

- inflation and help non-inflationary growth process
- Invest in areas where the private sector would not and could not like in roads, transport and so on.

Performance

- In the last 50 years of economic development, the public sector indeed lived up to the expectations as can be seen below:
- around 240 Central PSUs today (excluding some insurance, finance and other companies) provide the country with infrastructure in steel, cement, transport, communications, power and so on
- the record of the PSUs in supplying many goods and services like coal, drugs, transport, power, irrigation and so on is commendable though an element of subsidy is involved in the effort
- The PSUs are a model employer providing various facilities like education, housing and etc.
- By establishing industries in the poor states like MP, Rajasthan, Bihar and others, the efforts of the PSUs to reduce regional economic imbalances are not insignificant.

Problem Areas

The problems with the PSUs in general are:

- lack of sufficient autonomy due to the fact of excessive government control which is unavoidable because the resources spent are public resources
- The technology is obsolete due to meager or no expenditure on modernization, which is explained by the loss making nature of the units. For example, the State Electricity Boards (SEBs)
- the managerial efficiency is low as there is no incentive for higher efficiency partly because it is not rewarded and also because the financial package is unattractive
- the tenure of the chief executive is uncertain and leaves little scope for
- commitment and dynamism
- the locational disadvantages are such that some plants need to work at 125% capacity to break even, for example, some of the cement plants in central India belonging to the CCI
- the labour strength is in excess and the wage bill is very high
- In some cases the project appraisal is incomplete, for instance, in the case of Surgical Instruments Ltd (Chennai) where the technological tie-up with Russia made instruments suitable for an average Russian, with physical proportions much larger than an Indian.

Professionalisation of PSU Boards

In order to ensure and encourage efficiency in their functioning, Government has taken various steps to professionalise the Boards of CPSEs. These include provision of outside professionals in the form of part-time non-official Directors, restricting the number of Government nominated Directors to one sixth of the actual strength of the Board subject to a maximum of two, and incorporation of functional Directors upto a limit of 50 per cent of the actual strength of the Board. On the recommendations of Arjun Sen Gupta Committee, the Government, during 1987-88, introduced the concept of Memorandum of Understanding (MoU) to ensure clarity in the functioning of CPSEs, and proper Balance between accountability and autonomy for better results.

The number of CPSEs signing MoUs went up from 4 in 1987-88 to 112 in 2006-07. In order to further the competitive spirit, an attempt has also been made to evaluate the performance of the CPSEs on the basis of (a) sales, (b) growth of sales, (c) net profit, (d) growth in net profit, (e) return on net worth, (f) earning Per share, and (g) dividend pay-out ratio.

Reforms

With the onset of economic reforms in 1991, systemic reforms are being made to make the functioning of the PSUs better. They are:

- the 1991 New Industrial Policy (NIP) deserved many areas kept for the PSUs earlier and today only 6 areas Stand reserved
- the NIP 1991 made it possible to disinvest a portion of the PSU equity for a variety of purposes
- the NIP 1991 facilitated changes in the SICA to enable the sick PSUs to be referred to the BIFR for revival or closure
- the budgetary support for the PSUs is progressively declining
- the liberal import of capital goods and others compels the PSUs in the manufacturing sector to perform or perish
- the MoU system is being improved with more than 60% of the weightage being given to the criterion of financial performance
- Efforts are on to privatise some of the sick units.
- Navaratnas that is 9 PSUs were granted financial and managerial autonomy for global competitiveness. Recently 3 more PSUs (Bharat Electronics, Hindustan Aeronautics, and Power Finance Corporation) were granted navaratna status.
- 97 mini-ratnas were taken up for similar reform
- 696 guidelines for the PSUs that have outlived their purpose were dropped.

Strategic Sale

It involves selling 51 % or more of the equity to a strategic partner—domestic or global, so as to restructure the management towards private management control, In some cases, the government stake holding is completely liquidated, While in most others it is reduced to 26%.

The Disinvestment Commission

Believed that 26% stake of the Government is the minimum for the protection of national interest and to stall shareholders' resolution, according to the Companies Act.

