CHANGING ROLE OF PUBLIC SECTOR ENTERPRISES IN INDIA: GOOD OR BAD?

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What is a PSE ?

A pubic sector enterprise may be defined as any commercial or industrial undertaking owned, managed and controlled by the central, state or local government with a view to maximise social welfare and uphold the public interest are termed as public sector enterprises . These are also known as public sector undertakings.

It has 3 types of organisations

- Departmental Undertaking
- Statutory (or Public) Corporation
- Government Company

Departmental undertakings

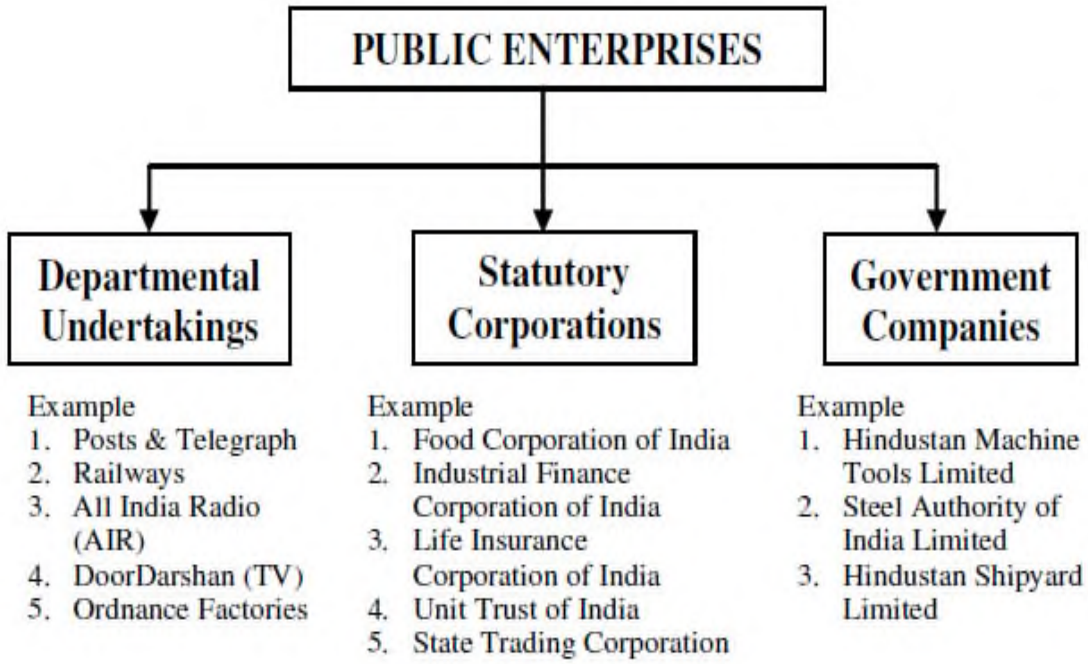
- organised, managed and financed by the Government.
- It is controlled by a specific department of the government.
- Each such department is headed by a minister. All policy matters and other important decisions are taken by the controlling ministry.

The Statutory Corporation (or Public Corporation)

- organisations which are incorporated under the special Acts of the Parliament/State Legislative Assemblies.
- Its management pattern, its powers and functions, the area of activity, rules and regulations for its employees and its relationship with government departments, etc. are specified in the concerned.
- It may be noted that more than one corporation can also be established under the same Act. State Electricity Boards and State Financial Corporation fall in this category.

Government Company

- As per the provisions of the Indian Companies Act, a company in which 51% or more of its capital is held by central and/or state government is regarded as a Government Company.
- These companies are registered under Indian Companies Act, 1956 and follow all those rules and regulations as are applicable to any other registered company.
- The Government of India has organised and registered a number of its undertakings as government companies for ensuring managerial autonomy, operational efficiency and provide competition to private sector.



Key Sectors for PSE Operations

- Coal and crude oil in the mining sector

  9 PSEs belong to the coal and lignite group, the prominent being Coal India Ltd., Central Coalfields Ltd., Eastern Coalfields Ltd., etc

- Steel, petroleum (refinery and marketing), fertilizers, and heavy engineering in the manufacturing/processing sector

Industry has witnessed significant change with private players gradually gaining foothold in the industry. There are 13 PSEs in this domain

- Power generation in the electricity sector

  thermal power generation contributes 80% to the power generation in India; includes National Hydroelectric Power Corp. Ltd., National Thermal Power Corp. Ltd., and Nuclear Power Corp. of India Ltd

- Telecommunications, transport, and contract in the service sector.

  Includes both wire line and wireless connectivity While wireless connectivity is primarily dominated by the private players, the PSEs have a strong foothold in wireless connectivity; they are Bharat Sanchar Nigam Ltd., Mahanagar Telephone Nigam Ltd.,

Role of Public sector in The Indian Economy

- Catalyst of acceleration of rate of Economic Growth . Nationalised banks play a major role in collecting savings and investing them.
- Strong industrial base. Includes development of Capital Intensive sector and infrastructure. Government has strengthened the industrial base by placing due emphasis on setting up industries in – iron and steel, coal , petroleum and natural gas, heavy electricals
- Economies of scale. Government regulations or public ownership prevent concentration of economic power in private hands.
- Removal of regional disparities. Setting up of large scale public sector projects in backward areas would cause economic development in these areas.
- Development of agriculture
- Import substitution and export promotion. Companies like Bharat heavy electricals , Indian Oil Corporation ,etc. help in import substitution and Hindustan steel limited, Bharat electronics, etc . Play an important role in increasing exports.
- Increasing Employment Opportunities
- Model Employer :The state has laid down guidelines for employer-employee relations and for developing good and efficient personnel
- Research and Development
- Check over concentration of economic power.

