division is headed by a senior manager whereas in JKSIDC it is headed by a deputy manager further assisted by the subordinated staff.
Secretarial and Legal Division

In PSIDC the division is headed by an Executive Director and Secretary further assisted by a senior secretarial-cum-legal assistant and other staff. In HSIDC, it is headed by an Asst. GM-cum-co-secretary whereas in DSIDC, a Estate officer & secretary with a Deputy manager (legal). In case of HPSIDC there is no such wing whereas in JKSIDC the division is headed by a Deputy manager (legal) with other subordinate staff. this division provides secretarial and legal assistance regarding company law etc. to the unit assisted or promoted by the Corporations.

Estate Division

In PSIDC this division does not exist as the Corporation is not involved with the activity of developing industrial estates in Punjab. In HSIDC, the division is headed by a Addl. GM further assisted by estate officers, Sr. managers, managers and other administrative staff whereas In DSIDC, the activity is undertaken by the Industrial Estates & QIS division, which is headed by a PME. There is no such division in HPSIDC whereas in JKSIDC, this activity is headed by an electrical engineer.

Public Relation Department

Every organisation has a public relation officer (PRO) who is responsible for communicating outside with other companies or organisations. In HSIDC, the division
is headed by a Deputy GM whereas in DSIDC it is controlled by a divisional manager (publicity).

**Miscellaneous Departments of DSIDC**

Among the five organisations under study only DSIDC has some distinct functions which are discussed in section IV of this chapter. The main activities including sale of Indian made foreign liquor (IMFL), Dehli State Emporium and Trade Centre, Export Promotion, Exhibitions, Narela Industrial Complex, Community work centres, Marketing etc. Most of the activities have grouped in different division and these divisions by and large are under the General Manager and a few which are under the Chief Engineer who is also parallel to the GM as evident in the organisational chart of the DSIDC. These divisions are headed by Divisional Managers, Deputy Managers and other administrative staff.

Operational activities of the corporations involve a great deal of autonomy and flexibility that are needed for commercial and industrial enterprises. The company form of organisation suits the needs of flexibility required and it strikes a balance between autonomy and legislative control under the provisions of the companies Act. The present organisational set-up which the corporations have clearly demarcated the duties and responsibilities of each division. The divisional head is delegated with sufficient authority, which is commensurate with the activities of each division. The divisional heads directly report to the Managing Director who coordinates the various activities of the corporation. Moreover, it goes to the credit of the corporations that
there is separation of the office of the Chairman and Managing Director. It shows the futuristic projections of the government for the conflict free management of the corporation. But at the same time, the corporations have failed to make any worthwhile provision for more association of experts in various fields, though they have associated one industrialist on the Board. In order to improve upon the working of the corporations more experts need to be associated. These experts may be associated on part-time basis and be drawn from diverse fields of finance, law, management, etc. The discussion in the preceding pages reflects that the governing board of the corporations is dominated by generalist IAS. Discussions with some of the board members revealed that most of the time they found it difficult to devote sufficient time to the affairs of the corporation as they are already over burdened in their positions under the government. The over staffing of the board with official members seem to have resulted in governmental influence permeating indirectly in the whole decision making process of the corporation. Besides this, the persons who come from different offices seldom develop a sense of loyalty for and identification of interest with the enterprise. Moreover, as the members do not enjoy any fixed tenure and by virtue of their official positions are replaced as soon as they are transferred to other Government positions. This has resulted in some degree of instability in the board. In this regard, it is suggested that the recommendations of the ARC and the Committee on Public Undertakings, seeking option from the IAS working in these enterprises need to be further considered. It is felt that the officials who decide once
for all to opt to remain in public undertakings will be committed to the organisation and can develop further by having a more business-like approach.

SECTION - II

PROJECT PROMOTION ACTIVITIES:

I  Projects in Public Sector

The corporations viz. PSIDC, HSIDC and HPSIDC promote projects in public sector as and when required by the policy guidelines and decisions of central or state governments. The public sector projects are also promoted where in the opinion of any corporation, a particular project is important for the industrial development of particular state, where the corporations have already obtained a letter of intent/registration from Government of India but is unable to find a suitable co-promoter in the joint/assisted sector and in an event where the co-promoter backs out, in such cases the project is adopted as a subsidiary company till a suitable promoter is identified.

