

Public Sector Enterprises Through a Quarter Century of Economic Reforms

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Abstract

The policymakers of independent India favoured creation of a large Public Sector as a tool for economic development through industrialisation. After the announcement of Industrial Policy Resolution 1956, the public sector saw massive growth in terms of investment and diversification. However, by the early eighties there was clear realisation among the policymakers that public sector as whole had been unable to generate adequate surplus due to inefficiency which had set in as a result of numerous factors. In early nineties, India faced macro-economic crisis and economic reform measures were initiated by the government. New Industrial Policy was announced in July 1991. A number of measures were initiated for reforming the Public Sector Enterprises. Disinvestment and Memorandum of Understanding were key strategies among others. Starting with a few public sector units, these measures gradually expanded its scope over the next two and a half decades of reforms.

This paper attempts to trace the macro-level performance of Public Sector Enterprises in India through a quarter century of reform process since 1991.

Keywords: Economic Reforms, Public Sector, New Industrial Policy, Disinvestment, Memorandum of Understanding.

Introduction

At the time of independence Indian economy was predominantly agrarian and underdeveloped in nature. Rapid economic development was possible only through speedy industrialisation. The private sector was not strong enough to mobilise enough resources to take up huge industrial projects. Hence, it was left to the public sector to take up developmental activities irrespective of the risk involved. The policymakers of free India decided in favour of creation of public sector as a strategy for rapid industrialisation of the country.

The Industrial Policy Resolutions (IPR) of 1948 and, more importantly, Industrial Policy Resolution-1956 laid the strong foundation for the public sector in India. The aim was to facilitate the public sector to grow to the position of commanding heights of the Indian economy. Under the IPR 1956, the public sector got a strategic role in the economy and seventeen industries were reserved exclusively for it. It resulted into many Public Sector Enterprises (PSEs) successfully expanding production, opening up in new industries and building up a reserve of technical competence in a number of areas. In the 1960s and 1970s, Public Sector Enterprises got further importance on the social ground - economic growth with equity and justice. This led to spread of PSEs to non-infrastructure and non-core areas of the economy.

However, in the early 1980s, PSEs started facing serious criticism as its inefficiency started coming to the fore. The opportunity cost of economic resources locked up in PSEs was quite high and they were not able to generate resources for financing other developmental programs. In early nineties, India was in the mid of a macroeconomic crisis. Economic reforms were initiated by the Narasimha Rao government. New Industrial Policy was announced in July 1991. In pursuance of that, a number of measures were initiated to improve the productivity of the Public Sector Enterprises in the changed economic environment.

Against this understanding, the present study attempts to trace the macro-level performance trajectory of the Public Sector Enterprises in India through a quarter century of reforms since 1991.

This paper is organized as follows: the following section provides a brief review of literature related to impact of economic reforms on the performance of PSEs. The next section discusses the approach of the paper along with the methodology and data sources. After that the paper briefly explains the condition of public sector enterprises on the eve of economic reforms. This is followed by enumeration of key reform measures that took place over the two and half decades of economic reforms. In the final section, macro-level performance of PSEs have been traced and analysed over a quarter century of reforms, to be followed by conclusions.

Review of Literature:

This section takes a look at the discussions on the issue at hand in earlier studies. The brief outline of some important studies relating to Memorandum of Understanding (MOU) has been detailed as below:

Trivedi (1991) states that policymakers initiated reform measures such as disinvestment and MOU due to non-delivery of expected benefits by the PSEs as envisaged by the policymakers during the second five year plan. Comparing disinvestment with MoU, he says, disinvestment involves privatization of public assets, while MOU, on the other hand, brings about changes in the management of PSEs on the lines of a private enterprise. Disinvestment measures are based on the premise that ownership per se is the problem whereas MOU attempts to correct the control mechanism used by governments to manage a PSE. MOU and disinvestment can be applied as complementary measures. To fetch higher value on disinvestment, an MOU arrangement can be initiated in a PSE before divesting it.

Mishra et al. (1993) and **Sankar et al. (1994)** in their study highlight the large gap between the amounts actually realized through disinvestment and the amounts potentially realizable by applying the best value method. They opine that shares were deliberately underpriced to ensure quick disposal. The criteria

adopted in the selection of PSEs and the methods involved in the valuation of shares were deliberately designed in a way that they lacked transparency in the process.

Gouri (1996) argues privatization and PSE restructuring in India lack a clear and comprehensive policy. This may suit short-term political expediency but at the cost of long-term sound economic management.

Ghuman (1999) observes that disinvestment measures had very limited success during the initial phase. The pace of disinvestment improved only after setting up of the Disinvestment Commission. Author cited administrative ministries, employees and interest groups as major hurdles in the way success of reforms.

Arun and Nixon (2000) argue that disinvestment mainly aims at reducing the public sector borrowing requirement. They express dissatisfaction with the disinvestment process. They attribute limited public support for disinvestment to alleged underpricing of shares sold, lack of transparency and absence of a common set of objectives between the Government of India and the Disinvestment Commission.

Rath (2001) explains the reasons behind the disinvestment of PSEs. The changing global environment and unsatisfactory performance of PSEs forced the government to minimize the role of public sector activities. Instead of investing resources in industries, trade and business, the government has developed social and economic infrastructure for facilitating the activities of the private sector. Author calls PSE reforms from 1991 to 1998 a success story.

Malik (2003) argues that the Indian approach to disinvestment seems to have gone wrong, due to opposing views of different political parties. While all political parties and economists support divestments and privatization measures in principle, they devise various escape routes for non-implementation. The industry and business don't seem to be in a position to raise such huge funds to buy and acquire PSUs. The foreign investors are critical of the entire process and are often seen withdrawing from the bidding process.

Jain and Yadav (2005) analyze the financial management of the PSEs by using the secondary data of 137 PSEs for the period of 1991 to 2002, supplemented also by some primary data. They conclude that PSEs have earned a satisfactory rate of return on the capital employed. They attribute better profitability of PSEs to the liberalization policy measures taken by the government.

Nagaraj (2006) analyzes the long-run performance of the public sector using National Accounts Statistics (NAS) data. He concludes that share of public sector steadily rose to the domestic output, even though its share in domestic investment reduced to nearly half. This improvement in the performance has occurred due to a rise in the physical efficiency in electricity generation, a fall in the public sector employment and increase in the profitability of PSEs.

Mishra and Lakshmi (2006) try to analyze the performance of PSEs in the era of economic liberalization by using the primary and secondary level data. The study says that PSEs' profitability and internal resource mobilization have improved in the post-liberalization period.

Raj (2012) states that Indian business conditions have changed after economic reforms. Hence, government is considering new guidelines in keeping with changed business environment in order to help India's top state-run companies to meet their investment targets. The author suggests grant of greater operational flexibility in cases where MOUs have high targets. In the case of Maharatnas and Navratnas, he proposes to have a review and appeal mechanism for revision of MOU in case there is a change in the business conditions. It has also been suggested that investment plans provided by the PSEs should also be incorporated in the Memorandum of Understanding and that should be part of the appraisal.

