KPMG

cutting through complexity

ASSOCHAM INDIA

Public Sector Enterprises

Transformation, Competitiveness & Sustainability

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Executive Summary

Indian central public sector enterprises are going through exciting changes in the environment. The government has taken several measures to bring CPSEs at power with the private competitors. This report discusses the dynamic CPSE's growth journey from post independence till present covering their increasing contribution in Indian economy.

Central public sector enterprises have undoubtedly played a crucial role in modern India economy. The report outlines CPSE transformation from national to global players: its benefits, business models, classification into various Ratna's and also case examples discussing models of Indian PSE's going global. The measures taken by CPSE's to compete in the global market including increasing in disinvestments by the government, incorporating guidelines around cooperate governance, granting autonomy in operating and financial terms to CPSE's and introducing project based financial autonomy. It also highlights the actions taken by the public sector enterprises in India towards sustainable growth: adoption of upcoming technologies in ICT, human resource development, infrastructure development and green initiatives.

Further, this report mentions way forward to address key challenges or concerns faced by public sector enterprises in India in terms of multiple principals which are often conflicting, operational inefficiencies, rigid human resource management procedures, compensation concerns, lack of autonomy in decision making and an overly centralized organizational structure, and the degeneration of accountability due to inadequate implementation of such quantitative performance measures.

सत्यमेव जयते

प्रफुल पटेल
PRAFUL PATEL

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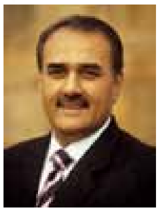

MESSAGE

I am glad to know that The Associated Chambers of Commerce and Industry of India (ASSOCHAM) is organizing the 2nd National Conference on Public Sector Enterprises in New Delhi on 16th December, 2011 and bringing out a backgrounder note on this occasion. I feel that theme chosen for the Conference is appropriate and has great contemporary relevance.

The Public Sector in India has been an integral part of the economy in its growth and development process. In fact, the past two decades have witnessed our PSEs achieving newer heights of performance. With the integration of Indian Economy in the global market place and the resultant challenges being faced, our PSEs are adopting newer strategies in the evolving scenario. However, to take the PSEs to the next phase of growth, competitiveness and sustainability will be key driver for corporate transformation.

I am sure that this Conference will provide a road map to PSEs for developing a conceptual framework for future growth. On this occasion, I convey my best wishes to ASSOCHAM and the participants of this conference and wish the event a great success.

(PRAFUL PATEL)

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D.R.S. CHAUDHARY
SECRETARY

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GOVERNMENT OF INDIA
DEPARTMENT OF PUBLIC ENTERPRISES
MINISTRY OF HEAVY INDUSTRIES & PUBLIC ENTERPRISES

MESSAGE

It gives me immense pleasure to note that the Associated Chambers of Commerce and Industry of India (ASSOCHAM) is organizing 2nd "National Conference of Public Sector Enterprises – Transformation, Competitiveness and Sustainability" on 16th December, 2011 at New Delhi.

The growth story of our country has strong roots in the form of contributions made by our Central Public Sector Enterprises (CPSEs) over the years. The CPSEs have emerged as the medium through which achievement of the cherished goals of balanced socio-economic growth, creation of wealth for all sections of society, inclusive development and sustainable environmental practices are being facilitated.

The Department of Public Enterprises, being the nodal agency for the CPSEs, has taken a number of initiatives in areas such as Corporate Governance, Corporate Social Responsibility, Research & Development and Sustainable Development, which are all crucial for improving their performance.

I am confident that this Conference would be a great success.

(D.R.S. Chaudhary)

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Oil and Natural Gas Corporation Ltd.
Chairman, ONGC Group of Companies

MESSAGE

During the last global economic recession in 2008-09, Indian economy demonstrated remarkable resilience; and bucking the trend of developed economies maintained a decent GDP growth rate of around 7%. That indicated the trait of a robust and growing economy. Sound banking system, timely intervention of the Government of India in fine-tuning fiscal policies and above all, the resilience of Indian public sector enterprises saved the day for the country.

It is no small feat for India to pursue its unique model of public and private enterprises for sustainable economic development, under open and unhindered public and stakeholder scrutiny. Apart from the disinvestment program, the government has also supported the PSEs become competitive, wherever required, through financial and managerial empowerment, joint-ventures and restructuring. It is noteworthy that these decisions are pragmatic and based on sound economic framework, rather than on ideology. And above all that these have yielded results.

The global economy is once again passing through a deep trouble. While developed economies are struggling to get over it, the developing economies are also feeling its ripple effect. The triumph of austerity in US and Europe will not only eliminate these two areas as engines of recovery for the global economy, it has all the potential of aggravating that ripple effect for the developing economies.

India is having testing time once again. Public Sector Enterprises with all its inherent strength of prudence and ethical management practices are required to prove its mettle once again.

Indian PSEs have come a long way. After the globalization, they have already transformed from 'Temples' of independent India to competitive business entities of modern India. They have successfully established their sustainability even in the liberalized environment. Going one step ahead their counterparts in Private Sector, PSEs have adopted Corporate Social Responsibility as a mandatory activity embracing and enforcing the inclusive growth agenda of the country.

Let me compliment ASSOCHAM for organizing this very timely conference. The theme is very apt - ***"Public Sector Enterprises: Transformation, Competitiveness and Sustainability"***. I am sure the participants will be greatly enriched by the deliberations of eminent speakers.

Wish a very fruitful and meaningful conferencing.

(Sudhir Vasudeva)

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ASSOCHAM

Ninety years of assocham

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D S Rawat
Secretary General

MESSAGE

Public sector enterprises in India has responded admirably post-economic reforms and liberalizations. Not only did they attain enhanced production volume and profit level but were preferred destination for global and domestic investors. Empowered by huge investors' interest and market capitalization, public sector enterprises are competing with the major players in the domestic and international markets by focusing on business growth and diversification as also profitability and productivity. But the ability of organizations that aspires to be at the forefront of international competition lies in its ability to master and manage the challenges of transformation and sustainability.

I am sure above issues will be discussed in the Conference on Public Sector Enterprises, being organised by ASSOCHAM, so as to bring out implementable suggestions. We thank all those who guided us to hold this important Conference.

I wish the Conference all success.

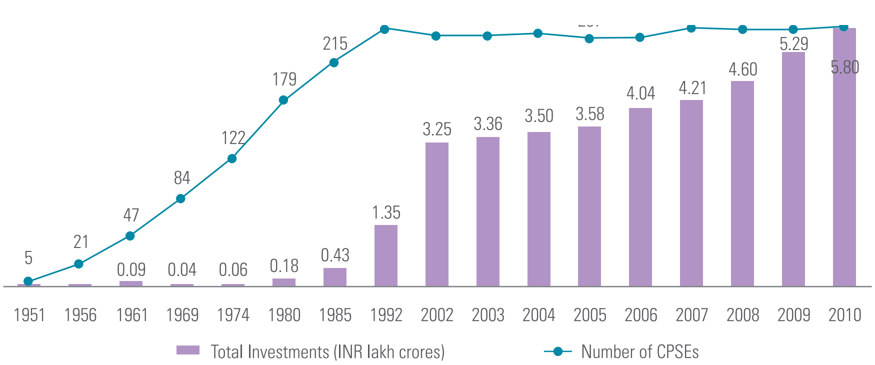
(D S Rawat)

Central Public Sector Enterprises in India: Past and Present

1.1 Growth Story of CPSEs in India

The Central Public Sector Enterprises (CPSEs) have been a strategic lever for Indian economic development in both pre-independence and post-independence era. In pre-independence era there were very few CPSEs in India which were centric to Railways, the Posts and Telegraphs, the Port Trust, the Ordinance Factories, All India Radio, the Aircraft factories, etc. Over the years, CPSEs not only have grown in numbers but also in the range of activities such as manufacturing, engineering, steel, heavy machinery, textiles, pharmaceuticals, petro-chemicals, etc. This growth in span of CPSEs is a consequence of several initiatives taken during various Five Year Plans. The number of CPSEs as on 2010 was 249, with total investment of nearly INR 5.8 lakh crores against five CPSEs with total investment of INR 29 crores in 1951.[1]

