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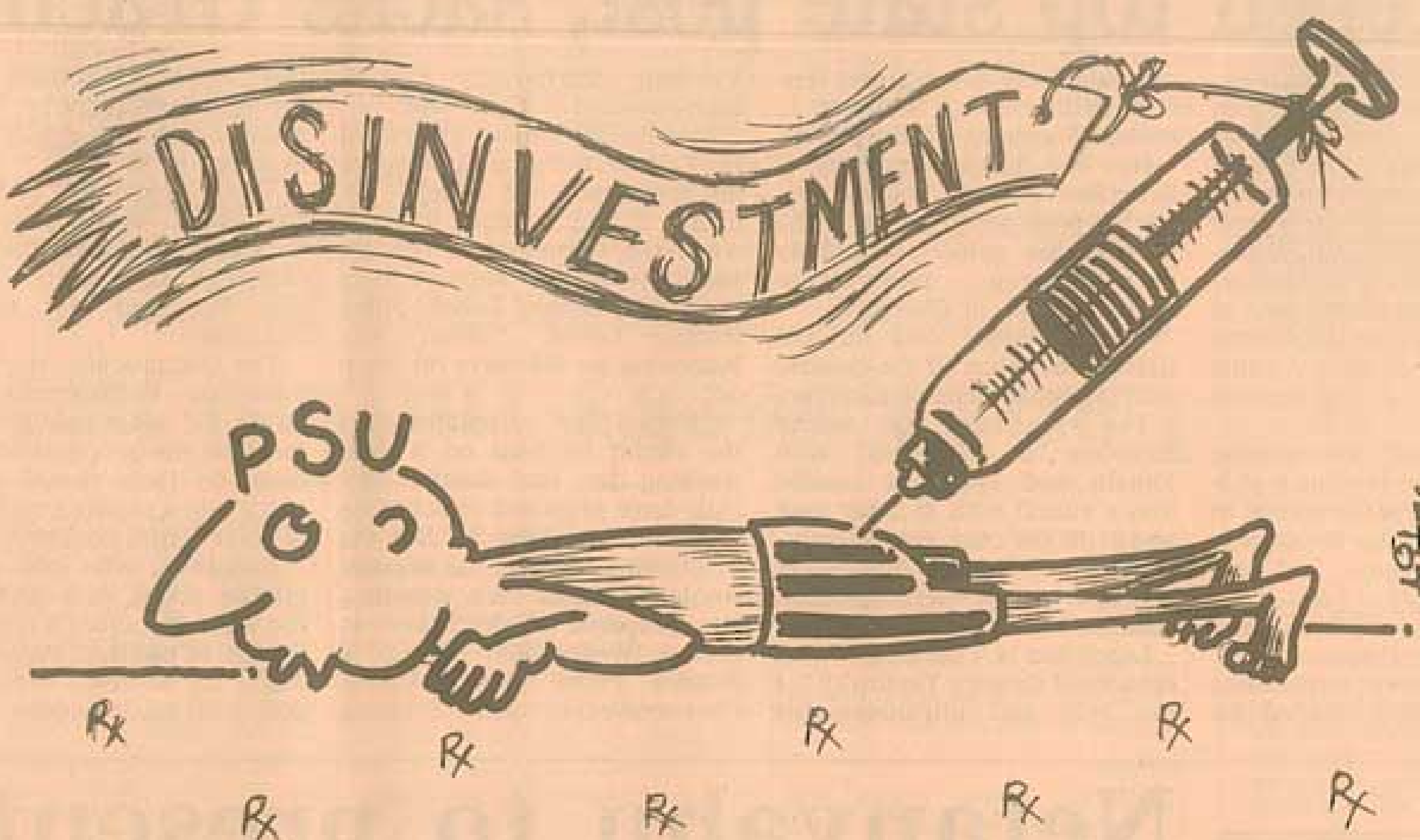

PSUs need a planned disinvestment policy

The impression that disinvestment will increase the level of unemployment in the economy is misguided, says Uttam Gupta

THE disinvestment of governments' equity holding in the PSUs has been on the agenda of economic reforms ever since these were launched. But, the outgoing government never faced it head on. Several rounds of disinvestment, during the last five years, have left the existing dispensation in regard to ownership and management control undisturbed. The shares divested in various PSUs were too little to have posed any threat to continuing majority control by the government.

Even the present government is not prepared to break away from this legacy. The common minimum programme makes it abundantly clear that the government would retain majority control in blue chips like the ONGC, IOC, SAIL, etc. The UF may have its own political compulsions, but we need to assess whether the decision has any economic rationale? The critical question is how the PSUs have performed so far under governments' sole management control. And, how well they are likely to do if the existing dispensation continues.

