CHAPTER – 8

CONCLUSION/SUGGESTIONS/RECOMMENDATIONS
CHAPTER – 8

CONCLUSION/ SUGGESTIONS/RECOMMENDATIONS

Conclusion

While public sector enterprises’ contribution to national development is widely acknowledged, their poor financial return has been a matter of deep and enduring concern, especially since the mid-1980s when, for the first time, the central government’s current revenues were found inadequate to meet its current expenditure. Though firm and industry level studies of PSEs have often highlighted gross inefficiencies and poor profitability, many of them have also suggested their unquantifiable (or difficult to quantify) non-economic benefits. However, macroeconomic discourse in India has largely focused on the “crowding-in” effects of public investment, and the need for institutional structures to insulate the PSEs from political and bureaucratic interference to improve their financial returns. Deeper analyses have sought to offer political economic explanations for continuation of such a state of affairs.

As a means to restore budgetary balance, after the crisis in 1991, government sold a small fraction of its equity shares in selected public sector enterprises to public investment institutions. Though quantitatively modest, it signaled a major departure in public policy; it was the thin end of the wedge that led to transfer of managerial control in a few PSEs
about a decade later. The policy shift was also significant, as it deflected the contours of the discourse on public sector reform from institutional design and corporate governance to a change in ownership in favour of private sector as a means to overcome the inefficiencies. The shift in debate was consistent with the changes in the discussions on economic policies worldwide.

Quantitatively, the disinvestment and privatisation have been modest so far, as proportions of the targets, revenues realised, or as a proportion of the fiscal deficit. Disinvestment did not secure much revenue, as the stock market was subdued during much of the 1990s on account of a series of scandals that repeatedly rocked the financial markets. Sale of substantial chunks of equity with transfer of managements that took place in the last 3-4 years has yielded sizable revenues. But most of these sales have been contentious with a series of legal cases pending in the courts, and enormous adverse commentary on them in press and the parliament. Should we persist with the policy of ownership reform? Realistically speaking, prospects for the D-P appear limited, as the bulk of the public investments (in terms of capital employed) are in infrastructure and industries of strategic importance, where market failures and national interests seem too significant to be left unattended by public policy. There is little that is credible in economic theory that argues ownership as the principal basis for economic outcomes. Moreover, accumulating evidence on privatisation across the world does not give any prospect of this policy making a genuine difference to firm level performance on a sustainable basis. If the above assessment is reasonably persuasive, then we are back to the earlier question: how to design an institutional mechanism that limits (if not overcomes) the agency problem that is at the heart of modern capitalism with the separation of ownership and control of large firms, that puts hard budget
constraint on firms, and reduces dysfunctional political bureaucratic interference. Solution to this problem seems closely tied to financing of investment, and financial system that provides resources for development and performs the function of a disciplining device on firms. While disinvestment and privatisation necessarily lead towards stock market based discipline, we have argued that history and theory do not seem to support it to be the superior alternative. We are inclined to favour the Japanese and German style interlocking of ownership of complementary PSEs tied together with a bank that enforces greater managerial accountability, and encourages long term outlook of output growth and acquisition of technological capabilities. Admittedly, there are a numerous enterprises with modest investments that are in the public sector fold that operate in competitive markets or do not serve ant strategic purpose. Among these, loss making ones can be disposed off by selling the real estate of these enterprises by creating empowered committees of all stakeholders in these enterprises. Workers are unlikely to oppose such moves if there is a reasonable and transparent sharing of proceeds of such sales. The remaining PSEs operating broadly in “competitive” environment can be granted greater autonomy, or give out to private parties on management contracts or on lease. To undertake these tasks, there is a need for a body like the disinvestments commission with representation from all stakeholders to workout the modalities of undertaking these changes.

While the Congress-I initiated the process of economic reform with on privatization and pushed it to some extent, the BJP-led NDA Government, is blatantly and in a muddle-headed fashion carrying forward the banner of privatization, taking advantage of the fact that the Congress is not in a position to oppose it, being itself the architect of privatization. In the process, the country has to pay enormous costs to
meet the budget deficits by fleecing the healthy PSUs, the navaratnas are also not spared.

