REINVENTING PUBLIC ENTERPRISES AND ITS MANAGEMENT AS THE ENGINE OF DEVELOPMENT AND GROWTH

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@ The views expressed in this paper are the views of the author and do not reflect the views of the Government of India
RE INVENTING PUBLIC ENTERPRISES AND ITS MANAGEMENT

I - INTRODUCTION

1. The role of State on the lives of people is an universal phenomena in both capitalist as well as socialist economies of the world. The subject of State intervention has thus been an issue of continuous debate over the years in different socio-economic milieu. The State assumed greater economic role in certain periods of time, followed by the doctrine of “Laissez-faire”.

2. The Industrial Revolutions in the 18th and 19th centuries in the West and the colonial rule in a number of Asian and African countries led to massive societal imbalances in the world. Concentration of economic power in a few hands or families and intense poverty among the vast millions of people compelled the State to step in a big way in the first half of the 20th century.

3. Two world wars – 1914 – 18 and 1939 – 45 led to intensification of the role of State over the economic processes. Europe, specially UK turned to Socialist ideas, which advocated the philosophy of Welfare State in health, education and infrastructure sectors with State-ownership of the means of production in the public utilities during the first half of the 20th century. Even in USA, Tennesssey Valley Authority in the last century and the role of NASA and ARPA with the creation of information highway in the 21st century are also examples of the role of the State. The recent initiative in USA to convert the several thousand employees in the airports within the ambit of the State is a recent example of this trend. Similarly in the UK the total public sector employment during 2004 increased by over 200,000 as stated by Prime Minister Tony Blair with pride on the floor of the British Parliament not so long ago.

4. A wide and vast application of the instrumentality of State was designed to correct the economic and social imbalance through investment, production, trade, distribution and consumption. Further, the role of State underwent change in the second half of the 20th century led by UK and followed by other nations. Dismantling of the State’s role in industrial activity in the erstwhile Soviet Union and East-European nations brought about on the other hand a sea change in the concept of Public Sector i.e. State ownership.

5. The prevailing opinion in early 1980’s in many countries was that the State-owned Enterprises had become a drain on national economy. Privatization emerged as a significant element of the economic reform process. The major objective was reduction of fiscal deficits, subsidies and costs of debt servicing. At the same time, the interest of workers was sought to be protected through safety nets.
6. Another development which emerged over the last two decades or so, is the Public-Private Partnership in the economic developmental process. Even in India, the policy is under active consideration with proposed Public-Private partnership projects in Roads, Ports, Airports and Railways. Indian Government’s ambitious plans to fund infrastructure projects is expected to take shape in the coming weeks with Prime Minister’s Committee on Infrastructure – deciding to lend $ 2 billion special purpose vehicle to focus on Public-private partnership projects 1.

7. With this backdrop, a new definition of the Public Sector with its various models adopted in different countries and a vast gamut of issues thrown up by the philosophy and practice once again need to be considered and discussed.

II CONCEPTUAL ISSUES

8. The term “Public Sector” is understood to mean different things to different people in different countries. In its widest interpretation the Public Sector encompasses all activities of Government. An understanding of the distinction between “Public Sector” which is a very compendious term and Public Enterprise (PE) which is otherwise called Government Controlled Enterprise (GCE) 2 or “State Owned Enterprise (SOE) 3 would be instructive.

9. With a vast range of activities extending to diverse fields, a working definition is desirable for a meaningful interpretation. In this endeavour, the definition adopted by one of the ICPE  4 Expert Groups provides some guidance. It covers “Any commercial, financial, industrial, agricultural or promotional undertaking – owned by public authority, either wholly or through majority share holding – which is engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts. Such undertakings may have diverse legal and corporate forms, such as departmental undertakings, public corporations, statutory agencies, established by Acts of Parliament or Joint Stock Companies registered under the Company Law”. Basic to the adoption of this definition is the concept of an expected economic or social return on investment.

