INTRODUCTION:

The economic argument for free play of market forces have been strengthened by the recent developments in Indian regulatory framework. Regulation is a halfway between public ownership and market operations, competition and competitiveness will invariably be the best way of introducing efficiency into state Owned Enterprises. If efficiency is divided into allocative efficiency and operational efficiency than conditions of constrained competition require that (i) allocative efficiency be ensured either through franchising or regulation and (ii) ownership efficiency invariably be weighted in favour of private ownership. To test these points of view as hypotheses, India's liberalisation schemes have been considered hand by. This chapter divided into four sections.

Sections- A) Structural Reforms in India,

B) Performance and evaluation of State Transport units (STUs) in India,

C) Public sector's disinvestment,

D) Future Reforms.

The Government of India has adopted a package of major policy reforms aimed at macro-economic stabilisation and restoration of the growth momentum to the economy. These initiatives are being implemented at a time when the Indian economy faces a serious Balance of Payments (BOP) crisis. The strategy consists of measures aimed at achieving a sharp reduction in the fiscal
deficit, combined with reforms in the key areas of Trade Policy, Industrial Policy, the Public Sector and the Financial Sector. The effectiveness of these measures in bringing about the desired structural adjustment in the economy while maintaining the momentum of growth depends critically upon the availability of adequate external finance.

SECTION- A

a) PROGRAMME FOR STRUCTURAL REFORMS:

1. Government of India has initiated (in 1991 July) a comprehensive programme of macro-economic stabilisation and structural adjustment. In support of the initial phase of its programme the programme aims at restoring macro-economic balance and economic growth, regaining external credit worthiness and preparing the economy to respond effectively to emerging global changes and opportunities.

2. The reforms committed to the pursuit of equity and social justice, and blessed with a political system with a proven capability to provide both governance and freedom, the government's key economic objective is to restore sustained high growth which is essential to alleviate poverty and raise the standard of living.

In pursuit of these - reforms strategy is follows:

a) a liberalised trade regime characterised by tariff rates comparable to other industrializing developing countries and the absence of discretionary import licensing.

b) an exchange rate system which is free of allocative
restrictions for trade

(c) a financial system operating in a competitive market environment and regulated by sound prudential norms standards

d) an efficient and dynamic industrial sector subject only to regulations to environmental security, strategic concerns, industrial safety and major trading and

e) an autonomous, competitive and streamlined public enterprise sector geared to the provision of essential infrastructure goods and services.

3) Due to the initiatives taken over the past four decades, India now has a prosperous agriculture and a strong and diversified industrial base, it has capital markets and institutions which are on par with those of many advanced industrial nations; it has a large well-trained skilled labour force, and is endowed with a vigorous and growing private sector.

The economy's performance was impressive in the decade of 1980s - Stimulated by liberalisation initiatives of Shri Rajiv Gandhi's administration GDP growth accelerated to 5.6% p.a. compared to an average of 3.5% during the previous 3 decades.

4) It is on the strength of these achievements, and with a firm commitment to removing the constraints in growth originating from the present macro-economic imbalances and long-standing structural impediments, that the government initiated a comprehensive programme of macro-economic stabilisation and structural reform.

b) RESTORING MACRO-ECONOMIC STABILITY:

5. The macro-economic objective of the Govt. centre on the
restoration of internal and external balance consistent with sustained economic growth. There is one basic direction of Eco-policy required to achieve these objectives. A substantial change in the composition of aggregate demand and supply must be engineered. Public sector consumption needs to be reduced in favour of higher domestic saving, while investment and net exports needs to grow in relation to GDP.

6) Key macro-economic targets of the Govt. are
a) rapid recovery of GDP growth from about 3.5% in 1991-92 to about 6% by the mid 1990s
b) an inflation rate of about 9% - 10% in 1991-92, falling to 7.5% up 1992-93 and 6% by 1995-96
c) an easing out of present critical payments situation and a re-building of foreign exchange reserves from the low level of U.S. Dollars 2.1 Billion as of Nov.1, 1991 to U.S. Dollars 2.5 Billion by the end of 1991-92 over the next five years foreign exchange reserves would be built up to about 2-3 months of worth of imports. The external current account deficit is expected to decline from about 3.5% of GDP in 1990-91 to about 2.7% of GDP in 1991-92, falling gradually to about 1.5% of GDP by 1995-96 as export growth strengthens under the influence of improved competitiveness and a recovery of demand in world markets.

C) FISCAL POLICY:
7. The medium term objective is to reduce substantially the Central Govt. fiscal deficit within the broader context of an adjustment of the overall public sector deficit. The fiscal
deficit target of the Union Govt. Budget is 6.5% of GDP - a reduction of about two and a half percentage points of GDP from the estimated 1990-91 outcome.