It is true that oil is one of the biggest consumer markets, going by the past experiences, it can safely be said that, privatization in this sector would make the consumer happy. One view is that the oil industry is far too important for the economic development of the nation; it may not be correct to leave its control in the hands of private companies. As far as the long term impact of the judgment on the disinvestment policy of the government is concerned, the apex court has answered this question in the judgment itself by stating that the judgment has no bearing on the disinvestment process, but is limited only to the context of the two oil PSU's. At the same time it may be said that the issue is almost certain to crop up again sooner or later and will pose similar or even more challenging problems especially in a country wedded to democracy but until then this situation will exist. I may conclude by quoting the famous words spoken by, Marilyn Ferguson: it's not so much that we're afraid of change or so in love with the old ways, but it's that place in between that we fear . . . . It's like being between trapezes. It's Linus when his blanket is in the dryer. There's nothing to hold on to.

AS ON March 31, 2002, 13 public sector enterprises were engaged in producing, refining and selling oil and other allied products. All these enterprises (excluding Bongaigaon Refinery) recorded a total net profit of Rs 12,715 crore in 2001-02, and Rs 11,727 crore in 2000-01. The share of ONGC was Rs 6,198 crore (48.7 per cent of the total) and that of Indian Oil Corporation (IOC) was Rs 2,885 crore (22.7 per cent), followed by Gas Authority of India (GAIL) at Rs 1,186 (9.3 per cent), Bharat Petroleum Corporation (BPCL) Rs 850 crore (6.7 per cent) and Hindustan Petroleum Corporation (HPCL) Rs 788 crore (6.2 per cent). These five top companies accounted for a total net profit of Rs 11,907 crore, or 93.6 per cent of the total net profit of all oil PSUs.
What the country ought to do is to immediately disband the Ministry of Disinvestment so that the process of privatization, which is inimical to national interests, can be stopped. Secondly, there should be a fresh look at the public sector is becoming performance–oriented, there is a need to strengthen professionalism, give more powers to the Managing Directors of the PSUs in decision-making and reduce their dependence on ministerial control. Only after giving more powers to the PSUs can they are made more accountable. Since there is no conclusive evidence that the private sector is more efficient than the public sector, rather facts give an edge to the public sector, it would be prudent to abandon the irrational policy of disinvestments of the PSUs and search for other alternatives to further improve the PSUs performance.

Many public sector enterprises in India may be inefficient and loss making, but that does not automatically establish the superiority of the private sector. The recent revelation of corporate and accounting scandals have shaken the very foundation of the American capitalist model, which the present day policy makers appear keen to replicate in India. The PSUs bidding for each other should be discouraged as it results in maintaining statuesque unless it given a leeway to a particular PSU to compete with other private players in the same industry. It is becoming increasingly clear that the principal business of governments all over the world is to govern and facilitate economic growth not to run business on their own. There is no exception to this inexorable progression. The postponement of disinvestments may not bring the over all reform process to a halt, it will certainly we can the impetus to perform across the broader reform agenda the disinvestments ministry will do well to enlist the support of the finance ministry, as they have a converging interest in improving the fiscal condition of the government. It is highly desirable that disinvestments should not be looked at from revenue
perspective but to unlock the competitiveness of the economy. Hence, the focus should be on feeling the public relation vacuum and creating facilitating environment, which is conducive to divestment.

Given the pace at which India’s disinvestments programe has moved so far and the plethora of issues that have been raised in the public domain in relation to public sector units such as HPCL, BPCL, NALCO etc perhaps there is merit in revisiting the approach in executing the disinvestments process. The roadblocks to oil PSUs can also be attributed to the too much of an attachment by the ministers concerned. For instance in the case of HPCL & BPCL, the companies gas station, refineries, guest houses company vehicle etc would be pass on to the strategic investor and the same logic strategic investors and the same logic hold true for to the other PSUs and as well in view of the above, it is desirable to switch portfolios & hence the value of the oil companies chosen for disinvestments by unlocking its value in future divestment by capitalizing on the future potential of the companies. Though the government has green signal to proceed with the disinvestments process, it is to early to raise a cheer as significant element in the government still remain opposed to privatization.