Advantages:

- the sale of equity is independent of the state of the capital market, as the strengths of the unit along with its potential matter more
 - FDI does not bring finances for the Government while strategic sale will
 - it will vastly improve the market sentiment by attracting FIIs
 - Strong signals will be sent to the foreign investor that India is serious about PSU reforms and consequently, FDI will flow to a greater extent.
- Another modality to divest the Government stake to 49% is being mooted

In order to take precautions to ensure that the reforms do not lead to workers' problems, the National Renewal Fund (NRF) was sanctioned in the 1991-92 budgets and is being continued since.

Small Scale Industries

An Expert Committee headed by Abid Hussain was set up to review the status of the small enterprise and government policy. It submitted its report on January 27, 1997. Some of the major issues which had an impact on small scale industries can be summarized as follows:

Definition of SSI

The definition of SSIs has been changing continuously. Initially, values of fixed capital and number of employees were combined in defining SSIs. Fixed assets were fixed at half a million rupees in 1955 and number of employees at 50, if the unit used power and 100 without use of power. Then, the employee value was removed and the definition was based on fixed assets alone. Now, it has been fixed at Rs 6 million for SSIs and Rs 7.5 million for ancillary units.

Salient Features of the Micro, Small and Medium Enterprises Development Act, 2009.

It provides the first-ever legal framework for recognition of the concept of "enterprise" (comprising both manufacturing and services) and integrating the three tiers of these

enterprises, viz, micro, small and medium. Under the Act, enterprises have been categorized broadly into those engaged in (i) manufacturing and (ii) providing/ rendering of services. Both categories have been further classified into micro, small and medium enterprises, based on their investment in plant and machinery (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services) as under:

Manufacturing Enterprises

Micro Enterprises investment up to Rs. 25 lakh. Small Enterprises-investment above Rs. 25 lakh and up to Rs. 5 crore. Medium Enterprises – investment above Rs. 5 crore and up to Rs. 10 crore.

Service Enterprises:

Micro Enterprises - investment up to Rs. 10 lakh. Small Enterprises - investment above Rs. 10 lakh and up to Rs. 2 crore. Medium Enterprises - investment above Rs. 2 crore and up to Rs. 5 crore.

The Act provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises, and with a wide range of advisory functions, and an Advisory Committee to assist the Board and the Centre/State Governments.

The other features include

- i) Establishment of specific Funds for the promotion, development and enhancement of competitiveness of these enterprises,
- ii) Notification of schemes/programmes for this purpose,
- iii) Progressive credit policies and practices,
- iv) Preference in Government procurements to products and services of the micro and small enterprises,
- v) More effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and
- vi) Simplification of the process of closure of business by all three categories of enterprises.

Objectives of divestment

The objectives of divestment do not refer to the process as a means of improving financial performance of the enterprises.

The primary objectives were

- To raise resources for the budget which are essentially non-inflationary in nature?
- Broad-base the ownership of the enterprises which would eventually allow the enterprises to raise resources from the capital market and thereby lower their dependence on budgetary support.

However, to increase efficiency, productivity and competitiveness of the sector, a number of other measures were introduced. These were policies which have focussed on

- Creating internal competition by eliminating entry barriers, subsidies, price distortions and preferential access to budget and bank resources;
- Improving the management of public enterprises by increasing autonomy and the mandate to become profit-oriented centres; and
- Introducing restructuring policies and establishing a social safety.

The Government policy on disinvestment has evolved over the last decade and has been generally announced through the Budget. Disinvestment of Government equity in CPSEs began in 1991 - 92. Till 1999- 2000, disinvestment was primarily through sale of minority shares in small lots. Between 1999-2000 and 2003-04, the emphasis of disinvestment changed in favour of strategic sale. The proceeds from disinvestment from April 1991 to March 2006 amounted to Rs. 49,241.29 crore. At present, the policy is to list large, profitable CPSEs on domestic stock exchanges.

The National Common Minimum Programme (NCMP) stipulates a strong and effective public sector whose social objectives are met without prejudice to its commercial functioning. Efforts are being made to modernize and restructure sick CPSEs and revive sick industry. Only the chronically lossmaking CPSEs are being considered for closure or sell-off after payment of due compensation to the laid-off employees.