For initiating the project in the public sector a company is incorporated and the corporation holds a majority of its shares. Though, in some cases, these corporations are required to share the part of the equity in the project, on the direction of the Government or AIFIs while sanctioning the loans. In such cases, these particular corporations share the equity with other government company.
II Projects in Joint/Assisted Sectors

In view of the reluctance of private entrepreneurs to establish industrial projects in Punjab, Haryana and Himachal Pradesh, the respective SIDC undertake the vital role of entrepreneurial institution to broaden the base of industry and to infuse confidence in the private investor. In such case, these corporations make effort to acquire letter of intent/registration from Government of India for feasible projects and for which it is granted, are implemented in joint/assisted sector. In order to elicit response from the prospective promoters or collaborators, these corporations advertise the proposal in the press. On the selection of the collaborator and signing of an agreement, with any of these corporations, a public limited company is incorporated. In case the project is initiated in the assisted sector, the respective corporation participates in equity share capital to an extent which may vary from 1% to 15% on a case to case basis, taking into account the financial resources of the co-promoters, priority and importance of the project etc.

Finance is generally released in such cases after the sanctioning of loans to the company by AIFIs. To safeguard their interest, the SIDCs appoint a nominee director on the Board of Directors of the assisted unit if the shareholding is limited to 10 per cent. And if the shareholding is 15 per cent, the corporation can appoint two nominee directors on the Board of Directors of the company.

A project is taken up in the joint sector only if the co-promoter is not available in the assisted sector. These corporations call for joint collaboration for such projects through an advertisement, while selecting the co-promoter, preference is generally
given to technical entrepreneur and Non-Resident Indians (NRIs). In the joint sector, PSIDC, HSIDC and HPSIDC shares 26 per cent of the equity, whereas private promoters hold not more than 25 per cent and the remaining 49 per cent is left to mobilise through a public issue. The company coming up in the joint sector is assisted by the respective corporation in obtaining all official sanctions, license, permits, consents etc. A board of Directors of the incorporated company has representations of both the parties, that is, corporation and the private collaborator, the board of the company consists of not less than three and not more than 12 Directors excluding the Director nominated by AIFIs, banks and debenture Directors. Chairman of the joint sector company is nominated by the Managing Director is usually the nominee of the private collaborator appointed with the concurrence of the corporation. This pattern is in consonance with the basis idea underlying the concept of joint sector that "...joint sector is a combination of joint ownership, joint control and professional management, Government through such an instrument can, inter-alia, curb the concentration of economic power, exercise social control over industry, accelerates industrial growth and mobilise resources, by creating a new class of entrepreneur".

The agreement of the joint sector continues to remain in force so long as the corporation holds only shares in the equity capital of the company. In case, there is any over-run in the project cost, it is the responsibility of the collaborator to arrange

19 Joint-Sector Projects, 'Concepts, Problems and Prospects', (proceedings of a seminar), New Delhi, Management Development Institute, pp.49-50.
the necessary funds. Further in such cases, if equity is to be enhanced, it is the responsibility of the collaborator\textsuperscript{20} to arrange for the same.

To accelerate the industrial growth in these States, these corporations if approached by an entrepreneur who initiates the idea of an industrial venture even before the issue of letter of intent/registration, these corporations in such cases enter into a prior understanding on the preconditions\textsuperscript{21}, that the project idea must be new and so far not been investigated by the corporation, the project requires an Industrial license and its estimated cost i.e. Rs. 3 crores or above and the entrepreneur satisfies the particular corporation about his managerial and financial capabilities. The corporation in such cases makes an in-depth investigation of the proposal and approaches the Government of India for the letter of intent/registration at its own cost. However, if any initial expanses are required for getting a feasibility/detailed project, or market survey report etc. prepared from the consultant, the cost is shared with the entrepreneur on 50:50 basis.