- profits of public sector can be used for welfare of poorer sections .
- supplying raw material to small scale industries at lower prices.
- labour welfare

Industrial Policy Resolution , 1948

- Industries where state held monopoly.

  3 industries – arms and ammunition , atomic energy and rail transport.

- Mixed sector.

  6 industries – coal ,iron and steel , aircraft manufacture , ship building, manufacture of telephone and mineral oil. Allowed to continue for 10 years after which their performance would be assessed and they would be undetaken by the government by paying proper compensation if any discrepancy is found.

- Field of government control.

18 industries regulated and directed by the government including heavy machinery and capital good industry.

- Field of private enterprise.

  All other industries not included above.

Industrial Policy Resolution , 1956

- Monopoly of the states

  17 industries. 4 industries – arms and ammunition , atomic energy air and rail transport were government monopolies. Existing private sector units were allowed to operate but new units were not allowed.

- Mixed sector

  12 industries. Both state and private parties could open new units.

- Industries left for private sector

  All industries not included in above two categories

PHASE 1(1951-65):Building up of strong industrial base

- Covered the period of first three plans.
- Laid the basis for industrial development in the future by building the strong industrial structure.
- Development of capital good and basic industries like iron and steel, machine building industries etc.
- Same pattern of investment in third plan as well.
- Noticeable acceleration in the annual growth rate of industrial production over the first three plan years up to 1965 from 5.7% in first plan to 7.2% in second plan and further to 9.0% in third plan.

PHASE II (1965-80): Industrial deceleration and structural retrogression

- There was a very small rate of industrial growth in this period except a few years and a negative rate of -1.6% was recorded in 1979-80.
- Decline in the Rate of growth of capital good industries which was only a mere 2.6% and basic industries in this period represent the phenomenon of structural retrogression.
- Exogenous factors such as the wars of 1965 and 1971; drought condition in some years ; infrastructural constraints and oil crisis of 1973 were responsible for slow down of growth.
- Low growth of agricultural sector accounted for slowdown of industrial growth by restricting supply of raw materials as well as contraining demand for industrial goods.

PHASE III (1981-91): The period of Industrial Recovery

- New Industrial policy and liberal fiscal regime . Some important changes have related to reducing domestic barriers to entry and expansion to inject a measure of competition in domestic industry , providing easier access to better technology as well as more flexibility in use of installed technology.
- Contribution of agricultural sector.
- Growth of service sector. Significant increase in government expenditure on all services in 1980s .
- The infrastructure factor. As against 4.2 percent per annum increase in infrastructure investment 1965-66 to 1975-76 , 9.7 percent in 1979-80 to 1984-85 , 16.0 percent in 1985-86 and 18.3 percent in 1986-87.

PHASE IV (The period 1991 onwards)

The new industrial policy of 1991 introduced four major measures to 'reform' PSEs:

1. Reduction in number of industries reserved for public sector and abolition of Industrial licensing from 17 to 8 and further to 2 and introduction of selective competition in reserved areas .

2. Disinvestment of shares of selected PSUs to raise resources and encourage the general public in ownership of PSEs.

3. Policy towards sick PSEs.

4. Improvement of performance through MOU(Memorandum of Understanding) by which managements are to be granted greater autonomy but held accountable for specific results.

5. FDI up to 100 per cent has also been allowed .

In 2004, the FDI limits were raised in the private banking sector (up to 74 per cent), oil exploration (up to 100 per cent),

In February 2005, the FDI ceiling in telecom sector in certain services was increased from 49 per cent to 74 per cent.

Memorandum of understanding

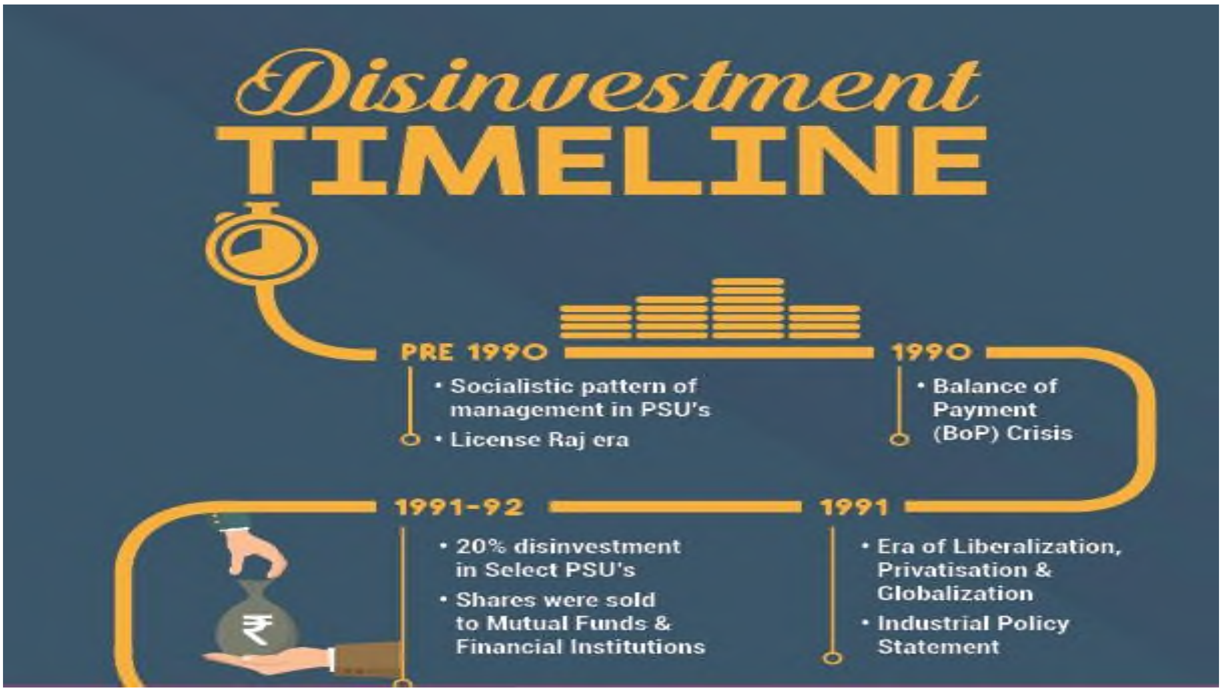
- MOU envisages a arms length relationship between PSUs and administrative ministries
- It gives clear targets to PSUs and ensures operational autonomy to them for achieving those targets .
- All PSEs including risk and loss making PSEs as well as PSEs under construction are covered under MOU system.

