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Public Sector Enterprises in India Changing Scenario

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Abstract

In a mixed economy like India, the Public enterprises have been assigned a key place in the economic and industrial development of the country. They are regarded as an effective instrument of large scale production and distribution of goods and services. The economic planning in the post – independence era assigned an important role to the public sector to develop an economy which could function for the socio – economic welfare of the masses. In view of their importance, it becomes necessary to examine the role and performance of the public enterprises in India particularly after the implementation of the new economic policy in 1991. The purpose of this paper is to evaluate the performance, role and significance of the public sector enterprises in Indian economy, and also to discuss the problems responsible for the inefficient functioning of this vital sector of the economy.

Following the policy of planned development since independence, public sector was found an engine of economic growth of the country. The public sector enterprises were mainly established to achieve certain socio- economic objectives such as to develop a sound and self- sufficient industrial and agricultural base for the removal of poverty, to ensure an equitable distribution of national wealth, to prevent concentration of economic power in the hands of few individuals, to generate more employment opportunities, to remove regional imbalances and to transfer the ownership of economic power in the hands of the government in order to prove as model employer

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Introduction

Prior to independence there were few public sector units in India viz Railways, Post and Telegraphs, Aircraft and Ordinance factories and All India radio etc. Independent India adopted planned economic development policies to overcome the problems like inequalities in income, unemployment, lack of trained manpower and regional economic imbalances. India as an agrarian economy with weak industrial base, low level of savings, inadequate infrastructure facilities, and investments. Influenced the visionary leader in India to draw up a road map for the development of the public sector as an instrument for self- reliant economic growth .The subsequent industrial policies further placed on it the arduous task of developing a strong, broad based industrial economy. In the early years of independence, capital was scarce and the base of the entrepreneurship was also not strong enough. Hence, the Industrial policy resolution of 1956 gave primacy to the role of state which was directly responsible for the industrial development. The new strategies for the public sector were later outlined in the policy statements in the years 1973, 1977, 1980, and 1991.Over the years , operations of the central public sector enterprises have extended to a wide range of activities in manufacturing, Engineering, steel , heavy machinery, machine tools , drugs , fertilizers, pharmaceuticals, petro- chemicals, textiles, extraction and refining of the crude oil and services like trading, tourism, warehousing, telecommunication, etc. and a wide range of consultancy services. Thus the passage of industrial policy resolution of 1956 and adoption of socialist pattern of the society assured that a dominant public sector would reduce the inequality in income and wealth and advance the general economic prosperity of the country. That is why the public sector has acquired unique place in Indian economy and has expanded considerably.

The investment by the central Government in the public sector has increased from Rs 29 cores (in only 5 enterprises) in 1951 to Rs 421089 crores (in 247 enterprises) in 2007 .There are also 1100 state level public sector enterprises with an investment of Rs 50,000 crores. Major part of investment in central public sector was in steel, coal, minerals and metals, power and petroleum sectors. The year 1991 can be termed as the watershed year, heralding liberalization of the Indian economy. With the advent of globalization, the public sector faced new challenges in the developed countries and many economists argued that Government must not venture into those areas where private sector could undertake job efficiently. Lots of emphasis was laid on market driven economies, rather than state administered and controlled economies. The severe Balance of Payments and fiscal crisis in 1991 forced the Government to shift to a liberalized economy with greater reliance upon market forces, a large role for the private sector including FDI. Thus liberalizing and deregulatory steps were initiated from the year 1991 onwards, which aimed at supporting growth and integration with the world economy.

The capital employed in public sector has increased from RS 2,49,855 crores in 1997-98 to Rs 6,65,124 crores in 2006-07 recording a growth of 266%.The turnover has increased from Rs 2,76,002 crores in 1997-98 to Rs 9,64,410 crores in 2006-07 recording a growth of 349%. The net worth growth has increased from Rs 1, 34,443 crores in 1997-98 to Rs 4, 52,995 crores in 2006-07 recording a growth of 337%. The net profit has increased by 599% in 2006-07 in comparison to 1997-98 (Rs 13582 crores) and is currently to the tune of Rs 81550 crores. The number of loss incurring public sector units has come down from 100 in 1997-98 to 59 in 2006-07.The number of profit making public sector unit, has also increased from 134 units in 1997-98 to 156 enterprises in 2006-07.

