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Public Sector Units in India, steps towards privatization

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Introduction:

There are public or public enterprises which are owned by the government and which are also managed by the state machinery. Public undertaking refers to such industrial and commercial undertakings, which are established by the government and operated by the government itself. The government, in its economic policy proposals announced from time to time, defines the areas of activity in which the private sector and the public sector can operate. In the Industrial Policy 1948, the government clarified its approach towards the development of the industrial sector, clearly defined the role of both the private sector and the public sector, and the government monitored the activities of both sectors through various acts and rules.

In the Industrial Policy of 1956, a few goals were set for the public sector also with the aim of accelerating the rate of development and industrialization. Although the public sector was given a lot of importance, the interdependence of the private sector and the public sector was more emphasized. The industrial policy of 1991 was different from the previous industrial policies as the government considered disinvestment in the public sector and more freedom was given to the private sector. Presently some big PSUs such as Bharat Sanchar Nigam Limited, Mahanagar Telephone Nigam Limited and Air India are witnessing losses, the losses of these undertakings are more than their revenue receipts. Despite their restructuring and even the use of money and other resources, positive results are not being generated. The government may have to pay the buyer as in the case of Delhi discom privatization. On the privatization of Delhi Discoms, the advisors of the World Bank had said that privatization should be resorted to improve their physical performance instead of dealing with losses.Privatization is the process of the transfer of the management and control of the government sector into the hands of the private sector. In this way, the government gets rid of the responsibility of the public sector in the nation. Privatization literally means that the stake holding of the private sector in the government company will be more than 51%. This in turn reduces the burden and responsibility of the government. The concept of Privatization was most popular in developed countries and at present, the same concept is being utilized by the developing countries of the world.

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The history of privatization finds its rootsintheeconomicreformsof1990s. In the 1990s, PV Narsimha Rao with then Finance MinisterManmohan Singh introduced Liberalization,Privatization and Globalization model – a move towards a more market-based economy. When the production of goods and servicesis based on supply and demand in the general market, this economic structure is referred to as a market economy.

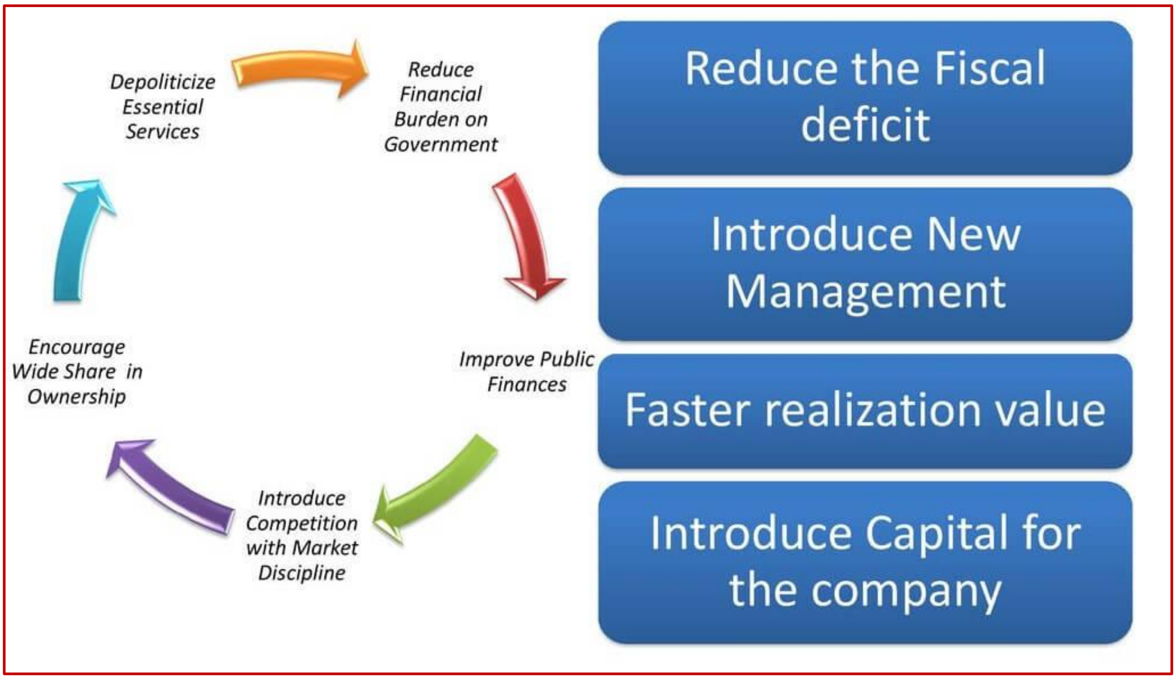
Objective of the Paper:

The main objective of the presented paper is to know about what are public sector enterprises. Along with this, the latest status of public sector enterprises and the path of privatization have to be studied. Through the paper, we are trying to study about the disinvestment work of public sector enterprises and the country's fiscal deficit and economic development.