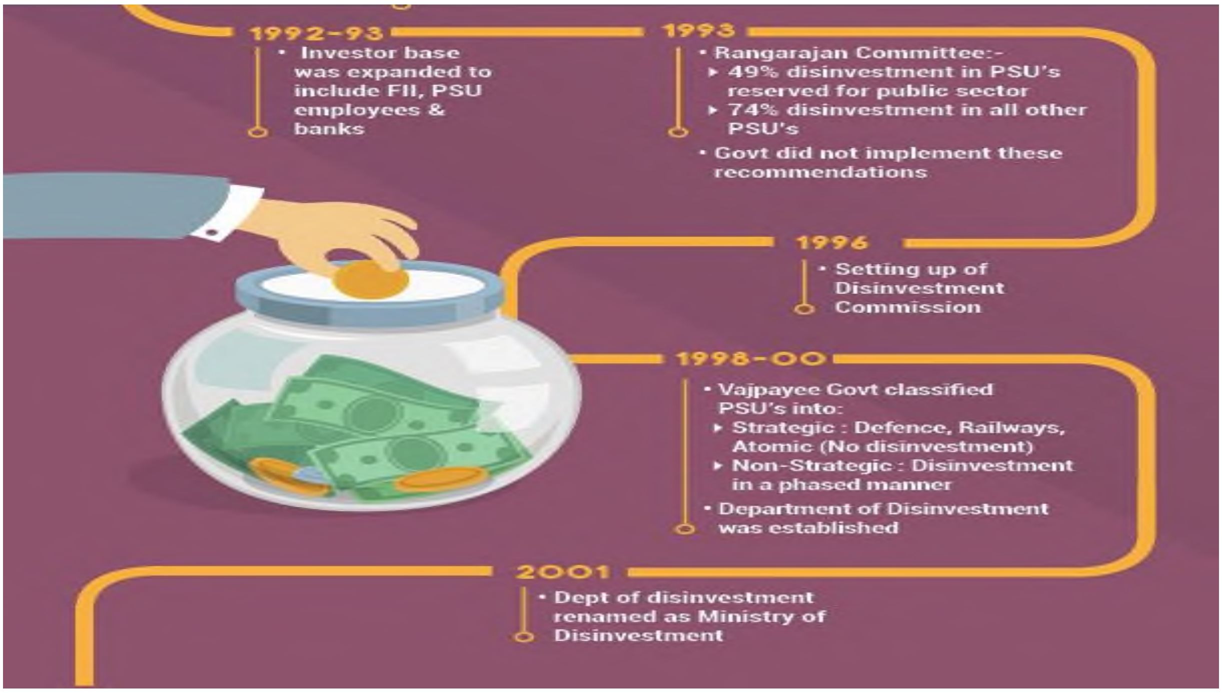
Statement showing Year-wise MoUs signed

Year	No. of MoUs signed	Year	No. of MoUs signed
1987-88	4	2008-09	147
1991-92	72	2009-10	197
2001-02	104	2010-11	198
2002-03	100	2011-12	197
2003-04	96	2012-13	196
2004-05	99	2013-14	197
2005-06	102	2014-15	215
2006-07	113	2015-16	215
2007-08	144	2016-17	234