8) The fiscal adjustment outlined in the 1991-92 budget provides for a rough balance between expenditure and revenue measures. The targeted reduction of the fiscal deficit is central to the success of the overall programme. The Govt.'s efforts at fiscal consolidation would include a major thrust for a more efficient expenditure control system. A thorough review of the existing system would be undertaken to remove existing deficiencies and to significantly strengthen its effectiveness. Particularly security would be given to transfers and loans to public enterprises.

d) **EXCHANGE RATE POLICY**:

9) The adjustment in the exchange rate of the rupee by 23% (in terms of rupees per dollar) in July 1991 provides for a significant real depreciation which will improve export incentives and international competitiveness. The Govt. of India intends to keep the nominal effective exchange rate stable by relying on appropriate fiscal and monetary policies to maintain competitiveness and ensure the balance of payments objectives.

e) **MONETARY POLICY**:

10) There has been already a significant lightening of credit and monetary policies through higher interest rates and higher cash reserve requirements. Consistent with foreign exchange reserve target and anticipated slow-down in GDP growth, broad money expansion is targeted to decline to a rate of 13% in 1991-92, with
a further deceleration in 1992-93. However, the Govt. is committed to a further tightening of monetary policy if necessary to defend the external positions.

f) OPEN ECONOMY / OPEN TRADE REGIME - IN INDIA:

Trade reform is an essential element in securing supply responses to facilitate the overall restructuring of the economy and to restore external payments viability. Rapid export growth is essential for regaining access to international capital markets, and providing external debt service. The thrust of trade reform is therefore to aim at a quick revival of the momentum of exports and to expose domestic industry to greater external competition.

There are five key medium term objectives in the trade policy agenda. First, the broadening and simplification of export incentive measures and the removal of restrictions on exports, Second, the eliminations of Quantitative Restrictions (QRs) on all imports, Third, the disalination of exports and imports with the exception of a few items and Finally, moving to foreign exchange system which is free of allocative restriction for trade.

In support of these objectives, the Govt. of India announced a package of trade policy reforms on July 4th and August, 1991.

g) INDUSTRIAL POLICY:

The Govt. of India placed a statement on Industrial Policy
before Parliament on July, 24, 1991. This marked a major step forward in the Governments on going programme of Industrial reform.

12) The new policy has eliminated investment licensing requirements for all new, expansion, and diversification projects except in 18 industries. Further, the MRTP Act has been amended to remove all requirements for pre-entry approval of large or dominant companies. Except for certain industries related to security and strategic concerns, social aspects, concerns related to safety, overriding, environmental issues, and manufacture of chemicals involving hazardous processes, pre-entry regulations governing industrial investment have been removed.

13) Foreign investment and foreign technology agreements in India have hitherto had to obtain specific prior approval from the Government. In case of foreign investment, automatic approval from the Government is now available for proposals with a foreign equity share of up to 51 percent in high priority industries.

14) Foreign technology agreements where royalties are limited to 5 percent of domestic sales and 8 percent of export sales, along with lump sum payments of up to Rs.10 million, are now automatically approved. In high priority industries, free foreign exchange would be available for the payments, whereas in other industries these payments would have to be covered by eximscoop.

15) Recognizing the need to strengthen the incentives for foreign direct investment, the Government has set up the Foreign Investment Promotion Board (FIPB) to consider and to approve
substantial foreign investment proposals. The Government of India is well aware that a prerequisite for a successful policy for industrial restructuring is a 'Safety net' or Social insurance to provide support for displaced workers in the organised sector, through the National Renewal Fund.

h) **EFFICIENCY OF FINANCIAL INTERMEDIATION TO BE ENHANCED:**

16) To move closer to a market-based operation of the financial institutions, interest rates on term loans have been decontrolled (subject to a flow of 15 percent), while all regulated deposit interest rates were increased by one percentage point. Interest rates on Commercial Bank loans has been controlled earlier (with a floor of 18.5 percent set for non-priority loans, now raised to 20 percent). Measures have been taken to strengthen capital markets, interest rates for debentures have been freed, mutual private sector, and full satisfactory powers are to be given to an independent agency to regulate security markets.

Entire with the recommendations of the 'Narasimham Committee' (a high level committee on capital markets), further reforms of the financial sector will be implemented.

17) The aim of financial reforms would be to increase the efficiency of financial intermediaries through a well sequenced programme for

(a) deregulation of the interest rate structure,

(b) enhancement in the flexibility and autonomy of financial institutions and banks to adjust resource flows to emerging needs and priorities,
(c) Strengthening the prevailing prudential regulatory framework applying particularly to capital adequacy norms and assessment of bad debt in banks portfolios, and
(d) enabling expansion of private and co-operative sector banks (including foreign banks) in the banking sector.

i) PUBLIC ENTERPRISE REFORMS (SOEs)

India is severely constrained budgetary circumstances create both the need and opportunity for rationalising the public sector activity, and for placing reliance on the private sector for resource mobilisation and investment many public sector enterprises (PSEs) fail to cover the cost of capital they employ and incur cash losses.