It is proposed know, that the government will disinvest to retail investors, in the case of BPCL which there for will continue to be majority-owned by the government, and HPCL will be put on the block for strategic sale. However, ONGC and Gail may be allowed to bid for it. This raises the possibilities that ONGC and Gail may be allowed to bid for it. This raise the possibilities that ONGC will own HPCL after Indian oil has already bought IBP, while BPCL remains a PSU, so that at the end of the entire exercise we are back to square one. Besides, no time frame has been fixed for divestment.
The future course would also depend on the outcome of the Gujarat elections. The electoral politics will now have a larger say on the government’s reform agenda. Besides, Gujarat with elections to 10 state assemblies due next year, followed by general election in 2004, the political compulsions must moved ahead of reforms, particularly divestment. There has never been a problem with the direction of reform, but only with the pace-and effective execution, which is the characteristic of any democracy with diverse views on policy issues. Primarily the views issue raised by the opponents have to be discussed thoroughly have to be discussed thoroughly and apprehensions have to be addressed objectively. Subsequently, the issues have to be resolved through a transparent comprehensive divestment policy, which should ultimately result in non-frictional divestment process.

India has made substantial progress since the crisis of 1991. After its balance of payments crisis of 1991, India has undertaken numerous macroeconomic reforms to turn itself into a market-oriented economy. It is progressively liberalizing its trade regime, welcoming foreign investments, and encouraging exports. It has lessened regulatory control of its industrial sector. Its fiscal deficit has been reduced, external accounts are stronger, and trade regime is more open, financial sector has been liberalized, tax regime has been simplified and strengthened, and growth has been quite decent. Nevertheless, there is scope for further progress: India's growth is below that of the Newly Industrial Countries of East Asia, and India faces an enormous poverty problem. Structural reforms, in conjunction with policies targeted to help the poor and the dispossessed, can establish the conditions for high growth, economic development, and poverty alleviation.

India has a substantial middle class; a huge market; relatively well-established capital markets; flexible and enterprising financial system; and rich human resources, particularly business, technical and engineering skills. These factors make the circumstances in India favorable for the success of a disinvestment
program. The private sector in India is dynamic and ready to play a leading role in the nation's development. Indian policy makers can address the problem of public savings and fiscal deficit. To improve the public savings performance, India needs to raise the efficiency of its public enterprises. It can change the role of its large public sector by disinvesting the majority of its enterprises. For improving productivity, India may not only disinvest a large segment of its public enterprise, but also continue the process of liberalizing its trade and tariff regimes: India can stimulate its industry by opening its economy to international market forces. Disinvestment ought to be accompanied by the removal of distortions and unnecessary Government interventions. Sectoral economic reforms should take place within the framework of macroeconomic stability, guided by prudent fiscal policy and appropriate monetary policy. If accompanied by reforms in its labor and bankruptcy laws and the deregulation of the economy, disinvestment can stimulate India's productive efficiency and economic growth. By enhancing the productivity, and strengthening the competitiveness, of India's industrial sector, disinvestment of public enterprises will contribute to the authorities' developmental efforts of reducing poverty, and improving the quality of life of the Indian people.

SUGGESTIONS

Don't Privatize Oil Companies

Let's imagine a hypothetical scenario. Assume that your government owned a highly profitable, technologically sound, decently modernised, and relatively well-managed Public Sector Enterprise in a major infrastructural field.

It happened to be your Third World country's sole company (private or public) to belong to the Fortune 500 list of the world's biggest corporate giants. It continues to give the public a massive return on investment, with dividends on equity as high as 60 percent, even 200 percent. Sixty percent of the company's profits come from its retailing business where there is stiff -- and growing -- competition. The company is in a globally ramified industry where size matters,
and where consolidation rather than fragmentation is the dominant trend -- and key to success. In short, the company is like the goose that lays the golden egg. Would you want to sell off that company? Or worse, would you bleed it to sure, cruel death by divesting it of its most profitable component? And would you do this just because your country's highest law court had debarred you from selling off some other companies without obtaining clearance from the national Parliament under whose Acts they were nationalized in the first place?