10. In the evolutionary process, Public Sector has taken distinct forms, each with its own status and varying degrees of autonomy. There are three distinct forms:

   (i) Departmental undertaking
   (ii) Statutory Corporation, and
   (iii) Joint Stock Company with shares owned by State

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1 Reported in the Economics Times, New Delhi, 6 October 2995
2 Renalto Mazzoline “Government Controlled Enterprises” in International Strategic and Policy Decision – John Wilsey & Sons
4 International Centre of Public Enterprises at Ljubljana set up under the guidance of UN with participating Member Governments which included India.
The departmental form is the oldest and traditionally used for undertaking certain activities, e.g. the Post Offices, the Ordnance Factories, the Railways including its workshops as well as establishments under Atomic Energy, Space, etc. in the Indian context. Government control is total in respect of this category of PSUs and they form an integral part of budgetary process of the department concerned. The managers of these Departmental undertaking like the Railways in India are run by civil servants with high professional reputation.

11. Statutory form of undertaking does have more operating flexibility required for a commercial venture, but as a creature of an act of Parliament, any amendment or modification to the provisions contained in the Act require approval of Parliament, which is time consuming. This form in the Indian context included Damodar Valley Corporation, Food Corporation of India, Life Insurance Corporation of India, Central Warehousing Corporation, etc. One could say that organizationally this form holds a middle stage.

12. The third type is the Joint Stock Company form which provides greater flexibility and is created by an executive decision of Government which owns the shares issued without any specific approval of Parliament. Largest number of PEs belong to this category in India.

13. In the formative years of Public Enterprises system in India, distinctions between “Corporation” and “Companies”, executive Ministries (such as Railways), “Commissions” and “Valley Authorities” had been belaboured and strained. The distinction between statutory Corporation and Company has validity in Indian law, but the distinction is a technical one and not fundamentally significant.

**III-WHY PUBLIC ENTERPRISES? THEORY OF PUBLIC ENTERPRISES (SOEs)**

14. In any economy, there are four types of economic activity. First, those which are privately remunerative – provided by market through Directly Productive Investments (DPI), Secondly, those which are socially profitable but not privately remunerative – provided by State, like road building, irrigation, through Social Overhead Capital (SOC). Third, those which are privately remunerative but not capable of private execution, like heavy industry, high technology involving capital intensive investments like power, transportation, etc – also provided by the State with/without the help of the market. Finally, those which are natural monopolies. PEs are set up to undertake the second, third and fourth category of activity. The third category of activity can be transferred to the private sector when the capitalist development in these countries attain sufficient maturity to enable them to handle capital intensive investment where private sector

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5 Paul Appleby Consultant of Government’s Industrial and Commercial Enterprises, Government of India, Cabinet Secretariat, O&M Division, 1956
development takes place along with financial sector restructuring. That State intervention through economic planning and PEs can help countries to catch up decades of poor growth and slow development is also borne out by experiences in India, Mexico, South Korea, Brazil and China. Ideological and strategic economic and social considerations provided the genesis of growth and development of Public Sector in several of these countries.

15. In the Indian context the forms of PEs included (1) Statutory Corporation where PEs are formed under Acts of Parliament like (2) Holding Companies (a set of companies in one type of activity bound together e.g. Coal India, Bharat Bhari Udyog Nigam etc.), (3) Departmental Enterprises like the massive Indian Railways as well as ISSRO in the Department of Space, the Atomic Energy Department establishments – not forgetting the huge Indian Posts & Telegraphs Department (4) other forms like Public Limited Companies. That this is a critical pre-condition for PE management success is also evident from the Japanese experience where PEs are formed in several different categories like Kosha, Gengo, YO, Kokyo Hojin, Kodan, Jigyodan, Kinko, Koko, Eidan, Tokushu, Kaisha, Koshi Kongo Kigyo and Chiho Kokyo Dantai.

16. Composition of Boards is also an important issue. In China’s CNOOC, CEO Fu Chengyu has two foreigners in his Board from Shell and Goldman Sachs who recently (July 2005) played an important role in preparing CNOOC’s bid for US Company Unocal against Chevron. In Indian PEs like ONGC (which the counterpart of CNOOC) the question of inducting foreigners in the Board has so far been unheard of.

17. The French system of “contrat du programme” combined with “a posteriori” control replacing “a priori” control prevalent in most developing countries is also an important institution. In the Indian context the system of MOU has not made much impact owing to continued “a priori” control of the Government over PEs. The option of preparing Departmentwise “Performance Aims and Financial Targets” documents attempted in the Ministry of Steel & Mines in late 1980 with its impact on PE performance should be looked at again.

