PUBLIC SECTOR

Evolution, Reforms and Performance

Public sector units are enterprises - some are commercially oriented and some are not (Food Corporation of India) are owned by Government- Central or state- either wholly or at least the majority of shares in each. Public sector enterprise normally has forms of organisational structure like departmental undertakings (Railways etc); statutory corporations (Oil and Natural Gas Corporation Limited); companies registered under the Companies Act 2013 (Bharat Heavy Electricals Limited -BHEL) mainly. Departmental undertakings are not formed by or with the consent of the legislative authority. These are set up by the executive actions of government bodies and are charged with the duty of carrying out specially defined functions. These undertakings are not independent entities. They are subject to budgetary, audit and other controls of the government and are managed by civil servants. They are financed by annual budgets. A departmental undertaking is best suited where the main purpose of the enterprise is to collect revenue for the state and to provide public utilities and services at fair prices in larger public interest. Some examples of departmental undertakings are the Railway, Postal Department etc.

Statutory corporations are enterprises normally engaged in economic or manufacturing activities and are set up by act of legislature. These corporations are legal entities separate from the government and also the persons who conduct their affairs. ONGC, IOC etc are some examples. Shares of such corporations are in the name of the government and these are thus owned and controlled by the government. Statutory corporations enjoy extensive legal autonomy, and their rules, objectives, functions and duties are defined and specified in the Parliamentary Act. Financing statutory corporations is not part of the Budget and therefore, they can retain their revenues, and also spend as per the rules laid down by the statute.

Control Boards are set up to manage government projects- for example, the river valley projects. Bhakra Management Board.

Government Company is one where the government owns 51% or more of the paid up capital, according to Companies Act 2013.

Rarely, PSE can be in the form of cooperative society to support cooperative movement- Indian Farmers Fertilizer Cooperative Ltd (IFFCO), Krishi Bharati Cooperative Ltd (KRIBHCO) etc. They are registered under Multi State Cooperative Societies Act. Over 65% of the capital of the units is held by the Central Government

In India, we have all these types of PSEs.

Since the beginning of socio-economic planning after the Independence, public sector played a preeminent role in India. Commanding heights of the economy were to be in the hands of the public sector – basically infrastructure and basic industries like heavy engineering, power, metals etc. PSEs dominated the Industrial Policy Statement 1948 and IP Resolution 1956. They were opted for by the Government partly as the Government wanted to steer the economy towards planning goals rapidly and also because of pragmatic compulsions like the presence of the private sector in manufacturing was negligible and they were not willing to take up the unprofitable work of investing in infrastructure.

The objectives of the PSUs are

- To build a self reliant economy
- To prevent/reduce concentration of private economic power
- Establish sound economic infrastructure
- Set up industries in the backward regions and thus help bring about balanced regional development
- Assist in ancillarization and thus spread the benefits of industrialization
- Create sufficient levels of employment and set standards in labour welfare
- Selling goods and services at reasonable prices so as to serve consumer, keep prices affordable and help non inflationary growth process.
- Invest in areas where the private sector would not invest like in roads, transport and so on.

Since planning began in 1951, the public sector has been the main engine of inclusive growth as can be seen below.

The Public Enterprises (PE) Survey is a consolidated annual report on the performance of all Central Public Sector Enterprises (CPSEs) and their subsidiaries for the financial year 2015-16 which was made public in 2017. It is laid in both the Houses of Parliament every year during the Budget Session.

The overall performance of CPSEs in India has shown improvement during the financial year 2015-16 over the previous year despite declining commodity prices and a subdued global economic scenario. The overall net profit of the 244 operating CPSEs went up to Rs.1,15,767 crore in 2015-16.

The CPSEs have been making a substantial contribution to the Central Government through payment of dividend, interest, corporate taxes, excise duties etc. The contribution by the CPSEs through these avenues increased to Rs.2,78,075 crore in 2015-16. The survey excludes excluding insurance, finance and other companies.

The importance of the PSEs is

- The record of the PSUs in supplying many goods and services like coal, transport, power, irrigation and so on is commendable
- The PSUs are a model employer providing various facilities like education, housing and so on.
- Establishing industries in MP , Rajasthan , Bihar and so on , the efforts of the PSUs to reduce regional economic imbalances are not insignificant
- Non-inflationary growth process is facilitated because of the PSEs as prices of their goods and services can be administered.

