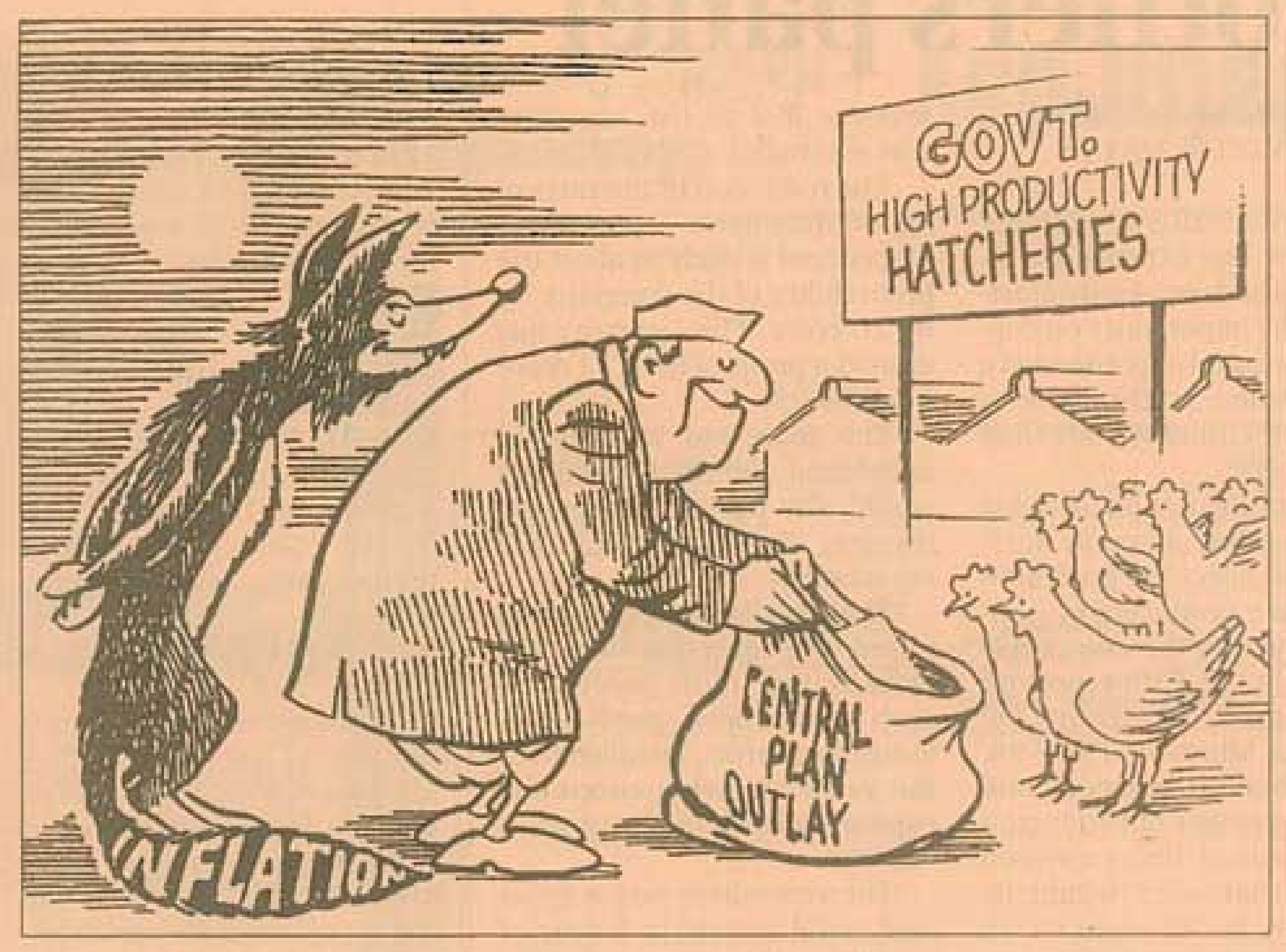
The Financial Express May 16, 1995

COMMENT

Divestment yield must go to PSUs

Uttam Gupta warns against perpetuation of a syndrome that starves public sector of critical funds



AN indicator of how much importance the Government gives to development is the increase in Central Plan outlay over the years. For 1995-96, this has been placed at Rs 78,849 crore, representing an increase of about 12 per cent over the 1994-95 level of Rs 70,141 crore. Considering an inflation factor of about nine per cent assumed by the Planning Commission, in real terms, there will thus be an increase of only about three per cent. If the present trend of accelerating inflation continues, this may be even lower.

The position with regard to the budgetary support to the Central Plan outlay is even worse. At Rs 28,994 crore, it works out to an increase of only six per cent and does not even cover fully the inflation factor. The bulk of this support i.e. about 68 per cent, is on the revenue component, which leaves only 32 per cent for building up the stock of assets.

The break-up of the total Central Plan outlay shows that out of the total, Rs 57,799 crore have been allocated for investment in energy, industry and minerals, transport and communications. The balance of Rs 21,050 crore is for agriculture and the social sectors, which include rural development, employment schemes, education, family welfare and health schemes.

Considering that agriculture and social sectors, by definition, do not generate resources of their own, their entire Plan outlay i.e. Rs 21,050 crore will have to come by way of budgetary support from the Government. This would leave a meagre Rs 7944 crore for supporting the Plan outlay of public sector undertakings. How much of this would go towards investment related activities is anybody's guess.