18. Clear guidelines for investment policy and price policy of PEs can also clarify the PEs role. Wrong investment decisions taken by Government led to enormous delays in project management. In 1987, a Committee under the Chairmanship of Ratan Tata recommended that Public Investment Board, Project Appraisal Division, Plan Finance Division and associated agencies should be merged in a Financial Institution so that there is appropriate accountability for implementation of their decision. This recommendation is yet to be considered by the Indian Government. This needs urgent consideration.

19. Whether some selected PEs should be placed under Management Contract or Lease or Joint Venture should also be examined – as options of non-divestiture led privatization is also an important issue.

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20. The need to institutionalize the “partnership” between the Government and the PE without diluting their accountability in the running of PEs is an equally important issue in efficient running of PEs. China’s SASAC and Singapore’s Temasak and Malaysia’s Khazana are interesting institutions which could throw new light against the increasingly dysfunctional Indian system of a whole lot of supervising Ministries numbering 38 today – which oversee 240 PEs under Central Government without accountability for their underperformance.

21. It should also be emphasized that Public Enterprises are generally established with two distinct strategies – take over or nationalization of the existing activity in the private sector as well as creation of new activity in the public sector through investments which are entrepreneurial in nature. Public Enterprises created by the newly independent countries as the visible hand of the State through the post-independence “planning” machinery in the “mixed” economy like the PEs in India belonged to the second category. Unfortunately, the setting up of these Public Enterprises in these economies in order to ameliorate the problem of “market failure” brought in “government failure” in many countries with its impact on the “managerial failure” and deficiencies in PE management. This “vicious circle” which has since been broken in several countries with improved “management”, as well as “control” of the State replaced by “partnership” between the State and the PEs - once again needs urgent attention. The issue today is no longer “Rivalry” between the State and the Market but how to achieve “Synergy” which eluded the grasp of several developing countries. The assumption that State has no role in economic activity and the Markets do not fail - have both proved to be incorrect.

22. Several PEs today continue to run efficiently in France, Japan, Germany, Italy, Australia, South Korea, China, Malaysia, Philippines, Indonesia, Sri Lanka, India as well as in Africa and Latin America. The paradigm of “Synergy” between State and Market achieved by China where they have opened up their economy for the private enterprises without privatizing their PEs – can even be revolutionized if we can consciously bring in the new regime of Government – Industry (both PE and private enterprise) partnerships as well as introduce Public – Private Competition to ensure (i) not only the PEs run well with the active involvement and leadership of their governments (ii) but also that Private Enterprises run well with the new norms of corporate governance. Both PEs and private enterprises could thereby achieve “Efficiency” and “Welfare”. It is pertinent to mention that the US Congress not only passed the legislation of “Government Performance and Results Act, 1993” applicable to all civil servants of the State but also “Sarbanes Oxley Act of 2002” applicable to all private enterprises in the country. It is equally pertinent to mention that China’s “State Asset Supervision & Administration Commission” (SASAC) has replaced the dysfunctional role of several scores of Administrative Ministries/Departments in the Chinese Government, even though the Administrative Ministries continue to play their dysfunctional role of control and fiefdom without sharing either accountability or responsibility for PE performance in several countries, including India.
23. That the role of the State has increased manifold in the advanced countries is also evident from (i) the percentage of government expenditure in the GDP in those countries as well as (ii) increasing levels of tax collection by their governments as percentage of their GDP. Thus government’s expenditure exceeded 40% of GDP in Austria, Belgium, Canada, France, Germany, Italy, Netherlands, Norway, Spain, Sweden and Britain in 1996. Similarly the ratio of the tax revenue to GDP exceeded 40% in several OECD countries including Sweden, Denmark, Finland, Belgium, France, Austria, Italy, Norway, Greece, Germany, Britain and Canada in 2000. There is an overall realization on Galbraith’s conclusion  that affluent societies must strike a social balance between the production of private goods and the provision of public amenities. That such a balance is difficult if not impossible to achieve in a country like India is evident from the extremely low level of tax to GDP ratio which still ranges below 10%. The link between public finance and public enterprise is therefore extremely important. The short-sighted approaches of several developing countries including India to reduce fiscal deficit by selling public enterprises- which follow from inadequacies of public finance management – could be disastrous in the long run.