While considering the performance of the PSUs it must be recognised that most of them had locational disadvantage; sold the product at administered prices (government fixed price); did not have access to the best of technology; had excess of manpower; operated in areas not meant for profit making like Railways; were subject to multiple controls and excess of accountability and so on. Even while sick PSEs are reducing in number, the problems are compounded by : resource crunch, erosion of net-worth due to continuous losses incurred by the PSUs, reluctance of financial institutions to provide funds for revival of PSUs, heavy interest burden, old and obsolete plant and machinery, outdated technology, low capacity utilisation, excess manpower, weak marketing strategy, etc. Inadequate autonomy is one reason. Populism and the absence of rational pricing of goods and services is another reason for the low levels of efficiency in PSUs.

Public Sector and Economic Reforms

Economic reforms were, made necessary to make the economy competitive through market forces. It was expected to post higher growth rates; make industry yield higher productivity, profits and taxes which can contribute to poverty alleviation on a war footing. Public sector was in need of competition to unlock its value. Therefore, domestic and foreign capital was invited to force the PSEs to compete and perform. Government recognized the need for PSE reform during the 7th FYP (1985-1990).

The New Industrial Policy 1991 made significant changes like dereserving many areas with only 3 areas being reserved today(2017); equity disinvestment; managerial revamp with greater autonomy; refering a sick PSU to the Board of Industrial and Financial Reconstruction (BIFR) and so on.

List of industries reserved for the public sector

1. Atomic Energy
2. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953
3. Railway passenger transport.

The period since 1991 when reforms were launched saw many reforms in the way PSEs should function

- Dereservation
- withdraw them from commercial and other areas like hotels, bakery, cycles etc
- disinvest a portion of the PSU equity for a variety of purposes
- strategic sale where a PSE is sold over to a strategic partner who buys majority equity and takes over management and may extend to complete ownership in due course.
- Increasingly they are being subject to market discipline primarily by listing on the stock exchanges which is the direct outcome of divestment
- Globalization - liberal FDI norms and import of capital goods, compel the PSUs to perform.
- The MOU system is being improved with greater weightage being given to the criterion of financial performance
- Navaratnas (1997) are granted financial and managerial autonomy for global competitiveness (Read ahead)
- mini –ratnas were taken up for similar reforms
- Maharatnas have been recognized since 2011
- professionalization of boards
- ETF(Bharat-22) 2017

As mentioned above, the reforms have paid off and the performance improved.

Public sector enterprises have been set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low and stable prices. While there were only five Central Public Sector Enterprises (CPSEs) with a total investment of Rs. 29.00crore at the time of the First Five Year Plan, there are as many 244 CPSEs today (2017).

A large number of CPSEs have been set up as Greenfield projects consequent to the initiatives taken during the Five Year Plans. CPSEs such as National Textile Corporation, Coal India Ltd.(and its subsidiaries) have, however, been taken over from the private sector consequent to their 'nationalization'. Industrial companies such as Indian Petrochemicals Corporation Ltd., Modern Food Industries Ltd., Hindustan Zinc Ltd., Bharat Aluminium Company and Maruti Udyog Ltd., on the other hand, which were CPSEs earlier, ceased to be CPSEs after their 'privatization'.

Along with other public sector majors such as Indian Railways in transportation, the CPSEs are leading companies of India with significant market-shares in sectors such as petroleum, (e.g. Coal India Ltd. and NMDC), power generation (e.g. NTPC and NHPC), power transmission (e.g. Power Grid Corporation of India Ltd.), heavy engineering (e.g. BHEL), aviation industry (eg. Hindustan Aeronautics Ltd. and Air India Ltd.) storage and public distribution system (eg. Food Corporation of India and Central Warehousing Corporation), shipping and trading (eg. Shipping Corporation of India Ltd. and State Trading Corporation Ltd.) and telecommunication (eg. BSNL and MTNL).

With economic liberalization, post-1991, sectors that were exclusive preserve of the public sector enterprises were opened to the private sector. The CPSEs, therefore, are faced with competition from both domestic private sector companies (some of which have grown very fast) and the large multi-national corporation (MNCs).

Disinvestment and Privatization

The New Industrial Policy 1991, as mentioned above, talked of disinvestment and the Finance Minister's Budget Speech in 1999-2000 talked of privatization for the first time. Definitions are important.

