The Strategy For Privatisation In India Under Five Year Plans

Dr. (Mrs.) ANURADHA JHA
Assistant Professor, NDIM

In view of increased globalisation and liberalisation, privatisation has been an important issue or agenda for governments in SAARC countries, especially India. Though the process of privatisation may vary in different countries. It is important to study the experimental implementation of various theoretical principles in the spheres of privatisation undertaken in India and find out possible approaches suitable for indian economy with reference to restructuring public enterprises here.

In broader view of privatisation, deregulation or liberalisation pursuits resulted in efforts to eliminate price restrictions and to reduce domestic and international barriers to the entry of new firms or allow free flow of trade and debureaucratisation of services. In India, the tenth five-year plan is incorporating the strategy of economic globalisation and privatisation which is in fact, gaining strength and intends to achieve development by leaps and bounds. The five year plan is giving thrust on significant progress in establishing modern corporate structure in state-owned enterprises, increase the soundness of social security system and employment. However, under the tenth five year plan tax reforms are going to be accelerated which could help the government earn more money and prune down the size of government sector as well as cut subsidies to save money, the high disinvestment target of Rs. 16,000 crore a year factored as a funding source for the plan. Further, the plan itself aims at a 8 percent GDP growth rate over the five year period despite the low GDP growth of 5.5 percent in 2001-2002. Though the government's decision on sales of several PSUs including oil and telecom companies is still on rise under this five year plan. Fifty thousand crores of rupees is a homogenous figure as India's fiscal deficit in 2002-3 is expected to be around Rs. 1,35,500 crore or 5.3% of the GDP. The government of India is planning to complete the strategic sales of a few heavy duty PSUs like Hindustan Petroleum (HPCL), Bharat Petroleum (BPCL) and National Aluminium (Nalco). The next plan of the government is to sell some shares of various oil - Oil India (OIL), Oil and Natural Gas Corporation (ONGC), Gas Authority of India (Gail), power National Thermal Power Corporation (NTPC), National Hydel Power Corporation (NHPC) and telecom PSUs - Bharat Sanchar Nigam (BSNL). This concept initiates simplification of rules, procedures, reduction in bureaucratic and political interferences to promote professionalism and ensure more autonomy to management. In India privatisation can be brought in many ways - transferring ownership through sale of equity or transferring manangement control through leasing or joint sector enterprises and making enterprise more subject to discipline of financial market and consumers. Mere transfer of ownership can not improve efficiency. Unsuccessful enterprises in non-competitive markets need to be restructured and successful ones ought to be open to competition and then privatised.

The main objective of privatisation is to upgrade resource productivity and correct macro-economic and fiscal imbalances, competition, market discipline, and socio-economic technology. In the third world countries, privatisation has become an economic complusion and policy invention for regeneration of structural adjustment. Though the Disinvestment Commission report stresses the fact that in many development countries, private investments need to be supplemented and supported by public investment especially in areas involving public goods and externalities (buyers and sellers who exchange goods and services) for efficiency growth and social development.

However, the global experience with privatisation in different countries indicates a mix - scenario with regard to its success and failure. Certain countries have faced difficulties when they have abruptly undertaken privatisation at initial stage whereas a few of them got grand success with a well-designed policy such as selective allocations of credit and foreign exchange information processing, learning and technological capacity, timing and speed of decision making and insuring the risks on the basis of judiciously selective state intervention.

Unless the workers are included in the design process, privatisation will continue to be viewed with scepticism. The governments find it difficult to decide upon specific objectives and measures which aim at easing the adjustment - burden with respect to retraining, job replacement, overreach, compensation, early retirement benefits. These issues have virtually locked the door of privatisation in many SAARC countries (India, Pakistan, Sri Lanka, Nepal, Bhutan, Maldives, Bangladesh).

An exit policy in India should be accompanied by strict implementation of labour laws including provisions for compensation and make trade unions feel positive in contribution of implementation of privatisation in co-ordinated manner. The purpose of privatisation lies in relieving administrative and financial burden on the government; balancing national budgets by eliminating or reducing subsidies to public sector. It also encourages popular capitalism by wide share holders. By this method taxes can be reduced and domestic capital market will be promoted.

In view of the past performance of public sectors in developing countries, particularly India, the concept of privatisation has been introduced to eliminate bureaucratic and monopolistic tendencies so as to raise quality of goods and services and improve managerial performance. More so, the sale of public enterprises can raise revenue of the government.

Over nearly a half century of planned development, privatisation process in India has been carried out in several stages such as deregulation, dereservation, privatization and disinvestment. The Indian government has taken a variety of initiatives to affect privatization of public sectors in a phased manner. In spite of having undertaken so many important measures which altered the country's economic policy frame, there is a widespread confusion in the country regarding this issue. Resource mobilisation has been the only objective of privatization of PSE's which has materialized so far. In India, the deregulation would imply loosening statutes like the Industries (development and regulation) Act 1951 (IDRA), Monopolies and Restrictive Trade Practices Act, 1969 (MRTPA), Foreign Exchange Regulation Act 1973 (FERA), Capital Issues Control and technical scrutiny by the Directorate General of Technical Development (DGTD).