Fig 1.1: Growth of Public Sector Enterprises in India



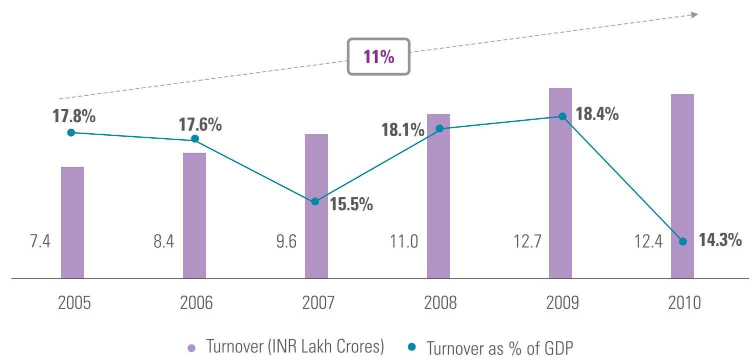
Source: Department of Public Enterprises, Public Enterprises Survey, 2009-2010

1.2 CPSE Contribution in Indian Economy

1.2.1 Gross Domestic Product (GDP)

CPSEs growth has been in line with the overall growth of the country, recording a CAGR of 11 percent as against the GDP growth rate of 16 percent CAGR during FY2005-2010. Decline in turnover from INR 12.7 lakh crores in FY2009 to INR 12.3 lakh crores in FY2010 was primarily because of reduction in sales of refined petroleum (INR 74 thousand crores) though turnover is some other industries have been increased e.g. transportation, power generation, etc.[1]

Fig1.2.1: Share of CPSEs in India Gross Domestic Product



Source: DPE, Public Enterprises Survey, 2009-2010

1.2.2 Central Exchequer

Central Exchequer obtains revenue from CPSEs through two modes - namely investments in companies, and through taxes and duties paid. There was a decline in the total contribution of CPSEs to the Central Exchequer from INR 1.5 lakh crores in FY2009 to INR 1.4 lakh crores in FY2010.1 This was primarily due to annualized reduction in contribution towards customs duty and excise duty by INR 1.8 thousand crores and INR 10.6 thousand crores in FY2010 over the last year.[1]

1. Public Enterprise Survey, 2009-10, Department of Public Enterprises

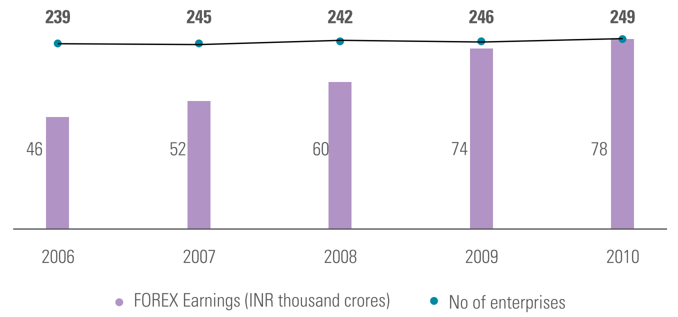
1.2.3 FOREX Earnings

CPSEs have contributed significantly to the overall foreign exchange earnings of the country through exports of goods and services with average contribution being around ten percent in the last five year. CPSEs FOREX earnings have grown with a CAGR of 14 percent from INR 46 thousand crores in FY2006 to INR 78 thousand crores in FY2010.[2]

1.2.4 Employment Generation

CPSEs employed 14.9 lakh people (excluding casual workers) in FY2010 as compared to 15.3 lakh in FY2009, a decrease of 2.8 percent. However, total salaries went up from INR 83.0 thousand crores in FY2009 to INR 90.9 thousand crores in FY2010, a growth of 9.4 percent.[2]

Fig 1.2.3: Share of CPSEs in FOREX Earnings



Source: DPE, Public Enterprises Survey, 2009-2010

1.3 CPSE performance indicators

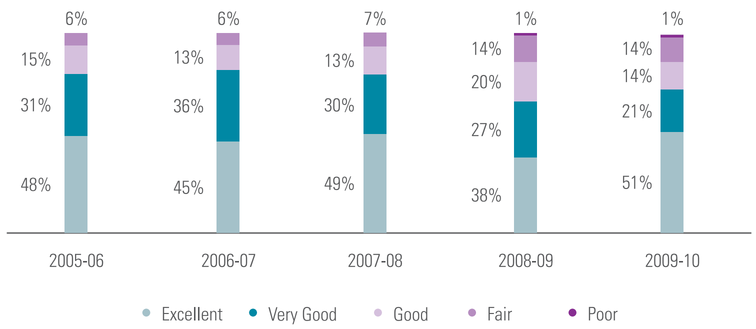
1.3.1 Reduction in Number of Sick CPSEs

Number of sick CPSEs has reduced from 111 in FY2003 to 45 in FY2010, post the establishment of the Sick Industrial Companies Act, 1992. Under the Act, Board for Industrial and Financial Reconstruction (BIFR) was created to monitor CPSEs that were not performing well. Out of the 64 CPSEs registered with the Board in FY2010, 47 CPSEs have already been disposed off; of which, 2 have been declared 'no longer sick' and 5 have been dropped off the list due to improved performance. The BIFR is yet to take action on 17 CPSEs.[2]

1.3.2 Memorandum of Understanding (MoU) for Performance Evaluation of CPSEs

To have control over CPSEs, the Department of Public Enterprises performs year-end evaluation of actual achievements against the set targets in the MoU. The targets comprise both financial and non-financial parameters. Performance ratings are available in the form of 5 grade scale and the number of CPSEs performing 'Good' and 'Excellent' has increased with a CAGR of 5 percent and 8 percent, respectively during 2006-10.[2]

Fig 1.3.1: CPSE performance evaluation



Source: DPE, Public Enterprises Survey, 2009-2010

2. Public Enterprise Survey, 2009-10, Department of Public Enterprises

Transforming CPSEs, Transforming India

2.1 Transforming CPSEs and its Benefits to Indian Growth

The opening of the economy has changed the market dynamics with private sector playing a greater role in shaping the industrial landscape. As a consequence, the CPSEs have been exposed to competition from domestic and multi-national corporations.

The recent economic downturn has reaffirmed the confidence in public sector enterprises in India as they have emerged relatively intact as compared to private companies. Nonetheless, not all CPSEs performed that well. During 2009-10, 158 CPSEs of the total 249 reported cumulative net profit of INR 1.08 lakh crores.[1]

Public enterprises that have reformed their businesses and benchmarked their performance with the best practices are able to perform better than the rest of the CPSEs. CPSEs are transforming in terms of organization, financials and operations in order to narrate a turnaround story. However, many CPSEs are still facing several issues such as financial autonomy, bureaucracy, corruption, risk aversion, ineffective governance, political interference, inability to recruit the right talent, and corruption.

Keeping in view that these CPSEs help shoulder India's economic growth, reviving the not so performing enterprises is a key imperative of the Government of India.

1. Public Enterprise Survey, 2009-10, Department of Public Enterprises

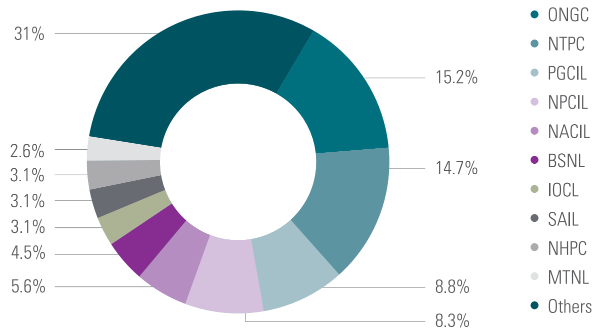
2.2 CPSEs Transforming Business Model and Service Delivery

Investments in CPSEs have increased over the years as these companies have initiated transformation. It increased from INR 9.8 lakh crores in 2008-09 to INR 11.3 lakh crores in 2009-10. However, the degrees to which different CPSEs have been able to attract funds have varied. Of the 249 CPSEs, the top ten enterprises attracted 69.0 percent of the total investment in FY2010. 'Services' sector has showed the highest growth (23.0 percent) in investment in 2009-10 over the previous year, followed by 'manufacturing' (16.6 percent), 'mining' (11.3 percent) and 'electricity' (10.6 percent).[1]

Performance is influenced by both endogenous and exogenous factors. CPSEs have embraced technology and re-engineered operations to create differentiation while creating center of excellence. Most of these transformations revolve around resolving specific issues which they encounter while competing with private players. These concerns usually fall in to the following categories:

Fig 2.2: Gross Block in Top Ten Enterprises, as on FY2010

100% = INR 11.3 lakh crores



Source: DPE, Public Enterprises Survey, 2009-2010

2.2.1 Corporate Governance

There is a widely held connotation that it's difficult for any organization to sustain and grow if they lack proper governance structure. The same holds good for public sector enterprises. If several reporting agencies exist with their own specific agendas that may be conflicting with the objectives of the enterprise, the efficiency of the enterprise is likely to get impaired. Thus, many CPSEs have reorganized their governance structure to bring about 'ownership management'.