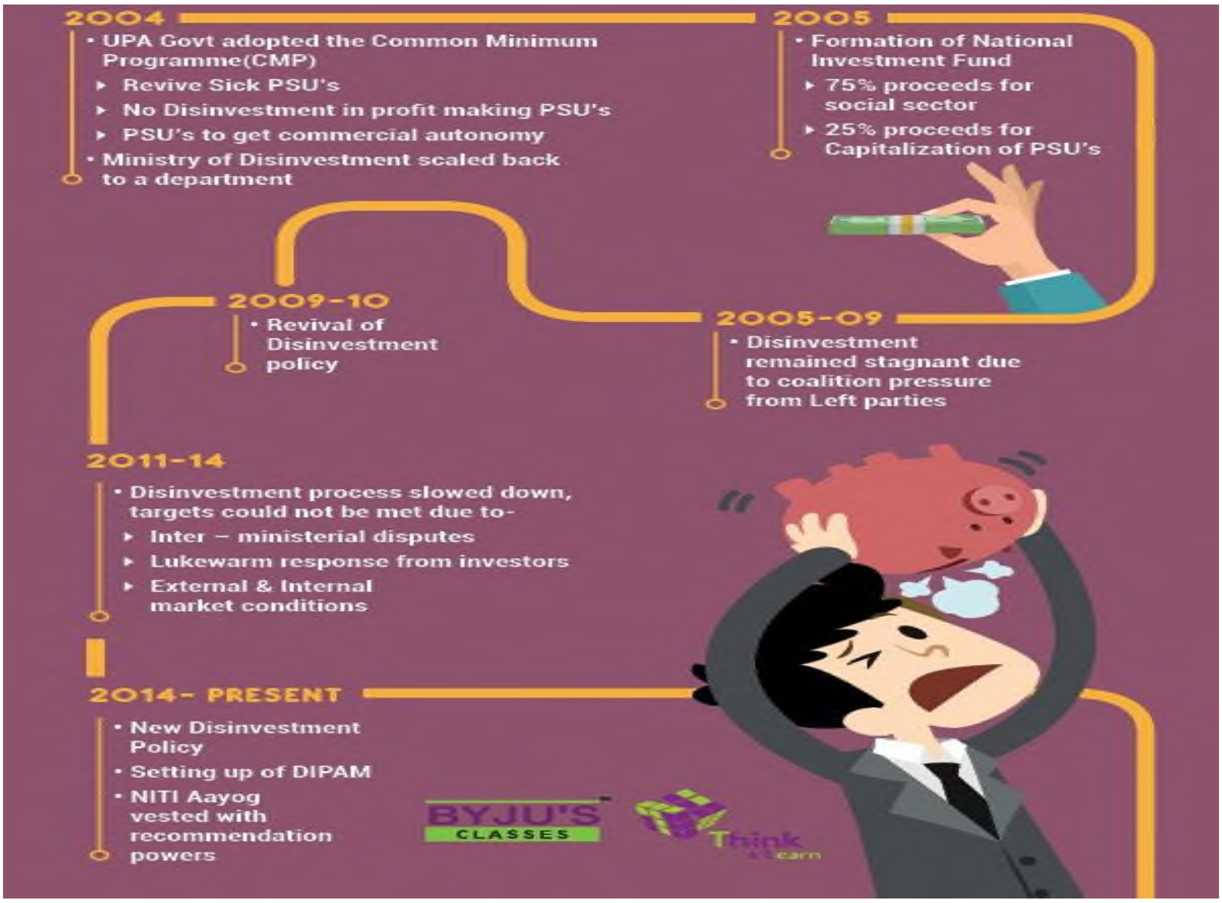
Disinvestment of Shares

- Sale of public sector undertaking to bring down its equity to 26% (or lower) and close down those public sector undertakings which cannot be revived.
- Over the period from 1991-92 to April 8 2016 the government has raised 2,09,288 crore through disinvestment.





1992-93
• Investor base was expanded to include FII, PSU employees & banks
1993
• Rangarajan Committee:-
▸ 49% disinvestment in PSU's reserved for public sector
▸ 74% disinvestment in all other PSU's
• Govt did not implement these recommendations
1996
• Setting up of Disinvestment Commission
1998-00
• Vajpayee Govt classified PSU's into:
▸ Strategic : Defence, Railways, Atomic (No disinvestment)
▸ Non-Strategic : Disinvestment in a phased manner
• Department of Disinvestment was established
2001
• Dept of disinvestment renamed as Ministry of Disinvestment



2004
• UPA Govt adopted the Common Minimum Programme(CMP)
▸ Revive Sick PSU's
▸ No Disinvestment in profit making PSU's
▸ PSU's to get commercial autonomy
• Ministry of Disinvestment scaled back to a department
2005
• Formation of National Investment Fund
▸ 75% proceeds for social sector
▸ 25% proceeds for Capitalization of PSU's
2009-10
• Revival of Disinvestment policy
2005-09
• Disinvestment remained stagnant due to coalition pressure from Left parties
2011-14
• Disinvestment process slowed down, targets could not be met due to-
▸ Inter – ministerial disputes
▸ Lukewarm response from investors
▸ External & Internal market conditions
2014- PRESENT
• New Disinvestment Policy
• Setting up of DIPAM
• NITI Aayog vested with recommendation powers
BYJU'S
CLASSES

Navaratna , Maharatna and Miniratna

	Maharatna	Navratna	Miniratna Category-I	Miniratna Category-II
Eligibility	Three years with an average annual net profit of over Rs. 5000 crore, or average annual Net worth of Rs. 50,000 crore for 3 years, or average annual turnover of Rs. 25,000 crore for 3 years	A score of 60 (out of 100), based on six parameters which include net profit, net worth, total manpower cost, total cost of production, cost of services, PBDIT (Profit Before Depreciation, Interest and Taxes), capital employed, etc., And a company must first be a Miniratna and have 4 independent directors on its board before it can be made a Navratna.	Have made profits continuously for the last three years or earned a net profit of Rs. 30 crore or more in one of the three years	Have made profits continuously for the last three years and should have a positive net worth.
Benefits for investment	Rs. 1,000 crore - Rs. 5,000 crore, are free to decide on investments up to 15% of their net worth in a project	up to Rs. 1,000 crore or 15% of their net worth on a single project or 30% of their net worth in the whole year (not exceeding Rs. 1,000 crores).	up to Rs. 500 crore or equal to their net worth, whichever is lower.	up to Rs. 300 crore or up to 50% of their net worth, whichever is lower.

List Of Maharatna

- Bharat Heavy Electricals Limited
- Coal India Limited
- GAIL (India) Limited
- Indian Oil Corporation Limited
- NTPC Limited
- Oil & Natural Gas Corporation Limited
- Steel Authority of India Limited

List Of Navratna

- Bharat Electronics Limited
- Bharat Petroleum Corporation Limited
- Container Corporation of India Limited
- Engineers India Limited
- Hindustan Aeronautics Limited
- Hindustan Petroleum Corporation Limited
- Mahanagar Telephone Nigam Limited
- National Aluminium Company Limited
- National Buildings Construction Corporation Limited
- NMDC Limited
- Neyveli Lignite Corporation Limited
- Oil India Limited
- Power Finance Corporation Limited

- Power Grid Corporation of India Limited
- Rashtriya Ispat Nigam Limited
- Rural Electrification Corporation Limited
- Shipping Corporation of India Limited

PSEs after Modi

"In any developing country in the world, both the public and private sector have a very important role to play. You can't suddenly get rid of the public sector, nor should you"