On obtaining the letter of intent/registration an agreement between the two parties is signed and the project is initiated in either joint or assisted sector. A public limited company is incorporated to which letter of intent/registration is transferred. The tenure of the said agreement is two years or till the date of sanction of term loans by the AIFIs, whichever is earlier\textsuperscript{22}.

\textsuperscript{20} Printed Pamphlets of PSIDC, HSIDC and HPSIDC on Joint/assisted sectors.
III Disinvestment Policy

In view of their primary sole as a catalyst for promoting investment in the industrial project in the states (Punjab, Haryana and H.P.), these corporations acquire the share holdings in large number of units. It is, however, not desirable for the corporations to engage themselves indefinitely in the working at the industrial units for the sake of earning profits. It is in this regard, that the department of Industries and IDBI stressed the need and desirability for rolling over the investment made by these corporations so as to utilize the limited resources for the diversified and multifarious development of the industrial structure.

The components of the disinvestment policy devised by the corporations include time of disinvestment, security for disinvestment and the party concerned for disinvestment. The policy enunciates that the corporations do not hold the shares in a company for more than 5 years from the date of commencement of commercial production. The private entrepreneurs or the collaborators (joint/assisted sector) have to arrange the buy-back of minimum twenty five per cent share holdings of the corporation in 5th, 6th and 7th year. In case the said parties fails to purchase back the shares, through a recognised share-broker at the cost and risk of the private entrepreneur or collaborators. The sale and purchase of the share scripts and transfer deeds are to be completed within a period of one month. Shareholdings in concerns

21 Printed Pamphlets, op. cit.
22 PSIDC, Memorandum of Understanding, PSIDC, p.2.
24 Vide circular No. IDBI /SIDC/ 2685/ 6/ 78-79 dated 24.2.79.
promoted either in the joint or assisted sector have to be offered to co-promoters from 
private sector whose limited capabilities to raise required resources restrict the scope 
for early disinvestment of such portfolio. These factors apart, marketability or 
otherwise of shares is also an important aspect in this regards. All these intricacies has 
tended to undermine the ability of SIDCs to raise resources by way of regular disinvestments. For financial institutions, mobilisation of investible resources is an important pre-requisite and, therefore, the corporations need to judiciously unload some losing scripts along with blue chip ones so as to attain the twin objectives: mobilisation of higher level of resources and tax planing, Even where setting off gains with losses is not feasible, SIDCs need perhaps be guided by the primary consideration of resource mobilisation.

SECTION III

PROJECT FINANCING ACTIVITIES

I. Term Loans under IDBI's Refinance Scheme:

Term loans are provided by SIDCs for medium sized projects usually under the reference scheme of IDBI in consortium with SFCs and/or banks. Thereunder, projects costing up to Rs. 30 million are eligible, provided the net worth and total refinanceable loans to the concern for the project do not exceed Rs. 50 million and Rs. 20 million, respectively. In case, where the industrial concern set up more than one project or take
up expansion/diversification at different location up to Rs. 50 million. In exceptional cases, the corporations choose to extend loans out of their own resources in which event, the above stipulations are not applicable. Similarly, they do at times also provide accommodation for working capital needs to select industrial concern. The letter is normally resorted to in respect of state sector projects/their own subsidiaries or as an inducement for established private sector concern to make further investment in the state, particularly in a backward region. IDBI provides 80 to 90% of the original loan and operate this scheme through its regional/branch offices.

A peculiar feature of this scheme is that the credit risk of such a loan is assumed by the respective corporation and not the IDBI which actually provides funds and dictates the terms. Assistance under this scheme is available for new units as well as the existing ones for mobilisation, expansion and diversification. Various schemes under the refinance schemes are elucidated in the following paragraphs.

(i) **Term loan under equipment refinance scheme (ERS)**

The corporations operates ERS of the IDBI under which if provides loans up to Rs. 200 lakhs (Rs. 150 lakhs at one time) to the eligible industrial units which have a good record of past performance and sound financial position. Term loans are available for purchase of items of plant and machinery and other equipment for new projects. Finance for imported items of plant and machinery are also considered whereas second hand items are not eligible under this scheme. Some of the conditions for seeking term loans are:
(a) the borrowing concern must have been in operation for a minimum period of five years.