Deregulation - Under the deregulation system, the Monopolies and Restrictive Trade Practices Act, (MRTPA) was enacted in 1969 and substantial changes were introduced to open monopoly houses and foreign subsidiaries. Exchange Regulation Act, 1973 (FERA) was sought to limit the level of foreign equity in Indian companies at 40 percent.

Due to conceptual and structural weaknesses of law with poor execution the regulatory system failed to achieve the desired objective. Thus the process of freeing the private sector from regulations could not complete its reform policy though the relaxations to the industrial licencing policy included diversification into related areas of production, re-endorsement of capacities on the basis of maximum utilization of plant and machinery, recognising modernisation and replacement of equipment, automatic increase in licensed capacities and exemption from industrial licensing for medium level entrepreneurs.

Dereservation - The Industrial Policy Statement (IPS) 1991 announced various steps for the entry of private sector in public sector reserved areas. Following this, a number of local and foreign companies such as Enron corporation, Cogentrix, AES Transpower, Rolls Royce, Powergen, Bell, British Telecom, AT & T, US West, Deutsche Telekom, Nippon Telegraph received approvals for entry into energy and telecommunication sectors. Similarly, in the financial sector changes were made to permit entry of new private banks and private mutual funds such as Global Trust Bank, Industrial Bank, Times Bank, Bank of Punjab. Besides a few financial banks the IDBI Bank, ICICI Bank and UTI Bank were also set up under this policy.

The disinvestment of government equity in profitable PSE's has helped the government mobilize one-time funds. The intention behind PSEs privatisation was to deepen capital market and obtain larger public participation.

However, the privatisation has been strongly opposed by workers and they know that unprofitable undertaking can only hurt their interests. Here it is required to share the basic problems of managements of PSE's with workers.

Context of Privatisation - Public sector in India has two main forms - the first, departmentally owned and managed establishments like - railways, posts, telecommunication, irrigation and power projects and the second one is enterprises established under the Companies Act, 1956 and under special statutes. Out of 1,180 undertakings, central government undertaking numbered 239 and state-owned PSE's were 941. In spite of the efforts at downsizing workforce by public sector during nineties, the number of employees remained at 9.8 million at the end of 1996-97. The exercise of personal discretion in matters of labour is extrememly low in PSE's. Moreover, policy of preferences in employment for women and underpriviledged sections of society is on rise in public sector in India.

The cumulative effect in non-performance of the public sector in India has been mentioned as lack of managerial autonomy, excessive interference, long delays in project implementation, overstaffing, lack of motivation, indiscipline and undue demands of employees, financial losses, social obligations and diversification into non-priority areas.

Disinvestment - The process of disinvestment includes divestment of government-held equity to strategic/joint venture partners through open bidding or negotiation, expansion or transfer of certain existing units, entering into management contracts with private professional groups and contractualisation of operations. All this proposal was to further market discipline, raise resources and encourage wider public participation in management of PSE's.

The government categorised the companies whose shares were selected for disinvestment as very good (8), good (12), not so good (11). The shares of these enterprises were offered mainly to the Indian public sector Financial Institutions at a national reserve price Rs. 30.38 billion. Later after the controversy, the Disinvestment Commission advised strategic sale of PSE's (sale of 25 percent of its shareholding to a long term strategic investor, and transfer of management control to them.) to a bidder to impart long-term viability. For example - IPCL and it is envisaged in the four other PSE's also namely, Bharat Aluminium. Modern Food Industries India Ltd, Kudremukh Iron Ore Co. Ltd. and India Tourism Development Corp. The commission suggested the fund be deployed to further the disinvestment process by liquidating losses of the

Table : Disinvestment Till Now

Year	No. of Companies in which equity sold	Target receipt for the year (Rs. In Crore)	Actual receipt (Rs. in Crore)
1991-92	47 (31 in one tranche and 16 in other)	2500	3038
1992-93	35 (in 3 tranches)	2500	1913
1993-94	—	3500	Nil
1994-95	13	4000	4843
1995-96	5	7000	362
1996-97	1	5000	380
1997-98	1	4800	902
1998-99	5	5000	5371
1999-00	2	10000	1829
2000-01	4	10000	1870
2001-02	10	12,000	5632 #
2002-03	6	12,000	4777 #
Total	48*	78,300	30917 #

* Total number of companies in which disinvestment has taken place so far.
# Figure (inclusive of amount expected to be realised, control premium, dividend/dividend tax and transfer of surplus cash reserves prior to disinvestment etc.)