In some sectors like telecom or transport, the budgetary support is either nil or negligible. The Central undertakings will thus need a whopping Rs 48,555 crore by way of internal and extra budgetary resources (IEBR) to fund even the modest Plan outlay of Rs 57,799 crore which is itself grossly inadequate in relation to the needs of the PSUs.

IEBR consist primarily of two components i.e. internal generation or retained surpluses (after meeting all liabilities including taxes) and market borrowings. Except for a few undertakings mostly in the Petroleum and Natural Gas sector, which are making good profits, the capacity of all others to generate adequate resources on their own is extremely limited. The situation is quite bad in the transport sector, and in the energy sector also internal resources mobilisation is progressively becoming difficult.

It has been argued that PSUs cannot generate enough resources because they are not allowed remunerative prices for the products and services they sell. That is not very true; the Government is known for raising administered prices at the slightest provocation. And yet, the margins are squeezed and costs are high due to inefficiencies in working, profligacy in spending and cost overruns caused by unpardonable delays in implementation of new projects. There are also instances, as in the oil sector, of the Government appropriating the surplus for reducing its Budget deficit.

Ten years ago in 1985, the Government had brought out a long-term Policy Paper on Administered pricing. It emphasised cost cutting as a means of augmenting internal resources of PSUs, and increase in administered prices was recommended as the last resort. Notwithstanding this, the latter option has been exercised more often, with the pace of price increases gathering momentum during the reform period. BUt instead of improving the resource position of the PSUs, this easy option has made them complacent with regard to structural problems e.g. inefficiencies, excess staff and project delays etc.

> *Ideally, the Government must save money from the revenue account to provide budgetary support to State enterprises*

The prospects for market borrowings too are not very encouraging. THe level for 1995-96 has been fixed at about Rs 7000 crore, which is Rs 2500 crore more than the target for 1994-95. Considering that market borrowings were actually much lower for 1994-95 compared to the target, the possibility of them being higher during the current year is even remote. In fact, the situation is heavily loaded against the PSUs as the availability of funds is expected to be even tighter when compared to 1994-95, and on the other hand, public sector bonds are yet to gain acceptance among the investors at large. Commercial banks and mutual funds who have largely subscribed to PSU bonds in the past are no longer keen to invest more, having already burnt their fingers. There is no active secondary market and some of these bonds are even traded at substantial discount.

Even assuming, for a moment, that the undertakings succeed in mobilising the required sums from the markets, this is not an unmixed blessing. The heavy interest burden will only erode their profitability and consequently, impair their capability to maintain their level of internal resource generation. This would increase borrowing needs even further, thereby pushing the PSUs deep into the red.

External commercial borrowings (ECB) are attractive because even after adjusting for the exchange risk, these funds would be much cheaper than domestic borrowings. Perhaps, keeping this factor in mind and the growing need for funds, the Government has lifted the ban on external borrowings by PSUs in the infrastructure sector. But there is not much scope here in view of an overall ceiling on ECB and the competing demand for ECB by the private sector. Another moot question is how effectively the borrowing programme of a PSU can be sold abroad without compromising on the techno-commercial interest of the project for which funds are required. Very often, the international lenders come up with conditionalities such as procurement of equipment from specified sources, making it an unviable option.

Disinvestment of Government equity in PSUs is an attractive option from many angles. It provides substantial resources without any additional cost. There are additional gains in terms of improved functioning of the undertakings. It is unfortunate that the pace of disinvestment has been tardy. Wherever disinvestment has been carried out, the funds thus mobilised have not been made available to the concerned enterprises and have, instead, been used for reducing the overall fiscal deficit of the Government. Even worse, the Finance Ministry is seeking to legitimise this practice on the specious argument that the GOI has overall responsibility to the public sector units as a whole and that the sick, but potentially viable units should receive priority.

No doubt, the sick units need funds for rehabilitation and revival. But is it wise on the Government's part to give them funds at the cost of others who are equally in need. There are other ways. Take NTC for instance.

Rehabilitation of its sick mills requires about Rs 2,000 crore, whereas the sale of surplus land can fetch as much as Rs 2600 crore. Ignoring this route, the Government seems to be looking for soft options. This way, it runs the risk of turning well run undertakings into sick ones, as with other avenues of resources mobilisation drying up, their much needed expansion and modernisation plans would remain unimplemented.

Unfortunately, the Government intends utilising the proceeds of disinvestment for reducing its fiscal deficit as in the past. During 1995-96 also, the contemplated capital receipts of about Rs 7,000 crore through this route are proposed to be used in this manner, denying the concerned enterprises the proceeds of disinvestment that are legitimately due to them.

This syndrome of the Government hawkishly appropriating the funds of divestment from PSUs to support its own consumption expenditure, and reducing budgetary support will seriously affect the health of PSUs. The question of their being able to make any worthwhile contribution to the development of the core/infrastructure sector simply does not arise.

The Government must reorient its mindset. An ideal dispensation will be one in which the Government saves money from its revenue account and utilises the resultant surplus funds for increasing budgetary support for the PSUs.

That may, however, not be feasible in the near future. The least it can do is to the leave the concerned PSUs free to judiciously tap various sources of revenue and avail the benefit of disinvestment of the Government's equity holding.

The author is Chief Economist, Fertiliser Association of India.