(b) it must have earned profits or declared dividend on equity-shares during the preceding two years; and

(c) the unit must not have been a defaulter in repayment of dues to any institution.

Term loans under ERS are extended up to 70 per cent of the cost of capital goods/equipment to be acquired subject to the ceiling of Rs. 200 lacks. The balance of 30 per cent all the cost and allied expenses incurred are to be met by the unit out of its own resources. Interest at the rate of 20 per cent\(^{26}\) is charged, irrespective of the location of the project, which is payable on half-yearly basis. The entire loan sanctioned i.e. expected to be availed of within six months from the date of sanction. Loan laying unutilized for more than six months is automatically cancelled. The entire loan is to be repaid within six year inclusive of moratorium of six month.

(ii) Terms loans for modernization, diversification and expensing:

The corporation extends the Term-loans worth Rs. 150 lakhs to the project with capital cost not exceeding Rs. 500 lakhs under this scheme of IDBI and charges 20 per cent interest from the units which have been in operation for at least a period

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\(^{26}\) As against the normal rate of 14 per cent p.a. and special rate of 12.5 per cent in centrally backward areas, the new rate effective from August, 1990.
of five years. Industrial units seeking Term-loan under this scheme must result in one or more of the following:

(a) upgradation of process of technology product.
(b) export orientation
(c) import substitution
(d) energy saving.
(e) anti-pollution measures; and
(f) conservation and substitution of scarce raw material and other inputs including recycling, recovery of waste, improvement in capacity utilisation with the existing capacity through increase in productivity.

(iii) Term-loan for rehabilitation of sick units:

The PSIDC, HSIDC and HPSIDC also provide need-based loans for rehabilitation of sick units. A unit is classified as sick if it incurs cash losses in the current year and there is erosion in its net worth to the extent of 50 per cent or more. The project, to be eligible under this scheme, must be capable of being revived with reasonable financial support and relief. Terms-loan under this scheme is provided up to Rs. 150 lakhs at a rate of 25% per annum to the projects already assisted by the corporations. If the rehabilitation scheme envisages loan requirement of more than Rs. 150 lakhs, SFC or any commercial bank is associated for financing the gap.

Assistance for Modernisation of Small and medium Industries, IDBI Publications, Bombay, 53
II Procedure of availing of loan under ERS

To avail the assistance under this scheme, the prospective entrepreneur applies to the respective corporation on a prescribed application from which is used for new units and also for projects undertaking expansion and diversification irrespective of the amount of the assistance required. After the prima face of the application is established the corporations undertake the project appraisal which involves critical analysis to ensure the consistency of the economic objectives. The corporations satisfy themselves that the objective cannot be achieved by reducing the costs. The corporations also examine the techno-economic feasibility of the project and then prepare an appraisal memorandum and submit it to the ‘Ad hoc committee’ for its advice on the viability of the project. The ‘ad hoc committee’ generally includes one or two experts from outside, who are usually technically competent persons besides, Managing Director, Additional M.D. and a nominee of IDBI as members. The Committee does the screening of the proposals, makes recommendations and forwards the proposals to the sub committee of the Board of Director which scrutinises the proposal further. After satisfaction about the viability of the project, the corporations approach to IDBI for refinance without waiting for its ratification by the Board of Directors. If the sub-committee is not satisfied the proposal gets back to the project division for further comments.

IDBI evaluates the proposal in the light of the appraisal done by the corporations and, if need be, asks for additional information from the applicant.
through the respective corporation. On the other hand, if IDBI is fully satisfied it sanctions the loan and sends the sanctions letter with additional terms and conditions, if any to the respective corporation. IDBI has the prerogative of refusing refinance on policy matters or where it feels that the project is not need based. Normally, keeping in view the limit of refinance of any corporation, IDBI sanctions refinance as follows.