2.2.2 Operations Management

Workflow management is a key performance evaluation tool that helps organizations to check accomplishment of targets. Implementing such a tool enables enterprises to take timely corrective measures and ensure that the objectives are being met. Further, CPSEs are benchmarking their capabilities in terms of productivity, technology adoption, cost effectiveness, and service delivery, against their private counterparts to stay competitive. The various initiatives being undertaken by CPSEs to reform their business operations include:

- Deploying Enterprise Resource Planning (ERP) and Management Information Systems (MIS) to support business process re-engineering. The adoption of such technologies hastens decision making process and thereby enabling CPSEs to react proactively to the market dynamism

- Benchmarking of practices with industry standards helps them achieve greater efficiency and lower costs
- PSEs have also increased focus towards outsourcing their non-core operations which enables them to concentrate more on their core operations.

2.2.3 Human Resource Management

Investments in human capital has become the key priority for most of these enterprises. However, employing the right talent is just one part of the story. Training employees on a regular basis to keep their skills equipped at all times is of equal importance.

Human Resource Development Initiated by the Ministry of Heavy Industries and Public Enterprises

The Ministry of Heavy Industries and Public Enterprises has initiated training programs for CPSE employees. The program provides counseling to employees that have been rendered surplus, or to retain and redeploy them in CPSEs to make their employments rationalized

National Thermal Power Corporation

NTPC operates an integrated Human Resources Development program that is aimed at accomplishing the evaluation and development requirements of its employees. The company operates a comprehensive in-house training infrastructure that caters to all the requirements of its employees across functions and cadres

2.3 Indian CPSEs: From National to Globally Acclaimed Enterprises

Government is identifying profit making public sector companies that have the competitive advantage to grow into global giants. The Government has already issued guidelines for public sector enterprises to restructure their Boards and has granted financial autonomy to support their foreign expansion strategies.1 This has resulted in Indian CPSEs to liberally undertake foreign expansion investment decisions.

As per the directive from the Government:

- CPSEs that have restructured their boards should formulate specific vision statements, micro-level strategies and put into practice various measures that ensure strategy implementation
- CPSEs should outline their strategy and present the proposals to the Department of Public Enterprises for submission to the Committee of Secretaries for approval
- CPSEs should periodically, preferably quarterly, monitor the performance of its globalization efforts. This is also monitored at the Apex level by a Committee of Secretaries

During the year 2009-10, 144 CPSEs of the total 217 operating CPSEs had foreign presence. In addition, during the same year, 33 CPSEs posted foreign exchange earnings. Of these, 12 CPSEs posted gross foreign exchange earnings of more than INR 1,000 crore during the previous two financial years, highlighting the impact Indian CPSEs have made in foreign territories.[2]

Steel Authority of India (SAIL) Grows into a Global Giant

SAIL, one of the Maharatna CPSEs, has been in operations for over four decades. The company's expertise lies in building, operating and maintaining integrated and mini steel plants and associated facilities. The range of services offered includes Design and Engineering, Project Management, Technical, and Management Services. During these years of operations, the company has not only delivered projects in India but also globally across Egypt, Saudi Arabia, Iran, Qatar, Bangladesh, Oman, Philippines, Nepal, Taiwan, Thailand, Azerbaijan, Georgia, Nigeria and Sri Lanka

RITES - Getting Globally Recognized

RITES, a Miniratna Category - I CPSE, was established in 1974 as a multi-disciplinary consultancy company to improve the performance of Indian transport, infrastructure and related technologies. The company has grown to be globally recognized as a leading consulting firm, and has also been engaged in projects across 62 countries in Africa, South East Asia, Middle East and Latin America. For foreign assignments, the company mostly engages with either national governments or other apex organizations. Some of the projects include:

- Bangladesh Railways: Provided consultancy services for System Improvement for rolling stock maintenance (ADB); Productivity Improvement of Pahatali workshop; Operation and Maintenance of Bangladesh Railways; Regional Traffic Enhancement Study (ADB)
- Cambodian Railways: Conducted feasibility study and technical assistance for rehabilitation of rolling stock and Bridges of Cambodian Railways
- Ghana Railway Corporation: Conducted staffing and management study, a study for improvement in operation and maintenance, technical assistance for rehabilitation and improvement; and quality assurance and spare parts management

In 2010, the company bagged the first award under PSU - Service (Medium) Category for Excellence in Cost Management during 8th ICWAI National Award 2010.

Source: RITES Company Website, SAIL Company Website

2. Public Enterprise Survey, 2009-10, Department of Public Enterprises

2.4
The Transformation Stories of Indian CPSEs: Growing into 'Ratnas'

The center has empowered profit making CPSEs by granting operational and financial autonomy in order to equip them to react proactively to market forces. After assessment based on select criteria, CPSEs have been awarded the status of 'Maharatna', 'Navratna', 'Miniratna – Category I' and 'Miniratna – Category II' by the DPE, thereby granting enhanced powers.

Classification Criteria

Miniratna - II

- Should have made profit for the last 3 years and have a positive net worth
- Have not defaulted on loans/interest repayment to the Government
- No dependency up on budgetary support or Government guarantees
- Boards restructured with presence of atleast three non-official Directors
- E.g. Ed.CIL (India), HMT (International) Limited, MECON Limited, etc.

Miniratna - I

- Should have reported profits in the last 3 years, with pre-tax profit of INR 30 crores or more in any one of the last 3 years
- Have not defaulted on loans/interest repayment to the Government
- No dependency on budgetary support or Government guarantees
- Boards restructured with presence of at least three non official Directors
- E.g. AAI, BEML, BSNL, Concord, EIL, IRCTC, etc.

Navratna

- Should be a Miniratna I and Schedule A company
- Should have 'excellent'/'very good' rating in 3 of the last 5 MOUs
- Have secured composite score of 60 or more for 7 identified parameters/ratios
- E.g. BEL, BHEL, BPCL, GAIL (India), MTNL, Oil India, SCIL, etc.

Maharatna

- Should have Navratna status
- Listed on Indian stock exchange, with minimum prescribed public shareholding under SEBI regulations
- Average annual turnover of over INR 25,000 crore in the last 3 years
- Average annual net worth of over INR 15,000 crore in the last 3 years
- Average annual net profit after tax of over INR 5,000 crore in the last 3 years
- Notable Global presence or international operations
- E.g. Coal India, IOCL, NTPC, ONGC, SAIL

