

Challenges in PSUs

What is the issue?

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India's public sector landscape is littered with a vast number of loss-making and dysfunctional public sector units (PSUs).

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What is the status of PSUs in India?

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- Union Government has 444 PSUs with total investment Rs. 15 lakh crore in these, the States have so far invested Rs. 14.6 lakh crore in 1,136 functional and 319 dysfunctional State PSUs (SPSUs).

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- In 2016-17, Central PSUs had earned net profit of Rs. 1.3 lakh crore and contributed Rs. 3.86 lakh crore to revenue in taxes, cess and dividends while providing employment to 11.31 lakh people.

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- About 1,136 working SPSUs collectively incurred net loss of Rs. 84,000 crore during 2016-17 employing 17.3 lakh people, and their accumulated losses amounted to Rs. 4.65 lakh crore.

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- Only 531 earned total profit of Rs. 18,000 crore. As many as 292 SPSUs have negative net worth, and many of the 319 dysfunctional SPSUs had ceased operations for more than 25 years.

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What are the concerns with SPSUs?

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- The philosophy behind PSUs has undergone a sea change now with redefinition of the state's role as a facilitator rather than a producer, but most of our PSUs still remain trapped in the vast no-man's land between the

state and market.

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- While the power sector accounts for a large number of PSUs, a large number of SPSUs were established in the finance and welfare sectors, and their objectives defy all logic.

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- **Uttar Pradesh**- It has 103 SPSUs (38 non-functional) which includes development corporations for almost everything - from fishery, poultry, piggery, livestock, sugarcane and seed to police housing and small industries, and development or welfare corporations for backward classes, scheduled castes, women, ex-servicemen, etc.

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- **Bihar** - The state has 74 SPSUs (40 non-functional), includes most of these, besides corporations for financing and development of films, Panchayati Raj, medical services and infrastructure, fruits, vegetables, pharmaceuticals, chemicals, beverages, textiles etc.

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- **Kerala** - It has 130 SPSUs (15 dysfunctional) includes development corporations for the welfare of almost every conceivable segment of humanity.

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- It is absurd to expect any state to have the expertise or resources to manage such a sweeping range of activities.

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- Poultry, piggery, fishery etc. are better left to individual entrepreneurs or firms with the knowhow to make these profitable.

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What measures needs to be done by respective governments?

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- Financial and welfare needs of specific sectors can be addressed much more efficiently by banks and financial institutions.

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- In any case, government ministries and departments exist to take care of the welfare of disadvantaged sections.

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- The welfare SPSUs only provide loans to members of various communities which are refinanced by the government, this can easily be done through the banking networks or devising suitable government schemes.

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- PSUs exist only to provide parking places for senior bureaucrats or powerful politicians, so that state largesse can be extended to them through cars, perks and privileges.
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- States must withdraw from all unviable sectors, while revamping the structure and management of the remaining ones.
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- PSUs should be depoliticized and their management professionalized, by appointing experienced and qualified managers.
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- Wherever feasible and where synergies exist, efficient Central PSUs may be persuaded to manage State PSUs.
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What cues can be taken from other countries in this regard?

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- **Insulating PSUs** -Many countries, such as Sweden and Thailand, have insulated their ailing PSUs from politicians and bureaucrats.
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- They have created a Directors' Pool from where all Board members including CMDs are appointed.
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- **Singapore's Temasek model** -The holding structure of PSUs needs to be reworked, and there are best practices available, like Singapore's Temasek model.
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- Post-independence in 1965, Singapore had pursued economic growth by holding stakes in many companies.
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- A decade later, in 1974, it incorporated the holding company Temasek to manage their assets commercially, keeping government and PSUs at arms-length.
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- Some PSUs were corporatized and expanded, while others were privatized, some of these grew to become global brands.
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- **Regulatory body** -Malaysia had created a watchdog body, Minority Shareholders Watching Group a think-tank without politicians to monitor breaches and to ensure better corporate governance.
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Source: Business Line

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