- Loans to units in backward areas - 90 per cent
- Loans to units in non backward areas - 80 per cent
- Loan for modernisation (all units) - 100 per cent

When the corporations approach IDBI for refinance, at the same time a draft loan agreement is sent to the borrowing concern that complies with the formalities. On receiving the information of sanction of refinance by the applicant, the loan agreement has given the final shape in accordance with the rules of the corporations. The amount of the loan is released where the applicant submits the documents like, undertaking for non-withdrawal of unsecured loans, for the non disposal of share holdings, for meeting short fall in the resources of the company and a guarantee signed on the judicial papers. Before getting the amount disbursed the borrowing concern has to submit a detailed schedule of spending the loan amount. The corporations conduct at least one inspection before the disbursement and another before the last disbursement.

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28 Printed Pamphlets of SIDCs.
SECTION IV

OTHER IMPORTANT ACTIVITIES

I. Seed Capital Assistance

The PSIDC, HSIDC, HPSIDC and JKSIDC operate seed capital scheme as an agent of IDBI. Those entrepreneurs who are setting up their units for the first time and who have started or have been associated with small scale ventures as directors/promoters and now propose to move over to the medium scale sector for the first time are eligible for assistance under the seed capital assistance scheme. It is considered for meeting the gap in equity as required for the project where no public issue of shares is envisaged but the promoters fulfill the criteria of minimum promoters contribution and will be further subject to a ceiling of 10 per cent of the cost of the project or a maximum of Rs. 15 lakhs. The assistance by way of soft loan will carry 1 per cent interest for the first five years and 10 per cent thereafter. For the purpose of this scheme, a new entrepreneur is one:

i) who is technically or professionally qualified or otherwise considered suitable due to relevant experience or skills in industry, business or trade.

ii) who has a worthwhile project, technically feasible economically viable and financially sound.

29 Features of General Schemes of Refinance of industrial loans, IDBI Publications, Bombay, 56
iii) who possesses or has acquired or secured the technical known how,
iv) who has the ability to set up and run the enterprise but lacks financial resources to bring in the normal promoters contribution or equity.

II Central Subsidy Scheme

In addition to seed capital assistance, these corporations also act as an agency for disbursement of central subsidy up to Rs. 15 lakhs under 'Central Government ten to fifteen per cent Central Subsidy Scheme'. The respective corporation provides the Central Subsidy to companies, which are sanctioned, Terms-loans for setting up projects in centrally notified backward districts of any state. The corporations do not charge any interest on central subsidy sought from central government. In case reimbursement is not available within six months, interest is charged at the rate applicable to Terms-loans till the actual receipt of reimbursement from the central government.

III Equity Participation

Apart from DSIDC all organization under study besides providing assistance under IDBI's ERS, their project financing activities also include contribution in the equity of the project initiated by private entrepreneurs. Under this scheme, subject to the techno-economic viability and desirability of promoting such a project in the overall interest of a state, these corporations contribute equity up to 15 per cent in the
projects. The corporations provide this amount not as promoters’ shares but to fill in the gap in promoters contribution in the cost of the project. The techno-economic viability of such a project is carried out by obtaining a copy of the appraisal report from the participating AIFI, SLFI or commercial bank.

IV. Industrial Infrastructural Development

Industrial infrastructure includes all necessary infrastructure for production activities such as transportation, telecommunication, power-supply and industrial water-supply etc. Generally the objectives of this programmes are:

a) to provide well planned accommodation to small industries at suitable sites with water, electricity, transport, banks, canteen, medical offices, and communication facilities.

b) to bring a number of units together and thereby facilitate establishment of common services centers, introduction of modern technology, collective purchase of raw material and sale of finished goods an joint publicity.

c) to enable the entrepreneurs the availability of goods and services so as to develop complementary and inter dependency relations.

All the four corporations except PSIDC, are engaged in this activity. HSIDC has developed 35 industrial estates in which around 5417 fully developed plots and 595 sheds have been provided. HSIDC has developed complexes/estates at different

30 Printed Pamphlets of IDBI on Central Subsidy Scheme.

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places where all requisite infrastructural facilities have been provided to entrepreneurs for setting up and running of their units. The corporation is in process of developing its prestigious industrial Model Township (IMT) at Manesar on NH-8 in district Gurgaon. The DSIDC has constructed 944 industrial sheds spread across eight well laid out complexes, most of them are located in the sprawling industrial area of okhla which is home to many of the small scale industrial units. In Himachal Pradesh, the development of infrastructure is an integral part of overall process of industrial development in planned and sustained basis. The engineering division of HPSIDC undertakes civil works on behalf of directorate of industries. The corporation undertakes development and maintenance of industrial area/sheds.