Shantanu (2012) opines that the Memorandum of Understanding (MOU) plays a crucial role for nearly 200 profit-making central PSEs such as ONGC, Indian Oil, Coal India, NTPC, etc. MOU mechanism ensures autonomy to PSEs, at the same time depending upon the achievements of the target, performance-related pay goes up. The major challenge before the government is bringing loss-incurring PSEs into the

fold of the MOU system. For this purpose, the department of public enterprises (DPE) has formed a working group. The panel is exploring the possibility of applying different MOU formats for different categories of CPSEs. Panel also explores whether more operational flexibility could be given to Maharatna and Navaratna CPSEs while setting targets.

Significance of the Study

After independence, the policymakers emphasised the expansion and growth of public sector as a strategy for the rapid development of the country. After IPR 1956, Public Sector Enterprises saw major growth in 1960s and 1970s. However, by the early 1980s, it was increasingly clear that PSEs were unable to generate adequate surplus due to inefficiency. Comprehensive economic reform measures were initiated in 1991, and a number of strategies were adopted to improve the productivity in the public sector enterprises. More than a quarter century has elapsed since the beginning of the reforms in 1991. It is important to see whether the economic reform measures have been successful in transforming the public sector as envisaged at the start of the reform process. The present study is an attempt in this direction.

Objectives of the Study

Public Sector Enterprises in India operate at three levels of administration—Centre, State, and Local Government. Public Sector comprises Administrative Department (Offices and other Bodies of the Government), Departmental Enterprises (Railways, Post and Telecommunication), and Non-departmental Enterprises (Financial and Non-financial enterprises, with 51% of government equity). The scope of the paper is limited to non-financial PSEs owned and managed by the Central Government. In the light of this background, the present study has the following main objectives:

- To analyze the macro-level performance trajectory of PSEs' in India through a quarter century of economic reforms since 1991.
- To assess the transformation of the Public Sector Enterprises in India over this period.

Data Source

This study collected information from various secondary sources, namely, Public Enterprises Survey by the Department of Public Enterprises; National Account Statistics by the Central Statistics Organization; Economic Survey by the Ministry of Finance; Ministry of Disinvestment, www.divest.nic.in; various Annual Reports; and Research and Development Statistics by the Department of Science and Technology. However, the Public Enterprises Surveys (Vol.I) 1991 onwards are the main source of data for analysis purposes. The period of study is broadly from 1991-92 to 2015-16.

Methodology

The analysis concentrates on those non-financial Central PSEs where the level of equity holding of the Government of India has been more than 50%. The technique of trend analysis has been extensively used in analysing the reform measures and performance pattern of PSEs. Inferences have been drawn on the basis of co-movement of the variables over the period of analysis.

Public Sector Enterprises in India during Pre-reform Period (1947-1991)

At the time of independence, Indian economy was underdeveloped. There was little industrial presence but there was vast untapped potential. India had a large population dependent on agriculture, practiced with primitive methods. There was a need for big push to the Indian economy. As the private sector lacked funds and managerial ability, it was unable to undertake risks that are usually associated with large-scale investments. Hence policy makers thought of public sector as the engine of self-reliant economic growth to overcome economic and social backwardness. The Industrial Policy Resolution (IPR) of 1948 and the

subsequent one of 1956 were formulated to achieve this objective. By the IPR 1948, the responsibility for setting up of new undertakings was reserved to the state on six basic industries viz. Coal, iron and steel, aircraft manufacture, ship-manufacture and ship-building, mineral oils, manufacture of telephone, telegraph and wireless apparatus. The IPR 1956, recognizing the need of rapid industrialisation for promoting the accelerated growth of the economy, emphasised the key role of the public sector in setting up new industrial undertakings. Under IPR 1956 as many as seventeen industries were reserved under the exclusive responsibility of the state. A large number of enterprises were set up in the fifties and the sixties. PSEs in India saw massive expansion and growth in terms of their number of units, capital investment, employment generation and production. The number of Central Government enterprises, other than departmental projects, at the end was 1991 was 246 as against 5 at the commencement of First Five Year Plan in 1951. The investment in paid-up capital and long-term loans in the PSEs totalled to Rs. 1,13,234 crores in 1990-91; it was just Rs. 29 crores in 1950-51. Public Sector Enterprises contributed a total of Rs. 19,466 crores to the central exchequer in 1991 by way of dividends, corporation tax, excise duty, customs and others. The share of Public Sector Enterprises in Net Domestic Product (NDP) which was just 3 per cent in 1950-51 rose to 16 percent in 1990-91. However, despite so much policy preference toward the public sector expansion and growth, private sector's contribution to the NDP was much larger.

Problems of Public Sector Enterprises

Despite the tremendous growth since independence, performance of PSEs could not be considered satisfactory on many counts:

The Net Profit after Tax of Public Sector Enterprises was negative (Rs.3 crores) in 1970-71. The negative trend continued till 1980-81. From 1981-82 onwards, the central public sector enterprises started yielding positive Net Profit after Tax. It amounted to Rs. 50 crores in 1981-82 and rose to Rs. 2272 crores in 1990-91. However, bulk of the profits came from the petroleum sector units. Of the Rs. 2272 crores net profit in 1990-91, about Rs. 1780 crores (75 %) were from petroleum sector alone. The ratio of net profit to capital employed in non-petroleum industries was barely 1.3 percent in 1989-90; a meagre sum of just Rs. 883 crores was contributed by the 200 odd non-petroleum PSEs.

Narothan Shah (1981) observes "The failure of the public sector is most glaring in respect of savings. After 30 years of planning, the public sector contributed only 21 percent of the national savings; that also, in part, through heavy taxation and semi fictitious profits of the RBI. The remaining 79 per cent of the nation's savings came from private sector (i) It has been mainly on account of the inefficiency of the government and the public sector enterprises and their consequent failure to generate internal surplus commensurate with the increase in their capital stock. (ii) The self-defeating efforts of the government to make up the shortfall in resources through excessive borrowings from the banking sector (better known as deficit financing)."

A clearer picture of non-performance emerges when we compare savings data with capital formation. The share of the public sector, which was one-third of the capital formation during the First Plan (1951-56), increased to about one-half during the Seventh Plan (1985-90).

Bimal Jalan (2002) observes "India was actually showing one of the lowest rates of growth in the developing world with rising public deficit and balance of payment crises...Between 1950 and 1990, India's growth rate averaged less than 4 percent per annum, and per capita income growth was less than 2 per cent per annum. The most conspicuous failure, in my view, for which there is no alibi, is the erosion in public savings and the inability of the public sector to generate resources for investment or provision of public services."

Lamenting on the performance of the public sector enterprises, the Eighth Plan noted: "The public sector, as envisaged by Jawaharlal Nehru, was to contribute to the growth and development of the nation by providing surplus re-investible resources. This has not happened, as it should have. Many public sector undertakings

make substantial losses and have become a continuing drain on the exchequer, absorbing resources, which are withdrawn from sectors where they are desperately needed to achieve other development goals. Apart from the fact that the present fiscal situation does not permit any more accumulation of unsustainable losses, there is also the fact that many loss-making public sector undertakings do not serve the goal for which they were set up.”

