

THE DASTUR ESSAY WRITING COMPETITION 2022.

TOPIC:- Privatisation of Public Sector Undertakings – Oppourtunities and Challenges.

Introduction:-

Privatization, described as the transfer of state owned enterprises (SOEs) to the private owners, has become a common economic policy tool around the globe. The trend toward privatization is debatable issue. Indeed, the debate between the superiority of the private and public sectors has been going on for quite a few decades now.

Findings of many studies demonstrated that privatization did not contribute to growth but helped to reduce income inequality, inflation contributed negatively to both economic growth and income equalization. On the other hand, several economists stated that Privatization, a method of reallocating assets and functions from the public sector to the private sector play vital role for economic growth. Recently, privatization has been adopted by many different political systems and has spread to every region of the world. The process of privatization can be successful way to bring about fundamental structural change by formalizing and establishing property rights, which directly creates strong individual incentives. A free market economy mainly depends on well-defined property rights in which people make individual decisions in their own interests. According to experts, privatization may improve efficiency, provide financial relief, boost wider ownership, and increase the availability of credit for the private sector

Privatization is a trending concept in the developing nations of the world at present. The Indian government is selling different public sectors of the nation. Everybody in the nation has their own views and opinions regarding the concept of privatization (Growing Trends of Privatization). Many believe that this step to be a boon for the development of the nation while many have the opinion that in this way the government is selling India.

Public Sector Undertakings – Meaning.

- The government-owned companies are known as Public Sector Undertakings (PSUs).
- In a PSU majority i.e. 51% or more of the paid-up capital is owned by the central government/any state government/partly by the central governments and partly by one or more state governments.

Need for Public Sector Undertakings.

- On the eve of independence, India was grappling with grave socio-economic issues, such as low income and unemployment, regional imbalances and lack of skilled manpower, weak industrial base, low level of investments and infrastructure lacunae, etc.
- Hence, Public Sector was developed as an instrument for self-reliant growth. The country adopted the planning, which created the path for the development of PSUs.
- Initially being confined to core and strategic industries, the governments in the second phase went with the nationalization of industries, the takeover of sick units of the private sector, and taking public sectors to the new fields like manufacturing consumer goods, consultancy, contracting and transportation, etc.
- The Industrial Policy Resolution 1948 explained the logic behind and importance of continuous growth in production and equitable distribution. The policy envisaged active engagement of the State i.e. state-owned PSUs in the development of industries.

Importance of the Public Sector Undertakings:-

Let us first understand the importance and role of public sector undertakings in our economy. These are the reasons that till early 1990, the public sector dominated our economy over the private sector.

- **Developing Infrastructure:** In a newly independent country, with a nascent economy, it is not suitable for private enterprises to invest huge capitals into infrastructure projects. So this responsibility falls to the public sector. And the development of infrastructure is absolutely essential for the development of an economy. For example, all the rail, road, and air transport projects were carried out by public sector undertakings in the post-independence era.
- **Regional Balance:** Private sector companies tend to focus on industrial areas. This results in the backward areas and the smaller towns and villages to be excluded from economic growth. But the government can ensure that growth happens throughout the country in a balanced manner. Public sectors set up units and factories in backward areas bring employment opportunities and economic development to such areas.
- **Check on the Concentration of Economic Power:** When the private sector sometimes the wealth gets concentrated in the hands of a few. This may lead to monopolistic tendencies and concentration of economic power. The public sector helps keep this in check. The income generated by a public enterprise is shared by a large number of employees and also the public at large. This helps restore some economic equality.

Key Role played by Public Sector Undertakings:-

- Create significant ‘capacities’ (ability to produce) in basic and capital goods.
- **Achieve self-reliance in core areas** and also facilitate import substitution
- Attain commanding heights of the economy and become a driver for the industrial growth and a catalyst’ in accelerating overall growth of the economy
- Adopt **pro-labor technology to create employment** opportunities
- Setting up industries in backward/tribal areas for their integration with the rest of the economy and also for better regional development.
- Provide for the development of the private sector.
- Set up **self-contained townships** covering residential, schools, hospitals, transport, etc.
- Public sector to **have regulated prices by the government** given their importance to the economy and not creating an upward spiral in the prices of basic goods

Types of Public sector undertakings:-

- Public Sector Undertakings are classified as Public Sector Enterprises (PSEs), Central Public Sector Enterprises (CPSEs), and Public Sector Banks (PSBs).
- The Central Public Sector Enterprises are classified into ‘strategic’ and ‘non-strategic’. Areas of strategic CPSEs are:
 1. Arms & Ammunition and the allied items of defense equipments, defense air-crafts and warships
 2. Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine, and non-strategic industries)
 3. Railways transport.
- All other CPSEs are considered as non-strategic.
- The PSUs are further categorized as Maharatna, Navaratna, and Miniratna companies according to their performance and given appropriate powers to manage themselves accordingly.