IV - STATE OWNED ENTERPRISE MODELS.

24. Temasek, Singapore – one of the largest State investment agency owned by the State of Singapore; Baosteel, China – one of the largest steel producing company in the world owned by the State of China (PRC); EdF, France – one of the largest power generating-cum-distributing company in France owned by the State – which is also one of the largest power generating companies in the world; NTT NTT Do Como and NTT Data – one of the largest group in communication industry owned by the State of Japan – NTT alone had until recently occupied fourth position in the League table of global companies; ENI Italy – one of the largest energy groups in the world, owned by the State of Italy; also Oil & Natural Gas Corporation of India which figures as the largest Indian company in FT 500, which is also owned by the State. These are not the only examples of State Owned Enterprises (SOEs) which are also called the Public Enterprises – which are managing huge operations with great efficiency in various developed and developing countries of the world. Volkswagon in Germany, Pohang Steel in South Korea, Pertamina in Indonesia, Khazana in Malaysia – we can go on adding similar PEs in other countries to the list. Indeed, we should not be misled into thinking that it will be a retrograde step to once again have a close look at the PEs of the world and ensure that

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8 Galbraith, “The Affluent Society” 1968
9 The Economist, 14 August 2004
10 Like Temasek’s CEO, Ms Ho Ching – Baosteel’s CEO is also an impressive woman of China
11 French PEs are classified into Listed and Unlisted Stakes. EdF is unlisted stake as not a single share has been sold by the State, like SNCF, GDF, Snecma etc. See P. K. Basu’s “Disinvestment: Recent Experience in Britain, France, India” London, October 2003.
12 FT Global 500, Financial Times Special Report, London 27 May 2004 Government holding of shares in NTT was 65.5% in 2000.
they follow the guiding light of “excellence” still burning bright in countries like Japan, France, Italy, China, Singapore. Even in India where several PEs are rightly under attack for their less than satisfactory performance – some of the largest and best run corporate enterprises like ONGC, Indian Oil, National Aluminum, Steel Authority of India, etc. are SOEs.

25. The “drama” of Development in the last few decades after the end of the Second World War, unfolded powerful scenes of both “rivalry”, “synergy” as well as “control-cum-freedom” syndrome in the role of State and Market in different parts of both capitalist and socialist economies. Adam Smith’s “Invisible Hand of the Market Forces” was clearly flawed in several of its invalid assumptions like perfect competition on the demand as well as on the supply side with perfect market information and absence of indivisible factors of production and economies of scale; In post-Marxian, post-Soviet and post-Keynesian decades, therefore, the “State” intervened to correct the “market failures”. The “market failure” syndrome including absence of markets was also writ large in developing countries even before they gained their independence from the colonial “State” as the so-called free markets did not provide any engine for growth or development in these countries.

V - HOW TO PRIVATISE PEs EFFICIENTLY WHEN CONSIDERED NECESSARY?

26. A balanced agenda of PE reform as well as privatization or Divestiture can be presented in a flow diagram shown at annexure I. The backward and forward linkages are critical to any successful privatization. Inability to undertake investment for renewal and repair of rail track by the privatized British Rail led to their renationalization in UK during the last one and half years (2004-05). This is a reminder of what can go wrong despite the overall success of British privatization. The experience of France though quite different from that in Britain had also its own lessons. While :cash: may be welcome to be raised through privatization, the French will not exchange the cash for “control” which must continue with the government. The French always maintained this attitude towards the role of government which can be expressed in their saying - it is better to be “French and inefficient” rather than “foreign and efficient”. This goes back to the influence of Colbertism in France. Similarly, the paradigm of Government-Industry partnership in Japan cannot be easily traded for privatization of ownership of Japanese PEs. In Japan, “privatization often conveys commercialization of departmental PEs into joint stock companies with shares owned by the State. There are other models which have their own lessons. Big bang hasty and wrong privatization and divestiture led to destruction of the economy of Russia where the economy suffered from negative growth rate throughout the decade of 1990-2000. Slow and steady opening up of the economy in China introducing competition and tremendous vigour without divestiture of PEs is another equally impressive model.

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VI – HOW TO RUN PUBLIC ENTERPRISES WELL?