Public Sector Enterprises through a Quarter Century of Economic Reforms (1991 - 2016)

India’s reforms began in the middle of a macroeconomic crisis that erupted in early 1991. The crisis was worsened by a steep fall in foreign exchange reserves to about \$ 1 billion resulting in a downgrading of India’s credit rating and a cut-off of foreign private lending. The main underlying features of the crisis were high inflation, large public and current account deficits, and last but, not the least, a heavy and growing burden of domestic and foreign debt. There was also a serious balance of payment (BOP) crisis in the middle of 1991. The crisis provided an opportunity to the policymakers to initiate a comprehensive set of economic reform measures.

Economic reforms of 1991 sought to usher in liberalisation, privatization and globalisation. The congress (I) government under the Prime Ministership of Narasimha Rao announced the new Industrial Policy in July 1991. In pursuit of the policy objectives, government decided to take a series of initiatives in respect of the policies relating to the following areas:

1. Industrial licensing
2. Foreign Investment
3. Foreign Technology Agreement
4. MRTPA Act and
5. Public Sector Enterprises.

The key strategies for restructuring PSEs for improving their efficiency and performance on a long term basis, inter alia included:

- I. Voluntary Retirement Scheme
- II. Disinvestment of PSEs Shareholding
- III. Memorandum of understanding
- IV. Autonomy

I. Voluntary Retirement Scheme (VRS)

The government aimed to rationalize manpower by this scheme. The idea is to shed the load of excess workers in the PSEs. Initially ‘exit policy’ was introduced, which was later abandoned due to strong resistance from the unions. VRS has met with success. The Public Enterprises Survey 1992-93 stated: “Large scale employment generation by public enterprises has over the years, led to a situation where some of the enterprises are saddled with over-employment or excess manpower resulting in low level of manpower productivity. Government had initiated a voluntary retirement scheme in 1988 to help them shed excess manpower and to improve the age-mix and skill-mix” As a result of the VRS , the number of workers in PSEs, which stood at 22.19 lakh in 1990-91, was brought down to 18.56 lakh in 1999-2000. The National Renewal Fund (NRF) was created in February 1992 to provide safety net for workers seeking voluntary retirement.

II. Disinvestment of PSEs Shareholding

The 1991 Industrial policy envisaged the disinvestment of a part of the government shareholdings in selected PSEs to provide financial discipline and improve their performance. While, the policy on disinvestment of PSEs has evolved considerably through policy statements of the Finance Ministers in their

successive Budget Speeches, disinvestment through listing of CPSEs on the Stock Exchanges has consistently been emphasized, ever since the Government embarked upon its disinvestment program for PSEs. An important objective of listing of PSEs has been to promote the development of 'people-ownership' by encouraging public participation in PSEs. Other important objectives to be achieved through listing of PSEs, inter-alia, includes promoting healthy corporate governance practices, infusing greater transparency, accountability, public scrutiny in the functioning of CPSEs, unblocking thereby, the true value of the enterprises for its stakeholders. While pursuing these objectives, it is to be ensured that at least 51 per cent shareholding and the management control of PSEs is retained with the Government.

To accord due importance and focus on disinvestment process, the Department of Disinvestment was set up as a separate Department on 10th December, 1999 and was later renamed as Ministry of Disinvestment from 6th September, 2001. From 27th May, 2004, the Department of Disinvestment is one of the Departments under the Ministry of Finance. The Department has been re-named as Department of Investment and Public Asset Management (DIPAM) from 14th April, 2016, with focus of the Government on management of its investment in Central Public Sector Enterprises (CPSEs) for accelerating economic development as well as augmenting Government resources for higher expenditure.

Disinvestment of PSEs in India has been carried out with following objectives:

- (i) Promote people's ownership of Central Public Sector Enterprises (CPSEs) to share in their prosperity through disinvestment.
- (ii) Enables efficient management of public investment in CPSEs for accelerating economic development and augmenting Government's resources for higher expenditure.
- (iii) Listing of CPSEs on stock exchanges to facilitate development and deepening of capital market and spread of equity culture.
- (iv) Raising budgetary resources for the Government.

Key approaches adopted by the government for disinvestment are as follows:

A. Disinvestment through Minority Stake Sale

The approved action plan for disinvestment in profit making government companies is as follows:

Already listed profitable CPSEs (not meeting mandatory shareholding of 10 per cent which stands revised to 25 per cent) are to be made compliant through 'Offer for Sale' (OFS) by the Government or by the CPSEs through issue of fresh shares or a combination of both.

Unlisted CPSEs with no accumulated losses and having earned net profit in three preceding consecutive years to be listed.

Follow-on public offers would be considered, taking into consideration the needs for capital investment of CPSEs on a case by case basis, and the Government could simultaneously or independently offer a portion of its equity shareholding;

All cases of disinvestment are to be decided on a case by case basis;

The Department of Investment and Public Asset Management (DIPAM) is to identify CPSEs in consultation with respective administrative ministries and submit proposal to Government in cases requiring Offer for Sale of Government equity.

B. Strategic Disinvestment

To be undertaken through a consultation process among different Ministries/Departments, including NITI Aayog.

NITI Aayog to identify CPSEs for strategic disinvestment and advice on the mode of sale, percentage of shares to be sold of the CPSE and method for valuation of the CPSE.

The Core Group of Secretaries on Disinvestment (CGD) to consider the recommendations of NITI Aayog to facilitate a decision by the Cabinet Committee on Economic Affairs (CCEA) on strategic disinvestment and to supervise/monitor the process of implementation.

C. Disinvestment through Exchange Traded Fund (ETF)

An Exchange Traded Fund (ETF) is a security that tracks an index like an index fund, but trades like a stock on an exchange. Constituent stocks are listed and actively traded, and may have representation from various sectors to provide ETF unit holders adequate diversification.

Disinvestment through the ETF route allows simultaneous sale of Government of India (GoI) stake in various Central Public Sector Enterprises (CPSEs) across diverse sectors through a single offering and avoids the necessity to go to the market repeatedly for divesting different stocks. The CPSE-ETF provides a mechanism for the GoI to monetize its shareholding in those CPSEs that eventually form part of the CPSE ETF basket, in a stock-neutral, time-efficient and non-disruptive manner.

Disinvestment receipts from 1991-92 till March 2015-16:

An idea about the extent of disinvestment process can be drawn by Figure 1. The disinvestment process that started in 1991-92 really picked up after 2008-09. Since then, it is contributing significantly to the government exchequer.