Contribution of Public Sector Undertakings:-

- Broadly they have **delivered in creating significant capacities’ in all core areas** and having **achieved self-reliance** in all kinds of industrial goods required in the economy.
- Today, India can safely claim that **it is not dependent on any country for its requirement of industrial goods largely due to the public sector**
- They have **provided gainful employment.**

- It has also facilitated the and also been responsible for the levels of industrialization and industrial maturity reached.
- They can also be credited for making the industrial sector a driver of growth and lifting overall rates of growth.
- Having said that, The PSUs also have been at the receiving end of criticism. The PSUs today are seen as the relic of past inefficiencies and white elephants that must be sold off to achieve efficiencies in resource planning.

Issues faced by the Public Sector Undertakings:-

- India's public sector landscape is fraught with a large number of loss-making and dysfunctional public sector units.
- There are governance issues with the PSUs as well. The career bureaucrats are placed at the helm which hampers the efficient management of these PSUs.
- There is a politicization of the appointments in the higher management creating a spoils system.
- In the Public sector, there is an excess security of employment which breeds inefficiency and hampers the quality of production.
- The existence of obsolete plant machinery and the inability to infusion of newer technologies is a major cause of PSUs being in loss.
- The losses prompt PSUs to take loans from the Banks which they cannot repay creating the conditions of the twin balance sheet.
- The lack of vision in the management creates a condition of lower capital utilization, continued higher input costs, and compromise on quality.
- Apart from these issues, the philosophy behind PSUs has undergone a sea change now with the redefinition of the state's role as a facilitator rather than a producer, but most of our PSUs still remain trapped in the vast no man's land between the state and market.

Privatization:- Meaning

Privatization is the process of the transfer of the management and control of the government sectors into the hands of the private sector. In this way, the government gets rid of the responsibility of the public sectors 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 the developed countries and at present the same concept is being utilized by the developing countries of the world.

Need of Privatization

1. Efficient Services to the Public

The government companies are controlled and managed by the government and thus they have no fear of losing their position in the market. They have average or above-average production. Private companies always try to do something better so that they may have a good ranking in the market. They do their best to produce products that are according to the expectation of the customers otherwise they will have to incur a severe loss in the market. Therefore, in order to provide better services to people there is the need to privatize the government companies.

2. Good Customer Services

It is often noticed that it requires much time for any work to be accomplished in the government sector. One needs to visit offices several times so that it can be done on time. The government officials have a very lazy attitude and do not like working, which leads to delay in the work. This is not the condition in the private offices. They provide good responses and accomplish the work timely and thus this is a valid reason for privatization to take place.

3. To cure Sick Public Sectors

There are many public sector units that are at loss and thus they are referred to as sick public sector units. The government has to give money to these sectors for reviving these sectors. This causes a fiscal deficit in the financial budget. Thus the government thinks that privatization is the solution to this problem and will help in incurring the loss.

4. To Increase Competition in Market

According to the government, the privatization of the government-owned units will make them more efficient and thus they can compete with the other growing industries in the market. This will help in enhancing the quality of products along with earning good profit.

Privatization in India

Privatization of government-owned sectors in India is the burning topic of discussion at present. These discussions are obvious because of the news that was telecasted that the government has decided that all the public sectors will be privatized soon. All the Public sector units have to be privatized according to the budget 2021-22 released by the government. These sectors have been ranked in the sequence of sales by the government of India. 18 sectors in India have been recognized for strategic sale. It includes Atomic

energy, space and defence, transport and telecommunications, power, petroleum, coal and other minerals, banking, insurance, and financial services.

Rise of the Concept of Privatization in India

India after getting independence in 1947 had established several public sector units. The government never gave way to any of the private sectors to interrupt the economy of India. This trend was executed in the nation for years. The Indian economy was greatly affected after 1980's and thus it started decreasing at a faster rate. The nation was undergoing a financial crisis. This led to the initiation of LPG reforms in the economy of India in the year 1991.

LPG stands for Liberalization, Privatization, and Globalization. This reform was instituted by our former Prime Minister Manmohan Singh. This opened the economy of India to the private sectors worldwide. These reforms have also led to foreign investment and attaining global recognition.