Source: Department of Public Enterprises

Autonomy to CPSEs based on their Classification

Category of CPSEs	Capital Expenditure	Joint Ventures & Subsidiaries	Organizational Restructuring & Human Resource Management	Resource Mobilization	Mergers & Acquisitions
Maharatna	No cap on capital investments	Can establish financial joint ventures, wholly owned subsidiaries and undertake M&A in India or abroad, with the condition that equity should be limited to i) INR 5,000 cr. in any single project, ii) 15 percent of the net worth of the CPSE in one project, and iii) 30 percent of the net worth of the CPSE in all joint ventures/ subsidiaries put togethercommunication does not stop at level 1 customers.	Empowered to undertake organizational restructuring including creation of profit centers, opening of offices in India and abroad, establishing new activity centers, etc. Can create and make appointments for all positions up to E-9 level. Also empowered to delegate Human Resource Management related powers (appointments, transfer, posting, etc.) to below board level executives	Can raise debt from domestic capital and international market, post approval of RBI/ Department of Economic Affairs, (as may be required); will be obtained through the administrative Ministry for the latter	Can undertake M&As subject to i) it should be in accordance with the growth plan & in the core functioning area of the CPSE, (ii) the Cabinet Committee on Economic Affairs (CCEA) to be kept informed in case of investments abroad
Navratna	No cap on capital investments	Can establish financial joint ventures and wholly owned subsidiaries in India or abroad, with the condition that equity should be limited to i) INR 1,000 cr. in any single project, ii) 15 percent of the net worth of the CPSE in one project, and iii) 30 percent of the net worth of the CPSE in all joint ventures/ subsidiaries put together	Empowered to undertake organizational restructuring including creation of profit centers, opening of offices in India and abroad, establishing new activity centers, etc. Can create and make appointments for all positions up to E-6 level. Also empowered to delegate Human Resource Management related powers (appointments, transfer, posting, etc.) to below board level executives	Can raise debt from domestic capital and international market, post approval of RBI/ Department of Economic Affairs, (as may be required), will be obtained through the administrative Ministry	Can undertake M&As subject to i) it should be in accordance with the growth plan & in the core functioning area of the CPSE, (ii) conditions/ limits would be as in the case of establishing joint ventures/ subsidiaries, and (iii) CCEA to be kept informed in case of investments abroad
Miniratna I	Incur investments up to INR 500 cr. or equal to net worth, whichever is lower	Can establish joint ventures and wholly owned subsidiaries in India, with the condition that equity should be limited to i) INR 500 cr. in any single project, ii) 15 percent of the net worth of the CPSE in one project, and iii) 30 percent of the net worth of the CPSE in all joint ventures/ subsidiaries put together	The Board can delegate the powers pertaining Human Resource Management (appointments, transfer, posting, etc.) of below Board level executives to sub-committees of the Board or to executives of the CPSE	NA	Can undertake M&As subject to i) it should be in accordance with the growth plan & in the core functioning area of the CPSE, (ii) conditions/ limits would be as in the case of establishing joint ventures/ subsidiaries, and (iii) CCEA to be kept informed in case of investments abroad
Miniratna II	Incur investments up to INR 250 cr. or 50 percent of net worth, whichever is lower	Can establish joint ventures and wholly owned subsidiaries in India, with the condition that equity should be limited to i) INR 250 cr. in any single project, ii) 15 percent of the net worth of the CPSE in one project, and iii) 30 percent of the net worth of the CPSE in all joint ventures/ subsidiaries put together	The Board can delegate the powers pertaining Human Resource Management (appointments, transfer, posting, etc.) of below Board level executives to sub-committees of the Board or to executives of the CPSE	NA	Can undertake M&As subject to i) it should be in accordance with the growth plan & in the core functioning area of the CPSE, (ii) conditions/ limits would be as in the case of establishing joint ventures/ subsidiaries, and (iii) CCEA to be kept informed in case of investments abroad

CPSE: Competing in the Globalized Economy

3.1 Public Sector Companies as Market Leaders in Select Industries

Per a survey by Department of Public Enterprises, analysis of the market shares of CPSEs depicts that Coal and Crude Oil in the mining sector, Petroleum (Refinery and Marketing) in the manufacturing / processing sector and Power Generation in the electricity sector are the sectors where CPSEs have performed extremely well. Analysis of the profit showed that the petroleum and refinery industry stand out to be the most profitable industry in India in FY2010. ONGC, IOCL and NTPC were the top three CPSEs by profit in 2010[1].

Many of these CPSE have also earned several global distinctions. Following are a few examples:

- Coal India Limited is the largest coal producer and one of the largest reserve holders of coal in the world[2]
- Bharat Heavy Electricals Limited is the largest engineering and manufacturing enterprise in India in the energy-related/infrastructure sector.[3] It is also the 12th largest power equipment manufacturer in the world[4]
- NTPC ranked 341st in the '2010, Forbes Global 2000' ranking of the world's biggest companies[5]

Oil & Natural Gas Corporation Limited (ONGC)

ONGC was incorporated in 1993 and since then has been involved in Exploration and Production activities across Asia Pacific and Africa. It operates 12 assets for oil and gas production activities and 7 basins for conducting exploration activities. Over the years it has grown to be recognized globally with several merits:

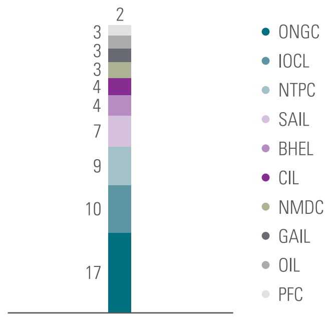
- ONGC has been conferred the 'Maharatna' status and contributes to nearly 5 percent of the cumulative CPSE turnover. Further, it ranks 1st in terms of net profit in FY2010 amongst all the CPSEs with net profit recorded as INR17.0 thousand crores
- It holds the distinction of being the largest crude oil and gas producing company in India contributing to over 77 percent of crude oil and 81 percent of natural gas production in FY2010
- Globally, ONGC ranks 21st amongst the global energy leaders as per Platt's 250 Global Energy Companies 2010-11
- ONGC is amongst the lowest cost Exploration & Production companies across the globe in terms of production efficiency.

Source: ONGC Company Website

3.2 Public Companies Facing Competition in Several Industries

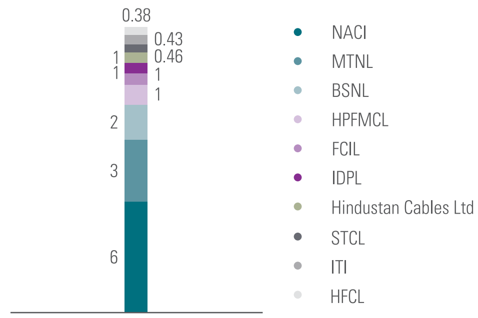
Analysis of the profit of CPSEs in India showed that aviation and telecom were the biggest loss making industries in FY2010. NACIL, MTNL and BSNL were the largest loss making CPSEs in FY2010, while they were among the top 10 CPSEs by gross investments during the same period.[6]

Fig 3.1: Top Ten Profit Making PSE (FY 2010 in INR Thousand Crores)



Source: DPE, Public Enterprises Survey, 2009-2010

Fig 3.2: Top Ten Loss Making PSEs (FY2010 in INR Thousand Crores



Source: DPE, Survey Analysis 2009-10

1. Department of Public Enterprises Survey 2010, KPMG Analysis
2. http://www.coalindia.in/
3. http://www.bhel.com/
4. http://www.chartscorner.com/
5. http://www.indianexpress.com/
6. Public Enterprise Survey, 2009-10, Department of Public Enterprises

Bharat Sanchar Nigam Limited (BSNL)

BSNL, a 'Miniratna – I' was incorporated in 2000 to provide telecom services and network of the erstwhile Department of Telecommunications

- BSNL is the 7th largest telecommunications company in the world offering a suite of telecom services including Wireline, CDMA and GSM Mobile, Internet & Broadband, Carrier service, MPLS-VPN, VSAT, VoIP services, IN services, etc.
- BSNL's extensive reach and network spans entire India, except Delhi and Mumbai
- The company has taken technological initiatives and has set up a state of the art multi-gigabit, multi-protocol convergent IP infrastructure which provides convergent voice and data services
- Despite the fact that BSNL is among the top 10 CPSE with the highest Gross Investment, it is the 3rd biggest loss making CPSE in India due to hefty outgo for employee salaries and expenses borne by the CPSE for procuring 3G and BWA spectrum

Source: BSNL Company Website and Company's Annual Report

3.3 Challenges Faced by CPSEs

While CPSEs have started witnessing considerable rebound and are poised for growth, there are still some roadblocks which may restrict their full throttle growth, some of these include:

- **Corporate Governance:** There is lack of proper governance structure for CPSEs which often inhibits the transparency and free functioning of these enterprises. Multiple reporting agencies exist with separate agenda, thereby, retarding the growth of CPSEs.

  Scope for improvement in projects and operations management: CPSEs need to benchmark their capabilities and offerings with private players in order to remain competitive and aligned to pace of the industry. CPSEs need to adopt an integrated approach to offer a sound value proposition to the market rather than working in isolation
- **Development and management of manpower:** It is utmost important for any organization to have the right pool of resources, and the same holds true for CPSEs as well. Recruitment of right talent, training of manpower, matching the skills and job responsibilities, and keep the workforce motivated can act as a catalyst for a CPSEs growth
- **Lack of financial autonomy:** CPSEs do not enjoy financial independence unlike their private counterparts which often lead to delays in decision making. Formulating a business case for fund raising, seeking approvals, etc. can be an arduous task for CPSEs
- **Difficulty in attracting private investments:** Public-private partnerships can be a key success factor for many CPSEs, thus, it is important for government to create a robust ecosystem which encourages private participation
- **Political interference:** There is often a clash between agenda of political parties and objectives of CPSEs which may impair their growth and autonomy. Being a public enterprise, political parties are likely to have influence on decision making of these CPSEs as well
- **Bureaucracy, red-tapism and corruption:** Lack of proper governance, transparency, etc. may translate into bureaucratic and corrupt environment within some CPSEs, leading to a tarnished image of the entire set of CPSEs.

