CHAPTER 5

PRIVATISATION

5.1 The strategy of economic reform introduced in 1991-92 was based on a combination of measures aimed at economic stabilisation and as well as structural reform. Over the last decade the Indian economy has demonstrated enviable resilience and buoyancy as a result of wide ranging economic reforms and closer integration with the world economy. As the country has moved into the 21st century with a strong desire to become economically competitive in a global area, its stock of infrastructure is ageing and is increasingly perceived as not being either appropriate or capable of facilitating the nations economic growth and social objectives. The Central Government and the State Governments have accorded priority for investment in sectors such as railways, roads, power, telecommunication etc. In the past infrastructure projects in India have generally been vested in the public sector. The infrastructure projects are characterised by large financial outlay requirements and long gestation periods, investment involves high up-front costs and long terms financing. In the present fiscal situation, the Government has to face constraints in raising resources from the market for providing budgetary support to the departments/public sector undertakings engaged in the infrastructure development. A wave of privatisation and disinvestment has been sweeping infrastructure sectors around the globe over the last decade or so.

5.2 From the Government's perspective, private sector involvement in infrastructure provision has a number of advantages, including;

- private sector involvement is generally able to expand the financing options available to the Government;
- it provides an enhanced capacity to satisfy infrastructure demands earlier than would otherwise be possible;
- the freeing up of the Government's limited financial resources to meet other high priority funding requirements;
- through the application of user charges where appropriate, an improvement in allocative efficiency should result;
- the introduction of competition into infrastructure markets will create an environment in which operational efficiency should be maximised; and
- a modern, efficient and co-ordinated infrastructure network will reduce factor input costs for industry (e.g. Costs such as transport costs, power costs, water costs).

5.3 The potential disadvantages of private sector infrastructure provision include :

- the possibility of a public monopoly being replaced by a similar private monopoly with consequent adverse pricing considerations;
- a lack of co-ordination in infrastructure provision;
- failure of the private sector to fully account for non-commercial costs and benefits (e.g. Social, environmental) in the planning process;
- non-equitable sharing of the risk-return profile between the private sector and the Government;

- commercial usage charges replacing taxpayer subsidised charges;
- the higher private sector cost of funds vis-à-vis the State's funding cost profile; and
- the costs of establishing and maintaining the necessary regulatory environment.

5.4 The private sector is currently signalling its willingness to accept role in meeting infrastructure investment demand (i.e. private sector as capital provider). The private sector is also promoting itself as a provider of improved operational efficiency in the management and operation of infrastructure. Economists generally argue that allocative and operational efficiency can be improved where competition exists in product markets.

5.5 In many areas of infrastructure provision for the scope for competition will be limited, but increasing the role for the private sector will still introduce some competitive elements.

5.6 With the above background one option which has become increasingly prominent in the States is the involvement of private sector in the infrastructure development. The Government of Rajasthan was the first State in the country which has invited the private sector for setting up of power generation projects in the State. The State Government has also taken up steps for involvement in the road sector and as well as industrial sector in the State. Besides looking for disinvestment of these units inviting huge losses every year on the pattern of Govt. of India which has recently initiated.

Power

5.7 Rajasthan is the first State in the Country to have disintegrates Rajasthan State Electricity Board into Five companies which will have distribution and generation separately. These companies shall ultimately be further jointventured / privatise in future for distribution work.

5.8 In the field of Solar Energy, three letters of intent have been issued for setting up of Solar Energy based power projects for the generation of 300 MW of power. All the three plants are to be established in Barmer and Jaisalmer districts. 100 MW of power is likely to be generated from these plants in the Tenth Five-Year Plan itself. These will substantially reduce the demand-supply gap in the State.

Road

5.9 The Government of Rajasthan has embarked upon infrastructure development through institutional financing and private investment in the road sector. During the Ninth Plan, Rs. 89.82 crores were invested for construction of bye-passes, tunnels and bridges financing from HUDCO, Banks, NCR & NABARD. Since the financial institutions extend loan facilities for projects, which are economically viable, the State has created a Road Development Fund from which the required seed money is provided. The loan amount is returned through levy of toll. Similarly under BMSP and PMGSY construction of link roads to attain village connectivity was emphasized.

5.10 To achieve the objective laid down in Road Policy 1994, efforts have also been made for infrastructure development in the Highway Sector through private investment. Enactment of the Motor Vehicle Taxation (Amendment) Act 1994 will enable private participation in highway sector on BOT basis through which the private entrepreneurs can invest the amount in a particular project and can collect fees (Toll) himself.

Industry

5.11 Rajasthan is an agrarian State. Still a major thrust in the industrial sector, along with acceleration in pace of development in agriculture, is essential for speedier growth of the economy. Although the industrial base of the State has undergone significant diversification, yet the expected improvement in its of contribution to NSDP has not been observed. The potential of the State needs to be systematically exploited.

5.12 The correlation between economic development and industrialisation is well established through the experience of developed economies. Rajasthan is already far behind the national average in per capita socio-economic indicators. Comprehensive and balanced industrialisation will have to be given a higher priority so that these gaps can be bridged.

5.13 The objective of Industrial Policy, 1998 is to make Rajasthan one of the most preferred State for investment in the 'identified sectors' and ultimately achieve global competitiveness. While governed by this basic goal, the policy is to lay special emphasis on accelerating the over all-industrial growth.

5.14 Small Scale Industry has a vital role to play in the process of industrialisation providing a vehicle for enterpreneurship to flourish and a valuable entry point for new enterpreneurs who can start small and then grow. SSI are also vehicles for achieving a broader regional spread of industry. SSI's are also one of the major source for much needed employment specially in non-farm employment in rural areas.

5.15 Given the capital scarce economy of the State, resources capacities, capabilities, talents, infrastructure and systems, have to be developed in order to allow economic activities to flourish in the State and enable the private sector to play a larger role in the economy. To this effect Rajasthan recognises the need to restructure the private investment.

Project Development Company (PDCOR)

5.16 To provide impetus to flow of private capital into the infrastructure sector, the State Government has taken the initiative to set up PDCOR in collaboration with IL&FS and HDFC. This company will identify commercially viable projects in the infrastructure sector, prepare detailed Investment Banking Reports, tie up where feasible long term funding and offer the projects to the private investors, both domestic and international, for implementation. This is the first time in the country that such a concept is being tried out. A large number of mega projects such as Industrial Model Town, Leisure City, Medicity, Air Maintenance Complex, Dry Port and Water supply scheme for Bhiwadi have been identified for preliminary study.

5.17 A Project Development Fund with a corpus of Rs 1 crore has also been set up to provide start up funds for preparing Investment Banking Reports. Efforts would be to augment this Fund by funds from other sources such as IDA credit.