LPG reforms had helped in enhancing the economy of India. The initiation of this reform has fostered economic growth in the nation. The employment opportunities increased in the nation that further resulted in decreasing poverty in the nation. The GDP of the nation also increased from 5.7 % to 6.5%.

The private sector have effective policies in solving the problem of externalities, through costless bargaining, driven by individual incentives. According to the Coase Theorem, individual parties will directly or indirectly take part in a cost-benefit analysis, which will eventually result in the most efficient solution

When comparing with public sector, the private sector responds to incentives in the market. On the other hand, public sector often has non-economic goals. The public sector is not highly driven to maximize production and allocate resources effectively, causing the government to run high cost, low-income enterprises. Privatization directly shifts the focus from political goals to economic goals, which leads to development of the market economy. The downscaling aspect of privatization is an important one since bad government policies and government corruption can play a large, negative role in economic growth. Through privatizing, the role of the government in the economy is condensed, thus there is less chance for the government to negatively impact the economy.

Privatization may have a positive impact on a country's economic situation. Privatization should not be used to finance new government expenditures and pay off future debts. Instead, privatization enables countries to pay a portion of their existing debt, thus reducing interest rates and raising the level of investment. By reducing the size of the public sector, the government reduces total expenditure and begins collecting taxes on all the businesses that are now privatized. This process can help bring an end to a vicious cycle of over-borrowing and continuous increase of the national debt

Nations around the world have adopted different methods of privatizing state assets depending on the initial conditions of the country's economy and the economic principles of the political party in charge.

History of private Sector in India:-

Government of India chose for a mixed economy in which both public and private sectors were permitted to operate. The private sector had to operate within the provisions of the Industries (Development and Regulation) Act, 1951 and other relevant legislations. In this framework, the Industrial Policy Resolution 1956 stated, Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and guideline in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India recognizes that it would be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan.

Reports indicated that in spite of speedy progress of the public sector in the period of planning, private sector is the principal sector in the Indian economy.

Since many decades, numerous modern industries have been established in the private sector. Important consumer goods industries were set up in the pre-Independence period itself. Examples include cotton textile industry, sugar industry, paper industry and edible oil industry. These industries were set up in response to the opportunities offered by the market forces. They were highly suitable for private sector since they ensured good returns and required less capital for establishment. Though the engineering industries were not established in the pre-Independence period, yet Tata had initiated in the field of iron and steel industry at Jamshedpur. After Independence, a number of consumer goods industries were set up in the private sector. Presently, India is practically self-reliant in its requirements for consumer goods. According to the 1956 resolution, "industries producing intermediate goods and machines can be set up in the private sector." As a result, chemical industries like paints, varnishes, plastics etc. and industries manufacturing machine tools, machinery and plants, ferrous and non-ferrous metals, rubber, paper, etc. have been set up in the private sector.

In India, there is a need of privatization of companies to enhance economic status. Though the PSUs have contributed a lot to develop the industrial base of the country, they continue to suffer from a number of inadequacies such as;

Many PSUs have been incurring and reporting losses on a continual basis. Consequently, a large number of PSUs have already been referred of loss giving units. Multiplicity of authorities to whom the PSUs are accountable. Delay in implementation of projects leading to cost escalation and other consequences. There

is Ineffective and extensive inefficiency on management. Many PSUs are over-staffed resulting in lower labour productivity, bad industrial relations.

Privatisation in infrastructure sector started with the modification of relevant legislation to permit private enterprises to enter power generation in October 1991. Reforms have been much successful in telecommunications sector. Value added services were opened to private sector in 1992, followed by the enunciation of the National Telecom Policy in 1994-95 which opened up basic telecom services to competition. Foreign equity participation up to 49% was permitted in case of a joint venture between an Indian and a foreign firm.

The Telecom Regulatory Authority of India (TRAI) was established in 1997. In order to separate the service-providing function of publicly owned telecom enterprises and policy-making function, both of which were initially with the Department of Telecommunications, a separate Department of Telecom Services was set up in 1999- 2000. The two public sector service providers were corporatised in 2000-01. International long-distance business, which was a public sector monopoly, was opened to unrestricted entry in 2002-03.