In case of Jammu & Kashmir, the JKSIDC since inception has acquired 13,087 Kanals of land at various places in the state to develop industrial areas/estates. These areas are equipped with all modern infrastructural facilities. As a result of the corporation’s efforts, an investment of Rs. 250-300 crore has been mobilised within the industrial complexes of the corporation creating employment opportunity in the state for 7000 persons with direct and indirect benefits to the state government.

V Growth Centers

The HSIDC and JKSIDC also develop growth centers. The growth center concept enunciates creation of best possible industrial infrastructure in backward region to attract industrial investment. The emphasis has thus shifted from extending these subsidiaries and fiscal incentives to the provision of comparable and sustainable
industrial infrastructure for attracting investors. In Haryana, two sites have been selected for this purpose i.e. Bawal in district Rewari and Saha in district Ambala. A 1186 acres of land has already been acquired by the corporation at Investate Bawal and allotment of industrial plots of different sizes has since been completed in the first phase of 391 acres. The JKSIDC is also developing two growth centers in the state viz. Samba and Ompora, Pulwama. Out of the two implementation of growth center, Samba spread over an area of 6700 Kanals of land has already been commenced. The project has been cleared at a total cost of Rs. 30 crore to be jointly funded by the government of India and government of Jammu & Kashmir and financial institutions. A similar center, at Ompora district Budgam and Lassipora district Pulwana in Kashmir valley is being set up at a split location. The proposed growth center would be spread over an area of 5200 Kanal at Pulwana and 1000 Kanals at Ompora.

VI Export Promotion Industrial Park

Government of Haryana has entrusted the task of developing an export promotion industrial park (EPIP) in the state with HSIDC. EPIP is spread over an area of 107 acres and will house small-scale industries with a minimum export commitment at 33 per cent. The Ministry of Commerce, Government of India, has approved setting up of an Export Promotion Industrial park at Kartholi, Bari Brahmana in Jammu & Kashmir. The park is expected to be completed with a project cost of Rs. 14 crores. The JKSIDC is also envisaging plans for setting up of an information technology park in the valley for software development as well as data
intensive operations. The park is expected to create substantial gainful employment for technical graduate, simple graduate, typists etc. in the high-tech and futuristic areas of development.

VII Textile City

The JKSIDC is also proposing to develop an area of 2000 Kanals at Kathua for setting up a textile city. This will have all infrastructural facilities and common facilities require by the textile units. Setting up of a common facilities will go a long way in attracting investment in textile sector and cutting down the cost of production as the individual industrial unit can not afford to have all facilities on their own. The government is proposing to formulate a special package of incentives for this textile city to attract more and more investments.

VIII Finance For Tourism Related Facilities

Proposals of setting up hotels/amusement parks are eligible for Term-loans from HSIDC. However before applying for loan, such units have to obtain clearance from the task force of Director, Haryana Tourism, setting up of cultural centers, convention centers, restaurants etc. and expansion/renovation/modernisation of existing hotels are also eligible for financial assistance, provided they are for development of tourism particularly those catering to the needs of international tourists. An applicable rate of interest is 21 per cent per annum. Also the interest subsidy on loans to hotels is available.
Despite being one of the youngest financial institution in the country, HSIDC has made a successful foray into the relatively new areas of Merchant Banking, catering to the needs of trade and industry, both in and outside Haryana. HSIDC has been authorised as category 1 merchant bankers by the Securities and Exchange Board of India (SEBI).