Disinvestment is the sale of shares of the Government to the retail public or employees or mutual funds or the FIIs. In other words, in disinvestment (divestment), there is no change in the management from public to private hands because either the government holds majority equity (51%) or even if the government holds less than 51% of equity, rest of it is sold to various individuals and institutions none of whom holds enough to take over management. It is essentially money-raising exercise with some accompanying benefits. Holding less than 51% is technically possible but so far has never been done because at that level, the PSE ceases to be a public sector company.

If the Government sells chunk of equity to a single buyer- 26% or 51% or more- to whom the management is also handed over, it is called strategic sale and the buyer is called strategic partner. It is a case of privatization. The buyer is one who has presence in the sector and can add value to the unit. For example, IPCL being sold to Reliance Industries Ltd (RIL) and Balco sold to Sterlite.

Government may also sell off a unit to a strategic buyer- entire equity.

Strategic buyer is one who not only buys the chunk of entire equity- in one tranche or more- but also takes over management. That is the `strategic' part of the sale. It is unlike usual disinvestment where sale of shares is unaccompanied by management control transfer. The strategic partner gives higher price for the shares as he gets management control along with it(management premium). Also, running of the unit improves.

Privatization and strategic sale are the same.

As mentioned above, disinvestment can be for less than 50% stake sale in which case the company remains a Government company.

The advantages with strategic sale (privatization) are that it gets investment; the strategic partner with management control will invest further for diversification and technological improvement; market perception will improve as it is no longer a government company; and shareholder value will increase. With the improvement of the functioning of the company, workers' protection will also be guaranteed.

Corporatization is a related term. It means: government units are reorganized along business lines. Typically they are required to pay taxes, raise capital from the market (with no government backing, explicit or implicit), and operate according to commercial principles. Government corporations focus on maximizing profits and achieving a favorable return on investment. They have to operate in a level playing field along with the private sector without any special advantages, more or less.

Advantages of Disinvestment/Privatization

- it raises finances for the government that can be spent on restructuring the PSEs
- makes additional finances available for the social sector priorities
- exposes the enterprises to market discipline, thereby forcing them to become more efficient and survive on their own financial and economic strength
- when units become more professionalized and profitable , budgetary support for them can be minimized freeing resources for social and infrastructural needs
- results in wider distribution of wealth through offering of shares to small investors and employees.
- beneficial effect on the capital market; the increase in floating stock would give the market more depth and liquidity and facilitate raising of funds by the PSEs for their projects or expansion, in future.
- Opening up the public sector to appropriate private investment would increase economic activity and benefits the economy, employment and tax revenues in the medium to long term.
- Reducing the public debt that is threatening to assume unmanageable proportions
- Releasing other tangible and intangible resources, such as, large government manpower currently locked up in managing the PSEs, and their time and energy, for redeployment in high priority social sectors that are short of such resources

In many areas, e.g., the telecom sector, the end of public sector monopoly brought relief to consumers by way of more choices and cheaper and better quality of products and services. Competition made them perform better as outlined above.

Criticism of Divestment

While the advantages are convincing, the criticism is not to be dismissed wither.

- They constitute family silver and should not be liquidated
  - PSEs check the private sector in the wider market place and so are crucial to economy. For example, if PSEs are not there, private enterprises may cartelise etc
  - PSEs contribute by way of dividends and profits and thus are important sources of public finance
  - The exercise is essentially meant to garner resources for filling the revenue deficit

A prudent middle path needs to be adopted by way of extent of divestment; unit chosen; pace of the process; method adopted – IPO, strategic sale etc; valuation debate etc.

By 2016, about Rs.1.8 lakh crores were raised totally since 1992, approximately.

Valuation of Shares

Fixing the price of shares for PSEs is done on the basis of the discounted cash flow (DCF) model. The DCF model is a method of valuing a business today based on the stream of its future profits or cash flows. It is said to be the best of the given methods.

Net asset valuation is not adopted as it applies only to the units that are being wound up and not for running businesses.

Government Policy on Disinvestment /Privatization

As a part of reforming the PSEs, Government's policy on disinvestment and privatization is evolving since the beginning of the reforms in 1991.

Its main elements are: -

- Divest to raise money and other advantages
- Strategic sale is considered for loss making companies. NITI Aayog recommended strategic disinvestment of 34 sick public sector units
- List all unlisted public sector enterprises and sell a minimum of 25 percent of equity to the public as mandated by SEBI by 2017
- Buyback of shares , for example, CIL and EIL in 2017
- Profit-making PSUs will not be privatized
- Restructure and revive potentially viable PSUs;
- Close down PSUs which cannot be rcvived or sold
- Fully protect the interests of workers.