Major impact of Privatisation on Indian Economy are as under:

- It frees the resources for a more productive utilisation.
- Private concerns tend to be profit oriented and transparent in their functioning as private owners are always oriented towards making profits and get rid of sacred cows and hitches in conventional bureaucratic management.
- Since the system becomes more transparent all fundamental corruption are minimised and owners have a free reign and incentive for profit maximisation so they tend to get rid of all free loaders and vices that are inherent in government functions.
- Gets rid of employment inconsistencies like free loaders or over employed departments reducing the strain on resources.
- Lessen the government's financial and administrative load.
- Effectively minimises corruption and optimises output and functions.
- Private firms are less tolerant towards capitulation and appendages in government departments and hence tend to right size the human resource potential befitting the organisations needs and may cause resistance and disgruntled employees who are accustomed to the benefits as government functionaries.
- Permit the private sector to contribute to economic development.
- Development of the general budget resources and diversifying sources of income.

Structure/Forms of Privatization in India

There are several methods of privatization that have been adopted by the government of India for the privatization of the government-owned sectors. These methods are enlisted below:

1. **Delegation-** This method states that the government in the form of lease, contract, or franchise consigns the responsibilities of the company to the private sector. The private sector is responsible for handling daily work and ensuring good services but the responsibility of managing and controlling is in the hands of the government.
2. **Divestment-** In this method, the government sells the maximum percentage of shares to private enterprises. The government still has some stake holding in the firm so that it may involve itself in the decision-making process of the company.
3. **Displacement-** The private company slowly and gradually acquires the public sector and ends the role of government from those.
4. **Disinvestment-** It refers to the sale of the public sectors to the private sectors so that the loss can be prevented. Every disinvestment is not complete selling of the public sector unit. There are primarily three different approaches to disinvestments (from the sellers' i.e. Government's perspective), they are:-Minority Disinvestment, Majority Disinvestment and Complete Privatisation.

There are many examples of privatization of companies in India such as:

- Lagan Jute Machinery Company Limited (LJMC)
- Videsh Sanchar Nigam Limited (VSNL)
- Hindustan Zinc Limited (HZL)
- Hotel Corporation Limited of India (HCL)
- Bharat Aluminium Company limited (BALCO)

Methods of Privatisation adopted in India.

1.Initial Public Offers (IPO).

IPOs are the most favoured method of privatisation. Under this method, the shares/equity holdings of the PSUs are sold to the private retail investors and institutions like Mutual Fund houses, Pension Funds and Insurance Companies etc.

The prerequisite for the IPOs to be successful is that a country must have a well-developed and well-functioning Capital Market.

The main advantages of the IPO method are:

- It ensures wide participation of retail investors.
- It is likely to face less resistance from the PSUs stakeholders like employees, as the method involves only selling of PSUs shares without any change in the management and policies.
- It can be used to offer shares to the employees.
- The method is best suited when the government wanted to raise financial resources without losing on the management and control of the PSU.

2.Strategic Sale.

Strategic Sale is a method in which the government decides to sell PSU shares to a strategic partner. The management in all such cases passes to the strategic buyer.

The various advantages of the method are:

- The performance of the PSU is expected to improve as the private player selected will already have an expertise in the management and operation of the PSU.
- The strategic partner will be willing to pay a better price for the PSU as his business interest lies in combining his own business with that of PSU.
- The method helps in infusion of capital and modernisation of the PSUs.
- The method also helps the government in transferring the loss making PSU which could not have been attractive to retail buyers otherwise. The strategic partner will acquire such business as he has the prerequisite skills to turnaround the PSU.
- The method is very important for countries having less developed capital market.

3.Sale to Foreign Firms.

The method is a variant of the strategic sales method where the government decides to sell the PSUs to the foreign firms.

4.Management and Employees Buy outs.

In this route, management and employees come forward to buy the shares and equities of the PSUs.

Benefits and Drawbacks of Privatization

Benefits:

- The efficiency of the sick public sectors gets fostered when they are controlled and managed by the private industries.
- The performance of the employees increases that aids in the growth rate of the firm.
- The private sector is free to perform in any way it wants as it has no government or political interference like the government sectors.
- Privatization improves the condition of sick public sector units thus making it prepared for healthy competition in the market with other top-ranking companies.
- Privatization helps the government companies in earning a good profit and that will be a boon for the people as well as enhance the economy of the nation.
- The innovative methods acquired by the private firms help in developing new schemes and offers that would attract customers.

Drawbacks:

- Private sectors mainly focus on earning a good profit rather than thinking socially and working for the welfare of the people as Public sectors do.
- Corruption and businesses in unlawful ways are common in Private management. They can adopt any of the corrupt ways to get benefited with surplus profit and be in top ranking.
- The price of the products may rise after the private ownership and the customers have no option other than buying the costly items.
- There is no transparency in the work of the private sectors as they are not bound to show the details of every work to the government as done by the government sectors.