Bizarre as this might seem, the scenario is not in the least bit hypothetical. Indian Oil Corporation is a Rs 120,000 crore-turnover reality. And surreal as the whole plan might seem, selling off IOC is precisely what Divestment Minister Arun Shourie insists the government must do. This is being rationalized on the ground that the fate not just of divestment, but of economic 'reform,' indeed of the economy itself, hangs by the slender thread of privatization of the oil PSEs. If Bharat Petroleum Corporation Ltd and Hindustan Petroleum cannot be sold off because of the Supreme Court's stay, then the very least the government must do is privatise IOC. Or else, disaster will befall us all. Yet, the stock markets do not reflect any trend towards disaster.

They may not accurately mirror the state of the economy; but they do indicate the state of private business's mood. And that is definitely buoyant. The Sensex has risen by a good 500-plus points or by 12 percent over its level on the day the Supreme Court barred the BPCL-HPCL sell-off. No wonder the IOC sell-off proposal has drawn flak not just from the political Opposition, but even from economists and opinion-shapers of different hues, including staunch supporters of neo-liberal policies, who don't oppose privatization in principle. For instance, a majority of our newspapers, including the highly pro-business 'pink' financial papers, have opposed it -- and accused Mr Shourie of distorting the minutes of the Cabinet Committee on Divestment, which do not mandate hiving off IOC's 11,000-odd retail outlets, but only say that 'the ministries of petroleum and divestment have been directed to examine if the marketing assets of IOC can be disposed of separately.'
Professor T T Ram Mohan, who teaches at the Indian Institute of Management, Ahmedabad, has sharply criticised Mr Shourie for not working jointly with the petroleum minister, but presenting him with a fait accompli. He argues that Mr Shourie is driven by his 'antipathy to the very concept' of PSEs; that he is 'unsuited' for his job and must be divested of his portfolio. Strong words indeed! But they contain a great many truths. Put simply, the proposal to privatise IOC makes neither economic nor political sense. Take economics. The oil sector is a highly globalised business where the only way an Indian oil company can remain competitive is by aiming for a big size. IOC (turnover, $26 billion) is a giant by Indian standards, but it is puny in relation to global companies such as Exxon Mobil or even Royal Dutch Shell ($235 billion).

IOC has proved its competitiveness not only in oil refining with its world-class capacity of 38 million tonnes, but also in marketing. Two years ago, it beat the aggressive Reliance group to take over the small public sector marketing firm, IBP. IOC also has plans to expand abroad. It has acquired a number of petroleum outlets in Sri Lanka. The other oil PSEs are impressive too. Together they generated profits of Rs 23,252 crores last year! HPCL alone paid a dividend of 200 percent. International management consultant A T Kearney ranks it among India's 16 best-managed private and public companies. IOC must expand its operations through upward and downward integration. We need to create a huge public oil conglomerate, or at least strong partnerships between IOC, BPCL, HPCL, above all, ONGC, which too is a world-class -- and increasingly global -- player through its subsidiary ONGC-Videsh which has taken up numerous blocks for exploration and production in different countries. Less than five years ago, then finance secretary Vijay Kelkar sensibly proposed a strong, long-term partnership between IOC and ONGC. Mr Shourie is doing the opposite. All over the world, vertical integration, and mergers and acquisitions, have promoted growth and competitiveness in oil. Thus, after such mergers, the after-tax profits of US oil companies rose by over 140 percent to $40 billion between 1999 and 2000. Their growth was especially spectacular in the case of Chevron-Texaco and Phillips-Tosco. Similarly, China -- whose example our policy-makers cite in great admiration -- has also followed the
world trend and consolidated its oil companies. Politically too, selling off oil companies makes no sense. The government has never offered even a half-way credible justification for it. There are a number of reasons why a vital sector like oil should remain under public control and accountable to the people via the government: including the crucial importance of this energy resource; the long-term objective of energy conservation (which no private sector company would want to promote); the need to cater to the requirements of different strata of the population (for example, kerosene and diesel, the demand for which far outstrips that for petrol); and promoting public accountability through Parliament. The issue is not just a technical one, of approaching Parliament to amend an Act which it had passed. The issue is, about making economic policies accountable in the true spirit of democracy.

Decisions on divestment cannot be made by ministers, bureaucrats or accountants, especially in respect of PSEs that have been created as an 'instrument of service' or 'to subserve the common good' or promote 'public interest.' This very rationale was cited when Burmah Shell, Esso and Caltex were nationalised in the 1970s after India's far-from-happy experience with them in the Bangladesh war: they failed to keep the supply-lines functioning. It'd be unfair to change the oil PSEs' status without Parliament's approval.