Strategic & Non-strategic Classification

Government classified the Public Sector Enterprises into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic Public Sector Enterprises would be those in the areas of:

- Arms and ammunitions and the allied items of defence equipment, defence aircrafts and warships;
- Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries);
- Railway transport.
- All other Public Sector Enterprises were to be considered non-strategic.

Buyback of Shares

Buy-Back is a corporate action in which a company buys back its shares from the existing shareholders usually at a price higher than market price. When it buys back, the number of shares outstanding in the market reduces.

A buyback allows companies to gain name and also material advantages. By reducing the number of shares outstanding on the market, buybacks increase the proportion of shares a company owns that is in percentage terms. Companies buy back shares on the open market over an extended period of time.

The reasons for and advantages of buy-back:

- To provide an additional exit route to shareholders when shares are under valued or are thinly traded;
- To enhance consolidation of stake in the company;
- To return surplus cash to shareholders;
- To support share price during periods of sluggish market conditions;

State-owned Engineers India Ltd's Rs. 658.80 crore share buyback took place recently. The funds for the buyback were met out of internally generated cash resources of the company. The government was the largest beneficiary as it sold its shares in the company. The government encouraged cash—surplus PSUs to go for share buybacks to meet its disinvestment target. For the 2017—18 fiscal, it set a target of raising Rs. 72,500 crore through minority sales, strategic disinvestments as well as through listing of state—owned insurance companies.

EIL is a Navratna public sector unit under the administrative control of the Ministry of Petroleum and Natural Gas. It is an engineering consultancy company providing design, engineering, procurement, construction and integrated project management services, principally focused on the oil and gas, petrochemicals, fertiliser and LNG industry segments in India and internationally. The company also operates in other sectors including non—ferrous mining and metallurgy, waste water and infrastructure. It is also a primary provider of engineering consultancy services for the government's energy security initiative under its Integrated Energy Policy for strategic crude storages.

Cross-Holdings

State-owned companies like Coal India, NTPC and NHPC, have significant cash on their balance sheets. It can be used by them to buy shares of one another as the companies are related and have synergies. Similarly, oil companies. When they buy shares of one another in bulk, the can guide each other and work with a common purpose. Government benefits as such purchase is done from the promoter.

PSE-ETF

GOI in 2014 sold some of its equity to a private fund manager in 10 PSEs. Toghether they make a fund. The fund is the basis for units issued to those who gave money. The fund is listed on the stock exchange and is traded. The advantage is that the average valuation of 10 PSEs is reflected and thus the risk is less though so is the reward. It is called exchange traded fund (ETF). GOI raised Rs 3,000 crore in 2014 with the launch of its first CPSE. Subsequently, it raised Rs 8,500 crore through two follow-on offers of the CPSE ETF in 2017. Bharat-22 is being launched in 2017.

SUUTI

Government holds stake in 51 companies, both listed and unlisted, through the Specified Undertaking of Unit Trust of India, or SUUTI. Of these, 43 companies are listed on the stock exchanges and eight companies are unlisted.GOI has significant shareholdings in three companies, ITC, Axis Bank (erstwhile UTI Bank) and Larsen & Toubro, earlier held by the erstwhile Unit Trust of India before its breakup. SUUTI's equity stakes in L&T, ITC and Axis Bank are valued at above Rs 50,000 crore.

Bharat-22

In 2017, the next stage of ETF was launched in an innovative manner. It is called Bahart-22 and is somewhat different from the earlier one htough essentials are same.Bharat-22 has 19 central public sector enterprises, government banks and some holdings of the government's investment arm SUUTI.

Bharat-22 has 22 constituents against CPSE ETF's 10. In that sense, Bharat-22 is more diversified. Bharat-22 has a single company cap of 15% weightage in the fund, and a sectoral cap of 22%, ensuring that it is well represented by a diversified spectrum of PSUs.While CPSE ETF has only state-run companies as its constituents, Bharat-22 has the government selling stakes in some of the private sector blue-chip companies as well like some holdings of SUUTI (Specified Undertaking of Unit Trust of India) as mentioned above.Bharat-22 has six sectors. It features banking stocks, CPSEs such as Nalco, ONGC. SUUTI's holding in ITC has also been included. Unlike the earlier ETF, in Bharat-22, the weights of the constituent companies can be changed by the manager.