Today both public sector and private sector have become an integral part of Indian economy. There may not be much difference in the working of these sectors in developed countries, but in developing countries like India, the performance of public sector has considerably scope for improvement and efficient functioning with a view to make if a vibrant sector of the economy.

Make in India The Department has launched "Make in India" initiative, a global promotional campaign to project India as an investment destination and potential manufacturing hub. The campaign was launched by the Prime Minister on 25th September 2014.

Invest India In order to assist and handhold foreign investors, Invest India has been set up as a Joint Venture Company (Not for Profit Company) between Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce and Industry, Government of India, Federation of Indian Chambers of Commerce and Industry (FICCI) and various State Governments. Invest India is responsible for promoting and facilitating investments to India. The shareholding is 51% of FICCI, 45% of DIPP and 4% with the states. An Investor Facilitation Cell has been created at Invest India to assist, guide, support, and handhold and facilitates investors during various states of their project. The cell has already responded to more than 16000 queries on 'Make in India portal (www.makeinindia. com), as of 31.12.2015.

Startup India Economic Survey (2014-15) estimates that 300 million youth will enter the labour force by 2025, and there is a need to accommodate the growing proportion of economically active population. India needs to create at least 10 million jobs every year for the next 10 years to gainfully employ India youth and meet their aspirations. It identifies the (small) share of manufacturing in total employment as a major impediment to the pace of quality employment generation in India. Government of India recognizes growth of entrepreneurship and manufacturing as an immediate requirement towards gainfully utilizing India's workforce. The concept of a startup has recently caught the imagination of masses. What actually constitutes a startup may be widely debated as ranging from any MSME to technology driven software companies or entrepreneurs undertaking disruptive business models. A report by NASSCOM estimates that there are about 4200 startups in India. Interestingly, the overall entrepreneurship activity can be assessed through various figures. According to Annual Report 2014-15 of Ministry of MSME 3,62,991 MSMEs (2,96,526 micro, 5912 small and 7,338 medium) filed EM-I in 2013-14. This number has steadily grown from 1,72,703 in 2007-08 to 3,62,991 in 2013-14. It is estimated that the number of enterprises in unregistered sector is much larger. According to monthly data published by Ministry of Corporate Affairs 14,682 LLPs were registered during 2014-15. The number of LLPs registered in 2015-16 till November, 2015 is 13,813. During 2014-15, 64,395 companies were registered of which 62,897 were private limited companies. The 'Startup India' initiative specifically targets those enterprises which are engaged in innovative business which is defined as development and commercialization of:- (a) A new product or service or process; or (b) A significantly improved existing product or service or process that will create or add value for customers or workflowThe process of recognition of an entity as startup has been assigned to various private players which include – i) Incubators established in a postgraduate college in India; ii) Incubators funded by Government of India under any scheme for promotion of innovation iii) Incubation, recognized by Government of India iv) Incubation funds/ Angel funds/Private Equity funds/ Accelerator/ Angel Network duly registered with SEBI. In addition, an entity which is funded by Government of India under any scheme for promotion of innovation or granted a patent by the Indian Patent and Trademark Offices are also recognized as Start-ups. An action plan to create a conducive ecosystem for startups in India was released by the Prime Minister of India on 16th January, 2016. The action plan aims at giving the right nudges to the development of various components of the ecosystem. The Action Plan provides for the following:- A) Simplification and Handholding • Compliance Regime based on Self-certification • Mobile app and Portal • Startup India Hub • Legal Support and Fast-tracking Patent Examination at Lower Costs • Relaxed Norms of Public Procurement for Startups • Faster Exit for Startups 6 Role and Functions B) Funding support and Incentives • Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore • Credit guarantee Fund for Startups • Tax Exemption on capital gains • Tax Exemption to startups for 3 years • Tax exemption on Investments above Fair Market Value C) Industry-Academia Partnership and Incubation • Organizing Startup Fests to showcase innovations and providing Collaboration Platforms • Launch of Atal Innovation Mission (AIM) with Self –Employment and Talent Utilization (SETU) Program • Harnessing Private Sector Expertise for Incubator Setup • Building Innovation centres at National Institutes • Setting up of 7 New Research Parks modeled on the Research Park at IIT Madras • Promoting Startups in the Biotechnology sector • Launching of Innovation Focused Programs for students. • Annual Incubator Grand Challenge Intellectual Property Rights DIPP is entrusted with the responsibility