18) There are currently 244 autonomous Central Government Public Enterprises (CPEs) and 845 State-level public enterprises (SPEs) covering multiple areas of activity. The budgetary stringency faced by the Government underlines the importance of quickly formulating provisions for restructuring and closing sick and unviable public enterprises, and opening up selected units and sectors to private capital.

19) Privatisation of selected firms on partial divestment in specific sectors is increasingly being pursued. The 1991-92 Budget confirmed the Govt.s decision to sell partial equity (up to 20%) in CPEs, totalling Rs.25 Billion, through mutual funds.

A more comprehensive programme of divestment of public holdings is under consideration.

20) Given the Govt.'s commitment to making the objective of
poverty alleviation an integral part of the adjustment process, it intends to formulate and adopt a programme of specific measures aimed at strengthening social safety nets and mitigating the inevitable costs of adjustments. As an initial step in this direction, the establishment of a national social security fund (the National Renewal Fund) in 1991-92.

(The Source is Text of Finance Minister of India's letter to the President, World Bank, Nov. 11, 1991 and presented in Parliament, February 26, 1992.)

j) REFORMS IN 1990s

India today is a land of opportunity, as the economic reforms take root, the market with a vast untapped potential is unfolding for all. The old isolationism of India is giving way to a new zeal for globalization. India is one of the very few countries to have had positive economic growth rates in the years immediately following the initiating of a programme of macro-economic stabilization and liberalisation. The Indian economy has also had the distinction of coming out of a crisis in its external sector without recourse to debt rescheduling.

India has long been perceived as an economy shackled by bureaucratic controls and administrative regulations, deeply suspicious of foreign capital, protected by import tariffs, and dominated by Public Sector Enterprises (PSEs). This perception persisted even as India began to change in the eighties. The growth dynamism of the Indian economy in 1980's, however, could not be sustained in the face of the growing fiscal imbalances.
the Gulf war of 1990 finally brought the economy to a brink. Inflation was rising, industrial production was falling, and foreign exchange reserves were at an all time low of $ i Billion - barely enough to cover India's normal import needs of about a week.

The 1991 India's crisis had its origins in two factors. The growing fiscal imbalance of the 1980's aggravated by the use of high-cost borrowings to meet consumption needs of the economy, had created a macro-economic environment which was destabilizing. Also, while the Gulf war of 1990 did contribute to the crisis, it was the non-competitiveness of Indian industry and trade brought about by years of insulate from domestic and international competition and from foreign technology that lay at the root of the proleleur faced with a severe balance of payments crisis, India had the choice of slapping on more import controls, and the programme has emphasized gradualism and evolutionary transition rather than shock therapy.

The initial conditional for economic reforms in 1991 are different, India's gross saving rates are around 22% and a growing financial market.

k) PSEs REFORMS;

Public utilities eg., electricity generation, transmission and distribution, telecommunication, municipal water supply and railways in most countries were accorded monopoly status for a long time, recently many developing countries have permitted entry' in the utility sector. Development of markets, new products and
new technologies make entry feasible in certain segments of the erstwhile natural monopoly markets. The recent justification for entry is also based on two arguments. The first argument is that the costs of public ownership or regulation of private utilities might exceed benefits. The second is that statutory monopoly status freezes the scope for innovations and thereby affects dynamic efficiency. Baumol, Panyar and Willing argue that ever in a natural monopoly situation would act in the people interest if entry is free. They argue that the threat of entry can dispute the incumbent's behaviour. Baumol. W.Pangar, J.P. Willing R N (1982) Contestable Markets and the theory of Industry Structure - Harcourt, Brace - Jovamorch.

1) REFORMS FOR STATE OWNED ENTERPRISES (SOEs):

a) Entry of Public Sector Enterprises in infrastructural and Public utility services also allowed.

b) Disinvestment of shares of certain profit making PSEs on selective basis and in a gradual manner.

c) Phasing out of budgetary support in the form of non-plan loans to loss making PSEs from 1994-95.

d) Sick PSEs will be referred to the Bureau of Industrial and Financial Reconstruction (BIFR) for decisions regarding restructurings or closure.

e) Stress on market orientation, particularly in application of commercial and economic principles to pricing and greater dependence on markets for raising resources for further expansion.
SECTION - B

PRIVATIZATION OF STATE TRANSPORT UNDERTAKING IN INDIA:

With the severe and continuing resource crunch faced by the Indian Economy and the pressure on policy makers to step up the rate of economic growth. State Transport Undertakings (STUs) in India are more monolithic in structure and less productive in nature. Here we make an attempt to study the reasons for and against nationalisation and modalities of privatization of the STUs in India.

a) NATIONALISATION OF PASSENGER ROAD TRANSPORT:

The nationalisation of passenger and Road Transport was promoted by the Road Transport Corporations Act (1948) which empowered the State Govts. to undertake the organisation of road services. The Act was subsequently revised and replaced by the Road Transport Corporations Act (1950).