Figure 1

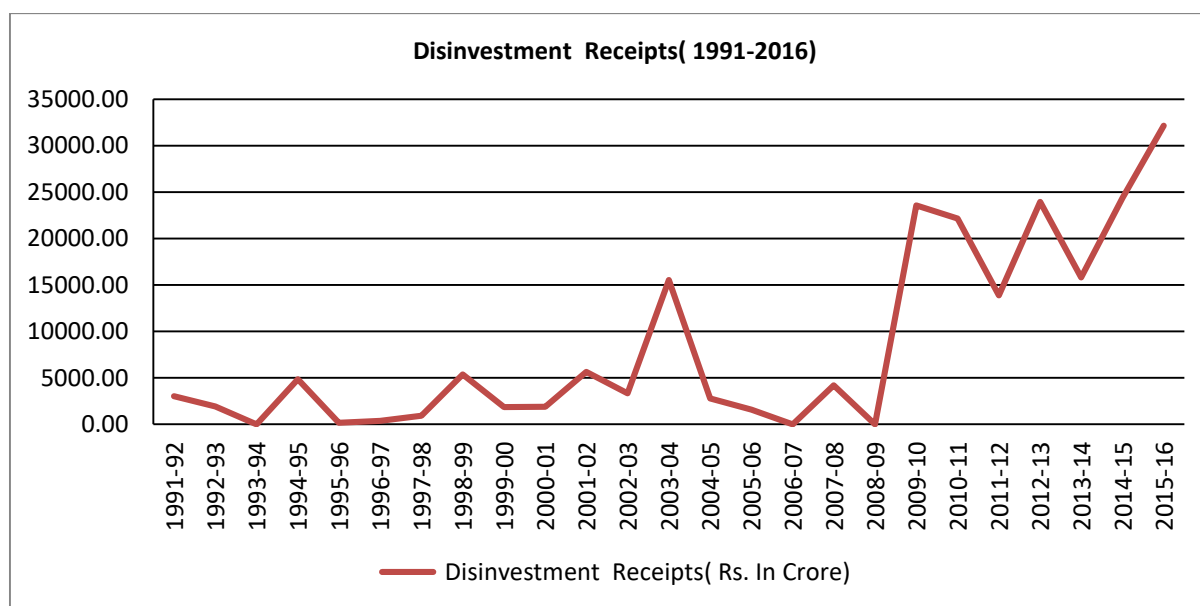


Figure 2

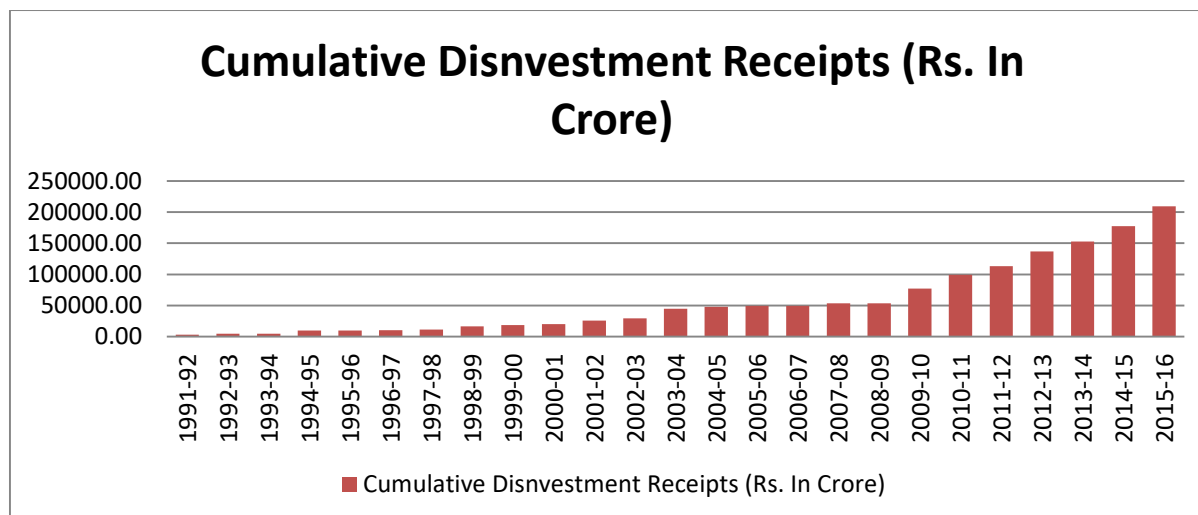


Figure 2 shows the cumulative disinvestment receipts since 1991-92. As on 2015-16, the total receipts received by the government is Rs. 209000 crores. Major PSEs that went for disinvestment over this period are Videsh Sanchar Nigam Limited, maruti Udyog Limited, ONGC, BALCO, CONCOR, REC, PFC, NTPC, NHPC, IOC, EIL etc. As on 30th June, 2018, 58 CPSEs were listed on Indian stock exchanges.

III. Memorandum of Understanding in India

MoU is a mutually negotiated agreement between the management of the PSEs and the Government of India/Holding Company. Under this agreement, the PSEs undertake to achieve the targets set in the agreement at the beginning of the year and submit themselves to an evaluation on the basis of its achievements at the end of the year. The Government of India introduced the system of MoU in the year 1986, based on recommendations given by Arjun Sen Gupta Committee report (1984). The report recommended that the CPSEs enter into agreements with their Administrative Ministries for five years, while progress would be reviewed annually. The MoU system was given broader thrust by the Government after the announcement of the New Industrial Policy of 1991. The scope of MoU system has been extended to cover nearly all PSEs a quarter century of reforms. The process of target setting and evaluation of the performance of PSEs under the MoU system have been fine-tunes from time-to-time through a number of studies and committee reports in view of the emerging economic situation. Some of the important reports and studies conducted to improve the system of MoU are as follows:

- a. **Arjun Sengupta Committee Report, 1984.**
- b. **Study on the Revamping of the MOU System, NCAER, 2004.**
- c. **Report of the Working Group on Review of MOU Guidelines in CPSEs, GOI & DPE, 2008.**
- d. **Report of Panel of Experts on Reforms in Central Public Sector Enterprises (CPSEs)-2011.**
- e. **Report of the committee on the MOU system – 2012**

The above committee reports and recommendations have been key to gradual evolution of the MOU system in India. Salient features of extant MOU Guidelines applicable for the Year 2017-18 and onwards are as follows:

“There would be uniform parameters for (a) measuring financial performances such as revenue from operations, operating profit and return on investment (e.g. ratio of PAT/Net-worth). This would be applicable to all CPSEs, except CPSEs which are dependent on government grant or performing functions of distribution of grant etc. e.g. Biotechnology Industry Research Assistance Council (BIRAC). Hence, 3 financial parameters have been prescribed for all CPSEs with total weightage of 50% except for CPSEs like BIRAC.

For the remaining 50% weightage, a menu (b) of parameters has been suggested for selection depending on the sector in which the CPSE is operating. Separate format has been given for Finance Sector and another format for the remaining operating CPSEs. The parameters most appropriate and relevant for measuring performance shall be suggested by the Pre-Negotiation Committee (PNC).

For CPSEs under closure/under construction/(c) under reconstruction, parameters have not been prescribed leaving it to the PNC to suggest the most appropriate parameters and targets for IMC to take decisions. For such CPSEs, the emphasis should be to suggest parameters and fix targets for starting commercial operations as early as possible. For CPSEs under closure, the targets would be for ensuring time bound closure.”

Mandatory Parameters (50% weightage) (Applicable to all CPSEs distributing Government Grants)

Financial Performance Criteria:

- Turnover (Revenue from Operations)
- Operating Profit/Loss
- Return on Investment

Other Parameters (50% weightage)

Performance Criteria (Applicable to all operating CPSEs except CPSEs in Finance Sector)

- Capacity Utilization
- New Orders
- Exports R&D
- Increase in Market Share
- CAPEX
- Revival Measures
- Various Efficiency Ratios etc.

MOU Evaluation

Evaluation of MOU of the CPSE is done after the end of the year on the basis of actual achievements vis-à-vis the MOU targets.