PSE's before disinvestment, strengthening enterprises with marginal losses, providing support to surplus labour and conducting publicity campaigns for disinvestment. The extent of disinvestment of PSEs would appear to be very limited if shares are taken over by public sector financial institutions and mutual funds, This would not be privatization in true sense.

Under this plan two profit making sectors namely, oil and gas and communications (8 PSEs), contributed three-fourths of Rs. 82.05 billion realised from disninvestment and more so, three major PSEs contributing to revenue are MTNL (Rs. 23.6 billion), Oil & Natural Gas Corp (Rs. 10.57 billion), and Indian Oil Corp (Rs. 10.34 billion). These accounted for 54 percent of the total amount realised during all this period. The government domination in PSEs, in spite of the disinvestment, would therefore continue. The dilution strategy followed three objectives - raise financial resources, government domination and effective control of enterprises. The non-implementation of MOU (Memorandum of Understanding) include inadequate budget outlays, delays in settlement of outstanding dues and clearance of project proposals and inadequate reimbursement of VRS payments.

The implementation of privatisation has been slow due to lack of political consensus, resistance of beaurocratic control on PSEs and opposition from labour. The competence of private managements to manage massive enterprises to any private Indian or foreign industrial house.

Contractualization- Contractualization has been assisted by general ban imposed by government on new recruitments. The activities privatised and brought under subcontracting include catering, message, courier service, security, cleaning, maintenance of office building transport and at the last Railways. Experiment has been undertaken in privatising platform management and maintenance. It is reported that nine PSEs (Navratnas) employ about 20,000 contract workers. The SAIL has 16,000 contract labour and NTPC nearly 12,000 in total.

However, the implications of the privatisation of services by replacing regular employees wth contract labour based need an objective wide discussion. Actually contractualization of services creates two distinct groups of labour - one well-paid, protected and organised and the other completely and unprivileged.

Consequences of Privatisation - The implication of privatisation has a different impact on labour, consumer and the economy. Besides, the dereservation because of removal of entry barriers, motivates additional investments and offer a large opportunities of employment. This phenomenon has been seen in the Aviation sector and Communictions industry. Privatisation could lead to a reduction in the workforce if the new managements were to opt for modernisation and automation. On the contrary, it is considered that sub-contracting could result in replacement of permanent and better-paid jobs with low wage unorganised casual labour. Undoubtedly, the end of monopoly status of the PSEs and competition from new entrants would demand changes in PSEs. In view of poor performance of Public sector, privatisation would be justified if it results in improvements in the efficiency of these enterprises.

The important question of privatisation lies in the compensation and resettlement of surplus labour that have the only option to take voluntary retirement. Therefore the cash compensation under VRS may not be adequate to help them for proper subsistence. Thus a better safety net is required as pension scheme.

For the success of privatisation, the concept itself has to be accepted by the government, workers and public at large. This new system must have well-defined objectives and full transparency. However, under this mechanism, there would be a rapid expansion in the number of shareholders and entry of large number of corporations in capital market. For example, the SEBI has become more effective for the last couple of years.

It is feared that privatisation of public monopolies would be followed by an upward revision of tariff. Such price revisions could easily eliminate losses without improvements in productivity. To protect consumers and long-term national and industry interests, it is essential to establish industry-based authority to issue guidelines for conduct of large business enterprises. For the success of the privatization policy in India, it is essential to bring all the sections concerned as employers and workers and central and state governments together on a platform where they can resolve the problems associated with its implementation.

Conclusion

Though the privatisation policy has opened new vistas of economic democracy in developing countries, particularly India, so as to withstand competitive pressures and regulatory mechanism in public enterprises. Though the understanding of rationale for privatisation is lacking among people in India, it is however, important to come out with the solution to safeguard the interests of all the parties - workers, emloyers and the general public. The regulatory mechanism needs to be created in the interest of public safety and safeguarding against monopolies has to be examined in large economic perspective for overall growth.

However, the Tenth Five Year Plan (2002-2007) has recognised that removal of quantitative restrictions on imports would open up the economy to foreign competition and the tariff levels ought to be lowered down. Under this plan a more flexible labour policy and new legislation for the protection of interests of workers are suggested in this plan. Taking the Tenth five year plan draft in consideration it is hoped as per the draft's statement that Rs. 78,000/- crores will be mobilized through the disinvestment of public sector units in the next five years. It is seen earlier that the VSNL sold to Tatas, IPCL to Reliance, and NALCO is in the process of privatization which means that the government is on move to sale off public sector enterprises to general public and raise the level of Indian Economy during this five year plan. This might prove to be a healthy sign of the economy growth. The government has already approved privatization of 27 companies in which the process of disinvestment is expected to be completed during the tenth five year plan. These companies include among others VSNL, Air India and Maruti Udyog Limited. Financial and business restructuring plans of a number of PSUs including SAIL and HMT have been approved. Government has also decided to close down 8 non-viable PSUs along with closure of various mills of National Textile Corporations under this plan.

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