Prior to Nationalisation, competition was fierce between the private operators, but the services rendered were concentrated only on profitable routes. Only large cities and towns attracted the attention of private bus operators and the rural areas and the tribal belts were ignored. Besides, arbitrary rates varied from operator to operator, and one period to another, with no consideration to the passenger, or maintenance and development of roads.

Important reason given in favour of the Nationalisation was that the size of the fleet of the private bus operators was far from optimum, leading to wastage of economic resources and a
mismatch between the demand for and supply of road transport. The Road Transport Corporation Act (1950) enabled the Central Govt., to suggest to the State Govts to take over such routes from the private operators as they deemed fit in the best interest of the public and receive the capital contributions from the Central Govt., in the ratio of 1:2. Then the State Govts. reacted favourably and setup public corporations in this connection.

b) PROFILE OF STUs:

There are 67 STUs in India, of these, 21 are statutory corporations, 27 government companies, 8 run as departmental enterprises and 11 municipal undertaking. The combined fleet strength is 106,590 of which 35.6% are with the STUs. The estimated number of buses in the country on 31st March, 1989 was 278,300. The STUs had an investment of INR 32.83 Billion as on 1989. The total revenue earned and the total cost incurred by these corporations for the year 1988-89 was INR 40.08 Billion and INR 44.36 Billion, respective.

The total effective distance covered by the STUs during the year 1988-89 was 8.635 Billion Km. The total no. of employees in these undertakings as on 31st March, 1989 was 712,000 and passengers carried in this period was 53.6 million a day and high speed Diesel oil consumption for passenger buses was 1.75 million tonnes.

Cl PERFORMANCE EVALUATION OF THE STUs:

The performance of the STUs could be measured in terms of their adequacy, efficiency and economy.

The 'Adequacy' of the services provided by the STUs could among other things, be evaluated by indicators such as the extent and quality of services provided. The breakdowns for 10,000 effective KM declined from 1.03 in 1983-84 to 0.64 in 1988-89. However, the rate of breakdown relating to the city and district services for the various corporations shows that the STUs in Kerala, M.P, Orissa and Meghalaya were still very close to the 1982-83 Mark. The position relating to city services was very critical. The accidents rate per 10,000 effective K.M in 1988-89 was 1.58 in the case of Delhi Transport Corporation (DTC) 1.76 in the case of Bombay Transport Corporation, 11.96 in the case of Calcutta Transport Corporation and 27.29 in the case of Kerala. The rate of accidents declined from 82 per thousand kilometres in 1982-83 to 50 per thousand kilometres in 1988-89 for the whole STUs.

As regards to the regularity of services, the STUs in Tamilnadu presented the picture of exceeding a 100% regularity, the STUs pertaining to U.P., Bihar, Meghalaya and West Bengal had a regularity of less than 90% in 1988-89, it was between 90% and 95% in Maharashtra, A.P. and Karnataka, the percentage punctuality was between 95% and 100% in case of STUs in Tamilnadu during the same period.  

2 Nanda Gopal & Mishra, Performance of STUs in "Efficiency through
Whereas the population in the country has been increasing at an average rate of 2.4% p.a. the passenger road transport facilities are highly inadequate. Against the travel mobility index being 5 for India, the travel mobility index stands at 100 for France and 160 for U.S.A. The number of buses per thousand is only 0.25 for Indian against 2 for U.S.A., 1.15 for Japan and 1.560 for Australia.

The "Efficiency" the fleet utilisation of the STUs increased from 82% in 1982-83 to 88% in 1988-89. The utilisation per bus on road per day in K.M. increased from 257 K.M. in 1982-83 to 350 K.M. in 1988-89.

The K.M. per litre of Diesel consumed increased from 4.02 in 1982-83 to 4.25 in 1988-89. The fleet life per tyre increased during this period from 62,000 K.M. to 100,000 K.M. The bus staff ration decreased from 9.78 to 8.63 during the same period. The percentage fleet utilisation in some corporations was as low as 60% and less in the case of STUs in Bihar, Tripura, Mizoram and Manipur, the scene was not much different in the case of the STUs in Assam, Meghalaya and Orissa. The situation of city services was worse, the bus utilisation per bus on road per day was less than 300 K.M. in case of Maharashtra, Kerala, Karnataka, Rajasthan, Orissa, Goa, M.P., Punjab, Bihar, Assam, Mizoram, Competition, edtd by G.Gouri, I.C.P.B., Commonwealth Secretariat, 1993.