27. In order to attack “market failure” - Public Enterprises, must after they set up avoid “government failures” as well as consequent “managerial failure” in their operation. Managerial failure invariably follows from inability of governments to adopt sound policies on Investment, Prices, Financing, as well as on new Projects which are invariably delayed and several other areas affecting the management of PEs. Inability of governments to build effective and efficient managerial cadres for the PEs and provide the managerial cadres with necessary autonomy to run PEs with efficiency and welfare also result in managerial failures. In earlier stages of PE development it was felt necessary to delink the impact of managerial decision making by governments as policy-makers – but governments continue to enjoy over-riding strategic powers of appointing the PE Board, fixing their terms and remuneration, deciding on all new investments and expansion, fixing prices, approving contracts and purchases – besides policy on location, employment etc. without co-sharing either the corporate risk of managing the PEs or being accountable for PE performance. The experience of countries like Japan and France shows that the governments and PEs can and do operate as “partners” in Development and not as “adversaries” unable to share both “success” and “failure”. The checklist of issues to ensure that PEs run efficiently with its accountability to the public as well as to the governments which are their owners would also include several issues, like

- The pattern of ownership and management of Public Enterprises which vary from country to country. Management is an extension of the ownership pattern. Given a corporate form, Public Enterprises is managed by a Board of Directors. Ownership provides the authority to Government.

- Building Managerial Cadres for the PEs which could be inside the Civil Services, like the Central Administrative Pool and the Industrial Management Pool of India as successor to the Commerce Finance Pool in the ICS as well as professional civil services in the Indian Railways, Ordnance Factories, Atomic Energy and Space Organisations etc as well as Career Executive Service in Philippines/Iran and related institutions like the ENA of France which throws up some of the brightest leaders of French PEs. Alternatively, PE based management cadres can also be established like Tata Administrative Service in the Tata Group of Companies in India. Induction of appropriate managerial remuneration which should relate to remuneration in the private sector is also an urgent issue that needs to be addressed.

28. The Government –PE relationship should not be either “Control” or “Fiefdom” but “Partnership”, “Involvement” and “Accountability for results” with efficiency and welfare. PEs, must implement and deliver the physical and financial results with growth, efficiency and welfare. In searching for new innovation for strengthening the efficiency and effectiveness of PE management – we can emphasize a “global partnership for

development” which is also a millennium development goal. The approach would be to ask three fundamental questions on the issue and try and find an answer to each one of these questions, namely, (1) Why Public Enterprises even in Capitalist economy? (2) How to run Public Enterprises well by appropriately empowering the managers so that the enterprises achieve both efficiency and welfare? And (3) If it is decided to privatize selected Public Enterprises, how do we privatize them, and again with efficiency and welfare?

29. An overview of SOEs in India, China and Malaysia is added in Annexure II, III and IV below.

VII –ISSUES TO BE DISCUSSED AT AEG MEETING 27-28 OCTOBER 2005

30. The specific issues that should be discussed at the AEG meeting at New York on 27-28 October, 2005 are as follows:-

(a) Structure and Form of PEs (i) Holding Company, (ii) Competing PEs (iii) Departmental PEs (iv) Limited Liability Companies with shares issued to the State as well as to the public who will hold PEs accountable for results, (v) Statutory Corporation, (vi) Public-Private Partnership Model.

(b) Institutional Machinery for formulating (i) Investment Policy, (ii) Pricing Policy and (iii) Policies on Surplus Generation as well as (iv) Profitability Criteria. How to set up Performance Improving Institutional Machinery to provide incentive to PEs to improve performance continuously on a sustained basis. Are PEs required more where the “externalities” are greater than the “internalities”?

(c) Are there any lesson in China’s SASAC and Singapore’s Temasak in replacing the role of supervising Ministries of the PEs who neither provide any guidance to PEs nor accept accountability for PEs performance. Are there any lessons in Japan’s MITI which could be adopted by other countries.

(d) Issues on Delegation of Administrative and Financial Powers from Government to PEs-lessons from cross-country experience. Is it possible to replace “a priori” control with “a posteriori” control with backward linkages to effective MOU or PAFT (Performance Aims and Financial Target) documents?