Causes of privatization:

Major government PSUs of India were running in losses, in which major companies like SAIL, ONGC, HP, Railways, BSNL, and BHEL were there. All these companies were facing huge debt which the government was unable to bear. It has been observed that capitalist management leads the company towards profit. They use methods like more work and less waste, so the government is inviting private corporates to run government public enterprises.Privatisation can be done through the transfer of ownership and disinvestment.

Objectives of Disinvestment



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Six methods of privatisation.

- Through the public sale of shares.
- Through public auction of public companies
- By public tendering of public companies
- Direct negotiations on both sides.
- Transfer of control of enterprises that were controlled by the state or municipalities
- Lease with a right to purchase

The New Economic Policy introduced in July 1991 in the Indian economy clearly indicated that the rate of return on capital employed of public sector enterprises is extremely negative. Due to which the liabilities for the government were increasing. Many undertakings had become a burden on the economy. National Gross Domestic Product and Gross National Savings were also getting adversely affected. Following are some of the important factors for the low rate of profit in these enterprises.

- Price policy of public sector undertakings
- Under–utilisation of capacity
- Problems related to planning and construction of projects
- Problems of labour, personnel and management
- Lack of autonomy

Categories of privatisation:

1. CPSEs - Central Public Sector Enterprises are the enterprises which share 51% or more stocks with Central Government or other CPSEs.

2. PSBs- Public Sector Banksare the Banks which work under the control of the Central Government or other PSB and share 51% or more stocks with them.

3.SLPEs - State Level Public Enterprises are enterprises working under the control of the State Government or other SLPEs and share 51% or more stocks with them.

Public sector enterprises have been classified into three parts.

1. **Maharatna**
2. **Navaratna**
3. **Miniratna**

1. **Maharatna-**The Maharatna scheme for Public Sector Enterprises was launched in May, 2010 to empower Mega Public Sector Enterprises to expand their operations and emerge as global giants. Maharatna will include those companies which have already got Navratna status. The company should be listed on the Indian stock exchange with a minimum prescribed public shareholding under the regulations of the Securities and Exchange Board of India. The average annual turnover of the company during the last three years should be more than Rs.25,000 crore. The average annual net worth of the

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last three years should be more than Rs 15,000 crore. The average annual net profit of the last three years should be more than Rs.5,000 crore. The companies should have a significant presence in the international market in the field of business. Examplesare Bharat Heavy Electricals Limited, Bharat Petroleum Corporation Limited, Coal India Limited, GAIL (India) Limited etc.

2. **Navaratna-**Navaratna scheme was launched in the year 1997 to identify public sector enterprises that enjoy comparative advantage in their respective sectors and support them in their drive to become global players.
3. **Miniratna-** Miniratna Category – Public Sector Company falling under Schedule I and II having obtained Excellent or Very Good rating under the MoU system in three of the last five years and an overall score of 60 or above in six performance parameters. The Miniratna scheme was launched in the year 1997 in pursuance of the policy objective of making the public sector more efficient and competitive and providing greater autonomy and delegation of powers to profit-making public sector enterprises.

Table- 1, Disinvestment in India

Year	Target (Rs. In Billion)	Realisation (Rs. In Billion)	Achievement (as % oftarget)
1991-92	25	30.38	121.52
1992-93	25	19.61	78.44
2000-01	100	21.25	21.25
2001-02	120	36.46	30.38
2010-11	400	228.46	57.11
2015-16	410	421.32	102.76
2017-18	725	725	100

Source: Handbook of Statistics on the Indian Economyvariousissues,Budget2017-18and PublicEnterprisesSurvey2017-18

Table-2, Disinvestmentproceedssince1991(inbillionrupees)andpercentage

Year	Disinvestment	% of Capital Receipts	% Changein FD
1991-92	30.38	7.89	7.72
1996-97	3.8	0.62	0.56
2000-01	21.25	1.58	1.75
2001-02	36.46	2.24	2.52
2008-09	5.66	0.19	0.16
2009-10	245.81	5.43	5.54
2010-11	228.46	5.68	5.76
2015-16	421.32	7.23	7.32
2016-17	455	8.26	7.84
2017-18	725	11.73	11.71

