

Public Sector Undertaking

A **Public Sector Undertaking** is an establishment that is owned and established by the government of India. Apart from the government, these PSUs can also be owned and established by the State governments. These establishments contribute majorly to the Indian economy by benefiting society by providing public services. A Public Sector Undertaking also includes enterprises that also assist in providing better services to the public.

A Public Sector Undertaking can also be called a Nationalised corporation as nationalization is one of the ways through which a PSU comes into existence in the first place. Nationalization refers to converting the available private assets into public assets by bringing them under the purview of the government.

Public Sector in India

The Public Sector in India can be categorized into three types based on three types of organizational levels as follows:

- **Government Company:** A government company refers to those enterprises where more than 50% of the contributed capital is from the government. That means the government owns shares in the company & is also controlled and owned by it. A government company is registered under the Companies Act. Some examples are Steel Authority of India Ltd., Hindustan Shipyard Ltd., etc.
- **Departmental Undertaking:** As the title suggests, Departmental Undertakings are organizations that focus on specific essential services. They come under the purview & control of the concerned ministry such as broadcasting, postal services, or railways.
- **Public Corporations:** These public-sector enterprises are corporate organizations established by the State Legislature or the Parliament through a special Act. The 'Act' lays out the functions, roles, powers, and other guidelines for the Public Corporation. Though these are corporate bodies, their financial aid or capital comes directly from the government such as LIC, State Trading Corporation, GAIL, etc.

What is Public Sector Undertaking?

In simple words, a **Public Sector Undertaking** is a business unit that is not owned or managed by any individual or a private entity but by the government - central, state, or local. These PSUs have been formed with the sole purpose of benefiting the public and providing essential services without any hassles. In contrast, previously any kind of business activity was mainly performed

by an individual or private organizations & government only had to look into the essential services. The private enterprises were more profit-based and therefore the addition of the public sector undertaking was made.

These public sector undertakings have been defined under Section 2 (45) of the Companies Act, 2013. They can either be commercial or industrial undertakings with the intention of public welfare. Some examples of public sector enterprises are banks, the Life Insurance Corporation of India (LIC), the Gas Authority of India (GAIL), the State Trading Corporation (STC), etc.

Types of PSU in India

Public Sector Undertakings can be classified into two main categories based on the controlling authority- **Central Public Sector Enterprises** and **State Level Public Sector Enterprises**. The Government of India introduced another classification system for Public Sector Enterprises based on the amount of revenue that these businesses bring annually & how much they contribute to the economy of the country. Based on this classification, PSUs can further be divided into three categories:

- Maharatnas (Net Worth - 10,000 Cr)
- Navratnas (Best performing PSUs)
- Mini-Ratnas (Should be profitable for at least three consecutive years)

Role of Public Sector in Indian Economy

The public sector in India is one of the key contributors to the Indian economy. It helps generate income and opportunities for the public and makes essential services available for the general public at affordable rates. Some of the major points that prove the importance of the public sector in the Indian economy are as follows:

- **Capital Generation** - 14% of the country's GDP can be attributed to the public sector in India. It encourages investment and generates capital by supporting various the country's economy through the creation and expansion of infrastructure and creating other opportunities.
- **Building opportunities for employment** - Another significant contribution of the Public Sector has been in generating enough employment for the youth. Dealing with various public enterprises and industries, the PSUs contribute to creating new avenues in various government sectors.
- **Advocating of R & D** - A major chunk of the investments made by the public sector lately has been into research and development for finding new and innovative technologies & industrial pieces of equipment.
- **Regional Development** - The public sector has also been contributing to the development of various regions of the country by promoting the formation of industrial plants and factories. The development of the industrial sector in these regions leads to increased basic facilities such as water supply, electricity, township, etc.

Problems of the Public Sector in India

The Public Sector Undertakings or PSUs come across certain difficulties with respect to carrying out their regular functions that hamper the growth and obstruct their workflow. In these PSUs, the level of profit is low as compared to the private sector. In many cases, the actual cost of the planned project exceeds the original cost due to mismanagement and Bureaucratic hurdles.

- Excessive political interference has been one of the major reasons behind the non-performance of Public Sector Enterprises.
- Public Sector Enterprises normally take more time than expected.
- The investment decisions are at times very ill-suited.
- Lack of skilled manpower in Public Sector Undertakings in India is also one of the important issues leading to decreased production and efficiency.
- The Public Sector Enterprises in most cases are not able to utilize their full potential.
- Lack of management and planning in Public Sector Enterprises has been creating many issues and challenges.

Public Sector Reforms in India

The major public sector reforms in India have taken place spanning a few years. All the public sector reforms have been mentioned below:

- The Statement on Industrial Policy, of 1991, reviewed the public sector in India and recognized many problems associated with public enterprises. It also suggested ways to rectify these problems.
- The policy stated that many public enterprises have become a burden to the Government rather than an asset and proposed the Government adopt a new approach to public enterprises.
- Accordingly, the public sector was reduced in many areas from the initial 17 to 6 areas. In manufacturing, the areas which continue to be reserved for the public sector are those related to strategic concerns, defense, and petroleum.
- Apart from that, the Government made no bar or restriction on the participation of the private sector.
- All effort was made through the change of management and financial help for reviving the public sector and making it competitive.
- The decision of disinvestment of equity of the public sector enterprises was also proposed.
- Mini Ratnas and Maharatnas Policy were also introduced around the 2000s.
- The Navratnas Policy was also introduced under which the PSUs that displayed the best performances were given the status of Navratnas along with an autonomous authority.

Performance of Public Sector In India

The central and state government are responsible for managing the performance of the public sector in India. The performance of public sector undertakings in India can be judged by the amount of profit or loss they make on a yearly basis.

- It started with 5 PSUs in India in 1951 and has now reached more than 360 enterprises in the public sector in India.
- These enterprises including 7 new defense enterprises as well accounted for a total investment of around Rs. 16.41 lakh crore in the year 2021.