Apart from the activities discussed above the DSIDC has also engaged in some of the distinct functions like sale of Indian made Foreign Liquor (IMFL), procurement and distribution of raw material among the entrepreneurs and craftsmen, Market assistance to small scale units. Moreover, the corporation also has Package Assistance, which is one of the dynamic programs especially for the technical entrepreneurs, in which the educated unemployed entrepreneurs particularly engineering graduates, diploma-holder, non-resident Indians (NRIs) willing to set up small scale units in Delhi are selected and given training in selected trades. In addition, the corporation also gives technical consultancy, which helps the entrepreneurs in identifying projects, undertaking techno-economic appraisal of projects with market research and survey. DSIDC has taken greater interest in export of the local small-scale industrial products and in managing the Delhi State Emporium and Trade Center known as “BHARTI” and has been running since 1973. At Pragati Maidan, the corporation has also constructed a permanent pavilion where Industrial Fairs on national and international levels are being organised by Trade Fair Authority of India.
In the preceding pages a detailed investigation of the schemes and procedure for project approval has been carried out. It reveals that the corporations cover a wide spectrum of activities in boosting the process of industrialization in their respective state. The decision of the corporations in constituting the ‘Ad-hoc committee’ and the ‘sub-committee’ of Board of Directors seems to be in the right direction. It has not only relieved the over-burdened Board of Directors but also has helped in speeding up the process of purveying credit to the industrial concerns. But at the same time a few anomalies can be seen in the schemes and procedures. Firstly, keeping in view the role of the corporation as an institutional entrepreneur the equity participation must be enhanced. In the assisted-sector the maximum limit of fifteen percent seems to be inadequate, which must be increased to twenty percent depending upon the need of the entrepreneur, whereas in the joint-sector, if the co-promoter is capable of investing more than the stipulated twenty-five percent, he may be allowed and the corporations can lower their share of twenty-six percent. It may be pointed out here that IDBI has also taken up this case with the Government of India that “it should not insist on twenty-six percent equity participation of SIDCs in all joint-sector projects, especially in cases where the private-sector co-promoter is in a position and willing to invest more”\textsuperscript{31}. Secondly, the disinvestment policy seems to be arbitrary and much in favour of these corporations. Presently, the corporations disinvest at the highest price available on the stock-exchange and where the shares are not listed, the prevalent rate of interest chargeable on loans is added to the face value of shares to compute the cost

\textsuperscript{31} SIDC’s conference at Bombay, Feb 1990, COSIDICI Courier, July 1990, vol. XII; No.7.
of disinvestment. It is suggested that the corporations must dilute their policy and adopt the policy which is followed KSIIDC. Thirdly, the entrepreneurs, as a security to ensure the buy-back of shares, have either to arrange for a bank guarantee for the performance of this obligation or pledge his own share worth double the investment by the corporations. This policy must be done away with, as it does not seem to be in the interest of the private entrepreneurs who already have pledged their present and future movable and immovable property in favour of the corporations. It is thus, difficult to arrange personal guarantee from a bank. Similar procedure is adopted while getting the term-loan sanctioned under the IDBI refinance scheme that reflects the conservative attitude of the corporations. The corporations, if continue with this policy will not be able to enthuse confidence in the investors. Moreover, as it is the responsibility of the entrepreneur to arrange funds in this case, it will be difficult for the entrepreneur to arrange additional loans from commercial banks or other financial institutions as he is left with nothing to keep as security with them. It is therefore suggested that SIDCs must release the property of the entrepreneurs in proportion to the amount of installment he repays or the amount of shares he buys back. Fourthly, it has been found out that the entrepreneur has to enter into an agreement prior to getting the first installment of the disbursement from these corporations. This agreement is over and above the agreement signed at the time of sanctioning the loan. These conditions result in undue delay in the implementation of the project. It is suggested that the corporations must simplify the procedure by amalgamating the conditions of pre-sanction and pre-disbursement stage so that no time is wasted in signing additional
agreements. Fifthly, IDBI at times seek further queries from the corporations, which causes further delay in the sanctioning of the loan. As IDBI does not have the loan at stake, it must depend on the project approval undertaken by the corporations. However, IDBI has a nominee director on the 'sub-committee’ who can satisfy himself about the appraisal criterion of the corporations. Lastly, the loan application form of the corporations is too detailed and the entrepreneur has difficulty in filing the application. It is suggested that the corporations must simplify the loan application form and bring out a detailed booklet of the schemes along with the check-list to facilitate the entrepreneurs.