3.4 Disinvestment and Stake Sale

Disinvestment of government equity in CPSE began in 1991-92 with the setting up of Public Sector Disinvestment Commission. Post which, the Commission submitted reports on 58 CPSEs. Till 2000, it was mainly the sale of minority shares of CPSEs. The emphasis of disinvestment changed in favor of 'Strategic Sale' from 2000 till 2004:

- Emphasis is currently on unlisted profitable CPSE, with each 'net worth' in excess of INR 200 crore, through Initial Public Offering (IPO)
- It also involves the sale of minority shareholding of the Government in listed and profitable CPSEs
- Government should retain the residual equity of at least 51 percent and also retain management control of the CPSEs

Advantages of Disinvestment

Increased competition from private players makes it difficult for many CPSEs to operate profitably. As a result of a rapid erosion of the value of the public assets, it becomes extremely important that the government disinvests CPSEs early in order to realize a high value. At present, the government has a stake of nearly INR 2 lakh crores locked up in CPSEs.

The government's disinvestment policy was identified as a tool to raise funds thereby reducing financing requirements the CPSEs. Following were the main objectives of disinvestment:

- Improving public finances
- Reducing financial burden on the Government
- Funding expansion plans
- Expanding share of ownership
- Minimizing government involvement in non-essential services.

7. National Portal of India; Disinvestment of Central Public Sector Enterprises (31st July, 2007) - Government of India

Disinvestments till Date

Since the first disinvestment happened in 1991-1992, disinvestment has undergone change both in approach and policy to make the process more functional:

In 1991-2001, 31 CPSEs were divested for INR 3.0 thousand crores. In this period, disinvestments were mostly by way of minority stake sale. Unit Trust of India picked up minority stakes in several companies that were divested during this period. In 2001-2009, maximum disinvestment occurred in FY 2004, INR 15.5 thousand crores.

In 2009-2011, with improved market conditions a renewed thrust on disinvestment is visible. Government commenced selling minority stakes in both listed and unlisted CPSEs through public offers and until December 31, 2010 it raised INR 99.1 thousand crores

Disinvestments in CPSEs (in INR Crores)

Year	Budgeted Receipt	Achieved Receipt
2000-01	10,000	1,871
2001-02	12,000	5,658
2002-03	12,000	3,348
2003-04	14,500	15,547
2004-05	4,000	2,765
2005-06	No fix target	1,570
2006-07	No fix target	0
2007-08	No fix target	4,182
2008-09	No fix target	0
2009-10	No fix target	23,553
2010-11	40,000	22,144

Source: DPE, Survey 2009-10

3.5 Leadership and Governance: Key for Decision Making and Growth

Corporate governance can be defined as acceptance by management of the rights of the shareholders as true owners of the corporations and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate fund.

After due inter-ministerial consultations, it was decided in March 2010 to make the guidelines on corporate governance for CPSEs mandatory, which was earlier voluntary.

Principles of Corporate Governance:

- Accountability: Ensuring management accountability to the boards and the shareholders
- Fairness: Protecting shareholders rights, treating all equitably and providing efficient redress mechanism
- Transparency: Ensuring timely and accurate disclosure on all material matters
- Responsibility: Recognize the legal rights of stakeholders and promote sustainable development.

Benefits of Corporate Governance:

- Positive response from markets and investors which may help CPSEs build stronger brand
- Demonstration of ethical conduct helps in accessing a global pool of capital and attracting best talent
- Improvement of operational performance through strategic thinking at top level management by independent directors
- Proper risk management, reduced cost of capital and operational performance improves margins.

Guidelines for Corporate Governance:

Guidelines cover issues like, composition of the board of directors (BOD), the audit committee, the remuneration committee, relation with subsidiary companies, disclosures required, code of conduct and ethics for the members on BOD, risk management, and financial reporting. Additional provisions relating to monitoring the compliance of guidelines and formation of the remuneration committee were added later. Since the concept of corporate governance is dynamic in nature, suitable modifications should be carried out in these guidelines from time to time to bring them in line with the prevailing laws, regulations, acts, etc.

Examples of Corporate Governance in CPSEs

- ONGC has been following Corporate Governance guidelines since the time it was not mandatory by the government. As part of its initiatives, ONGC inducted 4 Independent Directors on its board along with various committees such as Audit Committee, Remuneration Committee, etc.
- NTPC has been following Corporate Governance guidelines and has 9 Independent Directors in its Board along with audit committee, remuneration committee, shareholder grievance committee, etc

Source: Corporate governance report, ONGC, 2010; NTPC Company Website

3.6
Autonomy of Decision Making

Autonomy in simple terms means freedom to take decisions and function accordingly while accountability refers to rendering of accounts to some higher authority. Although the Government has adopted a categorization framework for grouping CPSEs into different 'Ratnas', with stated autonomy levels for each, there are gaps therein.

The financial autonomy is given to CPSEs to empower them for taking decisions relating to investment management, financing and monitoring of respective enterprises. CPSEs should have autonomy in day-to-day financial decision making which may include low-cost purchases, cost allocations, evolving price structures, etc.

CPSEs ensure autonomy at different levels of functioning by enforcing delegation and decentralization of financial powers. Various autonomies granted to these organizations include:

- Clear financial procedures
- Conduct internal audit
- Contract private auditors for commercial audit
- Structure and decentralize internal organization
- Appoint a Financial Advisor under governmental approval
- Governmental control is exercised through the Board of Directors of the CPSE
- Reservation of certain financial matters for government approval, under the 'Articles of Association' or under the Act governing a public enterprise
- Conduct of audit by the Comptroller and Auditor General.

3.7
Project Level Accountability and Outcome-based Revenue Models to Force CPSEs to Perform

To solve the problem of accountability, the pay revision committee headed by Justice S. Mohan recommended that employee salary should be linked to the performance of the company. Henceforth, employee performance will be the judging factor of percentage of basic pay entirely related to the performance (ceiling of 50 percent of basic pay). The performances related payments should be a function of profitability of enterprise and emoluments at the level of the individual employee.

To put a cap on the distribution of the profits to the employee, the committee believed that performance related payments should not exceed 5 percent of the distributable profits. According to DPE, the power of implementation is being vested with the Board of Directors.

Employees Stock Option Scheme (ESOS)

The ESOS is one of the option through which CPSEs are linking their employees' salaries to their company performance. The ESOS means awarding shares to employees as an incentive for their performance. Contribution to the ESOS by each employee is governed by the following guidelines:

- Employee can contribute maximum 1/6th of his annual pay plus DA in each financial year in ESOS
- Net earnings from the stocks is distributed by the CPSE in proportion to the certificates held by the employee during the financial year
- Trust normally has an independent existence, with relationship with management as well as labor for professional decision making. Also, this scheme is applicable in all cases of disinvestments or fresh issue of equity by the enterprises

National Thermal Power Corporation (NTPC)

First performance linked incentive project implemented is the 'Project Construction Incentive Scheme' of NTPC for its Barh Plant. Through this plan, NTPC set an example that productivity rises when all direct and indirect employees are integrated in an incentive scheme. Under the plan, each employee's performance incentive was linked to the project achievements. The maximum limit under the scheme was capped at 25 percent of employee's annual fixed salary

Source: Performance Linked Incentive Schemes, Employees Stock Option Scheme and Enterprise specific implementation models, Central Public Sector Enterprises

Sustainability: The Key to Inclusive Growth

A fascinating growth story has been unfolding in India over the past two decades. India has come a long way to be acknowledged globally as a strong economy. It is regarded as a 'newly industrialized country' as it has not yet reached 'advanced' or 'developed' stage but has outpaced other developing countries.[1]

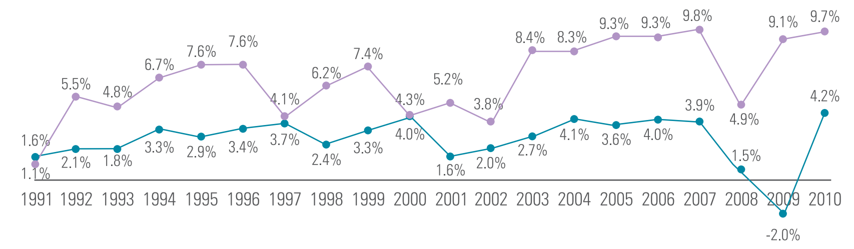
This ongoing growth is being fuelled due to rapidly developing services and manufacturing sectors, increasing consumer demand and government commitments to rejuvenate the agricultural sector. India has grown to become the fourth largest economy in the world in terms of GDP (PPP), next only to the US, China and Japan. It is further expected to topple Japan in 2011 in terms of GDP (PPP) to become the third largest economy.[2]

Given the promising environment, the public sector enterprises are at a major turning point. They are leveraging all possible opportunities to capitalize on the Indian growth story. Their ability to continuously reform and further build upon them will hold the key for sustained development.