Opcit (1) Road Development Plan.
Meghalaya, Tripura, Maharashtra and Himachal Pradesh.

The losses of these corporations have increased over the years as against a targeted loss of INR 10.2 million in VII Plan. These Corporations incurred a net loss of INR 2.2 million. One of the reasons for the STUs loss in the excess of cost per K.M. over the earnings. A spirit in the levels of interest, depreciation, personnel and materials costs coupled with a sharp increase in taxes led to the increase in the operating ratio of these enterprises.

d) SCOPE FOR PRIVATIZATION OF STUs:

The transformation of the country from agrarian to an industrial economy has placed a great demand on the road transport system. However, the financial resources available to the central and state are inadequate to face the challenges posed by the growth rate of two-wheelers and motor cars has been in leaps and bounds and has overtaken the road networks. This leads to overwhelming question. Can the STUs fulfil the need of transport system? According to statistics, the strength of the STUs is only one-third of the total passenger transport fleet strength in India. There are only two options, either substantially improve the STUs or increase the involvement of the private sector in the system.

The approach for privatizing STUs have to be based on three elements viz., Ownership, management and financing, all these three are possible.

The STUs own buses, bus stations, workshops for repairs,
printing presses, housing for employees and medical complexes. The fleet strength of the STUs has a growth rate of 5% per annum. The average age of fleet is six years, their losses do not enable them to go in for modernization.

Many STUs have tried to overcome this problem by hiring buses from private operators under a system in which the private owners hand over the buses but continue to hold the responsibility of their repairs etc. Another approach to privatization could be that the routes be franchise to the private operators. Under this private operators would have to follow the regulations drawn fry the controlling authority as regards the schedule, routes, stoppages, fares, minimum and maximum number of services to be provided etc. This technique would be either revenue yielding or loss minimising but in the latter case, it would turnout to be competitive.

The demand for derationalising certain routes needs to be considered in view of the shortage of passenger road transport facilities in smaller and towns, districts, villages, tribal hilly areas due to private operators would not operate their services industrial sectors because of low occupancy ration.

The privatisation of the ownership of the STUs in terms of nature of their services. The reasons for losses is STUs were treated to their in capacity manifested in the maintenance of the fleet and low occupancy ratio also responsible.

At the inception of independence it was thought that the nationalisation of the passenger road transport was a must for
providing adequate, efficient and business like road transport services in India. Experience shows that the momentum of nationalisation sustained for only some time. In 1980's this system showed sections shortcomings in terms of expansion of fleet efficiency of operation and public responsiveness. The resource crunch faced by the central and state governments, further jeopardised the growth of the STUs.

All these emphasise the need to privatise the STUs. Privatisation could take place in three aspects of the business viz., 1. Ownership, 2. Management and 3. Financing. Such a step would not only reduce the financial burden on the state and the STUs but would also lead to increased efficiency through competition.

SECTION - C

a) PUBLIC SECTOR ENTERPRISES - DISINVESTMENT:

As a part of Economic reforms in India it was decided by the Govt. of India that the scheme of disinvestment of equity in Public Sector Enterprises (PSEs) which commenced in 1991-92. In view of this the Govt. of India appointed a committee to examine the issue of Disinvestment of shares in PSEs (The committee submitted its report in April, 1993). The terms of references of the committee were:

1. To devise criteria for selection of PSEs for disinvestment.
2. To advise on limits on the percentage of equity to be disinvested in respect of PSEs.
3. To suggest the target clientel including Mutual Funds,
Financial Institutions, Banks, Non-resident Indians, Foreign Institutional Investors and Resident Investors.

4. To make suggestions on the modus operandi of disinvestment, whether through public offer or private placement.

5. To lay down the criteria for valuation of equity shares of PSEs.

6. To make recommendations on any other subject matter germane to the disinvestment plan.

In its general approach, the committee was guided by several important factors such as:

a) The contributions made by the public sector in general to economic development, and entrepreneurial skills,

b) The institutional, technological and fiscal compulsions that have led to review of public sector investment,

c) The experience gained in disinvestment in the recent part taking into account the unusual circumstances in capital markets,

d) The need to enhance the competitive strength and ensure expansion of these enterprises while protecting the interest of workers, and

e) Above all, the requirement of consistency with the ongoing economic reforms in the areas of industrial licensing, foreign trade and investment and financial section.