SCHEMES

- Make in India
- UJWAL Discom assurance Yojana (UDAY)
- Digital India
- Skill India
- Smart city mission

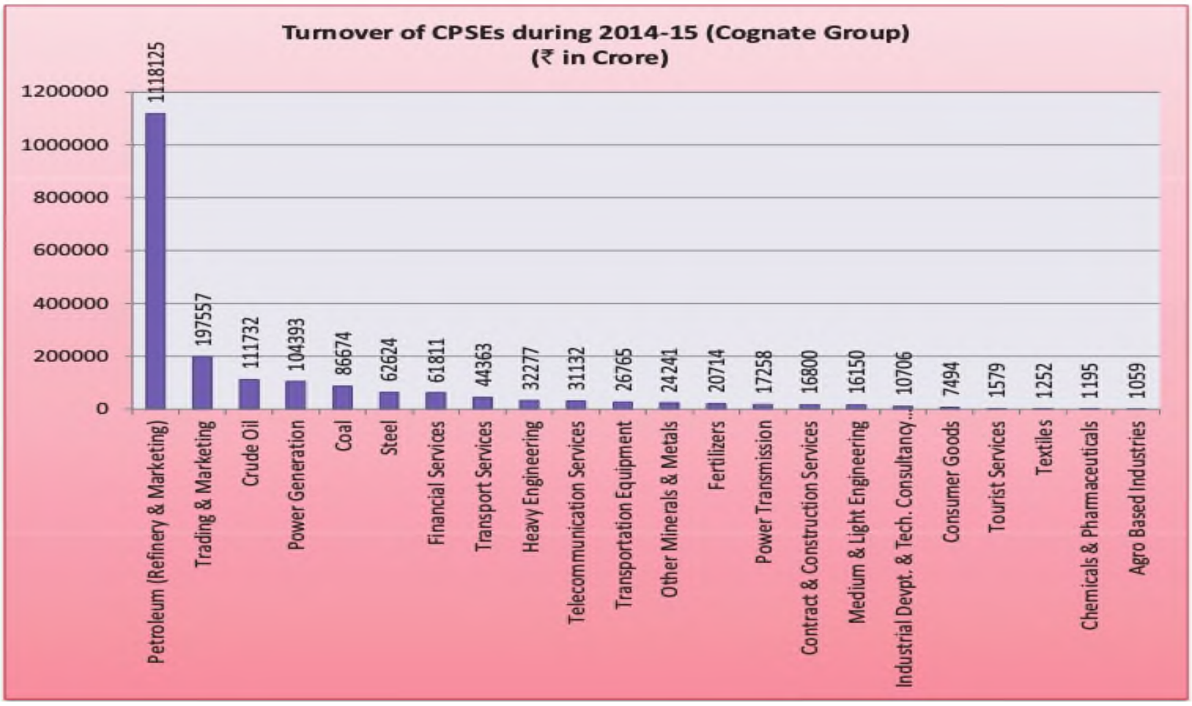
MAJOR CHANGES

- 100% private investment in defence.
- Private investment in insurance is allowed.
- In the railways, for the first time a public-private partnership model for railway stations was developed