Policy for Foreign Direct Investment (FDI): For inviting investment for industrial growth to contribute to higher GDP, an appropriate FDI Policy is crucial. The Department of Industrial Policy & Promotion is the nodal Department for formulation of the policy of the Government on FDI. It is also responsible for maintenance and management of data on inward FDI into India, based upon the remittances reported by the Reserve Bank of India. The FDI policy is reviewed on an ongoing basis, with a view to making it more investor friendly, in keeping with national interest. With a view to attracting higher levels of FDI, Government has put in place a liberal policy on FDI, under which FDI up to 100%, is permitted, under the automatic route, in most sectors/ activities. Significant changes have been made in the FDI policy regime in recent times, to ensure that India remains an increasingly attractive investment destination. The Department plays an active role in the liberalization and rationalization of the FDI policy. Towards this end, it has been constructively engaged in holding extensive stakeholder consultations on various aspects of the FDI policy. During 2015-16, a number of FDI Policy related reforms were introduced. Insurance and Pension sectors having foreign investment cap of 49%, were placed under automatic route. Investment made by NRIs, PIOs and OCIs under Schedule 4 of FEMA (Transfer or Issue of Security by Persons Resident Outside India) Regulations on non-repatriation basis is now deemed to be domestic investment at par with the investment made by residents. 100% FDI under automatic route has been permitted for 'manufacturing of medical devices' and 'White Label ATM Operations'. Further, in order to provide simplicity to the FDI policy and bring clarity on application of conditionalities and approval requirements across various sectors, different kinds of foreign investments have been made fungible under one composite cap. The Government has also brought in FDI related reforms and liberalisation in a number of significant sectors/ areas of the economy including Defence, Construction Development, Broadcasting, Civil Aviation, Plantation, Trading, Banking-Private sector, Satellites- establishment and operation and Credit Information Companies. The FDI equity inflows during AprilDecember, 2015-2016 stood at US$ 29.44 billion as compared to US$ 21.04 billion in April-December, 2014-2015.

Role of public sector in Indian economy:

Government of India has been continuously formulating policies for industrial growth, fiscal trade and foreign investment to attain overall socio-economic development of the country. As the result of balance of payment and fiscal crises in the year 1991, the government decided to shift to a liberalized economy. The government realized that a growth oriented country could be build if India grows as a part of global economy and not in isolation. New industrial policy of 1991 has brought a change with most central government industrial controls being liquidated.

The total contribution of these enterprises in various forms like combined dividends to divide the exchequer during 1997-98 was Rs.4063 crores which increased to Rs. 30910 crores, and hence increased by 772%. The investment in public sector enterprises has grown Rs.29 crores in 5 units in 1951 to Rs.4, 21,089 crores in 2007.The growth of investment in central public sector enterprises including enterprises under construction over the years can be studied table 1.1.

Table 1.1

Growth of Sector investment in Central Public Enterprises

Particulars	Total investment (Rs. in crore)	Enterprises (Number)
On the eve of the 1st Five year Plan (1.4.1951)	29	5
On the eve of the 2nd Five year Plan(1.4.1956)	81	21
On the eve of the 3rd Five year Plan (1.4.1961)	948	47
At the end of 3rd Five year Plan (31.3.1966)	2410	73
On the eve of the 4th Five year Plan (1.4.1969)	3897	84
On the eve of the 5th Five year Plan (1.4.1974)	6237	122
At the end of 5th Five year Plan (31.3.1979)	15534	169
On the eve of the 6th Five year Plan (1.4.1980)	18150	179
On the eve of the 7th Five year Plan (1.4.1985)	42673	215
At the end of 7th Five year Plan (31.3.1990)	99329	244

On the eve of the 8th Five year Plan (1.4.1992)	135445	246
At the end of 8th Five year Plan (31.3.1997)	213610	242
At the end of 9th Five year Plan (31.3.2002)	324614	240
As on 31.3.2003	335647	240
As on 31.3.2004	349994	242
As on 31.3.2005	357939	237
As on 31.3.2006	403705	239
As on 31.3.2007	421089	247

From the above discussion it is clear that public sector in India has made significant contribution to the economic development of the country. They have created more employment opportunities, promoted standard of living of people and brought economic prosperity in the country, helped in redressing the regional imbalances of the country, prevented concentration of economic power in the hands of few individuals and contributed large sum of money to the exchequer of the country.