CPSEs should integrate economic, environmental and social components, which are the core pillars of sustained development at all levels. A development path that is 'sustainable' should take into consideration institutions that will be conducive for greater participation of stakeholders at various levels. This may require continuous dialogue and action focusing on key sustainable development issues.

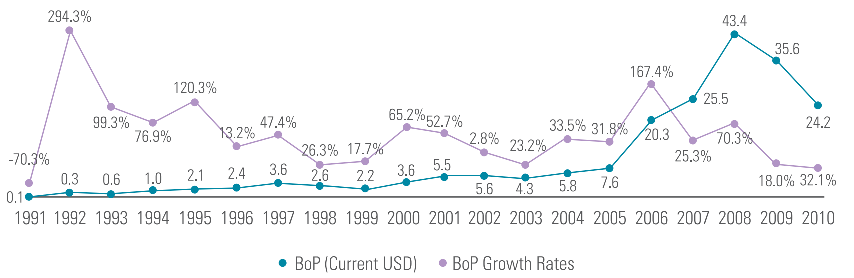
Sustainable transformation is achievable when all the stakeholders participate in setting the goals which are realistic, achievable, measurable and time-bound, collectively take responsibility of realizing the targets and reap the benefits of their accomplishments. Seeing the importance of 'Sustainable Development', the Department of Public Enterprises has included 'Sustainable Development' as part of its annual MoU for assessing CPSEs during 2010-11, giving the parameter a weight of five percent.[3]

Fig 4.1 GDP Growth Rates, 1991-2010 (Percent)



Source: World Bank, World Development Indicators, 2010

Fig 4.2 Foreign Direct Investment, Net Inflows (BoP, current USD), 1991-2010



Source: World Bank, World Development Indicators, 2010

1. Global Finance, Countries Classified by Income Group Global Finance
2. The Economic Times, India to topple Japan as world's 3rd-largest economy, September 20, 2011
3. Department of Public Enterprises, Office Memorandum, September 23, 2011

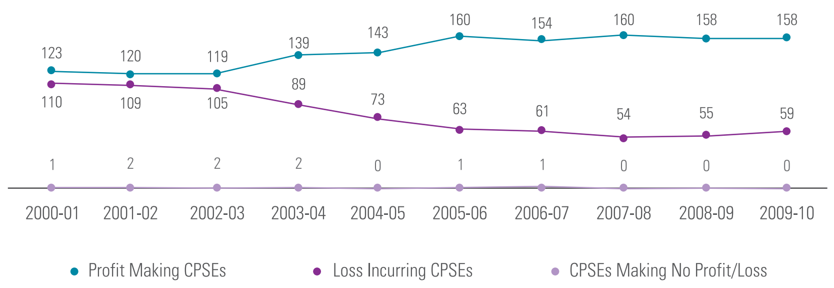
4.1
Financial Independence of CPSEs

With significant business and functional reforms underway to achieve top line growth and manage bottom line, many CPSEs have transformed to become self reliant. Drawing equilibrium between people, profits and environment, many CPSEs have been posting incremental profits over the years. There has also been a phenomenal rise in the number of CPSEs that post profits.

The annual evaluation of these CPSEs by MoU reveals that CPSEs are faring better while trying to achieve their annual targets. While meeting their goals, they are qualifying to raise additional finances while also being able to attract funds from both, domestic as well as international markets. A higher MoU rating reflects greater autonomy to public sector enterprises vis-à-vis the control of the government.

Since FY2006, the number of CPSEs that posted profits increased from 143 in FY2005 to 160 during FY2006. During FY2010, over 70 percent of the MoU signing CPSEs were bestowed a performance rating of either ‘Excellent’ or ‘Very Good’, depicting the healthy state of CPSEs in India [4].

Fig 4.3 Performance of Central Public Sector Enterprises, 2001-2010



Source: Public Enterprise Survey, 2009-10, Department of Public Enterprises

Summary of the Performance of MoU Signing CPSEs (2006-2010)					
Rating	2005-06	2006-07	2007-08	2008-09	2009-10
Excellent	49	46	55	47	73
Very Good	32	37	34	34	30
Good	15	13	15	25	20
Fair	6	6	8	17	20
Total	**102**	**102**	**112**	**124**	**144**

Source: Public Enterprise Survey, 2009-10, Department of Public Enterprises

4.2
PPP, an Important Tool for Rapid Growth

Developing a sustained infrastructure to register rapid growth requires both public as well as private sector participation. The Eleventh Five Year plan reflects that India will not be able to meet the infrastructure deficit for sustainable growth and requires private participation.[5] Thus, attracting private investments through appropriate public private partnership models is of paramount importance for meeting investment requirements and henceforth inclusive growth.

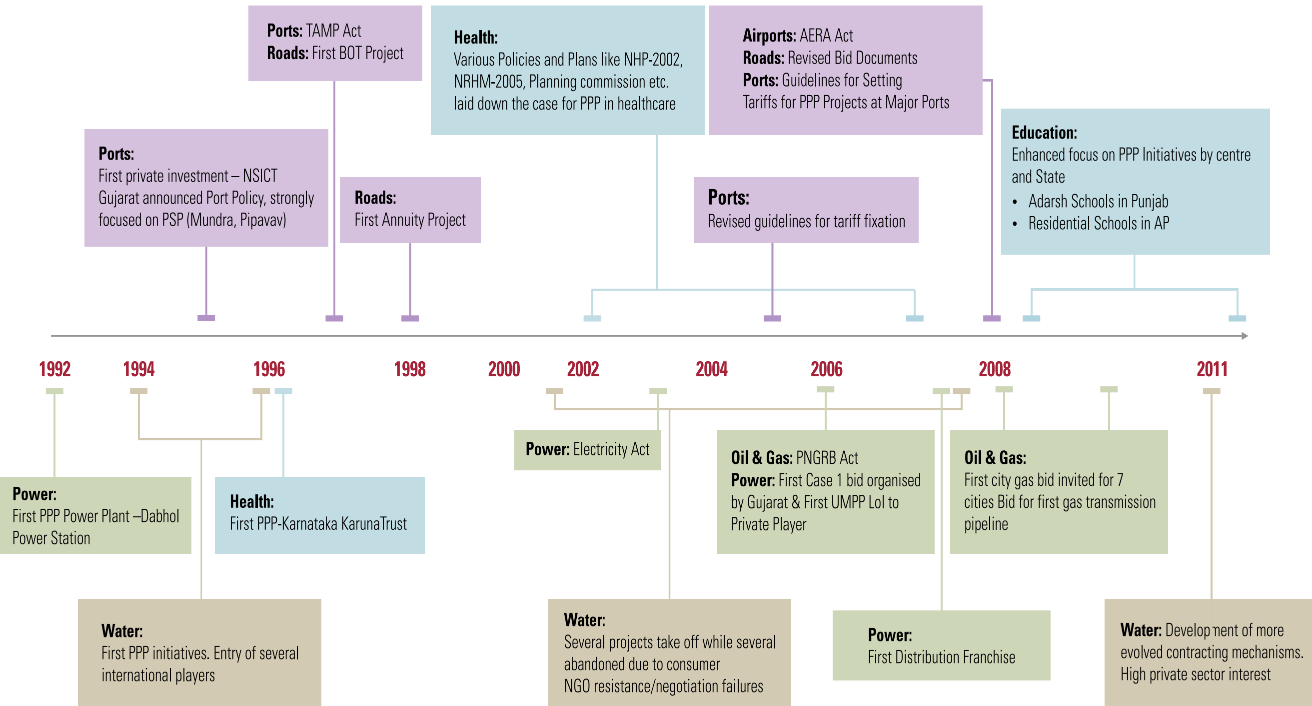
PPP Participation across Select Sectors			
Energy	Transport	Social	Urban Infra
• Case II bids • UMPP • Power transmission • Power Distribution	• Toll roads • Terminals in Major ports/ Non Major ports • Airports	• Hospitals • Schools	• Water Supply and sanitation • Solid Waste Management

4. Department of Public Enterprises Survey 2010, KPMG Analysis
5. Eleventh Five Year Plan document, Planning Commission of India

Attracting private investment is not easy. It is important for the Government to create an environment conducive for private participation. The Government has formulated a policy framework and has initiated a transparent and open communication with private players to develop such an environment. This has enabled significant private participation in the infrastructure sector.