Performance of PSUs

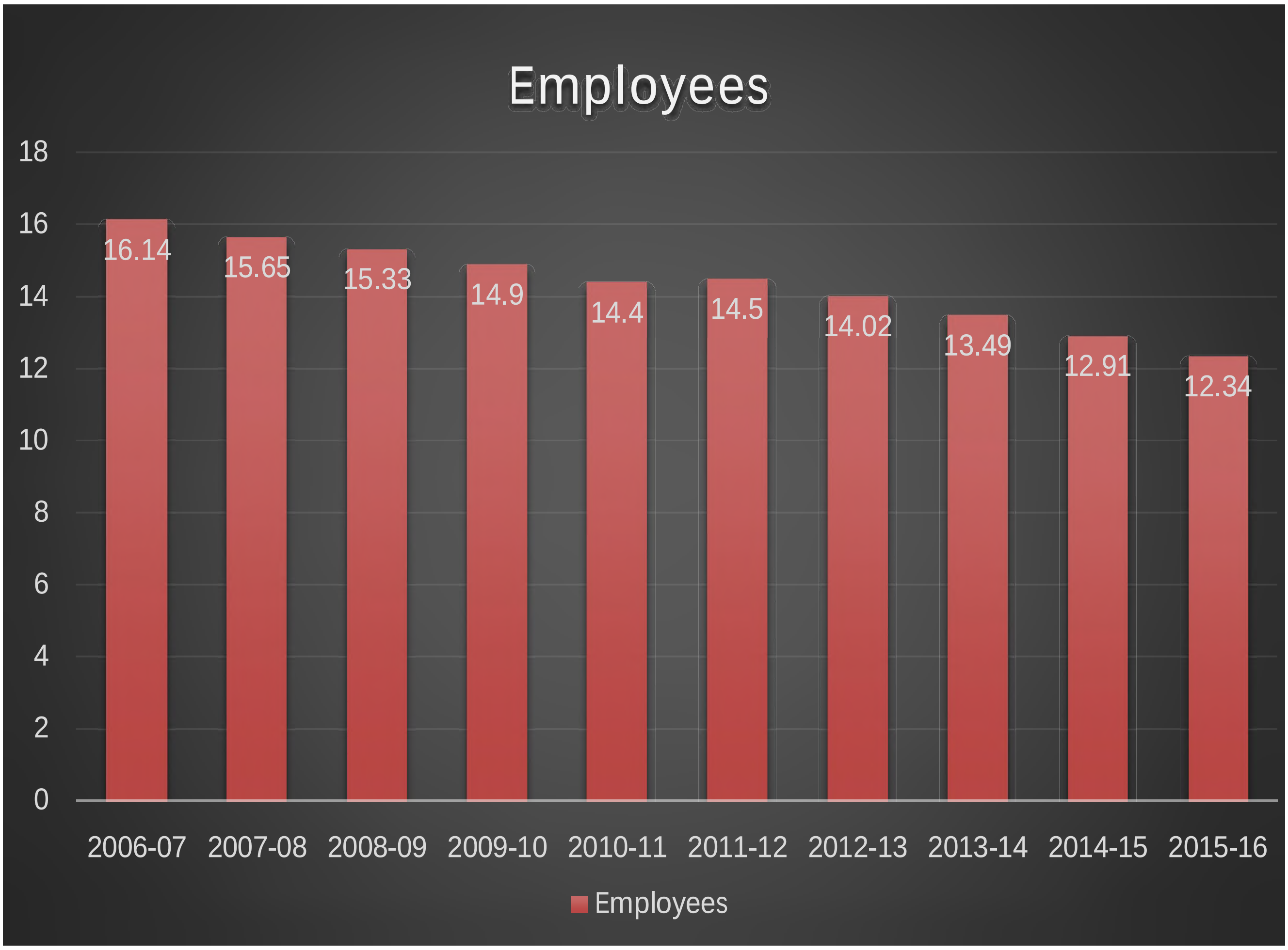
Share in National production

- Performance of public sector should not be measured by the amount of profit they earn but by the total addition they make to flow of goods and services.
- In 1951 , there were only 5 Central public sector enterprises(CPSEs) with investment amounting to 29 crores.
- In December 2015, there 235 operating CPSEs
- Turnover of CPSEs rose from 7,44,307 crore to 19,95,902 crore



Employment and labour welfare

- As on 31 March , 2013 number of persons employed in CPSEs was 14.04 lakh
- Employees of PSEs enjoy medical amenities,educational facilities, etc.



Women Employement

	Total Employees (in nos)			Total female Employees (in nos)			Female Employees as % of Total		
	2013-14	**2014-15**	**2015-16**	**2013-14**	**2014-15**	**2015-16**	**2013-14**	**2014-15**	**2015-16**
Managerial/Executives	270151	264497	258659	26186	26661	27010	9.69	10.08	10.44
Supervisors	129173	130208	121596	12176	9506	8297	9.43	7.30	6.82
Workers	949818	896469	851906	93931	85907	80011	9.89	9.58	9.39
Total	**1349142**	**1291174**	**1232161**	**132293**	**122074**	**115318**	**9.81**	**9.45**	**9.36**

Foreign exchange earnings

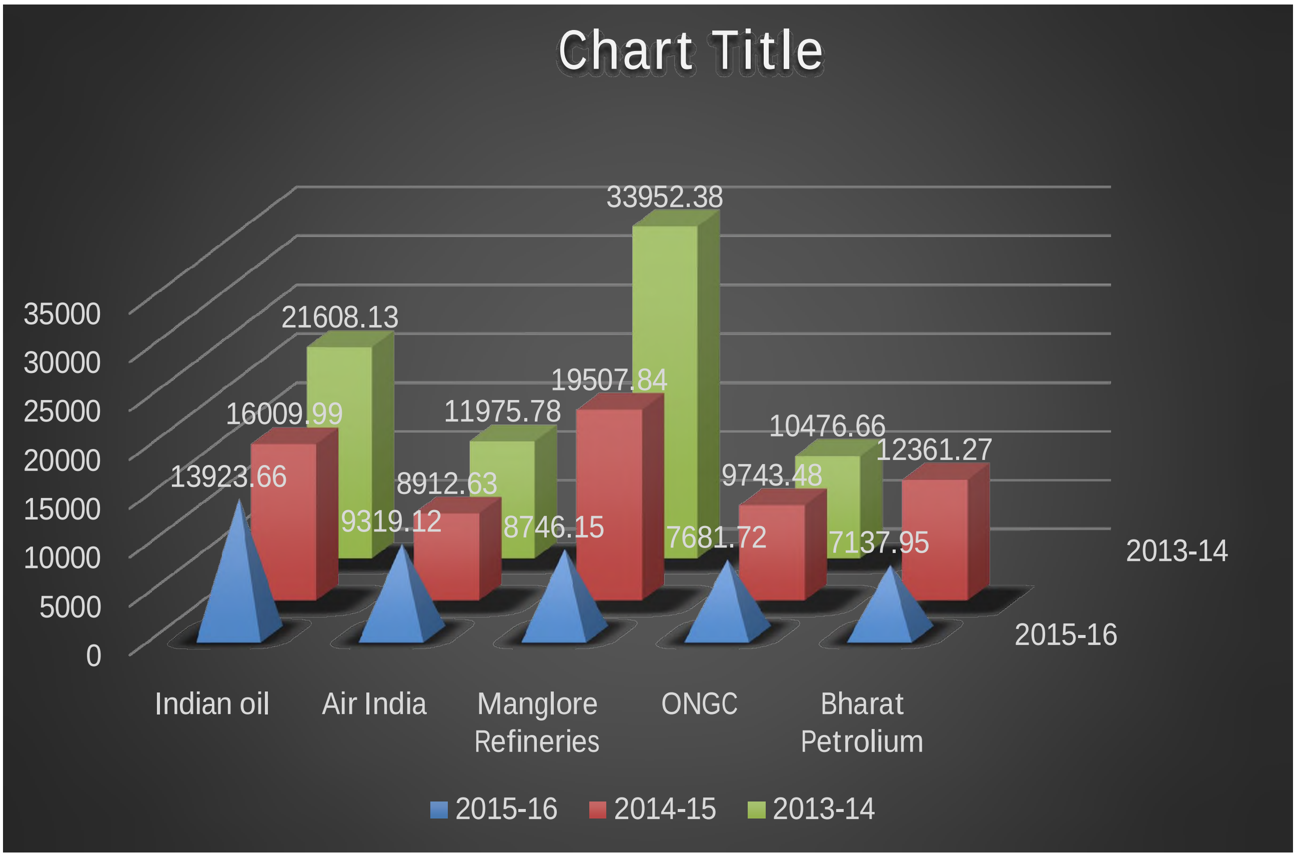
- Helped in saving foreign exchange as well as helped to break the strange hold of foreign companies in this field.
- ONGC and IOC helped to decrease dependence on foreign imports

.