Grading of PSEs

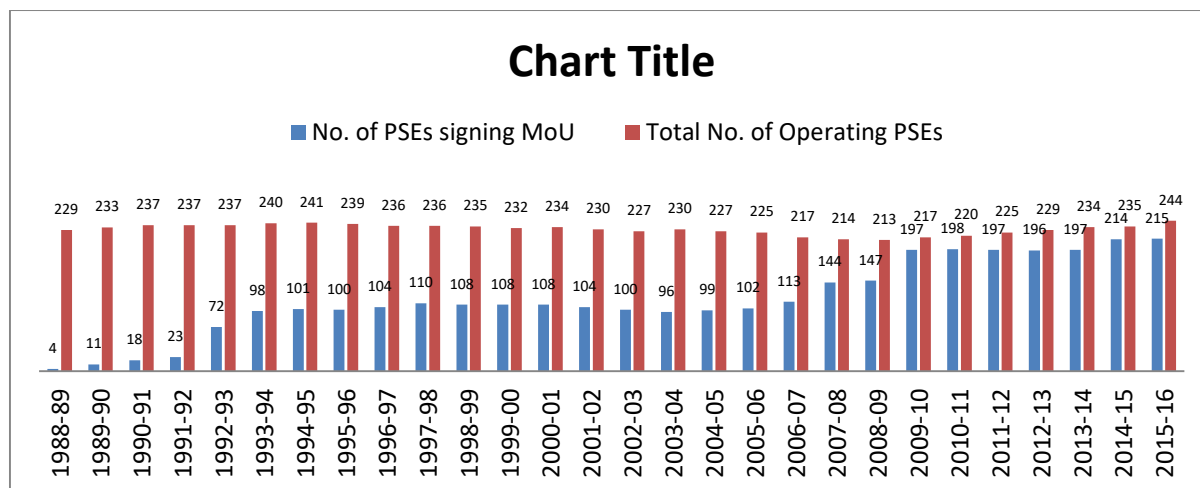
The performance of the enterprises in the MOU system is scored on a 5 point index which is calculated as the aggregate of all the "actual achievements" as against the targets set in the 5 point scale. The rating is done based on the MOU 'Composite Score'.

Figure 3

MOU Composite Score & Rating	
MOU Composite Score	Rating
87.5 to 100	Excellent
Less than 87.5 - 67.5	Very Good
Less than 67.5 -37.5	Good
Less than 37.5 -12.5	Fair
Less than 12.5	Poor

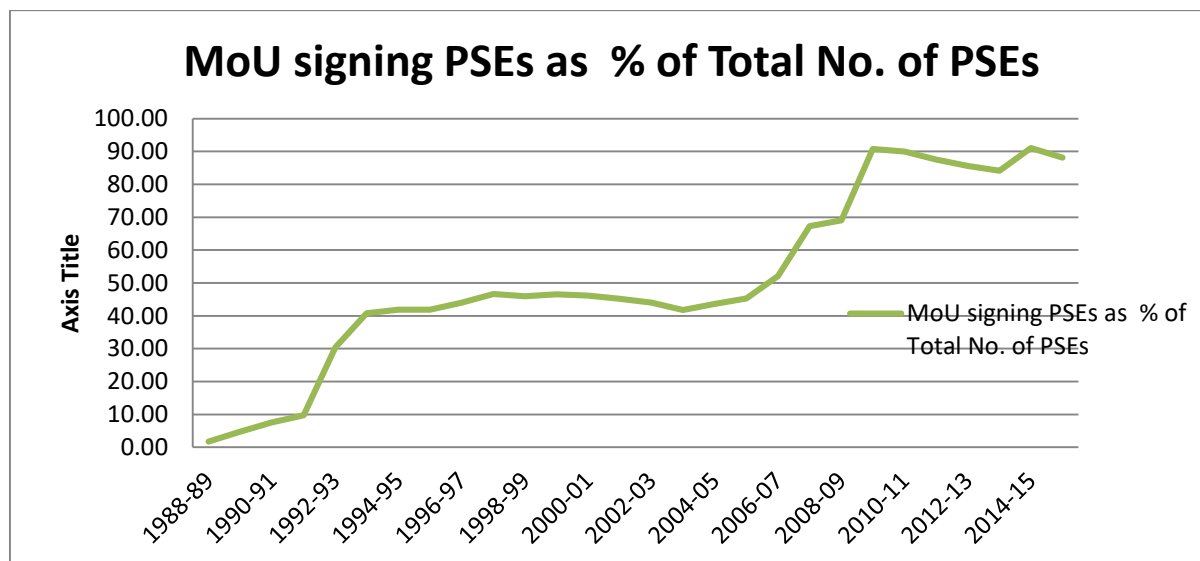
Figure 4 illustrates the gradual expansion of MoU system over the PSE reform process.

Figure 4



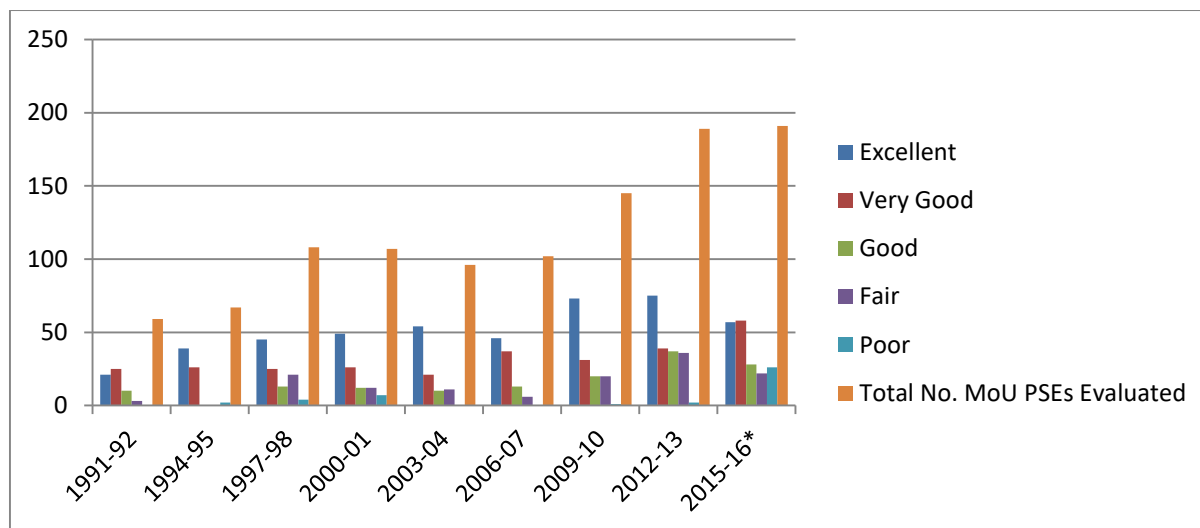
During the Financial Year 1988-89 (FY 88-89), for the first time, four PSEs joined the MOU system. This number grew rapidly till FY 93-94. From that year till FY 05-06, for more than ten years, number of PSEs under MOU system remained almost stagnant. The real expansion in the scope of MOU system took place after FY 06-07. By the FY 2015-16 out of 244 operating PSEs, 215 were within the scope of MOU system (Figure 4). Hence, over a period of two and half decades almost the entire universe of the PSEs has come under the MOU system.