Looking over the past two decades, PPP first started in India in a big way with the Dabhol Power Project in Maharashtra. While PPP was seen initially to bring in private funds to fill in capital shortfalls, it is now seen to provide multiple benefits across various sectors. PPP projects help overcome a financing crunch, bring in private sector efficiencies, management expertise and risk taking abilities; and ease off the load on government bandwidth for development work. PPP has helped the Government to use public funds for social obligations.

Private Investment Timeline and Government Initiatives to Attract Enhanced Investments



Some numbers stand out:

- **Power** - Out of the total installed capacity of ~174 GW (as of March 2011), the private sector contribution was ~ 37 GW
- **Roads** - Private investment in National Highways is 27 percent of the total investment followed by 7 percent in State Roads. Together they form 50 percent of the total road spend by the Government
- **Airports** - More than INR 30 thousand crore has been invested in modernization of airport infrastructure. Airports at Delhi, Mumbai, Bengaluru, Hyderabad and Cochin have been developed through PPP.[6]

Airport Authority of India

Seeing the infrastructure development requirement in non-metro cities, the Airport Authority of India, a Miniratna Category - I CPSE, has decided to develop 35 world standard airports in non-metro cities in a phased manner. This will help in having a sustained development and boost industrial development in these cities.

These airports will be 'No-Frill' and 'Low-Cost' airports in order to attract carriers to fly to these locations. Cities identified include:

- Arunachal Pradesh: Passighat
- Assam: Rupsi
- Bihar: Muzaffurpur
- Karnataka: Hassan, Shimoga, Gulbarga, Bidar, and Mysore
- Kerala: Kannur
- Maharashtra: Shiridi, Jalgaon, Solapur and Akola
- Orissa: Jharsuguda
- Rajasthan: Ajmer, Mount Abu, Kailashar
- Tamil Nadu: Madurai, Tiruchirapalli
- Tripura: Kamalpur
- West Bengal: Behala, Cooch Behar, Malda

The government plans to develop these airports through public-private partnership.

Source: The Airports Sector, Department of Economic Affairs, 2009

4.3 Supporting Infrastructure must for Sustained Development

4.3.1 Developing Soft Infrastructure

4.3.1.1 Education

Education is the key intervention for bringing change in knowledge, values, behavior and lifestyles and is required to achieve sustainability. Education statistics have really appreciated for India since independence. Union Budget 2011 has re-emphasized the need to raise education standards. There is a need to bring about shifts in thinking, values and actions of individuals and institutions in order to do so.

India needs to build and strengthen its educational infrastructure in order to ensure that it is able to meet existing and emerging skill demands. Currently India lags behind in terms of employability of its human resources - amongst the age group of 15-29 years, only about two percent are reported to have received formal vocational training and another eight percent received non-formal vocational training. This is significantly low when compared to corresponding figures for industrialized countries which vary between 60 to 96 percent. The sector is attracting significant investments along with government working towards bringing a paradigm shift.

Schooling

Main Segment	2008 (INR Cr)	2018 (INR Cr)	CAGR
Pre-School	51,950	251,080	17%
K-12	909,090	1,870,130	7%
Tutorial	216,450	510,820	9%
Books	73,590	129,870	6%
Stationary	59,740	112,550	7%
Education CD-ROMs	5,190	47,620	25%
Multimedia in School	1,080	142,860	63%
TOTAL	**1,317,100**	**3,064,930**	

Source: Market Sources and Technopak Analysis, 2008
Note: 1 USD = INR 43.29 (average of 2008)

Vocational Education and Skill Development

Main Segment	2008 (INR Cr)	2018 (INR Cr)	CAGR
Child Skill enhancement	32,030	242,420	22%
IT Training	8,440	203,460	37%
E-learning	1,950	47,620	38%
Finishing School	1,080	77,920	53%
Vocational	64,940	268,400	15%
Teacher training	650	47,620	54%
TOTAL	**109,090**	**887,450**	

Source: Market Sources and Technopak Analysis, 2008
Note: 1 USD = INR 43.29 (average of 2008)

6. **Power:** Technology Development Prospects for the Indian Power Sector, International Energy Agency, 2011
Roads: PPP Position Paper, Department of Economic Affairs, Ministry of Finance
Airports: Planning Commission of India, KPMG Analysis

Private Sector Participation

India's INR 173 thousand crores (2008) worth private education market has been projected to touch INR 498 thousand crores by 2018.[7] There is a significant opportunity for private players in three segments – schooling, higher education and vocational training. Private participation is expected to create thought leadership and centers of excellence in the country, which will help in policy development.

The education sector offers great potential, in view of the enormous demand from consumers, and this is seen by the participation from private equity and venture capital firms. There have been over 45 deals worth INR 1.8 thousand crores in education-related companies over the years[8].

Government Intervention

The government is aggressively increasing its expenditure to improve higher education infrastructure. It also plans to follow the PPP route to meet funding requirements worth INR 2.2 lakh crore. The central governments expenditure on education has been increasing. From FY2005 to FY2009 the expense has increased at a CAGR of nearly 30 percent.

Higher Education			
Main Segment	2008 (INR Cr)	2018 (INR Cr)	CAGR
Higher Education	290,040	783,550	10%
Preparatory	69,260	255,410	14%
TOTAL	**359,310**	**1,038,960**	

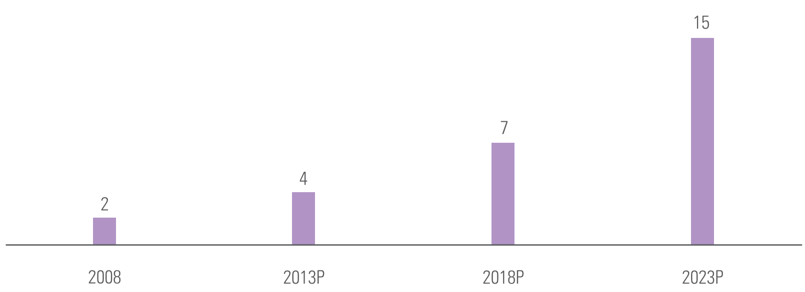
Source: Market Sources and Technopak Analysis, 2008
Note: 1 USD = INR 43.29 (average of 2008)

4.3.1.2 Healthcare

According to the Rio Declaration on Environment and Development, "human beings are at the centre of concerns for sustainable development, and that they are entitled to a healthy and productive life, in harmony with nature." The goals of sustainable transformation can only be achieved in the absence of a high prevalence of debilitating diseases. Accordingly, there is an urgent need to address the causes of ill health, including environmental causes, and their impact on development, with particular emphasis on women and children, as well as vulnerable groups of society, such as people with disabilities, elderly persons and indigenous people.

India's existing physical healthcare infrastructure is inadequate to meet the current healthcare demands. Around INR 66 thousand crores is expected to be spent on healthcare infrastructure by 2013. Healthcare infrastructure mainly comprises buildings, equipments, ambulances, etc. This growth is driven by the rising income levels, changing demographics and illness profiles with a change from chronic to lifestyle diseases.

Fig 4.4 Healthcare Spending (INR thousand crores)



Source: Technopak

Private equity interest in Indian healthcare sector spreads across segments. There have been investments in 193 deals worth more than INR 13.0 thousand crores. Diagnostic Services, Medical Equipment, Wellness Products and Services and CROs are attracting heavy investments. Other areas include specialized chains in areas like diabetes, orthopedics, optics, geriatrics and psychiatric.

Government Initiatives

The Government has taken an initiative to institutionalize public-private partnerships (PPP) in healthcare. They are in process of developing guidelines for PPP. Defining the framework and sustaining the partnership will be the major role of the public sector.

7. Technopak Analysis 2008
8. Venture Intelligence

The government plans to set up venture capital funds worth INR 3.0 thousand crores[9] to enhance drug discovery and reinforce the pharma infrastructure in the country. 'Pharma Vision 2020' has been prepared by the Department of Pharmaceuticals for making India a leading destination for end-to-end drug discovery and innovation. For this it has been provided with the necessary support in the form of world class infrastructure, internationally competitive scientific manpower for pharma research and development (R&D), and venture fund for research in the public and private domain.

4.3.2 Developing Hard Infrastructure

The growth of Indian economy over the recent years has put increasing stress on physical infrastructure such as electricity, railways, roads, ports, airports, irrigation, and urban and rural water supply and sanitation. All of these services are trying hard to keep pace with the development of the nation with regard to capacity expansion as well as by functioning more efficiently.