Gross Foreign Exchange Earnings of select CPSEs
(more than ₹1000 crore)

(₹in crore)

S. No.	CPSE	Gross Foreign Exchange Earnings			Change over the previous year(%)	
		2014-15	2013-14	2012-13	2014-15	2013-14
1	Mangalore Refinery & Petrochemicals Ltd.	19507.84	33952.38	32179.85	-42.54	5.51
2	Indian Oil Corporation Ltd.	16009.99	21608.13	18558.61	-25.91	16.43
3	Bharat Petroleum Corporation Ltd.	12364.27	19122.06	18455.61	-35.34	3.61
4	ONGC Videsh Ltd.	9743.48	10476.66	7859.42	-7.00	33.30
5	Air India Ltd.	8912.63	11975.78	10606.15	-25.58	12.91
6	Bharat Heavy Electricals Ltd.	5433.5	8777.74	12356.59	-38.10	-28.96
7	Hindustan Petroleum Corporation Ltd.	5313.98	4231.03	6416.82	25.60	-34.06
8	Oil& Natural Gas Corporation Ltd.	5022.80	7488.99	7472.33	-32.93	0.22
9	Shipping Corporationof India Ltd.	4103.73	4301.70	4258.94	-4.60	1.00
10	National Aluminium Company Ltd.	3160.71	3617.20	3377.50	-12.62	7.10
11	MMTC Ltd.	2299.69	3920.66	3000.67	-41.34	30.66
12	Steel Authority of India Ltd.	1567.68	1497.01	1158.23	4.72	29.25
13	Air India Charters Ltd.	1466.86	1330.65	1090.22	10.24	22.05

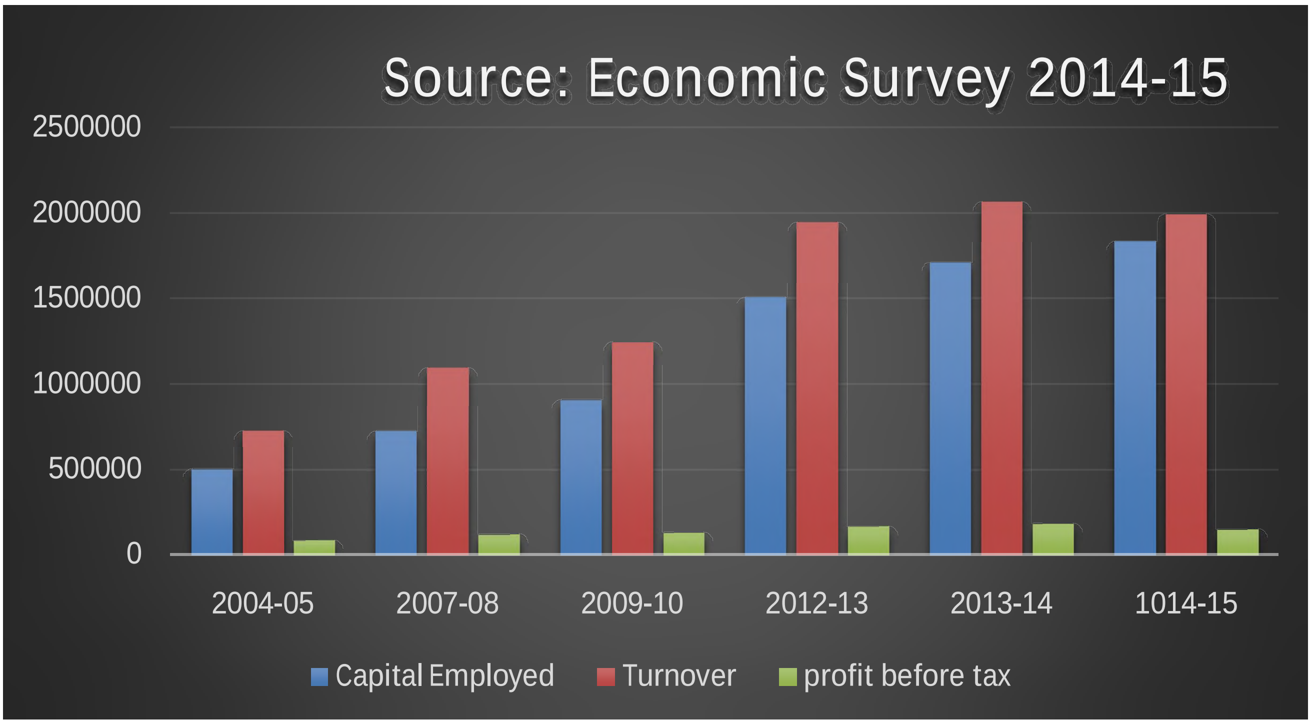


Sick and Loss making operating CPSEs

Sick & Loss making operating CPSEs

Year	No. of operating sick CPSEs Registered with BIFR	Accumulated losses of sick operating CPSEs Registered with BIFR (₹ in crore)	No. of Loss making CPSEs, during the year	Aggregate Loss, during the year (₹ in crore)
(1)	(2)	(3)	(5)	(6)
2007–08	46	72820	54	10303
2008–09	46	68577	55	14621
2009-10	46	62828	60	16231
2010-11	45	65146	62	21817
2011-12	45	65642	64	27683
2012-13	45	70918	79	28562
2013-14	44	55507	70	21341
2014-15	39	56065	76	27498
2015-16	40	51670	78	28756

