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## Corporatization of Ordnance Factory Board

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### Why in News

Recently, the Union Cabinet approved a plan to corporatise the Ordnance Factory Board (OFB).

### The Working of Seven New Entities

While OFB will cease to exist, its 41 factories would be converted into seven government-owned corporate entities.

#### Ammunition and Explosives Group:

To focus on production of ammunition of various calibre. Will have a huge export potential as well

#### Vehicles Group:

To make combat vehicles such as tanks, trawls, mine-protected vehicles and armoured troop carriers

#### Weapons and Equipment Group:

To make small, medium and large calibre guns for security forces

#### Troop Comfort Group:

To engage in production of uniforms and specialised gear for troops

Others will be an Ancillary Group, OptoElectronics Group and Parachute Group

#### The Need For Revamp

The military had three major issues with the older OFB structure

The Biggest concern was poor quality of equipment and ammunition delivered, which has led to loss of confidence by the user and a 'lowering of morale of the troops on ground'

High cost of orders placed on the OFB is another worry as the organisation has been nominated for tenders worth thousands of crores without competitive biddings



Lack of adhering to timelines by the OFB was a big concern as it had a cascading effect on the combat readiness of the Army



### Key Points

- **New Structure:**
  - **41 factories** across the country will be dissolved into seven new Defence Public Sector Undertakings (DPSU). The newly created entities will be **100% owned by the government**.
  - These entities will be responsible for different verticals of the products such as the **Ammunition and Explosives** group will be engaged in production of ammunition while a **Vehicles group will engage** in production of defence mobility and combat vehicles.
  - All **OFB employees** in the production units will be **transferred to the new corporate entities on a deemed deputation initially for a period of two years** without altering their service conditions as central government employees.
  - **Pension liabilities of the retirees and existing employees** will continue to be borne by the government.

- **OFB:**
  - It is an **umbrella body** for the ordnance factories and related institutions, and is currently a **subordinate office** of the Ministry of Defence (MoD).
    - The first Indian ordnance factory was set up in the **year 1712** by the Dutch Company as a **GunPowder Factory, West Bengal**.
  - It is a **conglomerate** of 41 factories, 9 training Institutes, 3 regional marketing centres and 5 regional controllers of safety.
  - **Headquarters:** Kolkata
  - **Significance:** A major chunk of the weapon, ammunition and supplies for not just armed forces but also paramilitary and police forces comes from the OFB-run factories.
  - **Production includes:** Civilian and military-grade arms and ammunition, explosives, propellants and chemicals for missile systems, military vehicles, armoured vehicles, optical devices, parachutes, support equipment, troop clothing and general store items.
- **Reasons for Corporatization:**
  - A performance evaluation by the **Comptroller and Auditor General (CAG)** in its report for **2019 on the OFB** highlights a few of the lacunae, which ails this organisation.
    - **Overheads** (expenses not directly attributed to creating a product or service) constitute a **staggering 33% of the overall allotted** budget for the year.
      - The major contributors being supervision costs and indirect labour costs.
    - **Delayed Production:** The Ordnance factories achieved production targets for only **49% of the items**.
      - More than half the inventory (52%) was store-in-hand, procured for manufacture but not used within the year by the factories.
  - The **Atmanirbhar Bharat initiative**, also calls for the Corporatisation of OFB for: **'improving autonomy, accountability and efficiency in ordnance suppliers'**.
- **Importance of new structure:**
  - The restructure would also help in overcoming various shortcomings in the existing system of the OFB by eliminating inefficient supply chains and provide these companies incentive to become competitive and explore new opportunities in the market.
  - It will **allow these companies autonomy** as well as help improve accountability and efficiency.
  - The restructuring is aimed at transforming the ordnance factories into productive and profitable assets, deepen their specialisation in product range, enhance competitiveness and improve quality and cost-efficiency.
- **Apprehensions:**
  - One of the **main apprehensions of the employees** is that corporatisation (ownership and management lies with the government) would **eventually lead to privatisation** (transfer of ownership and management rights to the private player).
  - The **new corporate entities** would **not be able to survive the unique market** environment of defence products that has very unstable demand and supply dynamics.
  - Restructuring **will result in greater autonomy and lesser government** control over the corporation but there is a fear of job loss.

## Way Forward

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- The corporatisation of OFB is likely to transform ordnance factories into a modernised, state of the art facility with flexible and better decision making in its functioning.

- There is a need to have a reflective road-map for the plan. This can help to ease the apprehensions regarding the corporatization.

**Source: TH**