Figure 5



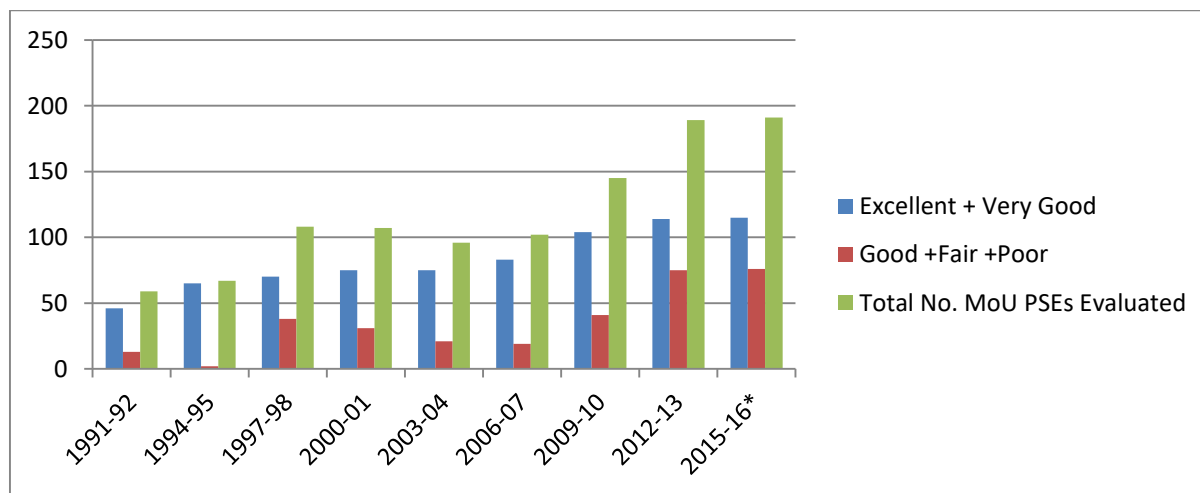
MOU received acceptance both from the management of the PSEs and the respective ministries after its introduction. Figure 5 depicts MOU signing PSEs as a percentage of the total number of operating PSEs. The graph shows the expansion of the coverage of MOU system. In percentage terms, approximately 90% of PSEs are under MOU system in FY 2014-15 as compared to less than 2% in FY 1988-89 when this system of performance appraisal was adopted by the government.

Figure 6



Targets under MOU are given before the commencement of the financial year and evaluation of the performance and assignment of rating takes place after the end of the financial year on submission of the performance data. Rating is assigned on the basis of achievement of targets. Figure 6 shows the trend of total number of MOU PSEs evaluated and their performance rating. The number of PSEs with ‘excellent’ and ‘very good’ ratings has always been more than those with ‘good’ ‘fair’ and ‘poor’.

Figure 7



For the sake of drawing meaningful inferences, it will be more useful if we combine the number of PSEs into two groups, one consisting of ‘excellent’ and ‘very good’ ratings and other consisting of ‘good’, ‘fair’ and ‘poor’. Figure 7 has been traced with data combined in this manner. The trend line showing the number of PSEs with ‘excellent’ and ‘very good’ ratings rises smoothly despite the fluctuations in the total number of PSEs under MOU. It reflects gradual rise in the performance of the PSEs coming under the system of MOU.

IV. Autonomy:

To make PSEs more competitive and efficient, the Union Government of India has granted autonomy of varying degrees - autonomy in management with respect to investment decisions or liberalizing administrative pricing - to selected profit making public enterprises. Depending on the degree of autonomy

provided, the select industries are called Maharatna, Navaratnas and Mini-ratnas. The Government has granted enhanced powers to the Boards of Maharatna, Navratna, Miniratna .

A. Maharatna Scheme

The Government introduced Maharatna scheme in February, 2010 with the objective to delegate enhanced powers to the Boards of identified large sized Navratna CPSEs so as to facilitate expansion of their operations, both in domestic as well as global markets.

The CPSEs fulfilling the following criteria are eligible to be considered for grant of Maharatna status:-

- (a) Having Navratna status
- (b) Listed on Indian stock exchange, with minimum prescribed public shareholding under SEBI regulations
- (c) An average annual turnover during the last 3 years of more than Rs. 25,000 crore
- (d) An average annual net worth during the last 3 years of more than Rs.15,000 crore
- (e) An average annual net profit after tax during the last 3 years of more than Rs. 5,000 crore
- (f) Significant global presence or international operations.

The Maharatna CPSEs in addition to having Navratna powers have been delegated additional powers in the area of investment in joint ventures/subsidiaries and human resources development. The Maharatna CPSEs can invest Rs. 5,000 crore in one project (Rs.1,000 crore for Navratna CPSEs) and create below Board level posts upto E-9 level (E-6 for Navratna CPSEs).

The Government has granted Maharatna status to 7 CPSEs namely, (i) Bharat Heavy Electricals Limited, (ii) Coal India Limited, (iii) GAIL (India) Limited, (iv) Indian Oil Corporation Limited, (v) NTPC Limited, (vi) Oil & Natural Gas Corporation Limited and (vii) Steel Authority of India Limited.

B. Navratna Scheme

The Government introduced the Navratna scheme in July, 1997 to identify and delegate enhanced powers to CPSEs having comparative advantage and the potential to become global players.

As per the criteria laid down by the Government, Miniratna Category – 1 and Schedule ‘A’ CPSEs, which have obtained ‘excellent’ or ‘very good’ rating under the Memorandum of Understanding system in three of the last five years, and have a composite score of 60 or above in six selected performance parameters are eligible to be considered for grant of Navratna status.

There were seventeen Navratna CPSEs as on 31.3.2016, viz. (i) Container Corporation of India Limited, (ii) Bharat Electronics Limited, (iii) Bharat Petroleum Corporation Limited, (iv) Engineers India Limited, (v) Hindustan Aeronautics Limited, (vi) Hindustan Petroleum Corporation Limited, (vii) Mahanagar Telephone Nigam Limited, (viii) National Aluminium Company Limited, (ix) National Buildings Construction Corporation Limited, (x) Neyveli Lignite Corporation Limited, (xi) NMDC Limited, (xii) Oil India Limited, (xiii) Power Finance Corporation Limited, (xiv) Power Grid Corporation of India Limited, (xv) Rashtriya Ispat Nigam Limited, (xvi) Rural Electrification Corporation Limited and (xvii) Shipping Corporation of India Limited

C. Miniratna Scheme

In October 1997, the Government, in order to make promising profit making CPSEs more efficient and competitive, decided to grant enhanced autonomy and delegation of financial powers subject to certain eligibility conditions and guidelines to make them efficient and competitive. These companies, called Miniratnas, are in two categories, namely, Category- I and Category-II. Presently there are 73 Miniratna CPSEs (58 Category-I and 15 Category-II).