(e) Building Management Cadres for PEs (1) One cadre for the country within the civil services at least for the top posts of PEs (ii) Select Cadre for each PE, (iii) Common cadre for managing PEs and controlling PEs from government, (iv) IMP and CAP in India; CES in Philippines and other associated models like ENA in France, (v) Managerial Remuneration Structure including Performance Related Pay, Employees Stock Option Scheme etc. The issue of appropriate remuneration for the Public Sector

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managers to be related to remuneration in the private sector is also an urgent need to attract talent in the PEs management cadres (v) Selection Process like UPSC and PESB in

India and Committee of Eminent Persons in Uganda as well as Amakuduri in Japan. How to improve these systems of recruitment which have many pitfalls.

(f) How to restructure, revive and turnaround PEs suffering from losses, erosion of networth, how to clean balance sheet and avoid wrong financial management policies. There are several options like conversion of loan into equity, waiver of interest and non-repayment of loan by sick PEs and introducing management contract of efficient PEs. In this context Corporate Debt Restructuring Model of India’s sick Private Enterprises brought forward by the Reserve Bank of India could also be examined. BRPSE’s turnaround model adopted by the Indian Government after the Board was set up in December 2004 in reviving loss making PEs – providing various options – can also help other Developing countries in reviving and modernizing their PEs.

(g) How to institutionalize a relationship of synergy and partnership between Government and PEs a la Japanese, French and may be Chinese models replacing the current “adversarial” relationships which has been harmful to PE management in a country like India. In this context, the role of Board of Directors appointed by Government should also be reviewed so that the Chairman of the PEs get full support and cooperation from full time Directors as well as all part time Government Directors and the independent Directors.

(h) The Indian experience is an excellent example how “Government Failure” led to “Managerial Failure” in PEs. A detailed analysis of (i) evasion of responsibility by supervising Ministries to accept accountability for PE performance combined with “Government Failure” could therefore be useful. These include (ii) poor autonomy of Boards to take vital investment and commercial decisions (iii) excessive control even over day to day matters (iv) political influences over a wide range of business and organizational issues (v) use of PEs as instruments of income and wealth redistribution by way of employment, subsidized products and services and for correcting regional disparities often for narrow political gains without considering the good of the enterprise (vi) bureaucratic interference (vii) wholly irrational compensation policies in order to align them with civil services without considering industry practices which eroded managerial competence and caused organizational failure. With dynamic growth of private sector and growing demand of scarce managerial resources this could pose a grave danger to PEs to attract quality managers – unless urgent steps are taken to reverse the trend.

(i) In the case “privatization with efficiency and welfare” – which should be enterprise based – the relative merits of all the various options like (i) private sale of shares (ii) public sale through tenders (iii) outright sale of PEs to private bidders from 26% to 51% shares (as was adopted in India despite much criticism) (iv) Role of Golden shares adopted in UK privatization (v) management buyout (vi) employees share ownership scheme (vii) liquidity or asset stripping of PEs – could also be examined. We should also not forget the backward and the forward linkages of the privatization process without which neither “efficiency” nor “welfare” can be ensured.
(j) Imperatives of the Welfare State as well as initiatives needed to modernize the civil services without which the delivery system of the Government including the Public Enterprises (SOEs) cannot be improved – also requires urgent attention. The important link between public finance management and public enterprise management must also be established – keeping in view the bottom line of “efficiency” and “welfare”.

(k) How to ensure “efficiency” and “welfare” both in the supervision of public enterprise management as well as in privatization of the PEs by Government and avoid massive corruption which is associated with both these activities in several developing countries.
ANNEXURE II

AN OVERVIEW OF STATE OWNED ENTERPRISES (SOEs) IN INDIA

1. In addition to the Departmental SOEs which cover the massive Indian Railways, the Ordnance Factories, the Atomic Energy and Space Department establishments, India’s SOEs include the financial institutions (like IDBI, SIDBI and IFCI) and the Nationalised Commercial Banks (like Bank of India, Bank of Baroda, Oriental Bank of Commerce, Punjab National Bank, United Bank of India, Central Bank, United Commercial Bank, Syndicate Bank, the State Bank of India etc). In addition, there are Public Enterprises including the Industrial and Commercial Enterprises under the Federal or Central Government as well as the State Governments in the Union of India.