Analysis of Privatization in regard to Indian Economy:-

The Public sector companies were basically established after the independence in India with a socialistic view. They were not developed for earning surplus profits in the nation but serving the public welfare of the nation. The recent agenda of the government to privatize the Public Sector Undertakings is a difficult situation for the entire nation. These government entities are termed as the assets of the nation and selling these into private hands is not a good decision according to me.

Privatization is not a bad aspect but is not the solution to every problem. There are some other ways that can foster the growth of sick government companies in the nation. A proper assessment is required to know when privatization is necessary and when it is not. This concept is good for the developed countries of the world as almost every section of society in such countries is having a good income. The drawbacks

of privatization will not affect anyone negatively. Privatization is not a better concept for a developing country like India because people in the nation are divided into different classes according to their earning or income. Everybody in the nation does not have equal income and status in society. Thus, privatization can have negative effects on the weaker sections of society in India. This will greatly affect the development and progress of the nation.

The Decision of the current Government to Put all PSU's on Sale- Recently the decision of the Indian government to sell all the PSU's along with ONGC and Bharat Petroleum Ltd. in 2019 is not good. The monopoly in the oil sector in the future would create an imbalance in the economy of the nation. Moreover, the entry of private sectors in healthcare and defense sectors will lead to a hike in the cost of services. This will not be a good decision for the welfare of the people of the nation. According to me the concept of privatization must only be done in the sectors where certain rules and regulations can be formulated and executed. This will help in reducing the drawbacks of privatization.

The current status of privatization:-

- The NITI Aayog and the erstwhile planning commission too talked about the need to privatize and reform the administration of Railways.
- The current policy of privatization is guided by the policy laid down in 2002. The policy envisages disinvestment as a process of optimal use of the national resources and realization of the productive potential of the assets.
- The policy aimed at the modernization of PSUs, the creation of new assets, returning the public debt, and the generation of employment.
- The center has set a budget target of Rs. 2.10 lakh crore from disinvestment in the current fiscal year of which Rs. 1.20 lakh is expected to come from the CPSE disinvestments.
- As mentioned in the beginning, the government wants to privatize all but 4 public sector companies in strategic sectors.
- While announcing the fifth and last tranche of Atmanirbhar package, The Finance Minister said that privatization will be a difficult move under current circumstances but the government is absolutely clear that it wants to go further in the privatization process.
- Recently, The Indian Railways initiated a process to allow private firms to operate passenger trains on its network through 151 new trains. While, 151 is not a large number but it essentially kickstarts the involvement of private participation in passenger trains operation.
- In February, the Power secretary said that the central government will encourage states with electricity utilities that lose more than 15% of revenue due to archaic networks, power theft and sloppy billing, and connections to seek private participation in their distribution network.
- The Oil Minister also made it clear that there is no going back in the process of privatizing BPCL.

- Also, the government has made it clear that it wants to focus on governance rather than running businesses, and to this end, a new PSU policy is in the making.

Way forward:-

- While, disinvestment and privatization in loss-making assets is a common wisdom now, we must not forget that there are slippery slopes in this path.
- We must not get carried away and sell the PSUs for lesser prices than expected just for the sake of privatization.
- A proper judgment of the value of the PSU is necessary and Railways and BPCL are some of the sectors where the proper pricing is difficult to come up with as the potential for future growth is high as of now.
- There is an issue with how do we utilize the proceeds of disinvestment. Using it for bridging the revenue deficit and neglecting dire needs of modernization of existing strategic sectors and asset creation will be a huge misstep.
- To make the assumptions of cronyism go, the process of privatization must be fair and transparent with a level playing field to all players. A third-party evaluation of assets and a minimum number of bidders should be necessary pre-conditions to ahead with each sale.
- The after-privatization governance is also important and the private player that wins the bid must be made accountable so that the existing socio-economic functions of that asset must continue and they are not sacrificed for profit motives.
- The regulatory mechanism also needs to change if the all-around privatization takes shape. This is a critical process as we must balance the socio-economic needs with market requirements of freedom of operation.
- The new policy must take into account all these issues and come up with a fool-proof policy to regulate the Privatization and after.

Conclusion

Privatization did enhance the economic conditions, but the drawbacks cannot be denied, every concept comes with two sides of benefits and disadvantages. It is upon the consumers how they use an idea for their benefit. A nation as a whole tends to experience profit from the concept of privatisation. But the internal minute factors may or may not be benefited much. Thus, it becomes like the two sides of a coin. If meant to be meaningful, privatisation need to be pursued more systematically within a carefully designed framework of action

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