Methods of Disinvestment of Minority Stake in CPSEs

- Initial Public Offering (IPO) – offer of shares by an unlisted CPSE or the Government out of its shareholding or a combination of both to the public for subscription for the first time.
- Further Public Offering (FPO) – offer of shares by a listed CPSE or the Government out of its shareholding or a combination of both to the public for subscription.

- Offer for sale (OFS) of shares by promoters through Stock Exchange mechanism – method allows auction of shares on the platform provided by the Stock Exchange; extensively used by the Government since 2012.
- Strategic sale – sale of substantial portion of the Government share holding of a central public sector enterprise (CPSE) of upto 50%, or such higher percentage as the competent authority may determine, along with transfer of management control.
- Institutional Placement Program (IPP) – only Institutions can participate in the offering.
- CPSE Exchange Traded Fund (ETF) - Disinvestment through ETF route allows simultaneous sale of GoI's stake in various CPSEs across diverse sectors through single offering. It provides a mechanism for the GoI to monetize its shareholding in those CPSEs which form part of the ETF basket.
- Cross holdings

Use of Disinvestment Proceeds

The proceeds of disinvestment are credited into National Investment Fund (NIF) constituted in November, 2005 and are used for the approved purpose, as decided from time to time.

Presently, the disinvestment proceeds are credited to the existing NIF which is a 'Public Account' under the Government Accounts and the funds would remain there until withdrawn /invested for the approved purposes. The NIF is utilized for the following purposes:

- Subscribing to the shares being issued by the CPSEs on rights basis, so as to ensure that 51% ownership of the Government in CPSEs is not diluted.
- Preferential allotment of shares of the CPSE to promoters as per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 so that Government shareholding does not go down below 51% in all cases where the CPSE is going to raise fresh equity to meet their Capex program.
- Recapitalization of public sector banks and public sector insurance companies so as to strengthen them through further capital infusion towards achieving the Basel III norms.
- Investment by Government in RRBs/IIFCL/NABARD/Exim Bank;
- Equity infusion in various Metro projects;
- Investment in Bhartiya Nabhikiya Vidyut Nigam Limited and Uranium Corporation of India Ltd.
- Investment in Indian Railways towards capital expenditure.

Navaratna, Miniratna and Maharatna Companies

Navaratnas

Economic reforms subject PSEs to market competition. Gloablization makes the competition more intense. To perform in such conditions, PSEs need a level playing field with the private players. Hence, the Navaratna package that gives autonomy to PSEs.Government introduced the navaratna concept in 1997. It granted enhanced autonomy to nine selected PSEs referred to as "Navaratnas". These were IOC, IPCL, ONGC, BPCL, HPCL, NTPC, SAIL, VSNL and BHEL.

IPCL and VSNL were strategically sold to Reliance and Tatas respectively. Eight more CPSEs were made navaratnas since then. Totally, there are 17(2017)

Navratna CPSEs

- 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

The government has a quantitative system to confer the status of "Navarathna" on PSE. According to the system, every PSE is rated on the following parameters:

- Net Profit to Net Worth
- Total Manpower Cost as a Percentage of Total cost of Production
- Profit before Depreciation ,Interest and Taxes (PBDIT) on Capital Employed
- PBDIT on turnover
- Earning per Share &
- Inter-sectoral performance

To gain Navarathna status, a PSE must score atleast 60 out of 100 based on these parameters.Additionally, a company must first be a miniratna and must have four independent directors on its board before it can be made a navaratna

These navaratnas, subject to certain guidelines, now have freedom to

- incur capital expenditure
- decide upon joint ventures
- set up subsidiaries/offices abroad
- enter into technological and strategic alliances
- raise funds from capital markets (international and domestic)
- enjoy substantial operational and managerial autonomy
- Boards of these PSEs have been broad-based with induction of nonofficial part-time professional directors.

For example, 'Navaratna' status empowers it to invest up to Rs. 1000 cr or 15% of their net worth on a single project without seeking government approval. The overall ceiling on such investment in all projects put together is 30% of the networth of the company.

Miniratna Companies

There are two types of miniratna companies: Type 1 and 2.Together there are 73 such companies. Miniratnas can also enter into joint ventures, set subsidiary companies and overseas offices but with certain conditions.