Macro-Level Performance Trajectory of PSEs through a Quarter Century of Reforms:

Figure 8

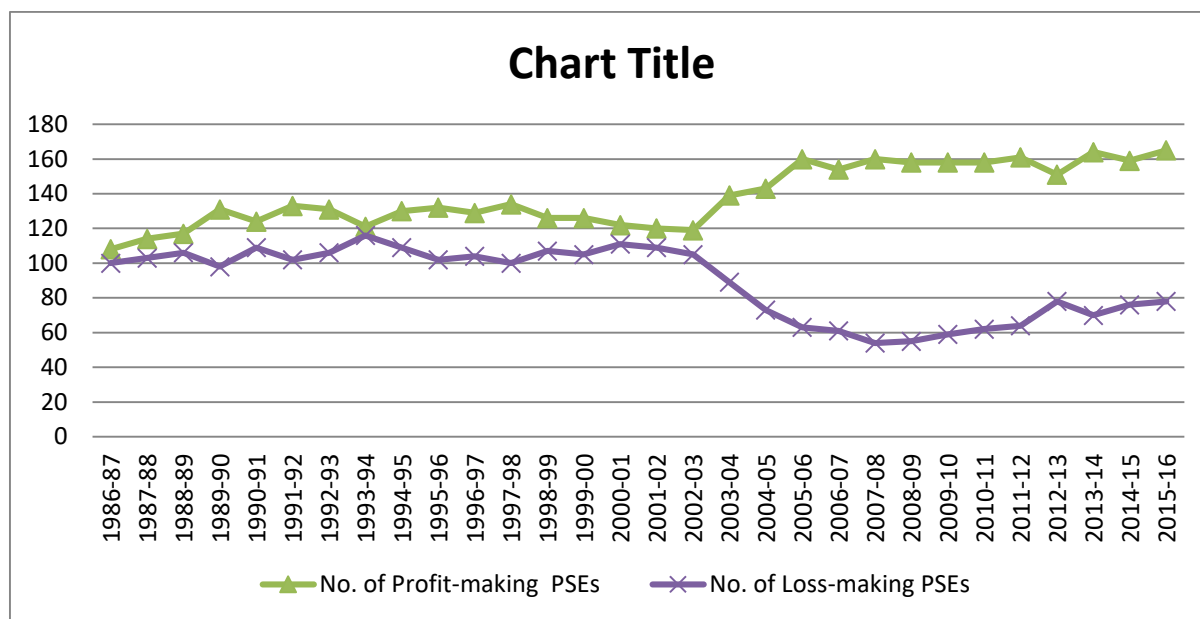
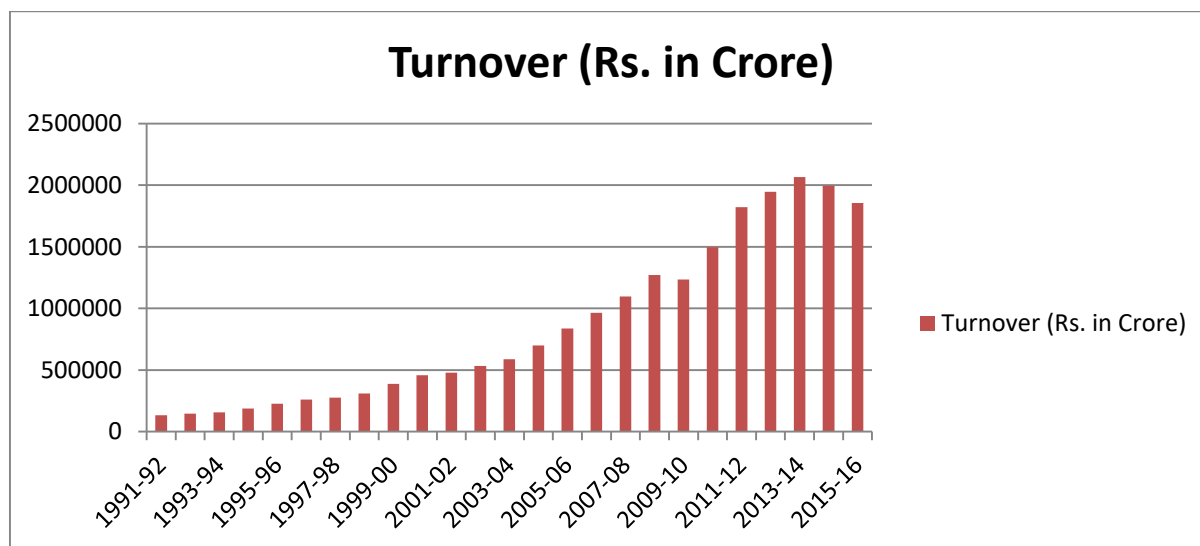


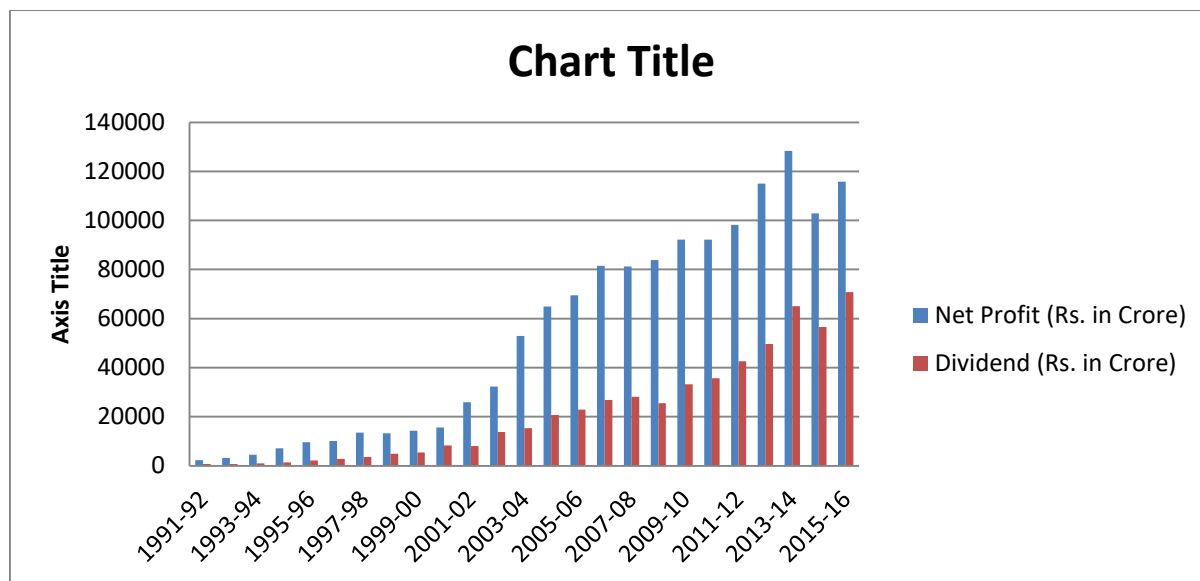
Figure 8 shows the trajectory of ‘number of profit-making PSEs’ and ‘number of loss-making’ PSEs. We can draw an interesting inference here: as the various reform initiatives , namely disinvestment, MoU and autonomy, gather momentum, the number of profit-making PSEs rises sharply and the number of loss-making PSEs declines drastically.