Accordingly, an estimated INR 20 lakh crores investments is required over the Eleventh Plan period to sustain growth[10]. The Infrastructure sector has witnessed an increased participation by private players. The total investment by private equity players over the last three years (2009, 2010 and 2011) amounted to INR 37.6 thousand crores[11] across more than 160 deals[12].

Hard Infrastructure in India: Projected Investment in Infrastructure during 2011 of the Eleventh Five Year Plan

(INR Crore)

Sector	Infrastructure Deficit (Eleventh Five Year Plan)	Government Spending*	Private Spending
Electricity (incl. NCE)	13.8% peaking deficit; 9.6% energy shortage; 40% transmission and distribution losses	1,14,301	56,670
Roads and Bridges	65,590 km of National Highway comprise only 2% of network; carry 40% of traffic; 12% of the total NH is 4-laned, 50% 2-laned, and 38% single-laned	43,231	25,140
Telecom	Only 18% of market accessed; penetration in rural areas low; the adoption of 3G is low; obsolete hardware; severe human resources' shortages	17,728	43,918
Railways (incl. MRTS)	Old technology; saturated routes; slow speeds (freight: 22 kmph; passengers: 50 kmph); low payload to tare ratio (2.5)	48,855	11,537
Irrigation (incl. WD)	1,123 BCM utilizable water resources; low per capita availability and storage deficit; only 43% of net sown area irrigated	62,266	-
Water supply and Sanitation	There is significant demand in the sector providing opportunity for private sector. Rural infrastructure needs to be developed	31,971	1,295
Ports	Inadequate berths and rail/road connectivity	7,146	1,2833
Airports	Inadequate runways, aircraft handling capacity, parking space and terminal buildings; technology adoption is low	2,205	4,441
Storage	The demand is very strong leading to large investments and expansion by logistic service providers and warehousing companies	2,412	2,412
Gas	The demand-supply gap is high	2,240	1,460
Total		**3,32,355**	**1,46,762**

Source: Development of Infrastructure, Planning Commission
Note: *Includes investment from Centre as well as State Governments

9. 1USD = INR 46.66
10. Planning Commission
11. 1 USD = INR 51.10
12. Venture intelligence

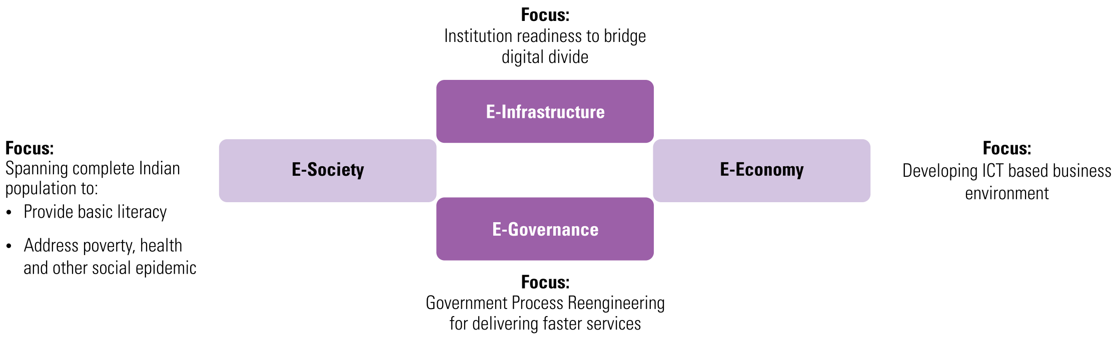
4.4
ICT Adoption and Human Skill Development: Key to Delivery

The vast span of the nation makes deployment of ICT all the more important to cover the length and breadth of the country for concluding inclusive growth. Over the years, several initiatives have been undertaken by various State Governments and Central Ministries to usher in an era of e-Government[13].

The implementation of the UIDAI project by the center in a phased approach is being viewed as a break-through project that would transform the way services are rendered to general public.

Today's state, regional and local government bodies face tremendous pressure to provide superior citizen services in an effective and transparent manner. In order to meet these challenges, public agencies have been turning to ICT to enhance the services that they render to citizens and businesses[14]. In addition, CPSEs are also leveraging ICT to make their processes more robust and efficient. However, CPSEs have to expand the scale to which they leverage technology in order to harness its full potential.

E-Readiness Framework



Source: Department of Information Technology

The deployment of ICTs across government may hence substantially support the creation of public value, particularly in terms of higher quality of services, more personalized services, increased efficiency and empowerment of citizens.

The Department of IT is playing a vital role in assessing various States and Central Ministries and Departments across the country to identify the bottlenecks and opportunities with regard to the usage of ICT in accordance with the 'National Action Plan'. It is enabling the Government become 'e-Ready' in order to have high-speed response to the global competition.[15]

Building 'SMART' (Simple, Moral, Accountable, Responsive and Transparent) infrastructure that is capable of supporting development requirements is of paramount importance[15]. The Government should invest in technology that is able to ease out urban problems such as traffic congestion, road infrastructure management, electricity utilization, amongst others. Human development should be at the center of discussion on ICT policies and e-strategies[16].

Singapore Government: ICT Initiatives for Smarter Tomorrow

The Singapore Energy Market Authority has deployed the 'Intelligent Energy System' (IES) to meet current as well as future energy requirement of the nation. Smart grid initiative undertaken in November 2009 aims to integrate modern ICT with power system to allow two-way communication between electricity consumers and grid operators. This installation of smart grid will enable the nation better manage its electricity consumption, which forms a prime basic infrastructure for sustained growth

13. Department of Information Technology
14. Datamonitor
15. E-Readiness Assessment (India), Department of Information Technology
16. ICT Policies and e-Strategies in the Asia Pacific, United Nations

4.5 Investments in Environment, Means for Sustained Growth

Any economy cannot sustain at the cost of environment in which it operates. Over the years, rapid economic growth in India has been accomplished at the cost of depleting natural resources and deterioration in environment quality. However, for any economy to have a sustained growth it should resort to proper resource management. It holds all more importance in Indian context as India houses 17.1 percent of the total world's population and accounts for only 2.4 percent of the planet's landmass.

Indian Government, realizing the importance of a healthy environment for sustained development has initiated several measures to safeguard the environment. It has also formulated guidelines and holds CPSEs accountable for the 'Environment' initiatives they take.

Government Initiatives

- Environment and equitable sharing of natural resources are now prominent concerns of Planning Commission which is beginning work on the 12th Five Year Plan. A committee under the panel is envisaging a climate-friendly economic growth model for the country
- Agricultural Ministry is developing plans for climate-resilient cropping cycles
- The Panchayati Raj ministry is working towards developing a model to give village councils more power over water resources and forests
- The Tribal Affairs Ministry is dealing with the implementation of a law that hands back forests to the people who traditionally lived in these green patches
- The External Affairs Ministry is engaging with concerns of water and climate across borders
- The Home Ministry is in discussions to step up reforms in forestry as a key step towards reducing alienation in tribal belts. The PMO is holding meetings to figure out how to get auto manufacturers to sell more fuel efficient cars. It's actually discussing everything - from climate change negotiations in far away countries to prices of forest products
- The Rural Development Ministry's MNREGA programme is pushing for afforestation and development of water bodies
- The Biotechnology Department of the science and technology ministry is pushing a bill to regulate (some say promote) the kind of Genetically Modified (GM) crops that can be grown in the country without impacting the environment

Way Forward

Indian Central Public Sector Enterprises have indeed been the cornerstone in the Indian growth story. Off late, though these enterprises have faced competition in the global economy, citizen's confidence in these government-led enterprises strengthened as they emerged intact post the recession owing to the strict risk management practice they have in place. They currently account for 23.7 percent of the nation's total GDP[1].

Over the years, Indian CPSEs have been undertaking several projects to expand their capabilities and to carry out operational reforms.

India's high growth trajectory will provide plenty of opportunities for CPSEs. Not being impacted much by the European crises, India's GDP is likely to grow by nearly 7 percent in 2011. The disparity of India, in terms of rural-urban divide, is likely to act as one of the most important growth imperative for CPSEs. Including rural masses in their development plan will help CPSEs formulate an inclusive and sustainable growth strategy.

Many Indian CPSEs have also been expanding globally for years. Having collected several accolades over these years, these CPSEs have been able to build their global brand equity. CPSEs are hence well positioned to tap business in unexplored territories while also expanding existing engagements

The PSU conference on 16 December 2011 could not have come at a better time. It will help policy makers and CPSEs to share their valuable experiences and identify key areas of improvement. The key learning thereof will be presented in the form of a Conference Report.

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