Over All Performance of Central Public Sector Enterprises



Question of efficiency

- PSEs helped in transformation of industrial structure, higher labour productivity etc.
- Higher proportion of value produced by public sector is ralised outside this sector.
- Social costs and benefits should be taken into account instead of net profits and losses

Box-2

Macro-View of Performance of Operating CPSEs

(₹in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
No. of Operating Enterprises	226	217	214	213	217	220	225	230	234	235
Capital Employed	585484	661338	724009	792232	908007	1153833	1337821	1508177	1710453	1834050
Total Gross Turnover/ Revenue	837295	964890	1096308	1271529	1244805	1498018	1822049	1945814	2066057	1995902
Total Net Income/Revenue	829873	970356	1102772	1309639	1272219	1470569	1804614	1931186	2056336	1965235
Net Worth	397275	454134	518485	583144	652993	709498	776162	850921	926663	962791
Profit of Profit-making CPSEs	76382	89581	91577	98488	108434	113944	125929	143543	149636	130363
Loss of Loss incurring CPSEs	6845	8526	10303	14621	16231	-21816	-27683	-28562	-21341	-27360
Profit –making CPSEs (No.)	160	154	160	158	157	158	161	151	164	157
Loss –incurring CPSEs (No.)	63	61	54	55	60	62	64	78	70	77
CPSEs making no Profit/Loss (No.)	1	1	-	-	-	0	0	1	0	1
Dividend	22886	26819	28123	25501	33223	35700	42627	49703	65115	56527
Dividend Tax	3215	4107	4722	4132	5151	5372	5877	6704	8709	8642

Problems of Public Sector Enterprises

- Inefficient Management

  Effectiveness of managerial efficiency an effectiveness has been low due to uninspiring leadership, too much centralization , unwanted political inference, etc.

- Excessive Overheads:
- PSEs incur heavy expenditure on social on overheads like townships, schools, hospitals, etc.
- It may amount to about 10 percent of the total project cost.
- Price policy of PSEs.

- High prices of PSU units in the area of basic industries would cause increase in cost over large segment of economy . So a minimum pricing policy was adopted that yielded a no-profit-no-loss situation.

- Public sector prices have risen at a slower rate than overall prices in the economy ,adversely affecting it's financial position.

- Lack of Coordination.
- Various public enterprises are dependent on one another as the output of one enterprise is the input of another.
- A coordination in the production programmes of different enterprises at various stages would help to reduce excess stocks and shortages of vital inputs.
- Unsatisfactory industrial Relations
- bad relations between management and labour
- output worth crores of rupees are lost due to strikes and gheraos.

- Governance Challenges

-SOEs operate in a highly competitive environment and face immense challenges in terms of accountability and oversight by multiple authorities, outdated processes and lack of new technology,mindset issues and lack of motivation in employees to excel.

- Problems related to Planning and Construction of projects.

- Projects took much more time to complete than actually estimated due to lack of planning or inappropriate technology which led to high cost escalation .

- Setting up industrial projects in backward areas significantly increased the cost of building infrastructural facilities.

- Underutilisation of Capacity.

- low utilisation of installed capacity - considerable idle capacity

- poor management , political interference ,etc. also played a major role

- Growth of regional imbalances.

- Maharashtra, Gujarat and Tamil Nadu account for 38.9% of factories and 43.8% of gross output in industry .

- Backward states like Bihar, Orissa , etc. remained untouched by planning

- Overstaffing

Case study

PSUs provide a huge leverage to the government (their controlling shareholder) to intervene in the economy directly or indirectly to achieve the desired socio-economic objectives.

At times, these objectives may be misplaced but at others especially in times of do -or--die situation such as in 2008, PSUs play a key role in steering the national economy in the right direction.

- PSU banks offered lower interest rates to revitalise the sectors like real estate, SMEs or agriculture.
- Oil Marketing Companies bled but maintained the retail prices of petroleum products low when crude oil price was at its peak of $147 per barrel a year ago and helped India avoid a social and economic chaos.
- LIC, one of the largest PSUs, was probably the only large investor in the Indian equity market when rest of the large investors preferred to stay away during the market turmoil of 2008.

Can private sector be an option to public sector ?

- Till now, India has not resolved all its traditional issues like lack of modern technology in strategic sectors, under exploitation of local resources, a thin and lopsided industrial base, skewed income distribution, regional disparities and high unemployment rate for which the PSUs were actually set up. So, one cannot rule out the continuing existence of the public sector to meet these objectives
- The PSEs have continuously focused their efforts in keeping pace with the competitive environment in the process, several PSEs have become self-reliant and have transformed into world-class organizations. The stellar performance of prominent PSEs is borne out by the fact that out of the seven Indian companies selected in the Fortune Global 500 list for 2009 , five were PSEs.

- The hire and fire policy of private enterprises ,concentration of economic power in a few hands as well as many other drawbacks of the private sector can easily be solved by the public sector

Conclusion

- Indian economy could lose its vitality without public sector enterprises considering the country's existing socioeconomic structure. But there is an urgent requirement to address inefficiencies and limitations pertaining to the sector.
- Mere privatisation of all public sector units could not be the only solution to it.
- Public Private Partnership (PPP) which is used for the provision of infrastructure services effectively such as of development of roads, power sector, railways as well as health and education ,etc can be extended to other sectors of the economy as well. Each of the partner in this relationship brings with it what the other lacks. The private participation could help to bring technical and managerial expertise, injection of huge capital.On the other hand, a private developer would take many years to arrange for land, water, roads, ports and obtain all the clearances required, which the government as the largest land owner is best suited to do. It supplements scarce public resources, creates a more competitive environment and helps to reduce costs.