2. During the financial year 2003-04, 230 Public Enterprises (SOEs) operated as Industrial and Commercial Enterprises under the Central Government. Of these, 140 PEs made net profit of approximately Rs. 62,000 crores or $ 14 billion, while 90 PEs incurred net loss of approximately Rs. 8400 crores or $ 2 billion. Hence, the total group of 230 PEs made a net profit of $ 12 billion on a total capital employed of Rs. 4,52,000 crores or $ 100 billion and total turnover of Rs. 5,86,140 crores or $ 130 billion. If we take the figure of gross profit before depreciation, interest and tax, which worked out to Rs. 1,30,308 crores or $ 28 billion, the ratio of GP%CE of 230 PEs worked out to 28%. With improved management, there is no reason why 90 PEs which incurred losses should not be able to give profit. In addition, the Departmental Enterprises are also showing profit, like the Indian Railways which showed net profit of $ 1 billion on Railway’s total turnover of $ 10 billion during 2004-05.

3. The share of the value added in GDP of the Public Enterprises in India will not, however, be more than 5%. Thus the overall size of the PEs engaged in the industrial and commercial operations is modest. There is, therefore, need for increasing the role of PEs so that they also help in the management of public finance in India and help to improve efficiency of the Indian private sector through competition.

4. The total proceeds from Disinvestment from 1991 to 2004 amounted to Rs. 48,000 crores or $ 10 billion.

5. The total employment in the PEs where Central Government has shown a reduction from 2.18 million in 1991-92 to 1.99 million in 2001-02. As on 31.3.2004, the total employment stood at 1.76 million. This is important as increased efficiency of PEs and the Government should lead to higher employment in a country where the level of unemployment is enormous – could be nearly 50 million.

6. Government of India is the appointing authority for all the CEOs as well as full time Directors of the PEs while the managerial posts below the Board level upto management trainee level are filled by the CEO. There are therefore 230 posts of CEOs and about 400 posts of full time Directors. Out of these 630 posts, about a half are filled by regular incumbents – while the other vacancies are filled by pro-tem arrangements.
This also underlines the enormous scope for improving the present procedure of selection and appointment of top managers in PEs without whom the chances of turnaround and revival of PEs incurring losses cannot be improved.

7. Despite these shortcomings, the contribution made by these 230 PEs during the financial year 2003-04 shown below has been impressive, thereby underlying the need for improved management and expansion of entire public sector in India without delay.

<table>
<thead>
<tr>
<th>National Production</th>
<th>Produced by PEs</th>
<th>% of PE to National Product</th>
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</thead>
<tbody>
<tr>
<td>Coal (million ton)</td>
<td>361</td>
<td>341</td>
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<tr>
<td>Lignite (million ton)</td>
<td>28</td>
<td>28</td>
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<td>Crude Oil (million ton)</td>
<td>33</td>
<td>29</td>
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<tr>
<td>Natural Gas (million ton)</td>
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<td>Refining Crude (M. ton)</td>
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<td>90</td>
</tr>
<tr>
<td>Finished steel (M. ton)</td>
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<td>12</td>
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<tr>
<td>Aluminum (000 ton)</td>
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<td>307</td>
</tr>
<tr>
<td>Lead (000 ton)</td>
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<td>35</td>
</tr>
<tr>
<td>Zinc (000 ton)</td>
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<td>145</td>
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<td>Nitrogenous Fertilizer (000 ton)</td>
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<td>3431</td>
</tr>
<tr>
<td>Phosphorous Fertilizer (000 ton)</td>
<td>3399</td>
<td>250</td>
</tr>
</tbody>
</table>
ANNEXURE I

1. PE Restructuring

2. Public Enterprise (PE) Reform and commercialization

3. PEs Placed on management contract
   Also leasing: joint venture, hire purchase

4. Divesture of shares/assets of PEs With/without redundancy

5. Private sector development and financial sector strengthening
   A  B  C  D

6. Privatization as a part of a wider
   | Convertibility of Currency | Export Development Reform | Civil Service Reform |
   | Reviving fiscal discipline | Reviving trade discipline | Getting prices right & removing subsidies |

A= Central Bank
B=Commercial Bank
C=DFCUs i.e. development finance companies: Asset Management Funds
D= Stock exchange