The viability and growth prospects of any enterprise depend on its ability to control cost and maintain high levels of efficiency. On these fronts, the record of the PSUs has been generally poor. In fact, of 246 central PSUs, the majority are making losses and 140 of them are now with the BIFR. Others like ONGC, IOC, OIL, etc show profits despite higher production cost mainly because they are able to more than fully offset the latter by increases in the administered prices.

The biggest problem of the PSUs arises from widespread and deep rooted bureaucratic controls. Unlike his counterpart in the private sector, the CE of a PSU is not free to act. Because of this, the delays are inevitable.

Delays in getting approvals has an unprecedented cost tag. This is especially true of the projects in the core industries like oil, gas, fertilisers, steel, etc which are highly capital intensive and the investment cost rises by leaps and bounds due to inflation and rupee depreciation. Needless to say that the implementation of almost every major project in these areas has been inordinately delayed leading to monumental cost over-runs.

Then, there is the super-structure of watch-dogs ie CAG, Parliamentary Committees, MoUs, etc. Unwarranted interference by the political bosses in the day-to-day affairs of the PSUs make matters worse. The recent case of NFL loosing Rs 133 crore in the dubious urea import deal bears ample testimony to this stark reality.

Unmistakeably, excessive controls have led to increasing losses of majority of the PSUs met by corresponding increase in the non-plan support from the government and reduced profits of the better performers. The resultant increase in budget deficit has obvious implications for inflation which is exacerbated by increasing prices of basic products.

The UF government professes to liberate the PSUs from controls. In this context, even the previous regime promised several measures. It took a decision on inducting professional directors on PSU board, talked of raising investment limit and permitting investments in joint ventures. Although, far from giving a free hand to the PSUs in taking decisions, even these limited measures have not been implemented. The bureaucracy is apparently in no mood to shed even little bit of power. Consequently, there is little hope that things will improve as long as the government retains control.

Recognising the emerging ground realities and the need for maintaining the health and growth of the core industries, the government should endeavour to bring about a change in the ownership and management control of the PSUs. It should consider divesting minimum 51 per cent of its equity holding. Instead of divesting the equity proposed for sale, entirely to the general public, a sizeable portion may be given to a private corporate entity. Consequent to this, the undertaking will take the shape of a joint venture (JV) in which the government will be the majority partner, the majority holding resting with the public.

There are clear precedents of similar JVs at the state level which have a track record of running successfully. In SPIC for instance, the Tamil Nadu Government owned TIDCO has only 20.94 per cent holding, 14.85 per cent of the equity is with FIs/banks and the rest with private promoters and other shareholders. The company is in the business of manufacturing chemical and fertilisers and has consistently maintained high profitability and growth. GSFC and GNFC are successful examples of state level JVs.

The impression that there will be significant loss of employment consequent to majority control passing into the hands of the private sector is misguided. The industries under reference are highly capital intensive and, therefore, should not be looked upon as direct providers of large scale employment. Despite this, in the past, the PSUs have been used as dumping ground for employing excess manpower. Under the new management, excess labour will come under scrutiny and even be laid off. Their interest can be taken care through VR packages.

The obsession to protect them in their existing jobs should give way to a more rational approach that helps in creating a sound basis for healthy and rapid growth of the core industries. Needless to say, that the indirect employment raising effects of this by way of boost to agriculture, overall industrial growth and growth in small scale industries will be phenomenal.

The loss making PSUs are a major drain on the budget. The non-plan support to them is at the cost of development expenditure. Often the government forces the profit making PSUs to lend money to them thus affecting formers' operations and financial health. While pulling down the entire economy, this dispensation does not even help the loss making PSUs as no effort is made to tackle their fundamental problems. There is a need to find a viable solution to their problems. The talk of their privatisation is meaningless as the government will not find good buyers.

The government should endeavour to set things right in undertakings which are potentially viable. In some cases, the BIFR/GOM have formulated suitable packages for their rehabilitation. But, none has been implemented because there are no funds.

This is where the proceeds from disinvestment of equity in the profit making PSUs in the core sector will be of great help. Successful rehabilitation can catapult the loss making undertakings into a position whereby, instead of drawing resources from the exchequer, they may even contribute and augment budgetary position. Moreover, to the extent, they give additional production, there will be no need to set up fresh capacity which entails much higher cost. The loosing PSUs that cannot be made viable even after rehabilitation should be disposed off and the proceeds utilised for clearing various dues to the employees.

The need for evolving a coordinated disinvestment policy cannot be over emphasised. This task may be entrusted to the proposed Disinvestment Commission which should be a totally professional body and have all necessary powers to act free from bureaucratic controls.

A well planned disinvestment programme involving reasonable norms of share pricing and proper timing of its execution, can yield sufficient resources. After meeting the requirements of rehabilitation of loss making PSUs, there would still be surplus funds which may be used to meet part of the government debt. Under no circumstances, the proceeds should be used for meeting the budget deficit.