Figure 9



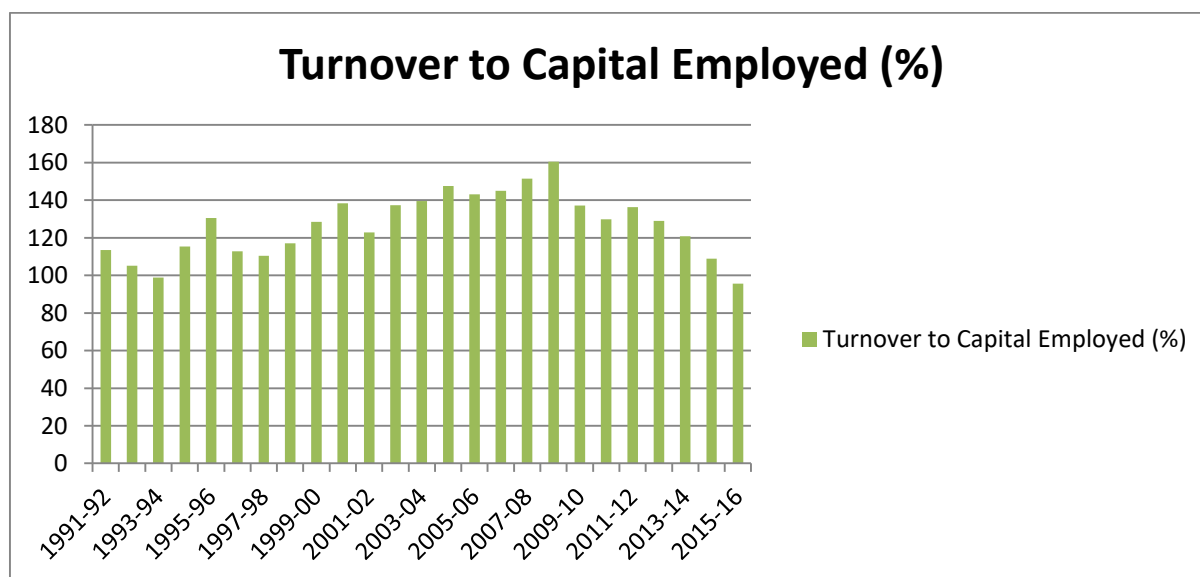
Sales turnover of PSEs as a whole has shown impressive growth over a quarter century of reforms. However, there is a decline after it peaking in FY 2013-14. (Figure 9)

Figure 10



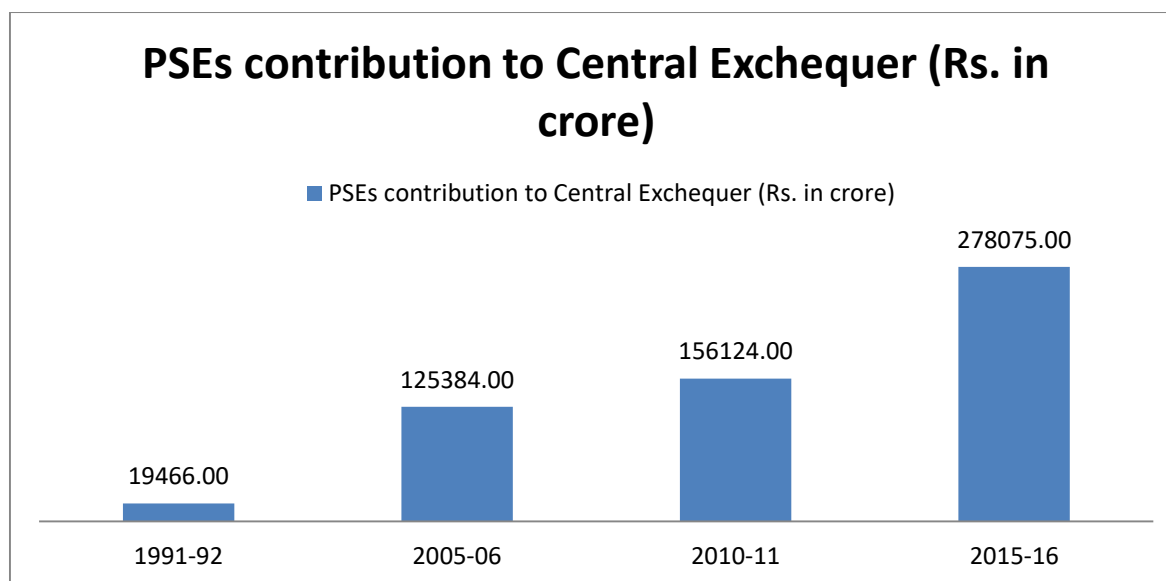
Both Net Profit and Dividend have also shown impressive growth over the period under study. As is clear from Figure 10, PSEs have been able to generate sizeable funds through retention of profits. Despite the decline in turnover after 2013-14, profit growth has been positive after a dip.

Figure 11



‘Turnover to Capital Employed Ratio’ reflects the efficiency in utilizing the assets of the operating unit. In figure 11, we have traced the Turnover of Capital Employed in percentage over a period of twenty five years since 1991-92. Since 1919-92, after an initial deterioration this ratio showed improvement till 2008-09 when it peaked at 160.50 percent. However, since then as indicated by this ratio, PSEs are showing continuous weakening of efficiency in utilising the capital employed. In the FY 2015-16 this came down to 95.66 percent, even lower than what it was at the start of reform measures. This trend opens the scope for further study and deeper analysis.

Figure 12



PSEs contribution to the Central Exchequer by way of dividend payment, interest on government loans and payment of taxes & duties has shown impressive rise over the period of reforms. Contribution to central exchequer increased close to 15 times of what it was at the start of the reform process a quarter century ago. (Figure12)

Conclusions :

From the above study following conclusions can be drawn:

- In view of the inefficiency and inability to generate surplus, PSEs have been subject to a number of reform measures, the key among them were Voluntary Retirement Scheme, Disinvestment, Memorandum of Understanding and enhanced Autonomy.
- The disinvestment process has resulted in listing of as many as 58 PSEs on Indian stock exchanges, with wider shareholding pattern. The resulting ‘market discipline’ has led to better management of the PSEs. Also, the disinvestment process has contributed close to Rs. 2,10,000 crores to the central exchequer to be used for public purposes.
- Since its inception, the MOU system has seen gradual expansion in its scope. Among the PSEs that signed MOU, majority were graded as ‘excellent’ and ‘very good’ performer. The number of ‘excellent’ and ‘very good’ rated PSEs rose along with the rise in the total number of PSEs under MOU system.
- There has been an increase in number of ‘profit making PSEs’ and a decline in number of ‘loss-making PSEs’ over the period of study. The overall financial performance of the PSEs, in terms of Turnover, Net Profit, Dividend Distribution and Retained Earnings has improved over the period of study.
- Over a quarter century of reforms since 1991, there is close to fifteen-fold rise in PSEs contribution to central exchequer by way of dividends and various taxes collected by the government.
- However, efficiency indicator as measured by the ‘Turnover to Capital Employed Percentage’ has been on the decline after reaching a peak of approximately 160 percent in 2008-09. The value of this ratio is less in 2015-16 than what it was at the commencement of reform measures in early nineties.

In view of the declining efficiency indicator, there is need for deeper and disaggregated / sectoral analysis of the public sector enterprises to identify the precise reasons for underperformance.

On the whole, macro-level trend reveals that there is a broad co-movement between the performance of the PSEs as a whole and progression of various reform measures. A quarter century of reforms has transformed PSEs into a key contributor to the government exchequer.

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