Turnover and Sales: A perusal of the table shows robust growth in the sales/turnover of CPSEs during 2006-07.The Electricity sector had the highest, 19.59 per cent growth, followed by the manufacturing companies with a 16.03 per cent growth and the service companies with a growth of 9.16 per cent in 2006-07 (over 2005-06).Amongst the various cognate groups, the in turnover of consumer goods (88.81%), Tourist services (54%), Agro Based Industries (42%), Transportation equipment (30%), Heavy engineering (29%), Contract and Construction services (23%), Chemicals & Pharmaceuticals (21%), Financial services (20%), Power generation (20%), Steel (18%) and Petroleum (17%) have been significant.

However, the CPSEs under the cognate groups of textiles (-14.37%), Telecom services (-5.07%) and Coal & Lignite (-1.34%) have witnessed a negative growth in turnover during 2006-07 over 2005-06. Overall, there was a 15.18 per cent growth in the turnover of CPSEs during 2006-07 over 2005

Table 1.2

Industry	**Turnover during (Rs.in crore)**		**% Change over the Previous year**
	2006-07	**2005-06**	
Mining	113365	101980	11.16
Manufacturing	623506	530478	16.03
Electricity	45188	37786	19.59
Services	182350	167051	9.16
Total	964410	837295	15.18

Note:-For 2006-07, information has been compiled for 217 no. of operational central public sector enterprises.

Table-1.3
Annual Growth Rate of Industrial Production (in percent)

Period	Weight	2006-07	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Mining	14.2	4.6	2.6	7.9	5.2	-2.0	-2.3	-0.6	1.4
Manufacturing	75.5	18.4	2.5	4.8	8.9	3.0	1.3	-0.8	2.3
Electricity	10.3	6.3	2.7	6.1	5.5	8.2	4.0	6.1	8.4
Overall	100.0	15.5	2.5	5.3	8.2	2.9	1.1	-0.1	2.8

Source: Central Statistics Office.

Industrial Performance The Index of Industrial Production (IIP) over the base of 2004-05, measuring industrial performance monitors production in manufacturing, mining and electricity sectors and also in use-based group such as basic goods, capital goods, intermediate goods and consumer goods. The growth of IIP has been fluctuating over the last few years. The growth in overall IIP, peaked at 15.5 % in 2007- 08 (manufacturing growth rate was 18.4%) but declined to 2.5 % in 2008-09. However, itrecovered to 5.3 % in 2009-10 and thereafter improved to 8.2 % in 2010-11. Subsequently, the industrial growth decelerated to 2.9 % in 2011-12 and 1.1 % in 2012-13 and the industrial production again moderated recording a negative growth of (-) 0.1 % in 2013-14. During 2014-15, IIP recovered and registered positive growth of 2.8 %. The details are given below in Table-1.3

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Profit and loss: The Net profit/ Loss of CPSEs in the financial year 2006-07 and the year 2005-06 is presented in Table . The Group wise analysis of aggregate profit and loss shows that except for the cognate groups of 'Fertilizers', Chemicals & pharmaceutical', Medium and Light engineering', Agro-based industries', Textiles', Consumers goods' and Construction services' all the others profits during the year 2006-07. Companies under the cognate groups of 'Heavy Engineering' and Transport equipment' performed better than the rest, with a 117 per cent growth and 111 per cent growth in profit in 2006-07 over 2005-06 respectively in terms of absolute values. High profits were reported by companies under the cognate groups of Petroleum (Rs.33, 442 crore), Telecommunications services (14,126 crore), Power Generation (Rs.12, 115 crore), Coal and Lignite (Rs. 8,853 crore), Steel (Rs. 7,612 crore), Minerals & Metals (Rs. 5246 crore), Financial services (2,828 crore), Transportation services (2,210 crore) and Heavy Engineering (Rs.2,123 crore). Overall, the grand total of net profits of all the CPSEs put together was Rs. 81549 crore during 2006-07, which indicates 17.28% growth over 2005-06.