By bypassing Parliament, the government counterposes economic policy-making to democracy. This is wrong. No economic policy has succeeded anywhere unless there is strong political support for it and unless it's tied to a larger programme of improvement and transformation of governance. In India, such support has always been missing. On the contrary, privatisation here is driven by an authoritarian agenda; arbitrary decisions are made without Parliamentary debate or approval.

This agenda has a special obsession with the mode of divestment -- namely, transfer of control to a 'strategic partner,' usually, some favoured business house. This has made privatisation seem scandalous in India -- just as it has become 'robberisation' elsewhere, as Nobel Laureate and former World Bank chief economist Joseph Stiglitz puts it.
People like Mr Shourie are ideologically driven zealots of the neoliberal 'free market' model. They live in a time-warp and are blind to the negative effects of privatization of public services in many European countries, one of the worst examples of which is British railways, water and bus transport. Privatization there has undermined quality of service, safety, even management calibre. Our policy-makers operate with the naïve formula: 'government bad, private good.' They are wrong to have piggybacked on the third-party Jessop litigation in the Supreme Court to plead for a reconsideration of the BPCL-HPCL verdict.

The assumption that privatization is the only route to modernizing PSEs has repeatedly proved wrong. Take airports. Our existing PSE, Airports Authority of India, is already in the throes of serious modernization. It has invited bids from international designers and contractors to revamp Indian airports along the lines of Singapore, Hong Kong and Kuala Lumpur. They include Norman Foster, Kisho Kurokawa, Zurich Airport Authority, and Lufthansa-Lehner. The cost of modernization -- including building new terminals at Delhi and Mumbai -- is estimated at $1 billion. But the AAI's reserves alone are more than half this amount! Its bank investments equal about a fourth of the total. The rest of the capital can easily be generated through low-interest loans. By contrast, a private builder would seek a 12 to 16 percent return on investment, much of it financed by high-interest borrowings.

If India's experience in private electricity generation is anything to go by, especially with the now-disgraced and bankrupted Enron Corporation, such high-cost infrastructure development will violate all criteria of competitiveness. Enron's plant in Maharashtra produced 'gold-plated' power, which cost more than double the price of electricity generated by the state's public sector board. So, it's time to pause and take a break from target-driven divestment.

Above all, it's time to jettison dogma-as-policy.
Arguments against Disinvestment

- The amount raised through disinvestment till now is Rs.30,500 Crores. But the way money realised by disinvestment is being used remains undisclosed.
- The loss of PSUs is rising from 9305 Cr. in 1998 to 10060 Cr. in 2000.
- Disinvestment of profit making PSUs will rob the govt. of good returns. Further, if the department of disinvestment really wants to get away with commercial risk, why should it retain equity in divested PSU's. e.g., BALCO (49%) and MODERN FOOD(26%).
- The point that huge manpower will be released after disinvestment of PSUs which can be employed in social welfare is wrong as the growth in social sector is not in any way hindered by non availability of manpower.
- The supporters of disinvestment have thought that taxpayers' money would be saved by private sector investment. Hindustan liver has categorically stated that it has no plan for any capital infusion in Modern Food Industries acquired by it in January, 2000.

Lessons

Government's intent on privatizing face a challenge: the benefits of efficiency and innovation only materialize if privatization is done correctly. The following checklist provides some basic guidelines:

- The more market-friendly a country's policy framework - and appropriate policy is corrected with capacity to regulate - the less difficulty it will have in privatizing on State Owned Enterprises (SOE), and the higher the likelihood that the sale will turn out positively. 13 SOEs functioning in competitive markets, or in markets easily made competitive, are prime
candidates for privatization. Their sale is simple compared with that of public monopolies, and they require little or no regulation.

- An appropriate regulatory framework must be in place before monopolies are privatized. Failure to regulate properly can hurt consumers and reduce public support for privatization. Countries can benefit from privatizing management through management contracts, leases, contracting out, or concessions.