b) CRITERIA FOR SELECTION OF PSEs FOR DISINVESTMENT DURING 1992-93

The committee noted that the Government disinvested its shareholding in 30 Public Sector Enterprises during 1991-92. The extent of disinvestment worked out to above 8 percent of the Govt.
shareholding in these enterprises and the total amount realised was Rs.30.38 crores.

c) THE PRESENT STATUS OF INVESTMENT DURING 1992-93
1. Advertisement was given inviting tenders for purchase of shares of 8 central PSEs namely, Steel Authority of India Ltd., (SAIL), Bharat Petroleum Corporation Ltd, (BPCL), Hindustan Petroleum Corporation of India Ltd., (HPCL), Hindustan Zinc Ltd., (HZL), Rashtriya Chemicals and Fertilizers Ltd., (RCFL), HMT Ltd., National Aluminium Company Ltd (NAL), and Neyvelie Lignite Corporation of India Ltd (NLCI Ltd).
2. A minimum reserve price was fixed on the basis of recommendations of three merchant bankers - Industrial Credit and Investment Corporation (ICICI) of India, Industrial Development Bank of India (IDBI) and SBI Capital Markets Ltd.
3. Having this criterion, the bids eligible for acceptance amounted to a total sale of value of Rs. 681.95 crores for 12.87 million shares in eight companies.
4. Advertisement was again issued on Nov.28th, 1992 for disinvestment of shares in 14 PSEs. The en-tended terminal date for reviewing the bids was December 22, 1992. The bids for 12 of these companies for a value of Rs.1183.3 crores were accepted.
5. The Government invited a third round of bids for sale of equity in 15 PSEs for a total of 553 million shares in March, 1993. While bids were received, it was decided to accept bids for a total of 10.1 million shares aggregating Rs.46.73 crores.
6. The Government has also decided in principle to disinvestment shares in selected companies in favour of employees in 1992-93.

d) **LIMITS ON THE PERCENTAGE OF EQUITY TO BE DISINVESTED**

The committee recognises the need to broadly indicate the objectives that are sought to be achieved through disinvestment in public sector equity.

a) As an immediate objective to mop-up resources of non-inflationary character to meet the budgetary needs which include requirements of development activities.

b) To subserve in the medium term, the overall fiscal objective of gradually reducing the fiscal deficit and bringing about a positive impact on future liabilities and income flows to the Government.

c) To improve efficiency by bringing about a more competitive atmosphere with emphasis on the cost and quality of product and service to the customers of public enterprise sector.

d) To enhance the efficiency of individual enterprises by imparting a new dynamism in the management of enterprises through diversification of ownership and control as also larger and freer access to the capital markets in India.

e) To realise the extent of ownership, control and regulation in different activities consistent with the technological needs and developments in industrial policy.

f) Target level of ownership should be attained through disinvestment after fully recognising the preparatory action
g) The target level of ownership in respect for public sector should be 51% to enable control over management. A target level of 26% of public ownership may be considered in exceptional cases. Such cases may include enterprises which currently have a dominant market share or where separate identity has to be maintained for strategic reasons. In others, it could be zero.

h) There should be a set of specific reasons for continued government ownership of enterprises except in sectors which are reserved for public ownership. In all other sectors, Government should justify its continued holding of equity on considerations as an investor not as owner. The Government may hold more than 26% of the total equity in enterprises with outstanding prospects, but the investment would need to be justified on the basis of growth potential and the scope for larger realisation and not on the basis of desirability of government control.

Arising from the above, the committee considers that the percentage of equity to be disinvested should be generally under 49 in industries reserved for the public sector and over 74% in other industries.

The committee, therefore, recommends that limits to the levels of disinvestment should be desired from the target level of government ownership in each enterprise in the medium terms, thus.

a) The target levels of ownership could be zero; 26% to ensure limited control, 51% to have effective control and 100% for full ownership.
b) While determining the final level of government ownership it must be recognised that there may be group specific or enterprise-specific intermediate levels of disinvestment depending on the state of preparedness of each enterprise, stock market conditions and the requirements of government.

c) The desirable levels of public ownership may be reached with greater advantage to PSEs concerned and government by expanding the equity base through public offering than disinvestment.

d) The economic efficiency and financial gains to government through disinvestment in respect of each tranche in each enterprise need to be continuously assessed so that there is no compulsive disinvestment merely to reach the target levels of ownership by government.

e) THE COMMITTEE RECOMMENDATIONS :

The following considerations in determining the target level of disinvestment,

a) A target level of disinvestment for the medium term (say 5 years) should be derived from desirable level of public ownership in an activity or unit consistent with industrial policy.

b) Settle the modalities and accounting procedures for settlement of large arrears, if any, of dues payable/receivable between PSEs and the government among the PSEs or between PSEs, government and financial institutions.