Source: Handbook of Statistics on the Indian Economy 2016-17,Budget2017-18

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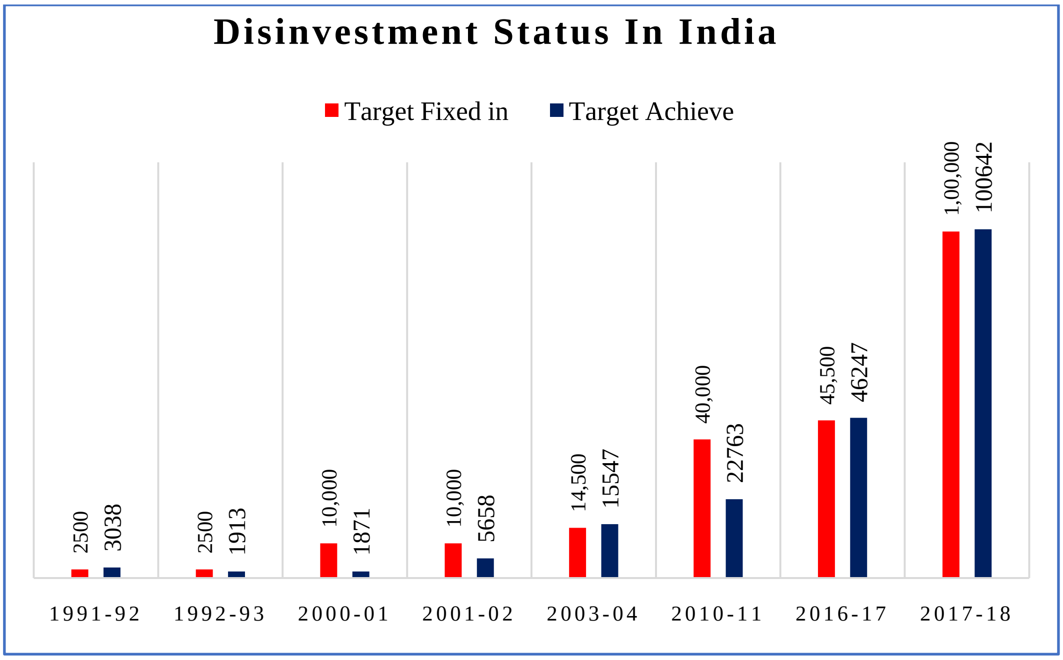
Current Status of Disinvestment of PSUs in India: The process of disinvestment in the Indian economy started in 1991. In the budget of 2001-02, a target was made to get an amount of Rs 12000 crore through disinvestment of PSUs. In which the government will use Rs 7000 crore to restructure and support PSUs, protect workers and reduce debt burden. Due to disinvestment, a target of Rs 40,000 crore has been set for actual disinvestment in 2013-14. And the companies that were disinvested in this session were Hindustan Copper Limited, MMTC, NFL, ITDC, STC, NLC, NHPC, PGCIL, EIL, BHEL, IOCL and CPSE-ETF.

Table- 3, PSUs Disinvestment status in India

Years	Target Fixed in (Crore Rs)	Target Achievein Crore Rs.
1991-92	2500	3038
1992-93	2500	1913
2000-01	10,000	1871
2001-02	10,000	5658
2003-04	14,500	15547
2010-11	40,000	22763
2016-17	45,500	46247
2017-18	1,00,000	100642

Source: http://divest.nic.in



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Benefits of privatization of PSUs

Private companies are profit-motivated rather than politically motivated. Allows companies to become more efficient by eliminating the heavy bureaucracy and red tape under privatization. Moreover, private companies evaluate their employees on the basis of their performance and incentivize better performance adequately. Private companies are profit-driven and operate in a competitive market, so their primary focus is on efficient customer service. There is a lack of such facilities in state-run companies. Because they do not face competition and are not financially motivated. The process of privatization enhances the management of the company. In which the managers of the company are accountable to their owners, so it becomes their responsibility to ensure efficient management. This factor of accountability is found less in public sector companies.

Conclusion

Privatization in India is an important step towards strong development and good governance of a country. It is the responsibility of the government to take the privatization process in the right direction and get good results. The process of privatization also increases the economic condition. After independence, public sector enterprises have contributed to the development of the country. Due to this the development of infrastructure has become possible in the country. But currently, governments are on the wayto complete and partial privatization to increase their efficiency, but governments will have to emphasize to maintaining competition in the market and also efforts have to be made that due to privatization the path of monopoly should not be created.

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