Category I Miniratna

They are PSEs that have made profits continuously for the last three years and earned a net profit of Rs 30 crores or more in one of the three years. These miniratnas are granted certain autonomy like incurring capital expenditure without government approval up to Rs. 500 crores or equal to their net worth, whichever is lower. There are 48 miniratnas. Bridge & Roof Company (India) Limited was added late in 2010.

Category II Miniratna

This category include those PSEs which have made profits for the last three years continuously and should have a positive net worth. Category II miniratnas have autonomy to incurring the capital expenditure without government approval up to Rs. 300 crores or up to 50% of their net worth whichever is lower. There are 14 such miniratnas: Bharat Pumps & Compressors Limited was added late in 2010.

Maharatnas

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.

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

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

Delegation of powers to Maharatna CPSEs :- 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 ` 5,000 crore in one project (` 1,000 crore for Navratna CPSEs).

Maharatna CPSEs :- The Government has granted Maharatna status to 7 CPSEs : (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. 7.1.4 During the year 2015-16, the Inter Ministerial Committee reviewed the performance of four Maharatna CPSEs, viz. Indian Oil Corporation Limited, GAIL (India) Limited, NTPC Limited and Oil & Natural Gas Corporation Limited.

Ad-hoc Group of Experts (AGE) Report

Empowerment of Central Public Sector Enterprises was set up in 2004. It was headed by Arjun Sengupta. It recommended in 2006

- greater autonomy for Public Sector Units
- central PSUs to have truly independent boards. It has recommended empowering the PSU boards to take decisions about mergers, joint ventures, pricing, exports, appointments, selection of dealers, promotion and transfer of employees, and so on. The ministry concerned should not review the PSU more than twice a year. Supervision should be done by sector specific supervisory boards.
- ministries should not interfere with the functioning of the PSUs under them. Their managements should be accountable to the board and not to the ministry
- government should be given flexibility to divest its stake in PSUs. As long as the government's stake remains above 51 per cent, it should not require Parliament's permission to divest its shares — even in navratnas, miniratnas, and consistently profit-making PSUs. This can be done through a board decision.
- supplementary audit by the Comptroller and Auditor General of India of the PSEs should be an exception rather than rule, as it delays the publishing of audited accounts as required by SEBI.
- reworking of the accountability of the PSEs to Parliament so that the questions raised on their functioning do not compromise sensitive trade data and work as an impediment in functioning as commercial enterprises.

The Government accepted some of the recommendations of AGE relating to enhancement of financial powers of Navratna, Miniratna and other profit-making CPSEs. The remaining recommendations relating to ownership issues, audit of Government companies, Article 12 of the Constitution. Parliamentary accountability, vigilance, management in CPSEs, etc. are under examination.

MOU

The beginning of the policy of Memorandum of Understanding can be traced to the report of the Arjun Sengupta Committee in mid eighties. One of the recommendations of this committee was for the introduction of the system of MOU for measurement of performance of public enterprises. The MOU system was introduced on an experimental basis in 1987-88. It was based on the French system. From 1989-90 the signaling system was adopted and it remains in vogue till the present.

One of the most important differences between the French system and the signaling system relates to the possibility of making an overall judgement on the enterprise's performance in the latter system. In performance contracts belonging to the French system, it was possible to only point out whether a particular target was met or not. This created great difficulty for making an overall judgement regarding enterprise's performance. The signalling system overcomes this problem by adopting the system of "five point scale" and "criteria weight" which ultimately result in calculation of "composite score" or an index of the performance of the enterprise

The MOU system has been adopted as it was felt that PSEs are unable to perform at efficient levels because of multi-point accountability. Also, there was no clarity of objectives. Absence of functional autonomy also hampered their performance.

MOU is a freely negotiated agreement between the public enterprise and the administrative ministry. Under the agreement, the enterprises undertake to achieve the targets set in the agreement at the beginning of the year. The MOU covers both financial performance as well as non-financial performance. Under this system performance of the company is categorized into five categories namely: excellent, very good, good, fair, and poor.

The objectives of the MOU system are to improve the performance of public enterprises by increasing autonomy and accountability of the management; remove the fuzziness in the goals and objectives the enterprise is to pursue through clearly laid down performance targets at the beginning of the year; enable the evaluation of managerial performance through objective criteria and provide a mechanism to reward good performance through performance incentives to stimulate improved performance.

Some Recent Initiatives in Restructuring The PSEs

- Maharatna status to 7 companies
- more companies given navaratna and mini ratna status to improve their performance in the global competitive environment
- ETF
- Niti Aayog given the role to recommend strategic sale etc.