Major Policy initiatives for FDI

A comprehensive review of the FDI policy was undertaken last year to consolidate the liberalization already effected and further rationalize the FDI policy governing various activities. The major policy initiatives taken are:

Change of route: FDI has been allowed up to 100 per cent under the automatic route for distillation and brewing of potable alcohol, manufacture of industrial explosives, manufacture of hazardous chemicals, setting up of Greenfield airport projects, laying of natural gas/LNG pipelines etc.

Increase in equity caps: FDI caps have been increased to 100 per cent and automatic route extended to coal and lignite mining for private consumption, setting up of infrastructure relating to marketing in petroleum and natural gas etc.

FDI in new activities: FDI has been allowed up to 100 per cent on the automatic route in power trading and processing and warehousing of coffee and rubber. FDI has also been allowed up to 51% for 'single brand' product retailing which requires prior approval of Government. Specific guidelines have been issued for governing FDI for 'single brand' product retailing.

Removal of restrictive conditions: mandatory divestment conditions for Business to Business e-commerce have been dispensed with.

Procedural simplification: The transfer of shares from resident to non-resident including acquisition of shares in an existing company has been placed on the automatic route subject to sectoral policy on FDI.

In order to boost production of cash crops through infusion of foreign funds and technical know how, agriculture & plantations was removed from the list of prohibited sectors for FDI.

Special Economic Zone (SEZ)

SEZs have been established in many countries as testing grounds for implementation of liberal market economy principles. They are viewed as instruments to enhance the acceptability and credibility of transformation policies, to attract domestic and foreign investment, and generally, for

the opening up of the economy. With its genesis in the Export Processing Zones (EPZ), the SEZs in India seek to promote value addition component in exports.

Generate employment and mobilize foreign exchange. EPZs and SEZs were employed with considerable success by China and other ASEAN countries in the 1970s and 1980s to create regional islands, where export-oriented manufacturing could be undertaken. In India, the EPZ experiment was much less of an unequivocal success; and since 1965, when the first EPZ in Kandla was set up. A total of only 11 such zones have come into existence. The Exim Policy of 1997-2002 then introduced the more comprehensive and liberal SEZ concept, after which a bill was drafted and passed by Parliament in the form of the SEZ Act, 2005.

SEZ Act 2005

Objectives

- to provide for a stable and long-term fiscal policy framework with minimum regulatory intervention for such zones
- to attract investment, both domestic and foreign
- to ensure employment generation through encouraging export activities
- There would be no violation of labour laws in the SEZs.
- It also provides for a single-window clearance mechanism for the establishment of SEZs.
- The objective of SEZs includes making available goods and services free of taxes and duties, bolstered by integrated infrastructure for export production and a package of incentives to attract foreign and domestic investments for promoting export-led growth.

Provisions

- It empowers the Union Government to specify an officer or agency for carrying out surveys or inspections to verify or ensure compliance with the provisions of the Central Act by a developer or an entrepreneur.
- The Act provides that SEZs could also take the form of port, airport, inland container depot, land station and land customs stations, as the case may be, under Section 7 of the Customs Act.
- The Act approves the setting up of an International Financial Services Centre in a SEZ.
- The Act provides for tax concession for 15 years in respect of newly established SEZ units that begin to manufacture or produce articles or provide services during the previous year relevant to any assessment year commencing on or after April 1, 2006.
- under this dispensation, units would be eligible for 100 per cent tax exemption for 5 years, 50 per cent for the next five years and 50 per cent of the ploughed back export profits for the next five years (in all 15 years).
- Indian SEZs to be based on 'India-specific' model instead of adopting the model followed by any other country.

Apprehensions against SEZ

Some of the apprehensions against the SEZs are

- a) Generation of little new activities as there may be relocation of industries to take Advantage of tax concessions,
- b) Revenue loss,
- c) Large-scale land acquisition by the developers which may lead to displacement of

- farmers with eager compensation,
- d) acquisition of prime agricultural land having serious implications for food security,
- e) Misuse of land by the developers for real estate and
- f) Uneven growth aggravating regional inequalities.