c) Appoint a Merchant Banker for each of the PSEs to assist in initiating some of the preparatory measures mentioned above.

d) Arrange to create a market - friendly image for PSEs by
projecting and publicising the strong points of each PSE among the investing public in advance of the next disinvestment exercise.

f) MODUS OPERANDI OF DISINVESTMENT:

The procedure of funding shares, combining different public enterprises in lots and restricting the disinvestment in favour of public sector mutual funds, was adopted in 1991-92 as this was the first exercise in disinvestment. For the year 1992-93, the sale of shares was made enterprise-wise and to a wider clientele in order to get optimum benefits.

g) THE COMMITTEE STRONGLY RECOMMENDS THE FOLLOWING PREPARATORY STEPS:

a) Where the PSE is not in a company form,
1) determine whether it should be converted into a single or multiple companies,
2) decide upon the capital structure differentiating between debt and equity, and
3) evaluate whether an independent regulatory commission should be established for the concerned sector, and, if necessary, put such a commission in place,

b) Estimate firmly the on going investment plans for expansion or modernisation or technical collaboration,

c) Project the pattern of financing of such expansion through additional debt or expanded equity,

d) Review existing debt-equity structure including scope for bonus issue to government to capitalise accumulated reserves where the
reserves are disproportionately large in relation to the paid-up capital; where loans are disproportionately high, review scope for conversion of such loans into equity or consider other ways of distributing/lowering the burden of debt so as to keep the equity base at a level attractive to the capital market.

e) Examine the feasibility of issuing convertible bonds as a measure of raising adequate resources of the PSEs.

1) The price at which a share can be sold is determined more by investor perception of the worth rather than any mechanical measure of intrinsic worth. Hence, the importance of information gathering and full disclosure to generate credibility and investor interest.

2) Rise or fall in share values of an enterprise soon after disinvestment does not by itself indicate that shares were under priced or overpriced at the time of disinvestment.

3) Difficulties of valuation in a multi-unit and multi-product scenario have to be reckoned.

h) IN ASSESSING THE INTRINSIC WORTH OF A SHARE:

The Committee recommended the following:

a) Among the three criteria viz., Net Asset value, Profit earning capacity value and discounted cash flow value, discounted cash flow has the greatest relevance, though it is difficult,

P) An explicit assessment of the scope and limits for selling non-income generating assets (land or buildings) and rationalising labour force should be made.

c) Government Policies affecting future profitability (guaranteed
rate of return) may have to be spelt out. Such assurances, wherever required, may be extended only after careful assessment of the implications of such assurances on the eco-efficiency rather than immediate attractiveness of the shares to investors.

There are two acceptable and transparent processes for divestiture of governments share holding:

1) Offering shares of Public Sector Enterprises at a fixed price through a general prospectus. The offer is made to the general public through the medium of recognised market intermediaries.

2) Sale of equity through auction of shares amongst predetermined clienteles whose number could be as large as necessary or practicable. The reserve price for the public sector enterprises equity is determined with the assistance of merchant bankers.

i) CRITERIA FOR VALUATION OF EQUITY SHARES OF PSEs:

In general, three methods for valuation of shares are adopted, viz., Net Asset Value Method, Profit Earning capacity value method and Discounted Cash Flow Method. While NAV would indicate the value of the assets, it would not be in a position to indicate the profitability or income to the investors. The profit earning capacity is generally based on the profit actually earned or anticipated. The discounted cash flow is a far more comprehensive method of reflecting the expected income flows to the investors.

The special circumstances that require to be assessed in the context of valuation of shares of public enterprises are:
d) The influence of social constraints in the past working of the PSEs and the extent of benefit occurring due to provision of certain under priced facilities like land should be captured and presented while reckoning the intrinsic worth of the PSEs.

j) AS REGARDS INVESTOR PERCEPTION, THE COMMITTEE RECOMMENDED THE FOLLOWING:

a) Each company has to be studied carefully with the help of a merchant banking firm, taking into account factors such as value of Assets, its market share, potential profit earning capacity and the prevailing price in the market for share of similar enterprises in the private sector.

b) It is essential that the PSE and the merchant banker concerned present all positive aspects of the enterprise in the prospectus.

c) While fielding PSEs in the capital market, the main line of activity of the PSEs concerned and the extent of investor's Fancy for the particular industry at the material time may have to be taken into account.

d) Wherever disinvestment is made through public issues, the offering price would need to be fixed with a close assessment of the need to project the issue as a success to pave way for subsequent offerings, and at the same time, avoiding any criticism of under-pricing.

Keeping in view the international experience and our own requirements, a standing committee on Public Enterprise Disinvestment is recommended.