Table 1.4

Cognate Group	**2006-07** (Rs. in crore)		**2005-06** (Rs. in crore)		**% Change**
	Net Profit/ Loss	No. of CPSEs	Net Profit/ Loss	No. of CPSEs	Over the previous year
Mining	32435.22	22	2925.11	22	7.77
Manufacturing	22871.82	101	15196.13	110	50.51
Electricity	12115.73	9	10088.17	9	20.10
Services	19725.19	85	20943.65	85	-19.22
Total	81549.61	217	69536.12	226	17.28

Source:- Public Enterprises-Annual survey of CPSEs-2006-07

Note: In 2006-07, 9 operating units of National Textiles Corp. have stopped operations. Hence, total no. of Operational CPSEs has reduced to 217 from 226 in 2005-06.

Contribution of CPSEs to the Economy and Central Exchequer:

The share of output of CPSEs in GDP at market price stood at 8.23 per cent in 2006-07 and 8.21 per cent in 2005-06. The CPSEs made substantial contribution to the Central Exchequer through payment of dividends, interest on government loans and taxes & duties; the figures shown in Table 1.4.

Table 1.5

Contribution of CPSEs to the economy

Particulars	**2006-07**	**2005-06**	**2004-05**	**2003-04**
On the Investment by CPSEs	20800.76	15339.07	15932.52	10390.77
Taxes and Duties	126927.54	110116.86	94671.15	78644.56
Total	147728.30	125455.93	110603.67	89035.33

Human Resource Management and Personnel Policy: Effective utilization of Human Resource is one of the most important factors for the efficient and profitable functioning of an organization. It has special significance in the management of public sector enterprises. The CPSEs employ a large workforce in different disciplines and successful operations of these enterprises very much depend on the skills and capabilities of the workforce. Out of around 16 lakhs manpower (as on 31.03.07) deployed presently in CPSEs, about 3.65 lakh are in the supervisory and managerial cadres which represent about 22.12% of total manpower.

The table 1.5 shows the number of employees employed by the CPSEs, their total emoluments as well as per capita emolument during the last 10 years. As can be seen from Table1.5, the number of employees during the period has reduced from 19.59 lakhs in 1997-98 to 16.14 lakhs in 2006-07, which is a reduction of 17.61%. On the other hand, the total emoluments have increased from Rs. 25,385 crores in 1997-98 to Rs.52, 574 crores in 2006-07, which is an increase of 107%. Similarly, the per capita emoluments have increased from Rs.1, 29,582 in 1997-98 to rs. 3, 25,738 in 2006-07, which is an increase of 151%. The emoluments as percentage of turnover have decreased from 9.19% in 1997-98 to 5.45% in 2006-07.

Table 1.6

No. of employees employed by the CPSEs

Year	Employ.(in lakhs) (excl. Casual daily rated workers)	Emoluments (Rs.in crore)	Emoluments (As %of turnover)	Per Capita Emoluments (Rupees)
1997-98	19.59	25385	9.19	129582
1998-99	19.00	26254	8.46	138179
1999-00	18.06	30402	7.81	168339
2000-01	17.40	38223	8.34	219672
2001-02	19.92*	38556	8.05	193554
2002-03	18.66	42169	7.36	225986
2003-04	17.62	43919	6.96	248481
2004-05	17.00	48629	6.53	286053
2005-06	16.49	46851	5.59	284123
2006-07	16.14	52574	5.45	325738

(*2001-02 the number of employees have increased due to corporatisation of DOT)

CPSEs have been classified based upon the power vested in the Board of Directors of the company as Navratna , Miniratna (category I &II) & others including profit making, loss making etc. on 31.3.2007, number of CPSEs in this classification has been given in Table 1.6.

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Table 1.7

Category	**No. of CPSEs As on 30.5.2008**
Navratna	16
Miniratna, Category I	41
Miniratna, Category II	13
Profit making	156
Loss making	59
Listed Companies	45
Non-listed Companies	202
Section 25& Under Construction	32

During the period since 1997, successive governments have carried forward the country's reforms in Industrial, Trade and Financial sectors. The approach of the government has been to gradually move towards comprehensive re-structuring of the economy to reap the benefits of the fast changing global business environment.

Apart from this public enterprises help the Indian community by establishing institutions which serve it in different ways. Many social welfare institutions and charitable trust are financed by the public sector enterprises where people from different communities in a secular country like India get their children educated free of cost. Hospitals are also run by all these enterprises to provide healthy life to poor and underprivileged people of the country.

From the above discussion it is clear that public sector in India has made significant contribution to the economic development of the country. They have created more employment opportunities, promoted standard of living of people and brought general economic prosperity in the country, help in redressing the hands of few individuals and contributed large sum of money to the exchequer of the country.

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