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“State control must go:

State ownership of enterprises has become a burden on the economy. It is holding back growth. It must go.”

Public Enterprises must be free from government control" by S L Rao

At independence Indian businesses were too small to find the capital needed to build infrastructure and basic industries. In formulating the Bombay Plan in 1946, leading industrialists who prepared the Plan recognized this. They recommended that only government could raise the required funds. This began the central role of state owned enterprises in the economy.

The problem was that India did not have the pool of managers to run these enterprises. The only pool was of administrators. That began the practice of putting administrators/bureaucrats in charge of state owned enterprises. Over the last seventy years this has become a prerogative. Bureaucrats are given charge of enterprises. They have little or no managerial skills and the assignment is not part of a career in the enterprise. They are birds of passage.

These bureaucrats as managers of public enterprises, for example in electricity, have some influence on government by their colleagues there. But they have little knowledge to influence delegation and critical decision making for the enterprise.

State owned electricity enterprises are huge, many are well over Rs 10000 crores in annual revenues and employ thousands. State ownership mires the distribution enterprise in subsidies and cross-subsidies, in an attempt to help the

'poor' at the cost of the 'rich'. Much of these huge liabilities have to be borne by the enterprise itself. State governments are unable to reimburse them fully or in time. The populist pricing (for example free electricity to farmers owning pumpsets), labour indiscipline supported by politicians, employee collusion in theft of electricity, are all consequences of the state ownership. Or, as happens in generation companies in Karnataka where annual maintenance of plants is postponed because politicians do not want power to be cut before an election. It is not surprising that SEBs around the country accumulate vast losses. They survive because the state government supports these losses from their Budgets.

State ownership of enterprise has over the years, led to higher operational costs, overstaffing, indiscipline, inefficiencies, little accountability of top officers or others for performance, and government funds not being used for improving people's well-being. Generalist administrators as CEO's with short tenures, have little incentive to improve the enterprise. Statutory Regulators (where they exist), are usually retired bureaucrats. They collude with governments by withholding approval of legitimate expenses of the utility, to keep tariffs low, and thus adversely affect the cash flow of the enterprise.

They do this where they can, to private enterprises as well. An example is of privately owned distribution companies in Delhi. Kejriwal for long promised to distribute Regulator approved expenses of the companies, kept as 'Regulatory Assets' and not allowed as increase in power tariffs. If he had succeeded, government would have been stealing the assets of the companies.

Even when there are independent regulation as in electricity, their decisions are overruled by administrative officials and a succession of Ministers. Their directions have to be obeyed by state owned electricity enterprises. Regulatory orders are often flouted. The Regulator even if capable, faces poor information from companies, for deciding on tariffs, unreliable data, inefficiency of the state

level generating enterprises, inability of the state to pay up subsidies for selected customer groups, past liabilities that have to be serviced from an inadequate income stream, and the control over the load dispatch centres by distribution enterprises thus leading to conflicts of interest.

Past attempts to distance state enterprises from bureaucracies and politicians, have failed: memoranda of understanding, navartnas, etc. Removing government from ownership is the only way to give real autonomy to the enterprises. It cannot happen by theoretical delegations of powers, which can and are invariably violated. But this must be accompanied by tough independent statutory regulation that is truly independent. This does not exist today.

Like the conflict of interest over control of load dispatch centres, at the central level, inter state transmission is regulated by the Central Electricity Regulatory Commission. The regional load dispatch centres that implement this balancing are under the interstate transmission monopoly, Power Grid Corporation. It has also successfully used its monopoly position to prevent any significant private entry into transmission, though the law was amended to allow it in 1998.

Government ownership enables state electricity boards and companies to violate principles of good governance. For example: many times the Accounts are not finalized for many years. Asset registers are either not kept or are out of date and it is impossible to know what to take as asset base for calculating return. Or, there is no record in many cases of the number of transformers, feeders etc. with the Board. Further, demand forecasts for electricity have been perennially overestimated and revenues and expenditures for tariff filings are revised repeatedly.

To improve efficiencies the path of disinvesting shares is of no value since government still controls the enterprise.

Possible solution are:

- 1. Privatization;**
- 2. Downsizing the Ministries that controls the enterprises so that they do not have the people to interfere in the enterprise;**
- 3. Putting all state enterprises under a holding company and keeping that out of the Ministries and reporting annually to Parliament.**

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