(Report of the committee on Disinvestment of shares in PSEs,
FURTHER REFORMS:

Most of the reforms initiated since June 1991 pertain to the external sector and large scale private corporate sector, the large private firms have now access to foreign capital and foreign technology and are free from industrial licensing and import controls. These units depend on the State governments for allocation of land, power connection, water supply and many infrastructural facilities. Debureaucratisation at the state level is an urgent need. Some states eg., Gujarat and Maharashtra provide single window Clarence facilities for approval of new projects.

Since the sector depends on the public sector for many critical inputs and infrastructural services, efficiency in the provision of critical inputs and infrastructural services is vital for the success of reforms in India. The discussion paper on administered pricing (Govt. of India - Ministry of Finance - 1984, a discussion paper on administered pricing) favoured the adoption of long run marginal cost (LRMC) basic prices for public sector products and services. Even with the completion many expenses by World Bank and others, the prices are still determined on the basis of accounting costs among one of the fully distributed costs raising one of the fully distributed costs
method (Sarkar V - 1992, Public Sector Pricing, theory and applications - Indian Economic Association Trust for Research and Development, New Delhi.)

The accounting cost based prices do not reflect the current economic costs of the services. Only the current long run economic costs are relevant for the new entrants. The problem is serious in the case of critical inputs like power, water and telecommunication services. The non-availability or poor quality of these essential services can constraint industrial growth.

The PSE reform recently begun Rangarajan committee report on disinvestment of shares of PSEs favoured 49 percent of equity of PSEs in the reserved list and 74 percent of equity of PSEs in the unreserved list. Currently no concrete programme, except for referral to BIFR, for dealing with loss-making PSEs. It outright sale is not politically feasible, then other options like contracting out management should be explored. Privatisation alone will not bring about efficiency unless the road blocks facing the enterprises are removed and they function in a competitive environment.

At present most of the incentives given by the Government reduce the user-cost of capital. With Globalisation, capital intensity in industry might increase. Since employment generation is an important policy goal, currently Government is relying on command and control (CAC) polices in environmental protection in medium industry. This policy involves specifying source specific standards for industrial units and enforcing them on the polluting
units by administrative and penal measures.

"SELLING PSE SHARES":

The Government needs to get on with the business of selling shares of PSEs without waiting for the stock market to turn buoyant, if it does not want to repeat its last years (1995-96) dismal record in meeting the disinvestment target. The present Finance Minister (Chidambaram) has reiterated the government's decision to disinvest upto 74% of its stake in PSEs in the non-core sectors. And if the Government can indeed garner the political courage to implement the policy pronouncement, the sale of majority stakes will attract higher bids, perhaps twice as high as the hither to practice of selling small chunks for portfolio investment has. Besides, the sares of such core-sector PSEs like the Indian Oil Corporation would find ready buyers (hence attractive bids), as Oil PSEs are expected to post huge increase in profits with the dismantling of administered prices, which is now on the cards. There are sound fundamental reasons why PSEs share quote poorly on listing, and even a bullish market would sufficiently discount for the general under-performance of PSEs. Clearly, if the Government is committed on disinvestment often enough is really can not expect higher prices for its shares.

Now the government is considering accessing international markets to acquatize its disinvestment target (for instance, tapping the GDR market), and this is welcome. Indeed, this is just another reason not to postpone the first transc of
disinvestment programme for this fiscal, which was planned for September, 96.

In the last fiscal, the disinvestment effort was supposed to raised Rs. 7,000 crores. The actual record was a lowly Rs.557 crores. (Editorial - The Economic Times, 16th September, 96.) This fiscal target is Rs.5,000/- crores. The government needs to better the target if the massive investment in the PSEs (with barely 4 percent returns on capital employed) are to cease being a drag on the economy.

CONCLUSION

Competition is regarded as the key to improving the performance of the State Owned Enterprises (SOEs) the absence of effective competition believing the free trade philosophy the economic reforms began as a result of 1991 crisis.

In order to establish an ideal environment for competition the above mentioned reforms took place as a policy initiatives. The theoretical base depends on twelve fundamentals in order to promote full and fair competition between SOEs and Private Enterprises . They are

a) no governmental barriers to entry
P) a competitive industry structure

c) equal access to loans and credit

Role and extent of competition in improving the performance of public enterprises, United Nations (UN) proceedings of an Inter-Regional Seminar, New Delhi, 1989.
d) equal access to foreign exchange
e) equal application of laws
g) no price controls or subsidies
h) equal access to raw materials and supplies
i) equal access to markets
j) equal application of laws concerning 'hiring and firing' of employees
k) freedom to reorganise and even change business
l) no preferential protectionism.

The challenge of competition therefore is for governments to develop appropriate policy frameworks within, acceptable limits, against the background of an ideal competitive free markets. The development of a management culture built on trusty dedication and vision would be required to propel the enterprises private or public to new heights.