- The primary objective of privatization should be to increase efficiency, not to maximize revenue (for example, by selling into protected markets) or even to distribute ownership widely at the expense of managerial efficiency.

- Rather than restrict the market by excluding foreign investors and favouring certain ethnic groups, governments should experiment with "golden shares" (devices that prevent complete takeover by non-government interests without retaining management control by government) and partial share offerings. These could help to win acceptance for foreign and other buyers. Avoid large new investments in privatization candidates; the risks usually outweigh the rewards. Rather prepare for sale by carrying out legal, managerial and organizational changes. Experience shows that labour does not, and need not, lose in privatization, if governments pay attention to easing the social cost of unemployment through adequate severance pay, unemployment benefits, and retraining and job search assistance. Ideally, let the market set the price, and sell for cash. Realistically, though, negotiated settlements and financing arrangements or debt-equity swaps may be unavoidable. In all privatizations, in all countries, the transaction must be transparent.
Future of Indian disinvestments policy in India

The disinvestments proceeds are paged at Rs.78, 000 cr means that the government has set itself a target of Rs.15, 600 cr to be realized from disinvestments this year. The current year’s disinvestments target in Budget 2002-2003 was Rs.12, 000 cr. The government has so far realized less than Rs.5000 cr this fiscal from disinvestments indicating a slower than estimated pick –up in the momentum of such receipts. The target of Rs.12000 cr can just about be realized if disinvestments in National Fertilizers, Shipping Corporation of India, State Trading Corporation, National Aluminum company. Engineers India Limited &Maruti are completed. An oil company privatization of either HPCL or BPCL would have enabled the denied in press that the government may ask profitable PSUs like ONGC, EIL etc, for special dividend.

There is nothing wrong on the government part to demand special dividend from companies, which are up for disinvestment, the logic being to maximize realization. The dividend payouts however should be high for companies, with no expansion plans, in which case idle cash becomes a liability as it depresses returns. If we were able to apply this logic to our PSUs, dividends. The draining of ONGC’S cash is not in the long-term interest of the company; through it might be the easiest way to make good the shortfall, if any, in disinvestments.

However, the decision of disinvestment of selected PEs of the then NDA Government, for which even the road map was prepared, is being reviewed by the present UPA Government, led by Dr. Manmohan Singh. The leftist group, which is supporting the government, is oppose to
disinvestment, as such, on the ideological ground. With the result, the present ground has not only scaled down the target from Rs 14,500 crore in 2003-04 to only Rs 4000 crore in 2004-05, but also decided not to undertake the disinvestment of profit making PEs. Thus, the momentum regarding disinvestment gathered during the NDA Government, has definitely slowed down. With the result, the prospect of disinvestments appears to be slowed down in the near future.

RECOMMENDATIONS

The following measures can be taken to strengthen India’s disinvestment program:

- The authorities announce a comprehensive disinvestment policy that defines a list of enterprises eligible for disinvestment, sets a guideline for their sales to the private sector, and establishes a mechanism for disinvestment.
- The authorities sell profitable, competitive, and trouble-free enterprises.
- The authorities initiate efforts to evaluate unprofitable enterprises, and consider their sales. The authorities liquidate the non-viable public enterprises.
- The authorities deregulate industries to encourage competition. The authorities establish a regulatory framework prior to the disinvestment of natural monopoly enterprises.
- The authorities use professional appraisers for the valuation of its public enterprises.
- The authorities recognize that the objective of the disinvestment program is the transfer of ownership and control of enterprises. Hence, it does not merely adapt a policy of divestiture, under which it sells a minority of the shares of its enterprise but retains control of the
management. Instead, the authorities sell the majority of the shares of public enterprise and pass the control over the enterprises to the private sector.

- The authorities fully implement a Labor Retrenchment Program to compensate workers who lose their jobs due to shutdown of non-viable enterprises and the elimination of excess work force from disinvested enterprises. The authorities provide retraining and relocation opportunities.

- The authorities neither extend special privileges nor impose extraordinary conditions for the operation of disinvested companies.

- The authorities give the disinvestment process maximum publicity. The enterprises are sold through auction openly.

- The authorities ensure equal access to information for all potential investors. The disinvestment program in the non-reserved sector is gradually opened to foreign investors to attract continued overseas interest in the development of the Indian economy.