Autonomy for PSEs

Managerial and financial autonomy is important for the PSEs to function well in a market economy where there is severe competition and the companies are also listed on the stock exchanges. Steps for rendering autonomy to the PSEs are essentially two

- Maharatnas
- Navaratna and miniratna status
- MOU
- Disinvestment

(Given above in detail)
Read along with the AGE report given above.

Professionalisation of PSU Boards

- MOU
- outside professionals should be inducted in the boards of PSU in the form of non-official Directors whose number should be at least 1/3 of the Actual strength of the Board
- Under the Navratna/Miniratna package, the board of select PSUs have been professionalised by inducting a minimum of 4 non-official Directors in case of Navratnas and 3 in case of Miniratnas.
- number of Government Directors on the Board should not be more than two

Focus Areas For PSU Restructuring

Tenure of the CEO and Board of Directors:
The managerial problems in the PSU begin with the tenure of CEO and the Board of Directors. The selection, service conditions and the tenure of the Board of Directors is subject to the Government rules and regulations. Unlike the private sector where CEO have almost a decade to nurture the company, in PSU the rules with respect to superannuation tends to focus attention on short term strategies-co-terminus with CEO's tenure. There is, hence a need to provide continuity in the management by appointing CEO and other members in the Board of Directors for longer tenure with representation of shareholders other than GoI Shareholders:

Multiple-Audit

The business decision in PSUs gets influenced by presence of a number of controlling agencies, such as the Ministry, parliamentary committees, CAG, CVC etc. The end result of this is recourse to a risk- adverse approach to business. For example, there is a decision related purchase of second hand equipment where on the spot decision is required and transparent processes such as global bid are not available. It helps the company to save if it can take quick decisions. In some cases there could be loss which needs to be out of the purview of CVC as otherwise it will dampen the decision making process in commercial matters.

Role of Administrative Ministry

It needs to change. Like a shareholder of any other company, the Ministry's role should be limited to contributing as shareholder in AGM/EGM of the companies, and providing it the requisite support. The role of Ministry in day-to-day management through correspondence should be avoided.

Non Commercial Activities

PSUs are expected to function on commercial consideration but are burdened with takeover of some sick/potentially sick units.

Investment in newer units is based on socio-political consideration. This results in non-flexibility of to the company to reorganise its own business. Regularisation of contract labour under article 12 of the Constitution forces PSUs to absorb extra labour without any consideration to the existing manpower strength. PSUs are unable to spin-of loss making units or close operations in those units, which have become operationally unviable.

Niti Aayog and Disinvestment

Finance minister said in his Budget 2016-17 speech that NITI Aayog would identify Public Sector Units for strategic sale. A new policy for management of government investment in Public Sector Enterprises, including disinvestment and strategic sale, was approved to leverage the assets of CPSEs for generation of resources for investment in new projects; encourage CPSEs to divest individual assets like land, manufacturing units, etc to release their asset value for making investment in new projects; for efficient management of investment in CPSEs by addressing issues such as capital restructuring, dividend and bonus shares.

The NITI Aayog was tasked to identify the CPSEs for strategic sale.

DIPAM

The Department of Disinvestment was renamed as Department of Investment and Public Asset Management or 'Dipam'. It is aimed at proper management of Centre's investments in equity including its disinvestment in central public sector undertakings.

The new department has been mandated to "advise the government in the matters of financial restructuring of central public sector enterprises and for attracting investment through capital markets."

Finance Minister announced renaming of the Department of Disinvestment in his budget speech for 2016-17.

The Dipam is a part of work Finance Ministry and it deals with "all matters relating to management of central government investments in equity including disinvestment of equity in central public sector undertakings".

It also deals with "all matters relating to sale of central government equity through offer for sale or private placement or any other mode in the erstwhile central public sector undertakings."

All other post disinvestment matters, including those relating to and arising out of the exercise of call option (buying more shares of the same unit by the one who bought the majority stake already as in Balco) by the strategic partner in the erstwhile central public sector undertakings, shall continue to be handled by the administrative ministry or department concerned, where necessary, in consultation with the Dipam.

Purchase Preference Policy

Government gives purchase preference in supply of goods and services to the Government Departments, Autonomous bodies and other PSEs if the price quoted by the supplying CPSE is within 10% of the lowest valid bid price, other things being equal. It helps support the PSEs.